Chapter 1

Angelo Speaks, the Worldwide Contagion Begins

The mortgage business is the only business I know where you earn a ton of money in one year and give it all back during the next three.
— A disciple of Lewis Ranieri

The earnings conference call between the chief executive officer and the Wall Street community is a delicate kabuki where bad news is often couched in somber tones and fuzzy adjectives to soften the blow. But don't tell that to Angelo Mozilo—the Bronx-born, perpetually tanned CEO and co-founder of Countrywide Financial Corporation, America's largest home mortgage lender.

On July 24, 2007, the 68-year-old Mozilo and eight of his senior lieutenants at the publicly traded Countrywide, a company that a few months earlier had been worth $25 billion on paper, marched down the carpet from the corporate suite to a 30-foot conference table in the boardroom, where the top equities analysts from Bear Stearns, Merrill Lynch, Morgan Stanley—Wall Street's elite—and others were waiting on the telephone to hear what he had to say about the housing and mortgage markets.

To many on the other end of the line Mozilo was more than just the co-founder of an almost 40-year-old company, one he had built from scratch after starting out his career as a 14-year-old runner delivering documents and bank checks around Manhattan, Brooklyn, and Queens, hopping buses and subways to keep the costs down for the midtown lender he worked for. In the summer of 2007, Mozilo *was* the market, and had been for years. He didn't just sit in on board meetings. He actually closed loans for the company, working with homeowners to gauge the business, what the customer wanted. "To keep my fingers in it, still," he would say. He also would personally handle certain "FOA" or "friend of Angelo" loans where discounts and fee reductions were given to friends, family members, and business acquaintances.[1]

Mozilo didn't want to lose touch with what the business of home lending was all about. He never wanted to forget his roots. A product of public schools and colleges, he was a second-generation Italian-American who not only looked like clothing designer Ralph Lauren but dressed like him as well. He wore tailored suits, handmade shirts, gold cuff links. His hair was gray but not one hair was out of place, never. No matter where he spoke, whether it was on the trading floor at Lehman Brothers or to the Horatio Alger Association, which had inducted him into its Hall of Fame in 2003, chances are he would be the best-dressed guy in the room. With his tight skin and perfect teeth, he looked like a male model, a 68-year-old male model, one who had come out of retirement for one last photo shoot for the fall fashion issue of the Sunday *New York Times Magazine.*

In private he had a penchant for bashing competitors, peppering his nonpublic comments with four-letter words. He rarely forgot his enemies. "He's not one to forget when someone hurts him," said a friend of 20 years. Among his brethren in the home lending industry, he acknowledged few peers. He admired Richard Kovacevich of Wells Fargo because Dick, as he called him, knew how to cross-sell—that is,

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[1] Among many mortgage lenders it was not an unusual practice to waive fees and waive certain loan underwriting guidelines if they had personal or business ties to the CEO or other senior executives.

offer other products to the mortgage customer. But Kovacevich was about it. About a mortgage executive at a large West Coast thrift, Mozilo had this to say: "He's fucking incompetent. I wouldn't even let him manage one of my branches. Utterly pathetic."

As for those on Wall Street, if he had his way he'd throw them into a burning pit and apply more gasoline. He needed them but wouldn't hide his disdain for them. Mozilo once told a reporter from the *New York Times*: "I run into these guys on Wall Street all the time who think they're something special because they went to Ivy League schools." He had never forgotten how back in 1969, when he was starting Countrywide, the Street had turned him down for loans to grubstake his career. "No one gave us a chance," he had said. He wasn't the type of person to forget it, either—but he learned to live with it. And the irony of it all was that early in his career while doing office chores for a small mortgage company, Mozilo had once aspired to be a trader working the floor of the New York Stock Exchange (NYSE).

His dream of working at the NYSE was now buried in the past, in the haze of the late 1950s. As a young man growing up in New York, he grew to believe—whether or not it was true—that if you were Jewish or Italian and worked on Wall Street, you were assigned to what he called the "bowels" of a company like, say, Merrill Lynch. The backroom or basement, those weren't places where he wanted to be—well, at least not for very long.

Angelo, as everyone called him, had as much patience with Wall Street firms as a pit bull would with a newborn kitten. But, as Mozilo knew, he didn't always get to play the pit bull role. He had a reputation for having somewhat of a chip on his shoulder—especially in regard to the Street—but also that he was someone who knew the mortgage industry better than anyone else. Mozilo had left the Bronx long before, but he would admit from time to time that the Bronx hadn't necessarily left him. After all, he had created a model company, one that made mortgages not by using deposits but by borrowing money from others—banks and, yes, eventually Wall Street. (In time he would relent and buy his own bank, but only because Countrywide had grown too large for its own bankers.) Here was a man who over the course of 40 years had taken a tiny company from obscurity to the top of the heap in making home mortgages to Americans, past the gargantuans of banking—past

Kovacevich's Wells Fargo, past Citigroup, past JPMorgan Chase, past BankAmerica, past them all. In the summer of 2007 it looked as though he had won the game, but the game—home lending—suddenly turned treacherous.

