Friends of Angelo:  
Countrywide’s Systematic  
and Successful Effort to Buy  
Influence and Block Reform  

Staff Report  
U.S. House of Representatives  
111th Congress  
Committee on Oversight and Government Reform  

Darrell Issa, Ranking Member  
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I. Executive Summary

With Countrywide-originated loans serving as fuel and Government-Sponsored Enterprises (“GSEs”) Fannie Mae and Freddie Mac acting as a furnace, the alliance of the companies created an enormous fire that eventually consumed the American economy. Many of the people in position to reform the GSEs and extinguish the flames before the danger spread were receiving perquisites from a VIP loan program operated by Countrywide under the supervision of Chairman and CEO Angelo Mozilo. These included Fannie Mae Chief Executive Franklin D. Raines and two Senators with legislative jurisdiction over the issues at the heart of the emerging financial crisis – Christopher Dodd and Kent Conrad.

To augment its voice in the GSE-reform debate, Countrywide dispensed favors to VIPs who it believed might be worthwhile to the company. This group of borrowers included legislators, congressional staffers, lobbyists and other opinion leaders. Countrywide also distributed benefits to business partners, local politicians, homebuilders, entertainers and law enforcement officials.

Countrywide’s voice was heard in the debate on Capitol Hill about reforming the GSEs. When reform was considered by the 108th Congress, Members publicly expressed faith in Fannie and Freddie. Congressman Barney Frank (D-MA), for example, described them as “not facing any kind of financial crisis.” He was wrong.

Countrywide’s VIP loan program was a tool with which the company built its relationships with Members of Congress and Congressional staff. It was also a tool it used to protect its relationship with Fannie Mae. Senior Countrywide officials as well as the company’s lobbyists openly and explicitly weighed the value of relationships with potentially influential borrowers against the cost to Countrywide in terms of forfeited fees and payments. Preferential treatment for these potentially influential borrowers, the most important of whom were referred to internally as “Friends of Angelo,” was part of an expansive effort by Countrywide to “ingratiate [Countrywide] with people in Washington who might be able to help the company down the road.”

Countrywide loan officers waived fees and knocked off points for VIP borrowers at no cost, amounting to thousands of dollars in savings. For VIPs, Countrywide fast tracked the loan process and ignored their own documentation policies. Countrywide customers ordinarily paid hundreds of dollars in upfront fees. Not the VIPs. Regular customers paid one percent of the total amount of the loan to reduce the interest rate by one point. But not the VIPs.

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When Congress considered reform of the GSEs, the company hoped their “Friends of Angelo” would respond. Fannie and Freddie reform legislation was never passed, let alone voted on by Congress.

Borrowers whose loans were processed by Countrywide’s VIP loan unit were aware they received preferential treatment. Countrywide VIP account executive Robert Feinberg testified VIP loan officers explicitly communicated to “Friends of Angelo” they were receiving special pricing and preferential treatment. Documents obtained by the Committee confirm this. VIP borrowers were informed Angelo Mozilo priced their loans personally and they relied on their status as “Friends of Angelo” to guarantee preferential treatment for themselves and others. In case borrowers had any doubt about which department was processing a loan, Countrywide loan officers attached business cards to loan documents clearly indicating the officers processing the loan worked in the VIP unit.

Accepting the discounts made exclusively available to “Friends of Angelo” violated applicable ethical rules for certain VIP borrowers. Senate rules prohibit acceptance of loans at discounted rates not available to the general public. The Fannie Mae Code of Conduct applicable to directors and executives bars any gift made in order to influence behavior, especially when accepting such a gift appears to create a conflict of interest.

Involvement in the VIP loan program casts a cloud of suspicion over the actions – or in many instances non-actions – of those charged with policy-making, legislative, or oversight responsibility for the mortgage industry and the GSEs. The scope and intent of the “Friends of Angelo” and other VIP programs at Countrywide Financial Corporation represent a systematic attempt by the mortgage giant to gain favor from those entrusted to protect the public’s interests through oversight and regulation of the home mortgage industry.
II. Findings

- In 1999, Fannie Mae CEO Jim Johnson and Countrywide CEO Angelo Mozilo reached a strategic agreement giving Fannie Mae exclusive access to many of the loans originated by Countrywide in exchange for a discount on fees Fannie charged when buying loans. The agreement linked the growth and success of Countrywide to Fannie Mae’s continued desire to acquire a large volume of loans.

- Fannie Mae’s strategy to acquire and hold a large volume of mortgages betrayed its congressionally-mandated mission to increase access to home ownership. This strategy, which relied on the GSEs’ borrowing advantages and may have been motivated by a desire to reach earnings levels to trigger executive bonuses, exposed Fannie Mae to increased risk. Fannie Mae’s new direction fundamentally changed the home lending industry, encouraging originators like Countrywide to aggressively market subprime loans.

- Because the growth and success of Countrywide was tied directly to Fannie Mae’s continued hunger for acquiring and holding loans and Wall Street’s continued investment in mortgage-backed securities composed of subprime mortgages, Countrywide CEO Angelo Mozilo offered a key group of VIPs preferential treatment through a special loan division. Countrywide gave preferential treatment to legislators, Congressional staff, cabinet members, Fannie Mae executives, lobbyists, and others well-connected in Washington. Countrywide also gave preferential treatment to business partners, local politicians, homebuilders, entertainers and law enforcement officials.

- At the same time the “Friends of Angelo” VIP loan program was affording preferential treatment to Members of Congress, Congressional staff, and lobbyists, Congress was considering legislation to reform the GSEs. The most notable reform effort died in the Senate Banking Committee, where Senator Christopher Dodd was a member. Reform legislation was never passed, let alone voted on by Congress.

- Countrywide’s VIP loan program was a tool with which Countrywide built its relationship with Congress and protected its relationship with Fannie Mae. Senior Countrywide officials and lobbyists openly and explicitly weighed the value of relationships with potentially influential borrowers against the cost to Countrywide in terms of forfeited fees and payments.

- Countrywide’s Washington lobbyist Jimmie Williams identified influential borrowers for VIP treatment. Williams justified his referrals to
the director of the VIP program by explaining the borrower’s position and how he or she could be valuable. Among others, Williams referred the Chief Counsel to the House Financial Services Housing and Community Opportunity Subcommittee Clinton Jones, HUD Secretary Alphonso Jackson’s daughter Annette Watkins, U.S. Rep. Melvin Watt’s Chief of Staff Joyce Brayboy, and former Democratic National Committee official and Director of White House Political Affairs under President Clinton Minyon Moore.

- Countrywide loan officers waived fees and knocked off points for VIP borrowers at no cost, amounting to thousands of dollars in savings. Countrywide charged non-VIP borrowers hundreds of dollars in upfront fees. Non-VIP borrowers paid one percent of the total amount of the loan for an interest rate reduction of one point. In many cases, Countrywide facilitated and expedited the loan process for VIPs by ignoring company policies.

- Countrywide’s internal software calculated rates for borrowers based on established industry criteria, including loan-to-value ratio, debt-to-income ratio, and credit history. If the terms of a loan violated company policy, the software would instruct the loan officer to “correct and resubmit.” Countrywide loan officers performed manual overrides to apply the reduced rates specified by Angelo Mozilo. Manual overrides were also necessary to breach company policy in order to accommodate VIP borrowers.

- Angelo Mozilo personally specified rates and fees for VIP borrowers. When the terms of a VIP loan violated Countrywide policy, Mozilo was notified and would personally authorize overrides. Mozilo substituted his familiarity with and the reputation of VIP borrowers for credit checks and reviews of debt and assets. According to the documents, no VIP borrower was ever given anything less than an ”A-paper” loan.

- Countrywide VIP account executive Robert Feinberg testified it was the practice of VIP loan officers to communicate to “Friends of Angelo” they were receiving special pricing and preferential treatment. Documents obtained by the Committee confirm this. VIP borrowers were informed Angelo Mozilo personally priced their loans and they relied on their status as “Friends of Angelo” to guarantee preferential treatment for themselves and others. Borrowers previously processed through the VIP department expected discounts on subsequent refinances. In case a borrower had any doubt about which department was processing a loan, Countrywide loan officers attached business cards to loan documents clearly indicating the officers processing the loan worked in the VIP unit.
Senators Christopher Dodd and Kent Conrad received discounted loans from Countrywide. By waiving fees and reducing rates, Countrywide saved each Senator thousands of dollars. The loans made to the Senators were processed by the Countrywide’s VIP loan program and they were identified as “Friends of Angelo.”

III. The Role of the “Friends of Angelo” in the Financial Crisis

In response to the Great Depression, Congress created the Federal National Mortgage Association ("Fannie Mae") to provide local banks with federal money to finance home mortgages in an attempt to raise levels of home ownership and the availability of affordable housing. By purchasing mortgages originated with local banks, Fannie Mae enabled these banks to increase their lending volume. With the backing of the federal government, Fannie Mae was able to borrow money from international investors at a rate usually reserved for the federal government itself. Fannie Mae’s capacity to buy and sell mortgages created a secondary mortgage market in which it was the only participant.

In 1968, Fannie Mae was partially privatized by President Johnson to relieve budget constraints created by the Vietnam War. Fannie Mae was placed under the direction and supervision of a board of directors and shareholders. Because newly-privatized Fannie Mae continued to enjoy the benefits of its federal charter, which included an exemption from taxation and Securities and Exchange Commission (SEC) oversight as well as implied government backing of debt, it was operated as a Government-Sponsored Enterprise ("GSE"). As a GSE, it is not subject to SEC securities registration and reporting requirements applying to public companies. In 1970, a second GSE, the Federal Home Loan Mortgage Corporation ("Freddie Mac") was created to provide competition for Fannie Mae.

The GSEs now had to simultaneously serve the mission of fostering access to home ownership set forth in their charters and the mandate from shareholders to make a profit. In pursuit of both goals, the GSEs used their borrowing power to buy and hold mortgages. The GSEs profited from their mortgage portfolios through the difference between the rate they borrowed to buy mortgages and the interest rate paid on the mortgage by the homeowner. This strategy required buying loans in volume.

The relationship between Fannie Mae and Countrywide was mutually beneficial. Fannie was eager to buy loans originated by Countrywide to develop a portfolio of mortgage-backed securities. Countrywide racked up fees and payments selling loans, aggressively marketing its products to all types of borrowers. The relationship between

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the two companies led to “record earnings” for Fannie Mae and status for Countrywide as “the nation’s leading mortgage lender.”

With Countrywide-originated loans serving as fuel and the GSEs acting as a furnace, the alliance of the companies created an enormous fire that eventually consumed the American economy. Many of the people in position to reform the GSEs and extinguish the flames before the danger spread were receiving perquisites from a VIP loan program operated by Countrywide under the supervision of Chairman and CEO Angelo Mozilo. These included Fannie Mae Chief Executive Franklin D. Raines and two Senators with legislative jurisdiction over the issues at the heart of the emerging financial crisis – Christopher Dodd and Kent Conrad.

Involvement in the VIP loan program casts a cloud of suspicion over the interests of those borrowers charged with policy-making, legislative or oversight responsibility for the GSEs. Some of the Countrywide VIPs – the most exclusive of which were deemed “Friends of Angelo” – identified in this report had legislative or policy-making responsibility for the GSEs during a crucial time period when careful oversight and reform proved necessary. Reform never happened. These influential people – including legislators, business leaders, and opinion leaders – may have looked the other way because of the preferential treatment afforded them by the mortgage giant.

**A. The Rise of Fannie Mae**

Fannie Mae has its roots in the New Deal, when it was established to increase the amount of money available for mortgages. Over the years, its main business has been to issue debt and then use the proceeds to buy mortgages from lenders, allowing those lenders to give out new mortgages. Originally a government agency, Fannie Mae was privatized in 1968 with the goal of “increasing the availability and affordability of homeownership for low-, moderate-, and middle-income Americans.”

As a GSE, Fannie Mae is not required to pay state and local income taxes. Only the federal government can borrow money at a lower rate than Fannie Mae. With the implied backing of the federal government, a favorable perception among investors of Fannie developed. “There is an implied guarantee,” said Sen. John Sununu, a member of the Senate Banking, Housing, and Urban Affairs Committee who sponsored legislation to reform Fannie Mae. “Investors think they are the next best thing to Treasuries.”

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5 Krishna Guha, Saskia Scholtes, and James Politi, *Saviours of the suburbs*, FINANCIAL TIMES, June 4, 2008.


8 Id.
In 1981, Fannie Mae and Freddie Mac began to bundle and sell mortgages as a new security product for sale to investors as mortgage-backed securities (“MBSs”). By clearing conforming loans off the books of lenders, the creation of MBSs made more money available for new mortgages. Eventually, one out of every seven home mortgages made in the U.S. was channeled through Fannie Mae. The sale of MBSs returned Fannie Mae to profitability in 1985 after high interest rates in the early 1980’s caused massive losses for the company. In 1988, Fannie Mae shares were added to the Standard and Poor’s 500 stock index.

B. Fannie Mae and Countrywide

FINDING: In 1999, Fannie Mae CEO Jim Johnson and Countrywide CEO Angelo Mozilo reached a strategic agreement giving Fannie Mae exclusive access to many of the loans originated by Countrywide in exchange for a discount on fees Fannie charged when buying loans. The agreement linked the growth and success of Countrywide to Fannie Mae’s continued desire to acquire a large volume of loans.

James “Jim” Johnson was named chairman and CEO of Fannie Mae in 1991. He had been initially recruited to the company by David Maxwell, former general counsel for the Department of Housing and Urban Development (“HUD”). Shortly after assuming the top position at Fannie, Johnson went on tour to meet with top executives at the mortgage banking firms with which Fannie had business. In California, Johnson met Angelo Mozilo, whose company Countrywide was already selling conforming loans to Fannie Mae. Fannie’s business with Countrywide was handled by their west coast office, “conveniently located right across the street from Countrywide’s headquarters.”

Johnson and Fannie Mae accountants in charge of tracking the sources of the loans purchased by the GSE noticed Countrywide’s rapid growth. Johnson realized Fannie Mae would be buying the majority of its loans in the future from non-bank mortgage companies like Countrywide, so Johnson made an effort to court Mozilo. At the time, Countrywide was originating billions in loans and was on its way to becoming

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12 Paul Argenti Report.
13 Muolo and Padilla at 111.
14 Id.
15 Id.
16 Id.
17 Id. at 112.
18 Id.
“the largest residential lender in the United States.”

