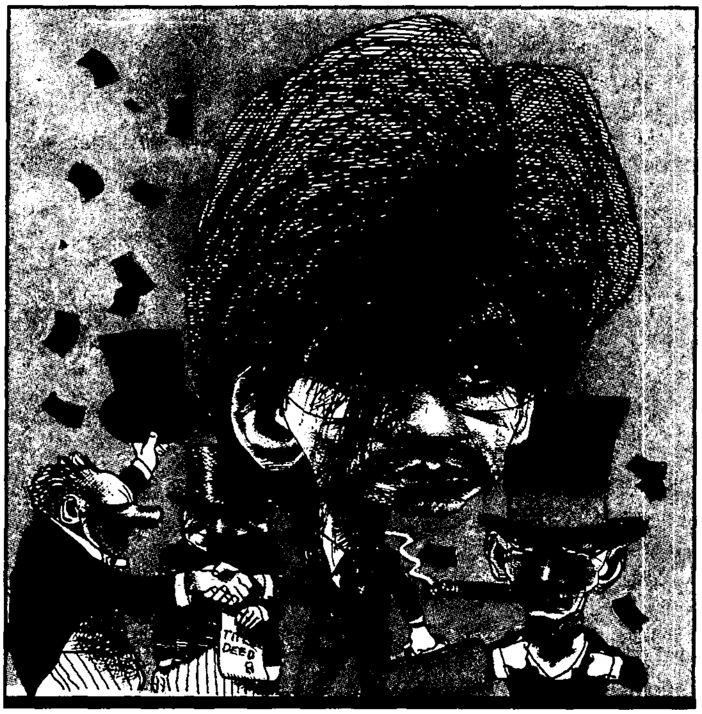
Matt Labash

Buy George

Is that what top people at NationsBank were thinking when they gave Clinton aide George Stephanopoulos an exceptional $668,000 loan?



In May, with the help of a $668,000 loan from NationsBanc Mortgage Corp. (a NationsBank subsidiary), George Stephanopoulos bought an $835,000 D.C. building containing a posh apartment above an eyewear retail store. Gossips, realtors, and all manner of investigative reporters immediately began asking: How could someone who pulls down a mere $125,000 a year—with a net worth between $30,000 and $100,000—afford such pricey real estate? "Stephanopoulos got a great deal," says one source in the banking world. "They waved it in front of him. The only thing he did wrong was he should've known NationsBanc wasn't giving him this deal because he was Joe Schmoe off the street. He was given this deal because of who he was."

A Jack Anderson column claimed Stephanopoulos had received a three-year adjustable-rate mortgage at a 6.375 percent interest rate (locked in until June 1, 1997)—a commercial loan carrying a rate dangerously close to NationsBanc's prime residential rate of 6.25 percent. (The industry rule of thumb is that commercial loans average about two points higher than the prime rate.)

Stephanopoulos's realtor, Giorgio Furioso, did nothing to quash suspicions. "George made out like a bandit," he told Anderson. "I'm not trying to toot my own horn here, but I did a terrific deal. . . . Nobody making $125,000 could qualify for the property without the commercial property [lease]. George would never have bought a $600,000 home. This is a way for him to buy something without raising eyebrows."

But on the day of the Anderson column, NationsBank issued a statement that the loan Furioso was bragging about hadn't been a commercial loan at all:

> The loan described by Jack Anderson as a commercial loan to George Stephanopoulos was, in fact, a residential mortgage loan. At the time the loan commitment was made, Mr. Anderson . . . could have walked into any NationsBanc Mortgage Company office in the D.C. area and received the same excellent rate and term for the same deal. That's why people come to us first for loans, no matter where they work.

Two weeks later, another Anderson column said Stephanopoulos and Furioso now claimed that it *was* a residential loan he had received. Stephanopoulos later pled ignorance: "I just told him [Anderson] to talk to Furioso, I actually didn't know what it was. I just knew it was a legitimate loan, which it is."

Matt Labash is a reporter for The American Spectator.

Stephanopolous's Bethesda-based NationsBanc lending agent, Greg Bush, declined to be interviewed for this story. When Stephanopoulos was asked if any exceptions had been made on this loan, he replied, "Nope. Everything was done by the book."

When NationsBank spokesperson Lynn Drury was asked the same question, she replied, "The review and approval process was completely unremarkable and totally within standard NationsBank policies and procedures."

