

# Business ethics – countrywide financial



**ASSIGN  
BUSTER**

Countrywide Financial began in 1969 and by 2000 was one of the nation's largest lenders (Ferrell, 2010). In the late 1990's and early 2000's, Countrywide Financial offered subprime mortgage loans. Subprime mortgage loans were loans that were offered to people who would not ordinarily be able to qualify for conventional loans because of income, lack of credit or low credit score. Because of the structure of these mortgage loans, people found it hard to make payments when the economy slowed down. The real estate market and the economy was negatively affected by the large number of people who were unable to make payments on their mortgages. Countrywide Financial's earnings were positive until 2007, when the economy slowed and real estate prices dropped. In 2008, Bank of America bought Countrywide Financial. Bank of America had more assets that could handle the crisis, and Bank of America would be able to handle the ethical investigations involving Countrywide's questionable lending practices.

Countrywide Financial benefited financially from offering subprime mortgage loans. Since the interest rate, fees and terms of subprime mortgages are typically higher than conventional loans, the lenders are able to profit from this type of loan (Moulton & Bozeman, 2011). Between 1982 and 2003, Countrywide reported substantial earnings, and the offered profitable returns on stock investors.

By offering mortgages and loans to borrowers who would not ordinarily qualify, the fees and interest were collected from thousands of borrowers with this type of loan. They also extended loan privileges to a large amount of the population who would not ordinarily be able to own homes.

I feel that Countrywide Financial's incentive for offering subprime mortgage loans was for financial benefit. I believe that they should have known the effects these types of loans would have if the economy took a downturn. They were too interested in the profits to be made and continued the practice despite the negative effects it would have on people and the country as a whole.

Before the real estate crisis, the subprime mortgage industry was praised for helping people attain homeownership (Ferrell, 2010). Subprime mortgages helped minorities and lower income people be able to afford to own a home. At the time, it was thought of as a positive financial tool.

Since there were more people being able to attain loans to own a home, other industries benefited from the effects of the subprime mortgage practice. Contractors, the building supply industry and real estate agencies were all profiting from these lending practices. It seemed that these types of loans were helping many industries.

In a speech given by Governor Edward Gramlich in May, 2004 ([www.federalreserve.gov](http://www.federalreserve.gov)), he spoke of these lending practices and said “ the increased availability of subprime mortgage credit has created new opportunities for homeownership and has allowed previously credit-constrained homeowners to borrow against the equity in their homes to meet a variety of needs”. While there are benefits to these types of lending practices, the negative effects that it could have in the long run should have been foreseen by the leaders of the lending organizations.

I believe that if I were CEO of Countrywide Financial, I would have structured the evaluations of salespeople by carefully evaluating their education and experience. I would also expect their managers to evaluate the loans that are processed in their department. The managers and the employees would be expected to follow specific guidelines on loan approval, and they would know that they would be held responsible for any infractions against the guidelines.

Countrywide Financial had practiced offering “ liar loans”, which were loans in which the loan officer required no proof on income or employment (Ferrell, 2010). I feel that this practice is unethical because someone with little or no income cannot afford to pay back a loan; therefore, it would be inevitable that the property would be involved in foreclosure. If I were CEO of Countrywide Financial, I would prohibit such business practices not only to protect the company, but also to protect the consumer.