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UNITED STATES SECURITIES AND EXCHANGE COMMISSION

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

WITNESS: Angelo Mozilo
PAGES: 628 through 862
PLACE: Securities and Exchange Commission
5670 Wilshire Boulevard
Los Angeles, California
DATE: Thursday, October 2, 2008

The above-entitled matter came on for hearing, pursuant to notice.

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P R O C E E D I N G S

MR. PUATHASNANON: On the record. It's 9:43.

Good morning, Mr. Mozilo.

THE WITNESS: Good morning.

MR. PUATHASNANON: We're on the record at 9:43, October 2nd, 2008. My name is Sam Puathasnanon, and I am an officer of the Commission for the purposes of this proceeding. Today we are resuming the examination of Angelo Mozilo which was adjourned on August 21st, 2008.

Would counsel please identify themselves.

MR. McLUCAS: Bill McLucas, Wilmer Hale, Washington, D.C.

MR. BRENNER: Joe Brenner also of Wilmer Hale.

MS. HOGAN: Elizabeth Hogan, Wilmer Hale.

MR. SIEGEL: David Siegel, Irell and Manella.

MR. PUATHASNANON: And, Mr. Siegel, you're here on behalf of the witness, Mr. Mozilo?

MR. SIEGEL: Yes.

Whereupon,

ANGELO MOZILO

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

EXAMINATION

BY MR. PUATHASNANON:

Q Mr. Mozilo, testimony today is pursuant to a

634:1 Commission subpoena which has previously been marked as Exhibit 524. Are you appearing pursuant to that subpoena today?

A I am.

Q And do you understand that you remain under oath?

A I do.

Q Let the record reflect that a copy of the formal order of investigation in this matter as supplemented will be available for examination during the course of this proceeding. And that's to your left, Mr. Mozilo.

As you already know, this is an investigation by the United States Securities and Exchange Commission in the matter of Countrywide Financial Corporation to determine whether there have been violations of certain provisions of the Federal Securities Laws. However, the facts developed in this investigation might constitute violations of other federal or state, civil or criminal laws.

Prior to the opening of the record today, you were also provided with a copy of the Commission's Supplemental Information Form which has previously been marked as Exhibit Number 1.

Mr. Mozilo, do you have any questions concerning this notice?

A No, I don't.

Q Mr. Mozilo, I just want to quickly revisit the

10(b)(5) plans that we talked about last time, and just so that the record is at least clear from my end, I'm handing you what's been marked as Government Exhibit 7, which is an October 27, 2006 10(b)(5) plan.

Do you recognize this document from our last day of testimony?

(SEC Exhibit No. 7 was referred to.)

A Yes.

Q And I know that we had a fair amount of discussion about this, but I just want to find out whether other than what you -- well, just so that -- because I don't know if you have the benefit of reviewing the transcript. What were the reasons for entering into the sales plan?

A Into this particular sales plan?

Q That's right. The October 27, 2006 sales plan.

A I don't recall the reason for this specific plan because I entered into several 10(b)(5)(1), and the overriding reason was two-fold. In some of the plans, the initial plans, I had expiring options, and because of my concentration in Countrywide stock in terms of my financial net worth, I was advised by the advisor that was hired by the company, AYCO, to diversify my investments, and so that was the beginning of the process, and I continued to do it through I believe February of '07 for that purpose, to diversify, because it only represented less than half of my

636:1 holdings, and so I still, as I previously testified, would hold about 6- or 7 million shares and options even after all of these sales were completed. So the purpose was to diversify.

Q And the person that you were -- the financial advisor that you're referring to, was that Mr. Conners or someone else?

A Initially -- I think relative -- I think relative to the 10(b)(5)(1)s it was Mr. Conners. The first advisor that was assigned to me was an individual by the name of Paul O'Neill, but I don't recall engaging the 10(b)(5)(1) plans until John Conners came aboard.

Q And you mentioned the term -- you said that the advice was to diversify your holdings in Countrywide, and one component of that, I assume, based on your actions is that that was selling the holdings. Was there any other component to diversifying your holdings? Was Mr. Conners giving you advice as to how to invest that money, the proceeds of the options?

A There was -- as I recall, it was to make certain that I didn't go from one concentration to another. It was also the advice, as I recall, was to lessen my overall exposure to the equities, and to diversify into fixed income, but not exclusive of equities. There were several other -- as I remember, several other recommendations. But

637:1 he didn't sell anything. He was just talking about my overall portfolio, what it should look like in terms of equities versus fixed income and funds versus non-funds, that kind of thing.

Q Is it fair to say that what -- and correct me if I'm wrong, was Mr. Conners giving you advice as to how to allocate your assets?

A It was -- it was a general that I should have allocations, there should be asset allocations. And, again, my recollection was that he laid out the classical allocations that one in my position would look at. Understanding I was still very much focused and concentrated in Countrywide. Even at the end of the day, I would be concentrated on that.

Q When you say then end of the day, what period of time are you talking about?

A Well, when the -- once we set -- as I recall and as I've testified to, I remember a number between 6- and 7 million shares and options that would be the amount that I would be left with once I left Countrywide. In December '06, I was to leave Countrywide, and I wanted to maintain a substantial holding in the company because of my attachment to it, and so that was the -- that was the goal.

So when I said the end of the day, Sam, it was my understanding that after I had gone through the process of selling the shares through a 10(b)(5)(1) because I felt that was the fairest to the shareholders, I would be riding with them rather than just pick a point in time to get rid of everything, that I would be left with 6- or 7 million options and shares.

Q And so when you say at the end of the day, you're talking about that 6- or 7 million share or options?

A Both. They were shares as well as options. They were 401(k) shares.

Q And so when you say that you would still be heavily concentrated, you're referring to a number of 6- to 7 million?

A Right. I'd still end up -- the family would still end up with a substantial amount of holdings in Countrywide once I left.

Q And did Mr. Conners express any opinion about whether that number, 6- to 7 million shares, whether it's options or actual shares, was a adequate concentration to meet your asset allocation goals?

A I don't remember him opining on that because, again, that was more driven by me. I think if I had not been the co-founder and emotionally attached to the company, which he got that message early on, that -- you know, I don't know if that would have been his advice to me, to leave the company with that substantial amount of holdings, but I don't

639:1 know. I don't recall.

Q You don't recall one way or the other whether he gave you that advice?

A No.

Q So you mentioned earlier that he -- Mr. Conners presented to you what I think you called a classic asset allocation?

A That's my term for it, what I would consider a chart, circle, a pie.

Q And that's what I was going to get to. He actually presented to you in some form --

A In some form.

Q -- that your asset should be divided along certain percentages or certain amounts?

A That's my understanding. It was an iterative process. It was -- you know, and we met often during the year, and that was the message I got. There were -- which I'm sure you have -- there were letters sent to me by him after each of those meetings. Whether or not it talked specifically about asset allocation, I can't -- I don't remember. I mean, we'd read a letter and then throw it out and move on because I had other things on my mind. So -- but that was the message I got.

Q You also mentioned that part of the goal was to diversify to fixed income.

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A Right.

Q Were you already invested in fixed income assets?

A At the time of the signing of this in 2006, I had some. I couldn't tell you the amount, but for most of the time, up until the start of the 10(b)(5)(1)'s, I was all Countrywide equity and nothing else. So whenever that started and I began building a fixed income portfolio, which was in -- you know, I don't know when I started these things, 2003, 4, 5, somewhere around there is when I built it. Prior to that I didn't have the money.

Q Whose decision -- who was involved in the decision regarding how to invest the proceeds of the 10(b)(5)(1) sales plans?

A Me I think. I mean, I think I was the only -- again, it was part of a discussion about -- it was part of an overall plan as I remember. The starting point was how much do you -- are you going to be retiring. This will be your income when you retire, Social Security pension, and you're going to have to supplement that income through your investments, and the most reliable form, as you can see today, is fixed income, and within that framework the reliability was government bonds. And so how I got there, I -- you know, to what extent was input from others, but the ultimate decision as to buying the fixed income securities is my decision.

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Q Did anyone else I guess -- and I apologize. Did anyone else give you advice with respect to -- whether it be Mr. Conners or someone else?

A Well, I had conversations with people that handled my account at J.P. Morgan and Bear Sterns. Adam Gelcich is one of those individuals. Ben Konner from J.P. Morgan was another individual. And conversations with friends, you know, who -- individuals as to how they handled it. It was just a -- I was just -- I was looking for a way to make certain that if anything happened to me, including my retirement, you know, or other issues, health issues, that my family would be okay.

Q I just want to make sure, at the time that you executed this 10(b)(5)(1) plan, Exhibit 7, that's dated October 27, 2006, at that point you knew that you were going to stay on at Countrywide for a period of time beyond December 31st, 2006, is that right?

A I didn't know for certain. I was in discussions to stay on, but a contract I don't think was signed until '07.

Q But isn't it -- am I correct that you reached an agreement or at least a preliminary agreement with the board prior to October 27th to stay on? Whether --

A To my recollection, I didn't reach an agreement until I signed that contract.

Q Was there another document that you signed or that

642:1 someone signed on your behalf, a term sheet of some sort that would have laid out the parameters of your continued involvement with the company?

A As I remember, there was as term sheet, a one- or two-page term sheet faxed to me while I was on a business trip. I don't recall ever signing it. I remember speaking to our in-house counsel. I remember speaking to the lead director about it, but I don't -- I may have signed it, but I don't recall signing it.

Q Okay. But in light of that term sheet, was there an understanding between you and the board that you would stay on beyond December 31st, 2006?

A I would classify it differently, okay. I wouldn't use your words.

Q Okay.

A I would say that I -- I mean, I know what I was going through at the time. I'd say that I was prepared to stay on if we could reach an agreement, and we had not yet reached an agreement.

Q And when you use the term "agreement," you're talking about a signed, executed written contract?

A Correct.

Q Other than the diversification reason that you just identified, was there any other reason why you entered into the October 27, 2006 sales plan, to the best of your

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recollection?
A To the best of my recollection, no.
Q I'm going to hand you Government Exhibit 13, which is the December 12, 2006 sales plan. Are you -- we've reviewed this document before. Are you familiar with the document, Mr. Mozilo?
(SEC Exhibit No. 13 was referred to.)
A Yes, sir.
Q Were there any reasons -- well, strike that.
What were the reasons you entered into this December 12th, 2006 sales plan? Was it also diversification?
A Yeah. The -- and I think I've said this over and over again in this testimony, that my only reason for selling or exercising the options and selling was to diversify my holdings and secure the future, financial future of my family, period.
Q Was there a period of time in which you contemplated selling stock to -- or selling -- exercising and selling options in order to generate income to replace compensation that you had lost under the new contract -- employment agreement that you signed in December of '06?
A I don't think -- oh, '06?
Q Yes.
A December of '06? I didn't sign a contract December

644:1 '06.