Those who knew him said Mozilo ate and slept mortgages. There was never any question about his love for the business. When he went to bed most nights, and when he woke up in the morning, mortgages were foremost in his mind. He had made Countrywide the biggest and the best in the business, and his goal was to keep it that way. He would brag to reporters of the company's corporate culture, one in which employees who wanted to find themselves in the executive suite would work weekends and late nights. "If not, they don't last too long here," he told a reporter.

To some, Countrywide was his bride. Not that he wasn't a family man. He had been married to the same woman for 50 years. He was the father of five children and had nine grandkids. His sons Chris and Eric were managers at Countrywide, and his daughter Lisa was an executive in human resources (HR). His brother Ralph worked there for a while, as did his cousin Ray Malzo, who had followed him from New York to California and helped him get the company off the ground in the 1970s. Malzo left after a few years, taking his Countrywide stock and investing it in a Harley-Davidson dealership. Mozilo saw his cousin's departure from the company as a betrayal, said a mutual friend. "Angelo would complain that Ray just didn't have the right vision for Countrywide," said the friend.

To those who knew him well, the idea that Mozilo would retire was ridiculous. Sure, he had promised to slow down and pick a successor by the end of 2006, but December 31 came and went and, well, there was no successor. Not that he hadn't tried—supposedly. There was Stanford Kurland, an accountant by training who had risen through the ranks at Countrywide and was ensconced as its president and chief operating officer, the number-two banana at its Southern California headquarters in suburban Calabasas. Stan and Angelo were said to be somewhat close. During conference calls Mozilo would sometimes let Kurland take the reins, explaining the company's financials to analysts.

In the fall of 2006 Countrywide's public relations department began gearing up for a media campaign to send Kurland on the road to greet

Wall Street equities analysts and the press. A public relations woman for Countrywide bragged how she'd convinced him to shed a few pounds and buy better suits. She'd coached him on how to deal with the press. "He's really well spoken now," she said. (The intimation was that as an accountant he once had the social skills of a turtle, which was far from acceptable for someone who would be succeeding the über-polished Mozilo.)

The idea was to introduce Kurland as the "new" Angelo. There was a problem, though: There was no such thing as a "new" Angelo. There was only the original. As that day grew closer, it became clear to Mozilo that Kurland envisioned Mozilo's future role as a docile chairman only. Kurland believed that Mozilo would only show up for board meetings, bang the gavel, and spend his newly found leisure time attending his grandkids' soccer games and playing golf at the local country club with his close friends Howard Levine, a commercial mortgage banker, and James Johnson, the former head of Fannie Mae. Angelo loved his grandkids, but he wasn't about to spend almost all of his spare time with them.

Stan's vision was not Angelo's vision. "He was fucking crazy if he thought that I wasn't going to have anything to do with the company after I retired," Mozilo told a friend. And that was that. In short order, Kurland resigned from Countrywide in October. A press release issued by the company said Stan had left to pursue "other career interests." Translation: Mozilo kicked him out of the company, pushed him overboard headfirst, and never looked back. Countrywide was his baby, his creation. If some accountant thought Angelo was going to sit on the sidelines, well, he had another thing coming. At least that's what Mozilo confided to some.

So, here he was on July 24—earnings day—nine months later still very much in charge, very much at the helm. Wall Street analysts like Morgan Stanley's Ken Posner and Paul Miller from Friedman Billings Ramsey, and dozens of others (the press as well), were waiting to hear what Angelo had to say. On July 24, Countrywide was scheduled to report its second quarter results. In the normal course of business the second quarter conference call would be a routine affair, but on this particular day, at this particular point in time, all was not well in the mortgage and housing industries.

Loan delinquencies were rising to 20-year highs. Subprime borrowers (those with bad credit) were defaulting on their payments as never before. Since 2002, subprime had been the hottest lending niche in the business, accounting for 20 percent of new mortgages written in the United States. Over the previous five years, home lenders had originated an eye-popping $2.6 trillion in mortgages to people with bad credit, and delinquencies had been just fine. But not anymore. Home sales were falling to five-year lows—and even worse, home prices were starting to slip. Anyone who worked in mortgages or housing knew this: Home prices never fall. They're not supposed to. It just doesn't happen. Well, not since the Great Depression, that is.

Mortgage lenders were beginning to close their doors at a rate that hadn't been seen since the nation's savings and loan (S&L) crisis of the late 1980s. But administration officials from the Bush White House, including Treasury Secretary Henry Paulson, were explaining away the nation's housing woes and the emerging subprime crisis as something that was "contained"—that it wouldn't "affect America's healthy economy," in Paulson's words. It wouldn't spread to the global markets. And Paulson was a smart guy. Handpicked by President George W. Bush the year before, he had been the chairman of Goldman Sachs, the bluest of Wall Street's blue bloods. He was an Ivy Leaguer, a man who knew what the hell he was talking about.

