Testimony of Angelo Mozilo

Before the Committee on Oversight and Government Reform

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Good morning Chairman Waxman, Ranking Member Davis, and Members of the Committee. My name is Angelo Mozilo, and I am a founder and Chief Executive Officer of Countrywide Financial Corporation, the nation's largest single family residential mortgage originator and servicer. You invited me to participate in a hearing on issues relating to CEO compensation and severance arrangements against the backdrop of the ongoing housing crisis. This housing crisis is real and many homeowners are hurting, and later I will describe some of the steps our company is taking to be part of the solution.

COMPENSATION AND SEVERANCE

I will begin by giving you the facts about my compensation and my decision to give up my severance. My personal experience as a CEO is unlike that of many other American CEOs. As a founder of the company, I was not brought in to serve as the CEO of an existing major enterprise, nor did I start out as an employee of an established company and then work my way up. My partner and I created our Company in 1969 sitting in the kitchen of his small, New York apartment. We shared a dream to create the first national mortgage banking company focused on providing homeownership opportunities to all Americans, including families who had been largely left behind by traditional mortgage lenders. I raised the $100,000 I needed to help start the company by using all of my assets which amounted to $25,000 and borrowing the rest.

That was just about forty years ago and for the last four decades, I have devoted my life to building from the ground up a mortgage banking company focused on providing homeownership opportunities to all Americans. We are the nation's largest lender to white as well as minority homeowners in virtually every major metropolitan area in the country. I am proud of the homeownership opportunities Countrywide has provided for more than twenty million Americans. I am also proud of the 39 years of success our company has had, and while the last 6 months have been the most challenging in our history, I am certain that the company will return to its leading position in the market, particularly as part of the Bank of America family.

With respect to Countrywide's compensation philosophy, the Board has adopted a compensation policy that aligns the interests of top executives with shareholders by making compensation largely performance based. That philosophy guided my compensation. From 1982 through April 2007, our stock price appreciated over 23,000 %. As a result, earlier in this decade, I received substantial income from performance based bonuses earned under a formula based on earnings per share. This bonus formulation was approved on at least two separate occasions by the company's stockholders.

Over the years, a significant portion of my compensation was in the form of stock options rather than cash. As the stock appreciated, the value of my own holdings also increased in value. In December 2004, in consultation with my financial advisor as we prepared for my retirement, I exercised a number of outstanding options, a significant number of which were about to expire, and sold the underlying stock pursuant to plans established with the advice of counsel. Notwithstanding these sales, today I remain one of the company's largest individual shareholders, because I believe in Countrywide.

In short, as our company did well, I did well. But when the company last year experienced the unanticipated and unprecedented seizing-up of the capital and credit markets, we suffered a loss for the first time in 30 years. As a result, my direct compensation and obviously the value of my own Countrywide stock holdings declined substantially, which is as it should be. I have not received, and will not receive, a bonus for 2007 or 2008.

In recent years, the issue of executive compensation and severance pay has been a focus of governance experts, regulators, the media and the general public. In my case, there have been reports that I stood to collect $115 million in severance.

While those numbers were grossly exaggerated, I have voluntarily elected to forego the specific severance payments that had been included in my contract in the event of a transaction like the one with Bank of America. As I reported in a press release, upon completion of the Bank of America transaction, I will give up approximately $36.4 million in severance payments, and an additional $1.1 million in future consulting fees and other perquisites, for a total amount foregone of approximately $37.5 million. I will continue to receive my pension, which accrued over my almost 40 year career with the company, as well as several prior years' earned compensation which I had voluntarily deferred. Neither constitutes severance, and both would be payable to me on my retirement, whether or not the company entered into a transaction with Bank of America or any other entity.

I voluntarily gave up these benefits because I did not want this issue to detract from, or in any way to impede, the important task of completing the Bank of America transaction, one that I believe is critical for our employees, our shareholders, our customers and the economy in general.

HOUSING CRISIS

Mr. Chairman, I would now like to turn my attention to the current housing crisis. The foreclosure and default problems in general are due to the decline in housing values caused by an unprecedented series of economic shocks to the housing and capital markets. No single entity or industry sector is responsible for the collapse in housing prices. It is the lack of liquidity and credit tightening resulting from the seizing of the credit markets that has cut off buyer demand.

