IN THE DISTRICT COURT OF EL PASO COUNTY TEXAS
327th JUDICIAL DISTRICT

FILED
GILBERT SANCHEZ
DISTRICT CLERK
2009 FEB 11 AM 8 38
EL PASO COUNTY, TEXAS
BY

THE STATE OF TEXAS	§	
Plaintiff,	§	
v.	§	**CAUSE NO. 2009 - 717**
COUNTRYWIDE FINANCIAL CORPORATION, a Delaware corporation; COUNTRYWIDE HOME LOANS, INC., a New York corporation; and FULL SPECTRUM LENDING, INC., a California corporation,	§	
Defendants	§	

PLAINTIFF'S ORIGINAL PETITION

Plaintiff STATE OF TEXAS, acting by and through Attorney General Greg Abbott, ("the State"), brings this action pursuant to the Texas Deceptive Trade Practices-Consumer Protection Act, TEX. BUS. & COM. CODE §§17.41 *et seq.* ("DTPA"). Plaintiff seeks a permanent injunction and an order compelling Defendants to pay restitution to consumers, attorney's fees and costs.

JURISDICTION AND AUTHORITY

1. Under the DTPA, the Consumer Protection Division of the Office of the Attorney General may bring an action whenever it has reason to believe that any person is engaging in, has engaged in, or is about to engage in any false, misleading or deceptive act or practice in the conduct of any trade or commerce and that such action would be in the public interest. TEX. BUS. & COM CODE §§ 17.46;17.47(a).

2. Under the DTPA, the Court may make such orders or judgments as are necessary to compensate identifiable persons for damages or to restore money or property acquired by means of any unlawful act or practice. TEX. BUS. & COM. CODE §17.47.

PARTIES

3. Defendant Countrywide Financial Corporation, a Delaware corporation ("CFC") is a thrift holding company, and at all times mentioned herein engaged in the retail based origination and funding of real estate secured, owner occupied residential mortgage loans.

4. Defendant Countrywide Home Loans, Inc., a New York corporation and wholly-owned subsidiary of CFC, is or was a licensed mortgage banking organization, and at all times mentioned herein engaged in the retail based origination and funding of real estate secured, owner occupied residential mortgage loans.

5. Defendant Full Spectrum Lending, Inc., a California corporation and wholly-owned subsidiary of CFC, is or was a licensed mortgage banking organization, and at all times mentioned herein engaged in the retail based origination and funding of real estate secured, owner occupied residential mortgage loans.

6. On July 1, 2008, Bank of America Corporation, a Delaware corporation, announced that it had completed its purchase of CFC, including Countrywide Home Loans, Inc. and Full Spectrum Lending, Inc.

7. The State of Texas, represented by Attorney General Greg Abbott, appears through the Consumer Protection and Public Health Division of the Office of the Attorney General.

VENUE

8. Venue of this suit is proper in El Paso County, Texas under TEX. BUS. & COM. CODE §17.56 and Chapter 15 of TEX. CIV. PRAC. & REM. CODE for the following reasons:

a. Defendants solicited and engaged in the origination and funding of real estate secured, owner-occupied, residential mortgage loans and have transacted business within the

State of Texas and County of El Paso, which loans are the subject of this action.

b. The violations of law alleged herein were committed throughout the State of Texas and in the County of El Paso.

PUBLIC INTEREST

9. The Attorney General has reason to believe that Defendants have engaged in the unlawful practices described below. The Attorney General also has reason to believe that Defendants have caused and will continue to cause injury, loss and damage not only to Texas consumers, but also to legitimate businesses which lawfully conduct trade and commerce in Texas, including those which make legitimate mortgage transactions. The Consumer Protection Division of the Office of the Attorney General believes that this action is in the public interest.

TRADE AND COMMERCE

10. Defendants have, at all times described below, engaged in conduct which constitutes "trade" and "commerce" as those terms are defined in §17.45 of the DTPA.

ACTS OF AGENTS

11. Whenever reference is made in this complaint to any act or practice of Defendants, such allegation shall be deemed to mean that the principals, officers, directors, employees, agents and representatives of such Defendants did, or authorized, such act or practice on behalf of said Defendant, while actively engaged in the scope of their duties.

12. Whenever reference is made in this Petition to any act of Defendants, such allegation shall be deemed to mean the act of each Defendant acting individually and jointly.

NOTICE

13. The Consumer Protection Division informed Defendants of the alleged unlawful conduct at least seven days prior to filing suit.

GENERAL ALLEGATIONS

14. For a number of years, Defendant CFC has been one of the largest originators of home loan mortgages in the country. In recent years, Defendants increased their market share by engaging in unfair and deceptive business practices that placed thousands of borrowers in risky, high-priced, and ultimately unaffordable mortgage loans. Defendants' practices have included placing borrowers in risky loans for which they were unqualified according to underwriting standards, structuring unfair loan products with risky features, offering illusory initial savings features such as "teaser" rates and low or no closing costs to induce borrowers to accept unaffordable loans, engaging in misleading marketing and sales techniques, and offering financial incentives to employees and brokers to sell more and more non-traditional loans with increasingly less adherence to underwriting guidelines. Defendants' business practices resulted in unaffordable mortgage loans and increased delinquencies and foreclosures for Texas homeowners.

