THE UNITED STATES SECURITIES AND EXCHANGE COMMISSION

In the Matter of:)
) File No. LA-03370-A
COUNTRYWIDE FINANCIAL CORPORATION)

WITNESS: Angelo Mozilo
PAGES: 390 through 627
PLACE: Securities and Exchange Commission
5670 Wilshire Boulevard, 11th Floor
Los Angeles, California 90036
DATE: Thursday, August 21, 2008

The above-entitled matter came on for hearing, pursuant to notice, at 9:08 a.m.

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APPEARANCES:

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C O N T E N T S

EXHIBITS

393:1

EXHIBITS (Continued)

EXHIBITS	DESCRIPTION	IDENTIFIED
554	E-mail, Bates CFC2007A363449 to 450, 2 pages	585
555	E-mail, Bates CFC2007B668917 to 920; 4 pages	593
556	E-mail, Bates CFC2007A364591 to 592; 2 pages	604
557	E-mail, Bates CFC2007A373214 to 219; 2-27-07	605

PREVIOUSLY MARKED EXHIBITS

EXHIBITS	DESCRIPTION	IDENTIFIED
45	E-mails, Bates CFC2007B277227 to 277232	395
59	E-mail, Bates CFC2007B011868 to 869	488
200	E-mail Bates JPM000969 to 976	491
214	E-mail dated June 1, 2006	483
216	E-mail, Bates CFC2007A473297 to 298	560
226	E-mail, dated 9-7-07 Bates JPM000313 to 316	486
277	Bates CFC2007829058 to 067, 12-7-06	609
524	Subpoena	394

394:1 P R O C E E D I N G S

MR. PUATHASNANON: Let's go on the record at 9:08, August 21st, 2008.

Whereupon,

ANGELO MOZILO

was called as a witness and, having been first duly sworn, was examined and testified as follows:

EXAMINATION

BY MR. PUATHASNANON:

Q Good morning, Mr. Mozilo. As you know, I am Sam Puathasnanon. This is Lynn Dean and Spencer Bendell, and we are officers of the Commission for the purposes of this proceeding. We are today resuming the examination of Angelo Mozilo, which was adjourned yesterday, August 20th, 2008.

Would counsel please identify themselves.

MR. McLUCAS: Bill McLucas, from WilmerHale.

MR. BRENNER: Joseph Brenner, from WilmerHale.

MR. GREEN: Joel Green, from WilmerHale.

BY MR. PUATHASNANON:

Q Testimony today is pursuant to a Commission subpoena, which has previously been marked as Exhibit No. 524.

(SEC Exhibit 524 was referred to.)

BY MS. DEAN:

Q Mr. Mozilo, do you understand that you remain under

395:1 oath?

A I do.

Q I hand you what's been marked as Government Exhibit 45. It's a series of e-mails Bates-numbered CFC 2007B, as in boy, 277227 through 277232.

(SEC Exhibit 45 was referred to.)

BY MR. PUATHASNANON:

Q Take your time reviewing the document, and when you're ready, please let me know, Mr. Mozilo.

A Okay.

Q First of all, Mr. Mozilo, what is a flash report?

A It's a -- I believe a monthly record of delinquencies -- delinquency trends.

Q Did you regularly receive flash reports?

A I did.

Q And that would be for the different products offered by Countrywide?

A As I recall, the flash report included all products.

Q Turning your attention to the third page of the document, which includes an e-mail from you to Mr. Bailey on July 10th, 2006.

A Yes.

Q Yesterday, if I remember correctly, you mentioned

396:1 that the area of primary concern with respect to pay-option ARMs was the percentage of people making the minimum payment; is that correct?

A The increasing number, right.

Q Okay. Here, your focus seems to be, now, on the delinquency; is that correct?

A My focus in this memo is that, yeah.

Q What was it about the higher delinquency that caused you to raise the issue with others in this context here in July -- in June -- sorry, in July 2006?

A I'd be concerned about any product, individually or collectively, when delinquencies are rising. Rising delinquencies could portend a future loss for the company. And so it was not uncommon for me to be focused on delinquencies of all products, whether it be pay options or hybrids or HELOCs or any of those products.

Q And so what you're focused here on is the fact that the delinquency rate as to pay options was going up?

A That's what the flash report, I believe, indicated.

Q Okay. Was there any other aspect of the delinquency numbers in this flash report that was a cause of concern for you?

A I don't recall whether there was anything else that was a concern. I happened to be focused on this particular issue. And that's why I raised the issue.

Q And then in the first sentence, you mentioned standard book of business. Are you referring to all the company's loans as a group, or are you referring to some subset?
A Where is that?
Q Sorry. It's the second line of the e-mail. It's the end of the first sentence.
A This is on -- okay. I'm sorry. Yeah, our standard book of business. It's talking about all of our book of business.
Q So the delinquency rate in the company generally?
A Well, I would say that probably I'd have to -- you know, my -- probably my thought at that time was the first mortgage business. I was focused on the -- the -- all of the first mortgage business, which all had -- I mean, aside from the 30-years fixed, all had a payment shock component, any variable rate was much worse than the pay option, because it was happening every year, versus way out in the outer years, but I would say the standard book was -- would be everything but the second mortgages.
Q And did you have a sense as to what the delinquency rate on the standard book of business was at this time?
A I think I was looking at the flash report, and it indicated -- but I was primarily focused on the trend of the pay options.

398:1 Q In the second part of that e-mail, you focus -- well, you talk about the low payment requirements of a negative am loan. When -- the low payment requirements, are you referring to the fact that borrowers can make the minimum payment?

A Correct.

Q Okay. And why was that alarming to you in this context, because of the low payment requirements? Why was the delinquency rate alarming to you?

A You wouldn't -- I wouldn't expect that the delinquencies would be rising when people are making the minimum payment required.

Q You asked --

BY MS. DEAN:

Q Would the fact that the borrowers were able to make the minimum payment expose Countrywide to the higher loss severity in the event of a default?

A It would depend. You'd only have a default, obviously, if the delinquency ultimately ended in a foreclosure. And if interest rates continued to rise, therefore exacerbating the negative am, and if values of the home went down. A lot of things had to happen for that to happen. But as a lender, your focus has to be on the delinquencies because that's the way you take the temperature of the product that you are originating.

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And an example would be that a product, such as the FHA ARM, albeit a product that looked very sound, when produced, it -- when created by the Federal Housing Administration was a very problematic product. And the only way I knew that was through delinquencies. And it was a product that we ceased, ultimately -- or I think FHA had ended it, or somebody, but it just didn't work. But that's how you -- that's how you monitor -- that's how I monitored it.

Q But in this case, with respect to the pay-option ARMs, the negative amortization would expose Countrywide to the possibility that a foreclosed property would actually be worth less than the loan amount; correct?

A Not necessarily.

Q Well, in the event that there was negative amortization that added to the loan balance on -- for example, on 100 percent loan to value.

A Right.

Q If you had negative amortization that added to the loan balance, in the event of a foreclosure, the foreclosed property would be worth less than the balance of the loan; correct?

A They're unrelated. The foreclosed -- the value of a property is unrelated to the loan amount. The value of the property is related to what's happening to values in the

400:1 community, so it's a totally unrelated issue.

It is true what you say, that to the extent that the loan amount is accreting, that whatever in relationship to what you sell the property for, there's less of a profit or greater loss or whatever might happen, but the concept of negative amortization has been around for many years, not in pay options, but many loans have a negative amortization component. The pay option was not the first loan with a negative am component. Negative amortization loans have been around for many years.

Q Well, let me just ask you the question this way, then. You say your July 10th, 2006 e-mail that the higher delinquency rate is alarming in light of the very low payment requirements on the loan. What was it about the low payment requirements that made the delinquencies more alarming than the delinquencies in the standard book of business?

A Again, where people are making the minimum payment, you would expect to have lower delinquencies.

Q Oh, I see. Because, in fact, the minimum payment is not even enough to actually pay the interest that's accruing on the loan?

A Yeah. I mean, if Sam had a 30-year fixed rate loan that's paying full amortization, you have -- everything else being equal -- you're making a minimum payment, he has a 700 FICO. You have a 700 FICO. I would expect you have less of

401:1 a chance of being delinquent than he would be.

Q I see.

A That's just my expectation. That's my expectation. There's no formula to this. There's not history on this, but that's my expectation.

MS. DEAN: Okay. Thank you.

THE WITNESS: You're welcome.

BY MR. PUATHASNANON:

Q So in response to your July 10, 2006 e-mail, Mr. Bailey writes a relatively detailed e-mail attempting to address concerns that have been raised by you and perhaps by others. Did you have any comfort in the explanation that Mr. Bailey gave to you with respect to the issues that are identified?

A I took great confidence, because this was a result of a dialogue that -- not only that you've produced in writing over and over again, my concerns about a new -- relatively new product for Countrywide. And I had -- we had talked about ways of addressing the issue of making certain that the consumer fully understood what this loan was about and the consequences of them continuing to make the minimum payment and what negative amortization was about and the impact on them.

And these issues, that I recall, and that I read here, addressed that issue. Putting out a warning letter. I think it was -- not by -- I think it was a letter by -- by Clifford Rossi, I think -- I get these all mixed up here, so I don't know who it was from. Maybe it was from Bailey, but whatever. I took comfort in the fact that -- a couple of things. One, that my suspicion that delinquencies was higher was not a valid suspicion; it was basically along the same lines as the rest of the product, that I had either misread the flash report or -- whatever led me down that path, I don't know.

But I took comfort in the fact that a couple of things: One is that it was not higher or higher to any alarming degree; secondly, that the volumes had substantially leveled off, that the use of negative amortization had leveled off, that we had changed the coupon structure so it made it more difficult for borrowers to make that minimum payment, and we put out warning letters to the borrowers hoping to get them to either partially amortize their mortgage or to make a full payment.

So I believe they took all the steps that -- everything that you were looking at yesterday was leading up to -- to stabilize that business. Now, again I have to point out that this product, in some respects, was safer than the standard ARM loan, because the ARM loan, in a three-year ARM, for example, we knew in three years there was going to be a reset. And this loan, depending upon market conditions, I

403:1 think the indication was somewhere around 2010 is when the loans were going to be facing reset. In that four-year -- three- or four-year period, a lot of things can happen.

And historically, people, even when there was a lot of negative am out there, these were resolved through the higher prices that people sold their houses, or they refinanced them into another loan, got out of it, none of these types of loans ultimately ended up in a crisis. So there's lots of time, as I continued to harp on the product, for people to correct their behavior, for the market to change, and for things to turn out as they had over the past 55 years I've been in the business, that it would be okay.

MR. BENDELL: So was it your understanding at the time, back in the summer of 2006, that something needed to change in order for everything to be okay, as you just described?

THE WITNESS: No. It wasn't my understanding at all. I think the -- what I asked for were changes to be made to provide the borrower with a better understanding of what they were facing so that they were fully apprised and -- of the consequence of making partial payments and that -- and also, you'll see, I think, as I read in here, that the prepayment fees were increasing, so people were refinancing out of these loans, and that the situation at that time did not indicate that this was ultimately going to lead to some

404:1 kind of situation that we have today. And I have to say that it wasn't pay-option loans that had caused the issue with Countrywide; it was a worldwide credit crisis that affected us as well as the entire financial services industry.

MS. DEAN: Mr. Mozilo, can I just ask you to turn to the page of Exhibit 45 that ends in the Bates stamp number 231. It's the actual statistics for the flash report. In your e-mail, you indicated that if you were reading the numbers correctly, you were under the impression that the pay-option portfolio had a higher rate of delinquency. And I was wondering if you could point me to whatever it was in the flash report that led you to that conclusion.

THE WITNESS: Well, the first thing I'm looking at here is the pay-off percentage I'm talking about from 220 to 238 are pay options. These are neg am. The percentage of negative loans -- let me just work my way through this thing -- negative amortizing, you can see it went from 69 percent to 71 percent, the negative am delinquency going from 205 to 223. Do you see that down at the last item on the -- when it gets -- it says, "total origination on the pay-option ARMs," it was 98, a total -- a cumulative that we had done. Principal balance was 100 billion, so soon there was $2 billion of negative am. And as you work your way down, you can see the negative am unpaid balance is a 101 percent from -- from whatever it started out at. So it went 101, 101.12, 405:1 101.27. So the trend is -- you know, albeit this is my level of sensitivity to a new product.

MS. DEAN: So you were looking at trends and what you saw was an increase in the amount of negative amortization and also if you look at the delinquency line percentage, which is actually closer to the top of the document, it looks like it went from 1.83 to 2.03 as well. So were -- is that what was concerning you, is just the trend that you were seeing?

THE WITNESS: Any -- and I know that your focus is pay options. That was the -- I -- and that's what you -- those are all the e-mails you pulled; whatever said "pay option," you pulled. There are hundreds and hundreds of e-mails about all other issues in the company, including other products that I was concerned about because I think that, again, for two reasons, as I explained yesterday, one is this was part of who I was. This was Countrywide; countrywide was me. And therefore, I was very much involved in everything that was going on in Countrywide.

And there are a lot of things that can bring a mortgage company down. One of them is delinquencies, one of them is one I never expected, and that is not being able to access the capital or the dead markets. That, I never -- was never -- you know, that's what I should have been writing about. And that should have been just closed up, because

406:1 that would have been the end of it, but that wasn't my focus. My focus was on production, on expenses, on the trend of products that we had, and this was one of them that I sent -- but I sent many, many e-mails, and many about this particular product. And each time, you'll see, if you have -- if you take the totality of what I talked about yesterday, Sam, and that was that I sent out memos with a lot of hyperbole to get attention, and I always got back a response -- mostly in writing.

If you look through the e-mails, you'll find responses -- which gave me comfort that my concerns were being addressed, and that we were okay. And the reason for that was the same team that helped me build a company from zero to a fortune 100 company, these are smart people and concerned people, and that's what I relied upon. And this memo, I think, completes that. It tells a story as to why they believe things are okay.

BY MR. PUATHASNANON:

Q You mentioned in a prior answer that you -- that the 2010 was the year in which there could be a reset issue with respect to the pay-option ARMs?

A I believe I read that in one of the -- my recollection is that I read that in one of the memos that originally it was 2009, but they felt that because of interest rate movements in 2010. I believe that was my -- I sort of recall that number.

Q And what you're referring to is perhaps some sort of internal projection that was done within Countrywide?

A I believe it was an internal projection, yes, because it only related to our portfolio. So it had nothing to do with anybody else's portfolio.

Q You also mentioned in connection with the pay-option ARMs is that it appears that the use of negative amortization had leveled off; is that correct?

A I think that's what this -- something just said that.

MR. BRENNER: It says that in this e-mail. I think that says that in this e-mail.

THE WITNESS: It said -- I thought I read it as I went through the e-mail.

THE WITNESS: Yeah. "Although it has leveled off at a pretty high percentage, it could be observed that many of the customers are merely taking advantage of what their product offers. The vast majority of customers are well under any alarming negative amortization percentage as the flash report indicates."

BY MR. PUATHASNANON:

Q And I'm going to ask that -- Mr. Bailey sort of gave you the trend over the previous eight or nine months. The trend, starting from September -- and I think that the

408:1 columns have shifted -- but starting from September, the percentage was 37 percent. In May -- or June, the percentage had gone to 71 percent. Did you look at the totality of the numbers and the trend of the numbers of -- in negative amortization from September to June?

A I thought, Sam, that we went through this many times yesterday, over and over again, with a chart that you gave me, which I said that I had focused on, which showed that same -- this same trend in the chart and that that was my concern, was that more and more people were using the negative am, and these are high FICO borrowers, and why were they doing that?

Q And I understand that you're sort of referencing perhaps an e-mail in a -- what I'm focusing here on is Mr. Bailey is telling you that the minimum has leveled off. You've said that Mr. Bailey's explanation has given you comfort. And I'm asking you, with respect to the movement of September of '05 at 37 percent of negative amortization to June of '06 to 71 percent, whether you still had concern about that after receiving this e-mail?

A What gave me some comfort is that it had leveled off. Also, the numbers, I believe, you -- you -- when a loan is put on the books, there is no payment made, zero, so everybody is current. So it takes a -- so the first payment -- so the first group of loans you're putting on would show

409:1 no minimum payment, and a minimum -- as the book matures, you're going to see more and more of a minimum payment -- more borrowers do it. My expectation was maybe 50 percent. When I began to see it get over 60 percent, that's when you saw my series of memos that you presented to me yesterday, a whole series of them related to that particular issue.

Q And so as of June 2000 -- well, as of the results of June 2006, where negative amortization was at 71 percent, are you saying that that number, in and of itself, was not something that concerned you?

A No. I'm saying --

MR. McLUCAS: That's not what he said.

MR. PUATHASNANON: I'm not --

THE WITNESS: I'm not saying that at all. I'm going to say it -- I'll say it again, and I'll respond to this, the same response. I expressed a concern about the trend early on, in the memos in May and June, and the -- this trend was not a surprise to me, because I had seen it earlier. What was comforting me is the fact that it appeared to be leveling off.

BY MR. PUATHASNANON:

Q When you say -- so it leveled off. You know, I -- when you say "leveled off," are you -- it's Mr. Bailey's terms, but did you understand that to mean from the previous month, from the previous --

410:1 A I under- -- no, I understood that it's leveling off at around 71 percent, that would be my understanding.

Q And the number -- the percentage of negative amortization being 71 percent, was that number, in and of itself, a concern to you?

A No.

Q Why not?

A Well, because up to that point, our delinquencies were in line, the people that were involved with servicing these loans had given me comfort, in writing, that we were okay, and that there were indications that these loans were being paid off at a quicker rate than any of the rest of our book of business, and that the trend would be heading in the right direction.

Q And so if delinquencies continued to be consistent with the standard book of business, are you saying that the percentage of negative amortization becomes unimportant to you?

A What I'm saying is that, as of this report, that the fact that we had gone from 70 to 71 percent, and then from March, three months later, gone up 3 percent, total, and, in fact, from February, 5 percent increase, and the information I received that this was leveling off, and the delinquencies at this time and the steps taken to alert borrowers as to the consequences, the totality of what you presented here gave me comfort that we were okay.

Q You also mentioned in an earlier response that the volume had leveled off. What were you referring to with respect to the volume? Are you talking about the volume of the loans being originated?

A Yes. It was my understanding -- and I don't know if that's part of this memo -- but that the volume, because we had tightened down on our underwriting requirements, that our volumes were leveling off to decreasing. That was my understanding. Volumes of new originations.

BY MS. DEAN:

Q Why did the fact that volumes were -- of origination decreasing matter?

A Well, because that's the -- that's the business we're in. We originate loans. That's how we make money. And so it -- in one sense, volumes of -- if we did zero business, we would have no company. So to the extent that you're -- you're doing business, you're generating revenues, and revenues are the backbone of the viability of any company.

So originations, since that was our primary source of income, in certain markets, servicing and other markets, servicing lost a lot of money in lower interest rate markets where people were prepaying rapidly, but originations made a lot of money in that market. So volumes are always -- those are the two businesses that we're in, servicing and

412:1 originations. And without originations, we don't have servicing. So --

Q But I -- I'm sorry, I didn't mean to cut you off.

A Yeah. I wanted to -- so why -- now -- so therefore, overall, volumes in itself is the -- is a revenue stream of the company. That's the revenue. So the revenue stream is important. These loans, because of my concern about them, my personal concern about them, which I continued to express, and the -- we began to put -- make changes in our underwriting, and as a result of that, that business went somewhere else; in other words, we wouldn't approve the loan. And those loans tended to go wherever they went. Because it was a very, very popular product and everybody was doing them. Countrywide wasn't the only one doing pay options. Everybody was doing pay options of one kind or another. So our volumes were -- were leveling off, and I think ultimately dropping -- dropping severely, and I took comfort in that.

Q Well, I understand that you took comfort in it. I'm just trying to understand why, given your response that volume was actually important in driving revenue, why the fact that you writing fewer loans would give you comfort in this particular situation.

A Well, because there's two aspects to it. I mean, there's the aspect you can originate -- I could have originated ten times the loans I originated if I wanted to be

413:1 a New Century or Ameriquest. So there is a qualitative issue and a quantitative issue, and you have to find a balance -- constantly find a balance. And so what you try to do is product -- you don't know when you're originating product to start with how it's go to perform. You really have no idea how it's going to perform, you know, unless you're a hard money lender or something like that.

So you -- as you begin observing a product, you begin making changes necessary to make sure that it's manageable, that it fits within your management expertise. And you have to sometimes give up volume and find other ways to -- to generate revenues, as we did through the insurance company and through capital markets and other businesses that we had, to make up the difference or -- and/or, as you can see here, is shrink, shrink the balance sheet, shrink the company, and cut your expenses.

But you just can't continue, even though it is -- it is an essential part of what a company is about, revenue stream. You have to be concerned about the quality of the revenue.

Q Well, I know you didn't write this part of the e-mail, but it does follow on what you just said, which is -- if you look on the front page of Exhibit 45, there's an e-mail from Carlos Garcia to Mike Muir. It's in the center part of the page. It's on the very front. And Mr. Garcia forwards your e-mail to Mike Muir and then adds a note indicating, quote, we need our pay option risk segments for pruning, close quote. Do you know what Mr. Garcia was referring to there?

A Where are you here?

MR. McLUCAS: Right here.

THE WITNESS: Also --

MR. McLUCAS: Do you know what Garcia was referring to?

MR. BRENNER: It's not sent to you, but she's asking you if understand what it meant.

BY MS. DEAN:

Q I'm just asking if you know what it meant.

A I have no idea what that means. It may be an internal language with the credit people. I have no idea what that means. I wouldn't even hazard a guess.

Q Mr. Mozilo, do you know who made the decision to hold the percentage of pay-option ARM loans in held for investment at the bank?

A The primary decision as to how the assets of the company were -- the disposition of the assets of the company was the -- was Stan Kurland, as the president and CEO; Sieracki was the CFO; Kevin Bartlett, who was involved in the process; Carlos, certainly, who was running the bank as to making a determination as to what was the best asset mix for

415:1 the bank relative to their earnings expectations. So it was a team. It was a team effort.

And I think that the -- I had, as you know -- you weren't here yesterday -- but I had asked that a portion of it be sold in the secondary market, and eventually that evolved into a decision that it would be better for the company, for the shareholders, in terms of its earning potential, to retain that book of business because we're able to achieve the -- get 70 percent of that portfolio insured by Genworth, who had looked at it, were comfortable with it, and insured it. When you looked at the return hurdles, looked at the performance of the loans, the returns expectations, plus the insurance, that appeared to be the best investment for the bank.

Q Were you involved in that decision-making process?

A I was involved in -- yeah, obviously, I started it, you know. And I was not involved in the intimate interactions and discussions of the insurance that went -- when that was -- when that was investigated, I didn't start the -- I didn't know there was insurance available. So there was a lot of work that was done, but I was certainly aware of the conclusion.

Q You know what? I asked a poor question. So let me ask it again.

Were you involved in the decision, the initial

416:1 decision to hold pay-option ARM loans in the portfolio of held for investment at the bank?

A Let me answer it this way, that the product that -- that was best suited for the bank at that time were pay option and home equity loans, and I agreed with that.

Q It sounds like someone might have told you that that product was the most suitable; is that what happened?

A That's right. That's right. The quantitative people -- I rely upon credit people and quantitative people to inform me of what is the best asset for the bank. I'm not running the bank on a day-to-day basis. I'm running the overall company, the bank. For a long time, it was a very small part of Countrywide.

Q So if you were assured at the beginning of the process that holding on to pay-option ARM loans in the bank's portfolio was a sound investment for the bank, what prompted your desire to sell a portion of the portfolio in September -- I'm sorry, yes, in September of 2006?

A A lot of things have transpired since the founding of the bank. And since our -- I think we began putting -- I'm not sure of the dates -- but around 2004, 2005, a year or so before that, began putting loans in the bank and everything was performing well.

When I began looking at trends -- and this is not a loan that sold in the secondary market; this is a loan that

417:1 we own. And I was trying to achieve a balance and not have such a concentration of that product. That was my feeling at the time and that's why I kept on -- because things -- things as, you know, in business are not static; they change every single day. So what appeared to be a -- the proper decision a year or two before, I began to question, because of change in circumstances.

MS. DEAN: Okay. Thank you.

THE WITNESS: You're welcome.

BY MR. PUATHASNANON:

Q What change in circumstances are you referring to?

A The trend in -- the trend in the number of people making the minimum payment.

Q So from where -- what we've just looked at in Government Exhibit 45, that trend continued; is that what you're saying?

A The trend --

Q Because -- and the reason I ask that, is at this point you say that you had some comfort that the portfolio was performing in line with other products that the company was offering.

A With the exception of what the delinquencies were, but the negative am component had reached now 70 percent of the portfolio, versus 20 percent back seven months before. So that was one aspect of it. The other aspect of it that

418:1 changed is that pay options became part of this exotic issue, which had a lot of press. And as the press affects you, it affects regulators. And not that I can recall a regulator coming to me and saying I'm really concerned about the pay options in your portfolio, but there was an understanding that regulators in general were concerned about the overall trend and the loans being originated throughout the industry. And I felt that if -- that I had to pay attention to that, to the reputational issue. That was not an issue. That was a -- evolved over time.

Q And when you say that was not an issue, what period of time are you referring to?

A 19- -- 2005, 2004.

Q But as of this e-mail, July 2006, was that an issue?

A I believe -- you know, I don't have this committed to memory. And I don't have the advantage of having everything in front of me that you have, but that the -- my recollection is that in one of the e-mails that you gave me yesterday that I looked at that had the word "exotic" in there. So somewhere in there, that issue came up.

Q And I'm not asking about when the issue came up. I'm asking about when you started having concern about the reputation, the risk associated with pay-option ARMs?

A Well, isn't that the same question?

419:1 Q No, it's --
A It's when the issue came up.
Q Well, when the issue came up does not mean that you were concerned about it.
Were you concerned about it when the issue came up?
A I think -- yeah, the fact that I wrote it in a memo and put quotes around it, as I recall, that would express a concern on my part.
Q So -- and the level of concern that you had at that time?
A And I believe in that same memo, I talked about the reputational risk.
Q And -- but at that point, the company continued to office pay-option ARMs and the company did not make any effort to try to sell off the portfolio?
A Right. We continued to tighten down on our requirements, to continue to adjust that, to make it a -- because we didn't believe that the mortgage itself was inherently a bad loan, but that modifications -- because the environment was changing that -- related to the environment, you have interest rate volatility, you had concerns about real estate values, you had a lot of concerns at the time, and therefore, the product had to be modified, as we modify for all products. For jumbo products, 30-year fixed jumbos, instead of one appraisal, we have two appraisals, we never

420:1 had that before, because we were concerned about what's happening with values.

So in all of our product lines, if you looked at all of the memos, you will see we addressed every single product we had, pay options being one of them. I was concerned about the trend of all the products. I was concerned about the resets or the payment shock, not on pay options, but on one-year ARMs, which we're going to face, two-year ARMs, three-year ARMs, and all of the issues that surrounded the ARM product, and this is another form of an ARM product. And that -- that -- my concern continued to evolve as things began to change, both in terms of public perception and in terms of reality of, you know, delinquencies and values and that sort of thing.

Q And the public perception that you're referring to is the fact that this was an exotic loan or something to that effect?

A This is one of the exotic loans. The whole issue of exotic loans, in fact -- in fact, if you -- the issue that the Treasury Secretary and Bob Steel and that whole group were concerned about was not pay options. That whole agreement that the administration made and the Treasury made with the lending industry had nothing to do with pay options. It was the resets of ARMs that was taking place, every single day that people could not -- that they believed would cause

421:1 problem for many people, which it would have, and asked the industry to modify the loans so that people would not be faced with payment shock, which we did.

Q With respect to the other adjustable-rate mortgages?

A Yeah, which far exceeded the number of pay options that we had on the books.

MS. DEAN: I'm sorry. Which agreement are you referring to?