I have spent 55 years of my life in this industry, and this is the worst housing market I have ever seen. People are hurting, businesses and their employees are hurting, indeed the whole economy is hurting. The reasons for this crisis are many and complex. Like Federal Reserve Chairman Bernanke observed, this housing crisis has many fathers. In my testimony, I'm going to provide, with the benefit of hindsight, my perspective on what has occurred. But first I want to underscore what for me personally is perhaps the most important goal going forward, namely to keep as many people as possible in their homes. In that effort, Countrywide has been a leader.

WHAT COUNTRYWIDE IS DOING TO HELP

At Countrywide, we have enhanced our efforts to help financially distressed homeowners keep their homes. In 2007, we helped more than 81,000 families avoid foreclosure, including making more than 55,000 loan modifications that adjust the loan terms to provide long term affordability. In addition, in 2007 we refinanced more than 50,000 of our subprime borrowers into prime loans.

In addition to our own efforts, we have played a leading role in the industry's Hope Now Alliance, and we have partnered with over 40 homeownership counseling agencies around the country, including the Homeownership Preservation Foundation and Neighborworks. We also recently announced two groundbreaking initiatives with leading non-profit community housing organizations – the Neighborhood Assistance Corporation of America (NACA) and ACORN.

Our efforts include:

- In October 2007, we announced a $16 billion home retention initiative focused on providing assistance – whether in the form of refinancing or loan modifications – to subprime borrowers with hybrid adjustable rate mortgages. This effort is backed up by an outbound calling initiative to reach out to such borrowers.

- Also in October 2007 we signed a groundbreaking agreement with NACA to help more borrowers stay in their homes. Under this program, NACA will work with Countrywide borrowers who come to NACA for assistance to develop an effective plan to remain in their homes. Options available include payment plans, loan modifications, and loan restructuring. Once a plan is developed, it will be submitted to Countrywide for approval and implementation of the workout plan.

- On February 11 this year we announced an agreement on home retention best practices with ACORN, one of the nation's largest housing and community organizations. The agreement will extend the reach of our earlier workout programs (a) to borrowers with all kinds of subprime loans, not just those with hybrid ARMS with pending rate resets; and (b) for borrowers in various stages of mortgage delinquency, not just borrowers who are current. Solutions include refinancing borrowers into prime loans, where possible, and loan modifications that can include offering a five-year extension of a borrower's interest rate prior to the reset, capitalizing arrearages, a temporary interest rate freeze or an interest rate reduction.

- In addition, we are a founding member and active participant in The HOPE NOW Alliance and Project Lifeline initiatives. Through HOPE NOW and Project Lifeline, the industry and non-profits are reaching out to borrowers well before their rates reset to devise solutions to help keep borrowers in their homes, whether through loan modification or freezing interest rates. In addition, we are aggressively reaching out to seriously delinquent borrowers to help them save their homes, including offering a 30-day pause on foreclosure so that borrowers can work with a lender to save their home.

Beyond these activities, I and others from the company have met with the leaders of Congress and the Administration urging that prompt steps be taken to inject as much liquidity as possible into the market so that more credit can start to flow and we can begin to right the imbalance between supply and demand in the housing market. For example, I have urged that the Fannie Mae and Freddie Mac loan limits be increased. I appreciate that such a provision was included in the stimulus package recently passed by Congress. But it is equally important for this increase to be implemented as soon as possible to create much needed liquidity in the residential mortgage market.

There are other ideas being discussed both on Capitol Hill and among regulators. We are strong proponents of aggressive action, and stand ready to work with public officials and the various constituents within our industry in advocating for and implementing programs that will help solve this crisis. The truth is that the last thing we ever want is for people to lose their homes. Our core commitment is to put people in homes and to keep them there. We only do well when our customers do well. It just never serves our company to make a bad loan.

THE COUNTRYWIDE STORY

Now let me step back for a moment and provide a short focus on Countrywide itself. When we started the company we believed that the only opportunity most lower and middle-income families had to create savings for their children's education, for starting or enhancing their own businesses and for providing for their own retirement was by owning a home and building equity in that home.

