To whom it may concern:

Please review the changes intended to protect consumers. The Mortgage Broker's are not the problem (not that all are angels). Who is being investigated by the FBI? Countrywide. A mortgage banker who not only swindled its customers but it's own employees. Who made the bulk of the money before this crisis: the Banks (who do not have to disclose anything to the Client)

If RESPA was enforced like it was supposed to and Banks had to follow these rules then this country would be in less of a mess. I have attached a copy of Countrywide's standard of operations. You will find that the banks are more at fault, but because they have a larger Lobby they are not being scrutinized like the mortgage brokers.

Even the playing field and make all follow RESPA and all consumers will benefit. The Banks won't want to disclose YSP.

Read the Article and you will see it was the big dogs not the little ones that were responsible.

Thank you,

James Jackson
Beaumont, Texas

Inside the Countrywide Lending Spree

By GRETCHEN MORGENSON

ON its way to becoming the nation's largest mortgage lender, the Countrywide Financial Corporation encouraged its sales force to court customers over the telephone with a seductive pitch that seldom varied. "I want to be sure you are getting the best loan possible," the sales representatives would say.

But providing "the best loan possible" to customers wasn't always the bank's main goal, say some former employees. Instead, potential borrowers were often led to high-cost and sometimes unfavorable loans that resulted in richer commissions for Countrywide's smooth-talking sales force, outsize fees to company affiliates providing services on the loans, and a roaring stock price that made Countrywide executives among the highest paid in America.

Countrywide's entire operation, from its computer system to its incentive pay structure and financing arrangements, is intended to wring maximum profits out of the mortgage lending boom no matter what it costs borrowers, according to interviews with former employees and brokers who worked in different units of the company and internal documents they provided. One document, for instance, shows that until last September the computer system in the company's subprime unit excluded borrowers' cash reserves, which had the effect of steering them away from lower-cost loans to those that were more expensive to homeowners and more profitable to Countrywide.

Now, with the entire mortgage business on tenterhooks and industry practices under scrutiny by securities regulators and banking industry overseers, Countrywide's money machine is sputtering. So far this year, fearful investors have cut its stock in half. About two weeks ago, the company was forced to draw down its entire $11.5 billion credit line from a consortium of banks because it could no longer sell or borrow against home loans it has made. And last week, Bank of America invested $2 billion for a 16 percent stake in Countrywide, a move that came amid speculation that Countrywide's survival was in question and that it had become a takeover target — notions that Countrywide publicly disputed.

Homeowners, meanwhile, drawn in by Countrywide sales scripts assuring "the best loan possible," are behind on their mortgages in record numbers. As of June 30, almost one in four subprime loans that Countrywide services was delinquent, up from 15 percent in the same period last year, according to company filings. Almost 10 percent were delinquent by 90 days or more, compared with last year's rate of 5.35 percent.

Many of these loans had interest rates that recently reset from low teaser levels to double digits; others carry prohibitive prepayment penalties that have made refinancing impossibly expensive, even before this month's upheaval in the mortgage markets.

To be sure, Countrywide was not the only lender that sold questionable loans with enormous fees during the housing bubble. And as real estate prices soared, borrowers themselves proved all too eager to participate, even if it meant paying high costs or signing up for a loan with an interest rate that would jump in coming years.

But few companies benefited more from the mortgage mania than Countrywide, among the most aggressive home lenders in the nation. As such, the company is Exhibit A for the lax and, until recently, highly lucrative lending that has turned a once-hot business ice cold and has touched off a housing crisis of historic proportions.

"In terms of being unresponsive to what was happening, to sticking it out the longest, and continuing to justify the garbage they were selling, Countrywide was the worst lender," said Ira Rheingold, executive director of the National Association of Consumer Advocates. "And anytime states tried to pass responsible lending laws, Countrywide was fighting it tooth and nail."

Started as Countrywide Credit Industries in New York 38 years ago by Angelo R. Mozilo, a butcher's son from the Bronx, and David Loeb, a founder of a mortgage banking firm in New York, who died in 2003, the company has become a $500 billion home loan machine with 62,000 employees, 900 offices and assets of $200 billion. Countrywide's stock price was up 561 percent over the 10 years ended last December.

Mr. Mozilo has ridden this remarkable wave to immense riches, thanks to generous annual stock option grants. Rarely a buyer of Countrywide shares — he has not bought a share since 1987, according to Securities and Exchange Commission filings — he has been a huge seller in recent years. Since the company listed its shares on the New York Stock Exchange in 1984, he has reaped $406 million selling Countrywide stock.

