

ANGELO MOZILO CALLS
COUNTRYWIDE
ONE OF THE NATION'S
"MOST PROFITABLE
MORTGAGE LENDERS."



AMERICAN DREAM BUILDER

CEO Angelo Mozilo targets U.S. “multicultural market communities” as core Countrywide customers.

ANGELO MOZILO, CHAIRMAN AND CEO OF COUNTRYWIDE FINANCIAL CORP.

(CFC), can explain in very personal terms why his company is so focused on offering mortgages to minority homebuyers.

Mozilo, who co-founded Countrywide in 1969, says the company initially only made loans backed by the Federal Housing Administration (FHA) and the Veterans Administration (VA). That practice, he explains, meant that many of its customers were minorities. Because the law required lenders to meet face-to-face with borrowers, explains Mozilo, who was the company’s first head of sales, he spent a great deal of time helping these families complete their loan applications. “There was a strong desire for home ownership,” he recalls, “because nobody in their families had ever owned a home.”

Mozilo insists that witnessing such intense desire made a lasting impression on him regarding the creditworthiness of low-income and minority mortgage applicants. “Getting into a house brings a profound change to their lives,” he says. “And they’ll do whatever it takes to hold on to that house — take second jobs, extra jobs. Why not give them the opportunity?”

Mozilo maintains that Countrywide’s decades-long experience with minority lending speaks for itself in financial as well as social terms. “It’s not just that it’s the right thing to do; it’s good business,” says the CEO, whose soft-spoken nature seems to belie what colleagues describe as a fierce competitive streak, one that’s par-

ticularly evident on the golf course. “We’re one of the most profitable mortgage bankers in the country,” he says, adding with deliberation, “and we’re the largest lender to African Americans and Hispanics. What does that tell you?”

LEADING THE WAY

Considering Mozilo’s early experiences, perhaps it’s not surprising that Countrywide Financial announced in October 2004 that it had become the leading U.S. mortgage lender to what it termed the “multicultural market communities.” These customers include African-American, Hispanic, Asian/Pacific Islander and American Indian/Alaskan Native homeowners. Based on 2003 data released in 2004 by the Federal Financial Institutions Examinations Council, Countrywide reports, it purchased or originated 440,870 loans made to members of minority groups, a nearly two-thirds (65.5 percent) increase over 2002. The company also indicates it loaned a total of \$74.7 billion to minority homebuyers in 2003.

Still, minority mortgages represent a small slice of Countrywide’s total loans, according to Mozilo. The company, which has branch offices in 49 states, reports that the \$363 billion in total loans it originated last year makes Countrywide the largest mortgage lender in the U.S. The holding company also points out that mortgage banking, which brought in pretax earnings of \$2.3 billion

in 2004, is the largest of its many businesses, which include traditional banking, insurance, capital markets and other financial services. Its relatively new banking business, while modest in comparison to the mortgage business, has seen explosive growth, says Mozilo. Countrywide Bank reports that total assets grew to more than \$41 billion as of press time from less than \$1 billion in 2001.

According to the U.S. Census Bureau, U.S. minorities have home ownership rates of between 49 and 59 percent, compared with 76 percent for white Americans. This disparity, the company believes, creates tremendous opportunities. "It's the fastest-growing market," says David Sambol, president of Countrywide Home Loans. "It's something we've invested in quite a bit in order to fuel that growth and benefit from that growth."

Other mortgage lenders are less eager to pursue the multicultural markets, the company contends. "They're concerned about the economics of it," says Mozilo, 66, as he sits in his Calabasas, Calif., office overlooking coastal hills made unusually lush by an abundance of winter rain. But Mozilo, who has a fondness for pinstripe suits and bright yellow ties, says Countrywide is only building on its long history of initiatives to boost minority home ownership going back to those FHA- and VA-backed loans it started with.

A COMMITMENT REMAINS

As the business and the company evolved, Countrywide says, it expanded beyond government-backed loans. Meanwhile, the company adds, it has always consciously maintained and deepened its commitment to lowering the barriers to home ownership for the multicultural markets. In 1992, Countrywide points out, it launched an affordable lending program called *We House America*[®], which offers low-income and minority customers loans with small down payments and, for the lender, flexible underwriting guidelines. In 2004, the company notes, it rolled out its Countrywide Optimum LoanSM program, designed to help borrowers who would likely be turned down for a loan under traditional guidelines. And in 2005, Countrywide reports, it committed to making \$1 trillion in home loans to minority and low-income borrowers by 2010, having funded \$341 billion through December 31, 2004.

