

FEDERAL RESERVE SYSTEM

Countrywide Credit Industries, Inc.
Calabasas, California

Countrywide Financial Holding Company, Inc.
Calabasas, California

Effinity Financial Corporation
Alexandria, Virginia

Order Approving Formation of Bank Holding Companies and
Determination on Financial Holding Company Elections

Countrywide Credit Industries, Inc. and two of its subsidiaries, Countrywide Financial Holding Company, Inc. (“CFHC”) and Effinity Financial Corporation (“Effinity Financial”) (collectively, “Applicants”), have requested the Board’s approval under section 3(a)(1) of the Bank Holding Company Act (“BHC Act”) (12 U.S.C. § 1842(a)(1)) to become bank holding companies by acquiring control of Treasury Bank, Ltd., Washington, D.C. (“Bank”).¹ As part of their proposal to become bank holding companies, Applicants have filed with the Board elections to become financial holding companies pursuant to section 4(l) of the BHC Act (12 U.S.C. § 1843(l)) and section 225.82 of the Board’s Regulation Y (12 C.F.R. 225.82).

¹ Applicants intend to convert Bank from a District of Columbia corporation with banking powers to a national banking association. Applicants then propose to merge Bank with an interim subsidiary national bank controlled by Effinity Financial, rename the merger survivor Effinity Bank, National Association, and move Bank’s headquarters to Alexandria, Virginia. On consummation of the proposal, Countrywide Credit Industries would own 100 percent of CFHC. CFHC would own 79 percent of Effinity Financial, which in turn would own 100 percent of Bank.

Notice of the proposal, affording interested persons an opportunity to comment, has been published (65 Federal Register 51,618 (2000)). The time for filing comments has expired, and the Board has considered the proposal and all comments received in light of the factors set forth in section 3 of the BHC Act.

Countrywide Credit Industries, Inc. (together with its subsidiaries “Countrywide”) engages primarily in the business of making and purchasing mortgage loans in the United States. Countrywide also conducts other activities that are related to mortgage lending, such as servicing loans, acting as a broker-dealer for mortgage-backed securities, and underwriting and selling homeowners’ and other types of insurance. In addition, Countrywide is engaged abroad in mortgage lending and data processing through several foreign subsidiaries and joint ventures with foreign companies.²

Competition and Convenience and Needs

Section 3 of the BHC Act prohibits the Board from approving a proposal that would result in a monopoly or would be in furtherance of any attempt to monopolize the business of banking. The BHC Act also prohibits the Board from approving a proposed acquisition that substantially would lessen competition or tend to create a monopoly in any relevant banking market, unless the anticompetitive effects clearly are outweighed in the public interest by the probable effect of the proposal in meeting the convenience and needs of the community to be served.³

² Countrywide has informed the Board that it intends to retain its existing nonbanking activities under section 4(k) of the BHC Act (12 U.S.C. § 1843(k)) in accordance with the post-transaction notice procedure described in section 225.87 of Regulation Y (12 C.F.R. 225.87).

³ 12 U.S.C. § 1842(c)(1).

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Applicants currently do not own or control a bank, as that term is defined in the BHC Act, and propose to acquire an existing bank and expand the scope of its operations. Applicants propose that Bank would focus on providing a full range of banking products and services through the Internet. Based on the facts of record, the Board concludes that consummation of the proposal would not have a significantly adverse effect on competition or on the concentration of banking resources in any relevant banking market, and that competitive considerations are consistent with approval.

Section 3 of the BHC Act also requires the Board to consider the effect of the transaction on the convenience and needs of the community to be served.⁴ In evaluating this factor, the Board places particular emphasis on the ratings the banks involved in a proposal received at their most recent examinations under the Community Reinvestment Act (12 U.S.C. § 2901 *et seq.*) (“CRA”). As of February 1998, Bank received a satisfactory CRA rating from the Office of the Comptroller of the Currency (“OCC”). On consummation of the proposal, Bank would be located in Alexandria, Virginia, and would offer its products and services primarily through the Internet.⁵ As a result of the proposed acquisition, current customers of the bank to be acquired would have access to products and services

⁴ 12 U.S.C. § 1842(c)(2).

