



Countrywide Corruption on Capitol Hill

By [Doug Bandow](#) on 7.23.12 @ 6:07AM

The report is on the sleaziest mortgage lender of them all.

Four years have passed since the financial crisis that for a time threatened to carry America's economy into the abyss. The epicenter of the crash was the housing market. No mortgage lender had a more malign influence than Countrywide Financial Corp., which, a House committee found, bought itself political clout by giving cheap loans to important political and industry officials.

So-called influence peddling on Capitol Hill is neither new nor surprising. Although housing is essential for all Americans, home ownership is not. The industry, from builders to realtors to financiers, has sought government support to inflate housing demand. And, not incidentally, their profits.

There were a lot of influential players with a role in the subprime lending debacle. Government simultaneously strong-armed and subsidized financial institutions into providing mortgages to people with ever poorer credit ratings. One of the largest was Countrywide Financial Corp., which developed a special relationship with Fannie Mae. The latter, along with its companion government-sponsored enterprise Freddie Mac, did so much to trigger both the financial crisis and succeeding bail-outs.

Countrywide was swept away by the resulting deluge. The firm's portfolio of bad loans destroyed its finances, causing the company to crash and burn in 2008. The wreckage was taken over by Bank of America.

According to a multi-year investigation by the House Oversight and Government Reform Committee, Countrywide used preferential loans to win political influence. The oversight committee is chaired by Rep. Darrell Issa (R-MI), who explained that "Countrywide lobbyists and CEO Angelo Mozilo used discounted

loans as a tool to ingratiate itself with policymakers in an effort to benefit company's business interest."

The company maintained a "VIP Program" which offered mortgages at special terms. "This preferential treatment -- that varied depending on the influence of the borrower -- was not routinely offered to the public," explained the committee's new [report](#), "How Countrywide Used its VIP Loan Program To Influence Washington Policymakers."

Mozilo was the most important of the many top company employees who recommended inclusion of particular borrowers. In one case he emailed his administrative assistant instructing her to make certain that the firm "approves this loan right away and that we give the borrower an employee discount. Please let me know if the buyer is satisfied and if they are ready to close their loan. Stay close to this deal because this is a very important person."

No one alleges formal bribery. As Michael Kinsley observed long ago, the real scandal in Washington almost invariably is what is legal. Like handing out cheap loans to lawmakers, regulators, and partners. Mark Tapscott of the *Washington Examiner* [noted](#) that with Countrywide "winks and nudges, and everything is OK."

The VIP Program was established in 1991 for company executives and friends. The program gave out 17,979 loans, though the log listed duplicate loans and may not have included every borrower. VIP borrowers won fee exemptions and discounted interest rates.

The privileged also didn't have to fill out applications. Committee investigators discovered that "Account Executives in the VIP unit had to fill in blanks on loan applications because 'Friends of Angelo' were reluctant or unwilling to provide basic information such as salary and employment information." Internal procedures insisted that lack of documentation was not to block loan approval.

Nor did borrowers need good credit ratings. Explained the committee: "the suite of benefits available to VIP borrowers also included various exceptions to Countrywide company policies regarding minimum credit scores, income and employment documentation, and access to interest rate 'float downs.' For some VIP borrowers, Countrywide financed commercial and multi-unit properties." In the latter case, anyone else would have been told to apply elsewhere.

Countrywide spread its largesse widely. Explained the committee:

Between January 1996 and June 2008, Countrywide's VIP loan unit made hundreds of loans to current and former Members of Congress, congressional staff, high-ranking government officials, and executives and employees of Fannie Mae, including Chairman James "Jim" Johnson, Franklin Raines, and Daniel Mudd. VIPs who worked at Fannie Mae enjoyed expedited loan processing and pricing discounts. Countrywide also waived company guidelines for Fannie Mae's senior executives to a greater extent than it did for "regular" VIPs.

First came legislators. According to the oversight committee, Countrywide lobbyist Jimmie Williams "referred Members of Congress and congressional staff to the company's VIP desk in California to create a favorable impression of the company on Capitol Hill. To better position himself to lobby Members and staff, Williams made sure they received enhanced customer service."

A dozen legislators and staffers received 29 loans. Among the most important were Sen. Christopher Dodd (D-Conn.), chairman of the Senate Finance Committee; Sen. Kent Conrad (D-N.D.), chairman of the Senate Budget Committee; and Rep. Edolphus Towns (D-N.Y.), chairman of the House Oversight and Government Reform Committee. So were the current House Armed Services Committee Chairman Buck McKeon (R-Ca.) and Rep. Elton Gallegly (R-Ca.).

Dodd became known as the "Senator from Countrywide" and decided not to seek reelection in 2010. He had pushed legislation to relieve mortgage lenders of responsibility for some \$300 billion in bad loans. The *Washington Examiner*, noted the committee, quoted anonymous Senate staffers who said "the bailout section is exactly what Bank of America and Countrywide wanted. It's obvious they got that they asked for."

Numerous important staffers -- who, in fact, typically draft legislation -- also benefited from Countrywide's largesse. For instance, reported the committee: "Countrywide gave VIP loans to congressional staff who played a role in policy discussions that affected Countrywide. Staff with connections to the committees of jurisdiction for mortgage industry issues in the House and Senate received VIP loans from Countrywide."

