

Case Study

Countrywide Home Loans, Inc.¹

<i>Location:</i>	Pasadena, CA
<i>Description:</i>	Countrywide is one of the nation's leading single-family mortgage originators and servicers. It is the principal subsidiary of Countrywide Credit Industries, which provides vertically integrated financial services including home and title insurance, appraisal, inspection, brokerage of loan servicing portfolios, and financial planning.
<i>Year Founded:</i>	1969
<i>Service Area:</i>	National
<i>Accomplishments:</i>	About one-sixth of Countrywide's mortgages are made to black, Hispanic, or Native American borrowers. According to 1998 HMDA data, the company is the largest lender to the Hispanic market.
<i>Outstanding Strategies Management:</i>	Companywide fair lending task force; employee training in fair lending; recruitment of minority employees; employee compensation systems that do not penalize for making small loans; and comprehensive "We House America" ² campaign to expand homeownership opportunities.
<i>Attracting Applicants:</i>	Directed advertising to traditionally underserved populations; networking with minority and urban-oriented national and local organizations and companies (e.g., real estate agents in minority and LMI neighborhoods); "House America" branch offices in inner-city locations; and community housing fairs.

¹ An earlier version of this case study was published in Listokin et al. (1998).

² As clarification, the terminology "We House America" refers to the overall Countrywide campaign; "House America" is used by Countrywide in referring to loan products and the counseling center.

Qualifying Applicants: Providing affordable mortgages patterned on national GSE–FHA standards; participating in state and local affordability initiatives (e.g., BMIR financing and second mortgage programs); counseling through House America (telephone) counseling center and other means; and fair housing monitoring (e.g., matched-pair testing of application process).

Retaining Homeowners: Prompt response to delinquency and new homeowner education.

BACKGROUND

Countrywide Credit Industries, Inc. (CCI), was founded in 1969 by David S. Loeb and Angelo R. Mozilo, who retain the titles of president, and of chairman and chief executive officer, respectively. Although the principal business of CCI has always been mortgage banking, CCI has become a diversified, vertically integrated financial services company focusing on residential mortgage finance.

Countrywide Home Loans, Inc. (referred to throughout this case study simply as Countrywide), is the principal subsidiary of CCI. Countrywide’s loan production divisions make first-lien and second-lien residential loans, refinance current mortgages, and issue home equity lines of credit. The three principal divisions are:

1. *Consumer Markets.* Mortgage loans are originated directly through approximately 440 retail offices in 48 states, two nationwide call centers, and a World Wide Web site. This division has 3,567 employees and funded \$29.2 billion in mortgages in FY 1999, 31.4 percent of Countrywide’s mortgage lending activity.
2. *Wholesale Lending.* Approximately 84 wholesale lending branches serve 18,800 brokers and advisers in 50 states. This division has 1,905 employees and funded \$30.9 billion in mortgages in FY 1999, 33.3 percent of Countrywide’s mortgage lending activity.
3. *Correspondent Lending.* Three processing centers for correspondent lending purchase closed mortgage loans from 1,300 correspondent banks and other financial intermediaries in 50 states and Guam. This division has 478 employees and funded \$32.7 billion in mortgages in FY 1999, 35.3 percent of Countrywide’s mortgage lending activity.

Countrywide’s recent financial performance is summarized in table 1. Countrywide’s fiscal year ending February 28, 1999 (FY 1999) was highlighted by a refinance boom of unprecedented proportions. Countrywide funded \$93 billion in FY 1999, easily shattering its previous company record of \$52 billion set in FY 1994 (Countrywide Credit Industries, Inc. 1999a).