THE WITNESS: There was a -- I forget the name of it. This was about, I want to say eight, nine months ago when Serge Paulson called me, as well as Wells Fargo, and I think BofA and Citi and Washington, and talked about he and Bob Steel -- and Alfanso Jackson, about their concern over payment shock on these ARMs, because rates -- because these were three years and these were low start rates, maybe not as low as this, but very low start rates. It did have a negative am component to it, but low start rates. And they were concerned about that. And we agreed -- that agreement -- the nature of that agreement was, we agreed to work with them to either freeze the payment to where they were or modify the loans, if they were even -- unable to make that payment. We had to work with Fannie Mae, Freddie Mac, and all that, and we led -- we were the leader in that change. We were the first ones to sign. We led the way, and modified

422:1 more loans and froze more payments than any mortgage company in the country.

MS. DEAN: So this would have been sometime around January of 2008?

THE WITNESS: Bless you.

It could have.

MR. McLUCAS: Was it sometime --

THE WITNESS: I'm trying to think whether it was after New Year. I think around that time. I'm not sure.

MS. DEAN: Was it before or after the BofA acquisition was announced.

THE WITNESS: It was before. Well before that. Yes, it was well before that.

MS. DEAN: Okay. Thank you.

THE WITNESS: It was well before -- in fact, it was before, so it had to be in -- because I don't recall the -- because by August of '07, when we were informed that all of our credit lines would be -- would not be renewed and our commercial paper not renewed and our ratings go to investment grade rating, from A -- an investment grade rating -- so it had to be -- because I think at that point I had been so catatonic, there was no way I could have even gone to the meeting. So I think that it had to be before that, so it must have been in the middle of '07, I think.

MS. DEAN: Okay. You think it was actually before

423:1 the August credit crisis?

THE WITNESS: You know, I'm not positive, but --

MR. McLUCAS: We can find out and get that to you.

THE WITNESS: Yeah, I can find out when that meeting took place. And it's public because when that meeting was -- there was probably 10, 15 people at that meeting. I was the only CEO that showed up, but there were high-level people from the other institutions, Bank of America. It was before the Bank of America deal, because otherwise I would have been -- I didn't even know the person from Bank of America.

MS. DEAN: Okay. If you could get us the date, that would be helpful.

MR. McLUCAS: When it's convenient, if could we take a two-minute break, whatever?

MR. PUATHASNANON: Okay. We can do that now. Let's go off the record.

(Recess.)

MR. PUATHASNANON: Let's go back on the record. It's 10:03.

Q Mr. Mozilo, I'm handing you what's been marked as Government Exhibit 536. It's, again, a series of e-mails, which attached is another flash report with the Bates number on the document is CFC2007B, as in boy, 305777 through 305780.

424:1 (SEC Exhibit 536 was marked for
identification.)
BY MR. PUATHASNANON:
Q Do you recall receiving the document?
A The document you're referring to is the flash report.
Q And the e-mail. That's right. Attached to that.
A I don't -- I don't see any e-mail to me. I see an e-mail from me to Dave Sambol. But I may be misreading this thing. Where is the e-mail to me?
MS. DEAN: What did you mark this? 536?
MR. PUATHASNANON: Yeah.
Q If you look at the "To" line, you are the last name in the "To" section, right before the cc's.
MS. DEAN: At the very bottom of the first page, right above the cc.
THE WITNESS: Oh, okay. Sent to everybody, yeah. Okay.
BY MR. PUATHASNANON:
Q Do you recall receiving and sending the e-mails that are reflected here, setting aside, obviously, the first one, since you're not named?
A Okay. Can you define what you mean by "recall"?
Q Do you remember this e-mail?
MR. BRENNER: Do you actually remember getting it

425:1 or sending it?
THE WITNESS: No, no.
BY MR. PUATHASNANON:
Q Do you have any doubt that you received the flash report?
A No.
Q Do you have any doubt that you sent the e-mail to Mr. Sambol, Mr. Bailey, and Mr. Garcia?
A No.
Q Okay. And I think you said earlier, but just so that the record is clear, you regularly receive flash reports as to the products at Countrywide?
A That's correct.
Q Was it your practice to read the flash reports when you received them?
A Generally, yes. I can't say that I read every one of them, but I did read a fair number of them.
Q You can set that one aside. We're done with that one.
Do you know a gentleman by the name of Jonathan Gray?
A I do.
Q Who is that?
A Jonathan Gray is a deceased individual, who worked for Sanford Bernstein, and he was an analyst that focused on

426:1 banks, thrifts, and mortgage banks.

Q Was he an analyst that covered Countrywide?

A He was.

Q Handing you what's been marked as Government Exhibit 537. It's a single-page document, Bates CFC2007B, as in boy, 010636.

(SEC Exhibit 537 was marked for identification.)

THE WITNESS: Uh-huh. I read it.

BY MR. PUATHASNANON:

Q Okay. Do you recall this exchange of e-mails from 2006?

A No, I don't.

Q Okay. And do you have any doubt in your mind that you didn't engage in this e-mail exchange with Mr. Gray --

A No --

Q -- and others?

A With Mr. Gray?

MS. DEAN: Do you have any doubt that you received the e-mail that Mr. Gray sent on August 9th, of 2006.

THE WITNESS: Okay. That's why I -- okay. That's why I was getting confused. I didn't see from. So this second part is from Jonathan Gray, because it's not my kind of -- I don't write that way. I was a little confused. So the first -- I'm saying let me know what you think. That's

427:1 where I'm -- I stop?
MS. DEAN: Yes.
THE WITNESS: Okay.
BY MR. PUATHASNANON:
Q That's correct. The formatting is a little different than what we've seen in other e-mails.
A Yeah. I'm trying desperately to think of what CAMCO is.
Q Well, that was going to be a question. So --
A Yeah, I figured it was. But I -- I mean, I'm familiar with the term. I believe what it is, is Countrywide Asset Management Company and it's -- I believe what it was, was a company where we bought in troubled assets and cured them because of our servicing ability -- we have troubled assets and those that weren't servicing properly -- and then sold them out the other side. I believe that was the nature of the company.
MS. DEAN: But to my question, do you have any reason to believe you did not receive Mr. Gray's August 9th, 2006 e-mail?
THE WITNESS: I have no reason to believe I didn't receive it.
MS. DEAN: Okay. And do you have any reason to believe you did not forward that e-mail to Dave Sambol, Kevin Bartlett, and Ron Cripolani on August 9?

THE WITNESS: No, I have no reason to believe I didn't.

BY MR. PUATHASNANON:

Q In the first line, you reference Mr. Gray's concern about expected large increases in defaults. Do you see that?

A Uh-huh, correct.

Q Was there an expectation within Countrywide, as of August 2006, that there would be large increases in defaults?

A I can't speak for Countrywide, but I can say what I said here in handwriting, so I did, and asked -- that's why I asked the thoughts of others, whether or not they shared that.

Q And was your expectation that there would be large increases in defaults going across Countrywide's entire book of business or their particular --

MR. McLUCAS: Excuse me. He did not say he had an expectation. He said he had the concern about the possibility of the large numbers of defaults, not an expectation. And respectfully, I just wanted to --

MR. PUATHASNANON: That's fair, and -- but the --

MS. DEAN: Can you read back the answer? Well, I'd like to hear Mr. Mozilo's prior answer.

(Record read.)

MR. McLUCAS: Right.

MS. DEAN: Okay.

429:1 THE WITNESS: Right. And I think what you're -- the direction of this, as I read this a couple years later, is that CAMCO -- this was a terrific opportunity for CAMCO. And I think that this was -- where Jonathan was coming from, I believe, Jonathan was a -- not only an analyst, but in some respects an advocate of Countrywide, in some respects a great critic of Countrywide. But I think he saw an opportunity for CAMCO to get involved. This was not specifically to Countrywide's delinquencies. This was industry delinquencies. What was going to happen across -- in his opinion -- across the whole spectrum. And if that, in fact, happened it would create an opportunity for CAMCO.

BY MR. PUATHASNANON:

Q Then focusing on what your view was with respect to Countrywide, not the industry, but with respect to Countrywide, was there a concern that there would be a large number of defaults or an increase in the number of defaults going forward from August 2006?

A No more than I had previously expressed in my previous e-mails.

Q Did you have a concern that there would be a large number of defaults across the industry as of August 2006?

A I didn't know. I don't know. I'm not -- I can't prognosticate that. I just know that if it happened, I just had to make sure that I prepared for it.

430:1 BY MS. DEAN:
Q Well, Mr. Mozilo, Mr. Gray -- the first sentence of your e-mail indicates that you believe Mr. Gray is concerned about expected large increases in defaults. And then you say, "and rightfully so." So does that not indicate that you agreed with him that there was a concern about an expected number of large defaults?
A No.
MR. BRENNER: But as he said before, this is not about Countrywide. This was industry-wide. So your --
BY MS. DEAN:
Q That's fine.
A I think that, from my perspective, an individual in Jonathan Gray's position, who's an analyst for the entire industry, that has to be a concern of his as to what is going to -- and that's rightfully so, that he should have that concern. That's his bread and butter is making calls on financial services companies.
Q You go on to say that you think that Countrywide should, quote, be opportunistic in this environment, close quote. What did you mean by that?
A Let me go back to what CAMCO was. CAMCO was a company within capital markets that went out into the -- not from Countrywide -- but went out into the world and bought loans that they believed could be cured and resold into the

431:1 secondary market.

I'll give you an example of what I recall. There was a substantial portfolio that Washington Mutual had of FHA loans. Washington Mutual is not an FHA lender, and -- this is my recollection -- that there was an opportunity to buy a portion of that portfolio, because we are an FHA lender and knew how to service those loans. They require special servicing, so we felt that we could buy those loans, cure them, and resell them into the secondary market. That's what CAMCO did.

Q Well, what is the environment that you're referring to in Exhibit 537? What did you mean by "this" environment?

A This in September of -- August of '06, I don't know when New Century went under and Ameriquest went out of business and other mortgage companies were folding. But I think it was at least the beginning of it, if not in the middle of it, that the industry was in shambles, and that was an opportunity for us. That always has been an opportunity for us when competitors have problems, for us to step in to take advantage of that.

Q And based on the fact that you thought the industry was in a shambles in this time period, did you have a reason to believe that there might actually be large increases in defaults industry-wide?

A I think this e-mail speaks for itself. And I can't

432:1 recall exactly what I thought on August 9th, 2006, over two years ago.

Q Well, other than increasing Countrywide's activities with respect to CAMCO, did you anticipate taking any other steps at the company to deal with what you saw as an environment in which the mortgage lending industry was in a shambles?

A The other steps that you take in an environment when competitors are having problems, because of a lack of capital, a lack of liquidity, or whatever the reason might be, is to seize market share, their market share, and, principally, by -- what -- with a fallout from that, historically, is that people leave those companies. And some of those people are very good. And in a very healthy environment, it's very difficult to get very good people, because they stay where they are, but in a challenging environment, people tend to leave, and it's the opportune time for us to pick up good people, both in production as well as in the administrative area of the company.

Q Did you consider retrenching with respect to any of the products that Countrywide was offering? And by that I mean tightening underwriting guidelines.

A I think there's every indication in what you presented to me that we continuously tightened underwriting guidelines.

433:1 Q Is it your testimony that you believe Countrywide was tightening underwriting guidelines in 2006?

A From what I've read here, and I don't know the dates, but I think that the -- clearly, we had made some changes, substantial changes in the pay-option program. I believe, from my recollection, that we had made some changes in our HELOC program, and we had continuously reviewed our -- our underwriting guidelines. And I think that's evident in some of the stuff I've seen here, plus my recollection.

Q One of the recommendations that Mr. Gray makes in his e-mail to you is that Countrywide run stress tests of credit risk to house price decline scenarios. Did Countrywide do that, to your knowledge, in the fall or winter of 2006?

A I have no idea as to the time frame. I know stress tests are a normal function in an underwriting protocol. And I think, again, the evidence that you provided me with yesterday talked about stress tests that Countrywide has applied. And stress tests, I believe, that they looked at that the industry has applied.

Q And Mr. Gray goes on to suggest that those stress tests should be run by both inside and outside independent consultants. Did Countrywide ever hire an outside independent consultant to run stress tests of credit risk against housing price declines?

434:1 A I'm not aware of that, but I know that our regulators ran stress tests, and I would say that the OTC and the OTS are certainly outside people.

And I believe, this is from my recollection is the fed -- because we were regulated by both the fed and the OCC and ultimately the OTS. My recollection is discussing stress tests with them. I think that's what guided them when they did the industry stress tests.

Q Are you familiar with a policy at Countrywide that involved matching loan products that were offered by competitors?

A No.

Q Were you aware of the fact that the product leadership group at Countrywide conducted regular reviews of loan products that were offered by competitors in the marketplace?

A No, I was not aware that they were doing regular reviews of what was being offered in the marketplace, simply because we'd be well aware on a daily basis what was being offered in the marketplace.

Q And you were not aware that it was Countrywide's policy in the product leadership department to match products that were being offered in the marketplace?

A I did not know we had a formal process of matching products. I knew -- let me just -- I didn't know we had a

435:1 process of that nature.
Q I'm you didn't?
A Know that we had a process, a structured process of that nature.
Q Well, were you aware, as a general principle, that it was Countrywide's policy to be competitive with competitors in the marketplace by matching the products they were offering?
A I was aware that it was our desire to be relevant, since the only business we're in is the mortgage business, and to be sensitive to what the -- the trend of the consumer, and if the trend was for a certain product, that we look at that product to see if we want to add that to our menu.
MS. DEAN: Okay.
BY MR. PUATHASNANON:
Q In July or August of 2006, did you have -- strike that.
In July or August of 2006, did members of the board ever come to you with any concerns regarding pay-option loans?
A Not to my recollection.
Q Did members of the board ever come to you during that time frame about concerns regarding any product being offered by Countrywide and the performance of those products?
A Not to my recollection.

436:1 Q I'm going to hand you what's been marked as Government Exhibit 538. I'm sorry. It's two pages. It's Bates-numbered CFC2007B, as in boy, 786614 through 786615.

(SEC Exhibit 538 was marked for identification.)

THE WITNESS: Yeah, I've seen this. I don't recall -- I still don't recall what the board wanted me to talk about.

BY MR. PUATHASNANON:

Q So Exhibit 538 does not refresh your recollection --

A No.

Q -- as to whether these issues were discussed between you and board members in July or August of 2006?

A No.

Q Turning your attention to the e-mail from you to Mr. McMurray, Mr. Sambol, Mr. Bartlett, and Mr. Sieracki, which starts at the bottom of page 1 and continues to page 2, numbered paragraph 3 -- well, actually, yeah. You ask that, in the memo, Mr. McMurray have a discussion as to what was being done by him, Mr. Garcia, and Mr. Bartlett to mitigate potential risk to the bank?

A Correct.

Q Do you know what was done to mitigate those risks beyond the fact that the borrowers were being informed of the

437:1 consequences of the negative amortization and risks of the payment shock?

A The underwriting guidelines were being tightened.

Q Was there anything else that you can think of?

A Other than tightening the underwriting guidelines and alerting the borrowers, I don't know what else we would do. As you can see, I prompted McMurray to speak to the board, and McMurray made several presentations to the board. And when I talk about members of the board or raising questions, it could very well be that the -- that was taking place at a board meeting, during or after a presentation made by McMurray.

Q Did you regularly communicate with members of the board, any members of the board, outside of board meetings?

A Did I regularly?

Q Or -- strike that.

Did you communicate with board members outside of the context of formal board meetings?

A Yes.

Q Did you speak to -- was that limited to a subset of the board, or was it all board members, generally?

A It was when a board member contacted me about a particular issue, just to speak about the industry in general, or if it was relative to the compensation matters, either that were relative to me or any of my subordinates, 438:1 the comp committee, it depended on the -- you know, it was not a regularly scheduled; it was ad hoc, depended upon an issue that a board member wanted to talk about.

Q Did you socialize with board members outside of board activity?

A I did with some of them. I don't know how you determine -- how you -- went to dinner a few times with board members over the years, and their spouses, with or without their spouses, played golf with several of them, those that play golf, but that's the socialization.

Q You said that you socialized with some of the board members. Which board members were you referring to?

A Well, I went to dinner with -- individually with all of them at one time or another, probably, I think, with all of them, or lunch. Some, you know, less than others, but it wasn't -- socialization with the board members wasn't a major part of what I did.

Q And my question was who you socialized with.

A I think every board member, if I remember the board, I either had dinner with or lunch with or golf with or went to a social event with, went to the Kennedy Honors or something of that nature, over the years.

Q Were there board members that you spent more time with outside of board business than others?

A I would say if you're taking -- you know, weighing

439:1 it on a scale, probably more with Mike Doherty, Bob Donatto, Carly Schneider, and Henry Cisneros, would probably be the four. Henry and I were involved in a lot of organizations together.

Q So you mentioned earlier that the issue may have been raised in the context of a board meeting. Are you saying that with respect to the issues identified in this particular e-mail, Government Exhibit 538, that the issues were raised in the context of a board meeting?

A What I'm saying is I don't recall any board member or members coming to me specifically and saying I want to talk to you about pay-option ARMs.

Q In this time frame or ever?

A Ever. I don't recall it.

Q Do you recall board discussions at former board meetings relating to the issue of pay-option ARMs?

A I do because I've asked -- I asked John McMurray to make periodic presentations, as well as his successor, Jess Lederman, to make presentations, and part of those presentations with our entire book of business, including pay-option loans, and I'm sure the minutes would indicate what was discussed about the pay-option loans.

Q Did you ask Mr. McMurray and Mr. Lederman to make these presentations? Were they part of the regular course of board business or were there special circumstances that would

440:1 arise that -- in which you would ask them to do so?

A It wasn't either. It was -- I had -- for each board meeting I had presentations made on issues that were topical and that I thought would be of interest to the board. And so over the course of a year, I tried to get the top executives in front of the board so that they would know them and can make their own judgment as to their qualifications. Part of that was the bank, the bank management, as well as the credit people, and McMurray, and Lederman. Okay.

Q Okay. Turning to the first page, please. There's an e-mail in the middle of the page from you to Mr. Sambol and Mr. Garcia dated August 12, 2006. The second paragraph states, quote, it appears that the fed is now troubled by pay options, while the OTS is not, period. Since pay options are a major component of both our volumes and profitability, the fed may force us into a decision faster than we would like, period, close quote. Do you see that?

A Yes.

Q What decision are you referring to?

A Well, the decision would be -- I don't know what decision you're referring to, but the decision would be to either stop the program or mitigate the program or get out of the program, because they were concerned about it. And, again, if they expressed a concern to me, then I articulated it back to my people. You know, let's continue down the path of making sure we tighten the guidelines, to make sure that we -- that -- that we do everything we can to have these loans perform properly.

Q And you gave several possibilities as to what the decision was. Do you have a recollection today, as you sit here looking at the e-mail, as to what specific decision you were referring to in that e-mail?

A Which decision the fed would make?

Q No. It appears -- what the language states is, the fed may force us into a decision faster than we would like.

A Uh-huh, yeah.

Q So it appears that either you were referring to the group that is on the e-mail or the company made -- is considering some sort of --

A Yeah. I didn't -- I said "a decision," not the decision. So it wasn't specific. It was, you know, I wasn't sure where the regulators were going to go with this, because there was a difference of opinion, as I recall, in the company, versus the position of the fed. And -- at least the expressed position of the fed. And that -- and the dilemma here is that the OTS was our regulator. They did not have an issue with pay options. They were our direct regulator; the fed was the overseer. They regulated the parent and not the bank. And I wanted to think about this in what -- you know, what this could lead to. And so I just wanted to raise the

442:1 issue for discussion, just to have it handle on it.

It never came to fruition. You know, I was concerned about something that, to my knowledge and my recollection, didn't happen. I see that McMurray had spoken to Byce, and he had explained to her, you know, the -- what we were doing with the mortgagors, as you can see here, "all pay-option borrowers, not just bank loans." And so we made every effort to give the -- it seems to me, based upon this, to give the fed some comfort.

Q And did you, Mr. Sambol, and Mr. Garcia have conversations around this time relating to either ending the pay-option program or selling the portfolio out of the bank?

A I have to rely upon what you presented to me, these memos. I don't have a recall that -- what I did every day for the last three years. I just don't know. But based upon what I see here, is there was a continuous discussion relative to pay options, relative to tightening guidelines, relative to the potential of selling a portion of the portfolio. This was an ongoing discussion. I can't tell you if it took place on August 13th or July 13th, but it was a continuous discussion as evidenced by what you're presenting.

Q And what I'm trying to get at is, and I don't know that you've actually answered the question directly, is there's a reference in there to a decision that's going to be made either among the group -- you, Mr. Sambol, and Mr.

443:1 Garcia -- or the larger entity, the company. And I'm just trying to find out whether you have any recollection as to what decision you're referring to in that e-mail. What was the issue?

A Well, the two questions -- what was the issue?

Q No, the decision. What needed to be decided?

MR. BRENNER: He's asking you, as you sit here today, do you remember what you were referring to in the e-mail?

THE WITNESS: No, I don't.

BY MR. PUATHASNANON:

Q Okay. Moving up one e-mail, Mr. McMurray writes back to you on August 13, 2006, and he's relating a piece of information that was shared with him. The person -- he mentioned FINN, F-I-N-N.

A Where? Where?

MR. McLUCAS: He's looking right here at this part where McMurray sends the e-mail to you.

THE WITNESS: I have no idea what FINN is.

BY MR. PUATHASNANON:

Q You don't know who he's referring to there?

A I don't even know if it's a person. I don't know what it is.

Q So the concern that he raises with respect to option ARMs is, quote, and this is -- I'm reading from after

444:1 the colon in the second line, "The difference between the minimum pay rates and the accrual rate is larger now than it's ever been historically," period. Do you see that?

A Yes, I see that.

Q What was your understanding of what that meant?

A Well, the accrual rate is the rate at which the negative am is accruing. And I would assume that the reason for that would be the interest rates had risen during that period of time.

Q Does the fact that the difference between the minimum pay rate and the accrual rate was larger than it's ever been historically raise concerns in your mind in -- on August 13th, 2006?

A I don't know what I was thinking on August 13, 2006.

Q Does this piece of information that Mr. McMurray is conveying to you have any significance to you today?

A It has -- the only way I can answer this is to tell you that there is a preponderance of the evidence that you have that I stay focused on this -- on the issue of making continuous changes in the program to mitigate the risk to the company. So that that level of significance it had when I read this would be the same as I have today, and I acted upon it. Also, if I can just continue with this, nevertheless, based upon my meetings with the Federal Reserve Board and the

OTS, and the OTS appears to be both more familiar and more comfortable with the option ARMs. That gave me some comfort.

Q The fact that OTS, which regulated the bank, had no problem with option ARMs?

A I don't know if they had no problem. I think that they were not -- they had -- I wouldn't characterize it as no problem. I think they had -- unless it's a 30-year fixed, I think any regulator is concerned, but it had no extraordinary problem.

BY MS. DEAN:

Q Mr. Mozilo, I just wanted to follow-up on something that Mr. Puathasnanon just said. The -- was the OTS, in fact, the bank's regulator in August 2006, or was that transition still in process?

A I don't recall.

Q Okay. And another question about the difference between the minimum pay rate and the accrual rate on the loan. This is just -- I just want to make sure I know how this worked. When the borrower to be out the pay-option ARM loan, did the minimum nonamortizing payment, did it float with the interest rate, or did the rate on the loan float independently of that minimum payment, if you know, what I'm -- I'm not sure I asked that very articulately.

A I think -- let me try to -- I don't -- it's -- it's a complex issue, even one that I'm having a problem

446: explaining to you. But it, basically, is a -- the rate, the inherent rate in the loan, the intrinsic rate in the loan is an indexed rate, so it's -- whatever it might be, 200 -- based on the Treasury or some index, I don't know what it -- I think it was an MTA of some kind, and then it has a spread over that. Okay? Let's say 200 basis points over that. And I'm not sure if it's monthly or annually that these things moved, so to the extent that things went up or down, the intrinsic rate moved with that. So it was the intrinsic rate, plus the spread, moved. Now -- and you had a fixed minimum rate that they were paying.

Q And that didn't move?

A That did not move.

Q Until there was a reset?

A 15 percent, right.

Q Okay. Thanks.

A Or until -- or until they made their payments. If they made full payments, then it would change because it would reduce the negative am portion of it.

Q But the minimum required payment didn't track, necessarily, the change in the index rate on the loan?

A No, that's correct.

Q Okay. So when Mr. McMurray says here that the minimum pay rate and the accrual rate, that the difference between them has grown, he's just referencing the fact that

447:1 interest rates had risen and the minimum pay rates had not; is that right?

A That's correct. For that period of time, right.

Q So that would mean that the loan would be -- assuming borrowers were making the minimum payment, the loan would be negatively amortizing at a faster rate than if the interest rate had not gone up?

A That's right, and the opposite would take place when interest rates went down.

Q Okay. Mr. Mozilo, you've said a couple of times today that in response to your concerns about the pay-option portfolio that there were changes made in the underwriting guidelines with respect to those loans. And the e-mails that we've looked at have referred to changes in the servicing procedures. So I was wondering what was the basis for your belief that the underwriting guidelines themselves had changed?

A Because I had received e-mails that they had -- that were -- down payment requirements were changed, FICO scores were changed, and I did not -- that's how I -- that was my understanding based upon the feedback that I was getting from both the bank, Carlos Garcia, and from -- primarily from Carlos Garcia, that's what kind of prompted -- but I also received those e-mails from Dave Sambol and others talking about the changes in guidelines.

448:1 MS. DEAN: I saw you fingering your watch. Do you need a break?

THE WITNESS: No.

(SEC Exhibit 539 was marked for identification.)

BY MR. PUATHASNANON:

Q I'm handing you what was marked as Government Exhibit 539. It's a single page, Bates-numbered CFC2007A362338.

A All right.

Q Who's e-mail address is capbob12 --

A Bob Donatto.

Q Bob Donatto who was a member of the board?

A That's correct.

MS. DEAN: You know, I think you might have cut Mr. Puathasnanon off. So just for the record, the e-mail address we're referring to is capbob1235@aol.com.

THE WITNESS: 1225.

MS. DEAN: Okay. But that is Mr. Donatto's e-mail.

THE WITNESS: That's correct.

MS. DEAN: Okay. Thanks.

BY MR. PUATHASNANON:

Q You -- in response it his e-mail, you basically summarize concerns. And I know that we've talked about some of these concerns, but I do want to focus on a couple of

449:1 issues in here, particularly Roman numeral number two.
A Roman numeral number --
Q Oh, I'm sorry. Paragraph number 2. Sorry, number 2. You mentioned earlier that you believe you saw information within the company that said that these loans were going to reset in 2009 and 2010. In paragraph number 2, you say, quote, these loans are going to reset much faster than the borrowers anticipate, close quote. Was this 2009, 2010 timetable still in place as of August 2006?
A I don't recall that.
Q I'm sorry. I just -- you were covering your mouth. What was your --
A I said I don't recall that.
Q Okay. So you don't know when these loans were -- the company was anticipating these loans were going to reset?
A I don't recall the day of the memo related to 2009, 2010.
Q You don't remember when you saw that information?
A That's correct.
Q Is it possible that that information was in 2006?
A I guess anything is possible.
Q I'm just trying to -- when you saw the memo, do you remember whether you had a reaction as to, oh, this is way out in the future, or this is next year?
A When I saw what memo?

Q The memo that told you that the resets were going to happen sometime in 2009 or 2010.

A I accepted that. That's what I believed to be the case.

Q And do you remember if you had a reaction as to whether it was an immediate date that was coming up within the next year, or whether it was something that was way out in the future. I'm just trying to get a sense of the timing as to when you saw this.

A When I saw the 2009 or 2010? It was either in 2005 or 2006, somewhere in that time frame, I would guess. You have the memo.

Q So you say that the only way out of the reset situation was to refinance the loans before reset, which is something we've talked about before. And then --

A But -- I would correct that today. The only way out, this was a quick memo I'm trying to get out to Bob that the other way is to -- for the loan to be sold, for the house to be sold, and therefore, the loan would be paid off. So that was another way it could take place. Or the third was if, you know, I took the time to ride it all out, was for people to start making their regular payments, their normally amortizing payments.

