US Justice Department drops investigation of sub-prime mortgage mogul Angelo Mozilo

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The US Department of Justice has quietly dropped its investigation of Angelo Mozilo, the former head of mortgage lender Countrywide Financial, the largest originator of the subprime mortgages that were instrumental in the financial collapse of 2008.

According to the *Los Angeles Times*, which broke the story last week based on interviews with a confidential source, the Justice Department concluded that Mozilo's activities "did not amount to criminal wrongdoing."

The action puts a seal on the official response to the financial crisis: there will be no criminal prosecutions of the top executives responsible for the meltdown and the untold misery it has brought.

The office of US Attorney Stephen A. Cazares, which headed the criminal investigation, did not return phone calls.

The Justice Department decision not to pursue criminal charges follows the decision by the Securities and Exchange Commission (SEC) last October to forgo a trial and settle civil fraud charges against Mozilo. Under the agreement, Mozilo did not admit guilt but agreed to pay $67.5 million in penalties.

The mortgage banker pocketed over $500 million in compensation between 2000 and 2008, largely by making high-interest subprime loans to low-income borrowers and selling the loans to Wall Street banks, which packaged and sold them to investors around the world in the form of collateralized debt obligations.

The SEC accused Mozilo of selling nearly $140 million of his own shares in the run-up to the company's near-collapse and purchase in 2008 by Bank of America. While Mozilo was dumping his own holdings he told shareholders that the company was healthy and organized buybacks to prop up the stock price.

The agency further accused Mozilo of failing to share with investors his own knowledge, documented in email exchanges with fellow executives, that Countrywide's loan assets were "toxic."

Mozilo co-founded Countrywide Financial in 1969 and presided over it for almost 40 years. In the late 1990s and early 2000s, Countrywide led the race by mortgage companies to transition from lending and holding mortgages to maturity, to lending to virtually anyone who would sign a contract and then selling the debt to Wall Street speculators in the form of mortgage-backed securities.

By aggressively lowering lending standards, Countrywide expanded rapidly during the housing bubble and by 2006 was originating one out of every six mortgages.

"The definition of a good loan changed from 'one that pays' to 'one that could be sold,'" Patricia Lindsay, a former finance fraud specialist, told the Financial Crisis Inquiry Commission, which published its report to congress on January 27. The commission said in its report that "Countrywide's essential business strategy was 'originating what was salable in the secondary market.' The company sold or securitized 87 percent of the $1.5 trillion in mortgages it originated between 2002 and 2005."

The Financial Crisis Inquiry Commission report contains a section on Countrywide with sufficiently incriminating information to prosecute Mozilo and many other Countrywide executives and send them to prison. The report concludes that "As early as September 2004, Countrywide executives recognized that many of the loans they were originating could result in 'catastrophic consequences.'"

"Less than a year later," the report continues, "they noted that certain high-risk loans they were making could result not only in foreclosures, but also in

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‘financial and reputational catastrophe’ for the firm. But they did not stop.”

The report also quotes internal emails sent by Mozilo that clearly demonstrate he knew his company was trafficking in fraudulent securities that would collapse in value at any major downturn in the housing market, bringing the company down along with it.

On March 28, 2006, Mozilo wrote to a fellow executive that subprime mortgage-backed securities are “the most dangerous product in existence and there can be nothing more toxic.”

Afterward, in a September 26, 2006 email, Mozilo concluded, “The bottom line is that we are flying blind on how these loans will perform in a stressed environment of higher unemployment, reduced values and slowing home sales.”

After expressing these doubts privately, Mozilo quickened the pace at which he sold his own shares, all the while insisting publicly that the company was in good health.

It is notable that this report, which exhaustively documents the fraud and criminality of the figures responsible for the financial crisis, has been buried by both the government and the media.

The Justice Department’s action comes just months after it dropped its investigation of Joe Cassano, the former chief financial officer of American International Group’s financial products unit. Cassano was among the principle architects of the company’s downfall, which ultimately led to a government bailout totaling $100 billion.

Only two Wall Street figures have been prosecuted in connection with the 2008 financial meltdown: Matthew Tannin and Ralph Cioffi, both mid-level executives at Bear Stearns who headed internal hedge funds that collapsed in 2007. They were acquitted of all charges.

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