Yet, cracks were starting to show—not just in the mortgage market but on Wall Street, Paulson's home turf. Several months earlier, two hedge funds that had been created by Bear Stearns, a firm whose history was built on risk analysis—that is, knowing a good investment from a bad one—had begun to lose money. There was talk on the Street and in the financial press that the Bear Stearns hedge funds—once valued at $40 billion—might even collapse. And what exactly had these funds invested in? Answer: mortgage bonds that had been created from subprime loans. It wasn't just mortgage bonds that the hedge funds had bought into, but a relatively new type of bond called a collateralized debt obligation (CDO). A CDO was a security created from other securities. The Bear Stearns hedge funds also were making side bets on other subprime bonds by purchasing hundreds of insurance policies called credit default swaps. Grouped together, these investments were called derivatives, which meant they were derived from loans or bonds that Bear Stearns didn't necessarily own. The bets being made by senior managing director Ralph Cioffi, who was in charge of the hedge funds, boiled down to this: Bear Stearns was bullish on the future of housing, and subprime in particular.

But Bear Stearns wasn't the only investment banking firm playing the subprime game. The biggest names on Wall Street—Citigroup, Lehman Brothers, Merrill Lynch, and Swiss investment banker Credit Suisse—were all doing the same thing. They were buying billions of dollars' worth of subprime mortgages from nonbank lenders, securitizing them, and then resecuritizing them into CDOs, selling some of them overseas. Almost every mortgage they put into a bond was a loan made to a borrower who either had bad credit or was considered a stated-income risk. Stated-income mortgages worked like this: The borrowers stated their income and the lenders believed them. It was a wildly popular product and for obvious reasons: Borrowers got what they wanted even though they had to pay a slightly higher interest rate for it. Wall Street loved any type of loan that was paying a higher rate than the conventional or "A" paper rate of good credit quality mortgages sold to Fannie Mae and Freddie Mac, two congressionally chartered mortgage giants whose mission in life was to buy such loans.

A higher-yielding mortgage meant that a Wall Street firm like Bear Stearns could create a higher-yielding bond to sell to an investor. Every time a bond salesman at Bear (or any other firm) sells a bond, he takes a fraction of the deal for himself. On a $50 million bond, the commission might be an eighth of a point, which works out to $62,500. Bond commissions are not openly publicized and can vary greatly depending on what type of bond is being sold. But one equation rings true—the higher the yield on the bond, the higher the bond sale commission. Subprime mortgages were the highest-yielding loans around that were backed by something tangible: a house. Right smack in the middle of Wall Street's thirst for yield were Angelo Mozilo and Countrywide. Even though Mozilo hadn't started out as a subprime mortgage banker, he was now number one in that business as well. Countrywide wrote more subprime loans than anyone else. That's what Angelo had designed Countrywide to do: enter a market and dominate it. That's what a man who eats, sleeps, and lives mortgages does. "Our goal is to be number one in all the markets," he would say.

As doubts began to mount about the ability of subprime borrowers to keep paying on mortgages backed by homes that were now worth less, Countrywide became part of the story, whether Mozilo liked it or not. As he prepared his comments that July morning, he realized that moving Countrywide into subprime lending was, perhaps, the worst business decision he had ever made in his life. Up until now he had a reputation as a man who had spent his life putting people in homes—minorities and immigrants as well as the middle class, people like his father, who had been a butcher. All that was about to change.

As the microphone opened up on the third floor, Angelo and his top executives at the company laid out the second quarter results: earnings down by one-third to $400 million. On the surface, that may not have seemed so bad. After all, if Angelo and the equity analysts who followed his every move knew anything, they knew that residential lending was a cyclical business, one where profits boomed for a few years and then flattened out, only to revive once again. But then came the conference call Q&A—where analysts got their chance to grill the CEO. Before their microphones were opened up, Angelo, ever the proud father of Countrywide, reminded the experts who followed his company that Countrywide's team was "best in class," that they would weather the storm.

He added that even though the housing market was tanking—and the business of lending on homes right along with it—Countrywide was in a "position to capitalize" on the market's wreckage, that as other lenders failed, Countrywide would pick up market share, meaning his company would get a bigger piece of the pie, something equities analysts loved to hear. Gaining market share was what it was all about—not just in mortgages but in any business. In the mortgage business, the bigger machine you operated, the more money you made. Angelo's creation had a 15 percent market share, which meant that 15 out of every 100 loans closed in the United States belonged to Countrywide. It was an impressive number. But Angelo wanted 20 percent. That's just the kind of guy he was.

Countrywide, even though it, too, was having trouble that quarter, would make lemonade out of lemons. It was a message that Mozilo had been stressing for the past nine months. Everyone in the business—as well as the analysts who followed his company for their rich clients—had heard the Mozilo mantra. "We're well positioned to capitalize" on the industry's problems, he repeated. As other lenders failed, Countrywide would only grow stronger, feeding on the carcasses of others, raiding their demoralized employees and offering them jobs. To Angelo, it was a beautiful way to do business. He and Countrywide would grow stronger as everyone else grew weaker.