Q With respect to that last option, that was not something within the bank's control, though; is that right?

A Of people making their regular payment?

Q Yes.

A It was control of the borrower -- it was only in control in terms of trying to influence the buyer, which we tried to do.

Q Then in number three you say, quote, that it might prove difficult to refinance these loans, because in all cases the loan could be above the current value, close quote. Do you see that?

A That's correct.

Q So it sounds though at this point in time you've identified a fairly tough situation with respect to the company given that these options are -- the refinance is an option, but the refinance would be difficult because of the fact that home values are coming down?

A I -- I would not describe it the way you did.

Q Okay.

A At least potential -- my responsibility to the board is to give them potentialities. It was very possible that values could go, up rates could come down, that refinances would take place, all of that was -- was possible. I was laying out for him the potentialities in a totally negative environment, what could happen.

Q Okay. And you said it's a totally negative environment with respect to the housing market generally; is

452:1 that correct?

A Correct.

Q So in number four, you identify a situation in which some of these issues could be avoided and you say we would have to have values rise significantly over current levels and/or interest rates drop dramatically in order to alleviate payment shock in the future?

A That's correct.

Q So given the environment that you're in now, did you believe that the values of homes or the housing market would rise significantly going forward?

A I had no idea.

Q Well, you've just said that you were in a very negative environment as of August 2006; is that right?

A Yeah, but I had no idea going forward what was going to happen. Nobody can predict the future, and I certainly couldn't predict the future. I was laying out -- what I laid out here was that we would have to have significant increases in current levels of values and lower interest rates, very possible. We had low interest rate -- we had 1 percent interest rate. That was possible.

Q So are you saying that you had no view at all, though, as to what may happen going forward?

A Yeah, I would say that I don't have the capability to predict the future.

Q And I'm not asking whether you could predict the future. It was clearly -- unless you know something we don't know. I don't think that any of us have that ability. What I'm asking is, did you have a view as to what would happen in the future or what --

A No.

Q No view at all?

A I didn't have a -- to me, a view requires me to predict something. I couldn't predict something. I had a view of what was happening then. And --

Q And what was your view of what was happening then?

A What I laid out here.

BY MS. DEAN:

Q In August of 2006, it appears that your belief at the time was that home price values had ceased rising and in some areas decreased; correct?

A What are you reading from?

Q Number 3 in your e-mail to Mr. Donatto dated August 19th?

A Have ceased, right, okay, yes.

Q Did you have any reason to believe that that trend would be reversed any time within the next 12 months?

A I had no idea.

Q How long had you been in the mortgage industry, Mr. Mozilo?

454:1 A 55 years.
Q Are you familiar with the fact that there is a housing price cycle in the United States?
A Yes, and the cycle goes up and down.
Q Okay. Does it typically go up for eight years at a time, and then go down for two months, and then reverse its immediately?
A We've never had a cycle like that, number one. Number two, we've never had a national housing decline in the history of this country, ever. In all the years I've been in business, it's always been locally -- localized based upon your a Rust belt state, whether you're a speculative state. So each area is different. We're a national company in 50 states. And I didn't have a view that all the values in the entire country would go down, irrespective of where you were in the country, because it had never happened before.
Q You previously described the mortgage lending industry as being in a shambles during this time period. Did you have any reason to believe that that trend would be reversed within the succeeding 12-month period?
A Well, let me just take the opportunity to correct that word. They were -- there were mortgage lenders -- there were a number of mortgage lenders, significant ones, that had gone bankrupt. So let me define what I meant by that. And there were others that were -- many that were showing

problems and many that were consolidating going out of business. So there was a significant change in the mortgage industry taking place. That, historically, has been a great opportunity for Countrywide to gain market share and get good people.

MS. DEAN: Will the report please read my prior question.

(Record read.)

BY MS. DEAN:

Q May I have an answer to that question please?

A I have no idea. As I explained to you, I thought it was advantageous for us. It didn't matter what the trend was, to me. Historically, since I've been in it 55 years, it's been an advantage for us for the competition to have difficulties.

Q You know, in your e-mail to Mr. Donatto at the very end, you make a point of the fact that the pay-option product represents a significant amount of profitability for both the bank and the mortgage bank, because it is the only product left with margins. Can you explain what you meant by the only product left with margins?

A No, it was -- it was -- with significant margins, there were other products with some margins, other products with no margins. Margins being margins of profitability.

Q So is it was important to you to continue to

456:1 originate pay-option ARMs loans in this time period because they were a profitable product for the company; correct?

A As long as we continued taking every reasonable precaution to insulate ourselves against any shocks.

Q And that was true regardless of the fact that you had concerns about the fact that the loans were negatively amortizing and were going to reset faster than anticipated; correct?

A They were going to reset in -- well, you're laying that out as a fact. I didn't lay it out as a fact. I laid it out -- each of these concerns that I expressed were concerns that I had. There was no assurance that we were going to be faster than anticipated. But the -- what was -- what I took confidence in was we were looking at an issue that we'd be facing in 2009 and 2010. I think the anticipation when we originated this product was that the resets would take place years and years out, because I didn't anticipate the negative amortization -- the use of negative amortization -- the level of use that took place.

Q So you continued to originate the loans because in the short run, they were profitable, and the potential for the payment shock that you anticipated was farther out into the future; is that correct?

A That's not the only reason -- I continued to originate the product with the proviso that we continue to

457:1 make the necessary changes in the underwriting to assure the quality of the loans, to ensure that these will perform in an acceptable manner and it was originating profitable loans is the -- is the cornerstone of the business, to originate unprofitable loans is not the cornerstone of the business. So that's a --

Q So is that a yes?

MR. McLUCAS: No. Excuse me. That is not a yes. The answer is what it is.

BY MS. DEAN:

Q You continued to originate the loans because they were profitable; correct?

A Because we believed they were good loans -- good, sound loans for the company, the shareholders, and it was the right thing to do.

Q Okay.

MR. BENDELL: Mr. Mozilo, still focusing on the e-mail that's in Exhibit 539, specifically in paragraph number 2, where it says, "These loans are going to reset much faster than the borrowers anticipated and at higher payments than anticipated," why did you believe that?

THE WITNESS: I believed that because the trend was that more of them were using the minimum payment.

MR. BENDELL: All right. And in August of 2006, to your knowledge, had Countrywide disclosed to the public that

458:1 the trend among pay -- its pay-option ARM loans was towards greater negative amortization.

THE WITNESS: I believe so. I believe that certainly was in the -- not in 10-Qs, the 10-Ks. I don't know if it was in the monthly -- we put out a monthly report to our shareholders. I don't know if that report was in the monthly, but it was in public documents.

MS. DEAN: The -- I just want to make -- I'm just trying to make sure the record is clear. What was disclosed in the public documents, to your knowledge, was the amount of negative amortization that was accruing on the pay-option ARMs?

MR. McLUCAS: If you remember. The public documents speak for themselves. We can go get them and look at them. If you can remember exactly what was in them, you can answer the question.

THE WITNESS: I don't remember exactly.

MS. DEAN: Do you know if the percentage of borrowers who were electing to make the minimum payment was being disclosed in August 2006?

THE WITNESS: I believe so, but I'm not sure.

BY MR. BENDELL:

Q Moving on to paragraph 3 in the e-mail in Exhibit 539. It says, "Since values have ceased rising and in some areas have decreased, it might prove difficult to refinance

459:1 these loans because in all cases the loans could be above the current value. And if I understood your testimony earlier, you're saying that you didn't know -- you couldn't predict the future, so you didn't know that would happen, but right here you're describing something that you saw at least as a possibility for the company; is that fair?

A That's fair, yeah.

Q So my question is, did you have any understanding of what the impact on Countrywide would be if this possibility that you're describing in paragraph 3 came to be a reality?

A No.

Q So okay why were you included this comment in the e-mail then?

A For full disclosure.

Q Why did you think it was something that should be disclosed to Mr. Donatto?

A Because it's a possibility.

Q Okay. But you had no view as to what the effect of the possibility would likely be?

A No, I don't.

Q And if Mr. Donatto asked you, that's what you were going to tell him?

A That's correct.

MR. McLUCAS: Respectfully, it would really depend on the degree to which the values changes or the loans were underwater. So, you know, I mean, the future and the facts are going to be whatever they were. And I think your question was, do you have any idea what the impact would be.

MS. DEAN: Well, at -- sorry.

BY MR. BENDELL:

Q Did you have any view as to -- even if you couldn't put a magnitude on it, did you have any view as to whether, if the possibility that you described in paragraph number 3 came to be, whether that would be an overall positive or overall negative for Countrywide's business?

A Relative to this particular product, it would be negative, I would guess. Relative to the overall business of Countrywide, it could be very positive.

Q Okay. And so speaking specifically about the product, with regard to the performance of the pay-option ARM portfolio held for investment by the company, you understood that the possibility that you were setting forth in paragraph number 3 would be negative for the company, if it occurred?

A For this loan and any other loan that we had. If values go down for any loan and people attempt to refinance, and the value of the home is below that of the mortgage, they won't be able to refinance. That's the situation we have right today with every single loan in existence, be it 30-year fixed, an ARM, pay option, that's what we have today.

461:1 So this was not peculiar to this loan.
Q So the portfolio of Countrywide, of the bank, does it have more pay-option ARMs or more 30-year fixed?
A It had more ARMs, more ARM loans, home equity loans. I don't know the percentage they had of the pay-option loans, but it was probably significant, probably less than 50 percent, but significant.
Q And then the paragraph number 4 in your e-mail in Exhibit 539, it says, "We would have to have values rise significantly over current levels and/or interest rates drop dramatically in order to alleviate payment shock in the future." Why were you communicating that information to Mr. Donatto?
A Just my -- I was -- he asked a question. And I assumed he asked a question, because I'm looking at the time here. He wrote this at 8:16 to 3:04 and I wrote it at 8:19 at 12:00 p.m. So he asked a question; I was responding as fully as I could to my thoughts to a director relative to all the possibilities. I have no reason not to discuss it with him.
Q And, specifically, one of the questions that's in Mr. Donatto's e-mail is a question about whether -- we, and I assume that means the company, is anticipating significant problems. So you viewed this information about having to have values rise significantly as relevant to determining

462:1 whether the company was facing any significant problems; is that fair?

A I don't know what's fair. You know, the -- the memos that -- he asked a question; I responded to the question. In terms of the -- I laid out a scenario that said we would have to have -- or in number three -- these -- since values have ceased rising and some areas have decreased, it might prove difficult to refinance these loans because in all cases the loans could be above the current value.

I'm just trying to lay out all of the areas of issues. But relative to this, the board was continuously informed, relative to the steps we were taking, concerning all of our product in the bank, including -- again, you had a bank board that was intimately involved, that knew what was in the bank, very educated bankers, you had regulators involved, and these were my -- my thoughts relative to what potentially could happen on the negative side.

Q So in reading Mr. Donatto's e-mail, he seems to be basically be asking two questions. One is about anticipating the -- and they're both, I think, with respect to the pay-option issue. And the first question is whether the company was anticipating significant problems, and the other was about the appropriateness of the concentration in the bank portfolio. Is it fair to say that your e-mail and response on top of page -- of Exhibit 539 represents your

463:1 best effort in the format of a quick e-mail to respond to Mr. Donatto's questions there?

A Yes.

MR. McLUCAS: I also think, respectfully, that you have to read the totality of the e-mail, which includes the last two paragraphs where Mr. Mozilo lays out what the bank has been doing to reduce its exposure through pool insurance and to discuss the value and the significance of the pay-option product to the bank.

MR. BENDELL: Yeah, I think my question asked about his entire e-mail being a response to the question. So with that understanding, if you'd like to --

MR. McLUCAS: No that's fine.

MR. BENDELL: -- clarify anything.

MR. McLUCAS: That's fine.

THE WITNESS: The other is, I don't know what memo Bob Donatto is referring to.

MS. DEAN: Well, I think in the prior exhibit you had asked -- I can't remember who now.

THE WITNESS: McMurray?

MS. DEAN: I think you had asked -- yes, you had asked Mr. McMurray to draft a memo to the board.

THE WITNESS: Okay.

MS. DEAN: So do you think that perhaps Mr. Donatto was simply responding to that memo?

464:1 THE WITNESS: What is the date of that there?
MS. DEAN: This is August 12th.
THE WITNESS: Yeah, and he wrote to me on the 13th?
MR. PUATHASNANON: 16th.
THE WITNESS: 16th, yeah. So it was probably a response to that, because I think McMurray did it under my name, I believe.
MS. DEAN: Do you need a break?
MR. PUATHASNANON: (Non-verbal response.)
(SEC Exhibit 540 was marked for identification.)
MR. PUATHASNANON: I'm handing you what's been marked as Government Exhibit 540. It's a two pages. It's a Bates number CFC 2007A373262 through 273263.
Q Have you had a chance to review it, Mr. Mozilo?
A Yes.
Q Okay. And I know that we've focused on sort of the issues related to pay-option ARMs, and I just want to ask you, in reviewing this flash report, is there anything in this report that caused greater concern than what you've expressed already, both yesterday and today, with respect to the pay-option ARM portfolio?
A Greater than the -- what I expressed in the past?
Q Sorry, let me -- that is, gives you heightened concern for the pay-option ARM portfolio?

465:1 A I can't tell you what my emotional situation was in September 8th of 2006. I don't know.

Q Okay. And from reviewing the flash report it appeared that the portfolio was continuing to -- the percentage of the portfolio that was negatively amortizing was continuing to go up. Do you see that?

A Yes, from 73.59 percent to 75.42 percent, so less than 2 percent.

Q And that the delinquencies continued to go up as well?

A The delinquencies, again, had a -- were still at a very manageable rate, if I'm looking at this thing correctly, the total delinquencies of 2.52 percent, up from 2.3 percent.

Q And so your view is that that was still a manageable number with respect to delinquencies?

A Relative to my experience.

Q In your expense with respect to the pay-option ARMs or the standard book of business?

A The standard book of business.

Q And then what about the last piece of information that Mr. Lamb communicates to you. It's the very last -- the negative amortization, the fact that the number of loans -- I'll just quote, "The total number of loans negatively amortized increased by approximately 11,000 loans, ending" in -- "ending at 301,517 in August with an increase of nearly

466:1 20,000 loans in the 103 to 103.99 percent negative amortization range."

A Uh-huh.

Q Is there anything about that that would have raised greater concern to you regarding the performance of the portfolio?

A Not greater. It was an ongoing concern. It was the same concern I had. Again, we were a long way from 115 percent.

Q And was that the -- that was the magic number for you, or was there some --

A My words wouldn't be "magic." It was a -- certainly, as you got closer to 115 percent, you knew that you were facing a reset if something didn't happen with that loan. And so the closer it got to 115 percent, it would be -- it would increase my concern.

Q Do you recall that in September of '06, you began to call borrowers regarding ARMs directly?

A What I recall is making a comment that I had two experiences. One, I called a few people that I had -- was aware had taken out negative -- had taken out pay-option loans, but primarily through my, in speaking to people within the industry and speaking to people that I ran into that commented they took out a pay-option loan, primarily that group, that I inquired as to -- these were relatively --

467:1 these are obviously high FICO people, sophisticated people, and I was inquisitive as to why a high FICO borrower, a sophisticated borrower who could afford to make the full payment, at least based upon the information we had, would make the minimum payment.

And so every opportunity I had, I spoke to people about that issue, people that I knew either had it or had made loans to people who was doing it, making the minimum payment, industry people. And the common theme was that they fully understood. In fact, when I asked this one individual, "Do you fully understand amortization?" "Yes, I fully understand it." And her comment was, as I commented yesterday, that "My value is going up 6, percent, and my negative am is going up 3 percent, and I'm fine, and I have other things to do with my money. Whether it be send the kids to school or whatever they were doing.

It was a firm belief, unfortunately, that values weren't going to go up forever. And whether they were speculating or, you know, just going to have it a short -- do it on a short-term basis or going to do this on an on-going basis, I didn't know, but it was just my belief, based upon the feedback I got, there was a current belief that values weren't going to go up forever.

Q Did these conversations that you just referenced change your view of pay-option ARMs in any way?

468:1 A My view about pay-option ARMs continued to evolve as evidenced by the e-mails I was sending to my -- to the management team to continue to look at it, to continue to make changes in the underwriting, to make changes in the servicing. So that did not -- it did not change my view, but it was it was interesting to me how the view towards homeownership had changed in America. That people were using homes as a commodity, rather than a place to live and to hold on to, and whatever it took to preserve it, they would do that. But there was a fundamental change taking place, a societal change. And that issue troubled me as an American coming from my generation, it troubled me overall relative to lending, to credit cards, to all home loans, because my experience was that if you had your job, if you had your marriage, and you had your health, the three things that caused problems in delinquencies, that we're okay, but the world was changing.

MR. McLUCAS: Could I ask, you know, a question. You just described the view had. Is that a view you held as of September or October of 2006, or is it a view that's evolved over the past two to three years --

THE WITNESS: It's involved.

MR. McLUCAS: -- as you've gone through this whole thing.

THE WITNESS: It's evolved. It's evolving still, which is turning out to be not only --

MR. BENDELL: Turning out to be what? I'm sorry, I didn't hear.

THE WITNESS: If you look at what's happening today with credit cards, car loans, leasing. The attitude towards credit of the American people is very different than it has been for the years that I've been in the business.

BY MS. DEAN:

Q Mr. Mozilo, isn't it true that in September of 2006, you were actually interviewed by a reporter and you were asked about the fact that you were telephoning borrowers to ask them why they were making the minimum payments on their pay-option ARM loans?

A I don't remember that, but I did telephone a few borrowers, correct.

Q Okay. I know you don't specifically recall being interviewed, but in that interview, I will represent to you, because I've read it, you represented to the reporter that you were surprised at the fact that these borrowers appeared to believe that housing prices wouldn't ever decline, and you expressed the view that -- that that might not be prudent; does that ring a bell?

A It doesn't ring a bell, but I would say that statement sounds correct; it's not prudent to think that values would go up forever.

470:1

Q Okay. So that was a belief that you actually had in the fall of 2006, that it was unreasonable to continue to expect that housing prices wouldn't just go up forever; correct?

A Yeah, I think it's a reasonable -- yeah, also not that they would collapse either.

Q Fair enough.

MS. DEAN: Can we mark this?

MR. PUATHASNANON: Uh-huh.

MS. DEAN: 541?

(SEC Exhibit 541 was marked for identification.)

BY MS. DEAN:

Q Mr. Mozilo, we've handed you now what's been marked as Exhibit 541, which, for the record, is a three-page document Bates stamped CFC2007A362791 through 793. It's an e-mail string. And the first e-mail at the top of the page, on page 1, is from Angelo Mozilo to Dan Tarmen dated September 21st of 2006. And if you look down to the lower half of the first page, it appears that this is a forwarded e-mail from Factiva, which forwards an article from American Banker. And I don't want to belabor this too much, but I just wanted to ask you if reviewing -- well, first off, have you ever seen Exhibit 541 before?

A No.

471:1

Q You don't recall having seen it?
A No.
Q Okay. Do you have any reason to believe that you are not the Angelo Mozilo that's identified at the top of page 1 of 541 as having sent an e-mail to Dan Tarmen?
A No.
Q Okay. I just wanted to ask, looking now at this transcript of this article from the American Banker, if that refreshes your recollection about the fact that you were, in fact, interviewed about your phone calls to option-arm borrowers?
A Huh-uh.
Q I'm sorry, was that --
A I don't remember it, but I'm sure it took place.
Q Okay.
MS. DEAN: That's all I wanted to ask you about it. Thank you.
BY MR. PUATHASNANON:
Q Mr. Mozilo, are you familiar with a meeting that was called the pay-option summit?
A I don't recall it.
Q The name doesn't ring a bell to you, as you sit here?
A I do not, as I sit here today.
Q Do you recall a meeting sometime in August or

472:1 September of 2006 with Kevin Bartlett, Carlos Garcia, David Sambol -- there may have been others -- to discuss selling off the pay-option ARM portfolio?

A I don't remember that specific meeting, but I know that we had discussions about it.

Q And when you say "we," would that include the group I just identified?

A It could. It could; I just don't recall who was sitting in the room or where we were sitting or whether it was telephonic. I don't know.

Q Do you recall that there were discussions that you participated in regarding selling off the pay-option ARM portfolio?

A Yeah, I think there's clear evidence that I wrote many memos about that.

Q But I'm not asking about the e-mails. I'm being about meetings --

A I don't recall meetings.

Q -- face-to-face.

A I don't recall any specific meeting. I don't recall the meeting that you're referring to, although it could have taken place, and I could have been there. I just don't recall it.

(SEC Exhibit 542 was marked for identification.)

473:1 BY MR. PUATHASNANON:

Q Handing you what's been marked as Government Exhibit 542. It's a two page e-mail, Bates-numbered CFC2007A362867 through 362868. It's a series of e-mails. The most recent of which is from you to Dave Sambol, Carlos Garcia, Kevin Bartlett, Jim Forash with a copy to Walter.

A I have it.

Q Okay. Thank you. Dated 9/26/2006.

A I don't see -- I'm trying to -- where does this thing start? In the back?

MS. DEAN: The oldest e-mail would be in the back, yes.

MR. PUATHASNANON: That's right.

THE WITNESS: From John Feng?

BY MR. PUATHASNANON:

Q That's right.

A Yeah, I'm not in that e-mail, and I don't see it.

MS. DEAN: No, the first time you actually appear is on the first page of the document. Mr. McMurray forwards his e-mail to the bank to you.

THE WITNESS: Okay. Is this the Jim and Mike, a couple of questions concerning, is that the e-mail? No?

BY MR. PUATHASNANON:

Q That's an e-mail from McMurray, and then the next e-mail above that is from McMurray to you.

474:1 A Here's another recent e-mail I sent to the bank on pay options; correct?

Q That's right. So do you have any reason to believe that you did not receive that e-mail from Mr. McMurray?

A I have no reason to believe, but I think top one I forwarded to somebody.

Q That's right. And it appears that in both the e-mail you received and what you then subsequently forwarded included then all of the e-mails below it, on page 1 and page 2?

A I would assume so. I would assume so.

Q All right. Did Mr. McMurray -- well, strike that.

Do you know why Mr. McMurray forwarded you the e-mail to you regarding the pay options?

A No, I don't know why.

Q Did Mr. McMurray -- was this something Mr. McMurray did in other circumstances, that you can remember?

A Not on a regular basis. I recall that because he knew of my concern and -- on pay options, and I may have copied him on some of my e-mails, I'm not sure, relative to pay options. He -- I would assume he sent it to me because he knew of my -- of the issues I had raised.

Q Okay. And in the -- looking down below to the e-mail from Mr. McMurray to Mr. Forash and Mr. Muir, the first line says, quote, Jim and Mike, a couple questions,

475:1 slash, concerns with respect to the bank's continued aggressive bidding, slash, buying of option ARMs. Do you see that?
A Uh-huh.
Q Okay. And then number one, it says, "Strategic consistency and integration," period. "At least on the surface, this investment strategy seems inconsistent with broader strategic initiatives," period. Do you see that?
A Uh-huh.
Q Do you have any idea what he's referring to with respect to broader strategic initiatives?
A No, I don't.
Q Did you know that the bank was buying pay-option ARMs?
A I did. I found out about it and at some point, I asked them to stop, and they did.
Q Did you find out about it before this e-mail from Mr. McMurray?
A I don't recall. I don't recall how I found out about it.
Q And when you say you told them to stop, who did you tell?
A I think there's an e-mail. My recollection is that there's -- I would have told -- I would have told Carlos Garcia, who was running the bank, probably Stan Kurland, if

476:1 he was there in September, and certainly Dave Sambol would be the ones I would instruct not to buy anymore.

Q Why did you want them to stop buying pay-option ARMs?

A Because I was trying to reduce our exposure, and I thought our origination operation was sufficient. We didn't have to add to -- to the position of the bank by buying additional product. That's primarily the reason.

MS. DEAN: Can I just ask a sort of structural question? If the bank was purchasing pay-option ARM loans, were they doing it on their own behalf, or were those purchases coming in from the correspondent lending division, if you know?

THE WITNESS: I don't know. I don't know. I thought I saw a reference to RFC here someplace in one of these e-mails, which would indicate that they were buying it away from correspondent.

MS. DEAN: Buying it on their own?

THE WITNESS: I think so, but I'm not sure.

MS. DEAN: If the bank was buying it away from correspondent lending division, do you know what diligence procedures -- or strike that.

If the bank was buying the loans itself and not using correspondent lending division, did the bank have the capacity to perform diligence procedures on the loans that it

477:1 was purchasing?

THE WITNESS: The bank was required to underwrite every single loan that came into the bank, irrespective of where it came from.

BY MR. PUATHASNANON:

Q Going down to -- back to Mr. McMurray's e-mail to Mr. Forash and Mr. Muir, number two is entitled "Accounting and Return Implications. Have you resolved the concerns raised around the accounting and returns implications of the high premiums associated with these purchases?" Do you see that?

A Yes.

Q Were you aware of issues that arose with respect to the accounting and return implications of buying pay-option ARMs?

A No. I'm not even aware that this was a problem.

Q Okay. So you've never been aware of that?

A No, I mean, I -- no, I was never aware of it.

Q In 1-A, there's a reference to pay-option summit. As you review this e-mail, does that refresh your recollection in any way as to what the pay-option summit was?

A No, no idea. I never even heard of it until I saw this.

BY MS. DEAN:

Q Did you, at any time in September, October 2006, 478:1 ask Carlos Garcia or Dave Sambol to explore the possibility of selling the pay-option ARM loans on the bank's held-for-investment portfolio?

A Yes.

Q Okay. When did you do that, if you know?

A I've done it -- I did it on several occasions to continue to explore it, even to the extent of going to the accounting firm to make sure we weren't affecting our HFI status. And, ultimately, the -- you weren't here yesterday, but my style was to raise the issues. I had a very talented team. They'd been with me for many years, who I relied heavily upon for their advice and their input, because I'm not an expert in these areas -- in all of these areas, and who I relied heavily on them, and they came back to me and explained to me that the cause of their ability to get the portfolio insured, that our risk was substantially diminished, and that -- and that this was a profitable product for the bank, and a good product for the bank.

Q Who would have been the individual who came back to you and provided you with that information?

A It could have been Carlos Garcia, I think sent me e-mails from time to time about that issue; Dave Sambol. I'd say primarily Carlos; he was the CEO of the bank.

Q If the -- if Drew Gissinger, Kevin Bartlett, David Sambol, Carlos Garcia, got together and had a meeting with

479:1 respect to what to do with the pay-option ARM loans in the bank's held-for-investment portfolio, would you expect them to report the results of that meeting to you?

A I would be surprised if he wasn't part of that team, but, you know, maybe he was. I don't know. If Carlos and Dave Sambol and Kevin Bartlett and Jeff Speaks was part of that quantitative team, came up with significant conclusions as to how to manage that, I would expect that Dave would give that information to me.

Q And would you expect them to give that information to you in writing, or was it the typical practice that they would report it back to you orally?

A Typically, it was in writing.

Q And as you sit here today, do you have any recollection of receive a writing from any of the individuals you just identified in October of 2006 informing you of their plans with respect to the portfolio of pay-option ARM loans in the bank's held-for-investment portfolio?

A I don't recall it specifically, but I wouldn't be surprised if they did send that to me.

Q But in any event, you expressed a desire to sell the loans, and it's your recollection that at some point you were assured that wasn't necessary because portfolio insurance could be procured; correct?

A That's correct. And I think including the fact

480:1 that I was given continuous comfort in the performance of the loans.

MS. DEAN: Okay. On that note.

MR. PUATHASNANON: Let's take a break. It's 11:37. We're off the record.

(Recess.)

MR. PUATHASNANON: Okay. We're back on the record. It's 11:48.

Q Mr. Mozilo, I'm handing you what's been marked as Government Exhibit 543 -- 542. I'm sorry.

A It says "543."

Q It does? Yeah, that's right. I was right the first time. It's a one-page document Bates CFC2007A364000.

(SEC Exhibit 543 was marked for identification.)

BY MR. PUATHASNANON:

Q Do you know the sender of the e-mail to you on 12/21/2006?