“When Jim realized how much volume Countrywide was taking down, especially in California, he made it his mission to get to know Angelo,” said a Johnson aide.

Johnson forged a relationship with Mozilo because he realized acquiring a portfolio of mortgages and mortgage-backed securities would generate profit for Fannie. With its inherent advantages, Fannie Mae used its borrowing power to purchase and hold mortgages, profiting from the difference between the low price it paid to borrow the money and the higher interest rate it received on the mortgage.

In 1999, Fannie Mae reached an agreement with Countrywide Financial Corporation (“Countrywide”) making billions of dollars worth of loans available to Fannie Mae in exchange for a volume discount. This was an exclusive arrangement between Fannie Mae and Countrywide designed by Fannie Mae to lock competitor Freddie Mac out of the market for Countrywide’s loans.

Johnson wanted Fannie Mae to buy as many Countrywide loans as possible to force competitor Freddie Mac to shop elsewhere. Mozilo agreed to sell Countrywide’s loans to Fannie Mae, and in exchange Fannie agreed to lower the “guarantee” fees the GSE charged originators when it bought their loans. The relationship amounted to a volume discount, linking Fannie Mae and Countrywide “at the hip.”

C. A New Direction for Fannie Mae

Under Johnson and his successor, Franklin D. Raines, Fannie moved away from the goal stated in its charter to provide access to home ownership for low- and middle-income Americans and adopted a strategy to maximize profit by acquiring and holding mortgages and MBSs. Critics argued acquiring this portfolio was not worth the risk to taxpayers because it did nothing to put people in homes and existed only to make money for the companies’ executives and shareholders. The move did not seem to correlate to Fannie’s stated goals, and the new strategy drew the attention of Congress. “It doesn’t do anything to support their core mission,” said Senator Sununu, “and it increases their exposure to interest-rate risks.”

Under pressure from the Clinton Administration to increase home ownership rates among low- and moderate-income borrowers, Fannie Mae CEO Franklin D. Raines

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19 Id.
20 Id. at 112-113.
21 York.
24 Muolo and Padilla at 112.
25 Id. at 113.
26 Id.
27 Bethany Mclean, Fannie Mae’s Last Stand, VANITY FAIR, February 2009 [hereinafter McLean].
28 York.
lowered his company’s lending standards to include “individuals whose credit is generally not good enough to qualify for conventional loans.” At the time of this move by Fannie Mae into the non-conventional market, a record number of Americans owned their own homes.

To meet the Administration’s goals, Fannie and Freddie bought “subprime” and “Alt-A” loans. Subprime loans are given to borrowers perceived to be higher default risks because of low credit ratings. Alt-A loans are given to borrowers with solid credit but have a combination of higher-risk characteristics such as high loan-to-value or debt-to-income ratios or allow for reduced documentation of income and assets. By 1997, Fannie Mae was offering to buy 97% loan-to-value mortgages (3% down payment), and by 2001 was offering to buy zero-down payment loans.

Raines also announced a new goal to double Fannie Mae’s earnings-per-share in five years, from $3.23 to $6.46. This ambitious – or perhaps reckless – goal became part of the culture at Fannie. According to a report by the Office of Federal Housing Enterprise Oversight (“OFHEO”), “$6.46, the EPS goal, became the corporate mantra — everything else was secondary to hitting that target.”

The OFHEO report quoted a speech given in 2000 by Sampath Rajappa, head of Fannie Mae’s Office of Auditing, to his accounting team:

By now every one of you must have 6.46 branded in your brains. You must be able to say it in your sleep, you must be able to recite it forwards and backwards, you must have a raging fire in your belly that burns away all doubts, you must live, breathe and dream 6.46, you must be obsessed on 6.46 . . . After all, thanks to Frank, we all have a lot of money riding on it . . . We must do this with a fiery determination, not on some days, not on most days but day in and day out, give it your best, not 50%, not 75%, not 100%, but 150%. Remember, Frank has given us an opportunity to earn not just our salaries, benefits, raises . . . but substantially over and above if we make 6.46. So it is our moral obligation to give well above our 100% and if we do this, we would have made tangible contributions to Frank’s goals.

29 Steven A. Holmes, Fannie Mae Eases Credit to Aid Mortgage Lending, N.Y. TIMES, Sept. 30, 1999.
33 Id.
34 Id.
Fannie’s new strategy changed the home lending industry. By the end of the 1990s, the industry was transformed:

Huge national lenders like Countrywide could set up shop in any state by obtaining a low-cost license, originate mortgages (through either non-deposit-gathering branches or loan brokers), and sell them to Fannie Mae or Freddie Mac, receiving cash for their loans. The cash would be used to make more loans. Wall Street firms would sell the Fannie/Freddie-guaranteed MBSs to institutional investors, which meant pension funds, life insurers, commercial banks, or even S&Ls.”

**D. Countrywide Focuses on Subprime Loans**

**FINDING:** *Fannie Mae’s strategy to acquire and hold a large volume of mortgages betrayed its congressionally-mandated mission to increase access to home ownership. This strategy, which relied on the GSEs’ borrowing advantages and may have been motivated by a desire to reach earnings levels to trigger executive bonuses, exposed Fannie Mae to increased risk. Fannie Mae’s new direction fundamentally changed the home lending industry, encouraging originators like Countrywide to aggressively market subprime loans.*

In September 1999, the *New York Times* reported the move into the subprime market to reach earnings goals meant Fannie Mae was “taking on significantly more risk, which may not pose any difficulties during flush economic times. But the government-subsidized corporation may run into trouble in an economic downturn, prompting a government rescue similar to the one needed for the savings and loan industry in the 1980s.”

With Fannie able to buy non-conforming mortgages from lenders, Mozilo saw an opportunity. Countrywide had reason to prefer selling loans to individuals with low credit ratings and low- or moderate-income ("subprime" loans). Profit on these loans was higher than standard prime mortgages. Citing regulatory filings, the *New York Times* explained how much more profitable subprime loans were for Countrywide compared to higher-quality prime loans; in 2004, “subprime loans produced gains of 3.64 percent, versus 0.93 percent for prime loans.”

Fannie’s appetite for subprime loans originated by Countrywide and others was motivated by a desire to achieve earnings targets. Improved earnings meant multi-

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35 Muolo and Padilla at 115.
million dollar bonuses for executives. The 2006 OFHEO concluded Fannie’s executives “deliberately and systematically” created earnings “illusions” to hit Fannie’s earnings-per-share targets from 1998 through 2004. Raines was ousted as CEO of Fannie in the wake of the accounting scandal. Fannie agreed to pay a $400 million fine to settle the matter with the SEC.

The access GSEs had to borrowed money at lower rates than those available to private firms meant Wall Street was no longer able to compete with Fannie and Freddie for “A” paper loans, so they instead went after non-conforming loans. The increased demand for subprime mortgages was noticed by Countrywide.

With the knowledge it could sell the riskiest loans to Wall Street and the GSEs, Countrywide offered a variety of loan products to borrowers with questionable creditworthiness. Countrywide’s product list showed the company offered loans of $500,000 to borrowers rated C-minus, the second-riskiest grade. Countrywide made loans to borrowers with credit scores as low as 500. Countrywide also offered loans to borrowers that were 90 days late on a current mortgage payment twice in the last 12 months, borrowers that had filed for personal bankruptcy protection, and borrowers that had faced foreclosure or default notices.

With incentive to sell more mortgages in order to collect payments and fees, and with the risk of lending to borrowers that were unlikely to pay back a loan backed by Fannie and Freddie and other securitizers, Countrywide began using aggressive tactics to attract customers. Countrywide’s incentive to push subprime loans arose from investor preference for pools of subprime mortgages because these loans often included prepayment penalties and interest rates that would reset at a higher level at a fixed date, generating a larger cash flow.

To increase its portfolio of subprime mortgages, Countrywide incentivized its brokers with commission rates based on the value of the mortgage. “The whole commission structure in both prime and subprime was designed to reward salespeople for pushing whatever programs Countrywide made the most money on in the secondary market,” an unnamed Countrywide sales executive told the New York Times.

Countrywide resisted efforts by states to curtail their sales tactics and loan programs. “Anytime states tried to pass responsible lending laws, Countrywide was fighting it tooth and nail,” said Ira Rheingold, executive director of the National Association of Consumer Advocates, according to the New York Times.

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38 OFHEO Report.
40 McLean.
41 Muolo and Padilla at 115.
42 McLean.
43 Id.
44 Id.
45 Id.
46 Morgenson.
47 Id.
The company’s aggressive sales tactics led to a lawsuit filed by 11 state attorneys general, alleging predatory lending violations. In 2008, Countrywide settled with the states, marking “the largest predatory lending settlement in history.” According to California Attorney General Edmund Brown, Jr., “Countrywide’s lending practices turned the American dream into a nightmare for tens of thousands of families by putting them into loans they couldn’t understand and ultimately couldn’t afford.”

**E. Calls for Reform of Fannie and Freddie Threaten Countrywide**

In 2003, with interest rates at their lowest since the 1960’s, banks and individuals had incentive to borrow as much as possible, and the GSEs increased their mortgage holdings as more loans were issued to homeowners. President Bush called for reform of Fannie and Freddie in the form of increased capital-reserve requirements to protect the lending institutions and, in turn, the housing market, in case of financial trouble.

Simultaneously, other groups called for full privatization of the GSEs, meaning they would no longer be able to borrow money at reduced rates because of the implied backing of the federal government of their debt. If the capacity of the GSEs to purchase subprime loans were constricted by Congress, Countrywide stood to suffer. The lender would be more susceptible to the inherent risk of issuing subprime loans, and its ability to issue loans and collect the associated payments and fees would be diminished.

The health of Countrywide was so closely tied to the continued hunger of government-sponsored mortgage buyers for subprime loans that Mozilo and Countrywide operatives in Washington had to take action. Mozilo described what was at stake for Countrywide:

“If Fannie and Freddie catch a cold, I catch the fucking flu.”

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52 See generally, Peter J. Wallison, *Fannie and Freddie Should Be Privatized*, FINANCIAL TIMES op-ed, Sept. 2004 (arguing that mere tightening of the regulation of Fannie and Freddie is inadequate); Alex J. Pollock, *The Housing GSEs: Through Competition to Privatization*, American Enterprise Institute’s FINANCIAL SERVICES OUTLOOK, Aug. 2004 (arguing the special privileges of the GSEs implicitly subsidize profits and risk).
53 Muolo and Padilla at 114.
F. Countrywide Mobilizes Its “Friends”

FINDING: Because the growth and success of Countrywide was tied directly to Fannie Mae’s continued hunger for acquiring and holding loans and Wall Street’s continued investment in mortgage-backed securities composed of subprime mortgages, Countrywide CEO Angelo Mozilo offered a key group of VIPs preferential treatment through a special loan division. Countrywide gave preferential treatment to legislators, Congressional staff, cabinet members, Fannie Mae executives, lobbyists, and others well-connected in Washington. Countrywide also gave preferential treatment to business partners, local politicians, homebuilders, entertainers and law enforcement officials.

As the White House and Congress took increased interest in oversight and reform of Fannie and Freddie, Countrywide invited several key players in the debate to finance or refinance mortgages through the company’s VIP loan division.

During the course of the Committee’s investigation into numerous aspects of the financial crisis, it obtained thousands of internal documents relating to Countrywide’s VIP programs including its “Friends of Angelo” program.

According to the documents, a key group of VIPs were offered preferential treatment through a special division. Among the VIPs were an exclusive group of borrowers singled out by Countrywide Chief Executive Angelo Mozilo himself. These VIPs, known as “Friends of Angelo,” were afforded preferential and personalized treatment. The loans for the “Friends of Angelo” were sometimes specially priced by Mozilo himself.54 Preferential treatment for these potentially influential borrowers was part of a broad effort by Countrywide to “ingratiate [Countrywide] with people in Washington who might be able to help the company down the road.”55 Listed below are individuals with primary responsibility to determine how Fannie and Freddie would be administered who also received or were offered benefits through the VIP program:

- **Senator Kent Conrad**, Chairman of the Budget Committee and a Member of the Finance Committee, for whom Mozilo instructed the VIP loan department to “Take off 1 point”;56

- **Senator Christopher Dodd**, Member of the Committee on Banking, Housing and Urban Affairs (elevated to Committee Chairman in 2007),

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54 Id.
56 E-mail from Angelo Mozilo to Robert Feinberg (Mar. 17, 2004) (Countrywide_000021).
who saved approximately $75,000 by refinancing his home at a reduced rate;\(^{57}\)

- **Senator John Edwards**, Member of the Judiciary Committee, who was referred to the “Friends of Angelo” program when trying to finance the purchase of a $3.8 million home in Georgetown;\(^{58}\)

- **Alphonso Jackson**, Secretary of Housing and Urban Development, who received two loans through the VIP program,\(^{59}\) and whose daughter was referred to the VIP program by a Countrywide lobbyist;\(^{60}\)

- **James “Jim” Johnson**, former Fannie Mae CEO and adviser to the presidential campaigns of John Kerry and Barack Obama, whose loans were priced personally by Mozilo at discounted rates.\(^{61}\)

- **Clinton Jones III**, senior counsel of the House Financial Services Subcommittee on Housing and Community Opportunity, who was referred for “specialized handling” to the “Friends of Angelo” program by a Countrywide lobbyist, resulting in “.5 off and no garbage fees”;\(^{62}\) and,

- **Franklin D. Raines**, CEO of Fannie Mae, for whom Countrywide’s VIP loan division applied a discount of “1 point off, no junk”\(^{63}\) to a $1 million refinance in response to a phone call from his secretary stating “per Angelo, Frank needs to refi.”\(^{64}\)

This group, members of which were able to directly influence the debate about how to reform the GSEs and the mortgage originators, represents the most flagrant attempt by Countrywide to buy a voice in the debate.

Countrywide’s VIP program also made sure to offer preferential treatment to people with secondary access to potential legislation affecting the relationship between the GSEs and the mortgage originator. Mozilo’s “friends” also included:

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\(^{58}\) E-mail from Peter Segal, PGFM, to Angelo Mozilo (Dec. 11, 2002) (Countrywide_000024).

\(^{59}\) Countrywide Contact Management Software for Borrower Alphonso Jackson (Alexandria City, VA property) (Countrywide_001750); Countrywide Contact Management Software for Borrower Alphonso Jackson (Beaufort, FL property) (Countrywide_001750); Julia Ramey, *The Countrywide Lineup*, CONDE NAST PORTFOLIO, Jul. 16, 2008.

