



FILE: RM 03 00232 I

MEMORANDUM OF INTERVIEW

(b)(7)(C) date of birth (b)(7)(C), social security number (b)(7)(C), home (b)(7)(C), work (b)(7)(C) -1079, cell (b)(7)(C) was interviewed by Special Agent (s) (b)(7)(C), and (b)(7)(C), U. S. Department of Housing and Urban Development, Office of Inspector General. (b)(7)(C) was apprised of the identity of the interviewing agent and the nature of the interview and accompanied by his lawyer, Randall R. Fearnow, of Krieg Devault, Attorneys at Law, One Indiana Square, Suite 2800, Indianapolis, IN 46204-2079, (317) 636-4341. (b)(7)(C) voluntarily provided the following information:

Employment

He worked at Fairbanks Capital Corporation as the (b)(7)(C) from (b)(7) through (b)(7). His duties included running the day-to-day operations of the loan servicing shop. This included front-end collections (0-59 days), foreclosures, bankruptcy, and real estate owned properties (REO). He had responsibility for the cashiers function or accounting. (b)(7)(C) stated (b)(7)(C) often took direct control of the policies and procedures implemented in the Servicing Department, particularly the combat servicing unit. (b)(7)(C) stated employees at Fairbanks often referred to (b)(7)(C) as "basmaniac" since he would often return from a trip and change procedures and policies within the collection group immediately and expect immediate results. (b)(7)(C) stated he would often fight with (b)(7)(C) over the changes and policies (b)(7)(C) wanted to implement. (b)(7)(C) stated he often lost to (b)(7)(C) since everyone saw (b)(7)(C) as the final authority since he had created the company. (b)(7)(C) stated (b)(7)(C) conducted business by creating fear in everyone at Fairbanks so that they would comply with his directives.

When he started at Fairbanks, there were approximately 100 employees and \$900 million worth of loan servicing business. When he left, there were 1200 employees and \$20 billion worth of loan servicing business. Prior to Fairbanks he worked for Colmco a division of DLJ. Colmco was purchased by FSA who moved a large portfolio of under-performing loans to Fairbanks. FSA was instrumental in getting Fairbanks to hire (b)(7)(C). (b)(7)(C) stated he fired as many as 8-10 people when he initially started at Fairbanks since he found that many could not adequately do their job.

He currently works for (b)(7)(C) an automotive financing company that is in Chapter 10 Bankruptcy.

Force Placed Insurance

(b)(7)(C) stated as Fairbanks grew they could not accurately track the insurance that was related to

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the borrowers' property. (b)(7)(C) stated Fairbanks did business with a company named Southwest Business Corporation. (b)(7)(C) stated (b)(7)(C) required this company to compensate Fairbanks with 15% of the earned premium on the properties it sent to Southwest. (b)(7)(C) stated he knew of other companies that did this and demanded as much as 25% although there was some discussion at Fairbanks that it was taking too much. (b)(7)(C) stated Fairbanks also sent homeowners' insurance business to Balboa Insurance Company, which was part of Countrywide Home Loans Inc.

Executive Committee

(b)(7)(C) stated he was a member of the Executive Committee and (b)(7)(C) often brought up the idea of seeking ancillary revenue. Specifically, this was the reason that RRReview was created.

Dissent

(b)(7)(C) stated (b)(7)(C) and (b)(7)(C) did not agree on the way to run the company. (b)(7)(C) stated (b)(7)(C) fired (b)(7)(C) as a result of these continuing disagreements. Specifically, the issues of business and personal expenditures and different opinions about how to grow the company.

Partial Payments

(b)(7)(C) stated partial payments were rejected to a suspense account. Specifically, this was part of the Alltel system and someone at Fairbanks would need to make a decision as to where to apply the payment (i.e. fees, principal balance etc.). (b)(7)(C) stated there were significant system problems when many of these decisions would not be made and this would create problems for the borrowers. (b)(7)(C) stated Fairbanks had a responsibility to its servicing agreement with each investor on the priority of items that would be paid off when a payment was received. (b)(7)(C) stated this would be 1) interest, 2) principal, 3) late fees and 4) other fees.

(b)(7)(C) stated (b)(7)(C) was very concerned about the foreclosure timeline at Fairbanks. (b)(7)(C) stated each state had its own rules on whether by accepting a partial payment the foreclosure process was supposed to start over. (b)(7)(C) stated (b)(7)(C) was focused on Fairbanks beating/exceeding the Freddie Mac foreclosure timelines. (b)(7)(C) stated often payments went to the wrong department or were received at the cashiers department. (b)(7)(C) stated this was not intentional.

