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MARCH 26, 2007

IDEAS -- FACE TIME WITH MARIA BARTIROMO

By Maria Bartiromo

Inside The Mortgage Crisis

Angelo Mozilo wants to make one thing perfectly clear: Countrywide Financial, whose stock is down more than 20% for the year, should not be lumped in with the subprime outfits that are getting hammered. In a wide-ranging interview on Mar. 12, the CEO of America's No. 1 lender suggested that panic was gripping the market over mounting distress in the subprime business. But he also predicted that the bad news is far from over.

How exposed is Countrywide to the subprime mess?

In 2006 subprime loans were about 9% of our total business, now down to 7%. We're a prime lender...but we also have been on a mission...to try to increase home ownership opportunities for minorities and low-income borrowers. So it's distressful to me personally to see the piling on that's taking place by the media and regulators. This was a system that was working very well, providing an opportunity for people to get over that barrier of entry to owning a home. Now what you've had is panic setting in, and [the subprime story] is leading every newspaper. It's like there's no war going on in Iraq.



Maria Bartiromo

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S&P 500	1533	-7.98
Nasdaq	2817.17	-0.27

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What will the impact be?

When you cut that first-time home buyer out, there's a ripple effect. I'll be the first to admit that a lot of players came into the industry that were not banks, not even mortgage banks, and that they exploited a certain number of people. But that exploitation was in the minority. You had 17 increases in the Fed funds rate. Then those [exotic] loans began to reset, and that was the tipping point. When you begin to cut off the demand, values start to recede. And there's an old saying that you never know who's swimming naked until the tide goes out.

So the industry got a little crazy with some of the lending?

It's no different than the equity markets and tech booms. Any kind of bubble like that creates irresponsible behavior. And we did have a bubble in real estate.

Do you worry that the subprime fallout will bleed into the prime mortgage market?

I don't think it's going to bleed substantially into prime.

You've said that you've never seen a soft landing in housing.

Never seen it. That's right.

Is the worst over?

It's always hard to tell when you're at the bottomParagraph but I think that there's more to come out in terms of delinquencies and foreclosures. I just came from giving a speech in Las Vegas, where there are 22,000 homes for sale. That's a lot of inventory to eat through.

Will the Fed cut rates if the subprime mess spreads?

In terms of the economy, so far I've been wrong. I thought that the housing downturn would have an impact on the economy and could be the start of a recession. That hasn't happened, but maybe enough time hasn't gone by. Historically, housing has led the country in and out of recessions. But there's an argument that the economy is so big today that housing is not as important as it was. I don't believe it.

Let's talk more about the ripple effect and your business.

It reminds me of when the S&Ls were beating us up for a while, and then they all went away. Now you have these subprime guys going out of business rapidly, and that's all positive for Countrywide. I said three quarters ago that Ameriquest and New Century were distorting the business and taking away rational pricing. That's why you saw our volume of subprime go down. We just pulled back.

The Wall Street Journal said you sold \$140 million worth of stock. Do you worry that shareholders will say: "Oh well, he's selling. He must be losing confidence. Maybe I should sell"?

As a CEO, the only way to eliminate that issue is to never sell stock, just die. Die owning the stock and never exercise an option. In fact, I've sold very little stock. Almost all of what I sold were options I accumulated over the last 10 years. I've chosen to keep most of my net worth in Countrywide.

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