\(^{60}\) E-mail from Jimmie Williams to Doug Perry (Dec. 19, 2003) (Countrywide_001655).

\(^{61}\) E-mail from Angelo Mozilo to Stephen Brandt (Mar. 13, 2003) (Countrywide_000829); Countrywide Loan Policy Analysis for Borrower James Johnson (Mar. 7, 2003) (Countrywide_00085); E-mail from Jimmie Williams to Doug Perry (Nov. 14, 2002) (Countrywide_000020); E-mail from Doug Perry to Robert Feinberg (Nov. 27, 2002) (Countrywide_000020).

\(^{62}\) E-mail from Claudia Velazquez to Doug Perry (Jun. 13, 2003) (Countrywide_000010).

\(^{63}\) E-mail from Doug Perry to Robert Feinberg (Jun. 9, 2003) (Countrywide_000010).
• **Barbara Albrecht**, Director of Legislative Affairs for the Mortgage Bankers Association;  
  65

• **Martha Belcher**, counsel for Fannie Mae;  
  66

• **Joyce Brayboy**, Chief of Staff for Congressman Mel Watt;  
  67

• **Charles Campion**, lobbyist for Fannie Mae and Countrywide;  
  68

• **Mike Garver**, brother-in-law of an aide to a “senior Member…on the House Financial Services Committee”;  
  69

• **Patty Johnson**, CEO, Rebuilding Together, Inc.;  
  70

• **Jan Owen**, Government and Industry Relations, Washington Mutual, former Executive Director of the California Mortgage Bankers Association;  
  71

• **Robert Sanborn**, former Vice President, Fannie Mae;  
  72

• **Robert O’Toole**, Senior Staff Vice President for the Mortgage Brokers Association;  
  73

• **John Potter**, Postmaster General;  
  74

• **Annette Watkins**, daughter of Alphonso Jackson;  
  75

• **Catherine Willis**, Director of Government Affairs, National Association of Independent Insurers.  
  76

Through the VIP program, Countrywide also gave preferential treatment to strategic allies outside Washington. This group of friends included home builders, developers, business partners, and city planners. Several Countrywide business partners were processed as VIPs; their ability to refer borrowers to Countrywide was the apparent

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65 E-mail from Barbara Albrecht, Mortgage Bankers Assoc., to Robert Feinberg (Dec. 31, 2002) (Countrywide_000187).
66 E-mail from Sandy Samuels to Doug Perry (Jan. 23, 2003) (Countrywide_001140).
67 E-mail from Jimmie Williams to Doug Perry (Mar. 17, 2004) (Countrywide_001574).
68 E-mail from Angelo Mozilo to Robert Feinberg (Feb. 17, 2003) (Countrywide_000041).
69 E-mail from Pete Mills to Joseph Reed (Mar. 17, 2003) (Countrywide_000931).
70 E-mail from Andy Bielanski to Rick Simon (June 19, 2003) (Countrywide_001681).
71 E-mail from Pete Mills to Doug Perry (Apr. 11, 2003) (Countrywide_001666).
72 Countrywide Loan Documents for Borrower Robert Sanborn (Countrywide_000051-54).
73 E-mail from Angelo Mozilo to Kay Gerfen (May 9, 2003) (Countrywide_000904).
74 E-mail from Kay Gerfen to Doug Perry (May 21, 2003) (Countrywide_000008-09).
75 E-mail from Jimmie Williams to Doug Perry (Dec. 19, 2003) (Countrywide_001655).
76 E-mail from Robert Feinberg to Robert Barbarowicz (Dec. 2, 2003) (Countrywide_000913).
motivation for enrollment. Business partners who received special treatment included William Esrey, former CEO of Sprint, which teamed up with Countrywide to provide property information to homebuyers on their cell phones, and Bruce Karatz, CEO of K.B. Home, a leading homebuilder that partnered with Countrywide to provide mortgage services for K.B. homebuyers.

Countrywide extended courtesies through the VIP program for public relations purposes, giving preferential treatment to entertainers and law enforcement officials. Loans for entertainers Uma Thurman, Stanley Tucci, Ed McMahon, Roy Scheider, and Mort Sahl were processed in Countrywide’s VIP loan unit. Shawn Brownell, a Deputy in the Malibu Sheriff’s Department, received discounts through the program. Andrew Bunnin, Manager of the Los Angeles Times, received preferential treatment from Countrywide, as did Jeffrey Young, the National Advertising Director. The Los Angeles Times is the most widely-circulated paper in Countrywide’s home state of California, and the fourth-most widely circulated newspaper in the United States.

G. Congress Responds

FINDING: At the same time the “Friends of Angelo” VIP loan program was affording preferential treatment to Members of Congress, Congressional staff, and lobbyists, Congress was considering legislation to reform the GSEs. The most notable reform effort died in the Senate Banking Committee, where Senator Christopher Dodd was a member. Reform legislation was never passed, let alone voted on by Congress.

With Countrywide exerting influence on the debate about reform of the GSEs in Congress through the VIP program and Fannie Mae and Freddie Mac committing millions in lobbying and campaign contributions, the considerations of those with a

77 E-mail from Doug Perry to Robert Feinberg (June 27, 2002) (Countrywide_000027).
78 E-mail from Mike Casey to Maritza Cruz (Dec. 18, 2002) (Countrywide_000174).
81 See, e-mail from Robert Feinberg to Angelo Mozilo (Apr. 22, 2003) (Countrywide_000353).
83 See, e-mail exchange between Andy Bielanski and Doug Perry (Apr. 10, 2003) (Countrywide_001057).
84 E-mail from Anne Banducci to Doug Perry (Apr. 22, 2004) (Countrywide_000733).
86 E-mail from Jeffrey Young, L.A. Times, to Robert Feinberg (June 30, 2004) (Countrywide_000275).
financial stake in the outcome of reform efforts were well-represented. Fannie and Freddie reform legislation was never passed, let alone voted on by Congress.

During the 108th Congress (2003-04) six bills were introduced as efforts to reform Fannie Mae. None made it out of committee. In the Senate, S. 1656, a reform bill introduced by Senator John Corzine (D-NJ) died in the Senate Banking, Housing, and Urban Affairs Committee. Members of the 108th Congress expressed faith in the solvency of Fannie and Freddie. Congressman Barney Frank (D-MA) for example, described them as “not facing any kind of financial crisis.” He was wrong.

In 2005, the “Federal Housing Enterprise Regulatory Reform Act,” sponsored by Senator Chuck Hagel (R-NE) and co-sponsored by Senators Elizabeth Dole (R-NC), John McCain (R-AZ), and John Sununu (R-NH) proposed an increase in government oversight of Fannie Mae and Freddie Mac loans. Unlike the 2003 reform efforts, this bill made it out of the Senate Banking, Housing, and Urban Affairs Committee. A letter to Senate Majority Leader Bill Frist (R-TN) signed by 26 Republican Senators requested a full Senate vote, warning “If effective regulatory reform legislation . . . is not enacted this year, American taxpayers will continue to be exposed to the enormous risk Fannie Mae and Freddie Mac pose to the housing market, the overall financial system and the economy as a whole.” A full Senate vote was not called.

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90 S.1656, “A bill to address regulation of secondary mortgage market enterprises, and for other purposes,” introduced Sept. 23, 2003 by Sen. Jon S. Corzine (D-NJ) (Read twice and referred to the Committee on Banking, Housing, and Urban Affairs).


93 Id.
Hagel’s chief of staff, Mike Buttry, said the legislation “was the last best chance to bring greater oversight and tighter regulation to Freddie and Fannie, and [the GSEs] used every means they could to defeat Sen. Hagel’s legislation every step of the way.”

H. The Aftermath

Having averted Congressional reform efforts, Countrywide and Fannie Mae continued their cozy relationship. As of 2007, Countrywide alone originated 23 percent of Fannie Mae and Freddie Mac’s total volume of mortgages. As the market changed, foreclosures rose and home mortgage loan originations declined. This caused house price appreciation to slow and lenders tightened underwriting standards. More than 30 subprime lenders left the industry or went bankrupt in the 12 months prior to April 2007.

Going against the industry trend in 2007, Countrywide increased their number of mortgage loans by more than eight percent compared to the same period in 2006. During the first quarter of 2007, its mortgage lending increased nine percent to $115 billion. Countrywide rationalized this strategy by explaining the volatility in the market was short-term and they stood to benefit longer-term “as the marketplace rationalizes.”

Barely a year later, the “Friends of Angelo” program was the topic of a June 2008 page one Wall Street Journal story and a subsequent series of June-August Portfolio articles for loaning at lower-than-market rates to legislators and executives involved with oversight and management of the mortgage industry and the GSEs. By September 2008, the federal government seized the insolvent GSEs and placed them into conservatorship, pledging $200 billion to cover the companies’ losses. By the end of February 2009, the government committed an additional $200 billion to “remove any possible concerns debt and mortgage-backed securities investors have about the strong commitment of the U.S. Government to support Fannie Mae and Freddie Mac.”

94 Id.
96 Jonathan Stempel, Countrywide mortgage lending in foreclosure rises, REUTERS, April 13, 2007.
97 Id.
98 Id., (quoting Countrywide C.O.O. David Sambol).
101 Id.
IV. The VIP Program

A. Program Administration

Countrywide Senior Vice President Doug Perry was the program administrator and “primary contact,” with “direct responsibility for the origination of VIP loans.”\textsuperscript{103} Three account executives originated loans, including Robert Feinberg.\textsuperscript{104} Perry discouraged discussing VIP loan policy and procedure with the account executives originating VIP loans, urging internal Countrywide discussion of terms and treatment of VIPs to go through him.\textsuperscript{105} Perry also explained Executive Vice President Stephen Brandt “is often the one communicating with senior management about [VIP loans].”\textsuperscript{106} Because of the “high visibility of VIP loans” and Brandt’s role as liaison between the VIP unit and senior management, he was to be copied on any communications about VIP loans.\textsuperscript{107}

Loans to be processed by the California-based VIP unit were specified for all Countrywide Account Executives to ensure “the origination and routing of VIP loans is handled flawlessly.”\textsuperscript{108}

An internal Countrywide e-mail specifies seven categories of loans to be processed through the VIP unit:\textsuperscript{109}

- FOA [Friends of Countrywide CEO Angelo R. Mozilo]
- FOS [Friends of Countrywide President Stanford L. Kurland]
- ARM, SLK personal loans [personal loans for Mozilo and Kurland]
- BOD [Board of Directors] personal loans, close personal referrals (family members)
- MD [Managing Director] & SMD [Senior Managing Director] personal loans
- MD & SMD close personal referrals (family members)
- EVP [Executive Vice President] and SVP [Senior Vice President] personal loans

\textsuperscript{103} E-mail from Doug Perry to Mary Turel (Jul. 11, 2003) (Countrywide_000900).
\textsuperscript{104} Id.
\textsuperscript{105} Id.
\textsuperscript{106} Id.
\textsuperscript{107} Id.
\textsuperscript{108} E-mail from David Doyle to Linda Klein (Oct. 8, 2002) (Countrywide_000900).
\textsuperscript{109} Id.
In 2003, a decision was made to route all VIPs not classified as “Friends of Angelo” through Countrywide’s Florida processing unit.\textsuperscript{110}

### B. Program Intent

**FINDING:** *Countrywide’s VIP loan program was a tool with which Countrywide built its relationship with Congress and protected its relationship with Fannie Mae. Senior Countrywide officials and lobbyists openly and explicitly weighed the value of relationships with potentially influential borrowers against the cost to Countrywide in terms of forfeited fees and payments.*

According to the documents, Countrywide explicitly designed the VIP program to establish relationships with borrowers with the potential to influence policy, law, and public image.

According to former managing director Sidney Lenz, Countrywide’s Washington lobbyists identified potential customers on Capitol Hill to “keep their edge.”\textsuperscript{111} Lenz oversaw government relations for Countrywide.\textsuperscript{112} Lenz told *Portfolio* magazine the company’s lobbyists were “incredibly receptive” to loan requests from potentially influential borrowers.\textsuperscript{113} As a result, Countrywide found itself relied upon by Congress to provide insight and share expertise when industry-related legislation was being considered. According to Lenz:

\textsuperscript{110} E-mail from Stephen Brandt to Doug Perry (Jul. 11, 2003) (Countrywide_000901).
\textsuperscript{112} Id.
\textsuperscript{113} Id.
Countrywide had an incredibly good relationship with Congress. It was not unusual for us to get a call saying, ‘A bill’s being introduced. It’s a little technical, and there are parts we don’t understand. Can you help educate us on this?’

In most cases, the value of a relationship with a VIP borrower outweighed the cost to Countrywide of bestowing preferential treatment on the borrower. However, in some cases, Countrywide debated internally whether the value of the influence they were potentially purchasing with preferential treatment and discounts was worth the cost.

1. Billings, Montana Mayor Chuck Tooley

Chuck Tooley, Mayor of Billings, Montana and husband of Joan Stapleton Tooley, former publisher and then-director of national advertising for the New Republic magazine, met Countrywide’s Jimmie Williams during the U.S. Conference of Mayors in Madison, Wisconsin. There, he asked Williams about cancelling mortgage insurance he believed he was no longer obligated to hold.

Williams circulated the mayor’s inquiry within Countrywide, and according to the documents, Countrywide’s attorneys determined the lender was legally entitled to enforce the mortgage insurance clause in the mayor’s loan. Before making a final determination as to how to proceed, Countrywide attorney Jay Laifman made sure there were no political reasons to waive the mortgage insurance requirement:

We are legally able to enforce the MI [mortgage insurance]. Jimmie, Pete, Sydney, anyone, are our non-legal reasons why we would not want to enforce it strong enough for CHL to pay for the MI for the remainder of the loan?

In response to Laifman’s question, Sydney Lenz, a Countrywide Managing Director, weighed the potential value of giving preferential treatment to the mayor against the cost of waiving the mortgage insurance fee:

I’m usually in favor of settling on the side of the borrower with political influence. However, in this case, I think the MI payment for the life of the loan has the potential of being a greater number than the Mayor of Billings Montana influence. Jimmie, since you work with the mayors, what’s your opinion?

