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## Countrywide Subpoenaed by Illinois

By [GRETCHEN MORGENSON](#)

The [Illinois](#) attorney general is investigating the home loan unit of [Countrywide Financial](#) as part of the state's expanding inquiry into dubious lending practices that have trapped borrowers in high-cost mortgages they can no longer afford.

Lisa Madigan, the attorney general, has subpoenaed documents from Countrywide relating to its loan origination practices, a person briefed on the matter said. Rick Simon, a Countrywide spokesman, said the company was cooperating with the investigation but declined to comment further.

The inquiry follows an investigation by Ms. Madigan's office into One Source Mortgage, a Chicago mortgage broker that recently closed its doors. Ms. Madigan sued One Source on Nov. 27, contending that the company misled borrowers by promising low rates on mortgages without advising them that their payments would jump sharply shortly after the loans were made. Countrywide was One Source's primary lender, according to the lawsuit.

Countrywide, the nation's largest mortgage lender and loan servicer, is coming under increased scrutiny as the home loan crisis deepens. In addition to the Illinois investigation, the company is also fielding inquiries from the Securities and Exchange Commission about significant stock trades made by [Angelo R. Mozilo](#), the chief executive, before Countrywide's stock plummeted this year.

The United States trustee, which oversees the bankruptcy court system, is investigating Countrywide's actions in two cases involving borrowers in South Florida whose loans were serviced by the company. The trustee is trying to determine if the company's conduct in those cases represents abuses of the bankruptcy system.

The attorney general's lawsuit contended that One Source put borrowers into loans with terms they did not understand, especially so-called pay option adjustable-rate mortgages. These loans allow borrowers to pay only a fraction of the interest owed and none of the principal, resulting in a growing rather than a shrinking mortgage balance. Countrywide was One Source's main provider of pay option loans, documents in that case show.

"This company's conduct is a prime example of unscrupulous mortgage brokers that has led to a foreclosure crisis for many Illinois homeowners," Ms. Madigan said when she filed the suit against One Source.

Mark D. Belongia, a lawyer at Belongia & Shapiro in Chicago, represents One Source and its president, Charles G. Mangold. Mr. Belongia said his client denied all of the suit's charges and expected to be vindicated in court.

Donald Wagner, a professor of Middle East studies and comparative religion at North Park University on Chicago's North Side, is a One Source client who has talked to the attorney general about his troubles with a Countrywide pay option loan. In March 2005, he refinanced his fixed-rate mortgage to help pay for his daughter's college education. He said the One Source broker did not tell

him his low teaser rate — less than 2 percent — would jump after just one month.

“I kept asking them and checking on that,” Mr. Wagner said. “Then it jumped to more than 7 percent and now it’s up to 8 percent plus and it’s going to jump again. I am actually paying out over 60 percent of my monthly income, and it’s only so long that I can do that.”

Because Mr. Wagner cannot afford to pay both the interest and principal, the amount of his Countrywide loan has risen to \$307,000, from \$292,000 two and a half years ago. He has had to borrow against his 401(k) and university pension to meet his payments, he said. Making matters worse, when he tried to sell his house last summer to get out from under the mortgage, he learned that the loan carried a prepayment penalty of \$12,000.

Mr. Wagner has asked Countrywide to drop the prepayment penalty, but it has declined to do so.

Of the 69 borrower cases examined by the attorney general’s office, 26 of the first mortgages and 4 of the second liens were made by Countrywide. Fremont Investment and Loan, a unit of the [Fremont General Corporation](#), was One Source’s second-largest lender, with 20 loans. Last March, Fremont Investment consented to a cease-and-desist order issued by the [Federal Deposit Insurance Corporation](#), which contended that the company had practiced unsound lending and had violated laws or regulations.

The Illinois suit against One Source Mortgage said the company lured borrowers with misrepresentations about the interest rates on their loans. For example, one borrower was told that he would have an interest rate of less than 1 percent for the first year of his mortgage, but the rate rose to 7.5 percent after a month, according to the complaint.

One Source also used high-pressure tactics to rush borrowers through their loan closings, according to the suit. Most of the closings took less than 30 minutes, the attorney general said, with some only 10 to 15 minutes. One borrower was told that “it would take two days to explain everything,” and that the closing had to take place before that.

Some borrowers told Illinois investigators that they did not know One Source brokers had inflated their incomes to get them a larger mortgage. One consumer provided pay stubs and tax returns to One Source showing her income to be \$2,200 a month, the suit said. Only later did she discover that One Source had listed her monthly income as \$9,000.

The Illinois attorney general has been aggressive in moving against mortgage lending abuses. State officials were part of the executive committee that negotiated the settlement reached in January 2006 between Ameriquest, a big mortgage lender, and 49 state attorneys general. Under that deal, the company, without admitting or denying the accusations of loan improprieties, agreed to pay \$295 million to consumers in 49 states and more than \$30 million to cover costs of the investigation.

A recent analysis by The Chicago Reporter, an investigative newsmagazine, found that the Chicago area ranks first among United States metropolitan areas in the number of subprime loans issued to homeowners from 2004 through 2006.

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