

177:1 UNITED STATES SECURITIES AND EXCHANGE COMMISSION

2

3 In the Matter of:)

4) File No. LA-3370

5 COUNTRYWIDE FINANCIAL CORPORATION)

6 WITNESS: Angelo Mozilo

7 PAGES: 177 through 389

8 PLACE: Securities and Exchange Commission

9 5670 Wilshire Boulevard

10 11th Floor

11 Los Angeles, California

12 DATE: Wednesday, August 20, 2008

13

14 The above-entitled matter came on for hearing,

15 pursuant to notice, at 9:49 a.m.

16

17

18

19

20

21

22

23

24 Diversified Reporting Services, Inc.

25 (202) 467-9200

178:1 APPEARANCES:

2

3 On behalf of the Securities and Exchange Commission:

4 SAM S. PUATHASNANON, ESQ.

5 SPENCER E. BENDELL, ESQ.

6 PARIS A. WYNN, ESQ.

7 LYNN DEAN, ESQ.

8 Securities and Exchange Commission

9 5670 Wilshire Boulevard

10 11th Floor

11 Los Angeles, California 90036

12 (323) 965-4503

13

14 On behalf of the Witness:

15 WILLIAM R. MCLUCAS, ESQ.

16 JOSEPH K. BRENNER, ESQ.

17 JOEL S. GREEN, ESQ.

18 WilmerHale

19 1875 Pennsylvania Avenue, NW

20 Washington, DC 20006

21 (202) 663-6120

22

23

24

25

179:1

C O N T E N T S

2

3 WITNESS: EXAMINATION

4 Angelo Mozilo 181

5

6 EXHIBITS DESCRIPTION IDENTIFIED

7 524 Subpoena 181

8 525 Background Questionnaire 181

9 526 3/01 Employment Agreement 192

10 527 9/26/06 Letter on AYCO Letterhead 235

11 528 11/5/06 E-mail 249

12 529 12/22/06 Employment Agreement 259

13 530 11/12/06 E-mail 279

14 531 1/30/07 E-mail 279

15 532 4/4/06 E-mail 310

16 533 5/19/06 E-mail 320

17 534 Transcript of Question and Answer 355

18 535 8/24/06 Draft of Speech 367

19

20 PREVIOUSLY MARKED EXHIBITS

21 EXHIBITS DESCRIPTION IDENTIFIED

22 1 Form 1662 183

23 6 12/29/04 10B5-1 Sales Plan 215

24 7 10/27/06 Sales Plan 231

25 13 12/12/06 Sales Plan

180:1		PREVIOUSLY MARKED EXHIBITS(CONT.)
2	EXHIBITS	DESCRIPTION IDENTIFIED
3	18	Amendment to 12/12/06 Sales Plan 231
4	210	Sanford C. Bernstein Speech 332
5	214	6/6 E-mail 339
6	221	9/26/06 E-mail 362
7		
8		
9		
10		
11		
12		
13		
14		
15		
16		
17		
18		
19		
20		
21		
22		
23		
24		
25		

181:1

P R O C E E D I N G S

2

3

(SEC Exhibits 524 and 525 were

4

marked for identification.)

5

6

MR. PUATHASNANON: We're on the record at 9:49 on

7

August 20th, 2008.

8

Good morning, Mr. Mozilo.

9

THE WITNESS: Good morning.

10

MR. PUATHASNANON: As I've already introduced myself,

11

my name is Sam Puathasnanon. This is Spencer Bendell. And

12

we are officers of the Commission for the purposes of this

13

proceeding.

14

We are resuming today the examination of you,

15

Angelo Mozilo, which was adjourned on November 9th, 2007.

16

Would counsel please identify themselves?

17

MR. MCLUCAS: William McLucas, WilmerHale,

18

Washington, DC.

19

MR. BRENNER: And Joseph Brenner, also WilmerHale.

20

MR. GREEN: Joel Green, WilmerHale.

21

MR. PUATHASNANON: Your testimony today, Mr. Mozilo,

22

is pursuant to a Commission subpoena, which has been marked

23

as Exhibit 524. And I'm handing you what's been marked as

24

Exhibit 524.

25

Is that the subpoena to which you're

182:1 THE WITNESS: Yes.

2 MR. PUATHASNANON: -- today?

3 THE WITNESS: Yes, I am.

4 MR. PUATHASNANON: Okay. Mr. Mozilo, if you could

5 raise your right hand.

6 Whereupon,

7 ANGELO MOZILO,

8 was called as a witness and, having been first duly sworn,

9 was examined and testified as follows:

10 EXAMINATION

11 BY MR. PUATHASNANON:

12 Q Let the record reflect that a copy of the formal
13 order of investigation in this matter as it has been
14 supplemented has been provided to you for your examination
15 and will be available to you during the course of this
16 proceeding.

17 Have you had a chance to review the formal order?

18 A Yes, I have.

19 Q As you may already know, this is an investigation
20 by the United States Securities and Exchange Commission in
21 the matter of Countrywide Financial Corporation to
22 determine whether there have been violations of certain
23 provisions of the federal securities laws. However, the
24 facts developed in this investigation might constitute
25 violations of other federal or state, civil or

183:1 laws.

2 Prior to the opening of the record today, you were
3 also provided with a copy of the Commission's Supplemental
4 Information Form, which has previously been marked as
5 Exhibit No. 1.

6 (SEC Exhibit 1 was referred to.)

7 BY MR. PUATHASNANON:

8 Q Mr. Mozilo, have you had a chance to review Exhibit
9 No. 1?

10 A Yes, I have.

11 Q Do you have any questions concerning Exhibit No. 1?

12 A No, I don't.

13 Q If you recall, in your last appearance here, the
14 attorney went through a series of admonitions or ground
15 rules. And I would like to just review those so that we
16 can have a clear record today.

17 First, as you can see, your testimony is being
18 transcribed. Even though we're in a conference room
19 today, you should consider yourself to be testifying as
20 though you were in a court of law. The oath that you took
21 today is the same as you would take in a court of law.

22 Accordingly, the transcript may be used in a court
23 of law or an administrative proceeding as though you were
24 testifying in person.

25 Do you understand that?

184:1 A I do.

2 Q Please make every effort today to give the best,
3 most complete, and honest answers to my questions so that
4 we have the cleanest record possible. And to assist the
5 court reporter, please speak up and give oral responses.
6 The court reporter cannot transcribe gestures, nods, or
7 shakes of your head.

8 Do you understand that?

9 A Yes, I do.

10 Q We should try not to talk over each other before
11 answering a question. Please wait for me to finish my
12 question, and I will do my best to wait for you to answer
13 before asking my next question.

14 Do you understand that?

15 A I do.

16 Q If you need a break at any time, please let me
17 know, and we will take a break at a convenient moment. If
18 a question is pending, I will ask that you answer the
19 question before we take a break.

20 Do you understand that?

21 A I do.

22 Q Is there any reason today why you cannot testify or
23 give your best testimony?

24 A No, there isn't.

25 Q Thank you. Prior to the opening of the

185:1 today, your counsel handed me what's been marked as
2 Exhibit -- Government Exhibit 525, which is a background
3 questionnaire.

4 Have you had a chance to review Exhibit 525?

5 A I have.

6 Q Is the information in Exhibit 525 complete,
7 accurate, and truthful, to the best of your knowledge?

8 A What is complete is accurate, I believe, unless
9 it's been --

10 Q And if you want to take a --

11 A 15 is --

12 MR. BRENNER: Let me explain a little bit further.
13 Question 15 requests some detailed information about some
14 various transactions. Mr. Mozilo himself doesn't have the
15 level of detailed information to respond to it. He's
16 asked his financial adviser at AYCO to help him prepare a
17 response, and they have not finished doing that. But as
18 soon as they do finish it, we'll supply it to you.

19 MR. PUATHASNANON: Okay. Thank you.

20 BY MR. PUATHASNANON:

21 Q Is there anything else about the background
22 questionnaire --

23 A Not that I'm aware of, no.

24 Q Okay. Turning your attention back to the subpoena,
25 Exhibit 524, there's an attachment asking for

186:1 that is attached to the subpoena. Have you had a chance
2 to review that attachment?

3 A I did. I have.

4 Q Okay. And did you make an effort to try to locate
5 documents responsive to the subpoena?

6 A Yes, I did.

7 Q Did anyone assist you in search for documents?

8 A No. I searched for the documents myself. My wife
9 helped me obtain the boxes, not the information in the
10 boxes, to identify them because they were in a storage
11 bin. But I went through the documents myself.

12 Q And when you say "storage bin," do you mean a
13 self-storage --

14 A Yes.

15 Q -- locker or rental unit that you think you have?
16 Is that right?

17 A That's correct.

18 Q Where is that located?

19 A Goleta, California.

20 Q And what is the name of the facility?

21 A I don't know the name of the facility. I can
22 provide that name later, but I don't know the name. I've
23 only been there once.

24 Q Okay. Other than boxes that were stored at that
25 facility, did you search anywhere else for

187:1 documents?

2 A I searched my home.

3 Q And anywhere else?

4 A No, nowhere else. Nowhere else that I can
5 remember.

6 Q And it's my understanding from your counsel that
7 some of the documents have been produced and more
8 documents will be forthcoming. Do you know whether any
9 documents will be withheld on the basis of privilege?

10 A I'm not aware of any, unless my counsel is.

11 MR. BRENNER: Actually, we haven't finished doing
12 it; so we can't be sure whether there will be or won't be,
13 but we'll let you know.

14 BY MR. PUATHASNANON:

15 Q When you left Countrywide in July of this year,
16 it's my understanding that an effort was made, either by
17 you or others, to pack up your office. Is that correct?

18 A That's correct.

19 Q What were the contents of your office that needed
20 to be packed up?

21 A The vast majority, if not all, was personal. I
22 kept very little in my office in terms of hard copy of
23 anything because everything was on Lotus Notes, on the
24 internet.

25 So the contents of the office were primarily

188:1 that I received over the 40 years, speeches that I made
2 over the 40 years, annual reports, Countrywide's annual
3 reports, furniture, memorabilia, enormous amount of
4 memorabilia that was hanging on the walls, clocks, that
5 kind of stuff, that had been accumulated for 40 years with
6 Countrywide.

7 To the best of my knowledge, that was what was
8 there.

9 Q Turning to -- you said that it was your practice
10 not to really keep hard copy documents, but you did
11 mention what sounds like a couple of things, annual
12 reports of the company.

13 A Uh-huh.

14 Q You also mentioned speeches. Were those kept in
15 hard copy form?

16 A They were.

17 Q And were these copies of the actual speech or the
18 script that you used to deliver the speech?

19 A I think both. I delivered the speeches one of two
20 ways. One was a scripted speech, whether it be an
21 industry-related speech or an advocacy group or whatever
22 it might have been. The other was -- and I don't know
23 what was -- frankly, because I didn't look through the
24 files themselves, but -- or they might just be notes. I
25 very often speak off of one-liners and extrapolate

189:1 there. But I'd say it's probably mostly scripted
2 speeches.

3 Q And what was your -- when you were delivering a
4 speech, regardless of whether you did it through summary
5 notes or whether an actual script, what was your practice
6 after delivering the speech with respect to the notes or
7 the script?

8 A My practice, if I had a practice -- I wouldn't
9 describe it as a practice -- but generally I think I just
10 threw it away. So that the speeches that were there were
11 ones typed by my assistant, and then she kept in a file.
12 I didn't realize, frankly, that they were there until I
13 saw the boxes.

14 Q So to the extent that you delivered a speech and
15 may have made notes or changes or revisions in the course
16 of preparing for that speech, would those notes have been
17 retained?

18 A On the scripted speeches, I rarely, if at all,
19 changed them. On my notes, generally, if I did it that
20 way -- again, I don't know what was in the file, frankly.
21 But if they were, they were just handwritten. I'd write
22 certain points about the industry, about what's happening
23 and this sort of thing, and then speak from there.

24 Q Other than speeches and annual reports, were there
25 any other hard copy files that you maintained in

190:1 office?

2 A My recollection is that these would be related to
3 personal things, such as cars that I purchased or -- they
4 were sitting on the left-hand side of my file. I'm trying
5 to -- my desk. I'm trying to picture what they were.
6 They were typically personal and not related to company
7 issue at all.

8 Q So other than the speeches and the annual reports
9 with respect to company business, do you recall whether
10 you maintained any other files or kept any other
11 documents?

12 A I don't recall keeping anything that was related to
13 company matters that were not either in the E-mails that
14 have been collected or have been collected by counsel or
15 have been submitted to the SEC. I don't recall any.
16 That's what I'm saying, there may have been some, but
17 nothing of a material nature that I would recall it.

18 Again, I just want to point out that this is 40
19 years of stuff, you know. And so there may be a document
20 or something in there that was related to company matters,
21 but I don't believe anything of -- that's related to what
22 we're talking about today.

23 Q And it sounds as though -- and correct me if I'm
24 wrong -- that there weren't -- you weren't filing things
25 away in your office for -- for -- to store those

191:1 documents?

2 A No. No. I never -- I didn't have any reason of
3 doing that. I had so many people collecting these
4 documents, and attorneys. And there was no need for me to
5 do that.

6 Q What about your computer in your office? Do you
7 know what the disposition of that was after you left the
8 office?

9 A I do not.

10 Q Did you -- do you have a home computer?

11 A I do.

12 Q Do you know whether as part of the document
13 collection by the company whether an effort was made to
14 take documents off of your home computer or the hard
15 drive?

16 A There was no effort by the company, to my
17 knowledge. However, again, let me point out that
18 everything I did was through the company server. It was
19 through Lotus Notes. I had a private E-mail address,
20 which I didn't use until I left the company. I say I
21 didn't use. I may have sent -- somebody may have sent me
22 a personal note about an invitation or something. But I
23 didn't use it for any Countrywide matters whatsoever. As
24 a matter of fact, I rarely, rarely used it. And, to my
25 knowledge, counsel has gone into that website and

192:1 up everything, and it's nothing related to the company.

2 I've only begun to use it after I left Countrywide.

3 Q Did you have a BlackBerry or any --

4 A I did.

5 Q Okay. And what about a laptop?

6 A That's what I have at home, a laptop. I only have
7 laptops.

8 Q Okay. Sorry. I guess I should have -- it was not
9 clear before. So you had a laptop in your office and a
10 laptop at home?

11 A No. I had a desktop at the office, at the company,
12 and only laptops at home.

13 Q Moving to your time at the company, I know that
14 there was a March 2001 employment agreement that you
15 entered into with Countrywide. Do you recall that?

16 A If that's the agreement that went to December of
17 '06, then I -- I recall that, yeah.

18 Q And just to help you recall --

19 (SEC Exhibit 526 was marked for
20 identification.)

21 BY MR. PUATHASNANON:

22 Q I'm handing you what's been marked as Government
23 Exhibit 526. If you could just skim through the -- just
24 the first page for now.

25 A I think you said "March." This is

193:1 Q No. It is. And the reason why -- there's a
2 reference -- this is September 2004 employment agreement,
3 but there's a reference that's made on Page --

4 A Here it is --

5 Q Yeah, the second paragraph.

6 A -- second paragraph, March 1st, 2004.

7 Q So I guess my first question is, with respect to
8 Exhibit 526, the September 2nd, 2004 employment agreement,
9 what was -- what were the circumstances that led to the
10 creation and execution of this agreement?

11 A I'm not sure. I believe it was the expiration of
12 my prior agreement.

13 Q And the reason I ask that is that -- so your prior
14 agreement was going to terminate on a specific day --

15 A I'm only -- this is only a guess on my part. I
16 don't know what else would provoke it.

17 Q So as you sit here today, do you have a
18 recollection as to what the terms of this September 2nd,
19 2004 employment agreement were?

20 A No.

21 Q Are you aware that there was an employment
22 agreement in place that was to govern your time at the
23 company through December 31st, 2006?

24 A That term, yes. Yes. My recollection was that it
25 took me as CEO through December 2006, and at which

194:1 would migrate to a non-executive chair until 2009. And
2 with that non-executive chair position would come certain
3 compensation, and if I was traveling on business with the
4 company, the use of the company plane.

5 Q With respect to the term in which you were CEO
6 through December 31st, 2006, what were the -- to the
7 extent that you recall, what were the various components
8 of your compensation from the company?

9 A I had a base salary. I had a bonus formula. And I
10 had stock option grants, but I don't recall what the basis
11 of those grants were, what would trigger the grants.
12 Those were the three components.

13 Q Was there also a supplemental retirement plan that
14 was part of your compensation?

15 A There was a SERP that was triggered upon my
16 retirement, but not part of the compensation I received
17 through the contract.

18 Q So you would have access to the SERP once you
19 retired from the company?

20 A That's my understanding.

21 Q And how was the SERP funded?

22 A I'm not certain whether it was funded through
23 insurance or self-funded through the company. I'm not
24 sure how that was done.

25 Q Did you pay into the SERP?

195:1 A No, I did not pay into the SERP. If I understand
2 it, I didn't pay into it.

3 Q And just for the record, sir, is it your
4 understanding that SERP stands for Supplemental Executive
5 Retirement Plan?

6 A Uh-huh.

7 Q Is that --

8 A I do.

9 Q Anything else that -- other than benefit -- health
10 benefits and things like that, but in terms of
11 compensation to you as CEO, were there any other
12 components other than the four things that we've talked
13 about?

14 A It depends on what you -- like I said, I had use of
15 the company plane. There was a period of time they paid
16 for -- I think originally the contract called for three
17 country clubs. I ultimately paid for all of it, and the
18 company paid for none of it. But I think -- that's what I
19 recall, the country clubs. And I think that was it.

20 Q When you say, with respect to the country clubs,
21 that you, yourself, paid it and the company did not pay,
22 was there ever a point in time in which the company did
23 pay?

24 A Oh, yes. Yeah, there was.

25 Q When did the change occur?

196:1 A It changed over time, I believe. I don't know if
2 it ever got to three. Maybe it did. But at some point I
3 dropped off one and then another and then the third. But
4 I think the last one was probably over 2007, somewhere in
5 that time, 2006, 2007.

6 Q What about the first one?

7 A I'm not sure of the timing.

8 Q So based on the terms of this employment agreement,
9 a new CEO would be appointed who would have -- no. I'm
10 sorry. Strike that.

11 A new CEO would have been appointed to take over
12 for you as of January 1st, 2007; was that the original
13 intent?

14 A That's correct.

15 Q And for the period of time was that successor
16 designated?

17 A The successor was never officially designated. The
18 potential successors, which were two, were discussed
19 between myself and the board members over a long period of
20 time. But they were never officially designated.

21 Q Do you recall when those conversations with the
22 board first began?

23 A No, I don't. It was protracted over a long period
24 of time. It was -- you know, because of my age, there was
25 a -- and my extensive travel and health issues that

197:1 that the conversation went on for long periods of time.

2 So I couldn't pinpoint when they started.

3 And they were not -- there was some individually
4 with the directors. Sometimes it was collectively.

5 Because there was concern of the directors as to who the
6 successor would be.

7 Q The comment when you say you had conversation with
8 the board, was that with the full board or with the
9 compensation committee? Or -- I'm sorry. Not the
10 compensation. But was it the full board or some subset of
11 the board?

12 A I don't recall whether it was with the full board
13 or -- well, a full-board meeting -- I doubt it was at a
14 full-board meeting because it would have been awkward,
15 because one of the potential candidates was a board
16 member.

17 Q Who was that?

18 A Stan Kurland.

19 Q Who do you recall being involved in the
20 conversations among the board members?

21 A As I said, I'm sure at one point, in one way or
22 another, you know, it came up in conversation with all of
23 the board members. But specifically, the head of the comp
24 committee, Michael Dougherty, was intimately involved.
25 I'd say as well as Harley Snyder and Bob Donato --

198:1 Donato, D-o-n-a-t-o. Those are the ones that come to
2 mind.

3 Q At some point in time a decision's made by which
4 you would continue on with the company beyond
5 December 31st, 2006; is that right?

6 A That's correct.

7 Q What were the circumstances that led up to that
8 decision?

9 A The individual that I had recommended to the --
10 ultimately recommended to the board was Stanley Kurland,
11 who had been with me about 22, 23 years, as was most of
12 the management team. Average time was about 22 years.
13 And Stan had held the highest positions up to that point
14 in the company. He came in as -- I brought him in at 20
15 some odd years ago as CFO.

16 And then he -- I think he went to COO. And then
17 from COO to president and COO. So he had an extensive
18 background. And I thought of the choices we had. I
19 thought we had two good choices, both in David Sambol and
20 Stan Kurland; that he would -- the overall benefit of the
21 company and what people probably expected within the
22 company, that he would be the best choice for the board.
23 And he's the one I recommended to the board.

24 Q When you say "what people expected within the
25 company," what do you mean?

199:1 A Well, I think that people have expectations. At
2 that time there were probably 55,000 employees on three
3 continents. And he -- when my partner left and ultimately
4 passed away, two founders of the company, he and myself,
5 Stan had taken -- I put him in the public position as a
6 board member. And also the financial report, he would be
7 by my side in the financial -- in the annual report. So
8 that created an expectation, I'm sure, that he would be
9 the obvious choice absent, you know, some other issue.

10 Q And, ultimately, he did not take that position?

11 A That is correct.

12 Q And why was that?

13 A I don't know if I really know the answer to that
14 question. But I had asked Stan to begin a process with me
15 for transition so that we could make a -- could make
16 public notice that he was going to be my successor, and in
17 December I would leave.

18 And it was in that process that it became a concern
19 of mine and a concern primarily of the board as to whether
20 or not he was the right choice. And it ultimately ended
21 in the board. And I believe it was the chair of the comp
22 committee at the time, Michael Dougherty, who terminated
23 him.

24 Q What were the nature of the concerns that you,
25 yourself, had?

200:1 A They were primarily related to leadership and
2 whether or not he had the ability to lead the organization
3 on an ongoing basis and whether or not he could get the
4 loyalty, the acceptance of the people, that he had to
5 lead.

6 The board's concern, I would -- and this is
7 speculation on my part -- was whether or not he could
8 effectively serve as a CEO. And that took, you know, a
9 life of its own between him and the board. And they
10 informed me that they had let him go.

11 Q It appears, at least based on your testimony, that
12 there was a period of time in which you were comfortable
13 with having Mr. Kurland as the successor CEO. And you
14 just said that at some point concerns arose in your mind
15 about his ability to do so. Can you be more specific
16 about what -- were there circumstances, events, that
17 occurred that changed your opinion?

18 A Well, you know, I would say this, that the company
19 to me was not just a company. It was something that Dave
20 and I gave birth to. It was, in a sense, our child, and,
21 therefore, very protective of the company and what it had
22 accomplished and what its future could and should be. And
23 I think it's pretty tough for anybody to come into a
24 position, to take the place of a founder of the company,
25 very difficult. And I think, therefore, the

201:1 are extraordinarily high.

2 There was no specific event, a company event, that
3 promulgated it all. I admired a lot about Stan, but I was
4 always concerned about some aspects of his personality.
5 But I felt that with the team that I was leaving in place,
6 and particularly with David Sambol and with Carlos Garcia
7 and very high-quality people that had been with me for
8 decades, that it would be okay.

9 And -- but when it became apparent that -- not that
10 he was going to be me. I didn't want him to -- in fact,
11 the last thing I wanted him to be was me -- that he had
12 certain demands about what I was to do in my new role and
13 what the -- in some respects what the board was to do on
14 more of a minor level related to me caused some alarm.

15 And it was a question about -- as a result of that,
16 about judgment. In other words, it was certainly
17 understandable that the expectation is for me to fade away
18 for him to achieve what he wanted to achieve. And I fully
19 understood that. And it was my intention to do it. In
20 fact, I was happy to leave right then and not stay as
21 chair, just to leave.

22 But it was more of a judgmental issue, his judgment
23 and the demands he made of me. And the board, I think,
24 took some offense of that. And it was a concern about
25 that behavior that the board began questioning

202:1 not that type of individual who played, I think, a
2 terrific role as a second in rank, whether or not at the
3 next level that type of personality would work.

4 I had told the board very early on that the
5 essential -- the key person in the team was Dave Sambol;
6 that if for any reason when I was gone that Stan felt that
7 they no longer served a role in the company, that they
8 should become concerned. I think together they made a --
9 working together made a terrific combination. Both
10 C.P.A.'s, one more geared towards growing the company, the
11 other geared more to compliance and administration and
12 organizational skills.

13 And I thought it was just a terrific combination to
14 really find in one person. But it requires people working
15 together to have both qualities come out to be one. And
16 so when this thing erupted and the board went down the
17 path it did, I then recommended that Dave Sambol replace
18 Stan Kurland.

19 Q You mentioned that one was more geared towards
20 compliance and one was geared towards growing the
21 business. Which one was which?

22 A Stan clearly -- they both have very good
23 administrative skills, because I think it's their training
24 as C.P.A.'s. You have to have certain disciplines. They
25 both had that discipline. Stan -- and that was

203:1 focus.

2 Dave Sambol had the ability to do that and had the
3 skill set to do it, but he also possessed the ability to
4 understand what it takes to keep a company moving forward.
5 And our responsibility as shareholders is not only to run
6 a good company and a sound company, but to have earnings.
7 And I thought that David was just more of that CEO
8 quality.

9 But as I said earlier, that it would have been
10 difficult -- a difficult transition if I had selected Dave
11 Sambol over Stan to start with. I felt it should take a
12 natural transition. And Stan had indicated to me -- he
13 was 53 years old at the time -- that he did not intend --
14 he didn't give me a time frame, but that he was more at
15 the end of his career than he was at the beginning of it.
16 So it seemed a perfect solution to me to have Stan take
17 over and groom Dave and go from there, and I'd be long
18 gone.

19 Q Did anyone on the executive -- on the senior
20 executive team ever raise concerns about Mr. Kurland's
21 ability to lead the company?

22 A Let me answer the question this way. This is a
23 family. And it would be like asking me whether or not do
24 I ever have differences of opinions within the family.
25 And certainly there were. And I'm sure people had

204:1 questions about me. You know, wouldn't express it to me,
2 but I'm sure it was expressed.

3 And people did come to me to talk about Stan's
4 style. He had an unusual style. But to me Stan
5 compensated for that because he was bright, and he was
6 with me for a long time. He understood the company very
7 well, he understood the company intimately. And so I --
8 yeah, there were discussions about it, but nothing that I
9 would say was material nor any event that would say to me,
10 oh, my goodness, because I think there was no way.

11 BY MR. BENDELL:

12 Q Mr. Mozilo, I was wondering if you could just -- if
13 there's any additional information you could provide about
14 the -- I think what you described as giving rise to -- and
15 I'm not really clear on whether this is your concerns or
16 the board's concerns or both, but you mentioned
17 Mr. Kurland's demands for what your role would be and what
18 the board's role would be going forward once he was the
19 CEO. Can you provide a little more detail of what those
20 demands were.

21 A Well, it would be from memory, but in terms of my
22 role, he intimated that it might be in everybody's best
23 interest if I left the facility. And I think, again, in
24 a -- in other circumstances, it might be appropriate. But
25 I think saying that to a founder who -- in that

205:1 you know, that was -- I wouldn't put that in a demand, but
2 it was offensive.

3 It was also a demand that I could not fly on the
4 corporate plane without his permission, that I could not
5 make a speech unless I cleared the speech with him.