Not according to any NationsBank policies we found.

Residential Versus Commercial Loans

Stephanopoulos did indeed receive a residential loan, and it's not hard to see why the earlier story of a commercial loan would have been easier for the public to swallow. For it is unlikely that a residential loan would be available at all on a mixed-use commercial property—particularly when the resident, by his realtor's own admission, could not have qualified for the loan without counting the rent collected from the retail entity as income.

One Nations source confirms that the issuance of residential loans on mixed-use properties is such a rarity, it isn't even addressed in either the "NationsBanc Mortgage Corporation's Program Summary" or its "Credit Policy Manual." "Doing a residential loan on a commercial property is something they would normally not do," the source says. "They'd only do it for the deepest-pocket, influential types, but I can't even remember seeing exceptions made for them."

Another Nations source adds, "If I took an application for a residential property, and was told that it also had commercial use, I'd be told that I couldn't do the loan, so I'd end up referring it to the bank [NationsBank] and have a commercial officer do the loan—and commercial rates would be involved."

Although no mention of mixed-use properties was found in the residential policy guide, a NationsBanc underwriting memo reveals that one of the three restrictions applying for residential lenders doing a loan on mixed-use properties is that "the borrower must be the owner of the business entity." The Eye Gotcha optical shop on the ground floor is owned not by Stephanopoulos, but by a Robert McAlare.[1]

Furioso, who could not be reached for comment for this article, told Anderson that he had shopped the loan to at least four other banks, in a quest to "play one bank off another." One of the lenders who dealt with Furioso says, "When Furioso quoted the rates to us from NationsBanc, we said that was just outside of competition. We told him if you've got that good a deal, then you run with it. . . . That property is what is called a mixed-use and would only qualify for a commercial loan at any bank that I know of. I'm almost positive that Fannie Mae underwriting guidelines would not allow that to be called residential."

Stephanopoulos later pled ignorance: "I just told him to talk to Furioso, I actually didn't know what it was. I just knew it was a legitimate loan, which it is."

The Federal National Mortgage Association ("Fannie Mae") is the largest purchaser of residential mortgages on the secondary market. Its underwriting guidelines are looked upon as industry standards. NationsBanc adheres to Fannie Mae guidelines on all loans up to $203,151, and the vast majority of its larger ones, according to a Nations source. The guidelines are not obligatory in the case of the Stephanopoulos loan, since Fannie Mae does not hold the note. All the same, says another Nations source, "The NationsBanc 'Credit Policy Manual' tracks very closely with Fannie Mae/Freddie Mac guidelines—you don't want to create a whole lot of new underwriting rules."

Those guidelines are as follows: "[If] we purchase or securitize mortgages that are secured by properties that have a business use in addition to their residential use—such as a house in which day care is provided or one that includes a professional office—we have special eligibility criteria for them." One of these criteria reads: "It must be a single-family dwelling."

A Fannie Mae senior underwriter describes the Stephanopoulos purchase as "basically a two-unit property because you've got the commercial downstairs and the residential above. It's not a single-family property, so we wouldn't have taken it." Even if it were a single-family house, says the underwriter, the rental income could not have been used to help the buyer qualify, as it was in Stephanopoulos's case.

One banking source provided an indicator of the exceptional circumstances surrounding the terms of Stephanopoulos's loan. The source claims the property's listing agent, Jane Roth of Pardoe Realty, said she contacted NationsBanc and was told that NationsBanc had no appetite for mixed-use properties. When she found out they were going to do the Stephanopoulos loan, the source says, Roth went back to them to ask why they were suddenly interested in mixed-use properties. They said, "We're not, but we do have an appetite for this particular loan."

Roth denied the story but later conceded she had had several potential buyers. "I had people with cash," she said, "who could've bought the building. They made decisions not to buy for many other reasons." Roth would not confirm whether her prospective buyers—she said there were fewer than five—withdrew of their own volition or were disqualified by the bank, and she declined to provide their names. A Nations spokesperson claimed not to know, either. →

[1] McAlare, who shared financial information with both NationsBank and Furioso in the course of the deal, is interestingly enough a former commercial banker. Of the Stephanopoulos deal, which he generally defended as a sound investment, he says, "It's a celebrity loan for sure. It's fun to have it in the office if you're a banker, to say, 'Wow, we just did the deal for Stephanopoulos'—but not by throwing the book out. The pure residential rate might have been based on who he was, but the decision to do the deal was based on the value of the property."

