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FINANCIAL CRISIS INQUIRY COMMISSION

Official Transcript

Hearing on

“The Impact of the Financial Crisis – Greater Bakersfield, CA”

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Kern County Board of Supervisors Chambers

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COMMISSIONERS

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HON. BILL THOMAS, Vice Chairman

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PROCEEDINGS

MR. THOMAS: I'd like to call the Bakersfield field hearing for the Financial Crisis Inquiry Commission to order.

I want to thank all of you for coming, and would very much like to thank my fellow commissioners, as we're going to be on several road trips between now and the end of September; obviously, today we’re in Bakersfield.

Tomorrow we'll be in Las Vegas.

And then we'll wait a little over a week, go to Miami, and then finish in the Chairman's hometown of Sacramento.

As all of you know who live in the Valley, or are familiar with the Valley in California, it is a focal point on this issue; was the fastest growing population area.

And, frankly, some of the testimony today, and the graphics supporting that testimony will be shocking to some, but so graphic to so many, to understand just exactly what a housing bubble actually looks like, since we've lived it, the subsequent financial crisis that followed, and then the economic crisis on top of that.

A lot of folks have a lot of answers, and, frankly, a statute that created the Financial Crisis

Inquiry Commission asked us for a period of time, ending in December 15th, to just examine the causes.

We hope to put together a book with a lot of documentary evidence to explain what happened.

I think very few of us would be here if our charge was to tell Congress what they should do about it. Since they've already acted, and the administration has come up with some ideas, it is not something that is already over, especially for those of us who live it every day.

So it's our pleasure to be here.

I'll recognize the Chairman of the Financial Crisis Inquiry Commission for his opening remarks. And I might indicate to him, the other commissioners, and any witnesses that we have, you have a toggle switch just next to the microphone, and you have to turn it from red to green.

And then when you're finished, you can turn it from green to red.

And if you don't, I think I have a master switch here, so --

(Laughter.)

MR. THOMAS: Mr. Chairman?

MR. ANGELIDES: Thank you, Mr. Vice Chairman.

First of all, let me say it's an honor to be here in Bakersfield in Kern County today, and particularly to be here with my colleague and my partner in this undertaking on behalf of the American people.

As you know, last year, midyear, in May of 2009, the Congress passed the Mortgage Fraud Recovery Act. As part of that act, they created the 10-member Financial Crisis Inquiry Commission, and I was privileged to be named as chairman of the commission.

And Mr. Thomas, of course, your long-serving, well-regarded public servant here from this part of the Great Valley was named to be the vice chairman.

Over the last year-plus, we have worked together with our fellow commissioners to undertake the examination of what -- what brought America, America's financial system, to its knees.

We have been interviewing hundreds of participants, people who are in the highest ranks of government, people who led the major financial corporations. We've been talking to people who made on-the-ground decisions, both in the regulatory agencies, and at these major corporations.

We have been on a mission to try to determine, as best we can, and tell the story of how it came to be that our financial system came to the verge of collapse, and the taxpayers of this country were asked to put forth trillions of dollars to stabilize that system.

Many people have asked us whether the government's judgment to weigh in with massive financial help was the right decision.

In many respects, our task at the commission is to try to determine had we come to the point where the only two viable choices seemed to be either allow this revered, most successful financial system in the world's history come to collapse, or as the alternative, weighed in with massive financial assistance.

As we gather today, the impact of this disaster are clear. 27 million people are out of work, can't find full-time work; have stopped looking for work.

2 million families have lost their houses to foreclosure; 2 million more are in foreclosure today, and another 2 million are 90 days delinquent on their loans.

In the Central Valley, from which

Mr. Thomas and I hail, and which we all live and raised our families, over 100,000 families have lost their homes to foreclosure. There is a great sense of confusion; a deep hunger to understand what has happened to our country.

So hopefully we cannot -- we cannot repeat these mistakes in the future. As Mr. Thomas indicated, today is the first in a series of hearings around the country, and I want to particularly commend Bill for the efforts to get this commission out of Washington, and onto the road.

You know, he has reminded us that this is not just a story of what happened in the halls of power and on Wall Street. It's a story that has happened all over this country, and has deeply affected the lives of so many. And while we now see prosperity on Wall Street, we still see across this country great struggle.

Between now and December 15th, we're going to Bakersfield, as Bill mentioned, to Las Vegas, to Miami, and then rounding out in my hometown of Sacramento.

This is an important part of our work, to really understand what has happened in communities and neighborhoods across the country. And, in advance, I wanted to thank all the witnesses who have come here today to speak with us, and all of you who have joined us.

We've been given more work to do. I've been very lucky to have Bill Thomas as my partner in this venture. He's worked hard. He's put his heart and soul into this. He cares deeply about his country, as you know better than anybody else, because you've sent him to Congress for three decades.

He's got a real sense of public service, and he's come at this with a real view of what is best for our country. So it's my honor to be here to participate in today's hearing.

What I'd like to do today is, it is only fitting that Bill Thomas be the Chair of this hearing today given his stature and his understanding of this community. So I more than happily defer my gavel to Mr. Thomas for the balance of the day.

MR. THOMAS: Thank you, Mr. Chairman.

Does that include the proxies of those members who are not here?

(Laughter.)

MR. ANGELIDES: It depends on how you cast them. I'm sure we can work it out.

MR. THOMAS: So the leash is only so long.

Thanks a lot.

We're gonna start with some opening remarks, and as you indicated, we need to be a little bit sensitive. This is a political season. I've chosen these people for who they are. It's just a pleasant coincidence that supervisor Ray Watson... Thank you very much for the use of your chambers. Appreciate it.

Congressman Kevin McCarthy and my good friend, City Councilwoman Irma Carson, are not on the ballot in November, and so they hold public office. Although Kevin is on the ballot, he has no one else on the ballot. So I assume he's fairly comfortable.

But, really, they're here to give you some focus in terms of the congressional, the county and the city.

So let's start -- Ray, why don't we start with Irma. We'll go alphabetically, and we'll start with Irma.

And I just want to say, as a preface, Irma Carson is not on the ballot because she's not running for her city council seat. And since she's been there -- and I won't talk about how long we've known each other or how long it's been -- that long public service, especially on a body like a city council, is a real tribute to your understanding, willingness to commit to, and to support the community.

So, personally, and in recognition of your coming before the board, and the fact that you're not running again, I want to say thank you very much for your public service, Irma.

And the mike is yours, if you throw the switch.

MS. CARSON: Thank you so much, Commissioner.

It is an honor for me to be here this morning to welcome my great community, and also to share this morning with you and the commissioners, and long-time friend Phil Angelides, the Chairman, and you as the co-chairman, having years of service with the City of Bakersfield and Kern County, coming up with 31 years.

I feel very blessed and honored to have had that privilege of service, and you cannot serve without the community believing in you and understanding you, and knowing you, and knowing where you're coming from, and your belief in the community that you serve.

In the last four years, it's been very difficult being on the city council, being in this economic crisis, and that was not a decision for me not to run again. It actually was more of a challenge to run again.

But I decided that maybe I would allow someone else to take the rein and try to help get us out of this crisis.

But, first of all, I just think it's great that Congressman -- former Congressman Bill Thomas has always been there for Kern County, and to bring the commissioners here to hear from us, and from the residents of Bakersfield, and for many who have suffered.

I think all of us have family members, have been touched by this crisis, those who have lost their home, lost their jobs, and as a result of losing their jobs, they have gone into foreclosure of their home.

And I'm glad to see the commission gather this information to hopefully, hear or try to hear, that this -- we have ways to avoid this from occurring again. And I know that issue charge and there will be an issue charge. We have excellent commissioners, I feel, that will be capable of coming together, putting some answers in some type of format that we can all understand.

And I'm glad those people who came today -- and I've read some of the testimony that will be given today, and they are heart-wrenching. And knowing that our hands are tied, and somewhat to the limit of what we can do at the city and council level. But we all have been impacted by the crisis in their city. The building department has been -- has been hit worse.

I had so many developments coming in the southeast area of Bakersfield that could not be completed. Hopefully, their day will begin again, and there will be a better day and a brighter day for all of us at Kern County.

Thank you, former Congressman Bill Thomas, for this opportunity.

MR. THOMAS: Thank you very much, Irma.

Congressman McCarthy?

MR. McCARTHY: Thank you.

Mr. Chairman, Mr. Vice Chairman and Commissioners, I applaud you for, one, the work you are doing, and have followed it many times through C-Span, or other hearings in Washington, but I thank you for getting out of Washington; getting out of New York.

Today you're going to see real faces, and I know this week where you go from Vegas to Miami, then up to Sacramento, you're really going to see the effects of what has happened in this financial crisis.

And today in this hearing, when you listen to these witnesses that you have and question them, I think you will find that Kern County is a microcosm of probably the greatest damage that you've found.

We found a community that has been built upon agriculture and energy. They create wealth through land. We create something.

We have watched every part of that be hurt. We're at more than 15.9 percent unemployment in this county. We have even watched -- not just from the housing industry, from a price per square foot, almost triple in a short amount of time, come back down.

Today, if you read our local newspaper, you'll find in there the default notices have increased for housing.

So the crisis is not over. And today as you walk through, as we have witnessed this, we have witnessed even our agriculture community, our crops have decreased by 10 percent in value. Our largest community bank has failed.

The challenges of going forward have been very difficult. The square foot on the price of houses dropped back down, but there is not one neighborhood that has not witnessed a foreclosure. There's not one family and one child in any school that has not witnessed a family losing their house.

What does the challenge hold as we go forward? And that's really what I want to dwell on today.

Having been in Congress a very short amount of time, and having to fill some very big shoes, I've watched the financial service industry -- a lot of hearings about this.

Congress has already acted. Now, I disagree with their action. I didn't disagree with the action being taken, but my fear of where we're going is in the action that Congress took. It may create more pain; more pain for a community bank that may not have created the problem, but be able to be one of the avenues to help us get out of this at the capital level.

And I'm hopeful, as you study in your report, and the problems that have happened, there's more than 200 regs that have to be written in this bill, and I know you will have to address it again, and we haven't even touched Freddie and Fannie.

If we can take your book and we can utilize that, and actually correct the wrongs, maybe even some of the wrongs of the legislation that was written. So today, as you go through and you watch a community that is very proud of how we've grown, very proud that we've grown from the idea of the land, the idea that hard work, that we can come out stronger than we have before.

We know the future is gonna be difficult, but the witnesses you have today, you will find from community banks, from ranchers, from appraisers, from developers, that these aren't big names that you'll find in Washington or on Wall Street.

They did it from their hard work, from their own capital, and are be able to build something. And they watched something get torn down not from their actions, but from others.

Now, how do we learn from our mistakes and make something even stronger? So I welcome and I applaud you for getting out of Washington. And this road trip that you're doing in the next week I think will probably the most vital part of your report. So thank you.

MR. THOMAS: Thank you, Congressman.

Supervisor Watson, knowing your decades in the private sector, and then your decision to run for public office, you've had an unusual vantage point in watching this area of California grow and prosper, and then more recently face some pretty adverse situations. So I'd very much like to hear from you, in terms of whatever you wish to tell the Commission.

MR. WATSON: Well, thank you, Mr. Chairman and Mr. Vice Chairman, and members of the Commission.

On behalf of Kern County Board of Supervisors, and all of our citizens, I'd like to just welcome you again to Kern County. It's a place that we're very proud of. We're delighted that you're going outside the beltway to come to the heartland. Kern County and Bakersfield really is the heartland of California. We're in the central location of California.

And I appreciate you offering me the opportunity not to just talk about the financial aspects that are the focus of your -- your hearings, but to brag a little bit about Kern County, and also, hopefully, to put that into perspective as to where we stand as -- as a result of the many things that we have done, and the many things that we have.

To start off with, for the two of you, we're not Californians up on the panel there today.

Kern County is about 8,000 square miles of diverse geography, going from the deserts to the Sierra Mountains, the Tehachapies, the Great Valley, and then over to the coastal range which they call the tumbler range. So we have a very diverse economy.

A foundation of that economy is the oil industry, which actually was discovered in 1858 in the Sunset Hills Oilfield, and Elk Hills is just north of that area, just at the south of that area. But today we've produced 70 percent of California's oil; 50 percent of California's natural gas.

And we produced more energy than all of the states in the union, except for Alaska, Texas and Louisiana.

So we are big players in the energy

industry. We're also very innovative, in that we started the cogeneration process, which actually enhances the oil -- the recovery from the oilfields by injecting steam in there to make sure that we get the best out of every oilfield before we go out and try to explore new areas.

But during that time, we have also been very strong in environmental protection. As you know, the Central Valley, along with southern California, is one of the areas that suffers most in the country from air pollution, but the oil industry has cleaned up 90 percent of its oil pollution.

I happen to be on the Air District Board for the Valley. And at the cost of $40 billion, the oil industry, and other industries in the Valley, have reduced their pollution by over 50 percent in total; the oil industry, 90 percent. But it costs a lot of money, but we have made tremendous progress in that area.

We're not only leaders in petroleum energy, but in green energy now.

We have already approved 1165 megawatts of wind turbines and another 2,000 megawatts are in the planning stages. That's enough to serve 3 million homes, which is much larger than the population of

Kern County.

We have 1200 megawatts of solar projects in construction and various stages of approval, serving another 1.2 million when that's built out.

We, I believe, are the first hydrogen energy prototype plant to be on the drawing board in the country. It's undergoing its environmental review right now. When it's complete, it will produce 250 megawatts that would serve 250,000 homes.

And that is a very innovative process, using the bi-products of petroleum, which is what they call coke, and normally, that is a waste product. That, along with coal, which is traditionally used to produce energy and hydroelectric plants -- electric generation plants. By breaking that into oxygen and CO2, you have a clean-burning oxygen generation process, the CO2 is pumped back into the ground in order to enhance oil recovery.

So we're using bi-products, waste materials, and we are taking the waste bi-products, which is cO2 greenhouse gas, and putting that back in the ground for enhanced oil recovery.

So I can't think of anything that is

more -- more efficient in the use of the resources in coming up with a clean product.

Another area that we're really proud of is agriculture. We're the No. 4 producing agricultural county in the nation. $3.6 billion worth of production in 2009, covering all kinds of products from almonds, pistachios, carrots, grapes, citrus, and a number of other products.

We market worldwide in very sophisticated marketing activities, many of them that are headquartered right here in Kern County.

We have extremely sophisticated irrigation techniques here. As you know, we have a water shortage in the State of California, but Kern County is probably one of the leaders in the world in terms of making use of every single drop of water so that none is wasted.

We also have an underground water banking project here, the largest, or one of the largest in the world. It serves not only the southern valley, but we also store water for the Metropolitan Water District in southern California.

So, again, every bit of water that comes down from the rivers, from central California and northern California, down the aqueduct and our Kern

River, every bit of it is made use of. And what we don't use at the moment, we store underground for later use.

MR. THOMAS: Ms. Supervisor indicated to the audience that you're not running this year.

(Laughter.)

MR. WATSON: If I'm running too long, you just let me know.

MR. THOMAS: I thought I just did.

(Laughter.)

MR. THOMAS: Sum it up, please.

MR. WATSON: In spite of the good things that we have, there are a couple of other things I wanted to mention.

We do have some problems that go a little bit beyond the issue of financial reform.

We have -- in spite of all of this innovation and these great industries, we have one of the highest property rates in the United States.

We have a median household income of 44,733 which is 14 percent below the U.S. average; 27 percent of the average in California.

Our unemployment rate is 16 percent; whereas, California is 12.3. The U.S. is 9.5.

We've received fewer return of federal

funds of almost any region in the country.

We send a lot more tax dollars out than we get back, in terms of benefits for our communities.

Our foreclosure rates, which will probably be talked about later, are one of the highest in the nation.

And then we found out just in an article about a week ago in Time magazine that our per capita economic output is about $24,000 a year, compared to 48,000 for Los Angeles, 61,000 for San Francisco, 58,000 for New York and Columbus, Ohio, 42,000.

We are falling behind in many, many categories, and it has a lot to do with other issues besides financial reform. That's part of the problem

So I'm going to close there, and at some point during the day, you would like to know more of the thoughts about how we can solve our problems, I'd be happy to try to answer those.

Thank you.

MR. THOMAS: Thank you very much. And I wanted to thank the panel.

While the next panel is coming up, I would ask Arnold Cattani, Steve Renock and Linn Wiley to join us as you folks are leaving.

I would only say to my friend, we always say we're behind Texas, Alaska and Louisiana in oil production, but with the offshore rigs shut down in Louisiana, we may be No. 3, unfortunately, until they get back up. So we'll -- we'll take our rightful spot, next to those three significant oil-producing states.

The next panel is going to allow us to focus on community banking.

We obviously, in our Washington hearing, and in the New York hearing, focused significantly on Wall Street, the large commercial banks, international banks, so-called shadow banking system.

But I wanted to make sure that we had an opportunity to visit with those banks that most people associate with, the so-called community banks. And, so, as the panel is being set up, Mr. Chairman, I would recognize you for the appropriate role that you have provided in every hearing thus far.

MR. ANGELIDES: Thank you, gentlemen, for being here.

Over the course of our hearings, and all the interviews we've done, we swear witnesses in. And so I'm gonna ask that each of you rise and raise your right hand so I can swear you in.

I'll wait for Mr. Cattani. Great, terrific.

(The panel was sworn.)

MR. ANGELIDES: Thank very much, gentlemen. Mr. Thomas.

MR. THOMAS: Thank you, Mr. Chairman.

We've asked all of you to submit written testimony, which you have done, and then we asked you to provide us in your own words five minutes of introductory comments.

And so, as I did with the first panel, fortunately, it sets up in a nice way to go alphabetically.

And, so, Mr. Cattani?

MR. CATTANI: Looking purely at the financial crisis, and how it affected Kern County, Bakersfield, I think if you step back to the start of the real estate boom, Kern County and the entire Central Valley had very cheap land for home building. It was also -- and that's relative to the Bay Area in southern California.

It also had a very easy path to -- through the entitlement process.

So when the boom was going on, and it got more expensive and harder to build in the major metropolitan areas, we made a -- I wouldn't call it a target, but it looked like a great opportunity.

Housing was much cheaper. Major homebuilders came in; got through the entitlement process quickly.

I'm not complaining about the entitlement process being quick and easy. It's just the way it was, and probably the way it should be.

But it drew a lot of investors. People built houses that they didn't plan to live in. You looked at a house in L.A. that was selling for three times the price it was selling for, you know, one-third here. Obviously, there is plenty of room to make a lot of money to speculate on a house.

And so we had a really strong increase in employment in the construction industry, financial service industry, mortgage brokers; everybody that had to do with lending, home lending.

And so when the end came, I think we were probably hit more seriously than the rest of the country. Construction jobs went away. Lots of foreclosures. And, you know, really devastating landscape of abandoned subdivisions and abandoned houses.

My opinion, what caused that, what facilitated that, was too much focus on debt. I put that in my written statement.

And I think from a macro standpoint, our country's financial system tends to look at debt as the way out of any downturn.

And when I started in the financial industry, I was on the board of a bank, the one that went under, the San Joaquin Bank, in 1980.

So I've been in it for 30 years. I've done some work for Wells Fargo Bank as a consultant, and then I'm chairman of Mission Bank.

Going back in time, you know, you made -- savings and loans made most of the home loans. Community banks, commercial banks, financed small businesses. They provided financial services, checking accounts; savings accounts. Insurance companies made long-term loans, and we had a lot more financial discipline.

You had to have 20 percent down, at least, for a home. You had to have the 10 percent cap rate, which is the return on a commercial property. And, you know, I watched the financial system change. S and Ls were freed up from making only home loans to making commercial loans.

Most of them went broke in the S and L crisis. You know, you let investment banks -- no, banks owned investment banks, no investment banks become banks.

People make loans not to keep them. They're not lenders. They're salesmen.

They create a loan for its salability in the marketplace, and I think that's dead wrong.

If you're gonna make a loan, you're gonna look at the risk of the loss. You've got to keep that loan, or at least most of that loan.

What happened in this crisis, Wall Street went out and bundled these mortgages and sold them to little towns all across the world.

They make big fees on it. Mortgage brokers -- I have one minute remaining -- you know, to go put the blame on mortgage brokers and appraisers, there are plenty of bad appraisers; there are plenty of bad mortgage brokers. But they were feeding a voracious machine. They wanted to make fees selling junk, and it's created a disaster.

I mean, it's like you can't over- -- you can overstate it. It's not like a nuclear wasteland, but it's really tragic watching the homes, the people, the family, losing their homes. And I think, you know, can we revert to where we were 20 years ago in the financial system? Probably not. If we could, I think we should. But, you know, get back to basic lending and basic financial soundness and discipline.

MR. THOMAS: Thank you very much, Mr. Cattani.

MR. RENOCK: Vice Chairman Thomas and members of the Commission, I appreciate the opportunity to share this information with you.

Our credit union was founded in April of 1940, and from modest beginnings has grown to over 109,000 members, and $1.4 billion in assets.

Our core membership is still comprised of school employees and their families. The impact of the current financial crisis on our local economy has similarities to the communities in other so-called sand states, in some aspects.

You've been to the Valley. Like many sand state communities, we experienced the rapid real estate price appreciation that was fueled by low interest rates and the availability of easy financing terms.

Many construction jobs were created by the real estate boom that also increased activity in most segments of our economy.

More specific to our area, however, is that Kern County is broadly involved in agriculture which is heavily dependent on water flow, as has been mentioned.

This sector of our economy has always been volatile, and with the current water shortages, these difficulties for these companies and individuals involved in agriculture have increased.

Unemployment for those in the ag. business remains extraordinarily high, and these issues, added to those created by the financial crisis, have made the situation in Kern County worse.

As we all know when the economic bubble bust, primarily because of the many excesses in the financing securitization market, the impact is widespread. In Bakersfield and the surrounding Kern County construction projects slowed, and in many cases stopped.

As a result, economic activity slowed in all sectors and many jobs were lost, and over time they disappeared.

Real estate values dropped as quickly as they had risen, and many of our residents experienced what we call economic double jeopardy. That is, they lost all or a good portion of their income at the same time the value of their homes declined, and in many cases it declined to less than the amount that they owed on their homes.

As the crisis continued, more home loans became delinquent and went into foreclosure. In addition, many auto loans and other consumer loans could not be repaid.

For our credit union, the impact of the financial crisis has been dramatic and directly reflects the impact on our members. Our delinquency rates and loan losses have increased from historically modest and management levels last seen in 2007, to the much higher levels we are experiencing today, as I've shown in my written testimony.

During 2009, and so far in 2010, we've assisted over 1,500 members with its loan modifications both in consumer and real estate loans, and our members have shown a true desire to live up to their financial obligations; however, when the income just isn't there, it's very difficult to provide meaningful assistance.

Let me stress that at no time did our credit union engage in any subprime, alt-A lending, or aggressive adjustable rate real estate lending with teaser rates. We retain all of the consumer loans we make in our portfolio, and many of them mortgage loans. We have a lot of skin in the game.

The combined impact, however, of all the other types of financing available in our marketplace contributed to the collective economic problems in our community.

In 2009, we charged off over $38 million in bad loans. Another $10.3 million was expensed for the write-off of our investment in the corporate credit union, and assessments from our national credit union share insurance fund.

To adjust to our new economic reality, we have reduced expenses by closing six of our branch offices, inconveniencing many of our members, and we've laid off 45 team members and lowered our total employee population from over 600 to approximately 460 team members today.

The overall reduction of our team size came from all levels of our organization, and each layoff affects a family and has a further negative impact on our economy.

As a member of our own financial institution, we need to be prudent stewards of our members' money, and thus have taken, and will continue to take, many steps to reduce our expenses to be in line with our income.

Many of our members are doing this in their personal lives, and it's only right that we must do the same. As one of our community's large employers, we have also tried to be supportive of the many charitable organizations in Bakersfield, and our financial commitment to these worthy groups has been reduced substantially over the past couple of years.

While these dollars may not be large by Washington, D.C. standards, they do affect our local charitable organizations to a great extent.

On the revenue sides of our statement, we receive our revenue primarily from the income on the loans we generate. Our activity has been slower there for two reasons: Number one, members are being more cautious with their buying and borrowing decisions, which is appropriate, and/or not buying at all.

Second, it is harder to get a loan. We

have tightened our standards, and many of our members' credit standards have been lowered, and the combination of those two make things very, very difficult for us.

As far as California, credit unions in general were performing less well than the credit unions in the rest of the United States. And in Kern County in particular, all the economic problems that have been described have had a dramatic impact on this as well.

So you might think that I have a negative outlook for Bakersfield and Kern County, and I can tell you that's not the case. I have confidence in the resilience of the people in businesses here in Bakersfield and Kern County and their ability to come back from adversity, and I'm confident that we will.

Thank you very much.

MR. THOMAS: Thank you, Mr. Renock.

Mr. Wiley?

MR. WILEY: Mr. Chairman, Mr. Vice Chairman, members of the Commission, it's a pleasure for me to be here today and to participate in your inquiry.

The financial crisis as I see it began on or about August 1 of 2007. It became more obvious during 2008, when these mortgage-backed securities began to fall in larger and larger numbers.

I think the causes of the crisis can be attributed to many sources, and I have listed eight in my written testimony.

Number one is the homebuyer who bought the house and who took out the mortgage. Who bought a house they couldn't afford; took out a mortgage they couldn't pay back.

And I believe that that is the fundamental cause of the crisis, and I think we should assign personal accountability to those people who made those decisions. And sometimes I think that we're kind of giving them a free pass with the various moratoriums that have been proposed.