6 That's sort of a summary of it, if I recall. It was
7 that -- that was the nature of it.

8 In terms of the board, the board had expressed --
9 he had stated that it was the board's opinion that maybe I
10 should leave the office. The board was highly offended by
11 that comment; denied it. There was some other thing about
12 the board, frankly, that I don't recall exactly what it
13 was, but it affected his relationship with the board.

14 Q So if I understand that last point -- second to
15 last point, because I know you said you don't remember the
16 last one -- but the point about where he expressed -- is
17 the issue that he expressed the idea that you should leave
18 the physical facility as being an idea of the board and
19 what you understood is that the board was offended by the
20 characterization of that as their idea? Is that what
21 you're saying?

22 A I think that's a fair statement, yeah. And let me
23 just clarify. It was certain members of the board, not
24 the board in total.

25 Q And during the time that you had -- from the

206:1 that you had sort of settled on Stan Kurland as your
2 successor and then the time when he was ultimately -- when
3 his relationship with the company was ultimately severed
4 through the -- by the board, did you have any discussions
5 with Dave Sambol about Mr. Kurland's -- the
6 appropriateness of Mr. Kurland taking over the company?

7 A Rephrase that again, please.

8 Q Yeah. I'm just trying to get at the time period
9 where after it becomes known within the company that
10 Mr. Kurland is going to be your successor -- or is
11 expected to be your successor and then, you know,
12 ultimately by the time he leaves the company, it's got to
13 be clear within the company that he's not going to be your
14 successor. So in that time window, I'm asking, did you
15 have any discussions with Mr. Sambol about Mr. Kurland's
16 fitness for the CEO position?

17 A Okay. By the time -- okay. If I -- let me just
18 back up. Between the time when he left, I had to be
19 prepared for a transition. And so I'm sure I had
20 discussions with Dave Sambol about him taking the
21 position, yes.

22 Q All right. Well, how about while the -- I guess
23 the question is, did Mr. Sambol have any -- express any
24 opinions about Mr. Kurland's fitness for the CEO position
25 prior to being told that -- you know, that the

207:1 plan was changing and that Mr. Sambol was going to get the
2 job?

3 A Not to my recollection. I only just expand on
4 that. My recollection is that at the time that I told him
5 of the board's decision and what was going to happen, he
6 was -- no. I'm sorry. Before that, because it was when
7 it became apparent that Stan had misstepped. And I
8 expressed my concern to David about it to see if he knew
9 anything of what was going on. He was against doing
10 anything about having Stan leave. He was a proponent of
11 Stan staying.

12 Q Including taking over the CEO role?

13 A Oh, yes. No. Including -- I mean, the series of
14 events had happened over a period of time. What I
15 consider the lapse of judgment on the part of Stan was a
16 total shock to me. At the time that happened, there was a
17 period of time of trying to get it reconciled, trying to
18 get it resolved. It was apparent that it was not going to
19 be resolved.

20 I had to start preparing as to what my alternatives
21 would be in the event that this led to something with Stan
22 leaving. And I discussed it with -- this is my
23 recollection. I have no idea of the timing. But I
24 discussed it with David, and David's first reaction was,
25 "Please talk him into staying. Make him stay.

208:1 react this way."

2 In other words, he wanted Stan to stay as CEO, and
3 he was more than willing to stay in the second position
4 that he was in. He was reporting to Stan.

5 Q So as far as you understood it, then, at the time
6 that the succession uncertainty arose, Mr. Sambol and
7 Mr. Kurland had a good working relationship with each
8 other?

9 A That's -- yeah, my understanding is they had their
10 normal differences as I had. Like I said, it's a family.
11 We had, you know -- you have in any relationship where
12 people have been together for 20 some odd years, that
13 you're going to have differences of opinion. And it's
14 going to be expressed. You want that.

15 And so there were no yes-men in the group,
16 including the people reporting to me. And so I wanted
17 people to challenge each other. But other than those,
18 there was nothing unusual about their relationship. In
19 fact, they spent a lot of time together. They lived in
20 the same community.

21 And so, to my knowledge, there was some difference
22 of opinion as to how to manage the company, but nothing of
23 any nature that was alarming to me.

24 Q And I think you also mentioned at some point in
25 describing Mr. Kurland that he had an "unusual

209:1 Can you just describe what you meant by that.

2 A Well, maybe, you know, the word "unusual" -- he had
3 a different -- his style was different, certainly, than
4 mine. I don't -- I think it's important to understand
5 that my life is Countrywide. I don't know of any other --
6 anything that went on with any other company. I spent my
7 entire life worrying about everything going on in
8 Countrywide. So I never compared my people with anybody
9 else. Never did that.

10 So when I say "unusual" or "different," it was
11 different than what I was used to. And there were things
12 that he did that were well known within the company that
13 were a problem to some people, including me. Take a long
14 time to answer E-mails, if he answered them at all. Take
15 a long time to return a phone call, if he returned it at
16 all.

17 But I must say he was not discriminating in that.
18 He did that to everybody. And that was commonly known
19 that -- but he had so many other good qualities, that I
20 felt that nobody's perfect.

21 Q Is there anything other than the delayed response
22 to E-mails and phone calls that you had in mind when you
23 mentioned his unusual or different style?

24 A No. I think that he -- I think he was very
25 organized and had good people reporting to him.

210:1 he had -- you know, making people wait outside of his
2 office to see him is one of his things. That went in line
3 with everything else. At that -- you know, again, that
4 was a style issue.

5 BY MR. PUATHASNANON:

6 Q During the period of time when you were still
7 expected to leave Countrywide as of December -- leave the
8 CEO position as of December 31st, 2006, did you start to
9 put in place a financial plan for your ultimate
10 retirement?

11 A That financial plan, to my best recollection,
12 started back in 2004, two to three years before I was
13 going to retire. And it was really prompted by expiring
14 stock options. And just like I said, I don't know the
15 terms of my contract except what I laid out to you. The
16 basic elements of it -- I never kept track of options.
17 There was 40 years of stuff that was happening.

18 And John Connors of AYCO, the company I had hired,
19 as part of the -- that's part of the compensation, by the
20 way, was that -- I forgot that -- there's AYCO. There's
21 also a company car, which I paid for my personal use of
22 the company car and I paid for -- and I don't know how
23 they apportioned it out, but I paid for a portion of
24 AYCO's services. But I don't know how that was
25 apportioned out. And I paid taxes on anything that

211:1 considered compensation.

2 John Connors came to me -- and I believe it was
3 sometime in 2004 -- and informed me that I had a
4 substantial amount of stock options that had accumulated
5 over the last ten years that were expiring. And, as I
6 recall, they asked me what to do, and I said, "What are my
7 options?"

8 And he said, "Option one is to let them expire."
9 They had great value, but they'd be worthless; or to sell
10 them; and the other was to do a 10B5-1. And I never heard
11 of that.

12 So I asked him, "What is a 10B5-1? What is the
13 nature of the rules?" And he explained it to me. And I
14 felt, which I still feel the same way today, that as a
15 CEO, that I should -- to sell that amount of shares into
16 the market would send a message which was not correct,
17 that I was concerned about something or that I'm dumping
18 stock; so I didn't want to do that.

19 And the second is I didn't want to be in a position
20 where I had -- if I was going to break it up, the timing
21 was always a difficult issue because you had to do it at
22 certain specific times.

23 And a 10B5-1 answered all of that questions,
24 because once you put it into effect, as I understood it,
25 you put it in effect properly, all the

212:1 and earnings are out and all the information I know is
2 known by the public and enough time has passed since the
3 earnings announcement, that you put it into effect, and
4 that's it. You don't have to worry about it anymore. And
5 if the stock goes up, I get the benefit of it; if the
6 stock goes down, I share it with the shareholders.

7 So I'm just riding the same wave with all the same
8 struggles. It went on for years. And that sounded to me
9 to be the best way to resolve that issue. And that was
10 really the beginning of John beginning to discuss with me,
11 "In two years, Angelo, you're going to be out of a job,
12 and you have to start addressing this issue because your
13 only assets are Countrywide. That's your, by far" -- I
14 mean, I don't know what percentage -- "but a huge
15 percentage was Countrywide, and you're much too
16 concentrated. And you should be thinking about
17 retirement. And let me run through some cash flows with
18 you and show you and start planning." And that was the
19 beginning of the planning process.

20 Q Was it the -- you said that Mr. Connors approached
21 you in 2004 --

22 A I believe it's 2004.

23 Q But is it around the same time that you would
24 have -- it would have been right before that you put the
25 first 10B5-1 plan into place?

213:1 A Correct.

2 Q So it wouldn't have been a year or two years before
3 that; it would have been around the same time --

4 A Oh, around the same time.

5 Q And prior to that, you had not worked with
6 Mr. Conners before?

7 A I don't know when he was brought into the picture.
8 I don't know what year -- sure I've met -- I knew him
9 before, whether it was a year before or so. But I don't
10 think it was much more before that, maybe 2003.

11 Q Do you recall whether you had another adviser
12 before Mr. Conners?

13 A No, I don't recall any previous advisers.

14 Q Someone by the name of Paul O'Neill? Does that
15 name ring a bell?

16 A Oh, that's AYCO.

17 Q Oh, I'm sorry. Yes. AYCO.

18 A Yeah. He was with AYCO. I thought you meant other
19 than AYCO.

20 Q Right. No. I'm sorry. Paul O'Neill at AYCO.

21 A Right.

22 Q Was he providing financial advice to you prior to
23 Mr. Conners?

24 A He was.

25 Q Was there ever any discussion with Mr.

214:1 about putting either a financial plan generally in place
2 or addressing the issue of the expiring options?

3 A I don't recall having any discussion of that
4 nature. Could have. I don't -- because I don't think he
5 was -- maybe a year or two, I think, was the time I was
6 dealing with him, and his dad became secretary. And then
7 he went off with his dad to manage his dad's money in
8 Pittsburgh.

9 So I don't recall -- I do recall him doing my
10 taxes. I do recall that because I ran into a problem with
11 it. But I don't recall him doing any financial plan or
12 discussing 10B5-1s. I think the first time I heard of
13 10B5-1 was from John Connors.

14 Q With Mr. O'Neill, did you meet with him regularly
15 to discuss your finances?

16 A I wouldn't say regularly. I met with him
17 periodically. The difference being that we didn't have
18 any regular schedule, do it every month or every three
19 months. I think I was prompted primarily by him, you
20 know. And it was, I think, him -- he was really primarily
21 collecting my information for tax purposes. But it could
22 have been more. I don't remember.

23 Q So Mr. Connors approaches you and suggests that --
24 well, approaches you about the expiring options. And then
25 I guess, based on your testimony, ultimately you

215:1 Mr. Connors decide to put a 10B5-1 plan in place; is that
2 right?

3 A Well, I decide to put the 10B5-1 in place, based
4 upon his suggestion and my understanding of it. And --
5 that's correct.

6 Q Who else other than you and Mr. Connors was
7 involved in the creation and the implementation of that
8 first 10B5-1 plan?

9 A I believe the first 10B5-1 plan was with J.P.
10 Morgan. And I believe that the account executive -- this
11 I'm not sure of, but the name of Adam Gelcich comes to
12 mind as the account executive for J.P. Morgan that Connors
13 worked with. Because, as I understand it, the contract is
14 really the contract of the brokerage firm and not my
15 contract or Countrywide's contract.

16 So it has to be developed under their protocol and
17 subsequently submitted to the company. That, I believe,
18 was Susan Bow and/or Sandy Samuels who reviewed it. And
19 that was how it was developed.

20 Q And just to get the record clean, I'm going to hand
21 you what has been marked as Government Exhibit 6. I'm not
22 intending to have you guess, but I just wanted you to look
23 at the first line. You mentioned J.P. Morgan.

24 (SEC Exhibit 6 was referred to.)

25 BY MR. PUATHASNANON:

216:1 Q This is a copy of your December 29, 2004 10B5-1
2 sales plan. And it appears to be between you and Bear
3 Stearns.

4 MR. BRENNER: But I think -- just to be clear, I
5 think your question previously was about his first 10B5-1
6 plan, and I don't think this is the first one.

7 MR. PUATHASNANON: Okay.

8 MR. GREEN: That's correct.

9 THE WITNESS: Yes. The first one was J.P. Morgan.

10 BY MR. PUATHASNANON:

11 Q Okay. That's fair. And at some point you switched
12 brokerages to Bear Stearns?

13 A Yes. What happened is that -- and, again, I'm not
14 sure if Adam was the first one that I was dealing with or
15 that John was dealing with at J.P. Morgan. It so happened
16 that I had an account there, and that's how that whole
17 thing happened. Adam Gelcich left J.P. Morgan and went to
18 Bear Stearns and asked me if I would switch, for the next
19 one, if I would do it with Bear Stearns. I think that's
20 what this is.

21 Q Okay.

22 A And so I did it.

23 Q And I apologize. I stand corrected. Anyone
24 else -- you mentioned Susan Bow, Sandy Samuels, Adam
25 Gelcich at J.P. Morgan, and then later Bear

217:1 Mr. Conners. Anyone else who was involved in the creation
2 of the 10B5-1 plan?

3 A Other than the attorneys for J.P. Morgan initially
4 and the attorneys for Bear Stearns, I'm not aware of any.

5 Q Speaking as to the sales plan before you, which is
6 Government Exhibit 6 specifically, who made the decisions
7 with respect to the number of shares that would be sold
8 under the plan?

9 A It was a mathematical decision that was driven by
10 the number of shares to be sold and the number of months
11 that we had to sell them in. And it was just a
12 mathematical equation.

13 Q Turning your attention to page 4 of the plan -- or,
14 actually, the bottom of page 3, on to page 4. Looking at
15 paragraph 3, C-3, and then it runs over to page 4, with
16 the first set of three bullet points. Do you see that,
17 Mr. Mozilo?

18 A The first set of what?

19 Q The first three bullet points.

20 A Uh-huh.

21 Q Each of those bullet points sets essentially a
22 price floor for the sale of certain tranches of stock. Do
23 you see that?

24 A Uh-huh.

25 Q Who determined what the price floor would be

218:1 this sales plan?

2 A I did.

3 Q Was there a particular methodology that you used to
4 determine what the -- how to arrive at those numbers?

5 A No. I don't believe there was. I believe what my
6 goal was -- I didn't want to sell anything, I thought,
7 below \$28 a share. I'm seeing numbers here of \$29 a
8 share. So -- whatever. I felt that -- I always felt that
9 the company's value would continue to accrete over time,
10 although there would be bumps along the way, as there had
11 been for 30 some odd years, so -- and I didn't want to
12 sell any shares below that price.

13 And the -- however, there was a clean-up provision
14 that was put in the first one because we had expiring
15 options. The purpose of that clean-up revision was
16 because these options were expiring, for whatever reason,
17 if the shares did not sell within the normal time frame of
18 the contract, then the last five days, 20 percent of the
19 balance would be sold over a five-day period. Otherwise,
20 the options would expire.

21 In the subsequent contracts, there was a -- both
22 John and I had not paid any attention to that provision
23 because the contract was just duplicated over and over
24 again, and it was never -- the clean-up provision was not
25 necessary because there was no expiring options in

219:1 to my knowledge, I don't think, in the balance of the
2 options.

3 And, but, you know, really by accident, they just
4 continued with the same contract. In 2007, it didn't make
5 any difference because it was below. So nothing was sold.
6 I don't know if any shares were ever sold below \$28 a
7 share. I'm not aware of that. I doubt it, but I'm not
8 aware of that.

9 But that was -- my thought was, look, if the
10 options are not expiring, I'll keep the shares. I'll just
11 keep the options going. Because I think the stock will
12 continue to -- over time continue to rise. And I don't
13 want to be selling below that because I think it's -- I
14 don't think it's a fair characterization of what I think
15 of the future of the company. So that was the purpose of
16 putting in the provision.

17 Now, the 29 -- the number had to come from me
18 because John had no authority to do it.

19 Q I want to go back to something that you just said.
20 You mentioned that -- well, to paraphrase something that
21 you said, is it the case that you believe that the price
22 at which you sold the stock was indicative of what your
23 view of the company was, even under the 10B5-1 plan?

24 A No, I didn't say that.

25 Q And I'm not suggesting that you did say

220:1 A No, I didn't say that. I didn't say anything close
2 to that. I think what I said was that I was not -- I set
3 a floor -- as I said, my memory was \$28. I see that it's
4 \$29. Because I felt that -- these options are not
5 expiring. If they don't sell because the stock is 24, 25,
6 or 23, they won't sell. And I'll hold on to the stock
7 because I believed in the future of the company. This is
8 a company that over the 20 -- over the previous 25 years,
9 the stock went up 25,000 percent.

10 Now, there's no reason for me to believe that
11 because of Countrywide's position, financial position, and
12 because of its market domination, that we would continue
13 to build share value. And I thought that by selling below
14 that price would send the wrong signal that I didn't
15 believe that. So I believed that the -- not necessarily
16 the 29.50 was the right price for the company, but that I
17 would not sell below that. Because it could be higher.

18 And my thought was that if I was left with options,
19 so be it, which I am. I mean, I'm left with millions and
20 millions of options. Not as a result of these plans, but
21 because I only sold one third of my position.

22 Q And continuing to look on page 4, there's a series
23 of sale days on the series of bullet points at the bottom,
24 middle to bottom of the page. Do you see that?

25 A This here?

221:1 Q Yes.

2 A Yes.

3 Q Who determined what days your stock would be sold?

4 A I believe it was the -- it was Bear Stearns.

5 Q Do you know whether there was some methodology or
6 formula to the selection of the days?

7 A I don't know.

8 Q Within the company, were you required to make any
9 type of certification with respect to your knowledge of
10 nonpublic information prior to executing a 10B5-1 plan?

11 A Let me see if I understand the question. Was I
12 required to sign a written certification? No.

13 Q Were you required to provide any type of oral
14 certification to anybody in the company?

15 A Yes.

16 Q Who was -- how did that -- well, who was that?

17 A Susan Bow, generally. And it may have been if she
18 was not there, it would be Sandy Samuels. Because they
19 were both -- Sandy Samuels was originally the secretary
20 and he was general counsel. And Susan Bow -- they played
21 a dual role, but it was one of the two.

22 Q And how did that -- would they interview you?
23 Would they meet with you? How did that come about?

24 A Both. It would be the telephonic, or they would be
25 in the office, or I'd call them in the office and

222:1 them that I knew of nothing because I questioned myself
2 was there anything, plus I -- I believe that I spoke to
3 the CFO, Eric Sieracki, to see if he knew anything that I
4 wouldn't know.

5 Q Was there any -- well, you would speak to
6 Mr. Sieracki prior to executing a new 10B5-1 plan?

7 A That is correct.

8 Q And what is it that you would ask Mr. Sieracki?

9 A If there was anything of a material nature that he
10 knew of that I should be concerned about because I'm
11 executing a sales plan.

12 Q So you specifically informed him that the purpose
13 of the conversation was because you were preparing to
14 execute the plan?

15 A That's correct.

16 Q Did you -- would you talk to anybody else prior to
17 executing the plan?

18 A I'm not sure whether I spoke to either Stan or Dave
19 Sambol, Stan Kurland and Dave Sambol. I'm not sure I did.

20 Q You're not sure whether you spoke to them?

21 A Right. My instinct is that I did, but I couldn't
22 tell you, in fact, that I did.

23 Q To the extent that you did, would the nature of the
24 inquiry be the same as that with Mr. Sieracki?

25 A Yes.

223:1 Q Did Mr. Sieracki ever tell that you there was
2 material information that you needed to know prior to the
3 execution of the sales plan?

4 A No.

5 Q To the best of your recollection, did Mr. Kurland
6 ever tell you anything of a material nature prior to the
7 execution of the sales plan?

8 A No.

9 Q What about Mr. Sambol?

10 A No. I would have no reason to execute the sales
11 plan if that was the case.

12 Q Once the sales plan was in place, did you receive
13 notification regarding completion of sales in the plan?

14 A My recollection is I received two notifications.
15 One was an actual confirmation because it was a sale that
16 I would get from the brokerage house. And I believe that
17 there was a report that came out from Chuck Kwan -- and I
18 don't know if he was in benefits or exactly where he was
19 in the company -- that would give me a summary. And I
20 don't know if it was monthly or weekly that he gave me a
21 summary of what took place.

22 Because, basically, it was whatever what was going
23 into -- whatever I was paid went into my -- directly into
24 my account. And so -- and it was net of taxes and net of
25 the option price. So the confirmation gave me just

224:1 total number, and then he would give me the actual cash
2 received.

3 Q Just going back to the --

4 MR. MCLUCAS: You want to take a break for a
5 second?

6 THE REPORTER: Oh, I'm fine.

7 BY MR. PUATHASNANON:

8 Q Okay. Just going back to the price floor for a
9 second. Was -- did the exercise price of the options
10 figure into your calculation as to what the price floor
11 would be?

12 A I have to go back to 2002, but I -- if the exercise
13 price was \$20, I don't think I put it in at \$28. So I
14 think it did have some effect at the time, you know, what
15 the price of the stock was at that time. Probably was the
16 determining factor more than the exercise price.

17 Q Other than information that you were expiring --
18 that you had expiring options, did Mr. Connors come to you
19 with any other recommendations or issues regarding your
20 finances in, let's say, late 2004?

21 A 2004?

22 Q Yeah. Prior to the execution of this sales plan.

23 MR. BRENNER: I think he also mentioned
24 diversification in addition to expiring options.

25 THE WITNESS: Yeah. That was an ongoing

225:1 which did -- we started in 2002. And because he was aware
2 that this was not an issue that I focused on at all, that
3 he had continuously made me aware of the concentration
4 issue. And also related to the fact I was leaving the
5 company, particularly 2004, 2005, as to what my situation
6 would be once I left in terms of income. My income would
7 stop except for the SERP, and my Social Security, and what
8 that meant.

9 Probably the more important thing that he discussed
10 with me was setting a goal. And he asked me the question,
11 "Do you still want to own the company when you're no
12 longer CEO?"

13 And my answer was "Yes. I always want to own part
14 of Countrywide."

15 And so we began a dialogue as to what that number
16 would be, "How much do you want to own?" And I think --
17 these are just numbers off the top of my head, but I think
18 at the time between stock that I owned, a 401K which I
19 didn't sell, and stock that I owned personally and stock
20 options -- I don't know if I had restricted stock -- the
21 total holdings came to about 14 million shares.

22 Now, some of it -- sounds like a lot, but some of
23 it had high option price, so -- but -- and he said, "Where
24 do you want to be December of '06, December 31st, '06, in
25 terms of" -- "you say you want to own it. How much

226:1 want to own it?"

2 And I think the number was somewhere between six
3 and seven million shares, which included the 401K,
4 included personal holdings, and included the options that
5 I had. Almost all of which were in the money or close to
6 in the money. And he said, "Okay. We'll work towards
7 that number."

8 And so all subsequent discussions related to the
9 sale of the stock was to be able to retain a significant
10 ownership in Countrywide after I left in 2006. And that
11 was the discussion that took place. That was -- and that
12 was accompanied by other discussions relative to my
13 foundation, which had been established some years ago, and
14 cash flows to the family.

15 BY MR. PUATHASNANON:

16 Q Now, is it your recollection that this dialogue
17 with Mr. Conners started in 2004?

18 A I don't think it all started then. I think it was
19 just sort of migrated into it. But that's my
20 recollection, but I don't remember exactly.

21 MR. PUATHASNANON: Let's go off the record. It's
22 11:01.

23 (Recess taken.)

24 MR. PUATHASNANON: Let's go back on the record at
25 11:11.

227:1 BY MR. PUATHASNANON:

2 Q Mr. Mozilo, earlier you mentioned that in your
3 discussions with Mr. Conners and the expiring options
4 that -- I think he gave you three -- or that you discussed
5 three options, or three ways to handle the expiring
6 options; one of which was to let them expire; one of which
7 was to sell them; and one of which was to put them into a
8 10B5-1 plan; is that correct?

9 A I would characterize it a little differently --

10 Q Okay.

11 A -- and say that these were the three things that
12 were discussed. Obviously, option number one was not
13 really a viable option. So it was more -- it was
14 discussed and everything, Look, what happens if you don't?
15 They expire, worthless.

16 The second is to sell them all at once or sell them
17 over a period of time or to do a 10B5-1. That's my
18 recollection of the discussion.

19 Q Did you and Mr. Conners ever discuss exercising the
20 options and then just holding them in your portfolio?

21 A Yes.

22 Q Was that something that you were interested in
23 doing?

24 A I had -- no, I did not have an interest in doing it
25 because I already had very substantial holdings in

228:1 Countrywide. It didn't resolve the concentration issue.
2 It just exacerbated it, plus created a cash flow problem
3 for me, which was -- which would have been impossible for
4 me to resolve just to have -- exercise, pay taxes, and
5 hold the stock. And there's no way I could have done that
6 cash-wise. So there was a cash flow issue.

7 But the real issue was to -- again, I think it's
8 important to keep in mind that the objective was to try to
9 get to 2006 with a certain amount of holdings.

10 Q Was there ever a time that you told Mr. Connors
11 that you were not interested in selling your shares in
12 Countrywide?

13 A There may have -- I don't recall that. We had lots
14 of discussions. There may have been a point in time in
15 our relationship that I may have said that, but I don't
16 recall that.

17 Q Was that -- prior to Mr. Connors presenting the
18 different options to you with respect to your holdings in
19 Countrywide, were you interested in selling shares of
20 Countrywide stock?

21 A Is the question was I willing to sell shares versus
22 exercising and selling options? Are those two --

23 Q Well, I'm sort of, I guess, contemplating the two.
24 You had separate shares holding in Countrywide. You also
25 had options. Whether they were expired or not, you

229:1 options. With respect to your shares in the company, were
2 you interested -- prior to meeting Mr. Conners or
3 discussing the issues with Mr. Conners, were you
4 interested in selling those shares?

5 A I don't recall that specific discussion, but my
6 interest was in exercising and selling the options.

7 Q What about with respect to your holdings?

8 A I believe -- I don't know if I had this discussion
9 with him. I'm trying to go back four or five years here.

10 I don't believe I had any interest in selling the stock.

11 Q But to the extent that options were expiring, you
12 were interested in exercising and then selling those
13 options?

14 A Relative to the initial discussion concerning
15 options that were expiring. Once we got beyond the
16 options expiring, then I had to deal with the other
17 options that were not expiring that were part of my
18 holdings.

19 Q Why did you have to deal with those?

20 A Well, because in that discussion, the question
21 raised was, "Do you still want to own the company when you
22 retire in 2006? And if so, how much of it do you want to
23 own?" That became the number that we had to back into.
24 And so to get to that number, either stock had to be sold
25 or options had to be exercised and sold. I had no

230:1 interest in selling stock.

2 Q And that was a discussion that you had -- well, to
3 the best -- to the extent you can recall, was that
4 discussion during a time in which you expected to retire
5 from the company -- or leave the position of CEO as of
6 December 31st, 2006?

7 A Yes.

8 Q Did you ever put a plan in place to sell those --
9 to exercise and sell the options while you were still
10 expected to leave as of December 31st, 2006?

11 A I don't understand the question. Try that again.

12 Q At what point in time did you know that you would
13 be staying beyond December 31, 2006?

14 A At the time my contract was signed, which was, I
15 think, in January or February of '07.

16 Q So prior to that, you had no expectation of staying
17 beyond December '06?

18 A When the problem developed with Stan, which I guess
19 was in '06, I knew there was a potential for me to stay.
20 The board wanted me to stay. I didn't know if I wanted to
21 stay. And so I had to deal with my concern about the
22 company and about the board members. And so it was
23 sometime in '06, I believe, that there was a possibility I
24 would stay on. But the contract was not completed until,
25 I believe, sometime January, February of '07.

