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The Impact of the Financial Crisis at the Ground Level - State of Nevada

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1
2 UNITED STATES OF AMERICA

3 **FINANCIAL CRISIS INQUIRY COMMISSION**

4 Official Transcript

5
6 Field Hearing on

7 "The Impact of the Financial Crisis at the Ground Level - State of Nevada"

8 Wednesday, September 8, 2010, 9:00 a.m.

9 University of Nevada, Las Vegas

10 Student Union Building, Grand Ballroom

11 4505 S. Maryland Parkway

12 Las Vegas, NV 89119

13
14 **COMMISSIONERS**

15 PHIL ANGELIDES, Chairman

16 HON. BILL THOMAS, Vice Chairman

17 BROOKSLEY BORN, Commissioner

18 BYRON S. GEORGIU, Commissioner

19 HEATHER MURREN, Commissioner

20 JOHN W. THOMPSON, Commissioner

21
22 Reported by: DEBORA L. CECERE, CSR, Hearing Reporter

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2 FINANCIAL CRISIS ON NEVADA

3

4 JEREMY AGUERO, Principal, Applied Analysis

5

6

7 SESSION 2: THE IMPACT OF THE FINANCIAL CRISIS ON
8 BUSINESSES OF NEVADA

9

10 STEVE HILL, Founder, Silver State Materials
11 Corporation and Immediate Past Chairman, Las Vegas
12 Chamber of Commerce

13 WILLIAM E. MARTIN, Vice Chairman and Chief
14 Executive Officer, Service 1st Bank of Nevada

15 WALLY MURRAY, President and Chief Executive Officer, Greater
16 Nevada Credit Union

17 PHILIP G. SATRE, Chairman International Gaming
18 Technology (IGT) and of NV Energy, Inc.

19

20

21 SESSION 3: THE IMPACT OF THE FINANCIAL CRISIS ON NEVADA
22 REAL ESTATE

23

24 DANIEL G. BOGDEN, United States Attorney,
25 State of Nevada

26 BRIAN GORDON, Principal, Applied Analysis

1 JAY JEFFRIES, Former Southwest Regional Sales
2 Manager, Fremont Investment & Loan

3 GAIL BURKS, Chairwoman, Nevada Fair Housing
4 Center

5

6 SESSION 4: THE IMPACT OF THE FINANCIAL CRISIS ON NEVADA
7 PUBLIC AND COMMUNITY SERVICES

8

9 ANDREW CLINGER, Director of the Department of
10 Administration, Chief of the Budget Division, State of
11 Nevada

12 JEFFREY FONTAINE, Executive Director, Nevada
13 Association of Counties

14 DAVID FRASER, Executive Director, Nevada League
15 of Cities

16 HEATH MORRISON, Superintendent, Washoe County
17 School District

18

19

20 SESSION 5: FORUM FOR PUBLIC COMMENT

21

22 MEMBERS OF THE PUBLIC

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1 SEPT. 8, 2010, WEDNESDAY, 9:09 A.M., LAS VEGAS, NEVADA

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4 P R O C E E D I N G S

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6 CHAIRMAN ANGELIDES: The public hearing of the
7 Financial Crisis Inquiry Commission will come to order.

8 Welcome to all of you here in Las Vegas. I'm
9 Chairman Phil Angelides, and it's an honor to be here
10 with each and every one of you and my fellow
11 commissioners, and particularly with Commissioners Murren
12 and Georgiou who hail from this wonderful city.

13 It's now my honor in starting this hearing
14 today to welcome and bring forward the president of the
15 University of Nevada Las Vegas, Dr. Neil Smatresk.

16 And Mr. President, are you here, and if so,
17 I'd like to ask you to come forward and to welcome us to
18 your University.

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1 WELCOMING REMARKS BY UNLV PRESIDENT NEIL SMATRESK

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4 MR. SMATRESK: If you'll forgive me, I have to
5 put on my Madonna mike.

6 Hello, everybody. Can you hear me okay?

7 THE PEOPLE: Yes.

8 MR. SMATRESK: First of all, my name is Neil
9 Smatresk, and I'm president of UNLV, and I'm so proud and
10 honored to have you here today.

11 I know that Heather Murren and Byron Georgiou
12 went out of their way to make sure that this event could
13 be here in Las Vegas. I think it's both important and
14 fitting.

15 For those of you who haven't figured it out
16 yet, Las Vegas is in many ways the epicenter of the
17 financial crisis in America. We have a brutally high
18 unemployment rate. And I know you'll hear more about
19 that today.

20 We have had a dominant industry without the
21 appropriate level of economic diversification, cues for
22 how we go forward into the future to build once again a
23 prosperous society and a prosperous region.

24 UNLV has also, along with higher education in
25 Nevada, suffered to some extent as a result of this

1 crisis. And I don't want to put a real fine point on it,
2 because I know you have bigger fish to fry, but I will
3 say that when the average loss at the two major research
4 universities in this state, in just over a year's time,
5 was 20 percent of their state-based budget, and a
6 cumulative impact here at UNLV of over 50 million
7 dollars, one has to question both how this crisis
8 interacts with education, which we all know is counter
9 cyclical, and we all know is the refuge and retooling
10 area for getting back out of the old economy and into new
11 economies.

12 And so I would submit that as you deliberate
13 on this incredibly important problem that we also ask
14 ourselves have the impacts created situations that are
15 now so challenging that we may in fact cut off the
16 wellspring of work force development, of innovation, and
17 of transformation of economies, that is the wellspring of
18 education in our state and elsewhere.

19 I know that this is a topic that's near and
20 dear to your hearts, and I, once again, say we have many
21 wonderful people who are certainly pulling in the right
22 direction, some of the legislators that we have here,
23 Alice and Paul, Debra, elected officials in the audience,
24 of course, captains of industry for our region, and folks
25 like Senator Reid who have been working steadily to

1 create new economies and new jobs, particularly green
2 economies as so well-reflected in the recent development
3 of our City Center project, the largest green project in
4 the world.

5 So I say to all of you today, I hope you have
6 a vigorous session. I hope you explore our beautiful
7 campus, and I hope you remember that UNLV views itself
8 not as a funding problem or challenge but as a solution
9 to building a brighter and sustainable future.

10 I thank once again the Commission. I hope you
11 have a profitable day.

12 And with that, I will gracefully step down and
13 let you get on with the good work that you're doing.

14 Thank you all so much.

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1 SESSION 1: ECONOMIC ANALYSIS OF THE IMPACT OF THE
2 FINANCIAL CRISIS ON NEVADA

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5 CHAIRMAN ANGELIDES: Thank you very, very
6 much.

7 And let me just say on behalf of the whole
8 commission, thank you to you and your staff and everybody
9 here at the University of Nevada Las Vegas for hosting us
10 and for all your efforts to help us make this a
11 successful public hearing for this Commission, and for
12 all the work you're doing, thank you so much.

13 It's now my honor to hand over the gavel for
14 this session to our Nevada based commissioners. And just
15 a point of personal privilege, I'm going to make opening
16 remarks along with other folks in a minute, but I just
17 want to say that serving with Commissioner Murren and
18 Commissioner Georgiou has been a real privilege and
19 opportunity.

20 I have known Byron Georgiou because we shared
21 the same heritage for many, many, many years, and he's a
22 person of dedication and energy and intelligence.

23 I have just gotten to know Ms. Murren this
24 year, and I will just tell you she's an exceptional
25 commissioner who brings an incredible amount of insight

1 and intellect to this challenge.

2 And with no further ado, it is my honor now to
3 hand over the gavel for today's session first to
4 Ms. Murren and to take this hearing forward.

5 So, Heather, the gavel is yours. Use it
6 wisely.

7 COMMISSIONER MURREN: Thank you, Mr. Chairman.

8 I'd also like to echo my thanks to UNLV and
9 their terrific team for hosting us today.

10 We are extremely proud to be here in a place
11 that we think represents some of the best of Nevada. So
12 we are happy to be able to hold our hearings here today.

13 I'd also like to thank Senator Reid for
14 appointing me to this Commission. I think that it is
15 very important work that we're doing. I certainly think
16 that the ability to bring a background in finance and
17 also in founding our State's Cancer Research and
18 Treatment Center, the Nevada Cancer Institute lends
19 itself to being able to try to understand some of the
20 problems and challenges that we face, and also to be able
21 to represent and hopefully answer for the American people
22 and for the people of Nevada some of why the causes of
23 the crisis came to pass.

24 And I think it's also important that we bring
25 our hearings here today to hear from the people that were

1 so dramatically affected by what has unfolded.

2 The charge of the FCIC, of the Financial Crisis
3 and Inquiry Commission, is to determine the causes of the
4 financial and the economic crisis.

5 It is our hope that in doing an unbiased and
6 independent analysis, that we can help to prevent future
7 catastrophes from occurring.

8 We are evaluating a very broad range of
9 issues. They range from Wall Street excesses and
10 behaviors to leveraged international capital flows,
11 mortgage fraud, among many other things.

12 We have examined hundreds of thousands of
13 documents, e-mails, transcripts, sworn testimony,
14 academic papers. And we of course have heard from many
15 witnesses in many different positions of both authority
16 and of action within the context of the crisis.

17 But there really is no substitute for getting
18 out into the trenches to hear from the people who have
19 been most profoundly affected.

20 Today's hearings are an important part of our
21 work and to provide a forum for our community to be able
22 to share their observations and their insights, all of
23 which are uniquely ours.

24 And while some of the seeds of the crisis were
25 planted over many years and in many different places,

1 some of them far away from here, after many years of
2 rapid growth, Nevada has, in fact, been more profoundly
3 affected by the crisis than other regions.

4 We are here today to learn more about why this
5 is so and how it came to be. We are focused on talking
6 to businesses within our community -- big businesses,
7 small businesses, nonprofit organizations, state
8 government, among others.

9 We're focused on looking at things like the
10 credit freeze that led to many businesses within our
11 community being extraordinarily stressed. Also housing
12 and mortgages and state budgets.

13 Nonprofit organizations as diverse as Three
14 Square, who help to feed our hungry, and also UMC, our
15 county hospital, have needed to bear the burden of seeing
16 an increasingly economically distressed citizenry.

17 Our businesses have had to make very sharp and
18 sometimes painful adjustments to our new economic
19 reality. Some of these businesses have not been able to
20 adjust and have failed.

21 And those who remain and endure are working
22 all the harder to continue to bring people here to Nevada
23 and to Las Vegas. And we will be hearing some very
24 sobering testimony about the impact of the financial
25 crisis on our neighborhood.

1 But there are also reasons for optimism.
2 Steps for reforming areas of our financial system, help
3 to homeowners and businesses, these are all important
4 steps towards regaining the ground that we have lost.

5 Here in Las Vegas we have seen some flashes of
6 improvement. And though it will take time and hard work,
7 and we need strong champions and advocates on our side as
8 we go forward, it is undoubtable that we will prevail.

9 As one of our two hometown commissioners, I
10 will be moderating the first half of our sessions today,
11 and Commissioner Georgiou will be moderating the second
12 half.

13 And we will be swearing in all of our
14 witnesses, as is our custom.

15 And I'd like to make one note, and that is
16 that we did not include as witnesses individuals who have
17 current political races because we felt like we wanted to
18 make sure that this was appropriately nonpolitical.

19 We are very grateful to the members of our
20 community for providing their time and their talent and
21 their information to the Commission; our state, local and
22 Federal governments; our business communities.

23 I'd like to especially thank Nevada Title who
24 helped us quite a bit on housing issues.

25 We'd like to thank you. Your help and your

1 engagement is critical to our success. And we thank you.

2 And now I'd like to go to Commissioner

3 Georgiou.

4 COMMISSIONER GEORGIU: Thank you, Heather.

5 I would like to thank all of you today for
6 joining us for this Las Vegas hearing of the Financial
7 Crisis Inquiry Commission. And I, too, would like to
8 extend a special thanks to Senator Harry Reid for giving
9 me the opportunity to participate in this important work
10 and for choosing to give the citizens of Nevada two of
11 the ten voices on this national body charged with the
12 responsibility for investigating the causes of the global
13 financial crisis and economic crisis that has inflicted
14 such suffering on our community.

15 We've been engaged for over a year now on this
16 inquiry. Our national hearings in Washington, D.C. and
17 New York City have focused on the big causes that drove
18 this crisis, causes that are both from human actions and
19 failures to act by major parties in both the private and
20 the public sector.

21 We've heard sworn testimony from many people
22 intimately involved in the decisions that led to this
23 crisis. And although we will not release our report to
24 the President and the Congress until December 15, and are
25 currently engaged in a spirited debate within the

1 Commission on the conclusions that we will reach from our
2 many hearings and the continuing investigations conducted
3 by our staff, some things have become clear from the
4 existing record.

5 There is plenty of blame to be shared by the
6 people we relied upon to keep our economy safe and
7 secure.

8 Testimony we have heard nationally has ranged
9 from candid admissions by some witnesses of errors that
10 led to the crisis, while others, too many, claimed that
11 the crisis came upon them like a storm without any
12 responsibility on their part for the consequences.

13 We've heard from executives in charge of the
14 Wall Street financial institutions that failed, or would have
15 failed but for the bipartisan fusion of extraordinary
16 assistance from our government to avoid the even more
17 severe consequences to our economic system that could
18 have occurred, most experts believe would have resulted
19 from a failure to provide the assistance.

20 Astonishingly, many of the witnesses testified
21 that they did not know the extent of the risk of failure
22 that their companies faced in the early stages of the
23 crisis.

24 Others were more candid in, in acknowledging
25 errors of risk management, corporate government,

1 excessive leverage, undercapitalization and failures in
2 market discipline and accountability that permitted
3 practices designed to earn short-term revenues while at
4 the same time creating and accumulating long-term risk
5 that jeopardized the very existence of well-known
6 companies that survived and thrived through good and bad
7 times before.

8 These companies permitted themselves to become
9 so fragile that their continued existence was in jeopardy
10 when the forces of the market moved against them. Story
11 companies like AIG, Bear Stearns, Lehman Brothers,
12 CitiGroup, Morgan Stanley, Goldman Sachs, to name but a few.

13 We've also heard from government officials,
14 the current and immediately prior chairs of the Federal
15 Reserve Boards, Secretaries of the Treasury, Chairs of
16 the Securities and Exchange Commission, Chair of the
17 Federal Deposit Insurance Corporation, and the heads of
18 the alphabet soup of various public agencies responsible
19 for monitoring the safety and the soundness of the
20 private sector institutions that were permitted to become
21 so weak that they failed or would have failed during the
22 crisis.

23 We've looked into the impacts of the
24 derivatives markets and the so-called shadow banking
25 system that operated outside of the protective

1 environment of the government standard banking
2 institutions that took in the deposits of citizens and
3 businesses, and we've examined the practices that led to
4 the existence of financial institutions deemed, quote,
5 too big to fail, so that rather than simply permit them
6 to go bankrupt in the normal course when they either
7 became insolvent or faced liquidity issues, our public
8 officials were faced with the difficult decision whether
9 to risk the potentially devastating consequences of their
10 failure, or rescue them at a cost to the American
11 taxpayer.

12 We've now concluded our national hearings, but
13 our staff investigations continue. During this month of
14 September we've decided to hold a series of four local
15 hearings, yesterday in Bakersfield, California, a
16 community represented for almost three decades in the
17 Congress by our Vice Chair Bill Thomas, today in Las
18 Vegas, and later in Miami led by our Commissioner Bob
19 Graham and Sacramento, led by our Chair Phil Angelides.

20 These local hearings are designed to focus our
21 attention on the, the human consequences of the crisis,
22 on ordinary Americans, who bore no responsibility for the
23 creation of the crisis but suffer its effects.

24 Here in Nevada where our economy depends
25 heavily on tourists from all over the world coming to

1 enjoy our many attractions, we've been particularly
2 impacted by this crisis, which has pinched worldwide
3 pocketbooks, leading to fewer people being able to visit
4 and reduced spending by those who can afford to come.

5 We will hear today from experts in the Nevada
6 business community, bankers and executives, on the
7 impacts of the crisis on large and small businesses; from
8 participants in the residential and commercial real
9 estate markets on the impacts of lending practices and
10 mortgage fraud on property valuations; and the
11 devastating impacts on the lives and fortunes of families
12 when foreclosures resulted in the loss of their homes.

13 And also from our public sector leaders on
14 revenue expenditure impacts at all levels of government
15 that have resulted in greater demand for community
16 services at the same time as revenues have shrunk.

17 We've suffered here in Nevada from this crisis
18 and will continue to be impacted until the economy
19 nationally and globally recovers sufficiently to enable
20 our visitors to enjoy our State's many amenities.

21 But there are many hopeful signs that we are on
22 the road to recovery. Just last Friday, the labor
23 department reported that private sector employers added
24 67,000 jobs. The Wall Street Journal reported this
25 weekend that the jobs report was consistent with other

1 recent economic reports, including a strong factory
2 report that showed the economy continuing to recover,
3 though obviously at a slower rate than we would all like.

4 In the meantime, the members of our commission
5 pledge to you that we will do everything in our power to
6 write a clear and forceful report to the American people,
7 identifying in plain language the causes of this crisis
8 so that our policymakers can address the many failures
9 that led to it.

10 I thank you again for joining us today and now
11 turn the microphone back to our chairman for his opening
12 remarks.

13 After his opening remarks and those of the
14 vice chair, Commissioner Murren will guide us through
15 this morning's session, and I will guide us through the
16 afternoon session, after which we have scheduled an
17 opportunity for members of the public to address the
18 Commission on issues they would like to present.

19 We look forward to today's proceedings.

20 Chairman Angelides?

21 CHAIRMAN ANGELIDES: Thank you very much.

22 Let me just say that as you can tell, we have
23 two very articulate, bright, energetic commissioners.

24 They have given I think tremendous opening
25 statements that I think really speak to the views of many

1 of our commissioners who are here today.

2 And I will just add a couple of notes. As
3 both Heather and Byron have noted, we have a very simple
4 but important task, and that is to help Americans
5 understand how it came to be that our financial system
6 was brought to its knees, and in the wake of the greatest
7 financial crisis in this country in seven decades, our
8 economy was rocked in states and communities across this
9 country.

10 I think no one knows better than the people of
11 Nevada, and frankly in the home region from which Bill
12 Thomas and I come, the Central Valley of California, that
13 the financial crisis is not a past tense term. It is
14 still very much with us.

15 As we meet this morning, 27 million Americans
16 are out of work, can't find full-time work, or have
17 stopped looking for work.

18 Two million American families have lost their
19 homes to foreclosure. Two million more are in the
20 foreclosure process. And another two million families
21 are seriously delinquent on their mortgages.

22 The net wealth lost to American households has
23 been about 12 trillion dollars and much of that felt by
24 middle class and working families across this country.

25 The people of this country are justifiably

1 angry. They're confused, but they also have a tremendous
2 hunger to understand what has happened here so we are
3 less likely to repeat the mistakes of the past as we
4 build our future.

5 Our job has been over the course of many
6 months to probe, to ask the tough questions, often to
7 bring heat to this subject, but in the end our job is to
8 shed light and to produce, as Mr. Georgiou said, and
9 Ms. Murren said, a report to the American people that
10 helps them better understand how this calamity came to
11 be.

12 For us it has been a year of revelation. I
13 think it's fair to say that each and every one of us has
14 been fascinated and often disturbed by what we have seen
15 and learned as we have interviewed at the Commission now
16 over 500 witnesses, as we reviewed hundreds of thousands
17 of documents, and as we have conducted 14, 15 days of
18 public hearings.

19 We held hearings in Washington, New York, and
20 now we go across the country to really in a sense round
21 out our investigation, looking at how this crisis began
22 and ended at the ground level and went all the way to the
23 halls of power in Washington and the corporate board
24 rooms on Wall Street.

25 We are looking forward to today's hearing,

1 hearing from people here, learning more about what
2 happened in this community and what exists today.

3 I assure you this is one instance where what
4 happens in Vegas will not stay in Vegas. We will take
5 everything we have learned today, we will incorporate
6 this into our inquiry, and we will place it in the proper
7 context of the important report we will deliver to the,
8 the President, the Congress and the American people by
9 December 15th of this year.

10 So thank you very much for giving me the
11 privilege of being here today.

12 And now I'll turn this microphone over to the
13 vice chairman.

14 VICE CHAIRMAN THOMAS: Thank you very much,
15 Mr. Chairman, and it's nice to be here.

16 I've been familiar with this area, you know,
17 all my life. Those of us who live in the West,
18 discounting the distances between various population
19 centers, which is so foreign to those in the East, really
20 realize that there's, there has been a long-time
21 symbiotic relationship between California and Nevada.

22 I was pleased to hear from President Smatresk
23 from the currently walking Rebels, rather than running
24 Rebels, and I represent Cal State Bakersfield, which are
25 the Road Runners, currently the Road Walkers, given the

1 economy.

2 However, we have never, ever been kept down
3 for long.

4 However, notwithstanding Byron's attempt to
5 paint somewhat of a rosy scenario to the recovery, I am
6 very, very concerned. I was in Congress for more than
7 three decades, and all of us have been through boom and
8 bust cycles, especially folks in your business, and,
9 frankly, folks that are in business in the area that I
10 represent and where we had the hearing yesterday.

11 I was pleased to hear Commissioner Murren
12 refer to regions rather than states, because when you try
13 to look at California as a State, or you use statistics
14 of California as a state, it is frankly five states. And
15 all of those five states within California have a
16 population far greater than most states.

17 Some people have said oh, it's obvious if the
18 Chairman is from Sacramento, and the Vice Chairman is
19 from Bakersfield, there's going to be a hearing in
20 Sacramento and Bakersfield.

21 You know why we have a hearing here. It's not
22 just because two commissioners were appointed to this
23 commission from Nevada. It is an obvious choice. Just
24 as Miami is an obvious choice.

25 Real estate fraud was so bad in Miami, it was

1 giving Medicare fraud a run for its money. Apparently
2 Medicare fraud is back in the lead in Miami, but it too
3 has been significantly devastated.

4 It just so happens that the Central Valley,
5 bordered on the south by Kern County, and on the north by
6 Sacramento, is a region in terms of population actually
7 larger than the State of Nevada.

8 My county, one county of the 58 counties in
9 California, is engaged in betting and risk every day,
10 much like much of the economic base in Nevada.

11 They gamble in agriculture, over four billion
12 dollars' worth of agriculture. In fact, we have more
13 value added by dairy than that state that carries around
14 on its license plate "The Dairy State".

15 We produce more oil than every state in the
16 union except Alaska, Texas, and formerly Louisiana. But
17 since the oil has been banned from being pumped on the
18 offshore rigs, Kern County is ahead of Louisiana in oil
19 production.

20 You would think that with an economic base of
21 agriculture and oil, we wouldn't need to hold a hearing
22 in Bakersfield. But those commissioners who attended
23 heard horror stories, just as we're going to hear horror
24 stories everywhere we go in these hearings.

25 And they're the kind of horror stories that

1 frankly are unacceptable. Yes, there's very high
2 unemployment in a number of areas. Yes, we had a housing
3 bubble.

4 But when you listen to real people with real
5 problems -- solvable problems -- not being able to get
6 help in areas that should be able to get help, loan
7 modification, even something as awful as a short sale so
8 that you can get something out of it, or even in a
9 foreclosure, we've heard story after story of people not
10 being able to seek even modest relief in those kinds of
11 conditions.

12 So that's why I'm very pleased that we
13 continue to go to those regions, sometimes represented by
14 states, that have been devastated because of the housing
15 bubble, the associated job loss, and especially, given
16 your economy, relying on people who are employed
17 elsewhere who come here to enjoy themselves and without
18 that wherewithal can't.

19 So it's a pleasure to be here. I know that
20 after the first hearing in Bakersfield, some of the
21 stories are going to be stories that will be repeated
22 from what we heard in Bakersfield. They deserve to be
23 repeated. They will be repeated in Miami and Sacramento.

24 And with those contributions we hope we can
25 bring home, as Byron said, to many of those people that

1 we interviewed in Washington and New York, who have no
2 real on-the-ground knowledge of the suffering that goes
3 on in a number of areas with people who largely, through
4 no fault of their own -- no one is without fault, but
5 believe me, people seeking to stay in homes, paying the
6 mortgage on a home that is not worth as much as the
7 mortgage but trying to do the right thing, should be
8 helped in doing the right thing.

9 And I'm anxious to hear the testimony which
10 will corroborate to a certain extent what we heard and
11 what we will hear, but laying the record is very
12 important.

13 I'm pleased to be here.

14 And I'll turn the mike back over to co-chair
15 Commissioner Murren.

16 COMMISSIONER MURREN: Thank you, Mr. Vice
17 Chairman.

18 It is my pleasure to introduce our first
19 panel, Mr. Jeremy Aguero.

20 Mr. Aguero is an expert in economic analysis.
21 He does extraordinarily thorough and diligent data
22 gathering which has been enormously helpful to the
23 Commission. And he will speak on the economic analysis
24 relating to the financial crisis.

25 And as is our custom with all of our

1 witnesses, we will be swearing in all of our witnesses in
2 today's field hearing.

3 If you could please rise and raise your right
4 hand. Do you solemnly swear or affirm under penalty
5 of perjury that the testimony you are about to provide
6 the Commission will be the truth, the whole truth, and
7 nothing but the truth to the best of your knowledge?

8 WITNESS AGUERO: I do.

9 COMMISSIONER MURREN: Thank you.

10 Mr. Aguero, you have five minutes to present
11 your oral testimony, and we thank you for your written
12 testimony.

13 And at that time commissioners will be able to
14 ask questions. I think each one of us has been allocated
15 between five and eight minutes for questions.

16 Thank you.

17 WITNESS AGUERO: Thank you.

18 Mr. Chairman, Commissioners. Let me begin by
19 saying how much I appreciate you convening this meeting
20 in Las Vegas today. Its importance I don't think can be
21 overstated.

22 I am also grateful for the invitation to
23 participate in your inquiry.

24 My name is Jeremy Aguero. I'm a principal
25 analyst and applied analyst in a Las Vegas based economic
26 and marketing research firm.

1 I am also a fourth generation Nevada resident and father to
2 three fifth generation Nevada residents, something that I'm sure will also
3 permeate my testimony in one way or another.

4 I was specifically asked to comment on how
5 Nevada has been impacted by the financial crisis. I tend
6 to view the crisis in two parts, the run-up of the economy
7 that occurred between 2002 and 2007, and the sharp
8 decline that followed and continues still today.

9 Nevada was uniquely positioned to benefit from
10 the period of rapid economic growth that began in 2002.
11 Home equity extractions bolstering consumer spending and
12 low cost capital fuel and construction could not have
13 been aligned more perfectly with the State's dependence
14 on tourism and growth.

15 Now, growth itself was nothing new for Nevada.
16 The State had led the nation in almost every measure of
17 economic expansion for the preceding 20 years with
18 population, employment and income, commercial and
19 nonresidential construction, new business creation,
20 business investment, all expanding at or near the
21 nation's highest rates.

22 However, from 2002 to 2007, that growth
23 started to take a notably different form. It was more
24 aggressive and more speculative. This is true in the
25 housing market where non-occupant buyers increased from a

1 fraction of home sales to the majority of home sales.

2 It was true in the commercial markets where
3 office, industrial and retail projects began being
4 developed at an unprecedented pace.

5 It was true in our tourism sector where
6 several private equity transactions and large scale
7 developments increased the industry's combined long-term
8 debt by 70 percent or from 10.5 billion to 17.1 billion
9 dollars between 2002 and 2007.

10 In mid-2008, the financial crisis merged and
11 reality began to set in. The degree to which households
12 and business were leveraged was a mounting concern.
13 Access to capital was gone. The State was overbuilt, and
14 some 100,000 jobs were predicated on a level of growth
15 and consumer spending that seemed to evaporate almost
16 overnight.

17 In much the same way as Nevada's consumer
18 spending, the construction-dependent economy was uniquely
19 positioned to take advantage of the economic run-up; it
20 was equally well-positioned to bear the full force of its
21 decline.

22 The State went from nation-leading rates of
23 population growth to net population outmigration. It now
24 leads all other states in unemployment, job losses,
25 reductions in employee hours and wages, housing price

1 declines, foreclosure delinquency and bankruptcy.

2 Nevada is behind only California and Florida
3 respectively in the number of subprime and adjustable
4 rate mortgages, suggesting that the 50,000 foreclosures
5 recorded during the past two years are far from the end
6 of the current cycle.

7 Those who have chosen to stay in their homes
8 have lost billions of dollars in home equity and
9 household wealth.

10 The downward cycle also has a more human
11 element. At present some 290,000 Nevada residents are
12 participating in the supplemental nutrition assistance
13 program. This figure, which translates to more than 1 in
14 10 Nevada residents, is up more than 30 percent from
15 where it was one year ago, and is the highest figure on
16 record.

17 Similar trends are apparent in the number of
18 residents that are now Medicaid eligible. Nearly 50
19 percent, one out of every two Clark County School
20 District children currently qualify for free or reduced
21 lunch, and more than 7500 children are currently
22 homeless.

23 The impacts of the financial crisis are
24 apparent in our neighborhoods, our business parks, our
25 schools, and in our churches. Government service

1 providers are seeing case loads grow even as the nation's
2 largest general fund budget deficit looms.

3 To the specific question how has Nevada been
4 impacted by the financial crisis, I would respectfully
5 respond that the crisis has impacted every sector of our
6 economy and has been felt by nearly every family in the
7 State of Nevada.

8 It is unlikely that its full measure will be
9 understood for a generation.

10 With that, I thank you again for both your
11 time and consideration. Your work is remarkably
12 important. Perhaps no more so than in this community and
13 in this State.

14 COMMISSIONER MURREN: Thank you.

15 And thank you for your impeccable timing in
16 delivering your testimony.

17 We'd like to now go to questions, and I
18 believe that I will actually lead that session.

19 And I'd like to focus on one of the areas that
20 you spoke about that has to do with the speculative
21 activity within the State of Nevada, whether it be
22 commercial development, whether it be residential
23 mortgages, but one of the -- one of the elements that
24 seems to be present in a number of different regions
25 around the country that have been subject to a huge

1 escalation in real estate values over the course of the
2 boom, but then of course a commensurate decline during
3 the bust, seem to have been areas where there was a lot
4 of outside investment where everything from national
5 builders came in that previously would have not been
6 present necessarily, but came in, and in some ways,
7 squeezed out local efforts, also again, I think you
8 referenced non-owner occupied residences, people coming
9 in and, and buying homes for speculative purposes that
10 they may not necessarily reside in, and that may have
11 come from other parts of the country, I was wondering if
12 there was a way to determine to what extent the run-up in
13 the speculative activity might have been caused by
14 outside forces as opposed to necessarily those things
15 that are intrinsically our community.

16 WITNESS AGUERO: Incredibly complicated
17 question and one that is, is difficult to answer because
18 information seems to be somewhat imperfect. But based on
19 what we know, your question to me has two important
20 parts. One is on the supply side, which are home
21 builders coming in and supplying additional homes.

22 Certainly there was a consolidation that
23 occurred within the housing development market. That
24 wasn't just true here in Nevada, that was true across the
25 country, where smaller home builders were being gobbled

1 up, if you will, by larger home builders as they saw it
2 to gain additional market share.

3 In addition to that, the second portion of
4 your question, which deals with the question of outside
5 money coming in to Nevada, essentially investing in homes
6 as a investment as opposed to an end purchase with the
7 objective being to rent that home, or hold that home for
8 some period of time while the prices escalated, and then
9 that home could be flipped and then ultimately sold for a
10 profit, this occurred both with internal money and
11 external money.

12 The number of home purchases at the peak of
13 the market that were made by non-Nevada residents of
14 homes -- and we gauge that by where the property tax bill
15 ultimately goes, so that's the way we can analyze and see
16 whether that happens -- you know, certainly the number of
17 home sales that occurred to California-based buyers were
18 substantially higher.

19 Now, you know, the ability to analyze whether
20 that was a general trend overall, and, you know, just
21 Nevada was prime for just that type of activity. Why?

22 Well, number 1, our housing market was
23 historically undervalued. And I don't mean that they
24 were undervalued, that the houses were worth less than
25 they were constructed for, but they were undervalued in

1 terms of they were just cheaper than they were in other
2 states. So it was a fertile area for investment.

3 Number 2, we led the nation in population
4 growth. So if I'm a home builder, that's where I want to
5 be. Why? Because you have more people consuming homes.

6 You combine that with the fact that the stock
7 market was underperforming, and that there was a general
8 belief across the country that the residential market was
9 fertile for individual investments, it was a way to make
10 money, and Las Vegas, as well as major markets in
11 northern Nevada, were essentially well-positioned to be
12 in the bulls eye of exactly the, the housing crisis that
13 emerged.

14 In terms of purely external money coming in,
15 the ability to segment that away from external money is
16 very difficult. I can tell you that the investment
17 activity occurred both from residents in Nevada as well
18 as those outside although certainly at the peak of the
19 market the money coming from outside well outpaced that
20 coming from inside the State.

21 COMMISSIONER MURREN: Thank you. That's
22 helpful.

23 And then on the, again, on the speculative or
24 the, the bubble portion of what we saw that might be
25 something beyond what would normally occur, if you had

1 say houses that were relatively undervalued compared to
2 homes in other parts of the country, when you look at
3 that part of our growth, could you talk about where we
4 are today in terms of, of overall investment activity?
5 And are we back to five years ago in terms of what the,
6 the population and the investment and home values would
7 be?

8 WITNESS AGUERO: Currently with regard to
9 housing prices, we are back to roughly 2000 levels. So
10 we've lost about a decade worth of home appreciation.
11 Everything that we've gained we've now lost.

12 Las Vegas here ranks number 4 nationally in
13 terms of the rate at which housing prices are declining
14 still today, after leading the nation in that particular
15 category for some time.

16 In terms of housing markets, as it exists today, we estimate we
17 have somewhere between 40 to 60,000 too many housing
18 units still on the market today. Our residential vacancy
19 rate is approaching, or a little bit over actually, eight
20 percent of the market. The normalized level is about 3,
21 3 and a half percent of that market.

22 The trouble for us today is that not only did
23 we have this overbuilding that occurred, but now you
24 compound, compound that by the fact that unemployment and
25 net population outmigration means that there's simply no

1 demand for the excess real estate that exists.

2 We are selling more housing units than we did
3 before, but many of those are a shuffling of population
4 as opposed to net new growth or absorption of existing
5 inventory on the market today.

6 COMMISSIONER MURREN: And is it your feeling
7 in order to absorb that, and also to move things forward,
8 that the center, or the central factor that we'll need to
9 address in our community is jobs creation? Or are there
10 elements that you think will be important to, to
11 advancement?

12 WITNESS AGUERO: I, I think job creation is
13 the primary element that's going to bolster the
14 absorption of excess inventory that's on the market
15 today.

16 However, I don't think it's job creation
17 alone. Of course, Nevada ranks remarkably high in, in
18 terms of retiree migration. Factors coming from other
19 states are retiring in Nevada. Certainly that factor
20 will be important also to the absorption of existing real
21 estate.

22 COMMISSIONER MURREN: Terrific. Thank you.

23 And I will reserve my last minute for later
24 on. I would like to now turn the questioning over to
25 Commissioner Georgiou.

1 COMMISSIONER GEORGIU: Thank you,
2 Commissioner Murren.

3 Mr. Aguero, thank you for your testimony and
4 for the dedication you put in professionally to
5 understanding the economy of our community for such a
6 long time, you and the rest of your team. We're going to
7 hear from another of your colleagues a little bit later
8 today.

9 We have tried with all of our witnesses to
10 press them on whatever contribution they think might have
11 been made by their particular profession to the financial
12 crisis or to avoiding the, the understanding -- avoiding
13 the anticipation of the crisis.

14 We pressed the Wall Street executives, we
15 pressed the public officials who had responsibilities in
16 this area. I wonder if you have any thoughts on whether
17 economists had a role in the financial crisis in failing
18 to identify root causes that could have foreshadowed the
19 crisis.

20 WITNESS AGUERO: Commissioner, the direct
21 answer to your question is yes. I think that signs
22 existed and that certainly I missed them. You know,
23 southern Nevada, Nevada as a whole, the community that
24 we're sitting in today, has been the most prolific
25 economy in the United States for the better part of the

1 past 20 or 30 years.

2 No state has added more in terms of population
3 growth or employment growth or income growth.

4 No State has added more in terms of housing
5 development or new office buildings or hotels and
6 casinos.

7 And that has worked remarkably well for us for
8 a very, very long time.

9 That said, there is little doubt whatsoever
10 that this community got out in front of its knees. And
11 while we all expected that -- while there was a general
12 expectation that the rate of growth was not going to be
13 sustained for some time, I think that when we take a step
14 back, and we look historically at housing prices
15 doubling, at -- leading the nation in employment growth,
16 and that employment growth being predicated on an
17 unsustainable level of consumer spending, that these are
18 warning signs that yes, I think that myself as an analyst
19 should have been better adept at seeing. I think that
20 other analysts across the country should have been better
21 adept at seeing.

22 I think there is a general optimism that
23 permeates the country, and we want to believe that
24 tomorrow will look very much like yesterday. And that
25 while we may have seen warning signs, I think that it is

1 difficult to -- I think it is extremely difficult to have
2 an expectation that such a sharp and extended downturn
3 would have occurred, particularly in a community like
4 ours which has -- had been so adept at growing for so
5 many years.

6 COMMISSIONER GEORGIU: You're not alone in
7 being among those who didn't anticipate it. We've heard
8 from -- most of our witnesses I would have to say
9 suggested that they didn't really anticipate the crisis
10 or the, the, the drop in the housing market that impacted
11 so many securities and other financial assets that were
12 in the balance sheets of many of these institutions.

13 I, I want to press you just a little bit more
14 on it. I wonder whether we all didn't abandon some
15 intellectual discipline during this period.

16 I mean, isn't it the case that it's often
17 difficult to announce that the emperor has no clothes, or
18 to say anything in the face of a rising tide that
19 suggests a degree of caution?

20 But I think it's -- it's fair to say that
21 now -- sorry, fair to say that now we understand that
22 there were difficulties that probably should have, should
23 have been known to everyone, and people seem to either be
24 afraid to say them or, or reluctant to say them.

25 Do you have any thoughts in that regard?

1 WITNESS AGUERO: Commissioner, I think I would
2 tend to disagree that people were just overall ignoring
3 that the problem existed or that they knew or should have
4 known that a decline on the order that we've seen today
5 was inevitable or nearing.

6 Again, I think it's important to note that
7 there were many analysts who said that the level of
8 growth would not be sustainable. And certainly there was
9 an expectation that it would slow.

10 But the -- the steepness and the depth of the
11 decline, the length at which we are going to drag along
12 the bottom, I think is something that at least very few,
13 if any, sort of saw coming. And if they did see it
14 coming, I don't know that people would be willing to
15 believe them, because -- because history was just not on
16 their side in terms of the rate at which we declined.

17 I mean, let me just give perhaps an example
18 that, that may be somewhat level. Right?

19 COMMISSIONER GEORGIU: Certainly.

20 WITNESS AGUERO: You know, a homeowner, many
21 homeowners, not just the speculators and those types of
22 things that came in, in order for them to have, have
23 visualized and -- to have played the market properly,
24 right, in order for them to have known, an individual
25 homeowner would have had to buy their house in about

1 2000, sell their house in 2007, become a renter for a
2 couple of years, and now get back in the market.

3 I don't know anyone who logically thought
4 about that. Right. In order for a business person, a
5 lot of home equity -- home equity -- a lot of private
6 equity transactions for all different types of businesses
7 occurred in Nevada and outside of Nevada during that
8 period. Investors who had an expectation of future
9 growth and incredible access to capital which was before
10 unavailable were making offers on businesses and capital
11 assets that were worth more.

12 Those businesses would have had to say no, I'm
13 not willing to sell. Right? And I mean, a combination
14 of those two things, we expect individual customers to be
15 profit-maximizing consumers. And, you know, when the
16 situation presents itself where they get that far out in
17 front of that, no doubt it was unsustainable in any
18 number of ways.

19 Just circling back to your, to, to the
20 question that you asked, I don't think that analysts or
21 business people were intentionally -- most -- were
22 intentionally trying to play hide the ball, because while
23 they expected a slowdown, I don't think they expected a
24 crisis.

25 COMMISSIONER GEORGIU: Understood.

1 But it's also the case that even homeowners
2 and private equity investors and others were loading
3 substantial amounts of leverage and debt on the assets
4 they were buying, which of course in a modest down-market
5 starts to hurt, and that's what we've seen, have we not?

6 WITNESS AGUERO: Commissioner, yes, although
7 if I can offer one piece of context toward that
8 statement, right. The homeowner in 2005 may have taken
9 out a hundred percent loan-to-value mortgage on their
10 home. By the time they got to 2007, they had \$150,000
11 worth of equity.

12 COMMISSIONER GEORGIU: Right.

13 WITNESS AGUERO: Right? I mean, same thing is
14 true in the commercial markets. You know, we built more
15 hotels and casinos on the Las Vegas strip because we had
16 a 90 percent occupancy and had reported double digit over
17 double digit growth in average daily room rates.

18 The idea that debt was larded on solely for
19 the sake of extending debt and overleveraging to buy
20 something else is true in some cases. We know, for
21 example, that people took out home equity mortgages in
22 order to buy a boat or take a vacation or those type of
23 things. My testimony was aimed directly at that because
24 it bolstered consumer spending. But right here in our
25 own back yard so much of those investments were under the

1 expectation that they weren't bringing on as much debt,
2 but that that asset would be worth significantly more in
3 12 months. And, and for three years they were absolutely
4 right.

5 COMMISSIONER MURREN: I'd like to yield two
6 minutes to Commissioner --

7 COMMISSIONER GEORGIU: I won't use all of it.
8 I'll ask a tough question and ask you to give us a short
9 answer.

10 How do you see us coming out of it here in the
11 State of Nevada?

12 WITNESS AGUERO: I think we have a large, a
13 long road to hoe.

14 But that said, I believe in this community. I
15 believe this community has been resilient and resourceful
16 through a handful of economic downturns, and I think we
17 will again.

18 You ask me how do we come out of it. I think
19 that that's going to come from doing many of the things
20 that we did right for the past 30 years. I don't think
21 that our prosperity over the past 30 years was somehow by
22 accident. I don't think that we were merely in the right
23 place at the right time.