Terms of Qualification

Leaving aside the issue of whether a residential loan could be made on such a property, myriad discrepancies still arise if, as all parties claim, no exceptions were made or preferential treatment given.

Stephanopoulos (or Furioso on his behalf) obtained a 25-year mortgage on the $835,000 property with 80 percent ($668,000) being lent to him by NationsBanc. A second trust was taken out with the previous owners, John and Miriam Fisher Reno (no relation to Janet), for $83,500 at 8.5 percent. with a balloon making the entire balance due on June 1, 2001. (Until then, his payment is an additional $642 per month.)

NationsBanc's "Program Summary" details exactly what kind of loan Stephanopoulos received and the exceptions that were made. Nations designates loans between $650,001 and $1 million as an "AS3 Super Jumbo Loan Amount." Its "Conventional Program Matrix" specifies that cumulative loan-to-value ratios on Super Jumbo products are "70/90." The "90" means that both the first and second trusts together can make up no more than 90 percent of the total selling price—in other words, 10 percent must be put down, as was done in this case. (Stephanopoulos did put 10 percent down, although approximately $60,000—or 72 percent—of that 10 percent was a gift from his father. When asked exactly how much he did put down, Stephanopoulos retorted, "That's none of your business. I put down my money.") But the "70" means that the "first mortgage"—the actual NationsBanc mortgage—can account for only 70 percent of the total selling price. Instead, the bank lent him $668,000 or 80 percent, $83,500 above its own stated limits.

Eugene Ludwig was also—until his appointment in 1993—a partner with the Washington law firm of Covington & Burling, where for a long time he represented Hugh McColl and NationsBank. Now he is NationsBank's primary regulator.

Loan guidelines are not passed down by banking regulatory agencies, so it is NationsBanc's prerogative to cut any deal it deems appropriate. But this is hardly in keeping with "standard procedures." As one Nations source said, "Going from 70 to 80 percent would be a pretty big exception." Another banking source calls the slide "pretty unorthodox, especially in a large bank where they adhere very closely to their policies."

Super Jumbo guidelines also list various restrictions that apply, one of them requiring loans to be on "single-family detached properties only." I wasn't able to find a single interpretation of this guideline that met the criterion. As mentioned above, none of the Nations sources interviewed thought of the purchase as a "single family dwelling." And as a turn-of-the-century row building with shared walls, neither is it "detached."

A third key guideline violated was the qualifying-debt ratio. Debt ratios are calculated by dividing principal, interest, taxes, and insurance (PITI) by gross monthly income. The Super Jumbo product lists a qualifying ratio of "28/36." The front ratio (28) means that, for a customer to qualify for a particular loan, his mortgage payment should not exceed 28 percent of his gross monthly income. The back ratio (36) indicates the maximum long-term debt, including the mortgage payment, should not exceed 36 percent of the customer's gross monthly income. (Maximum long-term debt is calculated by adding in car payments, school loans, net losses on other rental properties, etc.)

One source with knowledge of Stephanopoulos's financing revealed that he was qualified at a "39/47" ratio—11 points over the maximum allowance. Stephanopoulos's principal-and-interest payment is $4,458.35. The D.C. Department of Finance and Revenue confirms that property taxes on this building are $12,629.10 a year, although Eye Gotcha owner Robert McAlare said he pays "a couple hundred a year in property taxes." Assuming that shaves a bit from the total, Stephanopoulos still pays at least $1,000 a month in taxes. Using conservative insurance quotes of about $50 a month, Stephanopoulos principal-and-interest payment, taxes, and insurance would add up to approximately $5508.35. McAlare confirms that he pays rent to Stephanopoulos of "about $5,500" a month, so, as was claimed, he would effectively cover Stephanopoulos's payment.

But for qualifying purposes, Stephanopoulos's second mortgage payment to the Renos of $642 a month is factored into the equation. Adding that to his monthly payment, his total PITI is approximately $6,150.35, which is then divided by his gross monthly income. (When Stephanopoulos was asked if this was his total payment including the second trust, he said, "I don't even know. I assume so.") He makes $125,000 a year ($10,416.67 a month) plus the rental income of approximately $5,500 per month for a gross monthly income of approximately $15,916.67. Divide that figure into $6,150.35 and his front ratio is rounded to 39 percent.