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114 Id.
115 E-mail from Jimmie Williams to Angela Romano (June 21, 2002) (Countrywide_000019).
116 Id.
117 E-mail from Jay Laifman to Angela Romano, Pete Mills, Sydney Lenz, Melissa Guerra, Janis Allen and Jimmie Williams (June 26, 2002) (Countrywide_000018).
118 Id.
Williams responded by reciting Tooley’s credentials, mentioning his wife’s role at the New Republic and noting he “sits on the Advisory Board of the U.S. Conference of Mayors” and he “is also very likely to hit the speaking circuit as Mayor.”

Williams’s review of the ways Tooley was able to help Countrywide apparently swayed the office of Countrywide’s president. Cindy Wortham recommended:

Due to the Mayor’s (and his wife’s) potential influence and accessibility to media outlets and publications, [Countrywide should] offer him a refi and either give him a .25 credit toward the discount or a $500.00 credit toward closing costs. Either way, we’re showing our good faith.
Williams was satisfied with this suggestion, declaring in an e-mail “For political and public relations reasons, I think this is a better option.”\textsuperscript{121} The matter apparently settled, Wortham ordered her offer be passed along to Tooley through the VIP department.\textsuperscript{122}

2. Judge Richard Aldrich

Many of the “Friends of Angelo” were borrowers with influence in the realm of law and policy affecting Countrywide, and some were Mozilo’s neighbors and fellow members of Sherwood Country Club. Judge Richard Aldrich was both.

In January 2004, Aldrich, a California state appeals court judge, decided to refinance his Sherwood, California home. Aldrich's loan application was assigned to a loan officer in Countrywide’s VIP division; the judge was seeking a $1 million loan and a $900,000 line of credit.\textsuperscript{123} In an e-mail to Mozilo with the subject line “VIP Judge Richard Aldrich,” Countrywide VIP loan unit officer Robert Feinberg alerted Mozilo the credit line was “above what guidelines allow.”\textsuperscript{124}

Mozilo responded, “Go ahead and approve the loan and close it as soon as possible. Don't worry about this deal, it's golden.”\textsuperscript{125} In addition to ignoring credit line guidelines, Countrywide’s VIP treatment of Aldrich included waiving half a point on the million-dollar loan, saving the judge $5,000.\textsuperscript{126}

According to Portfolio magazine, at the time Aldrich refinanced, “a class action lawsuit against Countrywide was pending before the appellate court, brought by borrowers contending the company offered an inadequate payment to settle allegations it charged excessive fees for credit reports. Aldrich was part of a three-judge panel that unanimously rejected the borrowers’ appeal.”\textsuperscript{127}

\textsuperscript{121} E-mail from Jimmie Williams to Cynthia Wortham (June 27, 2002) (Countrywide_000015).
\textsuperscript{122} E-mail from Cynthia Wortham to Angela Romano (June 27, 2002) (Countrywide_000015).
\textsuperscript{123} E-mail from Robert Feinberg to Angelo Mozilo (Jan. 29, 2004) (Countrywide_000028).
\textsuperscript{124} E-mail from Robert Feinberg to Angelo Mozilo (Jan. 29, 2004) (Countrywide_000395).
\textsuperscript{125} E-mail from Angelo Mozilo to Robert Feinberg (Jan. 29, 2004) (Countrywide_000783).
\textsuperscript{126} Golden.
\textsuperscript{127} Id.: Aldrich demanded a retraction from Portfolio, disputing the magazine’s implication that he had contact with Mozilo and that he received preferential treatment due to his position in California’s judiciary. Aldrich described the matter involving Countrywide that came before him during his refinancing: “The case involved a class action lawsuit against Countrywide; I was not a member of the class as defined in that case. The plaintiffs alleged that Countrywide overcharged borrowers for credit reports. The case settled in mediation. Two of the plaintiffs and their attorney objected to the settlement and the attorney asked for attorney fees of $76,741.26 for filing the objections. The trial court overruled the objections, denied the attorney fees and approved the settlement. The objecting attorney appealed. In these kinds of cases, great deference is given to the trial court. Only two votes were required. In this case the opinion was unanimous, affirming the settlement approved by the trial judge. The California Supreme Court denied review.”
3. Calabasas, California Official Robert Yalda

If Countrywide were presented the opportunity to help a borrower with the potential to help the company, the VIP program was mobilized. In Robert Yalda’s case, he found himself in the fortunate position of simultaneously shopping for a loan and working with Countrywide on a “highly visible and controversial” expansion of its headquarters in Calabasas, California.\(^\text{128}\)

A Countrywide managing director e-mailed the VIP department on August 12, 2003, to notify them he and other Countrywide officials had been “meeting with many city officials to try to develop the proper political strategy” that will provide the company with “the most success. One of those individuals is Robert Yalda, the city’s director of transportation and intergovernmental affairs. He is in the process of buying a house and needs some help.”\(^\text{129}\)

Benton asked the VIP department to “ease the process for [Yalda].”\(^\text{130}\) On the same day, Yalda applied for a $500,000 mortgage from Countrywide.\(^\text{131}\) Countrywide never followed through on the expansion project.

\(^\text{128}\) E-mail from Patrick Benton to Robert Feinberg (Aug. 12, 2003) (Countrywide_000012).
\(^\text{129}\) Id.
\(^\text{130}\) Id.
Countrywide made sure to take care of the allies of laws and policies that increase home ownership. Some of Countrywide’s most valuable allies were advocacy groups who lobbied Congress about affordable housing initiatives. Policies to increase home ownership meant more loans for Countrywide. One such group was Rebuilding Together, Inc., based in Washington. Rebuilding Together “provides free rehabilitation and critical repairs to the homes of low-income Americans.” Rebuilding Together has a growing “advocacy and public policy platform.”

Patty Johnson, then-CEO and President of Rebuilding Together, wanted to arrange a refinance with cash out in 2003. She was in touch with Rick Simon, Countrywide’s Vice President of Public Relations. In an e-mail with “Subject: VIP lead,” Simon passed off the contact to Countrywide Managing Director Andy Bielanski, who made contact with the VIP loan unit. Bielanski highlighted the importance of giving VIP treatment to Johnson, explaining “Patty espouses the virtues of Countrywide nearly every day — she needs to get the “full treatment”.

Doug Perry asked Robert Feinberg to handle Johnson’s refinance. He ordered Feinberg to take off .5 to .75 points and “no junk.”

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134 E-mail from Rick Simon to Stephen Brandt (June 19, 2003) (Countrywide_001681).
135 E-mail from Andy Bielanski to Rick Simon and Doug Perry (June 19, 2003) (Countrywide_001681).
136 Id.
137 E-mail from Doug Perry to Robert Feinberg (June 20, 2003) (Countrywide_001681).
V. Jimmie Williams and the VIP Program Referral Process

FINDING: Countrywide’s Washington lobbyist Jimmie Williams identified influential borrowers for VIP treatment. Williams justified his referrals to the director of the VIP program by explaining the borrower’s position and how he or she could be valuable. Among others, Williams referred the Chief Counsel to the House Financial Services Housing and Community Opportunity Subcommittee Clinton Jones, HUD Secretary Alphonso Jackson’s daughter Annette Watkins, U.S. Rep. Melvin Watt’s Chief of Staff Joyce Brayboy, and former Democratic National Committee official and Director of White House Political Affairs under President Clinton Minyon Moore.

Angelo Mozilo relied on references from several key sources to amass his “friends.” Referrals of VIPs with the potential to influence legislation affecting Countrywide often came from Jimmie Williams, Countrywide’s Vice President of Legislative and Regulatory Affairs.

Williams served as Countrywide’s lobbyist in Washington. He began his career in Washington as a legislative assistant in the U.S. House of Representatives, where he briefed his Member and Chief of Staff on “legislative issues relating to economic
Williams left Countrywide in 2006 and became Director of Industry and State Relations for Freddie Mac.  

Williams recommended several contacts in Washington for VIP treatment, including elected officials and Congressional staff. Williams identified potential VIPs interested in a loan or a refinance and notified the VIP department, often including an explanation of the importance of the potential client in his referral e-mails. According to *Portfolio* magazine, Williams “initially directed them to local Countrywide branches, but began hearing complaints some branches were slow or overwhelmed. To ensure quality service, he referred more of them to the VIP program, based in Countrywide’s Rosemead, California, call center.”

Williams usually noted in the subject line of his referral e-mails about the borrower’s VIP status. Referrals from Williams were given discounts by Doug Perry, Countrywide Senior Vice-President, based solely on Williams’s explanation of the value of the borrower to Countrywide.

### A. The Referral of House Subcommittee Chief Counsel Clinton Jones

In November 2002, Williams notified Doug Perry of a “loan request that would require specialized handling” because of the importance of the borrower:

[Clinton] Jones is the Chief Counsel on the House Financial Services Housing and Community Opportunity Subcommittee. Jones is also an advisor to ranking Republican members of Congress responsible for legislation of interest to the financial services industry and of importance to Countrywide.

Perry then e-mailed Feinberg, a Countrywide loan officer responsible for VIP borrowers: “Can you please handle this? 0.5 off. No garbage fees.”

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138 LinkedIn, [http://www.linkedin.com/pub/7/1a0/822](http://www.linkedin.com/pub/7/1a0/822) (last visited Mar. 10, 2009).
139 *Id.*
141 *See, e.g.*, E-mail from Jimmie Williams to Doug Perry (Dec. 19, 2003) (“Subject: VIP Loan Referral – Dep ty. Sec. Jackson Daughter”) (Countrywide_001655); E-mail from Jimmie Williams to Doug Perry (Mar. 17, 2004) (“Subject: VIP Loan”) (Countrywide_1574).
142 *See, e.g.*, E-mail exchange between Jimmie Williams and Doug Perry (Dec. 19, 2003) (authorizing a discount for Annette Watkins) (Countrywide_001655); E-mail exchange between Jimmie Williams and Doug Perry (Nov. 14, 2002) (authorizing a discount for Clinton Jones) (Countrywide_000830).
143 E-mail from Jimmie Williams to Doug Perry (Nov. 14, 2002) (Countrywide_000830).
144 *Id.*
145 E-mail from Doug Perry to Robert Feinberg (Nov. 27, 2002) (Countrywide_000830).
The House Financial Services Housing and Community Opportunity Subcommittee oversees the Department of Housing and Urban Development ("HUD") and the Government National Mortgage Association ("Ginnie Mae"). Ginnie Mae is a government corporation with the full faith and credit backing of the United States government that packages mortgages purchased from companies such as Countrywide into mortgage-backed securities.\(^{147}\)

### B. The Referral of HUD Sec. Alphonso Jackson’s Daughter Annette Watkins

Annette Watkins, daughter of Alphonso Jackson, Secretary of Housing and Urban Development, had a second mortgage on a property in Texas processed through the Countrywide VIP program.\(^{148}\) Jimmie Williams contacted Countrywide Senior Vice President Perry on Watkins’s behalf because “Jackson suggested his daughter talk with Countrywide.”\(^{149}\)

To ensure preferential treatment, Williams told Perry her father “is expected to be confirmed by the Senate as secretary of Housing and Urban Development.”\(^{150}\)

Because the property Watkins was financing was in Texas, unique lending laws applied. Williams notified Perry of this potential complication.\(^{151}\) Perry assured


\(^{148}\) E-mail from Jimmie Williams to Doug Perry (Dec. 19, 2003) (Countrywide_001655).

\(^{149}\) Id.

\(^{150}\) Id.

\(^{151}\) Id.
Williams the Texas laws do not prevent Countrywide from helping Watkins, telling him “Not a problem. We are on it.”

HUD regulates real estate settlements and closing costs and runs the Federal Housing Administration, the agency charged with guaranteeing mortgages. In 2004, the agency ordered Fannie and Freddie to increase their holdings of loans made to subprime borrowers, thereby jeopardizing the American economy while simultaneously driving revenue for Countrywide and the GSEs. According to the Washington Post, “HUD stuck with an outdated policy that allowed Freddie Mac and Fannie Mae to count billions of dollars they invested in subprime loans as a public good that would foster affordable housing. Housing experts and some congressional leaders now view those decisions as mistakes that contributed to an escalation of subprime lending that is roiling the U.S. economy.”

C. The Referral of U.S. Rep. Mel Watt’s Chief of Staff Joyce Brayboy

The Chief of Staff for U.S. Rep. Melvin Watt (D-NC) Joyce Brayboy received preferential treatment from Countrywide due to her position of influence with a Congressman on the House Financial Services Committee. Jimmie Williams urged Doug Perry to “carefully” handle Brayboy’s loan. He wrote:

[Brayboy] reports directly to Congressman Mel Watt who introduced predatory lending legislation to address unscrupulous lending practices, and they do view Countrywide as a trusted advisor.

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152 E-mail from Doug Perry to Jimmie Williams (Dec. 19, 2003) (Countrywide_001655).
153 Golden.
155 E-mail from Jimmie Williams to Doug Perry (Mar. 17, 2004) (Countrywide_001574).
Watt serves on the House Financial Services Committee and the House Judiciary Committee. The Financial Services Committee has jurisdiction over all aspects of the financial services industry, including banking, insurance and securities; the Committee’s legislative and oversight authority extends to housing and consumer protection laws such as the U.S. Housing Act, the Truth in Lending Act, the Housing and Community Development Act, the Fair Credit Reporting Act, the Real Estate Settlement Procedures Act, the Community Reinvestment Act, and financial privacy laws.\textsuperscript{156}

\section*{D. The Referral of Mike Garver, Brother-in-Law of an Aide to a Member on the House Financial Services Committee}

Countrywide’s outreach to the House Financial Services Committee through its Washington-based lobbying operation was not limited to one borrower. Countrywide Senior Vice-President of Legislative and Regulatory Affairs Pete Mills was contacted by Mike Garver to discuss refinancing a Countrywide mortgage in 2003. Garver was referred to Mills by his brother-in-law, an “aide to a senior Member of Congress on the House Financial Services Committee.”\textsuperscript{157} Mills was willing to help Garver because his brother-in-law was “a big supporter of Countrywide’s [who] called me to see if we could help out.”\textsuperscript{158}

Jimmie Williams suggested to Mills he forward Garver’s request to Doug Perry.\textsuperscript{159} Mills did so. He explained to Perry why the borrower was important and how the borrower should be classified, recommending Perry “put this one in a ‘moderate VIP’ status – the Hill staffer is very important to us.”\textsuperscript{160}

\begin{footnotesize}
\begin{itemize}
\item\textsuperscript{157} E-mail from Pete Mills to Joseph Reed (Mar. 17, 2003) (Countrywide_000931).
\item\textsuperscript{158} Id.
\item\textsuperscript{159} E-mail from Pete Mills to Doug Perry (Mar. 17, 2003) (Countrywide_000931).
\item\textsuperscript{160} Id.
\end{itemize}
\end{footnotesize}
Perry instructed Robert Feinberg to complete the refinancing process with Garver. Garver’s “moderate VIP” status earned him a discount of one-quarter point and “branch processing.”

