

Perry Bet Big on Tax Grants to Subprime Lenders

Texas homeowners paid \$35 million in subsidies to lure mortgage companies

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AP Associated Press

updated 10/3/2011 8:53:43 AM ET

WASHINGTON — As Texas governor, Rick Perry spent tens of millions in taxpayer money to lure some of the nation's leading mortgage companies to expand their business in his state, calling it a national model for creating jobs. But the plan backfired.



Just as the largest banks began receiving public cash, they aggressively ramped up risky lending. Within four years, the banks were out of business and homeowners across Texas faced foreclosure. In the end, the state paid \$35 million to subsidize it. An Associated Press review of federal mortgage data, court filings and public statements found that Perry downplayed early warnings of an impending mortgage crisis as alarmist. That's even as Perry's own attorney general would later investigate whether Countywide Financial Corp. encouraged homeowners to borrow more than they could afford.

As Perry offered \$20 million in grants to Countrywide and \$15 million to Washington Mutual Inc. — each blamed for having a major role in one of the country's most serious recessions — he took in tens of thousands of their dollars for his gubernatorial campaign.

Perry, a Republican candidate for the White House, did what any governor would want to do: bring in jobs for his state. He also supported a cap on how much consumers could borrow against their homes, which experts credit for softening the

blow of the mortgage crisis in Texas: by the end of 2008, more than 22 states had a greater percentage of foreclosures.

Yet Perry didn't appear to recognize that the industry his administration had subsidized was damaging the national economy.

The AP analysis found that Washington Mutual, Countrywide and their subsidiaries boosted risky lending in Texas within a year after receiving grants from the Texas Enterprise Fund. In 2004, only one out of every 100 Washington Mutual loans in the state was originated to homeowners with less-than-perfect credit. The next year, that figure rose to more than one in four.

Countrywide's lending volume also boomed. In 2004, 14 percent of the company's loans in the state were given to high-risk borrowers, but the following year — when Countrywide received its first \$10 million disbursement from the fund — the rate of risky loans jumped to nearly one in three, the AP's analysis found. Texas ranked No. 3 for the number of risky mortgages underwritten by Countrywide, behind only Florida and California.

In October 2007, as credit-rating agencies continued downgrading hundreds of billions in mortgage-backed assets on Wall Street, Perry's spokeswoman described Texas as "one of the hottest housing markets in the nation" and dismissed concerns about the looming economic implosion as "slightly alarmist."

The enterprise fund is known in Texas as a signature issue for Perry, and one that has drawn critical scrutiny by the watchdog group Texans for Public Justice in light of subprime mortgage lending in the mid-2000s. The AP's review uncovered new details of his economic deals as he seeks the GOP presidential nomination, particularly in how the two lenders engaged in subprime lending in Texas.

The AP's analysis examined rates of so-called high-cost mortgages, including subprime loans and those that required less documentation than traditional

mortgages. Federal data available under the Home Mortgage Disclosure Act identifies mortgage transactions that show signs of risky lending.

Texas officials said the fund has an 11-point vetting process, and subsidies are approved by Perry and top state leaders with requirements to create certain numbers of jobs. Between Washington Mutual and Countrywide's TEF contracts, officials pledged more than 11,000 new jobs.

Bank of America Corp., which acquired Countrywide in 2007, ended its contract under the fund in early 2010 and returned \$8.45 million because it couldn't meet the contract's 7,500 promised jobs. But since JPMorgan Chase acquired WaMu, as Washington Mutual was called, in 2008 and maintained the contract, it didn't have to pay back its predecessor's \$15 million grant.

"The state's contract with Countrywide was specific to creating jobs, and ultimately produced more than 3,800 jobs for Texans," Perry spokeswoman Catherine Frazier told the AP.

Countrywide pledged to create thousands of new jobs, but later shed more than that in nationwide layoffs. That came as Countrywide and WaMu gave checks to Perry's re-election campaign, including \$2,500 from WaMu's political action committee as late as March 2008. The companies gave more than \$15,000 in total contributions, state records show.

Meanwhile, Countrywide faced problems in Texas. Perry's own attorney general reached an agreement with the lender in 2008 that would give millions to customers who lost their homes to foreclosure. The attorney general's office began its investigation that year amid allegations that Countrywide encouraged homeowners to accept loans they could not afford.

But the warning signs came earlier.

In the first half of 2005 — just as the companies were collecting subsidies from Perry's administration — more than two-thirds of all loans by Countrywide and

WaMu had low- or no-documentation requirements, according to a report compiled by a federal commission on the financial crisis.

Countrywide CEO Angelo Mozilo told Wall Street analysts that Countrywide intended to dominate the mortgage market and increase its overall market share by 2006 to 30 percent.

Back at its offices, Countrywide subsidiary Countrywide Home Loans Inc. processed more than 150,000 mortgages a month in mid-2004, relying on automated underwriting software to speed up the approval process.

That was a year before the mortgage crisis began to escalate, and six months before Perry announced his Countrywide deal. In a speech at the time, Perry called Countrywide a good employer and said state government subsidies would help other such companies move their businesses to Texas.