231:1 Q But there was negotiations about a potential
2 contract prior to that; is that right?

3 A That's correct. It was the latter end of -- latter
4 part of '06.

5 Q So prior to those negotiations, had you and
6 Mr. Connors ever discussed putting a sales plan in place
7 to address the issue that you described as to what would
8 happen at the end of your time with the company?

9 A Yes. I think all of them were put in place with
10 the exception of the last one, for that reason.

11 Q When you say "all of them," which ones -- I think
12 there's one --

13 A There's 2003, 2004. Wasn't there one in 2006 or --
14 or 2005 or '6. There's three or four of these plans. And
15 the last one was in February of 2007, I believe.

16 Q I'm going to hand you what's been marked as
17 Government's Exhibits 7, 13, and 18.

18 (SEC Exhibits 7, 13, and 18 were
19 referred to.)

20 MR. PUATHASNANON: For the record, Government
21 Exhibit 7 is entitled "Sales Plan." It's dated
22 October 27, 2006, between Angelo Mozilo and Bear Stearns &
23 Company; Government Exhibit 13 is a Sales Plan dated
24 December 12th, 2006, between Angelo Mozilo and Bear
25 Stearns & Company; and Government Exhibit 18 is an

232:1 Amendment to Sales Plan, dated as of December 12th, 2006,
2 between Angelo Mozilo and Bear Stearns & Company.

3 BY MR. PUATHASNANON:

4 Q Have you had a chance to review the documents,
5 Mr. Mozilo?

6 A I have.

7 Q And I had previously handed you what was marked
8 Government Exhibit 6, which is the December 29, 2004 sales
9 plan. So I'm just going to go through them in sequence.
10 I think it's the one that's open in front of you here.

11 MR. MCLUCAS: It's this one.

12 BY MR. PUATHASNANON:

13 Q So -- yes, that's right. Government Exhibit 6.
14 Your counsel's helping you with that.

15 So Government Exhibit 6, the sales were to end --
16 if you turn to page 5, the sales appear to have ended in
17 May of 2006. Is that what your recollection is?

18 A I have to just go by what I'm reading.

19 Q Okay.

20 A I have no recollection.

21 Q And then turning to the signature page, which is
22 page 10 -- nope. 11 -- nope. I'm sorry. Oh, no. Sorry.
23 Page 10. Is that your signature at the top of the
24 document, Mr. Mozilo?

25 A It is.

233:1 Q Okay. Turning then to Exhibit 7, which is the
2 October 27th, 2006 sales plan. Turning first to the
3 signature page on page 10, is that your signature?

4 A It is.

5 Q This sales plan is dated October 27th, 2006. Is it
6 your recollection that there was a sales plan executed
7 between December 29th, 2004 and October 27th, 2006?

8 A I don't recall.

9 Q Do you know whether there was a sales plan other
10 than in between these two here?

11 A I don't recall.

12 Q Okay.

13 A I mean, if you don't have it, it doesn't exist.

14 Q Does this refresh your recollection as to whether
15 there was a sales plan in between these two?

16 A No.

17 Q Okay. And I'm using this to try to establish some
18 timing as to the conversations that you may have had with
19 Mr. Connors on these various issues and trying to
20 determine when certain conversations may have happened and
21 what the sequence of events were.

22 When you had the conversation with Mr. Connors
23 regarding the percentage of holdings that you wanted of
24 Countrywide at the end of your term, was that
25 conversation, to the best of your recollection,

234:1 time in which you expected to leave the company as of
2 December 31st, 2006?

3 A Relative to -- you're talking about Exhibit 7?

4 Q I'm talking about in general the conversation that
5 you had with Mr. Connors about your holdings. You said
6 that you wanted to have --

7 A No. I have to --

8 Q -- six to seven million.

9 A Sorry. Relative to Exhibit 7 and Exhibit 6, yes,
10 that the discussion centered on what my holdings -- what I
11 wanted my holdings to be upon my retirement, which was
12 planned to be December of '06, as relative to your
13 Exhibit 6 and Exhibit 7.

14 Q Okay. So with Exhibit 6, when this was executed,
15 you expected to leave the company December 31st, 2006?

16 A That's correct.

17 Q When you executed Exhibit 7, you also were
18 expecting to leave the company as of December 31, 2006?

19 A That's October. No. I'm sorry. I didn't know at
20 that time.

21 Q Okay. And do you remember whether negotiations had
22 begun as to whether you would receive additional
23 compensation or a new employment agreement after
24 December 31st, 2006 -- to extend your term beyond
25 December 31st, 2006?

235:1 A I'm sorry. I don't recall whether we were in
2 discussions because I had hired counsel. But I don't know
3 when I hired counsel. It could have been around this
4 time. But I'm not sure.

5 Q Could it have been before that time?

6 A It could have been before that time, I guess. I'm
7 not sure.

8 MR. BRENNER: It's fine to test his memory, but
9 obviously this is a public disclosure by the company, and
10 it will fix it to a time exactly.

11 MR. PUATHASNANON: And I understand that. I'm
12 just -- he --

13 BY MR. PUATHASNANON:

14 Q With respect to Government Exhibit 7, the
15 October 27th, 2006 sales plan, you had -- well, strike
16 that.

17 (SEC Exhibit 527 was marked for
18 identification.)

19 BY MR. PUATHASNANON:

20 Q I'm handing you what has been marked as
21 Exhibit 527. Exhibit 527 is a letter on AYCO letterhead
22 dated September 26, 2006, to Angelo R. Mozilo. It's Bates
23 numbered AYCO 000009 through 011.

24 A Yes.

25 Q Have you had a chance to review the

236:1 Mr. Mozilo?

2 A Yes.

3 Q Okay. Now, focusing your attention on the first
4 page, point number 1A, point number 1 is entitled "CFC
5 Diversification," and then subparagraph A talks about a
6 10B5-1 plan. Do you see that?

7 A Yes, I do.

8 Q Does this document refresh your recollection at all
9 as to when the conversations with Mr. Conners may have
10 occurred with respect to diversification?

11 A No, because this is not the first time he's talked
12 about it.

13 Q Okay. You had had prior conversations with him
14 about diversification?

15 A Correct.

16 Q Do you know how long prior to September of '06?

17 A It would be strictly a guess on my part, but I
18 think it took place in 2004, relative to the first -- it
19 may have taken place in 2002, relative to the first -- I
20 think it was the first 10B5-1 plan was done in 2002.

21 Q Was the 10B5-1 plan in 2002 done to address
22 expiring options?

23 A And, also, we didn't have a singular conversation,
24 "Come in and sit down. Let's talk about expiring
25 options"; do it and leave. We talked about a

237:1 issues. And I believe that that may have been the first
2 time that it came up.

3 Q The issue of diversification?

4 A Correct.

5 Q But what I'm asking about is that 2002 sales plan
6 that you put into place. Was that done to address
7 expiring options?

8 A Correct.

9 Q Okay. And the 2004 sales plan, I believe you
10 testified, was also put in place to address expiring
11 options?

12 A I don't believe so.

13 Q You don't believe so?

14 A I don't believe it was -- what does it say here --

15 MR. BRENNER: We could take a look at it. It shows
16 it right on the face of the plan.

17 THE WITNESS: Does it say it?

18 BY MR. PUATHASNANON:

19 Q Yeah, Exhibit 6.

20 A And this is 2004. Yeah, these were expiring in
21 2006.

22 Q That's right. And the sales were to extend through
23 what period of time? If you turn to page 5.

24 A May of 2006. And they weren't expiring until July
25 of 2006.

238:1 MR. BRENNER: First one's in June.

2 BY MR. PUATHASNANON:

3 Q June.

4 A June. Okay.

5 Q So it's your position that that sales plan was not
6 put in place to address expiring options?

7 A Well --

8 MR. MCLUCAS: No. Excuse me. He said he didn't
9 recall. He didn't think so. But go ahead.

10 THE WITNESS: Yeah. You know, now that I review
11 it, I remember 2002 was clear to me because -- that they
12 would have expired if John had not gotten to me. I paid
13 no attention to it. Nobody had told me about it. The
14 company's responsibility wasn't to warn me about expiring
15 options. And so that's what stuck in my mind. Here this
16 was obviously related to expiring options as well in 2004.

17 BY MR. PUATHASNANON:

18 Q So the plan that was put in place, Government
19 Exhibit 6, in December of 2004, it is your belief that it
20 was done to address expiring options?

21 A It is my belief. I believe that's why it was done.
22 I think the document speaks for itself.

23 Q You said you and Mr. Connors may have started the
24 diversification conversation as far back as 2002; is that
25 right?

239:1 A May have.

2 Q Okay. Was anything done between 2002 and 2004 to
3 diversify your holdings in Countrywide?

4 A We did the 10B5-1 plans.

5 Q Other than the 10B5-1 plans to deal with the
6 expiring options, was anything else done?

7 A I don't recall. I see in this letter, talking
8 about my 401K.

9 Q And -- I'm sorry. The letter's dated 2006. I'm
10 asking about the period of time from your first sales plan
11 in 2002 to the sales plan that's reflected in Government
12 Exhibit 6, December of 2004.

13 A I don't recall. I don't recall.

14 Q Okay. Between December 29th, 2004 and
15 September 26th, 2006, which is the date of the letter,
16 Government Exhibit 527, was anything done to diversify
17 your holdings in Countrywide?

18 A I don't recall any. I'm not saying -- I don't
19 know.

20 MR. MCLUCAS: You mean other than the sales plan
21 that was entered into?

22 BY MR. PUATHASNANON:

23 Q Other than the sales plan.

24 A There was a diversification in the 401K. A small
25 amount of shares were sold, but I don't know when,

240:1 Fidelity plan to diversify into Fidelity funds, three
2 Fidelity funds. I don't know when I did that.

3 Q As you sit here today, when you say it was a small
4 number, was it --

5 A The value of it was -- I don't know at the time.
6 The value today is a million dollars or \$2 million,
7 something like that. Although the 401K was 20 some odd
8 million dollars.

9 Q And do you recall when that occurred?

10 A I have no recollection.

11 Q Other than diversification, was there any other
12 reason why you entered into the October of 2006 sales
13 plan, which is Government Exhibit 7?

14 A Yes. The reason, as I've stated, I think, on
15 several occasions now, is that we were working towards the
16 bogie of the six or seven million shares in December of
17 '06, sort of continuing on that -- that's my
18 recollection -- continuing on that road.

19 Q And when you told Mr. Connors you wanted to be
20 holding six to seven million shares, was that inclusive of
21 both your equity holdings and your options in the company?

22 A Correct.

23 Q What about options -- were there any options that
24 were not yet vested?

25 A I believe that they were included.

241:1 Q In that six or seven number?

2 A I believe so. But I think most of them were
3 vested, but I'm not -- I believe it was everything that
4 was laid out in terms of options, to the best of my
5 recollection.

6 Q Did Mr. Connors ever come to you with the
7 suggestion that you should consider selling your equity
8 holdings in the company?

9 A He may have, but I don't recall it.

10 Q If he had approached you with that idea in 2005 or
11 2006, would you have been receptive to that idea?

12 A No.

13 Q Why not?

14 A Because I was -- I wanted to remain attached to the
15 company that I had given birth to. And the stock that was
16 holding all those years represented that emotional
17 attachment to me. Strictly an emotional decision.

18 BY MR. BENDELL:

19 Q You've mentioned several times the -- I think you
20 called it a bogie or the target of six to seven million
21 shares that you wanted to hold as you went into
22 retirement. How did that -- was that your number, that
23 six to seven million? How was that number arrived at?

24 A It was no -- there was no science to it. It was in
25 the process, John and I were sitting down. "This

242:1 you have. What do you think?" It was sort of that --

2 Q And I guess what I'm trying to get at is when you
3 ultimately arrived at that six to seven million -- and I
4 said "dollar," and I think that's -- I apologize, because
5 I think your testimony has been six to seven million
6 shares.

7 A Shares. The number was a substantial dollar
8 amount.

9 Q So I guess I'm trying to understand what your
10 thinking was in that number of shares. Did you have a
11 percentage of the outstanding stock of the company that
12 maybe you thought was the appropriate percentage for you
13 to hold in retirement, or was it some estimated dollar
14 amount of your Countrywide holdings that you were -- I
15 mean, what was the basis of that bogie?

16 A Gut.

17 Q I'm sorry?

18 A Gut, g-u-t. Just gut. I wanted -- as I said
19 before, there was no arithmetic equation attached to this,
20 no algorithm. It was simply a process by which this is
21 what you have. And you have to remember, at that time the
22 stock was -- the value of this was four or \$500 million.
23 It was a huge amount of money. It's diminished to almost
24 nothing today, but -- and so, therefore, I just made a gut
25 calculation, okay, what do I need in terms of these

243:1 flows, and what can I put away for my kids and grand-kids?

2 And we have a huge family. What can I put away for them?

3 That was sort of in my mind at the time. The number was
4 just a number. It was halfway between.

5 Q Halfway between what?

6 A Fifteen million and six or seven million. Can I
7 make a correction on the record right away relative to my
8 employment -- relative to the employment contract that you
9 raised with me? I mentioned that it went out to 2009. It
10 didn't. It went out to 2011 for the chairman. I retired
11 in 2006 as a non-executive chair to 2011.

12 BY MR. PUATHASNANON:

13 Q And when you say the "employment," you're talking
14 about when it was originally contemplated that you would
15 leave as CEO in December of 2006?

16 MR. MCLUCAS: January of 2007.

17 MR. BRENNER: You already showed him.

18 BY MR. PUATHASNANON:

19 Q You mentioned something in response to

20 Mr. Bendell's question that one of the considerations with
21 respect to the six-to-seven-million-share bogie was the
22 need regarding cash flows?

23 A No. No. What I said was that -- I think
24 Mr. Bendell asked me what was the whole calculation that
25 went into it. And when I looked at what I would

244:1 selling about half, little more than half the position, of
2 the option position and just hold on to my shares, that I
3 would have -- even though I'm holding on to a significant
4 amount of shares, I would have significant cash flow in
5 the future to support myself, my wife, and my family.

6 Q Based on the proceeds of those sales of the
7 exercise and the sale of those options?

8 A Correct.

9 Q Were you having -- did you have concerns regarding
10 your cash flows going forward?

11 A I always have concerns about that.

12 Q Based on what? What is that concern based on?

13 A Based on where it came from.

14 Q What do you mean by that?

15 A I came from nothing and was always living hand to
16 mouth. It was a horrible way to live. And I never wanted
17 to go back there again.

18 Q Given your position financially as of 2006, did you
19 still have that fear?

20 A I have that fear today.

21 Q Is it your belief that you could be wiped out
22 tomorrow? I mean, is that part of that fear? Or is it
23 really more --

24 A I don't -- you know, I don't want to get into the
25 psychology of this, but I think that it's important

245:1 as a father and a grandfather to make sure that --
2 hopefully that my family doesn't go through what I went
3 through. And, frankly, I don't know what that's going to
4 take, particularly with nine grand-kids and the cost of
5 education these days and the dreams that my wife and I
6 have for whatever time we have remaining on this planet.

7 And you can see by some of the evidence in this
8 testimony that relative to the house that we wanted to
9 retire into and the problems we've had, you never know
10 what the future's going to bring. And so I worry about
11 the future all the time. And part of that is worrying
12 about my children's health and my grandchildren's health,
13 and I worry about making sure I can carry out my
14 responsibility as a father and grandfather.

15 But this is America, at least the last time I
16 checked, and I have -- you know, in America that you
17 have -- there's no limit, you know. Buffet doesn't have a
18 limit. He seems to be pushing 50 billion or 60 billion or
19 \$80 billion. So I just felt that I want to have enough
20 reserves that I don't, at 70 years old, have to worry
21 about this anymore. But it's just part of my makeup. My
22 makeup is to worry about everything inside the company,
23 outside the company, personally.

24 Q Turning your attention to the sales plan that's
25 Government Exhibit 13, the December 12th, 2006

246:1 What was the reason for the creation of the December 2006
2 sales plan?

3 A Let me ask you this: Is this the final sales plan
4 that I have?

5 MR. BRENNER: There's the --

6 BY MR. PUATHASNANON:

7 Q I will -- you have in front of you an amendment to
8 that plan.

9 A I mean these two; that these are the last two.

10 Q I can't say for a hundred percent certainty, but
11 I'm pretty sure that's right.

12 A Yeah. The -- again -- this, again, was in
13 discussion with John. And I don't know exactly what
14 incepted it from September when we had one into December,
15 three or four months.

16 Again, looking at my financial position in terms of
17 the number of shares I have, I don't have any specific
18 reason why we did it except that we began to carry out
19 this overall plan in December 12th other than to stay with
20 the plan. I don't know of any specific reason why we did
21 it.

22 Q So as you sit here today, you don't recall an
23 intervening event between October and December that would
24 have influenced --

25 A No.

247:1 Q -- the creation of that plan?

2 A I'd be guessing, and I don't want to guess. But I
3 don't know of any reason.

4 Q Do you recall that around the fall of 2006, you --
5 an issue arose or -- with respect to the cost of
6 renovations on the home at 109 Rametto?

7 A Yes.

8 Q And if you wouldn't mind, if you could just give a
9 little bit of background as to what those issues were.

10 A I received an \$8 million bill for a house that I
11 was told it was going to cost a million dollars to redo
12 some months before. And which means you got to make \$16
13 million in order to pay the eight million. And I was in
14 shock. And that was the issue.

15 Q With respect to the house?

16 A Correct.

17 Q Okay. Did the cost overruns on that house have any
18 impact on decisions to execute or create either the
19 October 2006 plan or the December 2006 plan?

20 A It might have.

21 Q Do you have recollection one way or the other as
22 you sit here today?

23 A No. Just that it might have. I knew that I was
24 concerned about it. I may have talked to John about it.
25 It might have influenced this.

248:1 Q When you say you talked to John about it, do you
2 recall the context of the discussion?

3 A About cash flow, about a \$8 million bill and should
4 I -- because I fired everybody. I closed the job down,
5 fired the crew. And I have a house now that's worthless
6 because it's all torn apart. They first tore the house
7 apart, and then they gave me the bill.

8 Q So it was not upon completion of the work. The
9 work was still ongoing?

10 A Oh, yeah, the work -- no, there was nothing left on
11 the inside of the house.

12 Q Did you ultimately pay that \$8 million bill?

13 A It's still not done. It will be much more than
14 that.

15 Q No. I'm sorry. But the bill that was presented to
16 you by the contractor.

17 A It was a bill -- it was a bill -- sorry. They
18 originally had given me a plan, I think it was a million
19 to \$2 million, something like that, to redo the house.

20 They began the work, began breaking apart the house, and
21 then handed me a new estimate as to what it would take to
22 get the house completed. So the house was in total
23 incomplete state with an estimate for them to complete it
24 of 8 million, over \$8 million.

25 Q So it wasn't for work completed. It was for

249:1 projections of work to be done?

2 A Correct.

3 (SEC Exhibit 528 was marked for
4 identification.)

5 BY MR. PUATHASNANON:

6 Q I'm handing you what's been marked as Government
7 Exhibit 528. It's an E-mail from you to Mr. Connors with
8 a copy to Ms. Bow, dated November 5th, 2006. The Bates
9 number on the document is CFC 2007-27648. You know what?
10 Somehow -- I apologize. That got misstapled. Sorry. The
11 document's only one page.

12 MR. BENDELL: Let's just get the exhibit back and
13 start --

14 BY MR. PUATHASNANON:

15 Q There you go. I apologize. So let me -- for the
16 record, Exhibit 528, it's a one-page document. It's an
17 E-mail from Mr. Mozilo to John Connors and Susan Bow,
18 dated 11/5/2006, Bates numbers CFC 2007-27648.

19 Have you had a chance to review the document,
20 Mr. Mozilo?

21 A I have, uh-huh.

22 Q And it appears that you are at least interested in
23 selling shares out of your 401K.

24 A Correct.

25 Q Is that the event that you referred to

250:1 A Well, it's the -- I don't know if it's the event,
2 because I don't imagine I sold 200,000 shares in the 401K
3 for a million dollars. But, again, I don't know.

4 Q Well, I --

5 A It would be related to that.

6 Q It was related --

7 A I would think so, yeah.

8 Q Okay. And was there -- what was the reason, if
9 any, for your interest in selling shares out of your 401K?

10 A I think it was just to diversify the 401K. 401K
11 was solely Countrywide.

12 Q Did Mr. Connors come to you with that idea?

13 A I don't recall. I don't remember that.

14 Q So you don't recall one way or another whose idea
15 it was --

16 A No.

17 Q -- to address those shares? That's a "no"; is that
18 right?

19 A That's correct.

20 Q In paragraph 1, there's a reference to a call that
21 you received from Adam. I assume that's Adam Gelcich.

22 A That's right, that's him.

23 Q Do you have any understanding as to what rule
24 you're referring to there?

25 A My guess is that there's a -- I think it

251:1 had to do with the one percent rule or something like
2 that. Because I think there's more of a self-serving
3 comment on the part of Adam, because I was selling --
4 maybe it wasn't. I'm not sure.

5 But the fact that it wasn't being sold out of one
6 brokerage where they had control over that rule, being
7 sold out of two, that there may be potential violations
8 because neither of them are checking each other. And I
9 think that's what it was referring to.

10 Q So when you say "self-serving," it sounds as
11 though --

12 A Well, I take that back.

13 Q But it was something that might have benefited
14 potentially --

15 A I think Adam would like to have the whole account.
16 The fact is I had a split account. You know, everybody
17 would like to have the whole account.

18 Q Turning to paragraph number 3, do you see that?

19 A I do.

20 Q First sentence says, quote, "One of the directors
21 has suggested that I consider accelerating my sales
22 commencing in January of '07," period, closed quote.

23 Who was the direct- -- well, one, do you recall
24 that suggestion?

25 A I do.

252:1 Q Who was the director?

2 A Specifically related to this was Bob Donato.

3 Q When you say "specifically related to this" --

4 A Because I think there was suggestions by directors
5 all along that my holdings were too concentrated and that
6 I should think about diversifying. And I just -- I don't
7 think he was the first one that noted it. But he made a
8 specific point when I was with him.

9 Q Did he explain to you why he thought that was a
10 good idea?

11 A He thought it was just too concentrated. He was a
12 stockbroker and had been in the business all of his life.
13 And I think it was just based upon his professional
14 opinion.

15 MR. MCLUCAS: Can I clarify. When you say "too
16 concentrated," you mean in terms of your own personal
17 financial situation?

18 THE WITNESS: Right.

19 BY MR. PUATHASNANON:

20 Q With respect to the number of shares that you held
21 at the time?

22 A Versus my overall wealth and position.

23 Q That too much of your wealth was held in
24 Countrywide?

25 A That's correct.

253:1 Q Was there something about his advice that made you
2 consider doing it now versus the other advice you had
3 heard from other board members previously?

4 A I think I was -- this was a time that I was going
5 through negotiations with the company, whether I was going
6 to continue or not. And I was assessing -- I was now a
7 month away from my 69th birthday. And I was assessing,
8 doing a lot of assessment, as to what I should be doing
9 going forward. And, in fact, you know, whether or not
10 this contract to continue on was, in fact, something I
11 really wanted.

12 And so I began to reassess. So that when he said
13 it, I think it was more poignant than when other people
14 said it. It was just the timing was such that I was
15 focused on. The company was doing extremely well. And,
16 you know, other than the Stan Kurland situation, which I
17 think by this time had been disclosed -- I don't remember
18 the timing. There was a public announcement.

19 In fact, the stock went up substantially. Not when
20 his announcement was made, but the final announcement was
21 made that I was staying on. And -- but it was just the
22 point in time that I was -- because most of the time I was
23 thinking about the company. I wasn't thinking about me.
24 And sometimes I just get focused on, okay, what do I do,
25 and I forget about it for months. Just timing.

254:1 Q Now, in your mind, the issue that Mr. Donato raised
2 with respect to the concentration of your wealth, was that
3 different than what we've discussed previously with
4 respect to Mr. Conners when he talked about diversifying
5 your holdings, or is it part of the same conversation?

6 A It was different because it came from a director.
7 It didn't come from a financial planner. You know, it did
8 have a different impact on me.

9 Q But when you use the term -- and when you use the
10 term "concentration" in the context of Mr. Donato -- and I
11 believe that's probably the term, maybe, that he used --
12 versus "diversification," are they related issues, or do
13 you view them as being completely separate?

14 A I view them as being exactly the same.

15 Q Okay. So in a sense, the issue that was raised by
16 Mr. Conners is essentially the same issue that's been
17 raised by Mr. Donato, just in a different context?

18 A As I -- as I understood it.

19 Q It appears from the way you've written the E-mail,
20 you're going to Mr. Conners and telling him that this is
21 what you would like to do as opposed to Mr. Conners
22 bringing this issue to you. Is that a fair
23 characterization, based on your recollection?

24 A I think a fair characterization is exactly what I
25 said. "I have several questions I would appreciate

255:1 researching for me."

2 Q But you brought the issue to him?

3 A I brought the issue to him.

4 Q So prior to this E-mail -- well, I guess what I'm
5 trying to understand is, you've said that you had ongoing
6 diversification conversations with Mr. Connors dating
7 back, perhaps, to 2002. Mr. Donato makes the suggestion
8 in November of '06, and you now want to accelerate your
9 sales.

10 And I guess the -- well, and I'm just -- you've
11 said that it's because it's a director. Was there
12 anything else that was going on at this time to motivate
13 your desire to accelerate your sales?

14 A The only other thing that was going on was the -- I
15 was still in negotiations with the company, which caused
16 me to continue to reassess where I was. And that was it.
17 You know, Bob's concerns were strictly about me. And I
18 think you'd have to question him, but I think it was
19 related to whether I was going to stay with the company or
20 not.

21 Q And it's your recollection as you sit here today
22 that as of November of '06, you still hadn't reached a
23 decision as to whether you were going to stay on beyond
24 December 31st?

25 A That's correct.

256:1 Q And when you say "sales" -- "accelerating my sales"
2 in paragraph 3, are you talking about sales -- exercise
3 and sales of options, the sales of your equity holdings,
4 your other equity holdings, or both?

5 A I believe, based upon the pattern, that it would be
6 options, but I'm not -- I couldn't be certain about that.
7 But I think it would be options.

8 Q Was there ever a discussion between you and
9 Mr. Connors about selling off your equity holdings to
10 reach the six to \$7 million bogie that you discussed
11 earlier?

12 A Was there ever a discussion --

13 Q Not of your options. I'm trying to distinguish
14 between options versus the actual shares that were held by
15 you. The pool of shares that were held by you.

16 A I believe that, although I was reluctant to sell my
17 shares, that they were always included as part of the
18 conversation to get to that bogie.

19 Q Did you and Mr. Connors ever discuss putting a plan
20 in place to sell those shares as opposed to options?

21 A We talked about selling shares, a 10B5-1 in the
22 401K, which I don't know if I ever did because I don't
23 know if you can do that in a 401K ultimately. I'm not
24 sure if I did or not. And we discussed the sale of stock
25 in the foundation through a 10B5-1.