24 We, we took advantage of an incredible run-up
25 in the economy. We are now being penalized on the back

1 end of that. Those two things shall pass. And when they
2 do, I believe that the fundamental underpinnings of this
3 economy will continue to be strong, and that we will come
4 out of it healthier than when we started. But it's going
5 to take -- this, this recovery is going to be measured in
6 years not months.

7 COMMISSIONER GEORGIU: Thank you very much,
8 Mr. Aguero.

9 COMMISSIONER MURREN: Thank you.

10 I'd like to now yield to Chairman Angelides.

11 CHAIRMAN ANGELIDES: Great. Thank you very
12 much.

13 Let me ask some questions that give a little
14 more texture to what happened here in the run-up.

15 First of all, just a clarification, you
16 mentioned eight percent vacancy. Was that among owner
17 single-family detached units?

18 WITNESS AGUERO: No, sir. That is among all
19 residential housing units.

20 CHAIRMAN ANGELIDES: So it includes
21 multi-family?

22 WITNESS AGUERO: It includes multi-family.

23 CHAIRMAN ANGELIDES: Okay. Have you, have you
24 broken them out as between owner-occupied and
25 multi-family?

1 WITNESS AGUERO: I don't think we have that
2 number that we can give you.

3 CHAIRMAN ANGELIDES: That's fine.

4 WITNESS AGUERO: But I'll make sure that we
5 follow up on --

6 CHAIRMAN ANGELIDES: What was the excess
7 inventory number, currently --

8 WITNESS AGUERO: We estimated between 40 and
9 60,000 units. It depends --

10 CHAIRMAN ANGELIDES: Currently on, on the
11 market?

12 WITNESS AGUERO: Unoccupied on the market
13 available today for --

14 CHAIRMAN ANGELIDES: Unoccupied. Okay. So
15 that's just not units for sale?

16 WITNESS AGUERO: Units for sale -- the reason
17 that we're looking at that in terms of vacancy numbers,
18 if, if, if -- a large share of our units for sale are
19 unoccupied, but if the unit is occupied, and available
20 for sale, that person is presumably going to move
21 from one place to another.

22 CHAIRMAN ANGELIDES: All right.

23 Let me follow up actually in a little
24 different vein than what Mr. Georgiou was talking about.

25 I want to talk about when this market actually

1 peaked.

2 Yesterday we were in Bakersfield, it was
3 actually instructive because, you know, no disrespect to
4 economists, we did talk to a number of practitioners in
5 the real estate market, and having been that myself in
6 the Sacramento region, what we began to see, for example,
7 at Bakersfield that was really laid out yesterday, was
8 really prices topping out in 2005, sales activity began
9 to dry up, you know, talked to builders who basically
10 said that the number of people coming to look at units
11 began to dry up.

12 When, when did the market actually peak here,
13 but in terms of sales price as well as volume of
14 activity, because just to add a little color to that --
15 why don't you tell me that, and then I want to take a
16 chronology from there.

17 WITNESS AGUERO: Mr. Chairman, I want to be
18 cautious about painting the entire economy with a single
19 brush. For example --

20 CHAIRMAN ANGELIDES: Let me narrow my
21 question.

22 I meant the single-family market.

23 When did it peak? When did sales top out?

24 When did volumes top out?

25 WITNESS AGUERO: The single-family residential

1 market peaked out in about late, late 2007 when housing
2 prices hit their peak, those type of things.

3 But with regard to the construction of
4 underlying housing units and those type of things, our
5 construction industry peaked out in late 2006. We
6 started seeing construction workers -- the number of
7 construction workers start to fall off.

8 In 2007 and '8 we saw housing prices -- again,
9 different areas of the State peaked at different times --
10 2007 and '8 we started to see housing prices certainly
11 show degrees of instability, and the level of growth
12 followed by relatively significant declines.

13 CHAIRMAN ANGELIDES: So you peaked here --
14 because the national peak was around July, and markets
15 began to shut down in the 2005 period where it began to
16 peak out. You're telling me the peak here in Clark
17 County didn't come until 2007 in terms of pricing?

18 If you want to return to this later we can do
19 that. My clock is running.

20 She's brutal with the gavel. I'm not sure how
21 much time she'll give me.

22 WITNESS AGUERO: For new -- was that for new
23 home sales?

24 New home sales peaked in June of 2006.

25 CHAIRMAN ANGELIDES: In terms of volume or

1 pricing?

2 WITNESS AGUERO: That's in terms of volume.

3 I'm sorry. That's pricing. Okay.

4 CHAIRMAN ANGELIDES: Okay.

5 WITNESS AGUERO: And existing home prices

6 peaked in October 2006.

7 CHAIRMAN ANGELIDES: Okay.

8 WITNESS AGUERO: They hovered in kind of a

9 tight range after that.

10 CHAIRMAN ANGELIDES: All right. I mean, the

11 reason I ask is I've been trying to do the analysis

12 between when prices really peaked and when activity in

13 Wall Street peaked, and there was, you know, even after

14 prices began to fall, activity -- sales activity began to

15 drop, what we saw is continued securitization of product

16 all the way to kind of mid of 2007.

17 Let me ask one last question. And that is I

18 want to talk about the rhythm of, of foreclosures for a

19 minute. And if you were to over time talk about what

20 happened in terms of, first of all, what were the first

21 wave of early payment defaults -- I mean, if you were to

22 give me the texture of the foreclosure crisis, how much

23 of it and when were early payment defaults, people taking

24 loans and defaulting right away; how much of it was

25 precipitated then by declining home prices; how much of

1 it and when was precipitated by the loss of jobs?

2 If you were to give me the rhythm behind the
3 foreclosure crisis itself.

4 COMMISSIONER MURREN: Yield two minutes to the
5 Chairman.

6 CHAIRMAN ANGELIDES: Thank you.

7 WITNESS AGUERO: Mr. Chairman, the outset of
8 the foreclosure crisis was largely the -- the first wave,
9 if you will, was largely a function of, in, in fear,
10 right, the housing prices start to decline, and
11 investors, particularly, starting to work their way out
12 of the, the -- of homes that they were concerned were
13 just no longer a viable investment.

14 By the time we got to the middle of the
15 crisis, really between late 2007, throughout all of 2008,
16 then it became a mixture.

17 We've looked once, and I believe my colleagues
18 can remind me if my dates are off somewhat, but I believe
19 we looked at it in the second quarter of 2008 where we
20 broke down foreclosures by how many foreclosures were
21 owner-occupied versus non-owner occupied. I think it was
22 actually the first quarter of 2008. That was about a
23 60/40 split between non-owner occupied foreclosure
24 activity versus owner-occupied foreclosure activity.

25 Now, from that point forward, however, those

1 numbers started to switch. And by the first quarter of
2 the following year, that was a 60/40 split the other way.

3 And now what we're seeing is of course people
4 are losing their homes because other folks have lost
5 their homes. Right? There's -- of course there's a
6 significant amount of strategic default continuing in the
7 market today, but with the loss of equity being so
8 significant, today the vast majority of foreclosure
9 activity appears, based on the data, to be tied to
10 individual residential owner-occupied housing units as
11 opposed to the, the investors which spearheaded that
12 foreclosure activity during the first part of that
13 crisis.

14 CHAIRMAN ANGELIDES: Well, let me just
15 quickly -- I'm going to ask you if you can provide some
16 information. You don't need do it now, unless it's at
17 the tip of your tongue.

18 I'm interested, I was looking at some of your
19 charts on the nature of the activity, how much was
20 refinance, how much was non-owner occupied, you know, a
21 quick look at your charts tells me that, for example, in
22 2004 about 40 percent of the activity in Clark County
23 was -- or Nevada, I can't remember the chart -- was
24 essentially owner-occupied purchase, the balance was
25 refinance, non-owner occupied.

1 I'm just curious if you have any numbers --
2 and if you don't, you can provide them to us -- do you
3 know how much of the activity in the run up of that
4 activity -- 2004, 2005, 2006 -- were first-time
5 homebuyers, because a lot of this debate has been about,
6 for example, promoting homeownership. And if you have it
7 available, great. Great. If you can provide it to us,
8 it would be very helpful to see the complexion of how
9 much of this activity was actually related to the
10 first-time homebuyers.

11 WITNESS AGUERO: Mr. Chairman, that's not
12 something that I have off the tip of my tongue. We'll
13 look into it and try and provide whatever information is available.

14 CHAIRMAN ANGELIDES: And if you could also
15 provide some rent, owned, cost ratios and debt-to-income
16 levels so we can see how this market skewed over time.

17 WITNESS AGUERO: Yes, sir. Thank you.

18 COMMISSIONER MURREN: Thank you.

19 Vice-chairman Thomas.

20 VICE CHAIRMAN THOMAS: Thank you very much,
21 Commissioner Murren.

22 Mr. Aguero, I was pleased and I was smiling when you
23 indicated you were fourth generation responsible for
24 fifth generation occupants of Nevada, because all of us
25 have seen the enormous growth. And it used to be odd

1 when you could find two people in the room who were
2 native Californians, but we've reached a population basis
3 where we're big enough that that's no longer a
4 phenomenon.

5 And I'm very familiar with growth. That's one
6 thing about coming from southern California. My folks
7 moved out to the country, it was called Orange County, in
8 1953. And we moved to this little sleepy town called
9 Garden Grove. In 1953 there were 2500 people in Garden
10 Grove. And in 1960 it incorporated as a City of 60,000.
11 That was typical of the kind of growth that I went
12 through in my formative years.

13 I also smiled at Commissioner Murren's comment
14 about whether or not some of the problems were caused by
15 outside forces.

16 Those of us who have watched Nevada -- all my
17 life -- think Nevada was created by outside forces. But
18 when you talk about Nevada, you talk about the growth,
19 the size, the importance of Nevada as a state, and that
20 clearly has occurred as a student, a teacher of political
21 science. It was fun watching those states who had one
22 member of the House of Representatives. That's the
23 default position. That's like South Dakota, North
24 Dakota. And then we've seen the evolution through the
25 political power as those populations came and stayed in

1 Nevada.

2 I envy Nevada in a certain way, and, frankly,
3 Las Vegas in this respect: You folks have control of
4 your own destiny, the State of Nevada, and the principal
5 population and economic location in Nevada, Las Vegas.

6 The Central Valley, just to give you an idea
7 of how comparative in terms of what we're doing, between
8 Bakersfield and Sacramento, has about three million
9 people. It's the fastest growing area in California.
10 The problem is that inside that state there are 32
11 million others who control our destiny. And we are not
12 able to make the kinds of decisions that we would like to
13 make.

14 You're the fastest growing state. We're the
15 fastest growing area in California.

16 You had cheap dirt, relatively speaking, and
17 people forget there is a Las Vegas, and then there is the
18 city and community of Las Vegas, which is an enormous and
19 growing city, but still it was cheap dirt.

20 We had local builders for a long time, and
21 then all of a sudden the outside builders with their
22 enormous cash were seeing opportunities, cheap dirt, came
23 in and drove those prices up, and, and put houses on the
24 market. You suffered that same relationship.

25 We're familiar with your growth. In fact, the

1 Southern San Joaquin, Kern and Solano County sent a few
2 folk here over here over the years, some of them
3 builders, and, in fact, some of them became Governor of
4 the State of Nevada.

5 So my, my point in, in bringing out these
6 comparative scenarios is if you talk about how much
7 you've grown as a state, and that you do have the ability
8 to control your own destiny, I look at some of these
9 numbers, and I'm just pulling out some stats as people
10 were giving them to us in the book, in '07 the
11 Fontainebleau project, a three billion dollar project,
12 that was in '07. You look at '06 in terms of the gaming
13 revenue coming in. And of course the classic five
14 billion dollar Echelon, they were still talking about
15 growing.

16 You can control that through planning. You
17 can get serious about a mature tax base, not one which is
18 still the inventive, we're different than everyone else.
19 If you're suffering the same problems as everyone else,
20 I'm wondering to what extent you begin to examine how you
21 can by your own boot straps to a very great extent deal
22 with this issue, because you're a whole lot more like we
23 are than we like to admit. You're a state,
24 notwithstanding the growth, a smaller state, in a larger
25 state structure.

1 COMMISSIONER MURREN: Yield to Vice Chairman
2 another --

3 VICE CHAIRMAN THOMAS: Two minutes, as
4 everybody is using two.

5 And as Byron said, I won't use it all.

6 We aren't going to be saved by outside forces.
7 I mean, that's pretty clear. We can do a lot about
8 making sure that those people who made a lot of money on
9 the way up, especially banks investing, other structures,
10 can now be part of the solution by quickly and
11 efficiently changing money relationships, loan
12 relationships. Why do you hold out, get a foreclosure
13 and get far less for it than you could have through a
14 very swift and appropriate short sale or some other loan
15 modification?

16 That isn't happening. We need to bring
17 pressure. And so since you're the only person on the
18 panel, and we don't have the chance to talk to others,
19 I'll aim it back at you.

20 I'm really more interested in how Nevada is
21 carrying out a self-assessment and especially Las Vegas,
22 about what do we do, just as we're looking at the
23 national level to make sure it doesn't happen again, and
24 we're beginning to move Federal legislation and other
25 activities to make sure it doesn't happen again, to what

1 extent do the citizens of Las Vegas believe they have the
2 ability to change patterns in the future and are
3 accepting that responsibility, especially as a fourth
4 generation?

5 COMMISSIONER MURREN: I --

6 VICE CHAIRMAN THOMAS: You've got 30 seconds
7 to answer. But I'd love to have a written response in a,
8 in a more thoughtful way, because I'm here to hear how
9 people are going to realize they're the ones, along with
10 others, that are going to work our way out of this
11 problem.

12 COMMISSIONER MURREN: Mr. Aguero, I'd like to
13 yield a whole minute for your response and also to note
14 that our upcoming panel may also have some insights into
15 this issue.

16 Another minute, please.

17 WITNESS AGUERO: Thank you. A difficult
18 question, of course.

19 What I can tell you is that in my brief
20 experience, this community has come together like I've
21 almost never seen it come together before.

22 Let me look at it in three ways, respecting
23 the fact that I have a brief time to do it.

24 Economically, fiscally and socially.

25 From an economic standpoint, I think we

1 recognize that when 13 percent or 12 1/2 percent of your
2 employment is in the construction industry, that's
3 dangerous, and we have to be cautious about that.

4 But the local government's responsibility is
5 to manage growth as to opposed to dictate it, which I
6 think we are cautious about.

7 With regard to our fiscal problems, we have a
8 2.9 million dollar shortfall at the state general fund
9 level. And I think folks from the business community and
10 otherwise, legislators, business folks, from everywhere,
11 have recognized the shortcomings of that and are talking
12 about ways to remedy our system. I don't know that it
13 will ever --

14 COMMISSIONER MURREN: Another 30 seconds.

15 Go ahead.

16 WITNESS AGUERO: Thank you, Ma'am.

17 -- I don't know that it will ever go the way
18 of California or that there is a desire to go that way.
19 But nonetheless we are going to have to take greater
20 responsibility for our own costs.

21 With regard to the social aspects, it was real
22 easy to sweep some of the social problems under the
23 carpet when it wasn't your friends, your neighbors, your
24 former colleagues that were unemployed or dealing with
25 those type of things. Today that is in our face every day. Every time

1 you go to work you see vacant space. Every time you go
2 home, you see foreclosed housing units.

3 We all understand that --for those of us who
4 have -- who are lucky enough to still be afloat, that is
5 our responsibility to take care of not only our own
6 families but to help this community as well.

7 VICE CHAIRMAN THOMAS: Thank you very much.

8 COMMISSIONER MURREN: Thank you.

9 VICE CHARMAN THOMAS: Thank you, Commissioner.

10 The first step in, in, in sobering up is
11 understanding that you need to. That's one of the
12 messages that I think we're long overdue in getting all
13 across the country.

14 Thank you very much for your testimony.

15 COMMISSIONER MURREN: Commissioner Born?

16 COMMISSIONER BORN: Thank you very much,
17 Commissioner Murren, and thank you Mr. Aguero, and thank you for appearing
18 before us.

19 The Commission has a mandate to investigate
20 the causes of both the, the financial crisis and the
21 economic crisis that the country is still experiencing.
22 And most of our hearings up until now have tended to
23 focus, in both Washington and New York, on the financial
24 crisis that has spilled over into the economy and had

1 such a devastating affect on Nevada and other communities
2 throughout the, the country.

3 I was struck -- and, and want to thank you
4 very much for the very detailed analytical materials you
5 provided to us about the Nevada economy -- I was struck
6 by how devastated Nevada has been, and how it leads the
7 nation in a number of unfortunate impacts that you have
8 provided us information on.

9 And I wanted to ask you, in your opinion, what
10 made Nevada so vulnerable to the economic devastation
11 from the financial crisis?

12 WITNESS AGUERO: Commissioner, thank you.

13 What made us so vulnerable was the structure
14 of our underlying economy. The two largest sectors of
15 Nevada's economy overall were construction and tourism.
16 Not in that order, tourism and construction.

17 Tourism, of course, bolted by the fact that
18 people were spending money they didn't have, and today of
19 course we've learned, we've become -- it's become
20 increasingly clear that it's a lot easier to spend money
21 that you don't have than to pay back money that you don't
22 have.

23 Beyond that piece, you know, the construction
24 element itself, of course was the ready access to cash.
25 Financial institutions were leveraging assets in order to

1 try and generate greater returns. And nowhere in the
2 United States -- I would argue -- does that confluence of
3 events impact more than a place that's growing faster
4 than anywhere else in the United States and has rel- --
5 relatively low cost underlying capital assets, like we
6 did..

7 COMMISSIONER BORN: You've provided us with a
8 lot of detail about -- and we've discussed at this
9 hearing -- a lot of detail about the impact on the
10 housing markets.

11 What has been the impact on commercial real
12 estate in Nevada, and has that been a negative as well?

13 WITNESS AGUERO: Commissioner, the answer to
14 that question is yes.

15 Office, industry and retail vacancies are at
16 all time highs in the State of Nevada. That market is
17 running about 18 months behind the residential market
18 today. But we've seen prices continue to decline even as
19 vacancies continue to rise.

20 The value of underlying land is also falling.
21 We have about a six to seven year inventory of office
22 space on the market today at historical average vacancy
23 rates and in excess of three to four years, both
24 industrial and retail.

25 So the direct answer to your question is the,

1 those commercial markets that also overbuilt are now
2 dealing with longer than expected lease out periods,
3 lower than expected lease rates, and declining values.
4 So certainly delinquency in the commercial markets are
5 problematic as well.

6 COMMISSIONER BORN: Have you seen any
7 turnaround yet in the Nevada situation, or are things
8 still deteriorating?

9 WITNESS AGUERO: Well, I think that if we're
10 looking sort of for signs of improvement, there are some
11 out there. Visitation is increasing to some degree. The
12 rate at which we're losing jobs is not nearly what it was
13 before. And those types of things are remarkably
14 encouraging.

15 That said, the overwhelming weight of economic
16 evidence would simply tend to suggest that we are perhaps
17 hitting a plateau at a lower level as opposed to seeing a
18 meaningful decline. Today with 195,000 people actively
19 looking for work, the highest unemployment rate in the
20 country, it's tough to suggest that we've seen any type
21 of recovery until we start to recover some of those jobs
22 that have been lost.

23 COMMISSIONER BORN: Could I ask one more
24 question?

25 COMMISSIONER MURREN: Yes, one minute.

1 COMMISSIONER BORN: In light of the situation
2 in Nevada, I'm concerned about how long the adverse
3 effects of the economic crisis are going to continue here
4 and how long the eventual recovery is going to take.

5 Do you have any views on that?

6 WITNESS AGUERO: Commissioner, I think that
7 the recovery is going to be different for different
8 groups of people. Those that were in the construction
9 industry of course are seeing a 50 percent unemployment
10 rate.

11 You know, the tourism industry is showing some
12 signs of recovery. We're seeing, you know, health care
13 is doing better than other sectors. So I think the
14 recovery would be somewhat different.

15 But I would certainly suggest to you that the
16 residual affects of this economic downturn on this
17 community will be long. They will be borne by my
18 children in some ways.

19 The mindset is different, the economy is
20 different, and as Vice Chairman Thomas said, we're going
21 to have to change the way we do things.

22 So the residual effects of this economic
23 downturn will be long-lasting if not permanent in nature.

24 In terms of the overall recovery, I think we
25 will plateau for a year maybe two, and then the growth

1 will be slight from here. It's no longer helpful to
2 think about, you know, when do we get back to 2006 or
3 2007 or peak levels. That is neither helpful nor
4 productive in today's economy. But what we are looking
5 for today is some stabilization, growth, from a
6 sustainable level. And we're seeing some signs of that
7 already today.

8 COMMISSIONER BORN: Thank you very much.

9 COMMISSIONER MURREN: Thank you.

10 Commissioner Thompson?

11 COMMISSIONER THOMPSON: Thank you very much,
12 Commissioner.

13 Mr. Aguerro, thank you very much for joining us
14 this morning.

15 As we spoke with people in Wall Street and
16 Washington, many described the events that led up to the
17 crisis and the crisis itself as the perfect storm. That
18 metaphor conjures up the notion that it's unpredictable,
19 it's unforecastable, it's unprecedented, it's "un"
20 everything.

21 You could also say that when some people say
22 gee, that seems like it's too good to be true, perhaps it
23 wasn't true.

24 So my questions will go back to a line of
25 questioning that Commissioner Georgiou was on. And that

1 is let's start with who are the clients for your firm and
2 what kind of advice were you giving them leading up to
3 the bubble?

4 WITNESS AGUERO: Well, the clients that we
5 have are relatively diverse. If we look at the clients
6 that we had going back to 2003, '4, '5, '6, on the
7 private sector side, the questions were different than
8 they are today. Right?

9 And we were leading up to this bubble, the
10 questions weren't, you know, what about a housing
11 foreclosure crisis and those types of things. The
12 questions were how are we going to get enough employees
13 into southern Nevada, particularly, to fill all the jobs
14 that we're going to be creating.

15 The question wasn't are we going to stop the
16 development of the Ivanpah Airport expansion. The
17 question was how fast can we get the Ivanpah Airport on
18 line because we're not going to have enough air lift to
19 fill the hotel rooms that we're building. Right?

20 From a construction standpoint, I think there
21 was a recognition that there was becoming an increasing
22 disconnect between how many housing units we were
23 constructing and how many jobs we were actually creating,
24 which had a potential of a bubble. But to be sure,
25 although we offered caution, in some areas where we

1 thought opportunity existed in some places, the idea that
2 housing prices would be cut in half, and what steps we
3 would recommend to a client if that were to occur, or the
4 fact that, you know, so much consumer spending was
5 predicated on absolutely unsustainable levels of
6 consumption fueled by home equity extraction -- although
7 we recognized some of that -- the extent and what we
8 recommended essentially wouldn't have been there.

9 COMMISSIONER THOMPSON: So were your clients
10 principally the builders, or were they the local
11 government officials?

12 Who, who was driving the research that you --

13 WITNESS AGUERO: Our firm does -- probably 60
14 percent of our research is for the private sector and 40
15 percent for the public sector. So our research was
16 across the board.

17 And, you know, in terms of questions we were
18 dealing with from the public sector side was, you know,
19 property taxes had escalated by so much, we worked with
20 the state Legislature in order to put property tax caps
21 on so they couldn't increase as much as they did.

22 We were -- we were managing the problem in
23 two-year increments as opposed to taking a vision as to
24 where this was going to lead us 20 years from today.

25 COMMISSIONER THOMPSON: So if I can follow

1 this just for a moment, if 60 percent or more of your
2 clients were the private sector, they were anxious for
3 the happy talk, so the more happy talk that you could
4 provide to talk up the economy was really in their best
5 interest?

6 WITNESS AGUERO: Well, we're analysts not
7 advocates, first of all. So our job is to analyze the
8 markets as we see them as opposed to trying to advocate on behalf of a
9 position for someone who wants to build an office
10 building or a hotel casino or those types of things.

11 We try to base everything based on supply and
12 demand. What is the expectation for population growth
13 and how many housing units are we going to need. In
14 terms of happy talk, that doesn't come into what we're
15 going to do.

16 Certainly when you're over viewing the economy,
17 you're not going to ignore the fact that the economy had
18 been growing faster than any other economy in the whole
19 United States.

20 Certainly the, the clients enjoy that.
21 Certainly when we look historically at the opening of
22 major hotels and casinos, back to 1989, when Mr. Wynn
23 opened the Mirage, and how those major openings had
24 buoyed employment growth in every other sector, to be
25 sure we pointed out those cycles and identified them.

1 But on the other hand, we also tried to provide some
2 caution.

3 If the answer that you're seeking is
4 you know, did we exacerbate the problem by trying to,
5 look only, look at this economy through only rosy glasses
6 and ignore all the risks that were out there, I would
7 submit to you that did we foresee the full extent of the
8 downturn? By no means whatsoever. But were we in any
9 way trying to look -- have blinders on and simply tell
10 our clients only what they wanted to hear, and that
11 everything was all right, absolutely not. I mean that,
12 that, that wasn't the case from us. And I don't think
13 that was the case for anyone that I know in the
14 community.

15 COMMISSIONER MURREN: Do you need more time?

16 COMMISSIONER THOMPSON: No, I'm fine. Thank
17 you very much.

18 COMMISSIONER MURREN: Thank you.

19 I'd like to thank you for testifying today and
20 for answering our questions. And I do recall that you
21 have data to submit to us as well in follow-up.

22 I'd like to take a five-minute break, and then
23 we will move on to our second panel, which is the impact
24 of the financial crisis on the business community.

25 So at promptly 10:32 we will reconvene.

1 Thank you.

2 (Whereupon a recess was taken.)

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1 SESSION 2: THE IMPACT OF THE FINANCIAL CRISIS
2 ON BUSINESSES OF NEVADA

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4
5 COMMISSIONER MURREN: We will now reconvene
6 the meeting of the Financial Crisis Inquiry Commission
7 Field Hearing in Las Vegas.

8 Our second panel, it is my pleasure to
9 introduce four of our leading business executives,
10 gentlemen who have been great participants not only in
11 the building of our best sector of our community, but
12 also helpful and generous in philanthropic efforts, and
13 people that have also helped to shape Nevada and
14 hopefully will also help us as we move forward in
15 continuing to make progress.

16 Our comments today will actually focus on the
17 impact of the crisis on the business community.

18 And as is our custom with all of our
19 witnesses, I would like to ask all of you to rise, and I
20 will swear you in.

21 If you could please raise your right hand. Do you solemnly
22 swear or affirm under penalty of perjury that the testimony you are
23 about to provide the Commission will be the truth, the whole truth, and
24 nothing but the truth to the best of your knowledge?

25 WITNESS HILL: I do.

26 WITNESS MURRAY: I do.

1 WITNESS MARTIN: I do.

2 WITNESS SATRE: I do.

3

4 COMMISSIONER MURREN: Thank you.

5 And we will proceed with our testimony, starting from left to
6 right.

7 Mr. Hill, if you could begin?

8 WITNESS HILL: Mr. Chairman -- Mr. Chairman,
9 Members of the Commission, I want to thank you for the
10 opportunity to be here today. I appreciate you taking
11 the time to come to Las Vegas.

12 As Jeremy pointed out during the last
13 session --

14 VICE CHAIR THOMAS: Mr. Hill, if you'll take
15 your notebook and put it on, then you free your hands up.
16 We learned it up here, that it works a whole lot better,
17 because then you can concentrate on what you want to
18 better. And you don't have to hold the button down.

19 CHAIRMAN ANGELIDES: The other Greek American
20 Commissioner did that as a point of necessity since we
21 always talk with our hands.

22 WITNESS HILL: Well, I'm trying to learn not
23 to do that, but I appreciate the tip.

24 My name is Steve Hill. I am currently the
25 senior vice president for CalPortland.

26 Is that not working?

1 COMMISSIONER BORN: Maybe you need to get the
2 microphone a little closer.

3 VICE CHAIRMAN THOMAS: No, there's a
4 connection problem. It's cutting in and out.

5 CHAIRMAN ANGELIDES: Gretchen, maybe check the
6 mike next to him.

7 VICE CHAIRMAN THOMAS: See if Mr. Martin's
8 mike works.

9 WITNESS MARTIN: This is mine.

10 VICE CHAIRMAN THOMAS: Did you pay for that
11 microphone?

12 WITNESS HILL: Is that better?

13 VICE CHAIRMAN THOMAS: Yes.

14 WITNESS HILL: Great. Thank you.

15 My name is Steve Hill. I'm the senior vice
16 president of Cal Portland, which is an international
17 cement and concrete and sand and gravel company.

18 I moved to Las Vegas 23 years ago at the
19 behest of a gentlemen I met in Ohio who later moved to
20 Florida, felt like Las Vegas was going to be a great
21 place to do business, and for 20 years he was right.

22 I'm fortunate that we were able to, to sell
23 our company, and -- one time in 2006, and again in 2008.

24 And I'm now an employee of a company who, who
25 has the wherewithal to make it through these difficult
26 times.

1 I'm the media past chair of the Las Vegas
2 Chamber of Commerce. I'm currently chair of the State
3 Policy Task Force there. I recently was named Chairman of Servicelst
4 Bank.

5 I was asked to focus my testimony on the
6 effect of the financial crisis on small business in the
7 construction industry. As Jeremy pointed out, Nevada has
8 been as hard hit or harder hit than any other community
9 in the country.

10 We have 190,000 people out of work, a hundred
11 thousand who are underemployed. The effect on them is an
12 often overused word "devastating," but I don't know that
13 there is a better word to use in this situation.

14 So many people in our community are having to
15 look to start over at an age often that they had no
16 intention of, of doing so, and certainly are struggling
17 to figure out how to do that.

18 And it's hard to separate the impact on
19 individuals from the impact on small businesses because
20 for many small businesses, particularly those with 25 or
21 fewer employees, their personal lives and their business
22 lives are so intertwined. They borrow money against
23 their personal assets in order to start those businesses.
24 They often are the source of their paycheck. Maybe the
25 paycheck for their families. So a failure of their
26 business often means a personal bankruptcy.

1 The, the major issue that, that small
2 businesses have now is one of demand for their products and services.

3 Many of these businesses were started during
4 the great times that we had. They expanded their
5 capacity in order to take care of their customers and new
6 customers. And then that demand began to shrink as the
7 economic crisis began to take hold.

8 Striking their costs as quickly as that demand
9 shrinks is very difficult to do. Certainly there are
10 fixed costs, and often it means laying off employees who
11 may be family members, certainly are friends and close
12 associates. They hesitate to do that. It often means
13 not taking a paycheck themselves.

14 The credit freeze that was discussed earlier
15 certainly hurts small business. But small businesses
16 obtain credit by showing they have the ability to pay
17 that credit back. They've done that through mortgages on
18 their homes, and other assets, they have done that
19 through showing the ability to generate profits into the
20 future. When those values drop, their creditworthiness
21 drops as well.

22 In the past, small businesses were able to
23 borrow money against credit that they had extended to
24 their customers. It's now questionable whether their
25 customers are going to be able to pay what they owe.
26 Borrowing money against those receivables then becomes

1 much more difficult to do.

2 We can look back now and, and see that
3 mistakes in judgment were made. And the issue of
4 responsibility that was addressed earlier for those
5 mistakes in judgment, I think we all have to take
6 responsibility. And maybe one lesson that we should
7 learn is that while we are -- make decisions when we are
8 probably going to be correct, we need to remember that we
9 might be wrong. And for 20 years it was hard to be wrong
10 in Las Vegas. And that, that period of time with that
11 consistency of profitability and growth certainly lulled
12 most of us to sleep.

13 We've, we've talked about the projections for
14 Las Vegas. And maybe in the written testimony that
15 Jeremy has given you he's shown the correlation between
16 hotel rooms and jobs in the community. That correlation
17 existed for a long time.

18 As we look to the future, if we allow that
19 correlation to continue to exist, we are going to be a
20 stagnant economy, because we are not going to build
21 rooms.

22 One of the things that Nevada needs to do in
23 order to recover from this crisis is to take hold of our
24 own financial future, determine what industries, three or
25 four, a focused effort on three or four industries that

1 we can bring to Nevada that will drive growth into the
2 future like the gaming industry has in the past.

3 Thank you for your time.

4 COMMISSIONER MURREN: Thank you.

5 Mr. Martin?

6 WITNESS MARTIN: Thank you.

7 Mr. Chairman, Madam Chairman and
8 Commissioners, guests and other attendees, thank you for
9 the opportunity to appear before your hearing today.

10 You have asked that I provide my personal
11 perspective on the causes of the financial crisis.

12 VICE CHAIRMAN THOMAS: Mr. Martin, why don't
13 you just take back the mike that you had before because
14 that one is busting up as well.

15 I know you guys aren't used to sharing things,
16 but it's a good idea this time.

17 WITNESS MARTIN: I'm married. I'm trying to
18 share. It's not going well.

19 VICE CHAIRMAN THOMAS: That's more than
20 enough.

21 WITNESS MARTIN: What caused our local impact
22 to be far more severe than most all other areas of the
23 country, the current ability of my bank to extend credit
24 to local businesses, the ability of community banks to
25 access credit from other financial institutions, and any

1 specific trends I have witnessed since the onset of the
2 crisis.

3 There is very little prospect that I can
4 possibly bring a new light to the already well-discussed
5 and argued cause of the national financial and economic
6 crisis and all the components that came together in the
7 perfect storm.

8 While there has been a great deal of blame
9 placed on Wall Street, government officials and their
10 lack of regulatory oversight, elected officials pushing
11 aggressively for liberal lending to promote home
12 ownership, and a host of other targets -- and there's
13 certainly a lot of blame to be shared by all of the
14 above and more -- but whatever fractional blame each shares,
15 it is my view that it was all fundamentally made possible
16 by too much liquidity in the system.

17 Banks had deposits floating in the doors, and
18 investors were flush. And all that liquidity needed to
19 be profitably employed by banks, by individuals, by
20 investment firms and investment partnerships.

21 The, the economy was strong in expanding, and
22 lending investment opportunities abounded. Too much
23 money chasing too few opportunities historically leads to
24 heightened risk-taking through lessening of lending and
25 investment standards.

1 But those lessons learned are often forgotten
2 in times of great prosperity. You may recall Tommy Lee
3 Jones in Men in Black where he holds a device in the air,
4 and with a bright flash wipes clean the memories of
5 everyone who has witnessed an alien event. I have a
6 theory that this is also -- often occurs in times of
7 great prosperity when everyone is smart because every
8 loan and every investment turns out perfectly. When in
9 actual fact, a rising tide lifts all ships, and
10 seemingly, with a great flash, all the prior lessons
11 learned from risk -- all prior lessons -- all prior
12 lessons learned about risk are forgotten.

13 In the case of Nevada, this excess liquidity,
14 seeking high and quick return, poured into the
15 State allowed for extremely high levels of speculative
16 investment and tricked us into believing that almost 20
17 years of spectacular growth was only a predictor of
18 greater things and profits to come.

19 I've heard as much as 26 percent of our
20 housing sales in the later years of the boom were to
21 investors, thus creating an artificial demand, because
22 the purchaser was not the end-user.

23 The same was true of raw land speculation
24 where financing was plentiful, mostly from hard money
25 lenders but also from a few liberal bank lenders.

1 All of this helped to pump the fuel, cash,
2 into the system and send values higher and higher. Trees
3 really do grow to the, the sky it seemed.

4 Home ownership for all, no matter whether an
5 occupant or a speculator, and even for buyers of multiple
6 new houses. I recall an article in the Las Vegas Review
7 Journal in early 2007 in which a lady had purchased 16
8 homes, and they were all financed by Countrywide
9 Mortgage. And the article was about her defaulting on
10 all 16 homes because she intended to flip them and make a
11 profit. And there were no buyers.

12 Homeowners took advantage of their rapidly
13 inflated home values for refinance and used the proceeds
14 for purchase of automobiles, recreational vehicles and
15 even other homes for speculation.

16 While Las Vegas has clearly suffered more,
17 this template fits most of the nation. The homebuyer,
18 the investor, the mortgage loan officers, the mortgage
19 companies, the GSEs, investment bankers, and through to
20 the buyer of the mortgage-backed securities, everyone was
21 making so darn much money that some efforts to bring
22 control and order to this situation in 2001 never got
23 traction, mostly I think because it was just all too good
24 for too many people.

25 And our local economy became funded by

1 ill-conceived housing sales schemes, inflating real
2 estate.

3 As the former Controller of the Currency
4 testified in the late '70s before a senate banking or
5 house banking, and they asked why no one put a stop to
6 these very similar highly profitable schemes, he said,
7 Congressman, no one wants to be the skunk at the garden
8 party.

9 The gaming industry, likewise, had extremely
10 optimistic views of the future, spending billions on new
11 and expanded projects, creating thousands of new rooms,
12 more demand for construction workers, and this massive
13 employment was further a huge contributor to the economy.
14 And all this created jobs and new residents which meant a
15 need for more retail businesses and more office space for
16 new businesses and expanding businesses. And banks
17 finance those deals, because that's what banks do, to,
18 to create --

19 COMMISSIONER MURREN: Mr. Martin, if you could
20 summarize, please.

21 WITNESS MARTIN: Yes, I'm very close.

22 Retail centers, office centers were mostly
23 pre-leased for construction. But when completed, there
24 were no buyers and no renters.

25 In closing, everyone in this room, our

1 parents, or our grandparents, experienced the Great
2 Depression, and it changed their view on financing and
3 savings and their life all together.

4 Fast forward 80 years, we all had it pretty
5 easy for many years in this country. Jobs were easy to
6 find and paid well. Houses and cars and luxuries were
7 readily available, and maybe it all came too easy.

8 Too much could be obtained without really
9 working for it. Everyone living through these years,
10 like our parents and grandparents, will likely be changed
11 forever.

12 Just give me another chance, we say, I'll do
13 it differently. Good judgment comes from experience.
14 Experience comes from bad judgment.

15 COMMISSIONER MURREN: Thank you.

16 Mr. Murray?

17 WITNESS MURRAY: Good morning, and thank you
18 for inviting me to testify before the Commission.

19 My name is Wally Murray. I'm the president
20 and chief executive officer of Greater Nevada Credit
21 Union based in Carson City.

22 I also currently serve as the Chairman of the
23 Nevada Credit Union League, the State trade association
24 for the majority of credit unions in Nevada.

25 Credit unions have served an important role in

1 the national economy for over a hundred years, and we are
2 unique from other banking institutions in several
3 important aspects.

4 One of the most important of these differences is that
5 credit unions are financial cooperatives. This means
6 that we are organized, owned and controlled by the very
7 members that we serve.

8 Since about 96 percent of credit union
9 business comes from consumers, there is no way I can talk
10 about the business of credit unions without talking about
11 the business of consumers. There's undoubtedly a very
12 tight correlation between American families and their
13 credit unions. As a result the, the fortunes of credit
14 unions are very closely tied to the financial well-being
15 of our members. Therefore, when consumers, i.e.,
16 members, face financial adversities, their credit unions
17 are also significantly challenged.

18 These trials have caused a significant drain
19 on the credit union's financial capital within the State
20 of Nevada during these past several years.

21 As a result, for example, during 2009, four of
22 Nevada's 27 credit unions, or approximately 15 percent,
23 were forced by Federal regulators to either liquidate or
24 merge with healthier credit unions based outside of the
25 state due to their reduced capital basis.

1 While pursuit of this merge strategy by
2 regulators helps protect the Credit Union Deposit
3 Insurance Fund at the Federal level, the, the damage it's
4 causing to Nevada based credit unions and their members
5 will likely be irreversible.

6 At a time when credit unions have both the
7 demand from consumers for credit and liquidities to
8 support such lending activity, they're being directed by
9 an agency that's interested mainly in the view from the
10 30,000 foot level to avoid taking such actions.

11 This is occurring in spite of the, the fact
12 that credit unions have long been noted for having more
13 stronger loan underwriting standards than other type of
14 financial institutions.

15 As a result, Nevadans who have long relied on
16 their credit unions for assistance during times of
17 personal need are being forced to turn to other
18 alternatives that are often more costly to them individually.

19 In addition, credit unions having additional
20 liquidity that they cannot lend due to the aforementioned
21 condition, are being forced to manage their balance
22 sheets by reducing their deposit basis. This has
23 resulted in credit unions reducing interest rates on
24 consumer savings, which are historically among the most
25 attractive in the market so that they can rid themselves

1 of excess liquidity that they are unable to invest.

2 The sad result of these circumstances is that
3 credit unions within Nevada have been less able to meet
4 both the lending and deposit needs of their members at a
5 time when their families need them the most.

6 This has even led to regulatory pressures and
7 to curtailed loan modification efforts. Where my credit union,
8 for example, has modified roughly 49 million dollars in
9 mortgages over the last three years, helping 240 families
10 stay in their homes.

11 While there's probably relatively little to
12 offer on the causes of the national financial and
13 economic crisis beyond what the Commissioners have
14 already heard, hindsight does seem to clearly indicate
15 that a majority of - a major underlying root issue was
16 the aggressive pursuit of fostering of the American dream
17 of home ownership during the past generation for as many
18 people as possible.

19 This was certainly a popular political
20 position to take as evidenced by the litany of efforts
21 introduced in the past 15 to 20 years that were aimed in
22 that direction. However, it is now also clear that in
23 doing so, decision makers and implementers, including
24 credit unions, overlooked one vitally important
25 stabilizing factor, the need to ensure adequate financial

1 literacy of those seeking to own homes.

2 Throughout this period, significant
3 advances were made toward making the process of
4 buying a home and obtaining a loan easier to achieve.
5 However, very little was done in the area of ensuring an
6 adequate understanding of the consumers who were entering
7 into these very complicated transactions that would
8 impact them and their families for the years to come.

9 Without a full understanding of the risks and
10 responsibilities associated with the purchase of a home,
11 some people tended to be swept up in the euphoria that
12 can be associated with such a transaction.

13 I believe we are witnessing the fallout from
14 such a lack of education and hope we can learn from that
15 experience going forward.

16 This should serve as the impetus for requiring
17 that the responsible use of credit be incorporated into
18 the curricula of our schools at the secondary level as
19 has recently been done by the state legislature of Nevada.

20 We can also help avoid a repeating of the
21 mistakes of the immediate past by not allowing people to
22 enter into loan modification agreements without requiring
23 that they are first able to demonstrate some basic level
24 of financial acumen.

