Dave Sambol/Managing Directors/CF/CCI	To	Angelo Mozilo/Managing Directors/CF/CCI
	cc	Carlos Garcia/Managing Directors/CF/CCI@COUNTRYWIDE;Kevin Bartlett/Managing Directors/CF/CCI@COUNTRYWIDE
03/10/2007 03:15:54 PM	bcc	
	Subject	Re: Fw: PayOption ARM Key Statistics Flash Report - February 2007

Some answers to your questions:

Pay Options:

Our pay option origination volume was essentially flat in Feb. vs Jan (the increase was less than 1%). However, the volume is down materially from peak levels. In Feb, pay option arms represented less than 5% of total production versus 20% of volume in Feb 06'. Having said that, this product is still one of our most profitable products in terms of gain on sale margins, and represents one of the few products which the Bank can purchase in the secondary markets which meets its investment criteria and return hurdles. For these reasons, we would actually be pleased to see pay option volumes grow.

Our current strategy is to sell all of chl's pay option production (as well as the rest of CHL production for that matter) for current period earnings reasons. The Bank however is continuing to bid on bulk pay option packages which come up for sale in the secondary market for its investment portfolio (along with heloc and fixed rate second lien packages). Both the Bank and our Corporate Investment and Credit Risk people have signed off on the investment criteria and the models the Bank is using to price new pay option acquisitions.

As it relates to the idea that we keep rather than securitize more of our heloc production and offset the current period earnings hit from this strategy by selling pay option loans out of the Bank, we agreed to further explore this strategy but we had never made any final decision. We did thereafter discuss this potential strategy and weighed the pros and cons and we decided to hold off for a number of reasons which included the following:

---The opportunity to sell a portion of the Banks pay option port without jeopordizing the HFI status of the remaining port and the HFI designation on future pay option acquisitions was viewed to be a one time opportunity, and we felt that the amount of loans that we could sell into the market at one time without adversely impacting spreads and our execution on current production was not material.

--At the same time, the Bank's strategy was and is to continue buying pay option loans for the portfolio

-We were concerned that a big pay option sale out of the bank could have had uncertain and adverse consequences. In particular, we were concerned that it would signal that Cwide was losing confidence in this product which we felt would not be in our interest given it's continued importance and material earnings contributions for us.

-We reflected that the credit profile of high ltv heloc loans for the Bank might not necessarily be superior to lower ltv pay option loans during a falling HPA environment.

-The risk based capital requirement for helocs is double what it is for pay options such that the strategy would have required more capital in the Bank.

-We were concerned that effecting a material shift in the mix of the Banks port with an overweighting of second mortgages during the ots transition might have raised questions or alarm with the ots which we preferred to avoid at the time.

-And as you know, we have decided to commence holding all heloc production in the Bank beginning in 2008.

I do want to emphasize that our debate on the advisability of this strategy was inconclusive and we simply decided to defer and revisit this decision again later. We believe that the pay option port in the bank still has gains in it today. In fact, spreads on this product have remained very tight (which explains the high gain on sale margins and the fact that the Bank is under budget in their pay option acquisitions). I will however revisit this potential strategy again with Kevin, Carlos and team.

Subprime

While new subprime applications over the last two weeks are down from Jan/Feb levels, they are not off as much as we thought they would be. The big reason is that volume is coming to us from the firms going under. Our strategy has been to stay in the business in all channels but to materially carve back our guidelines on the higher risk loans (especially on high ltv and investor loans where we've had most of the performance issues) and to further tighten our origination and underwriting controls in our fulfillment centers so that we are less exposed to the fraud we've seen in the sector and more comfortable with the credit risk being taken. Furthermore, we have increased rates and are pricing to the very wide spreads we are observing in the secondary markets. Unless spreads continue to deteriorate which is of course possible, our current pricing is such that new volumes coming in now should generate positive current period earnings contribution for FSL and CLD while we see WLD's volume coming in at or around break-even levels at the moment. As it relates to pricing strategy in WLD, we have them on a very short leash and will not stay in the market very long with our current rate sheets if we don't move into the black quickly.