257:1 Q But as to your own personal holdings, did you
2 ever --

3 A Not to my recollection.

4 Q And when you -- your answer raises a fair question.

5 You did have Countrywide holdings in your family
6 foundation, your charitable organization?

7 A I did.

8 Q Did you include those shares in the six to \$7
9 million bogie?

10 A No.

11 Q So the six to \$7 million bogie that you described
12 is simply based on --

13 A Six million shares.

14 Q Sorry. I'm sorry. Sorry. Thank you. Six to
15 seven million shares that you talked about earlier related
16 strictly to your personal holdings?

17 A That's correct.

18 Q Turning your attention to Government Exhibit 18,
19 which is the amendment to the December 12th sales plan.
20 Turning first to the third page of the document, is that
21 your signature on Government Exhibit 18?

22 A It is.

23 Q Okay. And do you recall whether this amendment was
24 put in place to address the issue that we've just talked
25 about with respect to the concentration of wealth?

258:1 A Partially. It was primarily incepted, by my
2 recollection, by contact with John. Because the contract
3 was signed now. I made the decision to stay. And as a
4 result of that, the contract provided restricted stock,
5 you know. And it did options, provided that -- I don't
6 remember -- 30 million. I don't remember the number, but
7 it was a substantial amount of restricted stock,
8 performance based, as I recall. And that changed the
9 dynamics of the equation.

10 John called me and said, "Well, you now have these
11 additional restricted stock that" -- because there was no
12 reason to believe that I wouldn't meet the performance
13 requirements because I had for 40 years. "And, therefore,
14 we should adjust the sales or accelerate the sales because
15 taking into consideration you're going to be getting these
16 options, this restricted stock." And that was the basis
17 of it.

18 Q So these restricted stock awards would be
19 increasing your holdings in the company. And in order to
20 meet the diversification rules, you had to sell off more
21 stock?

22 A I didn't have to. It was a decision that -- it was
23 recommended that I keep to the plan, whatever that number,
24 that bogie number was. And that to do so, it would be
25 wise to execute these -- this amendment. We could

259:1 done a new plan or amendment. It didn't make a difference
2 to me. They decided to go the amendment route.

3 Q Do you recall what the value of the restricted
4 shares --

5 A I don't. It was substantial, but I don't.

6 Q When you say "it was substantial," can you --

7 A I don't know. Is the contract here?

8 MR. BRENNER: He's got it right there.

9 THE WITNESS: So all you would have to do is go
10 back to the time, look for the price that the stock was at
11 the time.

12 BY MR. PUATHASNANON:

13 Q Well, was the restricted stock triggered to a
14 particular -- well, I'll show you the document. You can
15 take a look.

16 (SEC Exhibit 529 was marked for
17 identification.)

18 BY MR. PUATHASNANON:

19 Q Okay. I'm handing you what's been marked 529.

20 It's entitled "Employment Agreement," dated December 22nd,
21 2006, between Countrywide Financial Corporation and Angelo
22 Mozilo; bears the Bates number AYCO 000685 through 708.

23 A Did you put these numbers together? I don't know
24 what the number was.

25 MR. BRENNER: Yeah. If you want to point

260:1 it.

2 BY MR. PUATHASNANON:

3 Q If you want to turn to page 7 of the document.

4 A "Receive stock for the extensions, equity plan,
5 issue award of \$10 million."

6 Q Is that the portion of the agreement that you're
7 referring to when you were talking about the restricted
8 stock?

9 A No. I think it was the totality of it. I think
10 there was three components of it.

11 Q Right. And that's one component of it.

12 A Right. I mean, that's my recollection of three
13 components. I see one component here.

14 MR. MCLUCAS: Page 4 and 5. Bottom of 4 and top of
15 5.

16 THE WITNESS: Oh, I see. Yeah. I'm not sure I see
17 it. In my head, it was about \$30 million, but I'm not
18 sure.

19 BY MR. PUATHASNANON:

20 Q Top of page 5.

21 A 5. "The number of shares of company common stock
22 subject to each annual" -- "shall be a number of whole
23 shares that result in a grant date, valued at no less than
24 five and may result in an annual grant date valued --
25 long-term compensation -- no less than 10 million."

261:1 MR. BRENNER: So looks like 10 million a year for
2 three years.

3 BY MR. PUATHASNANON:

4 Q Right. And I just -- when you're referring to
5 that, this is what you're referring to?

6 A That's correct.

7 Q Not the other restricted stock that we looked at on
8 page 7, which would have been an award related to the
9 extension of your term?

10 A No. It was both. It was -- well, that was in
11 addition to it. That's the last thing I look --

12 Q No. And that's fine. I'm not --

13 A Okay. So I don't know -- you tell me. You be
14 helpful to me because I don't know what it says.

15 Q And I'm not asking you to do the math as to what
16 the amount was. I'm trying to get out what you were
17 referring to earlier when you were talking about the
18 restricted stock award. Are you talking about the
19 component that was the annual portion? Were you talking
20 about the component that was the bonus portion for the
21 extension? Were you talking about all of it in the
22 aggregate?

23 A I was going by all of it in the aggregate. My
24 intention of signing the contract was I was going to live
25 up to the terms of the contract and meet all the

262:1 which I had done every year. So it was a significant
2 addition which we had not planned on in the original plan.
3 And, therefore, it impacted the numbers.

4 So John and I got together. I believe John called
5 me. I could have called him. I think he called me
6 because I was really enmeshed in trying to get the
7 company -- you know, get Dave Sambol in place and go
8 through the transition. So I looked at it in the
9 aggregate.

10 Q When -- do you recall if Mr. Connors ever presented
11 to you a formalized plan to address diversification of
12 your holdings?

13 A Let me tell you what I do remember. I do remember
14 that he came periodically to go through my financial --
15 our, my wife and I, financial condition, at which time,
16 two or three times a year, my wife would sit in on that
17 discussion. And it was a comprehensive discussion, which
18 could have included the diversification issue and what it
19 would look like down the line.

20 But I think the -- what he submitted to me was very
21 comprehensive in terms of what assets we had, what
22 liabilities we had, how that translated into cash flow.

23 And a focus was also on the foundation, on charitable
24 giving. And so we -- so it was comprehensive. But I
25 can't tell you that he gave me a formal plan

263:1 getting to that bogie and how we do that.

2 Q And I assume that, based on what you just said,
3 that Mr. Conners -- the services that he provided to you
4 and your wife went beyond simply selling your shares of
5 Countrywide. It was other types of financial planning
6 related to other assets or other goals that you may have
7 had; is that correct?

8 A Yeah. There were several components. One was
9 taxes. They handled all the taxes. And secondly was to
10 look at the financial picture, the financial planning.
11 And thirdly involved the stock. So it was really -- I
12 relied heavily upon John. He was a very bright,
13 knowledgeable guy who has only, I believe, my best
14 interests, because they don't sell anything except their
15 services. They don't sell any funds or stocks.

16 So I thought it was a totally objective view of
17 what was in our best interest. So he would send
18 letters -- I think one of them I saw -- that every time we
19 met, he would follow up with a letter about his
20 understanding of what we discussed. And it ran the gamut.

21 Q And in these discussions that you've had, these
22 periodic meetings that you've described, did you take
23 notes? Did you write things down?

24 A No. With the exception of when I was leaving the
25 company and he went through what to expect from

264:1 America in terms of payments to me, which were going to be
2 immediate within a week or month or something like that.
3 Because they were going straight into my account. "So
4 don't be surprised when you look into your checking
5 account, what's happened?" This is why it's happened.
6 Other than that, I never took notes.

7 Q When you would meet, would he present -- did he
8 have an agenda of items that you needed to cover? Did he
9 make presentations to you about issues or ideas that he
10 had for financial planning? What was the structure of
11 these meetings?

12 A Yes, to all of those. I mean, he didn't have a
13 formal -- I don't recall he had any formal agenda, but he
14 would bring up each topic, my grandchildren and GRATs. I
15 had no idea what they were. He introduced me to GRATs and
16 established those with Countrywide stock and IndyMac
17 stock.

18 And to think about wills that he would be
19 responsible for helping me -- to set up the living trust.
20 He set up the living trust for me. Helped me set up the
21 foundation. All of those things I can say I think he
22 played a role in, he or Paul O'Neill. But it was
23 principally John.

24 Can I make a correction, by the way? In terms of
25 taking notes, I don't recall ever taking notes at a

265:1 meeting. It's possible I may have scribbled something on
2 a pad or something, which I don't have a record of. It's
3 possible.

4 Q And that's fair. I'm more interested in whether
5 there were -- like, if you kept a file for your meetings
6 with Mr. Connors and whether that would include notes of
7 conversations or, you know, things that he may have
8 presented to you.

9 A No. In fact, I kept very few of the letters that
10 he sent to me.

11 BY MR. BENDELL:

12 Q Mr. Mozilo, what effect, if any, did your reaching
13 an agreement with the company to stay on have on that
14 six-to-seven-million-share target or bogie that you had in
15 mind?

16 A That was the reason for the amendment in February
17 of -- February 2nd?

18 Q Yeah. I think I probably asked too general a
19 question. So I apologize. I guess, specifically, when
20 you reached an agreement to stay on with the company, did
21 you continue to believe that -- notwithstanding that now
22 instead of leaving as the CEO, you would stay on as the
23 CEO, did you continue to believe that six to seven million
24 shares was the right number for you to hold?

25 A I sort of left that number alone. I didn't

266:1 consider it right or wrong. I didn't view it that way. I
2 really -- unless John came to me and said, "Angelo, look,
3 you're making a bad decision here. Just keep on accreting
4 it. Don't sell any more. Or sell more." I just sort of
5 settled in and never paid much attention to it.

6 Q I guess, as far as you know, just prior to signing
7 the agreement in December of 2006 and, therefore, starting
8 to receive --

9 A I think I signed it in February.

10 Q Oh, sorry. Okay.

11 A There's no date on it, but I think that's the date
12 of the document. Are we talking about the same --

13 Q No. I'm talking about your employment agreement.
14 I'm sorry.

15 A Oh, I'm sorry. Okay.

16 Q So I'm talking about Exhibit 529.

17 A Okay.

18 Q I mean, I'm correct that late December is when the
19 final i's are dotted, t's are crossed, and you've got an
20 agreement and you know you're staying on as the CEO; is
21 that fair?

22 A What are the dates? December 22nd, yes.

23 Q Okay. So my question is, you know, prior to
24 December 22nd of 2006, you had been -- I think you
25 described earlier you had set this

267:1 six-to-seven-million-share target or bogie in mind in part
2 based on the understanding that you would be leaving the
3 company at the end of December 2006; is that fair?

4 A It was part of it. I think there's two components
5 to it. One is that I knew I was leaving; the second was
6 do I want to own any of the company. And once the answer
7 was "yes," then it's how much. And that's how it sort of
8 got to that.

9 Q But if I understood it correctly, the question as
10 originally posed was, "Do you want to own any of the
11 company after you're no longer the CEO?"

12 A That's correct.

13 Q All right. So now come December 2006, the
14 circumstance of whether you will be the CEO in 2007 has
15 changed; is that right?

16 A That's correct.

17 Q All right. Did that change impact your analysis or
18 your gut feeling in any way about what amount of the
19 company you should own?

20 A In December of -- the end of this employment
21 contract, whatever that is -- this was signed December of
22 '09. It would be no different than December of '06, as
23 far as I was concerned.

24 Q And, also, prior to entering into the agreement in
25 December of 2006, had you succeeded in getting --

268:1 A No.

2 Q -- to your approximate target of six to seven
3 million?

4 A No. I'd been above it.

5 Q Did you have any discussions with Mr. Connors about
6 that fact?

7 A Well, it wasn't -- you know, being above it wasn't
8 a concern of mine. It was -- you know, if I was above it,
9 I wasn't much above it. It was between six and seven
10 million or -- it was a pretty big margin at the end there.
11 But no, I didn't have any discussion. Because whatever it
12 was, it was.

13 Q Do you have any ballpark understanding of what, you
14 know, all of the various types of equity holdings that
15 you've described, what your total position was in December
16 of 2006?

17 A No idea.

18 Q But you know you were above the six to seven
19 million --

20 A I think I was -- not above six to seven. I was
21 above the six. So somewhere between six and seven, I
22 believe.

23 Q And then as you went forward after entering into
24 the new employment agreement in December 2006, I think you
25 mentioned that you sort of in some way left that

269:1 six-to-seven-million target in your mind. And you also
2 mentioned that you wanted to be at that same target at the
3 end of your new term as CEO. So that's the end of 2009;
4 is that fair?

5 A I think it's fair to say I wasn't thinking about
6 it. I know it's a focus that you're on, but once -- the
7 only time that I became aware of it is when John pointed
8 out to me that, "Look, this new contract creates another
9 dimension for you, and you should think about it."

10 Q And then you did?

11 A And I did.

12 Q Right. So I guess whether it's thoughts that are
13 driven by an initial, you know, raising of the issue by
14 Mr. Connors or otherwise, I guess my question is, when you
15 did think about what your overall position in Countrywide
16 stock was going to be going forward in light of staying on
17 as CEO, am I correct in understanding that you continued
18 to have the gut feeling that approximately six to seven
19 million shares is where you wanted to be in terms of your
20 overall ownership of Countrywide stock?

21 A I believe so.

22 Q And that you thought that was where you'd want -- I
23 mean, as of December 2006, when you're making decisions,
24 you thought that's where you wanted to end up at the end
25 of 2009?

270:1 A Yeah. Well, you know, I didn't put as much thought
2 into it as you're putting into it at the moment --

3 Q Okay.

4 A -- frankly.

5 Q Okay. Well --

6 A My overall issue, the overriding issue was I wanted
7 to own this company after I left because of that emotional
8 attachment. I wanted to -- I had no desire necessarily to
9 stay on the board. I had no desire to stay in -- I just
10 wanted to make sure that 10 years from now, 20 years from
11 now, that my family was financially attached to the
12 company that I founded and cofounded. That was the
13 thought process.

14 Q So is it -- did you have any sense for once you had
15 implemented all the 10B5-1 plans that you ultimately did
16 execute, did you have any sense for whether those were
17 going to keep you in line with your
18 six-to-seven-million-share target?

19 A I didn't think that much about it.

20 Q So you didn't have an understanding one way or the
21 other?

22 A I don't know if I had any understanding. I just
23 said I didn't think about it. I just -- you know, that
24 six or seven million share was something that John and I
25 discussed sometime -- years ago. And that was our

271:1 And, frankly, I didn't check each month or even
2 each year, is that where I am? It was, you know,
3 discussions with John was, "Look, John, I want to maintain
4 ownership. I don't want to sell my shares. I'll just
5 keep on exercising the options." Even though the sale of
6 the shares was a much better economic execution for me
7 than the sale of options.

8 Q In what way?

9 A Taxes. I'd pay a 15 percent capital gains tax and
10 still have options, and I'm paying ordinary income. So in
11 terms of economic execution, like I say, this was
12 emotional. This was not rational in terms of holding on
13 to the shares. Because it made no economic sense to do
14 that. Except where options are expiring, obviously, then
15 I'm forced to do it.

16 Q All right. And so -- but, again, with regard to
17 the amendment to the plan that's signed in February of
18 2007 -- and I think this is Exhibit 18 -- was it your
19 understanding that when you executed this amendment, that
20 this was going -- that this -- well, did you have any
21 understanding as to this -- wow. That's pretty bad. Let
22 me start the question over. I'm sorry.

23 With regard to the amendment to the 10B5-1 plan
24 that's contained in Exhibit 18, at the time that you
25 executed it, did you have any understanding as to

272:1 this plan would put you -- would have any effect on your
2 being in line with your six-to-seven-million-share bogie
3 or not being in line with that?

4 A All right. First of all, I'll make it clear that
5 the six-to-seven-million-share bogie was established way
6 back in 2004, whenever John and I had come up with it.

7 Where exactly I was at the time in terms of that bogie, I
8 can't attest to. I don't know.

9 It was -- however, the one thing that had changed
10 was the new employment contract, which added the
11 additional ownership in the company. John informed me
12 that, you know, this adds to my holdings. And if I wanted
13 to have my holdings held steady, then we should think
14 about exercising another 10B5-1.

15 Q All right. So then is it correct that by
16 implementing the amendment to the plan that's contained in
17 Exhibit 18, you understood that you would be selling --
18 exercising options and selling additional shares at a pace
19 that would offset the additional shares that you were
20 getting as part of your employment?

21 A I'm not sure about that, to be honest with you.
22 I'm looking at the numbers here, which is 500,000 -- if
23 this is right -- of 600,000, a million 3, 2 million, 2
24 million 7 shares here, right, getting -- I don't know what
25 it translated -- in the contract, what it

273:1 the number of shares that I was getting, because it's a
2 dollar amount, right? No less than five, less than 10.

3 Without knowing what the price of the stock was at
4 the time or what it would be at the time, what the number
5 of shares would be. So I can't tell you what the
6 mathematical equation would be. It was more of the issue
7 of this was unplanned. This was not something that we had
8 expected and that should we address it or not address it.

9 Q Okay. But I guess that's exactly the point I'm
10 trying to understand, is how does -- how exactly did you
11 understand Exhibit 18 addressed the unplanned addition of
12 shares that came with the employment agreement?

13 A I don't understand the question.

14 Q Okay.

15 A Let me ask you this: Do you -- let me ask you the
16 question. Do you acknowledge that this employment
17 agreement increases my equity holdings or potentially
18 increases my equity holdings in the company?

19 Q Well, it really hardly matters at all what I think.
20 I'm happy to acknowledge that it's your testimony that you
21 understand that your --

22 MR. MCLUCAS: Let me help you. The employment
23 agreement obviously increased the equity position he was
24 going to have in the company.

25 MR. BENDELL: Yeah. I don't intend to argue

274:1 that.

2 MR. MCLUCAS: And the amendment that was
3 exercised -- or executed, Exhibit 18, directionally was
4 consistent with his objective of reducing the
5 concentration, diversifying his wealth, and still holding
6 on to a significant number of Countrywide shares.

7 What the exact numbers and math work out to, we
8 could do it and add it up and -- but it is what it is.

9 But directionally, I think his testimony is that the
10 amendment and the sales -- the exercise and sales of the
11 options was basically consistent with the overall plan
12 or -- that he had discussed with John Connors years
13 before.

14 Now, we can -- you can keep asking him until you're
15 satisfied you got an answer to your question, but I don't
16 know -- I think his answer is pretty much what it is.

17 THE WITNESS: I think -- let me just say this: I
18 think if we could -- from my perspective, we had -- I
19 said, "Look, I wanted to maintain an ownership in the
20 company." That was my decision. I could have sold it
21 all. My decision was not to sell it all. I could have
22 sold it all at any time. It was my right to sell it at
23 any time. I didn't. I wanted to maintain ownership.

24 There was, you know, as I said, various discussions
25 relative to the amount of ownership that I wanted

275:1 retain. And that number that was stuck in my head was six
2 to seven million shares. Where it was at any particular
3 time, more -- I don't know. But then so we come to the
4 employment agreement. I now make the decision to stay
5 with the company for another three years. With that comes
6 additional equity.

7 My recollection is John -- in a discussion with
8 John -- it may have been one of his visits. I don't know
9 what prompted it -- this issue came up that this contract
10 increases your equity position. And, therefore, you
11 should think about doing an additional 10B5-1, or amended
12 10B5-1, whatever it was. That's my recollection of it.

13 BY MR. BENDELL:

14 Q Okay. And I think I actually understand a little
15 bit better now what your concern is. I mean, so it's your
16 understanding that while you can't calculate it out to the
17 particular share where you were with regard to the
18 six-to-seven-million-dollar bogie, you understood that the
19 transactions, as outlined in -- or as set forth in
20 Exhibit 18 were generally consistent with getting to and
21 staying at that six-to-seven-million-share bogie?

22 A Yeah, I'd like to -- I couldn't attest to you and I
23 wouldn't want to swear to you that at any of these points
24 that I was at six to seven million. I don't know if I was
25 at eight million, five million. I don't know,

276:1 that was the original discussion. Stay within that half
2 of that position. But it was a significant position to
3 me.

4 BY MR. PUATHASNANON:

5 Q And was it -- was the instruction to Mr. Conners,
6 then, to keep you within that six-to-seven-million-share
7 bogie?

8 A Sorry. The instruction was to -- not the -- the
9 understanding between he and I was that I wanted to
10 maintain a significant position in the company. At the
11 time, whatever that -- whenever we had that discussion
12 when I had estimated around 15 million, and I wanted to
13 maintain about half, less than half than that, that was
14 sort of the understanding.

15 And I'm a little uncomfortable, frankly, if you
16 keep on this -- I know I raised the six or seven million.
17 But as I begin thinking about it, whether or not I was
18 above it or below it at any particular time, I don't know.

19 Q And I don't think that we're trying to keep you to
20 say that you need to know. I think, you know, Mr. Bendell
21 was clear that we're not suggesting that you knew at any
22 given point, that -- it's clear that you didn't -- whether
23 you were six to seven, but there was an intent there that
24 you wanted to reduce your holdings, reduce your
25 concentration; is that correct?

277:1 A That's correct.

2 Q Okay. And that the understanding between you and
3 Mr. Conners was that he would help you reduce that
4 concentration?

5 A Through the -- well, when you say help me, what do
6 you mean by help me?

7 Q Well, it sounds as though, from your testimony,
8 that Mr. Conners was the one that identified the issue
9 with respect to the restricted shares that came into --
10 that were awarded in the employment agreement.

11 A That's my recollection.

12 Q And that if I understand your testimony correctly,
13 he's the one that came to you and suggested perhaps
14 selling more -- exercising and selling more options?

15 A That's my recollection.

16 Q Okay. So was it the understanding that Mr. Conners
17 would be monitoring your holdings in a manner that would
18 allow him to assist you to reduce that concentration?

19 A Yes. I would say that he knew more about my
20 holdings than I knew about my holdings, because he would
21 monitor them and send me reports. And I believe that
22 the -- not the confirmations, but the monthly statements
23 coming from the brokerage firms, a copy went to AYCO, went
24 to him.

25 I also informed the board early on that

278:1 the concentration, that I was going to do 10B5-1s. I
2 don't remember exactly I did that, but I do remember at a
3 board meeting informing the board that I'm going to go on
4 to a program; so that they were very much aware of it.

5 Q And this was at a formal meeting of the board not
6 informal meetings with the board members?

7 A That's right.

8 Q And then lastly, with respect to Government
9 Exhibit 18, which is the amendment, was the intent of the
10 amendment to address the restricted shares that were going
11 to be granted for the duration of your employment
12 agreement, or was the idea that you would execute a new
13 10B5 every year?

14 A No. This was going to address the shares, the
15 tally of the shares that were in this.

16 Q That you potentially could receive under the
17 agreement?

18 A That's correct.

19 Q And that's -- you were clear with that
20 recollection?

21 A I'm clear with that recollection. Clear as I can
22 be.

23 Q I understand.

24 A I had no other discussions about another 10B5. I
25 can clear it up. There was no other discussions

279:1 10B5.

2 Q In the future, to address the shares in the
3 employment agreement?

4 A Correct.

5 MR. PUATHASNANON: Let's go off the record. It's
6 12:37.

7 (Lunch taken.)

8 MR. PUATHASNANON: Okay. We're back on the record
9 at 2:04.

10 (SEC Exhibit 530 and 531 were
11 marked for identification.)

12 BY MR. PUATHASNANON:

13 Q Mr. Mozilo, if you could go back to Exhibit
14 No. 528, it was an E-mail that we looked at from you to
15 John Conners, one page. That's it right there.

16 We talked earlier about paragraph 3. There's
17 another part of that paragraph that I'd like you to focus
18 on which was the first part, the first sentence of
19 paragraph 3 where you talk about accelerating your sales.

20 Do you see that?

21 A Yeah.

22 Q What did you mean by that?

23 A I think what I meant was increasing the sales
24 rather than accelerating. I don't think those are his
25 words. I think his words are simply that, "You

280:1 reduce your concentration."

2 Q And what were you trying -- so what you were trying
3 to convey to Mr. Connors is you wanted to increase your
4 sales beginning in January?

5 A I think that was the message, yeah.

6 Q And in increasing the sales, was it your intent to
7 try to reduce whatever bogie you and Mr. Connors had
8 agreed to?

9 A No. I think it was simply a matter of I wanted to
10 increase my sales.

11 Q When you say -- so increase in terms of the number
12 of shares that you would be selling?

13 A I think it was related to -- I think it was related
14 to number one, but I'm not sure. I don't -- I just think
15 generally I was -- this was to John to think about helping
16 me think through the increasing the sales of my stock.

17 Q And I'm just -- I'm not trying to play too much of
18 a semantic game, but when you say "increase," is it
19 actually increase the number of shares that you would be
20 selling?

21 A Correct.

22 Q Okay. And was --

23 A Not increase, sell more shares. Whatever
24 selling -- there is the stock -- I just wanted to sell
25 more shares. It wasn't --

281:1 Q Than you were already selling?

2 A Right. That I've already agreed to sell, right.

3 That's correct.

4 Q Okay. And other than the issue related to
5 concentration that Mr. Donato raised, was there any other
6 reason why you were seeking to increase your sales in
7 January of 2007?

8 A You know, as we discussed, there are a couple
9 issues, but I can't put the dates together to be honest
10 with you. One was the issue of diversification of
11 concentration, the issue that I was facing with the house
12 that I was dealing with. But I can't tell you the timing
13 on it. It was just I own the shares, and I wanted to sell
14 some shares. I think it was driven primarily probably by
15 what Bob had -- Bob Donato had said to me.

16 Q Handing you what's been marked as Government
17 Exhibit 530, it's a two-page document. It bears the Bates
18 numbers CFC 2007-27655 through 27656. It contains two
19 E-mails -- three E-mails, the most recent of which was
20 dated 11/12/2006 from Mr. Mozilo to John Connors.

21 And in particular, I would like you to focus,
22 Mr. Mozilo, on the E-mail at the bottom of the page from
23 you to Mr. Connors that starts with "I am thinking." I
24 apologize for the small print, but that's the way it
25 printed out.

282:1 A Uh-huh, yeah.

2 Q Okay. Focusing on about midway through the
3 paragraph, number 1.

4 A Uh-huh.

5 Q You write, quote, "The continuous attack on my
6 compensation which could trigger issues that could be
7 adverse to me over time period," close quote.

8 What issues are you referring to there?

9 A Well, there was a lot of public commentary about
10 compensation of issues of CEOs, including me, for a
11 protracted period of time. And I felt that it was just a
12 matter of time before CEO compensation was going to be
13 reduced, including mine.

14 Q So the purpose of at least thinking about the sale
15 was to get ahead of the issue and generate cash flow as it
16 related to that issue? I'm trying to understand the
17 connection between --

18 A If I'm going to --

19 Q -- the concern.

20 A If my belief at the time was that I was going to
21 make less money in terms of my compensation, the only
22 other source of compensation I have is stock, sales. It's
23 the only thing I've got. So it was in contemplation that
24 that was a possibility, which it was, and it became a
25 reality. My compensation was substantially

283:1 Q When you say your compensation was reduced, as
2 from --

3 A Contract to contract.

4 Q From the old contract to the new contract.

5 Was the reason for the reduction in compensation
6 from contract to contract related to the criticism or the
7 public criticism that was out there regarding CEO
8 compensation?