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E-mail from Doug Perry to Robert Feinberg (Mar. 17, 2003) (Countrywide_000931).

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E. The Referral of Former White House Staffer Minyon Moore

Minyon Moore, former Chief Operating Officer of the Democratic National Committee and Director of White House Political Affairs under President Clinton, was given preferential treatment from Countrywide in accordance with her relationship with Angelo Mozilo. In her case, Jimmie Williams explained to Doug Perry:

[Moore] is a former White House staffer and lead lobbyist for Dewey Square whom we have on retainer. The lobbying company
is also one of Angelo’s preferred, so we should handle this loan accordingly.\textsuperscript{162}

The Dewey Square Group is a “powerhouse public affairs firm with close ties to just about every important Democratic politician in the country.”\textsuperscript{163} According to the company’s code of ethics, Dewey Square Group employees “will not accept for our personal benefit goods or services of more than nominal value from suppliers, potential suppliers or other third parties.”\textsuperscript{164}

\begin{quote}
\begin{center}
Jimmie Williams\
01/19/2004 10:39 AM\
To: Doug Perry/Consumer/CFC/COUNTRYWIDE\
Subject: VIP Loan – Dewey Square

Doug – Minyon Moore is a former White House Staffer and lead lobbyist for Dewey Square whom we have on retainer. The lobbying company is also one of Angelo's preferred, so we should handle this loan accordingly. She said that she has already been approved by a mortgage company, but then decided that she'd like to give Countrywide a try. She would like to purchase property in Chicago.
\end{center}
\end{quote}

VI. The Perks of Being a “Friend of Angelo”

\textbf{FINDING:} \textit{Countrywide loan officers waived fees and knocked off points for VIP borrowers at no cost, amounting to thousands of dollars in savings. Countrywide charged non-VIP borrowers hundreds of dollars in upfront fees. Non-VIP borrowers paid one percent of the total amount of the loan for an interest rate reduction of one point. In many cases, Countrywide facilitated and expedited the loan process for VIPs by ignoring company policies.}

When offering preferential treatment to a VIP, Countrywide loan officers had a variety of options, including discounts in the form of waived points and fees. In many cases, Countrywide facilitated and expedited the loan process for VIPs by ignoring company policies.

\textbf{A. “One Point Off”}

Home-loan customers can reduce their interest rates by paying “points.” To reduce the interest rate on a mortgage by one point, a borrower pays one percent of the total value of the loan upfront. Deciding whether to pay points when negotiating a loan requires a borrower to decide whether to pay upfront to reduce monthly payments over the life of the loan. Paying for points requires the borrower to have more cash available upfront. This is an expensive option for many borrowers. Taking points off a loan at no cost saves a borrower thousands of dollars.

\textsuperscript{162} E-mail from Jimmie Williams to Doug Perry (Jan. 16, 2004) (Doug Perry instructed Robert Feinberg to take .5 point off Moore’s rate and waive junk fees) (Countrywide_000011).
Franklin D. Raines, former CEO of Fannie Mae, is one Countrywide VIP who received preferential treatment in the form of free points. When Raines refinanced his mortgage in June 2003, his assistant, Wendy Hogan, telephoned Countrywide on his behalf. According to the phone message, “Wendy stated that per Angelo, Frank needs to refi.”

In response to Wendy Hogan’s phone call, Doug Perry arranged a one point discount and waiver of junk fees on Raines’s June 2003 refinance. According to the documents, the discounts ordered by Perry were applied to the June 2003 loan. The rate for the loan was 4.125 percent, exactly one point less than the initial rate of 5.125 percent applied to the loan being refinanced (Raines’s April 2003 mortgage). According to The Wall Street Journal, the market average rate for comparable loans at the time of the June 2003 refinance was 5.1 percent. Reducing the rate by a point on the $1 million loan would have cost Raines $10,000.

165 E-mail from Claudia Velazquez to Doug Perry (June 9, 2003) (Countrywide_000010).
166 E-mail from Doug Perry, Countrywide to Robert Feinberg, Countrywide, June 9, 2003 (Countrywide_000010).
167 “Estimation of HUD-1 Settlement Statement” for Borrower Franklin D. Raines (Loan No. 31460379), prepared by Lucy C. Hidalgo, Countrywide Loan Specialist, VIP Employee Loan Unit, June 25, 2003 (FDR-OGR_0298).
168 “Fixed/Adjustable Rate Note” for Borrower Franklin D. Raines (Loan No. 25258841), prepared by Silva Momjian, Apr. 29, 2003 (FDR-OGR_0259).
169 Glenn R. Simpson and James R. Hagerty, Countrywide Friends Got Good Loans, WALL ST. J., June 7, 2008. The story explains that 5.1 percent represents the “low end of average market range for similar mortgages based on surveys of lenders in the six weeks preceding loan closing.”
Reducing the interest rate applied to a loan at no cost to the borrower was a common discount arranged for VIPs. Among the many VIPs who received interest rate reductions were Minyon Moore, for whom Perry ordered a .5 point rate reduction;\footnote{E-mail from Doug Perry to Robert Feinberg (Feb. 3, 2004) (Countrywide_000011).} Senator Kent Conrad, for whom Mozilo instructed Feinberg to “Take off 1 point;”\footnote{E-mail from Angelo Mozilo to Robert Feinberg (Mar. 17, 2004) (Countrywide_000021).} and Ambassador Richard Holbrooke, on behalf of whom Perry informed Arpine Tchoukadarian “Per Angelo this loan is to be at zero points. Waive the 1.25 points.”\footnote{E-mail from Doug Perry to Arpine Tchoukadarian (Feb. 20, 2003) (Countrywide_000032).}

\begin{center}
\begin{tabular}{|c|c|c|}
\hline
To: & From: & Date:
\hline
Robert Feinberg & Angelo Mozilo & 03/17/2004 04:24 PM
\hline
Plz take 1 point off, & \textit{Forwarded by Angelo Mozilo: Managing Directors (CF/CCI) on 03/17/2004 04:21 PM}
\hline
Robert Feinberg & Angelo Mozilo: Managing Directors (CF/CCI) & 03/15/2004 08:55 AM
\hline
Subject: & Senator Conrad & \textit{Senator Conrad}
\hline
Hello Angelo,

I have spoken with Kent Conrad and he wants to refinance to a 15 year mortgage. The rate we are looking at is a 4.875% and it has a 1 point charge. The LTV should be about 87%.

Please let me know how to proceed.

Thanks

Robert Feinberg
Senior Account Executive
Countrywide Financial Corporation
(800) 641-1050
Direct: (925) 628-5700
\end{tabular}
\end{center}

B. No Junk Fees

Collecting fees was a large part of Countrywide’s business. During the 12 months ending in August 2007, Countrywide conducted and collected fees for 3.5 million flood certifications, 10.8 million credit checks and 1.3 million appraisals, its filings show.\footnote{Id.} Appraisal fees at Countrywide totaled $137 million in 2006, and credit report fees were $74 million.\footnote{Id.} When borrowers close on their loans, in addition to being charged for flood certifications, credit checks and appraisals, they are assessed fees for document preparation, e-mailing documents or using FedEx to send or receive paperwork, according to Countrywide documents reviewed by the \textit{New York Times}.\footnote{Id. (According to dozens of loan documents reviewed by the \textit{N.Y. Times}, “LandSafe routinely charged tax service fees of $60, far above what other lenders charge, for information about any outstanding tax obligations of the borrowers. Credit checks can cost $36 at LandSafe, double what others levy. Some Countrywide loans even included fees of $100 to e-mail documents or $45 to ship them overnight. LandSafe also charges borrowers $26 for flood certifications, for which other companies charge $12 to $14, according to sales representatives and brokers familiar with the fees.”)} Many of the fees were paid to Countrywide’s loan closing services subsidiary, LandSafe Inc.\footnote{Id.}
Many of these upfront lender charges are commonly referred to as “junk” fees, assessed by the lender at closing. For VIPs, Countrywide often eliminated fees amounting to hundreds of dollars for underwriting, processing and document preparation.

In addition to taking a point off Franklin D. Raines’s June 2003 refinance, Countrywide’s VIP unit waived fees payable in connection with the loan. According to the estimated HUD-1 settlement statement for the loan, Raines was not to be charged at settlement for a variety of items (items such as lender’s inspection fees, application fees, assumption fees, warehouse fees, processing fees, and other fees referred to as “junk” fees).  

Fees were also waived for Postmaster General John Potter. Potter benefited from an encounter with Mozilo in 2003. Potter was in the process of arranging a “complicated” bridge loan when he “coincidentally” ran into Mozilo. Mozilo instructed Countrywide’s Kay Gerfen to “let Mr. Potter know we/CW will take care of it.” Mozilo instructed Perry to “take 1 point off” Potter’s rate and to charge “no extra fees.” Potter was referred to Mozilo and/or the VIP program by former Fannie Mae Chief Executive Jim Johnson.

A discount in the form of waived fees was applied to many loans handled by the VIP department. Among several examples is the loan of Clinton Jones, for whom Perry

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177 “Estimation of HUD-1 Settlement Statement” for Borrower Franklin D. Raines (Loan No. 31460379), prepared by Lucy C. Hidalgo, Countrywide Loan Specialist, VIP Employee Loan Unit, June 25, 2003 (FDR-OGR_0298).
178 E-mail from Kay Gerfen to Doug Perry (May 21, 2003) (Countrywide_000008-09).
179 Id.
180 Id. (Subject: IMPORTANT – Mr. Jack Potter (Head of the U. S. Postal Service & referred by Mr. Jim Johnson).
ordered “no garbage fees.”

For Charles and Heather Campion, Mozilo instructed Feinberg to charge “no extra fees.”

For Martha Belcher, Perry ordered Feinberg to waive three-eights of a point and charge “no junk.”

C. No Appraisal Fee

When initiating a mortgage or refinance, a lender requires an appraisal of the home being financed. Because the appraisal is conducted by an independent appraisal company and not the lending company itself, the fee for the appraisal is often charged to the borrower. According to a national survey of more than 150 lenders conducted in 2006, “79% of the lenders [surveyed]…charged an up-front appraisal fee. The average amount charged was $331.”

In 2001, a Countrywide loan officer noticed certain VIP referrals were not being charged upfront for appraisal fees. According to Countrywide’s Maritza Cruz, “there are some loans referred by managing directors, e.g., Sandy Samuels, where we didn’t collect the fees for the appraisal.” Cruz noted in the case of one borrower, Countrywide would be out a $600 appraisal fee if he were to choose to complete his loan with another company.

Cruz cited a “circular letter sent by CMD [Countrywide Managing Director] stressing the need for the appraisal fee to be collected upfront” to remind Doug Perry the company has a policy against waiving those fees.

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182 E-mail from Doug Perry to Robert Feinberg (Nov. 27, 2002) (Countrywide_000020).
183 E-mail from Angelo Mozilo to Robert Feinberg (Feb. 17, 2003) (Countrywide_000041).
184 E-mail from Doug Perry to Robert Feinberg (Jan. 24, 2003) (Countrywide_001140).
186 E-mail from Maritza Cruz to Doug Perry (Nov. 27, 2001) (Countrywide_001031).
187 Id.
188 Id.
D. “Policy” vs. “Actual Charged”- Countrywide Policy Overrides

FINDING: Countrywide’s internal software calculated rates for borrowers based on established industry criteria, including loan-to-value ratio, debt-to-income ratio, and credit history. If the terms of a loan violated company policy, the software would instruct the loan officer to “correct and resubmit.” Countrywide loan officers performed manual overrides to apply the reduced rates specified by Angelo Mozilo. Manual overrides were also necessary to breach company policy in order to accommodate VIP borrowers.

Countrywide’s company policy required loan officers to use software to calculate rates and fees applied to loans. The relevant rates and fees were displayed in a borrower’s “Loan Policy Analysis,” a screen that detailed borrower information and the total points added to the interest rate on the loan. In the analysis, columns headed “Policy,” “Actl Chrgd,” and “Reason for Override” show how the final interest rate was calculated for every loan.

For James Johnson, former CEO of Fannie Mae, Mozilo specified the rate and terms of a loan in 2003. Mozilo instructed Countrywide Executive Vice-President Stephen Brandt to “begin the process of refinancing” for two properties owned by Johnson. Mozilo specified the interest rate for each refinance: 4.375 percent fixed for five years. When the details of Johnson’s loan were entered into Countrywide’s internal “Loan Policy Analysis” software, the analysis confirmed 1.375 additional points were to be added to the base rate specified by Mozilo per Countrywide “policy.” The assessment of these points was manually overridden. It was reduced to “0.000” in the Loan Policy Analysis column denoting what rate was actually charged.

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189 See, e.g., Countrywide Loan Policy Analysis documents (Countrywide_000093, Countrywide_000097, Countrywide_000099, Countrywide_000101, Countrywide_000105, Countrywide_000107).
190 Id.
191 Id.
192 E-mail from Angelo Mozilo to Stephen Brandt (Mar. 13, 2003) (Countrywide_000829).
193 Id.
195 Id., Policy Analysis “Actl Chrgd” column.
When the terms of a loan processed by Countrywide’s software violated a company policy, a notice with a specific error number alerts the user. The user has the option of correcting the terms causing the error and resubmitting the loan, or overriding the error message. In addition to the loans for Johnson, Countrywide policy was manually overridden on terms of loans for Judge Richard Aldrich, Senator Kent Conrad, Senator Christopher Dodd, former Sprint CEO William Esrey, Ambassador Richard Holbrooke, former Fannie Mae Chief Executive James Johnson, and House Financial Services Committee Senior Counsel Clinton Jones.