1 While this may sound somewhat burdensome for
2 an already troubled consumer, evidence is bearing out that
3 those who do not possess such capabilities have as little
4 chance of succeeding with their modified loans as they
5 did when those mortgages were first granted.

6 COMMISSIONER MURREN: Mr. Murray?

7 WITNESS MURRAY: Yes.

8 COMMISSIONER MURREN: Thank you. If you could
9 summarize.

10 WITNESS MURRAY: Thank you.

11 I will just say that I thank you and I
12 appreciate you having me here today, and I will answer
13 any questions that you have for me.

14 COMMISSIONER MURREN: Appreciate that. Thank
15 you.

16 Mr. Satre?

17 WITNESS SATRE: Good morning, and thank you
18 for the opportunity to join you this morning.

19 My name is Phil Satre. I moved to Nevada in
20 1975 from California. And in 1980 I began a career at
21 Harrah's Entertainment for 25 years.

22 Most of those years I was the president, CEO,
23 or chairman until I will retired in 2005. Those 25 years
24 were a period of explosive growth for the gaming
25 industry, both for the gaming industry here in Nevada and

1 elsewhere in the United States.

2 Our company expanded from two casinos in Reno
3 and Lake Tahoe to over 25 casinos, now over 40 casinos
4 throughout the United States and the world, and,
5 importantly, significant investments were made by
6 Harrah's while I was president and CEO in southern
7 Nevada, in particular with acquisitions of the Rio,
8 expansions of Harrah's Las Vegas, and then ultimately the
9 acquisition of Caesars.

10 After I retired, I began participation in a
11 series of not-for-profit and for-profit boards. On the
12 for-profit side, I joined the boards of Nordstrom, a
13 fashion retailer based in Seattle; Rite Aid Corporation, a
14 drugstore chain based in Harrisburg, Pennsylvania; and
15 two Nevada-based public companies of which I am in both
16 cases the chairman of the board -- NV Energy, Inc., the
17 investor-owned electric utility that serves all of the
18 commercial and residential electricity needs of Nevada,
19 and International Game Technology, which is the world's
20 larger developer and manufacturer of electronic games and
21 systems.

22 In both cases the largest Nevada customers for
23 NV Energy and IGT tend to be Nevada casino hotel
24 businesses in Las Vegas and to a lesser extent Laughlin,
25 Reno, and Lake Tahoe.

1 IGT and NV Energy in many ways to me mirror
2 the impact of the financial crisis in Nevada. The period
3 of 2000 to 2007 was a period of explosive growth for both
4 companies as the hospitality industry and the
5 construction industry in Nevada grew rapidly.

6 As the financial crisis took root in 2008 and
7 2009, both companies saw a drop in demand, a drop in
8 revenues, and their Nevada payrolls declined
9 significantly.

10 For NV Energy the total head count peaked at
11 3,244 employees in 2008 as we added new generation
12 facilities to meet the electric demands of residential
13 and commercial growth in Nevada, that had been leading
14 the nation in population growth for nearly 20 years.
15 Today 330 of those jobs are gone, along with an
16 additional 250 or so contract employees which were
17 eliminated at the same time.

18 Our load forecast which we present to the
19 Public Utilities Commission of Nevada and our integrated
20 resource plan have been reduced significantly as
21 population growth, unemployment, construction, and the
22 hospitality industry have contracted.

23 While the direct impact on NV Energy has been
24 moderated by the need for all of those customers to
25 continue to keep the, the lights on and their air

1 conditioning on, the outlook for new capital investments
2 and new job creation driven by our annual system peak
3 demand growth over the next ten years has been reduced
4 significantly.

5 For IGT, the financial crisis has had a much
6 more severe and much more direct impact. The company's
7 two main sources of revenue and profits are the sales of
8 slot machines and replacing those slot machines, and
9 revenue sharing slot machines placed on casino floors.
10 Those have reduced significantly, not only in Nevada but
11 throughout the United States and the world. We have a
12 significant world-wide sales effort.

13 In Nevada specifically, machine sales were
14 crushed by stalled and terminating casino hotel projects,
15 drastically reduced by capital budgets that had
16 contracted in order to pay higher levels of leverage that
17 our casino customers had taken on, and coupled with
18 reduced play on our revenue-sharing slot machines, our
19 customers, in our customer's casino, IGT's revenues have
20 dropped from a peak in 2007 of 2.6 billion dollars to 2
21 billion dollars roughly today. And our U.S. operations
22 primarily here in Reno and in Las Vegas, have reduced our
23 employee population by 800 jobs since our peak year of
24 5,000 employees in 2007.

25 Thank you for the, the opportunity to address

1 you.

2 COMMISSIONER MURREN: Thank you.

3 At this time we'd like to open the session for
4 questions.

5 And I'd like to begin with actually a question
6 for all of you which relates back to some discussion that
7 we had had earlier about the liquidity crisis.

8 In thinking about the sequence of events and
9 how the financial crisis and the economic crisis
10 unfolded, it's clear that there was a period of time
11 during which credit availability became extremely scarce.
12 And I would like, if you could, to comment, each of you,
13 on the timing of that, how it affected either your businesses
14 and perhaps how you saw it affecting your customers or
15 your peers in other companies here in Nevada.

16 And, Mr. Hill, if you don't mind, you can
17 start. Thank you.

18 WITNESS HILL: Thank you, Commissioner.

19 We went, at least in my experience, and from
20 those who I was able to speak with about this, went from
21 a period where credit was exceptionally easy to obtain to
22 the, the point that if you wanted to borrow a certain
23 amount of money, the banks would ask you, Can't you
24 borrow more? That happened often from 2005 into early
25 2007.

1 In the middle of 2007, we saw almost a light
2 switch turned off when there was a realization that there
3 was questionable asset value, how low were assets going
4 to go, questionable projections for EBIDA, banks, for
5 larger companies, it lent on multiples of EBIDA, those multiples
6 were starting to rise as EBIDA was starting to drop.

7 So once that uncertainty got into the, the
8 credit markets, credit at that point in our experience
9 pretty much dried up. If you didn't have credit, you
10 weren't going to get it. And when any loan that you had
11 out was up for renewal, refinancing, you were going to
12 struggle if you didn't have additional equity to put into
13 your business.

14 COMMISSIONER MURREN: Mr. Martin?

15 WITNESS MARTIN: I would agree with Mr. Hill
16 that the credit was very easy. It was all based on the
17 optimism. Every loan paid. So you made a new loan, the
18 values in real estate were going up, if you made a
19 mistake as a lender, wait six months, and it would cure
20 itself.

21 Everyone had the optimism of, of the future.
22 And there was a lot of liquidity, as I previously
23 indicated.

24 The interesting thing is today, as far as most
25 banks I know in this state, the liquidity is almost the

1 size it was then. We're a 200 million dollar
2 institution. We have about 85 million dollars in cash.
3 We're earning about a quarter percent from the Federal
4 reserve on overnight Fed funds. On most of those funds,
5 we would love to lend that money out.

6 It is very hard to find qualified businesses.
7 Their revenues are down. Their financial statements
8 reflect stress, and we have gone as many as three months
9 in a row without making a loan.

10 So it's not a shortage of liquidity, it's a
11 shortage of qualified buyers. Las Vegas has always had
12 real estate as its primary form of security. That's what
13 we did. Banks ranged from 65 percent to 95 percent of
14 their portfolios in real estate.

15 It didn't matter whether you were extremely
16 conservative, which most banks were. You'd lend 65 or 70
17 percent. Unlike the oil crisis of the '80s, it didn't
18 matter. When land goes to 20 percent of its original
19 value, when a building is now empty, and it's worth 35 or
20 40 percent of what you thought it would be once it's
21 completed and occupied, it doesn't matter how
22 conservative you were. It's very difficult to lend
23 today.

24 COMMISSIONER MURREN: If I could follow up on
25 that, though, do you think that the comment made by

1 Mr. Hill is a fair assessment of the banks' behavior
2 prior to the collapse, and that is that banks were so
3 eager to lend that they would in fact ask people to take
4 more money.

5 And did you see any deterioration, or do you
6 think you can comment on your own loan standards within
7 the bank, not only your own institution but perhaps
8 activity in other banks?

9 WITNESS MARTIN: Yeah, I'm glad Mr. Hill feels
10 it's appropriate to spear the bankers again. We haven't
11 had near enough of that.

12 So certainly banks have lots of liquidity they
13 needed to employ. Whether it went so far as having
14 people, you know, push them to borrow more, there's
15 probably some truth in that, because we were trying to
16 get money out the door and everybody was, was optimistic.
17 And of course now I have forgotten your question.

18 COMMISSIONER MURREN: Just about lending
19 standards.

20 Was there any kind of correlation between the
21 desire to want to lend and lending standards that were
22 prevalent at your own enterprise or others within the
23 community?

24 WITNESS MARTIN: Yeah, my present bank and my
25 former bank both had lending standards, and this may

1 sound a little offensive, but they really weren't ever
2 violated significantly. But as you have lots of
3 liquidity, you do find yourself first competing by
4 reducing pricing, and when that goes away, you reduce
5 your standards, you reduce the amount of the guarantor,
6 the guarantee and protection, you advance higher on
7 collateral.

8 I think those happened in all banks, but to a
9 great extent in some banks that went deeply into hard
10 money lending and spent more speculative lending, I do
11 think an awful lot of that occurred where lender
12 standards literally went out the, the window. I mean,
13 literally.

14 I remember one customer just recently told me
15 that they had a loan at a bank that has now failed and
16 said they never had a single inspection of their, the
17 home they were building for spec and sale. So I think a
18 lot of banks bought into this, drank the Kool-aid, bought into it
19 to the extreme.

20 COMMISSIONER MURREN: On the point of the
21 inspections, but actually from the other side of it, one
22 of the observations that I've heard here and elsewhere is
23 that the regulators that came in to do bank examinations
24 actually had relatively -- they came in for examinations,
25 but they were not nearly as intense perhaps as they are

1 today.

2 Do you think that that is a fair assessment of
3 the degree of intensity of the bank examination process
4 or the regulator regime?

5 WITNESS MARTIN: I can't wait to criticize my
6 regulator. And then follow up.

7 I was a, a bank examiner 15 years. I was in
8 Washington five years as head of the Controller's office
9 for problem banks, so I feel I have some experience
10 there.

11 And I'm going to say when I say everyone
12 bought into the, the economy, I mean everyone. And that
13 included the regulators. And they -- they were not
14 critical of lending standards or administration or
15 oversight because everything turned out well.

16 And, and I even recall one regulator of the
17 FDIC I think that laid off a substantial amount of their
18 examining staff. I seem to recall that.

19 So everyone bought in, I'm going to say
20 nationwide, into this, and the regulators as well.

21 COMMISSIONER MURREN: Thank you.

22 And Mr. Murray?

23 WITNESS MURRAY: From the credit union
24 perspective, I can echo much of what Mr. Martin said on
25 the banking side.

1 Yes, we were scratching our heads at the time
2 when we were hearing about this liquidity crunch and the
3 credit crunch. We had plenty of liquidity throughout , and
4 we still do today on a similar scale to what Mr. Martin
5 indicated.

6 We also have the similar issue of being able
7 to grant loans. We don't do so many on the commercial
8 side. Most of ours are on the customer side.

9 Our issues are, in that regard, are not with
10 the consumers, but they are with the regulatory agency
11 that we deal with, who is very skittish about the
12 prospects for the economy in Nevada, quite frankly.

13 That is definitely hampering us at this point
14 in time. And that is a 180-degree shift from where they
15 just a few years ago when in our industry we had such
16 regulatory initiatives as, called serving the
17 underserved. That was the pressure we were receiving, go
18 out and do more lending to underserved areas of the
19 community, find those underserved areas, seek ways to
20 serve them, and, again, help them improve their lot in
21 life.

22 That now has been entirely forgotten. We
23 never hear an utterance of that as we are experiencing
24 these increasingly demanding regulatory examinations at
25 this point in time.

1 COMMISSIONER MURREN: When things really
2 unraveled on Wall Street with regard to short-term
3 funding and liquidity, broadly speaking, did that have
4 an immediate impact on the kinds of lending that you do,
5 or did it take a while to work its way through the
6 system?

7 WITNESS MURRAY: It did take a while to work
8 its way through the system. And really the impact that
9 it had on the kind of lending we do was once
10 consumers became concerned about it, they'd heard about
11 it often enough and frequently enough to where their
12 confidence was shaken, that's when it began to impact our
13 business.

14 COMMISSIONER MURREN: Thank you.

15 Mr. Satre?

16 WITNESS SATRE: I'll speak from the standpoint
17 of both IGT and NV Energy. And for IGT, I'd say that the
18 credit availability was enormous going into this credit
19 crisis. I mean it was an investment great company, it
20 was one of the fastest growing companies --
21 publicly-traded companies in the United States from time
22 to time.

23 There was some product introductions that had
24 a tremendous impact on the market, and, and I think in
25 hindsight now, as directors, when we look at the

1 borrowing behavior of the company, the criticism that we
2 would level, looking backwards -- and this isn't just
3 IGT, it's some other companies that I've been involved
4 with, and some other companies that I'm aware of -- is
5 that the overconfidence in the economy was, to me,
6 represented by the fact that you would borrow money to
7 repurchase your own shares. And that was happening
8 there.

9 And then by the time you got to 2008, 2009,
10 you looked back and you said why did we ever do that?
11 How dear that money is now when you go back out to borrow
12 that money, and you look at what the cost of your capital
13 is, whether it was debt or equity. And so that's a
14 lesson I think that is, has been dearly learned for me
15 and I think many other people in, in my position.

16 NV Energy is a slightly different story and
17 one that I think is somewhat interesting based upon
18 Bill's reference to the depression.

19 While we didn't experience -- well, we did
20 experience the depression at NV Energy, because it's a
21 hundred years old, but I wasn't there -- Bill was -- but
22 the, the thing that I wanted to make a point of is that
23 NV Energy did experience the Western energy crisis, which
24 brought the company to its knees, very near ended the
25 life of the company.

1 And what happened was our credit was slashed.
2 We ended our dividend. And it actually was a favorable
3 impact for the company by the time 2007 and 2008 rolled
4 around, because a period of great frugality had to ensue
5 at the company through 2001, 2002, 2003. And it was only
6 until 2007 that we returned to investment grade credit
7 and began to declare a dividend, which is, for a public
8 utility, a big no-no.

9 So I think the fact that we had gone through
10 such an austerity program, leading into this, actually
11 benefited us when the crisis occurred because we didn't
12 have the opportunity to get over our skis the way so many
13 other companies did.

14 COMMISSIONER MURREN: Could you comment just a
15 little bit on, again, the same issue of when there was
16 the credit freeze in the short-term credit markets, to
17 what extent was it felt by business here and how
18 immediately did that occur?

19 WITNESS SATRE: Well, speaking from -- at the
20 time, I wasn't at IGT, so I can't speak for what was
21 going on in there, so I won't.

22 At, at NV Energy, I don't remember it being --
23 I remember it being a significant topic in the board room
24 because of the nature of the debts, the loans and the
25 other debt that we had on our books.

1 At the time the crisis hit we were not -- we
2 did not need to be in the market for any short-term
3 credit at that time.

4 COMMISSIONER MURREN: Thank you.

5 And I'd like to reserve my time for later.

6 And I'd like to go ahead and turn the questioning
7 over to Commissioner Georgiou, please.

8 COMMISSIONER GEORGIU: Thank you.

9 Mr. Satre, I, I noted that in your testimony
10 you really didn't get on the last half of your testimony.
11 I wonder if you could sort of finish up on it, because I
12 think it would be interesting for people to hear about
13 all of the major capital projects that, in the gaming
14 industry and otherwise, that were suspended, really, from
15 completion as a result of the crisis.

16 WITNESS SATRE: I'll start, Commissioner, with just some of
17 the comments that, that were, what we felt were a summary
18 of the economic downturn and its impact on both the
19 gaming industry and IGT.

20 Las Vegas visitation rates and Las Vegas strip
21 gaming revenue, since 2007, visitation rates have
22 significantly declined by roughly 2 million or 5 percent.

23 2007 was the peak year at 39 million visitors.
24 2010 is estimated at 37.

25 Gaming revenues for the Las Vegas strip have

1 declined from 8.4 billion in 2007 to a projected 5.7
2 billion in 2010, which is a 32 percent decline.

3 And the importance of that, and I know you
4 know this point, is that we have a very narrow tax base
5 in this state. Primarily gaming gross revenue taxes and
6 sales taxes. Most of those gaming gross revenue taxes
7 are generated in Clark County and in particular on the
8 Las Vegas strip. And when you have a 32 percent decline
9 in gaming gross revenue taxes over that period of time,
10 you end up with the kind of deficit that Jerry Aguero
11 referenced about a three billion dollar reference or
12 roughly 50 percent of the budget, which is I think as a
13 percentage is the greatest in any state in the United
14 States.

15 COMMISSIONER GEORGIU: And we're going to be
16 hearing this afternoon from the Chief of the Budget
17 Division of the State of Nevada from Governor Gibbons'
18 office to talk about the impacts on the revenues and the
19 expenditures of the State.

20 WITNESS SATRE: Significant Las Vegas casino
21 resorts that were impacted by this economic fallout was
22 the New Frontier site that was sold to a company called
23 El Ad in May 2007 for 1.2 billion dollars at the time.
24 That was 33 million dollars per acre, the highest price
25 ever paid for real estate on the Las Vegas strip. As of

1 2010, no construction has begun on that site. Originally
2 it was planned to redevelop the property as a project
3 called the Las Vegas Plaza. I think that is far out into
4 the future.

5 A three billion dollar Fontainebleau project,
6 which was referenced by Jeremy, it began construction in
7 April 2007. It was the old El Rancho site. The, the
8 construction was halted in June of 2009 when the project
9 was 70 percent complete.

10 The company planned to finance and sell condo
11 units to fund the construction costs. The recession
12 caused that particular strategy to not be able to be
13 pursued. Bank of America, the biggest lender, refused to
14 provide further funding for the project, and in June 2009
15 it filed for bankruptcy protection.

16 In February of 2010, Carl Icahn assumed
17 partial ownership for about 150 million dollars, which is
18 one of the things you're seeing here in Las Vegas
19 referenced today in the Wall Street Journal, that a lot
20 of the distressed property in this market is being picked
21 up through the purchase of convertible debt. The project
22 goes bankrupt, and then you own a significant portion of
23 the equity and control of that project going forward.

24 A five billion dollar Echelon Project built by
25 Boyd. The project was halted in August 2010 on the old

1 Stardust site and is not expected to start up again until
2 2012 through 2014.

3 COMMISSIONER GEORGIU: Thank you, Mr. Satre.

4 I wonder, if I could turn back maybe to
5 Mr. Hill, and do you think that there was overleveraging
6 in the business community in this time of extraordinarily
7 available credit that contributed to our crisis here in
8 Nevada?

9 WITNESS HILL: The answer to that is
10 certainly, yes. And, and it's easy to say in retrospect.
11 If community banks were willing to lend 65 percent loan
12 to value on a physical asset, if larger banks were
13 willing to loan five or six times projected cash flow,
14 those seemed very reasonable at the time.

15 And the, the projection seemed very reasonable
16 for the reasons that Mr. Satre just pointed out.

17 There's been a correlation in Las Vegas for a
18 long time of six jobs in the community for every hotel
19 room in the community. And you go back 25 years, that
20 projection has remained fairly constant.

21 When there's 40,000 rooms projected to be
22 built, you just do the math. The construction industry
23 does the math on that and says okay, that's going to
24 generate 240,000 jobs, there's 1.3 jobs per house, that's
25 how many houses we're going to have to build.

1 We had discussions in 2006 about how in the
2 world were we going to build enough housing for all these
3 jobs that were going to be created and all these people
4 moving in order to fill them. That, that was going on in
5 the middle of 2006. It, it seemed reasonable at the
6 time.

7 As I said earlier, we need to remember that we
8 can be wrong. And we forgot that. And we forgot that
9 when we borrowed money.

10 But when asset values fall 75 percent, and
11 your cash flow not only falls 75 percent and goes
12 negative, you're overleveraged.

13 COMMISSIONER GEORGIU: Mr. Martin, do you
14 have any comments on the overleverage situation?

15 WITNESS MARTIN: Well, I think that the
16 overleverage of a lot of the big gaming companies is well
17 known. That's not my lending area. That's not my
18 customer.

19 So I guess I have to go back to business
20 customers, individuals, and I don't recall there being
21 severe overleveraging. I think lending standards,
22 bankers still lent on a debt coverage ratio.

23 I don't remember them dropping below 1.2
24 percent, 1.2 times. That was kind of standard. So I
25 don't remember the leverage being an issue.

1 However, the purpose of capital is to absorb
2 capital and the depreciation of the assets. And the
3 assets of doctors, lawyers, businesses, it didn't matter.
4 When the assets values depreciated as deeply as they did,
5 then clearly the liabilities exceeded the value of the
6 assets.

7 Now you've got overleverage. But I don't
8 remember that as a community bank lender, as that being a
9 big contributor to the, the loans we would make.

10 COMMISSIONER GEORGIU: Right. And what's the
11 asset base of your bank?

12 WITNESS MARTIN: A little over two hundred
13 million for a small bank.

14 COMMISSIONER GEORGIU: I guess, Mr. Satre,
15 you can speak to it.

16 Some have suggested that the availability of
17 credit in the private equity community contributed to the
18 crisis in that it inflated large scale commercial real
19 estate and business acquisitions that, that ended up with
20 institutions that had significant debt in a, in a period
21 when they obviously had retreats in the, in the economic
22 marketplace and couldn't finance their debt.

23 Could you speak to that?

24 WITNESS SATRE: I can speak to it from the
25 standpoint of what I know about my former company,

1 Harrah's Entertainment, Inc., which was acquired through
2 a private equity transaction in 2008 just at the
3 beginning, in a, in a very significant transaction, about
4 a 30 billion dollar transaction, that was funded
5 primarily with debt, either the existing debt that the
6 company had or debt that was layered in by the two
7 sponsors of that acquisition, Apollo and TPG.

8 And I think my successor at Harrah's, Gary
9 Loveman has said it. He said in a perfect world, we
10 never would have done this transaction at this time, if
11 we had seen this coming; that there was a strong belief
12 by I think the sponsors of that acquisition, TPG and
13 Apollo, that this Las Vegas economy and the ability of
14 Harrah's and other companies like Harrah's to I think
15 grow and increase both their revenues and their profits
16 to support those levels of debt would remain. The
17 opposite has been true. That has declined rather than
18 grown.

19 And as a consequence, a significant amount of
20 that debt has been renegotiated, maturities extended, and
21 in some cases the sponsors have repurchased that distress
22 debt at very low prices in order to bring down the total
23 debt load. And I think that the debt load has now been
24 reduced from about 24 billion to 18 billion.

25 But that exacerbated, I think, the impact of

1 the consumer crisis everywhere else in the United States.

2 COMMISSIONER GEORGIU: Thank you.

3 Mr. Murray, you've got a, a relatively small
4 institution up there in northern Nevada.

5 You, you service about 50,000 members, is that
6 right?

7 WITNESS MURRAY: Yes, that's correct.

8 COMMISSIONER GEORGIU: And an asset base of
9 how big?

10 WITNESS MURRAY: 500 million.

11 COMMISSIONER GEORGIU: What are your
12 principal lines of businesses that have been impacted by
13 this crisis?

14 WITNESS MURRAY: Well, our principal services
15 that we provide is vehicle lending to consumers and real
16 estate lending to consumers and a variety of savings
17 products. That's generally what we do.

18 COMMISSIONER GEORGIU: And have they been --
19 do you have significantly reduced demand for those
20 products at this time?

21 WITNESS MURRAY: On the real estate side, not
22 significantly reduced demands, significantly reduced
23 amount of the mortgages due to the decrease in housing
24 values.

25 On the vehicle side, certainly significantly

1 reduced demand as evidenced by the national reduction and
2 the issues in the automobile industry. So yes,
3 absolutely there.

4 COMMISSIONER GEORGIU: Okay. Do any of you
5 feel that you did anything that you wish you had done
6 differently to help avoid this crisis?

7 We've tried to ask that of just about
8 everybody who has come before us, and if you can't think
9 of anything you'd be in the majority.

10 VICE CHAIRMAN THOMAS: Madam Chairman, yield
11 an additional, to the, the chairman an additional 20
12 minutes.

13 COMMISSIONER GEORGIU: The -- you'll find --
14 we found it quite surprising that we had so many people
15 who had fundamental responsibilities in both the private
16 and the public sector who came before us and essentially
17 said they were the victims of a financial storm over
18 which they had no control and which no one could have
19 predicted and that they just simply were victimized like
20 everyone else.

21 But we've had some people who upon further
22 self-reflection realized that there are things that they
23 did that they could have done differently. Maybe
24 questions that they could have raised or doubts that they
25 had along the way.

1 I wonder if any of you could share them, and I
2 guess I'll put Mr. Hill on the spot at the front end.

3 Mr. Hill, you're the chairman, are you, of
4 Servicelst, right?

5 WITNESS HILL: Yes. Yes, I am, just recently.

6 COMMISSIONER GEORGIOU: And, Mr. Martin,
7 you're the vice chairman and the CEO. So you only have
8 one institution to speak for there.

9 But go ahead. Maybe you could extend your
10 remarks to not just that institution but your own
11 experience in your own, your own private business as
12 well.

13 WITNESS HILL: And I'll let Bill speak for the
14 bank.

15 As, as a businessman, I think any, any
16 business has to, has responsibility for the outcome of
17 that business. Whether we should have been able to see
18 the future or not, it, it, it becomes our responsibility,
19 it is our responsibility. That worked for some
20 businesses, it did not for others.

21 It's difficult for me to point a finger at an
22 individual business who has their head down, trying to
23 take care of customers, growing as fast as they can in
24 order to do that, employing people, those are all good
25 things, looking up and seeing the economy jerked out from

1 under them.

2 As a person who has been a chairman of the Las
3 Vegas Chamber who some people look to for some leadership
4 in the community, I feel responsible for not having
5 spoken up more clearly about my concerns. I did push our
6 companies to sell during this period of time. I was
7 concerned about the future. I thought I was wrong, and
8 most people around me did as well.

9 Looking back, I think more voices on the other
10 side of our enthusiasm -- and we're still enthusiastic
11 about Las Vegas -- but that should have been tempered.
12 And I think we all bear that responsibility.

13 The mistakes in judgment are ours. That has
14 been exacerbated or multiplied by the abuse of derivative
15 products, by the abuse on the mortgage side, by rating
16 agencies papering that with Triple-A ratings. And I
17 think the anger that most feel across the country is they
18 have the responsibility for the result because it's
19 theirs.

20 It has been multiplied, and it's difficult for
21 us to know by how much, by abuse. Which I don't think
22 most in Las Vegas participated in at all.

23 COMMISSIONER GEORGIU: All right. You know,
24 some of the, one of the findings you might be interested
25 in is we've discovered in the course of our investigation

1 that some 94 percent of the mortgage tranches of the
2 securitized mortgage-based securities that were rated
3 Triple-A by the credit rating agencies have now been
4 downgraded in many instances very, very significantly.
5 So that those Triple-A ratings enabled investors in many
6 institutions that could not have purchased them otherwise
7 to have bought them, and of course enabled all the
8 parties who participated to be paid from the proceeds of
9 the sale. And that was certainly a contributing factor.

10 Mr. Martin, could you share with us your
11 insights?

12 WITNESS MARTIN: You know, this institution is
13 under three years old. It began with 50 million in
14 capital. I joined it after it was 12 months old. And
15 I'm very pleased to hold prior management responsible for
16 a hundred percent of our problems.

17 The institution has lost over 50 percent of
18 its book value on loans made essentially from January of
19 '07 to December of '07, and much of that was based on the
20 standards of '06, '05, '04. They didn't see it coming.

21 My prior institution was 4 billion, and it was
22 a heavy real estate lender. It's very solvent, but it
23 has absorbed very large losses.

24 I, I wish, I guess we're all back to saying
25 give me one more chance, and I'll do it different.

1 COMMISSIONER GEORGIU: Very good. Thank you.

2 We'll all have that chance.

3 Mr. Satre, maybe I'll go back to the other end
4 and come back in here.

5 WITNESS SATRE: From the standpoint of, I'll
6 look through the lenses of the four companies that I've
7 been involved with recently -- Nordstrom, Rite Aid, IGT
8 and NV Energy, all of which have some nexus to Nevada.

9 Most of our, our, our planning in the board
10 room, I think a fault we might have is that we were
11 looking at our demand drivers and not looking through our
12 demand drivers.

13 So for NV Energy, it's how many homes are
14 going to be built, how many casino rooms are going to be
15 added, without saying what really is driving that demand,
16 and is it sustainable.

17 And we had to completely revise our forecast.
18 The same was true for IGT. We'd use historic replacement
19 projections. We'd use all of the plans that we saw on
20 line for building these.

21 And, again, I think we didn't look through
22 that and say how, how sustainable and how realistic are
23 these projects as we planned. And we would have done
24 some things differently, I think at IGT. We would have
25 not built a brand new office building south of town.

1 Very expensive. Very big. Manufacturing and office
2 building plant. I think we would have lived with a
3 little bit more austerity.

4 And the same is true for Nordstrom, which is
5 based on what developers say they're going to build.

6 I think everybody in the room, myself
7 included, of the board rooms I was in, kept asking where
8 is the money coming from?

9 There's just so much money around. The
10 consumer's loaded with money, and the financial markets
11 are loaded with money. The access to capital for private
12 equity transactions, the, the access to capital for
13 mergers and acquisitions. And I don't think anybody
14 asked probing questions about how can that much cash be
15 generated and be sitting on the, the sidelines waiting to
16 go someplace, whether it's the consumers coming to Las
17 Vegas, paying \$10,000 for a bottle of champagne in a
18 nightclub, which 20 years ago wouldn't have happened, or
19 whether somebody would have had access to private equity
20 to make a transaction of the, the nature that occurred
21 with my former company.

22 COMMISSIONER GEORGIU: Thank you.

23 Mr. Aguero said one thing interesting at the
24 end, he said now in hindsight, it's much easier to spend
25 money that you don't have than to pay back money you

1 don't have.

2 But anyway, I think I'll let you off the hook,
3 Mr. Murray, because we've run out of time.

4 Thank you very much.

5 COMMISSIONER MURREN: Thank you.

6 Chairman Angelides?

7 CHAIRMAN ANGELIDES: Thank you very much.

8 Mr. Martin, let me start with you.

9 You alluded to the fact you worked at OCC. I
10 was looking at your bio, I couldn't find it, and for
11 everyone in the audience, that is the Office of the
12 Controller of the Currency.

13 During what time period?

14 WITNESS MARTIN: Examined in the Western area
15 from 1964 to '78 and was in Washington from '78 to '83.

16 CHAIRMAN ANGELIDES: All right.

17 Well, let me just ask you then as veteran
18 here, both of the regulatory regime and also in
19 banking -- and prior to Servicelst Bank, what was your
20 immediate position prior to that?

21 WITNESS MARTIN: It was chairman, president
22 and CEO of Nevada State Bank.

23 CHAIRMAN ANGELIDES: All right.

24 So you had -- and you were there during what
25 time period?

1 WITNESS MARTIN: I took over a bank called
2 Pioneer Citizens in '89. We built it up for ten years
3 and sold it to Nevada State. So then I stayed at Nevada
4 State until, from '99 up until 2007.

5 CHAIRMAN ANGELIDES: All right. And just
6 so -- at Nevada State and your current bank, who were
7 your regulators?

8 WITNESS MARTIN: The FDIC was regulators in
9 both cases.

10 CHAIRMAN ANGELIDES: And do you have a Nevada
11 Department of Financial Institutions also?

12 WITNESS MARTIN: We --

13 CHAIRMAN ANGELIDES: -- regulations?

14 WITNESS MARTIN: Correct.

15 CHAIRMAN ANGELIDES: All right.

16 So let me ask you, at Nevada State Bank and
17 your current institution, were you in the residential
18 mortgage lending business at all?

19 WITNESS MARTIN: None.

20 CHAIRMAN ANGELIDES: Neither institution?

21 WITNESS MARTIN: No.

22 CHAIRMAN ANGELIDES: But did you have your
23 finger on the pulse of various lender markets in the
24 state?

25 WITNESS MARTIN: With respect to like residential lending?

1 CHAIRMAN ANGELIDES: Yeah.

2 WITNESS MARTIN: Absolutely not.

3 CHAIRMAN ANGELIDES: Absolutely not.

4 WITNESS MARTIN: I was absolutely the most
5 naive banker in the State of Nevada. It wasn't until
6 that article in the Review Journal in, I believe, 2007 that I learned
7 that Pulte Homes had sold 16 homes to one person who made
8 50,000 a year, and it was financed by Countrywide, and
9 then I learned that there were purchases of 20 and 25
10 homes by these builders, and that's the first time I woke
11 up to the fact of how much easy credit there was.
12 Because, remember, there weren't 25 homeowners or 16 that
13 wanted those, and it created an artificial demand, and
14 they probably went out and built 16 more homes. Now
15 we've got 32 homes.

16 CHAIRMAN ANGELIDES: So what time was that?

17 WITNESS MARTIN: Well, I believe the article
18 was 2007. I want to say 2007, early or mid. And I wish
19 I could tell you that I had my hand on the great pulse --
20 but it took me totally -- I had no idea of the liberal,
21 uncontrolled, ill-conceived, irresponsible lending that
22 was going on in that market. I had no idea.

23 CHAIRMAN ANGELIDES: All right. Well, I was
24 going to ask you a general question about whether you
25 saw -- I mean, you obviously worked at regulated

1 institutions, whether you saw or have any perspectives on
2 growth of kind of unregulated -- well, I mean,
3 Countrywide was regulated by the Office of Thrift
4 Supervision, some would argue that the regulation at OTS
5 is equivalent to being unregulated -- but whether you saw
6 dramatic evolutions in lending regulation, lending
7 underwriting standards kind of through the 2000s and a
8 particular differentiation between the regulated and
9 nonregulated institutions.

10 WITNESS MARTIN: Well, of course nonregulated
11 institutions obviously have an advantage, but they still
12 have to be controlled by their source of funding. And,
13 and all this was accomplished by selling this product
14 like an egg going through a snake, as we used to say in
15 Texas. And the reason you could make those loans is
16 because there was a buyer of those securities all the way
17 at the other end. So the, the, the money clearly was
18 available to fund all this.

19 And the trick was, it was like the, the, the
20 old game of hot potato, get rid of it, make the loan and
21 pass it on and pass it on and pass it on. So.

22 CHAIRMAN ANGELIDES: Did you, did your
23 institutions ever buy any RMBS, CDOs, any of those
24 instruments?

25 WITNESS MARTIN: No, we did not.

1 CHAIRMAN ANGELIDES: And that was because --

2 WITNESS MARTIN: We probably weren't asked.

3 Yeah, we didn't, we didn't --

4 CHAIRMAN ANGELIDES: You referred in your
5 testimony to a point in 2001, you said -- I'm just
6 curious what you were referring to, the homebuyer, the
7 investor, the mortgage loan, the mortgage companies, the
8 GSC, investment bankers, and through to the buyer of
9 mortgage-backed securities, everyone was making so much
10 darn money that some efforts to bring control and order
11 to the situation in 2001 never got traction.

12 To what were you referring?

13 WITNESS MARTIN: There's two New York Times
14 articles. One is September 30, 1999, in which there was
15 an absolute idiot named Peter Wallison, who, in
16 evaluating the new lower standards at Fannie Mae said if
17 you allow them to do this, you will have to bail out
18 Freddie and Fannie just like you bailed out the savings
19 and loan ten years ago. Put that in 1999.

20 He's one of your commissioners, as you know,
21 and he's one of my heroes because I'm sure everybody
22 thought he was completely insane. So if anybody saw it,
23 he saw it.

24 In 2001 -- and these are both on snoops.com,
25 another New York Times article, in which there were

1 attempts to regulate the GSEs, and that went beyond farm
2 credit, it went beyond Freddie and Fannie. But there was
3 an effort to know that there was an awful lot out of
4 control in these government sponsored entities.

5 And that's the article that I referred to out
6 of the New York Times. I don't remember the date, but it
7 was 2001.

8 And I don't want to get political, but all
9 efforts to bring any additional regulation and control
10 didn't happen.

11 CHAIRMAN ANGELIDES: Right.

12 WITNESS MARTIN: So you'd have to ask someone
13 more experienced than I as to why.

14 Do I think anybody saw this giant crash
15 coming? Absolutely not.

16 CHAIRMAN ANGELIDES: All right.

17 Mr. Hill, you had referred to mortgage fraud
18 deception, greed, lack of regulatory oversight, again,
19 what were you seeing, at least touching and feeling at
20 the local level?

21 WITNESS HILL: Well, I'm in the concrete
22 business for most of my career. And that industry tends
23 to be a leading indicator, which was helpful for me.

24 And we saw the market roll over in May of
25 2006. That was the highest month we had. And it was

1 downhill from there.

2 We, we touched that industry. The home
3 builders, through our customers, our indirect customers.
4 And the issues that Mr. Martin raised certainly existed.
5 We were seeing homes, new homes up for auction where
6 lines of people were there ahead of time in order to, to
7 buy a home. At that point we, we should have had our
8 eyes more open than they were.

9 We saw people who bought homes that really
10 couldn't pay the loan back unless the home sold for more
11 money soon than they bought it for.

12 That's just a, it's a mistake. It's a mistake
13 for somebody to sign that mortgage. It's also a mistake
14 for someone to give them that mortgage. Once you get
15 into that cycle, as we've seen now in retrospect, you've
16 got a problem coming your way.

17 So those are the, the types of things that we
18 saw.

19 CHAIRMAN ANGELIDES: Final question.

20 Mr. Murray, quickly.

21 Do you do home lending?

22 WITNESS MURRAY: Yes, we do.

23 CHAIRMAN ANGELIDES: The nature of the loans
24 you made, I mean the terms -- fixed, adjustable,
25 downpayments?

1 WITNESS MURRAY: Combination of all three.
2 Fixed and adjustable.

3 CHAIRMAN ANGELIDES: Did you do any subprime
4 lending?

5 WITNESS MURRAY: No. No. We made a conscious
6 decision when that was going hot and heavy not to do that
7 because that violated our core values.

8 CHAIRMAN ANGELIDES: So let me ask this
9 question.

10 What did you see in the way of kind of
11 unregulated lenders, mortgage brokers, out in the field?
12 How did the, the marketplace transform in Nevada?

13 COMMISSIONER MURREN: Yield two minutes for an
14 answer, please.

15 WITNESS MURRAY: There was a great deal of
16 money being made. There were a lot of people jumping
17 into that. And through those efforts no question about
18 it, no question about it.

19 And they did not seem to have any trouble
20 either making those loans or selling those loans.

21 Like I said, we weren't actively involved in
22 the market, so I'm not sure of the sources they were
23 using there, but it was definitely, definitely going very
24 hot and heavy.

25 And we, you know, we turned away a lot of

1 borrowers who subsequently found lending sources
2 elsewhere.

3 CHAIRMAN ANGELIDES: When you say it wasn't
4 part of your values, you mean underwriting discipline, or
5 was it also regulatorily --

6 WITNESS MURRAY: No, it was, it was the core
7 values that we operated by as, as an institution, that
8 we, you know, and, and which ultimately drive our
9 underwriting decisions and our underwriting guidelines.

10 CHAIRMAN ANGELIDES: Was your underwriting
11 based on ability to repay?

12 WITNESS MURRAY: Yes, it was. Yes.

13 CHAIRMAN ANGELIDES: Thank you.

14 COMMISSIONER MURREN: Thank you.

15 Vice Chairman Thomas?

16 VICE CHAIR THOMAS: Thank you.

17 I'm going to honor the time given to me and so I'm going to
18 move very quickly, and if I cut

19 you off, it's only because I want to focus on very
20 particular concerns.

21 And I'm really concerned about not looking
22 backward but looking forward. If we want to look
23 backward, Mr. Satre, I talk about the joy I had when I was younger
24 walking down row after row of older and antique cars at
25 the Harrah's -- absolutely unparalleled Harrah's
26 Auto Museum, but that's backward.

1 Are we coming to an agreement in Nevada that
2 government basing its revenue on gambling is gambling?

3 Just, you know, one person can be designated,
4 and yes or no.

5 WITNESS HILL: It's more than a yes-or-no
6 question, Mr. Commissioner.

7 VICE CHAIR THOMAS: Well, then I'll ask you
8 additional questions, because I want to talk to you about
9 businesses who aren't in that business, and the fact that
10 your economic viability is to a very good extent defined
11 by them.

12 One of the joys of representing an area in
13 which all the participants in a geographic area or within
14 the district is you get together and get people to commit
15 to solve problems.

16 In our area a lot of business was complaining
17 about the product being turned out by the high schools,
18 that they weren't -- the kids weren't equipped to even
19 take basic jobs in a number of the industries and
20 businesses that were in the community. I said well, if
21 you aren't getting the product, why don't you get
22 involved and interact in ways that produces a better
23 product.

24 So you've got to get involved. You talked
25 about diversity. At some point if we're going to talk

1 about where we're going forward, I'd really like to hear
2 people being -- I used to call it thinking outside the
3 box -- I don't think it's that far out -- about maturing,
4 Nevada thinking in more mature ways, and you don't need
5 to answer it.

6 Mr. Martin, you've obviously been around a
7 long time. We had some community bank failures. We had
8 everywhere -- we had a community bank failure in our
9 area. They were more heavily into commercial mortgages
10 and commercial real estate not necessarily residential.

11 If you're acquainted at all with the recent
12 financial regulatory changes that were passed by
13 Congress, do you have any concern about the community
14 bank business model being one that's viable as we go
15 forward?

16 WITNESS MARTIN: Yes, I do. And I've had that
17 concern prior to this legislation.

18 The community bank business model is not
19 broken, but it's very difficult, and I think with
20 regulation, and I think there is a bias towards having
21 fewer large banks rather than more small community banks.

22 VICE CHAIR THOMAS: Well, and as the
23 regulations kick in fees and everything, it's going to be
24 that much more difficult.

25 This whole business about moderation, I mean,

1 the definition of a bubble is irrationality. If you were
2 rational, you wouldn't do what you were doing.

3 So notwithstanding the old saw that a rising
4 tide raises all boats, a tsunami crushes them all, and
5 the idea of trying to be rational rather than irrational,
6 is a very difficult thing to do, because as you said,
7 we -- even Warren Buffett was in front of us, and he
8 admitted he didn't see it coming. So if you've got a guy
9 like that who didn't see it coming, looking backward is
10 easy. It's looking forward that is tough.