*Table 1. Countrywide's Performance, FYs 1997 through 1999
(dollars in millions)*

	FY 1999	FY 1998	FY 1997
Servicing portfolio (at year-end)	215,489	182,889	158,585
Loan production	92,881	48,772	37,811
Revenues	1,979	1,509	1,112
Net earnings	385	345	257
Total assets	15,648	12,183	7,689
Mortgage loans and MBS	6,231,220	5,292,191	2,580,000
Mortgage servicing rights	4,496,439	3,612,010	3,024,000

A majority of Countrywide's mortgage loans are sold to Fannie Mae, Freddie Mac, or Ginnie Mae. About 36 percent of the loans go to Ginnie Mae, 48 percent to Fannie Mae, and the balance go to jumbo, nonconforming, and other investors. Countrywide typically retains the servicing rights to mortgages it sells in the secondary market.

Of the approximately 494,000 loans made by Countrywide in 1998, about 12 percent were made to "designated minorities"—that is black, Hispanic, or Native American borrowers. The minority share is fairly consistent among loans of differing sizes; in other words, loans to minorities are not exclusively small loans.

The percentage of Countrywide's home purchase loans made to minorities has increased dramatically since 1992. In 1992, only 8 percent of purchase loans went to designated minorities. This figure rose to 9 percent in 1993, and in 1998, the figure increased to 15 percent. According to 1998 HMDA data, although Countrywide is the second largest mortgage lender in the country, it is the largest lender to the Hispanic market.

From a geographic perspective, Countrywide's purchase originations have increasingly come from minority and low-income neighborhoods.³ In 1993, only 3,671 purchase originations were made in minority neighborhoods and only 3,748 in low-income neighborhoods. In 1994, the numbers rose to 10,633 and 10,940, respectively; in 1995, to 11,458 and 12,176; and in 1998, to 17,878 and 21,169. The gains in loan share for minority and low-income households and neighborhoods came after the initiation of the House America program in 1992 (discussed in detail later).

Countrywide also services loans. Its servicing portfolio included roughly 2.1 million loans, worth nearly \$215 billion, in FY 1999—up from only 280,000 loans in 1992. Countrywide mortgage loan servicing uses highly automated systems and generates a servicing fee of 0.25 percent to 0.50 percent per year on the unpaid principal balance of each loan. The servicing function is performed through two facilities, one in California and one in Texas.

³ A minority neighborhood is defined as a census tract in which more than 50 percent of the population is non-white. A lower-income neighborhood is defined as a census tract that has a median family income at or below 80 percent of the median family income for the metropolitan area in which the tract is located.

Because of its numerous local retail offices, Countrywide manages to maintain a local presence that de-emphasizes its massive size when it works with individual mortgage borrowers. Retail branch managers cultivate relationships with local real estate professionals and with local residents, and those managers perform all underwriting, processing, and funding activities locally.

Because it is not a federally insured depository, Countrywide is not subject to the federal regulation for fair housing performance, although HUD has the ability to examine any apparent fair lending violation that it might suspect. Instead, Countrywide is regulated in various states by state departments of real estate. The regulations are primarily financial, however, and do not usually address fair lending issues. Countrywide is required to report HMDA data, but is not covered under the CRA. Nonetheless, on a voluntary basis, Countrywide has pledged itself to be a leader in the affordable and fair lending arena (Van Dellen and Bielanski 1997).

In September 1994, Countrywide, in fact, became the first mortgage lender in the nation to sign with HUD a Declaration of Fair Lending Principles and Practices. Countrywide wanted to take this step. In doing so, Countrywide committed itself to fair lending principles and set forth a series of companywide marketing, lending, and human resource practices aimed at increasing loans to low-income and designated minority borrowers (Countrywide Home Loans 1996).