Q The employment agreement that --

A It was signed I think in February I think. I mean --

Q That's fine.

MR. BRENNER: Why don't you show him the document.

THE WITNESS: May have been effective December of '06.

BY MR. PUATHASNANON:

Q And that's fine. That may just be imprecise words on my part. I've handed you what's been marked as Government's Exhibit 529. And it's an employment agreement which I believe we looked at last time. It's dated December 22nd, 2006, and I believe your signature is also dated December 22nd, 2006.

(SEC Exhibit No. 529 was referred to.)

A Eric Sieracki's signature is dated -- well, maybe there's another page there.

Q If you'd turn to the second-to-the-last page, Mr. Mozilo.

A Okay. Yeah.

Q So does that refresh your recollection as to about the time in which you may have executed --

A I don't know why the February date is in my mind. I have no idea, but it's here. I signed it December 22nd.

645:1 Q Okay. So -- and I think we talked about this before, but this employment agreement reduced your compensation from your previous agreement with the company, is that correct?

A That's correct, substantially.

Q So going back then to the December 12th, 2006 sales plan, what -- did the reduction in your compensation play any role in the creation and execution of that sales plan?

A It might have. I'm not sure.

Q Do you have any -- you don't have any recollection one way or the other today?

A No.

MR. BRENNER: And just so it's clear, I mean, you obviously have asked him these questions several times before, and he's answered them, and he's provided information to you.

MR. PUATHASNANON: That's fair, and -- and I recognize that I am covering some old ground and part of that is to explore whether there are any other recollections that you may have developed in the interim.

THE WITNESS: Let me just give you the overriding issue here. The -- my concern was to make certain that irrespective of what happened to me, that my family was going to be okay. And so as I went through the process of going through these plans to how much I was going to sell, it's

646:1 possible that the substantial reduction in my compensation was part of that. It's also possible in some of these plans, the substantial increase in my expenses simultaneously because of the personal expenses were rising rapidly, which you have evidence of. That could have entered into the entire process as I, again, tried to get to the point where my family would be okay, my grandkids would be educated, my kids would be okay. All of that was going through my mind. So and that probably entered into -- as I came up with numbers with -- with John, that may be part of the process.

BY MR. PUATHASNANON:

Q And I appreciate that answer. To put a finer point on it, as you sit here today, do you have any recollection as to what was in your mind at the time that you entered the December 12, 2006 sales plan with respect to these issues?

A I had no idea what was in my mind on December 12th, but I can tell you that I think with some degree of certainty that the issues I laid out to you with respect to financial security for my family was an ongoing factor, as well as the concentration I had in the stock.

Q I'm handing you what has been marked as Government Exhibit 564. It's a four-page -- a three-page document Bates-numbered CFC2007-27670 through 27672. It's a series of e-mails, the most recent of which is dated November 22nd, 2006 from Angelo Mozilo to John Conners relaying a phone

647:1 number, but the e-mail that I would like you to focus on is the one at the bottom of the first page.

(SEC Exhibit No. 564 was marked for identification.)

A Yes.

Q Does that refresh your recollection at all with respect to the negotiations relating to the contract as well as the reduced compensation?

A All it does relates the fact that I was dealing with reduced compensation, reduced -- increasing my deferred comp issue, that I was concerned about increasing my reduced -- my deferred comp. I said "I am going to propose to Mike that I don't defer any of my salary and certainly not my -- defer any -- over a million."

I don't know what it's supposed to tell me. I -- what --

Q If you wouldn't mind looking in that e-mail at the bottom of page 1, there's a number 2 in the --

A Is this where -- when I had conversations with Susan?

Q Yes, that e-mail.

A Okay.

Q And then there's a number 2 in the middle. Do you see that?

A Yeah.

"If I fail to make my bogeys, I will have to live on $1,000,000 pretax."
Right.
Q Okay. And then the next sentence --
A "This will cause me to accelerate my sales of stock which I don't want to do and, more importantly, $900,000 of non-deductible salary" --
I don't even understand what I'm saying there. Oh, oh. They reduced my salary from 1.9- to 1 million. That's what I think I was talking about. No -- okay, no. It was $2.9 million to 1 million, and then I renegotiated to $1.9.
Q So your base salary was $1.9 million?
A Right. That's right. That's what I was talking about here.
Q Okay. So my --
A But this was -- this was December -- let's see. The date of this was November 21st. Yeah, so I think it falls under the category of what I discussed, that I was concerned about cash flow and my financial security. This was a -- this contract was a major departure from the previous contracts I had had over the -- at least over the last couple of decades, and I had to deal with it.
Q And with respect to the comment that you make about "accelerate my sales of stock" --
A This will cause me to accelerate my sales of stock,

649:1 which I don't want to do.

Q Right. And so what would have caused the acceleration of the sale of stock?

A Cash flow.

Q The reduction in the salary?

A Reduction in salary and, of course, the bonus had changed dramatically. The bonus, as I recall, was now restricted stock if I hit these three -- these three thresholds that the board set up. It was a completely different contract. And then the board informed me to get an attorney, an advisor, which I did.

Q Does this e-mail refresh your recollection in any way as to whether the cash flow issues did play a role in executing the December -- in executing --

A I'm going to repeat what I said before, so --

Q Well, I'm not asking -- does it refresh your recollection?

A It doesn't refresh my recollection because I think I've said it to you, that the overall financial welfare of my family was a concern, cash flow being part of it. And I just want to repeat my statement in here is I preferred not to do that. That was -- my objective was not to sell the stock.

Q And when you say it was not, your objective was not to sell the stock at all?

A Not at that time. The -- as I stated here, I

650:1 didn't want to be -- I didn't want to be put in the position of having to put in another sales plan at that time or sell the stock or whatever it required. That's what I meant.

Q But then you, in fact, did put one in about two months later? I'm sorry, about two weeks later?

A Two weeks later, because it was apparent to me that this was the way it was going to be.

Q And when you say -- and I apologize, but when you say this is the way it's going to be, you're talking about the reduction in the salary?

A Correct.

MR. PUATHASNANON: For the record, Lynn Dean has joined the proceedings.

BY MR. PUATHASNANON:

Q I'm handing you what's been marked as Government Exhibit 18, which is the amendment to the December 12th, 2006 sales plan. Do you recognize Exhibit 18, Mr. Mozilo?

(SEC Exhibit No. 18 was referred to.)

A I do.

Q And I know that you've gone through, and I don't want you to repeat yourself with respect to the reasons to the extent that you've already expressed them, but was there any reason or cause in particular that you can recall that affected the creation of this amendment, other than what we've already discussed?

651:1 A I don't recall any.
Q And is it your understanding or if you can review the document, that you are adding additional shares to your December 12th sales plan to be exercised and sold?
A That's correct.
Q Each of the plans that we -- the two plans that we looked at -- actually, each of the three plans that we looked at, Government Exhibit 7, 13, and 18, all contain price floors. What was the purpose of the price floor in those plans?
A I believe the price floor was in every plan. And it was my -- my belief that the company would do extremely well because we were doing very well, that we would continue dominating as the weaker players went away, and that the stock would over time -- although it would not go straight up, would be substantially higher as the years unfolded, and it was a threshold -- it was an arbitrary threshold of either $28, $29 per share that I just picked out of the air and said I don't want to sell below that, and I never did. I say I never did except in a cleanup provision on one of the contracts I think.
Q In your mind, did the setting of the price floor have any impact on your goal of diversification of your holdings? Did you consider that --
A No.

652:1 Q Strike that. Let me ask a different question.
Did you consider whether the price floor would affect your goal of diversification?
A No, I did not.
Q Was that ever a point of discussion between you and Mr. Conners with respect to the price floor?
A No, it was never part of the discussion. In fact, it was, you know, in subsequent plans I didn't even address it. I just left it.
Q Did you -- do you recall whether you and Mr. Conners ever had a discussion about whether to include a price floor in a sales plan?
A I -- I don't recall having a conversation. It would be an assumption on my part that initially I don't know if it came from me or from him back in -- whenever I started the first -- this was in the first plan and just we'd repeat it ongoing. I don't recall how it evolved.
Q Do you recall whether Mr. Conners ever expressed to you his advice that your plan should not include a price floor?
A I don't recall that.
Q As to any plan at all?
A That's correct. I don't recall that. I just -- I think it's important to note that the maintaining the price flow was not in my best interest. It was in the interest of

653:1 the shareholders.

Q What do you mean by that?

A Well, because if you look at the sales plan, nothing was sold under $20 a share except for a cleanup provision with the last contract. Many more shares would have been sold -- many more shares would have been sold if there was that price floor on it.

Q And by establishing a price floor, in your mind, how does that help the shareholders?

A In my mind I said to the shareholders I will not sell below $28. That's the confidence I have in this company. I will not sell below $28 a share. You can, but I won't.

Q I'm handing you what's been marked as Government Exhibit 565. 565 is a two-page document Bates-numbered CFC2007A365946. It's a two-page document containing a couple of e-mails. The most recent is dated March 14, 2007 from Mr. Mozilo to Dan Tarman, T-a-r-m-a-n. The subject is final Business Week piece.

Mr. Mozilo, do you recognize this document?

(SEC Exhibit No. 565 was marked for identification.)

A No. I mean, I probably have seen it because it's -- is it to me? Yes. I don't -- it probably came to me and I've seen it. I've read it at some point, but I don't

654:1 say I recognize it.
Q Is there any doubt in your mind that you did not receive this --
A No.
Q -- document? And who is Dan Tarman?
A He was head of public relations for Countrywide.
Q Do you recall that a interview was published in Business Week in or about March of 2007 between Maria Bartiromo and yourself?
A Yes.
Q Does this -- did you remember that independently from this e-mail or does this e-mail refresh your recollection?
A This e-mail -- this e-mail brings back my recollection.
Q Okay. And turning to the second page of the document and focusing on the last two paragraphs --
A Will the Fed cut rates, is that the one?
Q No. The second-to-the-last one starts "The Wall Street Journal said."
A Okay.
Q And then the last one starts "As a CEO."
A Mm-hmm. All right.
Q First of all, do you -- is that -- does the e-mail accurately capture what you said?

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A As the CEO, the only way to eliminate the issue is never to sell stock, yes.

Q And in the paragraph you state that, "In fact, I've sold very little stock." Do you see that?

A Correct.

Q What was the basis for that statement?

A Relative to my holdings.

Q Okay. And so when you say -- I'm just trying to -- when you say -- I'm trying to quantify in your mind what you meant by little. Relative to the holdings that you had in the company?

A That's correct.

Q So if you were -- what -- when you say little, what percentage were you talking about? Did you have a sense at the time as to how much you had sold?

A No, I didn't have a specific sense of what I sold. But my sales are public information. If you want to know that, just go to the record and you'll find out what the amount is.

Q And that's not my question. My question is this is a statement that's attributable to you, and you've said that you sold very little stock. So I'm trying to get to your state of mind at the time in which this statement was published, not what was actually sold. And so when you said little, you're saying relative to --

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A Relative to my holdings.