But then a question came from Paul Miller, an analyst at Friedman Billings Ramsey, an investment banking firm based in northern Virginia, a firm that, ironically, owned a failing subprime lender of its own. "Angelo, when do you see things improving out there?" asked Miller.

The Countrywide CEO, known for his bluntness above all else, reminded them that "no one" had seen the housing and mortgage downturn coming. "Bear Stearns, Merrill Lynch, S&P's [Standard & Poor's]. No one," Angelo said. There he was, bashing Wall Street again. But Angelo, as he would admit later, hadn't seen it coming, either. He knew it was going to be bad, but he didn't think it would be quite this bad.

Angelo was asked another question or two and then was pressed again about when housing prices and sales might finally come out of their swoon. He shot back quickly. "I'd say 2009," he said. "It takes a long time to turn a battleship around. That's what this is—a huge battleship. We need to slow it down, stop it, and then turn it around: 2009."

Some analysts were wondering: 2009? That was two years away. Sitting at their desks on the other end of the phone, watching blinking computer screens, that wasn't the kind of reassuring talk that equities analysts wanted to hear. An analyst asked a question of another Countrywide executive, and then Mozilo butted in at the end of the executive's answer.

If anything, he wanted to make sure that these folks on Wall Street fully understood the situation. He wasn't about to whitewash it. He wasn't a put-on-your-best-face kind of guy. His ability to cut through the malaise of the situation (or as he would call it, "the bullshit") was what endeared him to analysts, certain competitors, and definitely members of the media. Mozilo told the audience on the other end of the line without hesitation, "We are experiencing a huge price depression, one we have not seen before—not since the Great Depression."

The Great Depression? Analysts didn't want to hear that, either. Mentioning the "D" word in relation to anything financial was akin to saying the world was about to end. The next day, Countrywide's stock skidded 11 percent. On paper, investors lost millions. Some analysts believed it would have skidded even more if the investment banking community hadn't swallowed, hook, line, and sinker, Mozilo's boast that even though the mortgage and housing markets looked bleak, Countrywide would capitalize on all the carnage by gaining market share. Market share was his mantra.

Still, Mozilo's remark about the Great Depression savaged the stock market. The Dow Jones Industrial Average plunged 226 points. It was the worst decline in four months, which in the scheme of things may not have seemed that bad, but the New York Stock Exchange had indeed set a record that day: 4.16 billion shares of stock changed hands, a sign that investors were heading for the exits big-time. They were nervous. Had Angelo's comments wiped out billions of dollars in stock value? It looked that way. "The 'Great Depression' comment he made was just irresponsible," said an investment banker who served on industry panels with Angelo. "He started it."

In the weeks ahead, the stock market would recover by a hundred points here and there and slip by just as much and then some. Within a month the Dow would drop by a thousand points.[2] While the Dow sank, Mozilo cashed in stock options, unloading thousands of shares in Countrywide. Over the previous year he had cashed in stock options and sold $140 million worth of company stock. People noticed. And when it was pointed out by columnists and short sellers, he bristled. In an interview with the trade newspaper *National Mortgage News*, he boasted, "I started this company with my own money. I have created $25 billion in value for shareholders. It's been one of the best-performing stocks on the NYSE. I gave them 98 percent and took 2 percent. And they [the shareholders] didn't have to do the work. I did it for them."

A few days after the Countrywide conference call, the two Bear Stearns hedge funds that had invested in subprime CDOs and credit default swaps collapsed for good. The funds were now worth just 10 percent of their peak value, if that. Warren Spector, the Bear Stearns co-president who had ultimate responsibility for the funds, had been

[2] By March 2008 the Dow Jones Industrial Average had lost 2,200 points.

canned within days of Mozilo's "Great Depression" comment. Spector, a 20-year veteran of Bear Stearns who had shepherded the firm's foray into residential mortgages two decades earlier, was considered by many on the Street as something of an analytical genius who had rarely made a bad call in mortgages. Not anymore.

Meanwhile, in Atlanta, a residential lender called HomeBanc Mortgage, a midsize nonbank a fraction of Countrywide's size, was struggling to stay afloat. HomeBanc, which once had been part of a savings and loan, was managed by a handful of executives who a few years earlier had worked at a Countrywide competitor called HomeSide Lending. Headquartered in Jacksonville, Florida, HomeSide had been a target of Mozilo's in the trade press. The Countrywide chairman and CEO had bashed HomeSide because instead of making mortgage loans directly to consumers through retail branches, the company bought already-originated loans from other firms. Mozilo strongly believed that the practice of buying newly originated loans from other lenders would eventually bankrupt the company, because the profit margins on such a strategy were so thin. (Ironically, Mozilo was doing the same thing, but he still used retail branches and loan brokers to gather mortgages.) In time, he would be proved right. HomeSide collapsed two years after being bought by an Australian bank. "They didn't know what the fuck they were doing," he said of HomeSide's management. The Australian bank, National Bank of Australia, lost $2 billion on HomeSide. It left America with its tail between its legs, Mozilo bragged.

