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Ex-insider tells how subprime lenders spun out of control

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By Cheryl Hall

Richard Bitner isn't after sympathy, vindication or condemnation of the home mortgage industry. He just wants to give us a better understanding of how and why things went so terribly wrong.

The 41-year-old former subprime lender has written and self-published *Greed, Fraud & Ignorance: A Subprime Insider's Look at the Mortgage Collapse*.

The book is part confessional and part sermon based on his five years as the owner of Plano-based Kellner Mortgage Investments. Mr. Bitner hopes his personal chronicles will show how this debacle occurred and prevent it from happening again.

Subprime didn't start out as an industry fraught with greedy collusion, he says. But that's pretty much how it ended.

Rating agencies, paid by the investment banks, handed out Triple-A ratings on mortgage-backed securities that were clearly not that safe. Appraisers said homes were worth much more than they were to keep the mortgage brokers coming in. Mortgage brokers were free to play fast and loose without being held accountable.

Well-intentioned companies like his realized the situation was nuts but thought the industry would regain its sanity.

It didn't.

At times, Mr. Bitner seems like a man possessed.

He has the gift of gab. His undergraduate degree in public relations from Northern Arizona University and his master's degree in communication from Cornell University were paid for by debate and public speaking scholarships.

In the last month, he's been featured in Newsweek online, seen on CNBC's Squawk Box, heard on National Public Radio's Morning Edition and quoted in numerous publications, including USA Today.

Later this month, he's scheduled to speak to a business ethics class at Dartmouth College.

This exposure hasn't come without pain. He's been vilified in blogs and on air as a crook turned state's witness. An unfair assessment, he says, because his was a legitimate business. But he'll take the heat to get his point across.

Kellner's mechanics

In September 2000, Mr. Bitner and two partners started Kellner. Here's how it worked: A homebuyer with tainted credit went to a mortgage broker for a loan. The broker went to Kellner to fund the loan. Kellner then sold the loan to a financial institution such as GMAC's Residential Funding Corp. or Countrywide Financial Corp.

Mr. Bitner and his partners made a lot of money at this, thinking they'd hit a business trifecta.

"You're helping a segment of the population normally shut out from traditional banks," he recalls. "The majority of the loans are performing as they're supposed to. And you're making pretty darn good money."

In 2002, his personal income soared into the high six figures. He's a little defensive about this. "Most of that income I never actually saw because I had to put it back into the company to capitalize the loans."

Mr. Bitner also had mounting doubts about the system. Loan terms became more and more screwy. Home appraisals were fantasy-based.

Mortgage brokers were cattle herders roping in customers regardless of their creditworthiness.

"These loans [usually a two-year adjustable-rate loan] were always designed to be a Band-Aid or an in-between for somebody," he says. "You lost your job. You had a problem. But you can still afford this payment. You keep it for two years, fix your credit and you move on."

"Unfortunately, it went from being a niche product to being a standard staple given out to 25 percent of the mortgage business in the United States."

By 2005, he realized the industry was headed into a storm and wanted out.

His two partners, who remain his close friends, bought out his interests. They wanted to wind down the company rather than shut down overnight.

Because the company had been Mr. Bitner's idea – initially financed by a \$175,000 mortgage on his parents' home – they thought he deserved to get out first.

Kellner closed operations last year. Ken Orman, the last partner out, calls Mr. Bitner a trustworthy guy who really is on a mission to fix the industry.

So what turned Mr. Bitner into a reformer?

"I thought, 'You know, this is going to be way worse than people understand,' " Mr. Bitner says. "The best guy to talk about why this didn't work is someone who lived within it."

Mr. Bitner initially thought he might make some money with a book. But he quickly learned how wrong that was.

So far he's still about \$10,000 in the hole, having sold only 400 copies on his Web site, www.lendingsanity.com (where the first chapter can be downloaded for free), and Amazon.com.

No confessional

Three U.S. publishers are considering "crashing" his book – which means taking it over and bringing it to market in a hurry. Two want to change the name to Confessions of a Subprime Lender, which rubs Mr. Bitner the wrong way.

"A confessional is about everything you did wrong," he says. "My company did far more good than harm in the long run."

Still, he might have to go along with it. The title is sexier, and he does admit to some transgressions. "Were we writing loans in the end that were significantly questionable? There wasn't a lender in America on the subprime side who wasn't."

Paul Jackson, who runs www.housingwire.com, an independent Web site about the mortgage finance industry, routinely posts Mr. Bitner's thoughts.

"Our readers tend to also be industry experts who won't tolerate an uninformed opinion," Mr. Jackson says. "Richard's got some very good ideas about how we might fix things."

'Caveman logic'

Much of what Mr. Jackson hears from consumer groups is "a gross oversimplification of things – 'lenders bad, consumers good' caveman logic."

He wants policymakers and regulators – among the 2,500 subscribers of his site – to have more informed information when they put together the next bill or regulatory standard. He says Mr. Bitner offers that.

"It's not popular to say now, but the concept of subprime lending was rooted in a good idea," Mr. Jackson says.

"It was just executed beyond horribly, thanks to a complex and unregulated financial web that spun out of control."

Mr. Bitner boils it down to a simple truth: "If the industry had correctly charged interest rates commensurate with the risk, there's a strong chance none of this ever happens."