11 Mr. Murray, I don't know exactly what to do
12 with your testimony. You were created by Congress
13 because there was an underserved population, the, the old
14 saw about if you wanted to get a loan from a bank, you
15 could get one if you didn't need it, but if you needed
16 it, you couldn't, based upon the collateral that you
17 could have other than your commitment to work hard, and
18 so the whole savings and loan industry was built up
19 around that, as well as the credit unions, except you had
20 a charter which said you were to be servicing a defined
21 universe.

22 And in listening to your testimony, I just got
23 a little bit of a subtle undercurrent that you're not
24 comfortable in that role.

25 The idea, I mean, right now -- I mean, what

1 are the restrictions on joining your credit union?

2 WITNESS MURRAY: We have a community charter
3 for 11 to 12 counties in northern Nevada.

4 VICE CHAIR THOMAS: So it's geographic?

5 WITNESS MURRAY: Yes.

6 VICE CHAIR THOMAS: If you're vertical
7 sometimes, and warm all the time, you can join the credit
8 union?

9 WITNESS MURRAY: If you're a member of those
10 communities, yes.

11 VICE CHAIR THOMAS: If you're warm; sometimes
12 vertical, and live in the geographic area.

13 WITNESS MURRAY: Yes.

14 VICE CHAIR THOMAS: And for that charter, what
15 do you get in return from the government and the society?

16 WITNESS MURRAY: I believe I know where you're
17 heading. You're -- we're tax exempt from Federal income
18 taxes.

19 VICE CHAIR THOMAS: Okay. You're tax exempt.

20 Mr. Martin pays taxes. But in reading your
21 testimony, it was, it was told that, that you needed to
22 honor its original heritage by reaching out to provide
23 financial services, including home loans to people who
24 are not able to get them elsewhere, try to provide a
25 service, which was the original intent for creating them

1 in the first place, and that, that that was something
2 that was being imposed on you and made it difficult for
3 you to carry out your business.

4 WITNESS MURRAY: No, I, I --

5 VICE CHAIR THOMAS: Do you want to make a deal
6 that you can act like a bank in all aspects if you're
7 willing to pay taxes for the privilege of acting like a
8 bank?

9 WITNESS MURRAY: We're not, we're not a bank.
10 We're vastly different.

11 VICE CHAIR THOMAS: So when the structure
12 requests that you perhaps carry out a socially relevant
13 function, partially, I assume, in return for the tax
14 exempt status that you have, you ought to go back and
15 have a third party read your testimony about how willing
16 and acceptable you are to carry out that role.

17 WITNESS MURRAY: We have no qualms about
18 carrying out that role.

19 VICE CHAIR THOMAS: Okay. I just had
20 difficulty when I read it seeing that you were
21 enthusiastic about helping people in need to carry out
22 the ability to do certain things financially. I just,
23 it's, it's shocking to me --

24 WITNESS MURRAY: No, I --

25 VICE CHAIR THOMAS: -- that you want to act

1 like a bank but you don't want the responsibilities of
2 the bank because you don't want to give up that leverage
3 or advantage that you have. Gifts in terms of social
4 responsibility carry obligations.

5 COMMISSIONER MURREN: Should I --

6 VICE CHAIR THOMAS: No, don't give me any
7 additional time. And I really appreciate it.

8 And I, and I want to watch, I want to watch
9 this experiment because you are capable in a defined area
10 to a very great extent of solving the problem that you've
11 gotten yourself into, but it really requires cooperation
12 among all aspects in this area.

13 I mean, in some areas, there are states that
14 have certificates of need to build hospital rooms. It's
15 a demand, and you meet the demand.

16 The idea that building rooms defines who you
17 are and what else you do, is kind of the problem that you
18 got yourself in.

19 I'm interested to see where you go. I'm going
20 to watch, and I hope you can really do a good job because
21 I liked the Rebels when they were running not walking.
22 Thank you.

23 COMMISSIONER MURREN: Thank you.

24 I'd like to use one of the moments that I have
25 in my reserve time to ask Mr. Murray if you can please

1 respond.

2 At any point in time in the pursuit of your
3 mission were you asked to compromise any of your lending
4 standards?

5 WITNESS MURRAY: No, we were not, we were not
6 asked to compromise any of our lending standards, per se.
7 We were just asked to go out and seek more underserved
8 Communities, more underserved people groups.

9 In our specific case, the group that we chose,
10 to -- after analysis of the communities that we served,
11 to try to serve was the Latino community. We made a
12 specific outreach to the growing Latino community in
13 northern Nevada.

14 Doing so did not require that we necessarily
15 compromise any of our lending standards, but it meant
16 that we invest time, energy, and resources in trying to
17 develop relationships with those groups from the
18 community aspect and also from the individual aspect and
19 build trust based in those relationships.

20 From that standpoint we, we extended loans to
21 them. And that's a, that's a group in our area that was
22 largely very closely tied to the construction industry.

23 COMMISSIONER MURREN: But, again, within the
24 context of your lending standards being held firm.

25 WITNESS MURRAY: Yes.

1 COMMISSIONER MURREN: Thank you.

2 Commissioner Born?

3 COMMISSIONER BORN: Thank you very much. And
4 I very much appreciate all of you being willing to appear
5 before us and provide us information about the Nevada
6 economy and how it's affected your companies and also
7 your industries.

8 I want to ask you each, I'm, I'm -- I have
9 been struck by how very hard the hit on Nevada's economy
10 has been. And I'm sure from your testimony, that each of
11 your industries has been really devastated by the
12 tremendous downturn caused by the financial crisis and
13 its spillover into the Nevada economy.

14 I wanted to ask each of you what you foresee
15 going forward in terms of the time period for recovery,
16 the road to recovery, if you have any insights into that.

17 And I'd like to start with Mr. Hill.

18 WITNESS HILL: Thank you, Commissioner.

19 I don't know that my crystal ball is better
20 now than it was five years ago, and it wasn't very good
21 five years ago.

22 I do see what our road to recovery is. I
23 don't know really how long that will be, although it's
24 not going to be a year or two, it's going to be five
25 years or eight years. And it relates to how quickly the

1 national economy recovers as well.

2 The gaming industry is largely driven by that.
3 Employment in the gaming industry on a per room basis has
4 dropped from about 1.4 employees per average room to one.
5 That needs to grow back. And that's not going to happen
6 until the national economy recovers.

7 Going forward, though, Las Vegas and Nevada is
8 going to have to seize control of our economic growth
9 future. That is not going to come to any extent as it
10 has in the past from the gaming industry. It will be a
11 foundation, but they will not be the driver of our
12 vitality.

13 We have opportunities there. The downturn has
14 created even more opportunities. We have affordable
15 housing. We have affordable industrial space. We have a
16 work force that is well-trained and ready to go to work.

17 We need to harness that, and we need to
18 partner with our education system, this great university
19 and find three or four industries that will really
20 provide jobs that will be our, our growth in the future.
21 We're in the process of doing that. But it will take
22 some time.

23 COMMISSIONER BORN: In other words, what
24 you're suggesting is that the path for recovery will
25 involve diversification of the economic base of, of

1 Nevada?

2 WITNESS HILL: Yes, Commissioner, it will.

3 And we've talked about that for a long time,
4 and we have diversified our economy, but not in a
5 targeted way that creates industrial clusters that then
6 become their own magnets for other companies to come here
7 and grow. We need those three or four clusters in order
8 to support Nevada in the future.

9 COMMISSIONER BORN: Thank you.

10 Mr. Martin, let me ask you, I was struck by
11 your testimony about how 50 percent of your loans in the
12 2005/2007 period have, you've had losses on.

13 And I assume that your bank and other
14 community banks in Nevada have been heavily impacted by
15 the downturn, is that right?

16 WITNESS MARTIN: That's correct. And I don't
17 mean to correct you, but it's our capital that's been
18 depleted by about 50 percent as a result of those losses.

19 COMMISSIONER BORN: Oh, my goodness. Well,
20 that is even worse.

21 WITNESS MARTIN: Yes.

22 COMMISSIONER BORN: So do you -- what do you
23 foresee in terms of the road to recovery for community
24 banks and for the Nevada economy?

25 WITNESS MARTIN: Well, I've been here since

1 '83, and they've attempted to diversify the economy, and
2 each time a new company comes in and hires 150 or 200
3 people in over a period of six months, we might gain 600
4 jobs. A casino would open and hire 6,000 people on day
5 1, or 8,000 people on day 1, so all efforts at
6 diversification are sincere, but they always become a
7 very small piece, because gaming is -- gaming and tourism
8 is what is done.

9 I'm going to be a little more direct.

10 Mr. Thomas made a comment about the education and a
11 qualified work force. That is an area that lacks in this
12 State. And there's a lot of people very sincerely
13 working to try to improve the educational system. When a
14 third of our graduates go to college and take remedial
15 English, you've got a problem.

16 And people who want to move their company for
17 a lot of good reasons are still seeking that really
18 educated work force. And we need that to really have
19 diversification.

20 COMMISSIONER BORN: Well, I also notice we're
21 going to have testimony later today that indicates only
22 50 percent of your children actually graduate from high
23 school. And that's quite a handicap for the, for the
24 state, I would assume.

25 WITNESS MARTIN: It's a tragedy.

1 COMMISSIONER BORN: Yes. Mr. Murray, what do
2 you foresee -- you're from northern Nevada -- as the road
3 to recovery and the time period for recovery?

4 WITNESS MURRAY: Well, there's no question
5 it's going to be a long and challenging period for us.
6 You know, we are currently, I think I've heard many
7 categorized, and I would agree with this assessment, that
8 we're bouncing along the, the bottom. Some good news,
9 some bad news. And --

10 COMMISSIONER BORN: But no turnaround yet?

11 WITNESS MURRAY: No, no turnaround.

12 And I heard early on some projections that
13 well, since maybe Nevada was the first into this
14 situation it would be the first out. I think that was --
15 and even back then -- I think that was foolish to believe
16 that because of the way our economy is based, so highly
17 on tourism and gaming, those will be the last dollars
18 that are going to come from people that might be willing
19 to let go of their own pocketbooks, and they won't do
20 that until they're very confident in their own personal
21 situations and that's going to take a nationwide endeavor.

22 I would also say that our, our economy is very
23 closely tied to the California economy. Until the
24 California economy improves significantly, especially in
25 the northern part of the state, we get a lot of spillover

1 business from northern California, and all of California,
2 quite frankly. So we keep a very close eye on our
3 situation and what's going on in California. We see some
4 good and some bad in that economy as well. So that's
5 part of our road to recovery.

6 COMMISSIONER BORN: Commissioner Murren, may I
7 have a little extra time so that Mr. Satre can respond to
8 my question as well?

9 COMMISSIONER MURREN: Could we yield three
10 minutes, please?

11 COMMISSIONER BORN: Mr. Satre, I wanted to
12 pose the same question to you, you know, what do you see
13 going forward, what is the time frame, if you have any
14 idea about recovery, and what is the path for recovery
15 for the economy of Nevada?

16 WITNESS SATRE: Well, I'm not very sanguine
17 about the prospects for the recovery in the near term.

18 Mr. Murray made the comment about the
19 relationship to California. In my view, we have a giant
20 umbilical cord to California. And until the California
21 economy becomes more robust, what sustains this economy
22 in the short term is going to be the return of the
23 tourism market and driving gaming gross revenues, sales
24 tax, job creation, filling hotel rooms, and ultimately
25 filling homes. And then maybe we start to build some new

1 ones.

2 The, the concern that I have is I think Nevada
3 across the United States is at the bottom of the food
4 chain in terms of recovery. I think we will be the last
5 state to recover. And we'll be the last state because
6 we're not going to recover until all of the people who
7 have been driving this economy have the ability to come
8 here with the kind of, I think, attitude of enjoying
9 themselves, paying for a nice restaurant, meals, going to
10 shows, gambling in the casinos, staying in the hotel
11 rooms. And I don't see a return to that for two or three
12 years.

13 So my own prospects, from looking at the
14 companies that I'm involved with, is let's not make major
15 capital investments that extend out or that begin to show
16 up on our balance sheet until we're very confident, and
17 that's probably two to three years before we'd be in a
18 position to do that.

19 COMMISSIONER BORN: In effect, one of Nevada's
20 problems, then, if I understand you correctly, is that
21 not only does consumer confidence in the country have to
22 come back, but people have to feel that they have some
23 excess disposable income that allows them to come to
24 Nevada and to have a really nice vacation and spend
25 money.

1 WITNESS SATRE: Yes, and I would add to that I
2 think it will be a long time before we ever see the kind
3 of spending patterns that we saw in 2003, '4, '5, and '6.

4 COMMISSIONER BORN: They were euphoric,
5 weren't they? Thank you.

6 COMMISSIONER MURREN: Thank you.

7 Commissioner Thompson?

8 COMMISSIONER THOMPSON: Thank you very much.
9 Thank you, gentlemen, for joining us.

10 I'd like to go back to one of the core issues
11 in the crisis, and that is literacy of Americans in the
12 process of buying a home.

13 In the very early days of our investigation,
14 we had a professor from Dartmouth share with us a point
15 of view about financial literacy in our country. And she
16 went on to say that -- I'll have the number off, but the
17 magnitude is generally right -- roughly a quarter,
18 two-thirds of the people in the country aren't
19 financially literate.

20 So I want to go to you Mr. Murray, and think
21 about the consumer who walks into your bank or to your
22 credit union, I'm sorry.

23 In your judgment how literate is that person
24 to understand the documentation that you provide for the
25 home loan to really calculate what his or her obligations

1 are and so on and so forth?

2 WITNESS MURRAY: It's extremely challenging.

3 And I can, I can speak just from the standpoint of, of a
4 manager of employees who are responsible for knowing
5 those documents. Keeping them educated on, on the
6 various complexities of those documents and the
7 requirements is challenging.

8 And so for a consumer that deals with it, you
9 know, once in a blue moon, so to speak, yes, it's very
10 challenging, and the level of literacy in that aspect is
11 very low.

12 COMMISSIONER THOMPSON: Well, California's
13 process for buying a home is near lunacy. The stack of
14 documentation is about, you know, a foot and a half to
15 two feet tall. So even a literate person oftentimes has
16 difficulty wading through it.

17 I just wonder in the quest to ask you to serve
18 the broader community, were they pushing you to serve the
19 broader community with homeowner loans, or was that just
20 general credit?

21 WITNESS MURRAY: It was a combination of both,
22 yes.

23 COMMISSIONER THOMPSON: Can you say more, and
24 where was the pressure coming from?

25 WITNESS MURRAY: Well, the pressure was coming

1 from our Federal regulator the National Federal Credit
2 Union. And there was definitely pressure, again, repeated speeches
3 by the board members of that administration, talking
4 about providing greater home ownership opportunities for
5 the underserved.

6 COMMISSIONER THOMPSON: And the consequences
7 for not doing so would have been?

8 WITNESS MURRAY: Increased regulatory
9 pressures. Again, we never had to undergo any of those
10 because we were heavily involved in trying to comply.

11 COMMISSIONER THOMPSON: So in the loan
12 activity that your organization undertook, how much of it
13 was refinancing versus new mortgages or first-time
14 buyers?

15 WITNESS MURRAY: There was a significant
16 portion of first-time buyers, both in that underserved
17 market and in the general market as well.

18 COMMISSIONER THOMPSON: Significant. Should I
19 take that to mean the majority?

20 WITNESS MURRAY: No, no, not the majority. I
21 will probably get the number wrong.

22 But my estimate is 20 to 25 percent.

23 COMMISSIONER THOMPSON: For new homes?

24 WITNESS MURRAY: First-time homebuyers, yes.
25 At the height of the activity.

1 COMMISSIONER THOMPSON: You knew that the
2 client on the other end of that transaction was
3 completely illiterate -- well, less literate than we
4 would like for him or her to be, let's put it that way.

5 WITNESS MURRAY: Yeah, that's been a concern
6 of ours, you know, and we attempted to be involved in a
7 variety of financial literacy programs, not just at this
8 point, but a number of years going back in our history,
9 going back to we actually operated a branch
10 of our credit union at a local high school that is
11 designed, not just on mortgages, to provide financial literacy
12 opportunities for
13 both the students that run it and the students that use
14 it.

15 COMMISSIONER THOMPSON: Is it your opinion
16 that this literacy rate has declined precipitously or
17 steadily or gradually, in over what period of time?

18 WITNESS MURRAY: I just don't have an estimate
19 on that, Commissioner. I'm sorry.

20 COMMISSIONER THOMPSON: Did you at any point
21 raise this issue with the regulators who were pushing you
22 to do this?

23 WITNESS MURRAY: We and ENDAY, (phonetic
24 spelling) in all fairness, they have recognized that
25 financial literacy has been an important issue. Their
26 energies in that regard have really been multiplied over

1 the past two to three years.

2 But even throughout -- and I've been with the
3 institution for 22 years, even throughout the time,
4 they've always talked about the need for more credit
5 unions to do more to encourage financial literacy. So
6 it's something that they've recognized as well.

7 COMMISSIONER THOMPSON: Mr. Martin, can I
8 shift that same line of questioning to you?

9 Given that you've been in the banking business
10 for a long, long time, can you comment on the path to us
11 becoming less literate financially in this country?

12 WITNESS MARTIN: That's about the fourth
13 reference to how long I've been in the banking business.

14 COMMISSIONER THOMPSON: I don't mean that.
15 While my hair is dark, I'm almost as old as you.

16 WITNESS MARTIN: It all started with the
17 hundred year.

18 The point you make is great. I would say
19 it's, it's less. We've got less graduates, less
20 qualified graduates going to college, less, less, less.

21 I think there's a failure. There's no
22 personal finance talk in schools almost anywhere.
23 There's no economics, even the most basic economics.

24 But I would say to you on financial literacy,
25 it goes far beyond that horrible loan closing that even

1 the most literate person has something better to do than
2 read through those documents, and you just sign them and
3 take them all on faith. I assure you it's to the
4 lender's benefit.

5 But it extends to signing an apartment lease.
6 It extends to a car loan. It extends to so many things.

7 The credit union I'm sure has it, the bankers
8 have it, they have these financial literacy -- they teach
9 them about checking accounts and managing budgets, but
10 it's a literal drop in the bucket.

11 The financial literacy is very low, and it
12 goes far beyond the real estate mortgages. Everything
13 they sign, with so many implications, listening to the
14 radio and the T.V., and all the people that can solve all
15 your problems, and even those documents. So I'll stop.

16 COMMISSIONER THOMPSON: So with a high high school
17 dropout rate or a low graduation rate, with a literacy,
18 financial literacy rate that is no better than the
19 national average, which is abysmal to begin with, do you
20 believe that there really might have been predatory
21 lending practices where Nevada or Las Vegas was targeted
22 by institutions outside this environment?

23 WITNESS MARTIN: The predatory lending, when
24 it first kind of came to surface, was people who really
25 wanted to take your property away from you. It had a

1 real -- a different motive to it. I'm sure those
2 predatory lenders who got all that property aren't as
3 happy to have it today as they might have been in years
4 past. But forgetting that side of it, I don't know how
5 you can avoid some predatory lending when we know that
6 mortgage agents and everyone else were changing documents
7 and increasing income and falsifying records that many
8 borrowers didn't know about it.

9 COMMISSIONER THOMPSON: Is it your sense that
10 it was specifically targeted at a work force or a
11 population that really was not capable of understanding
12 what they were committing to?

13 WITNESS MARTIN: You know, I'm going to make
14 one quick comment, and it goes back to that New York
15 Times article of 1999 in which they wanted to target low
16 and moderate income people. And, and yet -- and we know
17 they were probably financially less literate, so you're
18 targeting a population where you're trying to raise home
19 ownership, and at the same time you wind up lending to
20 people that, that maybe weren't capable of doing it.
21 It's a two-edge sword, if that makes any sense. I'm
22 sorry.

23 COMMISSIONER THOMPSON: Mr. Murray, can you
24 comment on that? The predatory aspect.

25 WITNESS MURRAY: Yes, you know, we saw a

1 massive explosion in the number of greedy lenders and
2 those kinds of operations in, in the northern part of the
3 state, and I would assume in the southern part of the
4 state as well.

5 You know, and, and -- and they were preying on
6 people in our estimation that were unable to understand
7 those transactions and the true costs of those
8 transactions.

9 When you take out a \$300 payday loan, and the
10 effective rate of interest on that loan is 4 to 600
11 percent from day 1, and that's if you don't roll it over,
12 and it quickly becomes 1200 percent, that's predatory in
13 every way, shape or form.

14 COMMISSIONER THOMPSON: Thank you very much.

15 COMMISSIONER MURREN: Thank you all.

16 Thanks to all of you for submitting your
17 written testimony, for taking the time to appear before
18 us, and for your thoughtful answers to all of our
19 questions.

20 This is extraordinarily helpful to the work of
21 the Commission. We're very grateful to you being here.
22 We thank you.

23 And the Commission now will take a very short
24 break in order to stay on schedule.

25 We will take a break until quarter of the hour

1 and then come back for our third panel. Thank you.

2 (Whereupon a recess was taken.)

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1 SESSION 3: THE IMPACT OF THE FINANCIAL CRISIS
2 ON NEVADA REAL ESTATE

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4
5 COMMISSIONER GEORGIU: We call this session
6 of the Financial Crisis Inquiry Commission back into
7 order.

8 I want to thank all of you for coming this
9 afternoon.

10 Mr. Bogden, Mr. Gordon, Mr. Jeffries and
11 Ms. Burks, thank you very much for coming to testify with
12 us here today.

13 We're going to change our procedure just
14 modestly to accommodate Mr. Jeffries' need to depart
15 relatively early. So we're going to have all the opening
16 statements, and then we're going to try to allow all of
17 the Commissioners to question Mr. Jeffries before he
18 goes, and then we'll complete everyone else.

19 As is customary in our practice we have asked
20 all of our witnesses to be sworn before they begin.

21 If you would please stand and raise your right
22 hand. Do you solemnly swear or affirm under penalty
23 of perjury that the testimony you are about to provide
24 the Commission will be the truth, the whole truth, and
25 nothing but the truth to the best of your knowledge?

26 WITNESS BOGDEN: I do.

1 WITNESS GORDON: I do.

2 WITNESS JEFFRIES: I do.

3 WITNESS BURKS: I do.

4

5 COMMISSIONER GEORGIU: Thank you very much.

6 And Mr. Bogden, the United States Attorney for
7 the State of Nevada, thank you for making time in your
8 busy schedule to join us, and thank you to the
9 Department of Justice for authorizing your testimony here
10 today.

11 Please proceed and limit yourself to five
12 Minutes if you can.

13 WITNESS BOGDEN: Thank you, Commissioner
14 Georgiou.

15 Distinguished Members of the Commission, thank
16 you for the invitation to speak before you today about
17 the Department of Justice's mortgage fraud enforcement
18 efforts in Nevada.

19 Your work in identifying the causes of the
20 financial crisis in this country is vital, and I am
21 pleased to have the opportunity today to assist you in
22 your fact-finding process.

23 In January of this year, Attorney General Eric
24 Holder, and Assistant Attorney General Lanny Breuer
25 testified before the Commission about the Department's
26 aggressive enforcements in combating financial fraud.

1 What they told you then is worth repeating
2 again today. In the Department's fight against terrorism
3 and crime we hold wrongdoers accountable. From
4 significant jail time to severe civil penalties, the

1 Department uses all of the tools at its disposal to keep
2 this country safe.

3 This mission takes on important significance
4 in the high priority area of financial fraud. The
5 Department fights fraud in all its forms, from mortgage
6 fraud and health care fraud to securities fraud and
7 corporate malfeasance.

8 Nevertheless, while we stand on the front line
9 in combating financial fraud, our work has its limits.

10 As the Department has stressed before, it is
11 not as a general matter within the scope of our expertise
12 or mission to opine on the causes of the financial
13 crisis.

14 We are a terrorism and crime fighting body,
15 and our resources are focused on the investigation and
16 prosecution of the violations of the Federal criminal
17 laws.

18 Within these constraints I am happy to provide
19 you with a prosecutorial perspective of my office's work
20 in Nevada to address mortgage fraud.

21 Of course, any discussions of the Department's
22 mortgage fraud enforcement efforts in this community
23 should begin with the Department's strategic approach to
24 financial fraud.

25 In November 2009, as a response to the

1 unprecedented nature of the financial crisis, the
2 President created the Financial Fraud Enforcement Task
3 Force, over which the attorney general serves as
4 chairman.

5 The task force, which is comprised of
6 officials from across Federal, state and local
7 governments, is the most comprehensive collection of
8 criminal, civil, and regulatory officials ever assembled,
9 with a focus on developing forward-leaning enforcement
10 and prevention strategies against financial crimes.

11 Through the task force, we have entered what's
12 been referred to as an era of heightened cooperative
13 fraud enforcement.

14 In this regard, we have strengthened our
15 collective efforts to prosecute, convict, and punish
16 those who commit fraud in order to send a positive
17 deterrent message.

18 Mortgage fraud enforcement provides an
19 excellent example of the government's collective action
20 at work. In June the task force announced the conclusion
21 of Operation Stolen Dreams, the most comprehensive
22 mortgage fraud enforcement initiative ever undertaken.

23 The task force coordinated the months long
24 operation, which included Federal and state criminal
25 prosecutions and civil actions across the United States.

1 In support of this massive sweep, U.S.
2 attorneys offices across the country, including my office
3 here in Nevada, brought charges against fraudsters who
4 have perpetrated various mortgage fraud schemes.

5 At its conclusion, Operation Stolen Dreams
6 resulted in Federal and state criminal charges against
7 over 1,500 defendants, and civil charges against nearly
8 400 defendants who caused an estimated loss exceeding
9 three billion dollars.

10 Your invitation to address the Commission at
11 today's hearing included a list of areas upon which you
12 asked me to comment. These areas included the, the types
13 of mortgage fraud my office has encountered, factors
14 which may contribute to high mortgage fraud in Nevada,
15 the standards for determining which cases my office
16 pursues, and the training and other needs of area law
17 enforcement agencies.

18 I'd like to spend the remainder of my time
19 commenting on those areas.

20 The types of mortgage fraud in Nevada run the
21 gamut from loan origination schemes, property flipping,
22 builder buyouts schemes, and foreclosure rescue scams to
23 loan modification fraud.

24 Between approximately 2000 and 2006, when the,
25 the economy was stronger, home prices were rising, and

1 foreclosures were low. Most frauds involved loan
2 origination schemes and property flipping.

3 But starting in 2007, when the market
4 weakened, and home prices fell, the number of those
5 schemes declined while the number of foreclosure rescue
6 scams and loan modification fraud increased.

7 Loan origination fraud in its most basic level
8 involves individuals falsifying loan documents to qualify
9 for a mortgage to buy their own homes. Such fraud was
10 less detectable when loan qualification requirements were
11 less stringent, and lenders required few verification
12 documents.

13 Such fraud has had less impact on Nevada's
14 financial community than has organized and ongoing fraud
15 schemes. Loan origination fraud at a more complex level
16 involves property flipping schemes. Here culprits
17 fraudulently buy homes to skim money from the mortgage
18 issued to buy those homes.

19 These schemes operate in one of two ways. The
20 first involves a fraudster who persuades a seller to sell
21 him a house at a price substantially above the asking
22 price while agreeing to secretly kick back the inflated
23 amount to the buyer.

24 The kickbacks often range between 50,000 and
25 150,000 per house.

1 The second way involves a fraudster who
2 arranges to buy a house at the asking price, then
3 immediately sells the house to a straw buyer at a price
4 inflated by \$50,000 to 150,000. The straw buyer never
5 intended to occupy the house or become the owner of the
6 house, but simply agrees to let the fraudster use his
7 name and credit history to buy the house.

8 The fraudster pays the straw buyer usually
9 between 5,000 and 10,000 per house. The fraudster then
10 keeps the \$50,000 to 150,000 for himself.

11 The builder buyout frauds involve builders
12 inflating the prices of their homes to kickback
13 incentives to the buyers and others and concealing the
14 kickbacks from the lenders. The frauds often attract
15 fraudsters who use straw buyers to buy the houses so the
16 fraudsters can keep the incentives for themselves.

17 COMMISSIONER GEORGIU: I'm sorry.

18 If you could sum up, and then
19 we'll hear the rest of your testimony in the course of
20 your questioning.

21 WITNESS BOGDEN: Yes, sir.

22 There's also foreclosure rescue fraud and loan
23 remodification fraud, which are similar to each other.
24 Those are types of frauds that have been pursued by the
25 Nevada Attorney General's Office. Our office as well as

1 the F.B.I. and our Southern Nevada Mortgage Fraud Task
2 Force has taken the cases, the loan origination, as well
3 as the property flipping and the builder buyout cases as
4 the cases we've pursued through investigations and also
5 prosecutions.

6 COMMISSIONER GEORGIU: Thank you very much.

7 Mr. Gordon?

8 WITNESS GORDON: Commissioners, I'm grateful
9 for the opportunity to speak to you here today.

10 My name is Brian Gordon. I'm a principal with
11 Applied Analysis. We're a Las Vegas based economic real
12 estate and market research firm.

13 I'm also a native Nevadan and attended this
14 fine institution, UNLV, where I graduated with a bachelor
15 of science degree in business administration. I'm also a
16 certified public accountant.

17 I've been asked to speak directly about the
18 impact the crisis has had on the Nevada real estate
19 market. Much has been discussed today about the, the
20 broader economic climate and business conditions in the
21 United States including Nevada and its real estate
22 markets. These discussions provide a meaningful
23 foundation for my testimony today.

24 It is also worth noting that when discussing
25 state-wide trends, Clark County accounts for

1 approximately 72 percent of the State's total population.

2 I'll start by discussing briefly residential
3 trends, commercial trends and then vacant land.

4 The residential market in Nevada has been
5 characterized by a typical boom/bust cycle. Prior to the
6 2000s, housing values reported only modest price movement
7 not unlike the national housing market during that same timeframe.

8 We saw price appreciation through the early
9 2000s, escalating up with annual price appreciation
10 topping out at 47.1 percent during the year-end of June
11 2004.

12 Price appreciation continued for some time
13 with the median home price peeking out at \$290,000 per
14 unit in mid-2006.

15 During the 12 months ended May 2006, over
16 43,000 residential housing units were permitted for
17 construction. The new construction sector was also
18 experiencing a significant boom during that time frame.

19 Following the boom periods in the '06/'07 timeframe
20 we saw a significant amount of foreclosure
21 activity, particularly in southern Nevada, with over 7,000
22 homes being foreclosed upon since the beginning of the
23 national recession in December 2007.

24 Lack of market demand during that downturn
25 resulted in a number of distressed sales with the median

1 home price now hovering around \$125,000 per unit here in
2 southern Nevada. That's been a trend over the better
3 part of the past year.

4 An interesting statistic according to
5 CoreLogic, approximately 23 percent of all homes with a
6 mortgage in the United States are underwater or
7 upside-down.

8 In Nevada that figure is 68.1 percent of the
9 borrowers, reflecting the nation's highest rate.

10 Las Vegas ranked as the most underwater city
11 in the country with 72.8 percent of borrowers owing more
12 on their property than it is currently worth.

13 CoreLogic also estimates the total amount owed
14 on mortgages in Nevada reflects 120 percent of total
15 property value.

16 Nevada has -- was the only state to report a
17 value above a hundred percent. The national average is 70
18 percent.

19 These market dynamics are not limited just to
20 the for sale market. We've also seen similar trends in
21 the professionally managed apartment market of southern
22 Nevada and the State as a whole.

23 Turning to commercial markets, the trends are
24 very similar. The trend lines are very similar to what
25 we've seen in residential in terms of overall supply

1 outstripping demand.

2 Turning to the professional office market, for
3 example, currently vacancies are hovering around 24
4 percent in the office. They were previously at a low of
5 8.1 percent during the third quarter of 2005.

6 During that time frame, millions of square
7 feet have been constructed and developed while demand for
8 overall product has turned negative for the better part
9 of the past two years.

10 Turning to the commercial real estate retail
11 market, the southern Nevada market has been hard hit by
12 not only local conditions here but also the national
13 economy.

14 Reorganizations and liquidations of national
15 retailers such as Circuit City and Linens and Things
16 played a role locally as the major anchor spaces they
17 occupied have remained vacant.

18 Historically averaging vacancies in the 3 to 4
19 percent range, vacancies in anchored retail centers
20 currently stand at 10.4 percent. Again, as demand turned
21 negative, construction stalled, and prices plummeted.

22 The industrial real estate market has been
23 similarly impacted by the downturn with vacancy rates
24 hovering around 16.2 percent today. That is well above
25 the 3.3 percent low in the fourth quarter of 2005.

1 All of this has translated into little and
2 lesser demand for overall vacant land, so we've seen
3 pricing plummet in that regard as well.

4 I've included a number of exhibits to the
5 Commission in advance of our meeting today in support of
6 our research. And I hope this information is useful.
7 And I'll be happy to answer any questions.

8 COMMISSIONER GEORGIU: Thank you, Mr. Gordon.
9 Mr. Jeffries?

10 WITNESS JEFFRIES: Good afternoon. My name is
11 Jay Jeffries.

12 From 2004 to 2007, I was regional sales
13 manager for outside sales at Fremont Investment & Loan.

14 VICE CHAIRMAN THOMAS: Mr. Jeffries, could you
15 either come closer to the mike -- it's very hard to hear
16 you. But if you get too close then you rock it.

17 WITNESS JEFFRIES: All right. I'll start over
18 here.

19 From 2004 to -- again, my name is Jay
20 Jeffries.

21 From 2004 to 2007, I was regional sales
22 manager with Fremont Investment & Loan for the Southwest
23 Region wholesale sales outside.

24 Basically we developed sales in the Las Vegas
25 area through the relationships developed by our account

1 executives with mortgage brokers and bankers.

2 Loan products sold by Fremont Investment &
3 Loan, we had 2/28 and 3/27 ARMS available as well as
4 fixed rate 15-year and 30-year mortgages.

5 Loan types were 80/20, were a hundred percent
6 financing were available from 2004 to 2006.

7 As the market began to deteriorate, loan
8 values became more restrictive, as did guidelines for
9 underwriting.

10 These loans were considered to be all day
11 subprime loans. Documentation was full doc, alternative
12 dock and state income loans.

13 The process by which Fremont Investment & Loan
14 underwrote loans were all loans throughout the Southwest
15 region were underwritten centrally in Anaheim,
16 California. Brokers and bankers overnighted or e-mailed
17 loan packages to Fremont Investment & Loan for
18 underwriting. The loans were either approved or denied,
19 and the broker/bankers would notify as to what conditions
20 would be required to fund the loan.

21 Brokers, account executives and regional sales
22 managers were compensated this way. Brokers were
23 compensated by Fremont Investment & Loan through yield
24 spread premium.

25 Account executives were compensated with

1 forgivable draw based on commission based on the amount
2 of volume they generated.

3 Regional sales managers were given a base
4 salary plus bonus, based on the amount of volume their
5 account executives generated.

6 What connection did the mortgage industry have
7 between Main Street and Wall Street? Well, in my
8 opinion, Wall Street created the market utilizing
9 mortgage-backed securities as an investment vehicle.

10 The mortgage industries supplied the Wall
11 Street banks with the pools of loans to be packaged up
12 and sold to investors as mortgage-backed securities.

13 With low interest rates and a growing economy,
14 most regions of the U.S. were showing a vast increase in
15 appreciation of their homes. Borrowers were purchasing
16 and refinancing loans at an alarming pace.

17 As history shows, you can only sustain this
18 type of growth and appreciation for so long. As the
19 market came to a screeching halt, Wall Street banks left
20 the, the mortgage industry and the American people
21 holding the bag.

22 As far as what's to be done regarding
23 mortgages to prevent the, the next crisis, in my opinion
24 I think the new rules and regulations that have been set
25 in place right now, you know, that's going to tell the

1 tale.

2 I don't know what you could possibly do. As
3 most things happen, you know, the Federal government or
4 the State governments are always a day late and a dollar
5 short. We're always a step behind. So I'm not quite
6 sure what we can do.

7 Thank you very much.

8 COMMISSIONER GEORGIU: Thank you,
9 Mr. Jeffries.

10 Ms. Burk -- Burks?

11 WITNESS BURKS: Thank you, Mr. Chairman and
12 the Commission.

13 My name is Gail Burks. I'm president and CEO
14 with Nevada Fair Housing Center. We are a qualified fair
15 housing organization and have been in the valley since
16 1993.

17 And in 1999 we started to serve clients more
18 around financial issues and mortgage issues.

19 I've been asked to address the crisis from two
20 perspectives. One is sort of what happened in terms of
21 the financial crash and the economic crisis, the affect
22 on the real estate market, and to look at from the
23 perspective of the field for someone who is in the field
24 serving clients.

25 In order to understand it, I've divided it

1 into four separate cycles. The first cycle is the cycle
2 that we started to report on and to express concerns
3 about back in 1999 and 2001.

4 We started to see about 400 plus clients a
5 month come into the office with issues stating that they
6 had not been given proper information with their
7 mortgages, their mortgages had adjusted, or that payments
8 that they had made were not being properly applied to
9 their mortgages.

10 In addition, escrow accounts, or impound
11 accounts, which are collected, taxes or insurance, were not being
12 transferred
13 or used to pay the taxes.

14 At first it seemed a bit impossible, but as we
15 started to examine mortgage documents and to look further
16 into detail, what we saw was a host of activities. We
17 saw homes that had been issued just under the HOPE or the
18 Section 32 standard. This is the standard that requires
19 you to issue additional disclosures for a predatory loan.

20 We saw over fraudulent appraisals, properties
21 that had been appraised for more than the property was
22 worth. And we knew that by looking at the different
23 locations of the same house in different parts of town
24 and also looking at what those homes, looking at what
25 those homes had sold for before.

26 In addition, we tried to address the issues by

1 working with local government, other agencies to do
2 education, but we all also started to file a series of
3 lawsuits on behalf of consumers to try to get to the
4 bottom of the issue, and at a minimum to address
5 their mortgage problem and to help them keep their
6 mortgage. Some of those cases involved lenders such as
7 EMC and Fairbanks Capital, which is today known as SPS.

8 The other cycle of the crisis occurred between
9 2004 and 2007. And during this cycle we saw legitimate
10 subprime or nonprime mortgages start to be turned on
11 their head.

12 Now contrary to what you may hear, there is a
13 legitimate place for nonprime mortgages, and
14 traditionally the consumers who received those mortgages
15 had three trade lines or less, they maybe had a credit
16 score of 586 to 600, their debt-to-income was about 45
17 percent, they had consistent employment, or in some cases
18 they had no credit at all. That traditionally was a
19 legitimate subprime client.

20 However, what we decided to see was the market
21 turning subprime on its head. It grew into no
22 underwriting, no doc loans, lenders not doing a full
23 amortization of the loan, and showing that the client had
24 the ability to pay.

25 And, again, they failed to collect the impound

1 and taxes. And there was no PMI or private mortgage
2 insurance on most of these mortgages.

3 The impact on the market from a client
4 perspective, we have seen -- our case load has grown from
5 400 to over 2,000 inquiries of assistance for mortgage
6 help to save their home.

7 Overpriced homes, the ratio of consumers that
8 are upside-down is about 9 to 1.

9 In addition, we are seeing an increase in
10 consumers that are sort of giving up, even those
11 consumers who played by the rules and tried to do what
12 was correct are starting to do what's called strategic
13 defaults.

14 Although we have foreclosure programs that
15 supposedly are there to assist clients, some of the same
16 lenders and servicers that refused to play by the rules
17 in originations, and we some of those original lenders,
18 are also not playing by the rules for foreclosure
19 prevention. And we do have a client with us today to
20 talk a little bit about that issue.

21 There's also a new trend in terms of
22 delinquencies, up to 33 percent in the FHA mortgage
23 program. And we are starting to see more problems with
24 respect to seniors who are taking out what's called
25 reverse mortgages or HECM loans.

1 And, in fact, the Office of Thrift Supervision
2 issued an advisory to seniors talking about the problems
3 that they are seeing with respect to reverse mortgages.

4 So I guess the -- in conclusion, if you ask
5 what caused the crisis, it wasn't one person or one
6 company or one entity or one regulatory agency that
7 failed to enforce existing law. It was a combination of
8 all these things together that sort of resulted in what
9 we are seeing today in terms of the foreclosure rate.

10 COMMISSIONER GEORGIU: Thank you, Ms. Burks.

11 You've been right on five minutes. Within a
12 second or so. I understand you have one of your clients
13 who would like to speak to us for two or three minutes
14 about his situation?

15 WITNESS BURKS: Yes, Mr. Glen Smith. I'll
16 trade with him.

17 COMMISSIONER GEORGIU: Thank you, sir.

18 And if you could limit your time to three
19 minutes, we'd appreciate it.

20 MR. SMITH: Thank you members of the Commission.

21 Again, my name is Glen Smith. I've been a realtor
22 for 25 years, primarily working in the area of affordable apartment
23 development the rehabbing of houses and property sales.

24 I had purchased my home in December of 2005 at
25 the peak of the housing market. It was not a speculative

1 purchase or a flip property. It was a home that I had
2 intended to occupy for a long period of time.

3 My main source of income was rental property
4 income. Income that had come from rehabbing properties. Again,
5 they were affordable properties.

6 As the economy changed, clients were --
7 tenants were losing their homes -- I mean, losing their
8 jobs and not being able to pay for their rents, which
9 impacted my income.

10 Sales declined, real estate sales declined, so
11 at that point I decided I needed to find another way to
12 earn a living other than commission income and rental property income,
13 which I had been accustomed to for 25 years.

14 I went back to school to train in
15 another area which would allow me to earn non-commission
16 wages. During that time my home went into default, and I
17 applied for assistance with Chase Bank.

18 After explaining the hardships and what was going on, and the
19 reason for my the loss of income, I was told that I could apply for the home
20 loan modification program.

21 This is where the nightmare began. I was
22 given a list of documents to send in, which I promptly
23 did, only to be told they were not received.

24 I had confirmation that the faxes went through

1 yet somehow Chase denied receiving them.

2 This became a repeated line over and over and
3 over again, please refax, please refax, please
4 refax. So not only did I refax, I sent certified mail,
5 went to a housing fair that was set up to help the
6 borrowers, and I took the entire package of the same
7 documents that Chase claimed they had not received and
8 provided them to a representative from Chase who was at
9 the housing fair.