Q And can you quantify little in a different way? Numerically or --

MR. BRENNER: Again, are you asking what he thought at the time? Because he's already told you he doesn't remember specifically the percentage. Are you asking --

MR. PUATHASNANON: That's fair, but I'm asking for him to explain the use of the term "little."

THE WITNESS: Well, you know, this is one word in an interview. I just -- and, you know, when I made these statements, you know, I didn't think you'd take one word out of it and ask me to define what that meant. To me, it meant at the time relative to my holdings that I sold a small portion of them or little or whatever word I used, but I wasn't under oath when I said this. This was not something that I was parsing every single word I was saying. This was part of an overall telephonic interview that took place, and whether I used that word or not I'm not sure. You know, I don't know. She may have the recording. Then so be it. But to me it was trying to put a perspective on the fact that -- you know, maybe it would have been better said if I said I'm -- I still hold the majority of the shares that I've owned.

Q Which -- I mean, and you do say here that you've chosen to keep most of your net worth in Countrywide.

657:1 A Right.

Q Do you recall whether this was an actual interview or whether it was an exchange of question and answer? Did the reporter submit questions to you or were you actually going to read over the phone or in person?

A I remember one part. It could have been all of that. I don't know, but I remember speaking to Maria telephonically. She had this -- in Business Week she does this whole column in the back page, and she asked me -- called me up and said, you know, would you be willing to do this interview? I said sure. And that was it.

MR. BRENNER: And are you sure one way or the other whether what you recall is the interview that's reflected here or whether that was another event?

THE WITNESS: I had a lot of interviews with Maria. I say a lot. I had six or seven interviews with Maria over time. One was in person at the office. One was at the studios. But I -- I think this was the -- I'm only aware of one I did for Business Week, and I think this is the one I think that she called me up and asked me some questions. You didn't point out the other paragraphs that talk about my concern over housing and its impact on the economy.

BY MR. PUATHASNANON:

Q Do you think that those comments are relevant or significant with respect to any of the reasons in which

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you -- for which you sold stock?

A No.

Q I'm going to hand you what's been marked as Government Exhibit 566. It's a two-page document Bates-numbered CFC2007A481315 through 316. It is a single e-mail from Dan Tarman to senior management dated August 10th, 2007.

Do you recall providing comments to Bloomberg in August of 2007 relating to your stock sales?

(SEC Exhibit No. 566 was marked for identification.)

THE WITNESS: No.

BY MR. PUATHASNANON:

Q Do you have any reason to believe that you did not provide comments to Bloomberg? Setting aside whether the comments that are reflected in this e-mail are accurate or not.

A Well, I can't answer that question and the reason being that Jody Shen, Bloomberg, had many conversations with me and, in fact, was assigned to me when I was voted the banker of the year by the American Banker, and he spent 20 hours with me in a car as I went around to -- they wanted me to touch all the points of my life back grade school, and I did, and he was with me. And I don't know -- the reason why I raise that I don't know if this is a collection of stuff

659:1 I've said to him over a period of time or this -- I don't recall an interview relative to this. Whether or not he picked things out that I spoke to him about over a long period of time, I have no idea. I don't know.

Q And when you spoke to Mr. Shen, was it around 2007? When you say banker of the year, I believe that happened in 2006.

A I don't recall.

Q But you associate speaking to Mr. Shen around the time in which you were named banker of the year?

A That was one of the times. I spoke to him many times. My point being, Sam, is this. I don't know if this is an interview or that he went back on his notes and said, you know, I said this at one time, said this. I don't know. I don't have the answer to it.

Q Do you recall that in the summer of 2007 there was public criticism of your stock sales in general?

A I don't recall at that time. I think there was talk of my stock sales for a long period of time, from the time I started selling them. It was continuous.

Q Do you recall whether there was criticism in the summer of 2007?

A I don't recall specifically about the summer of 2007.

Q In reviewing this document, if you could focus on

660:1 the bottom part of the first page. It starts with "On the merits of such plans." And I believe in the context of this document it's a reference to 10(b)(5)(1) plans in general. Do you see that? It's the --

A I'm sorry. What -- I see it, yes.

Q And I think in the context of this -- this e-mail that the plans -- or that the reference there is to 10(b)(5)(1) plans. There is a quote that's attributed to you:

"Even if it might be minor insignificant, I know something shareholders don't know. You know, I know whether I feel sick or not."

Do you see that?

A Yeah.

Q Do you recall ever making that statement?

A No. I mean, I may have made it, but I don't even know what it means.

Q You have no understanding as you sit here today what that comment means?

A No.

Q Do you have any recollection --

A Well, I mean, I can see that, for example, if I'm sick, I know I'm sick but nobody else would know I'm sick. Does that have an effect on the company? You know, don't know.

661:1 And I think it's related -- if I put these two together, I would only -- and I'll venture into this, that I did a 10(b)(5)(1) plan for that reason, that I'm not picking a point in time where I'm selling all of my stock and that -- so that people wouldn't say, well, you knew something on that date that nobody else knew. This is a year contract, and over a period of time, you know, knowledge is dispersed to everything. I think that's the only reason I'd make a statement like that. The statement is out of context. I don't know what precedes it or what succeeds it.

It says:

"The only way a CEO, in my opinion, should sell shares as" --

And that would be the 10(b)(5)(1) plan. That's my opinion. It's the only way a CEO should sell shares.

Q And why is that?

A Because you're riding it out with the shareholders. What ever events happen to the shareholders over that period of time happen to you. Stock goes up, you benefit. If the stock goes down, you suffer the consequences of that, and I wanted to be in the same position as the shareholders. Otherwise, I could have simply sold all -- there was no law against me selling all of this at once in 2006, sell my entire position out. It was my choice not to do that, and it was my opinion -- I still hold that opinion -- that a CEO

662:1 should sell the -- their shares under a 10(b)(5)(1) so that as much information is out to the public that the CEO has the shareholders will have. And that's why they're established when they were established. Three or four days after the earnings everything is disclosed. I think that's the proper way to do it.

Q Does that assume that information that is known by a CEO or senior management is disclosed? I mean, that is the assumption that you're making, is that correct?

A Material information.

Q Fair enough.

A Information that would materially impact the value of the company or the value of the shares, yes.

Q Would you agree that if an executive was in possession of material, non-public information at the time it executed a plan, that that might not be permissible?

A That's correct.

Q So when you say that the only -- that it's your belief that the only way a CEO should sell their stock is through a 10(b)(5)(1) plan, you are making the assumption that all material non-public information would then be disclosed?

A To the best of the CEO's knowledge.

Q In connection with your plans, did you ever contemplate -- strike that.

663:1 In connection with any of the plans that you executed, did you ever contemplate terminating the plans before they reached the expiration?

A Only one time.

Q When was that?

A It was as a result of a memo I received from Henry Cisneros laying out the shares -- my shares that we sold in the cleanup provision, 20 percent per day for five days. I was unaware of it until he handed me this, and because the stock had dropped so significantly and because I had stopped the sales at $29 or $28 a share, all of the stuff backed up and cumulated.

MR. McLUCAS: Just for the record, you know this has all been covered in prior testimony and questions, and if you want to refresh his recollection or go back to anything he said, fine, but these questions were all asked I believe, and there's been testimony on this point.

MR. PUATHASNANON: On this particular issue, yes, but, again --

MR. McLUCAS: On this issue.

MR. PUATHASNANON: On the issue that he just testified to.

MR. McLUCAS: Exactly.

MR. PUATHASNANON: But in terms of the question, the question that I asked was much broader than just simply

664:1 this one event.

THE WITNESS: There's only one event.

BY MR. PUATHASNANON:

Q Well, the only time that you may have -- you've testified that you considered that event. What I'm asking is were there any other times. I asked it in a general broad way.

A No. Not to my recollection.

Q And so with respect to the stock sales that you're talking about, I'm going to hand you what's been marked as Government Exhibit 567. And the event that you're referring to, is that the event that's in the press release in Government Exhibit 567 or the stock sales in question?

(SEC Exhibit No. 567 was marked for identification.)

A Well, I -- you know --

MR. BRENNER: There's no question.

MR. PUATHASNANON: There was. It was not a great question, but there was a question.

BY MR. PUATHASNANON:

Q You refer to stock sales over a five-day period as the event that may have -- in which you considered terminating the plan. Is that the five-day period that's reflected in Government Exhibit 567?

A I believe so.

665:1

Q Okay. So this press release relates to the same event that you're referring to?

A That's correct. I don't believe those sales ever took place.

Q And I'm not saying one way or the other that they did take place. I'm just asking for the time in which -- or the times in which you may have considered terminating the plan in advance of its --

A Let me just walk you through it. I was given this memo. I looked at the numbers. They were high. I said let me see if I can terminate the plan. I spoke with three separate counsel, and it was their collective opinion that to the extent that you do something like that, the SEC could invalidate the entire plan and undo the entire plan, and I said, well, then the only -- I believe then let's let the public know what's going to happen here, but it never happened because the stock went below the strike price and nothing ever happened. That's my recollection of the series of events that took place.

Q And in that recollection, are you -- and I think this is what you meant to say, but did you say that it was your idea to issue the press release with respect to what was happening?

A I believe so. I think that I was concerned about it and -- and I felt I had an obligation to the shareholders

666:1 as well as the board.

Q I'm handing you what's been marked as Government's Exhibit 568. It's a single page containing two e-mails Bates-numbered CFC2007A370243. The most recent e-mail is from Mr. Mozilo to Eric Sieracki with a copy to Stan Kurland, Dave Sambol, John McMurray. It's dated April 19th, 2006. The subject line is Keith Russell.

(SEC Exhibit No. 568 was marked for identification.)

A You're talking about the top part of it or --

Q Please look at both. I'm just identifying for the record.

A Mm-hmm.

Q Do you recall this e-mail?

A No.

Q Do you recall the project that you attribute to Mr. Kurland relating to the assessment of risk?

A I attribute it to Eric Sieracki, copy to Mr. Kurland.

Q I'm sorry. Well, I'm just -- it says on the first line "In speaking to Stan, he referred to an additional project."

A Right.

Q Do you recall the project that you're referring to there?

A I don't recall it. I only go based upon what the memo says, that the project involved assessing these risks.

Q And you have no other recollection about that project other than what you see in this e-mail?

A None.

Q Was Countrywide constantly assessing the risks that are listed in numbers 1 through 7? Was that an ongoing --

A I believe so because I believe that was a Fed -- we were regulated by the Fed. I think that that was one of the Fed requirements. Also I refer to rating agencies. I believe they were just a continuous assessment of these risks. This is fundamental to the business we're in.

Q Do you know whether this project or other projects like it generated reports or documents that discussed these risks?

A Frankly, I don't know how you would assess these risks without documenting them. So I just assume documents are created through the credit risk division and the CFO and COO in that case was Stan Kurland. This was April of '06, yeah.