15. Defendants routinely encouraged borrowers to accept high priced loans that they could not afford with features that placed them at substantial risk of default. Defendants misled borrowers by enticing them with low teaser rates, low monthly payments and "no closing cost" loans that failed to make clear and conspicuous disclosures of the products' risks. To increase market share, Defendants dispensed with many standard underwriting guidelines and offered "low" documentation and "no-documentation" loans to place unqualified borrowers in loans which ultimately they could not afford. Defendants encouraged borrowers to trust their guidance and then placed borrowers in loans that contained layers of unduly risky features, such as low introductory "teaser" rate adjustable rate mortgages, interest-only mortgages, pay option ARMs and mortgage loans for 100% of the value of borrowers' homes. Defendants failed to inform borrowers fully of the risks of these products.

16. Defendants shifted the risk of the failure of these non-traditional loans by bundling these loans and selling them to investors in the secondary market. The securitization of these loans allowed Defendants to shift much of the risk and gain much needed capital to fuel the loan origination process and reach their goal of capturing more and more market share. As the risky loans began to fail, Defendants were forced to repurchase or replace the failing loans in the investor pools.

17. The repurchase of defaulting loans increased the financial pressure on Defendants to generate more and more loan originations with less and less adherence to standard underwriting guidelines. To increase the number of loans, Defendants also provided incentives for their employees and brokers to solicit existing customers for refinancing, even though not requested by the customer, and to place them in higher risk refinanced loans.

18. Defendants' unfair and deceptive business practices have caused many thousands of borrowers to be damaged, including but not limited to foreclosures of their homes, loan defaults and delinquencies, excessive interest, penalty, and loan repayment costs, and damage to their credit ratings. Defendants' practices also have caused a decrease in home values and deterioration of neighborhoods throughout the country and including Texas.

TEXAS DECEPTIVE TRADE PRACTICES-
CONSUMER PROTECTION ACT VIOLATIONS

19. Defendants engaged in trade or commerce within the meaning of §17.45(6) of the DTPA by making loans to borrowers. Defendants advertise, offer, solicit sales of, and sell real estate secured loans and related goods and services to Texas borrowers.

20. Defendants engaged in the business of making loans to Texas borrowers that were secured by those borrowers' homes. Defendants used misleading and deceptive promotions, marketing and sales techniques to induce primarily low and moderate-income homeowners to refinance their mortgages and consolidate their debts using Defendants' real-estate secured loan products.

21. In the course of their dealings with borrowers and in furtherance of their own direct pecuniary and business gains, Defendants committed deceptive acts, or made material misrepresentations or omissions, in violation of the §§17.46(a) and (b) of the DTPA

22. In the course of their dealings with borrowers and in furtherance of their own direct pecuniary and business interests, Defendants acted in violation of the §§17.46(a) and (b) of the DTPA, relating to the business of making retail residential loans to borrowers in Texas.

WHEREFORE, Plaintiff prays for judgment as follows:

That Defendants, their direct and indirect subsidiaries, affiliates, officers, directors, employees, agents, related entities, successors, and assigns, and any and all other persons who act under, by, through, or on behalf of Defendants be permanently restrained and enjoined from the following:

A. Making or disseminating any false, misleading or deceptive representations in violation of §§17.46(a) and (b) of the Texas Deceptive Trade Practices-Consumer Protection Act, relating to the marketing or sale of loans to consumers in the State of Texas.

B. Doing any of the wrongful acts referenced in this Petition or any other act in violation of the §§17.46(a) and (b) of the Texas Deceptive Trade Practices-Consumer Protection Act, relating to the business of making retail residential loans to consumers in the State of Texas.

In addition, Plaintiff respectfully prays that this court will:

A. Order Defendants to restore all money or other property taken from identifiable persons by means of unlawful acts or practices, or in the alternative award judgment for damages to compensate for such losses.

B. Order Defendants to pay Plaintiff State of Texas attorney's fees and costs of court;

C. Order Defendants to pay pre-judgment interest on all awards of restitution, damages or civil penalties, as provided by law.

D. Grant all other relief to which Plaintiff State of Texas may show itself entitled.

DATED this 11th day of February, 2009.

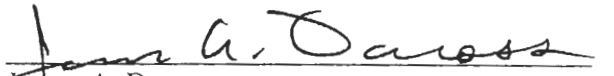
Respectfully submitted,

GREG ABBOTT
ATTORNEY GENERAL OF TEXAS

C. ANDREW WEBER
First Assistant Attorney General

JEFF L. ROSE
Deputy First Assistant Attorney General

PAUL D. CARMONA
Chief, Consumer Protection and Public Health Division



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VERIFICATION

STATE OF TEXAS §
§
COUNTY OF EL PASO §

BEFORE ME, the undersigned authority, on this day personally appeared PATRICIA M. ACOSTA, who after being by me duly sworn, upon her oath deposed and said that the affiant is an Investigator for the Consumer Protection and Public Health Division and as such is authorized to make this affidavit, that the affiant has read the allegations in the foregoing pleading and has reason to believe that each and all of said allegations are true and correct, and that Defendants have violated the provisions of the Texas Deceptive Trade Practices Act.

Patricia M. Acosta
PATRICIA M. ACOSTA, Affiant

SUBSCRIBED AND SWORN TO before me on the 10 day of February, 2009.

Grace V. Carrasco
Notary Public, State of Texas