HomeBanc, though, was a direct lender to consumers through its retail storefront branches. And it wasn't a subprime lender, either. In the summer of 2007 it was struggling to survive because all the bad news in the subprime sector had caused its bankers to rethink the strategy of lending money to HomeBanc. HomeBanc was a nonbank that employed 450 loan officers, many of whom had no prior experience in the mortgage business, which is sort of like running a soccer team by hiring baseball players, hoping you can teach them the game. (Loan officers work with the public, selling them different mortgage products.)

HomeBanc CEO Patrick Flood (unlike his next in command, Kevin Race) was not a former employee of HomeSide. Flood was a born-again Christian who made prospective employees take what he called a "values test" before he would hire and then train them to make loans to the public. HomeBanc had 22 branches, and each one had a Christian chaplain on call. Its human resources director was Ike Reighard, a close friend of Flood's who had once held bible studies at HomeBanc. Reighard, the founder of a megachurch in suburban Atlanta, had once told Flood, "God has prepared me all of my life for this job."

The Reverend had no professional HR experience, but that didn't matter to Flood. He felt that a pastor who could counsel churchgoers about divorce, kid problems, and money woes would make a fine HR chief. "Our 450 loan officers may've had no prior experience," he would later explain, "but we had the best service out there." Maybe so, but by August Flood was no longer at the company, the board forcing him to resign in January because HomeBanc's loan originations were sinking right along with its stock price. (Like Countrywide, HomeBanc was publicly traded on the NYSE.)

By early August, after Mozilo had already painted his bleak picture of the business, HomeBanc's stock had drifted down to 60 cents from a onetime high of $10. Its shareholders were not happy. HomeBanc's bankers pulled the plug. On Friday afternoon, August 10, Kevin Race, Flood's successor, gathered some of his staff in a conference room at the lender's headquarters, giving them the bad news. "We're shutting down," he said.

The strange thing about HomeBanc's failure is that when it filed its bankruptcy court papers a few days later, it listed liabilities (what it owed) of $4.9 billion and assets of $5.1 billion, which meant that even though no bankers (JPMorgan Chase, Bear Stearns, and several foreign banks) would lend it any money, it actually had a net worth of $200 million—not bad for a failed company. Had Mozilo's comments played a role in its death?

It was hard to pin HomeBanc's failure on Angelo. He had no control over what the money center banks did in regard to his competitors. (Both HomeBanc and Countrywide were top lenders in Georgia.) After all, HomeBanc wasn't a subprime lender. But by this time subprime lenders were failing every week—at a rate of 10 a month, at least. When HomeBanc ascended into mortgage heaven, guess who stepped in to purchase five of its highest-performing storefront branches in Georgia? Mozilo and Countrywide. He once again was making good on his promise to prosper from the mortgage industry's meltdown. As others died, he would get stronger: his mantra.

One of his favorite ploys was to find out which loan officers at open (as well as failed) lending shops were the highest performers. A high performer was a loan officer who had a kick-ass client list of potential customers, someone who could work a network of prospects, bringing them in as loan customers. Selling a mortgage to a consumer (whether for buying a new house or for refinancing one) was just like selling a car or washing machine or expensive stereo. Mozilo knew that gangbuster loan officers—men and women who worshipped the movie *Glengarry Glen Ross* and the phrase "ABC" or "always be closing"—whether they worked directly with home buyers or gathered loans through mortgage brokers, were worth their weight in gold. Those were the people he wanted to hire. He would personally interview some of them himself.

A marketing officer at Impac Mortgage in Southern California, a Countrywide competitor, tells a story of just how aggressive Mozilo and Countrywide could be in their recruiting of loan officers. "There was a news story in the local paper that we were having trouble, which caused some of our employees to get nervous. The afternoon the story appeared about us, a car pulls into our parking lot with a big cardboard advertisement on the roof. The ad said something like 'If you're worried about your job, call this number.' At first, a few of us laughed. But then we started getting concerned. After a half hour the car was still there in the parking lot. We were getting annoyed. Someone from the company went down there and told that car to get the hell out of our parking lot. We called the phone number—it was a phone number at Countrywide."

When Countrywide agreed to buy the five branches from the now-dead HomeBanc, employees who worked at those branches were elated to have jobs and be working for Countrywide—the nation's largest lender of home mortgages, a Fortune 500 company that employed 60,000. Countrywide had a bank affiliate. It had depositors, little old ladies from Pasadena with certificates of deposit and savings accounts. It didn't need to depend solely on Wall Street and money center banks to keep its business going. Countrywide was rock solid. Angelo Mozilo was the poster child of mortgage lending in the United States. He was a frequent guest on CNBC, the business channel, and friends with one of its chief anchors, Maria Bartiromo. He—and Countrywide—would be around forever.

At least, that's what the ex-HomeBanc workers thought.