Q Did you ever review documents relating to risks or reports related to risks?

A Not specific documents. These issues were covered at board meetings. But I don't recall any specific documentation.

668

Q Handing you what's marked as Government Exhibit 569. It's a single page, Bates-numbered CFC2007A, as in "apple," 471242. It contains three e-mails, the most recent dated August 24, 2006 from Eric Sieracki to Angelo Mozilo.

Mr. Mozilo, did you receive information relating to quarterly earnings estimates such as like what you've received from Mr. Sieracki here?

(SEC Exhibit No. 569 was marked for identification.)

A I did either verbally or -- mostly verbally.

Q Was that something that you asked for or was that something that was reported to you simply because others thought it was appropriate?

A Because the latter.

Q Because others thought it was appropriate?

A Right.

Q Looking at the e-mail in the middle of the page from you to Mr. Sieracki, it says:

"I already spoke to Dave. We have to get together to study all of our alternatives."

Do you see that?

A Mm-hmm.

Q First of all, do you know what the --

Who Dave is that you're referring to?

669:1 A I would assume Dave Sambol.

Q And what do you mean or what are you referring to when you say "We will have to get together to study all of our alternatives?"

A It can cover a variety of issues. One is disclosure. The other might be the -- reviewing the balance sheet, reviewing our ability to sell assets, to -- there's a whole bunch of things that you have to look at before you put out earnings to the public to make sure that you've covered all your bases. I assume that's what I meant.

Q Does -- if you look at the e-mail from Mr. Sieracki at the bottom of the page with a copy to Mr. Sambol, is there anything in that e-mail in the two paragraphs that would help you identify issues or what you're referring to by saying study all of our alternatives?

A Well, he says here we've identified a .13 cent potential upward adjustment. The biggest item would be to sell loans originally earmarked for being portfolioed but they were not yet portfolioed at the bank. I don't know what that seven cents means. This would result in a pro forma APS of a dollar seven for information purposes only. And so that was his suggestion, and I think we had to get together to discuss what we're going to do here.

Q Was that -- and these would be issues that you'd be involved in?

670:1 A Once the team -- I mean, I relied heavily upon our financial team to make certain that we've covered all our bases, that we're reporting properly, and that's what I assumed, yes.

Q Is there anything in that e-mail that would have caused you concern at the time that the e-mail was sent?

A Any time you have, you know, a downward adjustment. I'm given time to time what the expectations are for earnings. The board wants to know, and then you have a -- a downward adjustment. That's a concern. It's not something that I look forward to. I have to deal with it.

MR. McLUCAS: When it's convenient, if you want to take a two-minute break.

MR. PUATHASNANON: If you wouldn't mind, I'll just finish with this document, and then we can take a break.

BY MR. PUATHASNANON:

Q Mr. Mozilo, I'm handing you what's been marked as Government Exhibit 570. It's a single-page document Bates-numbered CFC2007A3715 -- I'm sorry -- 371959. The most recent e-mail is from Angelo Mozilo dated December 4, 2006 to M. Daugherty@DFG-companies.com@CWexternal.

(SEC Exhibit No. 570 was marked for identification.)

A Mm-hmm.

671:1 Q Mr. Mozilo, first of all, who is the person at the e-mail address that I just read off?

A Which one?

Q M. Daugherty.

A Yeah, Michael Daugherty.

Q Michael Daugherty was a member of the board in --

A That's correct.

Q -- December of '06, is that right?

A That's correct.

Q The subject of these e-mails is special committee. Do you have an understanding as to what that's referring to?

A I'd have to be called as -- to be honest with you, I don't -- the term is familiar to me, but I don't recall why the special committee was formed. I'd have to make an assumption.

Q What would that assumption be?

A Well, I'm looking at the memo. The memo talks about these V.C. guys, venture capital, and there was a period of time -- but this is really a -- because I don't remember the connection with the special committee, but that a variety of the -- of private equity guys -- private equity people came in and had an interest in Countrywide, and there was a -- and that's why the committee may have been formed, to deal with that issue, but nothing ever came from it.

Q When you say nothing, there was no relationship

672:1 developed with the venture capitalists?
A No. No. And the reason -- the reason was that it just -- it didn't -- it was -- we were not the kind of company that would have benefitted. In fact, we would have been disbenefited from a relationship with the private equity companies.
Q The first paragraph at the top of the page there's a sentence in the third line that says:
"Obviously if this makes sense and to make it viable, senior management has to buy in."
Do you see that?
A Right.
Q Do you have any idea what the it refers to?
A What the what refers to?
Q It.
A Give it some time?
Q I'm sorry. No. The third line which begins "Obviously."
A Yes.
Q If this makes -- if this makes sense and to make it viable.
A I think it was for them to -- I'd be concerned about December of '06 we were still doing quite well, very well, and whether it was them or Wells or anybody else coming to talk about an acquisition or a major investment in

Countrywide, I'd had the buy-in of senior management because all Countrywide was was a collection of intellectual assets. We had no hard assets. And so that's -- anything I ever did in that regard or entertained in that regard I had to have a buy-in from the management team. Otherwise, I couldn't do it. I understand that's what I was talking about.

MR. PUATHASNANON: Okay. Let's go off the record. It's 10:47.

(A brief recess was taken.)

MS. DEAN: Okay. We're back on the record.

BY MS. DEAN:

Q Mr. Mozilo, I wanted to hand you what's been marked as Exhibit 571. 571, for the record, is a two-page document. It's Bates-stamped CFC2007A363617 through 618, and it's an e-mail from Angelo Mozilo to Michael Daugherty dated December 7, 2006.

Mr. Mozilo, have you ever seen what has now been marked as Exhibit 571 before?

(SEC Exhibit No. 571 was marked for identification.)

A I don't recall seeing it.

Q You don't recall?

A No.

Q Okay. Do you have any reason to believe you didn't send this e-mail?

A No, I have no reason to believe I didn't send it.

Q All right. Mr. Puathasnanon just asked you about Exhibit 570 which contained a discussion about a special committee, and this particular e-mail refers to a meeting that you had with Goldman to discuss what you characterize here as a buyout issue. Does that in any way refresh your recollection with respect to what Exhibit 570 may have been referring to?

A I think this goes back to the issue that I discussed before, and that is that we had a series of inquiries from private equity companies, as I recall, particularly after the Sally Mae deal was done by Flowers, and there was inquiries as to whether or not we'd even consider going private, a buyout. And Goldman had been our advisor for many years, and they were under contract, and I think that's probably what I did is I went to see him and talk to him or whatever about it to get advice on behalf of the shareholders as to what the right thing to do here was.

Q Were you actually soliciting buyout offers in December of 2006?

A No.

Q Okay. So these were all venture capitalists and others who had approached you?

A Correct.

Q One of the things that you write in this e-mail to

675:1 Mr. Daugherty is that:

"Going private will save the company tens if not hundreds of millions of dollars a year, plus permit management to focus on the real business rather than nonsense."

Do you see that?

A Right.

Q What did you mean by that?

A Well, because a lot of what we do as a public company is issues relative to media, being a public company, the tax, dealing with other issues that are only related to public companies and that clearly as a private company I think anybody -- well, as a private company we'd have none of that. We'd be strictly focused on our business.

The reality was that we couldn't function as a private company.

Q You mentioned that before. Why couldn't Countrywide function as a private company?

A Because the nature of our business as a financial intermediary is that we require liquidity in funding. The only source of that funding is by being public, for our size. We've borrowed billions of dollars in commercial paper, billions of dollars in medium term notes, billions of dollars in repo lines all over the world, and also access to equity, access to capital when needed, and because the size and scope

676:1 and nature of our company that originated $400 billion a year in business that we -- there's no way as a private company we could do that in reality. I mean, it was something that I think I had a responsibility to entertain. Because of the Sallie Mae deal they were trying to say that they could do this, so I went through the process.

Q You say that you were planning a meeting with management to get input. Did you, in fact, have a meeting with the senior management of Countrywide to discuss a potential buy-out?

A I couldn't tell you specifically the day or time and meetings, but I know I discussed it with -- with Dave Sambol and Eric Sieracki and Carlos Garcia, probably the most affected people I would really rely upon to do this and whose advice I respected.

Q Were you, in fact, advocating for a buy-out at this point in time?

A I was not -- I don't know if I was advocating it. I was advocating that we consider it and determine whether or not it's in the best interest of the shareholders to go a different route.

Q Did you have an opinion yourself as of December 7, 2006 whether going private would be a good idea?

A I don't remember the way I felt on December 7.

Q With respect to the comment about focusing on real business rather than nonsense, you identified some things that you considered to be nonsense such as dealing with the media. Were you also thinking about regulatory issues?

A No, because we're a bank. So we still had regulatory issues. So, no, it wasn't anything about that. It's all the peripheral stuff as a public company that you have to deal with. There's an enormous amount of effort, and I wouldn't put this in the classification of nonsense but dealing with analysts and the amount of allocation of executive time in dealing with both fixed income as well as equity analysts and the amount of expense involved in putting on these events to bring them up to date as to where we are. So that's my all-encompassing work, just something that is not originating a loan, servicing a loan, selling a loan.

Q And those things you just identified, originating, servicing, and selling, those are what you would have considered real business?

A That's real business. That's what we do.

Q Well, let's change the subject completely. Can you tell me what your understanding was of the process by which Countrywide prepared its periodic filings with the SEC, and by that I mean the 10-Qs and the 10-Ks?

A These are not necessarily in order of importance nor encompasses the entire process, but the -- the people involved were obviously our financial team, our CFO, our COO, our bank management as the bank became a large portion of the company, our in-house counsel, and a certification process whereby -- which required that all certifications from section 16 and others, I believe others, were required to provide me with an all-encompassing certification relative to their knowledge of any event that is material that would impact the company. Those certifications would come to our in-house counsel, I believe Susan Bow. She was there when Sarbanes-Oxley was passed, and she would inform me when all of the certifications were in and whether or not there were any issues with those certifications, and based upon that I would sign off.

The board -- the audit committee, the entire board, the finance committee and the entire board as well as the KPMG were also involved in the process. We then had a -- initially we had an all-hands meeting. In fact, I required all the people signing the certification to come into the central office so I could ask them personally whether they knew of anything. We found that process to be not advisable because we spent a lot of money bringing them in, and there was never any -- after three or four times doing this, it was decided by counsel that we could do this another way, and we did it by them sending out certification and then sending it directly to counsel.

We then have a -- a quarterly earnings meeting

679:1 where the -- myself and the COO and the CFO and counsel were present at that meeting. There were some board members that were present at the earnings call, but all of them aren't done telephonically. Some were physically present as they live in the neighborhood, and we review all the numbers with them, answer any and all of their questions before any press release was put out, sent out the press release to each of the board members for their input and approval. Once that was all done, then a press release went out.