Number two, the real estate broker who sold the home to the real estate buyer who couldn't afford it.

Third, the mortgage broker who negotiated the mortgage the homebuyer cannot afford.

Fourth, the mortgage company that underwrote the loan.

Fifth, the appraiser who inflated the value of real estate. And I've seen this throughout many years in this business, where in an expanding economy, the appraisers overappraised the value of the home or the property.

And then as we go into recession, they underappraise the values and exacerbate the downturn.

My son happens to live in Bakersfield. He had his home sold in Seven Oaks for a million-625. The appraisal came in at a million-450. And that's kind of an anecdotal indication of the appraisal business.

Six, the GSEs, Fannie Mae and Freddie Mac, they guaranteed the loans. They guaranteed 71 percent of subprime loans.

Seven, the investment banks that securitized the loans and then sold them all around the world. And it appears to me that there was a lack of oversight in developing and distributing these high-risk products.

And number eight, the rating agencies, the rate of the securitized mortgage pools, AAA, when they were junk.

So there's enough blame to go around.

I believe it's particularly significant that Fannie Mae and Freddie Mac reduced or lowered their credit standards in the late 1990s. This allowed borrowers to qualify for loans they simply could not afford. It also encouraged the very aggressive practices of mortgage lenders that led to subprime mortgages and included low doc, no doc, and stated income loans.

The financial regulatory reform legislation that was passed on July 21, I think it is woefully inadequate in addressing all of the various parties to this financial crisis.

It doesn't really say anything, to my knowledge, about the real estate brokers and the people who are selling these homes; about the mortgage bankers who are selling the mortgages that the homebuyers could not afford.

It doesn't say anything, to my knowledge, about the appraisal industry, and how they managed the appraisal process.

And is totally silent on the GSEs, Fannie Mae and Freddie Mac.

What it does do is it lays additional burdens on the banking industry. And out of almost 8,000 banks, less than 10 made -- made any substantial number of the mortgages that were securitized and sold off.

And Community Bank America was almost

nonparticipatory in advancing those loans, and those that did, it did in very small numbers. Our bank in particular made none of those loans.

The legislation that was passed, 2300 pages, calls for 559 new rules, 81 studies and 93 Congressional reports.

People have said it's Sarbanes-Oxley times 10. And the legislation has now been delegated to 10 regulatory agencies to come up with the regulations to implement the legislation.

They say this will amount to 5,000 new pages of regulations, increasing the amount of regulation by some 50 percent for what exists today, and I think laying an undue amount of burden on the banking industry, specifically the community banks, the main street banks of our country.

Thank you very much.

MR. THOMAS: Thank you.

I really do want to focus on community banks. And, obviously, all of you are heavily involved, or at least in a structure that tends to function like a community bank more and more, Mr. Renock, in communities such as ours.

Now, Arnold, you mentioned that you were involved with the San Joaquin Bank in early years, and you're currently a director at Mission Bank, which is another one of those small community banks that, in central California and the central coast of California, seem to be able to invent and in large part, nurture and grow.

In fact, Mr. Wiley, most people don't know that you were in Bakersfield at American National Bank, which was a small community bank, which became larger, and was eventually acquired by Wells Fargo.

But you're sitting here, Arnold, as a director of a community bank that's still here.

In your mind, what did you do or not do that allows you to appear as a director of an ongoing successful community bank?

MR. WILEY: We practiced very conservative -- is it on?

MR. THOMAS: Oh, you're on.

MR. WILEY: -- very conservative basic banking practices, you know. We -- you know, sometimes it seems like the financial world is moving past us, so some of what we did may have been luck; some of it may have been skill, but we made no mortgages, single-family homes, other than maybe as an accommodation to a business customer.

We bought some of the MBS, CDOs, and then looked around and said: What do these things really mean? And we didn't understand that, so we sold them all.

We didn't loan to developers on raw land. It's kind of an old school banking concept, but if there's not some cash flow to service your debt, you don't make the loan.

We have a team of people who kind of prep at other banking institutions, principally Wells Fargo, who I think very highly of. When it came time to look at TARP money, we didn't need it. We didn't really understand it, so we didn't take any.

We have a very high cash position, liquidity, on purpose. When things got hairy and people -- you know, potential runs on the bank, we wanted to have plenty of cash available.

So it was really old school banking. And we didn't like the landscape of what was going on in the extreme speculation in the building business.

We kind of felt that around 2005 things had gotten -- gone too far too fast.

MR. THOMAS: Thank you.

Mr. Renock, we've all seen the credit unions evolve over time and take on more and more aspects of what we call the old-fashioned banking system.

In your opening statement, you clearly retained most of the lendings of the members of the current school's Federal Credit Union on your books, but you said that you had many mortgage loans on your books, not all of them.

What was the mechanics in terms of what you cast off and why did you, and how did you?

MR. RENOCK: Certainly.

For asset liability management purposes, we get too -- we get concerned when we have too many 30-year fixed rate mortgages on our balance sheet. So those mortgages that we don't keep on our balance sheet, we sold to Fannie Mae under the same underwriting guidelines that we sold the other -- retained the other loans for.

So, in our current portfolio, we have about $1.1 billion in total loans. About 222 million of those are mortgage loans that we hold. And we've sold to Fannie Mae over the years, that they currently hold now about 360 million. Again, those are all underwritten to the same standards.

We didn't do any of the exotic mortgages that you could have sold to them. It was all pretty much 30-year fixed rate and some adjustable rate lending, but not with teaser rates.

MR. THOMAS: Thanks.

I'll come back to you in a minute in terms of the current credit union model, but I want to turn to Mr. Wiley.

Based upon your obviously current credentials -- and people need to know that you're heavily involved in the banking structure from the Federal Reserve, to dealing with those who are currently looking at what, I guess for lack of a better term, would be the community bank business model.

And it sounds to me, in terms of Mr. Cattani's testimony, in the best sense of the word, he sounds like an old-fashioned banker. The crack used to be if you come in for a loan and you don't need it, you can get one.

And it was for convenience.

But the world, as you indicated, Mr. Cattani, has clearly changed.

Mr. Wiley, would you focus for just a couple of minutes on that concern that you expressed briefly in your verbal testimony about the community bank, yesterday, today, and especially as they write the regs to the new financial legislation on where you see, or your colleagues, or discussions that you've had about this community bank business model.

MR. WILEY: I believe that the burden of additional regulation is gonna weigh heavily on the community banks. And the smaller they are, the more heavily it weighs on them because of the resources that are necessary to comply with those regulations.

It also appears, based on what has transpired so far, is that certain fees, overdraft fees, credit card fees, interchange fees, those kind of fees are going to be reduced or eliminated and thereby eliminating an important source of revenue to community banks.

So I think that the future is gonna be more difficult as a result of more and more regulation, and all the compliance requirements associated with it.

MR. THOMAS: Well, your current association with Citizens Bank was called on recently in terms of the failure of San Joaquin Bank. And so, in a sense, you're back in Bakersfield. The signs went up Friday, and converting all of the branches of San Joaquin to

Citizen.

In your analysis of that particular failure and especially important to this community, are there any takeaways that would be useful in terms of talking about what we thought was a -- a model of -- of a business bank that seemed to be doing quite well and, frankly, surprised a lot of people in this community?

MR. WILEY: I might mention that we actually came to Bakersfield in 2000 and had eight offices in the Central Valley from Bakersfield to Stockton when we made that transaction last October.

MR. THOMAS: Right.

MR. WILEY: So it was an ideal situation for us, because of our existing presence in the Valley and the opportunity to expand that presence through an acquisition.

And I think that, you know, as I examined that particular bank, there was three -- three things that contributed to their difficulties.

One was that they had become active in making real estate loans to motels and hotels throughout the country.

They also made church loans throughout the country. And they were very aggressive in lending to developers, I meant we have literally thousands of watts in that portfolio that were now in the process of collecting or liquidating.

So I mean, I think Arnold expressed it pretty well, and that's why Citizens Business Bank has continued to perform well, is that we held to our -- to our classic and conservative underwriting practices and didn't get out where a lot of banks did.

And I won't tell you we don't have any problems, but they're -- they're manageable and we're still quite profitable.

MR. THOMAS: Thank you.

I'm gonna reserve my time and recognize Commissioner Born for 10 minutes, and then some extensions, if she needs them.

MS. BORN: Thank you very much, Vice Chairman Thomas, and thank you to the panel for appearing before us today.

I echo the sentiments that Bill Thomas and Phil Angelides have voiced in saying how grateful we are to be able to be in your community and how important it is to leave Washington and New York City and find out about the impact of the financial crisis in communities throughout the country.

As has been mentioned, our statutory mandate is to look at the causes of the financial crisis and the ongoing economic crisis as well.

We are not mandated or empowered to make recommendations as to what Congress or the regulators should do about the problems, but we very much hope that by elucidating what happened, and why it happened, and why the economic crisis has been so severe, we will be able to let the American public and policymakers, both in Washington and the states and communities, have better insight into what the mistakes were, how they can be reconciled -- rectified.

I would like to ask you all because of your experience as community bankers, or community credit unions, whether you think that -- why you think that Bakersfield and the Central Valley of California have been impacted more severely, more catastrophically by the financial crisis?

Why has your economy been so vulnerable to this?

You seem to be hurting more than some other regions.

There are regions like Nevada, where we're going tomorrow, that are also in a very bad state right now.

But, Mr. Wiley, what is it about the Central Valley that made it fragile or vulnerable to the effects of this financial crisis?

MR. WILEY: I might mention, you know, our two primary markets are the Inland Empire and the Central Valley, two of the epicenters from this whole financial crisis.

And I think it was primarily a result of the overzealous development in building of homes in these markets. I put in my testimony that in 2007, I saw where in 2006, 46 percent of the homes sold in the Inland Empire were bought by investors.

So that by itself tells you that there's a -- a real risk out there.

And while I didn't see the same kind of numbers for the Central Valley, I just think both markets got way ahead of themselves in building, and then when the financial crisis occurred, everything came falling down.

MS. BORN: Thank you.

Mr. Renock?

MR. RENOCK: I share those sentiments.

I think that a big part of the issue is that both from a lending perspective, and from the borrowing perspective, we got away from looking at a house as a home and a place to raise a family, and started to look at it as a financial asset that was to be leveraged and used to try to make a lot of money on. And I think that has not been in the best long-term interest of anybody.

And I think in an area like we have here in Bakersfield and Kern County where, as Mr. Cattani mentioned, that land prices were rather low compared to other areas, it just caused the difference in the rise up and then, consequently, the fall down to be that much more severe. And that's added considerably to the problem.

MS. BORN: Mr. Cattani?

MR. CATTANI: Yeah, I think we had a lot more raw material to build a bomb, and we could build it a lot quicker. Had lots of land, cheap land. Instead of three years to get through, and get through zoning, you can do it in a year.

And you had foolish banks all over the country that would give the builders the money to do it.

MS. BORN: Let me ask you each whether your banking institution lowered its underwriting standards during this period.

Mr. Cattani, did I understand that you -- your bank did not write mortgage loans -- did not make mortgage loans?

MR. CATTANI: That's correct, yes, we didn't.

MS. BORN: So you were primarily commercial loans?

MR. CATTANI: Yes, small businesses and -- yeah, that's our primary focus. I mean, we had some other small parts to it. And we didn't lower our underwriting standards during that time.

And I don't know that we've tightened them since then, but, you know, yeah we probably tightened them a little bit since then, since it's been such a disaster.

MS. BORN: What about other community banks? Do you have any insight into whether their lending underwriting standards, or their lending standards, for comercial loans, deteriorated at all during this period?

MR. CATTANI: I couldn't hear the last part.

MS. BORN: Did underwriting standards at other community banks deteriorate for commercial loans leading up to the crisis?

MR. CATTANI: Yeah, I believe so.

I mean, I read a lot of financial newspapers and writings, and have seen so many of the banks that have failed. And I watched one bank that failed here locally.

There was a lot of money to be made in fees. There was a lot of money to be made in little higher interest rates.

We chose not to, but I think there were plenty of community banks that did.

MS. BORN: And, Mr. Renock, you did make mortgage loans, obviously.

Did your credit union change its underwriting standards?

MR. RENOCK: I've been at the credit union since October of last year, so I can't specifically comment. But I can tell you that for our mortgage underwriting guidelines, they've always been underwritten to Fannie Mae standards, and only the plain vanilla Fannie Mae standards.

So I'm confident in saying that the underwriting standards for our mortgage lending have not changed, and has only gotten a little tighter as a result of Fannie Mae tightening their standards.

And our consumer loan portfolio, I know that since I've been at the credit union, we have tightened our underwriting standards; although, not substantially so, because we're still a member-owned institution, and we want to make credit available where credit is due.

MS. BORN: Thank you.

Mr. Wiley, does Citizens Bank -- does Citizens Bank make mortgage loans, and has its underwriting standards changed?

MR. WILEY: We do not originate single-family residential loans. We are very active participants in the commercial real estate market.

On the residential side, the only assets we have, home loans are some mortgage pools that we bought back in 2004 and 2005.

We have not modified our credit standards before, during, or after the financial crisis.

We felt that we've always held to very conservative lending practices. And the only difference today is you just don't have as many qualified borrowers. And, so, when people talk about the banks not lending, we're lending every day.

We just don't have the number of qualified borrowers. And we're not gonna reduce our standards and then go right back into this whole process again.

MS. BORN: What has your experience been with the performance of the commercial residents -- commercial mortgage loans that have been made?

We've heard testimony previously that commercial real estate may be posing a significant problem, and that we may not have seen the last of the problems in that area.

MR. WILEY: Yeah, we've had generally good experience with our commercial real estate loans; commercial real estate loan portfolio.

We do have some nonperforming loans, but they are small, relative to our total loans and to our capital.

And I think that the challenge here is to see an economic recovery that will allow these borrowers to perform going forward.

My concern is that the recession, which I believe we're still in, will continue to the point where these borrowers will run out of the ability to service the debt.

MR. THOMAS: Thank you very much, Commissioner Born.

Commissioner Murren?

MS. MURREN: Thank you, Mr. Vice Chair.

And thanks to all of you for being here today. I think it's important to the work of the Commission, and also for the rest of our country, to be able to hear from the people that were so dramatically affected by the financial crisis and then, of course, the ensuing economic crisis which continued.

I'd like to focus the line of questioning on the regulatory environment, and I was hoping that I could have you make comments a little bit on any changes that you've observed in the regulatory environment during the course of the crisis, and then also perhaps through now.

In particular, I'm guessing, judging from what you've described about your business practices, that there is at least a period of time where you might have been at some competitive disadvantage relative to banks or other enterprises that might have had looser lending standards, or a willingness to engage in lending to sectors of the economy that were perhaps riskier.

And I'm wondering if during that time, did you observe to the regulators that they might need to focus on regulating certain areas, whether it be mortgage originations or the quality of lending in commercial real estate enterprises.

Also, a little bit on how you feel the quality of bank examination and the regulatory environment was pre-crisis. I've been told by bankers in our community that the level of intensity of the examination process, and the engagement of the regulators, has significantly escalated post crisis relative to where it was before.

So I was hoping you could talk a little bit about your interactions with -- with those bodies before the crisis, and then how it -- how it continues today.

Mr. Wiley?

MR. WILEY: Our relationship with our regulators -- our primary regulator is the FDIC, and then they're also state banks sowe're regulated by the Department of Financial Institutions.

We have always had very strong relationships with our regulators, and we've done that as a matter of practice, by making calls on them and having an outreach to the regulators to make sure that we maintained that good relationship.

And we had a good relationship before and a good relationship during, and since the financial crisis occurred. Certainly, they're more diligent in their credit reviews. I mean, they have to be. I think they're charged with that responsibility.

This is my fifth recession as a banker, and it's my third in a senior type of capacity, two as president and one as vice chairman.

So what happens when credit conditions deteriorate, they are charged with becoming more diligent in their -- in their oversight, because they're held responsible for making contribution to improving those circumstances, and in fact, are even held responsible by some for allowing the credit conditions to deteriorate in the first place.

So they're under a lot of pressure from different angles to provide that oversight and to become more aggressive in their ratings of the banks.

And so in my experience, 23 years as a bank CEO, you know, I've always found the regulators to be -- to be fair.

I haven't always agreed with them, but we've always been able to resolve our difference in a positive way.

MS. MURREN: Just to follow up on that point, if you took a broader view outside of the regulator that oversees your particular enterprise, but when you look at the overall regulatory regime for things like mortgages or other types of lending, do you feel that had there been greater scrutiny of certain activities, that the impact on the community here in Bakersfield might have been different if, for example, mortgage originators had been more closely monitored?

MR. WILEY: Absolutely.

Community banks are the victims. We're kind of one of the last in the chain deterioration that really is initiated by the larger bank activities deteriorating, specifically by mortgage-backed security, mortgage-backed security defaulting, and then creating economic difficulties throughout the system.

Another thing that happens is when a bank encounters difficulty, the regulators come in and they will restrict their lending, and they will say: Well, you can't make any more loans. You can't make any more of these types of loans.

They become a source for limiting the types of credit the banks can make. So this by itself will also restrict the overall lending activity.

MS. MURREN: Thank you.

MR. RENOCK: As a federal credit union, we're regulated by the National Credit Union Administration, and they're responsible for the safety and soundness of our system, and including the National Credit Union Insurance Fund. And, yes, the regulatory scrutiny has increased, particularly in the lending areas.

We have a very, very small business loan portfolio, only $16 million out of our 1.1 multi-billion-dollar portfolio. And we are no longer involved in business lending, because we've chosen to focus on the retail aspects of the markets.

So that certainly helps, because I think business and commercial lending is getting a lot of scrutiny from our regulators these days.

I do believe that the lack of a coherent regulatory scheme for mortgage brokers has caused some of the problems we have.

I've been in the mortgage industry since 1979, and the -- the fact that there are so many new methods to the system that seem to be more interested in making money than doing a good job for the clients they were serving, I think has been a major, major problem in that business. And I've been part of that business, and it doesn't give me any great pleasure to say that, but I think that's certainly been a big aspect of what's going on.

And when you look at the kind of companies that have popped up overnight, not just in Bakersfield or in Kern County, but in virtually every small community in the United States, to offer a quick and easy way to solve a financing problem that probably isn't justified in the long run, I think is a real problem, and it needs to be addressed.

MS. MURREN: Thank you. Mr. Cattani?

MR. CATTANI: We're regulated by the FDIC in the state group.

They weren't easy before. They always were apprehensive when the regulators came. They were very thorough. I think they did a very good job, at least in our case, the ones we've had.

Since the crisis, yeah, they've gotten tougher. They should. And do we think they're too tough?

Sometimes, you know, it's kind of our job to try and make our -- our case.

But I think all-in-all for the community banks, in our -- in our situation, they did a good job. As far as other regulatory groups, I think the OTS, the office of thrift supervision, did a horrible job.

They had IndyMac. They had GMAC, GECC, you know, everybody that wanted to get around the regulatory system of the FDIC. You know, they tried, and a lot of them succeeded under the OTS.

And then, the mortgages that are bundled and sold, I don't know who regulates those, or if anybody ever did. If you're not gonna hold them on your books -- maybe they did; maybe they didn't. I don't know.

But if you look at the regulatory weaknesses, it was not in the FDIC in our case.

MS. MURREN: Thank you.

One more question. It sounds from the way you describe your business that many of the loans that you make you actually retain yourselves, that you don't turn in and sell those to other institutions.

Would that a fair statement? And, if so, could you give us a sense of the scale of that?

Is it, you know, 50 percent of your lending you keep, or is there a number that you have in mind as to the way that you like to approach it?

MR. CATTANI: We may have -- I think it's

100 percent. I hesitate to say that, maybe we sold a loan here or there, but i'm pretty sure we keep 100 percent of the loans we make, and I think it should be that way.

MR. RENOCK: And in the case of the credit union, it's 100 percent of all the consumer loans we make, so the auto loans and the personal loans.

On the real estate side, as I had mentioned, we manage our balance sheet with interest rate risk in mind. And because most of the people in Bakersfield like 30-year fixed rate mortgages, that's not a good long-term investment at the current rates, which are well under 5 percent.

So right now, we're selling all of the fixed rate mortgages we generate to Fannie Mae.

But, over time, it's around 50 percent of the loans we hold and the ones we sell.

MS. MURREN: Thank you.

MR. THOMAS: Mr. Renock, what about the commercial loans? Are you doing any commercial?

MR. RENOCK: We're not currently doing any commercial loans. And the $16 million in commercial loans we have on our balance sheet, we've retained 100 percent of those.

MR. THOMAS: You're retained them.

Thank you.

MR. WILEY: We retain 100 percent of our loans as well. The only time we sell a loan is when we have a troubled loan, or one that we're concerned about, we might sell the note to an investor, just to eliminate that exposure to our bank.

And Arnold mentioned the OTS. I mean, if you look at the major failures, that they've largely been thrifts.

Washington Mutual, IndyMac, PFF and Wachovia didn't fail, but the Golden State acquisition that really did the damage there.

So I -- I do think that that industry is going to be subject to some different kind of oversight under the OCC.

MS. MURREN: Thanks to all of you. This has been really helpful. Thank you.

MR. THOMAS: Thank you, Mr. Chairman.

MR. ANGELIDES: Thank you very much. Thank you for your answers today.

In fact, Ms. Murren really hit on one of the ones I wanted to talk about, which is really the differential regulation running up to the crisis.

Let me ask a few questions. I'm gonna circle back to that.

Mr. Cattani, you mentioned that your institution, for a brief while, bought some MBS and CDOs.

Why did you do it? And then you told me you disposed of them because you didn't really understand.

I'm just curious why you went into that arena. Was it because it was better for capital, or --

MR. CATTANI: Well, you have an investment portfolio as a bank, part of your capital structure, and you need to invest that in a safe manner, but in a way that is permitted by the OCC and the FDIC and, you know, earn the best return you can in those parameters.

We had a funds management committee as a part of it. We had a CFO who laid out the menu, and we bought some mortgage-backed securities and collateralized debt obligations, because they had slightly better yield.

MR. ANGELIDES: Were they subprime? All-A? You remember?

MR. CATTANI: No. No, there was no junk in the package, but it was -- you know, it was good stuff, I think, if Fannie or Freddie backed MBS.

The CDOs, I don't know.

But at one meeting, when things started getting difficult, maybe in 2006, I asked the CFO what the mechanical steps were in an MBS, mortgage-backed securities, if a borrower in Des Moines, Iowa defaulted.

I know what it is if a borrower in Bakersfield defaults, and somebody has that mortgage. But as a package security, what happens?

And he couldn't answer the question.

And I told him to sell them, sell all of them then, because we didn't understand it, and I don't know that we had the capability to understand the financial complexities; didn't want any part of it.

MR. ANGELIDES: Let me ask each of you.

To what extent did you see, while you were not primary -- you would do mortgage lending as a function of accommodation; you would do it as part of your book of business, correct, that they were all pretty standard conforming mortgages?

I'm trying to remember. You also did some mortgage lending?

MR. WILEY: We do a great deal of commercial mortgage lending.

MR. ANGELIDES: What about residential? None at all?

MR. WILEY: We did not originate any.

What we did do is we did residential construction financing. So we did do that piece of it.

MR. ANGELIDES: All right. Let me ask you particularly, Mr. Cattani and Mr. Renock, because you were in the marketplace. What did you see?

And you might have an observation as well, just because you're in the marketplace actively.

What did you see in two respects: What did you see in the way of mortgage fraud in the run-up to the crisis, and/or what did you see in terms of predatory lending practices where people might have been steered towards subprime products?

MR. CATTANI: Mortgage fraud, yeah, I was aware of a secondhand hearing about mortgage fraud, you know, inflated appraisals.

It was pure lunacy that was going on.

There was fraud, but I think the lunacy created the fraud. I mean, I don't know.

The fraud -- the fraudulent part of it, I don't know that it was that big.

I just think the system was screwed up.

MR. ANGELIDES: Mr. Renock?

MR. RENOCK: Well, as a member-owned institution, there is not a lot of incentive for credit union members to defraud what they own. So we didn't see a lot of fraud. But what we did see --

MR. ANGELIDES: In your book of business.

But were you aware of it in the marketplace beyond?

MR. CATTANI: Certainly in my former place of employment in Orange and L.A. County, yes. And it had a lot to do with the appraisal fraud and with straw buyers that were inflating the market.

I think here in Bakersfield, and the more typical type of situation that we would see, was rather than predatory lending meaning trying to target someone who may not be particularly sophisticated, and to put them into a loan that they could not afford, there was a lot people who came to us for making a mortgage application, and we would qualify them for a mortgage loan of, say, $150,000.

And they would say, "Well, I want to buy this home. And the lender down the street will qualify me for $350,000. Why won't you do the same"?

And we said: Well, we have different

underwriting standards, and we try to do what's best for our members, and we don't want to put them in a loan that's not affordable.

But because of lax standards elsewhere, they were able to borrow a lot more money to buy that bigger house, or for whatever reason. And now, whether that was in a situation where they were being taken advantage of by another lender, could very well be true. Could be.

Frankly, there are two parties to every transaction. And, as Mr. Wiley said, some people saw dollar signs in their eyes to be able to leverage a transaction, and maybe make a lot of money.

But that was more typical of what we had seen in our situation.

MR. ANGELIDES: Want to comment, Mr. Wiley?

MR. WILEY: I did not observe any specific examples of what I'd call fraud.

What I did observe was extremely aggressive lenders in our markets.

