Countrywide's CEO defends 'hybrid' loans

Angelo Mozilo says borrowers know the risks of mortgages under which payments can sharply increase.

By E. Scott Reckard, Times Staff Writer
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Do borrowers really understand the pitfalls of mortgages with payments that can rocket higher after the first few years?

The answer is yes, according to Angelo R. Mozilo, chief executive of Calabasas-based Countrywide Financial Corp., the nation's largest mortgage lender.

Advocacy groups fear lower-income borrowers are being stuck with mortgages that they can't afford when "teaser" rates expire. And regulators recently required banks and thrifts to disclose more about "payment shock" when borrowers are allowed to defer some interest payments — until the mortgage adjusts and they wind up paying higher rates on a bigger balance than they started with.

But Mozilo on Tuesday cited statistics that, he said, illustrated that his company's borrowers have a sophisticated understanding of the benefits and potential problems of "hybrid" adjustable-rate mortgages, the ones with a fixed low start rate.

By far, the majority of Countrywide's borrowers with hybrid ARMs refinance before the mortgages "reset," or shift to a full payment schedule, Mozilo said.

For example, of the $9 billion in Countrywide adjustable mortgages rescheduled to reset this quarter, all but $2 billion worth have been refinanced. And 30% of Countrywide's borrowers refinance adjustable loans even though they are still required to pay a penalty for paying off their mortgages early, Mozilo said.

Those figures reflect a "paradigm change" in preference for adjustable mortgages, he told a Merrill Lynch investors conference in New York. Borrowers often use the money they save with the low starter rate for something else, he said, such as paying for a child's college costs.

The long run-up in home prices allowed homeowners to refinance repeatedly, often cashing out some home equity.

Despite the end of the housing boom, Mozilo noted that about 30% of all mortgages are still being refinanced each year, more than 40% of them with adjustable-rate mortgages, or ARMs.

"Consumers are more comfortable in getting ARMs because they are more knowledgeable about how easy it is to refinance in today's mortgage market," he said.

Michael D. Calhoun, president of the advocacy group Center for Responsible Lending, suggested another contributing factor for the continued high volumes of ARMs: borrowers who can't afford the fully adjusted payments who must repeatedly get loans with lower start rates.

That process can gradually strip away home equity as borrowers pay new fees for each loan. The effect can be particularly devastating for borrowers whose credit problems, high debt loans or limited income force them into the sub-prime market where risk-inclined borrowers must pay higher rates and fees to obtain loans, he said.

Shares of Countrywide fell 14 cents to $40.18.

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