--- Loan Details ---

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<td>0.000</td>
<td>CMD Approved</td>
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<td>1.375</td>
<td>0.000</td>
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</tr>
</tbody>
</table>

--- Policy Analysis ---

196 Countrywide PLATS software, “Rules Results” screen capture (Countrywide_001807).
197 Id.
198 Countrywide “Loan Policy Analysis” for Richard Aldrich, Jan. 27, 2004 (Countrywide_000101).
200 Countrywide “Loan Policy Analysis” for Christopher Dodd, Apr. 17, 2003 (Countrywide_000095).
201 Countrywide “Loan Policy Analysis” for William Esrey, Mar. 5, 2004 (Countrywide_000062).
204 Countrywide “Loan Policy Analysis” for Clinton Jones, Nov. 27, 2002 (Countrywide_000089).
E. “Do Whatever It Takes”

In 2003, Mozilo was contacted by Peter Segal of Powell, Goldstein, Frazer & Murphy L.L.P., a law firm with an office in Washington, D.C. Segal represented the seller of a home in Georgetown. The home was being sold by Segal’s client for $3.8 million to Senator John Edwards and his wife. The closing was scheduled for December 23, just 12 days after Segal contacted Mozilo, a timeline Segal acknowledged was “ambitious.” Segal also told Brandt in Countrywide’s consumer loan division to expect a call from the Senator.

After hearing from Segal, Mozilo instructed Brandt and Perry to accommodate Senator Edwards’s urgent need to arrange financing because “Edwards will probably be either the Vice Pres or Pres candidate for the democrats for 2004. Do whatever it takes to get it closed by the 23rd and call me for the pricing.”

Despite Angelo Mozilo’s best efforts, ultimately, Edwards did not take a loan from Countrywide for this property.

205 E-mail from Peter Segal, Powell Goldstein, to Angelo Mozilo (Dec. 11, 2002) (Countrywide_000024).
206 Id.
207 Id.
208 Id.
209 E-mail from Peter Segal to Stephen Brandt (Dec. 11, 2002) (Countrywide_000025).
210 E-mail from Angelo Mozilo to Stephen Brandt and Doug Perry (Dec. 15, 2002) (Countrywide_000024).
F. Free “Float-Down”

If interest rates fell while a VIP loan was pending, Countrywide provided a free “float-down” to the lower rate. Lenders charge .125 point or .25 point for a float-down option, which allow borrowers to access lower rates if they become available during the commitment period.211 According to Portfolio magazine, Countrywide charged .5 point for a float-down.212

Senator Christopher Dodd, like many other Countrywide VIPs, received float-downs on his two Countrywide mortgages.213 According to a former Countrywide employee, Dodd’s float-downs were free.214

Stephen Brandt was instructed by Mozilo to “knock [the] socks off” of borrower and former Secretary of Health and Human Services Donna Shalala with “great service.”215 Among the perks given to Shalala were .25 point float downs on each of the two loans she was arranging with Countrywide.216

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215 E-mail from Stephen Brandt to Maritza Cruz (Aug. 20, 2002) (Countrywide_000006).
216 E-mail from Maritza Cruz to Robert Feinberg (Sep. 21, 2002) (Countrywide_000007).
G. Ignore the Rules

Some VIPs who bought or refinanced second homes were given the lower interest rate associated with primary residences. Lenders consider financing vacation homes more risky because borrowers are more likely to default on a vacation home mortgage than on one for a primary residence.

Senator Kent Conrad, chairman of the Budget Committee, first arranged a mortgage through Countrywide when Jim Johnson referred him to Mozilo in 2002. At the time, Conrad was seeking financing for the purchase of a vacation home in Bethany Beach, Delaware.

According to Conrad, he “called (Mozilo). I said, ‘I’m buying this property. Would you be interested in the mortgage?’”, and he said, Yeah. Call these people and we’ll take a look.” When Conrad refinanced the million-dollar loan in 2004, Mozilo waived one point.

Feinberg communicated with Geri Gaginis, Conrad’s executive assistant in the Senator’s personal office, throughout the refinance process. After Gaginis informed Conrad his rate had been locked in and his loan was in process, she informed Feinberg the Senator was very appreciative.

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218 Id.
219 Id.
220 E-mail exchange between Angelo Mozilo and Robert Feinberg (Mar. 15, 2004) (Countrywide_000021).
221 E-mail from Geri Gaginis to Robert Feinberg (Mar. 15, 2004) (Countrywide_000022).
Later in 2004, Conrad contacted Feinberg and inquired about refinancing an eight-unit apartment building he and his brothers owned in Bismarck, North Dakota. 222 Conrad had recently refinanced a loan for a property in Delaware through Countrywide and he was given a one point discount. 223 Feinberg was unsure how to handle the new request given the fact the loan violated Countrywide’s policy of providing loans only for buildings of four units or fewer. 224 Feinberg contacted Mozilo and asked him to “Please let me know how to proceed.” 225

Mozilo instructed Feinberg to ask Countrywide Managing Director Dave Spector to “make an exception due to the fact that the borrower is a senator.” 226

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222 E-mail from Robert Feinberg to Angelo Mozilo (Apr. 23, 2004) (Countrywide_000038).
223 E-mail from Robert Feinberg to Angelo Mozilo (Mar. 15, 2004) (Countrywide_000021); E-mail from Angelo Mozilo to Robert Feinberg (Mar. 17, 2004) (Countrywide_000021).
224 E-mail from Robert Feinberg to Angelo Mozilo (Apr. 23, 2004) (Countrywide_000038).
225 Id.
226 E-mail from Angelo Mozilo to Robert Feinberg (Apr. 23, 2004) (Countrywide_000760).
VII. Mozilo’s Hands-On Approach

FINDING: Angelo Mozilo personally specified rates and fees for VIP borrowers. When the terms of a VIP loan violated Countrywide policy, Mozilo was notified and would personally authorize overrides. Mozilo substituted his familiarity with and the reputation of VIP borrowers for credit checks and reviews of debt and assets. According to the documents, no VIP borrower was ever given anything less than an “A-paper” loan.

When Countrywide’s VIP unit arranged loans for “Friends of Angelo,” Mozilo often personally set the terms or approved an override of Countrywide policy to reduce a borrower’s interest rate. Mozilo personally knew many of the borrowers processed through the VIP program.

According to the documents, in addition to his personal involvement in Franklin D. Raines’s refinancing, Mozilo personally authorized discounts and specified terms for numerous other VIPs, including Ambassador Richard Holbrooke, former Sprint CEO William Esrey, Senator Kent Conrad, and former Fannie Mae CEO Jim Johnson.

A. “Per Angelo”

Angelo Mozilo personally specified terms for VIP loans. These terms differed from those recommended by Countrywide’s loan officers, who were informed by internal software applying Countrywide lending policies. While the VIP unit calculated terms and processed loans for VIP customers, in many instances Mozilo superseded company policy with special discounts and benefits.

For Ambassador Richard Holbrooke, Mozilo instructed Perry not to charge any points despite the calculations made by Countrywide underwriter Gene Soda. Mozilo’s waiver of 1.25 points on Holbrooke’s $1.1 million dollar loan represented a discount of $13,750.

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227 E-mail from Angelo Mozilo to Robert Feinberg (Feb. 19, 2003) (Countrywide_1697).
228 E-mail from Kay Gerfen to Angelo Mozilo (June 26, 2002) (Countrywide_000836).
229 E-mail from Angelo Mozilo to Robert Feinberg (Apr. 23, 2004) (Countrywide_000760).
230 E-mail from Angelo Mozilo to Stephen Brandt (Mar. 13, 2003) (Countrywide_000829).
231 E-mail from Doug Perry to Arpine Tchoukadarian (Feb. 20, 2003) (Countrywide_00032).
In 1980, Holbrooke and Jim Johnson founded Public Strategies, a Washington consulting firm that “gave advice to business clients, including investment banking firms.” Public Strategies counted Fannie Mae as a client. Johnson referred several borrowers to Countrywide’s VIP loan unit.

For Kati Marton, a writer, reporter, former Chief of Outreach for the United Nations, and wife of Richard Holbrooke, Mozilo personally approved several exceptions to Countrywide policy to move the loan process forward. Specifically, the terms of her loan exceeded the permissible loan-to-value ratio, involved an excessive amount of cash out of the deal, and “excessive ratios.” The excessive ratios could be mitigated if Marton furnished additional information related to income and employment, but Feinberg first had to ask Mozilo “if you don’t want us to go after additional information since this is an FOA [Friend of Angelo].”

Feinberg was further notified by the processor previously handling Marton’s loan, Maritza Cruz, that .625 points would be added to the loan if Mozilo did not provide a memo authorizing waiver of the points. A memo from Mozilo was also required to process a loan for Mamphela Ramphele, one of four managing directors of the World Bank. Mozilo personally approved both loans and dictated the terms to Feinberg.

B. “Speak With [Angelo] to Get a Better Deal”

When “Friends of Angelo” believed they were not getting loan terms from to which they believed they were entitled, some asked the loan officer handling the deal to

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232 Muolo and Padilla at 110.
233 Id.
234 See e.g., E-mail from Kay Gerfen to Doug Perry (May 21, 2003) (Countrywide_000008-09); E-mail from Kay Gerfen to Robert Feinberg (Mar. 12, 2003) (Countrywide_001679).
235 E-mail from Robert Feinberg to Angelo Mozilo (Dec. 10, 2002) (Countrywide_000049).
236 Id.
237 Id.
238 Id., Feinberg noted a one point charge would be applied to her loan rate if it were processed by Gene Soda in the consumer loan division.
239 E-mail from Robert Feinberg to Angelo Mozilo (Dec. 10, 2002) (confirming the details of the loans previously approved by Mozilo for Marton and Ramphele) (Countrywide_000048).
consult Mozilo. In 2003, Robert Feinberg worked with Leon Burda, financial planner for Ed McMahon, regarding a refinance of the entertainer’s mortgage. With a loan-to-value ratio of 78 percent on the loan, Feinberg offered Burda a rate of 7.125 percent with no points “with the customary FOA discounts.”

Burda did not believe Feinberg was offering the best rate available to a “Friend of Angelo.” According to Feinberg, Burda “does not like the rate we are offering him and seems to think we can do better. This has been cut to the bare minimum and he insists I speak with you to get a better deal.”

Burda’s request to involve Mozilo paid off. Mozilo instructed Feinberg to “do it at 6 7/8 at 75%.” Mozilo’s personal pricing meant McMahon received a one-quarter point discount and a slightly-reduced loan amount in relation to the appraised value of his home.

C. “She’s No Problem”

If Mozilo was familiar with a borrower, he gave the VIP loan department the latitude to accommodate the borrower in whatever way he or she wanted. When Jerry Weintraub referred his employee Susan Ekins to the VIP program, Feinberg worked with her to come to terms on a refinance. Her request for a loan in excess of $1.6 million exceeded the $650,000 maximum amount guidelines allowed. Feinberg contacted Mozilo and asked him “how to proceed.” Mozilo, apparently familiar with Ekins and comfortable with her quality as a borrower, told Feinberg to disregard the guidelines. He instructed Feinberg to “Do whatever Susan wants. She’s no problem. Close the loan as soon as you can.”

D. “Treating This as an A Paper Loan”

In 2004, a couple interested in a refinance was referred directly to Mozilo. Mozilo instructed the VIP department to “check them out and see how qualified they are.” According to Perry, “it appear[ed] they are in a sub prime loan.”

A subprime loan, also known as a “C-paper” loan, is used by lenders for borrowers considered risky based on credit history or limited debt experience. Subprime

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240 E-mail from Robert Feinberg to Angelo Mozilo (Apr. 22, 2003) (Countrywide_000353).
241 Id.
242 E-mail from Angelo Mozilo to Robert Feinberg (Apr. 22, 2003) (Countrywide_000819).
243 E-mail from Robert Feinberg to Angelo Mozilo (Aug. 6, 2003) (Countrywide_000389).
244 Id.
245 Id.
246 Id.
247 E-mail from Angelo Mozilo to Robert Feinberg (Aug. 8, 2003) (Countrywide_000389).
248 E-mail from Doug Perry to Angelo Mozilo (Feb. 3, 2004) (Countrywide_000212).
249 Id.
250 Id.
loans do not conform to Fannie Mae and Freddie Mac guidelines regarding the size of the loan, debt-to-income ratio or income documentation provided.

In the case of the couple referred directly to him, Mozilo alerted his VIP department that he would “decide how he wants to price it” as soon as the VIP officers “know what they have.” However, prior to an evaluation of the borrowers’ creditworthiness, Mozilo ordered his loan officers to treat the loan “as an A paper loan.”

**VIII. Borrower Awareness of VIP Status**

**FINDING:** Countrywide VIP account executive Robert Feinberg testified it was the practice of VIP loan officers to communicate to “Friends of Angelo” they were receiving special pricing and preferential treatment. Documents obtained by the Committee confirm this. VIP borrowers were informed Angelo Mozilo personally priced their loans and they relied on their status as “Friends of Angelo” to guarantee preferential treatment for themselves and others. Borrowers previously processed through the VIP department expected discounts on subsequent refinances. In case a borrower had any doubt about which department was processing a loan, Countrywide loan officers attached business cards to loan documents clearly indicating the officers processing the loan worked in the VIP unit.

According to the documents, it was the practice of the VIP loan unit to make borrowers aware they were being afforded preferential or VIP treatment. Borrowers in the VIP program were made aware by loan officers they were processed through the VIP department. Borrowers who had previous loans processed through the VIP department expected discounts on subsequent refinances. At times, “Friends of Angelo” used their preferred status to refer friends or family members to the VIP department. Sometimes the “Friends of Angelo” expected their friends and family to receive the same preferential treatment. Some borrowers informed loan officers they had been referred to Countrywide by Mozilo prior to requesting rate quotes.

When Countrywide sent mortgage documents to a VIP borrower to review, they included business cards clearly indicating the officers processing the loan worked in the VIP unit.

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251 Id.
252 Id.
253 See, e.g., business card of Lucy Hidalgo (“Loan Specialist, VIP Employee Loan Unit”) (FDR-OGR_0291); business card of Maritza Cruz (“VIP Employee Loan Manager”) (FDR-OGR_0292); business card of Arpy Tchoukadarian (“Underwriter II, VIP Employee Loan Unit”) (FDR-OGR_0292) [hereinafter VIP Unit Business Cards].
A. “What Am I Getting Because I Know Angelo?”