As the subprime mortgage debacle began to unfold this year, Mr. Mozilo's selling accelerated. Filings show that he made $129 million from stock sales during the last 12 months, or almost one-third of the entire amount he has reaped over the last 23 years. He still holds 1.4 million shares in Countrywide, a 0.24 percent stake that is worth $29.4 million.

"Mr. Mozilo has stated publicly that his current plan recognizes his personal need to diversify some of his assets as he approaches retirement," said Rick Simon, a Countrywide spokesman. "His personal wealth remains heavily weighted in Countrywide shares, and he is, by far, the leading individual shareholder in the company."

Mr. Simon said that Mr. Mozilo and other top Countrywide executives were not available for interviews. The spokesman declined to answer a list of questions, saying that he and his staff were too busy.

A former sales representative and several brokers interviewed for this article were granted anonymity because they feared retribution from Countrywide.

AMONG Countrywide's operations are a bank, overseen by the Office of Thrift Supervision; a broker-dealer that trades United States government securities and sells mortgage-backed securities; a mortgage servicing arm; a real estate closing services company; an insurance company; and three special-purpose vehicles that issue short-term commercial paper backed by Countrywide mortgages.

Last year, Countrywide had revenue of $11.4 billion and pretax income of $4.3 billion. Mortgage banking contributed mightily in 2006, generating $2.06 billion before taxes. In the last 12 months, Countrywide financed almost $500 billion in loans, or around $41 billion a month. It financed 177,000 to 240,000 loans a month during the last 12 months.

Countrywide lends to both prime borrowers — those with sterling credit — and so-called subprime, or riskier, borrowers. Among the $470 billion in loans that Countrywide made last year, 45 percent were conventional nonconforming loans, those that are too big to be sold to government-sponsored enterprises like Fannie Mae or Freddie Mac. Home equity lines of credit given to prime borrowers accounted for 10.2 percent of the total, while subprime loans were 8.7 percent.

Regulatory filings show that, as of last year, 45 percent of Countrywide's loans carried adjustable rates — the kind of loans that are set to reprice this fall and later, and which are causing so much anxiety among borrowers and investors alike. Countrywide has a huge presence in California: 46 percent of the loans it holds on its books were made there, and 28 percent of the loans it services are there. Countrywide packages most of its loans into securities pools that it sells to investors.

Another big business for Countrywide is loan servicing, the collection of monthly principal and interest payments from borrowers and the disbursement of them to investors. Countrywide serviced 8.2 million loans as of the end of the year; in June the portfolio totaled $1.4 trillion. In addition to the enormous profits this business generates — $660 million in 2006, or 25 percent of its overall earnings — customers of the

Countrywide servicing unit are a huge source of leads for its mortgage sales staff, say former employees.

In a mid-March interview on CNBC, Mr. Mozilo said Countrywide was poised to benefit from the spreading crisis in the mortgage lending industry. “This will be great for Countrywide,” he said, “because at the end of the day, all of the irrational competitors will be gone.”

But Countrywide documents show that it, too, was a lax lender. For example, it wasn’t until March 16 that Countrywide eliminated so-called piggyback loans from its product list, loans that permitted borrowers to buy a house without putting down any of their own money. And Countrywide waited until Feb. 23 to stop peddling another risky product, loans that were worth more than 95 percent of a home’s appraised value and required no documentation of a borrower’s income.

As recently as July 27, Countrywide’s product list showed that it would lend $500,000 to a borrower rated C-minus, the second-riskiest grade. As long as the loan represented no more than 70 percent of the underlying property’s value, Countrywide would lend to a borrower even if the person had a credit score as low as 500. (The top score is 850.)

The company would lend even if the borrower had been 90 days late on a current mortgage payment twice in the last 12 months, if the borrower had filed for personal bankruptcy protection, or if the borrower had faced foreclosure or default notices on his or her property.

Such loans were made, former employees say, because they were so lucrative — to Countrywide. The company harvested a steady stream of fees or payments on such loans and busily repackaged them as securities to sell to investors. As long as housing prices kept rising, everyone — borrowers, lenders and investors — appeared to be winners.

One former employee provided documents indicating Countrywide’s minimum profit margins on subprime loans of different sizes. These ranged from 5 percent on small loans of $100,000 to $200,000 to 3 percent on loans of $350,000 to $500,000. But on subprime loans that imposed heavy burdens on borrowers, like high prepayment penalties that persisted for three years, Countrywide's margins could reach 15 percent of the loan, the former employee said.

