

IN THE CIRCUIT COURT OF THE SEVENTEENTH JUDICIAL
CIRCUIT, IN AND FOR BROWARD COUNTY, FLORIDA

OFFICE OF THE ATTORNEY GENERAL,
DEPARTMENT OF LEGAL AFFAIRS,
STATE OF FLORIDA,

Plaintiff,

Case No.:

08 30 105

03

vs.

COUNTRYWIDE FINANCIAL CORPORATION,
a Delaware corporation, COUNTRYWIDE
HOME LOANS, INC., a New York corporation,
and ANGELO R. MOZILO, individually and in
his capacity as Chief Executive Officer of Defendant
COUNTRYWIDE FINANCIAL CORPORATION,

Defendants.

JUN 30 2008

COMPLAINT FOR INJUNCTIVE RELIEF, DAMAGES
AND OTHER STATUTORY RELIEF

Plaintiff, OFFICE OF THE ATTORNEY GENERAL, DEPARTMENT OF LEGAL AFFAIRS, STATE OF FLORIDA (hereinafter referred to as "Plaintiff"), files the instant cause of action against Defendants COUNTRYWIDE FINANCIAL CORPORATION, a Delaware corporation, and its wholly owned subsidiary COUNTRYWIDE HOME LOANS, INC., a New York corporation, and against ANGELO R. MOZILO, individually and in his capacity as Chief Executive Officer of Defendant COUNTRYWIDE FINANCIAL CORPORATION (hereinafter collectively referred to as Defendants).

JURISDICTION AND VENUE

1. This is an action for damages and injunctive relief, brought pursuant to Florida's Deceptive and Unfair Trade Practices Act, Chapter 501, Part II, Florida Statutes (2007).

2. This Court has jurisdiction pursuant to the provisions of said statute.

3. Plaintiff is an enforcing authority of Florida's Deceptive and Unfair Trade Practices Act as defined in Chapter 501, Part II, Florida Statutes, and is authorized to seek damages, injunctive and other statutory relief pursuant to this part.

4. The statutory violations alleged herein occurred in or affected more than one judicial circuit in the State of Florida. Venue is proper in that Defendants did business in Broward County, Florida.

5. Plaintiff has conducted an investigation and the head of the enforcing authority, Attorney General Bill McCollum, has determined that an enforcement action serves the public interest.

6. Defendants, at all times material hereto, provided goods or services as defined within Section 501.203(8), Florida Statutes (2007).

7. Defendants, at all times material hereto, solicited consumers within the definitions of Section 501.203(7), Florida Statutes (2007).

8. Defendants, at all times material hereto, were engaged in a trade or commerce within the definition of Section 501.203(8), Florida Statutes (2007).

DEFENDANTS

9. Defendant MOZILO is an adult male over the age of twenty one and is sui juris.

10. Defendant MOZILO at all times material hereto, has managed, controlled, participated and has knowledge of the day-to-day activities of Defendant COUNTRYWIDE FINANCIAL CORPORATION and was a shareholder, owner, officer and/or director of Defendant

11. At all times material hereto, Defendant MOZILO knew of and controlled the activities of COUNTRYWIDE FINANCIAL CORPORATION and its wholly owned subsidiary COUNTRYWIDE HOME LOANS, INC. Defendant MOZILO had actual knowledge or knowledge fairly implied on the basis of objective circumstances, that the acts of the officers, employees, agents, and representatives of the corporate Defendants as described below, were unfair or deceptive and/or prohibited by law.

12. Defendant COUNTRYWIDE FINANCIAL CORPORATION is a thrift holding company. It has numerous subsidiaries that originate, purchase, securitize, sell and service residential and commercial loans; provide loan closing services such as credit reports, appraisals and flood determinations; conduct fixed income securities underwriting and trading activities; provide property, life and casualty insurance; and manage a captive mortgage reinsurance company. Defendant COUNTRYWIDE FINANCIAL CORPORATION owns and operates its wholly owned subsidiary COUNTRYWIDE HOME LOANS, INC. Defendant COUNTRYWIDE FINANCIAL CORPORATION owned and operated its wholly owned subsidiary FULL SPECTRUM LENDING, INC.

13. At all times material hereto, Defendant COUNTRYWIDE FINANCIAL CORPORATION and Defendant MOZILO conducted business in the State of Florida and committed the acts and/or omissions which are the subject of this cause of action through Defendant COUNTRYWIDE HOME LOANS, INC. and FULL SPECTRUM LENDING, INC. Defendant COUNTRYWIDE FINANCIAL CORPORATION and Defendant MOZILO controlled and/or otherwise directed the operations of Defendant COUNTRYWIDE HOME LOANS, INC. and FULL SPECTRUM LENDING, INC.