As it relates to balance sheet implications, while we perceived last week that it might be necessary or advisable to hold new subprime production as HFI temporarily, over the last couple of days our view has changed. We think now that given the tighter guidelines and the pricing changes we made, that designating the production as HFS and securitizing it will actually be more accretive to current period earnings. We do however believe that we will need to retain the BBB and A rated bonds from our securitization in addition to residuals until liquidity comes back for these bonds and spreads rationalize. This coming week we will have a forecast as to the balance sheet implications of this strategy which I will go over with you as soon as I have something to review with you.

Angelo, with the shake-out occurring in the subprime market and the rationalization of credit and pricing in the sector, I think we might have an opportunity to make a lot of money in this space when things stabilize and to pick up new customers, sales talent and market share if we stay in the game as our larger, well capitalized competitors are. Naturally, things are very fluid and we need to adjust strategy as market conditions change and we are prepared to cut back or exit part or all of this business quickly if conditions warrant.

I'll call you to further discuss these matters and get your thoughts.

Angelo Mozilo/Managing Directors/CF/CCI
03/09/2007 05:49 PM

To Dave Sambol/Managing Directors/CF/CCI@COUNTRYWIDE
cc Kevin Bartlett/Managing Directors/CF/CCI@Countrywide, Carlos Garcia/Managing Directors/CF/CCI@COUNTRYWIDE

bcc
Subject Fw: PayOption ARM Key Statistics Flash Report - February 2007

Our production of Pay Options is increasing. How is this happening when the underwriting guidelines have been so severely restricted? I also see that we continue to have a substantial inflow of subprime. In light of the fact that we are taking substantial losses on subprime and it's attendant residuals how do we justify the continuing intake of such substantial volumes? I do not want to continue to have to hold subprime for investments on our balance sheet because of the lack of liquidity and the adverse pricing environment. Have we sold the PayOptions in the Bank as we had discussed about a month ago?

----- Forwarded by Angelo Mozilo/Managing Directors/CF/CCI on 03/09/2007 05:42 PM -----

Christine Olson/Loan Admin/CF/CCI
03/07/2007 12:21 PM

To Angelo Mozilo/Managing Directors/CF/CCI@COUNTRYWIDE, Dave Sambol/Managing Directors/CF/CCI@COUNTRYWIDE, Steve Bailey/Customer Contact/CF/CCI@Countrywide, Kevin Meyers/Loan Admin/CF/CCI@Countrywide, Brian White/Loan Admin/CF/CCI@Countrywide, Craig Baingo/IT/CF/CCI@Countrywide, Dorianne Cotter-Lockard/Managing Directors/CF/CCI@Countrywide, Michael Gross/Loan Admin/CF/CCI@Countrywide, Matthew Skoglund/Customer Contact/CF/CCI@Countrywide, Vincent Gangi/Loan Admin/CF/CCI@Countrywide, Rick Wilson/Managing Directors/CF/CCI@COUNTRYWIDE, Angela Hess/Loan Admin/CF/CCI@COUNTRYWIDE, Rick Hildebrand/Loan Admin/CF/CCI@COUNTRYWIDE, Michael Burak/Secondary Marketing/CF/CCI@Countrywide, Koen Vermoesen/Loan Admin/CF/CCI@Countrywide, Nancy Eastman/Loan Admin/CF/CCI@COUNTRYWIDE, Karl Horne/Portfolio Products/CF/CCI@COUNTRYWIDE, Ruben Lucero/HELOC/CF/CCI@Countrywide, Peter Presland-Byrne/IT/CF/CCI@Countrywide, Tania Frey/Loan Admin/CF/CCI@COUNTRYWIDE, Mark Acosta/Loan Admin/CF/CCI@COUNTRYWIDE, John Tone/HELOC/CF/CCI@Countrywide, Gary Douglas/Bank/CF/CCI@Countrywide

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Subject PayOption ARM Key Statistics Flash Report - February 2007

Executive Highlights:

<u>Origination Volume</u> - PayOption ARM Origination volume increased slightly by .41% from 6,131 in

January to 6,156 in February while Total Originations experienced a 9.99% decrease for the same period.
Delinquency - There was an increase in overall delinquencies to 4.82% in February versus 4.24% in January which continues to be less than the overall ARM portfolio which is 5.60%. Loans that are negatively amortizing also reflected a delinquency increase over last month to 5.28%.
Negative Amortization - The number of loans Negatively Amortizing decreased by .56% due to Payoffs exceeding new Originations, but we continue to see the number of loans that are experiencing greater negative amortization (104% - 109%) significantly increasing. This is supported by the continued Minimum Payment Selection which is at 78.68%. To continue improving customer communication, a new letter was implemented this month targeting customers at a 106% threshold.

