

# Countrywide financial

Countries



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**Are subprime loans an unethical financial instrument, or are they ethical tools that were misused?**

We believed subprime loans are ethical tools that were misused. Subprime loans involve “lending to borrowers, generally people who would not qualify for traditional loans, at a rate higher than the prime rate” (Ferrell et al. 385) meaning that it is a financial instrument in which borrowers benefit from accessing capital that otherwise would have been denied to them, and financial institutions benefit from charging a higher interest. What made subprime loans so attractive was the fact that it enabled low-income individuals and minorities (no qualifies for regular loans) to have access to homeownership.

In the right hands, in the right time, a subprime loan could signify an important tool for different minorities to improve the quality of their lives by obtaining financing for more than just home mortgages but also school tuition, for example (Iacono). However, as the Countrywide Financial case illustrates, there is wide misuse of this tool by institutions that engage in indiscriminate lending for the sake of short-term profits at the risk of major financial downturn, as in the 2008-2009 financial crisis. (Ferrell et al. 388) Moreover, while lending money to low-income and minority families justifies a higher interest rate due to the risk of debt default, lending money to families that would very unlikely be in the capacity to fully repay their mortgage is a threat to both the financial institution - who would have lost the invested money - and the borrowers who would be forced to face foreclosure; but even more threatening were the endless securities backed on these subprime loans, whose real risk were only known by Countrywide Financial.

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By deciding to lend money indiscriminately, this company ended up misusing a financial instrument that would have otherwise brought on progress for its customers and the company itself. 2. Discuss the ethical issues that caused the downfall of Countrywide Financial Different ethical issues caused the downfall of Countrywide Financial including unethical actions of both the company and the borrowers. Firstly, Countrywide Financial misused the adjustable rate mortgage (ARM): Borrowers were told that they would not get negatively affected with an increasing interest rate as the value of their property would increase accordingly.

Nonetheless, when the recession came many of these borrowers discovered they were unable to pay. (Ferrell et al. 386). Secondly, between many of the accusations against Countrywide, two of the main ones were that “ real estate appraisers began to inflate the value of homes to ensure that loans would go through. ” (Ferrell et al. 387), and that they had a special VIP discount mortgage programs for high-end well qualified individuals who had no need for discounts, called “ Friends of Angelo”, Angelo Mozilo’s - Countrywide Financial CEO -friends including Senator Charles E. Schumer and Representative Henry A. Waxman. (Ferrell et al. 390) Fourthly, Countrywide Financial was negligent in knowingly “ giving out highly risky loans to people who could not afford them for the sake of quick profit” (Ferrell et al. 389) which also brought out whether the company was also involved in predatory lending - misleading its borrowers. (Ferrell et al. 389) On the other hand, borrower’s actions were also unethical as it was proven they were dishonest in their loan applications: “ 90% of liar loan applicants knowingly overstated their income, with three out of five overstating it by at

least 50%. However, this fact only seems to prove that Countrywide was helping borrowers falsifying information in order to secure the loan. (Ferrell et al. 389) 3. How should Bank of America deal with potential ethical and legal misconduct discovered at Countrywide Having acquired Countrywide Financial's debt and bad reputation, Bank of America should focus on disconnecting itself from previous affiliates that were a part of the former company during their financial meltdown, such as ex CEO Angelo Mozilo, ex COO David Sambol, and ex CFO Sieracki (Ferrell et al. 392).

In addition to this they should make sure that the required information is being promptly provided to pertaining authorities. Moreover, Bank of America should ensure that a proper risk management policy is set up, continuing as well with programs to ease loan terms and prevent borrowers from losing their homes, such as the Countrywide Comprehensive Home Preservation Program which helped consumers refinance their debt. (Ferrell et al. 388) In conclusion, Bank of America should continue with their current actions whilst making sure the authorities are getting the information necessary to reach the bottom of what really happened at Countrywide Financial, and thus prevent this situation from ever happening again.

## **Works Cited**

1. Cited Ferrell, O. C. , John Fraedrich and Linda Ferrell. Business Ethics: Ethical Decision Making and Cases. Mason: South-Western, 2011.  
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