The Wall Street Journal

Mortgage Chief Picked by BofA Sparks Worries

Countrywide Executive Spearheaded Pursuit Of Subprime Business

By JAMES R. HAGERTY
February 23, 2008; Page B1

Bank of America Corp. avoided many of the easy-credit excesses that other lenders embraced during the housing boom. That seemed even smarter when mortgage lender Countrywide Financial Corp. sank deep into the red last year and then agreed last month to sell itself to Bank of America for about $4 billion.

But the largest U.S. bank in stock-market value is raising some eyebrows with its decision to put David Sambol, Countrywide's president and chief operating officer, in charge of the combined mortgage business. The deal would give Bank of America a market share in U.S. home mortgages of more than 20% -- easily making it No. 1.

While Mr. Sambol isn't as familiar a face as Countrywide Chief Executive Angelo Mozilo, he spearheaded the company's lunge for growth. The 48-year-old Mr. Sambol embraced Countrywide's pursuit of subprime and other risky loans, which helped turn the Calabasas, Calif., company into the nation's largest mortgage lender in terms of volume. That left Countrywide even more vulnerable to falling house prices and surging mortgage defaults.

Mr. Sambol brushed aside warnings from risk-control managers at Countrywide that the company's lending standards were too lax, according to four current and former executives at Countrywide, though another person familiar with the company disputes that view. Being too cautious would turn Countrywide into a "nice, little boutique," a former colleague recalls him saying.

It is too soon to tell what Mr. Sambol will do at Bank of America, which declined to comment. But Kenneth Lewis, the Charlotte, N.C., bank's chairman and CEO, told analysts he wants to keep from Countrywide "a number of their senior people who are very, very good operators."

Top executives at companies acquired by Bank of America typically don't stick around for long. But Mr. Lewis has been trying to change that reputation. Mr. Sambol hasn't signed an employment agreement with Bank of America, though regulatory filings indicate that is likely once the deal closes. As part of his existing agreement with

Countrywide, he gets an annual equity award of $9 million that is due in April. He also would be eligible for $15 million in severance if he is let go after the deal.

Countrywide said Mr. Sambol wouldn't comment for this article. In a statement, the company said the "unprecedented downturn in the housing market dramatically impacted the entire mortgage industry, including Countrywide, in unforeseen ways."

Mr. Sambol received a bachelor's degree in business and accounting from California State University, Northridge, and worked as an accountant before joining Countrywide in 1985. In 2004, he took over the company's core mortgage-lending business, impressing colleagues with his detailed knowledge of the industry. He also pushed to offer nearly the entire range of mortgage products available in the market, including loans requiring no money down and minimal proof of income for people with weak credit.

Countrywide was "willing to cut corners to get market share," says Martin Eakes, CEO of the Center for Community Self-Help, a nonprofit credit union and consumer-advocacy group in Durham, N.C. "If Dave Sambol represents that value system," Mr. Eakes says, his new appointment at Bank of America is "disappointing."

In late 2003, tensions between Mr. Sambol and Countrywide's risk managers boiled over at a meeting of dozens of executives in the company's headquarters. Nick Krsnich, who as chief investment officer was responsible for pricing loans and managing risks, uttered a loud profanity and walked out of the meeting to protest what he saw as imprudent lending, according to two people who attended the meeting. Mr. Krsnich left the company in early 2006.

Another former executive says Mr. Sambol was "livid" at a meeting in the spring of 2005, because call-center employees weren't selling enough option adjustable-rate mortgages, which let borrowers start with minimal payments and face much higher ones later. This former executive says those loans were too complicated to be explained over the phone.

A supporter of Mr. Sambol says he agreed to de-emphasize sales of those loans at call centers.

In the late 1990s, Countrywide was only a bit player in subprime mortgages. But its subprime market share jumped to 7.1% in 2005 from 2.4% in 1999, according to Inside Mortgage Finance, a trade publication. Internal documents show that risk analysts at Countrywide were pointing out by mid-2006 that subprime defaults were starting to run far higher than projected by a computer model then used by the company. Yet Countrywide continued to churn out subprime loans. Subprime-loan volume declined a moderate 9% to $40.6 billion in 2006 from $44.6 billion a year earlier.

Countrywide was so focused on growth that oversized replicas of monthly bonus checks were hung above the cubicles in at least one building, so everyone could see which employees were most successful in their salesmanship.

"The stress level was unbelievable," because of pressure from managers to boost loan volumes, says another former Countrywide employee, Tenny Garner, who worked as a loan officer in Twin Falls, Idaho, until last September.

--Valerie Bauerlein contributed to this article.