In addition to the mortgage lending and loan servicing functions performed by Countrywide, CCI engages in various other functions in the residential lending arena, as well as in the broader financial services field, through the following subsidiary corporations:

1. *Countrywide Insurance Services, Inc.* An independent insurance agency representing many insurance companies and offering homeowner's, flood, condominium, life, auto, home warranty, and disability insurance products. At the end of FY 1997, 185,000 insurance policies were in effect.
2. *Countrywide Capital Markets, Inc.* The parent corporation of Countrywide Securities Corporation, a securities broker-dealer, formed in 1981. This subsidiary provides a mortgage-backed securities market for local and regional broker-dealers. It is also the parent corporation of Countrywide Servicing Exchange (CSE), a full-service loan servicing broker and consultant established in 1988. CSE facilitates the purchase and sale of loan servicing portfolios for Countrywide and other financial institutions located throughout the United States.
3. *Countrywide Financial Planning Services, Inc.* A registered investment adviser offering financial planning services.
4. *LandSafe, Inc.* A national one-source provider for loan and real estate-related services necessary to the purchase or refinance of a home. LandSafe's family of companies offers these services: title insurance, escrow and closing services, credit reports, residential appraisals, home inspections, and land surveys.

5. *Full Spectrum Lending, Inc.* One of America's fastest growing originators of sub-prime residential mortgages. Founded in 1996, with headquarters in Pasadena, CA, the company has developed programs that offer mortgage solutions to individuals with less-than-perfect credit. The company currently has 42 retail branches, has 3 national sales centers, and is licensed in all 50 states.

All of these affiliated corporations make CCI a vertically integrated financial services provider with a primary focus on mortgage lending.

By emphasizing both loan production and loan servicing, Countrywide takes advantage of the "macro hedge." When interest rates decrease and loan demand increases, Countrywide's loan production activities become more profitable; when interest rates increase, the loan servicing activities become more profitable. This balance permits consistent earnings, even in periods of fluctuating interest rates.

STRATEGIES

Management Strategies

Fair Lending Task Force

Countrywide has formed a Fair Lending Task Force to implement the Declaration of Fair Lending Principles and Practices (Van Dellen 1997). Representatives from the production divisions, the House America group, the legal department, the marketing department, the human resources department, and the office of the president compose the task force. It meets quarterly to evaluate such business practices as underwriting standards and to ensure that they are implemented in a consistent and nondiscriminatory manner according to sound underwriting and business practices.

Cultural Diversity Program

Countrywide undertook a companywide cultural diversity program in 1995, which stressed the importance of appreciating and working with people of diverse backgrounds, cultures, and experiences. Training classes were held for all levels of employees. Cultural diversity training is ongoing and is considered by Countrywide as part of its standard human relations training (Van Dellen 2000).

Recruitment of Minority Employees

Qualified members of minority groups are actively recruited to work in all areas of the company. Employees come from many ethnic backgrounds and speak a range of languages.

Employee Training

The Fair Lending Task Force, in conjunction with the General Counsel and the Training and Corporate Development Department of Human Resources, put together a comprehensive overview of Countrywide's fair lending and housing responsibilities. This overview, a booklet titled *Fair Lending and You*, is given to every Countrywide employee. Topics covered include such laws as the Fair Housing Act and the Equal Credit Opportunity Act plus the specific methods prescribed for meeting the requirements of those laws.

Countrywide also provides fair lending training for all retail branch personnel. Training is done at a regional level; branch personnel within a region go to a central location for one-day training sessions.

Compensation for Retail Lending

Personnel in the branch retail offices are compensated primarily on the basis of the number of loans that they complete. No added compensation is given for larger loans, and thus no disincentive exists for making small loans. This focus on the number of loans, rather than their dollar amount, makes mortgage credit more accessible to LMI home seekers.

Localized Underwriting Responsibility

The typical mortgage transaction at many large institutions involves a loan officer who originates the loan and is paid a commission. Before originating a loan, however, the loan officer typically forwards the loan application to a central location where processing and underwriting activities are performed. The Countrywide approach, however, is to give the retail branch manager the responsibility for underwriting all applications received in that office. The personnel in these retail branches do not operate on a commission basis; they receive a base salary augmented by a bonus determined primarily by the number of loans they produce.

According to Countrywide, this decentralization of the underwriting process reduces the cost per loan origination. Additionally, it puts underwriting responsibility in the hands of people who have face-to-face interaction with the loan applicants and are familiar with local conditions. This approach allows for more intelligent use of flexible underwriting standards (described later).

