visited on 2/13/2017

LIBERTY TRAVEL
CONNECTING PEOPLE AND PLACES
With 52 Places to Go in 2017, you'll need help to find the perfect one.
Trust our knowledgeable travel consultants to plan your next getaway.
TRAVEL THIS YEAR

INVESTMENT BANKING | LEGAL/REGULATORY

Bank of America Papers Show Conflict and Trickery in Mortgages

By MICHAEL CORKERY and BEN PROTESS AUGUST 21, 2014 8:55 PM

Countrywide Financial became one of the nation's largest mortgage lenders before Bank of America acquired it in 2008. Richard A. Brooks/Agence France-Presse — Getty Images

Email
Share
Tweet
Save
More

A founder of Countrywide Financial warned three years before the housing market collapsed that his company could face "financial and reputational catastrophe" if it continued holding certain risky mortgages on its balance sheet. Still, Countrywide continued to sell these loans to investors.

Bank of America refinanced a $156,491 Countrywide loan for a 24-year-old mobile home into a government-backed mortgage. The borrower, who also managed to roll credit-card debt into the loan, was behind on his payments at the time of the refinancing.

Related Links
- Settling for $16 Billion, Bank Knows It Will Pay Much Less
- Timeline: Bank of America and the Financial Crisis
- Documents on Bank of America

And a Merrill Lynch consultant vented in an internal email that the Wall Street firm seemed unfazed by issues with mortgage standards. "Makes you wonder why we have due diligence performed other than making sure the loan closed."

Documents released as part of the $16.65 billion settlement between Bank of America and the Justice Department read like a highlight reel of the mortgage sins that fed the 2008 financial crisis. As part of the deal, the

PREVIOUS POST
Europe Fears Banks Lack Cash Cushion to Cover Bad Loans
NEXT POST
As I.P.O.s Doubled, London Stock Exchange Operating Profit Rose 36%

visited on 2/13/2017

bank and the Justice Department agreed to a "statement of facts" that offers a window into some of the darkest corners of the Countrywide and Merrill mortgage machine that was responsible for funneling a stream of troubled loans that helped devastate the global financial system.

At this point, six years after the financial crisis, the excesses and failings of Countrywide and Merrill, which Bank of America acquired, are the stuff of Wall Street legend. But the 30-page document, which is replete with many internal emails from the likes of Countrywide's co-founder, Angelo Mozilo, underscores the extent of the problems at these firms.

Angelo Mozilo, the former chief of Countrywide Financial, at a House panel in 2008. Mark Wilson/Getty Images

In past federal mortgage settlements, some critics have said the statement of facts lacked specifics. Some banks' lawyers have been wary of agreeing to too many details in these documents, fearing they can provide a road map for future litigation.

On Thursday, the Securities and Exchange Commission also struck a settlement with the bank, which admitted wrongdoing as part of that agreement.

The settlement comes as federal prosecutors in Los Angeles are preparing a lawsuit against Mr. Mozilo, who built Countrywide into one of the nation's largest mortgage lenders before Bank of America acquired the company in 2008.

Mr. Mozilo's lawyer, David Siegel, said, "There is no sound or fair basis, in law or fact, to pursue any claim" against his client.

According to the statement of facts, Mr. Mozilo sent an email to a Countrywide executive on Aug. 1, 2005, warning about a collapse in some condominium markets in Las Vegas and Florida, which were swarming then with speculators looking for quick profits.

"I am becoming increasingly concerned about the environment surrounding the borrowers who are utilizing the pay option loan and the price level of real estate in general but particularly relative to condos," Mr. Mozilo wrote, according to the Justice Department documents.

Mr. Mozilo said Countrywide should stop holding those loans on its books. Yet for the next two years, according to the documents, Countrywide continued to originate pay option loans — which had interest rates that would reset after a few years — and sell them to Wall Street.

The Justice Department documents also show the failings of the government's efforts to protect itself against insuring defective mortgages.

One Bank of America employee describes trying to "trick"

visited on 2/13/2017

a system that screened mortgages that the Federal Housing Administration agreed to insure.

When using this system, Bank of America sometimes changed an applicant's financial information and resubmitted the loan many times to try for approval. In at least one case, a Bank of America underwriter tried to pass the F.H.A. screening more than 40 times, according to the documents. In other cases, "underwriters regularly changed the relevant data and resubmitted the loans more than 20 times," the documents said.

A version of this article appears in print on 08/22/2014, on page A3 of the NewYork edition with the headline: Bank Papers Show Conflict and Trickery in Mortgages.

SHARE

FINANCIAL SERVICES, INVESTMENT BANKING, LEGAL/REGULATORY, BANK OF AMERICA CORPORATION, BANKING AND FINANCIAL INSTITUTIONS, COUNTRYWIDE FINANCIAL CORP, JUSTICE DEPARTMENT, MERRILL LYNCH & CO, MORTGAGES, MOZILO, ANGELO R

© 2017 The New York Times Company | Contact Us | Work With Us | Advertise | Your Ad Choices | Privacy | Terms of Service | Terms of Sale | Site Map | Help | Site Feedback | Subscriptions