We then had a second meeting -- had that meeting, by the way, where the KPMG -- the question to KPMG is there anything here that the board should know about or I should know about that has not been disclosed in the financials, and obviously the answer was always no, we have vetted everything out. And we then had a -- subsequent to that we had a press release issued. We had a -- I'm not sure at what point the 10-Q and then ultimately the 10-Ks were reviewed, but we did -- there was -- I know for the 10-K all members had to be present for the review of the 10-K. I think at the quarterly meetings for the board I think the 10-Q was addressed. They went through it. All those documents were sent to each of the board members for their review and comment. Any comments they had were taken into account and put into the 10-Q and 10-K when appropriate. Counsel made those decisions. And then a -- the timing was very tight here. Then a meeting was

680:1 held with the -- with the analysts right after the earnings went out, but we discussed the -- in analyst call the basis for the earnings or not earnings or, you know, whatever the financials indicated and answered without -- I believe without ever putting a time limit on the analyst to answer any questions they wanted.

I think that's sort of my recollection of the process.

Q Okay. Thank you. Let me just try to unpack that a little. It's a lot of information.

A Okay.

Q So in terms of actually drafting the 10-Qs and the 10-Ks, that was done by the finance reporting team in the finance department based on input from the various divisions, is that right?

A The financial reporting team with the investor relations team I believe were involved in that process, drafting the 10-Q and 10-K, which include the CFO, as well as when Stan Kurland was there, he was intimately involved with it. Dave Sambol's term was as relatively short term as COO after David, but I know Stan was involved, and I believe Dave when he took Stan's position was involved in the process.

Q At what point in the process of drafting the K or the Q would you actually get a draft? Was it after the earnings meeting or was it during the earnings meeting?

681:1 A I don't recall when. I know I received drafts, and if I recall correctly, it was an iterative process as the board had input and other people had input. So I think it was not just one draft. It may have been a series of drafts. I don't know at what point I received it but obviously before a final -- I ultimately receive a final draft.

Q Well, did you get it before Susan Bow told you that all the certifications were in or did you review it post-certification?

A I don't -- I don't recall.

Q Okay. You said that there was -- at some point in time you had had an all-hands meeting where you actually had people come in and tell you if they knew of anything that was material and should be disclosed and then you discontinued that. Do you know when you discontinued that?

A I don't know when we discontinued that.

Q Would it have been in 2006?

A I don't know.

Q Okay. And by -- can you explain what you mean by all-hands?

A Well, it was whoever the -- the legal team had identified under Sarbanes-Oxley who would have to certify, it was that team.

Q Okay. So the certifiers?

A Certifiers.

682:1

Q Okay. You said there was a quarterly earnings meeting. Was that a separate meeting from the all-hands meeting that you described with the certifiers?

A Yes. The meeting for the certifiers was strictly for them, do you know anything of a material nature that should be included in our disclosures.

Q So by the time the quarterly earnings meeting happened, you'd already either had that meeting or you'd gotten the certifications?

A We'd received the certifications, correct.

Q Okay.

A I was told the certifications were in.

Q Okay. Because legal collected them and then they just in turn told you?

A Sure.

Q Were you ever told by Susan Bow or anyone else in legal that there was an issue with respect to certification of any of the Qs or Ks? And let's limit it to 2005 to the end of 2006.

A I don't recall ever being told any issue with any certifications at any time.

Q Did you ever have any conversations with John McMurray where he indicated to you that he didn't think all of his comments were making it into the periodic filing?

A No.

683:1 Q Did anyone -- I'm trying to be careful not to --
A That's a serious accusation. I have never -- you know, never any -- no.
Q Okay. So Mr. McMurray never told you that, and you never heard that from anyone else?
A Never.
Q Okay.
A Just from you right now. I'm stunned.
Q You said in-house counsel was involved in the preparation of the Qs and Ks. Was there a disclosure committee?
A Not that I recall. You mean a name of a committee called a disclosure committee? No. I don't believe so.
Q To your knowledge, were there particular divisions within the in-house legal department who worked on the Qs and Ks?
A My answer to that would be I'm sure they were, but I don't know who they were. It was a fairly large department.
Q You said that after the press release went out you referenced a 10-K review where you said all members had to be present for the review. Was that an actual meeting?
A On the 10-K we referred to -- and this goes back many years -- the board had a full meeting of the entire board present reviewing the 10-K. And that was started many

684:1 years ago by Ed Heller who was on our board.

Q And that was a separate meeting from the quarterly earnings relief meeting?

A Separate meeting, 10-K meeting.

Q And with respect to the Qs, was there a similar meeting for the 10-Qs?

A I don't recall a separate meeting. I know the 10-Qs went out to each of the board members, and I believe the issues -- I believe issues were covered at the quarterly board meetings I believe, but I know there was a separate 10-K meeting because that was something that was new to Countrywide back whenever we started.

Q One of the things that you told me in the kind of long narrative answer, you said that one of the committees of the board that looked at the 10-Qs and the 10-Ks was the finance committee. Did the audit committee also --

A The audit committee, yeah. The audit committee was the primary committee, and I believe the finance committee was involved as well.

Q At any of the quarterly earnings meetings that you attended, was there ever any discussion about the need for additional disclosure with respect to credit risk?

A Say that again.

Q At any of the quarterly earnings meetings -- again, let's limit it to 2005 to the end of 2007. At any of those

685:1 quarterly earnings meetings, do you recall any discussion about whether or not Countrywide should be making additional disclosures about its credit risk?

A I don't recall.

Q Do you recall any discussion about whether or not Countrywide should be making additional disclosures about its credit risk at any 10-K review meeting in either 2005, 2006 or 2007?

A I don't recall.

Q I'm handing you now what has previously been marked as Exhibit 194. I regret I am short of copies. This is a copy of the Form 10-Q for Countrywide Financial Corporation for the year ended March 31st, 2005, and, Mr. Mozilo, have you ever seen Exhibit 194 before?

(SEC Exhibit No. 194 was referred to.)

A You said 10-Q for the year ending?

Q I'm sorry. For the period ending March 31st, 2005.

A Okay.

Q Have you ever seen Exhibit 194 before?

A Frankly, I've seen all the 10-Q's.

Q Okay. And did you have any role in the preparation of this particular 10-Q?

A No.

Q Okay. And did you have any role in the review of this particular 10-Q?

686:1 A When you say role in review, I mean, I reviewed it. I reviewed only aspects of it because I'm not an accountant or a lawyer. But I reviewed, to my recollection, most of the MD and A portion of the 10-Qs.

MR. BRENNER: And just to make clear, are you talking about your general practice or do you have a specific recollection concerning this 10-Q?

THE WITNESS: No, I don't.

BY MS. DEAN:

Q Okay. So you don't have a specific recall of the first quarter of March 2005, but as a general rule, your practice was to review the MD and A section?

A Generally, yeah.

Q Okay. Let me ask you to turn to page 30 of Exhibit 194. Actually, I'm sorry, page 34 of Exhibit 194, which there's two numbering schemes on this document. At the top of the page it's page 38 of 65, and then the actual page number of the document is 34. So --

MR. BRENNER: Which page are you referring to?

MS. DEAN: It's the same -- I'm referring to the bottom of the page, page 34.

THE WITNESS: Oh.

BY MS. DEAN:

Q This is in the MD and A section of the document. It actually is a discussion of the loan production sector of

687:1 the company, and there's a disclosure just below the table that sets out loans by purpose and interest rate type having to do with the percentage of loans that were adjustable rate versus fixed rate.

A Mm-hmm.

Q Did you review this particular portion of the 10-Q?

A I don't recall doing it, no.

Q Do you know why Countrywide was making a disclosure about the percentage of its loans that were adjustable rate versus fixed rate in this particular 10-Q?

A No, I do not.

Q Do you recall any discussion about that subject in connection with the preparation of this 10-Q?

A No.

Q In connection with preparation of the Form 10-Q for the period ended March 31st, 2005, do you recall participating in any discussion about whether or not Countrywide should be making additional disclosures about the composition of the bank's hold for investment portfolio?

A No.

Q In connection with preparation of the 10-Q for March 31st, 2005, do you recall participating in any discussion with respect to whether or not Countrywide should be making additional disclosures about the percentage of Alt A loans it was originating?

A No.

Q Do you recall participating in any discussion in connection with the preparation of the Form 10-Q for March 31st, 2005 about whether Countrywide should be disclosing the percentage of reduced documentation or stated income loans it was producing?

A No.

Q Do you recall any discussion in connection with the preparation of the 10-Q for March 31st, 2005 of whether Countrywide should be making additional disclosures about the percentage of loans it was originating with loans to value ratios of 95 percent or higher?

A No.

Q Do you recall in connection with the preparation of the Form 10-Q for the period ended March 31st, 2005 any discussion about whether or not Countrywide should be making additional disclosures about the percentage of loans it was originating that were -- had piggyback seconds?

A No.

Q And do you recall participating in any discussion with respect to the preparation of the 10-Q for the period ended March 31st, 2005 about whether or not Countrywide should be making disclosures about the percentage of loans it was originating that had layered risk characteristics?

A No.

689:1 Q Did you consider the -- did you consider the composition of the bank's held for investment portfolio to be material information to the shareholders at the end of the first quarter of 2005?

A I don't even recall even addressing that issue or thinking about that issue.

Q Okay. The disclosure on page 34 that I just referred you to actually has a -- it actually discloses that Countrywide was making pay option adjustable rate mortgages, but there's no discussion about any detail about what that particular loan type is. Do you recall participating in any discussion in conjunction with the preparation of the March 31st, 2005 10-Q about whether additional information should be disclosed about the -- the futures of the pay option ARM loan?

A No.

Q I'm handing you now what has previously been marked as Exhibit 195. 195 is a copy of the 10-Q for the period ended June 30, 2005 for Countrywide Financial Corporation. Have you ever seen Exhibit 195 before?

(SEC Exhibit No. 195 was referred to.)

A I think I've said I think at some point I've seen each 10-Q. I've seen the face of each 10-Q.

Q Would you have reviewed this particular 10-Q before it was filed?

690:1 A We reviewed the MD and A portion, most probably reviewed that portion of it.

Q Okay. And then you would have signed the 10-Q as well, is that right?

A That's required of me, yes. I would have signed it if it's required.

Q Well, actually, if you turn to the second-to-the-last page of Exhibit 195, there's a Sarbanes-Oxley certification there which indicates it was signed by Angelo Mozilo as the chief executive officer of Countrywide.

MR. BRENNER: What page?

MS. DEAN: Second-to-the-last page, so Exhibit -- I'm sorry. It's Exhibit 32.1

THE WITNESS: 32.2, it goes 31.2, 32.2.

BY MS. DEAN:

Q Oh. Well, the original actually has all the pages and mine does. I'm sorry about that, but this copy, page -- Exhibit 32.1 is the certification under Sarbanes-Oxley that indicates that it was signed by Angelo Mozilo. Do you recall certifying the contents of this particular 10-Q?