The back ratio, or 47, contains undisclosed debts that can be computed by subtracting 39 from 47. Multiplying his monthly income ($15,916.67) by 8 percent, we find that he has approximately $1,273.33 of additional qualifying debt over his two mortgage payments.

One real estate source marvels at the 11-point slide. "You see people occasionally slide a few points on those qualifying ratios," he says, "but after fifteen years in this business, I've never seen somebody slide that much."

A Nations source concurs. "Ratios are not cut in stone," he says. "There are due reasons to exceed the ratios if you have other compensating factors like extra money, good job stability, good credit—but you don't exceed them by that much. I don't think I've ever seen a loan approved with those ratios."

Stephanopoulos's qualifying ratio exceeds the maximum allowable ratio by approximately $1,750.83 a month—and that's including the rental in Stephanopoulos's gross monthly income. Keep in mind that for qualifying purposes, even though his interest rate is 6.375 percent, an artificial rate of 7 percent is used by NationsBanc when qualifying customers. That would bump his ratio approximately one more point to 40, which would then exceed guidelines by approximately $1,910 per month.

The Scale of the Slide

As Stephanopoulos's realtor said, "Nobody making $125,000 could qualify for the property without the commercial property [lease]." It is now apparent that he didn't qualify even *with* the commercial lease. Without it—and remember that Nations sources don't think it should be counted on a residential loan—his numbers are off the charts. Dropping the rental income would make his gross monthly income $10,416.67. Divide that into his PITI along with the second trust amount, and his approximate qualifying debt ratios are an astronomical 59/67—a full 31 points over the maximum qualifying ratio, or $3,229 over the monthly mortgage payment guidelines.

Another sticking point with one Nations source is that Stephanopoulos was given a 25-year instead of a 30-year mortgage, which would have been a special request. When asked about the 25-year mortgage, Stephanopoulos said, "Listen, Furioso did it. This is a standard loan for this kind of a deal as far as I know." (Not according to our Nations source, who estimates that 85 percent of Nations loans are 30-year mortgages, 10 percent are 15-year mortgages, and 5 percent are "other.")

By opting for the 25-year package, Stephanopolous added $287.24 per month to his payment. One possible motive is that if his payment had been much lower than the rental income drawn from the optical shop, he would have shown a profit and had to pay taxes. When asked if this was his reasoning, Stephanopoulos said, "No, that's just the way it's done."

It still rankles the lending community. "Not only did NationsBanc lend him the money based upon higher-than-normal ratios," says one Nations source. "They also gave him a 25-year mortgage when it's normal to give people a 30-year mortgage. That added about $300 a month of extra debt. Thirty years would've brought his ratios down about two points. He didn't qualify for a 30-year mortgage, much less a 25."

Hugh McColl and the Ludwig Connection

While there is no evidence suggesting Stephanopoulos directly sought a favorable loan (Stephanopoulos said Furioso handled the negotiating; "I just filled out the forms"), he and Hugh McColl, the owner of the Charlotte, North Carolina–based NationsBank, are not without mutual entanglements. McColl has frequently been identified as Clinton's banking swami, and was once referred to by Clinton as "the most enlightened banker in America."

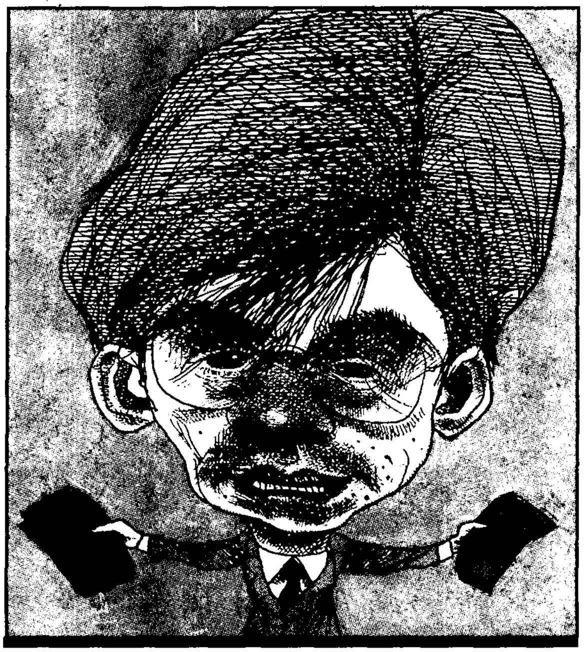
Heading the third largest bank in the country, and regularly called "the most influential banker in America," McColl was rumored to be up for consideration as treasury secretary. A former Bush and Perot supporter, he now dines at the White House, attends ball games with the president, and has put his seal of approval on everything from NAFTA to Clinton's economic plan. He was a high-profile participant at Clinton's Little Rock economic summit.