Regulatory filings show how much more profitable subprime loans are for Countrywide than higher-quality prime loans. Last year, for example, the profit margins Countrywide generated on subprime loans that it sold to investors were 1.84 percent, versus 1.07 percent on prime loans. A year earlier, when the subprime machine was really cranking, sales of these mortgages produced profits of 2 percent, versus 0.82 percent from prime mortgages. And in 2004, subprime loans produced gains of 3.64 percent, versus 0.93 percent for prime loans.

One reason these loans were so lucrative for Countrywide is that investors who bought securities backed by the mortgages were willing to pay more for loans with prepayment penalties and those whose interest rates were going to reset at higher levels. Investors ponied up because pools of subprime loans were likely to generate a larger cash flow than prime loans that carried lower fixed rates.

As a result, former employees said, the company's commission structure rewarded sales representatives for making risky, high-cost loans. For example, according to another mortgage sales representative affiliated with Countrywide, adding a three-year prepayment penalty to a loan would generate an extra 1 percent of the loan's value in a commission. While mortgage brokers' commissions would vary on loans that reset after a short period with a low teaser rate, the higher the rate at reset, the greater the commission earned, these people said.

Persuading someone to add a home equity line of credit to a loan carried extra commissions of 0.25 percent, according to a former sales representative.

"The whole commission structure in both prime and subprime was designed to reward salespeople for pushing whatever programs Countrywide made the most money on in the secondary market," the former sales representative said.

CONSIDER an example provided by a former mortgage broker. Say that a borrower was persuaded to take on a $1 million adjustable-rate loan that required the person to pay only a tiny fraction of the real interest rate and no principal during the first year — a loan known in the trade as a pay option adjustable-rate mortgage. If the loan carried a three-year prepayment penalty requiring the borrower to pay six months' worth of interest at the much higher reset rate of 3 percentage points over the prevailing market rate, Countrywide would pay the broker a $30,000 commission.

When borrowers tried to reduce their mortgage debt, Countrywide cashed in: prepayment penalties generated significant revenue for the company — $268 million last year, up from $212 million in 2005. When borrowers had difficulty making payments, Countrywide cashed in again: late charges produced even more in 2006 — some $285 million.

The company's incentive system also encouraged brokers and sales representatives to move borrowers into the subprime category, even if their financial position meant that they belonged higher up the loan spectrum. Brokers who peddled subprime loans received commissions of 0.50 percent of the loan's value, versus 0.20 percent on loans one step up the quality ladder, known as Alternate-A, former brokers said. For years, a software system in Countrywide's subprime unit that sales representatives used to calculate the loan type that a borrower qualified for did not allow the input of a borrower's cash reserves, a former employee said.

A borrower who has more assets poses less risk to a lender, and will typically get a better rate on a loan as a result. But, this sales representative said, Countrywide's software prevented the input of cash reserves so borrowers would have to be pitched on pricier loans. It was not until last September that the company changed this practice, as part of what was called in an internal memo the "Do the Right Thing" campaign.

According to the former sales representative, Countrywide's big subprime unit also avoided offering borrowers Federal Housing Administration loans, which are backed by the United States government and are less risky. But these loans, well suited to low-income or first-time home buyers, do not generate the high fees that Countrywide encouraged its sales force to pursue.

A few weeks ago, the former sales representative priced a $275,000 loan with a 30-year term and a fixed rate for a borrower putting down 10 percent, with fully documented income, and a credit score of 620. While a F.H.A. loan on the same terms would have carried a 7 percent rate and 0.125 percentage points, Countrywide's subprime loan for the same borrower carried a rate of 9.875 percent and three additional percentage points.

The monthly payment on the F.H.A. loan would have been $1,829, while Countrywide's subprime loan generated a $2,387 monthly payment. That amounts to a difference of $558 a month, or $6,696 a year — no small sum for a low-income homeowner.

"F.H.A. loans are the best source of financing for low-income borrowers," the former sales representative said. So Countrywide's subprime lending program "is not living up to the promise of providing the best loan programs to its clients," he said.

Mr. Simon of Countrywide said that Federal Housing Administration loans were becoming a bigger part of the company's business.

"While they are very useful to some borrowers, F.H.A./V.A. mortgages are extremely difficult to originate in markets with above-average home prices, because the maximum loan amount is so low," he said. "Countrywide believes F.H.A./V.A. loans are an increasingly important part of its product menu, particularly for the homeownership hopes of low- to moderate-income and minority borrowers we have concentrated on reaching and serving."