A No. No, I don't.

Q Okay. In your response -- well, I'm sorry. You forwarded the e-mail to Mr. Bailey, Mr. Sambol, and Mr. Shackett, and in the e-mail that you forwarded to them, you state that, quote, this guy might be totally self-serving, but it is an issue that we should take a look at in light of the fact that we expect a substantial spike in foreclosures,

481:1 period, close quote. Do you see that?
A Yes, I do.
Q Why were -- what were you or the company expecting a potential spike in foreclosures as of September 22nd, 2006?
A I can only assume that it was because of the increase in delinquencies of the overall portfolio.
Q Was there any other reason that would have contributed to the expectation that there might be a spike in foreclosures?
A I can't think of any.
Q And as you sit here today, is that your recollection, is that it was the increasing delinquencies in the overall portfolio that lead to the --
A I don't have a recollection. It's the only reason I could -- the only indication of foreclosures is higher delinquencies. So it's a, to me -- I don't have a recall on December 22nd about that specific issue.
Q And so as the delinquency rises, the risk of foreclosure increases; is that a fair statement?
A That's a very fair statement, yes.
Q Is there any other matrix or factors that you could look to that would create greater concern about foreclosures, other than delinquencies?
A I don't think so, because it's the -- delinquency is the cause of a foreclosure. There's no other cause for us

482:1 to get title to a property as long as people are making their payments, no other basis for it.

Q And when you refer to delinquencies, are you talking about -- and we've seen this, although we haven't looked at it specifically -- but the percentage of delinquencies is broken down by zero to 30 days 31 to 60 days, and so on, over the time period that they're late; is that correct?

A That's correct.

Q Is there -- are you focused on the total number or one of those date ranges, in particular, when you think about the correlation to delinquencies to foreclosures?

A It would be one in totality, but then you go into the serious delinquents, which would be 90-days-plus, and that would be a factor. And I believe that the issue with delinquencies and foreclosures was a national issue at the time. So I didn't think we were exempt from what was happening all over the country.

Q What do you mean by that, that there was a national trend towards delinquencies and foreclosures and therefore --

A That was -- that's what my -- my memory serves me that's -- starting in the end of 2006, beginning of 2007, it was increasing in delinquencies.

Q And do you have a sense of what was go on in Countrywide during that time?

483:1 A I -- do I have a sense? Is that what your question is?
Q Yeah, I'm sorry. Let me start --
A My sense would be, based on this e-mail, would be that we were showing an increase in delinquencies and on the flash report that you showed me, the overall delinquencies were rising. So that's the basis of making that statement.
MR. PUATHASNANON: Okay.
MS. DEAN: Okay. Mr. Mozilo, I'm going to hand you Exhibit 214, which is a document that we actually looked at yesterday. And I promise not to rehash the ground that you covered yesterday. I just have one very quick question about it.
MS. DEAN: Exhibit 214, for the record, is an e-mail from Angelo Mozilo dated June 1, 2006 to Carlos Garcia and Jim Forash with carbon copies to Stan Kurland and Dave Sambol.
(SEC Exhibit 214 was referred to.)
BY MS. DEAN:
Q The very first paragraph of this e-mail references a discussion that had you with Stan and Dave, which I take to be Stan Kurland and Dave Sambol; is that correct?
A That's correct.
Q And you mentioned that in the discussion it came to your attention that the majority of pay-option ARMs being

484:1 originated at Countrywide were based upon stated income; right?

A That was my understand when I had -- when that comment was made.

Q Okay. This is my actual question about the document. The next sentence says, quote, There is also some evidence that the information that the borrower is providing us relative to their income does not match up with IRS records, close quote. Do you see that?

A I do.

Q Do you know if the source of that piece of information was from Stan and Dave Sambol or was it from somewhere else?

A I believe it was that. I would think it was part of that conversation. Again, Lynn, if I hear something, I'm going to jump on it. And this was some new information. I didn't know the extent of it. Again, you know, I write in hyperbole, but I asked them to, on the stated income issue, that this was an issue that was raised, and I wanted to be aware of it -- that I was aware of it.

Q Okay. Do you know if Countrywide had a policy one way or the other of double checking the stated income that a borrower provided against IRS records?

A I can't speak specifically to your question, but let me answer it this way: that over the years, the company, 485:1 as well as other mortgage companies, developed a methodology of communicating with the IRS to validate information electronically. How that worked with these particular loans, stated income, I'm not sure.

Q You said, "over the years." Do you know when that started?

A Well, it started many years ago, but it was a very slow process because -- waiting for the IRS to validate in writing whether or not this was correct or not, so it became very difficult, but I believe -- I believe, that electronic methodology was developed, maybe -- this is just a guess -- three, four years ago, five years ago, something like that, that there could be some way of checking that information. The other way that's used is the -- is cash flows, looking at cash flows and checking accounts. If someone says they make so much money, it should be reflecting in the bank accounts. That's another way of validating.

Q But is that something that Countrywide would actually be doing with respect to borrowers that were getting stated income loans?

A I'm not -- as I said, I haven't underwritten loans in a loan time, but I believe so. I believe there was some method of validating what they're telling us, I believe, but I couldn't tell you with certainty.

Q And I apologize, I really do only have two of these

486:1 so --

MR. PUATHASNANON: I think I have one.

MS. DEAN: Let's go off the record.

(Discussion held off the record.)

MS. DEAN: Back on the record.

Q Mr. Mozilo, I've handed you what's been marked as Exhibit 226, which is a multiple-page e-mail, with Bates stamp numbers JPM000313 through 316. And the first e-mail in the string is an e-mail from John McMurray to Jess Lederman dated September 7 of 2007.

(SEC Exhibit 226 was referred to.)

BY MS. DEAN:

Q And I know that you're not copied on these e-mails, but earlier I asked you a question about the matching strategy at Countrywide, and you indicated that you were not sure whether -- that you were not familiar with the fact that that was a formal policy. Does Mr. McMurray's e-mail refresh your recollection in that regard?

A No.

Q Okay. You can take your time and you can read the entire document, if you like. I just want to point out a couple of things about the e-mail that Mr. McMurray forwarded, which is an e-mail from Mr. McMurray to Mr. Sambol in June of 2005. Mr. McMurray points out to Mr. Sambol in June of 2005 that -- and I'm at the paragraph that's headed

487:1 "Absolute Risk," he points out that "Countrywide's guidelines along with other lenders in the industry have become increasingly more aggressive during the past few years." Do you see that?
A Yes.
Q Did Mr. McMurray or Mr. Sambol ever communicate that information to you?
A No.
Q Were you aware, as a general proposition that Countrywide's guidelines were becoming increasingly aggressive in the 2005 time period?
A No.
Q And then one last thing is Mr. McMurray informs Mr. Sambol in the paragraph that's headed "Composite Guidelines," he says, "Because the matching process includes comparisons to a variety of lenders, our match will be a composite of outer boundaries offered across multiple lenders."
Was that particular concern ever communicated to you by either Mr. McMurray or Mr. Sambol?
A No.
Q Okay. That's all I have for you.
A I can't recall, and the word "out of boundaries" doesn't sound familiar to me. I can't recall any of these. I don't recall any of this.
Q Well, and, to be fair, you were not copied on that

e-mail, but my questions with a more general one.

A I understand. I'm thinking about your question. I don't recall any of the composite issues. The terminology used here appears to be foreign to me.

Q Okay. Did you ever attend meetings of the credit risk committee?

A I don't believe I attended every meeting of the credit risk committee.

Q Did you receive copies of the meeting notes of the credit risk committee?

A I don't believe I did.

Q I'm handing you now what has been previously marked as Exhibit 59. Did I hand you the one that has my notes on it?

MR. McLUCAS: I don't think so.

MS. DEAN: No. Since they're -- off the record.

(Discussion held off the record.)

MS. DEAN: Back on the record.

For the record, Exhibit 59, is a two-page document with Bates stamp numbers CFC2007B011868 through 869. And it is a imbedded e-mail string. The e-mail at the top of the first page is from Angelo Mozilo to Dave Sambol dated October 17th, 2006, and the subject line is "all-hands meeting."

(SEC Exhibit 59 was referred to.)

BY MS. DEAN:

489:1 Q Mr. Mozilo, have you ever seen Exhibit 59 before?
A I don't recall seeing it.
Q Okay. Do you have any reason to doubt that you are the Angelo Mozilo who sent the e-mail to Dave Sambol on October 17, 2006?
A No.
Q Okay. If you look at the middle of the page, there's actually another e-mail from you also dated October 17th, and it's from you to Dave Sambol with a copy to K. Griffin. And in that e-mail you indicate, quote, I plan it have a meeting with the heads of state of our company on November 13th, period. The purpose of the meeting is to re-enforce our vision for the immediate future and give them an opportunity to comment, close quote. Do you see that?
A Yes, I do.
Q Do you recall having a heads of state meeting on November 13th, 2006?
A I don't recall that specific meeting.
Q Would it be unusual to have an all-hands meeting like the one described in Exhibit 59?
A It would not be unusual to have an all-hands meeting. They were held periodically if -- to discuss overall company issues, to make sure we were all on the same page, or if we were particularly going through expense reduction, personnel reduction. We typically had these

all-hands meetings to be sure everybody was coordinated properly.

Q Do you recall in or around the October, November time frame in October 2006 that you were contemplating some change in direction that would have required an all-hands meeting of your senior officers?

A I don't recall any of that, just "the purpose of this meeting is to re-enforce our vision for the immediate future and to give them an opportunity to comment." I don't know who "them" is. I assume it's the attendees.

Q Was there something happening in October of 2006 that made you think you needed to have an all-hands meeting with senior management of Countrywide?

A There was nothing that I could recall. I'm sure there was something that caused me to do this. I think there were a lot of -- I would assume -- you know, a lot of changes were taking place in the industry, a lot of trends were changing. I can only assume that it was to make sure that we were all aware of, you know, what was going on in the industry, what our view of it is, what we intend to do about it, how we were go to move forward to either take advantage of the situation competitively, and make sure that we were okay. I mean, that's the only thing I can assume. I don't see an agenda here. I don't -- but an all-hands meeting was a very common occurrence at Countrywide.

491:1 Q So there's nothing that sticks out in your mind as an event that would have precipitated an all-hands meeting in October of 2006?

A Nothing I can recall now. I'm sure you're going to give me something that's going to spark my memory, but I don't recall what it was.

See, it's all the revenue producing heads. I think it was just a review of -- we were going -- coming towards year-end, you know, our calendar year-end. It was probably just a review of where we were. I don't know.

MS. DEAN: Mr. Mozilo, let me hand you what has previously been marked as Exhibit 200. For the record, Exhibit 200 is a multiple page e-mail with Bates stamp numbers JPM000969 through 976.

(SEC Exhibit 200 was referred to.)

MS. DEAN: And I'd like you to take a moment to look through the e-mail. I just have a couple of questions about it.

MR. BRENNER: Just one or the whole thing?

MS. DEAN: The whole thing.

THE WITNESS: You want me to go through the whole e-mail?

BY MS. DEAN:

Q If you would.

A Can I make a mark on this?

492:1 Q No. If you want to make a note, you can flag it with a post-it if you'd like, though.
A Okay.
Q Now, Mr. Mozilo, I know that you, yourself, are not copied on Exhibit 200, but I wanted to call your attention to the middle e-mail on the first page, which is from John McMurray to Nick Krsnich, K-r-s-n-i-c-h.
In Mr. McMurray's e-mail, he appears to be forwarding a prior e-mail that he drafted back in September of 2004 to Mr. Krsnich, and he makes the following comment about it. He says that he put the e-mail together last year for Keith McLaughlin, and then he goes on to say that, quote, Keith told me that Angelo had asked him whether our credit risk was increasing or decreasing, close quote. Do you recall that?
A Uh-huh.
Q Do you recall having a conversation -- well, first off, who is Mr. McLaughlin?
A Keith McLaughlin is the former CFO of the company.
Q Do you recall having a conversation with Mr. McLaughlin in or around September of 2004, in which had you a discussion with him about whether or not Countrywide's credit risk was increasing or decreasing?
A No, I don't.
Q Would it have been something in the ordinary course

493:

of things for you to ask Mr. McLaughlin that sort of question?

A It's certainly a potential question I can could ask Keith.

Q Do you have any reason to believe that you did not, in fact, ask Mr. McLaughlin for information about whether Countrywide's credit risk was increasing or decreasing in September of 2004?

A I had no reason to believe I had a reason to do it or not to do it.

Q As you sit here today, you just don't have a recollection one way or the other; correct?

A No, I don't.

Q Later in that same e-mail, Mr. McMurray goes on to write, quote, I don't know whether Keith shared my e-mail directly with Angelo or just had a discussion, close quote. Do you see that?

A I don't.

Q It's the second to the last sentence in the paragraph. One e-mail up.

A Okay. Yeah.

Q Did you, in fact, receive a copy of Mr. McMurray's September 9th, 2004 e-mail to Mr. McLaughlin?

A I don't recall ever seeing this document.

Q Okay. Do you know if Mr. McLaughlin would have

494:1 summarized Mr. McMurray's e-mail for you in response to your question about whether credit risk was increasing or decreasing?

A I don't know how Keith would have communicated this, you know, to me.

Q But you would have expected him to answer your question; correct?

A Yes.

MR. BRENNER: If he had asked the question.

MS. DEAN: Sure.

Q If you had asked Mr. McLaughlin --

A Yes.

Q -- whether credit risk was --

A Yes.

Q -- increasing or decreasing, you would expect him to answer you; correct?

A That's correct.

Q And do you have any reason to believe that he did not, in fact, answer your question in September of 2004?

A I -- Keith was a very responsive individual. I believe he probably responded in some form to me, and it could have been simply that it's increase or decreasing.

Q But as you sit here today, you just don't remember one way or the other?

A No.

495:1

Q If you turn to the second page of the -- Mr. McMurray's e-mail, which is the one that ends in the Bates stamp 970. At Roman numeral two, Mr. McMurray writes that the economic environment for credit risk is deteriorating. Do you see that?
A Uh-huh.
Q And he goes on to cite three factors. One, that how's price depreciation is unlikely to continue. Two, that the long-term decline in interest rates is also unlikely to continue. And three, that market compensation for credit risk has declined. Do you see those?
A Yeah, I do.
Q Was that -- was Mr. McMurray's concerns about the economic environment for credit risk in 2004 ever communicated to you?
A I don't recall anybody coming to me and telling me that -- that he was concerned about these issues.
Q Well, in the context of the discussion about whether credit risk was increasing or decreasing, whether or not Mr. McMurray was concerned, do you recall anyone telling you that it was unlikely, for example, for housing price appreciation to continue?
A No.
Q Roman numeral three, which is headed "Loan Quality" -- or it's "Loan Quality" are the words that are in bold. Do

496:1 you see that?
A Uh-huh.
Q Subheading A, there, Mr. McMurray writes, quote, underwriting standards for collateral and borrowers have become more aggressive, close quote. Do you see that?
A Yes.
Q Do you recall being informed in September 2004 that underwriting standards for collateral and borrowers had become more aggressive?
A Specifically, being told by John McMurray?
Q By anyone at Countrywide.
A No one told me specifically.
Q Were you aware of that fact?
A I was aware of the growth of subprime. And so that was a liberalization of the guidelines. It was a substantial part of the business -- not of our business, only 9 percent of our business, but overall, and it was driven by a mandate, by the -- by affordability, advocates, and by the federal government. And we had also signed a reverse for housing agreement with the United States Government to increase homeownership among minorities and low-income borrowers. And there was serious penalties if -- if there were disparities noted in the underwriting process.
Q I know you said that subprime was actually a small part of Countrywide's business. I think it was either 8 or

497:1 nine 9; is that right?

A Right.

Q But there were some years in the 2004 to 2006 time period where Countrywide was, in fact, the number one originator of subprime loans in the country; right?

A I don't know that for a fact. I just know what it was in terms of the composition of our business. That was the important fact for me.

Q In addition to subprime, Mr. McMurray also notes that on subheading 3-V that, quote, more loans are being originated under riskier loan programs, paren, EG ARMs, close paren, with riskier features, paren, EG low, no doc, IO, close paren, and at higher CLTV, slash, LTVs, close quote. Do you see that?

A Yes.

Q In addition -- I think you indicated that you were aware that Countrywide's guidelines had widened into the area of subprime. Were you also aware that Countrywide was writing more loans at low or no documentation?

A Yes.

Q Okay.

MR. McLUCAS: In 2004?

BY MS. DEAN:

Q In 2004?

A Yes. Overall, I knew. I couldn't tell you

498:1 specifically on that date, but I knew that we were doing more low doc. That was the trend in the business.
MR. McLUCAS: But we're speaking as of 2004, if you remember.
THE WITNESS: That's the specific question? 2004, I did remember that?
BY MS. DEAN:
Q Well, let's do it year by year. Were you aware of it in 2004?
A I'm not sure I was aware of it in 2004.
Q Were you aware of it in 2005?
A I was aware in recent years that no doc, low doc was one of the products that we -- that we originated.
Q And would recent years be within the last five years?
A I'd say the -- whenever these loans became a -- this was written in 2004?
Q In September of 2004?
A 2004. So is it was probably 2005.
Q That's when you became aware of it?
A I can't tell you specifically. I was aware of it around that time frame.
Q Okay. Were you also aware that Countrywide was writing a higher proportion of loans that were interest-only loans in or around the September 2004 time period?

499:1 A I don't specifically remember in that time period we were doing a higher percentage of loans. I knew we were doing IOs, but I didn't know it was a higher percentage.
Q I'm not saying it was a high percentage of the portfolio as a whole, I'm suggesting higher than it had in the past?
A I was not aware of what the comparison was. I was not focused on that.
Q Did you ever become aware of that?
A With I did become aware that we were do IO loans, or that we were do more IO loans than we had in the past?
Q The latter.
A I was aware that we were doing a substantial amount of IO loans. Again, that was the trend, but I can't tell you whether it was higher or lower than the previous month or year. I don't know.
Q Were you aware in or around September 2004 that Countrywide was writing more loans at higher combined loan to value or loan to value?
A Could you repeat the question?
Q Sure. Were you aware in or around September of 2004 that Countrywide was writing more loans with higher combined loan to values or loan to values?
A No.
Q Did you ever become aware of that fact?

500:1 A I became aware over time that the loan to values were higher.

Q Well, if you turn to the -- it looks like the fourth page the document, Bates stamp ending in 972. If you look under heading three, subheading A, Mr. McMurray writes, quote, high CLTV, slash, LTV loan -- I'm sorry. Let me try that again.

Mr. McMurray writes, quote, high CLTV programs have a long history, period. The key difference in this credit cycle is the combination of high CLTV, slash, LTVs with other risk factors, such as low documentation or borrowers with weak credit, close quote. Do you see that?

A I do.

Q Did you at some point become aware that Countrywide was writing more loans with high loan to values to borrowers based on either low documentation or with lower FICO scores?

A Not specifically.

Q Are you generally familiar with the concept of layered risk as it applies to credit risk?

A Generally, I am. Are you talking about layered risk being a first mortgage and a second mortgage?

Q That's one definition. Are you familiar with it in the context of risk factors, such as loan to value, FICO score, or documentation being considered factors that would constitute layered risk?

501:1 A Yeah -- well, I'm not totally familiar with the term "layered risk," but I understand the concept very well, that each of these elements either mitigate risk or increase risk.

Q So if you have a loan that has more than one risk factor, the fact that there are two risk factors present would tend to increase the risk of the loan; is that right?

A Correct.

Q Okay. In that same paragraph that we were just looking at, Mr. McMurray goes on to write, quote, borrowers are increasingly using piggy-back seconds to avoid MI, close quote. Do you see that?

A That's correct.

Q And in that context, "MI" is mortgage insurance; is that correct?

A That's correct.

Q Were you aware that borrowers were using piggy-back second liens to avoid having to purchase mortgage insurance in or around the 2004 time frame?

A Again, I can't tell you about the time frame. I was certainly aware over time that the borrowers were gravitating towards a second mortgage because it was a better economic execution for them.

Q In what sense?

A Taxes. Mortgage insurance is not tax deductible.

502:1 Q So Countrywide was, in fact, writing more piggy-back seconds in order to get borrowers into homes correct?
A We were writing it because that's what the consumer wanted. And we were driven -- all lenders were driven by generally the trend in which consumers are gravitating to in order to get into the home as long as we could justify that we were originating a loan of good quality and one that we expect to perform, because the loser in a bad loan is no motivation for a lender to make a bad loan, none, because all the losses are to the lender, as you can see today.
So that's -- all the these products are developed along the lines of not only layered risk, but what you're being paid for that risk.
Q Right. One of the ways you offset the risk is by pricing the loan to --
A To risk.
Q -- to the risk; correct?
A Right.
Q But in general, were you aware in September of 2004 that Countrywide's loan originations were becoming increasingly risky because it was offering more loans that had layered risk features?
A In the month of September 2004, no.
Q Did you become aware of that at some point?

503:1

A At some point, we -- I was aware of -- generally of the products that were originating, because I'm getting the flash report. I mean, I'm getting the reports as to what we're originating, and so I was aware of the type of loans we were making.

Q Okay. When do you think you first became aware that Countrywide was originating a higher percentage of loans that had the layered risk layered features?

A I could only tell you, you know, I became aware of it, but I don't know when.

Q Would it have been before 2006?

A I'm not going to be tied down to a date. I don't know.

Q Well, if, in fact, it were the case that Countrywide was writing more loans that had risk factors, higher risk factors, is that something that you would have expected to be communicated to you by your subordinates?

A Well, yes. But in the -- you know, I was aware generally of the type of loans we were originating. I can't tell you the time frame, but in each of those cases where I was uncomfortable, I expressed that in an e-mail and -- or making certain that we were pricing it to our risk. And when it wasn't an epiphany, it wasn't something that just happened as these products were developed, as we began originating the products, as they put them out into the field, I became aware

504:1 of it. Not the exact time necessarily, but the expectation was that we were a -- that we remained relevant in the lending community.

Q As you sit here today, do you have any reason to believe that your subordinates at Countrywide were not informing you of the quality of the loan products that were being originated at Countrywide in 2004?

A When you talk about quality, as I said, I reviewed -- continuously reviewed, neurotically reviewed the performance of the loans. To me, the truth rested with the performance of the loans and that was my focus. The -- there was no obligation on anybody's part to come to me every time a loan variation was created -- to get my approval on the loan variation, unless they were willing to hold new product. And so I wouldn't frame it the way you have. I didn't mandate them to come to me every time this changed. This was a management team that was together talking all the time about -- about what we were originating. And I was generally aware of the products or the IOs, the second mortgages, the biggies. I was aware of that. I can't tell you specifically the date and time I became aware of that. I just don't know.

Q Well, let me ask it this way, if the risk profile, the credit risk profile of the loans being originated and serviced by Countrywide changed materially, is that a fact that you would have expected would be communicated to you?

505:1 A If they changed materially, relative to risk, I would expect them to communicate that to me.

Q And as you sit here today, do you have any reason to believe that your subordinates did not, in fact, communicate to you material changes in the risk profile of the loans originated at Countrywide?

A I -- I have no reason to believe that they would not -- they would keep from me that information. How I found out about it, because of the way we operated, may not have been in a formalized manner.

MR. McLUCAS: Do you actually remember being told of that information in 2004?

MS. DEAN: He answered the question. I asked him if he had any reason to believe that he hadn't been told, and he said no.

MR. McLUCAS: May I ask the question?

MS. DEAN: Sure.

MR. McLUCAS: Do you actually recall whether or not you were advised of that information in 2004?

THE WITNESS: No. I kept on saying I can't tell you the time frame or -- so you know, you kept on going down a tract. I had --

MR. McLUCAS: I mean, this is to get the facts; right?

MS. DEAN: Absolutely.

THE WITNESS: Okay. The answer is no.
BY MS. DEAN:
Q On that same -- on the page that ends in Bates stamp number 970, under that subheading Roman numeral five, letter A, I just wanted to ask you a definition, if you could help me out.
A 970?
Q Yes. Mr. McMurray makes the point that the company is selling less of its credit risk away because it's increasing production of HELOCs and subprime loans, and then he goes on to say, "As well as growth in the bank's WL portfolio." Do you see that? Roman numeral five, letter A.
A Yeah, I see it.
Q Okay. I'm assuming "WL" means whole loan; is that right?
A Yes.
Q Okay. So would that be just the growth for loans held for investment in the bank?
A Yeah, I would assume, yeah.
Q Okay. I just wanted to ask you about the discussion of low and no documentation on the bottom of page 972 and then spilling over to page 973. At very bottom, it's the last line of the page 972, Mr. McMurray makes the comment, quote, an increasing portion of our loans are originated with some type of low documentation feature, close

507:1 quote. And then there's a couple of imbedded tables there. Do you see those?

A Uh-huh.

Q Were you aware that the percentage of reduced documentation, subprime firsts, had increased between July of 2002 and July of 2004?

A No.

Q Okay. Were you aware that the percentage of reduced documentation home equity loans had reduced -- excuse me.

Were you aware that the percentage of reduced documentation home equity loans had increased between July of 2002 and July of 2004?

A No.

Q Were you aware that the percentage of loans -- strike that.

Were you aware that the percentage of conventional loans being produced at Countrywide on low documentation basis had increased between July of 2002 and July of 2004?

A No.

Q There's a -- in the center of the page, there's a discussion under the letter F about AVM's. Do you see that?

A Uh-huh.

Q Is that a yes?

A Yes.

Q Okay. AVMs are automated valuation models; correct?

A That's correct.

Q Were you aware that an increasing number of the loans being originated by Countrywide were using -- were originated using automated valuation models in lieu of appraisals?

A No.

MS. DEAN: Let's go off the record.

(Discussion held off the record.)

MS. DEAN: Back on the record.

Q Did you want to make a comment?

A I do. I think that what you left out of this whole -- is when you go through all of this, we went through this selectively. First of all, none of the -- even though I was unaware of it -- none of those issues, as long as being priced properly, second mortgages, AVMs are commonly used by all of the lending communities, in fact, might be even better than a subjective appraisal by an individual going out to the property.

But in any event, the -- I'd like the record to reflect that the conclusions and recommendations -- I won't read through them -- that at the end of this whole thing that John McMurray -- which I've never seen this document -- but much of it confirms what Countrywide did, and that the actions that he suggested being taken, he was an instrument by which they were being taken. He was the inceptor of much of it, and we had taken substantial credit reserves.

And so if you look at this subjectively, I think the steps that we were taking to address the issues that are in this that I read in here were being taken and, in fact, he suggests that we take increased credit risk in this. I don't know exactly what he means by that, but that's one of his suggestions. So I just want that to give balance to this.

Q Well, in fact, what Mr. McMurray says is that, to the extent that you do take on additional credit risk, you should do so judiciously; correct?

A You should take all risk judiciously.

Q But I'm referring to his comment at numeral E on the last page of the document with the Bates stamp ending in 976.

A Yes. And I'll refer you to 7 -- 971 where he talks about opportunity set in number D, increasing our credit risk position may be the most attractive opportunity in the current market to sustain and grow earnings.

MS. DEAN: Okay. Thank you. Let's go off the record. It's 12:45.

(Whereupon, at 12:45 p.m., a lunch recess wa taken.)

A F T E R N O O N S E S S I O N

510:1 MS. DEAN: We're back on the record at 1:50 on August 21st, 2008.

Q Mr. Mozilo, I'd like to hand you what has now been marked as Exhibit 544. And for the record, Exhibit 544 is an e-mail Bates CFC2007 A369279, and it's from Angelo Mozilo to Stan Kurland dated February 18, 2006.

(SEC Exhibit 544 was marked for identification.)

BY MS. DEAN:

Q Mr. Mozilo, have you ever seen Exhibit 544 before?

A I haven't seen the exhibit before, but I'm sure I wrote this note.

Q Okay. In this particular e-mail, the subject line is "Capacity, slash, reduction in force." Do you see that?

A Yes.

Q Were you contemplating a reduction in force at Countrywide in early 2006?