10 I followed up and was told that my paperwork
11 had been sent to another office. After the runaround and
12 not getting anywhere, I contacted Gail Burks in the Nevada
13 Fair Housing Center to help navigate this craziness.

14 Mrs. Burks consistently sent letters and
15 contacted people. I received a trial modification in
16 July of 2009. I thought things would be finally moving
17 along.

18 I had signed up for Nevada Foreclosure
19 Modification Mediation Program and had a hearing set for
20 October 2009. I had completed all of my trial payments
21 prior to the mediation and wanted to simply confirm that
22 everything had been processed for my permanent modification.

23 The night before our hearing, Mrs. Burks
24 received notification from the Chase Homeownership
25 Officer here in Las Vegas that, the manager sent over an

1 e-mail that my loan had been approved and it had
2 become a permanent modification.

3 So I went to the mediation the next day.
4 Chase did not bring any of the documents to the mediation
5 they're required to bring nor did they have anyone who
6 would be able to confirm the correspondence received the previous night
7 by Mrs. Burks, and they were not prepared with any type
8 of offer, property valuation, as required by Nevada law.

9 Chase also did not have anyone present to make
10 authority on a decision.

11 The mediator issued a finding against Chase
12 for not being prepared and having the proper personnel at
13 the mediation or anyone that could offer a solution or
14 make a decision. The mediator then issued a no
15 foreclosure order to Chase.

16 Fast forward to where we are now. I continued
17 to make trial payments for over a year, continually
18 contacting Chase, requesting the final paperwork for my
19 permanent modification. I kept getting the runaround.
20 Again, we're working on your file, we need additional
21 documentation, please refax. Same old story, same kind
22 over and over again.

23 I again contacted Mrs. Burks who followed up
24 for me and was told that my file had been sent to another
25 department.

1 I then received a letter back in June of 2010,
2 and my payment had been sent back to me stating they had
3 filed a notice of default on my home again.

4 I inquired -- Ms. Burks inquired to find out
5 what happened. I was told that my loan had been turned
6 down because I had no buyers for my short sale. My loan
7 had been sent to the short sale department. I explained
8 to Chase I had never listed my home for a short sale, nor
9 was it ever on the market.

10 I contacted Chase, and I said well, if my
11 property was listed for sale, where's my signature, and
12 where's the loan documentation that I listed it for sale.
13 They told me they couldn't provide any documentation.
14 And I said well, do you have anything with my signature
15 on it saying that the home was listed? They said no. At
16 this point, they told me I would have to start the
17 modification process all over again.

18 And I just want the Commission to know that
19 the modification process is not working. It's been
20 extremely stressful. The banks are making people feel
21 that they're stupid. Saying over and over again that
22 they never received the documents when I have multiple
23 faxes, I have a file about seven inches thick of papers,
24 and over 40 confirmations of documents that I've sent
25 over and over again.

1 In closing, I'm a single parent raising a son,
2 a 16-year-old son. My 87-year-old mother lives with me.
3 I didn't buy the home to flip it. I lost 70 percent
4 value in my community. We have, over 50 percent of the
5 homes in my development have gone into foreclosure.
6 There are three that are bank-owned now that have been
7 sitting on the market for over a year and a half. And
8 I'm trying to save my home.

9 That's all I want to say.

10 Thank you for your time. I do have the
11 documentations from the mediator which show the finding
12 against Chase. I also have the e-mail that they sent the
13 night before the mediation hearing so that we wouldn't go
14 through with the hearing, stating that my loan had been
15 permanently modified, yet they did not go through with
16 what they stated that they were going to do.

17 COMMISSIONER GEORGIU: Thank you very much,
18 sir.

19 If you could submit those materials to our
20 staff, we'll put them into the record.

21 We appreciate your testimony. If you could
22 stay around, we might have some questions,
23 additional questions.

24 VICE CHAIR THOMAS: Mr. Chairman, could I tell
25 Mr. Bogden that's criminal. I know you have different

1 definitions. That's criminal.

2 COMMISSIONER GEORGIU: Thank you.

3 What we're going -- we're going to go a little
4 bit out of order here. I'm going to ask some questions
5 of Mr. Jeffries and then some of the, the other
6 commissioners have some questions of him, because he's he
7 got to go.

8 And then we'll continue with some of the other
9 witnesses shortly thereafter.

10 Mr. Jeffries, you were in charge of what
11 region of Fremont?

12 WITNESS JEFFRIES: Southwest.

13 COMMISSIONER GEORGIU: And what did that
14 include?

15 WITNESS JEFFRIES: It included a little bit of
16 southern California, Nevada, Arizona, New Mexico.

17 COMMISSIONER GEORGIU: And where were you
18 based?

19 WITNESS JEFFRIES: Phoenix.

20 COMMISSIONER GEORGIU: And how many people
21 were originating loans for Fremont during this time?

22 WITNESS JEFFRIES: Well, we weren't
23 originating loans. We were working with the broker
24 community. We didn't -- we don't -- from a lender
25 standpoint, our account executives do not originate

1 loans. I call them paper pushers. They're getting a
2 loan package from the broker and submitting that to
3 Fremont. The broker is the one that deals with the
4 borrowers.

5 COMMISSIONER GEORGIU: Right.

6 WITNESS JEFFRIES: And to answer your
7 question, I had approximately 20 account executives
8 working for me.

9 COMMISSIONER GEORGIU: In Phoenix?

10 WITNESS JEFFRIES: No, I had 20 account
11 executives throughout my region.

12 COMMISSIONER GEORGIU: Okay. How many in
13 Nevada?

14 WITNESS JEFFRIES: Four.

15 COMMISSIONER GEORGIU: And how many did --
16 how many loans did they originate during the relevant
17 years, if you know?

18 WITNESS JEFFRIES: Yeah, I don't recall.

19 COMMISSIONER GEORGIU: Were they all subprime
20 mortgages?

21 WITNESS JEFFRIES: I would characterize that
22 yes.

23 COMMISSIONER GEORGIU: Okay. Now you say
24 that the brokers were compensated by Fremont through
25 yield spread premium.

1 Could you explain that to the people here who,
2 who may not know what that means?

3 WITNESS JEFFRIES: Yes, yield spread premium
4 is a spread between the -- a broker may give a borrower
5 an opportunity to pay them on the front side or get paid
6 on the back side, the backside being yield spread
7 premium. There's going to be a higher rate.

8 So when you're talking to borrowers, sometimes
9 a borrower has no money to put down on the loan, or to,
10 to pay the broker to buy the loan. They can charge a
11 higher rate. That's called yield spread.

12 COMMISSIONER GEORGIU: I'm sorry. Who can
13 pay the higher rate?

14 WITNESS JEFFRIES: The borrower would pay a
15 higher rate.

16 What happens is a borrower may come into the
17 broker's shop, the broker's office, sit down with the
18 loan officer, they're given a good faith estimate.
19 Probably given two.

20 They're given one if you want to pay for all
21 the fees up front, or if you want to put all your fees
22 into the loan is the other one. That's the yield spread
23 premium.

24 If you put all your fees into the loan, you're
25 going to pay a higher rate. That's how the brokers are

1 compensated.

2 COMMISSIONER GEORGIU: And were the brokers
3 paid a differential amount for generating or originating
4 a loan that was, was, was customary, was a standard
5 conforming loan as opposed to one that had a yield spread
6 premium?

7 WITNESS JEFFRIES: I don't recall.

8 COMMISSIONER GEORGIU: Do you know how much
9 your, the brokers that originated loans for Fremont were
10 paid?

11 WITNESS JEFFRIES: It would vary depending on
12 the loan.

13 COMMISSIONER GEORGIU: Okay. Now I guess --
14 let me try and ask it a different way. Maybe I wasn't
15 being clear.

16 Were -- did you provide any, any traditional
17 80/20 fixed rate loans where people put 20 percent down,
18 or were all your loans in the, the subprime space?

19 WITNESS JEFFRIES: Most of our loans were in
20 the subprime space. I mean, there might be somebody that
21 came in, or may have obtained a loan from a broker that
22 maybe the loan to value was 80 percent. Sure. We would
23 get those loans.

24 COMMISSIONER GEORGIU: Right, but most of them were
25 90 percent, a hundred percent, what were they? A hundred

1 and ten percent?

2 WITNESS JEFFRIES: In the hey day, I would say
3 most of them were 80/20s.

4 So you have an 80 percent first, 20 percent
5 second. And therefore you have a hundred percent
6 financing.

7 COMMISSIONER GEORGIU: And you provided both
8 the 80 percent first mortgage and the 20 percent second?

9 WITNESS JEFFRIES: That is correct.

10 COMMISSIONER GEORGIU: Okay. And what were
11 the customary terms of those loans to the borrowers?

12 WITNESS JEFFRIES: As far as?

13 COMMISSIONER GEORGIU: Interest rates,
14 points.

15 WITNESS JEFFRIES: They're going to vary per
16 borrower, but most of them are probably done on a 2/28,
17 which is a two-year ARM, so it's fixed for two years, and
18 at the end of the two years it can adjust, depending on
19 what the market is doing.

20 COMMISSIONER GEORGIU: Do you recall what the
21 adjustable spreads were?

22 WITNESS JEFFRIES: I do not.

23 COMMISSIONER GEORGIU: Okay. And these are,
24 these originating brokers -- I'm going to try to ask it
25 one more time in a slightly different way -- were you --

1 were they paid a higher percentage -- they were paid a
2 percentage of the loan amount of the mortgage, isn't that
3 correct, as an origination fee?

4 WITNESS JEFFRIES: Correct.

5 COMMISSIONER GEORGIU: Okay. Now were they
6 paid a higher percentage of the loan amount for
7 originating a mortgage that had a greater yield to the
8 lender, that is Fremont, than would otherwise be the case
9 in a lower priced mortgage, lower interest rate mortgage.

10 WITNESS JEFFRIES: If I use round numbers.
11 Let's use \$100,000.

12 Let's say that loan amount for this particular
13 borrower was 100 thousand dollars. The broker could ask
14 the borrower to pay the origination fee at say the par
15 rate, meaning the flat rate, lets call it 5 percent.

16 If the broker charged an origination fee to
17 the borrower, then the borrower would pay that, usually
18 it's 1 percent, it could be more, it's negotiable with
19 the broker. I don't have a -- any idea --

20 COMMISSIONER GEORGIU: So it would be, 1
21 percent would be a thousand dollars additional for the
22 borrower?

23 WITNESS JEFFRIES: Correct. So for an
24 origination fee due by the borrower that would be a
25 thousand dollars.

1 The broker could then try to make yield spread
2 premium by increasing the rate by say a quarter point.
3 We may pay another percent back to the broker. We would
4 pay no more than 2 percent back to the broker depending
5 on what the rate would be.

6 COMMISSIONER GEORGIU: So if the broker then
7 got the borrower to take a loan that had a higher
8 interest rate to pay back, you might pay that broker
9 2 percent instead of the 1 percent it would get for
10 having a standard conforming lower interest rate loan, is
11 that correct?

12 WITNESS JEFFRIES: Well, I don't know if they
13 qualified for a conforming loan.

14 COMMISSIONER GEORGIU: Did you buy any lower
15 interest rate loans that you only paid that 1 percent to
16 the brokers on?

17 WITNESS JEFFRIES: I don't recall.

18 COMMISSIONER GEORGIU: You don't recall ever
19 having done that, or you don't recall whether you did
20 it?

21 WITNESS JEFFRIES: I, I think there's some, a
22 disconnect between what you're asking and what I'm trying
23 to explain.

24 COMMISSIONER GEORGIU: Okay.

25 WITNESS JEFFRIES: I mean, I guess if I could

1 put it in layman's terms. And I'll try to be as easy as
2 possible here.

3 So if you have a borrower that is a subprime
4 borrower, I'm not saying that they're a conforming
5 borrower, conforming paper today, an FHA loan might be a
6 conforming loan. But back in the hey day, from 2004 to
7 2007, you may have a borrower who is a subprime borrower.
8 Now let's say that that borrower, needed an 80/20, and
9 his rate for practical purposes was 5 percent on the
10 first mortgage.

11 The broker said well, I need to get paid here,
12 the borrower doesn't have any money to put down or to pay
13 me for the loan origination fee, I'm going to bump the
14 rate by a quarter point, therefore, the Fremont
15 Investment & Loan is going to pay that broker 1 percent
16 of the loan amount.

17 COMMISSIONER GEORGIU: 1 additional percent.

18 WITNESS JEFFRIES: So a hundred thousand
19 dollars, we'd pay him a thousand dollars.

20 COMMISSIONER GEORGIU: I'm sorry. Then I
21 didn't understand.

22 I thought you said that they would pay you an
23 additional -- they would pay the broker an additional
24 yield spread for originating a loan that had the higher,
25 the quarter percent higher interest rate.

1 WITNESS JEFFRIES: No, we don't, we don't pay
2 the broker -- if the rate is 5 percent, that's the par
3 rate. If the broker decides he's going to try and make
4 more money on the loan, then he's going to raise the rate
5 to 5 and a quarter, that 25 basis points is what's going
6 to get him the yield spread premium. We've got a higher
7 rate loan, we're paying the broker for that yield spread
8 premium.

9 COMMISSIONER GEORGIU: So you'd pay the
10 broker say 2 percent instead of 1 percent, if they
11 produce for you a loan that charged the, the borrower 5
12 and a quarter percent as opposed to 5 percent?

13 WITNESS JEFFRIES: No. We would pay him 1
14 percent.

15 COMMISSIONER GEORGIU: Well, then what's the
16 additional yield spread premium to the broker?

17 WITNESS JEFFRIES: He makes 1 percent by
18 charging a higher rate.

19 COMMISSIONER GEORGIU: Makes an additional 1
20 percent in addition to the other 1 percent that he got
21 for originating the loan in the first instance?

22 WITNESS JEFFRIES: Potentially.

23 COMMISSIONER GEORGIU: Essentially?

24 WITNESS JEFFRIES: Potentially.

25 COMMISSIONER GEORGIU: You know, I may be

1 dense, but I'm going to try to get to it in another, in
2 another way.

3 When you bought these loans, was the -- were
4 the fees that were charged and that were made by the
5 brokers embedded in the loan?

6 WITNESS JEFFRIES: The broker had their set of
7 fees that they were charging. Fremont would have another
8 set of fees that they're going to charge for underwriting
9 and processing a loan.

10 COMMISSIONER GEORGIU: Right.

11 WITNESS JEFFRIES: And yes, they -- are they
12 embedded? They're on the good faith estimate. They're
13 all showing on the good faith estimate.

14 COMMISSIONER GEORGIU: Understood. I'm
15 trying to get on the additional amount that the broker
16 earned by steering someone to a 5 and a quarter percent
17 mortgage as opposed to a 5 percent mortgage.

18 Would that be 1 percent additional?

19 WITNESS JEFFRIES: It could be, yes.

20 COMMISSIONER GEORGIU: And it would be
21 customarily, would it not?

22 WITNESS JEFFRIES: It depends on what you can
23 get the -- I never had any contact with the borrowers, so
24 I don't know how the broker is talking to the borrower.

25 So at the end of the day, if the borrower were

1 saying on this hundred thousand dollar mortgage loan for
2 me to get this house, I need to pay the broker \$2,000, I
3 don't have it.

4 The broker comes back and says well, I can
5 charge you 5 and a half percent to make my \$2,000 on that
6 hundred thousand dollar loan.

7 COMMISSIONER GEORGIU: Because they could
8 then sell it to a someone like Fremont because they would
9 pay the broker that additional amount?

10 WITNESS JEFFRIES: The broker is not selling
11 the loan to Fremont. The broker is -- the broker or a
12 banker can't fund that loan. The broker doesn't have the
13 money to fund that loan.

14 He's not necessarily selling, I wouldn't say
15 he's selling it to Fremont. He's outsourcing the loan to
16 Fremont. We then acquire the loan and do the loan for
17 the broker and compensate the broker for the, for the --

18 COMMISSIONER GEORGIU: Right. And then what
19 would you do with the loan?

20 WITNESS JEFFRIES: As far as I know, they were
21 packaged up and sent to -- sold to the highest bidder in
22 pools of loans from, you know, your Lehman Brothers,
23 Goldman Sachs, Bear Stearns, those type of bankers.

24 COMMISSIONER GEORGIU: Okay. And then they
25 would securitize them of course into the various

1 instruments?

2 WITNESS JEFFRIES: Correct.

3 COMMISSIONER GEORGIU: Okay. I'm going to
4 hold on the remainder of my time and pass it to
5 Commissioner Murren for questions for Mr. Jeffries.

6 COMMISSIONER MURREN: If I could ask a few
7 questions about Fremont, and actually just one question
8 for you to start off.

9 Are you currently employed?

10 WITNESS JEFFRIES: I'm self-employed.

11 COMMISSIONER MURREN: What is your line of
12 work now?

13 WITNESS JEFFRIES: I do, I have a real estate
14 investment company, and I rehab properties. And I turn
15 around and resell them.

16 COMMISSIONER MURREN: So you're still in the
17 real estate business?

18 WITNESS JEFFRIES: Somewhat.

19 COMMISSIONER MURREN: A question on Fremont.
20 You had had some years of experience at the company, and
21 I'm curious about what impact the cease and desist order
22 that was issued by the Massachusetts Attorney General had
23 on your business, if any.

24 WITNESS JEFFRIES: I don't recall. And I'm
25 not quite sure what you're talking about.

1 COMMISSIONER MURREN: Well, there was a
2 lawsuit filed that was filed specifically relating to
3 your company's operating with management whose policies
4 are detrimental to the bank without effective risk
5 management policies operating with inadequate
6 underwriting criteria and excessive risk in relation to
7 the kind of quality of assets held by the bank; operating
8 without an accurate, rigorous and properly documented
9 methodology.

10 There are a number of, of listings of
11 shortcomings here that related specifically to an order
12 on March 7th of 2007. And you're telling me that you had
13 no idea that this happened? That you were unaware of the
14 national news on this?

15 WITNESS JEFFRIES: I don't have -- I didn't
16 handle Massachusetts, so I can comment on that.

17 And as far as my employment with Fremont
18 Investment & Loan, basically our last day of employment
19 with them was about March 1st, 2007. We were furloughed
20 or technically laid off on May 18th of 2007. So we, we
21 didn't do any more business after March 1st of 2007. And
22 if what I heard was correct, the lawsuit was filed on
23 March 7th, 2007. So I can't comment on that, I don't
24 know.

25 COMMISSIONER MURREN: Could you comment just

1 on principal then of the general allegations that were
2 made about the way the business was run at Fremont and
3 perhaps comment a little bit about how you yourself
4 pursued some of these issues relating to underwriting
5 standards or quality?

6 WITNESS JEFFRIES: Underwriting is completely
7 separate from what my sales team did. So I didn't have
8 any -- I didn't have any oversight or any management with
9 underwriting.

10 What I would like to add, though, is Fremont
11 did have five centers throughout the United States. So
12 the Massachusetts thing that you're relating to, maybe
13 that went through the center in New York, because we were
14 regionally located.

15 But from an underwriting standpoint, I didn't
16 have any direct association with underwriting. I
17 understood the guidelines, but I didn't have any
18 management with, or any influence upon how things were
19 underwritten. I mean that was a total -- that was all
20 kept separate from sales. You want sales kept as far
21 from underwriting, processes as can be.

22 COMMISSIONER MURREN: That's an interesting
23 observation because one could make the, the argument that
24 actually compensating people strictly for producing
25 volume as opposed to producing quality actually would

1 have some unintended consequences.

2 What do you think about that?

3 WITNESS JEFFRIES: Well, you, you did get
4 paid, as far as there was a couple of other factors as
5 far as getting paid. One was called pull-through. So
6 the number of loans that were submitted, if you were
7 below 75 percent loans that came through that actually
8 funded, that could impact your income.

9 COMMISSIONER MURREN: So that would suggest
10 then that if they were kicked back from whoever it was
11 that was reviewing the files, then your income would be
12 affected by that.

13 WITNESS JEFFRIES: That's a possibility, yes.

14 COMMISSIONER MURREN: Could you talk about any
15 interactions that you might have had with the quality
16 assurance people at Fremont? It's my understanding that
17 you did have people that would periodically review the
18 loan files to ensure that they were in fact complying
19 with origination standards or other measures of quality.

20 Did you have any discussions or interaction
21 with them at all?

22 WITNESS JEFFRIES: I did not, but you are
23 correct in saying that we did have an audit department
24 that audited loans very closely.

25 COMMISSIONER MURREN: Yesterday in our

1 testimony in Bakersfield, we actually had a gentlemen who
2 was very intimately involved with the appraisal process
3 in Bakersfield.

4 Is that one of the areas that you oversaw?

5 WITNESS JEFFRIES: I did not.

6 COMMISSIONER MURREN: His comment, I guess
7 he had -- it had been brought to his attention that there
8 were some fraudulent activities that related to loan
9 origination that he brought to the attention of a quality
10 assurance officer at Fremont, and I think the quote was:
11 Don't put your nose where it doesn't belong.

12 Is that something that surprises you, knowing
13 the culture of your firm?

14 WITNESS JEFFRIES: Very much so.

15 COMMISSIONER MURREN: I think I will end my
16 questions there.

17 COMMISSIONER GEORGIU: Chairman Angelides?

18 CHAIRMAN ANGELIDES: Great. Thank you very
19 much.

20 Mr. Jeffries, by the way, just for the
21 audience, we're not picking on Mr. Jeffries. It's just
22 we're trying to accommodate schedules here. So we're
23 trying to get our questions in just so the folks in the
24 audience know.

25 I want to ask a couple of follow-up questions.

1 First of all, I think that I understand yield
2 spread premium, which is essentially the higher the
3 interest rate goes, the greater ability to pay the loan
4 origination fee to the broker, correct? Essentially.

5 WITNESS JEFFRIES: Essentially, yes.

6 CHAIRMAN ANGELIDES: And embedded in that, is
7 this a fair statement, that the higher the interest rate
8 grows, it also produces, even with the higher loan
9 origination payment to the broker, it produces a higher
10 value for Fremont, therefore when they sell the loan, they
11 can sell it for a greater amount, correct?

12 WITNESS JEFFRIES: Potentially that could be
13 correct. It depends on what the, the loan to value is,
14 depending on what the documentation type is, it depends on
15 what the FICO score was. There's a lot of things that go
16 into that pool to determine what that price --

17 CHAIRMAN ANGELIDES: But generally the math, I
18 would assume is, that the higher interest rate allows the
19 higher loan origination fee, and I would assume, from a
20 business perspective, some extra margin for Fremont.
21 Just generally, given the variables.

22 WITNESS JEFFRIES: That's a possibility, but
23 also on the higher interest rate loans, there's higher
24 risk involved. Normally, on the loan.

25 CHAIRMAN ANGELIDES: Okay. Compensation. You

1 said pull-through, which means how many loans that you
2 put through or approved.

3 Was there any measure of the compensation that
4 was tied to the performance of the loans ultimately?

5 WITNESS JEFFRIES: Later in my tenure at
6 Fremont I would say probably mid-2006, we instituted a,
7 a -- as part of the compensation plan that stated that if
8 we received a buyback on a loan or a first payment
9 default, then it very well could affect that account
10 executive's income as well as my income.

11 CHAIRMAN ANGELIDES: But not until that time?

12 WITNESS JEFFRIES: It was -- yeah, not until
13 that time. It was instituted I want to say maybe
14 mid-2006.

15 CHAIRMAN ANGELIDES: And loan volumes I assume
16 dropped significantly in the second half of 2006,
17 correct?

18 WITNESS JEFFRIES: I would say they dropped
19 fairly quickly the beginning of 2006.

20 CHAIRMAN ANGELIDES: All right. So the horse
21 was out of the barn by that point. You don't set comp
22 policies then.

23 Is it fair to say that until that time there
24 were no clawbacks or relationship to long-term
25 performance?

1 WITNESS JEFFRIES: Correct.

2 CHAIRMAN ANGELIDES: We're asking for your
3 view, so what Ms. Murren was referring to, just for
4 clarity, were there actually two cases, one was the
5 Massachusetts case, Attorney General Coakley brought a
6 case -- actually after closure of Fremont, which closed
7 down in March of 2007, but essentially the case went to
8 the Superior Court and then was affirmed by the
9 Massachusetts Supreme Court. And essentially the
10 judgment in the case was that the company had violated
11 Massachusetts Predatory Home Loan Practices Act because
12 the lender had ignored the homeowners' inability to repay
13 their mortgages.

14 Also in 2007 -- and I think this is what
15 Ms. Murren was reading from -- the FDIC issued a cease
16 and desist order, which, it essentially comes at the same
17 time that the company is closing down. And they found a
18 number of things.

19 They said that:

20 Fremont had operated with a large
21 volume of poor quality loans,
22 engaged in unsatisfactory lending
23 practices, had operated with
24 inadequate underwriting criteria,
25 had marketed and extended the

1 adjustable rate mortgage products
2 to subprime borrowers in an unsafe
3 and unsound manner that greatly
4 increased the risk to borrowers.

5 Give us your assessment of whether you think
6 this is an accurate characterization of the company's
7 practices.

8 WITNESS JEFFRIES: Honestly, I don't think
9 that is characteristic of Fremont at all. Like I said
10 before, we had five centers throughout the United States.
11 And the center I worked with was in Anaheim, California.
12 We were held to very high standards as far as
13 underwriting goes, as far as sales people go, what we
14 were doing on a daily basis. So that does surprise me.

15 From an FDIC standpoint, I can't comment on
16 that because I don't know anything about the -- their
17 investigation. So --

18 CHAIRMAN ANGELIDES: All right. Let me ask you
19 one more question, and then I'll rest my questioning and
20 return -- and I'll probably ask you two quick questions,
21 quick, because I do have other things for other folks.

22 There is -- in some information provided to
23 us, our staff examined, for example, one of the mortgage
24 security packages that was sold into the marketplace. So
25 this is actually a bundle -- you know, obviously Fremont

1 would sell its loans in the market, as you said, to
2 Goldman and Bear and everyone. This is a package which
3 actually was a 1.76 billion dollar package of loans, all
4 Fremont loans, rated Triple-A, 2006 loans, 57 percent --
5 57 percent of these were refinance loans.

6 It went out Triple-A. As of today it's rated
7 Triple-C. The foreclosure REO rate is 26 percent, and 49
8 and a half percent of the loans are 90 days delinquent.

9 How did that happen? I mean, what is it in
10 the system that broke down so horribly?

11 WITNESS JEFFRIES: In my opinion, I would say,
12 you know, I don't know why those loans are 90 days past
13 due on payments, but I think, you know, if you look at a
14 borrower who has no skin in the game, they've got a
15 hundred percent financing, and appreciation is going up,
16 and then at the end of the day, everything fell off a
17 cliff, and now all of a sudden you're upside-down on your
18 house, and what are you going to -- I mean, from a
19 borrower's standpoint, what are they going to do?

20 So from the vast appreciation that we saw I
21 think a lot of people got upside-down on their house and
22 they --

23 CHAIRMAN ANGELIDES: Doesn't no skin also
24 apply to the broker, to Fremont itself, that were taking
25 these products and moving them up through the system?

1 WITNESS JEFFRIES: I think Fremont had some
2 skin in the game. I mean, they had 2500 employees
3 throughout the United States. I mean, I no longer work
4 in the mortgage industry. I'm a 10 or 20-year veteran,
5 and now I don't have a job.

6 So, you know, did they have -- they were a
7 publicly-traded company. So I would say they had some
8 skin in the game.

9 CHAIRMAN ANGELIDES: All right. Thank you.

10 COMMISSIONER GEORGIU: Vice Chair Thomas?

11 VICE CHAIR THOMAS: Thank you. I'm not a big
12 acronym guy, so as we talk, if you use letters to
13 describe something, I'd rather have words so other people
14 can understand it. Actually, so I can understand it.

15 What did you do prior to 1990?

16 WITNESS JEFFRIES: I was in college in Arizona
17 State University.

18 VICE CHAIR THOMAS: So your first job was a
19 AVP, as an area vice president or -- a vice president
20 bank manager?

21 WITNESS JEFFRIES: Right. Assistant vice
22 president branch manager with Norwest Financial, which is
23 now part of Wells Fargo. Wells Fargo was acquired by
24 Norwest.

25 VICE CHAIR THOMAS: So you became -- your

1 first involvement in this area was as an assistant branch
2 manager?

3 WITNESS JEFFRIES: Yes.

4 VICE CHAIR THOMAS: And then moved up, was at
5 Countrywide. I assume Fremont Investment & Loan -- what
6 happened between '07 -- Fremont got absorbed by a
7 Decision One Mortgage.

8 WITNESS JEFFRIES: Fremont got a cease and
9 desist. They went out of business basically from the
10 real estate lending standpoint.

11 VICE CHAIR THOMAS: And, and Division One
12 picked up some of the folk?

13 WITNESS JEFFRIES: I applied there.

14 VICE CHAIR THOMAS: You applied there. And
15 you got picked up?

16 WITNESS JEFFRIES: Yes.

17 VICE CHAIR THOMAS: Okay.

18 You referred several times to the people that
19 you oversaw in terms of what they were doing as a sales
20 team.

21 WITNESS JEFFRIES: Yes.

22 VICE CHAIR THOMAS: What were they selling?

23 WITNESS JEFFRIES: Service.

24 VICE CHAIR THOMAS: Did the service produce a
25 product?

1 WITNESS JEFFRIES: At the end of the day it
2 got funded loans, it got people in-house, it refinanced
3 loans for people.

4 VICE CHAIR THOMAS: So they were in the job of
5 creating a loan?

6 WITNESS JEFFRIES: The loan was already
7 created by the broker. We basically would go into the
8 broker office and meet with the loan officers and say
9 here's what our products are. Here's how our guidelines
10 work, because every company has a different set of
11 guidelines, so they're not all the same.

12 VICE CHAIR THOMAS: Right. But, but you only
13 visit that broker first once. The second visit is not
14 the first visit.

15 So when you visit with them the first time,
16 you kind of spell out how you operate, right, so they
17 know what to expect to be able to sell their product to
18 you.

19 WITNESS JEFFRIES: They -- they understand --
20 we go in and educate the broker on our product, on our
21 service, and on our process.

22 VICE CHAIR THOMAS: And of course those, those
23 members of your sales team knew that if the pull-through
24 or whatever you want to call it, the performance of the
25 products that they're sending up fell below 75 percent,

1 does that mean they would fall through; they were so bad,
2 they wouldn't clear?

3 WITNESS JEFFRIES: No. You could have
4 somebody -- let's say, part of the pull-through deal as
5 well might be somebody gets an approved loan, and that
6 loan never funds with Fremont, because they went to XYZ
7 Mortgage Company, just name some names out there,
8 Decision One or Mortgage Lenders or Countrywide. It went
9 someplace else. So you still, you're going to get dinged
10 on that loan, because we approved it --

11 VICE CHAIR THOMAS: Why would it go somewhere
12 else if you went to the trouble of setting it up, working
13 with it?

14 WITNESS JEFFRIES: Because most good brokers
15 out there, or most brokers, in general, are going to
16 place their loan at several different lenders, and at the
17 end of the day they're going to go with the lender who
18 has the best rate, where they can make the most money
19 and the most ease of getting the loan done in a quick
20 manner.

21 VICE CHAIR THOMAS: So everything was based on
22 getting to yes, including the way in which your sales
23 team was paid, and ultimately the way the broker got
24 paid; once those thresholds are passed, and everything
25 goes through, was there any -- sometimes it's called

1 clawback -- was there any responsibility after it went
2 through this process on, on pay in any way?

3 WITNESS JEFFRIES: I don't know what clawback
4 is. Are you referring to a buyback?

5 VICE CHAIR THOMAS: No -- see, I did it to
6 you. That's good. Let me think of another term.

7 These loans, I mean, you say 2/28, which means
8 it's fixed for two years -- it's adjustable, but it's
9 fixed for two years and then it goes 28?

10 WITNESS JEFFRIES: Well, then you have 28
11 additional years that you're still paying on the loan.

12 VICE CHAIR THOMAS: Right. So at least
13 there's a two-year fixed period.

14 WITNESS JEFFRIES: That's correct.

15 VICE CHAIR THOMAS: So was there any
16 evaluation of the loans that failed after that two-year
17 period and any ripple back through payment structures if
18 in fact something that was written for 30 years hopefully
19 didn't make it past two?

20 WITNESS JEFFRIES: Well, I think in a lot of
21 cases, the loans weren't ever getting out to two years,
22 because everybody -- you have such an aggressive
23 appreciation value in the Southwest, that people were
24 refinancing and pulling cash out of their houses. So a
25 lot of these loans I don't think ever got to that point,

1 or sometimes these loans are referred to as a Band-Aid
2 loan, so they can get their credit back in line, so they
3 can go out and get a conforming loan down the line.

4 VICE CHAIR THOMAS: So what was the volume
5 increase during this period? I mean, you were pretty
6 much in the business from '90 to '08, and you have your
7 sales team.

8 What was the turnover in the sales team?

9 WITNESS JEFFRIES: At which company?

10 VICE CHAIR THOMAS: Pick one.

11 WITNESS JEFFRIES: At Fremont, less than ten
12 percent.

13 VICE CHAIR THOMAS: And what about expansion
14 of sales team?

15 WITNESS JEFFRIES: I inherited a sales team of
16 approximately 14 account executives when I came on board.
17 And then we increased that to approximately 20, but we also picked up
18 another state, New Mexico, so we had some expansion
19 state-wise.

20 VICE CHAIR THOMAS: How did you find
21 additional team members?

22 WITNESS JEFFRIES: I've managed other states
23 in the past, so I've got a pretty good network of people
24 I know.

25 VICE CHAIR THOMAS: What was the most

1 rewarding aspect of your job to you?

2 WITNESS JEFFRIES: I would think, you know,
3 putting people in homes. I mean, that's the American
4 dream. People go out, and they get to buy a house. That
5 is, you know, outside of having a family, I think that's
6 the American dream. Everybody wants to own a house.

7 VICE CHAIR THOMAS: And you oversaw a lot of
8 those deals getting people in homes.

9 Did you ever get any feedback from those who
10 couldn't stay in the home or were not able to maintain it
11 in part maybe because of the way the loan was written,
12 not quite to their knowledge?

13 WITNESS JEFFRIES: I have not because --

14 VICE CHAIR THOMAS: No one ever came back to
15 you?

16 WITNESS JEFFRIES: We never talked to
17 borrowers. My sales people would never talk to
18 borrowers. We talked to the loan officers and the
19 brokers. We don't talk to borrowers because they're not
20 our client.

21 VICE CHAIR THOMAS: Well, so, you know,
22 someone has a beer with the broker when they're trying to
23 make a pitch.

24 Did they ever get any feedback from, from --
25 was there a question about whether or not the pattern

1 that we're producing of whether a loan is continuing to
2 produce a, a loan that may be less and less viable?

3 WITNESS JEFFRIES: I can't comment on that,
4 because I don't know.

5 VICE CHAIR THOMAS: And of course that
6 wouldn't be a problem because the viability was only
7 through the first threshold, and after that it was
8 someone else's problem, huh?

9 WITNESS JEFFRIES: Well, if Fremont Investment
10 & Loan funded the loan, it's still going to be Fremont
11 Investment and Loan's problem, I mean, if they packaged
12 the loan up and it sold to other investors because of the
13 buyback principle; if the loan doesn't perform the, the
14 loan comes back to Fremont, and Fremont has to pay that
15 loan off.

16 VICE CHAIR THOMAS: And you were high enough
17 to know about the loans coming back?

18 WITNESS JEFFRIES: I was not.

19 VICE CHAIR THOMAS: You were not. That was
20 someone else. Okay.

21 COMMISSIONER GEORGIU: Do you know how many
22 on --

23 VICE CHAIR THOMAS: I'm, I'm finished with my
24 time. You may go.

25 COMMISSIONER GEORGIU: I'm sorry.

1 Do you know how many loans had to be bought
2 back by Fremont?

3 WITNESS JEFFRIES: I have no idea.

4 COMMISSIONER GEORGIU: Thank you.

5 Commissioner Born?

6 COMMISSIONER BORN: Thank you, Commissioner
7 Georgiou.

8 So you have no idea what the performance of
9 the loans that Fremont was making through your sales
10 efforts has been?

11 WITNESS JEFFRIES: No, I do not.

12 COMMISSIONER BORN: Do you think they've been
13 successful?

14 WITNESS JEFFRIES: Well, the company is no
15 longer in business, so apparently something wasn't
16 successful.

17 COMMISSIONER BORN: What was your experience
18 in terms of the numbers of buybacks during the time that
19 you were at Fremont?

20 Were there significant buybacks?

21 WITNESS JEFFRIES: In my opinion on just
22 things that I had heard in the past, buybacks weren't a
23 big deal up until about, you know, the first quarter of
24 2006, and then they started becoming a big deal, because
25 I think the investment banks that were buying the loans,

1 they didn't really care at the time, because there were
2 so many loans in those pools that were performing they
3 didn't really care. But then when the buyback, when the
4 loans quit performing, and it got to be a big deal, then
5 they were coming back and saying hey, we want some
6 compensation.

7 So I don't know what, what the actual number
8 is, but, I mean, just from the rumors and things that you
9 hear throughout the company, I'm sure that it increased
10 dramatically in 2006.

11 COMMISSIONER BORN: And did that affect
12 compensation for you and for the salesmen under you?

13 WITNESS JEFFRIES: The comp plan changed
14 dramatically. You know, it seems like it changed every
15 year, like twice a year.

16 But as far as -- in 2006 it was the most
17 drastic. But it was just because the other thing was we
18 weren't doing the volume we were doing in the past
19 either.

20 COMMISSIONER BORN: Now you, if I understood
21 you right, you said -- you've testified that the mortgage
22 brokers you were dealing with were placing loans with
23 Fremont or other lenders, depending on how much the
24 broker would make on the loan, is that correct?

25 WITNESS JEFFRIES: I would characterize --

1 that would be one of the components of where they placed
2 the loan, yes.

3 COMMISSIONER BORN: So as far as you know, the
4 mortgage brokers were focusing on their own compensation
5 rather than on the benefits to the borrower of a
6 particular loan?

7 WITNESS JEFFRIES: I would say that that
8 probably went on, yes.

9 COMMISSIONER BORN: And you felt your
10 customers were the mortgage brokers, is that correct?

11 WITNESS JEFFRIES: That is correct.

12 COMMISSIONER BORN: Rather than the borrowers?

13 WITNESS JEFFRIES: That is correct.

14 COMMISSIONER BORN: So did you focus on
15 whether a particular loan was beneficial to the borrower?

16 WITNESS JEFFRIES: Our underwriting department
17 did. They had -- it had to meet a series of guidelines
18 in order -- from a benefit standpoint. If there was no
19 benefit to the borrower to do the loan, then we didn't do
20 the loan.

21 COMMISSIONER BORN: So your underwriting
22 standards were based on what was good for the borrower
23 rather than what was good for Fremont?

24 WITNESS JEFFRIES: Yes.

25 COMMISSIONER BORN: And in what respect were

1 they doing that? You were giving no doc loans, right?

2 WITNESS JEFFRIES: Stated income. We didn't
3 do no doc.

4 COMMISSIONER BORN: Stated income loans?

5 WITNESS JEFFRIES: Correct.

6 COMMISSIONER BORN: You were saying that there
7 was a hundred percent -- you testified already that there
8 was a hundred percent financing being provided to many of
9 these borrowers, that they had no skin in the game as of
10 the time that the housing bubble collapsed, and so it's
11 not surprising that they defaulted, right?

12 WITNESS JEFFRIES: In my opinion, no, it's not
13 surprising that they defaulted. But I think the same
14 thing can be said for FHA. If you're obtaining an FHA
15 loan, there might be times that you have no skin in the
16 game on that loan either.

17 COMMISSIONER BORN: So were you aware of what
18 the underwriting standards were?

19 WITNESS JEFFRIES: I know that our
20 underwriters were held to the highest standard.

21 COMMISSIONER BORN: But how did you know what
22 kind of loans to obtain from your brokers?

23 You knew what the standards were, didn't you?

24 WITNESS JEFFRIES: I knew what the guidelines
25 were, yes. And so did our people. We trained them on

1 the guidelines. You have to know the guidelines or you
2 can't step foot in the broker's office to, to get a loan,
3 because you don't have -- if you don't know the
4 guidelines, they don't want, want you wasting their time.

5 COMMISSIONER BORN: And did you feel that the
6 guidelines were reasonable and designed to ensure that
7 the borrower would have the capability of paying off that
8 loan?

9 WITNESS JEFFRIES: I can't comment on that. I
10 never thought of it.

11 COMMISSIONER BORN: You never thought of that?
12 You were placing hundreds, thousands of loans to
13 homeowners, and you never thought about whether they
14 could pay them off?

15 WITNESS JEFFRIES: That was not my job. My
16 job was sales. I did not underwrite loans.

17 It's not my job to comment on whether the
18 underwriting guidelines are too stringent or too soft. I
19 mean, that's -- we were, we were a sales organization.
20 So from my standpoint, I'm employed to do the selling not
21 the underwriting.

22 COMMISSIONER BORN: It's like you were selling
23 Chinese toys with lead-based paint, and you never thought
24 were these good for children.

25 Thank you.

1 COMMISSIONER GEORGIU: Commissioner Thompson?

2 COMMISSIONER THOMPSON: Thank you for coming,
3 Mr. Jeffries.

4 Having managed sales organizations my whole
5 life, I think I know a little bit about the process.

6 So can you describe for me the qualifications
7 to be a sales rep for you?

8 WITNESS JEFFRIES: Qualifications would have
9 been, you know, five years in the mortgage industry,
10 understanding of, either from a loan origination
11 standpoint, how a loan is put together.

12 We want somebody to have some good longevity
13 with a previous company. We didn't like to see any
14 turnover amongst our employees. We wanted to hire good
15 solid people.

16 So from the standpoint of somebody with good
17 sales experience in the mortgage industry, that's
18 somebody you might hire.

19 COMMISSIONER THOMPSON: So generally you're
20 hiring people who are not fresh out of college, you're
21 hiring very experienced people that have a track record
22 and credibility that you can point to?

23 WITNESS JEFFRIES: That's correct.

24 COMMISSIONER THOMPSON: What became then the
25 attraction for them to leave their firm to join your

1 firm?