We only made about 10 percent of the loans that we made offers on, because our competition was more aggressive. And every institution size around us in Ontario has failed. The PFF has failed.

Temecula Valley Bank failed. Vinyard Bank failed, and First Centennial Bank failed.

But beyond that, what did happen is you get realtors and mortgage brokers working together to try and -- to sell properties, and the mortgage banker would tell them they can get the financing. And, we got this low rate, low initial rate, and don't worry, because by the time it gets ready to expire, you'll be able to flip the real estate, get a profit; get into an even larger house.

And I happened to refinance my home during the course of this crisis, and the fellow who notarized the documents told me, he said, "I will tell you that most of the people that I've been notarizing for, they didn't really understand what they were doing."

MR. ANGELIDES: All right.

Let me ask you all about securitization, the ability to off-load loans from balance sheets.

How critical do you think this was in this crisis?

I mean, again, it looks like you originate the hold. How fundamental do you think the ability to dish-off loans -- without respect to holding the stake in it -- was to what happened to the erosion of credit standards, to the -- you know, making of loans that shouldn't have been made?

Yes. Why don't you quickly each comment.

MR. WATSON: I think it was huge. It's a giant part of it. You don't have to keep the loans that you make. You're in the sales business, marketing business; you're not in the lending business.

MR. RENOCK: I think the original intent of the securitization markets that move capital from places where it is abundant, to places where capital is scarce, was well-intentioned.

And when you have whole-loan backed securities, meaning an individual loan was in a security, and you knew where that loan was, it made a lot of sense.

When you started to be able to dissect and tranche, what they call tranching, the different aspects of the loans, everything became a lot more obscure and nobody knew what they were buying. And I think that added considerably to the problem.

MR. WILEY: As Arnold said, it was huge. And in many -- the total collapse of the financial markets, it was the primary component to the collapse.

I was speaking at Keith Brentwood's investor conference in New York, and that's why I have the August 1st date because that was the date.

And John Duffy is chairman and CEO of the company. And because I was getting ready to retire as CEO, he had a dinner for me. And he told me, he said, "Linn, he said, "today we have seen the first mortgage-backed securities default."

And he said, "This is unbelievable. This could put us right back to where we were in the Great Depression." That's how serious it is, because of the global nature of the distribution of those securities.

So I -- there was nothing greater -- when I go back to the individual, nothing greater than global perspective than the mortgage-backed securities and securitization, and the way they were securitized. And then you had the rating agency rating them AAA.

MR. ANGELIDES: Right. A couple more quest- -- this is fascinating, Mr. Vice Chairman. I'm an old real estate guy, so I could probably take all the time here today, but I'm not gonna do it.

I'd like to ask just one specific question for you, Mr. Renock, and then a question for all of you.

And I'm actually fascinated by the pressure your institution has come under. And I want you to talk about it for a minute, because your members are teachers, school employees. The range of your members are --

MR. RENOCK: Currently, the range of members is anyone in the Kern County community is eligible to join, although we mention our core is still school employees and their families. And, yes, we're under a lot of pressure, because a lot of those people are having difficulty making their loan payments and they're loans we have made to them.

MR. ANGELIDES: Is that because of layoffs in the family? Is that because of furloughs? Reduction of income?

So this results from the economic down-swipe?

MR. RENOCK: That is correct. It's all of the reasons you mentioned.

Fortunately, most of the school districts in Kern County have been fairly conservative, so we haven't had a lot of layoffs. But I know there are many school teachers who typically count on having summer employment, teaching summer school.

Those summer school jobs have disappeared. Spouses, or significant others of people involved, have lost construction jobs or had their overtime go away.

So all the instances where income has fallen, and in some cases now where people were having to leave the area to find employment elsewhere, and they have a home loan with us, and they can't sell the home because now it's worth less than what they actually owe on it.

All those things have contributed to the issues. And as one of the larger financial institutions here in Bakersfield and Kern County, we made a lot of those loans, and that's what's causing the pressure on us.

MR. ANGELIDES: It's really quite remarkable, because you think if that there was a stable organization, it would be one where the employment base is relatively stable, and the underwriting standards were prudent.

So it's, I think, a real indication of the depth of this economic period or economic recession we're in.

So here's my final question.

Mr. Cattani, I was struck by your

testimony. It was short and sweet and to the point.

And you talked about the evolution that's taken place over the last 25 years.

You said the worst of the worst was Wall Street and their MBS, CBS -- CMBS and CDO products.

Their sidekicks in crime were mortgage brokers and loose appraisers; however, Wall Street's avaricious appetite for more volume, no questions asked, only opened the door to the henhouse for these foxes. They were big actors on the grand stage.

So who to blame?

Probably the blame should be allocated to the basic change in the financial system: Wall Street, for craftily thinking how to abuse the new system, and bit players, for being accessories to the fact.

So, just a little personal background.

Before I was in public service as treasurer of the State of California, I spent close to two decades in real estate in the Sacramento marketplace.

I will tell you I've been -- as we've undertaken this inquiry, I've been taken aback at -- at how our financial system transformed. I felt --

like I've said to many people, I walked into my local community bank, and opened a door, and then saw a casino floor as big as New York New York.

I guess my -- and as you looked at the numbers, whether it was Goldman Sachs, or Morgan Stanley, or any of the big investment houses -- Lehman Brothers -- they became institutions less involved in mergers and acquisitions and old-fashioned investment banking, and became institutions where 70 to 80 percent of their revenues came from trading, and their own bets on the marketplace, or investments in the marketplace.

I guess what I'd ask you is two things: First of all, I'd like you to comment on this transformation, because certainly you've seen it, and what -- and it almost ties into Ms. Murren's question, because at the same time you were a relatively stable state-regulated institution, this large system, or even almost as large as the commercial banking system, grew up.

To what extent was that fundamental in this crisis, the growth of that new unregulated bigger risk-taking financial sector?

And then, secondly, what kind of pressures did it put on your business, and does it still today? The mega -- you know, the investment banks?

MR. CATTANI: Yeah, the mega investment banks, as far as pressure on our business, you know, they, along with a lot of others, offer money market funds. That puts pressure on us, because people assume -- or at least they used to assume that money in a Goldman Sachs money market account was cash, just like cash in the bank.

They offered higher rates. We have to match those rates. So on our cost side, it puts pressure on us. From the services they offer, you know, they call around, and they're in the lending business.

And, yeah, it is a giant casino. I mean, they offer all these services, and it's not where you -- it doesn't affect community banks. But I have a lot of ex-classmates that went into investment banking, and I’ve stayed pretty close to them.

And it's grown to be a giant, giant casino that I don't know if anybody really has a handle on how to control it or how to manage it, or exactly what they do.

I think there's tremendous competitive pressure on us from the major banking and other institutions because they have the size and scale to do things much less expensively than we do. We may seem large for Bakersfield, at $1.4 billion but we’re very small in the big scheme of things compared to the Citicorps and the Wells Fargos of the world, and I know on a lending basis every day, they can underprice us if they want to, they can overprice us on deposits. The other services they can do because they have the size and scale to do it more effectively or efficiently, and so we have to work very, very hard just to be competitive in this kind of marketplace.

MR. ANGELIDES: Can I ask one question on it: To what extent also did they borrow? They're borrowing significantly cheaper than you guys at this point.

MR. RENOCK: Absolutely.

MR. ANGELIDES: And to what extent do you think that's a function of the fact that a lot of creditors, to them, view them as too big to fail, that the government will bail them out, versus you.

MR. CATTANI: I think that's absolutely true; the too big to fail concept has proven that that's a implicit government guarantee.

MR. ANGELIDES: Mr. Wiley.

MR. WILEY: I believe the Wall Street commercial banks and investment banks place a lot of pressure specifically on community banks, because of their ability to their pricing power, both on the credit side and the deposit side.

And I -- I think that the investment bankers just got way out ahead of their regulators, because there -- there is a provision for some oversight to the activities engaged in by the investment banks, like as loan securitizations, the CDOs, and all the rest of it, credit-developed swaps. And all of those came together to really bring down our financial system.

And I think you're gonna have a tough time keeping ahead of those creative guys back there who have one objective in mind, and that is to make money. And they've proven over and over again that they can do it. So I think there's a huge responsibility to find some way to control those kinds of activities, and limit the exposure to a future financial crisis.

By the way, since you mentioned too big to fail, you're never gonna eliminate too big to fail. It's just not possible.

MR. ANGELIDES: Well, I mean, the -- our

staff, by the way, did an excellent paper which is on the web about the history of "Too Big to Fail," and, yes, you come away feeling that the institutions have got bigger and bigger and fewer and fewer, and the history is that when they're in trouble, they get saved.

Anyway, thank you very much, gentlemen. Very illuminating. And I really appreciate your answers to my questions.

MR. THOMAS: Thank you, Mr. Chairman.

Almost about keeping measure Mr. Renock, in your written testimony, I believe -- I don't want to leave the impression that credit unions are -- are standalone institutions historically tied to particular economic activities, or even a particular state.

If you'll comment just briefly on WesCorp, and the way in which credit unions are tied together, and that your destiny is in part out of your hands.

MR. RENOCK: There is a series of credit unions called corporate credit unions, they are essentially bankers' banks. And they are a source for liquidity for other credit unions, and a source for us to place our access funds as investments, if we don't have the loan demand.

Those corporate credit unions are part of a tiered system, and we're all insured by the same national insurance fund. And, unfortunately, some of those corporate credit unions, and one that we had some of our money in, Wescorp, which is based in San Dimas, California, had invested in some mortgage-backed securities which have subsequently failed.

And so any credit unions that had an investment in Wescorp suffered that loss as well, not just Kern Schools Federal Credit Union, but many credit unions around the United States with this tiered system.

MR. THOMAS: Thank you.

Mr. Cattani, you made a statement. Some people may not have really understood the import of that statement.

You talked about some of your ex-classmates. Where -- where was this? Where were you in classes with them?

MR. CATTANI: Harvard Business School.

MR. THOMAS: Thank you.

Because one of the things that I admire about this area is that notwithstanding appearances or behavior, that there are a lot of smart people in this area, and that the consequences of what occurred here, we're willing to accept our part, and accept responsibility for our part, but when you look at that broad spectrum of where fault should lie, it really is in those people we've been talking to, in my opinion, to a very great extent.

I want to thank you for your testimony, and look forward to checking back with you after we've heard from some other communities, because I'm very anxious to compare what's occurred in Bakersfield; that I'm much more familiar with Las Vegas and Miami, and to a certain extent we're more familiar with Sacramento as part of the extended problems that we have.

Thank you very much once again for your testimony.

And I would ask now, Mr. Bynum and Mr. Peterson, if you would come forward.

(Pause in proceedings.)

MR. THOMAS: I recognize the Chairman for swearing in of the panel.

MR. ANGELIDES: Yes, gentlemen, welcome. As I said earlier, I don't know if you were here. But it's been our custom to swear each witness for their testimony and questions and answers, so I'd like to ask both of you to please stand and raise your right hand.

(The panel was sworn.)

MR. ANGELIDES: Thank you very much.

Mr. Vice Chairman, the gravel is back to you.

MR. THOMAS: Well, we heard from the bankers, and I thought it would be very useful to hear from the users, for those who have long ties to the community and in a professional way, both from primarily a commercial point of view, but also from a commercial and residential point of view, the recent events and your focus, understanding and reflection on those events.

And now we start with Mr. Bynum.

MR. BYNUM: Thank you, Mr. Thomas.

Before I start, I'd just like to give the panel a perspective on my background.

I was born and raised in Bakersfield; went to local schools, and started my career as a real estate appraiser. And I'm currently qualified at the state level and have multiple professional appraisal designations as part of my background and career.

My primary job in today's world is real

estate development of commercial office buildings and shopping centers, and we also do brokerage. We manage our own product and all the things related to that.

So I bring a perspective to some degree of just somebody actively in the market that's not only been involved in the side of the equation where we're building and constructing and occupying and financing product, but also have been actively involved for the last 40 years in the appraisal of real estate as it relates to allowing institutions to make proper credit decisions as it relates to underwriting lending.

I was asked originally to let the panel know how I was affected; how I thought the Bakersfield market has been affected by the financial crisis.

And I think, essentially, probably the deepest impact on our firm has been the failure of three banking institutions locally, which were -- we were involved with.

Two, as a landlord, developer, and tenant relationship, where we had 45,000 square feet of property leased to these institutions, and one in which we had a long-term banking relationship, where we had borrowed from that particular institution.

The first two, where we were actually landlords, had 45,000 square feet of space. We were affected largely by the fact that once the FDIC stepped up to take over these institutions; although, we were -- the documents related to the transactions were available to us through federal sources, we were impacted, in that we could never get any real communication with the FDIC during the process to help us in our process to try to backfill the spaces if we were going to lose the leases -- excuse me -- or what we could possibly do to avert any financial losses.

So even though the documents are pretty thorough on how much time these institutions have to reject leases, and how much time they have to remove themselves from the premises, and who's responsible for payment, there's nobody there communicating effectively, even when you're trying to communicate with them.

So that made it a little more difficult.

As a result of the three -- or the two institutions we are involved with in the 45,000 feet, we lost 26,000 feet of occupancy here in that time period, and lost the opportunity in a couple of cases where we could have helped to backfill that space because we couldn't communicate with anybody in the process, not the bank that was taking over, the other institutions, nor the FDIC.

So those losses are ongoing.

One of the other impacts where we were in a banking relationship, we actually had with one of the banks that was about to fail, and one of them that did fail, they actually reneged on written commitment with us as it related to an ongoing construction loan, where we were constructing a interior of a building for a governmental user and had a long-term lease on it.

And they just basically came to us and said, "We're gonna renege on our commitment to you," which was in written form, even though all the ratio, et cetera, as they related to the lending, were very well underwritten.

I mean, loan-to-value ratio was in the mid 50 percent. Debt coverage ratios were about 180 percent. But they had just gotten to a position where they had made too many commercial loans.

They evidently knew they were on their process to failure, and reneged on that commitment. So it ended up costing us a significant sum to react to that.

MR. THOMAS: We'll follow up on that.

Mr. Peterson?

MR. PETERSON: Thank you, Chairman Thomas, Chairman Angelides, and other members of the Commission.

I would like to say a little bit about myself. My name is Warren Peterson, and I'm an owner of real estate -- real estate construction company here, small locally owned business, whose forte is residential construction. I'm also a real estate broker and a general contractor.

Speaking about the community, Greg and I both started working at the same company when we were young guys starting out in business. So we've known each other a long, long time.

My remarks today will focus on the impact of the financial crisis on my business and on the residential real estate market in the greater Bakersfield area.

And it's not a pretty picture.

Today Bakersfield is a city of declining home values, empty and decaying properties, stalled housing developments and lost revenues. I place the major blame on this turn of events on three causes:

Irresponsible credit policies that lowered lending standards, creating questionable lending practices, and easy access to money.

Second reason, the resulting flood of homebuyers, which led to escalating home prices and skyrocketing land and building costs.

And third, a well-meaning government -- well-meaning government programs resulting in unintended and negative consequences.

With regards to my first point, as a home builder, I've seen firsthand lenders change their time-tested policies at bank offerings. Around 1999, I heard for the first time about new financing tools, like nonconforming loans and stated income loans.

In time, other adventurous loan types emerged, lenders took adjustable rate loans and morphed them into reckless, irresponsible products.

They began offering negative amortization and interest rate only type loans. Banks also stopped scrutinizing borrowers about their ability to repay the mortgages.

Traditionally -- traditionally here in Bakersfield, new home construction -- construction represented anywhere from one-third to one-half of the real estate sales in the greater Bakersfield area.

That meant -- that meant about 2,000 new homes could be built each year in our community.

Local builders knew this, and could plan accordingly. For decades we met the supply and demand challenges of this market and our industry took a conservative approach to buying and selling land for residential development.

But that changed when national corporate builders entered the Bakersfield market around 2001.

They saw an opportunity in Bakersfield with "buy now" mentality taking over the market. National builders wanted to acquire land for their subdivisions, and they were willing to pay well above market price to get the land.

The atmosphere significantly drove the prices for lots of land.

In 2003, I was paying 35- to $40,000 for a 10,000-square-foot lot. By 2004, I was paying $120,000 for that same lot.

The escalating market created a buying frenzy. Fraudulent transactions were occurring in real estate firms, as some real estate professional investors used various strategies to misrepresent the facts.

People would use the equity in their homes to refinance, then would cash out their equity and use the monies to buy new homes, oftentimes walking away from the refinanced property.

Bakersfield once turned out 1,000 to 2,000 new homes a year. By 2004, it was cranking out more than 4,200 homes.

In 2005, building permits were issued for more than 5,200 single-family homes.

Today Bakersfield has more than 8,000 recorded lots in various stages of construction, according to the Bakersfield planning department.

That's a staggering number.

The reason for the banks losing their credit policies was partially due to government rules which were written with well-meaning intentions to enable more people to become homeowners.

Letters relaxed underwriting guidelines; lending criteria became less stringent. In time, however, financing tools were abused and mismanaged. Some government efforts were shortsighted.

One example was the neighborhood stabilization program, which was designed to help communities deal with problems resulting from mortgage foreclosures and housing abandonment.

The County of Kern received $12 million in the NSP in 2009, yet carrying out one particular requirement of that program, NSP helped drive down resale values and other homes on the market.

It appears that I'm running out of a little time on my statement here.

MR. THOMAS: If you make the point about why they were running down prices on the loan percentage that you mentioned, we'll end the verbal testimony on that, if you can --

MR. BYNUM: Do you want quick answer to that?

MR. THOMAS: Very quickly. Since you raised it, let's --

MR. BYNUM: One of the criteria, the money that was given to our community to restabilize these neighborhoods, you had to buy properties. The County had to buy properties at 1 percent below appraised value. In my opinion, that drove prices down in those neighborhoods they were trying to revitalize. That is the quick answer to that.

MR. THOMAS: That is a quick answer. Thank you very much.

MR. BYNUM: Thank you.

MR. THOMAS: In listening to the testimony, first of all, I think it is clear that both of you have been around a long time. And by that, I mean you saw the way it was, and then the changes that occurred.

Mr. Bynum, as you briefly gave us your scenario as a company, your experience -- and I'll ask you to elaborate on it in just a moment -- is one that we've heard from, anecdotally, a lot of individuals.

And one of the reasons I wanted to get us out to the communities since -- if it's a sequence of dominos falling that was part of the financial crisis, I wanted us to get out and talk directly to those who are the last dominos, because when you fell, you just fall on your numbers.

There's nothing else to fall against.

And for a few minutes, give me the clear aspect of the fact, as you mentioned briefly, that you had a loan that by any standard was a quality commercial loan. The problem was it was at a bank that was unable to honor it, notwithstanding the fact you had a longstanding relationship with that bank.

And to put in it context, there are an awful lot of individuals. We'll hear from one, perhaps more at the end of this hearing, on the simple problem of communication, of trying to get through to people who argue that they have some assistance or they're willing to help, but that there's a real failure of -- of support for those who suffer collateral damage.

I see you, at least in terms of the way you explain it, as more or less an innocent victim of that domino falling on you.

Just a little bit of the context and the circumstances and your reaction as someone who had relied on that relationship week after week, month after month; in fact, year after year, and then come up with that kind of an answer, is simply gonna renege on a written agreement that you had.

MR. CATTANI: In developing commercial real estate over 30 some years, I’d never experienced a circumstance where a banking institution had reneged on anything, so it really caught me off guard.

Of course, I wasn't fully aware of the depth of the problems of the institution that was reneging on that commitment, but essentially, I think, you know, we have always looked at banking as an issue of creating a relationship with the borrower and a lender, and there being loyalty involved in that.

We believe even from the borrowing side that, you know, underwriting of loans should be done prudently, and that people shouldn't borrow money that they can't afford to repay.

In that sense, we've always tried to adhere to that from the borrowing standpoint not to borrow money that we couldn't afford to repay.

Economic circumstances certainly have prevailed at times that make it more difficult, but in the 30 some years, we've never defaulted on any loan related to anything that we've ever borrowed.

So when the bank reneged on it, I was pretty much shocked about the circumstance, but felt, like anything, it was just an obstacle we have to overcome and we'll seek to overcome it by going to another banking institution to get the loan.

However, it was a costly process, and we lost an advantage on an interest rate that we had. We lost an advantage on fees that we had, et cetera, so it was very expensive to recast the loan with another lender; although, we were very successful in doing that.

You know, I believe the communication part of this, you know, as it relates to the lenders, a lot of times when people get in a position where they can't do something, instead of communicate about it and to effectively lay out all the reasoning behind their decision, that kind of thing, they just kind of clam up and not say what is really appropriate to say to maintain that relationship.

So they weren't very forthcoming.

But my view back of it is most -- the community banks that were doing commercial lending had been taking a very aggressive stance, as we heard from some of the previous bankers, and I think if they did anything, they probably overleveraged as a result of their capital.

I think the FDIC recommends mature banks to not lend more than 300 percent of their capital in the commercial area, and I think most of the banks were lent in the 5- to 600 percent range, and I think that started to have its, impact so...

MR. THOMAS: That's one of the stories we've heard over and over again because you have these standards which are supposed to be met, and everybody would look at us and say: Well, according to the standards, we were adequately capitalized, which clearly focuses on standards as whether they were worth anything or not.

Mr. Peterson, I understand your story to a certain extent. All of us witnessed it, in terms of a changing profile of the housing market in Bakersfield.

For a long time, in fact, it was for many of us an ideal place to live in terms of the ability to buy a home. Dirt was pretty cheap.

We had local builders, and we had a market that tended to self-police itself as it grew. And clearly, national builders came in with the capital.

The incentives were slightly different than that.

But ultimately, there's no re- -- real way to stop national builders from discovering an area in which money could be made.

What was the reason, in terms of the way they came in, that created such difficulty, in your opinion?

MR. PETERSON: The reason and way they came in, I agree with you. I mean, you can't stop the big guys from coming in. I think that -- I think that the situation was set.

I mean, the loans were available. The monies were available. They came in, and I believe pushed our market, by overbuying property, created a panic within the market.

People started seeing the escalating prices; started buying homes.

We drew a lot of investors out of the Los Angeles market andarea. It was a fueled frenzy by the activity and the strength of those big companies coming into the community was the biggest affect that I saw.

MR. THOMAS: And to a certain extent, it was said in an earlier panel, not for occupancy of the home, but for speculative investment purposes.

MR. PETERSON: There was quite a bit of speculative purpose.

I think Mr. Wiley gave a percentage point of over 40 percent were speculators. And I recall that some of the developments were restricting selling homes to investment people that were coming into the market, if they knew they were actually investors.

MR. THOMAS: On paper, anyway.

MR. PETERSON: Yes.

MR. THOMAS: Thanks. I'll reserve my

time.

Commissioner Murren?

MS. MURREN: Thank you, Mr. Vice Chair, and thanks to you both again for appearing in front of us today.

The question about your experiences, in light of some of the commentary from the lenders that came before you, was it your experience, as you proceeded through your careers in real estate, or in building, that the lending standards that you were being presented, or the loans that you were being presented, were themselves over time being routed in terms of the standards that would be demanded of you as the individual, or your customers that were the ones taking the loans?

Were you pursued aggressively by some of these lenders for your business? If you can each comment on that.

MR. PETERSON: My experience was around 2000 -- or 1999 was the first time I ever heard of a nonconforming type loan, or a stated income type loan.

And some of those tools; although, some people looked down on them, I benefited from some of that lending practice. Being able to state income being a small business owner, not having to produce income tax returns, things like that.

But I only borrowed money that I knew that I could pay back. I guess I consider myself a responsible person, but I -- you know, I benefited from some of those practices.

As far as the -- the general public, I mean, some of those -- some of the loans that were being offered and weren't being scrutinized as to their ability to pay it back, really took a toll on some of the people that those practices did benefit.

MS. MURREN: Thank you.

MR. BYNUM: Commissioner Murren, you know, we had the benefit of being in the business during the savings and loan crisis, and experienced the very aggressive tactics that took place by savings and loans to put money out into the market, and this was in the mid-to-late '80s.

And essentially, we were -- we had been developing real estate for five or six years at that point. We were very conservative in our own approach to things; had an economic idea, because of my training in business, and collegiately, to understand the broader economic picture.

We wouldn't get involved in something that wasn't capitalized properly in our view. So we always had an amount of cash in our projects that was, what we felt at least, to be prudent.

Aggressive lending at that point in time got to a point where there was virtually no capital being put in some of these deals; in fact, they were loaning 100 percent of what the cost was to some developers who were building buildings, et cetera.

And although we were encouraged by a lot of people to participate in that, we never felt comfortable, and we survived those times as a result of not taking the bait, so to speak.

We learned some valuable lessons there. Most of the people we were competing against failed, and turned many of the loans that they were involved in back to the banks, caused -- causing losses to federal financial institutions, and the debacle that followed, everybody's aware of.

So we spent from, basically, the late '80s till the late '90s coming out of the depressive state of that -- of the industry as a result of what happened there, and kept that in mind as we were going forward in our business, and have continued to capitalize things where possible, prudently, we believe.

So to answer the question, was there more aggressive lending taking place? Yes, there was more aggressive lending taking place.

I would have to say that I think the CMBS, the commercial mortgage-backed security market, that I was acquainted with, and utilized, for the most part was a very thoughtful, thorough process where things were properly underwritten. And it was a good balance between capital and value, and debt coverages, and that kind of thing.

And there's some confusion sometimes when you talk about commercial lending, because commercial lending in the banking world can mean anything over four units. And when we think of commercial lending, we think of it as commercial office buildings, shopping centers, industrial centers, that kind of thing.