Mozilo says he still clearly remembers the vow to increase minority home ownership that he made in the early years of the company. "If Countrywide does well, I'm going to try and make a difference here," he recalls thinking. Mozilo admits he has always aimed high. The son of a Bronx, N.Y., butcher of Italian descent, Mozilo says he grew up in a household that stressed hard work. At age 12 he was working in his father's store, he says. By age 14, he says, he had taken on a second job as a messenger for a New York mortgage company. After earning a philosophy degree from Fordham University in 1960, Mozilo recalls, he started working for the mortgage company full time. A natural storyteller with a keen sense of humor and an absolute passion for the business, Mozilo notes, he excelled as a salesman. Even today, after 45 years in mortgage banking, he says he still has "a fire in the belly" for the company and his work. But in 1969, Mozilo says, after almost a decade of working for other people, he teamed with a co-worker named David Loeb to launch Countrywide.

DAVID SAMBOL, PRESIDENT OF COUNTRYWIDE HOME LOANS, SAYS ITS BANK CAN CROSS-SELL PRODUCTS TO MORTGAGE CUSTOMERS.

DIVERSIFICATION WITH A PURPOSE

Mozilo says Countrywide's day-to-day operations are handled by a veteran team of senior executives, including Countrywide Financial Corp. President Stanford L. Kurland and Countrywide Home Loans President Sambol. Mozilo explains his most important role is to view the big picture: "I scan the landscape to see what opportunities and threats the company faces."

He sees a lot of both. Today's competition, he points out, no longer comes from neighborhood banks but from giant financial services firms such as **WELLS FARGO & CO.** (WFC) and **CITIGROUP INC.** (C). Although Mozilo acknowledges the challenges presented by the



brand awareness and reach of such rivals, he also set a goal that Countrywide can increase its market share to 30 percent of all U.S. mortgages by 2008. "The first thing competitors think of is not mortgages. They have many other businesses," says Mozilo. "Our focus on mortgage banking sets us apart."

While staying focused on mortgages, the company notes, it has deliberately expanded its diversification efforts over the past half-dozen years in an effort to both supplement its product selection and create synergy with its core business. For example, the Countrywide holding company says that it acquired a small Virginia-based bank in 2001 that operates today as Countrywide Bank and now has 62 locations in 11 states. The bank has a wide range of leveraging opportunities, says Sambol, as it can leverage Countrywide mortgages for asset-generation and deposit-gathering purposes while it creates a new bank that has a very low cost structure. "All our diversification involves synergy with the mortgage company," says Sambol.

Diversification is also intended to lend stability to Countrywide's earnings, despite interest-rate fluctuations, says Mozilo, who notes that the fortunes of mortgage bankers have often correlated with the rise and fall of interest rates. Company executives say that by 2008 Countrywide hopes to have an even fifty-fifty earnings split between its mortgage

RICHARD JONES, CHIEF TECHNOLOGY OFFICER, SAYS COUNTRYWIDE'S DATA COLLECTION HELPS IT DEVISE APPROPRIATE PRODUCTS.



⊗ THE HOME DEPOT MODEL

"Inherent in Countrywide's strategy is the objective of ubiquity, to be essentially **THE HOME DEPOT INC.** (HD) of the U.S. mortgage industry," says David Sambol, president of Countrywide Home Loans. By that, Countrywide says, it means a large offering of products and a physical presence in communities it serves.

The company notes that it now has 737 branches, up from 563 at year-end 2003. CEO Angelo Mozilo contends that a neighborhood presence is even more important in today's era of industry consolidation than it was in the past. He says a decentralized branch system, rather than a centralized operation (where loans are made hundreds of miles away by "totally disinterested people"), encourages Countrywide employees to bond with borrowers. "You have to face [your customers] at Home Depot. It's a whole different attitude when you're personally involved."

Further, Countrywide aims to offer "the broadest mortgage product line in the U.S.," says Sambol, who reports that Countrywide has one of the widest product arrays in the industry. The company devotes a lot of resources to ensuring that loan products are appropriate, Sambol says. "We are voracious users of data, collecting data points from numerous areas on which the destiny of our business correlates," he explains. "Our market research department identifies trends relating to home sales, home-price appreciation, local economic conditions, income trends and consumer preferences."

Sambol points to two products aimed at recent first-time homebuyers. The Countrywide PayOption mortgage, he says, gives people four choices each month, beginning with payments that cover only the loan's interest, and ending

with a fully amortizing payment. The Countrywide Interest Only mortgage allows borrowers to pay only interest for the loan's first two to 10 years, presumably when their income is lower than it will be later in life, explains Sambol.

Both products were launched in reaction to recent spikes in home values, says Sambol. "Household income has not risen commensurately with appreciation in home values, so we've had an affordability issue," he explains. Sambol says many historical products, such as the 30-year fixed-rate mortgage, don't help much because the debt-service burden is too high. To allow customers to purchase a home even in pricey regions of the country, Sambol says, the company asked itself a question: "How do we get more people to enjoy the benefit of home ownership?" The answer, he says, was these two products.