McColl described his politics to Charlie Rose earlier this year by saying, "I'm a very big supporter of President Clinton." When asked about political ambitions, McColl said, "I would like to be in public service of some type."

Rose followed with, "Cabinet, maybe, or—".

"No one's ever offered me that job," McColl responded.

At a White House ceremony last summer to unveil Clinton's community-development lending program, McColl was the only commercial banker who spoke. "It's an honor to speak today on behalf of the banking industry," he said, enraging small bankers who saw it as another of his ploys to win Clinton's approval on lifting restrictions on "branching."



McColl is one of the biggest proponents of interstate branching, which would allow banks to acquire institutions across state borders. Under current law, bank holding companies must maintain separate banks in every state. If such laws were lifted, behemoth banking entities would have a much easier time cornering combined commercial markets such as Virginia, Maryland, and the District of Columbia, where NationsBank already controls a 22 percent market share.

As it happens, there's an interstate branching bill on Capitol Hill right now, which just cleared the House and, pending Senate approval, will soon pass under Clinton's pen." (Stephanopoulos says of the bill, "I never worked on it—didn't know anything about it.") McColl stands to save millions through the bill's enactment. The *American Banker* reports, "If NationsBank could cut its annual costs as much as $5,000 a branch, that would be $10 million."

Another character in the Nations/Clinton cluster—and another prominent champion of interstate branching—is Comptroller of the Currency Eugene Ludwig, one of the most powerful and controversial regulatory officers in the federal government. Ludwig traces his Clintonian genealogy back even further than McColl. Appointed comptroller by Clinton in 1993, Ludwig was one of only two people (labor secretary Robert Reich was the other) who had both been a Rhodes Scholar and attended Yale Law with Clinton. When Clinton was embroiled in the Gennifer Flowers scandal and suffered a setback in New Hampshire, Ludwig offered his services, and for the rest of the year split time between the campaign and his law practice. With White House access unprecedented for a banking regulator, Ludwig was also—until his appointment in 1993—a partner with the Washington law firm of Covington & Burling, where for a long time he represented Hugh McColl and NationsBank.

Ludwig is now NationsBank's primary regulator, which would appear lucky for the bank. Rep. Henry Gonzalez has asked Ludwig to investigate NationsBank for deceptive sales practices, in violation of OCC guidelines and federal securities law. Rep. John Dingell has asked Ludwig to investigate whether NationsBank had violated federal regulations that prohibit "tying" banking products. In addition, both Nations and Ludwig are currently involved in a Supreme Court appeal that would uphold the power of national banks to sell fixed- and variable-rate annuities directly. Ludwig was most recently showcased in the Whitewater hearings, testifying about being buttonholed by Clinton at Renaissance Weekend last January to give Whitewater advice in what he called a thirty-second conversation.

This is not to suggest that Ludwig was involved in Stephanopoulos's real-estate transaction—only to illustrate the degree of cross-pollination between NationsBank and Stephanopoulos's boss.

While it may be premature to suggest quid pro quos, the *Standards of Ethical Conduct of Employees of the Executive Branch* speaks to comparable situations. The guidelines state, "An employee shall not, directly or indirectly, solicit or accept a gift: 1. From a prohibited source; or 2. Given because of the employee's official position." A gift is defined as "any gratuity, favor, discount, entertainment, hospitality, *loan*, forbearance or other item having monetary value." Excluded as gifts are "Loans from banks and other financial institutions generally available to the public."

Interpreting the exclusion, an Office of Government Ethics counsel said, "If it is a loan that's not on terms generally available to the public, then it potentially is a gift—it depends on whether it is given because of government position or from a so-called 'prohibitive source' that does business with the agency." Beth Nolan, chief ethics authority at the White House, was asked for an opinion on the Stephanopoulos loan; she said she would call back but did not.