We don't think residential.

Actually, a residential subdivision development loan could be classified as commercial, where we see that as more residential programs.

So the commercial mortgage-backed security market which financed, you know, office buildings, shopping centers, industrial parks, et cetera, was a relatively aggressive, but conservatively underwritten process.

I mean, the documents were usually three inches thick by the time legal counsel was finished with them. There were all kinds of requirements on the owner to meet certain criteria.

There were servicers that consistently checked the properties, and checked the operations of the property.

So I think the commercial mortgage-backed security market started off originally as a very sound way in which to expand availability of financing.

I think because the residential mortgage-backed securities market was infused with all of these loans that were given to people that couldn't afford to pay them back, and what we termed as liar loans, when that weakness started to show through in the market, it immediately included the lending side that had been on commercial properties, and it immediately collapsed.

I mean, it went from a point where 30 to 50 percent of all commercial financing was going by CMBS route, versus the banks and the insurance companies. And it disappeared overnight. It just totally evaporated.

MS. MURREN: So then it sounds as though the underwriting standards for the commercial mortgage-backed securities might have been higher, substantially higher, than perhaps a residential product of similar nature. But the lack of transparency in the market about what was out there in the wake of the collapse of the residential mortgage market really spooked the market, and then led, in part, to the liquidity crisis that we saw. Is that fair?

MR. BYNUM: I think that's fair.

I think everybody started to question, well, if the mortgage-backed securities that were A-rated by the rating companies, and were backed by residential-type properties, can't be trusted, then the commercial mortgage-backed security market can't be trusted either, and it just devastated it.

MS. MURREN: Okay. Thank you both very much.

MR. BYNUM: At least that's my experience.

MS. MURREN: Thank you.

MR. THOMAS: Commissioner Born.

MS. BORN: Thank you. And thank you both for appearing before us.

I want to continue on a little bit about the commercial real estate market, and what the impact of the financial crisis has been on it.

We've heard a lot of testimony by others, Mr. Bynum, about the impact on residential real estate in the Bakersfield area.

But I wanted to ask you, you said in your testimony that the financial crisis has had a debilitating impact on the local commercial real estate market.

And as I understand it, part of the reason for that is that lending has just dried up, or diminished a great deal; is that right?

MR. BYNUM: I would say that's true.

I think if you go to lending institutions, and Mr. Wiley mentioned it, and maybe Mr. Cattani mentioned it earlier, several institutions are lending, but essentially what happened, again, the commercial mortgage-backed security market disappeared.

So 30 to 50 percent of the market evaporates immediately, and then there's a large supply-demand gap where the demand is much higher than the supply. And then you find that the banking institutions that were doing the competitive commercial lending find themselves in a position criticized by the FDIC that they already have too much commercial lending as it relates to their capital.

And all of the sudden, supply diminishes, demand is up, and there's no place to go.

Underwriting standards, we heard about what the underwriter -- I mean, the regulators have kind of increased their scrutiny over the markets, because, quite frankly, everybody's fearful that -- of bank failures, and what ultimately can result from all of it.

So I kind of see it in my own perception as there's conservatism that is born in the market at every level, meaning, the regulators become extremely conservative.

And the Pendulum is swung very far in one direction. They're telling the banks they want them to be much more conservative in their approach or, as Linn previously said, stop lending in this area.

And then the appraisal community is fearful, given all the stories about fraud related to appraisals and that kind of thing, and they began to infuse their own conservatism and fear that they may be somehow caught up in this process.

So, at each level, the FDIC and the

regulators, the banking institution that's doing the lending, the appraisals that are -- the appraisers that are asked to give a product of market value, everybody's infusing this conservatism and this fear into it to the point where you have a geometric progression as to what is left.

So all of the sudden, even if you have a quality property with good cash flows, and all of the other key ingredients, people have downgraded it by saying: Well, if we had to sell it tomorrow, it would only sell for this much.

And then they start making their underwriting decisions based upon that, rather than normal market, and it just creates a massive problem with the ability to even finance people who are quality borrowers.

MS. BORN: Well, I wanted to ask you also about the state of the commercial real estate market in the Bakersfield area.

Have prices gone down there?

Is there an overbuilt situation, in terms of commercial real estate, or is there a demand that you just can't fill because of the constraints on lending?

MR. BYNUM: Well, first of all,

Bakersfield is fortunate in that it is not overbuilt. There are a couple of -- of small locations within the community that maybe have too much of a specific type of product.

But, generally speaking, the office building market is, by most counts -- and those who evaluate it -- 10 to 11 percent vacant, where a national figure would be more 17 to 20 percent vacant.

We don't have anything under construction that will increase that, you know, percentage. So it's pretty stable.

And although rents have stabilized and maybe have dropped slightly, there haven't been large drops.

What we find ourself in is nobody willing to make a decision. Nobody willing to bet on growth. Nobody willing to take a chance, because of the uncertainty in the economic environment.

And that goes for both the state and the federal level.

MS. BORN: Let me just ask also, since you are an appraiser, of what you feel the problems were with the quality of appraisals done, maybe in the residential sphere, rather than the commercial sphere, and whether you think that there was adequate oversight and regulation of appraisers.

MR. BYNUM: Well, that's a good question.

I think coming out of the savings and loan crisis, you know, there was a uniform standards of professional appraisal practice that was created, and was largely instructive on how to properly approach appraisal practice from anybody that's legitimate and well-trained in appraisal. Like any business, appraisal at the lowest levels has an easy entry point.

And those that are less skilled than others, those that are less ethical than others, can wreak havoc in a system that is running fast and hard. And what happened, as I saw it -- and we got these calls on a repeated basis, you know.

We were getting calls from mortgage brokers all the time: We've got this, you know, this house, you know, is being purchased by so-and-so and we need an appraisal on it. And we need -- you need to tell us whether you can appraise it at this level before we give you the job.

And our response was always: We don't do that.

We don't give appraisals before we

actually do the work. And we complained incessantly to our national organization who controls these things, and of course USPAP, that's a violation of USPAP, straight up.

So what we found is that those newer appraisers in the market, those that didn't possibly live by the same ethical standards, found it real easy to get a lot of work real quickly with mortgage brokers who were in a frenzy to make deals by just giving them what they wanted. And, you know, I'm not sure it says anything about the appraisal industry and its standards, as much as it said about the character of the people that were involved.

MS. BORN: Let me ask you, Mr. Peterson, whether you saw problems in the appraisal of residential real estate.

MR. PETERSON: I think we all experienced problems with escalating prices.

One of our programs in building homes is we always like to presell a home.

There was a period of time where I was going into agreements with homebuyers to build a home and by the time I had it finished, they had the same home, but they had closed escrow on the market for sale, and they were -- they were making more of a bottom line on the sale of the property than I was. And it was due to the escalating prices in values from the real estate appraisers.

And there were a lot of young people in the market, just like Greg said, who were capitalizing on what was going on within the market.

And, you know, if the lender, or the mortgage broker is gonna scrutinize the appraisals that are coming in, that tends to happen.

MS. BORN: Well, let me ask both of you whether you think better regulation of mortgage originators -- because, of course, there were a number of mortgage originators in the country who were not being supervised by a banking supervisor; maybe some states had mortgage originator regulation and registration. Some didn't.

Do you think that the lack of regulation, uniform regulation, or some regulation of all mortgage originators played a role in the crisis?

Mr. Peterson.

MR. PETERSON: I think it stems from any given business that is doing mortgages, and the supervision that the ownership or the broker provides to the individuals that are working for that company. You know, if -- if the org- -- if the owner of the business has no ethics or morals, I mean, he's gonna pass that along.

You know, I was fortunate to grow up with a company who taught us social responsibilities and ethics, and I subscribe to the -- to the NAR and the Code of Ethics.

And I think a lot of it stems from those particular businesses that were -- that were springing up all over the place because of the -- the amount of activity that was going on.

MS. BORN: And do you think there should have been any effort to oversee these new entrants into the market, or should they just have been permitted to use any underwriting standards they wanted to?

MR. PETERSON: As far as -- you know, there is some new testing going on, both on the federal level and the state level, for mortgage brokers. And with -- with a little bit of repetition and memorization, anybody can go in and pass that test, and it's kind of a sad scenario.

But, I mean, as far as the qualification to be a mortgage broker, or a real estate agent, as a matter of fact, it's -- it's not that hard, you know, to get licensed.

I think it -- I think the responsibility is with the individual broker or owner of the company.

MS. BORN: So you think, in effect, the efforts at requiring qualifications have been unsuccessful?

MR. PETERSON: I think that education helps. I'm not discounting the fact that there are new regulations on -- on mortgage brokers.

Whether or not -- whether or not those -- you know, that new regulation is going to cure the fraud and the things that go on in times like we went through, you know, I think it's up to the supervision, again, of the program.

MS. BORN: Thank you.

MR. THOMAS: Mr. Chairman.

MR. ANGELIDES: Thank you. So, Mr. Peterson, let me ask you a couple questions here.

Just in your testimony you talked about lots being 35- to 40,000 in 2003, escalating up to 120,000.

I assume those are paper lots that you're talking about, or are those finished lots?

MR. PETERSON: Those would be finished lots. My business plan over the years is I'm an independent builder. I generally work with land development companies.

Within -- within my sphere of -- of community of business friends, I'm -- I'm a proof builder for Cassle & Cook, a company here in town. And so developers would approach me and say: Would you come into our development? We'll sell you lots. We'll provide you with some private financing.

We'll do whatever it takes to help them move the product. And that's basically what my business plan had been over the years. It's a little bit risky.

MR. ANGELIDES: I was going to ask you, were you like a semi-custom builder? How would you classify yourself? Production --

MR. PETERSON: I would classify myself as a semi-custom homebuilder.

MR. ANGELIDES: In your normal book of business, you know, going back to the '90s, how much is built on spec? How much did you build for customers, you know, knowing in advance for whom you were building, or was it all just you would do production building and essentially do it all on spec?

MR. PETERSON: Well, prior -- prior to the escalation, you know, in the market, I was primarily working with the Cassel & Cook Company.

Like I said, I was a preferred builder.

I would build in their upper end neighborhoods. We would go in with a model home, and we would auction lots and, you know, as the lots came up for auction, we'd buy those lots and build on it.

MR. ANGELIDES: So you would offer, essentially, a product to people who are looking to buy in that development in a certain price range, certain type; you were on the semi-custom end?

MR. PETERSON: Correct.

MR. ANGELIDES: So describe a little -- you did in your testimony, your written testimony, but talk a little bit about how you saw the profile of borrowers change in the 2000 to 2008 period.

Talk a little bit about who was buying your homes, where they were from, the nature of the purchases during that time frame.

MR. PETERSON: You're talking about the change. I mean, I was -- I was used to conservative, you know, traditional values.

People would come to me. They would put down 20 percent. We would go to a bank.

They had a program, construction to perm, where you would go in -- the homebuyer, the builder, would go into the bank and they would qualify for the construction loan.

We'd go ahead and fund the project off of the construction loan, and then it would convert into permanent financing after that, after that particular process.

Now, that product -- that product is gone.

That's no longer available. So as far as the -- as far as the change that I saw coming, we -- we financed our projects with private money.

Usually developers would provide the money for the construction of the homes, and then the homebuyers would come in.

And how that changed, I really can't put a finger on it, other than I know there were people lined up buying homes, fighting over homes during that period of time.

And the stated income loan, the no document loan --

MR. ANGELIDES: But did you have any sense of whether they were coming more and more, just investment speculators, or a sense of the nature of the buyer? Was that evolving?

MR. PETERSON: Yes, it was. It was evolving. You saw young people, primarily, that were buying homes, that were buying $500,000 homes, that were moving into these homes that had an Escalade and a Bayliner in the driveway.

And as a guy who's been -- you know, struggled most of his life to make a living, and has built a good living for himself, I mean, you sit back and think, "What am I doing wrong," when you're seeing all these individuals that were moving into homes; you were wondering what kind of jobs they had.

Most of the neighborhoods that I built in, we did not have a lot of investor activity that I knew of.

It was mostly young -- young families that were moving in, young families --

MR. ANGELIDES: They were trading up or moving in from L.A. or --

MR. PETERSON: They were moving out of rental income property and moving into big, expensive homes.

MR. ANGELIDES: Okay. You mentioned on Page 3 of your testimony:

"The escalating market created a

buying frenzy. Fraudulent transactions were occurring in real estate firms. And some real estate professional investors used various strategies to misrepresent the facts. They were taking out the maximum number of mortgage they were individually allowed to take, and then enticing others to put mortgages in their names for a cut of the profit."

Can you talk a little bit about that?

MR. PETERSON: Well, we're talking about some of the straw-buying that was going on. Some of the investors. Some real estate people were buying and flipping properties during that period of time, and at the -- at the time, I think, as an individual, you -- you had a -- you could -- you could pull a maximum of three loans.

Once you got three loans of pipeline, you'd have to go out and find someone else, your neighbor or a buddy or a sister or a father-in-law, or someone else to come and sign the documentation, and, basically, falsify information.

I had real estate brokers approach me as a builder on some of my spec homes that would offer me great amounts of money over what I was selling the property for, just to sell them that property so they could turn around and resell it on the property.

Of course, we didn't get involved in any of those types of transactions, but it was amazing. It was --

MR. ANGELIDES: Why would they want to buy it for more than the list price, just because the upperward frontier --

MR. PETERSON: It's because they wanted me to cooperate.

MR. ANGELIDES: Okay.

MR. PETERSON: So they were going to leave a little --

MR. ANGELIDES: I got you. They pay you more, you participate --

MR. PETERSON: To participate and --

MR. ANGELIDES: They take cash out?

MR. PETERSON: Uh-huh.

MR. ANGELIDES: All right.

MR. PETERSON: So you start three spec homes for that purpose and, you know, we just didn't get involved in any of that at all.

MR. ANGELIDES: So this really picks up on the question of Ms. Born.

So, you guys are practitioners.

Before I was treasurer of the state and served on this commission, I was in the real estate development in the Sacramento region; one of those land guys who would sell you some lots.

What's your gut here? I mean, if there was a choke point, if there was an ability to tamp this down, would it have been clamping down on mortgage originations?

I mean, if you were to pick -- you know, we have 22 areas in the statute we're supposed to look at. This could become very complicated, but sometimes it's simple.

Sitting from where you sit today, put yourself in our shoes, in a sense. If you were to identify here in Bakersfield what were the two or three most important things that could have tamped down this frenzy, what do you think they would have been?

MR. BYNUM: Let me take it first.

I think somewhere the concept of proper underwriting, and being able to afford what you purchase, kind of went out the window.

So I think essentially what we found is we thought it was more important to put people in homes than to put people in homes they could afford.

And I think what could have tamped down the frenzy is a lack of encouragement to do no document loans.

Some of what was -- Warren was referring to, when they came in – and we saw this as appraisers -- somebody would come in and pay over list price, okay, because of the frenzy in the market. And prices were going up.

They'd resell it to another person as part of this process. They'd get a newer higher appraisal, and they'd borrow all that money back.

Part of that money would go to the person that they originally bought it from -- part of it would go to the straw person that signed the loan documents that said they were gonna live in the property, and the rest would go to the person who was creating this concept.

And along with this, there was this ability to do no document, or what they ended up calling liar loans.

And essentially, some of them wouldn't have to prove their income or substantiate it with normal documentation to accomplish these things.

I think that was one of the biggest mistakes that could have taken place.

I mean, we left proper underwriting, and we somehow came up with the concept that everybody deserved to be able to buy a home.

And it's really -- you know, we really need, as a country, to get back to a position where, yes, we want to encourage home ownership, but we want responsible home ownership, and we want people to buy what they can afford, so they put nobody in the system at risk.

MR. PETERSON: I agree with Greg's scenario, the availability of monies to buy the property probably was the most significant event that created the boom.

Along with -- along with the major builders who came in, there were a lot of local developers who also jumped into the market.

It was a good time to develop lots. They were selling lots to tile-setters who were building homes. They were selling lots to firemen who were building homes.

They were selling lots to farmers who were building homes for profit.

I mean, everybody jumped into the market.

My competitors grew substantially during this period of time, and so I think it was the -- the other investors that found it easy also, meaning builders who were in another line of business, coming out to enjoy some of the fruits, you know, of the time, building homes and selling homes on the market.

If -- if there could have been some sort of control, you know, over that activity, I think it would have helped a little bit.

MR. ANGELIDES: Just one last question, Mr. Chairman.

That is, just rough numbers, what were your normal margins kind of in the '90s, early 2000s?

MR. PETERSON: Early '90s, our margins, if we could make 15 percent, we thought that was good.

MR. ANGELIDES: That was your net margin?

MR. PETERSON: Yes.

And after escrow closed, if you made 8 percent, you considered yourself lucky.

MR. ANGELIDES: You mean after all the incentives or other costs?

MR. PETERSON: Right.

MR. ANGELIDES: At the peak?

MR. PETERSON: At the peak, I'm afraid to say that the profits that the builders were taking down were maybe 50 percent of the total.

I know of conversations where $200,000 were made on the sale of a 3,000 square foot house, which, you know, if you're -- if you're a right-thinking person, my thoughts were that this is gonna be ugly.

People were -- in late 2005, I noticed people weren't coming around anymore. And I believe that Bakersfield had finally priced itself, or priced the homebuyers out of the market at that point.

MR. ANGELIDES: Okay. Now that you said that, I have just one follow-up.

You got out in 2005, correct?

MR. PETERSON: That's when -- that's when I noticed the slowdown.

I have only built one home since 2005.

MR. ANGELIDES: Was that a custom? Was that on a contract?

MR. PETERSON: Yes.

MR. ANGELIDES: Non spec?

MR. PETERSON: Yes.

MR. ANGELIDES: So the one thing that's surprised me a little, I mean, I was in the Sacramento market, albeit I was out of the market by that time, because I was treasurer of the state. But I was still in contact with a lot of the people I'd known in the industry.

There was an acute level of awareness that there was an enormous bubble, certainly, in places like in Bakersfield and Sacramento, but what we hear in Washington and we hear on Wall Street is people, quote-unquote, "People never saw it coming."

I'm just going to ask you, did people in the industry see a bubble here, and was the nature of the discussion around how big and when the fall would be, or was there -- what was the thinking? That prices would flatten out? Or did a lot of people -- my recollection of people in the industry is they knew the price escalation had been enormous, and most were expecting a pretty dramatic correction.

What were you seeing here?

What were the people saying? Because all the "smart guys" were saying they never saw it coming. You're out in 2005, but they're still going. That's "smart" with quotes.

MR. PETERSON: I can give you a recollection on some of my thoughts in that period of time.

One of my thoughts was I couldn't believe this was happening. I thought, well, maybe Bakersfield has finally come into its own, you know, with influx of people and moving to -- a nice place to live out of Los Angeles.

I said maybe this is the reason it's happening.

Of course, I knew financing was -- was part of the issue.

I talked to my -- my fellow builders, people that I've known for a long, long time, and everybody was of the same opinion, that it's gonna last two more years. It's gonna last another year.

MR. ANGELIDES: In '05?

MR. PETERSON: Yes. I mean, we -- you know, from whatever reports you read from the media, or wherever, I mean, the -- the thoughts were things are gonna continue.

MR. ANGELIDES: But you stopped building in '05. Real demand had dried up, correct?

MR. PETERSON: It stopped one Saturday afternoon in November of 2005, because I called one of my colleagues and I said: Hey, there were no people out to the models today.

And he said, I think it's over. And we concurred. And were right.

MR. ANGELIDES: We'll make a note of that for the record, that here in Bakersfield on one weekend, the buyers stopped coming.

But I note for the record here that Wall Street kept going in 2006 and 2007. They churned out a record amount of mortgage securities.

And then, of course, they did these CDOs, which were taking the worst part of the mortgage securities and repackaging them as triple A.

They created CDO Square, which are repackaging those repackages, and they created synthetic CDOs. So it was -- from that date, November 2005, a lot was done on the Street.

MR. PETERSON: I agree with that.

I think there were a lot -- if you look at building permit activity in Bakersfield, in 2005 there were 5,200 permits pulled.

And in 2006, I think there were a little over 3,200. I think most of the local guys had already dropped out of the market. The big boys were still pushing, pushing products at that time.

MR. ANGELIDES: Thank you very much.

MR. PETERSON: You're welcome.

MR. THOMAS: Thank you. Thank you very much.

This testimony at the end of this panel really is going to be a good bridge moving into the next panel with an appraiser and a long-time realtor.

But I want to -- I'd like to say I'd like to end on a high note, but I think that's really hard to do, because, Greg, you mentioned the savings and loan bust. We wound up with a lot of see-through buildings, many of them in major metropolitan areas, and they were empty.

We created the -- we, Congress, government, created the Resolution Trust Corporation, and they held these buildings, and at some point, whatever that price was, a willing buyer and a more than willing seller wound up getting together. And in what a lot of us thought was a relatively short period of time, we were able to absorb that overbuilding.

Just a brief reaction. Probably mostly from Mr. Peterson, since you were out there on the residential home side. My really big worry is the numbers.

I believe Mr. Renock talked about over 1,000 foreclosures, we read in the paper again today. It wasn't quite like all those see-through buildings. It isn't like those see-through buildings. Every one of us in every one of our communities have a house that's been foreclosed on, and whoever owns that house is the worst possible neighbor.

Those houses are eyesores. They pull down the prices of all the other homes in the neighborhood, which put people in jeopardy by association, and some of them then get vandalized, so you can't begin to get the kind of money you want out of that property, to save the neighborhood.

And we don't have a Resolution Trust Corporation to pick up all those homes. I think there is a degree of irresponsibility in the way in which whoever those owners are, perhaps many of them banks, are managing those properties, but we're gonna hear later testimony from people who tried to figure out ways to hang onto their property.

From your perspective, on that Saturday when no one showed, that it was over, how do we unwind, since we're so far beyond that point, the problem that we have with the homes that we have?

And Bakersfield is a good example. All of us live near one of those homes.

How long is it gonna take?

MR. PETERSON: Well, I guess I don't think that relying on the local real estate, or realtor or brokerage business here in Bakersfield is gonna solve the problem.

I hate to even mention loan products.

I think there are good people out there that have the ability to pay a mortgage, because they're paying rent, you know, they're living somewhere.

The problem in our market right now, I believe is, you know, there's lots of unemployment. I think that a lot of people have expended their resources. There's not much savings available.

At this point in time, it's crazy to think that a 100 percent loan to a reliable person who -- who's buying a house that they can afford -- houses are now affordable again.

If the lenders hadn't let people buy homes they couldn't afford, I don't believe we would have this problem. But I would love to see a product out there, where a good person who was priced out of the market can now enter the market with a little money down.

We still have an FHA product that is working right now, and I believe you do find a few 90 percent loans available.

But, you know, the mortgage brokers and the banks have to take responsibility of who they're lending that money to, with proper documentation, because there are people out there that have good jobs that were priced out of the market.

We saw an uptick of homes being -- being sold during the tax incentive days that the government put out. And I think we saw a reduction in new home sales nationwide when that program ended.

That was -- that was one way that you saw people come out and buy homes. But here locally, I believe most of the people who took part in that program were buying new homes.

They weren't buying, you know, the homes that were put back on the market that were growing weeds in the front yard.

Something about our culture, we always want something new. And here locally, there was plenty of new stuff to buy during that period of time, because of the availability of lots and the larger builders that, you know, have the capital and the resources to produce the homes, in my opinion, at a loss or -- or a product that I can't compete -- compete against locally because, you know, I don't work by the same rules, like the large corporate builders do.

But most of the people were buying new.

So it wasn't helping, you know, the resale market at that time, better -- better products.

MR. BYNUM: One of the things I think should be mentioned, you know, permits so far this year are down to, I think, 558 through August -- or, maybe that's the end of July, I think, which means we're on a track, building less than 1,000 units this year. Warren mentioned 5,200 units previously, but actually, at its height, I think it actually went over 6,000.

The historical perspective on what we could absorb in living units in Bakersfield, because of population increases, and that kind of thing, was somewhere in the 3,500 to 4,000 range, even when they were building 6-.

So I think part of what's gonna help absorb this, obviously, lenders who cooperate with existing homeowners to help them stay in their homes is going to be a good thing, I think.

The other side of it is natural growth and absorption, and the lack of additional construction will help some of it.

It's gonna take a while, though.

MR. THOMAS: Thank you very much.

We're gonna hear more about that after the Commission recesses.

We'll now recess and reconvene at 12:20.

(Recess taken.)

MR. THOMAS: The FCIC Commission hearing will resume.

And our next panel, Mr. Gary Crabtree, Mr. Lloyd Plank, and what we're going to do is get a historical and an in-depth perspective of the real estate market in the greater Bakersfield area.

I'll start with Lloyd Plank, so that he can talk to us about the way the place looked before they built a dam, to dam up the Kern River and kill the Tulare Lake that was out there since prehistoric times.

Before that, though, I do have to recognize the Chairman so that he can carry out a function which is very important.

MR. ANGELIDES: Yes. Thank you,

Mr. Chairman.

The one other thing I'd like to do is just submit something for the record that was provided to me by Mr. Mario Hernandez. So I'd like to hand it to the staff for admittance into the record.

MR. THOMAS: Without objection, so ordered.

MR. ANGELIDES: Thank you, gentlemen, for being here.

As we have customarily done in all our public hearings, and as we are doing in Bakersfield, I'd like to swear you in. So if you will both stand and raise your right hand, I will administer the oath.

(The panel was sworn.)

MR. ANGELIDES: Thank you, Mr. Vice Chairman.