14. Since May 15, 1969, Defendant COUNTRYWIDE HOME LOANS, INC. has been a registered foreign corporation in the State of Florida. Subsequent to May 15, 1969 and continuing to the present, Defendant COUNTRYWIDE HOME LOANS, INC. has been doing business in the State of Florida

15. FULL SPECTRUM LENDING, INC., a California corporation, was a wholly owned subsidiary of Defendant COUNTRYWIDE FINANCIAL CORPORATION. Prior to April 28, 2005, FULL SPECTRUM LENDING, INC. was a Florida registered foreign corporation and did business in the State of Florida. On or about April 28, 2005, FULL SPECTRUM LENDING, INC. withdrew as a registered foreign corporation in the State of Florida. Subsequent to April 28, 2005 and continuing to the present, Defendant COUNTRYWIDE HOME LOANS, INC. also has been doing business in the State of Florida through a division named Full Spectrum Lending.

**DECEPTIVE AND UNFAIR TRADE PRACTICES
CHAPTER 501, PART II FLORIDA STATUTES**

16. Plaintiff adopts, incorporates herein and re-alleges paragraphs 1 through 15 as if fully set forth below.

17. Commencing on a date unknown, but at least subsequent to January 1, 2004, the Defendants engaged in various deceptive and unfair trade practices, as hereinafter set forth, in violation of Chapter 501, Part II, Florida Statutes (2007).

18. The deceptive and unfair acts and practices of Defendants were and are to the injury and prejudice of the public and have resulted in damages thereto and as to the Defendants' competitors constitute unfair and deceptive acts and practices and unfair methods of competition within the intent and meaning of Section 501, Part II, Florida Statutes (2007). Said practices

further constitute unfair and deceptive acts and practices within the intent and meaning of the Federal Trade Commission Act and pursuant to the standards of unfairness and deception set forth and interpreted by the Federal Trade Commission and federal courts.

19. Defendant COUNTRYWIDE FINANCIAL CORPORATION made certain representations about its lending practices in its Form 10-K filings for the years 2002 – 2007 with the United States Securities and Exchange Commission (SEC) as hereinafter set forth. A Form 10-K is an annual corporate report required by the SEC. It is a comprehensive summary of the company's performance and includes such information as company history, audited financial statements and information relating to subsidiaries. Through these 10-K's, Defendant COUNTRYWIDE FINANCIAL CORPORATION made specific representations relating to the quality and value of its loans to the consuming public, investors and to government sponsored entities such as Fannie Mae and Freddie Mac. They did so by representing in detail the strict underwriting criteria Defendant COUNTRYWIDE FINANCIAL CORPORATION employed for its Prime and Subprime Loans.

20. In its 2002 Form 10-K, Defendant COUNTRYWIDE FINANCIAL CORPORATION generally explained the underwriting criteria for Prime Loans and Subprime Loans as follows:

- Employment and income – applicant must exhibit the ability to generate income on regular and ongoing basis in sufficient amount to pay mortgage payment and other debts existing at time of underwriting.
- Subprime Loans, applicants generally do not satisfy Freddie Mac & Fannie Mae guidelines regarding credit history, debt/income ratio and/or cash reserves. Exceptions

generally made when compensating factors exist, such as low loan to value ratio, low debt to income ratio, substantial disposable income or stable employment.

21. In its 2003 Form 10-K, Defendant COUNTRYWIDE FINANCIAL CORPORATION generally represented that its Credit Policy required consideration of the applicant's capacity to pay and consideration of property value. Moreover, Defendant COUNTRYWIDE FINANCIAL CORPORATION represented that its underwriting guidelines comply with Freddie Mac and Fannie Mae guidelines for Prime Loans but that guidelines for Subprime Loans were determined by salability in the secondary mortgage market. Defendant COUNTRYWIDE FINANCIAL CORPORATION also represented that its Loan Origination Standards were designed to produce high quality loans. Furthermore, Defendant COUNTRYWIDE FINANCIAL CORPORATION stated that nearly all of its loans are sold into secondary market via securities with limited recourse, i.e. Mortgage Backed Securities (MBS).

22. In its 2004 Form 10-K, Defendant COUNTRYWIDE FINANCIAL CORPORATION represented that a decline in Prime mortgage revenues was offset by increased production from high margin Subprime Loans. Thus, in 2004, 49% of loans were Subprime Adjustable Rate Mortgages (ARM) versus 18% in 2003 as a result of the increase in fixed mortgage rates and the volume of Subprime and equity loans increased 104% from 2003. Nonetheless, Defendant COUNTRYWIDE FINANCIAL CORPORATION continued to represent that its Credit Policy required consideration of an applicant's capacity to pay and consideration of property value. Similarly, Defendant COUNTRYWIDE FINANCIAL CORPORATION continued to state that its underwriting guidelines complied with Freddie Mac and Fannie Mae guidelines for Prime Loans while Subprime guidelines were designed so these loans are salable in the secondary market, into which market nearly all of Defendants' loans were

sold through Mortgage Backed Securities. Finally, Defendant COUNTRYWIDE FINANCIAL CORPORATION continued to maintain that its Loan origination standards produced high quality loans.

