

COLUMNISTS

Foreclosure frenzy

Subprime insider sizes up the mortgage crisis

By Mike Taylor

Subprime lender-turned author Richard Bitner says that in his experience, seven out of every 10 subprime mortgage loans originated by brokers were fraudulent.

That much has already been widely covered and speculated upon by the media. Only the estimated percentages of fraud vary.

But the lending-industry veteran suggests that a more insidious part of the problem was the gradual erosion of good sense among lenders, himself included, as money-making potential led to rationalizations by those who knew better. A prolonged red-hot real estate market fueled increasingly risky mortgage products.

"Lending money to people with bad credit just seemed like a terrible idea," Bitner writes of his introduction to the subprime world. "It wasn't until I got a taste for this business that my feelings started to change."

Bitner's new book, "Greed, Fraud & Ignorance: A Subprime Insider's Look at the Mortgage Collapse," is based on the five-year history of his own subprime mortgage company, Kellner Mortgage Investments, which he sold in 2005, more than a year before the industry imploded. Though his company was based in Dallas, he says he did a fair amount of business in Colorado.

"I was selling up to companies like Countrywide and the guys who were dictating guidelines," he says.

"Since every loan was a challenge because of credit issues, the industry developed techniques to help unqualified borrowers secure financing," he says. "As competition increased, the definition of what constituted a good risk became blurred."

Bitner's 200-page book covers his own introduction to the world of subprime lending in 1999, as an account rep for Residential Funding Corp. (RFC), a division of GMAC. That led Bitner and two partners to launch Kellner Mortgage in late 2000 with the idea of serving as a wholesale lender and targeting mortgage brokers -- independent agents who needed help putting difficult loans together.

Chapter by chapter, Bitner goes into detail about how subprime loans are arranged ("The Art of Creative Financing"), areas where the industry went wrong ("Wall Street and the Agencies: Greed at its Worst") and his thoughts on a solution ("Getting Back on Track").

The book is available at amazon.com and on his website, www.lendingsanity.com. Readers can also download the first chapter on his website for free.

It's a quick read and an excellent primer on how the mortgage industry arrived at its current mess. It's also alarming, as when Bitner predicts that the next two years may be the worst in the history of the U.S. housing market.

"Most experts predict foreclosures will peak sometime in 2009, with the total number reaching 2 million," he writes. "The markets that experienced the highest levels of home appreciation, such as Las Vegas and Miami, are projected to see home values drop by as much as 35 percent over the next three to five years."

Of course, homes along Colorado's Front Range have appreciated wildly in the past 10 years, and in recent months many area markets have been among the nation's worst hit by foreclosures.

"The concern is that a pattern will develop that progressively gets worse as time goes along," Bitner writes, describing the chain reaction of rising mortgage defaults leading to increased losses for investors, causing lenders to pull back even further on guidelines.

"When they (borrowers) don't buy homes, inventories will rise, forcing more borrowers into default," Bitner writes. "Since there are 2 million homeowners with subprime ARMs set to adjust in the next 24 months (the majority occurring in the next year), there is no historical reference, short of the Great Depression, for what's about to happen in the national housing market."

Nor is there, by extension, a historical reference of what that's going to do to the economy.