MR. THOMAS: Thank you.

Mr. Plank, for five minutes, if you would address the Commission as you see fit.

MR. PLANK: Thank you, Mr. Chairman.

Since I'm not as well-known as many people on the panel, I thought I would give you just a brief history of my entry into real estate.

I began in 1971, and began my career with

McCartney Real Estate Center.

In 1975, I opened my own real estate office, and also in '75, I was awarded Bakersfield Real Estate Salesman of the Year.

In 1982, I was named Bakersfield Board of Realtors Real Estate Broker of the Year.

My company soon grew to 35 associate brokers. And I have sold, supervised and closed approximately 10,000 houses.

From 1976 to 1990, we constructed and sold more than 600 homes.

Many of these homes were built on land that I developed.

At Lloyd Plank Real Estate Consultants, we make construction loans and we build and sell custom homes.

For the construction loan part of our company, we use, in part, our own money. In addition, we enjoy a medium seven-figure unsecured line with a major bank.

Since '05, at least, or '06, our guidelines are much stronger now than they had been in the past.

A builder comes to us with a customer that wants to build an $800,000 house.

The customer owns a $200,000 lot, which he assigns to us for security of the loan. Additionally, the buyer will put up 160,000. Our construction loan would be 440,000.

When the house closes, everyone gets paid.

I have witnessed three major real estate downturns in my career.

In the mid-'70s, there was no money available.

We called this the tin can area -- era.

People who wanted to buy a house had to go home and dig up their tin cans in the backyard to pay for it. This created also the purchase money deed of trust.

After they paid their down payment that carried -- the seller carried back the deed of trust and note.

In 1982 and '83, we suffered through extremely high interest rates. Prime rate finally leveled off at 21 percent.

In 1992, another downturn, but fortunately, it was short-lived.

This current crisis has plenty of faults to go around. In 2000, we got an inkling of how things started to get out of hand, as I was offered by a mortgage broker 110 percent loan. If a house is worth 100, you were to lend 110 percent.

Points look good. And the interest was wonderful, but we didn't choose to participate in that. Those who made such loans are all upside down.

In 2001, there was a great deal of pressure from Washington on home ownership. That's a wonderful American dream, but somewhere along the line, they could not come up with a way for the buyers to pay for them.

Still, the pressure was there to put these people in houses.

By '04, it was chaotic here. Money seemed to be coming in very fast, and from everywhere.

The greater Bakersfield area became inundated by investors from various places, such as the California coast, particularly.

They would purchase a house in Bakersfield; keep it a short period of time. Sometimes they would flip it while it was still in escrow, and they would still make 20, 30 percent profit.

We were having a 30 to 40 percent appreciation growth rate, and so there really was no reason to hold that house very long.

This influx of fast, easy money affected our business by creating false standards. Historically, we made 80 percent loans. That's the loan ratio to value.

If someone's credit was cloudy, then it went down to 70.

In 2008, when all the loans started truly falling out, we sort of went out of business for a short period of time.

If we had built -- had underwrit- -- were the underwriters for a $100,000 -- using that figure -- and it was a 70 percent loan ratio to value, all of the sudden, their property decreased to 60,000, far below what they owed.

Until 2000, we had dealt with only one or two foreclosures in all of my years out of 3- or 400.

But since 2000, this has increased to approximately 20 foreclosures.

Keep in mind that we're a very small niche of the Bakersfield real estate housing.

Ours is strictly custom homes, and more expensive homes, so we have run into one or two problems, wherein we rewrote the loans, lowering the loan amount and adjusting the interest rate.

The homes we built and held for -- loans for, we lost 30 to 40 percent on each house in trouble.

With all of the cleanup in foreclosing, and the real estate people, we finance homes in the 500- to $900,000 range.

When we take a hit, on 30 and 40 percent, it's significant.

It took us between January of '08 and November of '09 to get all the money paid back to the bank for the foreclosures.

We did this by adjusting salaries, and spending no money. No money.

During the height of the boom, we owed our bank several million dollars and, unfortunately, our cash flow.

We still made every single interest payment. We met with our bank's executive committee for the tight lending we do, and gave them the information of where we stood, and asked what they wanted us to do. Do we sell our properties, or what?

No, we were told by the bank that it's business as usual. So we went ahead.

There was a period of six months that life was very difficult because of the niche we created for ourselves.

MR. THOMAS: Lloyd, if we can sum up here.

MR. PLANK: One more paragraph.

MR. THOMAS: Fire away.

MR. PLANK: Thank you.

The bank -- I lost my place, Bill.

In 2006, we started to see that things were slowing in the market. And early 2007, we made 25 to 30 percent less loans than we would have if it had all dropped at one time.

It didn't. So we were in -- we realized that something big was going to happen, so we pulled back a bit.

Well, we didn't pull back enough. It was enough that we didn't go bankrupt. We're better businessmen now. We now concentrate on good construction loans to good people on good lots, and we do what we said we would do.

We rebuilt our reserves and we were feeling good about our business.

Thank you.

MR. THOMAS: Thank you very much, Lloyd.

Mr. Crabtree.

MR. CRABTREE: Good afternoon. Good afternoon, Mr. Chairman, Vice Chairman, members of the Commission.

Thank you for the opportunity to testify before you today regarding my personal views and opinions of the effects of the financial crisis upon the Bakersfield community, and its single-family residential market.

I've been asked to address four specific questions. First, what was the impact upon the residential housing market.

You have my full written testimony. And I do not have time to go into my opening statement, but basically, in 2002, we saw prices starting to increase at about 135,000. We saw significant increase in sales volume depleting the unsold inventories to 1.7 months.

Pricing continued to rise at unprecedented levels, and it peaked in June of 2006 with the median price of 292,990 on a total sales volume of over 5,400 sales. By the end of 2006, however, the unsold inventory had peaked at 8.4 months.

That was the turning point. And at that point in time, we saw the market crash.

Prices would continue to decline in 2009.

And by April of 2009, we saw a bottom to the market at $115,000 median price.

So we had saw a market that started in 2002 increase at rates upwards to 45 percent per year, down to a decline of 45 percent per year.

In my opinion, the impact on the Bakersfield market was, number one, an unprecedented and an unsustainable housing growth without any meaningful job growth, except for the construction in service-related sectors.

Valuable farmlands were taken out of production in favor of leapfrog developments. And we have still today an excess of 34,000 permitted lots that remain partially developed for our community.

The community, in essence, had lacked the infrastructure to handle the gross -- the growth, so turning the road structure into one of gridlock, and the advent of special assessments and permitting fees because of Proposition 13 made building costs, and costs to build, infeasible.

Record price increases just drove buyers' panic, and they were about to miss out on the American dream of home ownership; thus, they reverted to subprime mortgages, including the falsification of earnings, employment and financial statements.

In 2006, I was commissioned by the Kern County Economic Community Development Commission to do a buyer's survey.

What I found was in that survey was that three out of four homebuyers were actually local people that were moving up in price, but it was clearing the way for the entry-level market.

And then one out of five homebuyers were moving to the Bakersfield area because of the affordability.

Bakersfield has enjoyed over the years a price level, median price level that is about 50 percent than the rest of the state.

With that came immigration from Los Angeles and from the southern California areas.

And now, of course, we see an increase in crime, especially related to gangs.

One of the interesting parts of that survey was the fact that the upper -- or the move-up buyer at that time was a two-income family that purchased an average price somewhere between 168,000, at a 4.8 P/E ratio.

But then, if you look at the entry-level market, you saw an entry-level market that was buying homes at 240,000 average, with a P/E ratio of 6.22.

Clearly, they could not afford those homes. When did we begin to observe the changes in the local real state market? Well, in 2003 and '4, we first began to notice unusual changes in the market because farmland acquisitions began taking place by builders for single-family development.

At the time, I recall that the single family and title land was selling around 5- to $6,000 an acre in the outlying areas, and 16- to $18,000 an acre in the growth path.

By the time that it reached its peak, and we had the invasion of the national homebuilders, the same land with paper lots were selling at 160- to $180,000 an acre, 10 times as much.

The homebuilders, for the most part, were mostly local homebuilders. Only a couple of national homebuilders were on the scene at the time.

The next thing you know, the national homebuilders started acquiring local homebuilders, and the local homebuilders exited the market because they could not effectively compete.

At the same time, I noticed the decline in the quality of the construction, and the changes in style were cheaper finish materials, yet prices continued to increase.

Individual small mortgage companies catering to individual ethnic groups just increased dramatically. Large real estate brokerage began opening their mortgage companies to capitalize on additional income available, in conventional and subprime markets.

I also noted that these mortgage companies all seemed to have their own special group of favored appraisers.

In May 2006 is when I first discovered mortgage fraud taking place in Bakersfield.

I documented cases. And it's in my written testimony so I won't go into them, but those cases were reported to the Kern County District Attorney, the Federal Bureau of Investigation, California Department of Real Estate, and California Office of Real Estate Appraisers, in October '06.

I had also been -- started reporting the incidents of mortgage fraud to the lenders that were being defrauded, only to be met with indifference by quality assurance departments.

I would call them. Someone would call me back, and thank me for reporting the fraud to them.

And then, in fact, one of them, Option One Mortgage, was especially grateful.

Others would thank me, but they would never seek any additional information.

I recall one very specific phone conversation I had with the quality assurance officer at Fremont Investment and Loan, after I had related to him my evidence of mortgage fraud on one of their transactions.

He replied to me, "Don't put your nose where it doesn't belong," and hung up.

As the crisis deepened, I observed builders with speculative or standing inventory starting to offer deep discounts, as much as $60,000 on 350- to $400,000 loans; typical builder discounts, with incentive packages of grades low and buy-downs.

MR. THOMAS: Can we wrap it up?

MR. CRABTREE: Yes, sir.

Other builders with unsold inventory began selling inventory to the investors, and property flippers that used straw buyers and subprime lenders to secure the 100 percent financing.

Some properties were rented for a short

time, but they only eventually ended up in foreclosure.

What was the financial impact of -- on my business in April of 2007, when I blew the whistle on the fraud that was making place in our market, we had an article published in the BAKERSFIELD CALIFORNIAN. Almost immediately I experienced a dramatic decline in appraisal assignments from lenders.

In 2005 and '6, 72 percent of my appraisal assignments were from lenders.

In 2007, that market share declined to 36 percent, and also resulted in a 34 percent decrease in my adjusted gross income generated from my appraisal business.

Since I had developed extensive files on fraudulent transactions, I was naive enough to think that even land lenders were interested in forensic appraisal reviews.

That wasn't even close to the case.

In summary, also, I would like to also ask that this Commission -- and I believe that this Commission would be remiss if they did not address the appraisal component to this crisis.

And I have quite a bit of information in my written testimony, and I would say that at this point in time, I think this was a key component to the crisis.

Thank you.

MR. THOMAS: Thank you very much.

Lloyd, when you were in that late '90s, early 2000 period, we had had testimony earlier about some dramatic increases in the price of the lots.

MR. PLANK: Yes.

MR. THOMAS: Did that -- you saw that, and were you impacted by that.

And I'm mainly interested in your mind-set at the time that, based upon what you knew lots used to go for, what lots were going for at that time.

MR. PLANK: It impacted us, in that we couldn't go buy a lot of lots, and especially with our relationship with our -- with a major bank locally, who said we can't buy enough lots to sustain our builders.

Well, the lots never stopped for five years, and just continued to go, and continued to go.

MR. THOMAS: And no one discovered gold or oil on any of those lots?

MR. PLANK: No.

And an acre of land anywhere that could be converted or brought into the city, was going for anywhere from 130- to 150,000 an acre. And --

MR. THOMAS: That was raw land?

MR. PLANK: Raw land.

MR. THOMAS: But it used to be with a house on it.

MR. PLANK: And you would -- actually, if you put all the cost in there, it was costing people 100-plus-thousand to build those lots, and pay for the land.

But the -- I know a firsthand instance of that. We bought 10 very expensive lots at the very height.

I still have one of them.

And we have sold the others for discounted 55 percent.

But that's the game we -- we were in. And there was no way you could get -- stay on the cutting edge without lots.

MR. THOMAS: And as that lot price went up, did you notice any difference in the type of buyer? You mentioned an influx from the coast. That's a lot of money for most of us here in this community to pay for a house for personal use.

Did you see some folks coming in for investment purposes, or how did --

MR. PLANK: We -- we didn't do any business with the people that I discussed, people from the coast.

They were all nice people, that I know of.

But that was -- they were after houses that were built, because they didn't have time to wait six months.

MR. THOMAS: Houses to be built?

MR. PLANK: Mark- -- the market may change, but that would affect -- we had people with hundreds of houses for sale, but it wouldn't affect me in any way.

MR. THOMAS: Mr. Crabtree, you -- you're known as someone who has a lot of data. And you gave us some numbers.

To a certain extent, a picture really is worth a thousand words. And I understand in your testimony, you've got some graphs.

Do you have the capability to show us, say three or four of those that you think dramatically display what was happening in -- in this market?

MR. CRABTREE: Yes, I do.

The first graph on the screen, of course, it's in my testimony, gives you an idea of the 10-year median price trend by quarter, as we started in June of '0 -- in 2000. It's out to the current -- the current median price; around $140,000.

But as you can see, the bubble was very pronounced. Started as -- as it is today, as you can see. Properties and median prices today are selling for the same price they were in June of '03.

So we went up; we went back down; we actually bottomed. And we're struggling right now through a kind of a bouncy bottom recovery, if you will.

MR. THOMAS: So that -- that's the graphic picture of a bubble?

MR. CRABTREE: That's a dirty graphic picture of a bubble. That's the worst one I've seen in 48 years.

The next line has appreciation change by quarter, just to give you an idea that -- where we reached, we -- these were appreciation, annual appreciation rates by quarter, so you can see in June of '05 and early '06, the market was appreciating at 48 percent per year.

That's totally unheard of, 4 percent per month. And then, of course, the crash came, and we reached the bottom in the second quarter of '09, where we have actually depreciated at 45 percent per year or the other 4 percent -- 4 percent per month.

So we have, again, started a recovery, but the recovery is very rocky.

The next slide gives an idea of what the unsold inventory was like when the foreclosures hit.

And this shows a 10-year unsold inventory, based upon the inventory in months.

As you can see, as we progressed through to the peak of the market in June of '04 and June of '05, we were down to less than one month unsold inventory homes in Bakersfield.

At one time, we were -- we had a total number of 379 total active listings on the market.

So it was a buying frenzy, and people were bidding like crazy.

And then, as the foreclosures began, you can see in June of '07, we reached a peak of almost 16 months unsold inventory. And since then, the liquidation of the REO properties had began.

Sales volume, again, you can see the constant climb.

The reason for the -- if you will, the squiggly lines going up, is the fact that a typical real estate market will see a peak during the summer months, and we'll see big sales volume during the winter months. It shuts itself back down and gears itself back up.

And you can see that in -- from 2000 all the way to 2004, that was a normal market trend and then all of the sudden, it stopped. And, as you can see, we got down -- during the foreclosure crisis, we were -- we were down to selling less than 7- to 800 homes per quarter.

As it spiked back up again, that's when the REOs took over, and they started their liquidation.

MR. THOMAS: You mentioned appraisers. Greg Bynum indicates that he was, and is, an appraiser and carries a lot of certification, and apparently, people approached him to appraise the house before he went out to look at it, to find out if it was going to be worth going out to look at it.

That sounds like a pretty good deal if you can get it. I've never been able to.

What would you like to say to the Commission about the business of appraising, and to what extent was it critical for the appraisers to carry out the behavior they did to maintain that -- create the bubble; maintain the bubble?

MR. CRABTREE: Well, what has happened -- and, of course, the appraisal -- appraiser, plays in a key role in any financial process. They're placed in a position of protecting the public trust by acting as an independent third party.

That -- and, of course, with the savings and loan bailout, and the Title 11 of Firrea, there was for the first time, regulation of appraisers installed. Licensing came along, and they thought that that was going to do the trick.

The problem was, is that it was -- it was actually delegated out, if you will, to state licensure boards who were very, very ill-equipped to provide oversight and enforcement in the appraisal process.

And the lenders, in turn, I think developed a false sense of security that licensure was going to cure their ills with respect to the bad appraiser. That wasn't necessarily the case.

We had total breakdown within the oversight and enforcement of appraisers. Title 10 glutted the de minimis, amongst other exemptions, including a complete exemption of Freddie and Fannie.

Loan production became the dominant force, when the institution's appraisal risk management was marginalized.

Federal regulators were writing the rules, but they weren't enforcing them. For appraisal, this really meant a marginalization of the appraisal function within the institution.

So there was no independence, and there was no commoditization, or a race to the bottom for professional services.

Licensing, as I said, provided a very small sense of security. The appraisal regulators had made very feeble attempts to conduct any kind of meaningful enforcement, as I have related in one fraud case in my written testimony, where there was a local appraiser who was performing as much as 350 appraisals a month.

That's a physical impossibility, but yet he was signing that he inspected all of the properties, and what have you.

He -- he was involved -- the Office of Real Estate Appraisers tried to reach -- to revoke his license. They went to an administrative law hearing, and the appraiser received a 60-day suspension and he's on probation for five years, when in fact, he was probably responsible for a good deal of the mortgage fraud appraisals when fraudulent appraisals were taking place.

So we have progressed to an area today where now we have the HVCC, which has been sunset by the Dodd-Frank bill. But there's still a lot of it still in the Dodd-Frank.

However, we have now, as the appraisal profession, been taken over by the large banks through appraisal management companies.

Appraisal management companies control 85 percent of all the appraisal owners in the United States.

Our normal fee was $400. We're now having to bid for an appraisal against out-of-town appraisers, and what have you, for about $250.

So you can only say, you get what you pay for. And, unfortunately, the banks are getting what they paid for, and that's some very, very poor sloppy appraisal work.

MR. THOMAS: Thank you very much.

Commissioner Born.

MS. BORN: Thank you, Vice Chairman Thomas, and thank both of you for coming.

I particularly appreciate all the data that, Mr. Crabtree, you provided about the housing market in Bakersfield. It's a very dramatic and sad story of a tremendous housing bubble and its tremendous collapse.

Let me ask you a question to start with.

I wonder, from your testimony, whether you feel that some of the mortgage lenders were complicit in the mortgage fraud you described?

They certainly -- some of them did not respond in a very positive manner to your revelation of the fraud. And I wonder if part of the problem here was predatory lending by lenders, and turning a blind eye intentionally to misrepresentations by borrowers.

MR. CRABTREE: Yes, sir -- ma'am, they, did.

And I can -- I have one specific case I know of where there was a local mortgage company that was falsifying loan documents, and when -- when I found out what they were doing, and their favorite appraiser was being used -- same scenario -- I actually found out that there was a loan representative from Washington Mutual who was visiting that mortgage company on a weekly basis, training them on how to -- how to prepare fraudulent loan documents so that they would pass the -- pass the test, so to speak.

MS. BORN: I also thought your testimony that after having published an article about mortgage fraud, you suddenly lost a great deal of business from lenders was telling.

MR. CRABTREE: Yes, ma'am.

And that was, I think, the fact that no one wanted an honest appraiser. They were trying -- and we would get -- a typical call would come in from us, and we -- they have a property. They would like it appraised: Can you do a comp. check? Which is supposedly -- it's illegal. It's not supposed to be done: But can you could do a comp. check? And here's the value we need. Can you hit this value?

Well, certainly, I would turn the request down, and say that that was illegal and unethical, and that I could not perform that service.

The answer typically came back to me: That's okay. We'll find somebody that will.

MS. BORN: We're hearing that's reminiscent of some things we heard about the credit rating agencies only getting the business if they came out with the rating that the securitizer was interested in and receiving, clearly creating a conflict of interest, and undermining, you know, honest and reliable ratings, in that case, appraisals here.

Would you agree?

MR. CRABTREE: Yes, ma'am. And it continued on throughout the entire crisis.

The H Mortgage Company, local or otherwise, they all seemed to have their own local favorite appraiser.

Of course, I wasn't one of them, but -- in a way, I consider that to maybe be a stroke of luck because I didn't have to be subjected to that, that type of thing. And at that point, I changed my business model and started soliciting litigation work and other types of work so that I did not have to become involved with lenders.

MS. BORN: And is that essentially what you're doing now?

MR. CRABTREE: Litigation work.

I do have two very good local lenders that I do work for, a local credit union, and a local small bank.

Those two have been good.

Most of the large banks -- as a matter of fact, when HVCC came out on May the 1st of 2009, on April 31st of 2009, I was removed from --

MR. THOMAS: Gary, Gary -- what do those letters mean for people who aren't on that jargon?

MR. CRABTREE: Okay. I'm sorry. Thank you, Chairman Thomas.

HVCC was the Home Valuation Code of Conduct which was Andrew Cuomo's suit against First American. He appraised it which, in turn, he got Freddie and Fannie to sign onto which, in essence, created an unregulated industry called appraisal management companies, which were controlled by the banks.

MS. BORN: And who are they -- are they owned by the big bank holding companies?

MR. CRABTREE: Yes. There's -- 85 percent of the appraisal management companies in the country today are owned either by the major banks or a subsidiary holding company of the major banks, or through the title and settlement services.

MS. BORN: And you said that they charged much lower fees than would be --

MR. CRABTREE: I called them cram-down fees because that's essentially what they are.

The appraisal -- the appraisal process of

$400 would be a normal customer and reasonable appraisal fee.

They offer -- they usually come out with an initial offer to you of $200 and the median is probably around 250.

They'd also place unreasonable time restrictions on turnaround time for their appraisal reports. And I'm here to witness to you today, you cannot do a good credible appraisal for the amount of money that these people are -- are paying. And, of course, the thing is, is that they, in turn, are charging the customer anywhere from 400 to $500 for that appraisal fee. So they have turned the HVCC into a profit center for themselves.

MS. BORN: What percentage of the appraisals for mortgages in the country are being done by these institutions?

MR. CRABTREE: 85 percent.

MS. BORN: Do you think that more vigorous government oversight and regulation, either of the banks that own these appraisers, or of appraisers in general, would be beneficial?

MR. CRABTREE: Oh, that's already been accomplished through the Dodd-Frank Act.

The problem is, is that you have

legislation there to control the AMCs, the appraisal management companies. You have legislation there. My greatest fear is it will never be enforced.

And so I heard something the other day, and I kind of wonder if it isn't really true, and that is that now we have -- instead of having banks that are too big to fail, we have banks that are too big to control.

MS. BORN: They might have always been too big to control.

MR. CRABTREE: I won't disagree with that statement either.

MS. BORN: What do you think in terms of the quality of regulation we had of mortgage originators going into the crisis?

Do you think that that needed to be more rigorous as well?

MR. CRABTREE: Oh, yes. The mortgage loan officers were totally unregulated and they were running the wild, wild, west, if you'll use that term.

But they were all operating on a commission basis, and so -- and we have seen, and I have seen instances where a typical buyer was able to qualify for a FHA loan, or a 90 percent conventional loan with PMI insurance, but instead, because on a $300,000 loan, that loan officer makes $3,000; however, if he can move him into an alt-A or subprime, he receives pay on the yield premium -- yield spread premium for the day, he will be able to pick up another 3- to $5,000 bonus.

So guess what happened: Many people who should qualify for FHA and conventional financing was moved into alt-A and subprimes, only if agreed that the loan officers, were they -- they're unregulated in Dodd-Frank.

They now are regulated through the new Financial Reform Bill, but, again, the question of enforcement through the Safe Act and Title is going to be something to be determined, and of course, that's all going to depend upon the rule-making process, as Chairman Thomas knows.

MS. BORN: Well, implementation of the statute through rule-making, and then effective enforcement is, of course, critically important.

MR. CRABTREE: And the enforcement part is the key part, because the appraisal industry -- although we had appraisers -- state license appraiser boards, they were totally ineffective because they -- California had 21,000 licensed appraisers at one time.

We're down to 14,000 now. Since Dodd -- or since HVCC took effect, we've lost another 4,000 appraisers.

I say in my written testimony that -- and we're bleeding, hemorrhaging appraisers, licensed appraisers right now in California.

We're losing an average of 40 a week. And it won't be long until the tipping point is reached, in which there's not going to be a sufficient supply of appraisers to perform the work.

Last -- I think in May, there was 550 real estate -- single-family real estate transactions in the State of California, with a little less than 9,200 qualified appraisers to do that job. That's 2.9 appraisals a day. It can't be done, and done right.

MS. BORN: Thank you very much.

MR. CRABTREE: You're welcome.

MR. THOMAS: Commissioner Murren.

MS. MURREN: Thank you, Mr. Vice Chairman, and thank you both for appearing today.

I'd like to follow on that line of questioning a little bit.

Of the 85 percent of appraisals that are now done by appraisal management companies that have a parent company that's also a lender, I'm assuming that if they are doing the appraisal, they are likely also to have their parent company to be the entity that is doing the lending for whatever transaction is in question; would that be correct?

MR. CRABTREE: Yes.

MS. MURREN: Is there a requirement to disclose that relationship to the -- to those who are party to the agreement?

MR. CRABTREE: With respect to the buyer and seller?

MS. MURREN: Yes.

MR. CRABTREE: I do not believe that there is any type of regulation for disclosure currently that I'm not aware of. You know, it could be in the -- it could be in the settlement agreement. It could be in title. I'm not sure.

MS. MURREN: Thank you.

Back to talking a little bit about what helped to create the housing bubble here, and actually, also, I think there are many similarities to Las Vegas, which is where I'm from, and also where our hearing is tomorrow.