2 Was your offer for riches and fame, or what
3 was the attraction?

4 WITNESS JEFFRIES: Well, I think the
5 attraction might have been it was just a better
6 environment. I mean it was a very good company, had a
7 family atmosphere type of company, where everybody knew
8 your name. It wasn't just you were another number and
9 how much volume are you doing this month.

10 So the attraction would have been, yeah, they
11 would probably make more money with Fremont than where
12 they currently were.

13 COMMISSIONER THOMPSON: Was that a part of
14 your pitch to attract them to Fremont?

15 WITNESS JEFFRIES: I would certainly, if I
16 thought the guy was really viable, I'd make an attractive
17 pitch to him, sure.

18 COMMISSIONER THOMPSON: So what was the
19 average compensation for a rep that worked for you or for
20 Fremont in the 2005/2006 time frame?

21 WITNESS JEFFRIES: In Nevada, Arizona, in New
22 Mexico?

23 COMMISSIONER THOMPSON: That worked for you.
24 So you had a pretty expansive territory, so pick what the
25 average rep that worked for you in your geography would

1 make.

2 WITNESS JEFFRIES: Well, I would think the
3 average rep in Nevada in the 2004/2005 time frame
4 probably made, you know, 175 to \$200,000.

5 COMMISSIONER THOMPSON: Is that all?

6 WITNESS JEFFRIES: I'm sure we had some that
7 made more.

8 COMMISSIONER THOMPSON: So your home run
9 hitter, how much did he or she make?

10 WITNESS JEFFRIES: I don't recall.

11 COMMISSIONER THOMPSON: Could that possibly
12 have been over a million dollars?

13 WITNESS JEFFRIES: None of my reps made over a
14 million dollars.

15 COMMISSIONER THOMPSON: So at it was not at
16 your leg of the value chain where all the money was being
17 generated?

18 WITNESS JEFFRIES: No, I, I -- yeah, I would
19 agree with that.

20 The other thing, you know, I would like to
21 comment on, Fremont also had inside sales. And those
22 inside salespeople could call on Nevada as well. And
23 they had sales managers. It wasn't just, you know, Jay
24 Jeffries and his four account executives.

25 COMMISSIONER THOMPSON: Does that imply that

1 that the inside sales team might have been more
2 productive and doing more effectively or better than your
3 team?

4 WITNESS JEFFRIES: It's certainly possible.

5 COMMISSIONER THOMPSON: I know it might be
6 possible. I'm trying to get your recollection of whether
7 or not it was true.

8 WITNESS JEFFRIES: I think our inside
9 salespeople that were calling on Las Vegas probably
10 outperformed my outside salespeople.

11 COMMISSIONER THOMPSON: Therefore, they could
12 have been much, much higher income on average than your
13 team?

14 WITNESS JEFFRIES: Yeah. And the reason being
15 is they could go nationwide. My people were stuck here
16 and only calling up brokers here. If you're inside sales
17 you can go all over the country.

18 COMMISSIONER THOMPSON: Fremont really
19 wasn't your first job in the industry, you've known this
20 industry for quite some time before joining Fremont?

21 WITNESS JEFFRIES: Yes, sir.

22 COMMISSIONER THOMPSON: And why did you choose
23 Fremont?

24 WITNESS JEFFRIES: I chose Fremont, more
25 money, less headache.

1 COMMISSIONER THOMPSON: And were you surprised
2 at the colossal collapse?

3 WITNESS JEFFRIES: Absolutely.

4 COMMISSIONER THOMPSON: This family
5 culture that you talked about was a charade?

6 WITNESS JEFFRIES: No, I don't think it was a
7 charade. I mean, I felt like, you know, Fremont was
8 going to be my last job. Ever.

9 COMMISSIONER THOMPSON: You mean you don't get a sense
10 of an organization that's operating on thin ice when you
11 are as close to the factory where the product is made?

12 WITNESS JEFFRIES: I never thought we were
13 operating on thin ice. I thought we were a very sound
14 company.

15 COMMISSIONER THOMPSON: So your whole team was
16 delusional?

17 WITNESS JEFFRIES: I don't think anybody was
18 delusional. I just think that, you know, as fast as the
19 mortgage industry fell apart, Fremont was a casualty.
20 There's 300 plus other lenders out there that went down
21 the tubes, too.

22 COMMISSIONER THOMPSON: Thank you very much.

23 COMMISSIONER GEORGIU: One last question,
24 Mr. Jeffries.

25 Did you tell our staff that you thought that

1 mortgage brokers that were originating loans that were
2 produced by Fremont could make as much as a million
3 dollars a month?

4 WITNESS JEFFRIES: Never.

5 COMMISSIONER GEORGIU: A million a year?

6 WITNESS JEFFRIES: It's possible.

7 COMMISSIONER GEORGIU: Thank you. I think,
8 in light of your travel schedule, I guess we need to
9 excuse you.

10 And let's proceed to the other witnesses, if
11 we could.

12 Thank you for waiting so patiently.

13 Mr. Bogden, if you could just -- I understand
14 we spent quite a lot of time with Mr. Jeffries. If you
15 could complete your testimony in describing the types of
16 mortgage fraud that you found in the marketplace that,
17 that infected the Nevada real estate marketplace, we'd
18 appreciate it.

19 WITNESS BOGDEN: Commission Georgiou, what we
20 saw was loan origination type schemes. We saw straw
21 buyers, what we call double escrow schemes. There were
22 buyer build-out type schemes. And then we also then have
23 seen fore- -- foreclosure rescue schemes as well as
24 loan -- as well as other types of loan schemes that are,
25 are going through the foreclosure type market.

1 Our efforts then, when these things started to
2 come to light to us, we were able to put together a task
3 force. And I know you had questions of, of some of the
4 other panelists, you know, concerning whether we saw this
5 coming.

6 You know, our office, from 2000 to 2010 has
7 prosecuted close to 172 mortgage fraud defendants. So
8 we've always been active, chasing down these types of
9 mortgage fraudsters.

10 But the FBI, in speaking with them, they
11 weren't getting complaints in the period of time from
12 about 2002, '3, '4, '5, '6, up to about 2007. And in my
13 preparations for this testimony, I sat down with the
14 agents of that task force to try to see if we could put a
15 finger on something we should have been more diligent on
16 or something we should have been more observant with.
17 And it seemed that things focused around the end of 2007
18 when uptick in the telephone calls and the complaints of
19 the victims reporting their losses to the FBI started to
20 occur.

21 Around that time we also received a number of
22 SARS filings from FinCEN. And we were able to identify
23 at that point near the end of 2007 that there was a
24 problem concerning mortgage fraud in our Nevada
25 communities.

1 It was at that point that we went ahead and
2 put together our Southern Nevada Task Force.

3 COMMISSIONER GEORGIU: Wasn't there an FBI
4 report in 2004 or thereabouts that was sent to the main
5 headquarters of the FBI and circulated inside the
6 Department of Justice, suggesting that there was quite an
7 epidemic -- they actually called it an epidemic of
8 mortgage fraud across the country that needed to be
9 addressed?

10 WITNESS BOGDEN: Yeah, that's a question I
11 know you asked of Attorney General Holder. And he said
12 he was going to go back and address that and see if he
13 could do some follow-up there and see exactly the
14 contents of that report and see exactly what happened
15 once that report was, was filed.

16 In looking at that comment, and those
17 transcripted comments, I went back to our task force
18 folks to see around 2004 in Nevada what we were doing.

19 At that point we had an emphasis on corporate
20 security fraud which was a DOJ priority, but we still
21 were doing mortgage fraud cases in Nevada. It just
22 wasn't at the level that things have gone to now where
23 we're looking in 2008, 2009, and especially in 2010, when
24 we took down Operation Stolen Dreams, where in a period
25 from March 1st to June 17th of this year, we were able to

1 arrest some 123 defendants. I mean, that is almost
2 getting to an epidemic level here.

3 COMMISSIONER GEORGIU: Mr. Bogden, you served
4 as the, the U.S. attorney under both President Bush and
5 President Obama, isn't that correct?

6 WITNESS BOGDEN: That's correct.

7 COMMISSIONER GEORGIU: So you're really in a unique
8 position to address a continuity or discontinuity in this
9 particular area.

10 Your current investigation continues, I take
11 it, and do we -- can we anticipate additional
12 prosecutions going down, coming down in the future?

13 WITNESS BOGDEN: Yeah, our current
14 investigation does continue. What we've been able to do
15 is take the number of investigations, because there's a
16 great multitude of them, and actually put them into three
17 tiers. Operation Stolen Dreams and what we were able to
18 put together in the 123 arrests of individuals involved
19 in mortgage fraud, I sat at the press conference, and I
20 repeat here, I mean, that's a beginning. It's a good
21 start. It's probably what we would term round 1, and
22 it's certainly not the end of our efforts.

23 COMMISSIONER GEORGIU: Thank you.

24 Ms. Burks, if I could ask you, you've had an
25 enormous increase, I take it, in the number of people

1 that have come to your office seeking help in the recent
2 past, is that right?

3 WITNESS BURKS: Yes.

4 COMMISSIONER GEORGIU: And are people
5 primarily coming to stem foreclosure of their properties,
6 is that the central thesis?

7 WITNESS BURKS: The increase just in the clients seeking
8 assistance with foreclosure. Initially we saw a lot of
9 clients that had the type of issues that I talked about,
10 the predatory cases.

11 Then we saw sort of the clients that were
12 trying to deal with their subprime mortgage adjusting.

13 Now we're seeing lots of clients that have been
14 affected by loss of job and are trying to do
15 modification, or clients who have previously applied for
16 modifications that were not finalized.

17 And then the last category would be we call
18 the innocent renters, people who come home from work,
19 didn't know prior to the passage of the new bill that the property was in
20 foreclosure. And they're renting the property, they've paid
21 their deposits they're current on their rent and need
22 some place to go.

23 COMMISSIONER GEORGIU: Thank you very much.

24 Ms. Murren?

25 COMMISSIONER MURREN: Thank you, Commissioner

1 Georgiou.

2 Ms. Burks, if you could comment based on the
3 testimony we just heard about Fremont's business here in
4 Las Vegas, I think that would be a useful context for us.

5 WITNESS BURKS: During the initial period of
6 predatory lending that I discussed in my
7 testimony, we saw loans from companies such as Fremont,
8 Taylor Bean, Fairbanks Capital. And when you look at the
9 HUD 1, typically four pages, the points and fees on
10 average that were charged say on page 2, averaged on a
11 loan that was 150 to 180,000, you were paying about 8,000
12 in origination fees and discount points. And when you
13 looked at the last page of what we call a HUD 1, you
14 would see the yield spread premium upwards of a thousand
15 plus dollars.

16 So they were getting monies on the origination
17 and discount points and on the yield spreads. So if the
18 discount sheet that morning said, you know, the rates are
19 5 percent, but you bring it in at 7.5, then you're
20 getting that spread plus the fees on the, on the
21 origination.

22 COMMISSIONER MURREN: So maybe you could help
23 us to clarify the question that was on the table earlier,
24 which is if you just take a hundred thousand dollar
25 mortgage for the sake of argument and easy math, what

1 were the different potential payments that the broker could receive
2 depending on the product that they sold to the customer?

3 WITNESS BURKS: On a hundred thousand subprime
4 the, the broker could receive on average of about \$4,000
5 in origination and discount points. An additional three
6 in yield spread premium. And then we would often see
7 something called POC or paid outside of closing.

8 So there were fees that were also paid by the
9 buyer outside of closing on a loan that was very small.

10 COMMISSIONER MURREN: And based on your
11 observation of this process, and looking and hearing from
12 people, do you have a sense of how many loans of this
13 type were being made at the peak of the, of the bubble,
14 maybe on a weekly basis or, you know, you pick your
15 timetable, but a successful broker was making how many
16 loans at any given time?

17 WITNESS BURKS: I would say probably a
18 successful broker was probably doing 100 to 150. That
19 was just in the subprime mortgage. It didn't include
20 what we call alt A loans, or FHA was very little at that time
21 or less than 2 percent in the hay day.

22 COMMISSIONER MURREN: 150 per?

23 WITNESS BURKS: 150 per broker. It was huge.

24 COMMISSIONER MURREN: Per week?

25 WITNESS BURKS: Per week. On average, at the

1 end of the month -- and we know this from operating a
2 first time homebuyer program -- on average at the end of
3 the month, it was taking from 60 to 90 days to get the
4 loan closed, and that's assuming that you had everything
5 in order.

6 COMMISSIONER MURREN: Thank you. That's
7 illuminating.

8 Mr. Bogden, perhaps if you could comment a
9 little bit, maybe all of you could comment. There was a
10 lot of -- it seems like there were a lot of gaps in
11 either regulation, oversight, or the enforcement of what
12 was already there.

13 Do you see that still in existence today? You
14 had referenced earlier reverse mortgages. It seems like
15 maybe that would be people preying on the retired and the
16 elderly.

17 Is that something that is currently being
18 regulated, or are there still gaps out there, I guess is
19 what I'm asking.

20 WITNESS BOGDEN: We have not seen as far as
21 our task force cases involving that problem as far as
22 reverse mortgages. So I, I can't give more detail in
23 that regard.

24 COMMISSIONER MURREN: Are there other areas
25 that you think require greater oversight or greater

1 scrutiny?

2 WITNESS BOGDEN: Well, you know, we've got a
3 lot of laws on the books. And we've got a lot of
4 different agencies doing different things.

5 I think one of the things that we've attempted
6 to do, and what the President has attempted to do by
7 putting together the Financial Crimes Task Force, is try
8 to bring everybody together.

9 And, you know, we tried to do that in Nevada
10 back in 2008. By putting the task force together, is a
11 way that we can bring all these agencies together, not
12 just for manpower purposes, but probably the most
13 important thing we do with our task forces is
14 deconfliction, in that cases come in, complaints come in,
15 and they need to be sent to the right place.

16 Like the gentleman was speaking in terms of
17 some consumer fraud and some consumer issues that he's
18 been confronted with, where does he go when something
19 like that happens? You know we've tried to set these
20 task forces down. I know the Nevada Attorney General has
21 also done a job in trying to advertise numbers, places to
22 contact.

23 We've relied upon the task force in order to
24 try to put things together, so we can try to get all
25 these agencies working together so that when problems

1 come up, issues come up, different crimes come up, we're
2 able to get them to the right venue for either
3 prosecution or the right venue to be addressed.

4 COMMISSIONER MURREN: Thank you.

5 COMMISSIONER GEORGIU: Thank you, Ms. Murren.

6 We're going to go to Vice Chair Thomas, who
7 has travel emergencies.

8 CHAIRMAN ANGELIDES: I object. Just, just
9 kidding.

10 VICE CHAIR THOMAS: Objection, overruled.

11 Ms. Burks, we heard a lot of, you have to call
12 them sad, unfortunate, outrageous statements when we were
13 in Bakersfield, not unlike the gentleman behind you.

14 Do you have any success stories on loan
15 modifications, short sales, or foreclosures?

16 WITNESS BURKS: Yes.

17 VICE CHAIR THOMAS: One or two?

18 WITNESS BURKS: Yes, we do have some success,
19 otherwise, you know, you'd just go home and not come
20 outside.

21 We do have clients that have had principal
22 balances reduced. We had, when the, the first initial
23 resource centers were done, we had lenders that were
24 there that, for example, for seniors, who had experienced
25 a hardship, would simply wipe out or put in abeyance the

1 balance on their loan, which was quite helpful.

2 VICE CHAIR THOMAS: What percentage of those
3 have been successful?

4 WITNESS BURKS: Prior to the passage of HAP,
5 we probably had maybe 10 to 15 percent.

6 VICE CHAIR THOMAS: What's your batting
7 average recently?

8 WITNESS BURKS: Batting average recently
9 probably has been less than 5 percent because most lenders are
10 using only HAP and not other loan modification.

11 VICE CHAIR THOMAS: Yeah. That's the point,
12 Mr. Bogden, that when you listen to people who are going
13 out of their way to try to deal with the issue, and what
14 you get is not just stonewalling, but, frankly,
15 fraudulent activity or complete failure, these are the
16 people I think that we really aren't serving well.

17 On your testimony, I don't have a page, it's
18 line 206, 207, 208, when you talked about before the
19 crisis became apparent, I assume that's somewhere around
20 the '07 period as you started to crank up. That was
21 when, that's what apparent meant?

22 WITNESS BOGDEN: That's correct.

23 VICE CHAIR THOMAS: Yeah. And I've often
24 wondered about this, because whenever we see the
25 Department of Justice in there with their wind jackets

1 and the rest, carrying out an operation, whatever, that's
2 when you get recognition for it.

3 But I don't understand, we were unlikely to
4 accept a mortgage fraud case or prosecution where the
5 loss was less than \$100,000.

6 In other words, you only do it with people who
7 had bigger homes and had enough money to deal with them?

8 WITNESS BOGDEN: We'd only do it with losses
9 in excess of a hundred thousand dollars to consider.

10 VICE CHAIR THOMAS: But that's more than some
11 people's home totally.

12 WITNESS BOGDEN: That's why, you know, when
13 things really started to break, we went ahead and changed
14 that guideline to reviewing matters on a case-by-case
15 basis, so that we can try, attempt to see how many cases
16 we can do and try to find the cases that we can get the
17 most bang for what we have as far as resources.

18 VICE CHAIR THOMAS: Was your mental set that
19 there was widespread single event fraud?

20 WITNESS BOGDEN: When we had the hundred
21 thousand dollar guideline, or the things that have
22 happened thereafter?

23 VICE CHAIR THOMAS: Let's start early, because
24 I think it's pretty obvious now there's a multiple event
25 from a fewer number of people.

1 COMMISSIONER GEORGIU: Vice Chair Thomas, I'm
2 going to yield. You're over about three minutes. I'll
3 yield another minute or two.

4 VICE CHAIR THOMAS: It's not mine. I started with zero if I'm
5 over three. They kept her going. That's ok, we'll debate it later. Do you
6 now believe that
7 this is a serious enough level of fraudulent activity
8 that it was multiple instances on the part of a perhaps
9 fewer number of people than anticipated?

10 WITNESS BOGDEN: Yes, we do.

11 VICE CHAIR THOMAS: RICO law apply here at all?
12 Are you smiling happily or painfully? I can't
13 tell.

14 WITNESS BOGDEN: I'm smiling painfully, sir.

15 RICO sometimes is a very advantageous statute
16 to use. However, it's very difficult to prosecute
17 because the resource investment we have to make in doing
18 RICO would be something that we'd have to weigh with the
19 advantages and disadvantages.

20 These cases, you know, when the task force
21 really started rolling when we put it together in 2008, I
22 mean, we're looking at the number of cases that would
23 just -- that would, that really are stunning as far as
24 the amounts of loss.

25 VICE CHAIR THOMAS: They are stunning, and
26 sometimes the, the educational effort is worth it in

1 terms of the long-term return on investment and not the

1 short-term conviction aspect, and that's exactly in my
2 opinion what needs to be done in, in this area of the
3 absolute failure to deal honestly with people when people
4 are trying to create a reasonable change in a financial
5 relationship.

6 And, and that's one of the areas that we need
7 to really expose on how few people who are honestly
8 trying to do the best they can, are stonewalled, and they
9 wind up not only losing the home -- and there's got to be
10 a dollar value involved somewhere that I don't
11 understand -- but ultimately a lot of these wind up in
12 foreclosure, and they get sold for less than what a short
13 sale would have provided the paperholder, and they're
14 often sold to someone on foreclosure who turns right around and
15 makes the very handsome profit of selling them outside of
16 the previous loan arrangement. That gets real close to
17 criminal.

18 I'm throwing that term around loosely. I'm going to admit
19 I am not an attorney, but behavior like that, in terms of no
20 social conscience and sometimes even not from a financial
21 sense, makes no sense. Makes no sense.

22 Somebody needs to start creating a pressure
23 field that this is the wrong thing to do and you need to
24 move forward. I'm using this as a forum. You've got
25 your own jobs to do.

1 But let me tell you, if you're looking for
2 total impact on shaving the law and violating the law,
3 you've got no bigger example of what's happening in the
4 boom and bust.

5 COMMISSIONER GEORGIU: Thank you, Mr. Vice
6 Chairman.

7 VICE CHAIR THOMAS: Thank you very much for
8 The courtesy.

9 COMMISSIONER GEORGIU: Thank you for joining
10 us here in Las Vegas. We appreciate it. And safe
11 travels.

12 VICE CHAIR THOMAS: I have to get to the
13 airport in time to lose a couple of quarters.

14 COMMISSIONER GEORGIU: Chair Angelides.

15 COMMISSIONER MURREN: And we hope you do.

16 COMMISSIONER GEORGIU: I'm sorry.

17 It's back to Commissioner Murren's time.

18 COMMISSIONER MURREN: Thank you.

19 I actually want to share a number with
20 everyone here. And that number is \$1,050,000, which is
21 \$7,000 times 150 mortgages per week times 52 weeks a
22 year, just to get a sense for what is possible when
23 you're in that line of work.

24 In any event, Mr. Gordon, if you could talk a
25 little bit about the current state of the mortgage and

1 the housing industry here, any signs of light that you
2 see or at least what your thoughts are about the outlook,
3 that would be wonderful.

4 WITNESS GORDON: Sure, Commissioner.

5 With regard to the mortgage industry, I don't
6 have a whole lot of insight there. Obviously, it's
7 changing on a day-to-day basis. And we're hearing a lot
8 of reasons why.

9 In terms of the housing market here in Nevada,
10 including southern Nevada, we've seen one bright spot,
11 that the median home price has been starting to bounce
12 around in a relatively tight range for the better part of
13 the past 12 months. The median home price has hovered
14 around 125,000 a unit. Again, coming off of the peak of
15 290,000 in mid to late 2006, a much -- a significant
16 difference, I guess, is the right way to say it, but we
17 have started to see pricing flatten out, the rate of
18 price depreciation has started to slow again. I'm not
19 suggesting that we're out of the woods by any measure,
20 but we have started to see some stabilization within the
21 housing market.

22 On the new construction side, there has been
23 an increased incidence in terms of residential
24 permitting, but these are permitting levels that are well
25 off the, the peak, and even well off of historical

1 averages. So the new construction side of the housing
2 market is continuing to face its challenges.

3 COMMISSIONER MURREN: Thank you. I will yield
4 my time.

5 COMMISSIONER GEORGIU: Thank you.
6 Mr. Chairman?

7 CHAIRMAN ANGELIDES: I, I'll rearrange all my
8 electronic equipment here.

9 All right. First of all, Mr. Bogden. You
10 indicated in your testimony that I guess you brought
11 criminal charges against 172 folks in this arena and
12 involving thousands of properties.

13 Do you have a magnitude? I'm trying to get a
14 sense of what you've been able to bring prosecutions
15 around in the context of the full market.

16 WITNESS BOGDEN: I think the, the best way to
17 do it, it would have been in context of Operation Stolen
18 Dreams, because we do have good numbers there.

19 From March 1st, 2010 to June 17, 2010, we
20 ended up arresting 123, arresting, indicting or
21 sentencing individuals. 73 of those were involved in the
22 real estate industry.

23 CHAIRMAN ANGELIDES: You said indicting,
24 correct?

25 WITNESS BOGDEN: Indicted or brought by way of

1 information. And the losses generated by those 123
2 individual were 246 million.

3 CHAIRMAN ANGELIDES: 200,000 approximately per
4 house lost.

5 WITNESS BOGDEN: That's correct. Yes.

6 CHAIRMAN ANGELIDES: So a thousand. Am I
7 doing my math right?

8 WITNESS BOGDEN: Yes. It was in the
9 thousands.

10 CHAIRMAN ANGELIDES: All right. So not
11 insignificant if you're a veteran of law enforcement.

12 If you, if you swept up a number of folks,
13 what's the extent of, you think of yet uncaught?

14 WITNESS BOGDEN: You know, I would hate to
15 give a number, but, you know, I would think we're
16 probably maybe about a third of the way there.

17 CHAIRMAN ANGELIDES: Okay. Because yesterday
18 we were in Bakersfield, and somebody was very cognizant
19 of the marketplace, a veteran appraiser, thought that
20 mortgage fraud is sometimes significant
21 misrepresentation, appraisal fraud, straw person buyers,
22 could have accounted for about 20 percent of the
23 marketplace at the peak.

24 I want to ask you something about the period
25 after 2004 when the, the -- may I ask for a couple of

1 minutes?

2 COMMISSIONER GEORGIU: Yield two minutes.

3 CHAIRMAN ANGELIDES: Are you aware of any
4 specific actions that the Department of Justice took in
5 response to the 2004 mortgage fraud warning of the FBI?

6 Were there any actions taken here in Nevada
7 specifically in response to that warning?

8 WITNESS BOGDEN: We just continued on what we
9 were doing as far as investigating and prosecuting
10 mortgage fraud cases.

11 I'd have to say around that 2004 period, there
12 was a priority in the department to go after corporate
13 security fraud. There was a task force put together
14 nationally, and that pretty much was the focus of our
15 financial crimes efforts.

16 But it's something that we never dropped the
17 ball on or lost the, the ball on here in Nevada. We
18 continued prosecuting mortgage fraud cases. We didn't
19 have excess amount of resources dedicated in that area,
20 though as far as --

21 CHAIRMAN ANGELIDES: What did you indicate,
22 kind of in the, say in the 2004 to 2008 time frame?

23 WITNESS BOGDEN: We have a unit that does
24 white collar crime for us that's comprised of about six
25 attorneys, and I think we had one of those attorneys

1 pretty much focusing his efforts on mortgage fraud.

2 CHAIRMAN ANGELIDES: What about the FBI? You
3 said now the FBI has only 10 agents plus seven loaned, is
4 that 17 total, or did the 10 incorporate the 7?

5 WITNESS BOGDEN: The 10 incorporated the 7.

6 CHAIRMAN ANGELIDES: All right. What did the
7 FBI have dedicated at the time?

8 WITNESS BOGDEN: I couldn't their numbers. I
9 could get those numbers.

10 CHAIRMAN ANGELIDES: Could you, please?

11 Can I ask that you provide to us with the 2004
12 to -- I'm going to say end of 2008 time frame, if you
13 could provide to us the number of prosecutions, the
14 resources dedicated both in your office as well as the
15 FBI. Thank you very much. During each of those years.

16 I have a question, follow-up. I understand,
17 at least I was told at one time, there was a meeting of
18 U.S. attorneys with Attorney General McCassey, it was in the
19 Midwest, the issue of mortgage fraud came up. A number
20 of U.S. attorneys raised the seriousness of the issue.
21 I've been given to understand that he said that this is
22 a local matter not a national problem.

23 Do you remember ever having discussions as a U.S. Attorney with
24 the U.S. Attorney General about the extent and nature of
25 these problems?

1 WITNESS BOGDEN: In 2007 I was not the United
2 States Attorney.

3 CHAIRMAN ANGELIDES: Okay. What about during
4 any time during your tenure?

5 WITNESS BOGDEN: We had conversations
6 concerning our financial fraud efforts back in 2004 when
7 we, when we put together the priorities with the DOJ.
8 President Bush, as well as Attorney General Ashcroft, had
9 us to Washington in order to discuss, it was corporate
10 security fraud issues. I would have to check with the
11 U.S. attorney in 2007 for --

12 CHAIRMAN ANGELIDES: But you don't have any
13 recollection of any meetings with the Department of
14 Justice top brass about mortgage fraud during that period
15 and the extent of it being a national problem and
16 resources needed?

17 WITNESS BOGDEN: During the 2004 time frame?

18 CHAIRMAN ANGELIDES: Yeah, any time when you
19 were the U.S. attorney.

20 WITNESS BOGDEN: First time around?

21 CHAIRMAN ANGELIDES: Yes.

22 WITNESS BOGDEN: No.

23 CHAIRMAN ANGELIDES: Oh darn. Maybe Mr. Georgiou, since
24 I indulged you so much during the year, if you would
25 allow me to just to ask Ms. Burks a couple of questions.

1 COMMISSIONER GEORGIU: Yes, why don't we turn
2 to Commissioner Thompson next so he doesn't feel like
3 he's always called upon last. And then we'll go back.

4 COMMISSIONER THOMPSON: I had assumed that
5 that was my natural place in life or something.

6 So Ms. Burks, I want to thank you on behalf of
7 all the citizens of Nevada, although I'm not from the
8 State, for what you're doing. It's admirable work. So
9 my hat's off to you.

10 Can you describe the family effects that, what
11 you see as having on households in this community.

12 WITNESS BURKS: Yes. When we meet on these
13 cases, especially with couples, we try to meet with both
14 of them at the same time, it's stress on the family.

15 CHAIRMAN ANGELIDES: Can you please -- I'm
16 sorry, you need to hold that --

17 COMMISSIONER GEORGIU: Can you hold down your
18 microphone?

19 WITNESS BURKS: It's stuck down.

20 COMMISSIONER GEORGIU: Thank you. Maybe put
21 your, just go a little closer to it then.

22 WITNESS BURKS: Okay. When we meet with
23 couples, we try to do it together when we're dealing with
24 an issue. It's very stressful. There are times that the
25 couples we are helping end up divorcing, sometimes before

1 the process is over. It takes quite a while.

2 We've also seen threats of suicide. We
3 referred those clients to get professional help.

4 And there was a recent article in the Las
5 Vegas Review Journal -- these clients were not our
6 clients, but the overall murder/suicide rate is up
7 because of the financial stress, some of it brought on by
8 unemployment, some of it brought on by the loss of home
9 and unemployment combined.

10 COMMISSIONER THOMPSON: So I take it you have had
11 a chance to look at recent legislation, or at least heard
12 about it as it relates to consumer protection.

13 If you've had a chance to review it, can you
14 give us your perspective on its value in the context of
15 trying to address some of the problems.

16 WITNESS BURKS: Sure. And we do work
17 nationally to try to educate elected officials on what's
18 happening.

19 We are concerned that the recent financial
20 legislation that was passed does not really deal with one of the
21 most severe issues, which is the securities industry and mortgage
22 backed securities.

23 As we are working with clients with
24 modifications, one of the things that we try to take a
25 look at is the PSA, or Pooling Service Agreement, that

1 actually defines the relationship between the investors,
2 the trustees and the lender.

3 As long as lenders can continue to create what
4 I call creative products that sort of are in their
5 interest -- I don't think we've addressed the issue. We
6 worked with groups that have brought cases against the
7 rating agencies that actually rated some of the subprime
8 material as Triple-A, and it was not. So if we don't
9 address that issue, we will have the problem again.

10 I think the consumer issue is not being
11 addressed on a national basis. The good thing is we did
12 get a new rental law that protects innocent people. So
13 it's slow going.

14 COMMISSIONER THOMPSON: So if you could
15 propose one thing that might be meaningful to help
16 mitigate or mediate this problem what might it be?

17 WITNESS BURKS: Penalize lenders that are
18 getting paid to do modifications but are not doing them
19 in good faith.

20 COMMISSIONER THOMPSON: How about loan
21 origination?

22 WITNESS BURKS: On loan origination, I would
23 make sure that the broker has a stake in it after it's
24 sold.

25 Right now the person holding the paper is the

1 one that's stuck with it. I would institute a rule that
2 would require a signing liability so that everyone who
3 touches it is responsible.

4 COMMISSIONER GEORGIU: Yield another minute.

5 COMMISSIONER THOMPSON: Mr. Bogden, pardon me
6 if I sound a little cynical here, but I find it very
7 difficult to believe that this level of fraud could have
8 occurred nationally, much less the local consequences,
9 and the answer is I just didn't have enough people, or I
10 was focused somewhere else.

11 How is it that the American people are to
12 accept that from our government?

13 WITNESS BOGDEN: You know, we try here to do
14 the best we can with what we've got. You know, mortgage
15 fraud is an issue. It's become very apparent.

16 I'm thinking back into the time frame of 2006
17 and 2007 and looking at what our priorities were, we were
18 attacking terrorism, we were addressing violent crime and
19 gangs, we were addressing drugs, we were addressing
20 identity theft, addressing issues concerning immigration
21 issues and fraud.

22 There was just a lot going on. And we, with
23 the 50 attorneys we've got for the District of Nevada --
24 I've got 28 criminal attorneys in Las Vegas, I've got
25 seven up in Reno, with those 35 resources attorneys, we

1 try to do the best we can to address every issue that
2 comes our way.

3 COMMISSIONER THOMPSON: Who sets then the
4 priority for how you spend your time and the time of your
5 team? Is that a local decision, or is that some edict
6 from upon high?

7 WITNESS BOGDEN: The priorities will be passed
8 down from the Attorney General as to what he sees as the
9 priorities, but every district, because the districts are
10 so different throughout the United States, each U.S.
11 attorney needs to go ahead and factor some priorities
12 that he's got or she's got for their own district that
13 will address the needs of that district.

14 COMMISSIONER THOMPSON: So if I were to say on
15 a slate of a hundred items, do you have 20 percent
16 flexibility, 50 percent flexibility, how much control or
17 flexibility do you have to determine what's right for
18 your local market?

19 WITNESS BOGDEN: I'd say we have great
20 latitude to do what we need to do in our local market as
21 long as we address the top priorities. And right now
22 terrorism is the top priority for the Department of
23 Justice.

24 We are crime fighters. We're then to look at
25 the other issues that have the greatest impact on your

1 district. Right now the District of Nevada, you know, it
2 was public corruption for a period of time, some years,
3 right now, you know, the second priority we have
4 underneath terrorism is that of financial fraud, and part
5 of that is mortgage fraud.

6 And that's why we've dedicated the resources
7 that we have, and we're able to be so successful in
8 Operation Stolen Dreams and will continue on with our
9 efforts to fight financial crime, continue to fight the
10 financial mortgage crime problem with the resources that
11 we've got.

12 COMMISSIONER THOMPSON: So if I can ask a
13 similar question that I asked of Ms. Burks, if you could
14 change something, or replay the calendar of the last five
15 years, how would you replay it?

16 WITNESS BOGDEN: That's something that I've
17 contemplated and, you know, thought through. And when
18 you talk with our task force agents, and you talk with
19 our prosecutors, you know, the issue came to our
20 attention through the SARS reports and through the
21 complaints and through the hotlines and the things that
22 we have in order to be ticklers, so that we know that
23 there's an issue. And this was late 2007.

24 By the start of 2008 we had already put
25 together the Southern Nevada Mortgage Fraud Task Force.

1 Similarly, we put together the same task force up in
2 northern Nevada.

3 From a law enforcement standpoint we've tried
4 to do the best we can with the resources that we've got
5 when made aware of the situation.

6 COMMISSIONER THOMPSON: Thank you very much.

7 COMMISSIONER GEORGIU: Commissioner Born?

8 COMMISSIONER BORN: Thank you very much,
9 Commissioner Georgiou.

10 Ms. Burks, let me start with you. It's my
11 impression that you do not think that the loan
12 modification program has been an unmitigated success.

13 Why do you think it has been so difficult for
14 so many of your clients to effectively have loan
15 modifications?

16 WITNESS BURKS: I think in the meetings that
17 I've been involved in with officials and treasury and
18 talking about the problems, I've been very honest about
19 no, it's not working for a couple of reasons. There is
20 no incentive to lenders to modify loans. If they hold it
21 for the quarter or through a certain period where they
22 have to file their SEC filings, they literally dealing
23 with the loans based on what's best for the bottom line.

24 And you have to do that, and I understand
25 that, and the capital system is one of the greatest in

1 the country. It is the greatest in the country.

2 But I think we have to be realistic in terms
3 of if a consumer wants to pay the bill, they're trying to
4 pay the bill, what's the reason for not modifying the
5 loan. It doesn't make sense.

6 So the system is designed to deal with the
7 lender side but not the consumer side. And as a result,
8 consumers no longer believe us when we say you need to do
9 the right thing and pay your mortgage because it affects
10 your neighbors. People are starting to walk away. And
11 if we have more strategic defaults, at least in Nevada,
12 we're going to be looking at communities that are in bad
13 shape for a long, long time.

14 COMMISSIONER BORN: Are some lenders more
15 difficult to work with than others on loan modifications?

16 WITNESS BURKS: Yes. I've given your staff
17 the list. There are some that are just absolutely
18 horrible. They will violate the rules.

19 The rules are very clear. If the consumer can
20 prove they can pay the loan, you are to modify them under
21 HAMP if it's owner-occupied. They are not.

22 I think part of it is lenders had to hire
23 people quickly. Part of it is the brokers and the people
24 who were doing the loan originations are now some of the
25 people working in the departments to do the

1 modifications. And there's a disconnect between the
2 foreclosure department, the pre-foreclosure department,
3 and the modification department in most places.

4 COMMISSIONER BORN: Well, it interests me that
5 the testimony we heard today from Mr. Smith is remarkably
6 similar to testimony we heard yesterday in Bakersfield
7 from another borrower who coincidentally had been dealing
8 with JPMorgan Chase, and JPMorgan Chase was losing
9 repeatedly all of her documentation as well.

10 Is this merely disorganization at JPMorgan,
11 which is so efficient in most of its money-making
12 activities? Is it, do you think, purposeful stringing
13 the borrower along, and not wanting to go forward with
14 loan modification?

15 What do you think is happening in these
16 institutions?

17 WITNESS BURKS: I think it's on purpose in
18 many instances. And there's no financial incentive to
19 get the job done.

20 They are paid by the government for doing the
21 trial payment not for success or finalizing the document.
22 And if you don't finalize the document, 10 months from
23 now, you'll be looking at the same problem. No job is
24 done until the paperwork is done.

25 COMMISSIONER BORN: May I have another two

1 minutes to ask Mr. Bogden a question?

2 COMMISSIONER GEORGIU: You may.

3 COMMISSIONER BORN: Mr. Bogden, in reading
4 your testimony, I noticed that -- and also this was true
5 of Attorney General Holder's earlier testimony as well --
6 I noticed that the Justice Department, in focusing on
7 mortgage fraud, tends to define it as fraudulent
8 borrowers and their cohorts defrauding lenders and
9 doesn't tend to focus on the fraudulent nature of
10 predatory lending where the lenders and their cohorts may
11 be taking advantage of naive borrowers on the, the one
12 hand, and placing them into instruments, loan instruments
13 that they shouldn't have to deal with, and then passing
14 along those defective, toxic mortgage instruments
15 ultimately to investors who have lost enormously.

16 And I wondered exactly how the Justice
17 Department is looking at where its priorities are in
18 terms of who the culprits you're going after, and who the
19 victims are you're trying to protect.

20 WITNESS BOGDEN: Well, I think the, the best
21 answer to that is, you know, we're in an investigative
22 stage. And, you know, initially it may appear that
23 there's victims and there's certain folks that are at
24 fault, but as investigations continue, you're able to
25 take things further up the chain.

1 And certainly the goal of any investigation,
2 especially a Federal investigation, is to start out where
3 you can, where you find a problem, where you are able to
4 address a crime, and work to the top.

5 And we will continue to pursue as far as we
6 can go with our investigations, and we will prosecute
7 whoever we need to prosecute in order to try to get
8 things straightened out and make a difference.

9 So I wouldn't just say we're just after
10 borrowers. I wouldn't say that we're just after people
11 in certain levels. I mean, that's where we are right now
12 in our investigations, but that's not saying that's where
13 we're going to be a year from now, or two years from now.
14 We're going to continue to pursue, we're going to
15 continue to investigate, and we're going to continue to
16 prosecute.

17 COMMISSIONER BORN: Well, then I also suppose
18 that in Nevada you may need to focus on people and
19 institutions in Nevada with respect to their
20 contributions to the fraudulent activities, and -- but it
21 may well be that there should also be an effort looking
22 at the top, which may be on Wall Street, and
23 investigating from there down.

24 WITNESS BOGDEN: Well, the good thing about
25 the Department of Justice is our abilities to use other

1 U.S. attorney's offices and be able to pursue targets
2 that may not be in our own district.

3 And I can tell you that the other cohorts that
4 I have as U.S. attorneys are as dedicated as we are in
5 this district to pursuing wrongdoing and trying to make a
6 difference in this. And if we've got to go all the way
7 to the top, then so be it.

8 COMMISSIONER BORN: Thank you.

9 COMMISSIONER GEORGIU: Thank you,
10 Commissioner Born.

11 Chair Angelides, two minutes.

12 CHAIRMAN ANGELIDES: Super quick.

13 You mentioned in your testimony, Mr. Bogden,
14 about 6,000 SARS reports. These are mortgage-related and
15 during what period?

16 WITNESS BOGDEN: Once we started the task
17 force in the beginning of 2008 we set up a hotline, and
18 we also started receiving the SARS reports. Since that
19 time, since March 2008 to now, we've received 6,000 SARS
20 reports through our task force.

21 CHAIRMAN ANGELIDES: Mortgage-related?

22 WITNESS BOGDEN: Mortgage-related. And we've
23 received 3,500 calls concerning incidents.

24 CHAIRMAN ANGELIDES: So just to put that in
25 perspective, 6,000 suspicious activity reports related to

1 mortgage fraud, 3500 hotline calls. This is not a niche
2 problem. It's pretty pervasive.

3 Fair statement?

4 WITNESS BOGDEN: Yes, sir.

5 CHAIRMAN ANGELIDES: All right.

6 Ms. Burks, excellent testimony. I just want
7 to say that.

8 I have two quick questions for you. You say:

9 From a public policy we participate
10 in meeting with the Federal
11 Reserve to plead for regulatory
12 enforcement of the existing law
13 against unscrupulous practices
14 perpetrated by fringe lenders.

15 During what time frame was that?

16 WITNESS BURKS: From around 1999 to 2002, and
17 it continued. I was in meetings with then Chairman Alan
18 Greenspan and other groups around the country where we
19 talked about the problem.

20 CHAIRMAN ANGELIDES: So you went in as groups
21 and expressed concern about unfair and deceptive lending
22 practices.

23 WITNESS BURKS: Yes. We talked about --

24 CHAIRMAN ANGELIDES: How many times did you do
25 that?

1 WITNESS BURKS: I met with the Federal Reserve
2 probably more than five or six times.

3 CHAIRMAN ANGELIDES: Interestingly enough,
4 when we look at the record, it turns out that they only
5 made two referrals from 2000 to 2006 for unfair and
6 deceptive practices, one with a small bank in, near Palm
7 Desert and one small bank in Illinois, in my
8 recollection.

9 All right. So this was not -- you know, a lot
10 of times we hear people weren't aware of the problem.
11 But this is on people's screen?