9 A I think that that certainly had an impact on me and
10 I would assume on the board, and so, you know, the concern
11 about -- CEO comp was a big issue, huge issue for a long
12 period of time. And despite the fact that my compensation
13 was solely based upon my performance and the performance
14 of the company, except for my base salary, that -- my
15 compensation was, I think, less than one percent of the
16 overall income of the company -- that I was put in the mix
17 of those CEOs who received substantial income and the
18 companies weren't doing well, and the shareholders weren't
19 doing well.

20 And as I told you earlier, our stock was up 25,000
21 percent over a 25-year period, seven best business stock
22 in the country over 25 years, ahead of Del, ahead of
23 Warren Buffet's brochure, all of those companies. But the
24 overall issue was just compensation. It didn't care about
25 performance. In essence, it was just the number

284:1 issue in the country. And that impacted me and the
2 attention I was getting. It impacted, I believe, the
3 board which resulted in the second -- the last contract
4 which was substantially reduced from the previous
5 contracts.

6 Q Did you and the board actually discuss that issue?
7 When you say it was your belief, is that based on actual
8 conversations you had with board members or at board
9 meetings, or is that simply just the sense that you got?

10 A I had that sense because it was a -- as I said, it
11 was a substantial issue in business, in the world of
12 business and in the media for a protracted period of time.
13 And I'm sure that -- or I feel relatively confident that
14 conversations took place between me and the board relative
15 to that issue. It influenced them. They were influenced
16 by this. They had to be.

17 Q But you don't -- but as you sit here today, are you
18 actually thinking of conversations that you had with the
19 board, or are you basing your belief simply on the
20 environment as it existed?

21 A I'm basing it upon the environment, because I
22 understood that they had to be under pressure and,
23 therefore, agreed to the substantial reduction in
24 compensation.

25 Q I'm handing you what's been marked as

285:1 Exhibit 531. It's a single page, Bates numbered CFC
2 2007-27563. It's an E-mail from you to Mr. Connors dated
3 January 30th, 2007.

4 A Uh-huh.

5 Q What were the personal financial planning for 2009
6 that you were referring to?

7 A This was a projection that John had done, cash flow
8 projection for -- that I know talked to the issue of
9 supporting Phyllis and myself, I believe, including our
10 charitable efforts, to continue that. And we had
11 presented a plan for 2009. That was the -- which I think
12 included financial issues we've already discussed relative
13 to my Countrywide holdings, and that was it.

14 Q And do you recall whether this was an oral
15 presentation or did he present you with a document
16 relating to the cash flow that you referred to?

17 A He presented me with a -- not every time we met,
18 but periodically he would present me with a cash flow
19 document.

20 Q And was this a document that tracked your cash flow
21 out a number of years?

22 A I believe that it was out to 2009, because that was
23 the -- because that's -- I believe the reason for that is
24 that's when everything truly ended, I was no longer
25 involved with Countrywide at all in any way, shape,

286:1 form. And so what happened at the end of the day, there
2 were no consulting fees, no director's fees, none of that.

3 And I think that that was the -- that was the reason for
4 2009.

5 Q Now, you've mentioned, sort of, several times today
6 that the financial issues that you had -- or the financial
7 issues that have been identified relating to the
8 concentration of your wealth and the cash flow were issues
9 that influenced the creation of the 10B5-1 plans; is that
10 right, in general? At least the ones that we've looked at
11 today.

12 A The creation of the 10B5-1 plans was based upon,
13 initially in 2002, based upon the fact that I had expiring
14 options. And I was looking for the best way to liquidate
15 those expiring options relative to the shareholders and
16 the impact on shareholders. If I sold them all at once, I
17 felt that was not the proper thing to do. And if I -- and
18 since the SEC had created the 10B5-1 program, for what I
19 believe this type of situation, and John explained to me
20 what the 10B5-1 was about, I entered into the first
21 10B5-1.

22 Once I had done that, it caused us to look at
23 entire holdings and what was happening with expirations of
24 other options that I should address now and my overall
25 financial picture. And since the only income I had

287:1 either from working every day either through salary,
2 bonus, or -- and stock sales, that was the form of
3 liquidity that I had. That was it. I had no other job, I
4 had no other form of income. And so that was the history
5 behind the reason for the 10B5-1 and why I entered and why
6 I continued to do it.

7 Q So you did it -- well, you've said earlier, though,
8 that you also did it to reduce the concentration of your
9 holdings in Countrywide.

10 A Correct.

11 Q So that's one reason?

12 A Yeah, but I stated that reason. Let me --

13 Q No, no. That's fair. I'm just trying to see if
14 there's -- we've talked about that one, we've talked about
15 the cash flow or what you've, I think, just mentioned as
16 liquidity because it was a way to generate income for you
17 and your family; is that right?

18 A A way to generate income and liquidity.

19 Q Okay. Other than those two reasons, was there any
20 other reason for you to enter into any of the 10B5-1
21 plans?

22 A Not that I can think of.

23 Q Okay.

24 A Well, let me just clear that up. The reason -- the
25 10B -- versus selling it all at once, the reason

288:1 it was, I believe, the fairest and best way for me to
2 liquidate my position using a 10B5-1 program versus the
3 alternative of selling it all at once.

4 Q Right. So --

5 A Or exercising and holding.

6 Q Did you ever tell Mr. Connors that you were not
7 interested in selling any of your holdings, options, or
8 equity in Countrywide?

9 A I don't think so, you know, unless this was before
10 I realized that I had expiring options, because he's the
11 one that told me I had expiring options. And this is 2001
12 or 2002, and he said, you know, "Are you interested in
13 selling at the time?"

14 And I said, "No, I'm not interested in selling."
15 It may come up that way until I became educated as to,
16 one, the issue with expiring options, and two, the issue
17 of the concentration of my wealth being all in
18 Countrywide. When that began to register with me --
19 because again, I was spending 23 hours a day on
20 Countrywide and maybe an hour a day on this.

21 Q Mr. Mozilo, are you familiar with a product offered
22 by Countrywide called a pay option arm?

23 A I am.

24 Q Can you explain what that is?

25 A That's a loan that has been around for about

289:1 years. Originally I think the primary provider of that
2 product was Washington -- not Washington Mutual, but World
3 Savings. Their entire balance sheet was that long, and
4 they were very successful with it. We had not had that
5 program until about 2004, 2005, I think, because it became
6 very popular in California.

7 And it's a loan that provides four options to a
8 borrower under the assumption that people very often don't
9 make the same amount of money every week or every month or
10 they're commission or their income is disturbed for one
11 reason or another. So they have four options that they
12 can use in any given month. One is to make a minimum
13 payment; one is to make a normal payment; I think the
14 third is an interest only payment; and I forget, frankly,
15 what the fourth was. But there were four options, as I
16 recall, that came with this loan.

17 It was a product that was -- they said it became
18 popular in the '04, '05, '06 time frame.

19 Q And if a borrower chose to just make the minimum
20 payment, what would happen with the loan?

21 A They would have negative amortization.

22 Q So minimum payment was set at a level below
23 interest only?

24 A Correct.

25 Q And the difference between the interest and

290:1 payment would be rolled into the loan?

2 A Correct.

3 Q That's what you mean by negative amortization?

4 A Correct.

5 Q Were there certain types of borrowers that were
6 more likely to seek or obtain these types of loans?

7 A Let me first start by saying we said we would not
8 permit this product -- to my knowledge, not permit this
9 product in a subprime operation. So it was borrowers that
10 were considered prime borrowers. That was the first
11 filter it went through.

12 I think that the people who were -- I never took a
13 poll of the people who -- surveyed the people who took
14 this product out, but it was people who, I assume, had one
15 of two things. One is that they did have variable
16 income -- maybe several things. Or two, that they didn't
17 intend to hold onto this loan too long. They were going
18 to refinance out, it just got them into the home so they
19 can get started. Or thirdly, they didn't -- weren't going
20 to hold onto the home too long. They had a two- or
21 three-year time frame. And the way the product worked, as
22 I recall, was that if you had negative amortization which
23 exceeded 15 percent of the original -- I believe the
24 original loan amount, it would then trigger a reset.

25 Q What do you mean by "reset"?

291:1 A The payments, the loan would then be amortized over
2 whatever the remaining period is with normal payments of
3 interest, principal and interest. I believe that to be
4 the case. I'm not an expert on products, but that's my
5 recollection.

6 Q You made a distinction earlier between subprime and
7 prime borrowers.

8 A Right.

9 Q How would you define subprime borrowers as it
10 related to Countrywide?

11 A Everybody has different definitions, so I --
12 generally the primary methodology is through FICO scores.
13 You know, if you go from company to company, they'll give
14 you different definitions of prime and subprime. But I
15 would say if you want me to give you a simple answer, it
16 would be FICO scores. And I would say anything below a
17 600 FICO.

18 Q And you mentioned other companies would define it
19 differently. What I'm interested in is what was
20 Countrywide's definition?

21 A I don't know specifically what our -- I think it
22 was below 600, but I couldn't -- I don't know. You know,
23 I didn't design the product.

24 Q Were there any other factors that were taken into
25 consideration other than FICO score?

292:1 A For subprime?

2 Q To determine whether someone was -- fell into the
3 prime or subprime category.

4 A Income, reserves, also history, because people
5 could have a low FICO score but only because they had a
6 temporary bump in the road, but their overall -- if you go
7 before, you go after, they conduct themselves properly, it
8 was just that bump that created the problem. So each of
9 these loans had to be looked at individually. You can't
10 go solely by FICO scores. I was giving you a simple way
11 of what I think the industry would say that the FICO score
12 was used as a barometer as to what's prime and subprime.
13 Taking on the extremes, 800 FICO would be terrific; 400
14 FICO would be a problem. So it's everything.

15 Q So would an 800 -- based on that example, would an
16 800 FICO score with low income and a poor payment history
17 still qualify as --

18 A They wouldn't have an 800 FICO with a poor payment
19 history.

20 Q Do you know whether Countrywide had stated criteria
21 or identified the factors to determine what was a subprime
22 versus a prime borrower?

23 A Yeah, they did, but I don't know what those factors
24 are.

25 Q If you wanted to find out what those factors

293:1 who would you have asked in 2006?

2 A I could have asked a number of people. Kevin
3 Bartlett knew a lot about the product, Jess Letterman
4 who's head of credit, Dave Sambol who was head of
5 originations, Drew Gissenger who was head of the --
6 directly ahead of the burning system. Many people I could
7 have asked. I could go to a branch manager and ask.

8 Q Does the loan-to-value figure impact whether
9 someone was prime or subprime?

10 A It's one of the factors.

11 Q That is another factor?

12 A There's many factors. Many. I said there's loan
13 to income, there's FICO, there's reserves, there's
14 employment history. I haven't done a loan in 40 years, so
15 I'm not -- I can't tell you what it was. Plus, I can tell
16 you we had, you know, a total, I think at our height,
17 about 180 products.

18 Q Was there any risk to Countrywide associated with
19 underwriting pay option arms?

20 A There's a risk to everything you underwrite.

21 Q But focusing on pay option arms specifically.

22 A It was no different than any other risk we had for
23 any other loan.

24 Q So you're saying that pay option arms were just as
25 risky as every other product that Countrywide

294:1 A No, I'm not saying that. They're as risky in the
2 prime category or less risky in the prime category as any
3 other loan in the prime category, maybe with the exception
4 of a 30-year fixed. But anything other than a 30-year
5 fixed rate loan has a trigger to it. A five-year arm, a
6 three-year arm, a seven-year arm, any of the hybrids,
7 interest only.

8 Q And when you use "risk" in answering my question,
9 just so that we're using the term in the same way, what
10 are you referring to?

11 A Risk of loss.

12 Q To the bank?

13 A To the company.

14 Q I'm sorry. To the company. That's right.

15 So that's someone would default on the loan?

16 A Well, the default in itself would not be a risk to
17 the company in itself. It depends upon the reason for
18 default. So if a loan defaulted and it was guaranteed by
19 an MI company, or the loan was owned by Fanny or Freddie
20 or by another investor, as long as the loan was originated
21 properly, there is no loss to the company.

22 BY MR. BENDELL:

23 Q Is that true even where Countrywide has the
24 mortgage servicing rights for that loan?

25 A Yeah, the mortgage servicing rights itself

295:1 create any contingent liability. There's not an ownership
2 there. We're just a servicer, we're a contractor
3 servicing for others as well as for Countrywide. So that
4 in itself, it's when -- when we own the loan or we have --
5 like, we would own the loan in the bank, the bank would
6 own the loan. Therefore, if there's default, to the
7 extent there's no insurance on it, the bank would be
8 exposed.

9 The issue of servicing would handle the disposition
10 of properties, but in a real sense, they don't incur the
11 loss. The loss is not incurred because of them, it's
12 because the loan itself defaulted where people lose their
13 jobs, lose their health, lose their marriage. Those are
14 the three basic reasons why they go into default. Or it
15 was a fraud to start with. And so the answer to your
16 question is it wouldn't be servicing or not servicing. It
17 didn't make a difference.

18 Q Well, I may have, probably, do have this a little
19 bit confused, but I thought I had the understanding that
20 servicing a loan that goes delinquent and then into
21 default typically is more expensive than servicing a loan
22 that remains current.

23 A By a huge magnitude.

24 Q So if that statement is true, then I'm having a
25 hard time understanding how a loan going into

296:1 doesn't expose the company to the potential for losses
2 associated with the increased expense.

3 A It's only part of the story. The other part is
4 that we collect fees upon delinquency, so we collect late
5 fees. If they go into foreclosure, we collect foreclosure
6 fees; if they go into bankruptcy, they we collect
7 bankruptcy fees. There's a substantial amount of fees
8 that come in to servicing that compensate the servicer for
9 the delinquent loans. Because a loan that remains
10 current, which is about 95 percent of them that never --
11 don't make a payment, there is always no expense. The
12 only expense we have in some cases is sending out a coupon
13 for them to make a payment. Many people make it online or
14 by telephone. So generally speaking, under normal
15 circumstances, the fees more than cover, by far, more than
16 cover the defaults. It's a very profitable business.

17 MR. MCLUCAS: Can I make sure I understand? Are
18 you talking about comparing the cost of servicing with the
19 loss of the underlying loan?

20 THE WITNESS: No.

21 MR. BRENNER: No.

22 MR. MCLUCAS: Okay. I didn't understand.

23 THE WITNESS: I think the question -- see if I got
24 this right. I think the question you asked was if a loan
25 goes into default, it's more expensive to service

297:1 loan that's current that doesn't go into default. Is that
2 your question?

3 BY MR. BENDELL:

4 Q Yeah, that was the question.

5 A Yeah, and we collect fees to offset that.

6 Q So it's true that it's more expensive, but it's
7 not -- but it's making a leap to say there's a loss
8 associated with it because you need to evaluate the
9 associated fees?

10 A Right. That's how we look at it.

11 BY MR. PUATHASNANON:

12 Q You've said that other than the 30-year fixed,
13 pretty much every other loan that Countrywide was offering
14 was -- had risk, about the same amount of risk; is that a
15 fair characterization of what you said?

16 A You know, I think that in the -- on an objective
17 basis, I would have never gotten into that, we would have
18 never gotten into that pay option product unless we
19 believe that to be true. And in fact, for a long period
20 of time it was a very profitable loan for us.

21 Q Why did Countrywide start to offer the pay option
22 arm in 2004?

23 A Countrywide is only one business, and that is to
24 make loans, mortgage loans. That's what we do. And we
25 are subject to what the consumer wants and what

298:1 get from competition. I think almost every institution
2 carried -- had it as one of their products, had arms, had
3 pay options. And aside from World Savings, nobody really
4 specialized in it in any great volumes because it happened
5 to be their thing and people just weren't into the pay
6 option product.

7 As values began to increase, prices of homes for
8 the state increased, it became more difficult for people
9 to get into the homes, and they began gravitating to this
10 product. And we began seeing a deterioration in our --
11 not in our volumes but in our market share because people
12 were opting for that product, and we didn't have that
13 product. And as important, our revenue is generated from
14 origination of these loans through a sales force. And the
15 sales force were being impacted -- was being impacted by
16 competition having this product and we just didn't have
17 the product. We didn't have any rational reason for doing
18 it, we just were behind the curve. We just didn't have
19 it.

20 And the presentation was made to me, because I was
21 having some difficulty understanding the product, and I
22 had ongoing difficulty understanding it, but --
23 understanding the product because it is different, very
24 different from any product that we had before. And the
25 presentation was made to me, I guess in 2004 or

299:1 put this product on our menu, and I ultimately gave my
2 approval to go ahead and let's give it a try and kept on
3 checking delinquencies.

4 Because to me, the ultimate test of whether you
5 originate a good product or a bad product is not someone's
6 opinion, but how it's performing. Are the people making
7 their payments? And I kept on checking with servicing,
8 with Steve Bailey, and it's -- performance was exemplary,
9 and should have been exemplary, a lot of people paying the
10 minimum payment. Initially it was a small percentage
11 paying the minimum payment, then it kept on going more
12 with the minimum payment.

13 But it was also a product that had a high
14 prepayment. In other words, people were prepaying it very
15 quickly. I sensed the realization that I didn't want this
16 to reset, you know. And so the product performed, in
17 terms of delinquency level, on par better than any product
18 we had.

19 Q You mentioned a presentation that was made to you.

20 A Correct.

21 Q Who made the presentation to you?

22 A Carlos Garcia.

23 Q Was anyone else involved in that presentation?

24 A I don't believe so. We were in an airplane and he
25 was -- I think it was just him and myself.

300:1 Q Was there any written material associated with that
2 presentation?

3 A Yes.

4 Q Was there a discussion of the risk factors involved
5 in underwriting pay option loans?

6 A I don't remember the exact conversation, but I'm
7 sure we discussed who would this be -- who would typically
8 take this loan out, the servicing of the loan. I was
9 concerned about how you service this loan. But we -- you
10 know, we were a company that's been around for 40 years
11 that's originated loans through all kinds of markets, 75
12 percent mortgage rates, 25 percent prime rates. And so I
13 was -- you know, once I got to understand it and as we put
14 it on the menu, I was comfortable with it. But I probably
15 talked about risk, but I didn't get into details of
16 formulas. We probably talked about loan to value, payment
17 requirements.

18 BY MR. WYNN:

19 Q At the meeting with Mr. Garcia, did he discuss with
20 you the potential for payment shock associated with the
21 option arm?

22 A He didn't have to. I understand it. I understand
23 it. I understand the potential of payment shock when you
24 have the negative amortization. The question was when is
25 that going to take place. That really is the

301:1 along because -- and it varied because if interest rates
2 stayed pretty low, the cumulative effect -- because it's
3 indexed, the negative amortization is very slow because
4 interest rates were very slow. The component is very
5 slow -- very low. If interest rates go high quickly,
6 because it's an indexed loan, it could accelerate.

7 So you never know when that 15 percent is going to
8 be reached. But payment shock was involved with every
9 single loan we had except for a 30-year fixed. An IO, you
10 know, could potentially be a payment shock. Certainly a
11 one-year, a three-year, or a five-year hybrid.

12 Q Well, to be clear, at the meeting where the product
13 was presented to you initially by Mr. Garcia, did -- was
14 the payment shock feature addressed at that meeting?

15 A It's inherently in the product. I mean, it -- you
16 knew that at some point if they didn't refinance out,
17 there was going to be a payment shock, but you didn't know
18 when.

19 Q So just to be clear once more, do you recall at
20 that meeting with Mr. Garcia the payment shock feature of
21 the pay option loan was discussed?

22 MR. MCLUCAS: I think his answer originally was it
23 didn't have to be discussed because he understood it.

24 So with that, if you can answer --

25 THE WITNESS: Yeah, it was inherent in the

302:1 itself. In other words, if you're paying a below-market
2 interest rate and there's a 15 percent threshold, there's
3 going to be a payment shock. So, you know -- and you
4 didn't know if it was going to be in any of the loans
5 because they could all refinance out at some point if
6 rates -- and that's what was happening. It was very
7 high -- that loan had more -- higher prepayment than any
8 loan that we have because there were certain -- more
9 people in that loan that wanted -- that decided either to
10 get out or sell their house or do something that caused
11 them to pay it off.

12 BY MR. WYNN:

13 Q I understand that payment shock was an inherent
14 feature of the loan, but does that mean that to your
15 recollection, payment shock was not discussed at the
16 meeting with Mr. Garcia?

17 A I don't recall.

18 Q Just one more question. Do you recall if the issue
19 of payment shock as it related to housing price
20 appreciation or depreciation was addressed by Mr. Garcia
21 at this initial meeting?

22 A It wouldn't -- payment shock would not be created,
23 I don't think, by any movement in the price of the home.

24 What it does create, and what it has created because
25 there's an unprecedented national drop in real

303:1 values, is the inability of the individual to either
2 refinance or to sell the home because there were very few
3 sales taking place. Or to sell the home at a price that
4 would make it work, that they could get out.

5 In that initial discussion, there was no -- values
6 were sky rocketing, so there was no anticipation that
7 should have a complete national collapse, which had never
8 taken place in the history of this country in real estate
9 values. So I don't know if that answered your question,
10 but the movement of the value of the home would not affect
11 the payment at all. What it affects is their ability to
12 get out of it.

13 Q And you don't recall that being discussed at these
14 initial meetings where the product was introduced?

15 A Well, you're asking a very -- I can only tell
16 you -- this product, before it came to me was, vetted
17 through all the executives in the company, through credit,
18 through our -- I believe through our president, our
19 operational people. It was all vetted through. I was the
20 one that wanted to look at it because I didn't -- I was
21 familiar with the product, with the existence of the
22 product. I was not familiar with the product itself. I
23 knew that World Savings had made their living for 30 years
24 on that product alone. That's all they had. It gave me
25 some comfort. It was a very successful company,

304:1 to Wachovia at a huge premium, and they were the model
2 thrift in the company. Put up as the model thrift in the
3 country doing only pay option loans.

4 Q Do you recall if anyone in credit told you that the
5 experience with World Savings with respect to pay option
6 arms could not be compared to Countrywide because the
7 underwriting policies were so different?

8 A No. First of all, I didn't have a discussion with
9 credit about it. I had my discussions with Carlos Garcia.

10 And I did go through the differences in underwriting. The
11 principal difference was that World Savings opted -- at
12 least my understanding was, opted for lower credit quality
13 and higher down payments. We opted for higher credit
14 quality and lower down payments. That was the fundamental
15 difference in the product as I understood it, in terms of
16 underwriting.

17 Q Did you take any comfort from World Savings'
18 experience with pay option loans when evaluating whether
19 or not Countrywide should also include the product?

20 A I'm sorry?

21 Q Did you take any comfort from the experience that
22 World Savings had had with pay options when deciding
23 whether or not Countrywide should offer the product?

24 A I did. I felt like it was a 30-year tested product
25 and that this was not something that nobody ever

305:1 before and we were inventing a product.

2 Is that your question?

3 Q Yes.

4 A Yeah, it was a great company, because we never
5 invented a product. Every product we ever -- the only
6 product we ever had on our menu of all the hundreds of
7 products we had over the 40 years were a response to the
8 consumer. We never invented a product, we only took
9 existing products that were out there and tried to tailor
10 it to our underwriting system and to our -- you know, our
11 culture, the way we operate. But yeah, I did. But the
12 fact is I think at the end of the day that this is such a
13 debacle that Wachovia's experience with all loans, forget
14 about pay options, has been not good.

15 BY MR. PUATHASNANON:

16 Q Just to keep the record clear, the only person that
17 you talked to pay option loans -- talk to about pay option
18 loans before their implementation at Countrywide was
19 Mr. Garcia?

20 A Yeah, and I'm even not sure that it wasn't already
21 implemented, frankly. It may have been a reaction,
22 knowing Carlo -- I don't know this, but it may have been a
23 reaction to my questioning the product that he sat down
24 and went through the product with me in detail. So it may
25 have already been in the works. I'm not sure.

306:1 Q And so you didn't talk to Mr. Sambol or Mr. Kurland
2 about the product?

3 A Not at the time.

4 Q After it had been put in place for a while?

5 A Yes.

6 Q Okay. That's -- we'll get to maybe some of that.

7 Were you aware that in 2006 Countrywide started to
8 have problems with the pay option arm product?

9 A Can you be more specific?

10 Q Sure. Were there issues that arose in connection
11 with the pay option arm product in 2006?

12 A To the best of my recollection, I kept on
13 questioning the performance of that loan, as I did HELOCs,
14 particularly anything that was in the bank, because the
15 company was really bifurcated. In the mortgage bank, we
16 sold the loans into the secondary market. And as long as
17 we originated the loan properly, we had no continued
18 liability.

19 But in the bank was our asset, we owned it, and
20 that -- once the bank began to grow, that became my focus.
21 So I questioned the assets in the bank, and one of the
22 assets I questioned was the pay option loan. And I
23 questioned a variety of people, I believe, as I recall,
24 Stan Kurland, Dave Sambol, Carlos Garcia who was running
25 the bank at the time, and our servicing department

307:1 how the loans were performing, what was happening to them.

2 And I wrote some, as I recall, some pretty vigorous

3 E-mails to them questioning them, "What if."

4 And I think it's important for you to understand

5 the way that I operate, is that I -- I'm passionate about

6 the company and I'm passionate about what's happening at

7 the company, and I'm -- and, therefore, my memos express

8 that passion. But at the end of the day, I want to find

9 out the truth so that when I go to the shareholders, I

10 give them the facts. And so relative to the pay option

11 loans, I wrote a series of notes, I believe, concerning my

12 concern about delinquencies, my concern about the number

13 of people paying the minimum payment, and also made some

14 administrative changes in the company relative to that

15 product because of my concerns.

16 Let me first go through the interaction. I would

17 send these memos out asking questions in a very direct

18 way, and because these people were with me for decades, I

19 relied heavily upon them and I knew they were competent.

20 I awaited their response. In every one of these cases, I

21 was satisfied that we had control over the product and

22 that the product was either performing as we expected, and

23 where it wasn't, we were able to get insurance for the

24 bank for the product which substantially reduced the risk.

25 The ultimately test to me, again, was the

308:1 delinquencies. And so I was in touch with Steve Bailey.

2 Plus, I received reports each month, I believe flash
3 reports, on all our products. And that was consistently
4 the lowest delinquency ratio we had, was in that product.
5 Even as it started to rise, as delinquencies began to rise
6 overall, the product was performing relatively well.

7 Q When you say "performing relatively well," by what
8 measure?

9 A Delinquencies.

10 Q Simply delinquencies or any other --

11 A That's it. Delinquencies lead to foreclosures
12 which leads to losses.

13 Q And you said at the outset of your answer that you
14 were -- you questioned the performance of the loan like
15 the home equity loans. What caused you to question the
16 performance of the pay option arms?

17 A It was a relatively new product for us, there was a
18 lot of media swirling around that product, and as CEO, I
19 felt it was my responsibility to pay attention to it.
20 That since it had such media hype, that we were doing --
21 we were treating the loan properly, we were -- we had
22 proper surveillance over the performance of those loans.
23 They were administering to that product in a different way
24 than other products because of the negative am component.
25 By the way, negative am is not anything new.

309:1 has been around for a long period of time, in many other
2 loans aside from the pay option loan.

3 And in that regard, I did a few things that -- and
4 other people did as well, it wasn't only me. I made sure
5 that every borrower, when the loan was made, understood
6 what negative am was about. There was a letter that has
7 to be put in every file given to the borrower relative to
8 that, to what negative am was and what it means. The
9 second was that we -- I asked that servicing, Steve
10 Bailey, put a notification periodically in the monthly
11 statements that went out to the people about negative am,
12 particularly if they were making the minimum payment, what
13 was happening to them and where their loan was and what
14 the consequences of the -- when it reset.

