

From: Angelo_Mozilo@countrywide.com
Date: 09/26/2006 02:14:18 PM
To: dave sambol; CN=Carlos Garcia/OU=Managing Directors/OU=CF/O=CCI@COUNTRYWIDE; CN=Kevin Bartlett/OU=Managing Directors/OU=CF/O=CCI@Countrywide; CN=Jeff Speakes/OU=Portfolio Mgmt/OU=CF/O=CCI@COUNTRYWIDE; jim furash
Subject: Fw: The Bank

In addition, with respect to this matter, I want the bank to stop all third party bidding for this product by the Bank to cease effective immediately.
----- Forwarded by Angelo Mozilo/Managing Directors/CF/CCI on 09/26/2006 11:12 AM -----

John McMurray/Managing Directors/CF/CCI

09/26/2006 10:45 AM

To: Angelo Mozilo/Managing Directors/CF/CCI@COUNTRYWIDE
cc:
Subject: Re: The Bank

I was very happy to see your email because I personally share the same sentiment (that we should be shedding rather than adding Pay Option credit risk to the portfolio). Here is a verbatim excerpt from an email I sent last week on this topic (in blue italics) where I argue against adding more Pay Option risk (either from retaining loans we originate or buying closed loans from other institutions).

1. *Tight Credit Spreads. Despite deteriorating fundamentals, credit spreads remain very tight. We're not getting paid as much to take on the escalating risk associated with the deteriorating credit environment.*
2. *Financial Constraints. We forgo earnings to divert loans to the Bank portfolio. Given the difficult production environment, it seems likely that the near-term ability to forgo earnings will be limited.*
3. *Deteriorating Credit Environment. The extremely favorable environment we've had for credit seems to have peaked and is now deteriorating. It's plausible that the impending down cycle could be more severe than previous downturns.*
 - A. *The industry has expanded credit guidelines aggressively during the favorable environment. There are a lot more loans with very high CLTVs, stated or reduced documentation, ARMs, interest-only or payment option features, high levels of investor properties, etc., etc.*
 - B. *The recent housing environment has been extraordinarily favorable -- it's been "long, strong and wide." An adjustment back to the "mean" could suggest a fairly adverse housing market.*
 - C. *The recent weakening we've seen in housing was not triggered by adverse economic conditions. Interest rates, unemployment and other relevant economic factors are still favorable by historical standards.*

Would it make more sense to follow a balance sheet strategy where we're taking advantage of market conditions (both spreads and environment)? We appear to be following a strategy that's exactly opposite of this approach.

Angelo Mozilo/Managing Directors/CF/CCI

09/26/2006 10:15 AM

To: dave sambol
cc: Carlos Garcia/Managing Directors/CF/CCI@COUNTRYWIDE; eric sieracki
Subject: The Bank

As per our discussion yesterday morning I would like you, Carlos and Eric to seriously consider the following:

1. Pay Options have become the lightning rod in the arena of "exotic loans". It is getting the attention of rating agencies, regulators and the press.
2. We have no way, with any reasonable certainty, to assess the real risk of holding these loans on our balance sheet. The only history we can look to is that of World Savings however their portfolio was fundamentally different than ours in that their focus was equity and our focus is fico. In my judgement, as a long time lender, I would always trade off fico for equity. 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.
3. It appears to me that pay options are currently mispriced in the secondary market and that spread could disappear quickly if there is an foreseen headline event such as another lender getting into deep trouble with this product or because of a negative investor occurrence.

It therefore I believe the timing is right for us to sell all newly originated pay options and begin rolling off the bank balance sheet, in an orderly manner, pay options currently in their port. This move will send a message to the world that we are listening to the concerns of regulators and others about this product, that we are a responsive and diligent manager of credit risk, will ease the angst currently expressed by the regulators, will make it easier to transition from the Fed to the OTS and more importantly will capture gains on sale that might not be available to us in the near future.

I would appreciate your thoughts.

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Main document changes and comments
Header and footer changes
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