A Yes, I believe so. And I can't tell you specifically on that date, but generally what this signals is what I was talking about before that it's a very mercurial business or volatile business and it requires this kind of very quick action in the event that business slows down. I would assume around this time that -- for whatever reason, whether it be interest rates or that we just weren't competitor, whatever the reasons were -- that our volumes

511:1 were decreasing, and we had to move quickly to reduce our expenses, which is primarily reducing this account.

Q Do you remember what precipitated your concern about the potential for significantly lower production?

A It was probably interest rates, that would be my guess. I don't know. Generally the interest rates determine -- interest rates or some unusual behavior on the part of a competitor who is just taking market share and just knocking us, and we just can't compete. But I would -- I think it was -- it was interest rates.

Q Okay. Mr. Mozilo, I'm now handing you what has been marked as Exhibit 545. Which, for the record, is a multiple page document Bates stamped CFC2007769495 through 497. And the title on the first page is "Consumer Education: An Increasingly Important Component of Industry Leadership."

(SEC Exhibit 545 was marked for identification.)

BY MR. DEAN:

Q Mr. Mozilo, have you ever seen Exhibit 545 before?

A No, I haven't.

Q Okay. Did you write an article in 2006 entitled "Consumer Education: An Increasingly Important Component of Industry Leadership"?

A No, I didn't.

Q Did someone write it for you?

512:1 A I believe so. In fact, I see a typo in -- 19,605 with a --

Q Right. I really -- do you -- well, I know you said you didn't write the article. You think someone wrote it for you?

A I believe PR probably wrote it. I didn't. I didn't write it.

Q Okay. Do you have any recollection of this specific article?

A Not at all.

Q I just want to call your attention to something on the last page, which is the second comment after the second asterisk at the top of the page. It starts with "Countrywide makes"; do you see that?

A Uh-huh.

Q And for the record, it reads, quote, Countrywide makes solid and consistent underwriting decisions, regardless of the interest rate climate or other varying factors and is committed to keeping people in their homes, close quote. Do you see that?

A I do.

Q Do you recall making a statement along those lines in or around March of 2006?

A I don't remember making a statement at any time.

Q Okay. Would that a statement that was consistent

513:1 with your belief, however?
A I think it's a statement that -- it has to go along with the first statement, "our founding principal was to lowering the barriers to home ownership." That was the founding principle of the company, and with that we make solid and consistent underwriting decisions. I believe that to be correct by Countrywide.
Q Okay. And that's something that you -- it's not inconsistent with something you think you might have said in or around March of 2006?
A I never said those words.
Q You've never said these words?
A I've never said these words, that I can remember. As I said, I don't ever recall making this statement.
Q Okay. Do you have any reason to believe that this particular article did not, in fact, appear in Mortgage Banking Magazine?
A I have no idea. I never read the publication, so I wouldn't know.
Q You don't read it?
A It has a distribution -- a very small distribution. No, I never read it.
Q To your knowledge, do they sometimes contact Countrywide's investor relations or publicity department and ask for articles or statements from you?

514:1

A They could have contacted them, but not asking -- I don't recall anybody coming to say the Mortgage Banking Magazine wants a statement from you. I don't recall that.

Q If somebody were to write an article to Countrywide and send it to a publication like Mortgage Banking Magazine over your name, would that be something that you would ordinarily expect them to tell you about?

A Not necessarily. You know, let me just make this point. This is a company of 65,000 people with operations on three continents. I believe we had the best and the brightest in the company, and I relied heavily upon them to do the right thing for the company. So something like this, which appears to be -- to me, to be a training to increase industry leadership, and it talks about training and all the things that -- it seems to me to be a, you know, fairly straightforward document that they would produce, but they wouldn't come to me on that. PR did a lot of things of this nature.

Q Okay. So you wouldn't necessarily have been given the opportunity to approve materials that were generated by the PR department and sent out in your name?

A Not necessarily.

Q And you don't specifically recall ever seeing Exhibit 545 before?

A I don't recall it.

515:1 Q Mr. Mozilo, I'm handing you now what's been marked Exhibit 546, which is a single page e-mail Bates stamped CFC2007B004968, and the e-mail is from Dave Sambol to Angelo Mozilo, dated March 24, 2006, and the subject line is "100 percent financing."

(SEC Exhibit 546 was marked for identification.)

BY MS. DEAN:

Q Mr. Mozilo, have you ever seen Exhibit 546 before?

A Well, it was sent to me. I haven't seen the exhibit, but I'm sure I received this memo.

Q Okay. And I'll -- I recognize that this e-mail is actually truncated, if you look at the last sentence, it sort of trails off without completing, but this was the version as it was produced to us. And my questions actually relate to the paragraphs immediately above that. Mr. Sambol wrote to you, quote, Angelo, you seem surprised by the estimates I conveyed regarding the percentage of purchase deals with little to no equity, close quote. Do you recall having a conversation with Mr. Sambol on the subject of 100 percent financing in or around March 24th, 2006?

A I don't.

Q Do you recall having a conversation in which you conveyed surprise regarding the percentage of loan purchases that Countrywide was making in which the borrower had little

516:1 to no equity?

A No, I don't.

Q Do you recall that being an issue at all, in your mind, in March of 2006?

A No.

Q Would you have been surprised to receive the statistics that Mr. Sambol goes on to provide with respect to the loan-to-value statistics on loan purchases contained in this e-mail?

A I can't reflect, you know, what I was thinking on March 24th, 2006 to just say what my reaction would have been. This was his interpretation, "you seemed surprise." You know, I don't know if it was by the intonation of my voice or my eyebrows. I have no idea what caused him to think that. I don't use Turquoise. It's a database that I don't -- I have never opted to have access to. It's a proprietary database.

I'm sorry, would you repeat your question?

Q Well, let me ask you a slightly different question.

Mr. Sambol provides some statistics here about purchase fundings on some loans. And if you look, there are four different line items. If you look at the third one, he writes, quote, over 60 percent of our subprime purchase volume, paren, purchase fundings in FSL and WLD's SLG unit, close paren, had CLTVs of 100 percent, close quote. Do you

see that?
A Yes, I do.
Q Now, if I'm reading that correctly, that means that more than 60 percent of the subprime loans being purchased by Countrywide had combined loan to values of 100 percent; is that right?
A That's correct. That's how I interpret it.
Q Well, I know you can't remember what you were thinking in March of 2006, but as you sit here today, are you surprised to learn that over 60 percent of the subprime loans being purchased by Countrywide in early 2006 had combined loan to values of more than 100 percent?
A Today, I would not be surprised.
Q When do you think you first became aware of that fact?
A I became aware of it when I read this memo and looking at the bottom line, the overwhelming majority of these high LTVs, 65 percent of them were structured as tandem financing with 75 -- excuse me, first mortgages, which we held, the first mortgage. I would then assume that the -- we are protected by the second mortgage.
Q Can you explain how that would work? I just am not following.
A The second, if we're buying the first, and there is a second that's been created, and something else took back

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the second or they got a second from someone else, then in that case, the second mortgage holder would have to protect the first mortgage in order to protect their own mortgage, otherwise, in most states, if the first mortgage is foreclosed on, the second is wiped out.

So the second mortgage holder, in order to avoid being wiped out will pay on the first and -- or permit themselves to be wiped out, and therefore, getting back to the 75 -- I'm sorry -- yeah, the 75 or 85 percent. That's typically how that works. Now, in this particular case, when he talks about tandem financing in quotes, I'm not sure exactly what that means.

Q Well, let me ask you about your prior answer. You said that the second lien holder would have to protect the first lien holder, and what could the second lien holder do to protect the first lien holder in the event of a default?

A Make the payments.

Q Is there any way to tell from Mr. Sambol's e-mail whether the second lien holder is an entity other than Countrywide?

A I can't tell from this, no.

Q So it's possible -- and I understand that you don't know -- but it's possible that Countrywide had both the first and the second on these subprime loans that it was purchasing; correct?

519:1

A That's possible, but those subprime seconds would be sold in the secondary market, because we didn't hold -- we didn't hold subprime seconds in the bank or in the company.

Q Was that always the company's policy, that it did not hold subprime seconds?

A We couldn't hold -- until the -- we were a mortgage banker up until the time we purchased the bank, and a mortgage banker can't hold anything. It doesn't have a balance sheet to hold anything, so it has to sell. When we bought -- when we started the bank -- I don't remember what year it was; you probably know more than I do -- but when we did that, it was the first time that we were able to have a balance sheet to hold mortgages, because we had deposits to support them. And so -- and but, however, we did not, by mandate, both internal and external, did not hold subprime product in the bank. So it had to be -- the second mortgages, whether they were -- whether we had it or somebody else had it, because there was a lot of demand for second mortgage paper that was sold in the secondary market, so we didn't hold it.

Q And when Countrywide securitized mortgages into the secondary market, it retained the servicing rights; correct?

A In most, I'd say, in -- this would be my guess -- around 90 percent of the cases. There were some cases when we sold the loans, the buyer of the loans wanted the servicing to go along with it.

Q Would that usually be more typical of a whole loan sale, rather than a securitization?

A That would be typical of a whole loan sale, that's correct.

Q If you look at the first data point that Mr. Sambol is conveying here, he indicates that quote, 40 percent of all purchase fundings had CLTVs, paren, combined first, plus second mortgage LTV, close paren, of 95 percent or higher, close quote. Do you see that?

A Yes.

Q As you sit here today, does that fact surprise you?

A No.

Q Do you believe you became aware of that fact when you received this e-mail from Mr. Sambol?

A I would assume I did at the time I saw this memo I became aware of it.

Q Do you know if you -- strike that.

At the time you received this e-mail from Mr. Sambol, do you believe you responded to it?

A It would only be a guess on my part, Lynn, that I did -- did have subsequent conversations with him, and I don't know if there's written e-mails back to me relative to those conversations, I'm not sure. I think as I look at this, all of these -- all of this product, they were

521:1 originating was saleable in the secondary market, and that was our role as a financial intermediary. And as long as we felt that these loans -- particularly, in -- when you're dealing in the subprime space, where people don't have equity, but they have the ability to make the payments, and you're attempting to increase home ownership, not only because that was our mission, but also it was a national mission, that -- that the environment was such that there was a secondary market, there was liquidity, and it wasn't holding -- we weren't holding the paper within the company -- within the bank. And I can only assume that that was the process that we went through, and that was it, unless there's some evidence that I asked for changes to be made. I don't recall.

Q Well, so in your mind, as you sit here today, you would have assumed, based on Mr. Sambol's e-mail, that these loans were all saleable into the secondary market and that was sufficient for you to believe that Countrywide had mitigated its risk on these liens?

A Yeah, I believe so, but I also -- I also -- this was not -- this was not -- I was not relying solely upon my judgment. As I said, we had -- we were known to have the best and brightest management team in the country, in the space that we were in, the Stan Kurlands, the David Sambols, the McMurrays, the -- all the people that we had, the Kevin

522:1 Bartletts -- I depended heavily upon them and their input. And at end of the day, that's who I went to to say is this okay? Are we all right? You know, and I guess David was reacting -- I don't know what other e-mails you're going to give me -- but David was reacting to what he perceived to be a surprise on my part. I'd also want to add that the backdrop of this 2002, '3, '4, '5, '6 were very good years for Countrywide in terms of its financial stability, in terms of its equity liquidity, stock value. The company was performing -- as a backdrop, the company was performing extremely well virtually on all fronts, and so that there was no alarm bells going off, at least I thought.

Q Mr. Mozilo, I'm handing you what has been marked as Exhibit 547, which, for the record, is a single page e-mail from Angelo Mozilo to Stan Kurland dated March 28th, 2006. And the Bates stamp is CFC2007A370003, and the subject line is "HSBC."

(SEC Exhibit 547 was marked for identification.)

THE WITNESS: Uh-huh.

BY MS. DEAN:

Q Have you seen Exhibit 547 before?

A I haven't seen the exhibit, but I wrote this e-mail.

Q So you recall writing the e-mail to Stan Kurland

523:1 and Dave Sambol -- actually, there's several recipients here. It looks like Mr. Kurland, Mr. Sambol, Mr. Sieracki, Mr. Spector, and Mr. McMurray. You recall writing this e-mail in March 2000?

A I don't recall writing it at that time. I obviously wrote it. That's the date and time on it. And so I'll accept that.

Q Can you just explain to me, generally, what the issue was with respect to HSBC which is the subject matter of this e-mail?

A To my best recollection, HSBC -- a bank that we had, I believe, sold loans to -- I'm not perfectly sure, but I think it was a case where they asked us to buy back these loans, or buy back a portion of them or -- and one of the issues of the basis for the buyback was a -- was a documentation issue, where there was deficient documentation and we had to produce documentation. And what I was told is we were late -- at least HSBC's position was we were late -- as a result of that, they asked us to repurchase. And that was the -- I think that was the issue that sparked this.

Q And the loans in question, the loans that you were selling to HSBC, were, in fact, subprime seconds; correct?

A Does it say that here? I'm not sure.

Q It does actually say it, but if you look at number 2, it doesn't specifically say that the loans were subprime

524:1 seconds, but item number 2 indicates that one of the solutions here is that Mr. Sambol is going to make sure that origination personnel understand the necessary for adhering to guidelines on 100 percent loan to value subprime product?

A I wouldn't assume that's seconds, because that would be CLTV, but I don't know. I'm not sure what it was. I don't remember whether it was seconds or firsts or --

Q Well, I will represent to you that there has been testimony in the case that they were, in fact, subprime seconds.

A Okay.

Q Do you recall that there was -- was this a single isolated instance with HSBC or was this a recurring issue with them?

A As far as I know, it was just one-time issue. There was -- that was just a one-time issue, as far as I know.

Q Were you aware that shortly after this time period, HSBC ceased buying subprime seconds from Countrywide at all?

A I wasn't necessarily aware of it, but it wouldn't surprise me.

Q Okay. Why wouldn't it surprise you?

A Well, because of the experience they had of asking us to buy back. And, you know, to the extent that this was an issue that came to my level, so it was a rather high-level issue that they said, "that's it." Can't do anymore. I don't know if they bought it from anybody. Do you know if they bought it from anybody?

Q I don't know.

A Yeah. I don't know if they bought it from anybody at that time, based upon their experience.

Q You said this was an issue that came to your level. Do you know how it came to your attention?

A I don't remember. It was either Stan Kurland, probably, or Dave Sambol, one of them came to me.

Q And if you look at item number 2 on this e-mail, which is the one we were just looking at, the one that starts with "Sambol will." Was one of the issues here the fact that Countrywide's origination personnel had not adhered to loan guidelines for 100 percent loan to value subprime product?

A I just want to make sure they did it here -- I didn't have any -- I'm not sure I've had any indication they didn't, but certainly the issue relative to the documentation issue was a problem. And if I was -- I believe I was referring to anything to make sure that the -- the guidelines require a certain documentation on these loans.

Q Your e-mail then goes on to state in that same item number 2, quote, this is the most dangerous product in existence and there can be nothing more toxic and therefore requires that no deviations from guidelines be permitted, irrespective of the circumstances, close quote. Do you see

526:1 that?

A Yes.

Q Why is the 100 percent LTV subprime product the most dangerous product in existence?

A It's the second mortgage, so you said it, because it's a subprime second mortgage.

Q What is it about that that makes it particularly toxic?

A Because the subprime loans have a higher default rate, and when you have a -- when a loan defaults, you're in a subordinate position as a second lien holder, and I guess the only -- I guess I was wrong. Generally I speak in hyperboles. I guess the word should be a third or a fourth mortgage.

Q Fair enough.

But it's the idea that the lender is subordinate to the first mortgage; is that --

A Right.

Q And it's worse in the case of a subprime borrower than a prime borrower, because the subprime borrowers are more likely to default than prime borrowers?

A That's right, yeah.

Q Was Countrywide unable to come up with the documentation that HSBC was requesting or was the documentation simply late, to your knowledge?

527:1 A My understanding was it was late, and that's why, you know, I didn't know what the contractual responsibilities were relative to these loans, that's why I had Dave Spector, at the time, take a look at it the contractual obligations, to see that -- because, you know, often nobody asks you buy back loans that are current, even though if you originated them with no documents whatsoever. It doesn't make a difference. Just like if there was a -- if values had not gone down, none of this would be taking place. And so it was -- I wanted to make certain that when they're asking us to buy back, that they had a legitimate basis for doing it, because very often investors don't, very often we catch them and say there's no basis for you to do this and therefore we're not going to buy it back. So I wanted to make sure that we took a look at that. And in this case, I think my understanding was -- and that's why you see it in number 6 -- was that we had this sort of infinite indemnification imbedded in this agreement, and my concern was how the hell do we -- how does it happen?

Q Is that -- just for the record, are you referring to your comment about, quote, trailing indemnifications which are infinite in time and nature, close quote?

A I think so, yeah, I said, "We simply cannot tolerate trailing indemnifications."

Q Right. So your recollection is that there was --

528:1 that you had had a concern that the securitization agreement with HSBC permitted them to force you to buy back the loans for a longer period of time than you would have preferred?

A Yeah, yes. That was -- not that I preferred. I think it was unusual to me, at least it seemed unusual to me to have that put-back ability for such a period of time, as I understood it, as people were trying to explain it to me, because I was trying to figure out what happened here.

Q In light of your concern that 100 percent loan-to-value subprime product was dangerous and toxic, did you ever consider just taking Countrywide out of that business entirely?

A Out of the subprime business?

MR. BRENNER: Subprime or subprime second?

MS. DEAN: Actually, a 100 -- I'm quoting the language in the e-mail, I said, "100 percent LTV subprime product." So --

THE WITNESS: I continuously reviewed whether or not we should be -- relative to all the products. I mean, I spent days on the pay option -- you know, it's the same thing. I think that I continuously interacted with my people saying, "Look, does it make economic sense to the company? This is my view. I believe it's toxic." And people would -- they'd be all over me. "Stop with this stuff," you know, but give me the reason why we should be in any business, in any of these businesses, and they would -- and, generally, as you'll see through your investigation, a lot of it was in writing as to why these things were risk weighted, that they made economic sense, that even though they were problematic, that overall it worked. In fact, over time -- and I believe because of -- because of the continuous concern about subprime, I believe that 80 percent of our subprime business -- subprime full spectrum was prime. The prime business began coming in and our subprime business kept dropping, as did our pay-option business as the pressure kept -- as we kept on saying, "Look, we're concerned; tighten the guidelines, tighten them, and tighten them," and that business went elsewhere or wasn't done at all. I mean, I don't know what happened to it.

BY MS. DEAN:

Q The guideline tightenings that you just referred to with respect to subprime, weren't those really a 2007 phenomenon?

A I don't know when it took place. It was -- I'd be surprised if there was -- I'd be surprised if there was just one guideline change in the years we were in the subprime business. I would -- I would -- it would be my guess that there was continuous changes on both sides to that program. Because, again, that was relatively new to us, but it was a very, very profitable business and manageable. And so I

530:1 wouldn't -- I -- I would say that it would -- it would not be probable that we had, in those years, one single change to the guideline change in 2007.

Q Would it be fair to say that the reason that the subprime business worked for Countrywide was because Countrywide was able to charge more for those loans in the securitization process?

A I wouldn't term it as fair or unfair. I think that the loans were -- were priced -- at least we believed at the time -- priced to the risk, and, therefore, had a higher margin which -- obviously, than in a prime loan because you could face higher expenses down the line, and could face higher expenses down the line. And so we established substantial reserves in that product as we did for any of the -- like we did pay options or any -- and so we -- so I wouldn't say that that's a fair statement. I wouldn't say that it's a -- it's not a correct statement.

In the securitizations, it wasn't that we charged more in securitizations, is that when we originated the loan, we exacted a -- generally, a higher interest rate than you would have on a prime loan. And then when it was sold in the secondary market, there was a premium paid for that, part of that premium went to reserves, part of it went into profit. So and even if you weren't securitizing them, if you were selling them as whole loans, the same thing, you know, would

531:1 happen, just like in HSBC, you know, they paid up for it. I assume that's why they got those loans.

Q So you were making a higher margin on subprimes than you would have been making on prime loans; is that right?

A Because of the risk.

Q Right. But you were making more because of that risk?

A Right. We were making more at the time.

Q Mr. Mozilo, I'm handing you now what's been marked as Exhibit 548, which is a single page e-mail string. The Bates number is CFC2007B061477. The e-mail at the top of the page is from Dave Sambol to Angelo Mozilo, dated April 17th of 2006.

(SEC Exhibit 548 was marked for identification.)

BY MS. DEAN:

Q And my first question will be, do you recall writing the e-mail that is contained in the second half of the page?

A I don't recall writing it, but I do see that it came from me, so I assume I wrote it.

Q Okay. Do you recall asking Mr. Kurland to undertake a review of Countrywide's subprime second business?

A That's what I said here in the -- you know, that's

532:1 what I said, so I had some conversation with him about this, and here I laid out -- you know, when an accident happens, you have to make sure it doesn't happen again.

Q So you think that this would have been in response to the incident with respect to HSBC?

A Well, see, you know -- go back to the HSBC issue here, I don't know about the time frame. This is 4/17. The original was 3 -- March 27, it was around that same time frame. It was a couple of weeks later. So I'm still trying to go through it. We had set up reserves for it. So I wanted to make sure it didn't happen again.

Q The first question you asked Mr. Kurland to look at, if you look at numeral one of your e-mail, is you asked him to look into whether or not on a cumulative basis Countrywide actually made money in the subprime second business. Do you know what the answer to that question was?

A I would only assume the answer was yes, because we stayed in it, unless you have, you know, documentation to the contrary, but I think -- I think I was told the -- on a cumulative basis we did.

Q And then in that same paragraph, you go on to ask Mr. Kurland to look into whether or not, quote, the rewards related to both the financial --

A No, I didn't. This is to Dave Sambol.

Q Right. But you're reporting to Mr. Sambol what

533:1 you'd asked Mr. Kurland to do; is that right?
A Okay. Right, right. This is sort of mixed -- this is mixed here. I think, first, is I asked Stan to conduct a thorough review, and I asked him to look into the following, but the message was to, you know, also to Dave, because he was intimately involved with this, and so it was really to both of them.
Q Well, let me try my question again. In that paragraph number 1, you go on to ask the question about whether the rewards related to the financial and reputational risks that the company has taken?
A Uh-huh.
Q What were the reputational risks associated with being in the subprime second business?
A Well, at the time -- well, all you hear about is subprime, everything is subprime now. So that was the reputational issue, you're in the subprime business, and we were in that business. You know, what is not known today is that the delinquencies and foreclosures on prime loans far exceed that of subprime, in terms of dollar amount, far exceed it. And so -- but at the time, you know, it -- today they still talk about -- maybe it's a national cry, subprime, subprime. So it was a -- it was an umbrella you didn't want to be under.
Q And I think we covered the financial risk in the

534:1 prior e-mail. It's the fact that the loan is subordinate to the first; is that right?

A Uh-huh, yes.

Q And then also the fact that the borrower is a subprime borrower?

A That's correct.

I want to point out, this is a very old business and had a very profitable track record for many, many years. So we're in a situation -- but I just want to make sure that we were -- we were in the business for the right reason, we were making money, and that it was the right business for the company to be in, in terms of its responsibility to the shareholders.

Q I wanted to ask you about your paragraph number 4. It appears that one of the things you asked Mr. Kurland to look at was the compensation to the sales force. Do you see that?

A That's correct.

Q Can you explain why you were asking Mr. Kurland to look at compensation to the sales force on subprime seconds?

A I wanted to make sure that there was a balance between the compensation paid to that salesman for delivering that product and our experience with the product. And -- because if it's a product that we're not getting the returns that we expected, then that should feed down to the sales

535:1 force, and they shouldn't have a special incentive to get create product. The product -- the sales force should be compensated in relationship to the company's experience with the product.

Q Well, wasn't it the case that sales people -- in other words, brokers -- were actually getting higher rates of return on the subprime loans than they were on prime loans?

A They're -- let me separate this for you, Lynn. When -- I'm not talking about sales force here. I'm talking about our retail -- these are our employees. They're not brokers, they're just employees of the company. And full spectrum was only our employees. It did not have a wholesale component, and mortgage brokers didn't deal with full spectrum.

Q Did full spectrum lending employees who were originating subprime loans get a higher compensation for those loans than retail Countrywide employees who were originating prime loans?

A I don't know the answer to that question.

Q Immediately below that paragraph 4, you go on to reiterate the comment that we saw on Exhibit 547 that you've never seen a more toxic product, and then you explain why, that it's subordinated to the first, and the first is also a subprime loan. And then you add the comment that, quote, the FICOs are below 600, below 500, and some below 400, close quote. Do you see that?

536

A Yes, I do.

Q Was Countrywide actually in the business of making subprime loans to people with FICO scores below 400?

A No, that wasn't our business. When I say "some below," somebody may have made that comment to me, but I would say very few. That wasn't our business to be in. Somebody could slip through at a 400 for other compensating reasons --

Q For example, extremely low loan to value, somebody might slip through --

A Well, they wouldn't be low in the value, because -- well, yeah, but these are 100 percent loans, so it's not a low loan to value. But it could be, as I said yesterday, that you really have to go -- and that's the problem with FICO, is that it becomes a brand, it becomes a scarlet letter, and if you don't go beyond that, you could really discount a lot of people that could qualify, could make the mortgage payments, but are -- but can't get the house simply because everybody is looking at the FICO. But I would -- our average FICO, overall, was well above 500, 600 level, but a couple could have slipped through below 400. I was just trying to make a point that, you know, we've got an issue here, and I wanted it addressed.

Q Well, speaking of that, the second -- well, the third to the last paragraph here you write, quote, there has to be major changes in the program, including substantial increases in the minimum FICO, period. No margin, no matter how high, could ever cover the inevitable losses on loans with FICOs under 600, close quote. Do you see that?

A Yes.

Q Do you recall writing that?

A I did write it.

Q Okay. And to your knowledge, were changes in the subprime program implemented as a result of your comment here?

A I think -- you know, when I gave these instructions to Stan and David, I'm sure they made some major changes, because our volumes began to decrease over time. I can't tell you specifically when those changes were made or specifically what they were, but they got the message, you know, that I was trying to convey to them. Now maybe it wasn't done exactly the way I laid it out, because it wasn't possible, you know, in terms of being at 600. It may have been 590 or 580 or something, but I -- this management team, as I said, was responsible, they were talented, they were concerned about the company, their whole life depended upon the company, and I'm sure that they addressed these issues.

Q Can I ask what you meant when you wrote "No margin, no matter how high, could ever cover the inevitable losses on loans with FICOs under 600"?

538:1 A What I meant by that it that, if I took a 300 FICO and charged you 30 points, it wouldn't be enough, because the chances are I'm going to lose everything. And the only reason I wouldn't lose is because the market is going to bail me out, you know, you can get out it. You can sell your house. There's equity there. But, generally, if it's coming back to me, there's no equity left. If there's equity left, the market is very efficient -- very few loans ever come to us where there's equity. So you're going to -- you know, again, it's a hyperbole, but my point being that if you can say to yourself, I'm going to do a 400 FICO, or 350 FICO, I'm charging 10 points, I don't believe it was enough.

Q Because you would anticipate in the event of a default that you would not be able to recover the total amount of the loan?

A Right. Well, yeah, definitely -- I say "definitely" -- very rarely do you recover the full amount, because if that could be done, a borrower, to preserve their credit, will go ahead and sell it out and have that broker sell it. The market is very efficient. A brother-in-law knows about it, somebody knows about it, and it's gone. So when it generally comes back to a lender, it's been through a strainer, and the bottom line is the borrower says I have to take money out of my pocket, and they just won't take money out of their pocket, so the lender has to take money out of their pocket. But I was just trying -- again, making a point that -- and maybe overmaking a point in terms of 600, because I think you can be below 600 -- but I just wanted you to understand that what you charge doesn't necessarily -- isn't going to cover the risk you take.

Q You go on to state in this e-mail, quote, whether you consider this business milk or not, I am prepared to go without milk, close quote. Do you see that?

A Yes.

Q Were you prepared to just exit the subprime business altogether if it -- if raising minimum FICO scores to 600 meant that Countrywide could not write subprime seconds?

MR. BRENNER: Subprime seconds or subprime generally?