15 And the third thing we did is we made it very
16 difficult for them to get that minimum coupon. It was the
17 way the coupons were set up, they had one of four choices.
18 That was the toughest one to get to. So we tried a
19 variety of things to continue to enlighten and educate the
20 borrower as to the consequence of making the minimum
21 payment.

22 Q And just a point of clarification for the record,
23 you mentioned a couple of times in a prior answer that you
24 would write memos. Do you mean E-mails or --

25 A E-mails.

310:1 Q E-mails.

2 (SEC Exhibit 532 was marked for
3 identification.)

4 BY MR. PUATHASNANON:

5 Q I'm handing you what has been marked as Government
6 Exhibit 532. It's a single page E-mail, Bates numbered
7 CFC 2007, B as in boy, 662661. It's a series of E-mails,
8 the most recent of which is dated April 4th, 2006 from you
9 to Mr. Kurland, Mr. Sambol, and Mr. Bailey.

10 A Right.

11 Q Do you recognize this E-mail?

12 A I mean, yeah, I wrote it.

13 Q And is this the type of E-mail that you were --

14 A Yeah.

15 Q -- referring to when you said that you would write
16 memos questioning the performance of the product?

17 A Right.

18 Q What -- in the first line of your E-mail at the top
19 of the page, you say, quote, "This important" -- "This is
20 important data that could present certain problems with
21 this product," period, close quote.

22 What in particular are you referring to with
23 respect to the data?

24 A I think I'm responding -- I think I'm responding to
25 this April 3rd memo from Bill Indicot.

311:1 Q And was there something in that memo --

2 A Yes.

3 Q I'm sorry. In that E-mail that jumped out at you?

4 A It was the number of -- I believe it was the number

5 of people making the minimum payment.

6 Q Anything else?

7 A See, "Concentration of loans with negative

8 amortization is currently 62 percent. The delinquency

9 increased in the last six months from 1.9 to 2.21." It

10 was a very, very low delinquency rate. And so any --

11 you're going to have, you know, a percentage increase in

12 delinquencies that looked very high on the surface, but if

13 you look at the nominal rate, it's very low.

14 Q You also advise that the product should be limited

15 to high FICOs?

16 A Correct.

17 Q When you use the term "high FICOs," what's the

18 threshold that you're referring to?

19 A 660 and above.

20 Q Was that commonly known within the company?

21 A I think it was because the bank -- when we incepted

22 the bank, the minimum FICO that we could originate in the

23 bank was 660.

24 Q When you say "originate in the bank," the

25 Countrywide Bank would fund the loan; is that --

312:1 A Correct.

2 Q And what would be -- if -- and you say in the
3 second part of that sentence, "Otherwise, we could face
4 both financial and regulatory consequences."

5 A Correct.

6 Q What are you referring to there? "Financial
7 consequences, risk of loss."

8 A Risk of loss, and then the regulators would become
9 concerned if they saw the loans not performing properly,
10 that's their responsibility. And the consequences would
11 be that they can cut out the product entirely or, you
12 know, whatever. I was being very general there, but
13 regulators would be concerned about it.

14 BY MR. WYNN:

15 Q Mr. Mozilo, in Exhibit 532 at the top of your
16 E-mail, you state that, "It appears that it's just a
17 matter of time that we would be faced with a substantial
18 amount of resets and, therefore, much higher
19 delinquencies." Why would the resets lead to higher
20 delinquencies?

21 A Because the payments would be higher and the
22 question would be whether or not the people were capable
23 of making that higher payment. It's a risk, they would
24 not be able to make it.

25 Q So the risk is that they would not be able

313:1 handle the payment shock?

2 A Correct.

3 Q And as of April 4th, 2006, did you conclude that a
4 sizable number of borrowers would not be able to handle
5 payment shock?

6 A I think what I was -- what I was really asking
7 here -- first of all, it was my responsibility -- I felt
8 it was my responsibility to the management team was to
9 alert them as to dangers, potential dangers in any product
10 we have. Payment shock was inherent in most of the
11 products we had. The one-year, three -- most of the
12 products we had were arm loans. All arm loans had the
13 payment shock component to them, a reset component to
14 them. And I think the only difference in this type of
15 loan was that the start rate was lower than would be in a
16 normal three-year arm or five-year arm so that the
17 potential for -- you have to get 15 percent, so again,
18 depending upon interest rates, that could be three years
19 out, four years out.

20 And just to make sure that our people are aware
21 that there is an issue here -- because I would have not
22 known, no way in the beginning of putting this product in,
23 as to how many people would opt for the minimum payment.
24 No idea. As it became apparent in 2006, April 2006, that
25 more and more were opting for the minimum payment,

314:1 bells went off. And so I wanted to alert my management
2 team to start making sure several things were done.

3 Now, I think the warning issues was done -- I think
4 it was done before April of '06, I'm not sure. But we
5 did -- I sent out -- that's why I went to Steve Bailey in
6 servicing, to begin the process of alerting the borrowers
7 as to the consequences of their actions, and encourage
8 them to refinance. And we sent out special letters to
9 these people, or notices of some kind either in their
10 payment coupon or whatever, to encourage them to refinance
11 out of the product if they didn't plan to get rid of it,
12 rid of the house in a few years.

13 Now, it so happened that a lot of people bought
14 these houses, it appears to me, at least, now, that used
15 this product to get into a house and within a couple years
16 get out of it and make a lot of money, because values were
17 continuing to go up. And they saw it as an opportunity to
18 get in -- so get in and get out.

19 Q Okay. But just to be clear, as of April 4th, 2006,
20 had you concluded that a sizable number of pay option
21 borrows would not be able to handle the payment shock?

22 A No. I didn't conclude anything. I just -- I was
23 concerned of the trend, about the trend. And I wanted
24 them to be aware that the trend, in my opinion, was -- you
25 know, had some signs that were concerning me. That

315:1 the purpose of it. I don't think I talked about payment
2 shock here. Did I?

3 MR. MCLUCAS: No.

4 THE WITNESS: It was not in my head. My concern
5 was that more and more are opting for this, and that
6 unless they had the ability to either sell their home or
7 refinance their home to get -- to pay off this loan, then
8 they could face some -- it's implied in here the
9 consequences of higher payment.

10 Now, whether it would be a shock to them or not, I
11 don't know because I didn't pull their individual files to
12 see what they really made, because these people were
13 making -- these were higher FICO scores, so they were
14 making income far in excess of what the payment was. And
15 in my conversations with some of these people, whether I
16 knew or met, about why they did this, why -- they can make
17 the full payment, "Why are you making the minimum
18 payment?"

19 "Because I had other things I wanted to do with my
20 money, number one. The number two is that the rate of
21 negative amortization is far below that of the rate or
22 appreciation of my property."

23 Q Okay. To be clear, did you say that as of
24 April 4th, '06, you were not concerned with the payment
25 shock issue?

316:1 A I didn't say that.

2 Q Okay. As of April 4th, 2006, were you concerned
3 with the payment shock issue?

4 A I was concerned about the trend in the amount of
5 minimum payment that was being made, and I didn't know,
6 you know, what the consequence of that would be, but I
7 thought it was a trend that was concern -- one that I
8 should be concerned about.

9 Q Well, in Exhibit 532, it seems to suggest that you
10 thought that one of the consequences of the resets and
11 higher payments would be higher delinquencies; is that
12 true?

13 A Correct. If there was -- if these went to reset
14 and they continued doing what they were doing, didn't make
15 partial principal payments, didn't make full payments as
16 they had the option to do, if they kept on just using that
17 one option and were unable to refinance or sell their
18 home -- there was a lot of "ifs" -- that, you know, that
19 there's obvious consequence to that. But I had no -- I
20 had not concluded, nor was I capable of concluding, what
21 was going to happen year and a half, two years later
22 relative to real estate values, relative to interest
23 rates, relative to people being able to refinance, any of
24 those things.

25 But I thought it was this was a new product

317:1 this is more instinct. The trend was concerning to me.

2 My people didn't share that concern, and you'll see, they
3 convinced me that -- one is that this was having a very
4 fast repayment so that these loans are going to be gone,
5 paid off to a great degree; and secondly that the loans
6 themselves were performing. And GE, I believe it was the
7 insurance company, came in and insured the bank. They
8 looked at this portfolio and that gave me some comfort
9 that a company, the actuaries in GE looking at this
10 product was willing to come up and insure it, insure a
11 portion of the risk of this product.

12 BY MR. PUATHASNANON:

13 Q And I may have misheard you, but I believe you said
14 at one point in response to Mr. Wynn's questions that the
15 pay option -- the people who are in pay option arms had
16 high FICOs and, therefore, had the income to support the
17 payment?

18 A Not all of them, but my understanding was -- I
19 didn't take loan applications, nor did I underwrite any of
20 these loans. It was my understanding that these people
21 had the ability to make the payment but opted for the
22 lower payment because they had other things they wanted to
23 do. That was my understanding.

24 Q What was your understanding based on?

25 A Conversations that I had with -- you know, I

318:1 on probing and -- with Carlos and with Stan and with Dave
2 Sambol and others that I sensed a comfort on their part,
3 as well as with servicing at the time of this, you know,
4 writing of this memo, that we were fine. The loans were
5 saleable in the secondary market, we could have sold them
6 out and sold out the risk.

7 Frankly, all of these loans could be sold out the
8 risk. It was a ready, available, and liquid secondary
9 market for all these loans. The decision was to --
10 because they were so profitable, was to retain it in the
11 bank because the performance and the profitability to
12 retain it in the bank, but they were saleable in the
13 secondary market.

14 Q What about pay option arms made them so profitable?

15 A The spreads -- well, the -- there was a great
16 demand for this product in the secondary market. They
17 paid up for it. I'm not sure -- frankly, you'd have to
18 ask a quant what the characteristics were. It was a good
19 bank product because it was very similar to an arm, it was
20 indexed, and so it fit the profile of an asset liability
21 match within a bank. And so the market paid up for that
22 product. Plus, you had very low delinquencies.

23 BY MR. BENDELL:

24 Q Mr. Mozilo, did there ever come a time when you
25 came to the conclusion that a significant portion

319:1 people in the pay option arms were making the minimum
2 payment not because, as you described earlier, they had
3 other uses of the money that they would prefer or viewed
4 the negative amortization as being minor compared to the
5 house price appreciation, but instead because they were
6 using the pay option arm to get into a house that they
7 couldn't afford to make a larger payment on?

8 A I had nothing concrete to prove that to me.

9 Q Did you ever come to suspect that?

10 A I have a lot of thoughts, you know. I don't know
11 if I focused on it. I was aware of a general problem in
12 the country of values going, getting to a level where it
13 was problematic for American people to be in their homes.
14 But I didn't relate it to this product. This was
15 considered a very high quality product.

16 BY MR. WYNN:

17 Q Mr. Mozilo, do you know what an MSA is?

18 A Yeah, it's an index. No, MSA is a metropolitan
19 area. I believe MSA is what's happening in a particular
20 metropolitan area. It's a demographic term.

21 Q So are you familiar with the term "highly valued
22 MSA"?

23 A Well, to me, that would mean it's an expensive
24 area.

25 Q At any point in time, did you become aware

320:1 California was considered, by Countrywide's credit
2 personnel, as a highly valued MSA?

3 A No.

4 Q And did you ever hear the pay option arm referred
5 to as an affordability product?

6 A No.

7 (SEC Exhibit 533 was marked for
8 identification.)

9 BY MR. PUATHASNANON:

10 Q I'm handing you what's been marked as Government
11 Exhibit 533. It's a two-page document, Bates numbered CFC
12 2007, B as in boy, 084228, a series of E-mails, the most
13 recent of which is dated May 19th, 2006 from Mr. Mozilo to
14 David Sambol with copies to Kevin Bartlett and Eric
15 Sieracki.

16 A Uh-huh.

17 Q Have you had a chance to review the entire
18 document?

19 A Not the entire document. Okay.

20 Q Focusing first on the earlier E-mail which starts
21 at the middle of the first page and continues to the
22 second page, the last sentence, essentially, of the second
23 full paragraph begins, "As for pay options the bank
24 faces." Do you see that?

25 A Yeah.

321:1 Q Okay.

2 A Right.

3 Q Are you expressing anything different here than you
4 were in the earlier E-mail that we looked at?

5 A No. I'm expressing the same thing over and over
6 again.

7 Q This comment seems to be tied also to higher rates.

8 A Uh-huh.

9 Q That wasn't something that we talked about that was
10 discussed in the other E-mail. What's the connection
11 between higher rates and the potential unexpected losses?

12 A I thought I explained that to Mr. Wynn, that rates,
13 interest rates have an impact on the rate of negative
14 amortization.

15 Q Because of the fact that the rate of the loan
16 product was indexed to --

17 A Right.

18 Q -- the bank rate?

19 A No.

20 Q Or not the --

21 A I don't know what the index was.

22 Q Because it was indexed?

23 A Correct. So as rates rise, your interest component
24 of the payment rises and, therefore, increases the -- so
25 this is speculation, that if rates rise, you have

322:1 on this. I also, I think, talked about HELOCs in this
2 because these were bank products. And I was -- you know,
3 my role was to be constantly concerned about the assets of
4 the company and the exposure of those assets. So that's
5 what I was expressing. I was speculating that if rates
6 rise, then you have this increased risk.

7 Q And you have said it's speculation, but given
8 Countrywide's time in the industry and your experience in
9 the industry, was it really speculation or in fact?

10 A I couldn't tell you what's going to happen with
11 rates tomorrow.

12 Q That's fair with respect to rates. But I think the
13 comment here is that higher rates would certainly lead to
14 greater potential of unexpected losses; is that --

15 A That's correct.

16 Q Okay. So there was a correlation between -- and
17 that was not speculation -- that the higher rates would
18 lead to greater losses?

19 A That's correct.

20 Q In, further down, the numbered paragraph, number 1,
21 you make a suggestion that, "Any individual should take
22 steps to encourage pay option mortgagers to refinance into
23 IOs." Do you see that?

24 A Yes.

25 Q If the bank was to do that, I guess why

323:1 even offer pay option arms in the first place? If the
2 bank was going to encourage people to just simply move to
3 an interest only product, what was the benefit of having a
4 pay option arm?

5 A The pay option arms could be sold into the
6 secondary market.

7 Q Why not --

8 A The bank did not originate any loans. They funded
9 the loans. The origination was done in Countrywide Home
10 Loans, CHL. So if CHL is originating a product, as long
11 as there's a secondary -- a rated secondary market for
12 it -- and people felt different than I did about it. Most
13 people did, outside the industry. It was a huge product
14 in the industry. And again, this is -- part of my
15 management style is to express to my people what I'm
16 concerned about.

17 Some of my concerns have no validity whatsoever,
18 ultimately. It was proven that it had no validity, but
19 I'm worried about this company every single day. And not
20 only about pay options. You can find these same types of
21 memos on expenses, you can find the same type of memos on
22 head count, you can find the same type of memos on the
23 insurance company when I wanted to sell it. You'll find
24 the same type of things on every aspect of Countrywide's
25 operations if you focused on those.

324:1 Q Now, you've essentially characterized part of what
2 you're communicating here in these E-mails as suggestions
3 or your opinion, and in some cases you said that you've
4 been proven wrong or that you were wrong. Did you expect
5 the recipients of the E-mail to take action in response to
6 what you were suggesting or the issues that you raised?

7 A I expected them to respond to me.

8 Q As to what they believe the solution should be
9 or --

10 A Or what their opinion is on each of these issues.

11 Q And are you -- did you view yourself as the
12 ultimate decision maker with respect -- you know, as
13 someone who gathered these opinions and then made a
14 decision and instructed your management team to implement
15 what you decided, or was it more collaborative than that?

16 A It was collaborative. There was maybe an issue or
17 two that I would insist on. I can't think of one at the
18 moment, but I'm sure there was, that that's the way it's
19 going to be, period. But generally it's a collaborative
20 effort because I had tremendous regard for these people,
21 Stan Kurland, Dave Sambol, the people who were operational
22 in the company every day, great regard for their
23 sensitivity to the welfare of the company and to their
24 expertise.

25 Q Turning to page 2, at the first sentence at

325:1 very top of the page, it begins, "Obviously." It ends
2 with the phrase, "untested behavior of pay options." Do
3 you see that?

4 A Uh-huh.

5 Q It's in the middle of the second line.

6 A Uh-huh.

7 Q Are you referring to -- what are you referring to
8 as being untested with respect to the pay options?

9 A Performance of the loans.

10 Q Within Countrywide?

11 A Within Countrywide.

12 Q You mentioned earlier that there was a track record
13 with respect to pay options, however, because of the
14 success that World Savings had; is that correct?

15 A It was one of the influencing factors. I guess
16 there were two factors. One was the World Savings 30-year
17 history in that product; secondly, the product was
18 becoming universally more popular within the industry, and
19 the consumer was demanding this product. So those are the
20 factors, if that was your question. It influenced me and
21 I agreed with management. They wanted to do this product.

22 Was that your question?

23 Q No, it wasn't.

24 A What was your question?

25 Q The question was really more a reference to

326:1 fact that I believe you said earlier that there was a
2 successful track record that World Savings had
3 demonstrated with respect to pay option arms.

4 A At the time it appeared that way because values
5 over that 30-year period had -- though it would dip once
6 in a while, the trend was up. It had never -- the product
7 had never experienced, neither has any product, what we're
8 experiencing today. No product has lived through this
9 today, except maybe a 30-year fixed loan.

10 Q Okay. And so at this point in time in May of 2006,
11 does the fact that World Savings had success with the pay
12 option arms give you any comfort with respect to the fact
13 that it's untested at Countrywide?

14 A No. It was unrelated because I think the decision
15 was made probably in 2004, 2005 to get into the product,
16 and that's when World Savings' protocol was introduced to
17 me as to how they did it. I was not really familiar with
18 it, and as I said, there was sort of an outlier in terms
19 of the product but they did a lot of it. So by that time,
20 the World Savings issue was over with. I mean, the first
21 time they were sold, they were gone by that time.

22 Q And then in that next paragraph, there's a phrase
23 in there that talks about, at the end of the paragraph,
24 "until the storm clears." Do you see that?

25 A Yeah. The storm -- I don't know exactly

327:1 happening at this time, but I think I would suspect that
2 volumes were down. See, I'm talking about reducing cost,
3 reducing risk. So -- and that's the nature of the
4 business. It's a very volatile business, very material,
5 and it would be very quick to reduce your expenses, reduce
6 your risks as the market changes. And we were in a
7 changing market, I would assume. I don't remember exactly
8 what was happening on that day, but obviously volumes must
9 have been down. It was either market share or overall
10 volumes were down. I think overall volumes were probably
11 down. And it's my responsibility to get those expenses
12 down as quickly as I can.

13 Q Moving back to page 1 in the E-mail at the top of
14 the page, I think you say in the second line that, "Pay
15 options continue to present a longer term problem unless
16 rates are reduced dramatically." Do you see that?

17 A Where are you now?

18 Q Sorry. Second line at the top of the page, "Pay
19 options continue to present a longer term problem unless
20 rates are reduced."

21 A Uh-huh.

22 Q Do you see that?

23 A Go ahead.

24 Q Why were they presenting a longer term problem?
25 Was this, again, the issue of delinquencies that

328:1 identified before or was it something else?

2 A It wasn't delinquencies. As I said, I think the
3 delinquencies, as I've said, I think, several times now,
4 were at acceptable levels. It was the rate at which
5 people were making the minimum payment. That was my
6 concern. And if rates went down dramatically that would
7 reduce the rate of negative amortization or it would spur
8 people to refinance into a fixed rate loan that would be a
9 rate that they would find acceptable.

10 Q And when you use the term "longer term," did you
11 have a time period in mind when you used that phrase?

12 A No.

13 MR. MCLUCAS: Can we -- we want to take a break if
14 you guys are --

15 MR. WYNN: Sure. We can take a break.

16 (Recess taken.)

17 MR. WYNN: Back on the record.

18 BY MR. WYNN:

19 Q Mr. Mozilo, I have one more question on
20 Exhibit 533. At the bottom of the first page you listed
21 three items or suggestions in order to address the
22 potential payment shock issue of pay options. Do you see
23 those?

24 A Yes, I do.

25 Q Did you ever consider or propose to anyone

329:1 start rate on pay option loans be increased?

2 A Yes.

3 Q And what happened with that suggestion?

4 A It was attempted and our volume stopped.

5 Q So you rose the start rates, you loss business to
6 competitors, and you lowered them?

7 A Went back to where they were, I believe.

8 Q Could you explain for the record what the start
9 rate is on a pay option loan?

10 A What the amount is? What the percentage --

11 Q What it is, what the start rate is.

12 A That's the percentage, the interest rate that's
13 charged on the loan.

14 Q And the testimony I've heard is that credit
15 proposed a rate raise of a hundred basis points, it was
16 eventually raised by 25 due to concerns of production.

17 A I'm sorry. I'm having a problem following what
18 you're saying. Say this again, now.

19 Q According to the testimony I've heard from people
20 at the company --

21 A Okay. Not here?

22 Q Right. Part of management proposed that the start
23 rate of pay options be increased by 100 basis points
24 sometime in early '06. Due to the concern of slow
25 production, losing market share, eventually a 25

330:1 point increase in the start rate was agreed upon. Is that
2 your recollection?

3 A I remember that conversation taking place, yes.

4 Q Then according to previous testimony that the 25
5 basis point increase in the start rate was in effect for a
6 very brief time before production complained that they
7 were losing market share; therefore, it was lowered back
8 to where it was. Is that your recollection?

9 A I don't have complete recollection of it, but I do
10 remember a problem in raising -- I don't remember the
11 exact percentage, in raising the start rate and it
12 affecting production. That's what I recall.

13 Q And were you involved in the decision to lower the
14 start rate to where it had been before it was increased?

15 A No.

16 Q Did anyone inform you of this decision?

17 A I was informed of the decision. I don't remember
18 how, but yes, I was informed of the decision.

19 Q Did you agree with the decision?

20 A I agreed with the decision because I told you that
21 I operated in a collaborative way, and everybody agreed
22 that that was the right decision for the company.

23 Q So it seems that production concerns were allowed
24 to trump credit risk management concerns in this instance;
25 is that correct?

331:1 A No.

2 Q Why is that not correct?

3 A Well, because there was no evidence that that
4 decision would lead to risk for the company or that it
5 would mitigate any potential losses that the company would
6 experience.

7 Q Well, why was the decision made in the first
8 instance to increase the start rate? Wasn't that --

9 A It was --

10 Q I'm sorry to cut you off, but wasn't that to
11 address the problem of payment shock and make it a smaller
12 payment shock by raising the rate?

13 A This is the first time I'm hearing of 100 basis
14 point increase. What I heard was a 25 basis point
15 increase.

16 Q Okay. And what was the rationale behind the 25
17 basis point increase?

18 A It was to test the market -- I believe to test the
19 market to see if we can get an additional increase in the
20 rate without a major impact on volumes. And that would be
21 orchestrated by, if I recall, by Stan Kurland and Dave
22 Sambol, head of operations and head of production.

23 Q Again, according to testimony that I've heard from
24 people says that credit risk management, the reason for
25 the 25 basis point increase in the start rate was

332:1 attempt to alleviate the potential payment shock problem
2 by reducing the amount of negative amortization. Were you
3 not aware of that rationale before the increase in the
4 start rate?

5 A I'm aware of that rationale.

6 Q Okay. So that's back to my original question as to
7 whether or not, in your opinion, by allowing the start
8 rate to be lowered, concerns expressed by production were
9 allowed to trump concerns expressed by credit risk
10 management.

11 A There's always a natural tension between credit and
12 production, and it has to be managed. And -- however, if
13 I believed that that 25 basis points would make a material
14 or even an immaterial differences in the performance of
15 the loans, I would certainly intervene. But I didn't.

16 Q I'm going to show you another document that we've
17 already marked as Exhibit 210. It appears to be a
18 transcript of a speech you gave at a Sanford C. Bernstein
19 conference on May 31st, 2006.

20 (SEC Exhibit 210 was referred to.)

21 BY MR. WYNN:

22 Q I'm not going to ask you to read the whole thing,
23 but first of all, do you recall this speech?

24 A I gave a lot of these speeches. I don't remember
25 this specifically, but I gave a number of these

333:1 year. Over 40 years, I gave thousands of them.

2 Q Do you recognize the name "Stanford C. Bernstein"?

3 A I do.

4 Q Do you know what -- what is that?

5 A They're an investment adviser as well as, I
6 believe, an investment bank, but primarily an investment
7 adviser that advises people on investments. Wealth
8 management.

9 Q And with respect to the speech, were these your own
10 remarks or were they prepared for you?

11 A Prepared for me.

12 Q Do you recall who prepared them?

13 A Two people involved in preparation. Well, several
14 people. One is David Bigalow, Lisa Riordan, and it's
15 approved by legal. I think that's the process.

16 Q And just for the record, Exhibit 210 appears at CFC
17 2007-826777 through CFC 2007-826812.

18 Mr. Mozilo, I would like to refer you to page 20 of
19 Exhibit 210.

20 MR. BRENNER: Before you ask the question, I just
21 want to understand the qualification you gave. Did you
22 say that this is a transcript of the presentation or is
23 this just a prepared --

24 MR. WYNN: I think I said "transcript."

25 MR. BRENNER: I think you did. Is that what

334:1 representing? This represents words actually spoken?

2 MR. WYNN: Well --

3 MR. MCLUCAS: Or the draft of the speech.

4 MR. WYNN: Point taken. I'm not aware of if it's a
5 draft or if it's a transcript, but it --

6 MR. BRENNER: Just want to understand what you're
7 telling him it is.

8 BY MR. WYNN:

9 Q Right. Mr. Mozilo, I don't have perfect knowledge
10 of whether this is an actual transcript or a copy of
11 something you're supposed to read from.

12 BY MR. BENDELL:

13 Q Well, do you recognize it as one or the other of
14 those things?

15 A Recognize it as what?

16 Q Can you just take a look at Exhibit 210, please,
17 and tell us what you think it is?

18 MR. MCLUCAS: He said it's a speech. It looks like
19 a draft of the speech he gave.

20 MR. BENDELL: Yeah, but --

21 MR. MCLUCAS: You represented it was a transcript.
22 That's all. We're just trying to make clear here --

23 MR. BENDELL: Yeah, and I think your point is
24 extremely well taken. And instead of whatever our
25 understanding of it is, we ought to ask the witness

335:1 his understanding is.

2 BY MR. BENDELL:

3 Q So specifically if you could take a look at
4 Exhibit 210 and explain if you think it's the text you
5 were speaking off of or something else.

6 A I believe it was the text I was speaking off of.

7 BY MR. WYNN:

8 Q So if you turn to page 20 of the document, there's
9 a chart at the top of page 20 that says, "Countrywide
10 Financial Corporation." Do you see that?

11 A Yes.

12 Q Okay. And if you look at the first paragraph of
13 the document, second sentence, it states, "Despite recent
14 scrutiny of pay option loans, Countrywide views the
15 product as a sound investment for our bank and a sound
16 financial management tool for consumers." To your
17 knowledge, was that statement accurate as of May 31st,
18 2006?