Advanced Information Technologies

Countrywide operates a sophisticated system that distributes computerized information. Through a seamless integration of loan origination, sale, and servicing systems, the network allows retail branch personnel, affiliated mortgage brokers, affiliated appraisers, and others to instantly access and update program information, loan information,

and other data pertinent to Countrywide's operations. Retail branch managers are able to access the system to monitor and update the mortgage loan account of a local borrower, even though the loan records may be maintained in another state. The computer system allows the Countrywide network to operate much more efficiently than would otherwise be possible.

Attracting Applicants

House America Branch Offices

As a part of its We House America program, Countrywide had opened House America retail branches in a number of inner-city locations across the country—Atlanta; Chicago; Detroit; Los Angeles; Newark, NJ; Oakland, CA; and Washington, DC—by the end of FY 1996. Additional House America branches were opened in Baltimore, Boston, Dallas, Miami, New York, Philadelphia, St. Louis, and San Antonio in 1998 and in Charlotte, NC; Kansas City, MO; New Orleans; and Seattle in 1999.

Community Fairs

In the spring of 1997, as part of its outreach to potential local borrowers, Countrywide began sponsoring community fairs to announce the opening of new House America branches. The fairs are held approximately 90 days after a new branch is opened and are undertaken in partnership with a local elementary school, Fannie Mae, HUD, non-profit development groups, and housing organizations.

Advertising

Countrywide uses national and local market advertisements in both English and Spanish to reach potential borrowers by print, radio, and television. In areas with high concentrations of Hispanic households, Countrywide uses Spanish-language advertisements and outreach to real estate agents to penetrate the Hispanic market. Local branches also heavily promote the We House America program in an effort to reach LMI home seekers without regard to ethnicity.

Countrywide's advertising slogan, "Easy. Really," is intended to stress that obtaining a mortgage loan and buying a house with Countrywide can be easier than with other lenders. The advertisements focus on Countrywide's low costs of loan production as the reason the company can provide the most affordable mortgage opportunities.

Networking with National Organizations

Countrywide representatives attend meetings sponsored by national organizations focusing on black, Hispanic, and inner-city interests. For instance, they typically attend the

national conventions of the Black and Hispanic Congressional Caucuses, where they are able to meet with representatives from a number of church and community groups. They also work with The Enterprise Foundation, the National Community Reinvestment Coalition, and the NAACP. By attending national meetings and networking with national organizations, they are better able to communicate the services they offer. The national groups, in turn, disseminate information on Countrywide to their member organizations and local affiliates.

Countrywide also attends meetings of the National Association of Real Estate Brokers (NAREB), an association of black real estate agents. Countrywide sends retail branch representatives and We House America employees to network with NAREB branch members in an effort to establish relationships to help their outreach efforts in local communities.

Networking at the Local Level

Countrywide reaches out to real estate agents and community groups wherever its retail branches are located. The company finds that this activity is one of the most effective ways to bring in loan applicants because local agents and community leaders have established contacts and reputations in the community. The outreach to local groups and real estate professionals generally entails disseminating information about current loan rates and information about new mortgage programs. This information, in turn, is provided to households interested in obtaining mortgage loans.

Qualifying Applicants

Affordable Mortgage Products

Since Countrywide's founding in 1969, the company has been involved in the entry-level home-buying market. Between 1969 and 1992, most of its lending conformed to Fannie Mae, Freddie Mac, and FHA guidelines and loan limits. FHA loans constituted the largest share of Countrywide's activity, until Fannie Mae and Freddie Mac began accepting loans with higher LTVs and greater underwriting flexibilities.

As one of the nation's leading originators and servicers of home mortgages, Countrywide was consulted by Fannie Mae in 1992 during the design of Fannie Mae's Community Home Buyer's Program. In particular, Countrywide stressed to Fannie Mae the importance of homeownership education and counseling, which was already an important component of its own lending activity.