MS. DEAN: I think we're talking about subprime seconds in this e-mail.

THE WITNESS: Right, yes. Subprime -- not exit subprimes, but subprime seconds, I was prepared do that.

BY MS. DEAN:

Q You were?

A Yes.

Q Did --

A And eventually, I think we did. We had -- as I said, over time, 80 percent -- only 20 percent of the business that full spectrum was doing was subprime, 80 percent was prime, I believe, something around that number. We kept on de-emphasizing subprime, and you'll see that, for our production numbers.

Q Did you get any pushback with respect to your desire to raise the minimum FICO score on subprime second?

A I think pushback is right here.

Q From Mr. Sambol?

A Right.

Q So you're referring to the e-mail from Mr. Sambol to yourself at the top of Exhibit 548; is that right?

A As I read that now, I was just referring to the milk comment.

Q Well, I had asked you whether you got any pushback, and you said it was right here. What did you mean by that?

A That was the milk comment. You know, whether you get to the -- the fact that -- when I was raising this issue verbally, I recall -- I believe it was David Sambol -- said to me, you know, "This is the milk of the business." Okay. So that was my retort, that was my final coup de grace.

Q Okay. I understand.

A Can I read -- can I read the top part of this paragraph?

Q Please do.

A Yeah, okay.

Q In his e-mail to you, Mr. Sambol indicates that he, himself, had also requested an analysis of the subprime seconds from Mr. Bartlett and Mr. McMurray; correct?

A That's what it says.

Q Okay. And then further on in that e-mail, he goes on to state, quote, I do, however, believe that we should defer arriving at conclusions as to whether or not it might be advisable to pull back our guidelines on this product until we analyze the underlying facts here and the impact on the company of our various options, close quote. Do you see that?

MR. McLUCAS: Just one correction. You said "whether or not." It says, "whether and when it might be advisable."

MS. DEAN: Thank you. Sorry.

Q Do you see the sentence I just read?

A Uh-huh, yes, I do.

Q Did you understand Mr. Sambol to be suggesting that he would prefer not to pull back on the subprime second guidelines in April of 2006?

A What I got from this was -- which was, you know, very often the response, because -- and which I appreciate -- because it should be a thoughtful comment. You shouldn't just do things because I said to do them -- because, fortunately or unfortunately, I'm not right all the time. So they wanted

542:1 to study it, study the issues, study the impact, and get the numbers, because I raised a lot of numbers here. Do we -- have we made any money? Do we want to do it? And I thought it was appropriate for them to do that, and he had the right people involved, having Kevin Bartlett and McMurray involved.

Q And Mr. Bartlett and Mr. McMurray were both responsible for credit risk; correct?

A Yes. And Kevin Bartlett had other responsibilities for that -- credit risk pricing as well.

Q Mr. Sambol also points out to you in this e-mail, quote, our current guidelines for this product are not more aggressive than those offered in the general market, and these loans are pervasively offered in the marketplace by virtually every relevant competitor of ours, close quote. Do you see that?

A Yes, I do.

Q So in -- well, did you actually discuss this e-mail with Mr. Sambol after you received it?

A I don't recall discussing this specific e-mail. I know that over time, we discussed these issues, but -- because there was constant interaction.

Q I think you do recall, though, that you had one conversation, at least, in which he described the product as the milk of the business; correct?

A And I think that came -- I think that came as a result of my expressing concern, verbally, about it, and he said this is the milk of the business, and this was -- I wrote this at night at 9:55, and he wrote it on the 17th, and he wrote an hour later back to me from his home. So I think it was a pretty quick -- it said something to me, it sparked my concern, he responded back.

Q Well, would it be accurate to characterize Mr. Sambol's reaction as one of we should continue to offer the product since our competitors are offering it?

A I don't take it that way. I take it that it was a point of information, that this a product that was pervasive in the industry, but that he's also requested an analysis with respect to the questions that I raised.

Q Would the fact that your competitors were continuing to offer it have been an important to you in the analysis of whether or not Countrywide should stay in the business?

A It would be -- it would depend on the competitor. You know, would I be concerned that Aames Home Loan is doing this, no; or would I try to compete with Ameriquest, no; would I try to compete with New Century or Novastar? It depended upon who it was. If it was Wells Fargo had a similar product, or it was -- whatever, you know, competitors we had out there at the time, relevant competitors, then I'd have to pay attention to it. I have to pay attention to

544:1 competition.

Q Mr. Mozilo, I'm handing you what has been marked as Exhibit 549, which, for the record, is actually a document that I assembled. There are two copies of the first page here. The Bates number is CFC2007A370236, and then the last page of the document is -- ends in 370237.

(SEC Exhibit 549 was marked for identification.)

BY MS. DEAN:

Q I will represent to you that what I've done here is I just tried to enlarge the second page so that it could be legible, and that's what you have the --

A Is the second page the same as the first page?

Q Second page is the same as the first; I just put it on a --

A You enlarged it?

Q I -- yeah, I just put it on a Xerox.

A Oh, you tried to enlarge this one?

MR. BRENNER: Limited success.

MS. DEAN: No. I tried to enlarge the second page so you could actually read the first page.

MR. BRENNER: The first page is the enlargement.

MR. McLUCAS: The first page is the original and they blew it up so it's readable, or hopefully readable.

MS. DEAN: Barely. So I'll give you a second to

545:1 read it, and I know the type is small. I apologize.

MR. BRENNER: So these are just the same things that we just looked at with one additional one on the top.

MS. DEAN: Exactly.

THE WITNESS: Oh, is that -- it's the same thing on top. So I'm reading the same thing. It's just where the first sentence is, "there was a time when savings and loans."

BY MS. DEAN:

A Yeah, it looks like you responded to Mr. Sambol's e-mail, so I just wanted to ask you about your response, which is at the top.

A Yeah, I was just exercised over it, and obviously all the saving and loans didn't go broke, some did, some didn't.

Q Okay. Well, let me actually ask you some questions about it. First, do you recall writing the first e-mail on Exhibit 549 to Mr. Sambol?

A I don't recall writing it, but I would say, again, I -- my name is on here and I wrote it.

Q So you don't have any reason to believe that wasn't you?

A No, I don't have any reason to believe that.

Q And it's short so I'll just read it into the record. The text of the e-mail which responds to his prior response on the subprime seconds is, quote, there was a time

546:1 when savings and loans were doing things because their competitors were doing it, period. They all went broke, period, close quote.

Did you believe at the time that you wrote that that subprime seconds were actually a dangerous business for Countrywide to continue to be in?

A I thought it was a high-risk business, and if not managed properly and priced properly, it could be problematic for the company.

Q Did you think, generally, that the practice of matching products that were being offered by competitors could lead to a condition in which Countrywide suffered losses?

A If the only reason why you offered a product, without any other thought, any other study, any other actuarial work being done is because somebody else was doing it, that's a dangerous game to play.

Q And, in fact, your e-mail goes on to state, quote, we should not be involved in program or products simply because our competitors have them. We should only conduct activities that are in the best interest of the company and its shareholders; correct?

A That's the 11th commandment.

Q Okay.

A I think, Lynn, my ongoing responsibility -- I'm at

547:1 the helm -- is to try to look for the danger signs, look for what I believe -- I could be wrong, that there is no iceberg ahead, but I think it's my responsibility to let my people know what concerns me and see what the feedback is to try to come to a collaborative and collective decision as to how the company should move forward.

Q Were you concerned at any time in 2006 about the apparent expansion in underwriting guidelines in the mortgage industry in general?

A I don't know if I'd use the word "concerned." It was clearly a recognizable change in the way credit was viewed across the board. Whether it be home loans, credit cards, commercial, because the prevailing theory, and much was written about it, was that real estate values were going to go up. There was no way they were going to fall. If they were going to fall, never dramatically. There was all kinds of demographic reports, the population was growing, people coming in to -- immigrants coming into the country, birth rates, all kinds of stuff. And I think people began to believe that. And I've always struggled with the issue of my generation and my age, that things were changing. And whether or not I was irrationally resisting change. And as a CEO, I had to constantly be concerned and questioned that. And so it was that type of -- it was a more universal issue that -- because everything was working -- delinquencies were

548:1 low, foreclosures were virtually nonexistent, and historically low, everything was working for everybody -- for almost everybody.

Q But if guidelines were relaxing in the areas of loan to value, for example, would that not expose the company to greater credit risk in the event of a default?

A Not necessarily. You've got to remember that Countrywide wasn't -- they did FHAs at 3 percent down loan; it has been since 1934. VA is zero down, a dollar moves you in; it has been since 1936. A low down payment, in itself, doesn't mean anything. It's the ability of somebody to pay, and the willingness of somebody to pay the monthly payment is the key component.

The company was raised, for its first 10 or 15 years on a three percent down, zero down. That's what we serviced. That was our experience. So a loan down payment in itself does not necessarily lead to -- it's many other factors, and we talked about those factors. And in fact, I was a proponent publicly, and there's plenty of documentation to that effect, of zero down because I felt that that was the one issue that kept people out of housing, that was the one issue that kept minorities, lower income, even though they could make the payments, that they just could just never get over the barrier because of the down-payment issue.

Q But you're coming from the perspective that the person who makes a zero down payment is, in fact, going to be in a loan that allows them to build equity in the house at some point; correct?

A Other factors too, the average time that a person is in a home, I think four or five years. In many parts of the country, particularly in California, they move on, so that a person that is buying a home and takes out a 30-year loan and pays -- and generally the price you're paying for a 30-year loan is higher than you would for a shorter term loan, because the execution is better on a short-term loan, and yet they're paying for something that they'll never use.

And so the hybrid programs -- the three, the five -- fit people's life plan as to how long they intend to stay in the house, they were able to get in at a much lower price, and they would sell the house in that period of time and move on. And there is an assumption there, and the assumption is that values stay about the same or maybe a little better over that five-year period so they can move on, because a typical family has -- married, with children -- has children, needs a bigger home, and they move on. So that was the prevailing theory. So and that proved out. These loans performed extremely well, it fit people's lifestyle, they were able to re- -- if they decide in five years I'm not going to be here, they refinanced out into another loan for another five years. But what was totally unexpected was that the credit markets

550:1 would cease up, there would be no credit available, and their values -- as a result, their values would decline precipitously.

Q You indicated, though, that you were actually struggling with your personal perception that perhaps -- well, strike that.

You said you were struggling with the possibility that perhaps you were being just too conservative, and I'm wondering what you meant by that.

A I don't know if I used that word. I said that I was resisting change.

Q Oh, that's what you said. I'm sorry.

A And I always struggle with that.

Q But what was the change that you were worried you might be resisting?

A Your question to me, Lynn, was about the expanded guidelines, expanded criteria, you know, was I concerned about it? And I think your words were, was I concerned about expanded guidelines. And I related the fact that I was -- you know, I'm always worried about everything in the company, as you can see by the e-mails, paranoid about it. But I also have to realize that there's a -- that things change over time and -- and the people I'm dealing with within Countrywide are a lot younger, and so we're trying to, you know, ultimately blend all of that into something that works

551:1 for the company.

Q So you had some concerns, but you were convinced by others within the company that your concerns unwarranted?

A No.

MR. BRENNER: This is on the subprime seconds or on the underwriting --

MS. DEAN: No. This is on the expansion of underwriting guidelines.

THE WITNESS: Totally, throughout the company, for every product line?

BY MS. DEAN:

Q Well, let's go back. My original question to you was were you concerned about the expansion of underwriting guidelines. And you indicated to me that you struggled with the fact that you might be resistant to change. And what I'm trying to get at -- it sounds to me like you did have some concerns about the expansion of underwriting guidelines.

A And I expressed those concerns to management.

Q Okay. And management convinced you that the guideline changes were warranted?

A At this -- well, I don't know what they convinced me of yet. Are you talking about this e-mail here?

Q No. I'm not talking about the document at all. I'm talking about in general concern about expansion of underwriting guidelines.

552:1 A Underwriting guidelines over the period of time that we're talking about, in 2006, were tightened up substantially in the -- in the hybrids, as well as the pay options, as well as the subprime, to the extent that we did very little subprime business, and our pay-option business declined. So, no, we did. The bottom line is guideline changes were made. I think that McMurray's memo that you showed me indicates that, in terms of conclusions, things he was working on, things that were done. So, no, there were guideline changes -- tightening of the guideline changes, because the environment changed.

Q Well, I think we looked at an e-mail earlier, which was Exhibit 200, in which Mr. McMurray expressed concerns in 2004 about the expansion of underwriting guidelines. So if you think guidelines were tightening in 2006, were you concerned about the expansion of underwriting guidelines in the prior period?

A No more than I already expressed to you. First of all, I had never seen McMurray's memo that he sent. My recollection of his presentations to the board did not send any signals of that nature. And I think his memo, when you get to the end of it, is quite temperate. I think he talks about steps that should be taken, the steps that are being taken, things that he's working on, but I was unaware of -- and again, 2004, there are no signs of any issues in 2004.

553:1 And he was -- he had his view of the world that he was sharing that with whoever he shared that with. But at the time, there was no evidence of a problem.
Q Well, irrespective of whether there was evidence of a problem, I think you previously testified that you were at least aware that certain guidelines had been expanded; is that correct?
A Are you talking about Countrywide's guidelines or overall guidelines?
Q Yes.
A I think I would -- I would -- in terms of how I viewed it, we were adding product that had different guidelines than our -- than our traditional product. There was not so much expansion of guidelines; it was expansion of product lines in my view point.
Q And the expansion of product lines was into such products as pay-option ARMs, subprime seconds --
A Hybrids.
Q -- and hybrid loans, and low documentation loans; is that correct?
A Correct.
Q Did any of -- did the company's expansion into any of the four areas I just enumerated -- low documentation, hybrid ARMs, pay-option ARMs, or subprime seconds -- cause you to feel that the company's underwriting guidelines were

554:1 insufficiently restrictive?

A "Insufficient" -- what does that mean, "insufficiently restrictive"?

Q How about -- we'll ask it in the reverse.

Did the expansion of the company into the product areas of pay-option ARMs, hybrid ARMs, subprime seconds, or low documentation loans cause you to believe that Countrywide's underwriting guidelines were too liberal?

A No, it did not.

Q Were you worried about the potential?

A I'm going to say, they're not, only to the extent that I -- as I watched these loans perform, and began -- you began seeing these e-mails develop in '06 or '05, or whatever the years you presented to me, that I began to sense that we -- that we're going to have to make some changes -- or consider making some changes in our product line. So the evidence of my concern is here, is in these e-mails.

Q So to the extent that you asked questions about pay options and the e-mails we saw earlier, and now you're asking questions about subprime seconds, those are a manifestation of your concerns about those particular products; is that right?

A Well put.

Q All right. Did Countrywide's expansion into low-documentation loans, hybrid ARMs, pay-option ARMs, or

subprime seconds cause you to feel that the company had too much exposure to credit risk?
A Only to the extent that I -- again, that I articulated here in the bank portfolio, because all the loans we were originating were being sold in the secondary market, in securities, triple A rated at the time, and -- and being a regulated by the parent, by the Fed, and the OCC, and by the -- by Moody's and S&P, were constantly in our operations reviewing our practices -- our underwriting practices. We had a lot of people looking at this, and I didn't consider myself the -- the sole individual who was going to waive a magic wand one way or another. I depended upon my own judgment, but more importantly the judgment of others I had a lot of respect for, as well as being a very regulated entity from almost every corner of the mortgage space, we had somebody, you know, looking at us.
Q Did you have respect for John McMurray's views with respect to credit risk?
A To the extent that he expressed them to me, I had respect for John McMurray. I thought he was a very good person. I hated to lose him he went to Washington Mutual. I thought that that was -- I'm giving you my own view of him. He was a -- he was an articulate individual. I think he was very talented in what he did. And so I -- I liked -- I liked John. I thought he was a competent guy, from my perspective.

556:1 You know, you'd get a different answer from somebody that dealt with him on a daily basis, but I don't know. I don't have any inside information here. Just, the day he came to me to say that he was leaving with a one-hour notice was a real shock to me, we just totally unexpected it, but we had -- I think it was as a result of when the credit crunch hit, we lost all of our credit lines.

MS. DEAN: Let's go off the record.

(Recess.)

MS. DEAN: Back on the record.

Q Mr. Mozilo, I'm handing you what has been marked as Exhibit 550. It's a two-page e-mail string Bates stamped CFC2007A371317 through 318. And the e-mail at the top of the page -- or the top of the first page, is from Angelo Mozilo to David Bigelow, dated May 26, 2006.

A Right.

(SEC Exhibit 550 was marked for identification.)

BY MS. DEAN:

Q Mr. Mozilo, have you seen a copy of Exhibit 550 before?

A I've never seen the exhibit before, but it came to me and David wrote it. I'm sure I read it.

Q Okay. Do you recall having Mr. Bigelow provide you with some information in connection with a presentation that

557:1 you were going to make at Sanford Bernstein in May 2006?
A Lynn, I don't remember this specifically, but I know that -- that -- not often, but sometimes if I'm making a presentation, I'll have some questions in advance of them to -- into what areas I think they should be covering in the presentation, so that's what this related to.
Q Now, with respect to Exhibit 550 and the e-mail that Mr. Bigelow wrote to you, what would you have done with the information that Mr. Bigelow was providing?
MR. BRENNER: Just to make sure, the information provided in this e-mail or the information that says, "to come."
MS. DEAN: Well, obviously the information in the e-mail.
THE WITNESS: This information here?
BY MS. DEAN:
Q Yeah.
A The way I'm reading this, I think it's going to be incorporated in approximate the presentation. That's the way I view this.
Q So he was basically providing you with some information that would be incorporated in a speech that you were to make at the Sanford Bernstein presentation?
A Yeah, I think so. I believe so. I think that would be included in there. Yeah, because I'm looking at

558:1 some of this stuff, and the Bernstein presentation was given to me and some of this stuff was in there. It was a topic of discussion among investors and I wanted it addressed.

Q And, in fact, yesterday, we looked at a copy of the speech that you made at this Sanford Bernstein Strategic Decisions Conference in May of 2006?

A I believe it was a draft. Was that the one? No, that wasn't the draft.

MR. BRENNER: The other one was a draft.

THE WITNESS: This was a copy.

BY MS. DEAN:

Q That's just a copy of Exhibit 210, which was the presentation that was made at Sanford Bernstein.

So your sense of it is that Mr. Bigelow was just letting you know that this information was to be incorporated into the presentation that you were going to make in May at Sanford Bernstein; is that right?

A The essence of this information, yeah. I don't know if it's word for word, but I think -- I don't know exactly what question I asked him. He said updates, matters we discussed previously, but I -- I would only assume that I asked him to include this in the -- this information -- or this subject matter in the presentation to do some research on it to include it in the presentation.

Q I know we covered the speech yesterday, and I don't

559:1 want to belabor the text of either this e-mail or the text again. But I do have one question that I don't think got asked yesterday. If you look at the bottom of Exhibit 550, there is a statement in the e-mail in the very last paragraph, the last two lines of that page, the statement is, quote, the pay option loan isn't right for everyone, but Countrywide markets it to sophisticated borrowers, close quote. Do you see that?

A Right.

Q And you've testified previously today that the product was marketed to sophisticated borrowers. I'm wondering what is meant by the phrase "sophisticated borrower" in this context?

A Did I testify "sophisticated"?

Q You said sophisticated.

A What I was referring -- what I would refer to that are that these borrowers are high-FICO prime borrowers that would understand the nature of the product.

Q And what is the basis for your belief that they understand the nature of the product?

A Well, they're prime borrowers and they -- you know, they -- we're giving them a document which explains the issue of negative amortization and that it resets, and -- and it would be assumed that if they understand a mortgage and the volumes of documentation contained in the mortgage, they'll

560:1 understand the nature of a pay-option loan.

Q So the characterization of the borrower who is sophisticated is really just based on the fact that they have a high FICO score?

A Prime -- they're prime borrowers, right. Yeah, we don't give them a SAT or anything like that to check their intellect. So it's probably a poor use of words. See, only 5 percent, at least at this time, only 5 percent were first-time home buyers.

Q I'm handing you a copy of a document that was previously marked as Exhibit 216. For the record, 216 is Bates stamped CFC2007A473297 through 298. And the e-mail is from Susan Martin to Eric Sieracki, dated 7/20/2006 and the re line is approval requested, statement in response to Wall Street Journal, time sensitive.

(SEC Exhibit 216 was referred to.)

BY MS. DEAN:

Q I know that you're not copied on this e-mail, Mr. Mozilo, but what I wanted to ask you is if you had any role in approving the statement that's contained in the e-mail?

A I don't believe so. It was -- I believe this is the first time I'm seeing this.

Q Okay. Do you remember that in or around July of 2006 the Wall Street Journal was -- or did publish an article relating to a study of option ARMs?

A I don't recall it.
Q Mr. Mozilo, I'm handing you what has now been marked as Exhibit 551, which is a multiple page document Bates stamped CFC2007A362061 through 063. The e-mail at the top is from Angelo Mozilo to Dan Tarmen, and it's dated July 25th, 2006, the subject line is "WSJ article."
A Uh-huh.
(SEC Exhibit 551 was marked for identification.)
BY MS. DEAN:
Q Have you ever seen 551 before?
A Well, I have. I mean, I obviously I wrote this e-mail, and obviously at some point was aware -- is the same article that you were talking about originally?
Q Yes.
A Okay.
Q Now I know you didn't have an independent recollection of the fact that the Wall Street Journal wrote an article about pay-option ARM loans in July of 2006, but now that you've had an opportunity to see the text of the article, does that refresh your recollection?
A It still doesn't. Can I just read through this and just see the --
Q Sure.
A Oh, this is the article. Can I go back to the --

562:1 what they responded -- Susan Martin wrote?

Q Of course. You wanted to refer back to Exhibit 216?

A Yeah, this will give me a sense of what I -- you know, I still -- I haven't real in reading this, I have a vague memory of it, but I don't remember the substance of it or -- you know, obviously, I wasn't concerned about it because it was a tempest in a teapot is what I think I commented here. I'm trying to think about "I will handle the questions in this regard tomorrow," is that related to a related to a speech I was giving or --

Q I don't know.

A This was 7/25/06 and when was -- this was a -- I don't know what it was what I was talking about in terms of "I'll handle it tomorrow." Generally, it's in a presentation I'm making. Wait a minute.

Q Well, I'm actually -- I'm not -- I wasn't even going to ask you about your remark about handling it tomorrow. I wanted to ask you a couple of questions about the article.

A Okay.

Q If you look at the Wall Street Journal article that's included in Exhibit 551.

A Right.

Q There are a couple of comments. First, the article

563:1 reports on a study of pay-option ARM loans that was conducted by RBS Greenwich Capital.

A Right.

Q And the first thing I wanted to note is if you look -- the fifth paragraph in the article that starts with the words "Mr. McCaulay found."

A Yes.

Q Okay. In reporting on the study by RBS Greenwich Capital, the Journal noted, quote, that Mr. McCaulay found that the performance of the Countrywide loans was generally worse than those of WAMU, IndyMac Bank Corp. Inc., and Downey Financial Corp, three other big pay-option lenders, period. For instance, for option ARMs originated in 2004, about 1.4 percent of Countrywide borrowers were 60 days or more late on their payments in the 20-month period of loan, period. For WAMU, the comparable number was .31 percent, close quote.

When you read this article, were you concerned about the fact that it appeared that Countrywide's pay-option ARM loans were performing worse than pay-option ARM loans that were being originated by Washington Mutual , IndyMac, or Downey Financial?

A Well, I would not be because I would not take any of these articles in a biblical way, if that is, in fact, true. I would ask that a study be done to see if, in fact, these comparisons are correct. And it seems to me the --

564:1 that the statement prepared by Susan Martin and approved by McMurray and at the time the head of IR, explained why these -- were potentially not apples to apples. And it gives -- you know, for example, an adjust for prepayments would be an important distinction due to the fact that higher quality loans tend to prepay, leaving less favorable loans behind.

And I would say that, you know, the comparisons made, you know, at that time, you know, in terms of what happened subsequently, I think that our performance has certainly been better than IndyMac and certainly better than Downey Financial and certainly better than WAMU, overall. I mean, this is a totality of loans we're doing, pay-options just being part of it. But I think that when I looked at the -- when I look at this now, and probably that's what I did then, in terms of, you know, what does this mean, is this really an issue, that at the time I believed it was an issue that the article was not correct.

Q Well, let me just try to unpack a little bit of your last answer just so the record is clear.

A Okay.

Q The statement that you referred to prepared by Susan Martin is the document that is marked as Exhibit 216; correct?

A Yeah. The one that says, "the following statement has been drafted in response to the Wall Street Journal

565:1 inquiry."

Q Okay. And you were pointing to that statement as an explanation for why you were not concerned about the statements in the Wall Street Journal article that's been marked as Exhibit 551; correct?

A Yeah, well I believe that there were flaws in that analysis.

Q Based upon the information that you found in Exhibit 216?

A I believe so.

Q Okay. And let me just -- one of the things that you said is you cited to comment in Exhibit 216, which is at the bottom of the page, the last paragraph, the second sentence, it indicates, quote, an adjustment for prepayments would be an important distinction due to the fact that higher quality loans tend to prepay, leaving less favorable loans behind, close quote. Do you see that?

A (Non-verbal response.)

Q And was that the statement that you were referring to when you said that would be an important factor to be taken into account?

A Yes.

Q But wouldn't that factor also be true for Countrywide's competitors, regardless of who had originated them; correct?

A Not necessarily. It depends upon what your efforts are to have them refinanced. How your -- you know, if you are -- if you are working with these mortgagors to refi, remember, that all along the chain here of information is memos from me to encourage these borrowers to refinance. And I did not -- I don't know what other companies have done in that regard. So I don't know if that's necessarily true. It might be. It might be right. I don't know, but I think there were many other factors here.

Q I know, and we're going to go through them. But with respect to that factor, you don't actually have any information, as you sit here today, about whether Countrywide's rate of prepayment on pay-option ARM loans was higher, for example, than, say, Washington Mutual or IndyMac?

A I have no idea.

Q Okay. I think one of the other factors that you or -- at least that's cited in Ms. Martin's prepared remarks, is that the study did not do an apples-to-apples comparison because it was really only looking at option ARMs that were securitized, as opposed to those that were held for investment at the bank; is that right?

A That's correct. I mean, I believe that's correct.

Q Okay. And that would be a factor because the pay-option ARM loans that were held for investment at the bank, generally speaking, had higher credit quality than the

567:1 loans that were being securitized into the secondary market; correct?

A Generally speaking, only because the bank was given the opportunity to look at the entire pipeline and select those loans that they wanted, and the ones they didn't want, and the ones they didn't want were securitized.

And therefore, I think to answer your first question, these were all suppositions, but that if that statement is true, then Countrywide Bank would have much -- a book of much higher quality loans, in general, than others, and therefore, if they had a propensity to refinance, whether it be at WAMU or any other company, the ones left over would be the lesser performing loans.

Q Okay.

A It would just indicate -- I don't know if it's true or not, but it would indicate a higher prepayment rate. It was a very high prepayment rate, but I don't know what it was compared to the rest of the industry.

Q But regardless, would it be accurate to say that at the point in time that you saw this article in July of 2006, you were not concerned about the statistics cited by Greenwich Capital which indicated that Countrywide's pay-option ARM loans were performing worse than the loans originated by Washington Mutual, IndyMac, and Downey?

A I think it's fair to say, Lynn, when I got all of

568:1 the information, my conclusion was a tempest in a teapot.
Q You know, there's a statement that actually appears in both Exhibit 216 and in the Wall Street Journal article, which is marked as Exhibit 551. Let's just look at it in Exhibit 551. It's on the first page and it is paragraph 6 in the Wall Street Journal article. The paragraph reads, quote, in a statement, Countrywide said its option ARMs are performing within company expectations and have delinquency rates that compare well with other types of loans including 30-year fixed rate mortgages, close quote. Do you see that?
A Yes, I do.
Q Now based on your -- in the e-mail we looked at earlier today, I thought it was your perception that the pay-option ARM loans were actually performing less well than other loans in the Countrywide servicing portfolio; isn't that correct?
A That's not correct. What I think I've been saying all along is my concern was not the delinquency rate. The delinquency rate was within acceptable ranges and in line with our other product. What I was concerned about was the percentage of borrowers opting for the minimum payment.
Q Was one of the reasons that you were potentially concerned about borrowers opting for the minimum payment on a consistent basis the fact that that might be a signal that the borrower was overextended and might not be able to make

569:1 the fully amortizing payment?