Initially, Countrywide originated only FHA and VA loans and over time we became the nation's largest originator of such loans. In the mid 1970s, when Fannie Mae and Freddie Mac were permitted to purchase conventional loans and ultimately to guaranty securities for such loans, we became a major lender in that sector as well. In the late 1970s, we started focusing intensively on the idea of lowering financing costs by bringing technology into what was historically a pen and paper process, and, as a result, we became known as the most technologically advanced mortgage provider in the industry.

By the early 1990s, the government had recognized the obvious truth that our housing finance system was leaving major segments of society behind. In 1992, a landmark study by the Federal Reserve Bank of Boston made it clear that there were systemic underwriting issues relating to the treatment of African American and Hispanic borrowers. Policymakers called upon the mortgage industry to change their practices and redouble their efforts to better serve minorities and underserved communities.

While many in the industry discounted the Boston Fed study as flawed, at Countrywide, we stepped up to the challenge by creating our affordable lending initiative known as "House America." It began in 1992 with a goal to provide $1.25 billion in home loans to low- and moderate-income and minority families. That commitment was met, revised and extended several times, and in 2004, the company set a target of $1 trillion in lending to the underserved during the first decade of the 21st Century – at the time the largest such corporate commitment of its kind. To date, we have met $850 billion of that goal, and we remain committed to beating the goal by 2010.

With the mission of extending homeownership in mind, I gave a speech in February 2003 – the Dunlop Lecture to the Joint Center for Housing Studies of Harvard University – in which I talked about steps we need to take to lower barriers for low-income and minority borrowers. I talked about the "money gap," noting that down-payment requirements of, say, 10 percent, present one of the biggest barriers to this population, but add no real value to the quality of a loan. What matters is the willingness and ability of a borrower to make monthly payments. I also said that we must make the whole process easier to understand and reduce the documentation needed for loans as well as the time needed to approve and close loans. And I also noted the importance of providing more flexible underwriting standards, because I believed that some elements of the traditional, automated standards effectively disqualified people who were in fact good candidates for homeownership.

Fundamentally, steps of this kind were positive, opening the door to homeownership for millions of people who previously would have been shut out. As I stated above, over Countrywide's almost 40 year history, we have made more than 20 million loans and amassed a loan servicing portfolio of $1.5 trillion. And significantly, during the entire history of Countrywide's loan production activities, less than 1 percent of our total loan production has resulted in completed foreclosures.

THE SUBPRIME AND NON-TRADITIONAL LOAN MARKET

For Countrywide, subprime lending has always constituted a relatively small part of our business, exceeding an annual rate of 10 percent only once. While, given our size, this still represents a significant portion of the subprime market, the share of our lending that is subprime is about half the industry average, and generally over time, between 75% and 80% of Countrywide's subprime production has been in the top two tiers of subprime lending quality. Our experience with subprime products had demonstrated that such loans provided a path to improved credit and/or more sustainable credit for the subprime borrower. Between 2000 and 2006, 80% of our subprime borrowers refinanced within 36 months of loan origination (interestingly, this number is approximately the same for ARM and fixed rate borrowers). For these subprime refinances, of those homeowners who stayed with Countrywide, 50% received a prime loan, and 25% refinanced into a fixed rate subprime loan.

It is interesting to note the views expressed by Chairman Bernanke in May of last year:

> The expansion of subprime mortgage lending has made homeownership possible for households that in the past might not have qualified for a mortgage and has thereby contributed to the rise in the homeownership rate since the mid-1990s. In 2006, 69 percent of households owned their homes; in 1995, 65 percent did. The increase in homeownership has been broadly based, but minority households and households in lower-income census

> tracts have recorded some of the largest gains in percentage terms. Not only the new homeowners but also their communities have benefited from these trends. Studies point to various ways in which homeownership helps strengthen neighborhoods. For example, homeowners are more likely than renters to maintain their properties and to participate in civic organizations. Homeownership has also helped many families build wealth, and accumulated home equity may serve as a financial reserve that can be tapped as needed at a lower cost than most other forms of credit.

