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## Housing slump, credit woes were death knell for Countrywide

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(01-11) 14:21 PST Los Angeles (AP) --

Countrywide Financial Corp. CEO Angelo Mozilo liked to boast that his company had plenty of cash and know-how to survive the worst rollercoaster housing cycles.

But the latest slump and a severe credit crisis dealt a crushing blow to the nation's largest mortgage lender, leading to huge losses and bankruptcy rumors before a rescue buyout by investor Bank of America.

The \$4.1 billion buyout should spare Countrywide from bankruptcy but still spells the end of the giant company that had seemed well-equipped until just a few months ago to weather the nation's falling housing fortunes that had driven scores of its rivals out of business.

Even after posting its first quarterly loss in 25 years, and with bankruptcy rumors swirling, Countrywide proclaimed in October that it had ample capital and access to cash to ultimately emerge a stronger player in the mortgage industry.

It didn't work out that way.

"We've gone through this sort of nonsense where the (company) says everything is wonderful and dandy and then, three months later, they're in dire trouble," said Sean Egan, managing director of independent ratings firm Egan-Jones Ratings Co. in Philadelphia. "Enron said it. WorldCom said it."

Bank of America initially plans to run Countrywide as a separate brand but expects the company will be fully absorbed into the Charlotte, N.C.-based banking giant sometime after this year.

Meanwhile, Mozilo should walk away with a package, including his retirement pay and stock holdings, of nearly \$66 million. He's been selling his shares of the company's stock since last year, but he still has shares worth around \$5.8 million.

His retirement benefits are worth \$24 million and his cash severance should be around \$36 million, estimates Hay Group consultant David Wise.

Seeing Countrywide gradually fade into oblivion was not the fate Mozilo envisioned when he and David Loeb launched the company in a New York storefront in 1969 and later relocated to the Los Angeles suburb of Calabasas.

During its four decades, Countrywide grew exponentially in pursuit of its founders' vision of a national mortgage company. The lender flourished as home buyers began seeking alternatives to traditional savings and loans financing in the 1980s. By 1990, Countrywide's loan production exceeded \$3 billion.

Countrywide weathered the 1990s recession and housing bust, gradually diversifying beyond mortgage lending into retail banking, loan servicing and other services.

By the start of this decade, it was poised to capitalize on a new housing boom powered by historically low interest rates and voracious demand on Wall Street for mortgage-backed securities.

Like other mortgage lenders, Countrywide pushed nontraditional loans and subprime loans to people with shaky credit histories,

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since those products were favored by Wall Street banks because of their high yields.

During the last quarter of 2005, the peak of the housing boom, Countrywide's earnings soared 73 percent to \$638.9 million and its revenue hit \$2.59 billion.

By 2006, Countrywide had grown into the biggest mortgage lender in the nation.

Last February, the stock closed at a high of \$45.03, but the good times soon began to unravel, as the housing market tanked, home prices plummeted and defaults began to mount, particularly among borrowers with weak credit who took on high-interest subprime loans and others with risky adjustable-rate mortgage loans that began resetting to sharply higher monthly payments.

Even as other mortgage lenders started to go under, Countrywide maintained it wasn't in any danger.

In April, after several large mortgage companies had been forced into bankruptcy, Mozilo acknowledged the worsening housing market but said conditions would ultimately favor Countrywide.

Things worsened four months later, when a liquidity crisis swept through financial markets after investors' demand for mortgage-backed securities collapsed amid rising defaults.

Scrambling for capital, Countrywide drew down on a \$11.5 billion line of credit in August and raised \$2 billion by selling a stake to Bank of America. It was also able to revamp its credit agreements to pull together another \$12 billion weeks later.

In September, however, the company announced thousands of layoffs and shifted its home loan funding through its banking subsidiary, Countrywide Bank.

The lender all but stopped making subprime loans except for those it could sell back to U.S. government-backed mortgage financing companies.

That helped bolster investors' outlooks somewhat. Several analysts even expressed optimism that Countrywide would survive, citing its robust banking business and a track record over four decades of navigating the ups and downs of the housing market.

Speaking that month at an investor conference, Mozilo boasted the company would "come out stronger in the long run, just as we have often done in the past."

It wasn't long before the company came under fire from lawmakers, consumer groups and shareholders, some of whom alleged the company wasn't upfront or had deliberately misled the public about the impact the housing slump was having on its fortunes.

Mozilo has also come under scrutiny, with the Securities and Exchange Commission launching an informal inquiry into his sales of Countrywide stock.

In October, Countrywide disclosed a third-quarter loss of \$1.2 billion as it was forced to set aside millions in loan-loss provisions and writedowns.

Even then, Mozilo was predicting his company would turn a profit in the fourth quarter and in 2008.

"The situation had improved somewhat in terms of liquidity and the outlook for a company like Countrywide's ability to get funding," said Chris Brendler, an analyst with Stifel Nicolaus & Co. Inc.

"I think that just fell to the floor in November and got worse in December, so by the time you got to this year, they were having a lot of difficulty shoring up funding."

Meanwhile, an increasing number of Countrywide borrowers fell behind on payments or slipped into foreclosure. The number of new loans plummeted.

The company's stock hit record lows this week as bankruptcy rumors surfaced again.

On Tuesday, Egan's firm suggested Countrywide was days away from faltering unless it got an infusion of \$4 billion.

The lifeline came from Bank of America.

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AP Business Writer Ellen Simon contributed to this story.

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