Staff interviewed former Countrywide VIP/“Friends of Angelo” loan officer Robert Feinberg.\textsuperscript{254} Feinberg was employed by Countrywide for 12 years, from 1996 to 2007.\textsuperscript{255} According to Feinberg, during a four and half year stretch of his tenure with the company, over the years 2000 to 2004, he had responsibility for processing VIP loans.\textsuperscript{256} During this time period, according to Feinberg, he processed thousands of loans for VIPs including those specifically referred by Countrywide’s Chief Executive Angelo Mozilo.\textsuperscript{257} Feinberg told the staff it was the practice of Countrywide to communicate to its VIP borrowers they were receiving preferential treatment.\textsuperscript{258} For those VIPs referred by Mozilo, the “Friends of Angelo,” it was the practice of Countrywide’s VIP unit, to tell the prospective borrowers, according to Feinberg, “your loan was specially priced by Angelo.”\textsuperscript{259} Feinberg told the staff one of the primary purposes of the “Friends of Angelo” program was to ingratiate Countrywide to politically influential people who could help the company.\textsuperscript{260}

In an interview with MSNBC, Feinberg explained it was “part of his job . . . to hammer home to the VIP clients they were getting special deals.”\textsuperscript{261} According to Feinberg, to notify borrowers they were processed by the VIP unit, loan officers “spoke in a manner that was different than you spoke with a regular customer. ‘Your loan has been specially priced by Angelo.’ ‘You’re getting special discounts because you’re in the VIP loan department.’”\textsuperscript{262}

Feinberg also described using “taglines” to alert borrowers their loan was processed through the VIP department.\textsuperscript{263} He described the typical borrower response to being informed which department was handling their loan:

And nine times out of ten, once you mention ‘VIP’ the person’s gonna ask you ‘what am I getting for being in this VIP department?’ Or ‘what am I getting because I know Angelo?’ Or ‘I talked to Angelo and he said I’m getting this.’\textsuperscript{264}

The documents support Feinberg’s testimony. In one instance, VIP/Employee Loan Manager Maritza Cruz informed a borrower she had been instructed to “give you

\textsuperscript{254} Telephonic Interview of Robert Feinberg, by H. Comm. on Oversight and Gov’t Reform Republican staff, in Wash. D.C. (Dec. 22, 2008) [hereinafter Feinberg Interview].
\textsuperscript{255} Id.
\textsuperscript{256} Id.
\textsuperscript{257} Id.
\textsuperscript{258} Id.
\textsuperscript{259} Id.
\textsuperscript{260} Id.
\textsuperscript{261} Lisa Myers and Amna Nawaz, Feds probe Countrywide’s ’VIP’ program, NBC NEWS, Oct. 30, 2008.
\textsuperscript{262} Id.
\textsuperscript{263} Id.
\textsuperscript{264} Id.
the VIP treatment on your purchase transaction." Cruz was ordered to take .5 point off the borrower’s rate and to waive the processing fee. In another instance, Mozilo ordered Feinberg to “call [a borrower] on my behalf and inform her of all the discounts that I have given her.”

When mortgage documents were sent from Countrywide to a borrower, account executives involved in facilitating the loan attached contact information. Franklin D. Raines’s discounted June loan documents were prepared by Lucy Hidalgo, a member of Countrywide’s VIP loan unit. She attached her business card to the loan documents provided to Raines, as did VIP Employee Loan Manager Maritza Cruz and VIP Employee Loan Unit Underwriter Arpy Tchoukadarian. All three business cards show the loan was processed by VIP loan unit personnel.
Mortgage documents sent to Senator Christopher Dodd also included a business card from an officer in the VIP loan unit. In Dodd’s case, the card was from Robert Feinberg. According to a Connecticut reporter who viewed Dodd’s loan documents, a “Countrywide document generated on April 23, 2003 had the business card of Robert Feinberg, a senior account executive with Countrywide, Xeroxed to the page and another page had: *VIP FOA* written on it.”270 While Senator Dodd made some loan documents available for a limited period of time to the local Connecticut media in February 2009, he has resisted calls to release the documents publicly.271

B. Mortgage Bankers Association Dir. of Legislative Affairs Barbara Albrecht

Borrowers who had been processed by the VIP unit on previous occasions were often aware of their status as VIPs and reminded loan officers of their status in subsequent dealings.

In 2002, Mortgage Bankers Association (“MBA”) Director of Legislative Affairs Barbara Albrecht contacted Robert Feinberg to discuss a refinance of her Countrywide mortgage.272 The original mortgage had been negotiated through Countrywide’s VIP program. She notified Feinberg that Countrywide waived fees on her previous refinance, and she wanted to know what discounts were available on this refinance. According to the documents, she e-mailed Feinberg:

We would like to refinance this loan for a loan amount of $260,000 with a 30 year fixed rate, with no points. I am an employee of the

271 Kevin Rennie, Why we Just Can’t Trust Dodd, HARTFORD COURANT, Feb. 8, 2009.
272 E-mail from Barbara Albrecht, Mortgage Bankers Association of America, to Robert Feinberg (Dec. 31, 2002) (Countrywide_000187-188).
Mortgage Bankers Association, and last year Countrywide waived a few of the fees associated with the refi. I would like to know what you would do in this regard for a new loan. 273

The MBA is the national association representing the real estate finance industry. 274 From its Washington, D.C. headquarters, MBA advocates on behalf of members in the real estate finance industry. 275 The MBA considers itself the “voice of the real estate industry,” protecting the interests of members “by staying in close communication with Congress, the Administration, state and local officials and regulatory bodies, as well as the general public.” 276

**C. Chairman of K.B. Home Bruce Karatz and His Son Matthew**

Some borrowers were aware of their status as a “Friend of Angelo” and used it to solicit preferential treatment from Countrywide for themselves and, in some cases, for family members.

In 2002, Mike Casey, Regional Sales Manager for Countrywide, was contacted by a representative from one of his “top customers,” K.B. Home. 277 Los Angeles-based K.B. is “one of the nation’s biggest builders.” 278 Countrywide and K.B. Home partnered to form Countrywide K.B. Home Loans, a joint venture allowing the builder to provide complete mortgage services to customers. 279

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273 Id.
275 Id.
276 Id.
277 E-mail from Mike Casey to Maritza Cruz (Dec. 18, 2002) (Countrywide_000174).
279 Jonathan Stempel *K.B. Home Venture Sued by Fired VP*, REUTERS, Jan. 29, 2008 (Countrywide K.B. was sued by a former employee in January 2008. According to the complaint filed in U.S. district court in Houston, former executive Mark Zachary “alleged that Countrywide K.B. Home Loans approved unqualified borrowers for loans so that K.B. Home could build more homes. In the complaint, Zachary questioned Countrywide's practice of using for K.B. Home just one appraiser who was "strongly encouraged" to inflate appraised values by up to 6 percent because "that was the way K.B. Home wanted it." He also questioned what he called Countrywide's practice of converting loan applications that required full documentation into "stated income" or "no income, no assets" applications, saying loan officers would sometimes help borrowers submit applications with false income amounts, the complaint said. "It gives a snapshot of the lending practices in the industry," said Philip Hilder, Zachary's lawyer.").
According to Casey, Bruce Karatz, Chairman of K.B., was looking for someone to originate a loan for his son, Matthew. Instead of providing financing through K.B., Karatz turned to Countrywide to avoid a “conflict of interest.” Casey noted “[Karatz] runs a Fortune 500 company, and is an FOA, and I thought it would be appropriate to get his son a little extra special treatment.”

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D. Jim Lehrer NewsHour Correspondent Margaret Warner

According to the documents, borrowers relied on their status as an “FOA” to get preferential treatment. In the case of Margaret Warner, on-air correspondent for PBS’s Jim Lehrer NewsHour, she was aware Mozilo himself had referred her loan to the VIP department and she made sure to notify Feinberg. Warner and Feinberg had previously discussed the terms of a loan, while Warner was also getting quotes from another lender. After suspending or cancelling the loan process with Countrywide, she returned to Feinberg to re-open discussion of the terms of a refinance.

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280 E. Scott Reckard, Former K.B. Home chairman is indicted in alleged backdating scheme, LOS ANGELES TIMES, Mar. 5, 2009 (On March 5, 2009, a federal grand jury indicted Karatz on charges that he “engineered a scheme to defraud shareholders by awarding himself and other executives of the Los Angeles home builder millions of dollars in undisclosed stock-based compensation. The 20-count indictment alleged that Karatz backdated stock options over a seven-year period to days on which K.B.’s stock was trading at low levels. That made them worth more to Karatz and others, according to the indictment -- a fact it said should have been disclosed to other shareholders. The indictment accused Karatz of concealing the practice from K.B.’s board of directors and compensation committee as well as from shareholders. It alleged that when K.B. undertook an internal investigation into the stock-option grants in May 2006, Karatz falsely denied his orchestration of the backdating scheme and caused a false report of K.B.’s options practices to be submitted to the company's auditors, resulting in improper disclosures in filings with the Securities and Exchange Commission).

281 E-mail from Mike Casey to Maritza Cruz (Dec. 18, 2002) (Countrywide_000174).

282 Id.

283 Id.

284 E-mail from Margaret Warner, PBS, to Robert Feinberg (Apr. 27, 2004) (Countrywide_000044).

285 Id.

286 Id.
In an e-mail, she told him, “You and I spoke 4-6 weeks ago about refinancing our current Countrywide mortgage. I believe Angelo referred us to you.”\(^{287}\)

Having informed Feinberg of her relationship with Mozilo, Warner then solicited a quote for interest rate, points and closing cost combinations.\(^{288}\)

--- Original Message ---
From: Margaret Warner
To: Robert Feinberg
Sent: Thursday, April 29, 2004 4:40 PM
Subject: more on refinancing -- Former Loan #

Dear Mr. Feinberg,

I apologize for not having time to call you back. I don't know if I explained what I do for a living, but I'm an on-air correspondent/producer on the Jim Lehrer Newshour on PBS, and there are days that I literally don't have a nanosecond - much less a 15 minute block of time -- for a personal phone call.

Yesterday it was the supreme court story - today it's israeli.

The time difference is also a problem.

Is there any way you could email me an outline of what rates are available now on the refinancing package options described below? (I'm sending this on top of my earlier email so you have it all together.) Then we could talk -- maybe even tomorrow. Let me know when might be convenient for you.

I'm available after 10:45 a.m. Eastern time - until 11:30. Then again from 1:30 to 5 (unless my segment gets taped early.) But it would save time for me to have something on paper.

Many thanks.
Margaret Warner

--- Original Message ---
From: Margaret Warner
To: Robert Feinberg
Cc: john@realty
Sent: Tuesday, April 27, 2004 7:42 PM
Subject: Refinancing -- Former Loan #

Dear Mr. Feinberg,

You and I spoke 4-6 weeks ago about refinancing our current Countrywide mortgage. I believe Angelo referred us to you. At the time, we also had another offer from a lender here in Washington, which I was exploring as well. So I wasn't ready to go forward. As I recall, we suspended or even cancelled the loan process that you'd started -- under Loan #, under my husband's name John Realty.

Unfortunately, we then were hit with the deaths of two very close friends......so I suspended all work on this refinancing to plan a memorial service and other events for these past weekends.

We're now am ready to go forward with the refinancing. Just to review: I believe our present mortgage is $220,000 (on a house worth roughly $1.5 mil). We'd like to pull $200,000 of or $250,000 out.

What interest rate/point/closing cost combinations could you offer us now on $420,000? And on $470,000? (for 15 years). And if we went for the $420,000, what would be the rate on an additional home equity line of $50,000?

(When we last spoke, you were offering 5 1/8 at 0 points on the $470,000, with roughly $3000 in closing costs. If we wanted 4 7/8, you said there would be "points charged." My notes don't say how many.)

Thanks very much. If you'd rather talk about this by phone, my office number is 703-998-2892.

Margaret Warner
(wife of John Realty)

Washington, DC 20016

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\(^{287}\) Id.

\(^{288}\) Id. (Countrywide_000044-45).
IX. Relevant Ethics Considerations

Federal regulations, House and Senate rules, and the codes of conduct applicable to directors and employees of Government-Sponsored Enterprises similarly hold that acceptance of discounts on loans is impermissible in cases where the terms of the loan are not widely available to the public or a large group of people.\textsuperscript{289}

Members of Congress and certain staff are prohibited from accepting gifts from registered lobbyists or private entities retained or employed by them.\textsuperscript{290} There is an indication of an impermissible discount or loan when favorable loan terms are offered specifically due to the employment situation or position of such an individual.\textsuperscript{291}

Members of Congress and senior Congressional staff, employees of the Executive Branch, and directors and officers of GSEs are obligated to disclose gifts of certain values and relationships which may present a conflict of interest.\textsuperscript{292}

A. Legislative Branch Ethics Rules

FINDING: Senators Dodd and Conrad received discounted loans from Countrywide. By waiving fees and reducing rates, Countrywide saved each Senator thousands of dollars. The loans made to the Senators were processed by the Countrywide’s VIP loan program and they were identified as “Friends of Angelo.”