23. In its 2005 Form 10-K, Defendant COUNTRYWIDE FINANCIAL CORPORATION repeated its statements relating to consideration of a consumers' capacity to pay a loan and about underwriting guidelines for Prime Loans (Freddie Mac and Fannie Mae standards) versus Subprime Loans (salability in secondary market). However, Defendant COUNTRYWIDE FINANCIAL CORPORATION hedged its previous statements regarding due diligence by shifting its responsibility for income and asset verification to consumers with the following caveat:

“We depend on the accuracy and completeness of information about customers.”

“We rely on information furnished to us by or on behalf of customers... and on representations of customers as to accuracy.”

Defendant COUNTRYWIDE FINANCIAL CORPORATION also stated: “We attribute the overall increase in delinquencies... primarily to the relative increase in the number of loans in the nonprime portfolio.... We believe the delinquency rates... are consistent with industry experience....”

24. In its 2006 Form 10-K, Defendant COUNTRYWIDE FINANCIAL CORPORATION set forth that “We may experience credit losses due to downward trends in economy and the real estate market” but Defendant COUNTRYWIDE FINANCIAL CORPORATION’s “loans are underwritten in accordance with prescribed guidelines.”

Defendant COUNTRYWIDE FINANCIAL CORPORATION explained that a significant portion of its portfolio consists of pay-option ARM loans which are different from traditional loans in that there is negative amortization in early years. Nonetheless, Defendant

COUNTRYWIDE FINANCIAL CORPORATION affirmed that “we believe our investment criteria have provided us with a high quality investment portfolio and our credit losses should stay within acceptable levels.”

25. In its 2007 Form 10-K, Defendant COUNTRYWIDE FINANCIAL CORPORATION acknowledged that during the latter part of 2007, investor demand for “non-agency mortgage backed securities” (MBS’s) abruptly declined. Defendant COUNTRYWIDE FINANCIAL CORPORATION responded by tightening loan programs and underwriting standards. In addition, Defendant COUNTRYWIDE FINANCIAL CORPORATION stated that most pay option loans (relating to negatively amortizing ARM loans) were underwritten with stated or limited income documentation and that it tightened underwriting standards during 2007.

26. Contrary to its Form 10-K representations, Defendants originated Subprime Loans to borrowers who did not have the ability to repay the loan, originated higher interest Subprime Loans to borrowers who otherwise qualified for Prime Loans and otherwise engaged in unfair and/or deceptive marketing and/or trade acts or practices.

27. Defendants did not adhere to its underwriting standards, allowed the origination of “no documentation or reduced documentation” Subprime Loans and failed to ensure that borrowers had sufficient capacity to repay such mortgage loans.

28. Defendants did not adhere to underwriting standards for “no documentation or reduced documentation loans” to Subprime borrowers by waiving standards, irrespective of the borrowers’ ability to document income and assets.

29. The Defendants’ failure to adhere to underwriting standards in regard to the borrower’s capacity to repay engendered fraud as such “no documentation or reduced

documentation” Subprime Loans were approved for borrowers who were not qualified and could not afford such loans.

30. To foster a culture of loan approvals regardless of the borrowers’ capacity to pay, Defendants compensated its underwriters with bonuses. Defendants’ underwriters, therefore, had incentives to approve as many loans as possible, regardless of credit risk.

31. Defendants had no procedures or rigid guidelines on how “no documentation or reduced documentation” Subprime Loans were to be approved. It was the underwriters’ responsibility to make the loan work, regardless of whether or not the loan fit the professed underwriting standards.

32. Defendants made Subprime Loans to borrowers when they knew or should know that the borrowers would not be able to repay the loan once the initial ARM period expired.

33. Defendants’ Subprime Technical Manual sets forth that underwriters should determine for every loan application whether the loan makes sense. In practice, the Defendants created and/or permitted a culture where its own underwriters were threatened with termination for attempting to verify a borrower’s ability to pay, or otherwise impeding loan approval.

34. In other instances, the culture created and/or permitted by the Defendants encouraged managers to approve Subprime Loan applications that were initially denied by underwriters who suspected fraud.