A No.

Q Do you have any reason to believe you didn't?

A That's not my signature, but I assume that's -- I

691:1 don't know how they do this.

Q It's an electronic signature. I mean, do you have any reason to believe that you didn't certify this particular 10-Q?

A No. I'm required to certify. I'm sure I did.

Q If you turn to page 30 of Exhibit 195, it's page 34 of 81 at the top of the page, in the loan production discussion which is part of the MD and A section of this particular 10-Q, there is some additional disclosure with respect to the pay option ARMs. It starts in the second half of the page. And there is disclosure about the percentage of loan production which is devoted to pay option ARMs, and there is also a discussion about the monthly payment options that are available to borrowers on pay option ARM loans.

Do you recall reviewing this particular portion of Exhibit 195?

A No.

Q Do you recall any discussion in connection with the preparation of this particular 10-Q about inclusion of that disclosure or the need to include that disclosure?

A No.

Q If you'd turn to page 39 of Exhibit 195, it's the page 43 of 81, on the top numbering scheme.

A On this number scheme?

Q That number scheme it's page 43 of 81. This is

692:1 a -- there is a disclosure that starts in the middle of the page with the phrase "Treasury Bank," and it's the disclosure about the bank's investment in pay option ARM loans. This is also a new disclosure for this particular quarter, and it includes a table which shows the total dollar amount of the bank's pay option portfolio as well as the dollar amount of negative amortization by principal and by accumulated interest. Do you know if you reviewed this portion of the 10-Q?

A No, I don't.

Q Do you recall participating in any discussion in preparation of the 10-Q for the period ended June 30, 2005 about the need to include this particular disclosure?

A No, I don't.

Q And in conjunction with the preparation of the 10-Q for the period ended June 30, 2005, do you recall participating in any discussion about the need for additional disclosure with respect to credit risk at Countrywide?

A No.

Q And do you recall participating in any discussion in preparation for the filing of the 10-Q for the period ended June 30th, 2005 about the need to disclose the percentage of Alt A loans that the bank was originating?

A No.

Q Do you recall participating in any discussion in conjunction with the filing of the 10-Q for the period ended June 30, 2005 of the need to disclose the percentage of reduced documentation or stated income loans the bank was producing?

A No.

Q And actually, with respect to the last two questions, I said bank, and I really should have said Countrywide. So the question stands with respect to originations by either CHL or the bank, was there any discussion about the need to disclose those particular types of loans?

A No.

Q And was there any need to -- was there any discussion about whether or not Countrywide should be making additional disclosures with respect to the percentage of loans that had combined loan to values of 95 percent or greater or had piggyback seconds?

A No.

Q Was there any discussion in conjunction with the preparation of the 10-Q for the period ended June 30, 2005 of the need to disclose the percentage of loans that Countrywide was originating that had layered risk characteristics?

A Do I recall my participation, no.

Q Okay. Let me hand you what has previously been marked as Exhibit 840 -- I'm sorry. I gave you counsel's copy, Mr. Mozilo. If you can hand that to your counsel.

Exhibit 840, for the record, is Bates-stamped CFC2007I061392 through -394. The e-mail at the top of the first page is from Angelo Mozilo to Dave Sambol, Stan Kurland, and Carlos Garcia, and it's dated August 2nd, 2005.

Have you ever seen the document that has been marked as Exhibit 840 before?

(SEC Exhibit No. 840 was referred to.)

A I don't recall seeing it, but I have no reason to believe I didn't write it.

Q Okay. Let's just start at the back since that's actually the e-mail that started this particular chain. If you'd turn to the second page, bottom of the second page, which is the Bates stamp number ending in 1393, there's an e-mail from Angelo Mozilo to Carlos Garcia with a copy to Stan Kurland dated August 1st, 2005. And there's a discussion -- and the re line here is "Bank Assets." Is it your belief that you wrote this particular e-mail?

A It's my belief -- no reason to believe that I didn't write it.

Q Okay. You wrote to Mr. Garcia on August 1st, 2005 that you were becoming increasingly concerned about the environment surrounding the borrowers who are utilizing the pay option loan. Do you see that?

A Mm-hmm.

695:1 Q And then in the second paragraph you go on to elaborate on the concerns. You indicate that you believed that the company should never put a non-owner occupied pay option ARM on the bank's balance sheet. Why did you believe that in August of 2005?

A Well, my experience as an underwriter has been that there's a higher risk for non-occupant loans than there are for occupant loans, and I assume that's what drove this -- this comment.

Q So you're just generally speaking you believe to the non-owner-occupied or investment properties are at higher risk?

A I think that's generally believed in the industry, and that's why they're priced differently.

Q And then you go on to say in that same paragraph that you think the focus should be on FICO scores of 700 and above for the bank's portfolio, and then you explain that the reason for that is that when the loan resets, there will be an enormous payment shock. Do you see that?

A Mm-hmm. That's correct. I'm sorry.

Q Thank you. What difference would it make in terms of payment shock if -- what difference would the borrower's FICO score make in terms of payment shock?

A It says right here and if the borrower is not sufficiently sophisticated to truly understand the

696:1 consequences, that's the reason. And generally, generally, it's assumed -- not always true -- that the lower the FICO, the less sophistication.

Q But if the payment is going to -- if the payment resets, how will the sophistication of the borrower assist them in being able to deal with the payment shock?

A Well, the assumption is that the borrower understands what happens with a negative amortizing loan. Secondly, that at least it was my belief at the time that they will -- they had four options and they could modify that and moderate that shock, and it turns out I was dead wrong about everything because rates did not go up. Rates went down. And so plus the other aspect of it -- there's two things to make clear. The other aspect of it is I was totally unaware that we had the ability to modify these loans and to avoid a reset. I was under the belief that these loans would reset automatically and we had no power over it as the lender or as the servicer. I was wrong. I later found out that we had the ability under these agreements to leave the interest rate in place until such time as we could manage the person through the process. That's the first point I want to make.

The second point I want to make is just that we'll go through this over and over again with these e-mails. I have had a great amount of confidence in people who work for

697:1 me. The purpose of these e-mails, all of them, no matter how vitriolic they may have been, no matter how the number of hyperbole, the amount of hyperbole I used, were really designed to stimulate thinking, and that's why in most cases I ask please come back to me with your opinion. I relied heavily upon these very thoughtful people and smart people to come back to me on these issues. If they had taken every e-mail that I wrote and followed them, it would not have been the right thing for them to do, and so I always had the confidence when I was writing to them that these people with me over 25 years, they know my style. That they'll come back to me and say, "Angelo, you're right here and wrong here, and we're not going to do this and we're going to do that." That was the purpose, to create a dialogue.

So I just wanted to lay that on the table. I don't have to repeat that over and over again. But that was the purpose.

So here, when I say I only want 660, obviously, you know, that was trying to get them to move in a certain direction, which they did. The amount of pay options done over time decreased over time. We got out of the sub-prime business, got out of the sub-prime seconds, but not immediately upon me writing a memo. We worked our way through the process.

But I just wanted to make that point, that these were all written with the understanding I was dealing with smart, thoughtful people who would come back to me with either we agree or we disagree and this is why.

I'm sorry for that dissertation, but I just wanted to get that out.

Q No. Thank you. One of the things you say in this e-mail that I wanted -- another of the things you say that I wanted to ask you about, in the first sentence you say that you're increasingly concerned about the price level of real estate in general.

A Right.

Q And then on the next page, which is the page ending in Bates stamp number 1394, the last sentence of the first full paragraph there, the one that starts with "Frankly," you write:

"I feel strongly that over the next 12 months we are going to be facing one of the most difficult and challenging real estate and mortgage markets in decades."

Do you see that?

A I do.

Q So what was causing you to have those concerns in August of 2005?

A I -- the reason being I think I've been in this thing some 14 years. I've seen a lot, and I traveled the country 70 percent of the time. I was traveling around the

699:1 country, and there was more of hearing a piece of this and a piece of that and seeing values go up in Orlando, Florida, and I lived in Orlando at one stage in my live, and saw things that I had never seen before. And my responsibility -- I always thought my responsibility to the shareholders and to my people was to just tell them how I feel and provide some window to my instincts, and I can tell you that I was wrong a lot of times, but this was just one of those times. I just didn't -- things just didn't feel right. Although business was booming, builders were building houses, you know, at record paces, sales were at record pace, but there was -- I think that this was an incident that I was in Orlando and somebody came in and said they wanted to buy 10 condos. And I just -- my antenna went up, and I said there's something wrong here. But that was probably that mortgage broker from Troy, Michigan.

Q Well, I was going to ask you about that next. The second-to-the-last paragraph there you relate an anecdote about having talked to a mortgage broker in Michigan who told you that he does all of his business with Countrywide because he lives in an economically depressed area and the only way he can qualify borrowers is using the pay option ARM.

A Yeah.

Q Were you concerned that -- I mean, well, clearly you were concerned. You wrote this e-mail, but did you consider the fact that borrowers were getting into the pay option ARM loan that might not be able to handle the payment resets? Did that cause you to have concern about the --

A Well, I think that I wrote here -- I think I -- because I was unaware of that and this is when this guy thought he was telling me a nice thing. He was doing all his business with Countrywide, and we -- but the -- and so I, again, sent a warning out to my people to watch out for this. Now, eventually what happened is that the regulators became concerned and as a result sent out the joint agency guidelines, said you had to qualify everybody to a fully indexed rate, and that was it. That was -- and that's how the product began to dissipate.

Q Well, at this point in time in August of '05, was Countrywide qualifying its borrowers at the fully indexed rate?

A I'm not sure, don't know.

Q Well, given your misgivings about the real estate market in general and your concerns about possible abuses of pay option ARM loans, did you consider that those were factors that should be disclosed to investors?

A My feelings, facts -- what I feel has to be disclosed to investors are facts, what's happening in the company, what's happening to the company, not my, you know, I'm on a plane and I get frightened for a reason and I start disclosing that to investors and sort of use the investors as a psychology couch. No. I felt the way for me to vent this was through management, and I was wrong for a long period of time. 2005 was a banner year. 2006 was a fantastic year. Nothing was -- none of my fears were evident.

Q I just want to call your attention to the last e-mail in this string, which is the one at the top of the third page. It's August 2nd, 2005 from you to Dave Sambol, Stan Kurland, and Carlos Garcia. Mr. Sambol and Mr. Garcia had responded to your concern to the prior e-mails about being selective about putting things in the bank, and you responded back to them saying:

"By placing even at 50 percent into the bank, we have no idea what economic and reputational losses we will suffer."

Do you see that?

A Yes.

Q What did you mean by that?

A I'm trying to figure out -- you had the opportunity of reading the whole chain of events here.

Q And please take -- I don't mean to forestall you from doing the same.

A I want to see what they said to me.

Q Okay.