The House approved new ethics rules (H.Res. 6, subsequently amended) on January 5, 2007, the first day of the 110\textsuperscript{th} Congress. The Senate combined similar ethics rules changes for the Senate with lobbying and ethics reform legislation. The Honest Leadership and Open Government Act of 2007 (“HLOGA”) was signed into law by President Bush on September 14, 2007. The HLOGA amended the Ethics in Government Act of 1978 (“EIGA”). The most notable change was a ban on accepting gifts from lobbyists or their clients.\textsuperscript{293} Both the House and Senate rules were amended to prohibit Members and staff from accepting gifts of any value from registered lobbyists or private entities employing or retaining them, such as Countrywide.\textsuperscript{294}

\textsuperscript{289} House Rule XXV, clause 5(a)(3)(R)(v); Senate Rule XXXV, clause 1(c)(19)(A); 5 C.F.R. 2635.204(a)-(f); Freddie Mac Employee Code, Policy 3-202.
\textsuperscript{290} House Rule XXV, clause 5(a)(1)(A)(ii); Senate Rule XXXV, clause 1(a)(2)(B).
\textsuperscript{291} House Rule 25, clause 5(a)(3)(D); Senate Ethics Manual, S. Pub. 108-1 at 22.
\textsuperscript{292} Ethics in Government Act, 5 U.S.C. app. 4 § 101 et seq. (“EIGA”).
\textsuperscript{294} House Rule XXV, clause 5(a)(1)(A)(ii); Senate Rule XXXV, clause 1(a)(2)(B).
1. Gift Rules

As it was under the rules previously in place, the current “default” rule in the House and the Senate is that no gifts may be accepted by Members and staff from outside, private sources unless specifically permitted by the rules of the respective body. The House and Senate rules define the term “gift” broadly:

[A] gratuity, favor, discount, entertainment, hospitality, loan, forbearance, or other item having monetary value.\(^{295}\)

Several exceptions to the default rule exist. Members and staff may accept gifts exceeding the gift limit if they are subject to one of 24 exceptions, 23 of which are shared by both the House and the Senate. The most notable exception to the default rule allows acceptance of gifts valued at less than $50 on an infrequent basis.\(^{296}\) Other exceptions include allowing campaign contributions, gifts from family and genuine personal friends, gifts from colleagues in Congress, gifts of informational materials, and honorary degrees.\(^{297}\)

2. Rules Regarding Loans

Loans offered at discounted rates are considered gifts for the purposes of the rules of both the House and Senate and are prohibited in most cases. Both bodies prohibit loans on terms not generally available to the public. In the House, a loan from a financial institution must be “on terms generally available to the public” in order to be acceptable.\(^{298}\) In the Senate, “opportunities and benefits which are available to the public” or to a class consisting of all Federal employees are acceptable.\(^{299}\)

3. Disclosure Requirements

Legislative Branch personnel must disclose certain gifts and relationships. The drafters of the original Senate Code of Official Conduct, in the 95th Congress, considered “full and complete public financial disclosure” to be “the heart of the code of conduct.”\(^{300}\)

The EIGA, enacted in 1978, mandated annual financial disclosure by all senior federal personnel, including all Members of Congress.\(^{301}\) All Members of Congress,

\(^{295}\) House Rule XXV, clause 5(a)(2)(A); Senate Rule XXXV, clause 1(b)(1).
\(^{296}\) House Rule XXV, clause 5(a)(1)(B)(i); Senate Rule XXXV, clause 1(a)(2)(A).
\(^{297}\) House Rule XXV, clause 5(a)(3)(A)-(W); Senate Rule XXXV, clause 1(c)(1)-(24).
\(^{299}\) Senate Rule XXXV, clause 1(c)(19)(A).
\(^{301}\) Pub. L. 95-521, 92 Stat. 1824 (Oct. 26, 1978). Legislative branch disclosure requirements were then codified at 2 U.S.C. § 701 et seq.
senior congressional staff, candidates for federal elected office, presidential nominees and certain appointed officials are required to file an annual financial disclosure statement. The Ethics Reform Act of 1989 amended and condensed the different requirements for each branch into one uniform title covering the entire federal government. According to Title 1 of the EIGA, Members of Congress and some senior staff must disclose gifts aggregating more than $335 from a single source during the year. Gifts having a value of $134 or less need not be reported or aggregated.

Individuals subject to the disclosure requirements of the EIGA are exempted from including mortgage obligations in their annual statements. Section 102(4) of the EIGA requires disclosure of liabilities in excess of $10,000 owed to any creditor, with the exception of mortgages “secured by real property which is a personal residence of the reporting individual or his spouse.” Filers of a disclosure are not required to disclose a mortgage on their personal residence, regardless of fair market value of the property or amount due on the mortgage.

4. Possible Ethics Rules Violations Revealed by the Documents

According to the documents, two Senators appear to have violated Senate Ethics Rules in place when they received preferential treatment through Countrywide’s VIP loan program. Senate rules prohibiting accepting gifts valued over $50 and accepting loans on terms not generally available to the public apply, and disclosure requirements are relevant in each case. These rules, in effect today, also applied in 2003-04 when the Senators received loans from Countrywide.

Senator Christopher Dodd refinanced two Countrywide mortgages in 2003: one on a property in Washington, D.C, and one in Connecticut. Countrywide loan processors originally priced each refinance at an interest rate of 4.875 percent. Mortgage information released by Dodd in February 2009 in response to a July 2008 request by the Senate Ethics Committee reveals the rate on the refinance of Dodd’s Washington home was 4.25 percent, and the rate on the Connecticut home was 4.500

303 5 U.S.C. app. 4 § 101 et seq. ("EIGA"); 5 U.S.C. app. 4 § 102(a) (2).
304 Id.
305 5 U.S.C. app. 4 § 102(4).
308 Countrywide Contact Management Software for Borrower Christopher Dodd (Wash., D.C. property) (handwritten note by loan processor specifying a rate of 4.875 percent and other terms for two loan options, one with and one without a $100,000 cash-out) (Countrywide_001736); Countrywide Contact Management Software for Borrower Christopher Dodd (Middlesex, CT property) (handwritten note by loan processor specifying a rate of 4.875 percent) (Countrywide_001737).
percent. The waiver of three-eighths of a point on the first loan saved Dodd $1897.50, and the waiver of one-fourth of a point on the second saved him $687.60.\textsuperscript{309}

Senator Kent Conrad arranged a $1.07 million refinance in 2004 for a mortgage on a vacation home in Bethany Beach, Delaware. According to Countrywide VIP Account Executive Robert Feinberg, Countrywide policy applied a rate of 4.875 percent and a one point charge for a loan with Conrad’s characteristics.\textsuperscript{310} Countrywide Chief Executive Angelo Mozilo ordered Feinberg to “take off 1 point,” saving Conrad $10,700.\textsuperscript{311} In 2004, Conrad contacted Feinberg to discuss refinancing an eight-unit apartment building he owned in North Dakota.\textsuperscript{312} Countrywide policy was to make loans for buildings of four units or fewer, so Feinberg contacted Mozilo and asked for guidance.\textsuperscript{313} Mozilo instructed Feinberg to ask Managing Director Dave Spector to “make an exception due to the fact that the borrower is a senator.”\textsuperscript{314} Spector told Feinberg to proceed with the loan.\textsuperscript{315}

In 2003-04, Senate rules regarding acceptance of gifts from entities employing lobbyists were less restrictive.\textsuperscript{316} Senate rules have since been amended to prohibit a Senator from accepting any gift from an entity employing lobbyists, such as Countrywide.\textsuperscript{317}

Neither Senator disclosed these discounts in required statements filed with the Senate Office of Government Ethics.\textsuperscript{318} These rules and requirements were in effect in 2003-04, when the discounts were applied, and they remain in effect under current Senate rules.

\textsuperscript{309} Loan customers pay 1 percent of the loan amount for every point deducted from their interest rate. According to Dodd’s 2003 Refinancing Information documents, Dodd’s Wash., D.C. property loan amount was $506,000 (three-eighths of one percent of that amount is $1897.50). The loan amount for Dodd’s Connecticut property was $275,042 (one-fourth of one percent of that amount is $687.50).

\textsuperscript{310} E-mail from Robert Feinberg to Angelo Mozilo (Mar. 15, 2004) (Countrywide_000021).

\textsuperscript{311} E-mail from Angelo Mozilo to Robert Feinberg (Mar. 17, 2004) (Countrywide_000021). Reducing his rate by one point would have cost Conrad one percent of the total loan value (one percent of $1.7 million is $10,700).

\textsuperscript{312} E-mail from Robert Feinberg to Angelo Mozilo (Apr. 23, 2004) (Countrywide_001657).

\textsuperscript{313} Id.

\textsuperscript{314} E-mail from Angelo Mozilo to Robert Feinberg (Apr. 23, 2004) (Countrywide_000760).

\textsuperscript{315} E-mail from David Spector to Robert Feinberg (Apr. 28, 2004) (Countrywide_001656).


\textsuperscript{317} Senate Rule XXXV, clause 1(a)(2)(B).

\textsuperscript{318} Senate Financial Disclosure Reports, \url{http://projects.washingtonpost.com/congress/disclosure-reports/} (last visited Mar. 11, 2009).
B. Executive Branch Ethics Rules

The default rule for employees of the Executive Branch is that no gift may be accepted from an outside source unless the gift is (1) unsolicited, 319 (2) not offered under circumstances that might be construed by reasonable persons as influencing the performance of their governmental duties, 320 (3) not cash or a cash equivalent, 321 (4) valued at $20 or less, 322 and (5) valued at $50 or less when aggregated with other gifts from the same source in a calendar year. 323

Federal regulations applicable to Executive Branch employees classify a loan at a discounted rate as a gift. The Code of Federal Regulations defines the term “gift” as “any gratuity, favor, discount, entertainment, hospitality, loan or other item having monetary value.” 324

Executive Branch officials are prohibited from soliciting gifts from persons “seeking official action from, doing business with, or … conducting activities regulated by the individual’s employing entity” or from persons whose interests may be “substantially affected” by the performance of the officials’ duties. 325 Exceptions to these restrictions allow employees of the Executive Branch to accept (1) any gift for which the employee pays market value (or does not use and promptly returns), and (2) discounts and similar benefits that are not directly related to government employment. 326

Executive Branch employees who earn above a statutorily-established salary threshold are required by federal law to report on their financial disclosure forms any gifts from a single source valued over $335. 327 The disclosure report must contain the identity of the source, a brief description, and the value of all gifts aggregating more than $335 in value received by the filer during the reporting period from any one source. 328

319 5 C.F.R. 2635.204(d).
321 5 C.F.R. 2635.204(a).
322 Id.
323 Id.
324 5 C.F.R. § 2635.203 – 205.
326 5 C.F.R. 2635.204(a)-(f).
327 5 C.F.R. § 2634.304(a).
328 Id.
C. Government-Sponsored Enterprises (GSEs) Ethics Rules

To provide guidance in recognizing and dealing with ethical issues, the GSEs adopted codes of conduct. In addition to those requirements imposed on employees and officers of GSEs, additional ethical requirements apply to directors of GSEs. While no code can anticipate every ethical situation that may arise, the codes used by Fannie Mae and Freddie Mac explicitly address gifts.

1. Fannie Mae Codes of Conduct

The Fannie Mae Code of Conduct for Employees (“Fannie Code”) notifies employees of the existence of restrictions regarding giving or receiving gifts or other items of value.329 According to the Fannie Code, accepting inappropriate gifts is a violation and may also be a criminal act.330 According to a Fannie Mae spokesman, the Fannie Code “requires the disclosure of potential conflicts of interest and prohibits acceptance of substantial gifts, including loans with preferential terms, from an organization seeking to do business without prior review and approval by the company.”331

The Fannie Mae Code of Conduct and Conflicts of Interest Policy for Members of the Board of Directors (“Fannie Director Code”) instructs directors to avoid conflicts of interest, noting that “As a Government-Sponsored Enterprise with a mission to expand affordable housing, Fannie Mae . . . is committed to the highest standards of corporate compliance and ethics.”332 The Fannie Director Code states:

Conflicts of interest . . . arise when a director, or a member of his or her immediate family, receives improper personal benefits as a result of his or her status as a director of the Corporation.333

The Fannie Director Code also prohibits directors from accepting gifts in certain situations. According to the Code, Fannie Mae directors and their immediate family cannot accept, offer or solicit gifts:

330 Id.
333 Fannie Mae Director Code § A(1).
In those instances where the gift is being made in order to influence the director’s actions as a Corporation Board member, or where the offer, solicitation or acceptance of such gift gives the appearance of a conflict of interest,”334

Directors are obligated to disclose any relationships that may give rise to a conflict of interest. At Fannie Mae, directors are obligated to exercise good faith by disclosing information relating to conflicts or potential conflicts of interest. Directors must excuse themselves from voting on any issue that could result in a conflict or the appearance of self-dealing.335

2. Freddie Mac Codes of Conduct

Like Fannie Mae, Freddie Mac has separate codes of conduct applying to directors and employees. The Freddie Mac Employee Code of Conduct (“Freddie Code”) prohibits employees from soliciting gifts, accepting cash, accepting aggregate gifts in excess of $100 in value from a single source in a calendar year, and accepting cash equivalents such as gift cards and gift certificates in excess of $25 in value from a single source in a calendar year.336

The Freddie Mac Director Code of Conduct (“Freddie Director Code”) applies more broad restrictions on receiving outside benefits. Directors are to refuse “gifts, favors, travel, entertainment, loans, discounts or other preferential treatment from an outside source” in cases where accepting such benefits “appear[s] to represent an attempt by the outside source to obtain favorable treatment in its business dealings with Freddie Mac.” According to the Freddie Code:

Employees may not solicit or accept discount prices, more favorable loan terms, loan guarantees, investment opportunities, or any other similar treatment or benefits from any source that are offered to them because of their status as Freddie Mac employees.338

Gifts or discounts are acceptable by Freddie Mac personnel if they are offered to a broad group. Freddie Mac employees may only accept discounts and more favorable loan terms when the terms are offered to “a broad group of individuals in order to

334 Fannie Mae Director Code § A(4) (emphasis added).
335 Fannie Mae Director Code § A(2).
338 Freddie Mac Employee Code, Policy 3-202 (emphasis added).
encourage sales of a product or service to those individuals.”  

Freddie Mac employees may not accept such benefits if the offer is or appears to be an attempt to obtain favorable treatment in dealings with Freddie Mac.

Freddie Mac directors are obligated to make disclosures and seek advice any time such disclosures may be required. Additionally, directors are required to respond to an annual Proxy Questionnaire to provide updates on the nature of various relationships.

X. Conclusion

Countrywide CEO Angelo Mozilo organized a deliberate and calculated effort to establish relationships with key participants in the GSE-reform debate by affording decision-makers and other influential opinion leaders preferential mortgage loan terms. This effort was successful.

His friends, who were known inside of Countrywide as “Friends of Angelo,” in many instances returned the favor. In Congress, for example, legislation adverse to Countrywide’s interests was blocked. At Fannie Mae, Chief Executive Franklin D. Raines – a “Friend of Angelo” – adopted strategies that assisted the continued growth of Countrywide.

Some of the people in Congress and at the GSEs who were in the best position to diagnose and prevent a colossal failure of the mortgage industry were targeted by Countrywide for special handling.

Members of Congress and leaders of GSEs are explicitly prohibited from accepting gifts and discounts for precisely this reason. Effective oversight requires objectivity, and forging a relationship with and accepting preferential treatment from a major stakeholder in the outcome of a reform effort compromises objectivity.

The gift and disclosure rules applicable to Congress do not merely prohibit *quid pro quo* exchanges of gifts in exchange for specific action. The rules prohibit accepting any gifts to avoid the appearance of a *quid pro quo* expectation.

The rules are restrictive because the stakes are high. In this case, the health of the American economy was at stake.

We now know the economy was not adequately protected by some of the very people who could have made a difference – several influential “Friends of Angelo.”

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339 Id. For example, an offer of discounted banking services or discount restaurant coupons to all Freddie Mac employees at the same geographic location or to all tenants in an office building that is occupied in part by Freddie Mac would be acceptable.

340 Id.

341 Freddie Mac Director Code, Section VII(A).