

Angelo Mozilo/Managing
Directors/CF/CCI
08/15/2007 08:32:23 AM

To "Rubin Bill" <rubin.b@tbcam.com>@CWEXTERNAL
cc
bcc

Subject Re: Merrill's downgrade of CFC to Sell...

I am working on all of the issues that you laid out. Merrill Lynch "piling on", as you said, doesn't help.

"Rubin Bill"
<rubin.b@tbcam.com>
08/15/2007 06:10 AM

To <angelo_mozilo@countrywide.com>,
<David_Bigelow@countrywide.com>,
<Lisa_Riordan@Countrywide.Com>
cc
bcc
Subject Merrill's downgrade of CFC to Sell...

Hello Angelo, Lisa & David,

A few thoughts from a long-time shareholder....

- I hope you all are hanging in there and staying focused.
- This CFC stock downgrade to Sell this morning by a former supporter, Merrill Lynch, doesn't help, unfortunately.
- Seems like fears over CFC's liquidity/survival have joined charge-offs & rapidly rising credit costs as the key problem for the stock.
- I suppose some shareholders (and short-sellers) are focused on the "high reliability" description that CFC is calling its commercial paper, that this liquidity resource is risky and not really as reliable as management believes. The reference/comparison is to Bear Stearns who is trying to get secured funding for all warehouse lines – and trying to eliminate all needs for commercial paper as they view it as risky.
- You probably know this from all your external conversations, that investors and analysts are questioning if Countrywide can survive – if it will be able to get through this liquidity crisis in order to reap the benefits on the other side of it. I never thought I would see this question arise. I personally am still a believer, but feels like leaning into a gale force wind....
- We thought the diversification of Countrywide's businesses would soften the volatility of earnings and strengthen the balance sheet. I suppose if you had not diversified, CFC would be in even worse shape.
- Hope you can provide something more positive/optimistic to say about Countrywide's ability to withstand the current/continuing credit and liquidity crisis.
- Also, just a thought, but perhaps you can highlight for shareholders just how much capacity has already come out of the industry (# of firms, \$ of volume, # of employees, other metrics) in the past year+,...AND...HOW Countrywide will benefit WHEN (not if) it emerges from this current industry/market turmoil. Just an idea...trying to help.

Best regards,

- Bill

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From: Bruce, Kenneth (RSCH SF) [mailto:kenneth_bruce@ml.com]
Sent: Wednesday, August 15, 2007 7:47 AM
To: Rubin Bill
Subject: RE: CFC US: Countrywide Financial Corporation: Liquidity is the Achilles heel - SELL - United States - 10pp

This was a gut-wrenching call, but I don't like what I'm hearing and its the unknown liquidity variable that I cannot gauge.

I think they'll survive, because its too attractive of franchise not to. I just think it has to work through a really tough period and I don't want to hang onto a Buy if the lending community losses confidence in CFC.

Let's talk today.

Ken

-----Original Message-----

From: Rubin Bill [mailto:rubin.b@tbcam.com]
Sent: Wed 8/15/2007 4:32 AM
To: Bruce, Kenneth (RSCH SF)
Cc:
Subject: Fw: CFC US: Countrywide Financial Corporation: Liquidity is the Achilles heel - SELL - United States - 10pp

Wow, Ken - throwing in the towel - I figured you had stuck with this one through the tough part and last it out - but it soundlike you think CFC might not survive (your liquidity call here). I suppose we'll know in the next several months. - Bill

Sent from my BlackBerry Wireless Handheld.

----- Original Message -----

From: ML-Kenneth Bruce <feedback@mlresearch.ml.com>

To: Rubin Bill

Sent: Wed Aug 15 04:08:41 2007

Subject: CFC US: Countrywide Financial Corporation: Liquidity is the Achilles heel - SELL - United States - 10pp

Reason for Report: Rating Change

Link to full report including important disclosures*

<http://research1.ml.com/CFCR/GetDoc.aspx?q=3%2BPAMBxw5kLtljEprEYA%3D%3D>

Downgrade to Sell: Liquidity issues accelerating

Downgrade Countrywide Financial (CFC: C-3-8: \$24.46) from Buy to Sell, based on concerns that liquidity in the mortgage sector could further erode the value of CFC's franchise. We fear that the acceleration of margin calls and forced asset sales in the capital markets could lead to more problems for CFC to finance its mortgage operations. Should a liquidity event occur, for which the likelihood is increasing, CFC shares would probably witness further selling pressure.

Near-term downside risk in share to \$18-\$20, or roughly 0.75x GAAP BV of \$25.

Our view has changed, materially

The capital markets willingness to finance mortgage collateral has weakened, as financial difficulties weigh on the markets appetite for risk. Recent problems in the asset-backed commercial paper and non-GSE repurchase markets raise the risk that lenders reduce exposure to the mortgage sector, possibly causing CFC to de-lever into a weak market. We had known this possibility existed, however, it appears funding markets are deteriorating quickly. 1-Month LIBOR is pricing in higher risk in bank credit at 5.58%, financing for MBS is very harder to come by and there are talks of more difficulties at financial institutions.

De-levering and restructuring are expensive

We think CFC's BV would be at risk if it is forced to sell at discount prices with \$23.00 as a near-term target. The markets are fluid and confidence is draining, making it more likely that CFC may have to work through a period of uncertainty regarding the availability and cost of credit. We think CFC has alternatives to finance operations, but the quick change in market temperament toward short-term borrowing will likely weigh on the shares further. EPS downside is to roughly \$2, which the market would value at \$12-\$20. Frankly, significant pressure could introduce a potential take-out, though prices are likely at or below current levels.

To reply to Kenneth Bruce directly, Click here mailto:kenneth_bruce@ml.com or call +1 415 676 3545

* Read the research report, available through the link above, for complete information including important disclosures and analyst certification(s). Reports can be saved to your local drive in .pdf format. Merrill Lynch URLs are active for six months from the date that such report is published. There may be more recent information available. Please visit one of the electronic venues that carry Merrill Lynch research or contact your Merrill Lynch representative for further information.

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- * Guidelines to maximize the effectiveness of the comparative valuation process, and to identify some common pitfalls.

Click here <http://rschl.ml.com/14016/24592/iq/iqmethod.pdf> for the iQmethod report

iQdatabase(R)

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