35. In furtherance of its policy to place the generation of consumer loans (and maximization of its profits) above concerns about the consumers’ ability to meet their loan obligations, Defendants made material misrepresentations to consumers relating to its ARM’s by:

- a) misrepresenting the amount of time the initial “fixed” interests rates would be in effect;
- b) misrepresenting that the interest rates on the loans were “fixed” when that was not the case;
- c) misrepresenting the manner and degree in which payments would increase subsequent to the termination of the initial fixed rate period; and/or
- d) employing and advertising extremely low “teaser” rates while not properly disclosing that these rates would dramatically increase, resulting in monthly payments which were beyond the capacity for consumers to meet, given the financial/income information provided by these consumers to the Defendants.

The aforesaid misrepresentations were either direct and/or the result of hiding and/or not sufficiently disclosing these material terms to the consumer prior to the closing of the loans.

36. Defendants employed deceptive marketing practices in an attempt to influence and steer unwary consumers toward the purchase of risky and costly mortgages and home loans.

37. Defendants’ Subprime Technical Manual sets forth that “no loan will be made that benefits only the third party originator and/or Countrywide (e.g. origination fees/charges collected).” Notwithstanding this stated policy, Defendants failed to afford borrowers the opportunity to avail themselves of alternate loan options, certain of which carried lower rates of interest. Thus, Defendants made Subprime Loans to borrowers when they knew or should have known that the borrowers were qualified for alternate loans at lower rates of interest.

38. Defendants violated Chapter 501, Part II, Florida Statutes (2007) in part by representing to borrowers that the Defendants’ review of the borrowers’ Subprime Loan

applications, either expressly or impliedly, was done in accordance with underwriting standards to confirm that the borrowers were able to repay the loans pursuant to its terms.

39. Defendants violated Chapter 501, Part II, Florida Statutes (2007) in part by representing to borrowers that the Defendants' approval of the borrowers' Subprime Loan applications, either expressly or impliedly, confirmed that the borrowers were able to repay the loans pursuant to its terms.

40. Defendants violated Chapter 501, Part II, Florida Statutes (2007) in part by representing to borrowers that the Defendants' closing and funding of the borrowers' Subprime Loan mortgages, either expressly or impliedly, confirmed that the borrowers were able to repay the loans pursuant to its terms.

41. Defendants violated Chapter 501, Part II, Florida Statutes (2007) in part by representing to investors who purchased the Mortgage Backed Securities issued by the Defendants that the Defendants' underwriting and approval of the borrowers' Subprime Loan applications, either expressly or impliedly, and the closing and funding of the borrowers' Subprime Loan mortgages, either expressly or impliedly, confirmed that the borrowers were able to repay the loans pursuant to its terms.

42. Defendants violated Chapter 501, Part II, Florida Statutes (2007) in part by representing, either expressly or impliedly, to borrowers and investors who purchased the Mortgage Backed Securities issued by the Defendants that the Defendants exercised due diligence in the underwriting, approval, closing and funding borrowers' Subprime Loan applications and mortgages.

WHEREFORE, Plaintiff Office of the Attorney General, Department of Legal Affairs, State of Florida respectfully demands the following relief:

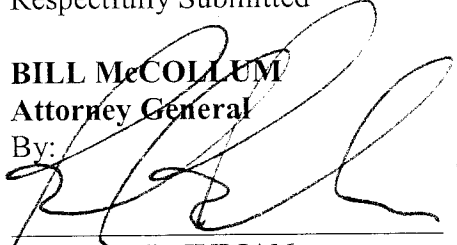
1. Award actual damages to all consumers who are shown to have been injured in this action, pursuant to Section 501.207(1)(c), Florida Statutes (2007).
2. Assess against Defendants herein civil penalties in the amount of Ten Thousand Dollars (\$10,000.00) for each act or practice found to be in violation of Chapter 501, Part II, Florida Statutes (2007).
3. Award reasonable attorneys fees pursuant to F.S. 501.2105.
4. Grant equitable relief pursuant to F.S. 501.207.
5. Waive the posting of any bond by Plaintiff in this action.
6. Grant such other relief as this Honorable Court deems just and proper.

Dated: June 30, 2008

Respectfully Submitted

BILL McCOLLUM
Attorney General

By:



ROBERT R. JULIAN
Bureau Chief, Economic Crimes Division
South Florida Region
Fl Bar No. 262706
GEORGE E. RUDD
Fl Bar No. 0178136
FULVIO JOSEPH GENTILI
Fl Bar No. 37493
JACK A. NORRIS
Fl Bar No. 364861
PATRICE MALLOY
Fl Bar No. 137911
Assistant Attorneys General
Office of the Attorney General
Department of Legal Affairs
110 S.E. 6th Street, Tenth Floor
Ft. Lauderdale, Florida 33301
(954) 712-4600