19 A As far as I was concerned, yes, it was.

20 Q And then if you look at the second paragraph, the
21 last sentence states, "The performance profile of this
22 product is well understood because of its 20-year history
23 which includes stress tests and difficult environments."
24 To your knowledge, was that statement accurate as of
25 May 31st, 2006?

336:1 A To my knowledge it was.

2 Q Okay. And what 20-year history is being referenced
3 in that sentence that was just read for the record?

4 A I think primarily it was the experience of World
5 Savings. And I can't speak to the stress test that the
6 authors put into this, whether it's our internal stress
7 tests or whether it's industry stress tests. I don't
8 know.

9 Q And are you aware that, you know, sometime in early
10 '05, the company's credit risk officer John McMurray
11 informed the head of the bank Carlos Garcia that the World
12 Savings underwriting is so different from Countrywide's
13 that no meaningful comparisons could be made with respect
14 to the portfolios?

15 A No.

16 Q You were not aware of that?

17 A No.

18 Q At some point in time, did you become aware of
19 that?

20 A No.

21 Q And do you know what the purpose was of including
22 that statement regarding the performance of the product
23 and its 20-year history? What was the purpose of
24 including that statement in the speech?

25 A I have no idea, frankly. These speeches

337:1 prepared for me; I relied upon the people putting them
2 together for the facts; and relied upon the ones who
3 reviewed it for me, and I delivered it.

4 Q In the third paragraph of the page, you reference
5 the fact that, "our pay option portfolio averages a 721
6 FICO."

7 A Uh-huh.

8 Q To your knowledge, are you speaking of the pay
9 option loans held at the bank or all pay options
10 originated by Countrywide?

11 A I'm not sure of that. I don't know. If the words
12 that are used are pay option portfolio, it could mean
13 either. There's a servicing portfolio and a bank
14 portfolio. It could mean either.

15 Q And did you have any practice of doing anything to
16 verify statements contained in speeches that were given to
17 you?

18 A I would review it and if there was something that
19 stuck out at me and I had a question about it, I would
20 raise the question. There was nothing here to -- that
21 you've read so far that would stand out to me as an issue.

22 Well, here, it says it right here, "Pay option
23 loans tend to be selected by more experienced borrowers.
24 Only five percent of our first-time home buyers use this
25 product; 50 percent of pay option borrowers use it

338:1 refinance; just 16 percent of pay option loans produced by
2 our bank have a FICO score below 680; and only 3 percent
3 below 660."

4 So it's the bank -- I think it's the bank -- I
5 would assume from this it's the bank portfolio.

6 Q Okay. Mr. Mozilo, do you recall actually giving
7 this speech at the Stanford Bernstein conference?

8 A Do I recall specifically where I was when I -- I
9 believe I gave this speech. You know, looking at it, I
10 think I gave this speech.

11 Q Do you know if your --

12 A There's --

13 Q I'm sorry.

14 MR. BRENNER: The question is do you actually
15 remember giving the speech at the Stanford Bernstein --

16 THE WITNESS: I don't remember specifically, but
17 circumstances indicate that I gave it.

18 BY MR. BENDELL:

19 Q But at any rate, you remember looking at the words
20 on the page, you remember giving this speech in some
21 public forum; is that fair? Even if you don't remember
22 exactly whether it was Sanford Bernstein or another
23 conference.

24 A No, I don't -- I don't -- let me just -- my name is
25 on the front of this thing, and typically when I

339:1 front page, I've given the speech. I don't remember the
2 time, place, who was in the audience. I don't remember
3 any of that. And I think I believe it's -- I believe
4 they're webcast speeches.

5 BY MR. WYNN:

6 Q Do you recall if you participated in any type of Q
7 and A after the speech?

8 A I don't recall. Sometimes there are and sometimes
9 there aren't. In most cases, they have breakout sessions
10 of some kind. I don't remember how this was done.

11 Q Okay. And do you recall if your speeches were
12 recorded by anyone at Countrywide?

13 A At Countrywide?

14 Q Uh-huh.

15 A No. But I think most of the speeches at these kind
16 of events are webcast, I believe.

17 Q Mr. Mozilo, I'm going to show you another document
18 that is Exhibit 214. It's a June 6th E-mail from yourself
19 to Mr. Garcia, Jim Forash. Mr. Kurland, Mr. Sambol are
20 CCs.

21 (SEC Exhibit 214 was referred to.)

22 BY MR. WYNN:

23 Q Please take as much time as you need to read it and
24 let me know when you're finished.

25 A Right.

340:1 Q Can you identify what Exhibit 214 is?

2 A It's an E-mail that I sent to Carlos Garcia, Jim
3 Forash with a copy to Stan Kurland and Dave Sambol.

4 Q In the first paragraph, you reference a discussion
5 between Stan and Dave. To your knowledge, is that
6 Mr. Kurland and Mr. Sambol?

7 A That's correct.

8 Q Do you know when the discussion that you referenced
9 took place?

10 A Do I remember -- excuse me?

11 Q Do you know when the discussion that you referenced
12 between Mr. Kurland and Mr. Sambol took place?

13 A No, I don't. No.

14 Q In the first paragraph, you state, "In a discussion
15 with both Stan and Dave, it came to my attention that the
16 majority of pay options being originated by us, both
17 wholesale and retail, are based upon stated income.
18 There's also some evidence that the information that the
19 borrower is providing us relative to their income does not
20 match up with IRS records." To your knowledge, was the
21 discussion you had with Mr. Kurland and Mr. Sambol the
22 first time that you were made aware that the majority of
23 the pay options being originated by Countrywide were based
24 upon stated income?

25 A Yes, I was -- yes, that's what prompted this

341:1 E-mail.

2 Q Did you read that as -- were you concerned about
3 that?

4 A Yes.

5 Q Why were you concerned about it?

6 A Well, stated income was a product used for many
7 years for self-employed people who couldn't verify, or day
8 laborers where it was impossible to get W-2s or the
9 ordinary type of information you get to verify income.

10 And when I said that -- and I used the word "majority." I
11 assume that's what they told me, that many or the majority
12 of loans coming in as pay options were stated income. It
13 was a concern to me.

14 Q Why was it a concern?

15 A Because it didn't sound right to me as to -- why
16 would they do it on stated income? Why wouldn't they go
17 through the normal documentation process?

18 Q Did any credit concerns come to mind based upon the
19 fact that majority of these loans were based upon stated
20 income?

21 A That's the concern.

22 Q The use of stated income is a credit concern?

23 A Well, because you don't know for sure what the
24 income is. It could be the right income, the stated
25 income could be correct or it could not be correct.

342:1 not verified. And so the extent that you have less
2 documentation to verify income, there's a greater risk.

3 Q Risk of what?

4 A Risk of default.

5 Q And do you know why that is?

6 A There's a risk of default, but not certainty of
7 default, so it's -- because if you're -- if someone tells
8 me they're making X and I rely upon it versus me going out
9 to the employer and verifying that they're making X,
10 there's a difference, qualitative difference in that
11 information. Therefore, the risk is there. I'm not
12 saying that the end result would be worse, but the initial
13 risk is higher, it seems to me.

14 Q And just is the risk you're referencing the risk of
15 default?

16 A Risk of default.

17 Q And with respect to the information you received
18 that indicated that the income information provided to
19 Countrywide was different than the reports to the IRS,
20 what was that information that you looked at?

21 A I didn't look at any information. This was -- I
22 don't recall exactly. This was not a sit-down meeting,
23 this was a comment, I believe, that was made to me. This
24 is my reaction as a person who's concerned with every
25 aspect of the company. If I hear something, I'm

343:1 act on it and get to the bottom line to see if corrections
2 have been made and ask that those corrections be made.

3 So this was -- I believe someone said to -- Dave
4 and Stan were together talking about a variety of issues
5 and the issue of stated income came up, and that gave
6 birth to this at 10:38 at night. I was at home thinking
7 about it.

8 Q So still in the first paragraph, you state that,
9 "There is also some evidence that the information that the
10 borrower's providing us relative to their income does not
11 match up with IRS records." What evidence are you
12 referencing?

13 A No evidence. Just somebody said something, whether
14 it was in passing or not, that they may not be matching up
15 with IRS because it's commonly -- it's commonly known that
16 self-employeds, their income really matches up with what
17 the 1040s say, really. And so it was just a passing
18 comment. I believe -- I mean, I don't remember exactly
19 what was said, but something was said that triggered this
20 in my mind, and I wanted it to be vetted. That was it.

21 Q Are you certain that when you're talking about
22 evidence, you're not talking about some type of documents
23 that some Countrywide employee showed you that they felt
24 showed a discrepancy between information provided by
25 borrowers and information -- excuse me.

344:1 provided by borrowers to Countrywide and information
2 provided by those same borrowers to the IRS?

3 A Is your question somebody showed me the --

4 Q Right.

5 A No.

6 Q And if you look at the -- after item 2, you state
7 that, "We have at least 20 percent or more of the bank's
8 pay option loans at a FICO of 700 or less. It is clear
9 that the lower FICO borrowers are going to experience
10 payment shock and is going to be difficult, if not
11 impossible for them to manage." So as of June 2000 --

12 excuse me. As of June 1st, 2006, did you conclude the
13 substantial numbers of the pay option customers were not
14 going to be able to continue making the payments for --

15 A I didn't conclude that at all. It was not a
16 conclusion. Again, the purpose of these E-mails is to
17 stimulate my people to look into issues that concerned
18 me --

19 Q Uh-huh.

20 A -- based upon what I hear, what I see, what I
21 sense. And the -- and so if there is a payment shock, the
22 lower FICO score individual generally will have a more
23 difficult time dealing with it than a higher FICO score.
24 It's not ipso facto, it's not -- it's just a
25 generalization that you expect lower FICO scores to

345:1 more difficulty managing their expenses than higher FICO
2 scores. That's why they're lower FICO scores. Now, the
3 700 -- I'm sorry. The -- yeah, FICOs in the 700, I think
4 that ties into the item that we discussed in terms of --
5 because it's anything under 700, so 660 and above.

6 Q And so just to be clear, as of June 1st, 2006, did
7 you think it was clear that lower FICO borrowers were
8 going to experience payment shock that would be difficult,
9 if not impossible for them to manage?

10 A Well, I wrote it in that manner, but there was no
11 way of telling whether or not that was going to happen.

12 Q Did you suspect that that was going to happen?

13 A I don't know what I expected.

14 MR. MCLUCAS: I think he testified, excuse me,
15 before you came in the room about the management style he
16 had in writing E-mails that were fairly provocative to get
17 answers from his -- the people who reported to him.

18 MR. WYNN: Okay.

19 THE WITNESS: And I always end it, "Let me know
20 what you're doing," or, "Please let me know you're going
21 to handle this manner," because they may come back and
22 totally disagree with my assessment. These are my -- this
23 is my assessment. I'm not -- I don't speak excapiter
24 (phonetic), you know, I don't come from on high. I --
25 these are my thoughts. It's doesn't mean it's

346:1 happen, but I am intimately concerned about what happens
2 at Countrywide every day. And as I hear things, see
3 things, the only way that I can run with my skill set,
4 whatever I have at the company, was to keep my management
5 team alerted as to my concerns. Many of them were
6 debated.

7 And so that's why I sent it to -- I didn't put out
8 an edict, I asked for how they're going to handle it, what
9 their thoughts were. But I think that some of these
10 things, some of these concerns were valid then, they're
11 valid now. You know, so that's that.

12 BY MR. WYNN:

13 Q In the last full paragraph, you state, "Since we
14 know or can reliably predict what's going to happen in the
15 next couple years, it's imperative that we address the
16 issue now." What were you speaking of there?

17 A I have no idea. I have no idea because obviously I
18 couldn't reliably predict what happened now.

19 Q Is it possible you're talking about the option
20 loans recasting, resetting?

21 A I don't know what I was -- frankly, when I say
22 reliably predict, I don't know how you can reliably
23 predict anything. But again, this was at 10:30 at night
24 and after a long day and -- you know, and I was concerned
25 about this issue and I wanted to get a response.

347:1 wouldn't take this verbatim.

2 Q You go on to state that, "First and foremost, the
3 bank should not be accumulating any loans below 680 unless
4 the LTV is 75 percent or lower."

5 A Right.

6 Q "Secondly, we should comb the assets to assess the
7 risk that we face on FICOs under 700 and determine if we
8 can sell them out of the bank and replace them with higher
9 quality paper." Now, are those instructions to Mr. Garcia
10 and Mr. Forash?

11 A Yeah, and to Stan Kurland and Carlos Garcia.

12 Q So those are instructions?

13 A Yes.

14 Q To your knowledge, were those instructions complied
15 with?

16 A You know, I can't tell you now that they were. I
17 assume that they were.

18 Q And why did you think the bank should not be
19 accumulating any loans under 680 unless the LTV was 75
20 percent or lower?

21 A Because that was the initial plan, as I pointed out
22 earlier, was to have high quality loans with lower down
23 payments. And as it became apparent that these were
24 stated income loans, people -- we didn't -- I didn't know
25 in advance, nobody knew in advance how people were

348:1 to react to these product and what kind of mortgagers we
2 would get, quality in terms of being able to verify their
3 income, that we -- as you do in these cases, you continue
4 to evaluate the quality of the assets and continue to make
5 changes to -- as best you can to keep the company safe.
6 And so this was a move to improve the quality of the
7 FICOs, instead of 660, 680, and increase the down payment
8 requirement.

9 Q And when you talked of placing -- excuse me. When
10 you talk about replacing certain loans and FICOs under 700
11 with higher quality paper, what do you mean by "higher
12 quality paper"?

13 A With loans that have either a higher FICO score or
14 lower -- or higher equity component or both. We only did
15 mortgages, so that was the mortgage, second and first
16 mortgage.

17 Q Did you have a practice of attending board level
18 meetings of the credit risk committee?

19 A No.

20 Q Did you ever attend those meetings?

21 A I don't think so. I don't recall attending those
22 meetings.

23 Q Did you ever attend meetings of the corporate
24 credit risk committee?

25 A Not that I recall.

349:1 Q And as of June 1st, 2006, did you still think that
2 pay options were a sound investment for the bank?

3 A As of when?

4 Q June 1st, 2006.

5 A Yes, under the conditions I'd laid out.

6 Q So under restricted guidelines?

7 A Yeah, under 700 FICO and 25 percent down, 680 and
8 above and 25 percent down. That was my thought.

9 Q And on May 1st -- excuse me. As of the day of your
10 speech, May 31st, 2006 at the Bernstein event, were you
11 concerned at all about payment shock? Let me ask you a
12 different question.

13 As of June 1st, 2006 -- on June 1st, 2006, you
14 wrote an E-mail to Mr. Garcia and Mr. Forash in which you
15 stated that, "It's clear that lower FICO borrowers are
16 going to go into payment shock which is going to be
17 difficult, if not impossible for them to manage." Were
18 you of that opinion the day before when you gave the
19 speech?

20 A This was my opinion when I wrote this E-mail.
21 However, it may be one here at the time, I have two
22 responsibilities as CEO. One is to express my concerns to
23 management on a continuous basis as to how this company is
24 to be run and keep it safe and sound; the second is to be
25 able to give facts to the shareholders and not to

350:1 my opinion or my bias or my -- whatever to shareholders on
2 a continuous basis as I would management. They're two
3 different audiences. The shareholders are entitled to the
4 facts as I know them.

5 These types of memos provoke responses and changes
6 and -- which end up with the results that the company
7 reports to the public. So even though there's -- there
8 may be lots of memos behind this relative to head count,
9 relative to expenses as you've seen, relative to all those
10 things, that unless I believe that this is an issue and we
11 collectively believe that it has to be and should be
12 disclosed to shareholders, then we do so. But this was
13 just an opinion. The issue of payment shock is not
14 something that just came up. Payment shock issue has been
15 around for years about any loan that is not a 30-year
16 fixed rate loan. So I have two audiences.

17 Q Okay. I think my last question was when you were
18 at the May 31st presentation, May 31st, 2006, were you of
19 the opinion that it was going to be impossible for certain
20 Countrywide borrowers to continue making their payments
21 once their loans recast?

22 A It's a question I can't answer. I can't respond to
23 that question. I had lots of opinions, but I -- the
24 speech is what it is. The speeches -- to this day I gave
25 what I believe to be the facts, or my people

351:1 be -- that put this together and legal -- the facts
2 related to the company, that the purpose of this meeting
3 was for. We're invited to make a presentation relative to
4 what was happening in the market, and that's what I did.

5 Q From the exhibits we've seen over the past 30
6 minutes, it seems to me that you were very concerned in
7 the first and second quarter of '06 about what would
8 happen when the pay option loans recast. Is that
9 accurate?

10 A Let me answer your question this way: I was
11 concerned about -- pay option loans is just one component
12 of many products we had in the company, including home
13 equity loans. And my concern about all the assets that we
14 had, all the liabilities that we have were equal. So I
15 wasn't focused on payment shock or resets because the
16 evidence that I had was that the resets would not take
17 place until 2009, 2010. That was not a current issue in
18 terms of payment shock. That was way out in the future,
19 and the issue was to try to make the changes now so that
20 we can mitigate any problem that might come up in 2009 or
21 2010. So it was not an imminent issue.

22 Q Was it one of your concerns in the first two
23 quarters of 2006?

24 A I'm sorry?

25 Q Was it one of your concerns in the first two

352:1 quarters of '06?

2 MR. MCLUCAS: You're saying for the first two
3 quarters of '06 or was it something --

4 THE WITNESS: What? Payment shock?

5 BY MR. WYNN:

6 Q Was the potential for payment shock associated with
7 the pay option arm loans one of your concerns from a
8 credit risk perspective in the first two quarters of 2006?

9 A No.

10 BY MR. BENDELL:

11 Q Mr. Mozilo, you mentioned that, I think, when
12 Mr. Wynn asked you about the paragraph towards the bottom
13 of Exhibit 214 that begins, "Since we know," and then
14 there are some sentences after there, "first," "secondly"
15 and "thirdly," and -- well, actually, I think we were just
16 talking about the sentence that begins "first" and the
17 sentence that begins "secondly." You described those
18 earlier as instructions to, and I think the people that
19 you mentioned that you understood those to be instructions
20 to, is that -- did you say it's Carlos Garcia and Stan
21 Kurland; is that right?

22 A Uh-huh.

23 Q "Yes"?

24 A Yes.

25 Q Okay. I'm trying to get a little bit better

353:1 understanding of your management style, because I know
2 you've also described several times today how you send the
3 E-mails in order to -- provocative E-mails in order to
4 generate a discussion among your management. So my
5 question is as -- how is a member of your management team
6 supposed to distinguish between an E-mail or a portion of
7 an E-mail that's designed to generate discussion versus
8 something that's an instruction that should be followed?

9 A By talking to me.

10 Q Orally?

11 A Orally.

12 Q So your E-mail in Exhibit 214 ends with, "Please
13 let me know how you intend to handle this matter." Did
14 anyone respond to you about how they intended to handle
15 this matter?

16 A I believe so. Generally the -- not generally.
17 Almost in every case that I'm aware of, Carlos is a very
18 responsive person, as is Stan Kurland. If they had an
19 issue with anything that I raised, they would either write
20 me an E-mail and say, "We disagree and let me tell you
21 why," or they would see me and say, "We disagree and let
22 me tell you why," or, "We're doing it." And so in one way
23 or another, they -- these instructions were followed as I
24 laid it out, or they were negotiated.

25 Q And do you have -- I mean, do you have any

354:1 for -- taking your senior management team at Countrywide
2 as a whole, not just limiting it to Mr. Garcia and
3 Mr. Kurland, when you gave instructions that required --
4 well, when you sent an E-mail that required some kind of a
5 response, did you typically, more often than not, receive
6 a response as an E-mail or more often than not have follow
7 up that was in person or oral?

8 A I don't -- I never push it. I didn't know. But I
9 did -- they were a very responsive team and responded one
10 way or the other.

11 Q Were there -- who in the senior management team did
12 you typically interact with in person or on the phone the
13 most in the 2006 time frame? And just to rephrase the
14 question so that it's hopefully a little more
15 understandable, I'm trying to get at if there were people
16 who a -- you had a tendency to actually have live
17 conversations with during the day, for example, possibly
18 Mr. Kurland or Mr. Sambol, and I don't know if those are
19 people or anyone else. Just are there people that you
20 tended to interact with on a typical day?

21 A Well, I didn't have a typical day in the sense that
22 I traveled a lot. Okay? I was on the road a lot. But
23 when -- but I speak telephonically to them, and they would
24 be the people -- the key people to me in the company was
25 Stan Kurland who was president and COO, David

355:1 he assumed that position from Stan, but my primary contact
2 was through Stan.

3 Q And so then in 2007, the primary contact would be
4 with Dave Sambol?

5 A Correct.

6 BY MR. WYNN:

7 Q Mr. Mozilo, I'm going to mark a new exhibit. It's
8 going to be Exhibit 533.

9 A I have Exhibit 533.

10 Q Right. It's going to be Exhibit 534. And
11 Exhibit 534 is Bates numbered CFC 2007-826697 through
12 826713. And it appears to be a transcript of a question
13 and answer that you participated in after your speech on
14 May 31st, 2006 at the Sanford C. Bernstein strategic
15 provisions conference.

16 (SEC Exhibit 534 was marked for
17 identification.)

18 THE WITNESS: Is there something -- do you want me
19 to run through the whole document?

20 BY MR. WYNN:

21 Q Certainly run through the whole document, but first
22 of all, do you recognize the document?

23 A No.

24 Q Do you recall participating in a Q and A after that
25 presentation?

356:1 A As I said before, they often have a Q and A or a
2 breakout session.

3 Q Okay.

4 A I don't recall this specifically.

5 Q Do you have any reason to believe that you did not
6 participate in a Q and A session after that presentation?

7 A I have no reason to believe I didn't participate.

8 Q I do want to refer you to page 8 of the document,
9 and I'll ask you to read the question and then continue
10 reading your answer, and let me know when you're finished.

11 A The question at the bottom of the page?

12 Q Yeah, bottom of page 8.

13 A I can't understand this thing. You know, the
14 question is so garbled here, I can't understand the
15 question.

16 All right. I mean, I generally get the sense of
17 it.

18 Q First off, Mr. Mozilo, does it have -- having
19 reviewed certain portions of Exhibit 534, does it refresh
20 your recollection as to whether or not you participated in
21 the Q and A after the presentation?

22 A I think I said that I did participate.

23 Q So I agree with you that the question is hard to
24 understand. It's somewhat unintelligible. But it appears
25 that you were answering a question dealing with

357:1 happen to borrowers when higher interest rates caused
2 payments on pay options to increase.

3 A It is what it looks like, yeah. I don't know what
4 they mean by "cash and uncash earnings." I don't --

5 Q But if you look at page 9 in your answer.

6 A Yeah.

7 Q Just looking at the second paragraph, you seem to
8 be addressing the issue of arms resetting and payment
9 shock; is that right?

10 A Right.

11 Q And your answer goes over to page 10.

12 A Right.

13 Q And you don't seem to express the opinion that some
14 borrowers are not going to be able to make their payments
15 upon recasting; is that correct?

16 A We weren't talking about recasting. We were
17 talking about arm loans, and I was talking about history.

18 Q Okay. Are you saying that your answer is confined
19 to historical --

20 A Well, I'm looking at the -- I'm trying to -- I'm
21 looking at the answer that, "I think the highest
22 foreclosure rate I've seen is about 2 percent," which is
23 true. And so, you know, I said it was a mistake take the
24 situation out. Retract it out; nothing else changes.

25 Q If you look on page 10 at the second

358:1 your answer, you seem to be discussing some of the things
2 that borrowers may do in order to deal with the payment
3 shock issue; is that correct?

4 A These are arm loans, typically arm loans. I mean,
5 don't -- I mean, I haven't looked through it; you have. I
6 don't see "pay option" in here as being the focus of the
7 question.

8 Q Okay. Taken. But you do state that you're
9 referencing the payment shock issue associated with
10 adjustable rates and mortgages?

11 A What I said was, if I'm reading -- if this is
12 correct, "They can refinance out to another arm-type
13 product and pay off the loan that is creating the problem
14 for them. There's a variety of things that mortgage
15 owners" -- I'm sure it was "mortgagers" -- "can do to weed
16 their way through a payment increase situation so they're
17 not paralyzed by payment shock." That's what I said.

18 Q Okay. And it doesn't appear that you stated that
19 it's a possibility that some borrowers or mortgagers were
20 not going to be able to continue to pay their mortgages
21 when the payment shock does occur?

22 A I think it speaks for itself.

23 Q But you didn't say that in this answer; is that
24 correct?

25 MR. MCLUCAS: It's not reflected in the

359:1 THE WITNESS: No, it's not here.

2 BY MR. WYNN:

3 Q Okay. Do you know why you didn't say that?

4 A I was giving the best answer I could. This was ad
5 hock. Somebody asked the question, I was giving the best
6 answer I could at the time, which I believed was relevant
7 to their question.

8 Q We've seen in a previous exhibit, the day after
9 this question-and-answer session, you told your
10 subordinates that you were concerned that certain arm
11 borrowers would not be able to handle the payments upon --
12 when faced with the payment shock. Do you recall that
13 E-mail?

14 MR. MCLUCAS: Mr. Wynn, I haven't gone back to look
15 at the E-mail. I think the E-mail you just referenced
16 refers to pay option loans, not arm borrowers.

17 MR. WYNN: I think you're looking at the wrong one.
18 Let me see.

19 MR. MCLUCAS: Maybe I am. I apologize.

20 MR. BRENNER: The E-mail you're talking about which
21 is 214 -- is that correct?

22 MR. WYNN: I think you are right.

23 MR. BRENNER: 214 refers to response to information
24 that was given to him particularly.

25 MR. WYNN: I don't think that was his

360:1 but I understand.

2 MR. BRENNER: Isn't that what it says? Isn't that
3 what he testified to, that he had a discussion?

4 MR. WYNN: Okay. I'm not going to argue with you,
5 but I don't think that that's the testimony that when he's
6 talking about pay option shock and the consequences of
7 that he's relaying a conversation from someone else.

8 MR. MCLUCAS: But the E-mail by its term states,
9 "In a discussion with both Stan and David, it's come to my
10 attention that the majority of pay options being
11 originated by us," and I think the point that was being
12 made is this E-mail was in response to information that
13 had come to his attention.

14 MR. WYNN: Understand. I think that a fact-finder
15 could find that --

16 MR. BENDELL: All right. No point to us arguing.
17 There's no --

18 MR. BRENNER: I agree.

19 MR. MCLUCAS: I agree. I just want to make sure
20 the premise of the question is consistent with what's in
21 the record.

22 MR. BENDELL: That's fine. We're going to ask a
23 new question.

24 BY MR. WYNN:

25 Q Mr. Mozilo, as of May 31st, 2006, were you

361:1 concerned that if arms reset or readjusted, that certain
2 borrowers would not be able to make their payments?

3 A I was concerned that that was a possibility, not a
4 certainty.

5 Q Okay. To your knowledge, to your recollection, why
6 didn't you mention that possibility when you were
7 answering the question in a Q and A on the day before on
8 May 31st, '06?

9 A It just didn't come to my mind. It was not
10 paramount on my mind. I was responding to a question
11 about higher rates. That was the question, "What happens
12 if rates go higher?" It was just not -- it was not a
13 major issue. In terms of -- these were all concerns of
14 mine, none of which had been proven out. In fact, the
15 opposite: Delinquency rates were relatively low relative
16 to the products; product continued to perform; and albeit
17 a controversial product, it was performing for us. And it
18 just didn't occur to me. It wasn't paramount on my mind.