PayOption ARM
Key Statistics Flash Report

February 2007	February	% Change from prior month	January	December
Overall Key Metrics				
# Loans	380,535	-1.47%	386,221	393,075
UPB	$139,206,381,666	-1.09%	$140,735,801,400	$142,689,421,178
Avg. Balance	$365,818	0.39%	$364,392	$363,008
Avg. Age (months)	14.21	5.26%	13.50	12.77
Avg. Interest Rate	7.91%	0.09%	7.82%	7.71%
Avg. Origination LTV	76%	0.00%	76%	76%
Avg. Origination FICO	708	0.00%	708	708
Delinquency %	4.82%	0.58%	4.24%	4.35%
Originations	6,156	0.41%	6,131	9,453
% as a total of all portfolio originations	3.02%	0.30%	2.72%	4.06%
Payoffs	10,870	-7.54%	11,756	13,224
Payoff % of POA portfolio	2.86%	-0.19%	3.04%	3.36%
Cost Per Loan	$6.21	8.19%	$5.74	$5.70
Negative Amortization Statistics				
100.01 - 100.99%	47,402	-14.32%	55,323	64,133
101 - 101.99%	61,295	-9.47%	67,707	74,144
102 - 102.99%	72,303	-7.21%	77,925	84,873
103 - 103.99%	79,569	-1.01%	80,381	74,630
104 - 104.99%	48,332	35.77%	35,598	22,681
105 - 105.99%	10,973	96.44%	5,586	2735
106 - 108.99%	1,409	176.27%	510	171
109 - 114.99%	5	0.00%	5	6
# Loans Negatively Amortizing	321,288	-0.54%	323,035	323,373
% of Portfolio Negatively Amortizing	84.43%	0.79%	83.64%	82.27%
Total Original Principal Balance	$116,896,887,253	-0.34%	$117,297,298,835	$117,133,123,703
Total Current Principal Balance	$120,004,664,293	-0.14%	$120,166,945,648	$119,757,990,793
Total Principal Balance - above original	$3,107,777,040	8.30%	$2,869,646,813	$2,624,867,089
Avg. Original Principal Balance	$363,838	0.20%	$363,110	$362,223
Avg. Current Principal Balance	$373,511	0.41%	$371,994	$370,340
Avg. Principal Balance - above original	$9,673	8.89%	$8,883	$8,117
Neg Am of UPB %	102.67%	0.21%	102.46%	102.24%
Neg Am Delinquency %	5.28%	0.65%	4.63%	4.74%
% of Payments by Category				
Minimum	78.63%	0.29%	78.34%	77.79%
Interest Only	9.46%	0.03%	9.43%	9.63%
Fully Amortized	7.34%	0.01%	7.33%	7.35%
15 Yr Amortized	1.15%	-0.08%	1.23%	1.29%
Teaser	1.72%	-0.39%	2.11%	2.52%
Other[2]	1.71%	0.15%	1.56%	1.42%
Total	100.00%	0.00%	100.00%	100.00%
Delinquency				
30 Days	2.87%	0.37%	2.50%	2.82%
60 Days	0.73%	0.02%	0.71%	0.65%
90 Days	0.31%	0.06%	0.25%	0.23%
120+ Days	0.22%	0.03%	0.19%	0.17%
Foreclosure	0.68%	0.10%	0.58%	0.47%
Total	4.82%	0.58%	4.24%	4.35%

Originations

	ACQ	CLD	CMD	FSL	WLD	CCM	Total	January	December
#	658	1,577	714	128	2,529	550	6,156	6,131	9,453
%	10.69%	25.62%	11.60%	2.08%	41.08%	8.93%	100.00%	100.00%	100.00%

Customer Service

	February	% Change from prior month	January	December
# of incoming calls	85,733	-11.59%	96,976	79,610
Calls handled as % of portfolio	22.53%	-10.27%	25.11%	20.25%

[1]The method to determine the various payment categories is based on the payment flag.

[2]The borrower either did not have payment options or incorrect options were recorded in our system.

Christine Olson

AVP, Product Implementation

DPM Admin (SV)

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