A My concern was that they were creating the neg am and adding to the loan amount. When I -- at least, you know, without looking through the files, these are prime loans. I would assume they could make the full payment. Why are they opting to do this? And, you know, some of the reasons were what I had discovered in my discussions with both the people in the industry and individuals who took out the loan was that it was a -- that they had no concern about the 3 percent increase each year in the loan amount because their values were going up and that -- but that -- but I was not concerned about the delinquency rate. I don't think I've said that I was concerned about the delinquency rate.

MS. DEAN: Let's go off the record.

(Discussion held off the record.)

BY MS. DEAN:

Q Mr. Mozilo, I just wanted to refer your attention to Exhibit 45, which we had looked at earlier today. If you look at the page ending in Bates number 229, there's an e-mail from you in the middle of the page.

A Uh-huh.

Q Which I don't know if you found it.

MR. McLUCAS: What's the date of it?

MR. BRENNER: It's --

THE WITNESS: 7/10/06.

570:1 MR. PUATHASNANON: It has a copy of the sticker, yeah, it should be that one.

MR. McLUCAS: Okay. I'm sorry.

BY MS. DEAN:

Q If you look at the page that ends in Bates stamp numbers 229 in the middle of page, there's an e-mail from you dated July 10, 2006 to Steve Bailey. And in that e-mail, you indicate to Mr. Bailey that you -- upon your review of the flash report, you discovered that loans with negative amortization have a higher delinquency than Countrywide's standard book of business?

A Let me -- please, I don't see that. If I'm reading these numbers correctly, I don't see the words "I have discovered."

Q Well, I was paraphrasing. I wasn't quoting you. It appears that based upon your review of the flash report, that you came to the conclusion that loans with negative amortization had a higher delinquency rate than Countrywide's standard book of business.

A Can I -- as a matter of record, I just want to say what I said was if I am reading these numbers correctly, it appears to me that the loans pay options with negative am have a higher delinquency than our standard book of business. Is this the case, or if this is the case, it is quite alarming because of the very low-payment requirements. I

571:1 would like your thoughts and observations. I believe, I just spoke from memory, that --

MR. BRENNER: It's in the same document.

MR. McLUCAS: You answered from --

MR. BRENNER: And he says you respond and says no you are not reading it correctly.

THE WITNESS: I was wrong. I don't have that same one. Oh, this page. Yeah, that's why I asked the question, because I wanted to make sure I was reading it correctly and it said color of the concern, pay option delinquency rates are actually reasonably in line with other products when adjusted for -- this is under "concern" on that page 228.

BY MS. DEAN:

Q I see where you're at.

A Yeah, so my observation was wrong. I was reading this flash report wrong.

Q Okay.

A So I took -- again, my primary concern has been -- was the -- the opting for the lower payment, rather than the delinquency rate.

Q Can I ask you one question about that paragraph that you were just referring to, which is the one on 228.

A Color?

Q Yeah, the color on your concern about the delinquency rates.

Mr. Bailey's response to you -- he states that they are reasonably in line with other products, and then he goes on to say, quote, when adjusted for age POAs line up evenly with the overall conventional portfolio, close quote. What does it mean to adjust for age?

A The age of the portfolio, because as a loan matures, as it gets older, it gets more delinquent. In other words, if you have a book of business, you would expect the -- initially the borrower is going to make their payments on time, but things happen to people over time. So over the age of a portfolio, you would expect higher delinquencies. And you do get higher delinquencies. Because things happen to borrowers in the life of the loan. They go delinquent.

Q Well, in this particular context, did the portfolio have to be adjusted for age because pay-option ARMs were, relatively speaking, a newer product?

A That's correct. Could I -- if I could, Lynn, are you finished with this part of it?

Q I am.

A When I was asking as to why, you know, I made this comment -- "tempest in a teapot" and "I'll address this tomorrow" -- in the Wall Street article, it says -- let me just look back on this. I talk about -- they say that I'll be having an earnings announcement the next day. And that's what I was talking about getting prepared for. And it said, 573:1 "option ARMs accounted for nearly 10 percent of the residential mortgage loans last year and Countrywide still has" a -- "plenty of support from Wall Street. Countrywide has a pretty good track record for prudence in lending," says Kenneth Posner, an analyst at Morgan Stanley. But I was getting prepared -- because I don't know what I was -- "cover this tomorrow" -- would be the -- would be for that earnings call, since there would be an obvious conflict since the Wall Street Journal put it out right before our earnings on purpose.

Q Mr. Mozilo, I'm handing you what has been marked as Exhibit 552. It looks like -- off the record.

(Discussion held off the record.)

MS. DEAN: Back on the record.

Q Mr. Mozilo, I'm now handing you what's been marked as Exhibit 552, which is a single page e-mail Bates CFC2007A362370 from Angelo Mozilo to Dave Sambol, dated August 19, 2006.

(SEC Exhibit 552 was marked for identification.)

BY MS. DEAN:

Q Mr. Mozilo, did you send the e-mail which has now been marked as Exhibit 552?

A It appears that I did, yes.

Q You have no reason to believe that you didn't?

574:1

A I have no reason that believe that I didn't, no.

Q This e-mail refers to a conversation that you had with the CEO of Guaranty Bank?

A Correct.

Q With respect to Countrywide's rate on pay-option ARM loans, and in your e-mail, you refer to the fact that Mr. Jastro, the CEO of Guaranty Bank, asked you why Countrywide had reduced its rate on pay options to 1 percent. Do you see that?

A I do.

Q And more specifically, Mr. Jastro asked why Countrywide had reduced the rate, quote, in light of, close quote, its, quote, concerns over these loans, close quote. Do you see that?

A Yeah, "over our concerns," yeah, I do. I see that.

Q First off, what concerns are you referring to there?

A I think the general concerns that I've expressed all along about the negative am aspect of it. First, let me correct the record. I don't believe Kenny Jastro is CEO of Guaranty Bank. He's CEO of Temple Inland, which owned Guaranty Bank. And I don't know what the -- did you have a response to this?

Q I don't.

But my question is actually much simpler than that.

575:1 I just wanted to know what concerns you were referencing in this e-mail?

A Oh, just the ones that I had been expressing all along.

Q That is concerns about the amount of negative amortization on the loans?

A Correct. And I don't know if this actually happened -- I don't know if it did or it didn't.

Q Well, assuming it did happen, what would have been your purpose in writing this e-mail to Mr. Sambol?

A I just wanted to know -- he asked me a question. I was going to get back to him, I assumed. And if we did or didn't, I don't recall what happened.

Q Well, would you have been concerned if it were, in fact, true that Countrywide had reduced its interest rate on pay-option ARM loans to 1 percent?

A I think I would be somewhat concerned about -- you know, I have to know the reason why we did it, you know, what would be the basis for it. And it would depend upon why we did it.

Q What if the reason were that Countrywide were attempting to match the interest rate offered by competitors in the marketplace?

A That's possible. That could have been --

Q Would that reason have caused you concern?

576:1 A It would have caused me concern, but not serious concern, because 25 basis points, or a quarter percent, is not -- in the event of a situation, you know, a severe situation, would not make a bit of a difference. It would -- so that's -- you know, it would cause me some concern, but not overly concern.

Q Well, at this point in time, in August of 2006, were you of the opinion that Countrywide should actually be reducing the number of pay-option ARM loans it was originating?

A I think the record would indicate that I was -- that I wanted a continuous careful review of this product, and -- but, again, was continuously given comfort that not only was it performing well, but that the -- I believe at this time that the people that were -- the percentage of people that were opting for the minimum payment was stabilizing, and I think there was some indication somewhere along the line here that it was being reduced. And there was a heavy prepayment of these loans. So, you know, I have to put it in balance. You know, would I have gone through the roof, no. You know, but I was -- you know, again, these are very competent people who run these divisions, and I just wanted to know -- you know, I was not aware of it. You asked me a question. I want to get back to it in the answer.

Q Well, two months later you were recommending that

577:1 Countrywide actually sell the pay-option ARMs in the bank's held-for-investment portfolio. So weren't you of the opinion in August of 2006 that Countrywide should not be attempting to increase the number of these loans it was originating?

A If I was of that opinion on August 19th, I wouldn't have written the memo I did two months later. There was a ready market for these loans. Everybody wanted these loans, and I thought it might be a great opportunity for us to get them off the balance sheet, but, as you know, we then obtained from General Electric and Genworth insurance on those, 70 percent of that portfolio, and that changed a lot, in terms of the economics to the company.

Q But it's your recollection, as you sit here today, that at least as of August 19th, 2006, you were not of the opinion that Countrywide should be writing fewer pay-option ARM loans?

A I didn't have that -- I don't know what opinion I had at the time, but I don't believe so. I think I would have expressed it.

Q Mr. Mozilo, I'm handing you what's been marked as Exhibit 553, which is a multi-page e-mail string, Bates stamp numbers are CFC2007C through 591900 -- try that again.

Exhibit 553, the Bates stamp numbers CFC2007C551900 through 903. The first e-mail at the top of the first page is from Angelo Mozilo to Carlos Garcia, dated September 8th, 578:1 2006.

(SEC Exhibit 553 was marked for identification.)

BY MS. DEAN:

Q In order to actually understand this e-mail, you kind of have to go to the very back, or at least to the second to the last page. There -- in the -- at page Bates stamped 901, there's the beginning of an e-mail dated September 8th. Do you see that?

A I'm sorry. I -- this is from Carlos to me?

Q No. If you go --

A Above that?

Q Above that, is an e-mail --

A Yeah, I spoke to Mike --

Q Yeah. That's an e-mail from you to Carlos Garcia.

A Right.

Q Do you recall sending that e-mail to Carlos Garcia?

A I don't recall it, but I doubt that I did.

Q Do you remember speaking -- well, first off, who is Mike Perry?

A Mike Perry was the CEO of IndyMac Bank.

Q Do you recall speaking to Mr. Perry in or around September of 2006 to ascertain his views of his portfolio of pay-option ARM loans?

A I don't recall the conversation, but I'm sure I had

579:1 the conversation.

Q What would have been your purpose in speaking to Mr. Perry about the pay-option ARM loans?

A I trusted Mike's judgment. Countrywide, at one time we started -- not IndyMac company, but it was a REIT. They had nothing to do with the bank. And I hired Mike in about 1992 to replace me. And so I had -- so I knew him, and I trusted him, I trusted his judgment. And so I -- just to get a sense, again, of just trying to feel my way through this whole pay-option issue, he was one of my reference points.

Q Now, Mr. -- according to this e-mail, it appears that Mr. Perry told you that he was concerned and was actually thinking about selling his portfolio of pay-option ARM loans. Do you see that?

A Uh-huh.

Q Did he express to you what it was that he was concerned about with respect to the pay-option ARM loans?

A No. Well, I don't know if he did or not. I don't recall the reason for his concern.

Q Were you surprised to hear that he was considering selling IndyMac's portfolio of pay-option ARM loans?

A Not -- not -- no.

Q Did it alarm you to think that a competitor of your bank might be considering actually getting rid of a product

580:1 that constituted almost 50 percent of the bank's balance sheet?

A Did it alarm me?

Q Yes.

A No. I mean, it was his, you know, judgment as the CEO of that institution. It was his call.

Q Well, did have you any reaction at all to the fact that he was sufficiently concerned about his portfolio of pay-option ARM loans that he was considering selling them off the IndyMac balance sheet?

A Do you know if he did it or not?

Q I don't.

A Okay. I don't know if he did or not either.

Q I'm not asking -- that's not the question. The question is did you have any reaction to his expression to you that he was sufficiently concerned about them that he was thinking about selling them?

A I don't recall having that kind of reaction where I was alarmed or anything of that nature. It was just a -- I don't know if he did or didn't do it. But I was not alarmed. I think it's important to read -- what I found interesting that he told me was that the average LTV was 65 percent.

Q Well, I was actually going to get to that. He -- your e-mail indicates that you were surprised to learn that IndyMac's loan to value ratio with respect to its pay-option

581:1 ARMs was as low as 65 percent; is that right?
MR. BRENNER: I don't think it says. I don't see where it says he was surprised.
BY MS. DEAN:
Q Okay. That's fair. You found it interesting that IndyMac's loan-to-value ratio was as low as 65 percent; is that right?
A That's correct.
Q And why was that interesting?
A I thought it was a low LTV.
Q Did you think that they were underestimating the actual LTV on their portfolio, or did you just think they had a portfolio with very low LTVs?
A I thought what he was telling me was true, that it was 65 percent LTV.
Q And you go on to say, quote, "We had a substantial increase in values over the past several years. The loan balances versus its current value makes their port look very conservative," close quote. Do you see that?
A Yes.
Q So did the fact that Mr. Perry was considering selling off his pay-option ARM loans, even though they had the lower loan-to-value ratios than the pay-option ARM loans held by Countrywide, cause you to consider whether Countrywide should sell its pay option ARMs?

582:1 A Let me answer this question this way: Their basic book of business was all day, no doc. In fact, their entire business was no doc, stated income. Because they did that, I would not do that. That was their model. That was their business. The issue I raised here is, is what I found interesting was 65 percent, because what they did was refresh their portfolio, and that meant that these loans didn't start out at 65 percent. Because values had increased so dramatically, when they ran their portfolio through another valuation model, the -- based upon the new value, not the original value of the property, their loan to value was 65 percent.

We had not used that methodology to determine really what was the true LTV of the loans we had in the portfolio. We just never refreshed it. We just -- the original loan that we had done four years ago, five years ago, and that was a 70 or 80 percent LTV. That's what it was. But, in fact, in reality, if you took a date in time, it could have been 50 percent, 60 percent, based on value increase. So that was the issue that I asked him, "Have you thought about taking a similar approach to establish what our real exposure is relative to our season loans on our balance sheet?"

Q Well, I appreciate that and I appreciate that that's what the e-mail says, but my question was different.

583:1 My question was, did the fact that Mr. Perry was considering selling IndyMac's portfolio of pay-option ARM loans which had a lower LTV than Countrywide's portfolio of pay-option ARM loans, cause you to consider selling Countrywide's portfolio of pay-option ARM loans?

A I'm going to answer two ways. No, to the first part, and B is, I don't necessarily believe that his LTV was lower than Countrywide, because he refreshed and we didn't.

Q Okay. And it actually looks like you asked the bank to provide you with refreshed information, which I think up here is on the first page of the document and as well on the second page in the table.

A The 67 percent.

Q Okay. I wanted to ask you about something you said in a -- in your answer just now a couple answers ago. You said that IndyMac's portfolio was written 100 percent on low documentation and that was --

A That was my understanding.

Q -- and that was not something Countrywide would do; is that right?

A That's right. We had -- Countrywide's model was more of a traditional model, Fannie -- Fannie Mae-, Freddie Mac-oriented company, so we wrote loans to their guidelines. We did some FHA, some VA, more of a traditional lender. And IndyMac's model was a very successful model for a very long

584:1 period of time. But it dealt with -- with products that were not -- new products that were not done in the ordinary course of business as the primary product.

Q Well, were you aware of the fact that 81 percent of the pay-option ARM loans in the bank's held-for-investment portfolio were originated on a low-documentation basis?

A Yeah, but that was not the totality of the originations of Countrywide. Countrywide did $400 billion a year. The bank took a small portion of that. The -- so I'm talking about the totality of Countrywide home loans originations. I'm not focusing on the bank. I was not aware that 80 percent of it was done on a low-doc basis, but I am now.

Q Well, that's the percentage that was disclosed in Countrywide's third quarter 10-Q for 2007, which was the first time that Countrywide actually disclosed the percentage of its portfolio that was written on a reduced documentation basis.

Do you have any reason to believe that that number was incorrect?

A No.

Q Does it concern you that 81 percent of the -- strike that.

Had you known in 2006 that 80-plus percent of the bank's portfolio of held-for-investment pay-option ARM loans

585:1 were originated on a low-documentation basis, would that have been a factor in your decision about whether to sell or retain the loans?

A No.

Q Why not?

A Because my concern was the performance of the loans themselves. You have a fully documented loan that goes into foreclosure and you lose money and the documentation is just one of the factors. FHA loans are fully documented loans that historically have a very high delinquency ratio.

(SEC Exhibit 554 was marked for identification.)

BY MS. DEAN:

Q Mr. Mozilo, I'm handing you what has been marked as Exhibit 554, which, for the record, is a two-page document, Bates stamped CFC2007A363449 through 450. And it's an e-mail from Angelo Mozilo to Dave Sambol, dated November 22nd, 2006, and the subject line is Bank of America. Have you ever seen Exhibit 554 before?

A I believe I wrote it. It's here. I wrote it, I believe I wrote it.

Q Okay. Can you tell me what was the Bank of America project that Countrywide was considering in November of 2006?

A I'm trying to think back. I think in -- I'm trying to -- we did a $2 billion deal with them -- preferred deal

586:1 with them. I believe that was in September. And that led to, I believe -- I'm not sure of this, but I think that that was the beginning of sometime in October, November, of discussions with -- maybe BofA would be interested in acquiring Countrywide.

Q Well, I want to make sure we're in the right time frame, because the $2 billion investment --

A It's '07 -- okay, I'm out. Forget about it. That was in '06, not '07.

MR. BRENNER: Forget all of that.

THE WITNESS: Yeah, forget all of that. '06 Bank of America project? I think the only other thing that I can recall -- let's see. The only thing I can recall, frankly, is that I received a call from the, at that time, the CFO of BofA, based upon a comment that I had made at a quarterly earnings announcement -- I think this was it -- about BofA being in and out of the business 16 times, or something like that. Somebody asked me a concern about BofA, and I got the call from -- I didn't know him, and he said he was the CFO of BofA and he wanted to correct me and I apologized. I speak in hyperboles. He said, no, he said, "It was 16, 17, it was 18 times," something like that. "Can I come and see you?" And the next day he was in my office.

And that was the only thing I could relate it to. And he said that, "Look, we have an interest in buying 20

587:1 percent of Countrywide." And the question was, "Well, why don't you buy all of it? Why just take 20 percent?" And he said, "We'll" -- and these, you know, "we generally better off buying a piece and have the company run it, rather than, you know, inculcate our culture and keep the culture separate." And at a subsequent date, and I don't remember when it was, somebody asked Ken Lewis, "Is there a deal?" Because rumors were flying around about Bank of America and Countrywide. And at that earnings conference, I believe it was an earnings conference, he said, "No, there is no deal." And that was the first time we knew about it.

BY MS. DEAN:

Q I just want to clear up the record a little bit. You said that you made a comment at an earnings call about BofA being in and out of the business. By that, did you mean that they had attempted to purchase Countrywide or had made an offer?

A No, no, no.

Q What did you mean by that?

A No. What I meant by that, BofA has been in the mortgage banking business for generations, and -- but they have been out of it. They get in, they get out and get serious about it, then they're not so serious about it, then they're serious about it, and that's what I was talking about. And the question was -- I think at that point in

588:1 time, BofA made an announcement they were coming out with some special products. And the question by the investor in the earnings call was, "Are you concerned about BofA in the business?" And I made this offhand, smart aleck comment that they had been in and out 17 times, and we dealt with it before and we'll deal with it again.

Q And what you're saying is, in response to that, you got a call from the CFO of Bank of America indicating that, in fact, they wanted to make an investment in Countrywide?

A That's what I think it was. And I believe his name was Molina, I believe. And he came to the office, I had never met him before, and talked about the potential for joining forces and -- which had a great attraction to me.

Q That -- and that's my question is, why would Countrywide have been interested in selling all or a portion of itself to Bank of America in late 2006?

A The company was doing well. The stock was doing well. And I had somebody who was coming to us that wanted to -- very formidable, who wanted to join forces with us. My responsibility to the shareholders is to listen to that, you know, and to entertain that. It would be ultimately the vote of the shareholders. But it's my responsibility to bring it along and, you know. Unfortunately, the time to sell is when you're doing well, because people sell when they are not doing well. So it seemed to be a unique opportunity for us.

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It was the first time that we had an offer.
Q Did it ever come down to a formal offer?
A I don't remember. I don't remember -- I don't recall it being fully documented or how far it got.
Q Well, regardless of documentation, did you ever get down to discussing specifics, such as the purchase price for the portion of the company that Bank of America wanted to buy?
A I don't recall it getting down to that level.
Q Was the contemplated transaction, as of the date of this e-mail, a sale of part of Countrywide or all of Countrywide?
A Part.
Q Part.
Now, I think you said you had a meeting with the CFO. Was anyone else present at that meeting?
A No, just him -- oh, just anybody else from -- Dave Sambol might have been there. I'm not sure.
Q And is it your recollection that that meeting would have been in November of 2006 or thereabouts?
A Yes.
Q Okay. Was the meeting in Calabasas?
A He came to my office in Calabasas.
Q Did -- were there any subsequent meetings with respect to this issue?

590:1

A I had no subsequent meetings. I don't recall any subsequent meetings with him. I just met him once and he was -- it wasn't long after that, he was gone.

Q Did you have any subsequent communications with Bank of America with respect to their expressed desire to purchase part of Countrywide before the capital infusion in August of 2007?

A (Non-verbal response.)

Q I'm trying to -- it was probably inartfully phrased. I'm trying to differentiate between the 2 billion they invested in 2007, which was presumably a separate transaction, and the conversations you were having in late 2006?

A Totally unrelated.

Q So after this initial meeting with BofA's CFO, did you have any further communications with BofA with respect to the contemplated transaction from November of 2006?

A The -- I may have, but I'm not certain here. I may have received a call from Ken Lewis. Either I called him or he called me, just to confirm that that fellow who was sitting there, who we didn't know, was, in fact, the CFO of BofA. And he -- and he did confirm that. But something happened at BofA. I don't know what happened. And the rumors had caused the stock to rise and I don't know how much. And when he made the announcement at the meeting, it

591:1 was -- I don't think it was a total surprise. I think we began to see things slow down once Molina left Bank of America. And it wasn't a long period of time. It was a very short period of time that this took place and it was over and we moved on.

Q When you say things slowed down, you mean communications with respect to this issue, or did you mean something else?

A No, communications relative to this issue. You know, I think I asked -- I'd like to place special priority on the Bank of America project because what they would need is to do due diligence. They need information and that sort of thing, and put in with the quarter back to bring the information. As I recall, I think Dave mentioned to me, he said, "You know, it was very vigorous to start with, but I'm having trouble getting hold of people and people not returning phone calls and that sort of thing." And then soon after that --

Q Did it ever reach the point where Bank of America actually did any diligence with respect to the proposed transaction?

A To my knowledge, not any physical diligence. And I don't know what kind of documentation was ever sent to them, if anything.

Q Would Dave Sambol be the more appropriate person to

592:1 talk to about the parameters of the discussions with Bank of America on this issue?

A I think so.

Q Did you have any reason to believe that Countrywide needed an infusion of capital in late 2006?

A No. In fact, I think we were -- we were still buying back stock. We were overcapitalized. No, I had -- just to put some color to this and we -- I had come to a conclusion back several years ago that the ultimate winners in this business would be a bank -- would be banks, because they're the only ones with reliable liquidity. And that's what caused me, one day, to go out and buy a bank and -- tiny, little $65 million bank -- but to begin the process of transforming Countrywide into a bank. So that it had, what I believe, to be a sustainable model and -- just based upon my opinion. And so we went down that track and here I was faced with the opportunity of having the biggest bank in the world, one of the biggest banks, own a part of Countrywide. So we said it was a great partner to have.

Q Who is Joseph Perella?

A He's -- Perella Wasserstein -- it used to be Perella Wasserstein. He's an investment banker. He's an M&A type of individual, an advisor. You know, of a major stature, and John Mahoney is with Goldman.

Q The reference to Lehman being a competitor, is that

593:1 a reference to the effect that Lehman Brothers had entered the mortgage market?

A That's correct.

Q Okay. Thanks.

Do you guys need a break?

MR. BRENNER: No.

THE WITNESS: No.

Again, I just want to make sure you understand that's what I believe this Bank of America project was about, because I can't think of any other thing to be about.

MR. McLUCAS: How are we doing on --

MS. DEAN: Let's go off the record.

(Discussion held off the record.)

(SEC Exhibit 555 was marked for identification.)

MS. DEAN: Back on the record.

BY MS. DEAN:

Q Mr. Mozilo, I've handed you what has been marked as Exhibit 555, which is a four-page document. It's Bates stamped CFC2007B668917 through 920.

The first e-mail at the top of the first page is dated February 11th, 2007, and it's from Angelo Mozilo to Dave Sambol and several other recipients.

And, Mr. Mozilo, I would like to know first, do you recall -- well, strike that.

594:1 Have you seen the e-mail string, a copy of which has now been marked as Exhibit 555?

A I don't recall seeing that. These are the ones that came to me, I'm sure I saw.

Q Okay. And you don't have any doubt that you're the Angelo Mozilo at the top of the e-mail string?

A I do not.

Q Okay. Let's -- it looks like this e-mail string actually started out as one thing and then morphed into another. So the last e-mail of the string, which starts on the page Bates stamped 919, actually refers to asset growth strategy, and you are not copied on the e-mail. The next e-mail is on the page that starts -- or ends in 918, and it's from Carlos Garcia to Angelo Mozilo and Dave Sambol, and it's dated January 29th, 2007. And the re line is, "Earnings call asset growth question, ideas for response."

And do you recall that there was a question at an earnings call with respect to asset growth at the bank, in or around the January 2007 time period?

A No.

Q No? Okay. It looks like, according to Mr. Garcia's e-mail, a question was raised about the fact that asset growth at the bank had slowed, and then Mr. Garcia is apparently attempting to provide a response to that question. Do you see that?

595:1 MR. BRENNER: I think this is a question that might potentially be raised. This is what it says, question slash issue, potentially raised.

MS. DEAN: Oh, you are right, I'm sorry. This may have been something you guys were working on in anticipation of the earnings call that was going to happen in February.

BY MS. DEAN:

Q I actually don't have any questions about Mr. Garcia's e-mail. I just wanted to use that as background to get to the e-mail immediately above it, which is your January 29th, 2007, e-mail to Mr. Garcia. Do you see that?

A Uh-huh, yes.

Q You responded to Mr. Garcia's points with the suggestion that -- strike that.

You wrote back to Mr. Garcia, and you wrote, quote, "I would like you, Eric and Ann, to explore with KPMG the potential for selling out, paren, (one time transaction because of the tarred reputation of pay options), closed paren, the bulk to the pay options on the bank's balance sheet and replace them with HELOCs," close quote. Do you see that?

A I do.

Q Do you recall in or around January 29th, asking Mr. Garcia, Mr. Sieracki, and Ms. McCallion, to have a conversation with KPMG about whether or not it would be

596:1 feasible for the bank to sell its portfolio of pay-option ARMs?

A I don't recall what happened on January 29th, but it's clear here that on January 29th, I wrote this e-mail.

Q Do you know what you were referring to in the parenthetical when you referred to the tarred reputation of pay options?

A The reputational issue, I mean, if you go back to the media, you guys have done a lot of research. There were a lot of issues raised about pay options, and I was continuously concerned about our reputation, reputation of it. And one of the reasons why the bank was shrinking was because we were continually tightening the guidelines, and less and less product was going -- we were originating less product, substantially less product, and the bank was shrinking as a result of it.

Q Your e-mail then goes on to state, quote, "From all vantage points HELOCs are a more traditional bank asset and will ultimately have a higher total risk-rated return than securitizing them and holding the residuals," close quote.

Could you explain what you meant by that?

A Well, HELOCs are a -- home equity loans are a very traditional bank product. That's what they do. And because of the way they're structured, and my experience with them is, my limited knowledge of them is, that they were a

597:1 high-return product for banks historically. And I dealt with a lot of banks, with the JP Morgans and the Bank of Americas and others, and that was a prime product and it was a very profitable product.