19 Q Let me show you Exhibit 221. Exhibit 221 is a
20 series of E-mails, one from yourself to Mr. Sambol on
21 September 26th, '06, and then there's an E-mail from
22 Mr. McMurray to you on September 26th, '06.

23 Can you make sure that doesn't have any writing on
24 it?

25 (SEC Exhibit 221 was referred

362:1 BY MR. WYNN:

2 Q Okay. Mr. Mozilo, if you could start with the
3 second E-mail on the second page, I think that's what
4 starts the discussion.

5 A This is September of '07?

6 Q Yeah. At the bottom of the first page, there's a
7 September --

8 MR. BRENNER: September of '06.

9 BY MR. WYNN:

10 Q September 26th, '06 E-mail from yourself to
11 Mr. Sambol at 7:15 a.m.

12 A Right.

13 Q So do you recall sending this E-mail to Mr. Sambol
14 on September 26th, '06?

15 A I don't recall sending it, but obviously I did
16 because it's here.

17 Q If you look at item 2 on the second page of
18 Exhibit 221, you state, "We have no way with any
19 reasonable certainty to assess the real risk of holding
20 these loans on our balance sheet. The only history we can
21 look to is that of World Savings. However, their
22 portfolio is fundamentally different than ours, that their
23 focus was equity and ours is FICO. In my judgment as a
24 long-term lender, I would always trade off FICO over
25 equity. The bottom line is that we're flying blind

363:1 these loans would perform in a stressed environment of
2 higher unemployment, reduced values, and home sales."

3 With respect to the first sentence, do you recall what
4 you're referencing when you talk about "these loans"?

5 Like what type of loan product you're talking about?

6 A Where?

7 MR. MCLUCAS: This sentence right here.

8 THE WITNESS: I still don't see it.

9 MR. MCLUCAS: First sentence.

10 THE WITNESS: "We have no way to" -- "these loans,"
11 yeah. That's what I've been saying. I don't know either
12 way.

13 BY MR. WYNN:

14 Q And which loans are you talking about?

15 A The pay option loans.

16 Q Okay. And if you go on the -- you talk about the
17 experience at World Savings, then you go on to say that
18 their experience was fundamentally different than yours.

19 A In loans, right.

20 Q At what point in time did you reach that
21 conclusion?

22 A I guess you weren't here at the beginning. In the
23 beginning when we had this product, the product that they
24 had was low FICO, high down payment. Our product is high
25 FICO, lower down payment. That was the difference

364:1 day one. They understood that from day one.

2 Q Okay. I understand. But I was here when you
3 stated that when the product was introduced sometime in
4 '04, you took some comfort in the fact that World Savings
5 had a 20-year history with it and you approved it being
6 offered at Countrywide.

7 A Correct.

8 Q And now September of '06, you're saying that the
9 World Savings experience is fundamentally different than
10 that of Countrywide. And so I would like to know when you
11 came to that conclusion.

12 A Well, this probably would be the last of it because
13 I'm getting tired now.

14 It wasn't a conclusion in the way that you're
15 framing it. It was a learning process. We made the -- we
16 put it in place because I felt more comfortable dealing
17 with high FICO borrowers than I did low FICO borrowers.
18 That was our culture. We were essentially a prime lender.

19 Ninety percent of our business historically has always
20 been prime loans. High FICO scored loans are prime loans.

21 As time went on, the concern I had was the fact
22 that many people were opting for this lower -- for the
23 lowest payment. And I probably was speculating on World
24 Savings, I was assuming that World Savings wasn't having
25 that experience, because throughout their 30-year

365:1 I haven't heard of payment shocks or any of those things
2 happening to them.

3 And so -- and as I began -- again, primarily -- not
4 the delinquencies because they were well in line, but
5 because of the opting for the lower payments, I became
6 concerned about it. And also at that time, I thought that
7 the fact that they had more equity in the loans, that they
8 had a better loan. I was proven wrong based upon
9 Wachovia's losses that they're taking on World Savings'
10 portfolio. It's huge. So -- but that was an assumption
11 at that time that they had, you know, a better product.

12 Secondly, that I think it's axiomatic that if
13 you -- as a lender, you could trade off FICO for equity
14 depending on the amount of equity. And the fact is that
15 we didn't know on these loans, we didn't have enough
16 experience on these loans as to how they were going to
17 perform in a stressed environment. That was the fact. We
18 didn't know. And I made the assessment that these loans
19 were currently mispriced, it's happened before in the
20 market, types of loans were mispriced, and that could
21 change. And so I had to, again, alert the management team
22 that these things can happen, and ask them to go -- you
23 can see my continuous concern.

24 And also, it was becoming a problem -- irrespective
25 of the fact that we had low delinquencies, it was a

366:1 this whole exotic loan issue became a cause and a concern
2 of the regulators. And that was very important to me, the
3 regulators' opinion of the loans we're originating. So
4 that's one explanation for your question. So why don't
5 you restate your question, and I'll try to answer it.

6 MR. WYNN: Did you want to take a break?

7 MR. MCLUCAS: Yeah, why don't we take a break and
8 figure out how much longer, if at all, we can go today,
9 and then figure out what your schedule is.

10 MR. WYNN: Okay. Off the record.

11 (Recess taken.)

12 MR. WYNN: Back on the record.

13 BY MR. WYNN:

14 Q Mr. Mozilo, still looking at Exhibit 221, the
15 second page of your E-mail to Mr. Sambol, from looking at
16 item number 2, it appears that at some point you came to
17 believe that no meaningful comparisons could be made
18 between the experience that World Savings had with pay
19 options and Countrywide's own experience with pay options;
20 is that accurate?

21 A That was my feeling at the time.

22 Q Do you know when you came to have that feeling?

23 A No.

24 Q Please do keep Exhibit 221 in front of you. I'm
25 going to show you another document. It is going to

367:1 Exhibit 235 -- Exhibit 535. Exhibit 535 is at CFC
2 2007-A-647234 through 647260.

3 (SEC Exhibit 535 was marked for
4 identification.)

5 BY MR. WYNN:

6 Q Just looking at the first page of this document,
7 Mr. Mozilo, do you recall participating in any type of
8 forum on September 12th, '06?

9 A I don't recall this specifically, but obviously I
10 did.

11 Q And this potential document does appear to be a
12 draft of the eventual speech that you gave at that forum.
13 Do you see the top where it says "draft, 8/24/06"?

14 A Uh-huh. Yes, I do.

15 Q Okay. And do you know who Mr. Baur is, B-a-u-r?

16 A B-a -- is that in here?

17 Q It's at the top in the CC line under "draft," the
18 very top of the document. Is it Baur?

19 A No.

20 Q And to your knowledge, are the people in the CC
21 line people who may have helped you with the speech or
22 also participated in the forum?

23 A Generally, as I said before, the people who
24 prepared this are -- is David Bigalow and Lisa Riordan and
25 reviewed by legal. Whether they ran these by Stan,

368:1 not sure who they ran them by.

2 Q If you turn to page 17 of the document, on page 17
3 there's a discussion of pay option arms. The last
4 paragraph, second to last sentence you state, "The
5 performance profile of this product is well understood
6 because of its 20-year history in the market place."

7 A Right.

8 Q "Which includes stress tests and difficult
9 environments."

10 A Right.

11 Q Are you referencing the World Savings experience at
12 this point?

13 MR. BRENNER: With all respect, you said this was a
14 draft of something. We're assuming that it was -- this
15 was actually delivered as it was written in the draft?

16 MR. WYNN: That's a good point. It is a draft.

17 BY MR. WYNN:

18 Q Do you recall giving this speech to these people --
19 I mean at the forum on September 12th?

20 A We had many investment forums, so I can't - I don't
21 remember this specific one.

22 Q Okay.

23 A But it's a statement that was made in another thing
24 you just gave me an hour ago.

25 Q Okay.

369:1 A Same statement. So it wouldn't surprise me that
2 it's being repeated here.

3 Q Okay. And to your knowledge, is that statement
4 referencing the World Savings experience?

5 A I would assume so. I didn't -- you know, I did not
6 create this draft or the speech. It was created by
7 another group. I would only assume that that's why they
8 used it as the basis. I don't know. I can't speak to
9 that.

10 Q In that same paragraph, there's a statement, "We
11 continue to believe pay option loans represent the best
12 whole loan type available for portfolio investment."

13 A That's right. We believe that.

14 Q Did you have that belief as of September 12th,
15 2006?

16 A At that point, until I was proven differently, I
17 raised questions, I had a lot of questions about the
18 product, but I was not convinced it was not a good product
19 for the bank.

20 Q What were the questions that you had about the
21 product?

22 A I articulated them. The more recent ones, I think
23 this was -- I don't know the dates, the September date and
24 this date. This is August, so I think that issue of
25 stated income may have come up later in this

370:1 don't know. You have the dates, I don't know. But the
2 ones I expressed were concerns about more people than I
3 thought would opt for the lower payment and, therefore,
4 creating negative amortization.

5 Q Okay. If we could refer back to Exhibit 221 now in
6 your September 26th E-mail to Mr. Sambol.

7 A If I have these dates right, this is August of
8 '06 -- or it's September 12th. Let's see.

9 MR. BRENNER: It says "August draft."

10 THE WITNESS: But it shows delivery, it was to be
11 delivered on September 12th.

12 BY MR. WYNN:

13 Q Right.

14 A And this is September. There's no date on this.

15 Q September 26th, 2006.

16 A 26th. It was after the fact, after the speech was
17 made.

18 Q So it seems that between -- if, in fact, this
19 speech was delivered on the 12th and you made the comment
20 about World Savings, it seems that between the 12th and
21 the 26th, you have come to conclude that the World Savings
22 experience is inapplicable to Countrywide and doesn't
23 offer a meaningful comparison.

24 A I think it's unrelated. There was no relationship
25 to what I was thinking here and what I was thinking

371:1 It was not -- try to make your point again. What's your
2 point?

3 Q Okay. On page 17 of Exhibit 535 which is the
4 speech --

5 A Yeah.

6 Q -- there's a statement, "The performance profile of
7 this product is well understood because of its 20-year
8 history in the market place which includes stress tests
9 and difficult environments."

10 A "World Savings" are your words, right, and not in
11 the speech.

12 Q Understood.

13 A Okay.

14 Q To your knowledge, does that statement refer to
15 World Savings?

16 A Again, I only assume so. I did not -- I did not do
17 the research personally to come up with these numbers.
18 This was done by the investor relations team.

19 Q And earlier we looked at a document from May 31st,
20 '06 where you give a speech and the same statement was
21 made. And with respect to that statement, you testified
22 that you thought that was referring to World Savings. Do
23 you recall that?

24 A Well, my assumption is that it was since it was a
25 20-year history. But I don't know for certain what

372:1 behind that number. I can only assume that.

2 Q Okay. So just to try to close this out, back on
3 Exhibit 221 on item 2, you state that, "The only history
4 we can look to is that of World Savings; however, their
5 portfolio is fundamentally different than ours in that
6 their focus was equity and our focus was FICO." To the
7 best of your recollection, when did you come to conclude
8 that the World Savings experience is fundamentally
9 different than that of Countrywide's?

10 A I don't know. It probably evolved over time. I
11 don't know, I just -- you know, these E-mails were not
12 research documents that a bunch of researchers do. This
13 is just instinctive, my opinion at the time. You've seen
14 a series of E-mails from me concerning myself over that
15 product, and that obviously is your focus. But I was also
16 concerned about a lot of things going on in the company,
17 and this happened to be one of them. And so I didn't -- I
18 can't tell you that one day a switch went on and said,
19 "There's a fundamental difference." There always was,
20 from the day we started this program, they had high down
21 payments, low FICOs; we went high FICO, low -- I'm sorry.
22 They went high down payments, low FICOs; we went lower
23 down payments, high FICOs. That was our model. So there
24 was a fundamental difference from day one.

25 Q And as of September 26th, 2006, did you

373:1 believe that pay option loans represented the best whole
2 loan type available for the investment?

3 A So far they proved to be factually the best product
4 for us in terms of delinquencies, in terms of earnings
5 income. And the fact that the issue that everybody was
6 concerned about, payment shock was substantially off in
7 future years. And so I considered it to be a good
8 product.

9 Q You had the belief as of September 26th, 2006?

10 A I don't -- I said this in the speech, and that's
11 the speech I delivered.

12 Q But did you, as of September 26th, 2006, continue
13 to believe that pay option loans represented --
14 constituted a good portfolio investment for the bank?

15 A As long as we didn't have a stressed environment,
16 as long as we didn't have the kind of debacle that we
17 currently face, I thought it was a product that we could
18 work through, and it had proved to be a good product for
19 the bank. Because if I didn't, I would have immediately
20 ordered all of the pay option loans to be sold out in the
21 secondary market, because there was already a secondary
22 market to sell them out into.

23 Q And I think you stated that World Savings had a
24 model that focused on equity, whereas Countrywide's model
25 was a focus on FICO.

374:1 A It was my understanding, I never spoke to them
2 about their model, but based upon Carlos's presentation to
3 me --

4 Q Right.

5 A -- that presentation indicated that it was based
6 upon lower FICOs and higher down payments.

7 Q Okay.

8 A And a high degree of refinancing. They refinanced
9 the same people over and over again into that product.

10 Q But it seems that in Exhibit 221, you're saying
11 that your preference would be to have a program that
12 focused on lower LTVs and perhaps lower FICOs, that you
13 would have rather focused on LTV.

14 A I don't think I said that.

15 Q I'm looking at the paragraph 2 when you say, "My
16 judgment as a long-time lender, I would always trade off
17 FICO for equity."

18 A Well, that's one of the aspects of it, but that's
19 not what I said I would do with Countrywide's portfolio.
20 That was not our culture, it was not our -- if I was
21 individually making a loan and got a 50 percent down
22 versus a ten percent down, you know, that's a theoretical
23 preference. But that was not the -- that was my judgment,
24 it was not a policy that Countrywide could execute.

25 Q Why not?

375:1 A Because you're dealing with low FICO borrowers that
2 you have to refinance over and over again in that same
3 product, keep on churning them. We don't do that. It's
4 not our culture. That's not what we do. That was the
5 fundamental difference between us and World Savings. They
6 churned an \$83 billion portfolio over and over again.

7 Q Are you saying it's not possible, in 2004 when
8 Countrywide introduced a product, to require a relatively
9 low loan-to-value ratio?

10 A It didn't lend itself to the type of loan that we
11 can effectively handle in our prime area because we made
12 the decision that we were not going to have this loan in
13 subprime. This was not a subprime borrower loan. We felt
14 strongly that a subprime borrower would not understand
15 this and that it would be very difficult for them to
16 manage it, and we were not structured to deal with low
17 FICO borrowers having this product. So we only had it in
18 the prime borrower category.

19 Q And what did you mean in the final sentence of that
20 paragraph where you state that you're flying blind on how
21 the loans will perform in a stressed environment, higher
22 unemployment, reduced values and --

23 A Like I say, it speaks for itself. I don't know,
24 based upon higher unemployment and other factors, how
25 these loans will perform. They may perform fine,

376:1 not.

2 Q And when did you come to conclude that you didn't
3 know how the loans would perform? Excuse me. Let me take
4 that back.

5 When did you come to conclude that the company was
6 flying blind on how the pay option would perform in
7 stressed environments?

8 A These are not epiphanies, this is just an
9 observation that I made at writing this memo. It
10 wasn't -- I didn't conclude -- I wrote -- this was my
11 observation at the time I wrote the memo.

12 Q Well, did you have a similar thought or observation
13 as of September 12th, 2006?

14 A I don't remember September 12th, what I was doing
15 on September 12th.

16 Q One of the exhibits suggests that you were giving a
17 speech before a leveraging opportunities forum where you
18 mentioned that the pay options had a 20-year performance
19 history including in stressed environments, and then on
20 the 26th you say that the company's flying blind on how
21 loans are performing in stressed environments.

22 A That's true. I don't think they're incompatible.

23 Q Okay. How is this incompatible?

24 A Because here you have history, and here I'm talking
25 about what could potentially happen in the future.

377:1 could potentially happen in the future. So --

2 MR. MCLUCAS: And if I might, the E-mail says
3 "stressed environment of higher unemployment, reduced
4 values, and slowing home sales." I don't know what the
5 history is that's referred to in "stressed environments"
6 and this speech or in this exhibit, but I don't know if
7 you had all three of those things historically affect this
8 kind of loan portfolio in the past.

9 THE WITNESS: Look, I think what the issue here is
10 that you're trying to pick points in time, and I'm -- as I
11 said now on several occasions, I was deeply concerned
12 about every aspect of the company and the company's
13 operation. You're focused on pay options and those are
14 the E-mails you are getting. You will find E-mails on
15 every aspect of the company relative to this kind of
16 thing. I'm concerned, I don't know, we should be
17 prepared. And so it wasn't -- and what I rely upon is
18 feedback from people saying to me, "Look, this is
19 something that is a valid concern," or, "This is something
20 that you shouldn't be concerned about." But this was not,
21 "When did I conclude?" I can't respond to you.

22 BY MR. BENDELL:

23 Q Mr. Mozilo, in the fall of 2006, did you have a
24 similar concern that Countrywide was flying blind with
25 regard to the performance of any loans other than

378:1 option arms?

2 A I had similar concerns which I think was expressed
3 in the E-mails about our HELOCs.

4 Q What do you mean? When you say "similar concerns
5 about the HELOCs," do you mean that --

6 A Performance concerns, what was going to happen in
7 the future. Performance concerns.

8 Q Right. But did you have the same concerns that are
9 expressed here that are, you know, to paraphrase, you
10 know, the lack of a history to look to? I mean, in this
11 reference, you reference the World Savings history, but
12 then you explain why it's not applicable. So did you have
13 a similar concern with HELOCs with regard to the history?

14 A Yeah, HELOCs are second mortgages, essentially, and
15 they have a supported position. And that supported
16 position placed a greater risk on that product, and that
17 was in the bank. It was -- you know, again, many banks
18 have -- well, most banks have home equity loans, it's a
19 big product for banks. It was a substantial product for
20 us, and -- but I can tell you that the business of
21 finance, in general, you are flying in the blind, you have
22 no idea, as it's been evidenced over the last 12 months.
23 Bear Stearns had no concept this would happen to them, or
24 Merrill Lynch, or AIG, or UBS, or the litany of companies.
25 So in our business, it's -- despite the use

379:1 words "stress test" and we use stress tests, that there
2 are force de jours (sic) that happen that we just don't
3 know. And that was my concern. So I have an ongoing
4 concern about all the products. It just so happened that
5 this product was in the bank as well as the HELOCs.

6 Q All right. Well, when you expressed the concern
7 that the company was flying blind with regard to pay
8 option arms, did you get any sense for whether anyone else
9 agreed with your concern or shared your concern?

10 A Well, I saw a memo here that I just saw for the
11 first time -- I don't remember seeing it, but this is from
12 John McMurray to me back in --

13 Q Yeah, and I'm not asking you about what you're
14 reading today.

15 A I just want to get ahead of you.

16 Q Yes. I guess I'm asking you at the time back in
17 the fall of 2006, did you have any sense for whether
18 anyone in the entire Countrywide organization shared your
19 concern about flying blind on pay option arms?

20 A Well, it was my term. I don't think anybody would
21 use those terms. That was my -- it was terms that I use.
22 Nobody came to me and said, "We're flying blind." I used
23 that. I have -- I use hyperboles, that's my style.

24 But the people that I'm addressing it to, I never
25 had a recollection that Stan or Dave Sambol or

380:1 particular who was running the bank ever said, "We are
2 flying in the blind, we have no idea where we're going."
3 Not at all. I mean, that would cause me some real
4 concern.

5 Q Okay. Well, I'm happy to use a different, more
6 generic phraseology to get at the issue.

7 So I mean, were you aware of whether anyone else at
8 the company shared your concern that Countrywide didn't
9 have relevant historical data with which to make
10 predictions about the pay performance of pay option arms?

11 A I was not aware of anybody.

12 Q But is that -- so why were you communicating to
13 Dave Sambol and Carlos Garcia that you had that
14 responsibility?

15 A Because that's my responsibility as CEO to express
16 my concerns.

17 Q And did you view having any responsibility beyond
18 just expressing the concern to your subordinates?

19 A To get a response, to tell me why they're not
20 concerned.

21 Q Did you ultimately do that?

22 A Yes.

23 Q Okay. And who was it that responded to you?

24 A Well, you know, again, this was an ongoing
25 conversation. You're picking E-mails. This is an

381:1 continuum and an ongoing discussion with Carlos about this
2 issue. And in fact, I think that Carlos demonstrated to
3 me that our pay option loans are performing better than
4 anybody else's portfolio pay option loans based upon
5 industry statistics, delinquency, foreclosure, etc. And
6 so I relied heavily upon their input. These people have
7 been here with me a long time, had the same concerns I had
8 about the company. I just have a different way of
9 expressing them.

10 But I put out the memo, and they either responded
11 to me in writing or verbally, and then changes were made.
12 I think -- and this is just from memory. I think our
13 volumes or pay options loans diminished, kept on shrinking
14 down as a result of that concern.

15 Q Did you have any concern that perhaps your
16 subordinates were looking at pay option arms in the same
17 way that the rest -- that the secondary market was, which
18 you described as mispricing the pay option arms?

19 A I never asked them. It was a statement. It was my
20 opinion that they were mispricing.

21 Q Right. No. But I guess my point is if the entire
22 market, the secondary market is looking at the pay option
23 arms in a way that you view is different than your view of
24 the pay option arms, how did you assure yourself as to
25 where your management -- your subordinates were?

382:1 That's -- let me withdraw the question because that -- you
2 can't answer that. Let me try this again.

3 Is it fair to say -- from your statement that you
4 believed that the pay option arms were currently mispriced
5 in the secondary market, is it fair to infer from that
6 that you believed that the secondary market was
7 incorrectly predicting the expected performance of those
8 loans? Is that what underlays a mispricing?

9 A No. Mispricing is -- they were -- it was -- the
10 information I had was they were paying up for that
11 product.

12 Q More than you thought they were -- their inherent
13 value was?

14 A That was my opinion. They were mispricing it. I
15 could have been proven wrong over time.

16 Q I understand that. But your opinion at the time
17 was that they were paying higher than they actually worth?

18 A Which had no value whatsoever. That was my
19 opinion.

20 Q Your opinion? Wait. I'm sorry. What had no
21 value?

22 A No value to the secondary market. That was my
23 opinion that the secondary market was mispricing, and that
24 was the price they were willing to pay for the product.

25 Q So I guess my question, though, is there's

383:1 of people in the secondary market looking at the same data
2 you are and coming to a different conclusion than you are;
3 is that fair?

4 A Obviously.

5 Q Well, then I guess my question is, you know, to
6 what extent could you have any comfort that your
7 subordinates to whom you were communicating this weren't
8 going to make the exact same mistake that you perceived
9 the entire secondary market was making?

10 A It was unrelated. Our price was our price. If we
11 were originating at 98 and the market was willing to pay
12 par, that was our price. It was built in. And it was
13 totally unrelated. The secondary market had the liberty
14 to price product at any price they want. We also to make
15 sure that the product we were putting on our books,
16 particularly in the bank, met our yield hurdles. We had
17 yield hurdles and a budget. And if the secondary market
18 wanted to make more for it, that's fine, it's their
19 business. And we sold it to the secondary market.

20 But I didn't know how long that would last. It
21 could have stayed, it could have continued, but, you know,
22 somebody one day says, "We're not going to do that
23 anymore." And we had to be prepared for it. Because that
24 happened before with other products. There was a
25 voracious appetite in the secondary market for loan

384:1 products, and there was greater demand than there was
2 supply.

3 Q So if your concern about the performance of pay
4 option arms in a stressed environment were to turn out to
5 be correct, then the problem would actually come from two
6 fronts. It would come from the secondary market not
7 wanting to purchase them anymore, or at least not at those
8 prices you described, and then it would also come from the
9 loans that were on the bank's portfolio; is that fair?

10 A Originating -- yeah, that's what happens.

11 Q And so what, if anything, did you do to assure
12 yourself that your subordinates weren't making the same
13 analytical mistakes that you perceived the secondary
14 market was making?

15 A Because we weren't.

16 Q I'm sorry?

17 A We weren't. I'm stating it right here in the memo
18 that the market's mispricing it, and that means they're
19 pricing it, you know, different than we're pricing it.
20 Now, that's my assessment. Now, other mortgage companies
21 could have been pricing it same as the secondary market, I
22 don't know. I just have a general concern about making
23 certain that we were originating these loans properly, we
24 were servicing them properly, and they were performing
25 properly as we expected on the balance sheet.

385:1 BY MR. WYNN:

2 Q Were your instructions complied with in the final
3 paragraph of this exhibit?

4 A I can't say with certainty that they were. I don't
5 know.

6 Q Are those instructions -- are you instructing
7 someone to start selling newly originated pay options?

8 A I said, "Therefore, I believe the timing is right."
9 Now, other people have to determine whether the timing is
10 right or not.

11 Q And Mr. McMurray said that you BCC'd him on this
12 E-mail. Do you recall doing that?

13 A I don't recall doing it, but I see that he said, "I
14 was very happy to see your E-mail," and this is the first
15 time I saw this.

16 Q So as the CEO, the chief executive officer, you
17 think that the company strategy with respect to pay
18 options needs to change. Did that happen in September of
19 2006?

20 A I don't know if it happened in September 2006, but
21 it -- over time that product became more constricted, we
22 became -- and the volumes that we were taking in became
23 less and less, and less significant as a result of us
24 constricting the product, and it went someplace else.

25 Q Are you saying that in response to this

386:1 that underwriting guidelines that had to do pay options
2 were tightened in any way?

3 A I believe so. I believe they were tightened
4 substantially. I think that you see in the previous
5 E-mails about the higher FICOs and the higher down
6 payments, all of those changes, you know, in my
7 discussions with Dave Sambol and prior to Stan Kurland,
8 that we those changes were being made.

9 MR. BRENNER: The question -- just to be clear, the
10 question he asked you is did those changes flow
11 specifically from this particular E-mail?

12 THE WITNESS: No. I think that you presented me
13 with probably 15 E-mails or 20 E-mails or 30 E-mails,
14 whatever you presented me with today. All of this was
15 having an effect on how we were originating these loans to
16 reflect my concerns about the product. Whether -- you
17 know, again, these are judgment calls that I'm making, and
18 again, I rely upon input of my senior executives to help
19 me with these judgment calls. And that's -- and so over
20 time, the nature of that product continued to change, and,
21 therefore, as a result of those changes, we did less and
22 less of it.

23 MR. WYNN: All right. Mr. Mozilo, we're going to
24 conclude your testimony for today. And as we've agreed
25 with your attorneys, we'll resume tomorrow morning

387:1 I would like to afford you, as well as the
2 attorneys, the opportunity to clarify things for the
3 record via statements or questions from your attorneys.

4 MR. BRENNER: No, thanks.

5 MR. WYNN: Okay. We'll go off the record. It's
6 5:12 p.m. on August 20th, 2008.

7 (Whereupon, at 5:12 p.m., the examination was
8 concluded.)

9 * * * * *

10
11
12
13
14
15
16
17
18
19
20
21
22
23
24