A NationsBank source says bluntly, "This deal reeks of favoritism." A source with knowledge of the Stephanopoulos financing confirms that exceptions had to be signed off for final approval of the loan, saying, "In the Mid-Atlantic area, there's only about twenty names that could sign off on it, unless it came from higher." A NationsBank spokesperson says the exceptions were signed off on by "the appropriate NationsBank officers within the mid-Atlantic market." She would not comment further on whether Hugh McColl pushed it through himself. ❐

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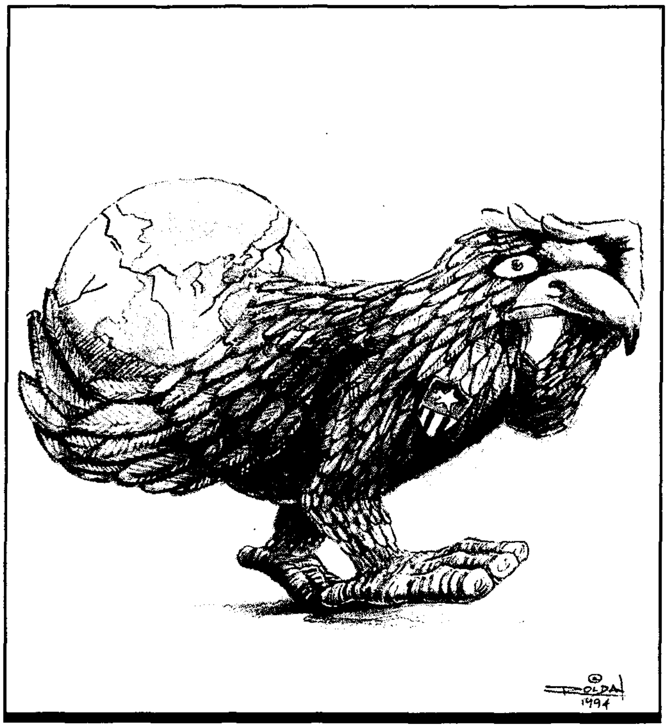
P.J. O'Rourke

Fashionable Worries

If meat is murder, are eggs rape?



This is a moment of hope in history. Why doesn't anybody say so? We are no longer in grave danger of the atomic war which, for nearly fifty years, threatened to annihilate humanity and otherwise upset everyone's weekend plans. The nasty, powerful, and belligerent empire that was the Soviet Union has fallen apart. It's nothing now but a space on the map full of quarreling nationalities with too many *k*s and *z*s in their names—armed Scrabble contestants. The other great malevolent regime of recent days, Red China, has decided upon conquest of the world's shower flip-flop market as its form of global domination. The bad political ideas that have menaced our century—Fascism, Communism, Ted Kennedy for President—are in retreat. Colonialism has disappeared, and hence the residents of nearly a quarter of the earth's surface are being spared visits from Princess Di. The last place on the planet where white supremacy held sway has elected a president of rich, dark hue. Apartheid-style racism is now relegated to a few pitiful and insignificant venues such as the U.S. Senate (and, if you think Caucasians have any claim to genetic superiority, imagine majoring in U.S. Senate Studies).

Things are better now than things have been since men began keeping track of things. Things are better than they were only a few years ago. Things are better, in fact, than they were at 9:30 this morning, thanks to Tylenol and two Bloody Marys.

But that's personal and history is general. It's always possible to come down with the mumps on V-J Day or to have, right in the middle of the fall of the Berlin Wall, a piece of it fall on your foot. In general, life is better than it ever has been, and if you think that, in the past, there was some golden age of pleasure and plenty to which you would, if you were able, transport yourself, let me say one single word: "Dentistry."

We know the truth of these matters from stories we've heard in our own homes. Existence has improved enormously within the lifetimes of our immediate family members. My Grandfather O'Rourke was born in 1877 and born into a pretty awful world, even if we don't credit all of his Irish embroidery upon the horrors. The average wage was little more than a dollar a day. That's if you worked. O'Rourkes were not known to do so. The majority of people were farmers, and do you know what time cows get up in the morning?

P.J. O'Rourke is the author of numerous works and a member of the editorial board of The American Spectator. *This essay is adapted with permission from his new book,* All the Trouble in the World: The Lighter Side of Overpopulation, Famine, Ecological Disaster, Ethnic Hatred, Plague, and Poverty, *to be published in October by the Atlantic Monthly Press.*