Angelo Mozilo/Managing Directors/CF/CCI

08/02/2005 01:08:44 PM

To Dave Sambol/Managing Directors/CF/CCI
cc Stan Kurland/Managing Directors/CF/CCI;Carlos Garcia/Managing Directors/CF/CCI
bcc
Subject Re: Fw: Bank Assets

I absolutely understand your position however there is a price we will pay no matter what we do. The difference being that by placing less attractive loans in the secondary market we will know exactly the economic price we will pay when the sales settle. By placing, even at 50%, into the Bank we have no idea what economic and reputational losses we will suffer not to say anything about restrictions placed upon us by the regulators.

Dave Sambol/Managing Directors/CF/CCI
08/02/2005 08:46 AM

To Carlos Garcia/Managing Directors/CF/CCI@COUNTRYWIDE
cc Angelo Mozilo/Managing Directors/CF/CCI@COUNTRYWIDE, stan_kurland@countrywide.com
bcc
Subject Re: Fw: Bank Assets

While it makes sense for us to be selective as to the loans which the Bank retains, we need to analyze the securitization implications on what remains if the bank is only cherry picking and what remains to be securitized/sold is overly concentrated with higher risk loans. This concern and issue gets magnified as we put a bigger percentage of our pay option production into the Bank because the remaining production then increasingly looks like an adversly selected pool.

Carlos Garcia/Managing Directors/CF/CCI
08/02/2005 07:31 AM

To Angelo Mozilo/Managing Directors/CF/CCI@COUNTRYWIDE
cc Stan Kurland, Dave Sambol
bcc
Subject Re: Fw: Bank Assets

No lending to investors in any market is the direction we are following/implementing immediately without waiting on analyses or deliberation. When we complete analyses if it supports any diifferent action we will share and get concurrence for any adjustment to your guidance. I do agree with your cocern particularly given the fact that credit availability is going to tighten or atleast get a lot more expensive due to the growing concerns over payoption and io loans, rising rates, housing bubbles and ensuing regulatory and lender actions.

From: Angelo Mozilo
Sent: 08/02/2005 06:48 AM
To: Carlos Garcia
Cc: Stan Kurland
Subject: Re: Fw: Bank Assets

I appreciate your response however we should not be making any pay options to investors anywhere. This is not the business that a fledgeling bank of our size should be involved with. Pay option loans being used by investors is a pure commercial spec loan and not the traditional home loan that we have successfully managed throughout our history. When investors want to arbitrage with a loan of this nature they should go to Chase or Wells not to us.

It is also important for you and your team to understand from my point of view that there is nothing intrinsically wrong with pay option loans themselves, the problem is the quality of borrowers who are being offered the product and the abuse by third party originators. There are other more traditional products in the marketplace that you can fund to meet your needs and as I said in my previous memo, if you are unable to find sufficient product then slow down the growth of the Bank for the time being..

Carlos Garcia/Managing Directors/CF/CCI 08/02/2005 01:00 AM	To	Mike Muir, Clifford Rossi, Dave Walker, Timothy Wennes, Marito Domingo
	cc	Jim Furash, Stan Kurland, Angelo Mozilo
	bcc	
	Subject	Fw: Bank Assets

Pursuant to Angelos direction, please make every effort to further accelerate the assessment of low fico borrowers and appropriate action on payoptions. Also are there additional markets besides south florida and vegas that merit discontinuation of lending to investors or condo borrowers? We still have south florida and vegas lending shut down for all products, right? I want to get with stan and back to angelo this week. In the meantime pending the completion of analyses and deliberations we should now stop investing in payoption loans less than 660 fico unless the cltv is 70 percent or lower or they have mi. Likewise stop lending on helocs with underlying payoptions unless the cltv is under 70 and the fico is over 660 unless we can buy mi economically. Also discontinue investor properties in all markets pending completion of analysis. Also please take steps to sell high risk payoption loans in the portfolio such as 80 ltv loans with ficos less than 660. Please also propose any additional steps you deem appropriate. Again we need to move fast to cut risk and not be paralyzed by analyses that can follow.

From: Angelo Mozilo
Sent: 08/01/2005 10:13 PM
To: Carlos Garcia
Cc: Stan Kurland
Subject: Bank Assets

I am becoming increasingly concerned about the environment surrounding the borrowers who are utilizing the pay option loan and the price level of real estate in general but particularly relative to condos and specifically condos being purchased by speculators (non owner occupants). I have been in contact with developers who have told me that they are anticipating a collapse in the condo market very shortly simply related to the fact that in Dade County alone 70% of the condos being sold are being purchased by speculators. This situation is being repeated in Broward County, Las Vegas as well as other so called "hot" areas of the Country.

We must therefore re-think what assets should be putting into the bank. For example you should never put a non owner occupied pay option ARM on the balance sheet. I know you have already done this but it is unacceptable. Secondly only 660 fico's and above, owner occupied pay options should be accepted and only on a limited basis. The focus should be 700 and above (owner occupied) for this product. The simple reason is that when the loan resets in five years there will be an enormous payment shock and if the borrower is not sufficiently sophisticated to truly understand this consequence then the bank will be dealing with foreclosure in potentially a deflated real estate market. This would be both a financial and reputational catastrophe.

Frankly I am no longer concerned about the pace of growth of the bank. In fact if there was little to no growth over the next six months until we can assure ourselves of high quality performing assets I would be the supporter of little to no growth. Since we own the assets of the bank and responsible for the long term performance of those assets we must focus on quality and not quantity if that's the choice we have to make. I feel strongly that over the next twelve months we are going to be facing one ot the most difficult and challenging real estate and mortgage markets in decades and I want to take steps now to mitigate and hopefully avoid any damage to our Bank.

On Sunday I met a mortgage broker from a town near Troy, Michigan who told me that he does all of his business with Countrywide. First I was pleased with the news until he told me why. He said that the area he serves is severely economically depressed and that the only way he can qualify his borrowers is the via the pay option ARM. I have heard this story many times over from mortgage brokers who utilize the pay option for very marginal borrowers for the sole purpose of creating volumes and commissions. We simply cannot and will not allow our Company to be victimized by this pervasive behavior and since we can't control the behavior of others it is essential that we control our own actions.

I therefore want you to meet with Stan and I to review the actions that you are putting in place to secure the financial integrity of the Bank.