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On Wednesday, August 15, Jim Israel, an advertising salesman for *National Mortgage News*, the largest industry trade publication that covered mortgages, was driving down a four-lane street in Pasadena, California, a city where Countrywide was once headquartered. In years past Israel had sold advertisements in *National Mortgage News* to Countrywide, but he wasn't having much luck this year. As for Pasadena, the story goes, back in 1997 Mozilo had requested financial assistance from the city. "He wanted the city to help us develop space for Countrywide," said Rick Simon, a public relations executive at the lender. "They turned us down." In 1997 Countrywide employed 10,000 across the United States, 1,000 of them in Pasadena. Angered by Pasadena's reluctance to help him, Mozilo bought the old Lockheed Martin headquarters 34 miles east in Calabasas, at the foot of the Santa Monica Mountains. In short order Angelo gave Pasadena's mayor the Bronx cheer.

Even though Countrywide had bolted Pasadena for the more business-friendly confines of Calabasas, the company still maintained back offices and even a bank branch there. A few weeks earlier, Israel had tried to arrange a sales meeting with Countrywide's marketing department but was rebuffed. "They told me, don't even bother coming by," he said. Driving down the street that afternoon, Israel saw a crowd of about 40 people milling around outside Countrywide's Pasadena branch. "I kept looking at those people, thinking it was a protest or something," said Israel. "As I kept driving I looked in my rearview mirror. I didn't know what it was."

It would not be uncommon for a protest to be held outside a Countrywide branch—or the branch of any other large home lender for that matter. By the summer of 2007 home foreclosures were rising to their highest level in 15 years. Public interest groups like ACORN[3]

[3] ACORN, a consumer activist group, stands for Association of Community Organizations for Reform Now.

routinely staged protests outside the headquarters and branches of large lenders like Countrywide, trying to convince them to go easy on late payers. But what Israel witnessed that afternoon wasn't a protest against a big, bad mortgage lender. As he later remembered, it didn't seem as though any of those 40 people milling around outside the branch were holding a protest sign.

The next day Israel picked up the *Los Angeles Times* and found out what the fuss was all about. Countrywide's Pasadena branch—and branches throughout Southern California—had been the subject of a good old-fashioned run on the bank where panicked depositors, fearful that they might lose their life savings, lined up to yank all their money out. The nation hadn't witnessed any bank runs since the S&L crisis two decades earlier, and before that, the Great Depression. (It seemed as though Mozilo's "Great Depression" comment was coming back to haunt him again.)

The newspaper reported that those pulling out cash included a Los Angeles Kings hockey player and a middle-aged banker named Bill Ashmore. Ashmore was a top executive at Impac Mortgage—the same company that Countrywide had tried to raid for employees. Like every other mortgage lender in the land, Impac had seen its stock price ravaged over the past year. It was now trading at just over a dollar, compared to a yearly high of $12. Impac's specialty was "alt-A" lending, a loan product best described as not quite subprime, but not quite prime, either. Impac, like HomeBanc, was a nonbank. It, too, borrowed money from Wall Street. It didn't use deposits. Depending on which analyst you talked to, it looked as though Impac was on the gurney as well.

Ashmore worked in nearby Irvine. That morning, at the behest of his wife, he drove his Porsche Cayenne to Countrywide's Laguna Niguel office. Scott Reckard, a reporter from the *Los Angeles Times*, was staking out the parking lot, hoping to talk to nervous depositors pulling their life savings from the branch. (Countrywide's newspaper and radio ads targeted senior citizens. Pasadena and the surrounding towns had more than their fair share of well-to-do seniors.) Reckard approached Ashmore, not knowing who he was—the president of a Countrywide competitor, an ailing one at that. (Reckard would later say that running into Ashmore "was one of those serendipitous things that occur maybe once a decade. I drove to the nearest Countrywide office, saw that there were a dozen people inside waiting to get their dough, approached the first guy who left, and it turned out to be Ashmore.")

Ashmore was a little like Mozilo in that if you asked him the right question he could be a chatty fellow. He told the reporter that he had just cashed in a $500,000 certificate of deposit, transferring it over to an account at Bank of America, the third largest bank in the United States, one that was considered a pillar of financial stability. "It's because of the fear of bankruptcy," Ashmore said as he approached his Porsche. "It's got my wife totally freaked out. I just don't want to deal with it. I don't care about losing 90 days' interest. I don't care if it's FDIC insured." (The FDIC, or Federal Deposit Insurance Corporation, a government agency, insured each account up to $100,000.)

The strange thing was that Countrywide wasn't bankrupt, not even close—at least that's what Mozilo believed. There was no logical reason for the run on its branches. Mozilo was none too pleased that the *Los Angeles Times* had published the physical locations of Countrywide's Southern California branches. (The adjectives he used to describe the newspaper started with the letter *f*.) Countrywide Financial Corporation, the parent company, owned a savings and loan that boasted $60 billion in deposits. Sixty billion in deposits went a long way—but not when you were originating $400 billion a year in home mortgages, which Countrywide was on track to do in 2007. So, like HomeBanc and Impac, Countrywide borrowed from Wall Street firms and the money center banks. It had $190 billion in loans it could draw upon.

