Is Lone Star Funds building a new Countrywide Financial?
Caliber Home Loans’ massive growth overseen by veterans of disgraced home lender

Key Points:

- Lone Star Funds’ Caliber Home Loans is a rapidly growing non-bank mortgage originator and servicer. Caliber’s servicing portfolio grew from $6.5 billion in 2012 to $70.3 billion in early 2015, in large part fueled by Lone Star’s loan purchases from the US Department of Housing and Urban Development, Fannie Mae and Freddie Mac.
- Caliber’s top leadership is comprised of former Countrywide Financial executives who oversaw a mortgage division accused of predatory lending and fraud.
- Caliber Chairman and CEO Joe Anderson previously led Countrywide’s troubled Consumer Markets Division. He appears to have brought his former team with him to Caliber.
- The Department of Justice alleged that Anderson’s division “engaged in a pattern or practice of discrimination on the basis of race and national origin” from 2004 to 2008. In 2011 the DOJ settled the allegations with Countrywide’s then-owners for $335 million.¹
- In 2014 the DOJ reached a $16 billion settlement that in part covered DOJ claims of “origination of defective residential mortgage loans by Countrywide’s Consumer Markets Division” and “the fraudulent sale of such loans to the government sponsored enterprises Fannie Mae and Freddie Mac.”²

Key Questions:

- Why has Lone Star Funds put executives from Countrywide in charge of its own home lending firm?
- What steps has Lone Star taken to ensure that Countrywide’s alleged misdeeds do not recur at Caliber Home Loans?
- Can investors trust ex-Countrywide managers to oversee a servicing portfolio that has ballooned tenfold since 2012?
- Why are HUD and other government entities selling distressed debt to a company led by former Countrywide executives?
Caliber Home Loans

Caliber Home Loans is a mortgage originator and servicer jointly owned by Lone Star Funds V and VI.³ Lone Star created Caliber in 2013 by combining several mortgage companies acquired after the housing market crash.⁴

Caliber appears to be a key part of Lone Star’s pursuit of distressed residential debt. Caliber’s servicing portfolio has grown more than tenfold since 2012. Vericrest, Caliber’s predecessor, serviced loans valued at $6.5 billion in March 2012.³ By April 2015, Caliber’s servicing portfolio had grown to $70.3 billion.⁵ Caliber’s rapid growth has been fueled in part by its servicing of billions of dollars in mortgages purchased by Lone Star Fund VIII, Lone Star Fund IX, and Lone Star Residential Mortgage Fund I.

Amidst this rapid growth, Caliber has leaned heavily on former staff and executives of scandal-plagued home lender Countrywide Financial. Four of Caliber’s top five executives are former Countrywide executives, and alumni of the defunct lender fill the ranks of Caliber’s middle management.

Is Caliber’s tarnished leadership prepared to convert the firm’s rapid growth into stable returns for investors? Or could Caliber prove to be Countrywide redux?

Countrywide Connection

Countrywide was one the largest mortgage lenders in the lead-up to the subprime mortgage crisis. In June 2007, its servicing portfolio reached $1.4 trillion.⁷ As the mortgage market collapsed, Bank of America bought Countrywide for $4 billion in January 2008. The publisher of Inside Mortgage Finance later described the transaction as the “worst acquisition in history.”⁸ In 2012 the Wall

Caliber’s Prominence in Lone Star

<table>
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<th>Lone Star Fund</th>
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<tr>
<td>Lone Star Fund V</td>
<td>Co-owner of Caliber</td>
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<tr>
<td>Lone Star Fund VI</td>
<td>Co-owner of Caliber</td>
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<tr>
<td>Lone Star Fund VIII</td>
<td>Owns mortgages serviced by Caliber</td>
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<tr>
<td>Lone Star Fund IX</td>
<td>Owns mortgages serviced by Caliber</td>
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<tr>
<td>Lone Star Residential Mortgage Fund I</td>
<td>Purchases bonds backed by Caliber originated mortgages</td>
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Street Journal estimated the deal cost Bank of America more than $40 billion in real estate losses, legal expenses and settlements with state and federal agencies.  

Critics cited Countrywide's practices as emblematic of the type of lender misconduct that fueled the collapse of the housing market in the late 2000’s. US District Judge Jed Rakoff stated in a 2014 opinion about a Countrywide lending program that “it was from start to finish the vehicle for a brazen fraud by the defendants, driven by a hunger for profits and oblivious to the harms thereby visited, not just on the immediate victims but also on the financial system as a whole.”