A Yeah. Well, Carlos is saying he's examining my

702:1 concerns, and he's going to take the necessary steps. Okay. So now, I'm sorry.

Q So you responded to their concerns by saying:

"By placing even at 50 percent into the bank, we have no idea what economic and reputational losses we will suffer."

A Yeah.

Q What did you mean by that?

A I don't know.

Q Were you talking about pay option ARM loans in general or were you talking about something else?

A I don't know. I think that the -- I think this was talking about investor loans, wasn't it? Isn't that --

Q Yeah, I mean, the chain of -- the general tenor of the prior e-mails has to do with loans made to pay option borrowers who were non-owner occupiers. So is this reference at the top of the page, does that have to do with placing pay option ARM loans made to non-owner occupiers into the bank's portfolio?

A I don't know. I don't know about anybody placing 50 percent into the bank. I don't know.

Q Okay.

A As you can see, I wrote a lot of e-mails. But this demonstrates the iterative process that I take management through and their reason why I should not be concerned.

703:1 Q I'm sorry. The mere reason why you should not be concerned?
A Yeah. This is the iterative process. No lending to investors in any market is a direction we are following. This was from Carlos Garcia. I didn't know that. Implementing immediately, without waiting on analysis or deliberation.
MR. BRENNER: I think you misheard what he said.
MS. DEAN: Yeah, I --
MR. BRENNER: He was saying he was asking these folks give me a reason why I shouldn't be concerned.
BY MS. DEAN:
Q Okay. That's -- I didn't understand what he was saying, but, okay, I appreciate that.
A I'm sorry.
Q Let me hand you what has previously been marked as Exhibit 196. It's a copy of the Form 10-Q for the period ended September 30, 2005. Mr. Mozilo, have you ever seen Exhibit 196 before?
(SEC Exhibit No. 196 was referred to.)
A As I said before, I've probably seen the exhibit since I get the 10-Qs.
Q And did you have any role in the preparation of Exhibit 196?
A No, I didn't.

704:1 Q Did you review Exhibit 196 prior to certifying it?
A I reviewed the parts that I understood, which is the MD and A.
Q And, in fact, did you certify Exhibit 196?
A If it has my signature there, I certify to it.
Q Okay. It's at -- if you look at Exhibit -- again, 32.1, it's the second-to-the-last page.
A Okay.
Q In conjunction with the preparation of the Form 10-Q for the period ended September 30, 2005, did you participate in any discussion with anyone at Countrywide about whether or not there should be additional disclosure with respect to credit risk?
A Not to my recollection.
Q If you'd turn to page 34 of Exhibit 196, it's the page 39 of 91, if you use the numbers at the top of the page. This is the second page of the MD and A section of the document, and there's a discussion about loan production here. It's essentially the same as the one from the prior quarter, but there is one new disclosure. If you look at the bottom paragraph of the page, there's a discussion about the loan quality of the pay option portfolio which includes statistics about the average credit rating and the loan to value and the combined loan to value of the pay option ARM loans in the bank's portfolio.

705:1 Did you have an opportunity -- did you, in fact, review that particular disclosure in conjunction --

A I don't recall.

Q -- with the preparation of this 10-Q?

A I'm sorry. I don't recall.

Q Okay. Do you recall any discussion about adding that particular disclosure?

A No, I don't recall.

Q Okay. If you'd turn to page 46 of the document, which is page 51 of 91 if you're using the numbers at the top of the page. This is a discussion again about the pay option portfolio that's held for investment at the bank. It actually starts at the bottom of page 45, and then there's a table that appears at the top of page 46 that has some information about the composition of the portfolio, including the total dollar amount of the portfolio and the dollar amount of the loans that are negatively amortizing, including the accrued negative amortization amounts.

There are a couple of new disclosures here that didn't appear in the prior Q. The first two are the ones we just talked about, which is CLTV and loan to value and FICO score, but then there's also a line item here for disclosure with respect to delinquencies. Did you happen to review this particular chart?

A No.

706:1

Q Did you participate in any discussion about the addition of the disclosure with respect to the percentage of the portfolio that was delinquent?

A No, I don't recall that.

Q Were you -- do you recall in this September 2005 time period did you have concerns about the delinquency trend in the pay option portfolio held for investment at the bank?

A I don't recall any concerns.

Q I know in -- okay.

A I mean, even if I looked at it, .09, .08, would I be concerned? No.

Q In conjunction with the preparation of the Form 10-Q for the period ended September 30, 2005, did you have any discussions with anyone at Countrywide about whether the percentage of loans being originated on a reduced documentation or stated income basis should be disclosed?

A I don't recall any of that.

Q In conjunction with the preparation of the Form 10-Q for the period ended September 30, 2005, do you recall participating in any discussion at Countrywide with respect to whether the percentage of Alt A loans being originated should be disclosed?

A No, I don't recall.

Q In conjunction with preparation of the Form 10-Q for the period ended September 30, 2005, do you recall participating in any discussion about whether the percentage of the loans being originated at loans to value or combined loans to value of 95 percent or greater should be disclosed?

A Not that I recall.

Q In conjunction with the preparation of the Form 10-Q for the period ended September 30th, 2005, do you recall participating in any discussion where the -- about whether the percentage of loans being originated with piggy-backed seconds should be disclosed?

A No, I don't recall.

Q And, finally, in conjunction with the preparation of the Form 10-Q for the period ended September 30, 2005, did you participate in any discussion about whether the percentage of loans being originated with layered risk characteristics should be disclosed?

A Did not.

Q I am handing you now what was previously marked as Exhibit 197, which is a copy of the Form 10-K for the period ended December 31st, 2007. I'm sorry -- December 31st, 2005.

(SEC Exhibit No. 197 was referred to.)

MR. BRENNER: You were just hoping it would be 2007.

BY MS. DEAN:

Q Mr. Mozilo, have you ever seen Exhibit 197 before?

A I believe I have.

708:1

Q And do you believe that you reviewed this document before it was finalized and filed with the Securities and Exchange Commission?

A I believe I went through the process with the rest of the board on certain aspects of the document that I understood.

Q Okay.

A We had a 10-K process, as I explained to you earlier.

Q And you said the process related to certain aspects of the document. Were there particular sections of the 10-K that you focused on in that process?

A The MD and A.

Q Okay. And did you, in fact, certify the 10-K for the period ended December 31st, 2005?

A You want to refer me to a page so I can --

Q Sure. It's the second-to-the-last page of the document. It's Exhibit 32.1 again.

A Yes.

Q And there's also a certification at Exhibit 31.1, which is the fifth-to-the-last page of the document.

A It's a certification, but it's -- there's no signature on it. The signature is on the last page.

Q Yeah, it's a two-page certification.

A Right. Got it.

709:1

Q So did you, in fact, certify the 10-K for the period ended December 31st, 2005?

A I did.

Q If you'd turn to -- and I will use the numbering scheme at the top of the page because this one printed out very strangely. So if you turn to page 6 of 225, this is in the MD and A section of --

A Mine's cut off here. So give me a second to figure out --

Q Oh, I'm sorry.

A Okay. Seven's here. Okay. Production?

Q Yes. This is in the MD and A section, and it's under the heading of loan production. There are some categories of types of loans, and there are four basic loan types identified, prime, prime home equity, non-prime, and commercial. Do you see that?

A I do.

Q Did you review this portion of the 10-K?

A I don't recall specifically reviewing it.

Q If I wanted to know -- if I wanted to find Alt A loans, which of these categories would an Alt A loan fall into for purposes of the reporting on this 10-K?

A I would -- based upon this, I would assume the prime mortgage loans.

Q Okay. Were Alt A loans considered to be prime mortgage loans?

A For the most part, yes. They were considered by us to be. I think we only did Alt A and prime. I'm not sure of that, whether we did sub-prime, but I -- I'm looking at the broad definition here. These are prime credit quality first lien mortgages secured by single family residences. It doesn't talk to the documentation. They're not being documented.

Q Okay. So to your -- and I don't know if I ever asked you this before, and I apologize if we're covering old ground. Is it your understanding that the distinction between a prime and a non-prime mortgage is based primarily on FICO score or is there some other --

A You asked me that question. To me it was primarily -- and I think in the industry looked at it as a FICO score based as the regulators did as well.

But as I look at this, I'm not sure about our Alt A in a sub-prime area to be honest with you. I'm not -- I just don't know.

Q So there might have been some. You just don't remember.

A Just don't know, yeah.

Q Okay. In fact, if you look at the paragraph immediately below those categories, the second-to-the-last sentence, the one that starts with some of the conventional

711:1 loans we produce, do you see that?
A Yeah.
Q It's on the right-hand side of the page.
A Okay.
Q Okay. There's an indication there that some of the conventional loans produced by Countrywide either are -- have loan amounts in excess of Fannie Mae or Freddie Mac loan limits or "otherwise do not meet Fannie Mae or Freddie Mac guidelines."
A Right.
Q To your knowledge, is that a reference to Alt A loans?
A No. That's a reference -- to me it would be a reference to secondary market. These are non-conforming loans that are sold into the secondary market, not sold --
Q Okay.
A I don't know, frankly, if Fannie and Freddie -- yes, I think they did, but I'm not sure.
Q So if you'd turn to page 28 of 225 -- actually, it's page 24 of the document.
A This page, yeah, because these are all cut off here.
Q There's a loan production table here, and the heading on the table reads "The following table presents our consolidated loan production by loan type for the periods

712:1 indicated."

Do you see that?

A I do.

Q And then it breaks out the production into conventional conforming, conventional non-conforming, non-prime, prime home equity, FHA/VA, and commercial real estate loans. Do you see that?

A I do.

Q Okay. Did you review this particular table?

A I don't recall.

Q Okay. Would this have been a part of the document that you would have looked at as part of your general practice in reviewing the case?

A No.

Q No?

A No.

Q Okay. In conjunction with the preparation of this particular 10-K, do you know if there was any discussion -- did you participate in any discussion about whether or not there should be an additional breakout that would indicate the percentage of Alt A loans that the company was originating?

A No, I don't recall participating in any discussion of that nature.

Q Did you participate in any discussion about whether

713:1 or not the company should make additional disclosure about the percentage of loans that it was originating that were based on reduced documentation or stated income?

A No.

Q In conjunction with preparation of this 10-K for year end 2005, did you participate in any discussion about whether the company should be making disclosures about the percentage of loans at 95 percent loan to value or greater?

A No.

Q Did you participate in any discussion in conjunction with the preparation of this 10-K for the year end 2005 about whether the company should be disclosing the percentage of its loans that were originated with piggyback seconds?

A Let me ask you this question. Some of these questions you're asking did I recall and some you're saying did you participate. Did you recall participating or did you -- and I don't recall participating in any of this.

Q Okay. Fair enough.

A So is there a different --

Q No.

A Okay.

Q It's the same question. What I'm trying to get at is did you -- as you sit here today, do you remember participating in any discussion along those lines?