For years Fannie Mae and Freddie Mac fought against any reform proposals. "Countrywide buttressed the efforts of Fannie's lobbyists by connecting with key staffers through the VIP program," reported the oversight committee. One example: "Documents show Countrywide enrolled House Financial Services Committee Staff Director Joseph Ventrone.... Countrywide gave a discounted loan to a staffer in the office of Rep. Ruben Hinojosa, who has served on the Financial Services Committee since 2001."

The company did not neglect its friends in the executive branch. Stated the committee report: "Countrywide also had favorable relationships with key decision makers in the Executive Branch. Two former Secretaries of Housing and Urban Development received VIP loans -- Alphonso Jackson and Henry Cisneros. The VIP unit processed Cisneros's loan after he joined the company's Board of Directors. Jim Johnson referred former Secretary of Health and Human Services Donna Shalala to the VIP unit." Mozilo asked his employees to ensure that they "knock her socks off" with their service to Shalala.

The company was extraordinarily sensitive to political questions. Top employees cited borrowers' political connections when recommending VIP treatment. One internal email noted: "this is a Congressman, we must get his 3 day package out on time." A lobbyist passed on one request, noting: "I would put this one in a 'moderate VIP' status -- the Hill staffer is very important to us, the loan is for his sister and her husband, who he described as 'novice first time refinancers'." When the brother-in-law of a committee staffer sought to refinance his mortgage, the same lobbyist noted that "The aide is a big supporter of Countrywide and called me to see if we could help out. Hence the referral to you!"

The issue came up about resolving a complaint by Montana mayor Chuck Tooley. Sidney Lenz, a Countrywide employee, observed in an email: "I'm usually in favor of settling on the side of the borrower with political influence; however, in this case, I think the mortgage insurance payment for the life of the loan has the potential of being a greater number than the mayor of Billings, Montana, influence." Lenz went on to ask the opinion of an employee who worked with mayors.

Countrywide also used VIP loans to buy friends at Fannie Mae, which inflated the housing market, encouraged the subprime lending craze, and required a large-scale federal bail-out. A prime beneficiary of Countrywide's largesse was Fannie Mae CEO Jim Johnson, who despite earning millions annually, had a poor credit

rating. Nevertheless, Mozilo instructed worried underwriters to provide a below prime loan: "Jim Johnson continues to be a source of many loans for our company and this is just a small token of appreciation for the business that he sends to us."

In fact, reported the committee:

Countrywide gave Johnson special treatment to a greater extent than it did for any other VIP borrower. Mozilo made sure Countrywide went to great lengths to reward Johnson for his personal and professional relationship with the company. Johnson received the full suite of benefits from Countrywide's VIP unit -- from keeping Johnson's purchase of a condominium in the Ritz Carlton secret from his wife so he could surprise her, to giving discounted loans to his son and his maid, to ignoring credit issues and debt ratios when Johnson's loans did not comply with lending standards.

Johnson's successor, Franklin Raines, who was forced out in an accounting scandal, received five Countrywide loans. Countrywide even took a loss on the loan to former Fannie Mae president and CEO Daniel Mudd because doing so, explained the committee report, "was expected to eventually generate a benefit for the company." Moreover, most every other Fannie Mae employee enjoyed special treatment. Explained Issa: "Other than Countrywide, no other entity's employees received more VIP loans than Fannie Mae. Even as Countrywide's CEO Mozilo mocked Fannie Mae and top executives for its crony capitalism business model, he would nonetheless personally intercede to ensure executives had access to discounted Countrywide loans. These relationships helped Mozilo increase his own company's profits while dumping the risk of bad loans on taxpayers."

The economic and political merged for Countrywide. The company won a volume discount from Fannie Mae in return for not working with Freddie Mac. It was a "unique" relationship, noted the committee, since "there was not a general industry practice of giving a volume discount to a mortgage originator." Countrywide's partnership with Fannie Mae was economically profitable -- at least until the housing crash.

Equally important, Countrywide and Fannie Mae together fought against any reform of federal housing subsidies. Observed the committee report: "Fannie Mae and Countrywide lobbied against government-sponsored enterprise (GSE)

reform legislation that would have diminished Fannie Mae's ability to acquire and hold subprime mortgages originated by Countrywide. Countrywide also lobbied against predatory lending bills."

Fannie Mae was one of Capitol Hill's 800-pound-guerrillas. Its role was detailed in Gretchen Morgenson and Joshua Rosner's *Reckless Endangerment: How Outsized Ambition, Greed and Corruption Led to Economic Armageddon*. Morgenson later said that Johnson "is a person who really, really wrote the blueprint for how to neutralize your regulator, how to manipulate Congress to get your way and, you know, essentially how to destroy your critics."

Countrywide joined in Fannie Mae's broad campaign to loot the taxpayers for the benefit of the housing industry. After Fannie Mae was crippled politically by its de facto bankruptcy, Countrywide was still there. Stated the committee: "When Fannie Mae dissolved its lobbying network under congressional pressure, Countrywide stepped in to fill the breach."

The cost of not reforming the GSEs was enormous. As 2011 ended, taxpayers had spent \$183 billion to bail out Fannie Mae and Freddie Mac. By 2014 the total cost is expected to run between \$220 billion and \$311 billion.

There were many contributing causes to the 2008 financial crisis, but the most important was the housing crash. That had a disproportionate effect on the rest of the economy because of the activities of the GSEs -- aided and abetted by irresponsible private lenders, such as Countrywide. The latter company alone did not alone stop Congress from acting before disaster hit, but by showering legislators with gifts Countrywide discouraged congressmen from exercising even minimal oversight. The taxpayers ended up the big losers.

About the Author

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