The reason for the run: Before the stock market opened Wednesday morning—before Countrywide was besieged by nervous customers like Ashmore—an equities analyst at Merrill Lynch named Kenneth Bruce wrote a critical research report on the company, suggesting that if enough "financial pressure" was placed on Countrywide, it might have to file for bankruptcy protection. Two weeks earlier, Bruce, who was in his late 40s, had told Merrill Lynch's institutional and retail clients to buy Countrywide shares. Now he was calling it a "sell." Bruce wasn't just any old equities analyst. He had worked at Countrywide for five years, under Angelo's new successor-in-waiting, David Sambol, Countrywide's president.

In two weeks' time, Bruce had abruptly changed his opinion about Countrywide. Word of the "sell" rating and the mention of bankruptcy roiled the markets, sending Countrywide's shares into a nosedive. Six months earlier its shares were at $40. After the Bruce missive, its shares were at $19 and sinking fast. Mozilo was furious. Investors in Countrywide's stock had seen billions of dollars in value disappear—*poof.* When Bruce worked at Countrywide, Angelo never met him. "I have no idea who he was," he later said. (He also had a few choice words for Bruce, none of which were printable in a family newspaper.)

"I don't know what his motivation was," Mozilo said a few days later. "He had just confirmed us as a 'buy' two weeks earlier. It was like yelling 'fire' in a crowded theater. He put my 60,000 employees at risk. He panicked our senior citizen depositors. And the thing is that he doesn't know what the fuck he's talking about. He doesn't even have his facts right."

The facts, as Mozilo saw them, were that Countrywide, even though it had stopped making most types of subprime loans, was liquid, meaning enough banks were willing to lend Countrywide money despite Bruce's disparaging comments. Countrywide had $190 billion in loans available to it. However, Bruce didn't see it that way. Bruce said that yes, banks and Wall Street had agreed to lend Countrywide such a large sum, but those deals could be terminated at any time, and at a moment's notice.

Bruce had another connection to Countrywide that Mozilo didn't realize. Ten years earlier he was an intern at the investment banking firm of Sandler O'Neill working under Mike McMahon, a stock analyst who closely covered Countrywide and was on friendly terms with Mozilo. "Ken worked for me for two months," said McMahon. "I told him he was too smart to be doing this kind of work. Eventually, he moved on." (Further adding to the web of connections was the fact—never published—that Mozilo earlier in the year had been talking to Sandler O'Neill's senior managing principal, Jimmy Dunne, about merging the investment banker with Countrywide.) Bruce went from Sandler O'Neill to Countrywide's capital markets group to Merrill Lynch, whose CEO, Stanley O'Neal, was a golfing buddy of Mozilo's. (After Bruce's comments wreaked havoc on Countrywide's stock, Mozilo, still steamed, told one friend, "Next time I see Stan I'm going to punch him in the nose." He was half kidding, said the friend.)

It wasn't so much that Bruce had told Merrill Lynch's institutional and retail customers to dump the stock, but that he was suggesting that the nation's largest mortgage lender and servicer, the House of Angelo—one that was closing in on a market share approaching 20 percent—could go belly-up. Just how bad were things in the mortgage market? The subprime sector, where 20 percent of home borrowers got their loans, had just about seized up. Wall Street firms were still buying mortgages from subprime lenders but at greatly reduced prices and volumes. The phrase *credit crunch* was starting to be used liberally by financial commentators on television. Home buyers with good credit could still get mortgages, but home prices were falling and defaults were rising.

All summer President Bush's Treasury secretary, Henry Paulson, no matter where he traveled, had been making the same speech—that the problems in the U.S. mortgage business, the subprime market in particular, had not sparked what was being called a "worldwide contagion." No one was listening, though. Stocks were now tumbling in Asia, Europe, and Latin America. Bruce's bankruptcy call on Countrywide had capped off a week of horrific news. Rumors were starting to spread that subprime CDOs sold by Wall Street firms such as Merrill Lynch and Morgan Stanley were causing losses overseas at banks in Europe and Australia.

To some, though, Angelo was getting his comeuppance. To some, Mozilo's July 24 comments about the housing market being in the worst shape since the Great Depression had started the ball rolling. But this ball was no longer small. It had grown into a boulder and then a landslide, rolling downhill toward Mozilo and the 60,000 employees who worked at his Calabasas-based baby, Countrywide. "Angelo's mouth finally got him in trouble," said Lew Sichelman, a nationally syndicated housing columnist who had covered the company for 30 years.

Even President Bush was being asked about the mortgage crisis at press conferences. (Mortgages weren't typically topic A during presidential Q&As.) Bush kept repeating what he had always believed—that the U.S. economy was strong, that there would be no government bailout of mortgage lenders. But the President's words didn't convince Jim Cramer, a former hedge fund manager who runs a stock picking show on CNBC. On the Friday before Bruce's "sell" rating, Cramer—who on his show *Mad Money* often referred to Mozilo as a "good friend" and implored CNBC's viewers to buy Countrywide's shares—was describing the stock market meltdown, the worldwide contagion, as "Armageddon." Not only was he using the word "Armageddon," but he was shouting it out at the top of lungs, jumping up and down on the set like a child having a temper tantrum. "This is Armageddon," Cramer repeated to his viewers. Reporter Erin Burnett looked at Cramer as though he had lost his mind.