12 WITNESS BURKS: Yes.

13 CHAIRMAN ANGELIDES: The other thing you said
14 which I thought was interesting, you said:

15 A review of mortgage documents
16 showed that a core group of
17 sophisticated lenders offered
18 products with loan terms that fell
19 just under the required HOEPA or
20 Section 32 reporting limits.

21 Are you referring to the limits that were put
22 in in 2001 when the Federal Reserve adopted new HOEPA regs
23 in 2001?

24 WITNESS BURKS: Prior to that they had limits
25 that were reportable as well, and you had to give the,

1 the disclosures and give people a chance to look at those
2 disclosures. So they had rules, and then those rules were
3 amended.

4 CHAIRMAN ANGELIDES: Are you talking about the
5 rules before or after or both?

6 WITNESS BURKS: Before.

7 CHAIRMAN ANGELIDES: Before. All right.

8 And you're aware of the rules in 2001. We've
9 seen information that indicates that the Federal Reserve
10 at the time thought they'd be covering about 38 percent
11 of the subprime lending, and it turned out their rules
12 covered 1 percent.

13 WITNESS BURKS: Right.

14 CHAIRMAN ANGELIDES: So your experience is
15 that the lenders calibrated what they did just to nose
16 under those thresholds?

17 WITNESS BURKS: Correct.

18 CHAIRMAN ANGELIDES: Thank you. Appreciate
19 it.

20 COMMISSIONER GEORGIU: All right. Thank you,
21 Chairman Angelides.

22 Thank you very much.

23 Ms. Burks, extraordinary testimony.

24 Mr. Bogden, thank you for your service to our
25 District of the State of Nevada.

1 Mr. Gordon, thank you for your participation
2 today.

3 It is now 2:45. And as you might note from
4 our schedule, we were supposed to be done with this panel
5 at 2:00.

6 So we're going, we're going to get -- take
7 back some of that 45 minutes by cutting our break from 15
8 minutes to five minutes, and cutting the next panel from
9 an hour and 15 minutes to an hour so that we can get to
10 the public testimony as well.

11 So if you could all be back in here at 2:50
12 promptly, we will start with whichever commissioners make
13 it back to their chairs in that time. Thank you.

14 (Whereupon a recess was taken.)

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1 SESSION 4: THE IMPACT OF THE FINANCIAL CRISIS ON NEVADA

2 PUBLIC AND COMMUNITY SERVICES

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5 COMMISSIONER GEORGIU: Thank you so much to all of you for
6 coming, Mr. Clinger, Mr. Fontaine, Mr. Fraser and Dr. Morrison.

7 As is customary here, we have asked all our
8 witnesses to be sworn. And we've done it for every
9 witness before the Commission everywhere.

10 So if you could stand and raise your right
11 hands. Do you solemnly swear or affirm under penalty
12 of perjury that the testimony you are about to provide
13 the Commission will be the truth, the whole truth, and
14 nothing but the truth to the best of your knowledge?

15 WITNESS CLINGER: I do.

16 ANDREW CLINGER, Director of the Department of
17 Administration, Chief of the Budget Division, State of
18 Nevada

19 JEFFREY FONTAINE, Executive Director, Nevada
20 Association of Counties

21 DAVID FRASER, Executive Director, Nevada League
22 of Cities

23 HEATH MORRISON, Superintendent, Washoe County
24 School District

25 COMMISSIONER GEORGIU: Thank you very much
26 for coming here today, gentlemen.

1 And if we could start -- Mr. Clinger, if you
2 could each confine your remarks to approximately five
3 minutes. Thank you.

4 WITNESS CLINGER: Thank you. Good afternoon.

5 Mr. Chairman, Members of the Commission, I'm
6 honored to have this opportunity to describe how the
7 current economic crisis has impacted Nevada's economy and

1 the State's ability to provide services to its residents.

2 As you are all well aware the nation is still
3 in the shadow of the deepest recession since the
4 depression of the 1930s. The Great Recession was caused
5 by the implosion of a nation-wide real estate bubble of
6 unprecedented magnitude.

7 The formation of this bubble had wide-ranging
8 effects on the nation's economy. The rising home prices
9 fueled consumer confidence and consumer spending.
10 Increasing prices meant increased home equity that provided
11 consumers with easy access to money for debt finance
12 purchases that were bought beyond the means of earnings
13 from salaries and wages.

14 A nation obsessed with rising home prices led
15 to speculation as well as innovations in lending
16 practices and financial instruments that further inflated
17 the housing market.

18 During the real estate bubble, Nevada's
19 economy was positively impacted by euphoric consumers
20 from the rest of the nation and world. Visitors to the
21 State bolstered retail sales and gaming establishments,
22 contributing to the State coffers.

23 According to Standard and Poor's Case-Shiller
24 Home Price Index, in 2004 Las Vegas home prices were
25 increasing the fastest of the 20 major metropolitan areas

1 tracked, soaring more than 50 percent year over year.

2 This in turn inflated the, the State's
3 construction sector, resulting in a larger proportion
4 relatively high-paying construction-related jobs than any
5 other State.

6 The rupture of the real estate bubble produced
7 a liquidity shortfall that caused the collapse of large
8 financial institutions and necessitated the bailout of
9 organizations deemed too large to fail.

10 The ensuing financial crisis led to the
11 deepest economic downturn in a generation. Plummeting
12 home prices nation-wide have resulted in plummeting
13 consumer confidence and spending.

14 The loss of wealth means fewer and more frugal
15 visitors to the State of Nevada. Nevada home prices have
16 fallen faster and further than any other State.

17 To date, home prices in Las Vegas have fallen
18 56 and a half percent from the peak reached in August of
19 2006. Nearly two-thirds of Nevada homes are worth less
20 than their mortgages, the highest rate in the country.
21 And the number of Nevada home foreclosures also among the
22 highest in the nation is nearly four times the national
23 average.

24 Nevada has lost 179,000 jobs since the
25 recession began in December of 2007, tumbling 13.9

1 percent. However, if measured against the historical
2 trend, the job loss is more than twice as large.

3 Meanwhile inflation-adjusted wages and
4 salaries in Nevada are down 16.6 percent, sinking to 2004
5 levels.

6 Nearly 70 percent of Nevada State general fund
7 revenues are generated from discretionary consumer spending. The
8 two largest revenue sources of sales tax receipts and
9 gaming fees contribute more than half of the total.

10 When consumers tighten their purse strings, as
11 they are now doing, the impact on the State's ability to
12 provide necessary services is significantly curtailed.

13 Inflation-adjusted sales tax receipts have
14 posted year-over-year declines for the past four and a
15 half years, plunging 46.8 percent since the peak.
16 Collections are now down to the levels of the late 1990s.

17 Gaming win, the amount casinos keep after
18 wager payouts have been made, have plunged, and with the
19 increased competition by other states offering legalized
20 gambling, it is not clear that a full recovery is
21 possible.

22 The recession has also resulted in growth in
23 the number of residents requiring welfare assistance even
24 as the State's ability to provide such assistance is
25 declining.

1 Over the past three and a half years, the
2 State's Medicaid recipients have increased by more than
3 50 percent. The number receiving temporary assistance
4 for needy families has nearly doubled. And the number
5 collecting supplemental nutrition assistance program
6 payments is nearly 2.4 times larger. The case loads are
7 likely to climb further as unemployment insurance
8 benefits expire for Nevadans unable to find work.

9 Medicaid assistance percentages along with
10 distributions from the American Recovery and Reinvestment
11 Act of 2009 have helped immensely, but are not enough to
12 prevent the need for deep spending cuts in the 2011/2013
13 biennial budget currently being prepared.

14 Under current law the shortfall is huge,
15 approaching an amount equal to half of the general fund.
16 The State's fragile economy will be hard-pressed to raise
17 the revenue for absorb such drastic cuts.

18 Thank you.

19 COMMISSIONER GEORGIOU: Thank you,
20 Mr. Clinger.

21 Mr. Fontaine?

22 WITNESS FONTAINE: Thank you. I'm honored to
23 represent the Nevada Association of Counties this
24 afternoon and really appreciate your interest in hearing
25 about the impact the financial crisis has had on the

1 counties and the services that they provide to the people
2 of Nevada.

3 The burst in the housing bubble has hit Nevada
4 hard, and unless our economy turns around in the next
5 year, we will have spent more time in this Great
6 Recession than Nevada has spent in the Great Depression.

7 The economic crisis has affected all portions
8 of the states, particularly in the growth counties, which
9 including Clark and Washoe. Some of the smaller rural
10 counties have also been hurt. While they didn't
11 experience the large population growth, they were looking
12 to take advantage of the boom to grow their economies,
13 but these plans now have mostly been stymied because of
14 the financial crisis.

15 County services are funded with property
16 taxes, sales taxes, fees and Federal payments. And
17 property tax caps put in place in Nevada in 2005 in
18 response to the rising property values have helped
19 stabilize those revenues for counties, but this is about
20 to change, and in some counties the property values will
21 have dropped so low that they will actually result in
22 less property tax revenues. Sales taxes are also down.

23 Compounding the problem has been the diversion
24 of county revenues by the State to address its own
25 revenue shortfall in the last couple of years. In the

1 first round of cuts made by counties, they were made
2 primarily to one-time expenses such as public works
3 projects, and they were put on hold which resulted in
4 less work in the construction industry.

5 Funding for nonessential programs such as
6 parks, recreation, and libraries were also cut, which
7 resulted in less hours and less maintenance.

8 And of course many counties were forced to dip
9 into their reserves to balance their budgets.

10 The counties were then forced to implement
11 furloughs and salary reductions and finally layoffs. And
12 as the recession deepened, even law enforcement personnel
13 and fire fighters lost their jobs.

14 The challenge for counties during this
15 difficult time is to provide services to an increasing
16 number of families, seniors, and others in need, who are
17 relying more on county services as the economy continues
18 to struggle.

19 Counties play a vital role in these
20 Federally-funded programs, including Medicaid, TANF, and
21 supplemental nutrition assistance programs, formerly known as
22 food stamps, and counties are often the points of access
23 for referral and provide a portion of the required match
24 for Medicaid dollars.

25 And the increase in the number of Nevadans

1 enrolling in these programs for the last three years far
2 surpasses the national average.

3 Most importantly counties are the safety
4 net to take care of people who are not served by these or
5 other programs.

6 At times the State has reduced services,
7 and capped enrollment, and also eligibility requirements
8 prevent some people from participating. For example,
9 Medicaid and TANF programs do not serve adults under the
10 age of 65 unless the person is disabled.

11 As stated by Clark County Social Services, the
12 people we serve are not served by anyone else, and if we
13 don't serve them, no one would.

14 Clark County Social Services has seen a
15 significant change in the demographics in the last year.
16 They are seeing more employable adults and more
17 individuals under the age of 25 seeking assistance than
18 ever before. They are currently seeing an influx of
19 individuals who have exhausted their 99 weeks of
20 unemployment benefits and have nowhere else to turn for
21 help.

22 Last September they began implementing drastic
23 cuts to the Financial Housing Assistance Program, and
24 this means less people will be served. The result of these
25 cuts is reduced services for county indigent clients,

1 increased homelessness, increased medical costs, and a
2 strain on nonprofit partners in the community.

3 The University Medical Center, which is
4 operated by Clark County and the State's largest public
5 hospital, is also seeing effects of the economy. And
6 because of its indigent care responsibility, they have
7 had a long history of deficits, but they are now
8 reporting that with the last three year-decline, they are
9 seeing a trend unlike anything previously encountered,
10 and it's directly related to the current economic
11 conditions.

12 Contributing to the deficit are indirect
13 impacts of the reductions in the county social services
14 and the State's mental health services which are driving
15 patients to the emergency room. UMC has been forced to
16 make the difficult decision to abate certain services.

17 Washoe County Social Services also reports
18 during the last two years they've seen a significant
19 increase in the number of people seeking housing and
20 shelter, as well as programs that provide emergency
21 assistance payments and payments for medical services.

22 During the early part of the decade Lyon
23 County was one of the fastest growing counties in the
24 State. Construction workers flocked there to build new
25 homes and businesses. But that industry has dried up and

1 unemployment is over 18 percent. They are now one of the
2 most economically distressed counties in the U.S.

3 And while the social services department there
4 had planned for the number of residents or an increased
5 number of residents seeking financial assistance for
6 housing and utilities, they were not prepared for what
7 they now face, an overwhelming number of people,
8 especially male heads of households who are seeking
9 counseling.

10 The number of suicides in Lyon County has
11 increased from 11 in 2008 to 17 in 2009. And,
12 unfortunately, the county does not have the resources to
13 serve all those that are seeking help. The
14 alternatives are slim. The private providers are maxed
15 out, and the state's facilities are only taking new
16 clients as old ones drop out.

17 The county says that these are people with
18 mental -- these are not people with mental health issues
19 they would normally see like bipolar disorder or
20 schizophrenia. These are individuals and families that
21 are highly stressed because they have lost their homes or
22 jobs or both.

23 And the situation is not much better for
24 seniors in any county that are on fixed incomes.

25 Nonprofit partners throughout the State are

1 also seeing dramatic increases and the demand for
2 services, and we have provided some figures in our
3 testimony.

4 To the members of the Commission, I can tell you that
5 the Silver State finds itself in the grips of a very deep
6 economic crisis and with very dim prospects for recovery
7 in the short term.

8 But as history has shown, Nevada will take the
9 necessary and decisive actions to recovery from the
10 effects of the current economic condition, and I'm
11 confident that Nevada's counties will play an important
12 role in that.

13 Thank you.

14 COMMISSIONER GEORGIU: Thank you,
15 Mr. Fontaine.

16 Mr. Fraser?

17 WITNESS FRASER: Thank you. I can't tell if
18 that's on or not.

19 COMMISSIONER GEORGIU: You have to hold it.

20 WITNESS FRASER: I am holding it.

21 Thank you very much for having me today. It's
22 a pleasure to be here with you, and an honor to represent
23 Nevada cities.

24 And I appreciate the time of the Commission,
25 and I recognize the long day that you've had.

1 Interestingly my testimony would very much
2 echo what you've heard already from these two gentlemen
3 to my right. In fact, I provided the, the, the Committee
4 with some graphs, which if you changed the, the caption
5 on those, would, I think, could substitute and supplement
6 Mr. Clinger's testimony, because the condition of the
7 cities so much very much mirrors that of the, the State.

8 In fact, we have such a very similar revenue
9 stream that, that really everything he said applies
10 almost across the board to cities.

11 I will indicate that as you've heard today,
12 certainly, Nevada certainly lead -- leads the nation in
13 unemployment and housing foreclosures. We are certainly
14 on the leading edge of the financial crisis.

15 I wish I could say that I think we'll be on
16 the leading edge of coming out of it. I think the
17 opposite will be true. I think because of the nature of
18 our resources and the dependency that we have on
19 visitors, that, that it will be hard for us to come
20 out -- that it will probably be one of the last states
21 really to come out of that.

22 I will mention to you that -- I call your
23 attention to page number 6, which is revenues, general
24 fund revenues. As you can see, they're nearly 70 percent
25 of revenues from any unit, and you can put any given

1 city's name on here, and it would look similarly.

2 Nearly 70 percent of the revenues come from C
3 tax, the Consolidated Tax of Nevada, which is primarily
4 sales tax and property taxes.

5 And so we're hit both ways from that as we're
6 seeing property tax decline -- or, excuse me -- we're
7 seeing foreclosures and reductions in property
8 valuations.

9 In fact, valuations across the State are down
10 about 36 and a half percent presently. And as we see
11 that, we not only see the reductions that come just by
12 percentage with that, but also as we see the vacancies
13 and the foreclosures, and trouble with collections, those
14 are all contributing factors.

15 And more so, you see that on both sides,
16 really, of the ledger, getting hit both ways in that not
17 only are we collecting fewer property taxes, but as those
18 homes become vacant, we have greater demands, not only on
19 the social services Mr. Fontaine mentioned, but also
20 greater demands even on our code enforcement services and
21 our law enforcement services as a direct result of that.

22 So while we're having less resources with
23 which to deal with these problems, we seem to have
24 greater demands in some of the areas, as you can see on
25 page 5, greater demands in those public safety areas,

1 which are such a large part of our budget.

2 And so we really are kind of taking the brunt
3 of that both on the revenue and on the expenditure side
4 of the equation.

5 I'll, I'll mention just briefly that in
6 general across the board Nevada cities have cut their
7 budgets by about 15 percent almost uniformly across the
8 board.

9 But that kind of, kind of hides -- that
10 doesn't show the entire problem in that up to this point,
11 we've had an opportunity to use some of our reserve funds
12 to cover some of the budget shortfalls, which really in
13 almost all of our communities are entirely or almost
14 entirely used up.

15 So you're going to see that the next cycle is
16 going to be an even greater problem for local governments
17 to deal with budget reductions, as we don't have those
18 reserves to rely upon as we did in the past.

19 We also are, the figures also don't represent
20 the entire staffing cuts because of under NRS 288 our
21 requirements to collective bargain. We're under
22 collective bargaining contracts that have pre-existed the
23 downturn in the economy, and so we're still in the
24 position of honoring the terms of those agreements,
25 although we've certainly have sought, and in some cases

1 received, some concessions from the bargaining units, we
2 still have to live with the terms of the contracts that
3 were negotiated beforehand.

4 One thing that we don't have in Nevada is the
5 ability to reopen contracts when we're in a fiscal
6 crisis. So that has made that difficult for us as well.

7 I see that my time is nearly expired. But
8 again, I just appreciate the opportunity to come here
9 because Nevada's local governments as well as the State
10 government really is in a state of crisis as a, as a
11 result of the financial downturn. And I appreciate the
12 opportunity to discuss that with the Commission.

13 Thank you.

14 COMMISSIONER GEORGIU: Thank you, Mr. Fraser.

15 Dr. Morrison? You'll need to hold that down
16 to keep the --

17 DR. MORRISON: Mine is already down. I appreciate you making it
18 easy on me.

19 COMMISSIONER GEORGIU: Very good.

20 DR. MORRISON: Good afternoon. It's an honor
21 to come before you today to provide testimony about the
22 current economic conditions in Nevada and its impact on
23 K-12 education.

24 However, the information I must provide to you
25 is somber. And particularly distressing when you
26 consider the impact of our economy on some of the most

1 vulnerable of our citizens, our children.

2 Some statistics about education in our current
3 economy. 50, 220,000, 5.2 billion.

4 50 is the percentage of our students currently
5 graduating our high schools in Nevada.

6 220,000 is the number of students out of
7 440,00 students that we educate who do not reach
8 graduation in the Silver State.

9 5.2 billion is the lost lifetime earnings in
10 Nevada from the Class of 2009 dropouts alone.

11 50, 1, 53, and 49.

12 50 is Nevada's national ranking for college
13 graduation in four years.

14 1 is Nevada's national ranking in high school
15 dropouts.

16 50 is Nevada's national ranking for jobs
17 available to college graduates.

18 3 is Nevada's national ranking for employing
19 high school dropouts.

20 49 is Nevada's national ranking of per people
21 expenditure according to last February's Wall Street
22 Journal.

23 A recent survey in education entitled Chance
24 for Success ranked Nevada's student's opportunities for
25 lifetime success dead last in the nation. Prospects for

1 our state to invest in educational improvements over the
2 next few years do not look encouraging, as you've heard
3 from my colleagues.

4 As you've heard the entire day, Nevada has the
5 distinction of having the single most distressing economy
6 in our country.

7 I've been asked to address the impact of the
8 financial crisis on the entire State of Nevada's K-12
9 system with a particular focus on where I have the honor
10 of serving as a superintendent, Washoe County, Reno, the
11 second largest system in the state and 55th largest
12 school district in the country.

13 There are 17 school districts in Nevada,
14 including Clark County, the nation's fifth largest, and
15 Esmeralda County, one of the smallest with 68 students.

16 As stated already, Nevada has historically
17 ranked low in educational funding, some \$2000 below the
18 national average per pupil.

19 As the economy has deteriorated, additional
20 monies for such things as technology, innovation,
21 empowerment schools, after school tutoring and mentoring
22 have all but disappeared.

23 What remains is state-mandated contributions
24 to operational funding, limited full-day Kindergarten,
25 and class size reduction in our primary grades.

1 A 6.9 percent reduction, approximately 117
2 million in last February's special session, along with
3 previous cuts of educational funding have resulted in
4 some of the following reduction in school districts
5 across the Silver State:

6 Four counties have had to close schools
7 because they can no longer afford to operate them.

8 Eight counties have moved to a four-day school
9 week.

10 Many counties no longer offer after-school
11 programming, and the majority of counties have reduced or
12 cut electives in art and music.

13 Clark County, where we are today, had to
14 increase class size and eliminate over 700 teaching
15 positions last year.

16 And Washoe County School District had to cut
17 approximately 40 million over the past three years prior
18 to this year, and an addition \$37 million this year.

19 To bridge this gap, the following measures
20 were implemented. We renegotiated contracts. We spent
21 down our fund balance. We reduced our central services.
22 And we increased class size, eliminating close to a
23 hundred teaching positions.

24 Like every district in Nevada, Washoe County
25 has had to reduce employee compensation, lay off workers,

1 freeze vacant positions and reduce investments in
2 technology and textbooks.

3 The educational impact of these cuts is
4 devastating. Many students are coming with greater
5 needs. The percentage of students in Washoe County
6 eligible for free and reduced meals has increased from 33
7 percent seven years ago to a projected 44 percent this
8 year.

9 The percentage of students speaking English as
10 a Second Language has tripled over the past 14 years.
11 And the population of students impacted by homelessness
12 has continued to increase, with around 2300 students last
13 year. However, that rate is vastly underreported with
14 multiple families living in shared housing.

15 With the State facing a projected 2.9 billion
16 dollar shortfall in a budget slightly under seven billion
17 all state agencies must grapple with the possibility of
18 at least a 40 percent cut.

19 If K-12 were to face a 40-percent funding
20 reduction, at least 10 of the 17 school districts report
21 they would have to close schools. Several counties would
22 face bankruptcy.

23 In Washoe County, a 40 percent cut could mean
24 approximately 178 million in the binding. This could
25 mean the loss of many teaching positions, classified, and

1 the elimination of programs vital to our children.

2 Even a ten percent budget reduction would have
3 an impact. All school districts would have to report
4 that they have an increased class and lose elective
5 programming.

6 All the school districts report that there
7 would be layoffs and wage reductions.

8 The economic impact is equally profound as in
9 every school district, the school system is usually the
10 larger employer. Clark County employs 35,000 workers,
11 Washoe County School District 7200. Further cuts to
12 education will result in increases to the, the State's
13 unemployment rate.

14 As we look to see how we arrived at our
15 current economic state, Nevada must look to its past to
16 see its present condition.

17 Our tax structures have been based on
18 industries tied to the health of the nature's economy,
19 therefore highly volatile.

20 Jim Collins in his book Good to Great says
21 that you must confront the brutal facts. The brutal
22 facts of our state are that with construction and gaming
23 as the primary sources for employment, there was little
24 motivation for students to graduate from high school, let
25 alone get a college degree.

1 In 2006, it was not uncommon for a busboy at a
2 high end restaurant in Las Vegas to earn as much or more
3 than a starting teacher in Clark County. That is no
4 longer the case.

5 This economic crisis has brought Nevada to a
6 crossroads. It can hold onto its past and wait for an
7 inevitable collapse, or it can look to the future to
8 begin to make the, the investments that will sustain the
9 next generation of Nevadans.

10 I arrived in Nevada just over a year ago from
11 Montgomery County, Maryland where I served as an area
12 superintendent in a school district that is regarded as
13 one of the nation's finest.

14 Improving public education in Montgomery
15 resulted in new businesses such as Nextel, Sprint and
16 Marriott to relocate there.

17 This can and must happen in Nevada as well.
18 In Washoe County School District we have engaged one of
19 the, the most aggressive reform improvements in the
20 country. We are already seeing positive results and
21 intend to do our part to attract new businesses to the
22 Silver State.

23 Our plan is not built on the anticipation of
24 new monies coming from the state over the next several
25 years, but it also cannot sustain any further cuts.

1 It is time for Nevada to see that an
2 investment in public education is not only the right
3 thing to do for our 440,000 students, it's the right
4 thing to do for our economic future.

5 Thank you.

6 COMMISSIONER GEORGIU: Thank you,
7 Dr. Morrison, for that extraordinarily sobering
8 testimony.

9 You know, we've heard today from a whole
10 litany of witnesses who have spoken to the question that
11 for Nevada's future, we really need to diversify the
12 economic base of our state. And I think that's
13 undoubted, and some people have said that we've been
14 saying that in Nevada for some 30 or 40 years now and not
15 accomplishing a whole lot in that regard.

16 Obviously the education of our students, if
17 we don't have an educated work force if half of our
18 students are dropping out without finishing high school,
19 that doesn't speak well for moving businesses here from
20 other states that have greater burdens and may like the
21 economic climate here, or for generating new businesses
22 locally.

23 So I guess I'd ask you to respond to that.
24 What are your thoughts in that regard? How do we solve
25 it in the current economic crisis?

1 DR. MORRISON: Thank you for the question.

2 I think that budgets are choices about
3 priorities, and we have to make educational funding not
4 just K-12, but higher education a greater priority to
5 attract those businesses that we know are necessary to
6 diversify our economy.

7 A recent Wall Street Journal/CNN poll came out
8 today with an index of states that are most friendly to
9 attracting businesses. Nevada ranked 16th in the country
10 in terms of having a tax structure friendly to bring new
11 businesses in, but it ranked 50th in terms of educational
12 quality.

13 So as you are a COO, thinking about relocating
14 your company, and you're looking at Nevada, the tax
15 structure looks wonderful, but the educational
16 programming and other essential governmental services
17 look less so, and so unfortunately too many are deciding to go
18 elsewhere.

19 So we have to try to change the mindset.
20 Again, for a long time the industries that sustained the
21 Silver State did not require a high school diploma or a
22 college diploma. That's not going to be the case if we
23 want to attract green energy, if we want to attract
24 medical, if we want to attract these high-end industries,
25 they want to make sure that they're making their

1 commitment to their work force that they're going to come
2 into a quality educational system. And they also have to
3 be assured that they are going to have a quality work
4 force for the future.

5 COMMISSIONER GEORGIU: Thank you.

6 I wonder if I could provocatively ask the
7 other panel members to address that question.

8 Mr. Clinger?

9 WITNESS CLINGER: Thank you.

10 One of the problems that we face in the State
11 of Nevada is that when you look at state government, and
12 what State government spends in Nevada, and it's in my
13 testimony, when you look at the U.S. Census Bureau data,
14 and you look at it on a per capita basis, in the State of
15 Nevada we are last in spending on a per capita basis.

16 And so part of the problem is is in order to
17 diversify our economy and generate these jobs, you need
18 the education. Which can you do first? In the
19 environment that we're in, diversifying the, the economy
20 is everyone's goal, but that's not going to help us in
21 the next two years.

22 We're not going to be able to put together a
23 plan that will create enough jobs in the short term to
24 help us balance the budget, let alone put in the
25 additional resources into, whether it's K-12 and/or

1 higher ed to help, you know, attract those business here.

2 So I don't know, from my perspective, where
3 you start. I mean, I don't know how you get down that
4 road of diversifying the economy if we're in such a hole,
5 and we don't have the industries out there that can
6 support the type of tax increase needed to bring us up to
7 a level of funding that would be deemed adequate.

8 COMMISSIONER GEORGIU: And you've been in the
9 budget department for the last two gubernatorial
10 administrations in Nevada, is that right?

11 WITNESS CLINGER: That is correct.

12 COMMISSIONER GEORGIU: Have you seen any --
13 you've not seen anything like this crisis, obviously,
14 during your tenure?

15 WITNESS CLINGER: I have not.

16 COMMISSIONER GEORGIU: And I take it that the
17 next legislature, which will be meeting here shortly in a
18 few months, is going to have an enormous task ahead of
19 them.

20 What recommendations -- I guess you won't be
21 making recommendations, the next government will be
22 making recommendations, maybe that will be you as a
23 budget director, maybe not. It's just too provocative of
24 a question. I'll just leave it be.

25 Mr. Fontaine and Mr. Fraser, you provide

1 extraordinarily important services for, the counties and
2 the cities of the state, provide very, very important
3 services -- police, fire, mental health services, hospital services,
4 social
5 services.

6 For those people who have no other way of
7 getting them, what are the prospects if we can't fund
8 them, if the property tax revenues are drying up as
9 rapidly as they are in light of the reduction in property
10 valuations? What are our prospects here for filling that
11 gap?

12 WITNESS FONTAINE: Well, from the, the
13 counties' perspective, as I indicated in my testimony,
14 they are obligated or mandated by Nevada law to basically provide
15 indigent medical care, indigent defense and basically to
16 take care of those individuals who otherwise don't have
17 any other place to turn.

18 And so, for example, in the case of Clark
19 County, when the state caps enrollments in their programs
20 or closes clinics, and Clark County Social Services
21 has to reduce their budget and reduce the number of
22 clients they can see or financially they can provide,
23 people that are homeless, become sick, they become acutely
24 sick, and they end up in UMC's emergency room where it's
25 very costly to treat, they're turned back out, maybe they
26 find shelter, maybe they don't, but that's the cycle we're

1 headed towards, unfortunately.

2 So the prospects are not very good, and unless
3 we figure out how we can all come together to make sure
4 that the continuum of social services is there, and that there
5 are not gaps, and that there are not holes in the safety net,
6 I'm afraid we're going to have people drop through that,
7 and end up having some serious problems and costing
8 everybody a lot of money.

9 COMMISSIONER GEORGIU: Mr. Fraser, the city
10 budgets are dependent on a percentage of sales tax
11 revenues, is that correct, and a percentage of property
12 tax revenues?

13 WITNESS FRASER: That's correct.

14 COMMISSIONER GEORGIU: Both of which are in
15 decline?

16 WITNESS FRASER: That's correct. And public
17 safety is a big part of what our cities do. Each of our
18 cities -- and I say each of our cities, because as you
19 look at a chart of expenditures and revenues, there's
20 almost mirror images from city to city to city, but each
21 of them have about 50 percent of their expenditures tied
22 up or greater in public safety.

23 And so far what we've seen mostly is that --
24 and I'm just referring quickly to the pie chart on page 5 of
25 my presentation which I've labeled service area A and

1 service area B, but in service area A, which includes
2 public safety issues, that's a great, that's a great
3 amount of that. And to get to my point, what we've seen
4 so far is that the areas in what I've labeled service
5 area B, which would be parks and recreation and other
6 quality of life issues, that those have taken a
7 tremendous hit in order for us to try to keep whole our
8 public safety efforts.

9 However, going forward, as Mr. Fontaine
10 indicated, that's only going to get more and more difficult.
11 And we've already begun to see cities that have had to
12 deal with tough decisions such as how many, how many
13 personnel will be on a fire truck when it responds to
14 your home. How many fire stations can we keep open.

15 So these are already difficult decisions that
16 are being discussed, and like I say, up to this point, really,
17 we've been able to keep those very close to whole at the
18 expense of some other very important quality of life
19 programs and services that we provide. But those very,
20 very difficult decisions are coming just right around the
21 corner.

22 COMMISSIONER GEORGIU: I really, given the
23 importance of the availability of public and community
24 services and the funding crises that you have, I hate to
25 say this, but we're going to narrow down the time that we

1 allocate to this panel, not because it's not important,
2 but because we also want to get to public testimony.

3 So I'm going to reserve the remainder of my
4 time at this time, and I'm going to ask each of the
5 commissioners, ask Commissioner Murren and myself to cut
6 three minutes off of our allocated time, and the others
7 to cut off two, so we can try to catch up and hear from
8 members of the public, many of whom have sat here
9 exceedingly quietly and patiently all day to be heard.

10 And I hope that you gentlemen, when we finish
11 the panel can stay to hear some of them, because I think
12 you'll hear some testimony that will be relevant to the,
13 the issues that you're testifying about as well.

14 Commissioner Murren?

15 COMMISSIONER MURREN: Thank you.

16 I'd like to respond to one of the things said
17 by Dr. Morrison which relates to the disincentive people
18 may have to complete a high school education here in
19 light of some of the opportunities in the hotel industry,
20 among others.

21 I think that, you know -- I don't think we
22 necessarily need to avoid provocative discussion here.
23 So what I would say is that that's only part of the
24 story. And it is slightly convenient, noting where the
25 bulk of the funding comes for the school budgets.

1 I think that the other part of the story is we
2 live in a place that glorifies professions that don't
3 need a Ph.D. I think there's a culture here that doesn't
4 necessarily value an education like that or the technical
5 skills in a manner that it might if we had a much more
6 mature culture. So I do think that simply laying it off
7 on the fact that there are busboy opportunities is
8 really, is not the complete picture. So I would leave
9 with that.

10 Also, there was a mention in your testimony
11 that you did renegotiate some of your contracts in order
12 to reduce costs to help with the budget.

13 Did those include the teacher's contracts?

14 WITNESS MORRISON: Yes, we have five
15 bargaining units, and that includes the teachers. We
16 were one of the first large school districts in the
17 country that was able to successfully bring all five
18 associations to the table and go through very successful contract
19 renegotiations. And those are very painful decisions,
20 but they allowed us as best we could to negotiate the,
21 the \$37 million reduction and keep the harm as far away
22 from the classroom as we possibly could.

23 COMMISSIONER MURREN: And it was noted earlier,
24 though, that the State of Nevada does not allow in a time
25 of fiscal crisis for contracts to be revisited.

1 Is that accurate?

2 DR. MORRISON: I believe that is true.

3 288 does not have an economic emergency clause
4 that automatically reopen contracts. So that was an
5 issue for us last year. We had, of the five bargaining
6 units, four had contracts, only one was open at the time.

7 So we could have asked all to come to the
8 table, and they could have said no. Thankfully, we have
9 a wonderfully positive relationship with our employees
10 associations in Washoe. They came voluntarily. They did
11 what had to get done.

12 But, again, so much of what we're doing right
13 now are short-term fixes instead of looking at long-term
14 solutions.

15 COMMISSIONER MURREN: But it does sound, from
16 what you said earlier -- I'm sorry if I don't remember
17 who it was that actually gave that testimony -- but that
18 there are limitations to what we can do on the cost side
19 as a result of the contractual situation.

20 Is that correct, Mr. Clinger? Perhaps you
21 could comment on it.

22 WITNESS CLINGER: Yes, Commissioner Murren.

23 I would agree with Dr. Morrison's statements
24 that NRS 288 puts a limit on what the local governments
25 and school districts can do in renegotiating those

1 contracts.

2 COMMISSIONER MURREN: Thank you.

3 Also, another observation, having been someone
4 who has been in the biomedical field and recruited quite
5 a few of people who have come from other places with
6 either doctoral degrees or medical degrees that are
7 scientists, researchers, doctors, nurses, imagers;
8 education is critically important, and I would agree with
9 you that it's at the top of the list, but by no means is
10 it the only thing on the list.

11 Some of the handicaps that I've had or that
12 we've had in recruiting people, include the state of
13 medical care here, include the state of elder care,
14 people who are taking care of their parents and don't
15 have a place to put them, people who have children with
16 disabilities, there are very few opportunities for people
17 to have homes and other types of resources that they may
18 need to have, to move a child who may have a particular
19 disability.

20 And previously and almost ironically, housing
21 was an issue. It appears as though that problem has been
22 solved for us.

23 But there are many challenges here, and I
24 guess my final question would be for all of you. You
25 know, just to this room, none of you guys are running for

1 office, I mean, it's now come across on a flash on the RJ
2 that our Vice Chairman Thomas says that Nevada, in order
3 to recover, needs to diversify its economy. And I
4 presume that he means also the tax base.

5 What would you do if you were in charge?
6 Mr. Clinger?

7 WITNESS CLINGER: Commissioner Murren, that's
8 a tough question, given that I'm an appointed official,
9 and hopefully will be employed still come January 1st.

10 COMMISSIONER MURREN: It is a little unfair.
11 I do apologize for that.

12 WITNESS CLINGER: You know, I agree we do have
13 to diversify our economy, and I think we have to come up
14 with a tax structure that represents where we are as far
15 as an economy.

16 I don't think that is -- that is true where
17 we're at right now with a tax on goods primarily, and we
18 are a service-based economy, and we've shifted from a
19 goods-based economy. So I think that's something that
20 needs to be looked at.

21 But what's really going to drive an economic
22 recovery for the State of Nevada is jobs. So we do have
23 to attract new industries to the state to attract jobs.
24 That's what we need looking forward is job growth. And
25 with the numbers that we look at, it doesn't look good on

1 the immediate horizon for job growth for the State of
2 Nevada.

3 COMMISSIONER MURREN: Thank you.

4 Mr. Fontaine?

5 WITNESS FONTAINE: Thank you.

6 You know, here are 17 counties, and I think each one
7 would answer this question a little bit differently. We
8 have some counties that would say you know, they're okay.
9 They've been very conservative in the way they budgeted
10 their resources, so during times like this, times of duress, they've been
11 able to pull through.

12 But then we have other counties that really
13 are struggling, and as I indicated in my testimony,
14 cannot provide the services that their constituents rely
15 on.

16 You might say that we do need to increase
17 revenues. But I think one thing that all of my members
18 would say is that they have to be able to keep the
19 revenues that they do have currently. And as I indicated
20 in my testimony, the State has taken or diverted quite a
21 bit of that to help solve its budget shortfall, and, and
22 that's what they've done.

23 So I think the counties feel as if if they can
24 control their own destiny, if you will, then they might
25 be in a little bit better condition than they are today.

1 COMMISSIONER MURREN: Thank you.

2 Mr. Fraser?

3 WITNESS FRASER: Thank you.

4 Interestingly enough, one of the things that
5 our members have had a lot of discussions about is the
6 nature of the sales tax and the fact that we tax goods
7 and not services when increasingly, and I almost included
8 a slide that shows goods versus services, but we see an
9 increase in services and a decrease in the sales of
10 goods. And so that's one area that we focused on as
11 Mr. Clinger indicated.

12 Interestingly, one of the -- in addition to my
13 service here with the League of Cities, I had served
14 previously as a city manager in three other states. And
15 interestingly, one of the most reliable stable sources of
16 revenue typically over the last century for local
17 governments has been property taxes. That is, that is
18 the one, the one source of revenue that has just tended
19 to be stable consistently. And of course we see here
20 that that's entirely not the case, and, in fact, really
21 kind of leading to the demise of some of the other taxes
22 that we've seen.

23 So, unfortunately, like I said, the --
24 typically we would say maybe we need to rely more on
25 that, but that doesn't seem to have helped us in this

1 case. It's a very tough question what we should do, and
2 I can really only echo what's been said, that we need to
3 focus on jobs creation.

4 And we also suffer, being political
5 subdivisions of the State, and we also live in a little
6 bit of mystery as to what will be our resources after
7 each given legislative session. And of course so that's
8 a real aim of ours is to, to try to teammates with the
9 State rather than adversaries, and hope that the
10 recognition is there that, that their constituents rely
11 on our services in times of need.

12 COMMISSIONER MURREN: Thank you.

13 And, Dr. Morrison, I didn't mean to pick on
14 you earlier. My mother actually was a teacher in the
15 Baltimore County school system. And I know that in times
16 of stress teachers are often coming out of pocket to buy
17 supplies.

18 DR. MORRISON: Absolutely.

19 COMMISSIONER MURREN: So I'm familiar with
20 that. Thank you.

21 DR. MORRISON: Very quickly, last February the
22 Wall Street Journal came out with an article about
23 Nevada. And what it says is Nevada has the lowest
24 contribution to essential government services in the
25 country, and the biggest gap between what it could afford

1 and what it chooses to afford.

2 So in my line of business we deal with
3 achievement gaps, the difference between what kids ought
4 to be learning and what they are learning, and the
5 differences amongst many of our groups of students.

6 So I think Nevada has to come to a realization
7 of that gap, between what it could choose to spend on
8 essential government services -- and you've listed
9 many -- and what it chooses to afford.

10 We not only invest the least amount into
11 public education and higher education in the country, we
12 also spend the least amount on economic development.

13 I believe our state budget is about 5 million
14 dollars a year for economic development. Compare that
15 with I think the second state in the country that is as
16 distressed as we are with unemployment, Michigan, and I
17 think they spend five times that. So it's about choices,
18 and it's about doing things differently than we have done
19 before.

20 COMMISSIONER MURREN: That's an excellent
21 point. Thank you.

22 COMMISSIONER GEORGIU: My time very briefly.
23 I guess I would ask Dr. Morrison how it is that you
24 decided under all these circumstances and how much you've
25 read to come to Washoe to take this job? That's a

1 rhetorical question. You don't need to answer it.

2 There was someone's testimony suggesting that
3 there might be some consolidation in the provision of
4 government services. And I can't recall -- was it Fallon
5 that is looking at combining the city and the county?

6 But I'm wondering whether there are any, any
7 structural modifications that any of your institutions
8 would consider that might reduce administrative costs
9 that could be allocated, could be redirected to the, the
10 provision of services.

11 Mr. Fontaine?

12 WITNESS FONTAINE: Yes, I believe that was in
13 my testimony, and I know that in White Pine County, a
14 rural county in eastern Nevada, they have placed an
15 advisory question on the November ballot asking their
16 voters if their only incorporated city, the city of Ely,
17 should be incorporated with White Pine County.

18 That's the only structural reorganization that
19 I'm aware of that's even under consideration, but I can
20 tell you that certainly around the state, including here
21 in Clark County and in Washoe County, there is a lot of
22 discussion about shared services and using things like,
23 you know, data services or personnel services amongst the
24 various entities to streamline those processes and save
25 costs.

1 And so, in fact, the Legislature last
2 session asked Washoe County, the cities in Washoe County
3 and the same in Clark County to provide a report and report back to
4 the Legislature on their efforts in that area.

5 COMMISSIONER GEORGIU: Mr. Fraser?

6 WITNESS FRASER: I think Mr. Fontaine just
7 answered the question for me. I'm not sure what I would
8 add to that.

9 COMMISSIONER GEORGIU: Okay. Thank you.

10 Commissioner Born? I understood that Chairman
11 Angelides asked to be last. Is that wrong?

12 CHAIRMAN ANGELIDES: I just wanted to see if
13 you were paying attention.

14 COMMISSIONER BORN: Thank you, Commissioner
15 Georgiou. And thank you all for appearing.

16 It certainly is an extremely sobering picture
17 that you paint of the constraints that the state, county,
18 cities and education systems of the State of Nevada are
19 currently under. And it certainly shows what a
20 horrendous impact the downturn in the economy has had on
21 the State.

