

Countrywide's Many 'Friends'

by Daniel Golden Jun 12 2008

Senators Dodd and Conrad are among the government officials who scored V.I.P. loans from C.E.O. Angelo Mozilo. An exclusive Portfolio investigation.



Angelo Mozilo, chief executive of Countrywide Financial
Image: Mark Wilson/Getty Images

Two U.S. senators, two former Cabinet members, and a former ambassador to the United Nations received loans from Countrywide Financial through a little-known program that waived points, lender fees, and company borrowing rules for prominent people.

Senators Christopher Dodd, Democrat from Connecticut and chairman of the Banking Committee, and Kent Conrad, Democrat from North Dakota, chairman of the Budget Committee and a member of the Finance Committee, refinanced properties through Countrywide's "V.I.P." program in 2003 and 2004, according to company documents and emails and a former employee familiar with the loans.

Other participants in the V.I.P. program included former Secretary of Housing and Urban Development Alphonso Jackson, former Secretary of Health and Human Services Donna Shalala, and former U.N. ambassador and assistant Secretary of State Richard Holbrooke. Jackson was deputy H.U.D. secretary in the Bush administration when he received the loans in 2003. Shalala, who received two loans in 2002, had by then left the Clinton administration for her current position as president of the University of Miami. She is scheduled to receive a Presidential Medal of Freedom on June 19.

Holbrooke, whose stint as U.N. ambassador ended in 2001, was also working in the private sector when he and his family received V.I.P. loans. He was an adviser to Hillary Clinton's presidential campaign.

James Johnson, who had been advising presidential candidate Barack Obama on the selection of a running mate, resigned from the Obama campaign Wednesday after the *Wall Street Journal* reported that he received Countrywide loans at below-market rates.

Most of the officials belonged to a group of V.I.P. loan recipients known in company documents and emails as "F.O.A.'s"—Friends of Angelo, a reference to Countrywide chief executive Angelo Mozilo. While the V.I.P.

program also serviced friends and contacts of other Countrywide executives, the F.O.A.'s made up the biggest subset.

According to company documents and emails, the V.I.P.'s received better deals than those available to ordinary borrowers. Home-loan customers can reduce their interest rates by paying "points"—one point equals 1 percent of the loan's value. For V.I.P.'s, Countrywide often waived at least half a point and eliminated fees amounting to hundreds of dollars for underwriting, processing and document preparation. If interest rates fell while a V.I.P. loan was pending, Countrywide provided a free "float-down" to the lower rate, eschewing its usual charge of half a point. Some V.I.P.'s who bought or refinanced investment properties were often given the lower interest rate associated with primary residences.

Unless they asked, V.I.P. borrowers weren't told exactly how many points were waived on their loans, the former employee says. However, they were typically assured that they were receiving the "Friends of Angelo" discount, and that Mozilo had personally priced their loans.

The V.I.P. loans to public officials in a position to advance Countrywide's interests raise legal and ethical questions. Countrywide's ethics code bars directors, officers and employees from "improperly influencing the decisions of government employees or contractors by offering or promising to give money, gifts, loans, rewards, favors, or anything else of value." Federal employees are prohibited from receiving gifts offered because of their official position, including loans on terms not generally available to the public. Senate rules prohibit members from knowingly receiving gifts worth \$100 or more in a calendar year from private entities that, like Countrywide, employ a registered lobbyist.

Senator Dodd received two loans in 2003 through Countrywide's V.I.P. program. He borrowed \$506,000 to refinance his Washington townhouse, and \$275,042 to refinance a home in East Haddam, Connecticut. Countrywide waived three-eighths of a point, or about \$2,000, on the first loan, and one-fourth of a point, about \$700, on the second, according to internal documents. Both loans were for 30 years, with the first five years at a fixed rate.

The interest rate on the loans, originally pegged at 4.875%, was reduced to 4.25% on the Washington home and 4.5% on the Connecticut property by the time the loans were funded. The lower rates save the senator about \$58,000 on his Washington residence over the life of the loan, and \$17,000 on the Connecticut home. The former employee says the float-downs were free. Senator Dodd's wife, Jackie Clegg, said in a brief interview that two other lenders they checked with offered comparable interest rates. The senator's office said Thursday afternoon that it is preparing a response.

Countrywide has also contributed a total of \$21,000 to Dodd's campaigns since 1997. While a presidential candidate last year, he filed a bill to ban lenders from charging prepayment penalties and steering home buyers to more costly loans—both practices in which Countrywide reportedly engaged. He also called for criminal charges for such predatory lending.

Senator Conrad borrowed \$1.07 million in 2004 to refinance his vacation home with a balcony and large porch in Bethany Beach, Delaware, a block from the ocean. Mozilo instructed a subordinate to "take off 1 point," or \$10,700, according to a March 17, 2004, email.

Later that year, Conrad refinanced an eight-unit apartment building that he and his brothers owned in Bismarck, North Dakota. According to the former employee, the loan violated Countrywide's normal policy of providing loans for buildings of four units or fewer. In an April 23, 2004, email, Mozilo encouraged an employee to "make an exception due to the fact that the borrower is a senator."