But you talked a little bit about

entry-level homes and the entry-level homebuyer being part of what caused the market to escalate, and then at the same time also people that were speculators or investors that weren't necessarily people that reside here.

If you could both comment a little bit on how you saw the composition of the market change.

Were these two segments of the market equally important, or were they important at different times during the bubble?

And also, within those two segments, were there differences in the types of fraud that you were seeing, whether it be appraisal, or whether it be mortgage documents being falsified.

Were there distinctions between the two?

MR. PLANK: Yes.

I think the start of it was everyone found out that our land was cheaper here than anywhere else in California.

So much less than the coast, L.A., San Francisco areas, that it would be -- Gary could answer this, but it would probably be maybe two-and-a-half times less -- or more than where they were.

This big boom that we had, as I see it,

actually started in a blending area at Santa Maria, which is not coast, not desert, for sure. But they went through a huge boom in 2000. And we -- I've got to say this, Gary, you know, everybody was looking out for the banks, you know: Watch those banks. Watch those banks.

Nobody was looking out for the mortgage banker. The mortgage banker -- you told me not to point blame anywhere, but I'm going to mention this.

The mortgage -- the mortgage banker and unscrupulous real estate brokers -- and we had many, and then let -- allowing people to buy a house when they had no wherewithal to do that, that probably is it.

And I want to just finish this.

We have one company locally here, and I recognize Gary was talking about him at one time.

Corporation had maybe 20, maybe 30 salespeople. They were all crooks.

The broker was an appraiser and a banker, mortgage banker, and they would -- they would buy a house, flip it this way, they would sell it to an associate within their company, and then they would walk away and let it fall. And that had great notoriety here, and they're still waiting to be sentenced, I hope.

But the -- everyone says, "the poor buyer." The buyers, they force these houses on them.

I wasn't involved in it, but I was in the market, so I knew what was going on.

MR. CRABTREE: To answer your question specifically, yes, there were different types of fraud, different types of -- when this whole thing started. I mean, when we first started seeing flipping for profit.

Mr. Plank alluded to probably one of the most egregious, and I cannot comment on that. That case has been opened and under investigation by the FBI now for three years and nine months. But who's counting?

(Laughter.)

MR. CRABTREE: But there were others. The typical flips involved a lot of straw buyers. It involved a lot of entry-level purchases where people were able to take advantage of a property flip by acquiring a property, hiring a straw buyer.

In my written testimony, I gave you the example of the young Hispanic fry cook at Outback Steakhouse that was making $22,000 a year.

He was paid $5,000 for his name and credit. The lender loan officer made out all of his loan documents and listed him as a food catering contractor making $65,000 a year, and they were able to successfully get that property, flip it for $70,000, using two Los Angeles appraisers, and, obviously, that ended up in default.

Other types, the realtors were artificially inflating properties by 50- to $60,000, and then obtaining 50,000 cash back out of the transaction.

Those homes were rented for a short period of time, and then ended up in foreclosure.

There were a significant number of mortgage company loan officers that were actively involved in the fraud process by being able to use relatives as straw buyers. And they would, in turn, be able to purchase properties. They would rent them.

And, of course, when the call came for the -- for the adjustment to that -- that nice 80-20 ARM that they had, then, of course, the property went to foreclosure.

But at one process, as we were going downhill, another phenomenon took place. It didn't last long, but another phenomenon took place, in that many of the younger people who could qualify for loans were buying the homes in tracks of 4- and $500,000, knowing very well they could qualify, but then the foreclosure process started in that track.

So the foreclosure process goes through, and all of the sudden they see the same identical floor plan right down the street from them that they had purchased for $500,000 now selling for $325,000.

So the phenomenon of buy-and-bail started, where they would actually falsify a rental agreement, falsify a rent deposit, take it to a lender, make a deposit on the house that was their same house floor plan right down the street for 350-, and then they would use their house, and they would tell the lender: Well, we're gonna rent this house out.

Well, that obviously wasn't the case, but they did falsify the documents to do so.

Once the escrow closed on that, they moved into their new house. And lo and behold, at 30 days or 90 days later, the Notice of Default was filed, because payments were stopped on the other house.

It was a phenomenon we called buy-and-bail. And that lasted for a period of about six months, until the lenders got wise to it.

So there was different types of frauds during different times.

The latest type of fraud is property flopping. And that's still going on today, where a -- a property -- and this usually takes collusion with realtors, because the lender is contacting the realtor to handle the particular REOs as a real estate owned property. And they will contact a realtor to give them broker's price opinion.

The lenders will not use appraisers. We're too expensive. So they hire brokers to do a broker's price opinion for 45- to $60.

The broker has an investor in pocket.

He purposely underprices the broker's price opinion; convinces the bank that's all the property is worth.

They give him the listing. He has his investor in his pocket. The investor buys. Soon as it’s closed escrow, its turned back around and put back on the market, and increased by 50-, 60-, $70,000. So there's a profit being made through what we now call property flopping, which is the new wave of mortgage fraud.

MS. MURREN: Thank you. That's a lot to

take in, actually, quite a bit of information.

To ollow up, though, on discussion about whether the homes will be purchased by people that were living in them.

It sounds to me as though much of the market here was being driven by speculation, that it wasn't so much -- when I heard "entry-level purchases," what I thought as first-time homeowners, what you're really talking about is a particular price point. And it sounds like much of it actually was happening with people coming in from outside, not necessarily residents, the county or -- of Bakersfield.

Would that be correct?

MR. THOMAS: Yield the Commissioner an additional two minutes?

MS. MURREN: Thank you.

MR. CRABTREE: To answer your question, yes, there was a limited number of entry-level buyers that were coming in, but there was a lot of people out there who could no longer -- could not afford the home ownership as it was. And as entry-level markets increased, I think they went into a panic mode. But these people were individuals within the community, for the most part.

There was some immigration.

There was immigration from Los Angeles, and Riverside, San Bernardino, Ventura, Salinas, because we are a petroleum and agricultural community.

And so a lot of the -- a lot of the agricultural production people were being priced out of their homes in Ventura, in Salinas, and so they really had no alternative but to move into another ag. area, such as Bakersfield or Fresno and the whole Central Valley, which turned out to be a hotbed of not only mortgage fraud, but just almost a hotbed for foreclosures, because these people couldn't afford the houses that they were being put in.

As I mentioned in my testimony, the entry-level buyer was spending 6.18 times their annual income to purchase a home -- I mean, 6.8.

That doesn't even compute at a debt service ratio.

MS. MURREN: That's helpful. Thank you.

MR. CRABTREE: You're welcome.

MR. THOMAS: Mr. Chairman.

MR. ANGELIDES: Thank you very much.

Actually, Ms. Born and Ms. Murren have

asked many of my questions, which is terrific. Saves me some work.

But I wanted to visit the flopping issue again. Maybe I missed something when you were describing it. Participation by the lender or the servicer is kind of -- from lack of market knowledge, a collusion?

MR. CRABTREE: Lack of market knowledge, I would say, Mr. Chairman.

It was -- for the most part, you have to look at what happened, and you have to look at the fact that many of these institutions failed -- Countrywide being one of them -- who was then acquired by Bank of America.

Countrywide laid off of a lot of their loan servicing personnel, and what have you, and they hired, for lack of a better term, a bunch of 20-something asset managers that didn't know what they were doing, and they didn't have any authority, or were given limited authority. And so it's very easy to, in essence, pull the wool over an active manager's eyes when you can present them with a broker's price opinion that says: The house is worth 100- -- or, in one case of one flop, I do know of the --

MR. ANGELIDES: -- the broker's price opinion?

THE WITNESS: -- the broker's price opinion.

MR. ANGELIDES: It's a BPO, right?

MR. CRABTREE: BPO.

Because the lenders were not using appraisers. They were not using appraisers at all. They were using automated valuation models, and broker's price opinions, because they're the cheapest.

But in one case, I do know where there was a broker's price opinion that was issued for $72,900.

The lender went ahead and approved the list price of 72-9. One day, after the property was on the market, a cash offer of 82,000 was tendered, and the offer was accepted by the bank.

14 days later, the property went back on the market and sold almost immediately for 175,000.

MR. ANGELIDES: And the $82,000 offer was a related party offer?

MR. CRABTREE: The $82,000 offer was an investor that the realtor had in his pocket at the time.

MR. ANGELIDES: Okay.

MR. CRABTREE: So the collusion, as far as the lender is concerned, I don't think that was taking place, and is taking place.

I think it's ignorance of the lender--

MR. ANGELIDES: The amount of markets they're in and all, having been in real estate, like all politics is local, all real estate is local?

MR. CRABTREE: Yes. They're overwhelmed.

MR. ANGELIDES: I do want to -- like I said, Commissioner Born and Commissioner Murren scrubbed this pretty well, but I do have a couple of more questions for you on the issue of fraudulent misrepresentations.

You say that, you know, for fear of using these -- this is on Page 60 of your written testimony, which is excellent, by the way.

"For fear of using these types of transactions as comparable sales in my appraisal reports, I began performing additional due diligence by researching in detail all of the sales I used in my appraisals.

To this end, I developed data on a total of 214 fraudulent transactions at the end of 2006 and early 2007."

So what proportion of the market was that? When you're looking at comps, you bought -- the way I read this is you looked at all the comps, correct?

MR. CRABTREE: Yes.

MR. ANGELIDES: And you identified 214 transactions which you came to believe were fraudulent?

MR. CRABTREE: Yes.

MR. ANGELIDES: Based on some essential benchmarks, which would be -- I mean, how did you make the identification?

MR. CRABTREE: Knowledge of the market.

I described one fraud in my written testimony.

MR. ANGELIDES: Yes, the one right above that?

MR. CRABTREE: Right.

MR. ANGELIDES: The SunTrust Mortgage transaction?

MR. CRABTREE: Right. Right.

MR. ANGELIDES: So you began to look for certain characteristics that looked like they were, quote-unquote, out of the market?

MR. CRABTREE: Yes. And even as an appraiser in -- we are appraisers, but, if you will, we're also kind of private detectives at the same time.

But we have a series of databases that we can look at. We can track transactions, we can track previous sales. So we're able to pick up property flips.

We're able to also know who the buyers and sellers were. And at one time, that became a -- that became a very vital part of fraud detection, because the same names kept floating to the surface.

I mean, the same seller, the same buyer, the same flip. And so it wasn't -- it wasn't too hard to put two and two together, when you start seeing the same names involved with all of the transactions. But then, as I described it, on one frauder, that there -- there were numerous frauds exactly like that.

And I developed the 214.

There was much more. But at that point in time, I -- in essence, I kind of gave up, because I didn't have any lender work to protect my clients with anymore, so I --

MR. ANGELIDES: What was that again?

I'm sorry. You said you gave up because --

MR. CRABTREE: I gave up, because it was almost an attempt in futility. If you have to research a mortgage fraud, it is very laborious. And that's one of the problems that law enforcement has, is that the authorities for oversight and regulations do not have the people to do this.

The -- the local office of the FBI, who should have 30 agents, have 9.

The Office of Real Estate Appraisers, who was responsible for oversight of appraisers with some 21,000 at one time, had a total of 8 appraisal investigators.

MR. ANGELIDES: For the whole state?

MR. CRABTREE: For the whole state.

DRE administers well over 600 licensees, and as I understand it, their total enforcement --

MR. ANGELIDES: 600? Not 600 licensees.

MR. CRABTREE: 600,000 licensees, I'm sorry.

MR. ANGELIDES: Yeah.

MR. CRABTREE: And their enforcement division is someplace around 360-.

But the mortgage fraud, in and of itself, is a very laborious task to document. The thing is about it, it is documentable, and it is very easy to spot, because the paper trail is -- is voluminous.

You have purchase contracts that are maintained in a realtor's office. You have escrows and a title company. You have appraisal files.

So, in other words, the --

MR. ANGELIDES: The trail is there?

MR. CRABTREE: The trail is there. It's just so hard to put together, because it's a very time-consuming thing.

As I said, the current investigation has gone on for three years and nine months and they're not done yet.

MR. ANGELIDES: So when you identify 214 come of out of your pool of comps, how big was the fraudulent pool?

And you said those 214, you kind of gave up. So do you have sense of magnitude during the '06, '07 time frame?

MR. CRABTREE: I only believe that I scratched the surface.

MR. ANGELIDES: So even with the scratching, if 214 is what you identified, what are we talking about? 10, 20, 30 percent of the transactions?

MR. CRABTREE: At one time, I tried to document -- or I tried to quantify that.

And just using an analysis, my estimate at that time was that probably somewhere in the vicinity of 17 to 20 percent of the market was fraud.

MR. ANGELIDES: And that was based on kind of using -- taking a pool of comps --

MR. CRABTREE: Right.

MR. ANGELIDES: -- and you being able to say based on characteristics, either names continually coming up, and transaction structure, that you thought it was perhaps 1 in 5 in the 2006, 2007 time period?

Is that the right time period?

MR. CRABTREE: Yes, sir.

MR. ANGELIDES: Have you -- I know you mentioned you had provided all three cases, or you selected three cases, and you fully documented them and turned them over to the authorities.

The balance of this information, the 214, did you also turn those over?

MR. CRABTREE: They were offered, but no one ever took me up on the offer, except on one other case where -- where I literally had to hold the Bakersfield Police Department's hand and walk them through mortgage fraud.

And there is a case now that an arrest has been effected, and I believe that that one will probably go to trial.

But the rest of them were offered, and no one took -- took me up on my offer, so to speak.

And I must tell you, during this period of time, I probably spent close to 900 hours in research, and not also including the amount of money I had expended with my assistant and myself, because I was naive, as I said, to believe that the lenders were interested in this information.

And, boy, was I ever wrong there, because I thought I would be able to at least develop a business model of doing forensic appraisal reviews for the lenders to expose the fraud.

They weren't the least bit interested.

MR. ANGELIDES: You mentioned you had talked to someone at Fremont.

Do you remember who that person was?

MR. CRABTREE: It was a quality assurance officer. I don't have his name specifically.

MR. ANGELIDES: That's a euphemism, right, quality assurance?

MR. CRABTREE: Oxymoron.

MR. ANGELIDES: But you don't remember the name of that individual?

MR. CRABTREE: It's probably in my file somewhere, along with the some of the others.

MR. ANGELIDES: Would you please see if you might dig that out, if possible?

MR. CRABTREE: Yes. I have lots of names in my files, so that people who have contacted it, SunTrust, WaMu, WMC, the usual cast of characters.

MR. ANGELIDES: If you might provide those to us, that would be appreciated.

MR. CRABTREE: I will do that for you, sir.

MR. ANGELIDES: All right. A couple other quick questions here.

You mentioned the Feds --

MR. THOMAS: Yield the Chairman an additional three minutes? Five minutes?

MR. ANGELIDES: I will go quick.

I have one more question for you, then a question for both of you, just to conclude.

You mentioned the Feds were writing the rules, but no one was enforcing.

What specific rules were you referring to, or to which you were referring?

MR. CRABTREE: There were several. One was in 2007. The Housing Economic Recovery Act was passed, and that was done under the Bush administration.

One of the things that we, as the Appraisal Institute, and as you've seen in my resume, I am a member of the National Government Relations Committee of the Appraisal Institute.

We suggested to FHA at the time, that the quality of their appraisal work was substandard, and if one way we could do -- one way we could improve the process, was to increase the qualifications for the FHA appraisal, or appraisers, from a licensee to a certified -- certified.

And basically, the difference is, is that they have to have more experience. They have to have more education.

The other part of that was the verifiable; that we also asked that the FHR also make sure that the education of that appraiser was verifiable; that they knew what they were doing when they appraised an FHA property.

The certification, they accepted.

The verifiable education, they rejected. And there is no verifiable education to know. And unfortunately, at this point in time, we have many appraisers out there that are not qualified to appraise FHA. When the HUD handbook 4150.2 came down from Mr. Cuomo, there was a very rigid process.

We had examinations to pass, and FHA continually lowered the bar to a point where we started with an exam, then the next step was, in order to qualify for the FHA panel, we had -- we had a written exam of 10 questions that were cut-and-paste.

Then it went from there, down to no education whatsoever. All you had to maintain is an appraiser's license, and IR -- and FHA appraiser.

MR. ANGELIDES: All right. A final question for both of you.

You clearly -- I turned away from the page. Excuse me.

The SunTrust case was when?

MR. CRABTREE: The SunTrust case was in May of '06.

MR. ANGELIDES: All right. Is that when you first began to suspect that -- let me be blunt about it. We hear in Washington and on Wall Street, "We never saw it coming."

We had leaders of these mega-financial institutions who said, "We never conceived that house prices would move down."

While house prices began -- the market began to peak in 2005, we've heard witness after witness say, "We didn't see it coming."

And in 2006 and 2007, those were record years in terms of the production and sale of securitized mortgages, and other mortgage-related derivatives.

MR. ANGELIDES: When did you first see the turn in the market? When did you suspect this bubble would come down, and what did you think and when did you think it, about the magnitude of the -- of the collapse?

I would like to ask both of you what you saw, when you saw it, and what was the dialogue in the local real estate community about the expectations.

MR. PLANK: I'm sorry. I knew we were in trouble in 2004 to 2005, and then 2006 came along, and we were still doing very well, so I was wrong.

But then it really went upside down.

And I didn't -- may I?

MR. ANGELIDES: May I vary my answer to you?

MR. CRABTREE: Absolutely. It's your answer.

MR. PLANK: Gary has done a great job talking about the appraiser, and that is a very, very tough situation. But in all of California law having to do with real estate, almost every other page of whatever that instruction is, is about secret profit.

Secret profit covers every one of those people who flipped, and did things that were wrong.

I think that you're looking for an answer of what -- what caused this.

What caused it was crooked real estate brokers, crooked mortgage bankers, and so on, but those -- those two are the key to this thing.

Obviously, the -- he got a -- the appraiser in there beautifully done, beautifully done. But that's what I think.

MR. ANGELIDES: Not to lead you, but does that extend up the chain? Everyone who is moving, involved in these products?

MR. PLANK: Pardon?

MR. ANGELIDES: Not to lead you, but does that extend up the chain to the people who were then taking these products and selling them into the market?

MR. PLANK: I'm sorry, I didn't do that very well, did I?

MR. ANGELIDES: You said, "and so on."

I just want to get some clarity as to "so on."

People in the chain?

MR. PLANK: That's right. And we thought very seriously that '05 was the problem year. And we went along carefully, got our business back carefully.

'06 was -- started off good. So we weren't right, but then in '06, is when it really went bad.

MR. ANGELIDES: And, very quickly, when do you think you saw this was coming in a cropper? The '06 period?

MR. PLANK: I first recognized that there was a problem when we started seeing the subprime 80-20 loans, because before that time, the sales were not enacted like a normal real estate market.

We did have an uptake --

MR. ANGELIDES: When were the 80-20s introduced?

MR. PLANK: The ones I first started noticing was in early 2005.

MR. ANGELIDES: All right. So you think that was kind of just the juice to keep the thing going propelling forward?

MR. PLANK: That's the only thing that kept it going.

MR. ANGELIDES: Well, I've been just stunned by how many, quote-unquote, smart people saw nothing coming. And you know it may go back, this is very localized industry.

You have national asset manager, folks who have a lot of very fancy models, but never bought or sold or built a house, or built a lot. And it's been interesting to see the disconnect between the people handling the real estate at the securitization level, and the people who are handling it on the ground.

MR. PLANK: As a boot on the ground, it became quite obvious. I mean, when you go and drive neighborhoods like I do every day in my profession, and you see -- you see tenants or occupants of homes that you know very well don't belong in that neighborhood, and then six, eight, nine months later, that house is vacant, with burnt up lawns and everything else. Yeah, I saw it coming, I just didn't know what to do about it as a small guy here on the ground.

MR. ANGELIDES: Thank you very much. Very helpful.

MR. THOMAS: Thank you.

Mr. Chairman, I might suggest that if you were looking at a patient, and someone said: How's their pulse? If you don't have your finger on the pulse, it's pretty hard to describe, and they look like they're alive to me.

Those folks at the synthetic CDO level didn't have their finger on the pulse. These folks did. That's why they perhaps recognized it sooner than later.

MR. ANGELIDIS: Just for the edification of folks in this audience, we've heard many times, for example, whether it's credit rating agencies, or people who were securitizing, not billions -- sometimes you've really got to work on that.

They come from the real estate industry, and using the "b" word is always -- you have to remind yourself that not billions, but tens of -- billions and hundred billions of dollars, that there was almost no boots on the grounds in this whole operation. Very little due diligence; almost no site visits, almost no visits to the set of communities in which were the kind of locus of this activity. It's really quite striking.

MR. CRABTREE: And, Mr. Chairman, I came from the savings and loan profession in 1962 is when I first joined the local savings and loan association here in town. And of course, it was all handled at a local level. So we knew every borrower. We knew every property. And once those portfolios started to get packaged and were sent out, that's when we saw the demise of the savings and loan industry, as we knew it.

MR. THOMAS: Thank you very much. We appreciate the panel.

And I'll call on the next panel, please.

Brenda Amble, Laurie McCarty, and Jeannie McDermott.

This is the last formal panel.

And it's also very often the last phase of a real estate transaction. All of us who have been through the process of buying a home know that at some point, you sit down with a title officer and you're presented with somewhere between 42 and 68 pages of very small type in which you're supposed to sign your name as you go through the various documents.

That's the high side, the plus side, of finally becoming an owner of property. But it is a crossroads in terms of what did you know, and when did you know it, in terms of real estate transactions.

That would be Brenda Amble.

Laurie McCarty. We've heard a lot about all of these foreclosures. At some point someone has the job of examining what it is that they are dealing with, the procedure of a foreclosure, the question of whether or not it's an attempt to modify a loan, or in fact go through the foreclosure.

And Jeannie McDermott will really be the first witness in what we'll call the open mike session, but because she has gone through and experienced, but more importantly has very meticulously documented that experience, that I thought that would be an appropriate way to kick off the open mike.

So let me start with Brenda Amble.

You have -- thank you very much for your written testimony. And before I move to you, I want to recognize the Chairman for his normal procedure of swearing in the witnesses.

MR. ANGELIDES: Thank you.

Welcome. If I could ask each of you to stand, please, and raise your right hand.

Thank you. And I will administer the oath.

(The panel was sworn.)

MR. ANGELIDES: Thank you very much.

MR. THOMAS: Thank you, Mr. Chairman.

You submitted your testimony, and you have five minutes to talk to the Commission in any way you see fit.

MS. AMBLE: Okay. Is that working?

MR. THOMAS: It's working.

MS. AMBLE: My name is Brenda Amble, and I'm the escrow manager at Ticor Title Company.

I've been employed in the title industry since 1968. During that time, it's been my pleasure to assist thousands of people in owning their own home.

The market changed in 2006. During that time, we saw Ticor Title shrink from four offices and 88 employees to one office with 16 employees.

Our employees have experienced several pay cuts, with no furlough days given for their reduced pay. There are many companies and industries that

are suffering the same -- they're being affected the same way we have.

In my entire career, I've never seen a title company go out of business.

In the last couple of years, we have seen several title companies go out of business in Kern County.

So many people have lost their jobs and taken pay cuts, that they've had a really hard time making their mortgages.

When the stimulus money came out, it was indicated that there would be funds available to help the homeowners modify their loans to help them keep their houses.

We have heard story after story after story of people that have applied for modification, and it's never gone through.

One instance, we have a young couple that is gonna have a baby. She -- her husband was unemployed, and she called the mortgage company to ask them to apply for modification.

They told her, because her husband was unemployed, they did not qualify for the modification, that when he got a job, to come -- call back, and reapply.

So later that year, she did.

He got employed. She called back to try get her loan modified, really more her interest rate modified, just trying to get her payment dropped enough that she could keep her house.

She was told at that time that you had to be three months delinquent before they would even consider you for a modification.

So after she -- she went ahead and made -- let her payments go delinquent, and she turned in all of her paperwork for the modification.

Her modification -- she turned the paperwork in over three times. It was never received, or it was lost.

That was in December of this year.

It is now August. Her house is in foreclosure. They have never been told one way or another whether they're going to qualify for the modification. A sale date was set for their home for August 30th, but because of the modification process they've postponed it for another month.

At the -- when the modification gets approved or disapproved, she's going to have some choices to make. They're going to have choices.

They can either bring up all those

payments which are going to be thousands of dollars, plus foreclosure fees, major forecloser fees involved now, or she can add them to the end of the loan.

At that point, if she adds them to the end of the loan, her payments are then going to go up. It's not going to go down. So the whole point of the modification is a moot point.

If she doesn't make the payments up, she will have two weeks from the date of the mod -- let's see.

Her payments -- her foreclosure is scheduled for September 30th. She's supposed to call back on September 15th.

She will have two weeks to make a decision whether or not to bring those payments current, or let her house go to foreclosure.

It doesn't seem right that you should have to ruin your credit to get your modification or to get your interest rate dropped, and that you should be able to keep your home.

We were also told that the foreclosure process would not take place during the modification. Obviously, that's not true. They have -- you know, this particular case, which we hear over and over and over again, is in foreclosure. Her credit's ruined. It will be a long time before they can buy another home.

There is another option for the homeowner, which is a short sale.

When you sell your home, the lender, your existing lender will accept the proceeds of the sale. Unfortunately, for the short sale, you also have to be delinquent three months before they will even consider a short sale.

The short sale is a tedious and time-consuming process. We see over and over again. You've got a foreclosure department. You've got a short sale department. They don't communicate. You're right in the middle of an escrow. People think they bought a home and, boom, it gets foreclosed on and it's gone.