Combat Collections

(b)(7)(C) stated (b)(7)(C) created the combat collections unit. (b)(7)(C) stated this unit handled collections for loans that were over 60 days delinquent. (b)(7)(C) stated these borrowers would receive more phone calls and the Fairbanks customer service representative would try and establish a relationship with the borrower. (b)(7)(C) stated he had a shirt, which was made by (b)(7)(C), which stated "no pay, no stay". (b)(7)(C) defended the efforts of the combat collections group as a way to get the borrower to resolve their delinquency problems. (b)(7)(C) stated Fairbanks provided the borrower with an educational video tape that offered possible "solutions" the borrower might use to not lose their home.

Private Label

(b)(7)(C) stated he, (b)(7)(C), and (b)(7)(C) often fought with (b)(7)(C) over the private service issue. (b)(7)(C) stated (b)(7)(C) would only permit the Fairbanks representatives to answer the phones as the "Loan Servicing Center". (b)(7)(C) stated this was not a result of technology limits. Specifically, Fairbanks could have distinguished the loan portfolio that the borrower was calling about. (b)(7)(C) stated Fairbanks generated letters using First Union letterhead with no reference to Fairbanks and sent these to the borrowers with Fairbanks' phone number listed. First Union had hired Fairbanks to service its sub-prime loans. (b)(7)(C) stated First Union still serviced the non sub-prime mortgages and if a First Union sub-prime customer mistakenly called First Union the call would be routed back to Fairbanks. (b)(7)(C) stated (b)(7)(C) was adamant about offering the private label servicing business as a product offering to various clients. (b)(7)(C) stated larger companies like Country Wide also participated in private label servicing but unlike Fairbanks they took the appropriate steps to legally acquire the portfolios and thus their practice was permitted since they were not a "third party" servicer.

Technology

(b)(7)(C) stated (b)(7)(C) always presented (b)(7)(C) with technology "solutions" that were the cheapest and often did not effectively work. (b)(7)(C) stated (b)(7)(C) goal was to show (b)(7)(C) that (b)(7)(C) could save the company money. (b)(7)(C) stated Fairbanks did have an interactive voice response (IVR) system that allowed borrowers to input their account number and obtain automated information regarding their accounts. The system would also route a caller to the next available caller within a particular team of Fairbanks' servicing representatives.

Employee Training

(b)(7)(C) stated Fairbanks provided 40 hours of in-house classroom training for its customer service employees. This included how to interface and treat the borrower and the laws of various states regarding collection practices. (b)(7)(C) stated the employee would receive two weeks of side by side training from an experienced collector. A quality control (QC) group would also periodically listen to phone calls and validate that the employee was adequately trained and was providing the correct information. (b)(7)(C) stated if it was determined that the employee did not adequately grasp the training, they would be sent back to remedial training. The QC results would also be used for each employee's annual appraisal. (b)(7)(C) stated (b)(7)(C) was in charge of the QC unit.

(b)(7)(C) stated the Fairbanks location was within 5-10 miles of over 8,500 customer service type employees who worked for American Express, Advanta or Discover Card. Many of the Fairbanks employees did not have experience in the mortgage industry prior to being hired by Fairbanks. (b)(7)(C) stated after Fairbanks acquired companies, it often inherited employees from different servicing locations (i.e. WMC = Woodland Hills, CA, CONTI = Hatsboro, PA, and IMC = Tampa, FL).

Runoff

(b)(7)(C) stated the average runoff for a sub-prime portfolio was approximately 30%. The reasons for the runoff included 1) refinances, 2) borrowers paying off the loans (seldom) and 3) charging off the balance due to foreclosure. This meant that Fairbanks had to work very hard to replace this business. (b)(7)(C) stated, however, that Fairbanks overcompensated and always took on more business than it could handle.

West Coast Real Estate

(b)(7)(C) stated (b)(7)(C) required realty companies like West Coast Real Estate to compensate Fairbanks for the real estate owned (REO) business it provided. Specifically, the real estate firms were required to pay 3/4 of a point back to Fairbanks. (b)(7)(C) stated the only firm that would not pay this fee was a Los Angeles company named Fremont Investors.

MBIA

(b)(7)(C) stated MBIA insured the bonds that were sold to Wall Street investors and the mortgage loan portfolios were the collateral or asset that backed the bonds. (b)(7)(C) stated MBIA had a vested interest in approximately 4,000 FHA loans (originally from IMC, later acquired by Nemura Securities) that were being serviced by Fairbanks. (b)(7)(C) stated HUD had audited IMC and found several deficiencies related to the FHA portfolio before they were transferred to Fairbanks.

First American

(b)(7)(C) stated (b)(7)(C) and (b)(7)(C) were officers of First American. (b)(7)(C) stated First American paid for collection staff located within Fairbanks' office. Later an issue developed that these particular employees needed to be relocated into an office building near Fairbanks in Salt Lake City. (b)(7)(C) was familiar with this event. This group processed foreclosures, brokers' price opinions (BPO), audited BPO's and outsourced title work.

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INTERVIEW AGENT: S/A (b)(7)(C)

DATE OF INTERVIEW: April 8, 2003

DATE TRANSCRIBED: April 10, 2003