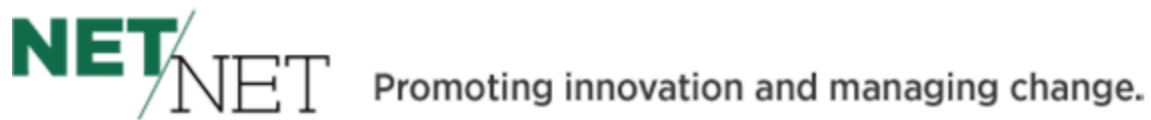


Bank of America's Countrywide Accused of "Massive Fraud"

cnbc.com/2011/01/25/bank-of-americas-countrywide-accused-of-massive-fraud.html

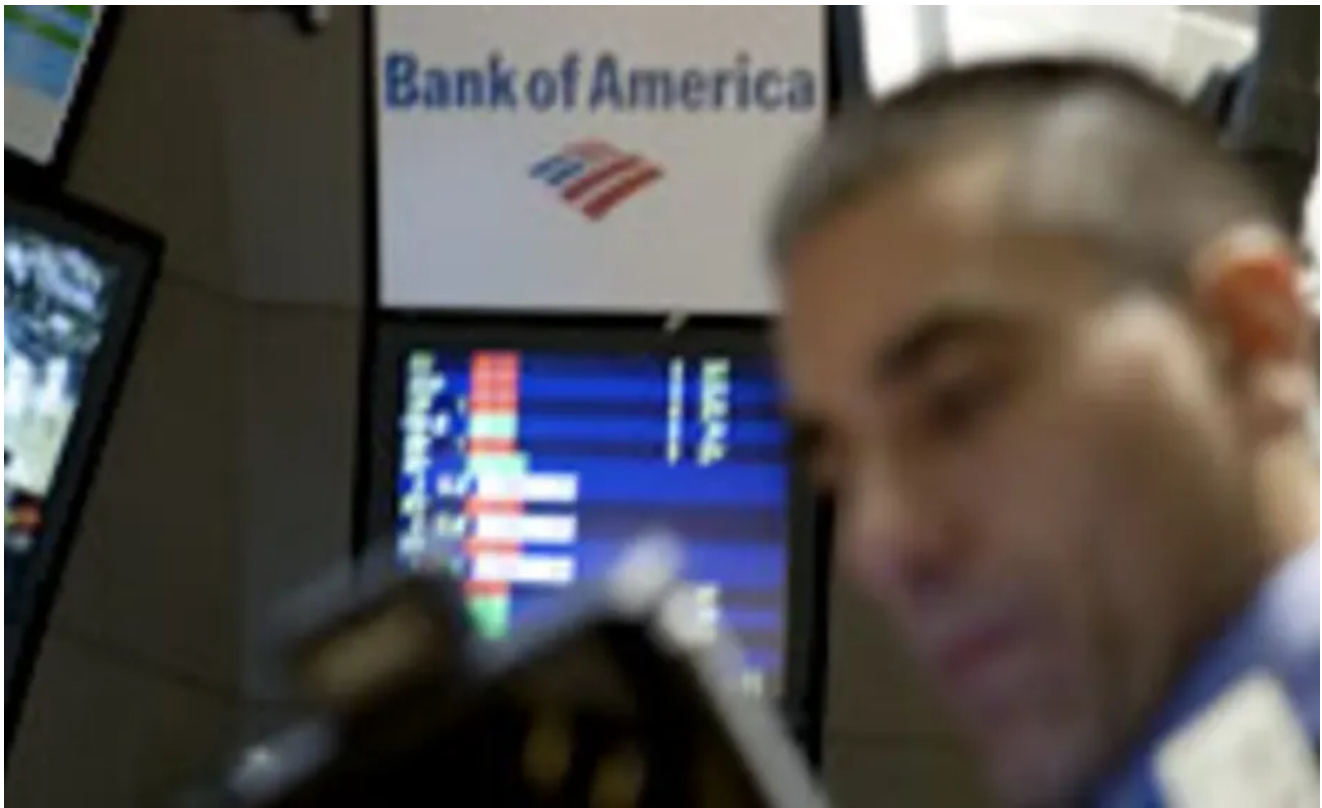
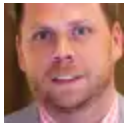
January 25, 2011

[Skip Navigation](#)



[Net Net: Promoting innovation and managing change](#)

Published Tue, Jan 25 2011 11:44 AM EST Updated Fri, Sep 13 2013 4:33 PM EDT



A Bank of America trader inside the NYSE.

Oliver Quillia for CNBC.com

The acquisition of Countrywide Financial by Bank of America is the gift that keeps on grifting.

Yesterday a dozen or so insurance companies that invested in Countrywide mortgage-backed securities from 2005 to 2007 filed a lawsuit accusing the mortgage lender of “massive fraud.”

Bloomberg.gives some background:

TIAA-CREF Life Insurance Co., New York Life Insurance Co. and Dexia Holdings Inc. are among a dozen institutional investors who filed the complaint yesterday in New York state Supreme Court.

The investors claim they bought hundreds of millions of dollars of Countrywide mortgage-backed securities from 2005 to 2007 because they wanted conservative, low-risk investments. They said they relied on term sheets, prospectuses and other materials provided by the firm that were recklessly or knowingly false.

“Countrywide was an enterprise driven by only one purpose—to originate and securitize as many mortgage loans as possible into MBS to generate profits for the Countrywide defendants without regard to the investors that relied on the critical, false information provided to them with respect to the related certificates,” according to the complaint.

The suit follows other fraud actions against Countrywide related to alleged misstatements to investors regarding the company’s mortgage-loan underwriting standards.

The actual complaint runs to a couple of hundred pages. But the description of Countrywide’s underwriting process is worth reading. It really describes how hard it was during the housing bubble to have a loan application rejected by Countrywide.

According to the complaint, mortgage applications that were rejected by Countrywide’s automated system were reviewed manually by a loan officer. Countrywide called this the “Exception Processing System.” Even if the loan officer could not find a way to approve the loan in accordance with the written underwriting guidelines or apply one of the standard exceptions, the loan wouldn’t be rejected. Instead, the loan officer would request a special “exception” from a more senior underwriter.

The more senior underwriters operated like the old Crazy Eddie electronics stores—they’d match any offer from a competitor. If another lender had a policy or loan product that was more “aggressive” than Countrywide’s official standards, the senior loan officer was allowed to “match” that product.

In short, Countrywide had a “race to the bottom” policy. If any home lender might make a loan, Countrywide would make it also.

This, of course, makes a mockery of Countrywide's statements to mortgage-backed investors that the company's underwriting produced "quality mortgages."

Questions? Comments? Email us at

Follow John on Twitter @ twitter.com/Carney

Follow NetNet on Twitter @ twitter.com/CNBCnetnet

Facebook us @

Get this delivered to your inbox, and more info about our products and services.

© 2023 CNBC LLC. All Rights Reserved. [A Division of NBCUniversal](#)

Data is a real-time snapshot *Data is delayed at least 15 minutes. Global Business and Financial News, Stock Quotes, and Market Data and Analysis.

Data also provided by