The lender is taking a lot less on the foreclosures than they would have on a short sale.

Basically, that's all I have to say.

I do have some questions. I just don't understand what kind of a government program would allow -- would create the people -- let's ruin our credit to modify our loan.

It doesn't make sense.

I feel like the modification program has fed the foreclosure market. So many people have -- when you call your lender and you ask them -- you try to change your interest rate. You get down six or eight payments at that point, are you going to be able to survive? Most people aren't, and their houses are getting foreclosed on.

MR. THOMAS: Question from the Chairman.

MR. ANGELIDES: I'm sorry, I apologize, Mr. Chairman, but I just want to ask a clarification here.

Your question at the end was about folks who ruined the credit, if you can rephrase.

MS. AMBLE: You've got to ruin your credit to apply for a modification or a short sale.

MR. ANGELIDES: I didn't hear. All right.

MR. THOMAS: One of the difficulties, and I've heard this from a number of folk, and everybody who has talked to people, are in some jeopardy because of the job market with their home. There are just all kinds of stories about what you have to do or don't have to do.

And one of the reasons I think our next witness could be very helpful, because by reputation only -- I haven't asked you this directly, but someone told me that you were the person involved in real estate who is the foremost foreclosure in the western hemisphere.

Is that -- is that accurate, Laurie, or close?

MS. McCARTY: Close.

MR. THOMAS: You have five minutes to talk to the Commission. Thank you.

MS. McCARTY: Can you hear me?

My name is Laurie McCarty.

I'm a realtor employed by Coldwell Banker Preferred Realtors here in town. I've been licensed as a realtor since 1983 and have specialized in the foreclosure market or distressed properties since 1992.

I'd like to thank the Commission for inviting my participation in this inquiry, and say that I applaud your desire to examine the causes of current financial crisis in the U.S., and to examine the causes of collapse of each major financial institution that failed, or was likely to fail, if not for the receipt of government assistance.

I could sit here and tell you hundreds or thousands of stories. Some of them good; some of them not so good. And rather than go through those details, I'll defer to my written testimony which gives you some specific examples, and await, you know answer any questions that you have.

I hope that the information I can provide you with, based on my expertise, and the volume of business that I do in this town, particularly in the foreclosure market, can help you achieve the goals of this Commission.

Thank you.

MR. THOMAS: Thank you.

Jeannie, I think just -- give us a brief flavor.

We have your written testimony. We'll make some comments on it.

But, as someone who has gone through this, and apparently is continuing to go through it, I just want to cite for the record, so that you can appreciate Ms. McDermott's testimony.

She starts on June 1, 2008, and documents her attempts to communicate with, get information from, understand directions of, the requirements that she needs to go through to have a successful conclusion to her particular concerns.

That runs until September 2nd, 2010, and it involves 87 separate incidents of calls, mail, and communications that's the substance of her testimony. So I don't know how you'll do it, but you've got five minutes to talk to us about the experience that you're still going through.

MS. McDERMOTT: This is what they would call "in a nutshell."

It all started in February of '07. I opened a small business with a partner. We were gonna work it together and live the American dream, but he walked out on me a couple months later.

And I tried with everything that I had to make it work, but ended up having to close in August of 2008.

By that time, I had lost pretty much everything, and I was two months behind in my mortgage payments.

So I called Washington Mutual, explained to them the situation, and they gave me a special forbearance, and I didn't have to make another payment from August of '08 until December of '08, but in good faith, I sent them a cashier's check for $2,000 in October for the two months that I had missed, June and July.

I started making up my payments in January, as agreed.

In February, I contacted Washington Mutual about having my loan modified.

Getting nowhere, I contacted Congressman Kevin McCarthy's office for help. After receiving a phone call from Shelby Hagenauer at the Congressman's Washington, D.C. office, they decided they'd talk to me. That was in March of 2009.

In May, they enrolled me in their modification trial period plan which I was told if I complied with all their requests, made my payments timely for three months, my loan would then go --

MR. THOMAS: Jeannie, Jeannie, point of clarification.

When "they enrolled me," who is "they"? It wasn't Congressman McCarthy.

MS. McDERMOTT: No, it was Washington Mutual.

MR. THOMAS: Washington Mutual. Okay.

MS. McDERMOTT: They told me if I made my payments, sent everything they requested for three months, they would modify my loan permanent.

So, over the next three months, I tried to contact Chase -- well, by then it was J.P. Morgan Chase -- to check on the status of my loan, because I had received a phone call from Maureen in August, and she told me: Your loan is going to be modified. I'm sending you a packet, just fill it out with the most current information, send it back to me, and I will send it to the underwriter.

So I continued making my payments. They continued requesting documents. They requested documents all the way up till December.

And every time I would call, no one could tell me anything. But I was always promised a phone call back, which never came.

Then in January of this year, 2010, I again contacted Chase and spoke with Brian.

He told me that they did, indeed, have all the documents they needed. My loan officer's name was Karen. He wouldn't give me her last name, but he said he would have her call me. February came, no phone call.

So I continued making my payments.

Three months ago in June, I received a letter from Chase, their famous, "Your house is your home; we want to keep it that way" letter, the one I received many times before. When I called to tell them that I had already been through their modification program and been approved, they said, "Oh, no, you've been denied."

And I said, "When was I denied?"
And they said, "June 20th."
So I'd been making my payments for a whole year, couldn't get anybody to call me back, and now they call me, said, "You're denied."
I said, "what do you want me to do?"
"Well, you're gonna have to start all over."
"What does that entail?"
They want me to call them every seven to ten days, fax or mail my financial statement every 15 to 30 days, and do this for 18 months, after I'd already been doing it for two years.
And like Bill Thomas said, I have 87 entries in my journal, accounting all my communications. I received 37 letters, countless phone calls, sent them every document they've ever requested, sometimes two and three times.
Now my home is in foreclosure and my last payment they refused to accept.
Now, I know of a lot of people in my same situation trying to get help, but I haven't heard of one that has received any.
So as far as the billions that the banks were given in bailout money, where did it go?

That is my question.

MR. THOMAS: Thank you.

And another numerical account indicates that you've gotten at least half a dozen letters from them, however, indicating that, "Your house is your home, and we want to keep it that way."

MS. McDERMOTT: Oh, yes. I got that many, many, many, times.

MR. THOMAS: Have you received one of those since you were notified of it being in foreclosure?

MS. McDERMOTT: I did receive a letter at -- because I actually filed a complaint on line with the Federal Reserve who, in turn, turned it over to the OCC. And I received a letter from them saying: Oh, we're sorry, we really value our customers, and please call us, and we want to help you save your home.

And that still did not happen.

MR. THOMAS: Commissioner Murren.

MS. MURREN: Thank you, Mr. Vice Chairman.

Thanks to all three of you for being here today to share your stories with us.

It's incredibly important, I think, for all of us to remember that the financial crisis is not simply a set of economic facts or philosophical differences, or policy but, rather, something that's dramatically affected everyone's lives in a very profound way.

So we know that this is a painful chapter for many of us, and thank you for being here to help us to better understand what's happening at the ground level.

I'd like to begin by talking a little bit about the crisis, and then the immediate impact on homeowners, particularly in the foreclosure setting.

My question stems from having had an opportunity to go out in Las Vegas with our constable, who is actually the person that's responsible for carrying out foreclosures and the eviction process.

To find out when this happens, how often are we actually seeing people who are now being moved out of their homes, as opposed to people who might have bought a home for speculative purposes and do not reside there. So then, of course, would not necessarily be in a position where they would need to move themselves and their families immediately.

I was wondering if you have any color on what you think that might look like.

MS. McCARTY: I assume that's for me.

Right now, as percentage of the inventory that I have, fully 20 percent of the inventory is occupied, as opposed to vacant, at the time of assignment.

I receive an assignment from a particular lender -- we work for several -- anywhere from the date after foreclosure, to six months or a year later, depending on when they choose to release from that their inventory.

And I have the pleasure of knocking on the door to notify the occupants that the home has been foreclosed on. And I did a count just before I came, and right now we're looking at 20 percent of our inventory. And my inventory right now of foreclosures and assignments is right at 200.

MR. THOMAS: Commissioner, 20 percent of the inventory is occupied.

What percentage of that are those who are living there in the home that they have been purchasing --

MS. McCARTY: That's what I mean.

MR. THOMAS: -- not renting?

MS. McCARTY: Well, I don't know the

percentage of tenants versus occupants.

I would say we're fairly -- fairly evenly split right now.

MR. THOMAS: 50-50 between tenants?

MS. McCARTY: Tenants and owners.

MR. THOMAS: Thank you. Thank you.

MS. MURREN: When you have those conversations with people, which I imagine are probably difficult for you, in addition to the people that are there in the home, do they understand the sequence of events that has come prior to your knocking on their door?

MS. McCARTY: Sometimes yes. Most of the time, no.

While they have received notices of default, while they have received notices of trustee's sale, typically it comes at the end of a very long process, where they're inundated with mail from their lender, and they think it's just one more piece of paper.

Many times they've gotten into such despair that they can't even deal with it and the envelopes that told them when the trustee sale was remain unopened.

MS. MURREN: One question, actually for

all of you, and I think this is probably my final question.

You all have observed the fact that Ms. McDermott's experience does not seem to be terribly unique; that many people go through, you know, enormous periods of communication. They're confusing, it's not really clear where everyone stands.

Can any of you think of one single instance where someone has had a positive outcome from the mortgage renegotiation process with their lender?

MS. AMBLE: You know, in my business, we talk to a lot of people, and when they come to us, the house is either sold or refinanced, and out of everyone that I have talked to, I have talked to one person who received a mortgage modification.

And the lender actually came to them because they had a 40-year loan that this lender wanted to get rid of all those 40-year loans, and because her payments were current, she qualified for their mortgage program. That's out of every story I have heard, and it's been numerous, she's the only one.

MS. McCARTY: As a realtor, I'm limited

from being involved in the loan modification process, so I couldn't speak to that.

I can tell you that there have been numerous occasions that we've been instrumental in helping sellers achieve a short sale, both when they are behind and when they are current, but in imminent default or in jeopardy of potential imminent default.

MS. MURREN: So it is possible?

MS. McCARTY: Absolutely.

MS. McDERMOTT: And, like I said earlier, I don't know of one single person that has had their loan modified.

MS. MURREN: Thank you all.

MR. THOMAS: Commissioner Born.

MS. BORN: Thank you, Vice Chair Thomas, and thank all three of you for appearing before us. I'm sorry that I can't quite see Brenda Amble, but I'll listen to you and know you're there.

I want to follow up a little bit about the loan modification process, because certainly the experience of Ms. McDermott has been an enormously frustrating and confusing and unproductive process.

And I got indications, certainly from Ms. Amble's testimony, that that -- that there are significant difficulties in loan modification.

Is it that the statutory and regulatory provisions governing the loan modification program are defective?

Is it that the lenders or servicers who are involved really don't want to effectuate loan modifications, so they're stringing along the homeowners?

Is it incompetence on the part of our enormous banks that hold many of these loans, or service them, and they're just doing a terrible job of implementing the process?

I would like each of your views as to what's going on here1, and I'd like to start with Ms. Amble.

MS. AMBLE: I do feel that the lenders have been inundated with modification requests, but once -- the incidents that I described to you, these kids have been doing this since October, and they -- they made more money, so they've already qualified for a loan at a higher interest rate.

So now they're asking just to have their interest rate reduced, to maybe drop their payment a couple hundred dollars, 250.

How hard can that be to say "Yes" or "No"?

How could it take -- you know, this has been eight months, it's been eight months.

And she calls every single week.

I hear her call to check on her modification. And you don't talk to your loan officer. You talk to a receptionist who pulls up your loan number and they say yes, that modification is in process. Someone will be getting back to you.

So I just don't really know what -- what could be -- what could be that hard unless they just have so many that they're trying to process. But I don't see how it can take that long to make a decision whether to drop my interest rate from 7 to 4, or "Yes" or "No."

And let them get on with their life. Instead, because of this long process, this young couple is probably going to lose their home at the end of this month.

And had they been told this at the beginning, they probably would not have missed their payments, they would have struggled and continued to make them.

MS. BORN: Well, if this is the result of the large number of modification requests, that would suggest that perhaps it's the -- the servicers or lenders are just not putting enough resources into that process.

MS. AMBLE: That could possibly be.

MS. BORN: That doesn't seem appropriate when this is a major crisis that's facing the American public.

MS. AMBLE: You know, when you're in the modification process and your home goes into foreclosure, not only does it affect your credit rating, but even if you continue to pay your credit cards and you pay the rest of your bills on time, there's a trickle-down effect that all of the sudden your credit cards are being cut off, your Sears card is being cut off, all because you let your home go into foreclosure, and not really by your choice but because you were later told either let your payments go, let it go down three months, and then six months later, you still don't have an answer.

So it just makes absolutely no sense to me.

MS. BORN: Ms. McCarty, what is your view on this?

MS. McCARTY: Again, I speak mainly from the short sale perspective. I can concur with

Ms. Amble that the banks have been inundated. A year-and-a-half ago, a short sale with Bank of America took me almost a year. Fortunately, they hired 12,000 some-odd people and we don't have to fax to India anymore and packages don't mysteriously show up missing.

But still we're looking at five to six months, and that's with a dedicated person whose only job is to call the banks every single day.

And as Mrs. Amble said, we're not allowed to talk to anyone other than a customer care representative, until a negotiator is assigned.

Once -- and we are not given the negotiator's name or e-mail.

Once a negotiator is signed, typically -- is assigned, typically all communications stems from them. When we try to return a phone call, there's no one there, so we resort to e-mail.

I will tell you that a greater problem that I have experienced in the short sale industry is not necessarily just the inundation of particular banks with the volume of loan modifications or short sales, any type of loss mitigation, it is also the fact that in many, many cases, the servicer does not have directed authority from their investor.

So if they have directed authority, i.e., the ability to say, sure, this is within our guidelines, we can approve this modification or this short sale, then the process is much quicker.

If, however, they must go to their investor to get approval, that typically, in my experience, adds another three to four months.

And then, God forbid if the investor says well, no, I'll approve it under these terms, because then it involves a negotiation with the buyer to go back, and if they don't just automatically agree, we have to go back and counter, and then that counter has to go back. And interestingly enough, it doesn't appear that once you get an offer or a counteroffer that the process goes any faster.

MS. BORN: Is the fact that many of these loans are securitized, and therefore the investor is several steps down the line of ownership here --

MS. McCARTY: Well, I don't --

MS. BORN: -- a complication?

MS. McCARTY: Yeah. Well, I don't completely understand all of the Wall Street financing involved, I would have to suspect that that was a large part of the case.

I will also tell you in my experience,

quite simply there are good banks and there are bad banks. There are banks that are easy to deal with. You have a documentable financial hardship or an impending financial hardship.

You present a complete package to that bank. They do an appraisal on the property to mind with my opinion and value and a second opinion of value, because obviously I might have a vested interest in assigning particular value.

They look at it, it alls makes sense, stamped, we're approved. Good to go.

And then you look at other things where you give them everything they want. You may even be giving them above market value for the property, and they still want more, or drag their feet for an answer.

MS. BORN: Ms. McDermott, you've been in this process with Wa Mu and J.P. Morgan since July of '08; isn't that right?

MS. McDERMOTT: Correct.

MS. BORN: What do you think --

MS. McDERMOTT: I can tell you one thing. They have -- I have sent my paperwork to so many attentions, so many different people, it's like every month it would be, send it to Pam at this --

you know, fax it to this Pam at this number, or fax it to Joe at this number.

It's always somebody different. And they are forever -- I don't know that they're actually losing these, or they say they don't get them. Where -- that's -- you know, this is my personal paperwork I'm sending to them. My income tax returns. If they're losing it, where is it going?

You know, and that's a big part of the problem, and because I have to send it to so many different people -- I just don't think they know what they're doing. I think that's a big, big part.

And it should not take two years to modify a loan.

MS. BORN: Not when people's emotional and financial security and place of residence depends on it.

MS. McDERMOTT: I've been living with this for two years. It's not fun. And it shouldn't have to be this way. It should not have to be this way.

MS. BORN: Thank you very much.

MR. THOMAS: Mr. Chairman.

MR. ANGELIDES: Yes, thank you.

Ms. McDermott, starting with you, are you presently employed?

MS. McDERMOTT: I presently am working as a sales representative, so not full time, part-time. It's getting me by, though.

MR. ANGELIDES: Okay. And just out of curiosity, what was the -- you made -- initially there was the forbearance for a number of months, correct?

MS. McDERMOTT: Right.

MR. ANGELIDES: And then when you picked up again, was it the full payment?

MS. McDERMOTT: No, it was the -- oh, yes, it was. When I started up again in January, it was the full payment until I got it modified that June.

MR. ANGELIDES: Under the trial?

MS. McDERMOTT: Under the trial, correct.

MR. ANGELIDES: Under the trial modification?

MS. McDERMOTT: Yes.

MR. ANGELIDES: And what was the payment? What was the payment differential between the full payment -- what was the full payment and the trial payment?

MS. McDERMOTT: The full payment was right at a thousand, and the trial was 775.

MR. ANGELIDES: All right. So when did

you acquire this home?

MS. McDERMOTT: In 1997.

MR. ANGELIDES: Okay. So before the big run?

MS. McDERMOTT: Uh-huh.

MR. ANGELIDES: All right. So you were not someone who bought at the peak of the market. You're someone who was affected by the downturn in the economy. You had a shop, a store or something?

MS. McDERMOTT: Store, yes.

MR. ANGELIDES: What was the nature of the store?

MS. McDERMOTT: It was called Cartridge World.

We recycled, wemanufactured cartridges for fax machines, printers, copiers.

MR. ANGELIDES: So you were dependent on the office market and the business cycle?

MS. McDERMOTT: Uh-huh.

MR. ANGELIDES: All right.

Ms. McCarty, you talked about some good banks and not so good banks.

Give me some examples who have been, in your experience in this marketplace, the most responsive institution.

MS. McCARTY: CitiMortgage has actually

been very responsive. We had a situation where the seller notified -- or contacted me, made first contact, I believe seven days prior to the trustee's sale date to achieve a short sale.

We were able to secure an offer within 48 hours, based on current comps in the neighborhood. We just priced it right at the market, and Citibank was more than willing to postpone the trustee sale for 45 days to allow that buyer sufficient time to get their loan approved, go through the appraisal process, et cetera, and close the transaction, thereby eliminating the foreclosure on the previous borrower's credit report, but of course, still having the negative consequences of a short sale and having -- having fallen behind on our payments.

That was kind of unheard of in my world.

MR. ANGELIDES: What about divorce?

MS. McCARTY: I have so many.

Unfortunately, the two most egregious situations that I am aware of right now where I showed up at the door to notify people that their house had been foreclosed on, and just the day before they talked to their lender who said their loan modification was in process.

I can't -- I don't know the banks, because those happen to be assigned to me from outsourcers, and so I'm -- I'm not privy to who the underlying servicer is.

One is a situation where the man knew that he -- he suffers from kidney failure. They had a 15-year mortgage on their house with about eight years to go, and knowing he needed a kidney transplant, and was out of work, they had proactively talked to their lender about doing modification.

Like I said, the day before I showed up, the lender had told him that oh, no, everything is fine, we're proceeding right along. And then to make matters worse, in negotiating cash for keys or relocation assistance program, that they were told that no, they could not have 60 days until they produced a letter stating that he was actually getting a kidney transplant, that a surgery had been scheduled.

Fortunately, last Thursday, I was able to secure that letter because a kidney did become available for him, and I forwarded that on to the lender so that hopefully now he can stay in his house while he has the kidney surgery and then move out afterwards.

MR. ANGELIDES: Go ahead.

MS. McCARTY: But as far as one that does come to mind, that would be Chase.

Historically -- as a matter of fact, I have a situation right now with Chase, where they are the second on an 80-20 purchase.

They have -- we have negotiated a short sale where we are giving them $5,000 on $150,000 purchase, which is actually a very nice number on a second -- on a second trust deed, for that price range of home.

Normally, you would expect to see about 3,000.

They said that's great, fine and wonderful, however, we're going to file a deficiency judgment unless -- for $58,000, or you have the option of paying us off $5800 up front.

Well, golly, gee whiz, if my people could have paid $5800 up front, they would have not been in the situation where they needed to short sale their home.

MR. ANGELIDES: What was the second for? How much?

MS. McCARTY: The original note was 58,000.

MR. ANGELIDES: 58,000. So either they're going to pursue the deficiency judgment or if you pay $5800, it will go away?

MS. McCARTY: Right. But this was a second trust deed that was given as a part of the initial purchase. This was not a refinance. This was --

MR. ANGELIDES: Did they do the first also?

MS. McCARTY: Yes.

MR. ANGELIDES: Okay.

MS. McCARTY: No, the first was actually done by a different bank.

MR. ANGELIDES: All right.

MS. McCARTY: Okay? But their loan officer obviously at the time they did their loan coordinated everything, because the 80 was with in fact CitiMortgage. The 20 one was with Chase.

It was as the entire purchase transaction.

We said gosh, we can't possibly begin to pay you back $5800 in cash right now, and besides, aren't you getting -- you're getting 5,000 on the face of the HUD statement. Why should we give you anything else. You know, where does it say we're supposed to do that.

We don't really care who gives us the money, implying Ms. Realtor, you could write the check, but we want $5800; otherwise, we'll file a deficiency judgment.

That's a very common practice among that particular bank when they are in a second trust deed position.

MR. ANGELIDES: You know, there seems to be a toxic brew here of incompetence, greed and stupidity.

I'm looking at some numbers that Mr. Crabtree gave us -- by the way, I'm not so sure that brew hasn't existed for a long time in the context of this crisis.

I'm looking at some information that Mr. Crabtree gave us, which I know frankly tracks information, I'm aware of in the Sacramento market about the discount that occurs in valuations due to both short sales and then REO. At least according to the information that he provided to us today, the market transactions -- and I guess this was April 2010.

I think this is -- does it seem right that you have about 550 sales in the county during that period, in a month? All right. So you had 175 at market median price at 169.

You had -- that's 31 percent of the market. 18 percent of the market were short sales which were at a median of 140, so 17 percent discount. And the REO is about 50 percent of the market, and those were at 125,000 which was a 26 percent discount.

Normally, you know, I think it's fair to say what I've been aware of is generally discounts are about 30 percent on REO pricing.

So I look at that, and I just -- you know, I asked the same questions, essentially, as Ms. Born did. I don't think -- they're either overwhelmed or short-sighted, you know, where you're trying to extract every penny at that moment, because even in terms of their own recovery, they seem to be doing themselves damage.

Now, part of this may be explained by the fact that they no longer hold the mortgages. It's the servicer, you know, in the point. But it does seem to me, is it a fair statement to say that the current situation continues to be a drag on recovery and on home pricing? Is that a fair statement.

MS. McCARTY: Absolutely.

MR. ANGELIDES: All right. So the final

question I have is, you know, our charge is to look at the causes of the crisis.

And I'm wondering to what extent these mortgages haven't been securitized, cut into tranches, ending in the hand of servicers, that when things start to go bad, you know, the rise in early payment defaults, other defaults in 2007, that the inability to modify then actually spurs the crisis along because it sends a number of loans to foreclosure that otherwise might not have been there.

Do you guys have any fuse on that? Guys, I have three daughters, by the way, sorry. It's a gender neutral term.

Do you have any views about whether in fact in that critical period, the inability to modify -- forget now, where I think you've stated and I think a lot of people would agree, it's a continuing drag keeping us in crisis. Do you have any views about that time period, that the inability to modify early on resulted in higher than what other have been foreclosures and spurred along the crisis.

MS. McCARTY: I actually did some work for Litton Loan Servicing through a third party outsourcer that Litton was very proactive about trying to modify their loans early on.

They would send me their modification: Here it is. You have borrower in default. We've not been -- the criteria was they had not been able to make contact with that borrower.

They would send me the loan modification, they would ask me to go out and make contact with the people, to get their financial package together, and a phone number, because that was a really important thing they were missing, and if they would sign the modification, then Litton would have honored it.

More times than not, I had people say: What kind scam is this? There had been so much fraud or rumors of fraud throughout not only this community but nationwide, that people were very, very skeptical. So I think yes, that may have in fact been a part of the problem.

I also believe that as sales started to decline, the mortgage industry had to figure out a way to continue to make money.

And so if borrowers couldn't qualify under this particular set of guidelines that had been in effect, then let's change the guidelines.

Let's modify the programs that we offer. Let's introduce 80-20 loans. Let's hang our hat on adjustable rates. Let's offer interest-only loans and really push them, and let's offer stated income loans.

Many of those scenarios led to borrowers not being able to -- to truly afford the houses that they were -- were in and probably should have never been in to begin with.

My personal perspective is that that had to contribute tremendously to the situation we're in now.

Had those loans never been originated, we wouldn't be where we are today.