WORKDAYS at Countrywide's mortgage lending units centered on an intense telemarketing effort, former employees said. It involved chasing down sales leads and hewing to carefully prepared scripts during telephone calls with prospects.

One marketing manual used in Countrywide's subprime unit during 2005, for example, walks sales representatives through the steps of a successful call. "Step 3, Borrower Information, is where the Account Executive gets on the Oasis of Rapport," the manual states. "The Oasis of Rapport is the time spent with the client building rapport and gathering information. At this point in the sales cycle, rates, points, and fees are not discussed. The immediate objective is for the Account Executive to get to know the client and look for points of common interest. Use first names with clients as it facilitates a friendly, helpful tone."

If clients proved to be uninterested, the script provided ways for sales representatives to be more persuasive. Account executives encountering prospective customers who said their mortgage had been paid off, for instance, were advised to ask about a home equity loan. "Don't you want the equity in your home to work for you?" the script said. "You can use your equity for your advantage and pay bills or get cash out. How does that sound?"

Other documents from the subprime unit also show that Countrywide was willing to underwrite loans that left little disposable income for borrowers' food, clothing and other living expenses. A different manual states that loans could be written for borrowers even if, in a family of four, they had just $1,000 in disposable income after paying their mortgage bill. A loan to a single borrower could be made even if the person had just $550 left each month to live on, the manual said.

Independent brokers who have worked with Countrywide also say the company does not provide records of their compensation to the Internal Revenue Service on a Form 1099, as the law requires. These brokers say that all other home lenders they have worked with submitted 1099s disclosing income earned from their associations.

One broker who worked with Countrywide for seven years said she never got a 1099.

"When I got ready to do my first year's taxes I had received 1099s from everybody but Countrywide," she said. "I called my rep and he said, 'We're too big. There's too many. We don't do it.' "

A different broker supplied an e-mail message from a Countrywide official stating that it was not company practice to submit 1099s. It is unclear why Countrywide apparently chooses not to provide the documents. Countrywide boasts that it is the No. 1 lender to minorities, providing those borrowers with their piece of the American homeownership dream. But it has run into problems with state regulators in New York, who contended that the company overcharged such borrowers for loans. Last December, Countrywide struck an agreement with Eliot Spitzer, then the state attorney general, to compensate black and Latino borrowers to whom it had improperly given high-cost loans in 2004. Under the agreement, Countrywide, which cooperated with the attorney general, agreed to improve its fair-lending monitoring activities and set up a $3 million consumer education program.

But few borrowers of any sort, even the most creditworthy, appear to escape Countrywide's fee machine. When borrowers close on their loans, they pay fees for flood and tax certifications, appraisals, document preparation, even charges associated with e-mailing documents or using FedEx to send or receive paperwork, according to Countrywide documents. It's a big business: During the last 12 months, Countrywide did 3.5 million flood certifications, conducted 10.8 million credit checks and 1.3 million appraisals, its filings show. Many of the fees go to its loan closing services subsidiary, LandSafe Inc.

According to dozens of loan documents, LandSafe routinely charges tax service fees of $60, far above what other lenders charge, for information about any outstanding tax obligations of the borrowers. Credit checks can cost $36 at LandSafe, double what others levy. Some Countrywide loans even included fees of $100 to e-mail documents or $45 to ship them overnight. LandSafe also charges borrowers $26 for flood certifications, for which other companies typically charge $12 to $14, according to sales representatives and brokers familiar with the fees.

LAST April, Countrywide customers in Los Angeles filed suit against the company in California state court, contending that it overcharged borrowers by collecting unearned fees in relation to tax service fees and flood certification charges. These markups were not disclosed to borrowers, the lawsuit said.

Appraisals are another profit center for Countrywide, brokers said, because it often requires more than one appraisal on properties, especially if borrowers initially choose not to use the company's own internal firm. Appraisal fees at Countrywide totaled $137 million in 2006, up from $110 million in the previous year. Credit report fees were $74 million last year, down slightly from 2005.

All of those fees may soon be part of what Countrywide comes to consider the good old days. The mortgage market has cooled, and so have the company's fortunes. Mr. Mozilo remains undaunted, however.

In an interview with CNBC on Thursday, he conceded that Countrywide's balance sheet had to be strengthened. "But at the end of the day we could be doing very substantial volumes for high-quality loans," he said, "because there is nobody else in town."