**Angelo Mozilo/Managing Directors/CF/CCI**

04/13/2006 07:42:35 PM

To eric sieracki
cc stan kurland;dave sambol;David Spector/Managing Directors/CF/CCI;John McMurray/Managing Directors/CF/CCI@Countrywide
bcc
Subject Re: 1Q2006 Earnings

As per our conversation of this morning it appears to me that there are several important issues which must be addressed relative to our 100% sub prime seconds business. In that regard I would like you to analyze the losses incurred to date specifically from the HSBC transaction and equally important what are our future expectations as to losses.

Not necessarily in the order of importance here are my key concerns about the product itself and about how we conducted ourselves in the origination and delivery of the product to HSBC:

1. The negotiations with HSBC was very flawed and as I stated in my memo several weeks ago extraordinarily juvenile. Specifically we gave every option possible to HSBC to kick back to us all losses while they maintained all of the gains. At this stage of our corporate lives we should know better.
2. The loans were originated through our channels with serious disregard for process, compliance with guidelines and irresponsible behavior relative to meeting timelines. As a result we delivered loans with deficient documentation, did not respond timely in correcting those deficiencies which resulted in extreme time delays thereby permitting loans to have a greater chance for early payment default.
3. The field people and everyone involved in the origination chain received substantial compensation for the origination of this product but have yet to suffer the consequences of unacceptable conduct relative to every aspect of originating, documenting and delivering the product to HSBC.

Frankly I don't want to hear how much we made on the premium that we were paid by HSBC because I believe (Sieracki is doing the analysis) that the net of this transaction when you consider all of the executive, managerial and administrative time that we have expended in putting out the fires, is negative to the Company. This quarter alone we have had to take a .19 write down because of the hits we have taken to date.

Bottom line, from the negotiation of the deal with HSBC through the delivery of the product we have compounded one error after another. Therefore I want Sambol to take all steps necessary to assure that our origination operation "follows guidelines" for every product that we originate. I have personally observed a serious lack of compliance within our origination system as it relates to documentation and generally a deteriation in the quality of loans originated versus the pricing of those loan. In my conversations with Sambol he calls the 100% sub prime seconds as the "milk" of the business. Frankly I consider that product line to be the poison of ours. Obviously as CEO I cannot continue the sanctioning of the origination of this product until such time I can get concrete assurances that we are not facing a continuous catastrophe. Therefore I want a plan of action not only from Sambol but equally from McMurray as to how we can manage this risk going forward.

Eric Sieracki/Managing Directors/CF/CCI
04/13/2006 03:26 PM

To Angelo Mozilo/Managing Directors/CF/CCI@COUNTRYWIDE, stan_kurland@countrywide.com, Dave Sambol/Managing Directors/CF/CCI@COUNTRYWIDE
cc

bcc
Subject 1Q2006 Earnings

This note is primarily for the benefit of Angelo and Dave since you're both out of town. Stan, you already know most of this. The 1Q2006 forecast on April 3 indicated $1.08. The final earnings number will be $1.10.

Significant differences were observed from the April 3 forecast to the preliminary flash. March prime margins came in $0.16 better than expected. The $0.16 was comprised of $0.08 from final servicing values being higher than secondary marketing original values, $0.06 from a hedge gain (pipe hedge was a net short during a selloff), and $0.02 from secondary executions better than expected on late March deals. While the April 3 forecast already included $0.08 of provision for loss reserves, an additional $0.08 was charged to earnings after the preliminary flash. More on reserves later. CCM came in $0.03 higher than expected, Insurance was $0.01 better than expected and there were $0.02 of other. That math all comes out to $1.22 for the preliminary flash.

ALCO met Tuesday and concluded that certain OAS and discount rate changes were required for MSRs and other retained interests based on pertinent data. Identical to last quarter, ALCO repeated the elimination of the "muter" technique in determining OAS (cuts indicated OAS changes in half to reduce volatility). The elimination of the muter increased MSR OAS in 1Q2006, the opposite of 4Q2005. Discount rates on nonprime, NIMs and fixed rate seconds were also adjusted. The net effect of these changes was to decrease EPS by $0.09.

Further review of credit loss reserves also indicated an additional provision of $0.03 was required. The preliminary flash of $1.22 was reduced by the $0.09 and $0.03 to $1.10, which is the final number.

The bottom line is that prime margins for the month of March far outperformed expectations by $0.16. Major offsets were additional loss provisions of $0.11 and OAS/discount rate adjustments of $0.09.

On the topic of reserves, the total credit loss provision for 1Q2006 was $0.19, which compares to $0.02 in 1Q2005. The dollar amount is $192MM. According to John McMurry, $95MM was from a mark to market of HSBC loans and loans acquired through clean-up calls, $37MM was from loans never sold that became further delinquent, $27MM was from the bank, $21MM was for reps & warrants loss provision (new whole loan reserve & overall port growth) and $12MM was for servicing advances in the ordinary course of business.