And I was flabbergasted in the middle of the late -- I want to say it was in 2008, when we were in the thick of foreclosure activity when Fannie Mae reintroduced their 105 percent, I believe, it might have been 125 percent, loan, that borrower could come in, and -- and again, in the midst of all these foreclosures, no money down -- maybe that was it, it was just the 100 percent financing. I'm sorry, I'd have to go back and look at my records -- as a pilot program in southern California, and I thought are you kidding? Do you

not know what got us here to start with? Why are we
doing this again.
MR. ANGELIDES: I was gonna close up. If
I ccould have just one more question, Mr. Thomas.
MR. THOMAS: Sure.
MR. ANGELIDES: It’s hometown courtesy today. And that is, and we’ve asked
other witnesses this question: If mortgage
originators, mortgage brokers, if the mortgage
lending industry had been more robustly regulated,
do you think we would have seen a difference in the
extent of this crisis?
MS. McCARTY: I would think so.
MS. AMBLE: Absolutely. Sitting in our
desk as the title company, we saw the handwriting on
the wall long before it fell.
MR. ANGELIDES: Well, okay. Now I'm
testing your indulgence.
But we heard all sorts of, quote-unquote,
smart guys, people being paid 10, 15 million, 20
million a year, saying never saw it coming. Never
assumed.
You know, I was in the real estate
business in Sacramento for two decades. I think
that no one had perfect knowledge. I think it was

Mr. Plank who said he was, I guess wrong in 2004 and

'5 and got it right in 2006.

What was the -- among practitioners, I'm gonna ask the two of you, the title company, brokers, what was the sense about the markets, and when did you sense it would turn? When did you sense it had turned?

MS. McDERMOTT: Our company is pretty proactive. They saw the handwriting on the wall beginning 2004. 2005, we started making cuts and anticipating.

We would sit and sign people up, sign their loan documents up, and we would see a payment that was so horrendous, and we would have a mortgage broker sitting right next to us, and he did not want us to point out all the details of that loan.

He wanted to be sure -- in all honesty, he would rather have signed up the paperwork than us, so that so many of those people did not really know what they were getting into. They did not realize in a year, or two years, their interest rate was going way sky high.

So I think the mortgage broker had a lot to do with it.

MR. ANGELIDES: And the products that they were offering on behalf of lenders?

MS. McDERMOTT: Right.

MS. McCARTY: Well, and I also think that there were many realtors who all they saw was commissions be obtained, not what the end result was going to be for that particular family or community in general.

I don't know exactly when, but I know it had to be as early as 2004, that I kept saying it's not sustainable. It's gonna come crashing down.

This was my third REO cycle, if you will. Having sold real estate in Austin, Texas in the mid-'80s where the crash was horrendous, having gone through a cycle or two in Bakersfield, and then seeing this incredible run-up that was unlike, frankly, anything that I had seen in terms of its width and breadth.

I would say by 2005, I actually took about a six-month sabbatical from the real estate industry because, frankly, the greed that was rampant was just too much for me.

Here I had first-time homebuyers paying $300,000 for a house that just a few years ago had been worth 100-. And I had sellers getting more money than they ever thought was possible, and refusing to complete health and safety items, all because of greed.

So that's when I kind of identified it.

MR. ANGELIDES: Thank you very much. Thanks, Mr. Chairman, for your indulgence.

MR. THOMAS: Sure. I did not use all my time earlier for purposes of some follow-up.

MR. ANGELIDES: I used some.

MR. THOMAS: You used most of them.

Ultimately, after you hear these stories, and several of the commissioners tried to get an answer, and maybe there is no answer, of why?

I mean, obviously, there are a lot retailers. I can name several that I go to, there are places that sell tools, and other things that I have to go by myself, because my wife won't come with me.

And one of the reasons, I think, is that sometimes I go back to that store with the item that I purchased, which wasn't the right one that I was supposed to purchase.

No problem. You know, we'll correct it.

And you carry on these kinds of transactions.

When you go through this on a daily basis, there was even one classic story about a department store that started up in the northwest and a fellow brought a set of tires in, and they went ahead and refunded the money, even though they didn't sell tires. And, apparently, that was not apocryphal back in the old days, just for customer loyalty.

But you've been in this business a lot, and this is really a completely different end of the pipe for most of us.

You say you've gone through three of them, but it's mainly the winding up, not the unwinding.

Is that a partial reason, maybe, for why it's so difficult; that they just never structured themselves to unwind the arrangements that they were so good at winding up?

MS. McCARTY: That could quite well be the case. I'm as puzzled as you are by how it all started.

I look at Bakersfield itself, and recognize that we had a relatively flat and stable market from '96 to about 2001.

As values started to increase, you know, there was a hope and an excitement that recovery was here. And, you know, maybe there was potential for -- for making money in real estate again.

I know that I sold to several investors who I would look at the properties and go, "Wait, this is a huge negative cash flow."

"Yeah, yeah, don't worry about it, Laurie, because the negative I get here in Bakersfield is far less than the negative I get over on the coast, down in Orange County," et cetera.

And by those investors being willing to pay more, you had a lot of first-time homebuyers going: Oh, my gosh. I'm gonna get priced out of the market. I better sell everything I've got and do everything I can.

I don't know if we intrinsically helped fuel that, or not.

I do know that there was a great deal of mortgage fraud; that there was a great deal of, you know, investor type fraud. People saying they were owner-occupying the property when, in fact, it was being purchased for investment.

I can tell you that right now, I am still experiencing a huge number, because of the uncertainty.

This cycle, for whatever reason, has been so unlike any before in its depth, in its length, in its severity, that there's a huge uncertainty out there right now.

We've got 4-1/2 percent interest rates.

My gosh, that's amazing. And I can't get anybody to buy, because what's gonna happen next month?

There is -- because of all of the stimulus programs, bailouts, et cetera, I've even had several buyers say to me: No, no, I think I'll just wait because surely the administration will come out with another plan like the one they released earlier this year.

MR. THOMAS: This is a question I'll ask you, and you obviously don't have to answer it, but you're far more knowledgeable than almost any of us on both ends of the real estate model. Most of us know one side of it and not the other.

It certainly could be size confusion, multiple points that you have to contact and they're refusing to contact you back. But is it possible that the economic model is such that delaying and then eventually foreclosing is a money question?

MS. McCARTY: It's a question I've asked myself many times.

It must be, at least for some. I mean, we here in the public hear that certain lenders – and I don't know if it's certain lenders or lenders in general -- are being incentivized to handle loan modifications, short sales, any type of loss mitigation. And in my simple mind, if I can sell the property on a short sale at more than I can sell it for as a foreclosure, and not have the property preservation issues, the vandal -- the vandalization, the possibility of having to pay money to move people out, or go through an eviction, because time is money, and perhaps I'm being incentivized by the government in some way. Why wouldn't I do it?

I don't understand, because that foreclosure sale, when we go to the trust -- you know, the courthouse steps for the trustee's sale, unless there's another buyer there with all cash, all that lender is getting -- they're buying it back for what was owed on it. And then, according to the figures that Mr. Crabtree gave you, they're selling it for far less than fair market value.

MR. THOMAS: It's confusing to a lot of us. And it's very frustrating at this time of needing help, looking for help, and not getting help. That, as all of us know, cycles; eventually ends.

And for many of us, if we're ever on the upside again, going out looking for institutions to loan money or carry on certain activities, the one thing I know about the people in Bakersfield, they have really long memories.

And I want to thank you all of you for coming. I want to thank the Commissioners.

We're now going to shift -- thank you very much. We're going to shift briefly into what, for want of another term, we're calling "open mike," because we clearly had some folk that we wanted to get testimony from, from a particular area of expertise. And that may or may not be the case in terms of the open mike, but we had requested -- it was posted in the Californian, and I think mentioned on television, that if you did contact the FCIC, and you did have testimony in writing, that we would provide an opportunity for up to five minutes to address us on the concern that you might have. And I have a list in front of me.

And my question is, is Mr. Steve Urner here?

Steve, if you would approach the mike.

My assumption is that the capable folk who run this place all the time have provided you with an open mike?

MR. URNER: They have. Thank you very much.

MR. THOMAS: And you see the time in front of you.

MR. URNER: Thank you.

My name is James Steven Urner. I entered the real estate business in 1977. I'm a real estate broker now, and a graduate of Realtor Institute. I've been a broker since 1990, and I own my own little two-person operation, Urner Realty.

I became a full-time peace officer in 1987, and basically retired earlier than I planned from the Kern County Sheriff's Department in 2005 to work full time in my business, serving my fellow peace officers' real estate needs.

So I witnessed a rise and fall of the real estate market in Bakersfield.

In fact, I've conferred with Gary Crabtree over the years, because I'm kind of a cop still. My mind didn't retire in 2005. So I saw this whole nightmare unfold in front of me.

So, basically, I've been in -- I've been in every angle of what was discussed here today. And I've seen some things. And so I'll kind of go into that real quick, but I only have a couple minutes.

Many of my customers bought their homes

during that period because they felt there was never a better time to buy than this time because prices were rising significantly.

When the bubble on the housing market burst, their home values dropped into a negative equity status. Many of these people started the loan modification process, which still today, three years later, is still not fixed.

The short sale option is still taking too long.

Home purchasers today are now under extreme scrutiny by lenders.

I've heard stories of loan underwriters examining borrower's bank statements to see what regular purchases they're making, such as online gambling, liquor purchases, et cetera, to gauge their likelihood of defaulting on the loan sometime down the road.

Regarding loan modifications, I've seen a few. I've never seen a principal reduction for anyone who wishes to remain in their home. The modifications I'm seeing are a rewrite of the existing loan with the late payments added to the back of the loan.

The interest rate is reduced for two

years, then back at the same terms as the original contract called for, even if the original contract was an adjustable subprime loan.

So guess what's gonna happen in two years? More foreclosures. The job market hasn't rebounded. Many homeowners are still in a 90-day temporary payment plan a year later, with no idea whether the bank will permanently modify their loans.

Basically, my -- my solution to this whole mess is, to cut to the chase, to end this crisis, would be the government to take a look, and grant everybody who purchased a refinance or primary residence in 2005 through, maybe, 2007, a one-time principal reduction based on today's market, current market value.

Give the homeowner the same opportunities as short sale buyer, and let them stay in their home and get a new start.

This will take the majority of the residential listings off the market nationwide and rekindle the home building industry, which is a backbone of the economy by putting people back to work and off unemployment.

Let's quit supplementing the banking industry and refocus on the tax-paying homeowner.

So, basically, that's my story that I wanted to get out to you, but I do have -- one thing I want to really go back on is what the Commissioner had mentioned earlier that I heard today, was regards to tamping down this frenzy.

What reasons would -- would that have been? Well, the number one reason -- and nobody mentioned it here, I didn't hear -- would be verify these people putting that they're gonna own or occupy the home on the application. They all put down that they're gonna be owner/occupants.

Not one person from the bank went out to verify who's in the house; it was vacant, or a renter went in, or whatever.

All you've got to do is have somebody come in and: Let's look at your driver's license and fill out the information and get back to the lender.

If not, go to the DA's office and let's end it right there.

But, you know, you've got investors. It was a frenzy. I was a recipient of the real estate company that Mr. Crabtree was alluding to.

When I had a listing in Grand Island Seven Oaks, which is where I live, which is ground zero, I think, as far as fraudulent transactions, here comes an offer from this law -- this real estate firm on a $550,000 house that I had listed, wanting a separate addendum, wanting me to have the seller kickback the buyer $30,000 outside of escrow for landscaping and a pool.

I said: Put it in the contract.

So they put it in the contract. And lo and behold, they got the loan. I guess they had their own in-house lender.

So that house ultimately went into foreclosure, and that's kind of where we are today. So greed was the whole nightmare.

I do have one final thing. I do have a modification right here that -- or actually, a short sale, because I've done about 20 short sales.

I have a short sale that was approved August 13th by B of A for a client of mine in the northwest, but to close escrow by August 30th. That's 17 days. So let's take the weekends out. We've got 11 days to do an FHA loan. So that deal went away because the buyer couldn't handle it; couldn't do it in 17 days. They can't get an appraisal in a week. So that's another one.

The latest scam -- and I will turn the mike away -- is I have a probation officer client of mine here in Bakersfield who's wife's pregnant, called me and he had an investment company call him, advertising in Bakersfield, that they will help him stay in his house -- he's behind on his payments -- and stop the foreclosure.

In other words, they'll do a short sale.

They effected a short sale with the lender, and wanted me to list the property.

I'm a shell real estate guy. So I listed it to go along with this and, ultimately, that investor wanted a 27 percent return for them to stay in their house.

They're playing on their emotions. So 155 -- $45,000 house was a $193,000 payback. I've got their whole contract here. And so, of course, he -- he didn't want to go along with it, and he lost his house. It foreclosed on the 30th. So he's now moving. But it's an ugly mess.

MR. THOMAS: Thank you, Mr. Urner, and the information that you have, if you'll transmit it to the Committee, we'll make it part of the record.

MR. URNER: Bring it up here?

MR. THOMAS: Yeah. Right here. Thank you very much.

Is Marvin Dean in the audience?

Marvin, you have up to five minutes.

MR. DEAN: Yes.

I want to say thank you for all -- for you guys having this hearing here in Bakersfield.

I think it's a tremendous opportunity for the people to be heard at a local level in Washington. So I really commend you all for doing this.

Just a little background of myself before I get into the issue. And in giving my background, I believe I was on ground zero also.

I started as a real estate investor, buying fixtures out back in the '60s, all through San Jose, Sacramento and Bakersfield.

I was a builder; contractor builder. And, alas, when this thing hit, I was an infield housing developer. So I want to split it up in two ways. And everything I heard what was said was correct.

The number one thing was greed. There's nothing wrong with making a fair return. It was greed. From Washington, Wall Street, all the way down to the thing in the street, was how fast will you close an escrow?

Could care less what mess you're gonna leave with those people. Can they qualify?

Then you had those true -- I call them community infield housing developer that was concerned about taking low-income people and showing the low-income people how they could, for the first time, be a homeowner and reach the American dream.

I put about six of those people in those homes with 30-year fixed that are still in those homes today. They're not experiencing this. But I've seen some of the stuff that was going on, that putting these people into things that wasn't -- that couldn't -- couldn't qualify for, and this funny financing he had without 30-year fixes with these things that we set.

And then -- so anyway, here's -- just to give you an example: When I started in southeast Bakersfield, the southeast redevelopment project herein -- some of you know the southeast part of town -- we could buy vacant lots out there back between about 2004, all the way up to about 2006, for $5,000. What a vacant lot was, was a 50-foot-wide-by 125 feet. The most I ever paid for those lots was about 700 -- about $7,500. In the height of this thing, those lots started selling -- those lots in southeast Bakersfield was selling for 82,500.

It was unreal.

And if you look at the backdrop at the time, the stock market was having problems, and a lot of people pulling money out of the stock market, going into real estate to get better returns. That's what was driving this. It was a good investment. Property could just go up and go up. And this market was kind of a sleeping community, so you had all these folks coming in from L.A., coming in from San Diego, coming in from the coast, that had money that they had pulled out of the stock market. And they could buy. They had the cash, so they could not compete with the local guy. And the reason why those lots were driven up so high in the southeast part of town is because the zoning out there was R2, and they were looking at the income ratio for triplex and multiple. So what they could do is they can pencil it out; it makes sense.

But what about the first-time homebuyer that wanted to get his start out there? They drove him out of the market. So it got to be more competitive, just selling lots.

Then the other part of that was, when the -- it was two types of appraisals. When we first went out there, we were established in the market. So when we'd build a new house, those little 1200 square-foot house, three bedrooms, two baths, we could put a person in a house for $500 total closing cost -- total closing cost, and put them in a 30 year-fixed at that time, somewhere between 6 and 7 percent, and we could sell that house at a reasonable profit for $88,000 because we were able to give them some of the financing and the incentives for the low-income people.

And it was cheaper for them to buy the house and rent it. They had to rent it, and put up 1,000 a deposit, and all that would cost them is probably $1,500 to get -- move in the thing. And then all the other. So it was more effective.

So then, here's what happened: When we built the houses out there, what captured the appraisal was because we were doing FHA financing, they were using the existing market.

So in some cases we sold a house -- I think the highest one was $110,000. It was 1800 square foot. And the appraisal came in, based on FHA comps, was 105. So we had to drop the price 5,000.

Then another developer, who put a house in the area as -- as an investor/buyer, he'd come in and get an L.A. comp. from the conventional lender.

They didn't have the same controls of who made that appraisal, so they could create their own market.

They had a sale for a price: You find an appraisal for it. So they went in, and that's kind of what changed the make-up of the market, because FHA is looking at your rate -- your sales in the market.

So I say this to only say in closing is that we ought to look at this two ways: It's the developers that are coming in here that really ruined this market for return, versus those that are in the market for true first-time home ownership, and infield housing, and really give those guys -- if you're gonna create a system where you're gonna overregulate this thing, don't make it so much more difficult for those truly in-field housing developers. They can do a project that people really should have a shot at of the American dream at home ownership.

So I hope we don't lose that, because there's some good deal of people who didn't go out there and do all the corruption that are in these houses.

Some say that people got in there, and they got in over their head. But a lot of that was because they were new to the game; they took advantage of these greedy developers, and these real estate brokers, and everybody who wanted to get a commission, instead of sitting down and really look at: Can these people handle it all?

And then the last thing I'm saying before I close -- and that's one of the things you created out of Washington, is this NSB program. I think it was basically a program that was a missed opportunity. That's just based on the benefit of the banks, because you remember that program was HUD money that will was going to stabilize the neighborhood.

The only houses you could buy was bank-owned REO properties. So those guys were coming in foreclosure of home ownership -- I mean, a homeowner that was losing his house would have been an opportunity not to ruin his credit, and he could have bought that property. But you couldn't buy that property until it actually foreclosed, and converted into the bank ownership. That's why you created now property with more value because the fact is, that's a pot of money going back.

So I guess I would say in closing, when you guys designed these programs, it ought to be how is it gonna help the little man on the street, and not these big bankers, and so forth.

So that's just my little comment.

Thank you. And thank you for coming.

MR. THOMAS: Thank you very much, Mr. Dean, and I think a lot of people feel the way you feel.

Our job is to explain what happened, but we have enough communication to those who make the decision to carry forward your comments.

Marie Vasile. How do I pronounce your last name?

MS. VASILE: Marie "Vasile."

MR. THOMAS: "Vasile." I wasn't even close.

MS. VASILE: That's okay. It doesn't get pronounced correctly, ever.

I first want to thank you for being here. This has been a frustrating situation for millions of people. I was really excited to see that you were coming. I'm really tired, and I'm really hungry, and I'm really anxiety-ridden now after hearing all these stories, because my story fits right in there. And I'm not very hopeful that it's gonna change, but I thought I'd share it and see what can be done.

My husband and I moved here in June of 1990 when my husband got a counseling job at B.C., and we bought our house in '91.

And we had my son in '95. Our dream was to have a home and raise a family. And then in '97, my husband contracted a debilitating inner ear disorder and got very ill. And for seven years, our life was very complex. And to try to cope, we decided that we would try to move out of the Central Valley, the heat and the pollution, toxins, his allergic reactions to them, as well as stress, made his disability worse.

So we contemplated moving to Tehachapi, but his situation was so trying, that we couldn't gather ourselves to do it.

So in 2004, he had a labyrinthectomy where they removed his labyrinth. He was left half-deaf, but he didn't have the violent attacks that he was having with his disease. So, after a few years of stabilizing, they told him it would take about five years for his brain to stabilize.

Once he had stabilized to the point where we could collect ourselves and move, we moved to Tehachapi in 2007.

We chose not to buy a house right away, because our big mistake was moving to Bakersfield and buying a house. We realized a few years after being here, that this was not a community for us to live in, but we were in our house in the high end of our house and so we decided we'd stay.

So when we moved to Tehachapi, we decided that we would live there for a year, and rent, and see how my son adjusted to middle school.

And my husband, commuting every day to B.C., how well I did with the weather.

And we liked it. We were much healthier, we were much happier. Well, we didn't know at the time that the market was collapsing. We're just average people trying to live in a house and move and keep another house going.

In the fall of 2008, we tried to sell, but what we got were a lot of shysters wanting quit claim sales, basically, the deed to our house with no guarantee that they were going to pay the mortgage off.

We got some legal advice and they, of course, told us: Don't go there. That's not gonna help you out.

So for the last two years, we've been sitting on the house paying $2,000 a month for a house that's vacant, keeping up the gardening, the taxes, everything to keep it presentable and sellable.

So it cost us about -- I've calculated about $57,000 to keep that house going for the last three years that we've not been living in it.

This May we looked at our finances and we're down to just a few thousand of our savings.

So we decided to try a loan modification; see if we can rent the house. My husband just said: I've had it, the stress is too much. I have to sell the house. We have to get out.

My realtors here, we set up with him in May. He had the house at 125,000, I think, Joe?

No one touched it. People would look at it, but they wouldn't buy. We lowered it the next month to 115-, we had three offers. One backed out.

So we had a neighbor down the street, wants to live in our neighborhood, wants our house, great. We put through the short sale. We had to do a short sale because we refinanced the house to make the move.

We put through the short sale, and we were told promptly that we couldn't be considered because we weren't behind on our mortgage payments. We just spent $57,000 to try to keep our house up, and we can't sell because we're not behind on our mortgage payments.

So, okay, my husband talks to 10 people, 10 different people, 10 different hours, in tears. We have never, ever, ever been late on anything. Ever. Not even on our house payment. We pay our monthly -- our one monthly credit card off completely. We carry a car loan and a house loan. We paid our student loans off years early. We're really responsible people.

We didn't want to miss our house payment. Never wanted to miss our house payment. They told us they wouldn't talk to us unless we missed a month, so we missed July. We decided not to pay August, because we didn't want them to apply August to July and kick out the sale again.

So they reapplied the sale two weeks later. We got a letter saying that they kicked out our request by accident. Great.

So now we get all kinds of letters saying they're gonna foreclose on us because we had to miss our monthly house payment to get the short sale to go through.

August 8th we got a letter that says if we do not pay all of our fees, all of our late payments, and all of our post-mortgage in two months, they will foreclose on our house.

If they foreclose on our house, we cannot sell it to the people who have been waiting since early June to buy our house.

If we continue to be stalled, my concern is the people will no longer want to buy our house.

We had someone who wants to buy the house. They want to pay 115,000 for the house. Our mortgage company, who is Wells Fargo working for Sally Mae, they are representing Sally Mae, keeps calling us, telling us that it's to a negotiator.

For a month now, we've been told that it's to a negotiator. No one -- there's no name, there's no person that we can talk to. We're just told it's in negotiation.

My concern is, if this keeps up, our buyers will leave, the house will go into foreclosure, we will have ruined credit, which we have never, ever had.

My husband's four years away from

retirement, and I don't see how we're gonna buy another house.

I don't get this. We have been responsible taxpayers. We've been responsible with how we pay our bills, and I can't get help to try to sell my house.

I don't get this.

MR. THOMAS: Ms. Vasile, what's the name of the company?

MS. VASILE: Wells Fargo is managing the loan for Sally Mae -- Fannie Mae. Excuse me, for Fannie Mae.

MR. THOMAS: And if you'll say it one more time.

MS. VASILE: Wells Fargo is managing the loan for Fannie Mae.

MR. THOMAS: I think maybe we'll get a response.

MS. VASILE: Thank you. Thank you.

MR. THOMAS: I'm glad you came.

I'm no longer in the business.

MS. VASILE: I know.

MR. THOMAS: But I'll follow up.

MS. VASILE: I have to tell you, I'm disgusted with the avarice that I have seen in the last 10 years in the marketing -- I mean, in the housing market. I feel thatpeople saw a way to make money, and they abused people. And I really feel disgusted with how our country has dealt with just the basic fundamental needs of buying and owning a home, because that's been the background of our country since World War II. It's a huge part of our financial situation.

MR. ANGELIDES: Would you make sure that you provide your name and information to Mr. Ganz.

MS. VASILE: I have to tell you, I had to handwrite my information --

MR. THOMAS: We've got it. And you gave us the information --

MS. VASILE: -- my name and phone numbers are on the back.

To top this all off, my husband is in the position of possibly losing his job at B.C.-- everything -- because of the financial situation we're in.

So not only do I have a house that I don't know what's happening to, I don't know if he's gonna have a job come December.

This is more than I can handle. I'm not eating. I'm not sleeping. This needs to be dealt with.

MR. THOMAS: Thank you for coming.
MS. VASILE: Thank you.
MR. THOMAS: And the company again was?
MS. VASILE: Wells Fargo is managing for Fannie Mae.
MR. THOMAS: Wells Fargo. Thank you.
I believe that ends the list of those who had transmitted to the FCIC and had submitted written testimony. So just let me say that we could be open all night listening to stories like that, because I have heard it from friends and neighbors, as have all of you.
That was our hope in holding these field hearings. We're concluding the one in Bakersfield today. We'll be in Las Vegas tomorrow.
I believe Commissioner Murren can concur with the fact that we're gonna hear a lot of the same stories, and perhaps even more heinous in Las Vegas. And then we'll go on to Miami.
I want to thank all of for your courtesy, for the way in which you have conducted yourselves. And this field hearing of the FCIC, the Federal Crisis Inquiry Commission, is adjourned -- but --
MS. BORN: May I just say one thing?
MR. THOMAS: Commissioner Born.

MS. BORN: I just would like to remind people that even though this hearing is about to be adjourned, the Commission will be happy to accept written testimony from anyone interested, and we will consider that, and put it into our record in making our report at the end of the year.

Thank you.

MR. THOMAS: And let me say that if it's not in the written report, it will certainly be in the data bank of documents that we have available for people to examine.

Mr. Chairman.

MR. ANGELIDES: Just a quick comment.

I just want to thank everyone who attended today, all the witnesses who testified, and my fellow commissioners. I particularly want to thank you, Mr. Chairman, for putting all this together in your hometown.

MR. THOMAS: Thank you.

If anyone wants to continue to talk to us, notwithstanding the fact that the field hearing is adjourned, we're here, and we'll accept any information you might like to provide to us.

This hearing is adjourned.

(TIME NOTED: 3:11 P.M.)