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Rising defaults hit Countrywide

Ben White / New York
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Results from Countrywide Financial and MasterCard on Tuesday underscored the declining state of the US economy as mortgage defaults soared and more consumers turned to credit cards for basic purchases.

Countrywide, the largest US mortgage lender, said it lost a larger-than-expected $893 million in the first quarter as provisions for credit losses jumped ten-fold to $1.5 billion and charge-offs on bad loans rose to $606 million from $39 million.

Countrywide, a leading issuer of home loans to high-risk borrowers, teetered on the edge of bankruptcy last year before agreeing to a $4 billion takeover offer from Bank of America.

BofA expects to close the acquisition in the third quarter and has pledged to aid Countrywide borrowers in danger of losing their homes as their interest rates reset to higher levels.

MasterCard on Tuesday said first-quarter profits more than doubled to $447 million, or $3.38 per share, as US consumers put more expenses such as food and petrol on their cards.

"We recognise that our customers are experiencing extraordinary challenging conditions," said Robert Selander, MasterCard's chief executive.

Taken together, the results demonstrate the heavy pressure weighing on US consumers as the value of their home falls and the price of petrol, goods and other items soars.

Credit card purchases in the US grew 8.9 per cent from last year to $259 billion, although some of that growth represents the use of debit cards, which are equivalent to cash, rather than purchases on credit.

MasterCard, which earns fees processing card payments, also experienced strong growth in Europe and Asia and benefited from a growing trend in which travellers from countries with strong currencies flock to the US and use their credit cards to fund purchases of everything from expensive dinners to luxury apartments.

While MasterCard posted strong results, Countrywide suffered. Overall, the California-based lender said it lost $893 million, or $1.60 a share in the first quarter compared with a profit of $434 million, or 72 cents, in the same period last year.

Provision for credit losses on Countrywide's investment in residential loans soared to $1.5 billion from

$158 million last year.

Countrywide also increased its reserves for credit losses by about $1 billion, to $3.4 billion at the end of the quarter.

The latest loss was Countrywide's third in a row and could raise further questions about BofA's ability to successfully integrate the troubled mortgage lender.