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Subject Sub-Prime Residuals

As I look at production trends, not only at Countrywide but also with other lenders, there is a clear deterioration in the credit quality of loans being originated over the past several years. In addition, from my point of view, the trend is getting worse as the competition for sub prime, Alt-A and nonconforming in general continues to accelerate. GE, Ameriquest and others, excluding Wells, Chase and BofA, have not only become more price competitive but have substantially lowered credit, down payment and income requirements. This trend could cause borrowers to be more vulnerable to adverse changes in interest rates, the economy or both. It appears that home buyers, driven by a strong desire to own a home combined with rapidly increasing values, are stretching themselves beyond any historical standards to get into the home of their dreams. The bottom line of my perspective on this trend is that we should seriously consider securitizing and selling (NIMS) a substantial portion of our current and future sub prime residuals even though the value in retaining such residuals "appears" to be a better economic execution than a NIMS execution.

I fully understand that our residuals have been modeled on a conservative basis but it is only conservative based upon historical performances. But the type of loans currently being originated combined with the unprecedented stretching of all aspects of credit standards could cause a bump in the road that could bring with it catastrophic consequences. If that were to happen then the .50 basis points additional cost of a NIM versus retention on our balance sheet would look like a bargain.

I must admit that the upcoming election has exacerbated my concerns in that a Kerry win could cause a serious disruption in the economy if he is successful in rolling back a substantial portion of the tax breaks initiated by Bush. It is the wage earners \$200,000 and over that are the drivers of the economy and that is the group that Kerry has stated that he will attack. This could clearly cause a major bump in the road.

As you know I have no political bias but I would be concerned about any candidate that proposes a massive wealth transfer from the people to the federal government.

I would like you to consider my concerns and let me know your thoughts.