Senator Conrad acknowledged in a statement that he received financing from Countrywide. “I never met Angelo Mozilo,” he said. “I have no way of knowing how they categorized my loan. I never asked for, expected or was aware of any special treatment...From what we have been able to determine, it appears that we were given a competitive rate.”

A spokeswoman for Countrywide, which is slated to be acquired by Bank of America, declined to comment. A Bank of America spokesman said that senior executives there “do not get involved in the origination of mortgages,” but will refer inquiring friends to the right loan programs.

Mozilo co-founded Countrywide in 1969 and helped build it into the nation’s largest home mortgage lender. While interest rates were dropping in the first half of this decade, prompting widespread demand for refinances and home-equity loans, Countrywide loaned hundreds of millions of dollars per year through its V.I.P. program to politicians, government officials, business executives, entertainment celebrities and other customers singled out for special treatment. Account executives at Countrywide’s call center in Rosemead, California, handled the bulk of the loan applications, which were processed by a separate V.I.P. underwriting unit that had its own branch number in Countrywide’s record-keeping system.

Jackson, the former H.U.D. secretary, borrowed \$346,331 from Countrywide in June 2003 to refinance his Alexandria, Virginia, townhouse. That December, he applied for a \$308,000 mortgage to buy a vacation home on a golf course in Hilton Head Island, South Carolina. The loan came through on January 21, 2004, a week before President Bush named him to the H.U.D. post. He resigned in March 2008 amid unrelated cronyism allegations.

H.U.D. has wide-ranging relationships with Countrywide and other lenders. It regulates real estate settlements and closing costs, and runs the Federal Housing Administration, which guarantees mortgages.

The former employee says that Jackson received discounts on both loans. Defending his transactions, Jackson said he was a Countrywide borrower long before he met Mozilo or worked for H.U.D. Asked if he received any breaks on the loans, he said, “Not to my knowledge. If I did, it certainly wasn’t discussed with me.”

Former H.H.S. secretary Donna Shalala received two V.I.P. loans, for \$338,685 and \$202,300, in 2002. “Normally, I would not ask for special consideration toward a certain loan/customer, but the complexity of the Shalala deal calls for it,” one Countrywide executive wrote in an August 20, 2002, email, explaining that the University of Miami president was buying an interest in a timeshare. “Angelo asked me to ensure that we ‘knock her socks off’ with our great service.” On September 21, another Countrywide staffer wrote that Shalala’s loans were “ready to close...I floated both of them down to current pricing.” Shalala did not respond to messages, and an assistant at the University of Miami said that she was traveling.

Holbrooke’s wife, author Kati Marton, received loans totalling \$1.4 million to refinance two properties in 2002. “Look for these,” one Countrywide manager wrote in a September 27, 2002, email, alluding to Marton’s loan applications. “These loans are incredibly important to Angelo and as such they are incredibly important to us.”

The next year, Holbrooke borrowed \$1.2 million to refinance a vacation home in Telluride, Colorado. Countrywide waived at least 1.25 points, or \$15,000. “Per Angelo, this loan is to be at zero points,” a Countrywide manager wrote in a February 20, 2003, email. Also in 2003, Holbrooke’s son, David, and daughter-in-law Sarah received a half-point discount on a \$559,500 loan, or about \$2,800, when they refinanced their Brooklyn high-rise co-op, and five-eighths of a point discount on a \$428,000 loan, or about \$2,600, when they bought the floor above it. Neither Holbrooke nor his wife and son returned messages.

Holbrooke and Johnson are both vice chairmen of the private banking firm Perseus. Besides the discounted interest rates reported by the *Journal*, Countrywide also waived points for Johnson, a former chief executive of

government-sponsored mortgage reseller Fannie Mae. In 2003, Countrywide took 1.375 points, about \$13,000, off a nearly \$1 million loan to refinance Johnson's Washington home. When he borrowed almost \$1.3 million in 2003 that same year to refinance a 4,400-square-foot, Southwestern-style home with four bedrooms and five baths beside the second green of a golf course in Palm Desert, California, Countrywide waived 1.875 points, or about \$24,000.

In 2004, Johnson borrowed \$3 million to upgrade to a larger estate—a 5,875-square-foot house, with a guesthouse and pool—on the same course. Although the size of the loan exceeded Countrywide's limit for a second home, Mozilo told an employee to "do the deal."

Brian Brooks, a lawyer for Johnson, said that he never asked for a discount on his loans, and that it is "common knowledge" that individuals of high income and high net worth receive lower rates than other borrowers. "We don't see anything out of the ordinary here."

Widely criticized for spurring the country's mortgage crisis with over-aggressive lending policies, Countrywide saw its share price plunge from \$45 in February 2007 to less than \$5 in January 2008, when Bank of America agreed to acquire the company in a \$4 billion stock swap.

Countrywide is reportedly under F.B.I. investigation for alleged securities fraud, and Mozilo has drawn criticism for unloading \$474 million in Countrywide shares between 2004 and 2007 as the housing crisis neared. He's defended the sales as part of his retirement planning.

Additional reporting by Julia Ramey; this story was adapted from a feature in an upcoming issue of Condé Nast Portfolio.