

Countrywide and the Subprime Crisis

- The growth of subprime mortgage lending has led record numbers of foreclosures nationally. Subprime loans are higher interest rate loans offered to people with less than prime credit.
- It should get worse as over 2 million sub-prime Adjustable Rate Mortgages (ARMs) will reset (increase) by the end of next year. In October Moody's estimated that 2 million families will lose homes by end of the current mortgage crisis. The entire US economy is facing serious problems because of the subprime crisis.
- Countrywide Financial Corp. is the nation's largest mortgage lender. It is a \$500 billion loan machine with 62,000 employees, 900 offices and assets of \$200 billion with \$11.4 billion in revenue and 4.3 billion pre-tax income in 2006.
- Full Spectrum was Countrywide's subprime lending arm.
- Sub-prime loans made up 8.7% of Countrywide's loans nationally and 14% of their Philadelphia loans. 45% of their mortgages nationally are ARMs.
- Potential borrowers were often steered into high cost and sometimes unaffordable loans that enriched the company and their sales force according to an August 26, 2007 New York Times article.
- Sub-prime loans had much higher profit margins than prime loans, earning as much as 15% of the loan as compared to 3 to 5% for prime loans.
- As of June 30th 1 in 4 of Countrywide's sub-prime loans were delinquent.
- Angelo Mozilo, Countrywide CEO, has made \$406 million since 1984 selling his Countrywide stock, including \$129 million in the past year.
- Housing counselors have seen that homeowners often need to fall behind before Countrywide will help according to the Wall Street Journal of November 3, 2007.
- Countrywide has recently set up a much heralded new program to assist 82,000 homeowners nationally, however it will aid only 10,000 borrowers who are behind on their mortgages.
- Of the 82,000 being targeted by Countrywide, 50,000, who have prime credit, will be offered refinancing. Another 20,000 who are not yet behind will be offered a modification where their rate will not adjust for 5 years.
- They will, thus, assist about 1% of the 8.2 million loans that they service nationally and most of those being offered assistance already have prime credit and should be able to refinance with any lender.
- **Countrywide homeowners should be offered the opportunity to modify their ARMs to 30 year fixed mortgages at a rate that allows them to maintain their homes. This will be good for families, neighborhoods and the economy and will allow Countrywide to continue to receive payments rather than pursue costly foreclosure proceedings**