Most of Countrywide's lending activity is shaped around the affordable programs of Fannie Mae, Freddie Mac, FHA, and the major private mortgage insurance companies. In addition to these standard programs, however, Countrywide produces loans through a number of specialized programs at both the national and local levels that are designed to make homeownership more accessible to lower-income and minority home seekers.

We House America

The We House America program is the principal affordable lending initiative at Countrywide. Launched in 1992 as the House America program, it was based on the new affordable mortgage products introduced by Fannie Mae and Freddie Mac. The program has grown rapidly since its inception. Countrywide committed \$1.25 billion to the House America program in 1992; the figure was increased to \$5 billion in 1993 and \$8 billion in 1998. By the end of 1997, more than 45,000 mortgage loans had been closed through the program.

With the announcement of the We House America program in 1998, Countrywide made a commitment to provide \$50 billion in loans over five years to lower-income communities and to lower-income and minority households. In 1999, Countrywide increased this commitment to \$80 billion over five years (Countrywide Credit Industries, Inc., 1999b).

Under the aegis of the We House America program are the House America Counseling Center and the House America retail branches located in 19 inner-city communities. The program encompasses a number of affordable loan products. The two primary House America products (listed in table 2) are largely modeled on GSE affordable mortgages (e.g., Fannie Mae's Community Home Buyer's and Fannie 97 and Freddie Mac's Affordable Gold 5 and Affordable Gold 97).

We House America also offers numerous special programs such as:

- A Northeast U.S. product that allows LTV ratios of 95 percent for two-unit properties and 90 percent for three-unit properties
- A Chicago program that, combined with the Chicago Mortgage Revenue Bond program, allows for the purchase of two- to four-unit, owner-occupied properties using liberalized property underwriting standards. Income from the extra units can count as qualifying income for the loan.
- A Flex program, available in 16 states at 113 branches, with the following features: 3 percent of the down payment can be a gift from family, a grant, or an unsecured loan; qualifying front-end and back-end ratios set at 28/36, but ratios can be as high as 33/41 with mortgage revenue bond financing; borrower must have excellent credit. (This product has many features comports with Fannie Mae's Flex 97 loan.)

FHA 203(k) Program

Countrywide is a strong proponent of the FHA 203(k) program, which provides financing for purchasing or refinancing a property and its improvement, and which requires just one loan and one closing. Like the FHA 203(b) program, the 203(k) program requires a low (3 percent) down payment for owner-occupants. Under the 203(k) loan, in most cases up to 100 percent of the estimated "after-remodel" value can be included in the loan calculations.

Table 2. We House America Mortgage Products

Feature	Loan product	
	95% LTV First Mortgage Loan	97% LTV Mortgage
Maximum front- and back-end ratios	33% and 40%, with exceptions for compensating factors	28% and 36% for loans with 30-year terms; 33% and 36% for loans with 25-year terms, no exceptions
Cash reserve requirement	If ratios exceed 33/40 and housing expenses will increase 50%, two months' PITI required; two months' PITI may also be required in other cases at underwriter's discretion	One month's PITI
Income restrictions	Generally 100% of median household income, except in California MSAs, where it is 140%; Boston MSA, where it is 135%; New York City MSA, 165%; and Hawaii, 170%. No income limit imposed if property is located in a central city	100% of HUD median household income, except in California MSAs, where it is 140%; Boston MSA, where it is 135%; New York City MSA, 165%; and Hawaii, 170%
Use of cash on hand for down payment	Considered on a case-by-case basis and <i>must</i> be handled as an exception; bank statements, if any, must show little or no activity except for the transfer of funds	None; depends on ability to meet underwriting standards
Gift funds	3/2 option allows borrowers, in some cases, to receive a gift or forgivable loan for 2% of the 5% down payment requirement	Allowed for closing costs
Home-buyer course certificate requirement	Yes, required	Yes, required

Countrywide-trained and -approved independent rehabilitation consultants work with borrowers in determining what work is necessary and eligible, in selecting and negotiating with a contractor, and in overseeing the work. The program is especially appropriate for potential homeowners who are interested in purchasing properties that need repair and who also need additional financing to cover the costs of rehabilitation. Covering these rehabilitation costs has been identified as a barrier to homeownership in inner-city areas.