⁵ The Board received comments on the proposal from one organization, which expressed concern that Bank’s proposed assessment area under the CRA was inappropriate in light of its proposed operation as an Internet bank. The Board notes that Bank’s primary federal banking supervisor, the OCC, has reviewed Bank’s proposed CRA plan, including the proposed assessment area, and determined that the CRA plan is appropriate in light of the proposed changes in Bank’s location and current business.

offered by Countrywide that the bank currently does not offer.⁶ Moreover, customers of Countrywide would have access to an additional source of financial services, including mortgage loan products. The Board has reviewed all information submitted by Applicants related to the convenience and needs factor and concludes, based on all the facts of record, that considerations relating to convenience and needs are consistent with approval.

Financial and Managerial Considerations

Section 3 of the BHC Act requires the Board to consider the financial and managerial resources and future prospects of the companies and banks involved in a bank acquisition proposal.⁷ As part of this analysis, the Board has reviewed Applicants' operating plan and notes that Bank has hired management officials with significant banking experience.⁸ In addition, the Board has taken

⁶ Commenter also alleged without providing supporting data that Countrywide's subprime lending subsidiaries focused on minority individuals for high-interest loans and that Countrywide lacked adequate fair lending procedures. Countrywide has stated that its subprime lending subsidiaries provide financing to customers who might not otherwise qualify for credit and has provided information about steps taken by these subsidiaries to ensure that individuals who qualify for conventional loans are informed about prime credit products. The Board has forwarded the commenter's allegations to the Department of Housing and Urban Development, the Department of Justice, and the Federal Trade Commission, the federal agencies that have responsibility for enforcing fair lending laws for nondepository lending companies.

⁷ 12 U.S.C. § 1842(c)(2).

⁸ Bank plans to have a contractual arrangement with Countrywide's primary operating subsidiary, Countrywide Home Loans, Inc. ("CHL"), regarding the origination of mortgage loans. Under this arrangement, CHL would include Bank's mortgage loan products among the more than 200 products it offers to CHL customers. If a customer chooses a Bank product, CHL would take credit and other information from customers and transmit a detailed summary of that

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into account Countrywide's financial resources, including its capital levels, cash reserves, and ability to serve as a source of strength to Bank. The Board also has reviewed confidential supervisory and examination information on Bank and publicly reported financial and other information on both Bank and Countrywide. Moreover, the Board has consulted with the OCC concerning the financial and managerial resources and operating plan of Bank, particularly on Bank's proposed relocation, Internet focus, and business plan.

After considering all the facts of record, the Board concludes that the financial and managerial resources and future prospects of Countrywide and Bank are consistent with approval, as are other supervisory factors the Board is required to consider under section 3 of the BHC Act.

Conclusion Regarding Section 3 Application

Based on the foregoing and in light of all the facts of record, the Board has determined that the application should be, and hereby is, approved. The Board's approval specifically is conditioned on compliance by Countrywide with all the commitments made in connection with the application. For purposes of this action, the commitments and conditions on which the Board relied in reaching its decision are deemed to be conditions imposed in writing by the Board in connection with its findings and decision and, as such, may be enforced in proceedings under applicable law.

The acquisition of Bank shall not be consummated before the fifteenth calendar day after the effective date of this order, and the proposal shall not be consummated later than three months after the effective date of this order, unless

information to Bank. A Bank official independently would review the information about the potential borrower and decide whether to approve the loan. Bank would

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such period is extended for good cause by the Board or the Federal Reserve Bank of Richmond, acting pursuant to delegated authority.

Financial Holding Company Declaration

Applicants also have filed with the Board elections to become financial holding companies pursuant to section 4(l) of the BHC Act and section 225.82 of Regulation Y. Applicants have certified that Bank, the only depository institution that Applicants would control, will be well capitalized and well managed on consummation of the proposal. Applicants have provided all other information required by section 225.82(f) of Regulation Y.

The Board has reviewed the CRA rating of Bank. As discussed above, Bank received a satisfactory rating at its most recent examination under the CRA. Based on all the facts of record, the Board has determined that, on the date Applicants consummate the proposed acquisition of Bank, the financial holding company elections by Applicants will be complete for purposes of section 225.82 of Regulation Y. Unless the Board notifies Applicants otherwise before consummation of the proposal, the declaration to become financial holding companies also will become effective for purposes of section 4(l) of the BHC Act and sections 225.81 and 225.82 of Regulation Y on consummation of the acquisition of Bank.

By order of the Board of Governors, effective April 11, 2001.⁹

(signed)

fund the loan, and all mortgage loans originated using this procedure would be booked as assets of Bank.

⁹ Voting for this action: Chairman Greenspan, Vice Chairman Ferguson, and Governors Kelley, Meyer, and Gramlich.

Robert deV. Frierson
Associate Secretary of the Board