Non-traditional mortgages such as pay option ARMs also played an important role in assisting borrowers with home purchases and helping them manage their finances. It is important to note that the Pay Option is not a new product and was not invented by Countrywide. In fact, the product has a long and positive history in California. The product offered borrowers lower rates than comparable fixed rate loans, while providing banks and thrifts with a variable rate mortgage asset that they could hold in portfolio without taking undue interest rate risk. The product performed well for nearly two decades, and gained broader acceptance in both the primary and secondary markets during the run-up in home prices earlier this decade. The product helped borrowers qualify for mortgages in a rising interest rate and home price environment by providing lower interest rates and a variety of payment options that borrowers could use to match their monthly payments to their changing economic situations.

At Countrywide, we began offering the Pay Option ARM in 2001 as a portfolio product for our recently-acquired bank. Our Pay Option loans were made only to prime borrowers with high credit scores and generally higher incomes and were underwritten to the fully amortized rate. As both interest rates and home prices rose at a rapid clip at the peak of the housing boom in 2005, a higher proportion of borrowers at Countrywide and at other lenders began to choose the Pay Option ARM for its affordability benefits.

As the product became more popular with borrowers, Countrywide took steps in 2006 to enhance the initial disclosures of both the risks and benefits of the Pay Option ARM. The company also enhanced its monthly statements to better highlight for borrowers the options available and the impact of minimum payments on the borrower's loan balance. These changes were made in advance of subsequent disclosure enhancements required by the federal banking regulators.

THE CURRENT HOUSING CRISIS

Recently, we have seen an historic crisis in the housing market. The reasons are complicated and there are obviously differing views, but here, with the benefit of hindsight, is mine. Starting in 2002, after the Federal Reserve Board implemented a series of post 9/11 interest rate cuts to stimulate the economy, low rates and reasonable housing prices combined to produce a housing boom. Home builders couldn't build fast enough, housing prices rose briskly, and speculators played an increasing role in driving the market.

In June 2004, however, the Fed commenced what turned out to be 17 consecutive interest rate increases. The combination of increasing interest rates and higher home prices initially prompted a still higher spike in demand, as many borrowers rushed to buy homes for fear of getting priced out of the market.

In the short term, builders kept on building and homeowners continued to put homes on the market, thereby increasing supply while demand shrank, resulting in lower home prices. When prices began to decline, it took an important safety valve away from borrowers in financial distress. As borrowers have an interruption in their earnings – typically the result of a disastrous life event, such as the loss of a job, serious illness or divorce – and their homes are suddenly worth less than their mortgages, they no longer have the option to refinance or quickly sell at a profit. In addition, as prices began to decline, the real estate speculators, who view the property merely as a financial investment and not as their home, simply walked away from their properties and their loans.

These factors, all stemming from the decrease in housing values across the country, resulted in an increase in defaults, confirming the statement former Fed Chairman Greenspan made in February of this year: “Unless we stabilize the price level of homes, you’re going to continue to get loss estimates from banks and other financial institutions.” And until we can provide liquidity to the consumer so that they can enter the home buying process, we will have further deterioration in real estate values and further increases in defaults and foreclosures.

Meanwhile, the secondary market, which had purchased many of these mortgages, lost its appetite for these loans. Eventually, the credit rating agencies sharply downgraded their earlier high ratings of many mortgage backed securities, and the credit markets abruptly seized-up so that mortgage lenders were unable to access the credit they needed to make new loans. This seizing-up of the capital and credit markets impacted Countrywide directly, reducing our ability to raise money for new loans.

The problem that we face today was unanticipated and is much more severe than any cycle in the past because not only did we have a sudden decline in home purchases but, at the same time, the liquidity that feeds the mortgage market deteriorated. The complete collapse of the secondary market for non-Fannie Mae or Freddie Mac mortgages combined with the downgrades by the rating agencies of existing mortgage backed securities sharply curtailed the availability of mortgage credit.

Making things still worse, the psychology of homebuyers went from wanting to get a home quickly before prices went higher to wanting to delay purchases in the belief that prices would fall still further. That reversal of psychology and the severe lack of liquidity for mortgage loans continues to weigh heavily on the market and has caused many mortgage lenders, large and small, to be driven from the market.

Much blame has been leveled lately at the variety of products, such as adjustable rate mortgages. Before the onset of the current housing crisis, these products were widely offered by industry because they made homes more affordable for more people and helped homeowners consolidate other, more expensive debt. In fact, adjustable rate mortgages had been popular with both borrowers and lenders for many years. From my perspective, then, the issue is not so much the products, but the housing market.

