

Tuesday, December 4, 2007

# O.C. lenders in subprime market disappearing

## Irvine's Option One Mortgage is latest casualty.

By MARY ANN MILBOURN  
The Orange County Register

News on Tuesday that Irvine's **Option One Mortgage Corp.** will close its loan origination business leaves Orange County – once home to many of the nation's top subprime lenders – with virtually no major players in the market.

Eighteen months after Orange County led the nation with four of the Top 10 U.S. subprime mortgage originators and numerous smaller operations, the local industry is in tatters, a victim of tighter lending standards, a plunge in mortgage applications and the inability of over-extended borrowers to meet their payments when low teaser rates adjust higher.

The county lost an estimated 4,800 jobs in non-bank lending from October 2006 to October 2007, according to the state Employment Development Department, and that doesn't include all of the mom-and-pop and one-person mortgage shops and related businesses, such as title insurance, appraisal and document-delivery services.

Such formerly big names as **Fremont Investment & Loan, New Century Financial Corp.** and **ResMae Mortgage Co.** have fallen by the wayside. Others such as **Impac Mortgage Holdings** are barely hanging on. At least 40 companies, either based in Orange County or with large operations here, have closed, filed bankruptcy, slashed staffs or been sold off.

"Subprime had three years of insane profits because investors and Wall Street were just stupid about what's going on," said economist Christopher Thornberg, a principal at **Beacon Economics** and one of the first to predict a local housing bubble. "It's going to hurt Orange County – there was a lot of money made, jobs created and office space leased – but it's not going to implode."

Parent company **H&R Block's** announcement Tuesday of Option One's demise came after a deal to sell the money-losing unit to private investment firm **Cerberus Capital Management L.P.**

fell apart.

H&R Block said it will not accept any new loans but will complete about \$30 million in loan commitments already in the pipeline. Its loan-servicing operation will be sold once an estimated fair value can be determined, the company said.

It was not immediately clear what impact the shutdown would have on Option One's Irvine operations, which does both loan origination and servicing work.

"Obviously Irvine is affected, but as far as numbers, we're not doing breakdowns," said H&R Block spokesman Nick Iammartino from Block's headquarters in Kansas City, Mo. He said affected employees were notified Tuesday. Workers at the company's Irvine office on Ada said that they received an email and that there was a company conference call explaining the news.

The Irvine office has already lost at least 350 jobs this year as the company slashed employees in the wake of major losses. Option One and related businesses lost \$193 million in the quarter ended July 31.

H&R Block has been trying to unload its mortgage unit for more than a year. Cerberus looked as if it was going to come to the rescue in a deal announced in April.

But as the mortgage market deteriorated and Option One failed to meet financial provisions of the deal, it became less certain. H&R Block scrambled to restructure the terms but in the end couldn't make the numbers work. The handwriting was on the wall last month when H&R Block dumped Chief Executive Mark Ernst.

A last-minute infusion of \$350 million in funding last month couldn't change the outcome.

"The company is determined to complete our exit from subprime mortgage lending without further delay, and today's action largely completes that objective," said Richard C. Breeden, H&R Block's chairman. "The mortgage market today has undergone vast changes since last April when the original Cerberus deal was signed. Despite the hard work and good faith of both sides, we could not find a way to restructure the original transaction to mutual satisfaction."

The company said it would take a pretax restructuring charge of \$75 million to close the operation.

**Contact the writer:** 714-796-3646 or [mmilbourn@ocregister.com](mailto:mmilbourn@ocregister.com)