

Good essay on countrywide financial corporation and the subprime mortgage debacle...

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The adventure of Countrywide Financial Corporation in the American mortgage market implies a sinuous evolution, marked by the legal and illegal exploitation of the U. S. loaning legislations, which affected both the beneficiaries of the loans and the American overall economy. The organization has taken advantage of various market situations to boost its presence in the mortgage and subprime mortgage markets, being nevertheless itself the victim of the real estate market collapse that it caused historical losses, putting CFC in the position of being sold to Bank of America for avoiding bankruptcy (Eastburn, 2011).

Achieving rapid growth in United States while developing 40 offices by 1980 in only 11 years from its foundation in 1969 and reaching no less than 661 branches in 48 states by 2007, the company's impressive profits of \$2. 59 billion were supported by dubious practices that led to its imminent fall (Eastburn, 2011). CFC's business decisions and evolution across the mortgage market implies successful and predatory lending practices, which will be analyzed using the SWOT framework, referring to the internal (strengths and weaknesses) and external (opportunities and threats) environment (Bradley, Dibb & Simkin, 1996).

Countrywide Financial Corporation recognized a rapid growth and continuous development, managing five products, respectively " mortgage banking, banking, capital markets, insurance, and global operations" (Eastburn, 2011, p. 534). This mix of products allowed the company to cover various loan needs and to provide integrated instruments, growing its national coverage and its prestige. In 2007, before the recession hit United States mortgage market, its market share on the loan originators market was the highest in

the country, owning 15.5% of the market with \$408 billion (Eastburn, 2011). CFC consolidated this position by optimizing its cost advantage, possible due to fraudulent loans, known as “liar loans”. Another significant strength was the fact that it benefited of monetary assistance from the U. S. Government through the mortgage - backed security, coupled with the high entry barriers, which allowed the company to consolidate its leading position in the absence of new entry rivals.

The internal environment within CFC, which contributed to its decline, included several weaknesses in both structure and decision making regarding the approach of some questionable products. The most drastic weakness that was also responsible for its collapse, was CFC’s aggressive entrance into the subprime mortgage; being highly dependent on this product, the subprime market that hit United States in 2008 severely affected its performances up to the point that it faced potential bankruptcy (Hernandes, Jr., 2010). The low quality of its subprime mortgage, with the lying loans, described even by the company’s founder and Chairman, Angelo Mozilo, as a “toxic product” (Eastburn, 2011, p. 540), provided the company short - term gains. However, on a long - run, this product was a major weakness, resulting in the clients’ impossibility to pay their loans due to the economic crisis, but also to the hidden costs of their loans that they could not afford. The political scandals in which CFC has been involved with the VIP customers such as Alphonso Jackson (Secretary of Housing and Urban Development) or James Johnson (advisor of President Barack Obama in his Presidential run) and many other public political figures of United State (Eastburn, 2011) also represent a significant weakness. These demonstrated

signs of corruption shuddered its brand equity, leading to losing its stakeholders' credibility and accentuating its huge losses in only one year.

The analysis of the external environment of Countrywide Financial Corporation implies examining its opportunities and threats as they shape in the evolution of the external factors (Bradley, Dibb & Simkin, 1996).

There were multiple opportunities that CFC could have seized from its leading position and considering the amount of its capital before the collapse of the mortgage market. International growth into countries with emerging economies would have been such an opportunity for cushioning the effects of the U. S. loan crisis. Investing its capital in acquisitions and takeovers in or other forms of venture in foreign markets would have represented an opportunity for the organization to avoid its collapse and to reinvent itself, growing stronger through increased, international market share. Another opportunity that the company could have approached is to seek product diversification, developing debt claims products, which had a substantial market in the context of the economic crisis in United States.

The examined case study indicated obvious threats for CFC's business, which included: USA's economic downturn as a result of increased loans, intensified legislative demands for the loaners or the vulnerability of the subprime mortgage market. As the economy of United States indicated signs of downturn, multiple industries would follow into collapse, with the real estate and mortgage markets leading the way. Similarly, the overexposure of subprime loans led to a market saturation, but also to the impossibility of refund, threatening CFC's sustainable profitability. Another major threat for the company's business effectiveness was the intensified legislation that

implied higher taxes and more strict controls, a high risk for CFC's equity, as they have exposed multiple frauds and corruption acts.

The examined report highlighted the internal and external environment of Countrywide Finance Corporation, faced with a tumultuous evolution. From the leader of the U. S. mortgage market, across one financial year the company lost all and was acquired by Bank of America due to mismanaged operations. The strengths of the organization (its leading position in the mortgage market, the well consolidated product mix or the monetary assistance) were not properly managed for seizing new opportunities, being affected by the internal weaknesses: the overly dependence on the soon to decay subprime market, fraudulent activities and corruption. The external environment was characterized by opportunities that the organization did not seize, such as the international expansion or diversification and threats that in the end led to CFC's collapse: U. S. loan market depreciation and the increased regulatory demands.

References

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