**Question for limited partners:**

- Why did Lone Star Funds hire individuals from one of the most notorious subprime lenders to run its own mortgage company?

### Joe Anderson and Countrywide’s Consumer Markets Division

Current Caliber Chairman and CEO Joe Anderson joined Caliber’s predecessor Vericrest in March 2013. Anderson previously worked at Countrywide from 1989 to 2006, where he rose to the rank of Senior Managing Director and President of the firm’s Consumer Markets Division (CMD). In 2006 CMD originated $118 billion in home loans, or 28% of Countrywide’s mortgage origination that year.

Anderson’s division engaged in practices that drew legal and regulatory scrutiny that yielded settlements worth billions of dollars.

**Claims of Racial Discrimination**

In 2011, the United States Justice Department reached a settlement with Bank of America

### Joe Anderson’s DOJ Headaches

Department of Justice accusations involving Countrywide’s Consumer Mortgage Division, and settlement costs

<table>
<thead>
<tr>
<th>DOJ accusation</th>
<th>DOJ said</th>
<th>Settlement Cost</th>
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<tbody>
<tr>
<td><strong>Racial Discrimination</strong></td>
<td>“…more than 200,000 Hispanic and African-American borrowers paid Countrywide higher loan fees and costs…”</td>
<td><strong>$335 million</strong></td>
</tr>
<tr>
<td><strong>Defective Loans</strong></td>
<td>“…Countrywide was aware that many of the residential mortgage loans originated through CMD were defective and/or otherwise ineligible for sale to the GSE.”</td>
<td><strong>$16.65 billion</strong></td>
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</table>
over Countrywide’s alleged mistreatment of African-American and Hispanic borrowers from 2004 to 2008. In its complaint, the DOJ said:

“As a result of Countrywide’s policies and practices, more than 200,000 Hispanic and African-American borrowers paid Countrywide higher loan fees and costs for their home mortgages than non-Hispanic White borrowers, not based on their creditworthiness or other objective criteria related to borrower risk, but because of their race or national origin.”

The DOJ alleged that within CMD, African-American and Latino borrowers faced higher borrowing costs than non-Hispanic white Americans of similar risk, and that Countrywide officials knew that its lending policies were discriminating against certain borrowers but did nothing to correct it.

In its settlement with the DOJ, Bank of America denied all allegations against Countrywide but agreed to pay $335 million to affected borrowers in what was at the time DOJ’s largest fair lending settlement in history.

**Question for Limited Partners:**

- What protections does Caliber have in place to protect borrowers from discriminatory lending and/or servicing practices?

**Claims Regarding Defective Loans**

In a separate case in August 2014, the Justice Department and Bank of America agreed to a $16.6 billion settlement to resolve all federal and state claims against Bank of America and its subsidiaries, including Countrywide. This agreement was the largest civil settlement with a single entity in American history.

DOJ’s Statement of Facts alleges that CMD originated loans that CMD knew were defective which were then sold to Fannie Mae and Freddie Mac:

“A significant percentage of the loans that Countrywide sold to the GSEs during 2004 to 2008 were originated by Countrywide’s prime retail division, known as the Consumer Markets Division (“CMD”). During this time, Countrywide was aware that many of the residential mortgage loans originated through CMD were defective and/or otherwise ineligible for sale to the GSEs.”

—I truly feel they are structuring this company like Countrywide......and well we all know what happened there.”

—Nov. 20, 2013. Anonymous Former Employee on glassdoor.com
The Statement also alleged that Countrywide’s loans followed a set of “shadow guidelines” rather than conventional lending guidelines while Anderson was leading CMD:

“Countrywide originated an increasing number of loans as exceptions to its Loan Program Guides. A June 28, 2005, a Countrywide Financial Corporate Credit Risk Committee presentation noted that approximately 15% of nonconforming loans that Countrywide was originating through CMD were exception loans.

... By June 7, 2006, less than a year later, an internal Countrywide email indicated that during May 2006, for prime loans, exceptions constituted by dollar amount approximately 30% of fundings for certain fixed loans, 40% for Pay-Option ARMs, and 50% for expanded criteria hybrid loans.”

**Question for limited partners:**

- What guidelines are in place at Caliber Home Loans to approve loans, and how do they conform to industry best practices?

**VIP Lending Program**

Countrywide’s “Friends of Angelo” program provided friends and family of Countrywide staff with discounted loans that included interest rate reductions and fewer processing fees. The firm also gave discounted loans to federal legislators, regulators, and officials at HUD and Fannie Mae. The US House Committee on Oversight and Government Reform found in July 2012 that “the VIP loan program was a tool used by Countrywide to build goodwill with lawmakers and other individuals positioned to benefit the company.”