Locally Oriented Programs

Countrywide is involved with HFAs that use tax-exempt bond proceeds to create BMIR loans to first-time, lower-income home buyers. Using these bond proceeds, Countrywide offers House America, FHA, or VA loans at up to 1 percent below market rates and often provides down payment assistance in the form of grants through local housing departments. Countrywide also works with HFAs in structuring mortgage revenue bond issues;

providing assistance with master servicing; and offering help with marketing expertise, home-buyer education, and counseling.

At the end of 1996, Countrywide was involved in 148 mortgage revenue bond lending programs in 38 states. During the year, it originated 2,758 such loans, totaling \$186 million. Of those loans, 66 percent went to lower-income borrowers, 40 percent to designated minority borrowers, 31 percent to lower-income neighborhoods, and 30 percent to predominantly minority neighborhoods.

Countrywide also participates with 475 Community Seconds (second mortgage) programs offered in many cities across the country. Those programs provide down payment or closing cost assistance for first-time home buyers and for LMI families.

Underwriting Standards

Countrywide tends to follow the most flexible underwriting criteria permitted under GSE and FHA guidelines. Because Fannie Mae and Freddie Mac tend to give their best lenders access to the most flexible underwriting criteria, Countrywide benefits from its status as one of the largest originators of mortgage loans and one of the largest participants in the GSE programs.

When necessary—in cases where applicants have no established credit history, for example—Countrywide uses nontraditional credit, a practice now accepted by the GSEs. Experian (formerly TRW) provides a nontraditional credit reporting service. Because no national database exists on nontraditional credit, Experian calls landlords, utility companies, and others to try to obtain credit information. The extra work involved, however, means that this type of credit reporting is more expensive than conventional reporting.

Underwriting flexibility is also augmented by Countrywide's sophisticated computer system, which provides the local branch offices with continually updated information from company headquarters in California. As new programs are implemented, branch officers and personnel are quickly informed of new underwriting criteria.

Counseling Programs

In an interesting departure from local counseling assistance, Countrywide provides centralized homeownership counseling through the House America Counseling Center. Counseling staff members who are located in California field calls on a toll-free line. Bilingual (Spanish and English) counselors are available. Counselors are able to pre-qualify callers for a home loan or to guide them through a personalized financial course of action. Counselors can work with them for a year or more to help them qualify for a home loan.

The Counseling Center focuses on providing counseling services to callers who are able to qualify for a home mortgage loan within a year. Callers who need more extensive counseling or additional time to prepare for homeownership are referred to Countrywide's local nonprofit partners, who provide face-to-face, in-depth counseling.

After potential home buyers are qualified for a loan, the Counseling Center refers them to the most convenient Countrywide branch or telemarketing center, or to the original referral source—the real estate agent, for instance. At the end of 1998, the Counseling Center had received more than 103,730 calls regarding homeownership, had counseled more than 16,900 potential borrowers, and could verify more than 1,279 fundings as a result of counseling activity.

In addition to providing counseling over the phone, the Counseling Center distributes materials to help potential homeowners achieve and maintain homeownership. These materials include the *Guide to Homeownership* and *A Feeling Called Home*, a video that is narrated by James Earl Jones and that helps consumers understand House America loan products.

Credit Manual

Countrywide has developed, in English and Spanish, a free manual for credit repair titled *Your Credit and You*, which is publicized through the House America Counseling Center. The Counseling Center refers callers with credit problems to the manual and sends it to them free of charge. Additionally, Countrywide has advertised the manual in print: One advertisement in *Family Circle*, a magazine targeted to women, generated more than 3,300 requests for a copy.