22 I wanted to ask whether there have been other
23 sources of income that are being explored, other sources
24 of revenue. And particularly I want to ask you -- I
25 don't see in any of the charts of sources of revenues

1 that you have a state income tax.

2 Is that, is that right, that you don't have
3 one? And has that been considered as a possibility?

4 WITNESS CLINGER: The, the Nevada State
5 Constitution prohibits implementing a state income tax.
6 So in order to implement a state income tax, it would
7 have to go to a vote of the people. Actually, it's been
8 to the vote of the people twice.

9 So that is not something that would be
10 available in the short term to help us. And I'm not
11 sure, given the state of the economy, that if it was sent
12 to the voters, that they would approve a measure such as
13 that.

14 COMMISSIONER BORN: Are there any other
15 thoughts of revenue sources?

16 Mr. Fontaine?

17 WITNESS FONTAINE: One, one of the --

18 COMMISSIONER BORN: I did hear mention of
19 extending the sales tax to taxing services as well as
20 goods.

21 WITNESS FONTAINE: One of the points that I'd
22 like to make as it relates primarily to the rural
23 counties in the State, and you have to remember that
24 roughly 83 percent of land in Nevada is owned and managed
25 by Federal agencies, primarily the Bureau of Land

1 Management, and as much as Nevada's future I think is
2 really being tied to the development of renewable energy
3 in this State -- the State has lots of sunshine, lots of
4 wind, and one of the top-producing states for geothermal
5 energy in the nation, and so to the extent that those
6 developments will occur on Federal lands, we are hoping
7 and advocating for some share of those revenues to help,
8 again, primarily the rural counties, but it also will help
9 Clark County and Washoe County because, again, developing
10 renewable energy resources in this state will I think be
11 a benefit to everyone. So that's one area that I know
12 the counties are very interested in pursuing.

13 And, again, the impacts of the Federal lands,
14 the vast size of the Federal lands in Nevada creates a
15 whole host of impacts. And so things like payment move
16 taxes, PILT taxes, are very important to rural counties.
17 And, unfortunately, that program is about to sunset. So,
18 you know, we need to keep those programs alive for rural
19 counties. And they're very important, particularly
20 during these times.

21 COMMISSIONER BORN: I'm sorry. I don't
22 understand what the program is that you're talking about
23 that is going to sunset.

24 WITNESS FONTAINE: There's a program that's
25 called Payment in Lieu of Taxes authorized by Congress,

1 and appropriated almost every year by Congress.

2 And those are funds that go to county
3 governments that have Federal lands within their
4 boundaries. And the purpose of that is to help offset
5 the costs associated for the counties that have to
6 provide services related to those public lands, as well
7 as helping offset the fact that the counties can't
8 develop those lands for tax purposes.

9 COMMISSIONER BORN: Or get any property taxes
10 related to them.

11 Well, those of us who reside in the District
12 of Columbia are familiar with this as well. And that's
13 going to sunset?

14 WITNESS FONTAINE: The current PILT
15 authorization is due to sunset in 2012.

16 COMMISSIONER BORN: Well, that should be
17 renegotiated then. I hope that you're able to have a
18 continuation in a meaningful way, because, of course,
19 that does give up a great deal of revenue that would
20 otherwise be available to the counties.

21 Any other revenue ideas?

22 Mr. Fraser?

23 WITNESS FRASER: You know, I appreciate,
24 again, the comments of Mr. Fontaine and Mr. Clinger.
25 That's a tough issue that the State is dealing with right

1 now. And one thing that I would mention for the benefit,
2 particularly for those of you that aren't from Nevada, is
3 one of the unique problems that we have as local
4 governments in Nevada is that we have very little
5 authority to deal with revenue issues on our own. We are
6 what is called a strict Dillon's Rule state, Home Rule
7 being at the one end of the spectrum where if the State
8 government doesn't indicate otherwise, you can proceed,
9 and Dillon's Rule being you can only do what the State
10 explicitly allows you to do in the constitution or
11 statute.

12 And a lot of states fall in a spectrum, and we
13 are at the very end of the spectrum. And we are a strict
14 Dillon's Rule. So that leaves us very little room
15 autonomously to do anything about revenue. And that is part of the
16 reason for my earlier comments about, you know, the
17 mystery that we live in from session to session as to
18 what we'll be able to do with our revenues sources.

19 At the risk of saying something positive in
20 the midst of all this negativity --

21 COMMISSIONER BORN: It would be very welcome.

22 WITNESS FRASER: One of the things that we've
23 seen is really an increase in volunteerism. I mentioned earlier in my
24 testimony

25 that, a lot of the quality of life services, parks and
26 recreation, and arts in the parks programs, all these sorts of things,

1 where the cities

1 are having a difficult time funding because we've had to
2 prioritize safety issues. We've seen a lot of community
3 groups that are stepping up and are taking over a Little
4 League program that would have previously been run by a
5 city and doing it on a volunteer basis.

6 Even so much as, as volunteering, you know,
7 cutting the grass on the ball fields and all these, these
8 kind of things.

9 So we are really seeing, you know, I think
10 there's still room for more, and, frankly, without
11 getting too high on my soap box, I think society could,
12 could use a good dose of that, but we have seen a
13 positive increase in that as people have taken note of
14 the fact that the local governments are having trouble
15 providing this and they want to see those, the provision
16 of those services continue.

17 COMMISSIONER BORN: Well, that may be very
18 necessary in the coming years.

19 DR. MORRISON: Very quickly on an educational
20 front, we have been very aggressive in the district in
21 trying to get Federal grants. We have been very
22 successful and very proud of our grant department.

23 As a state, we've been trying to do that as
24 well, we recently put in a very aggressive application
25 for Race to the Top, which would have brought in about

1 175 million dollars for Nevada schools, for educational
2 reform. Out of over 40 applications I believe we came in
3 24th. There was 22 points separating us from New Jersey,
4 the last state that got into the finals.

5 The unfortunate thing about the way that that
6 particular Federal appropriation was structured is you
7 got half of the points for your grant application for
8 the, the reforms that you've done, the other half for the
9 performance you were pledging to. We got almost every
10 point we could get through the work for the State
11 Department of Education and the Blue Ribbon Task Force
12 chaired by Elaine Wynn here in Las Vegas and Dan Klaich,
13 our Chancellor of Education, and I'm very proud to serve
14 on that task force, so we got almost every point we could
15 get for the performance we pledged to do to improve
16 public education in Nevada, and we lost a lot of points
17 for the reforms that we haven't done in the past.

18 So it was, it was unfortunate because that
19 would have been very needed money at a time when we are
20 very stretched. But we're continuing to be aggressive in
21 trying to get every Federal dollar that we can.

22 COMMISSIONER GEORGIU: Thank you,
23 Commissioner Born.

24 Commissioner Thompson?

25 COMMISSIONER THOMPSON: Thank you,

1 Commissioner Georgiou.

2 There's a longstanding adage in business that
3 you can't save your weight of prosperity. And I don't
4 think that necessarily should be confined to the private
5 sector. It works in the public sector as well.

6 So ultimately you're going to have to figure
7 out how to grow revenues. So let's be clear about that.

8 And California has got the same set of
9 problems. So your neighbor is as inflicted with this
10 problem as you are.

11 I'm struck, though, by the notion that you've
12 got these reserve funds. What happens when they run out?
13 Is there anarchy in the streets? I mean, what happens?
14 What do you do?

15 Mr. Clinger?

16 WITNESS CLINGER: We have through, over the
17 last three years in budget cutting processes, you know,
18 we had a rainy day fund reserve. That is one of the
19 first ones we tapped into. And that is the purpose of
20 the rainy day fund, obviously.

21 But the Legislature, you know, with our
22 recommendation, has also tapped into other reserves -- Fee
23 funded accounts, other things -- and that over the last
24 couple of years has been a tremendous help in balancing
25 the budget.

1 The problem it creates is, along with
2 sunsetting taxes and other things, those are temporary
3 fixes that, you know, they help at the time, but they're
4 also contributing to the shortfall that we face in the
5 upcoming biennium, because we didn't make long-term
6 changes to spending or revenue. We put in short-term
7 fixes.

8 So there's not anarchy in the streets yet, but
9 we are still facing that, you know, 50 percent shortfall
10 in the upcoming budget cycle.

11 COMMISSIONER THOMPSON: Mr. Fontaine. Same
12 question.

13 WITNESS FONTAINE: Pretty much the same
14 answer. You know, the initial budget cuts made by
15 counties were reserve funds held for capital budgets,
16 one-time expenses that they felt were not needed at this
17 time because the growth has ceased for the most part.

18 And over the last several years through, I
19 think a very strategic and public process, the counties
20 have, have reduced their expenditures. They have reduced
21 their labor costs, whether it be through, you know,
22 negotiations with their bargaining units or, or laying
23 people off, have cut services and are very lean.

24 But as Mr. Clinger indicated, this coming year
25 will really test our metal, if you will, and, and, and

1 everybody is going to have to pitch in and do what they
2 can.

3 I'm still hopeful that we're going to find our
4 way out of this. I understand your comment about needing
5 to grow revenues. I think everybody can agree with that.
6 It's just going to take a long time.

7 COMMISSIONER THOMPSON: Yeah, I'm struck. I
8 live in northern California, and one of the most
9 beautiful freeways in the world is Route 280 that runs
10 along the coastline. And ironically enough, I saw for
11 months going to work every day this structure going up.
12 I couldn't figure out what it was. That was as I went
13 south from my home on the freeway. As I went north, I
14 saw another structure going up.

15 It turns out these are multi-million dollar
16 projects that are the fun projects for some political
17 leader. One was a bike path across the freeway. And the
18 other is a visitor observation center to overlook the
19 pastoral valley of Menlo Park.

20 I would just comment that you probably ought
21 to purge all of those first. California's got a more
22 severe budget problem than does Nevada. And we haven't
23 seemed to learn from the mistakes that we've made, and so
24 I'd ask you to just kind of look across the state divide,
25 at some of the horrific mistakes that have been made in

1 California where they've not been able to do simple
2 things like shut down funny programs, that while they may
3 seem interesting and exciting, they really don't improve
4 the overall outcome or solve the problem of education in
5 our economy, just like the problem you have here.

6 Now all of that said, it is a very bleak
7 picture that you paint. It's a scary thought that a
8 state could be first or fiftieth in almost any category
9 that's measurable or important.

10 And while it's hard to say that you ever want
11 to invoke an income tax or invoke things that have been
12 heretofore considered taboo, arguably in a time of crisis
13 that's when you have the best opportunity to capture the
14 hearts and minds of the citizens.

15 And I would argue that the leaders of this
16 State -- you as leaders in your particular roles, have to
17 be bold, have to think more bold, and have to find role
18 models across the State that can reflect what you want
19 for the State or the local government to look like. End
20 of my speech.

21 WITNESS MORRISON: If I can comment real
22 quickly. We are probably the last in everything we want
23 to be first in, and first in everything we want to be
24 last in. And that's a brutal fact.

25 In deference to this esteemed body, I think we

1 can thumb wrestle you for the distinction of having the
2 worst economy in the country.

3 The last I looked at California's budget
4 problems, I think you have to cut 20 billion, we have to
5 cut three, so certainly that's more than we have to cut,
6 but I believe that's about 20 percent of your overall
7 state budget. Three billion out of ours, as Mr. Clinger
8 said, is between 45 and 50 percent. So that's not
9 something we're trying to win.

10 COMMISSIONER THOMPSON: You can win
11 that one.

12 DR. MORRISON: Yeah. But real quickly, you
13 know, I think bad budgets, as Rahm Emanuel often says,
14 you don't want to let a crisis go unwasted.

15 We are at a crossroads as a state, and we
16 can't keep on doing the things we've done before.
17 They're not working. And we can't afford to do it the
18 way we've done before. And the way we've done it before isn't getting us
19 the results we need in any of our sectors.

20 So it's a, a time to come together. I'm the
21 new Nevadan in the room probably. But the last time the
22 state was challenged in a great financial crisis, we
23 built the Hoover Dam. So we can do the impossible when
24 we're really stretched.

25 In Washoe County, even having to cut \$37
26 million from our state budget, from our county budget, we

1 increased our state test scores this year. We're going
2 to announce next week an increase in graduation rates I
3 think our community is going to be proud of. So as the
4 good Thurgood Marshall once said, you have to do the best
5 you can with what you have.

6 COMMISSIONER GEORGIU: Thank you. Thank you,
7 Commissioner Thompson.

8 Chair Angelides, last but not least.

9 CHAIRMAN ANGELIDES: Yes, thank you.

10 Let me ask you, going back to the run up of the
11 crisis versus prospectively. And I want to ask you, both
12 the State, county, and city level, really two questions.

13 What did you do to prepare for what would be
14 an inevitable down cycle? I'm not saying that anyone
15 could have predicted the magnitude of what hit, nor do I
16 believe that there were any budget planning that would
17 have allowed you to weather this storm unaffected.

18 You had mentioned a rainy day fund, but, you
19 know, like a lot of America, there was significant
20 leverage, people on the good times were riding the wave
21 up without consideration of the wave down, and I'm
22 interested what you did to prepare and what lessons have
23 been learned from that.

24 I speak with some experience having been
25 Treasurer of California, and, of course, having run a

1 campaign for Governor, which I haven't referred to once
2 in this whole hearing process, where I actually tried to
3 be the person taking away the punch bowl. It is not a
4 popular role, and you end not being the life of the party
5 when it's all over.

6 Having said that, I'm interested because I, I
7 see a lot of state challenges faced today, and municipal
8 challenges, not unlike what we see in the private sector,
9 those who prepared better are weathering it better, so
10 perhaps you could, there could be some moment of
11 self-reflection here about what the State did or didn't
12 do, cities and counties didn't do, to prepare for what
13 would be rougher seas.

14 WITNESS CLINGER: Chair Angelides, one of the
15 things that we did do was put money into a rainy day
16 fund. Obviously in retrospect that was a drop in the
17 bucket compared to --

18 CHAIRMAN ANGELIDES: What was your reserve?

19 WITNESS CLINGER: It was at the time, I
20 believe, roughly six to seven percent of ongoing
21 appropriations. So --

22 CHAIRMAN ANGELIDES: That's the public sector
23 equivalent of capital.

24 WITNESS CLINGER: Yeah. Again, a very, very
25 small rainy day fund. And I think one of the things that

1 we need to do as a State moving forward -- and I get this
2 question a lot -- is how can we stabilize things moving
3 forward. And I think that one of the ways we can do as
4 a state government to stabilize things going forward is
5 to have a stronger rainy day fund and a mechanism to put
6 money into a rainy day fund to try to keep politics out
7 of it, if you will.

8 If you have a surplus, it's easier to hand
9 that out and increase programs, than it is to put it into
10 a savings account moving forward.

11 So I think we have to have a mechanism in
12 place that takes that decision-making process out of
13 putting money into a rainy day fund and creates it as an
14 automatic trigger.

15 Now would we have put 50 percent of our
16 ongoing appropriations into a rainy day fund? No, we
17 wouldn't go that high. But certainly we need something
18 more, much higher than the five to six percent that we
19 had in there previously.

20 WITNESS FONTAINE: With regard to counties, I,
21 again, I think of those counties that were sort of riding
22 the coattails of the counties that did have large growth,
23 again, they were very conservative in their budgeting,
24 and I think kept pretty healthy reserves.

25 Now in the case of Clark County, commissioners

1 there adopted a taxpayer's bill of rights, and I think
2 they were cognizant of the need to control costs. They,
3 you know, adopted a no deficit spending posture while
4 retaining a 10 percent fund balance. They tried to, you
5 know, reduce their ongoing operating costs because one of
6 the things that we have found, and I think this is true
7 of the State or any governmental entity, is once you
8 start a program, those roll-up costs just increase and
9 increase and increase. And, you know, they're very hard
10 to curtail once you sort of let them get out of control.
11 But I don't think that was necessarily the case for a lot
12 of the counties.

13 I think one of the real issues here is that no
14 one could have possibly predicted, at least up until two
15 years ago, what was going to happen here.

16 Through, through -- from 1990 to, to 2006,
17 Nevada was the fastest growing state. The population
18 just exploded. There was no indication that we were
19 going to see these kind of effects.

20 I know here in Clark County they went out on a
21 pay-as-you-go basis and built large public work projects
22 to try accommodate the growth. And I'm not aware of any
23 county that got themselves into debt that are now over
24 their heads in trying to pay off that debt.

25 So, you know, could they have done different

1 things? Perhaps higher reserves, but they kept at least
2 the minimum required by state law, and many much higher
3 balances than that. And I suppose the lesson to be
4 learned is, you know, maybe that's not enough, and maybe
5 you need to have more reserves.

6 WITNESS FRASER: Just as a comment, I would
7 like to thank the panel for always directing the
8 questions first to Mr. Clinger.

9 CHAIRMAN ANGELIDES: Thank you for pointing
10 that out. We'll make sure we start with you on the last
11 couple. And those are always the toughest.

12 WITNESS FRASER: That's at my own peril, isn't
13 it?

14 You know, I'd just comment, I've got to echo
15 what they said. I don't know how we could have seen this
16 coming.

17 In fact, how could we dream the situation we'd
18 be in? Most of our cities kept fund balances of 10 to 15
19 percent, which, which in good times seemed very
20 conservative. Should those, you know, once we recover,
21 and hopefully that day is sooner rather than later, but,
22 you know, when we recover, do we need to re-examine where
23 those are I think perhaps.

24 I think also most of our cities did use, use
25 one-time monies for one time projects. And, and

1 Mr. Fontaine mentioned pay-as-you-go projects. And I
2 think most of our, most of our municipalities acted very
3 responsibly in that manner.

4 You know, again, thinking, thinking that what
5 we were doing was very conservative and not having any
6 idea of the enormity of the situation that we would face.

7 One thing that we've discussed among our
8 membership a bit, again, going back to the collective
9 bargaining agreements, which can represent 75 to
10 80 percent of your costs, you know, we've talked about
11 perhaps we ought to have in our collective bargaining
12 laws something that would trigger an automatic
13 renegotiation in a severe financial crisis. You know,
14 and of course with the difficulty of defining that.

15 But we've had some pretty good success, and
16 I've got to be, actually be complimentary of most of our
17 bargaining units across the State, we've had some
18 exceptions, but we've had many cases where the bargaining
19 units have come to the table voluntarily, recognizing the
20 problem. And we've been able to renegotiate some of
21 those things.

22 But, again, under our law, they weren't
23 required to do that. That was something that needed to
24 be voluntary by both sides. And so that might be -- that
25 might be one place that we could maybe look at a change

1 going forward.

2 DR. MORRISON: This is my first year as a
3 superintendent in Reno, Washoe County, but through the
4 leadership of our board of trustees we have had some
5 savings and fund balances to offset some of the blow of
6 the economic budgets that we've had to reduce.

7 I think one thing is that it's really
8 important to look at why things have happened. There's a
9 mindset of we're going to get through this, and the
10 things that have always worked in the past are going to
11 come back and work again.

12 I'm sure this morning when you heard from
13 Jeremy Aguero you heard some very frightening statistics about
14 the fact that everybody thinks that this is a recent
15 phenomenon of where our economy has been going. And, for
16 example, there's an assumption that gaming is always
17 going to be able to save us. Well, for the last 20
18 years, gaming has been on a decrease in terms of the
19 available tax revenues per every 1,000 taxpayers in
20 Nevada. So there just has to be a recognition in terms
21 of where we are, where we're going, and that the things
22 that worked in the past are probably not going to work
23 again, and either we have to change, or we're just going
24 to be doomed to make the same mistakes that led us to
25 where we are today.

1 CHAIRMAN ANGELIDES: I'm out of time.

2 COMMISSIONER GEORGIU: You are. Long out of
3 time. But I've been, I've been, I've been letting you
4 slide here.

5 Do you need anything more? You don't need
6 anything more.

7 CHAIRMAN ANGELIDES: No. Need, want. Two
8 different things.

9 COMMISSIONER GEORGIU: Very good. Thank you.

10 I think we're done. I want to thank all four
11 of you for making the trip from northern Nevada to Las
12 Vegas today to join us.

13 It's testimony that has been sobering, but
14 something that has I, I think, educated all the members
15 of our Commission on the dramatic crisis that we face.

16 Thank you. Now we're going to -- we'll excuse
17 you gentlemen. You're welcome to stay and hear.

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1 SESSION 5: FORUM FOR PUBLIC COMMENT

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4 COMMISSIONER GEORGIU: We're now going to
5 turn and thank the citizens of Nevada that have joined us
6 in the audience today. We'd like at this time to take
7 the opportunity to hear brief commentary or testimony
8 from members of the public.

9 We have a limited amount of time and ask that
10 each person's remarks be kept to no more than two
11 minutes.

12 If you do not get the opportunity to speak
13 today, or for members of the public who have been
14 watching our live web stream, please submit your story to
15 us via e-mail at: personalstory@fcic.gov. That's our
16 website. personalstory@fcic.gov.

17 If you're interested in speaking at this time
18 please raise your hand, and after being called upon, an
19 FCIC staffer will come to you.

20 I'm going to start with Yvette Williams who is
21 here standing up.

22 MS. WILLIAMS: Thank you. Thank you to the
23 Commission for coming to Nevada.

24 COMMISSIONER GEORGIU: Would you identify
25 yourself?

1 MS. WILLIAMS: I'm sorry. Yes. Yvette
2 Williams. I'm a loan originator, in my past life, so I
3 wanted to comment on that, but I'm also the chair of the
4 Clark County Black Caucus, and I wanted to also talk a
5 little bit about how the minority community has been
6 affected by the housing crisis.

7 I'd first like to say thank you again for
8 coming. We are in extremely difficult times in our
9 community. But as an originator, I wanted to just
10 mention that as a loan originator, many of my clients
11 came back to me after I refused to do like the NegAm
12 loans and those types of loans, they would go elsewhere
13 and purchase those loans because they wanted that deal.
14 And they would come back with their plastic bag with
15 their documents in hand asking for help. Yvette, can you
16 help me? Well, once you've kind of gone down that path
17 there's very little you can do.

18 But, the other thing is there was a time
19 where -- and I listened to the testimony of Fremont --
20 and I'm very familiar with Fremont, by the way -- there
21 was a time where a 30-year fixed loan you almost couldn't
22 get unless you purchased an FHA or a VA loan.

23 They made it difficult as an originator to
24 sell a 30-year fixed loan. They made the interest rates
25 higher on an FHA or a VA loan. In a lot of cases, two

1 points. So if a borrower came into my office, I'd have
2 to offer them an 8 percent interest rate for a 30-year
3 fixed loan in lieu of maybe 6 and a half on a subprime.

4 So if you're looking across the room at a
5 borrower, and you're going through the numbers -- we
6 talked about Section 32, and you're going through all the
7 different programs available, it's easy for that borrower
8 to say I want that 80/20, I want that 100 percent
9 subprime loan because I don't even have mortgage
10 insurance.

11 So not only was their payment lower because
12 the interest rate was lower, but they also said don't pay
13 mortgage insurance, and that made my payment even lower.

14 So it was very difficult to convince a
15 borrower as to why they should go with this 30-year fixed
16 loan.

17 That was the environment that was created by
18 these investors on Wall Street. They sold the product.
19 As a loan originator, you're stuck with what they offer
20 the consumer.

21 COMMISSIONER GEORGIU: Thank you. You've
22 gone two and a half minutes. So I appreciate it.

23 Mr. Chestnut?

24 MR. CHESTNUT: Hi. I'm Duane Chestnut. I
25 wanted to thank the panel for being here.

1 It's a very impressive bunch of people. I
2 don't see anybody just sitting there. You're very
3 actively involved.

4 I have a whole page of things that I would
5 like to be able to discuss, but I can't do it in two
6 minutes.

7 One of the things that's only been touched on
8 briefly. The impact of this crisis on our education
9 system. This is a real chicken and egg problem.

10 I've got a bachelor's degree in chemical
11 engineering, a Ph.D. in chemistry, and fortunately I've
12 been retired for ten years.

13 If I had to find a job in Nevada, neither one
14 of these would do me a lot of good.

15 So the point is in order to have a good
16 education system, you have to have good opportunities for
17 the graduates. In order to have opportunities for the
18 graduates, you have to have a good education system.
19 This is a chicken and egg problem that I don't really see
20 how to crack.

21 The one thing that I've been working on for
22 the last year and a half in my spare time is looking at
23 Nevada's economy and seeing what have we got on our plate
24 that could be used to diversify.

25 One of our assets is the Nevada test site.

1 This is a piece of ground that's got nice security, it's
2 got good access to power lines. It has about 40 or
3 50,000 acre feet of water that's contaminated with
4 radioactive material. It could be used as a site to
5 produce nuclear power and export it to other states.

6 This is a pretty radical concept, given the
7 fact that we've been antinuclear in this state for so
8 long. But it's one of the assets that I really think
9 that we need to look at carefully and find a way to exploit. That would
10 ultimately provide a market for people
11 highly trained in the education system that we need to
12 put in place and get developed.

13 But it's a 10-year, 20-year solution. I don't
14 see the short term. But thank you very much for your
15 presence here, and I thank you very much for being on
16 that commission. I think it's going to do some good.

17 COMMISSIONER GEORGIU: Thank you,
18 Mr. Chestnut.

19 I don't know where to begin. And, I'm sorry,
20 I'm sorry, I don't know the names of all these
21 individuals, I don't know where to begin.

22 Let's try this gentlemen in the middle there.
23 That would be you.

24 MR. CHITO: Me?

25 COMMISSIONER GEORGIU: Yes, sir.

1 MR. CHITO: Hi, thanks for coming. Dr. Chris
2 Chito (phonetic spelling.) I'm a local optometrist here.
3 I've been here since '94. I have three offices and a
4 partner.

5 And we've heard a lot of things today. I'm
6 glad you guys have come. It's been very informative.

7 And, but, you know, there's an organization
8 here in our country, and it starts with Washington being
9 up here. And it filters down. There's the Cabinet, the
10 Congress, the House. We're talking on a local level here
11 that, you know, Nevadans, we need to become individual,
12 we need to take care of ourselves.

13 But a lot of the policies that have been
14 changed in Washington that have created this economic
15 condition have not been discussed.

16 We've heard from a lot of important
17 individuals about mortgage fraud and businesses, and I'm
18 a businessman here myself. But, really, some of these
19 policies need to be looked at.

20 The Glass-Steagall Act. You know, I don't
21 know how many people are familiar with that. But we
22 learned in the 1930s -- we're trying to learn this again,
23 but we learned it back then, that Wall Street should not
24 be connected to our community banks.

25 And I believe that that in itself has been a

1 main part of what's gone on here. So why is there no
2 discussion -- why is nobody, you know, talking about what
3 to do? We're talking about all the stuff down here and
4 the symptoms, but we're not getting to the root of the
5 problem. If you know what created the situation -- I've
6 got a six-page document here --

7 COMMISSIONER GEORGIU: Well --

8 MR. CHITO: -- that outlines the history --

9 COMMISSIONER GEORGIU: I'd like to invite you
10 to submit that to our staff. We have a staff member
11 right there. We'll put it in the record of our
12 proceedings.

13 And I just want you to know that we have
14 examined some of these major overarching issues. We've
15 conducted a series of hearings in Washington, D.C. and
16 New York City.

17 We've got almost 50 staff investigating them
18 for the last year. And if you look at our website,
19 fcic.gov, you'll find a number of those preliminary staff
20 reports and prior testimony.

21 The purpose of this hearing today was not to
22 look into that particular -- those particular global
23 issues, but to focus on the on-the-ground impact here in
24 the State of Nevada.

25 So you're right, we haven't addressed

1 Glass-Steagall, securitization, and a whole variety of
2 other issues that are relevant to the discussion.

3 But thank you for your testimony, and we'll
4 provide that in the record.

5 MR. CHITO: Thank you.

6 COMMISSIONER GEORGIU: Yes, ma'am.

7 MS. HULLIHAN: Hi. My name is Denise
8 HULLIHAN. (Phonetic spelling.) I've been doing real
9 estate -- I'm the owner of a company here, and I've been
10 doing real estate for over 13 years. I'm also in
11 television media. I'm also suing Fremont Investment &
12 Loan, Wells Fargo and U.S. Bank National in a Federal
13 lawsuit that I've been litigating on my own as a pro se
14 plaintiff in the Federal Court.

15 And the issues with Las Vegas, the declining
16 market, bottom line, I think government, our Congress,
17 needs to mandate principal reduction besides interest
18 rate reduction.

19 We are so far under water here, that even if
20 we didn't pay interest on modifications, that is not
21 enough to cover the losses that we are facing today.

22 If this continues, the foreclosure rate will
23 go up, and the resale market goes down. Bottom line. We
24 need principal reduction mandated in government.

25 COMMISSIONER GEORGIU: Thank you very much.

1 And I invite you, if you have additional information on
2 that, to submit it in writing to our, to our staff.

3 Yes, sir. In the back. Second to the back
4 row there.

5 MR. CAPEL: Hi, my name is Martin Capel.

6 (Phonetic spelling.)

7 The Nevada financial problems did not start
8 with the bankers and mortgage brokers. There were two
9 parties at fault before them. The first was the
10 developer selling houses in excess of 250,000 that are
11 now selling for a hundred thousand less and still making
12 a profit. That doesn't seem profitable, but a hundred
13 thousand more for each and every house, and all of that
14 profit is taken out of Nevada for somewhere else.

15 And Nevadans are left holding the bag.
16 They're servicing all that new populations would require.

17 If there had been put in place justified
18 development fees, or impact fees, for even ten percent of
19 that excess profit, then it is likely we would have had
20 the financing Nevada needed to finance schools, police,
21 fire, parks, water, and other, other special service
22 districts throughout Nevada.

23 As a former elected official in the Los
24 Angeles County District, where I was able to put in place
25 development fees, I know how well they work.

1 But yet the, the Las Vegas School District I
2 talked to as a member of the No Committee on the last
3 withdrawn bond issue, seemed unwilling to even consider
4 this prudent solution.

5 So now we suffer underfunded districts and
6 still they will not move forward on development fees. So
7 it is my opinion, the second fault belongs to special
8 districts that did not put in place justified development
9 fees that would have funded the needs for the growth
10 taking place in those districts.

11 Now many consider the banks and mortgage
12 industry to be at fault, and while they may have been
13 complicit, it seems reasonable that they were responding
14 to the needs of the developers to fund their greatly
15 overpriced homes. And the loss of value of the homes and
16 all the problems it has created is a natural progression.

17 When the excess home prices could not be
18 sustained, they readjusted back to the valid real worth
19 of the homes, which is what they are selling for now.

20 May I respectfully suggest that putting in
21 place justified development fees and price controls are
22 the important part of the answer to preventing these
23 financial disasters in the future.

24 Thank you.

25 COMMISSIONER GEORGIOU: Thank you. Right on

1 two minutes.

2 Yes, sir?

3 UNIDENTIFIED SPEAKER 1: Hello. Oh. Are you
4 folks familiar with mortgage insurance? Okay.

5 Mortgage insurance, for those of you who don't
6 know, because we invested in some homes, if you don't pay
7 80 percent, you have to pay mortgage insurance.

8 The purpose of that, and correct me if I'm
9 wrong, but the purpose of that, is that if you default on
10 the mortgage, and the banks have to foreclose, the
11 insurance pays the difference.

12 Okay. Is that right so far?

13 UNIDENTIFIED SPEAKER 2: No, it's a
14 percentage.

15 UNIDENTIFIED SPEAKER 1: It's a percentage.

16 Okay. So --

17 UNIDENTIFIED SPEAKER 2: (Inaudible.)

18 UNIDENTIFIED SPEAKER 1: Okay. So --

19 UNIDENTIFIED SPEAKER 2: If you default, the
20 lender collects the debt, (inaudible) a percentage of
21 that loan.

22 UNIDENTIFIED SPEAKER 1: Okay.

23 COMMISSIONER GEORGIU: Go ahead, sir.

24 UNIDENTIFIED SPEAKER 1: That's just what I
25 read, so I wanted to check it. Maybe sometimes they do

1 it.

2 So, anyway, on the other hand, if you do -- if
3 the bank readjusts your mortgage to a lower rate, where
4 is your compensation? They have a motivation provided by
5 our insurance, and the government, to foreclose on you.
6 I'm surprised the people don't understand that. That was
7 point 1.

8 Point 2, as far as our expenses go here, most
9 of the expenses in this state are for salaries. Now I'm
10 sure that a lot of, of senior fire department personnel
11 work very hard, but I don't think that their salaries
12 should be two to three times greater than that of a four
13 star general. And then they retire with that amount.
14 Okay.

15 There's -- we're not going to save our way out
16 that, we're not going to get revenue out of that to cover
17 \$600,000 a year salaries for executives in the fire
18 department.

19 And the third point here, this is the only
20 place in the world where the taxes on the gambling
21 industry are less than the sales tax. Okay. The nearest
22 tax rate in other states in this country is twice what
23 the, what the companies pay here.

24 The gambling industry in this state gets the
25 best laws and legal system that their money can buy, and

1 that's why this State is in the place that it is.

2 COMMISSIONER GEORGIU: Thank you, sir.

3 Anyone else that hasn't been heard? The
4 Gentleman in the red tie.

5 MR. BOHL: Thank you.

6 Thank you.

7 My name is Jeff Bohl. This is the perfect
8 example of what's wrong with the system and what's right
9 with the system.

10 We're here today, the people are here for
11 public forum, and we're going to be crowded in for, you
12 know, in the sake of time this one chance we have to
13 express ourselves. So I'm going to do the best I can. I
14 was prepare to do something else.

15 The bottom line on this whole crisis is we the
16 people have to organize to keep your committee and other
17 congressional senate committees in check. It's called
18 trust but verify.

19 The major problem that I wanted to talk about
20 today is my mother and I invested \$600,000 in the GSEs,
21 Fannie Mae, Burkstock Series T. (Phonetic spelling.)
22 What was the affect of that on us? It was devastating.
23 Our investment at \$25 a share within 70 days went to 65
24 cents. We were promised by politicians that the problems
25 would be fixed. They never were.

1 We lost a tremendous amount of money and
2 disrespect for our leaders because they lied to the
3 American people about what really happened with the GSEs.

4 What really happened is that the GSEs were
5 basically taken from us and used to cover a gigantic hole
6 that was created by Wall Street, and the profits that
7 were taken out from '04 to '07.

8 It's there by the facts. If you look at the
9 testimony of Hank Paulson in July of 2008, he testified
10 to Congress that he would never use, that he wanted to
11 establish an independent regulator.

12 This man was Lockhart. The truth of the
13 matter is Lockhart testified to your committee that he
14 came to Paulson and said that the GSEs were adequately
15 capitalized. He testified that to the senate and he did
16 it to this commission. In fact, in the beginning of
17 Paulson's book he says -- the very first thing in the
18 book is: Their heads were going to roll, that the GSEs
19 when they heard that we were going to take them over, and
20 we were going to conservatize them.

21 They also have one choice. They could either
22 have agreed to the terms of the conservatorship now, or
23 they would be forced by Treasury to accept the, the
24 conservatorship.

25 So they all went for it. And signed it.

1 They also had memorandums of understanding
2 which basically gave these --

3 COMMISSIONER GEORGIU: Sir --

4 MR. BOHL: -- payoffs to take the deal and --

5 COMMISSIONER GEORGIU: Sir --

6 MR. BOHL: -- then additionally, were put into
7 secrecy agreements and never allowed to communicate with
8 the shareholders.

9 COMMISSIONER GEORGIU: Sir, you've gone
10 beyond the two minutes. You've gone to two and a half.
11 I'd appreciate it, if you could, if you could submit any
12 additional material to our staff in writing.

13 Thank you very much.

14 MR. BOHL: I'd be happy to do that.

15 COMMISSIONER GEORGIU: Sir. Yes, sir.

16 MR. JULIAN: Yes, my name my name is Ed Julian
17 (phonetic spelling.) I moved here with my parents 67
18 years ago in 1943 when Las Vegas was a city of 8,000
19 people. And I was three years old. My father came to
20 work on the, after the dam was built.

21 I have never -- this is just unbelievable.
22 The crybabies that have been in front of you today.

23 These people are responsible for what has gone
24 on in this city, what is going in this economy. And they
25 accept no individual responsibility. They fill you with

1 a bunch of half truths.

2 For example, it was mentioned by, I believe
3 Mr. Fontaine, the Taxpayer Bill of Rights. One, one
4 major factor he forgot to mention, that calls for equal
5 pay for public workers as local workers. The public
6 workers here in this county get three times the salary of
7 the local workers. And so -- and this, and -- and -- I
8 mean, they are just -- they are literally raping us.

9 The, the police department hired 500 new
10 policemen, through lies that they told to get a higher
11 sales tax. And what do they do? They give tickets. If
12 you go out at night in this city, you'll see people being
13 pulled over for \$200 fines because they've done this or
14 that little thing. There are 200 million dollars in
15 fines that they're trying to collect.

16 They just passed a law imposing a thousand
17 dollar a day penalty for, if you have grass more than
18 four inches high. And, and with no limit on that.
19 They're, they're imposing new codes when the values of
20 properties are very low.

21 It's just, it's just absurd. And here, we
22 keep hearing that thing about diversity. That, we don't
23 need diversity. We're in the best industry, the fastest
24 growing industry in the entire world, and that's tourism.
25 We're just executing it poorly.

1 We have an agency here in this, in this city
2 called the Las Vegas Convention and Visitors Authority,
3 and they have created by their incompetence, a decrease
4 in visitors when it's -- when this industry is booming
5 all over the world. We're decreasing in visitors, we're
6 decreasing in money, and because they don't know how to
7 appeal to the, to the people in the world that have
8 money.

9 COMMISSIONER GEORGIU: Thank you very much,
10 sir. Appreciate it.

11 You've gone over your time.

12 MR. JULIAN: Excuse me?

13 COMMISSIONER GEORGIU: I think we've heard
14 from everyone who has asked and -- I'm sorry.

15 There's one -- is there one more gentlemen who
16 hasn't been heard?

17 I'm sorry. Yes, sir.

18 You'll be the last one.

19 MR. JULIAN: Okay. Okay.

20 Thank you. Two minutes is not enough time to
21 get into the complexities.

22 COMMISSIONER GEORGIU: Could you give us your
23 name, sir, and where you're from.

24 MR. ABRAMSON: (Phonetic spelling.) My name
25 is Tom Abramson. I'm a local resident here. I have been

1 in the mortgage and housing industry in excess of 20
2 years.

3 And I can tell you the complexities of what
4 has caused the crisis and the solutions cannot be summed
5 up in two minutes. But if I can give you one thing to
6 take that will help the people of Nevada here that is a
7 very simple process that you guys could look into
8 enacting, is bringing back the streamlined refinance
9 process from the GSEs that was very popular up until
10 about 10 to 12 years ago.

11 Why that's needed in Nevada is, as you've
12 heard from the testimony, is a tremendous percentage of
13 people that are under water in their mortgage. The way
14 the streamline processed worked is if you had been paying
15 your mortgage on time, if you originally took out a loan
16 from Fannie or Freddie, if you paid your mortgage on
17 time, you can fill out a one-page form that simply says
18 here's what my interest rate and what my payment will be,
19 and here's what the current interest rate will be, and
20 what my new payment will be. As long as there was a
21 decrease, they approved you no matter what the value of
22 the property was.

23 The theory behind that is the GSE has the loan
24 currently, they will have the new one, and what that will
25 enable people to do is people that bought properties

1 three, four, five years ago that may have fixed rates, 6
2 and a half, 7, 8 percent, which there's a significant
3 amount out there that are making their payments on time,
4 it will reduce their payments by anywhere from 250 to 300
5 or \$400 a month. They are going to turn around and go
6 out and spend that money at the local restaurants, buying
7 supplies for their kids, buying clothes that will help
8 spur the economy. That will increase the sales tax.
9 Increase the tax revenue for the state. Help out
10 education.

11 Those are all simply things that can be done.
12 The only reason these people can't refinance is simply
13 the value of their property has dropped so much that they
14 do not have enough equity. And that's what's causing a
15 big problem in the Nevada area --

16 COMMISSIONER GEORGIU: Thank you.

17 MR. ABRAMSON: -- that other places don't
18 have.

19 COMMISSIONER GEORGIU: Thank you very much,
20 sir, for that suggestion. If you have any others, feel
21 free to write them in to us, even though you didn't have
22 more than two minutes to speak. Provide them to our
23 staff.

24 Thank you all.

25 Again, I'm going to turn over the control of

1 the closing of this hearing to my fellow commissioner, my
2 fellow Nevadan commissioner, Heather Murren, to close out
3 the hearing. And thank you again for all of you for
4 joining all of us today.

5 COMMISSIONER MURREN: Thank you. And we would
6 like to allow for people to have more opportunity to
7 comment. So I would encourage you to go ahead and write
8 in to our e-mail address and use our website because it
9 is something that we utilize. And we value your
10 comments.

11 So we do thank you for your participation
12 today.

13 The Commission is grateful to all of our
14 witnesses as well as members of the audience who have
15 come here today, and people who have provided their
16 personal stories and their testimony.

17 We'd also like to again thank UNLV President
18 Neil Smatresk for his hospitality and to especially
19 Laurel Knox, Sean Duey, Mike Pierce, Dan Grimes, Jennifer
20 Ream, (all phonetic spellings) and the catering service,
21 which I can personally testify was delicious, I just wish
22 we had had a little more time to enjoy it.

23 We also would like to recognize the following
24 elected officials for joining us today:

25 Congresswoman Shelley Berkley, Assemblyman

1 Paul Aizley, Senator Allison Copening, Las Vegas City
2 Councilwoman Bridget Barlow, Henderson Councilwoman Debra
3 March.

4 A huge thank you to all of our staff and to
5 our ground coordinators Lori Goodwine and Erika Albini.
6 Thank you very much.

7 CHAIRMAN ANGELIDES: I just want to close this
8 hearing as chairman by thanking every person for being
9 here today.

10 I particularly just want to again thank
11 Commissioner Murren and Commissioner Georgiou for all the
12 effort they put in. They have said since day 1 they
13 wanted to come to their hometown and hear what was going
14 on on the ground. So thank you very, very much.

15 This meeting of the Financial Crisis Inquiry
16 Commission is adjourned.

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18 (Whereupon, at 4:29 p.m., Wednesday, September 8, 2010,
19 the hearing was recessed.)

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