Anderson was involved in the refinancing of a loan for former Fannie Mae Vice Chairman and Chief Operating Officer Daniel Mudd. He was aware that Countrywide was taking a loss on the loan, and sent an email to a colleague saying that “we are already taking a loss, it would be horrible to add a service complaint on top and lose any benefit we generate.”

**Questions for limited partners:**

- Does Caliber Home Loans have a similar program for Caliber staff?
- Has Caliber provided discounted financing to any elected officials or employees of regulatory agencies?
Other Leadership

Other members of Caliber leadership have also worked at Countrywide. Steve Smith and Russ Smith hold identical positions under Anderson at Caliber that they held at Countrywide.

**Chief Financial Officer:**
**Stephen W. G. Smith**
Smith joined Countrywide in 2001 as Chief Financial Officer of the Consumer Markets Division under Joe Anderson, and remained at Countrywide after its acquisition by Bank of America. By 2012, he had become Senior Vice President, Servicing Operations Executive for the bank. Smith became CFO of Caliber Home Loans in July 2013.

**Chief Operations Officer:**
**Russ Smith**

**Executive Vice President, Operations:**
**Tammy Richards**
Richards joined Countrywide in 2003 as a Divisional Senior Vice President. She remained after the

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**Countrywide Alums at Caliber**

<table>
<thead>
<tr>
<th>Name</th>
<th>Years at Countrywide &amp; successors</th>
<th>Position at Caliber</th>
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<tbody>
<tr>
<td>Joe Anderson</td>
<td>17</td>
<td>Chairman and CEO</td>
</tr>
<tr>
<td>Steve Smith</td>
<td>11</td>
<td>CFO</td>
</tr>
<tr>
<td>Russ Smith</td>
<td>8</td>
<td>COO</td>
</tr>
<tr>
<td>Tammy Richards</td>
<td>10</td>
<td>Executive Vice President, Operations</td>
</tr>
<tr>
<td>Lee Cove</td>
<td>5</td>
<td>Divisional Vice President</td>
</tr>
<tr>
<td>Carl Streicher</td>
<td>11</td>
<td>Divisional Vice President Retail Sales</td>
</tr>
<tr>
<td>Brian Livingston</td>
<td>7</td>
<td>Regional Vice President of Florida and Alabama</td>
</tr>
<tr>
<td>Kevin A. Ginsburg</td>
<td>6</td>
<td>Regional Vice President, Central, South, West Texas and New Mexico</td>
</tr>
<tr>
<td>Jim Owen</td>
<td>4</td>
<td>Vice President, Builder Sales Executive, Eastern US</td>
</tr>
<tr>
<td>Cathy Gibb</td>
<td>18</td>
<td>Regional Vice President</td>
</tr>
<tr>
<td>John Bianchi</td>
<td>12</td>
<td>Executive Vice President, National Retail Lending</td>
</tr>
<tr>
<td>Dave Bochsler</td>
<td>11</td>
<td>Divisional Vice President</td>
</tr>
<tr>
<td>Michael Brown</td>
<td>15</td>
<td>Senior Vice President, National Builder Division</td>
</tr>
</tbody>
</table>

**Total years at Countrywide:** 135
Bank of America acquisition, and left in 2013 to join Caliber as the Managing Director of National Operations.²⁷

Countrywide alums fill the ranks of lower levels of Caliber’s management. Recent hires and acquisitions have brought at least 135 years of Countrywide experience to Caliber (see chart).

Will history repeat itself at Caliber Home Loans?

Lone Star Funds has aggressively pursued distressed US residential debt, and the massive growth of Caliber Home Loans underscores the fund manager’s commitment to the sector.

But with its senior- and middle-management ranks staffed with Countrywide veterans, is Lone Star Funds building the sort of house of cards that led to the collapse of housing market in the last decade? And if the music stops again, will investors be left holding the bag?
Endnotes

13 Countrywide Financial Corporation 2006 Form 10-k <http://www.sec.gov/Archives/edgar/data/25191/000110465907151536/a07-4926_110k.htm>
24 Stephen Smith LinkedIn, accessed 8/24/2015 <https://www.linkedin.com/pub/stephen-smith/74/b52/920>
27 Tammy Richards LinkedIn accessed 8/24/2015 <https://www.linkedin.com/pub/tammy-richards/10/947/b06>