Your Credit and You provides potential home buyers with information and directions on resolving credit problems and reestablishing good credit. It contains an overview of how credit is reported and maintained, a description of how to contact the three major credit bureaus, suggestions on when to dispute inaccurate information in a credit file, and sample letters for communicating with credit bureaus. At the end of 1998, more than 43,000 copies of the manual had been sent to prospective home buyers.

Fair Housing Monitoring

Countrywide performs a monthly statistical analysis of loan activity by retail branch that generates a denial disparity index, or DDI. This index is the ratio of denial rates for minority applicants to denial rates for white applicants. Generally, the overall DDI range for Countrywide is between 1.3 and 1. The industry average generally ranges between 2 and 1, which suggests that Countrywide's denial rates have a significantly weaker correlation with race and ethnicity than do those of other lenders. In cases in which a Countrywide branch has a high DDI, management closely examines the branch's activities to determine the reason for the denial disparity.

Countrywide also performs self-testing, using matched pairs of loan applicants who differ only by minority status or some other variable protected by fair lending laws. Countrywide also contacts loan applicants after they have completed their applications to determine how they were treated (Countrywide Home Loans 1996).

Additionally, a representative from the office of the president is in charge of resolving individual complaints from consumers, real estate agents, and brokers about the company's fair lending performance. In 1994, six complaints from individual borrowers were resolved in this manner. HUD is currently investigating a major complaint filed against Countrywide in 1995.⁴

Retaining Homeowners

Loan Servicing Activities

Countrywide services its higher LTV loans more aggressively than other loans, largely because of GSE requirements. With the 97-percent LTV loans, for example, the servicing department does not wait until 30 days elapse and the loan is delinquent before taking action. The borrower will be called on or before the 15th day to find out why the payment is late. The department also monitors trends and patterns and then runs behavior models to reach vulnerable borrowers more quickly.

New Homeowner and Mortgage Borrower Education

Countrywide has developed a video titled *Living the Dream: A New Homeowner's Survival Guide*, which covers the basics of loan closing, mortgage insurance, budgeting, and home maintenance, as well as how to use credit wisely, make mortgage payments on time, cope with financial crises, and reap the rewards of building equity. One segment of the video stresses the importance of keeping up with mortgage payments, even in situations in which money is especially tight. The video also makes it clear that should situations arise where payments cannot be made, arrangements can be worked out between the borrower and Countrywide, but only if the borrower calls Countrywide to explain the situation before 30 days elapse and the loan becomes delinquent.

This 15-minute video, with accompanying booklet and budget worksheet, is required viewing for all retail House America borrowers. Borrowers must submit a completed budget worksheet to Countrywide sometime between loan approval and funding. A loan officer reviews the worksheet and issues a completion certificate, a copy of which is placed in the borrower's file along with the completed budget and review sheets.

The video was originally created for use in the House America program. However, following praise by industry leaders, including officials at Fannie Mae, Freddie Mac, GE

⁴ It is not unusual for a company the size of Countrywide to have complaints.

Mortgage Insurance Corporation, and HUD, copies of the video have been provided to city and county libraries nationwide as an educational tool.

DISCUSSION

Countrywide is an extremely large mortgage lender that takes advantage of its extensive resources to keep costs down, while at the same time maintaining a presence in local communities through its extensive retail branch office network. Countrywide's broad resources, both financial and human, have generated a number of educational and counseling tools for both Countrywide borrowers and the general public. Outreach through its branch offices, its advertising, and its freely accessible House America Counseling Center allows dissemination of its educational materials to a broad audience.

Although Countrywide is impressive in its outreach and efforts to help potential borrowers qualify for its loan products, it largely lacks programs for potential borrowers who cannot meet the requirements of the secondary market. The reason is that Countrywide, as a mortgage banker, currently sells approximately 99 percent of its loans to the secondary market. Countrywide has, however, played a significant role in extending the reach of the secondary market by working with the GSEs to develop new affordable lending products. An example was the partnership with Fannie Mae to develop Fannie Mae's Community Home Buyer's program.

