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Countrywide Home Loan Delinquencies Rise

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(01-10) 00:44 PST Los Angeles (AP) --

Countrywide Financial Corp., its stock pummeled this week by rumors of bankruptcy and lackluster housing market forecasts, said Wednesday the percentage of borrowers who missed payments on home loans last month rose, signaling worsening trouble for the nation's largest mortgage lender and for the entire mortgage sector.

The company also reported that it had funded $23.5 billion in loans in December — a steep decline from $42.8 billion in the year-ago period.

"Their new business is down roughly 50 percent," said Sean Egan, managing director of independent ratings firm Egan-Jones Ratings Co. in Philadelphia.

"The market is fairly concerned whether the company is going to be able to correct the fundamental problems that it's faced with," he said.

The new figures drove Countrywide stock down by more than 15 percent at one point in the day before it recovered to end down 6.4 percent, or 35 cents, at $5.12.

The decline followed a loss of $2.17, or 28.4 percent, on Tuesday after the company denied rumors that a bankruptcy filing was imminent.

Wachovia Capital Markets analyst Jim Shanahan suggested Countrywide stock will remain volatile at least until the company reports its financial results for the fourth quarter later this month.

Countrywide said some 6.96 percent of the loans in its servicing portfolio were delinquent last month, up from 5.02 percent in December 2006.

Loan delinquencies as a percentage of unpaid principal balances jumped to 7.20 percent from 6.52 percent.

About 1.04 percent of the mortgage loans were pending foreclosure, up from 0.65 percent.

Meanwhile, Moody's Investors Service lowered the credit ratings of some mortgage-backed financing deals issued by Countrywide last year, saying it anticipates higher rates of delinquency, foreclosure and bank repossession in the home loans used as collateral.

The mortgages are mostly first lien, fixed and adjustable-rate Alt-A loans, a category above subprime but below prime loans offered to borrowers with the best credit.

The spike in loan delinquencies and pending foreclosures suggests many borrowers continue to struggle to make their payments, despite efforts touted by Countrywide to find ways to keep borrowers in homes.

Countrywide was among the major lenders involved in a Bush administration push to help homeowners with subprime loans avoid mortgage defaults by temporarily freezing their interest rates.

Falling or stagnant home prices, weak demand and a credit crunch following the subprime meltdown last summer has battered the mortgage sector and other financial institutions, leading to billions in losses.

"Mortgage quality is fast eroding and will continue to erode despite policy efforts to stem the surge in delinquency and foreclosure," said Mark Zandi, chief economist at Moody's Economy.com.

Nearly 2 million adjustable-rate mortgages are expected to reset to sharply higher payments in the next two years. A weakening job market, particularly in the hard-hit Midwest, could also lead to more home loan defaults.

Countrywide said its loan fundings during December rose 1 percent from November, ahead of internal forecasts.

Average daily mortgage applications for December slipped from the year-ago period, however. Countrywide and some analysts attributed the dip to a typical seasonal decline.

"We are a little disappointed to see purchase activity not really reacting to lower home prices, but December is traditionally a weak month for purchase activity," Frederick Cannon, an analyst with Keefe, Bruyette & Woods Inc., wrote in a research note.

Countrywide continued to shift away from risky subprime loans to people with shaky credit histories, with fundings totaling just $6 million last month, down from $3.73 billion in December 2006.

Home equity loan originations also declined last month to $1.26 billion, down 61.3 percent from $3.27 billion in the year-ago period.

Countrywide's slate of adjustable rate mortgages fell by 75 percent to $3.68 billion, from $15.22 billion a year earlier.

In all, the lender originated 116,577 home loans in December, down from 212,566 in the year-ago period.

On a brighter note, deposits at Countrywide's banking subsidiary rose by $2.3 billion in December. That money has become a key source of capital for loan funding since the collapse of the secondary market for mortgage-backed securities.

Management pointed to the bump in loan fundings and rising bank deposits as evidence the company was heading in the right direction.

"Our fourth quarter ended with a number of positive operational trends," David Sambol, Countrywide's president and chief operating office, said in a statement. "Management is pleased with the progress we have made in positioning the company to navigate the current challenging environment."

Countrywide previously reported a $1.2 billion loss for the third quarter of last year, but management forecast a profitable fourth quarter and 2008.

Analysts surveyed by Thomson Financial are estimating Countrywide will post a fourth-quarter profit of 12 cents per share on revenue of $1.9 billion.

Egan-Jones warned in a report on Tuesday that the lender is on precarious financial footing, contending it could fail unless it gets an infusion of $4 billion in capital within the next two weeks.

"They'll be severely pressed, yes, and we stand by that," Egan said Wednesday.

On the Net:

Countrywide Financial: my.countrywide.com/

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