

Bring Criminal Charges Against Chief Executives of Leading Originators And Securitizers of Stated-Income Mortgages

You can steal and burn money many different ways. Leaders of financial firms use a conservative bias with money they lend to protect society's most precious asset: Savings accumulated through blood, sweat, tears --- sacrifice.

Unless you live in interesting times. What was sacred is profane. We have and do live in interesting times. The basic rules of lending were banned in the credit bubble. Sacrifice was a joke. Money was easy to borrow. Now we have the aftermath of the crisis. It is only beginning.

The most notorious method for stealing burning squandering money in our real-estate-and-mortgage bubble was something called stated-income loans. The popular term now is liar loans. What does that mean?

I. Collateral—Representation and Warrant Violations

By now everyone pretty much understands that most defaults are related to loans that were written under aggressive lending standards. We believe that in many cases the loans that were pooled often did not conform to the stated underwriting criteria and, at times, were outright fraudulent. For those that did meet the underwriting criteria, it is fairly apparent there was little quality control in the origination process. One glaring issue: where a borrower "stated" his income in the application process, but did not document it, there often appears to be no sanity check on the income claimed by a borrower.

Amherst Mortgage Insight, April 13, 2010. Investors Beware: Flaws in the Securitization Process

For the person who can't believe fraud could be committed on a grand scale, who believe the world works according to right and wrong, the truth is stark and simple: Originating banks allowed borrowers to say or to "state" or to lie about their income and no proof was required to back up what was said or "stated" or lied about.

You could lie about your income to take out a new mortgage and the bank never checked to see if what you said was true or false.

The Mortgage Asset Research Institute referred to a study that found 60 percent of applicants who used stated income exaggerated what they earned by more than 50%. They verified this fraud when mortgage

application statements about income were checked against IRS records on income reported to the federal government.

Loan officers were the grand facilitators and front-line perpetrators of this fraud. On a refinance, the loan officer simply looked at a particular borrowers credit report, added up the debt payments on credit cards, car loans, and mortgages, and created an income figure which made the debts affordable including the new mortgage. A purchase worked exactly the same way. The income was a derivative of the amount the borrower wanted to spend to buy their new home. Many borrowers were not innocent, but other borrowers were playing on a field where they had no experience. They could easily be lead to believe in the acceptability of this criminal fraud.

- *Certainly, but there must be something that you've always wanted to accomplish. What have you always wanted to do?*

From the sales script at Full Spectrum Lending, the subprime division of Countrywide Home Loans. The response a sales person was trained to give if a borrower said they were not interested in a new mortgage.

There is no question about what these mortgages are. Individuals borrowing money fabricated the amount of their income. The banks required no verification of the statements about income. By that action banks encouraged the fraud. If this failure to verify factual statements is acted out on a grand scale, then the bank is the leader and creator of the fraud. If stated-income mortgages were created by bank policy overseen and approved by top management, then those managers and overseers are the leading criminals in the conspiracy.

With stated-income loans, the banks did not ask for supporting documents like W2 forms and pay checks. They did not verify statements about income against what was reported to the IRS. Yet the first job of a bank in lending is to check the supporting documents.

If you borrow money, you need income to pay it back. The first job of a bank is to check to see if you have income to pay the borrowed money back. If you eliminate the verification of income for a mortgage borrower, you eliminate your ability to predict the likelihood of repayment.





The reason this phenomenon rises to the level of a high crime is that a huge number of these mortgages were originated. Stated-income mortgage fraud was not an isolated crime. It was done countrywide, so to speak. A report from the Mortgage Brokers Association for Responsible Lending said 37% of non-agency (subprime) loans securitized in 2005 required no documentation of statements about income made in the mortgage application.

I worked in the subprime units at Countrywide and Wells Fargo during the bubble years (2004 to 2007). I saw this phenomenon first hand. To pretend that there is anything mysterious or unknown about the methodology of these loans is simply to add a lie on top of a lie on top of a lie.

Following civil charges being filed against Goldman Sachs, what is clear now is that the crime of stated-income mortgages deserves to be explored fully by criminal prosecutors.

The top management of leading originators and securitizers of stated-income mortgages should face criminal charges. While they may say that they didn't understand the fraud which was committed, there is no question they led these organizations. There is no question complicity within management was required. Loan officers acted recklessly and dishonestly and criminally, as did borrowers, but neither loan officers nor borrowers decide that supporting documents verifying statements about income are unnecessary. That's a management decision.

All top managers should be called to testify before Congress about their knowledge of the underwriting of stated-income loans. The reporters who cover these companies and their top executives should also ask: "What did you know about stated-income mortgages? When did you know it?"

That we have gone so far in the financial crisis without this basic work being done testifies to the farcical nature and grandiose ineptitude of regulators, prosecutors, politicians, and especially the media. It's truly a carnival of stupidity. Right and wrong are unknowable because they are too simple to

understand.

The biggest names at the biggest commercial banks and investment banks deserve fire, hatred, condemnation. Prosecute the criminal act of encouraging false statements of income on mortgage applications. The factory-like creation of stated-income mortgages lies in a central place of perhaps the most destructive fraud in world history.

'Tis a consummation devoutly to be wished on no country or people, yet it has been done here and to us. The poison is in our economy. It is suicidal. It is criminal. There is no question.

Please forward questions, corrections, and reactions to comments below or send me an email. If you have data on who originated and securitized stated-income loans please forward it to me. Please send an email if you would like to take out a new mortgage.

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