It bears noting that no one predicted the severity and force of the housing market downturn that followed. Recall that we have not seen an extended downturn in housing prices across the nation since the Great Depression, but we are experiencing this phenomenon today.

Foreclosing on a mortgage hurts everyone—it hurts the homeowners who would prefer to stay in their homes, it hurts the community and it hurts lenders. However, of greatest concern is the impact on the families that see their personal financial world at risk. This is why Countrywide remains committed to initiatives to help borrowers avoid foreclosure and stay in their homes.

Homeowners experiencing difficulties in making their mortgage payments should reach out to the company servicing their mortgage. At Countrywide, we have over 3,000 employees dedicated to helping those in need. While we are calling and writing in our effort to reach people, I urge those Countrywide borrowers who need assistance to call our Home Retention Division. We have learned that some people do not want to talk to their mortgage servicer when they are having problems. Accordingly, any one who would prefer to deal with a third party not affiliated with their lender should call such organizations as ACORN, the Housing Preservation Foundation, NACA or Neighborworks. In addition, we recently delivered a postcard to every Member's office with critical contact information for

Countrywide Home Retention division, ACORN, NACA, as well as the members of the HOPE NOW Alliance to help you and your staffs assist your constituents.

Over the years, the men and women who worked for Countrywide have dedicated their lives to helping millions of Americans realize the American Dream of homeownership. For many families, the equity in their home provides the best chance to achieve the things all of us want for our families: to send our children to college, to start a business, to provide a leg up when our kids start their own families, to have some resources to meet the challenges of growing old. I am proud of what our company has done to be a part of that.

But these are difficult times for many homeowners. I am extremely concerned that the recent tightening of underwriting criteria across the entire industry has gone too far. For the market to recover, underwriting guidelines need to strike a better balance between providing borrowers with access to loans and lenders and investors with the assurance that these loans will be repaid. This is a time when families, not speculators, should be the beneficiaries of lower housing prices. Now is the time for industry and Congress to work constructively together to take the kind of aggressive action needed to revitalize the housing and housing finance markets. For example,

- The Federal Reserve should continue to ensure that there is sufficient liquidity in the markets;
- Congress should consider enacting the following legislative solutions to preserve and increase homeownership:
  - FHA reform legislation;
  - Expansion of tax-exempt mortgage revenue bonds for both home purchases and refinancings; and
  - Tax credits for first-time homebuyers;
- Federal regulators should take the following actions:
  - Quickly implement higher FHA and GSE loan limits;
  - Further expand FHA to facilitate refinancing for borrowers whose home values have declined;
- Industry should take the following steps to address the housing crisis:
  - Remove remaining impediments to loan workout transactions that provide better solutions to investors and borrowers than foreclosure;

- Redouble efforts to combat fraud and eliminate undisclosed speculative housing purchases; and

- Work with community groups and local housing officials to ensure the efficient maintenance and resale of foreclosed homes.

We at Countrywide are doing our best to be a leading part of the solution and look forward to working with others in business and government to do still more.

In crafting solutions, we should make certain that we maintain a robust home finance market for all Americans. My greatest fear as I come to the end of my 55 years in providing home financing to families living out their dream of homeownership is that the reaction to current events will take us back to the early 1990's when minorities and lower income families did not have the opportunity to own a home of their own, and that the disparity between white and minority homeownership will again widen.

Finally the current crisis can be reversed if we seek ways to structure underwriting guidelines so as to lower the barriers to entry to mortgage finance and to continue to encourage capital to flow into the single family mortgage market. It is most unfortunate that because of current conditions, legitimate borrowers are unable to buy homes the values of which have become much more affordable. But instead, speculators are again rushing to the market to capitalize on the expanded foreclosure inventory. This is a time when families should be given the opportunity to own a home, and they should be the beneficiaries of depressed housing prices, rather than the speculators. I also want to strongly suggest that traditional guidelines be reexamined relative to the appraised value of a home versus the outstanding mortgage so that current borrowers can refinance at lower interest rates irrespective of the fact that the value of the home is at or below the mortgage amount. Loan to value ratios should not be an unreasonable impediment. The FHA, VA, GSEs and the bank regulators should be able to accommodate this situation until we get through this crisis.

Thank you.