Q So it was your suggestion in January 2007 that the bank should sell its pay options and replace them with HELOCs; is that correct?

A That's correct.

Q Okay. Your e-mail goes on to state, quote, "Hopefully, KPMG will agree with our force majeure reasoning in order to avoid the HFI issues," close quote.

A Correct.

Q What was the force majeure that you were referencing there?

A Well, the force majeure was that this was going to be a one-time sale. We're going to do a one-time deal. And if it was a one-time transaction and not a continuum, would that, whatever price we sold them, would that impact what we're holding for investment? Would we have to markup the entire portfolio or mark it down or whatever, to whatever we sold it for? So that was my -- that was the -- the message.

Q Well, I just am a little confused by what you said, because was the intent to sell 100 percent of the portfolio?

A I don't recall exactly. I wanted to make a substantial sale. I don't know if we could have sold 100

598:1 percent of the portfolio. Whatever we could have sold. We have to assess -- we have to first get this answer before we determine what is the market for these, what is the price in the marketplace, can it be executed, what is the cost of execution? But this was the beginning of the process, because no need to go forward. And if I'm going to have to -- if, whatever I sell it at, I have to mark down -- markup the entire portfolio, it just may not work.

Q And by the entire portfolio, you would be talking about whatever residual pay options would have been left on the balance sheet?

A Whatever that type of loan is on the balance sheet would have to be marked. That's why you have held for sale and held for investment. These are loans that are held for -- they are categorized as held for investment and I want to make sure I wasn't violating any rules -- I wanted the approval of KPMG to be able to do a transaction of this nature, and that was the purpose of the memo.

Q It appears that your directive that that issue be explored with KPMG was followed, because if you look at the second e-mail on the first page, which is the one ending in Bates Number 917, Ms. McCallion writes to you on February 9th.

A Correct.

Q And she stated, quote, "Pursuant to your recent request, we have the go-ahead from KPMG to sell pay-option ARMs out of the bank portfolio on a one-time basis," close quote. Do you see that?

A Where are we?

Q It's the second e-mail on the first page, the first line.

MR. McLUCAS: Right here, "Pursuant to your recent request."

THE WITNESS: Right.

BY MS. DEAN:

Q And then the very first e-mail in the string, which is the one at the top of the page, you respond to Ms. McCallion, and it appears that you are asking Mr. Sambol, Ms. McCallion, Mr. Sieracki, Mr. Garcia, and Mr. Bartlett, to provide you with their collective thoughts on whether the sale is an economic transaction that would be the best execution for the company. Do you see that?

A Uh-huh, yes.

Q Did those individuals actually meet and provide you with their collective thoughts?

A I believe, my recollection -- yeah, I believe they met. I'm sure they met. And -- and I think the outgrowth of that, as I -- first of all, as I said, I first had to determine whether we could do this. And it was determined, yes, we can do it under certain documentation requirements

600:1 whatsoever. And secondly, once we got the clearance to do it, then what is the economic execution? Does this work? I believe that the -- once they got their heads together, they went down the track of getting the insurance and demonstrated the 70 percent of the portfolio insured by January. Then it was clear from that action that the economics were better to retain it -- retain the loans with the insurance than to sell the portfolio. That's my recollection.

Because the other part of it is, you have -- if you sell out, even if it's half of the portfolio, that's a significant change in the structure of the bank. Because you have liabilities to offset those assets and now you have no income coming in and you have liabilities to pay the depositors. So you have an imbalance. So you have to be very careful how you do that, and you don't want to be in a position where you're grabbing at any kind of asset to fill the hole and then get yourself in a worse position. So that was -- but I believe sometime soon after this, that I received a report as to what the collective judgment was.

Q And the collective judgment was to purchase mortgage insurance?

A I think they had shopped it, purchased it.

Q Okay. Earlier we looked at an e-mail back in September 2006 where you also directed that the pay-option ARM portfolio be sold. And your testimony at that point was

601:1 that you believed that the resolution then was also the purchase of mortgage insurance.

At the point in time when you were suggesting the sale of the pay-option ARMs in January, is it your recollection that there was already mortgage insurance in place?

A No. I think that at the time I was asked that question. You know, I -- I -- I'm not sure what the question was, but the reason why we retained the portfolio and didn't sell it was because there wasn't insurance. The -- that we were either getting insurance or were able to get insurance. That was the purpose of it and I wasn't connecting dates. And the question to me, that I received was, you gave -- why didn't you sell it, or something? You said you wanted to sell it. You didn't sell it. Why? Because we don't need that insurance. We went through this economic study and that was it.

Q But what was the reason you didn't sell them in September?

A September of '06?

Q Yes.

A Because there was a -- the bank executives said that that was not a wise decision, there was nothing to replace it with. The product was performing and you were going to put the bank through a torturous situation

602:1 unnecessarily, and so I was getting resistance from the -- and I'd say rightly so. Just don't -- it's not, this is a huge company that has -- I just can't go in and pluck loans out and sell them because I want to sell them. I have to go through a process. And that's what I did. I went through a very long, detailed process to finally get to the conclusion, do we sell or is there another economic alternative that's in the best interest of the company? And I believe, from my recollection, that I received a subsequent e-mail laying out the insurance issue and the economics -- that it was a better economic execution, and I accepted that.

Q And that e-mail you just referred to, you think you got that in response to this January request -- or actually it's a February 11th request?

A I would believe so. Your question to me was, did they meet? I believe they did, and that's my recollection of the e-mail. I don't have it here, so I can't.

Q Did something happen in January 2007 that was different than what was going on in September of 2006 that made you think you needed to sell the portfolio on a force majeure basis?

A I wouldn't -- no. First of all, maybe it's a poor choice -- I used the word force majeure instead of one time. It's a one-time sale. It's not a storm, you know, of any kind. It was a -- my demonstrating that I went to college

603:1 and I got a degree. And so -- but the purpose of that was to say, look, I'm doing a one-time sale. You know, am I in a situation where it would affect everything? You know, the entire portfolio, pricing. And it's always the problem with HFI loans. But I think to answer your question, there was nothing different from September to January. It was just that when I -- I get on something, I stay on it until I can satisfy myself that it's been -- that there's some resolution. And this was just me, is how I operate. I keep it on my tickler. I keep that e-mail on my e-mail screen until I finish, until it gets finished.

Q If you take a look at your e-mail dated February 11th, which is the first one on the page, at the top of the first page.

A Top of the first page?

Q Yeah.

The last sentence of that e-mail, you indicate that you wanted a response to your request within the next couple of days because you thought KPMG's position might be potentially altered by outside events. Do you see that?

A Yes.

Q What were the outside events that you were contemplating might alter KPMG's position?

A I have no idea. I have no idea what was on my mind at the time.

604:1 (SEC Exhibit 556 was marked for identification.)

BY MS. DEAN:

Q Mr. Mozilo I'm handing you what has now been marked as Exhibit 556. And the record, it's a two-page e-mail, Bates stamped CFC2007A364591 through 592. There are two e-mails here. The one at the top is from Angelo Mozilo to cap Bob1225@aol.com, dated February 6th of 2007.

Mr. Mozilo, did you send the e-mail that is at the top of Exhibit 556?

A It appears that I did, yes.

Q And we established cap Bob1225 is Robert Donatto; correct?

A Correct.

Q And the next e-mail, the one that you were responding to, is from Mr. Donatto, and it is addressed to Anna Preston and yourself.

Who is Anna Preston?

A I have no idea.

Q Okay. Mr. Donatto's e-mail reads, quote, "The word to describe our friend is duplicitous. We will prevail," close quote. Do you see that?

A I do.

Q Do you know who he was referring to there?

A I have no idea.

Q Do you know what the issue was that is referenced in this e-mail?

A No idea.

Q Okay. You responded that, quote, "Life is much too short to partner with people that cannot be trusted," close quote.

A That's a true statement.

Q Does that make you think that perhaps this was a reference to someone with whom you or Mr. Donatto was in business?

A I have no idea what this was about. I don't remember this at all. And I don't know who Anna Preston is. I don't know.

Q Did you have any business enterprises with Mr. Donatto outside of Countrywide?

A No. Never did any business with him. Even when he was a broker, not ever any business whatsoever.

(SEC Exhibit 557 was marked for identification.)

BY MS. DEAN:

Q Mr. Mozilo, I'm handing you what has now been marked as Exhibit 557, which, for the record, is a multiple page document, Bates stamped CFC2007A373214 through 219. And the e-mail at the top of the first page is from Angelo Mozilo to Dan Tarmen and is dated February 27, 2007.

606:1 Mr. Mozilo, did you write the e-mail that is at the top of Exhibit 557?

A That's an e-mail I believe that I did.

Q It appears that Mr. Tarmen had forwarded two stories that he had taken out of the Wall Street Journal and a press release regarding Freddie Mac, which is actually the balance of this e-mail. I don't actually have any questions about the forward, but I do have a question about your e-mail.

In response to what Mr. Tarmen forwarded to you, you wrote, quote, "Remember what I said almost six months ago, period. In my 53 years in the business, I have never seen a soft landing, period. This one is going to be as hard as they come," close quote. Do you see that?

A Right.

Q What was the basis for your belief that this particular economic downturn was going to be, quote, "as hard as they come," close quote?

A Well, I didn't think it would be this hard, believe me. Let me say a couple of things about this. One is that he -- I think what he was referring to, in an earnings call to the public, the question was asked of me by an investor, "Is this going to be a soft landing?" And I said, "In my 55 years I've never seen a soft landing." And the fellow that hired me into the business when I was 14 years old, now a

607:1 hundred years old, I saw him a few weeks ago and he said to me, "Angelo, when you said that, you never thought it was going to be this hard, did you?" And I said, "No, I never saw this coming."

I never -- the key element to me was that Countrywide has been through a lot in 40 years and we not only survived, we thrived. We don't mind bad times. But one thing I never ever considered or was prepared for was losing all of our liquidity in one day, and it's happened to Bear Stearns and the others now. I just never thought that was a -- you could ask me all kinds of things could happen. That was not one of them, so that's what I meant. But that was in the framework of, this one is as hard as they come relative to what I had experienced in the past, not now.

Q Did you have some basis, though, for the belief that this particular downturn in the mortgage lending market was going to be as hard as they come?

A I think my sense was that it was such a vigorous market. I think you pointed out this morning, you have eight years, incredible. I've never seen a time where we had such volumes and such increases in real estate prices as we saw over an eight-year period, during the last two years, maybe three years, then you go through a correction two or three years. So when you have -- and also the concern was all of the people getting into the business. We had so many

608:1 players, nontraditional players, the Bear Stearns, the Morgan Stanleys, the Merrill Lynches. People who had never been in the business before get into it in a huge way. And this is not an easy business and it's not one where you just turn on the switch and it works. And so I just felt the combination of all the things -- my instincts told me that this could be as hard as they come. But as I said, not like this.

Q The comment wasn't -- the comment about the downturn being as hard as they come wasn't based on any information that was specific to Countrywide, was it?

A No.

Q It was just your general sense with respect to the economy as a whole?

A Yeah. We were doing -- we were doing great. In February of '07 we were doing great. I had that meeting to reducing expenses and that sort of thing, and suddenly rates went down and volumes increased and that was -- that's the way the business is. You get ready and then, bang, something happens. We were doing great. In fact, I think in June we did $40 billion worth of mortgages in the month of June. In July, I took down -- paid $330,000 in taxes on restricted stock that I took down in July of '07. It was now $194 a share. We were doing great until August when the liquidity dropped.

Of course, we had a lot of options. We had the

609:1 insurance on the, you know, on the pay options. We were -- the bank was shrinking down a bit. We were -- we had servicing protocols in place that were helping us reduce delinquencies. We were doing -- everything was going well until August. And I had agreed, you know -- in December I would have never -- if I thought there was something wrong with Countrywide, at minimum, you know, at my age I would stay on. And I agreed to stay on because I thought the future was terrific with Countrywide, and I wanted to see -- make sure the transition went well with Dave.

MS. DEAN: Let's go off the record.

(Discussion held off the record.)

MS. DEAN: Back on the record.

(SEC Exhibit 277 was referred to.)

BY MS. DEAN:

Q Mr. Mozilo, I have now handed you what was previously marked as Exhibit 277, which, for the record, is a multiple page document. Bates-stamped numbers are CFC2007829058 through 067. And the date at top of the document is December 7th, 2006. The re line of the memo is, "Front page Wall Street Journal article, more borrowers with risky loans falling behind."

Mr. Mozilo, do you recognize Exhibit 277?

A No.

Q Do you recall either writing a memo or making a

610:1 presentation to the board of directors of Countrywide in December of 2007 in which you discussed a Wall Street Journal article?
A I could have.
MR. BRENNER: 2007 or 2006?
BY MS. DEAN:
Q I'm sorry, did I say '07?
In December of 2006?
A I could have.
Q Okay. If you -- you don't -- let me ask it this way: Would you have prepared this e-mail or would it have been prepared for you?
A Oh, this is the e-mail.
Q I'm sorry.
A I'm sorry, okay --
Q You know what, no, let me do it. It's late in the day and I'm now, I'm a mass of misspeaking.
Would you have written this memo or would it have been written for you?
A This style is not mine, so somebody -- yeah, somebody wrote this for me.
Q Would this have been similar to the pay-option memo that we discussed earlier where you had Mr. McMurray draft a memo to the board that went to the board under your name?
A Yes. I wouldn't be surprised if he did this one.

Q Okay. This memorandum appears to be an attempt to respond to a Wall Street Journal article about subprime mortgages. And, in fact, the article is attached to the memo starting at the page that's Bates stamped 829064. I don't actually have any questions about the article, but I do have a couple of questions about the memo.
A Okay.
Q Okay. If you -- starting at the front page of the memo under the section background, the second sentence in that paragraph reads, quote, "We offer substantially all of the residential mortgage products available in the industry as part of our supermarket strategy," close quote. Do you see that?
A I do.
Q Did Countrywide have what you would characterize as a supermarket strategy with respect to its mortgage products?
A I wouldn't term it supermarket, but, I mean, I think it's a fair term. I think it's a fair term that we were the largest lender in the country and we wanted to make sure that we had relevant products for most of the consumers. I think also -- point out the issue in fair lending standards, we were subject to CRA as well as HMDA and as well as our overall mission of lowering the barriers of entry for homeowners, which you'll see over and over again in our literature.

612:1 Q And so as a result of those regulations, Countrywide was offering loans -- well, why don't you tell me, what was the impact of being subject to those regulations?

A Well, you had to -- in CRA, Community Reinvestment Act, you had to be investing in the community overall, and so that -- and that's true of all banks. You have to alter your lending standards to accommodate that part of our population, generally low income, generally minority. There are also HMDA, the Home Mortgage Disclosure Act, that required us, not as a bank necessarily, but as a lender, to make sure that there is absolutely no disparity in lending. And every loan that was rejected had to be re-examined and in an effort to broaden the home ownership base and also to, as best they can, eliminate discrimination and dispar (sic) treatment of minorities.

Q So would that have driven Countrywide to provide products that it otherwise wouldn't have been providing?

A No, I don't think so. I think that if you look at -- to answer you specifically, Countrywide had a mission. And our stated mission was to provide home ownership opportunities to the broadest segment of our population and, in fact, had a operation called House America that was solely devoted to that effort, going into neighborhoods and educating people, free consulting to minority families, low

613:1 income families, put them on a road -- put them on a road to home ownership. We did all -- it was a major part of what we were about. We made a $1 trillion commitment to minority and low-income home buyers. It was part of our culture.

Q I wanted to call your attention to the discussion of the 2006 vintage of loans on the second page of this memo. It's the one that ends in Bates stamped Number 059. If you look at the second paragraph, it reads, quote, "The 2000 and 2001 vintages were once considered to be one of the worst performing vintages across the industry as well as within Countrywide, period. The table below compares recent subprime vintages by showing the percentage of loans which have ever had a 60- or 90-day delinquency in the first six months," period, close quote. Do you see that?

A I do.

Q And then do you see the embedded chart there?

A I do.

Q Okay. And it looks like for 2006, it clearly has the highest percentages of delinquencies, both at 60 -- 60 days late and at 90 days late. Do you see that?

A Which vintage are you talking about now?

Q This whole chart.

A The whole chart, okay, yeah.

Q The chart seems to compare across vintages starting in 2000 going to 2006?

614:1

A Right.

Q But if you look at the 2006 numbers, 60 days late at six months was 8.11 percent and 90 days late at six months is 4.03 percent. Do you see that?

A Okay.

Q And so those numbers would be higher than any other vintage -- well, than any other vintage in the chart; is that correct?

A That's correct.

Q Okay. And then the memo goes on to state, quote, "From the low set by the 2002 vintage, performance has deteriorated in each successive year as a result of guideline expansion," close quote. Do you see that? It's right below the table, first sentence.

A Okay.

Q Would you agree with that statement?

A I would -- I would generally agree with the statement. I would generally agree with it and sort of interrelate it to this whole effort and mandate by when -- particularly when President Bush came into office with a -- and I use the word mandate loosely, to expand the minority home ownership rate in the country and expand the overall home ownership rate in the country, and that partially was done by expanding -- by expanding the guidelines.

Can I add to that?

615:1 Q Please.
A As I'm looking at it further in here, I believe in 2000 -- when 9/11 hit, rates went down as low as 1 percent. And -- not the mortgage rates, but the Fed funds rate. And the tenant mortgage rates went down as low as 4 percent for a hybrid, a three-year hybrid, which is still -- a seven-year hybrid was 4 percent. And so therefore, the -- a lot more affordable at that interest rate. Secondly, there was a huge refinance boom during this period of time, during these -- when you see these very low delinquencies. These loans never had -- the finish never had a chance to get the lender because they were refinancing to new loans and to new loans. New vintages are -- have very low delinquencies, so I don't think it's an apples to apples.
I think, as I said, I would agree that it was certainly an expansion of the guidelines, but you had other factors that had a material impact on delinquencies. And one is the huge refinance activity. In fact, I believe that over 60 percent of our business in 2000 -- one of these you used, 2003, 2004, were refinance loans, not purchase transactions -- maybe even higher than that. So I would not attribute it solely to that. It's also to the interest rate.
Q I wanted to ask you about the paragraph immediately below the one that has the comment about guideline expansion. The one that starts, "Though not addressed." Do you see that

616:1 paragraph?
A The guideline expansion? "Though not" -- by the way, remember, it says -- keep in mind, interest rates declined deep into 2003, and there was a tremendous amount of -- well, as I said, between the financing -- okay, "though not addressed," right.
Q Now, I wanted to ask you about the comment here -- or the observation that the 2006 vintage is not only performing poorly with respect to lates, it was performing poorly with respect to prepayments.
Do you have any explanation for why the 2006 vintage in particular was experiencing higher than expected delinquencies and prepayments at the same time?
A Offhand, I don't. I'm sure there's a reasonable explanation for it, but I don't know what it is. Can I read it?
Q Sure. I mean, take all your time. I don't want to rush you.
A Yeah, let me see. When one is high, the other tends to be low. They're both measures of performing poorly. I don't know if I agree with that, one is high the other is low. Okay, the guy who wrote this is maybe smarter than I am, but people who are able to prepay because they're refinancing are the better credits, and the ones with the poorer credits are not prepay. This is a guesstimate on my

617:1 part that when you have high prepayments, you can have a situation -- you can have an environment where you're having high prepayments, and what's left are the poor quality loans in your portfolio and, therefore, higher delinquencies. But that's just a guess. I don't know why this phenomenon occurred.

Q Well, and, in fact, the memo makes the observation that they typically tend to move in opposite directions; right? Because in a stressed economic environment, you have a rise in delinquencies. And in a good economic environment, you typically have a rise in prepays; right?

A No. I don't know. I don't think that -- I don't know if that's true, because in a good economic environment, you have high interest rates, so it doesn't lend itself to prepays. In a poor environment -- poor economic environment, the Fed is forced to lower rates. That's what caused all these prepays here. So typically, when you have a good economic environment, you are talking about the overall economy, the Fed is trying to slow that down and increases rates and, therefore, makes it more difficult to refi.

Q Let me ask you a question I should have asked you at the beginning which is, if you had asked somebody to prepare a memo to be presented to the board with your name on it, would you have read the memo before it went to the board?

A I would have read it.

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Q Okay. Do you think you read this one?
A I probably went over it. You know, when it got into the more statistical data, I relied upon the people who provided it to provide the statistics. I don't know what the -- I'm not a researcher and I don't get the information, but I think I got the general tone of it. And I thought it was important for the board to have a response to a front-page article in the Journal.
Q But if you saw something in this memo before it went to the board that you disagreed with, you would have asked the person who drafted it to change it; right?
A I would.
Q I wanted to ask you, on page 3 there's a more detailed discussion of the guideline expanse that was referenced on the prior page, and in particular this one talks about guideline expansions into subprime area. The first paragraph contains the following sentence, quote, "Industry guidelines have expanded in a variety of dimensions, including increased availability of reduced documentation, higher leverage, i.e., lower down payment or equity requirements, increased prevalent of piggyback first and second lien loans, higher loan amounts, and interest-only," close quote. Do you see that?
A Yes.
Q Would you agree with that statement?

619:1 A Yes.
Q And then it goes on to say, "More importantly, those products were typically offered in combination with each other, which created a layered risk." Do you see that?
A I do.
Q Do you agree with that statement?
A Yes. That goes back to our discussion before, relative to first and seconds, yes.
Q In the table below, I just want to make sure I'm reading it correctly. It appears to be -- it appears to summarize product offerings in the 2001 vintage versus the 2006 vintage; is that correct?
A That appears to be correct.
Q Okay. So in 2001 the maximum loan size on a subprime loan would have been $400,000, according to this chart; is that right?
A That's what the chart says.
Q Okay. And then by 2006, according to the chart, the maximum loan amount on a subprime product would have been a million dollars; is that right?
A That's what it says.
Q Okay. And just to pick another one, for example, piggyback loans, which is the last line item in 2001, those were not offered. But in 2006 they were offered as long as the borrower had a minimum 580 FICO score. Is that what that

620:1 means?
A That's right.
Q Okay. When you reviewed this document, did you review this particular chart?
A I don't recall reviewing this particular chart.
Q Okay. I know that you -- and I think you indicated you're not entirely certain that you reviewed the document -- well, that you don't have a recollection of reviewing the document; is that right?
A Well, if it went to the board, I'd generally would look at -- I'd accept the statistics as is, because I'd have no basis not to accept it. And I would peruse it for the nonstatistical information. So, for example, the question you asked me about industry guidelines, I've expanded in a variety of dimensions. I agreed with that, yeah.
Q Okay. So to the extent that there is a statement in here, is it safe to assume that at the time that you reviewed it in December of 2006, you agreed with it, otherwise it wouldn't have stayed in the memo?
A From what I read at the time and what I reviewed, I accepted it and agreed it should be distributed to the board.
Q Okay. And just one more question about this particular document. The chart -- and this is just me trying to understand the chart on that same page, the one that ends in 060. It's headed Subprime -- or CW Subprime Production

Mixed Trends. Do you see that chart, the one that ends in 060, page 3? It's the bottom chart.

A Yes.

Q I just want to make sure I'm reading it correctly. Looking at the second line, the greater than $400,000 loan size?

A Correct.

Q If I'm reading this correctly, in 2001 there were no subprime production loans that were greater than $400,000; is that right?

A That's what it says.

Q And in 2006, according to the chart, 17 percent of the production was greater than $400,000?

A That's what it says.

Q Okay. And similarly for, say, 100 percent loan to value, that was also a zero in 2001, and it was 24 percent in 2006?

A Yeah, I think that talks to the expanded guidelines.

Q Okay.

BY MR. PUATHASNANON:

Q Mr. Mozilo, can you turn back to page 2 and the paragraph that we looked at earlier, the "though not addressed in the article"?

A I'm sorry, the what?

Q The paragraph --
A "Although not addressed in the article," right, okay.
Q Okay. So the conclusion in this memo is that prepayments -- the 2006 vintage was performing poorly with respect to the prepayments because the prepayments were higher; is that right?
MR. McLUCAS: The statement in the memo, is that --
BY MR. PUATHASNANON:
Q Right.
A "Prepayments have been higher than expected given economic conditions." And I don't remember what the economic conditions were at the time -- prepayments tend to respond in opposite direction.
Q But so with respect to subprime having higher prepayments means that the portfolio is performing poorly. Would you agree with that?
A That the prepayment at the prepayment speeds would cause it to -- would perform poorly? I don't know if I'd frame it that way. The prepayments -- if you have marginal loans that are prepaying, that's a good thing. They're going off your books, being replaced with cash to reinvest in other products. So -- and I may be down the wrong track here, but it seems to me that prepayments in themselves are not indicative of anything as it relates to originations and

623:1 relates to delinquencies, with this exception, that generally, as I said, if you have prepayments, what's paying -- what's paying off are the good loans, and what you're left with are the people who are unable to refi or get out of it or sell the house, or whatever the reason is. So I would say as a result of prepayments, the composition in your portfolio could look worse, not because the book is deteriorating, it is simply because the good loans are off and you're only left with the loans -- the more marginal loans.

Q And given that explanation, the conclusion, at least as I read it, and I am asking whether you would agree or disagree out of this paragraph, is that with prepayments being higher, that 2006 vintage is, therefore, performing poorly?

A Because what's left over are the more marginal loans.

Q And that's what I'm trying to get at, is that --

A That would be my conclusion, and I don't know the --

Q That's reading between the lines?

A Yeah, right, because I don't know.

Q And what happened, related back to something you said earlier, if you recall, when you looked at a flash report in the context of pay options, you mentioned, I believe, that the fact that prepayments were higher was a

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good thing for the pay-option loans. Do you recall saying that?

A Yeah, it was a good thing because it's a separate issue.

Q And that's what I'm trying to reconcile. I'm trying to understand.

A Okay. I'm saying that -- I'm talking about the overall -- I'm talking about the overall book of our servicing portfolio. This is what they are talking about. This is not the bank. And what I'm -- what I was referring to in the bank, to the extent that pay options -- here I am trying to sell them, they're paying off. To me, it is the same. You know, I -- I'm decreasing my exposure to pay options. That was my -- but I believe this is Countrywide's total portfolio, subprime portfolio, because it's not in the bank, okay? So there are two different portfolios, two different objectives.

MR. PUATHASNANON: Okay. Thank you.

MS. DEAN: Mr. Mozilo, we have no further questions today. But as we've indicated to your counsel, we would like to schedule an additional day, so we will work with your counsel to do that. I wanted to give you an opportunity, before we went off the record, to make any clarifying comments or any additions that you wanted to add to any of the statements that you've made today.

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THE WITNESS: I don't think so.

MS. DEAN: Counsel, did you have any clarifying questions that you wanted to ask?

MR. BRENNER: No, thanks.

MS. DEAN: All right. Thank you for your time. And we are off the record at 5:20, on August 21st, 2008.

(Whereupon, at 5:20 p.m. the examination was concluded.)

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PROOFREADER'S CERTIFICATE

In the Matter of:	COUNTRYWIDE FINANCIAL CORPORATION
Witness:	Angelo Mozilo
File Number:	LA-03370-A
Date:	Thursday, August 21, 2008
Location:	Los Angeles, California

This is to certify that I, Laurie Andrews (the undersigned), do hereby swear and affirm that the attached proceedings before the U.S. Securities and Exchange Commission were held according to the record and that this is the original, complete, true and accurate transcript that has been compared to the reporting or recording accomplished at the hearing.

______________________________ ______________________________

(Proofreader's Name) (Date)

627:1

REPORTER'S CERTIFICATE

The undersigned Certified Shorthand Reporter licensed in the State of California does hereby certify:

That the foregoing proceeding was taken before me at the time and place therein set forth, at which time the witness was duly sworn;

That the testimony of the witness and all objections made at the time of the examination were recorded stenographically by me and were thereafter transcribed, said transcript being a true copy of my shorthand notes thereof.

That the dismantling of the original transcript will void the reporter's certificate.

I further declare that I have no interest in the outcome of the action.

In witness whereof, I have subscribed my name this _________ day of ________________________, 2008.

____

Cassandra Dechter

CSR No. 13127