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Directors/CF/CCI**
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To dave sambol
cc stan kurland;John McMurray
bcc

Subject Sub-prime seconds

I have asked Stan to conduct a thorough review of our sub-prime second business. I have asked him to look at the following:

1. On a cumulative basis have we made any money in this business and if we did, were the rewards related to both the financial and reputational risks that we have taken.
2. On a going forward basis what are we facing relative to margins, reserves and overall financial performance of this business.
3. Where were the breakdowns in our system that caused the HSBC debacle including the creation of the contract all the way through the massive disregard for guidelines set forth by both the contract and corporate.
4. To review the compensation to the sales force in light of the overwhelming hits taken by the Company on this product.

In all of my years in the business I have never seen a more toxic product. It's not only subordinated to the first but the first is sub-prime. In addition the fico's are below 600, below 500 and some below 400 compounded by the fact these are 100% loans which must always be written off in the event of foreclosure..

With real estate values coming down and interest rates rising this product will become increasingly worse.

There has to be major changes in the program including substantial increases in the minimum fico. No margin, no matter how high, could ever cover the inevitable losses on loans with ficos under 600.

Whether you consider this business milk or not I am prepared to go without milk irrespective of the consequences to our production. Our financial and reputational integrity is too important to me and should be to all of us..

Please feel free to participate with Stan on his efforts to get to the truth on this matter.