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California Atty. Gen. Jerry Brown sues Countrywide



Mark Wilson / Getty Images

The nation's largest mortgage lender, Countrywide Financial, and its founder, Angelo Mozilo, above, are being sued by California and Illinois for allegedly misleading consumers into taking on risky home loans. Shareholders, meanwhile, are scheduled to vote today on the company's takeover by Bank of America.

Complaint says the nation's largest home-loan company deceived borrowers about the risks of sub-prime mortgages. Countrywide shareholders approve a takeover by Bank of America.

By E. Scott Reckard, Los Angeles Times Staff Writer
June 26, 2008

As Countrywide Financial Corp. shareholders voted Wednesday to ratify the company's sale, ending an era for the mortgage industry, California sued the No. 1 home lender in a broad condemnation of its business practices.

Stumbling emotionally over his words at a special shareholder meeting, Angelo Mozilo, the company's founder, chairman and chief executive, said he saw no future role for stand-alone mortgage lenders such as Countrywide, which thrived during the housing boom and had suffered badly during the bust.



More coverage of Countrywide's travails

»Blog: Highlights of California's suit against Countrywide

»Read California's suit against Countrywide

»Read Illinois' suit against Countrywide

Bank of America Corp., which expects to close its acquisition of Countrywide next week, "will reap the benefits of what we have sown over the past decades," Mozilo told employees filling an auditorium at Countrywide's Calabasas headquarters.

Less than an hour earlier, California Atty. Gen. Jerry Brown had sent a harsh reminder

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that Charlotte, N.C.-based Bank of America, the nation's largest retail bank, also would reap massive legal headaches from the deal.

Brown accused Mozilo and his company of causing thousands of foreclosures by deceptively marketing risky loans to borrowers who didn't understand that their monthly payments would one day "explode."

The suit cited not only sub-prime loans to the riskiest borrowers, but also loans made to borrowers with good credit, including complex adjustable-rate mortgages known as option ARMs as well as home equity lines of credit.

Mozilo and his associates "crafted mortgage instruments that did great harm to individuals and the community, and they persisted in expanding these damaging mortgage instruments over a number of years," Brown said in an interview.

The lawsuit seeks restitution for borrowers who were deceived but doesn't spell out how that would be accomplished, and Brown warned that a quick resolution was unlikely. Countrywide and Bank of America, which is assuming Countrywide's legal liabilities, "have good lawyers," Brown said. "This is the beginning of a long road."

In addition to Countrywide and Mozilo, Brown's suit names Countrywide President David Sambol as a defendant. The state of Illinois filed a similar suit Wednesday against Countrywide and Mozilo, seeking to rescind loans allegedly made deceptively to borrowers in that state.

A Countrywide spokesman said none of the defendants in the suits would have an immediate comment.

Neither Mozilo nor Sambol are staying on after the takeover. Bank of America initially had said it would retain Sambol to run its combined mortgage operations, including Countrywide, but later changed its mind. A Bank of America spokesman didn't return a call asking for comment on Brown's lawsuit and the liabilities the company would be assuming.

Mozilo, who founded Countrywide in 1969, looked grim and tired as he stepped to the lectern at 9 a.m. Wednesday, and seemed uncharacteristically unsure of his words at first.

But he appeared more comfortable as he lauded Countrywide's employees and board for an "extraordinary" job over the last year, as delinquencies and allegations of wrongdoing have mounted. He also praised Bank of America, which he noted had helped get Countrywide started by lending him \$75,000 and which endured criticism and a sharp decline in its own stock price for sticking by its deal to acquire Countrywide.

Mozilo thanked Bank of America Chairman Ken Lewis for exhibiting "courage and conviction in seeing this merger through to the end."

In an interview in January after announcing the deal, Lewis said Countrywide "is really - - at the grass-roots level -- a very well-run mortgage company." He said the bank would come out ahead, even after billions of dollars in charges for loan losses and lawsuits, an assertion he has repeated a number of times.

Mozilo said 69% of the shares approved the sale.

Bank of America's stock fell 1 cent Wednesday to \$26.61 a share.

Brown's 46-page suit alleges that beginning in 2004 Countrywide and its top executives loosened or ignored lending standards and deceived borrowers about the risk of sub-prime mortgages and other adjustable-rate loans by emphasizing low initial rates.

The goal, the suit says, was to double the lender's share of the national mortgage market to 30% by mass-producing loans that could be sold off to be transformed on Wall Street into complex bonds.

"Defendants viewed borrowers as nothing more than the means for producing more loans, originating loans with little or no regard to borrowers' long-term ability to afford them and to sustain homeownership," the complaint says.

It also says Countrywide pressured branch managers to close large numbers of loans "without regard to borrower ability to repay."

The company routinely made exceptions for loans that didn't meet its guidelines, the suit says, and "turned a blind eye" to deceptive practices by brokers and its own loan

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agents despite "numerous complaints from borrowers claiming that they did not understand their loan terms."

Also among the suit's allegations:

* Underwriters who confirmed information on mortgage applications were "under intense pressure . . . to process 60 to 70 loans per day, making careful consideration of borrowers' financial circumstances and the suitability of the loan product for them nearly impossible."

* "Countrywide's high-pressure sales environment and compensation system encouraged serial refinancing of Countrywide loans."

* Loan officers overstated how much borrowers earned or "led the borrower into overstating his or her income without explaining the risk of default with a loan he or she could not actually afford."

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