Back in Calabasas, Mozilo couldn't have agreed more with Cramer's assessment. Thanks to one word uttered by Merrill Lynch's Ken Bruce (bankruptcy), Countrywide was now facing financial Armageddon—even though it had earned almost $2 billion the year before. On the Wednesday that Bruce made his bankruptcy utterance, the Countrywide founder had been scheduled to appear on CNBC at 4 PM Eastern time. He was a no-show. Countrywide's stock continued to trade downward like a rock thrown off an airplane. Instead of talking to Maria Bartiromo, the CNBC anchor, Angelo was working the telephones, trying to get his lenders, his bankers, to calm down.

He tried to convince them that despite what that "moron" (his words to a friend) Bruce had said, Countrywide was going to be okay. It had earned $2 billion just the year before. But it didn't really matter what Angelo thought. When he called around to calm Countrywide's bankers, to plead with them to continue lending money to his company—so Countrywide could continue funding the American dream of home ownership for millions of Americans—he got the cold shoulder. Wall Street hadn't forgotten that chip on his shoulder. Their collective answer to him: Drop dead.

"They said, 'We have our own problems,'" Mozilo explained. "These were guys I had been banking with for 40 years." For the first time in a long time, when Angelo spoke no one was listening, at least not the way he wanted them to.

Over the next few days, ashen-faced Countrywide executives worked around the clock at the Calabasas headquarters. Betsy Bayer, who worked in the compliance department, remembered that "you could see the stress on their faces. They were working monster hours. I think some people were caught up in denial or they looked like a deer caught in the headlights."

In Manhattan at the corporate offices of JPMorgan Chase something else was afoot. Jamie Dimon, the chairman and CEO of the bank/investment bank, was trying to convene a meeting of Countrywide's five largest commercial paper lenders, including Citigroup and Bank of America (BoA). As commercial paper lenders, these firms had lent and committed some of the $190 billion that Angelo spoke of. Dimon, according to one of his advisors, was concerned that each of the five was wasting valuable time trying to negotiate individually with Countrywide. "Jamie was not comfortable with Countrywide's chances of survival," said the advisor.[4] It looked as though Bruce was not alone in his belief that Countrywide could go under.

As Countrywide's stock continued on a downward trajectory, Mozilo worked the telephones and convinced an old friend, Ken Lewis, the president and CEO of BoA, to invest $2 billion of its money in a special class of preferred stock that was convertible to common stock and paid a 7.25 percent dividend. Under a deal that Mozilo personally negotiated, BoA got the shares for $18 a pop, giving the bank a 16 percent stake in the nation's largest lender and servicer of home mortgages. The investment by BoA was enough to calm Dimon's fears. It wasn't exactly luck on Angelo's part. Over the previous two years he and Lewis had talked informally about BoA buying Countrywide in its entirety. At one point the talks turned serious and BoA even began conducting due diligence, sending a team of analysts to scour Countrywide's books. Angelo got cold feet and backed out. The company was coming off its two most profitable years ever, and it appeared the good times wouldn't end.

Five years earlier, according to *National Mortgage News*, Countrywide had almost struck a deal to become a private label lender and servicer for BoA. Under Mozilo's plan, BoA could get rid of its entire mortgage department, and Countrywide, for a fee, would service and originate all of BoA's home mortgages. (The story got little attention from the news dailies that covered Countrywide.) Angelo had personally courted BoA's Ken Lewis about the idea. The move could have saved the Charlotte, North Carolina–based bank hundreds of millions of dollars a year. Angelo at one point thought he was close on the private label agreement, but Lewis eventually balked, fearful that he would

[4] The advisor, an investment banker, spoke under the condition his name not be used.

be putting the bank's mortgage customers in the hands of a company that might try marketing credit cards and home equity loans—the latter being a huge and profitable business for the Charlotte bank.

Bank of America's $2 billion investment in Countrywide wasn't the first time in its history that BoA had bailed out Mozilo. Back in 1970 when Countrywide was a struggling young company, BoA had purchased a Florida bank that had a $75,000 outstanding loan to Countrywide. One of the first things BoA did when it bought the Florida bank was to call in the loan. "I told them I had three kids, a wife, and no money," said Mozilo. BoA could close him down and lose the loan or let him continue operating with the chance that eventually the loan would be paid in full. They bit. Mozilo got his loan extended.

Some 37 years later, BoA had saved the day once more. When the investment was announced publicly, Countrywide's shares spiked upward to $24.50. The bank was now sitting on a paper gain of $700 million, and Ken Lewis looked like a financial Einstein—all for listening to an old friend named Angelo who needed some money. But in the months ahead the good times would not last, and BoA's masterstroke would soon look like a financial disaster. By January 2008 Countrywide's shares were down to $8, which meant BoA and Lewis were sitting on a loss of well over $1 billion. Mozilo and Lewis had a lot of explaining to do to their respective shareholders.