

Newsweek

Confessions of a Subprime Lender

A former broker on the fraud and greed that plagued his industry.

By Dan McGinn

Over the last six months the public has learned much about the business of subprime lending, the practice that put millions of Americans with low credit scores into homes—which many may soon lose to foreclosure.

Richard Bitner, in contrast, received his subprime education earlier than the rest of us. In 2000 he and some friends founded a Dallas-based subprime mortgage company. For a few years he profited handsomely from this sector's boom, earning a paycheck in the high six figures. In the early days Bitner felt a bit like a modern-day George Bailey, as he helped marginal but deserving buyers achieve homeownership. But as lending standards slipped and mortgage brokers began gaming the system, he began to see more borrowers signing on to mortgages he suspected they couldn't afford.

Disillusioned and realizing the subprime business was becoming less and less profitable, Bitner cashed out of the industry in 2005. And when the subprime market collapsed last year, he decided to tell his story in a new self-published book, "Greed, Fraud & Ignorance: A Subprime Lender's Look at the Mortgage Collapse," which is for sale on his Web site and at Amazon. Today he's promoting the book full-time. "I could afford to take a year off and do this," he says in an interview. "I want some positive change to come from this."

While newspapers and magazines have been chronicling the rampant fraud that filled this industry, Bitner's book conveys the authority of someone who was in the trenches where this dirty work was going on. "Being a subprime lender means living in a world of gray," he writes, as he and his colleagues struggled to guesstimate whether a credit-challenged borrower would really be able to repay the mortgage they were writing.

As Bitner portrays it, a complicated mixture of factors led to the subprime boom and bust. Some of his colleagues credited the Federal Reserve's easy money policy. One friend boasts that Alan Greenspan's rate cuts during the early 2000s helped him earn more in four years than he had in his entire career. Ratings agencies like Fitch, Moody's and Standard and Poors also played a part by giving investors confidence to buy repackaged securitized mortgages, which gave big mortgage companies seemingly limitless capital to lend out.

His biggest criticisms, though, are reserved for mortgage brokers and appraisers. As Bitner describes it, lenders like his company, which underwrote loans offered up by brokers and resold them to giants like Countrywide, spent much of their workdays trying to spot the stupid tricks brokers routinely used to get unqualified borrowers approved for loans. They'd say a buyer intended to live in a house when it was really an investment property. They'd falsify the buyer's income by having a relative pose as his employer, or use scanners and software to forge W-2 forms. They'd find ways to hide debts (like a car payment) by looking for a credit report that omitted key data. They also routinely gamed the appraisal system, encouraging appraisers to look for "comparables" that were far nicer homes in better neighborhoods—all in an effort to drive up the appraised value of the home they were mortgaging.

"The rate of property appreciation experienced on a national basis over the last seven years was not only a function of market demand, but was due, in part, to the subprime industry's acceptance of overvalued appraisals, coupled with a high percentage of credit-challenged borrowers who financed with no money down," Bitner writes.

Bitner says his company did its best to figure out whether borrowers really would be able to repay their loans. But mostly it deferred to the standards set by industry behemoths to whom it resold mortgages. "They're watching the performance of billions of dollars of loans, so we had to use their judgment for what's acceptable," he says. By the time these giants began seeing massive defaults in early 2007 it was too late, and last year Bitner's former company, which his onetime partners continued to run, was one of dozens of mortgage firms that went belly up.

In Washington, Congress has been holding hearings to explore what went wrong in the subprime industry—and how to fix it for the future. Bitner has his own ideas. He believes mortgage brokers should have to pass national licensing exams, and he's a fan of the growing concept of "up-front" mortgage brokers, who charge a set and transparent fee for their services. He thinks the appraisal process should be overhauled to give appraisers more independence, and he believes subprime borrowers should attend mandatory debt counseling before their loan closes.

[Click to learn more...](#)

But he doesn't believe subprime lending should vanish entirely. Before they became infamous as "liar's loans," so-called "no documentation" loans worked just fine when they were offered only to self-employed people with good credit scores and hefty down payments. Someday, after this crisis ebbs, perhaps subprime lending will re-emerge as a business that works well by targeting a small subset of borrowers—and not the millions of homeowners who are now straining to stay in homes they really can't afford.