Countrywide has assumed a leadership role in creating and distributing educational materials and in providing telephone counseling for potential home buyers. These services address topics including the home-buying process, loan closing, credit repair, and responsibilities of homeownership. Countrywide provides these services free to potential home buyers, many of whom may never become Countrywide borrowers.

Several other aspects of Countrywide's operations are notable. Among these features are the vertically integrated corporate structure, the decentralized underwriting responsibilities, and the centralized but remotely accessible computerized information system.

Many of Countrywide's strong points could be replicated only by other large-scale institutions. Smaller lenders might find it difficult to attempt vertical integration of the numerous services necessary to complete a mortgage loan transaction and to invest in educational and counseling services for potential borrowers who might never become customers.

Counseling and Education

Countrywide's method of providing counseling by telephone from a central location is a low-cost way to serve potential borrowers nationwide. Countrywide realizes, however, that households with more extensive, long-term needs are better served by intensive face-to-face counseling services, such as those provided by ACORN or other locally active community groups. Besides providing telephone counseling services, Countrywide pro-

duces and distributes free educational materials, including a homeownership guide and a credit repair manual.

With these counseling and education programs, Countrywide is performing at least some level of public service. As a result, the company ends up paying the costs of educating future borrowers who will eventually get a loan from some other financial institution. To eliminate this “free-rider” problem, Countrywide, the GSEs, and other large lenders might investigate the creation of a national cooperative provider of counseling and educational services. To that end, Countrywide recently made a \$250,000 investment in the American Homeowner Education and Counseling Institute. (Fannie Mae, Freddie Mac, and private mortgage insurers were also major contributors.)

This national organization could, perhaps, be funded by lenders on a pro rata system, with funding share dictated by the volume of business received. All member institutions would benefit from any improvement in services, because all would benefit from better-informed and, therefore, better-qualified borrowers. Services could thus be improved beyond their current level, and the costs of the services would be absorbed by a broad spectrum of lenders. In addition to making the cost distribution more equitable, this system would likely increase the number of aspiring borrowers who would access the services.

Vertical Integration

CCI (the parent corporation) has an extensive array of subsidiary companies offering different mortgage services. These services include title insurance, appraisals, and life and property insurance. By providing all those services (i.e., by having a corporate relationship among the different loan closing service providers), Countrywide is able to generate mortgages more cheaply than would be possible if all the services were provided by independent agencies. Other large lenders are already pursuing this strategy (see Norwest case study), and those that are not may find it advantageous to do so.

If too many large lenders pursue this approach, however, one danger is that the smaller lenders, particularly the community-based lenders that serve primarily inner-city areas, may be unable to keep pace. Their loans may be more expensive, prompting continuation of a trend in which the small-scale, inner-city financial institutions perform the role of residual lender, serving borrowers who cannot meet the underwriting criteria demanded by the larger lenders. This trend is unfortunate because it further marginalizes inner-city lenders, who are an important part of the effort to increase homeownership opportunities for the traditionally underserved.

Advanced Information Systems

A major key to the real estate market is the efficient transmission and reception of information. Countrywide’s elaborate networked computer system links retail branches to a central source of information. At the same time, it provides links to appraisers

and other service providers. This computer capability allows for efficient exchange of information.

A branch manager working with a borrower can access the borrower's account from the branch office, even though records are kept in a central location. The appraiser can file his or her report from a remote location, confident that the report will be linked with the appropriate mortgage application.

With such a comprehensive system, Countrywide is better able to generate reports, whether they be the standard financial reports demanded by stockholders or more specialized reports, such as those analyzing denial rates and ratios for individual retail branches. Command of information both facilitates standard business decisions and allows for more innovative analysis of fair lending activities.

More efficient information exchange also reduces costs through reduced waiting time and reduced errors. Because the mortgage market is competitive, innovations that reduce costs when providing mortgage loans will also reduce the cost of those loans to the borrower.

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