714:1 A No, I do not.

Q Okay. And do you recall participating in any discussion in conjunction with the preparation and finalization of the 10-K for year end of 2005 about whether Countrywide should be making additional disclosures about the percentage of its loans that were originated with layered risk characteristics?

A No, I don't.

Q If you turn to -- it's page 56 and 57 of the document.

A This page, right?

Q Yeah, 60 of 225 for those of you -- at the bottom of page 56 there's a paragraph that starts Countrywide Bank increased, and it's the beginning of the pay option disclosure of the bank's held for investment portfolio. It's essentially the same as what was in the Q. I just wanted to ask you about the table on the second page. The delinquencies appear to have gone from .08 percent at year end 2004 to .22 percent at year end 2005. And I know that those are not big numbers in real terms, but were you concerned about the trend of the delinquencies from year over year?

A No. I think, as I testified several times before, that I receive I believe it was a monthly flash report. So I had these same numbers, and so these are very variable for any category loan.

Q On that same page there is also -- there are some statistics there again about the accumulated negative amortization, and negative amortization at year end 2004 on the banks held for investment portfolio was at 32.818 million, and at year end 2005 it was at 13.9 billion. Were you concerned about that particular trend at year end 2005?

A I had written and you presented to me a variety of memos in this regard to my management team about the negative amortization aspect. I can't tell you about this specific number. You know, this number doesn't seem to be right to me.

Q Why is that?

A If this total portfolio is 26 billion and the amount of negative am is 13 billion --

MR. BRENNER: I think it's loans -- principal balance.

BY MS. DEAN:

Q Yeah, let's make sure we're talking about the -- there's three line items here.

A It's the dollar amount of loans?

Q It's the dollar amount of loans that happen to be negatively amortizing.

A Oh, it's not the negative --

716:1 Q So I -- I'm sorry. My --
MR. BRENNER: Negative amortization is the next line.
BY MS. DEAN:
Q That was my mistake. So let me correct it. I read the wrong line item. You are right. The amount of negative amortization at year end '04 was actually $29,000, and it was at 74.7 million at year end '05.
A Right.
Q Did you find that trend concerning?
A I don't know if my memo started around this time, because I do get separate reports unrelated to this, but that the negative am portion of it was a concern of mine against the backdrop of not fully understanding -- well, assuming that rates were going to continue to go up, which they didn't, and they went down, and, secondly, that -- you know, that they'd be faced with this -- you know, with this payment shock issue. So that's the extent, but this -- these numbers are benign numbers.
MS. DEAN: Let's go off the record.
(Whereupon, a luncheon recess was taken.)
* * * * *
A F T E R N O O N S E S S I O N
MR. PUATHASNANON: Back on the record at 1:15.
BY MS. DEAN:

717:1 Q Mr. Mozilo, I'm going to hand you what has previously been marked as Exhibit 92. For the record, Exhibit 92 is a two-page e-mail string Bates-stamped CFC2007B008980 through 981. And I really just want to focus on the e-mail on the first page, which is from Angelo Mozilo to Eric Sieracki with some carbon copies to others, and it's dated April 13th, 2006.

Mr. Mozilo, have you ever seen the e-mail that's been marked as Exhibit 92?

(SEC Exhibit No. 92 was referred to.)

A Yes, I have.

Q Okay. And do you recall sending it?

A I do.

Q I think we talked the last time about the HSBC transaction a little bit, and what I wanted to ask you about with respect to this particular document is your bullet point number -- or your paragraph number 2, which is about halfway down in the e-mail that's dated April 13. You make the comment with respect to the HSBC loans, that the loans were originated through Countrywide's channels with serious disregard for process compliance with guidelines and irresponsible behavior relative to meeting time lines.

And I'm wondering if you can tell me what the basis for that statement was?

A The basis as I -- first of all, I was very angry

718:1 because the -- what this created was a loss to the company and one that was unexpected, unexpected loss. So I was extremely angry at this. And what I -- so there's a lot of hyperbole here, and I'll admit that, and the question has relative to --

Q It's just the basis for your statement that the loans were originated with disregard for process and compliance with guidelines.

A Okay. With time lines or guidelines?

Q I think you said guidelines, right.

A Guidelines, right. Well, the -- that was an initial reaction on my part. I really had no substantiation for it except for the one item relative to time lines because the reason for the buy-backs was not underwriting, was not -- to my knowledge, was not related to underwriting, not related to the quality of the loans, but related to the fact that document -- followup documentation was required to be sent to HSBC after they'd bought the loans. We had a certain time frame, time line in which these documents had to be delivered.

By not delivering those followup documents in that time line, they had the right to ask us to buy it back, and that was the -- that was the issue. But I had no basis other than just being very angry.

Q Well, if you look at the last paragraph of the e-mail, the one that starts with the phrase "Bottom line," the third sentence in that paragraph, you wrote:

"I have personally observed a serious lack of compliance within our origination system as it relates to documentation and generally as deterioration in the quality of loans originated versus the pricing of those loans."

A Right.

Q You see that?

A Right.

Q So what had you personally observed with respect to the lack of compliance with respect to documentation?

A I don't remember.

Q And what had you personally observed with respect to the deterioration in loan quality versus loan pricing?

A Well, it was a risk reward issue. I guess what I was saying here is that the pricing of the loans did not relate to the quality of the loans is what I was saying here. I don't know what my observation was, frankly.

Q Okay. So you don't -- as you sit here today, you're not -- you don't know what it was that you had personally observed that led you to that conclusion?

A No. This is sub-prime product I think you're talking about, right?

Q Yeah. The HSBC loans as I understood it were sub-prime seconds.

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A Sub-prime seconds, that was it. That was the issue. Again, you know, none of this stuff was written to get their attention. I don't know if you -- I think that Sambol responded to this.

Q I think we actually marked some of those the last time you were here. I just wanted to ask you about --

A Yeah. I don't remember. I just -- that was a little frustration.

Q Mr. Sambol (sic), I'm handing you now what has been marked as Exhibit 572.

(SEC Exhibit No. 572 was marked for identification.)

A Mr. Mozilo.

Q I'm sorry. You said Sambol and it stuck in my head. Mr. Mozilo, I'm handing you what has now been marked as Exhibit 572. It's a two-page e-mail Bates-stamped CFC2007B662722 through 723. The e-mail at the top of the first page is from Angelo Mozilo to Steve Bailey, with carbon copies to Stan Kurland, Dave Sambol, and Walter Smiechewicz, and it's dated April 20, 2006. And do you recall writing the e-mail that is at the top of Exhibit 572?

A I don't recall.

Q Do you have any reason to believe you didn't write it?

A No reason to believe I didn't write it.

721:1 Q This particular document we actually saw the bottom portion of this the last time you were here. It's pay option ARM delinquency report for the period ended February of '06. And you responded to that e-mail, and we looked at that the last time you were here. This is actually now an additional response to the same report.

A Additional response from me?

Q An additional response from you, yeah. It looks like you got the document from Mr. Bailey. You responded once, and then now you've responded again. So I just want to focus on the e-mail at the top because that's the only new information here.

You asked Mr. Bailey to prepare this delinquency report on a monthly basis and copy both Stan and Dave on it. And then you go on to say that you were looking for signs that the product, the pay option ARM, was becoming problematic.

Why were you looking for signs that the pay option loan was becoming problematic in April of 2006?

A For April -- that's my job, to look for problems.

Q Did you have any reason to believe that there were issues with respect to the pay option ARM loan in April of 2006?

A No. It was still a relatively new product, and you can see by the increased disclosures, you know, in the 10-Q's

722:1 and 10-K's it was becoming a significant product for us, start up with nothing and then kept on growing. And so as the product continued to become very popular with consumers and becoming a significant part of our bank portfolio, that I wanted to make sure that everybody was watching out for any danger signs here, and delinquency is your first danger sign, serious delinquencies.

Q And you actually cite two potential factors that would indicate cause for concern, and one of them is delinquencies, and the other one you cite in this e-mail is continued and accelerated buildup of negative amortization.

A Mm-hmm.

Q I think we talked about why that would be an issue the last time we were here. So my question to you is just at any point between the time you wrote this April 2006 e-mail and the end of 2007, did you observe what you would characterize as a continued and accelerated buildup of negative amortization in the pay option --

A I don't recall.

Q You don't remember that?

A Between this memo and 2007?

Q Right.

A I don't remember.

Q Do you recall being concerned about the buildup of negative amortization in --

A Yes. I think you have submitted before me many many e-mails of my -- to my management team about the buildup of negative am and my concerns over it.

Q I'm going to hand you now what has been previously marked as Exhibit 232. Exhibit 232 is a multiple-page document. It's Bates-stamped JPM001076 through 1088, and I will represent to you that you're not actually copied anywhere on this document, but I do want to ask you about it just generally.

The cover page here is a fax cover sheet, and the re line on the cover sheet reads "Executed docs, John McMurray," and the date is April 20, 2006. And then if you turn to the second page, there's a heading there, "10-Q business unit discussion and analysis for the quarter ended March 31st, 2006."

Have you ever seen a document in this particular format, this questionnaire?

(SEC Exhibit No. 232 was referred to.)

A No, I never saw this.

Q Okay. Is it -- was it your understanding that as part of the process for preparing the 10-Q's and the 10-K's that questionnaires were distributed to the heads of the various business units or in this case the credit risk function?

A No, I was unaware of that.

724:1 Q Okay. And that would not have been something that you would have received a copy of, is that right?
A No, I don't believe I received it. I've never seen it. I don't believe I've ever seen this document before.
Q Okay. this particular document is actually the questionnaire that was distributed to John McMurray in connection with the preparation for the 10-Q for the quarter ended March 31st, 2006. And I just wanted to call your attention to the comment that Mr. McMurray writes on the back page of the document. It's the one that's Bates-stamped 1088.
Mr. McMurray apparently returned this document to Jie Ling, who I understand works in the financial reporting group, and on the last page he wrote a note which is numbered 2, in which he says that he has had discussions with Greg Hendry and others about keeping language in this document.
Do you know who Greg Hendry was?
A I know the name.
Q Okay. Did you know that he worked in the financial reporting group, the SEC reporting group?
A No.
Q Okay. Mr. McMurray goes on to say there had been a recommendation from an officer of Countrywide Bank to remove or soften some of the language on credit risk. Was it

ever -- was it called to your attention in conjunction with the preparation for the 10-Q for the period ended March 31st, 2006 that there was a potential dispute between bank officials and Mr. McMurray with respect to the language regarding credit risk?

A No.

Q If there had been a dispute of this nature, would you have expected that to be escalated outside of the financial reporting group?

A First of all, they're sending -- he's sending these certifications each quarter. And I have an open door. He'd come in. He knew who I was. I knew who he was, and I had a good relationship with him. He had a form -- I had him at director's meetings. He had a form to discuss any of these issues and met with directors without me being present. None of -- the first time I'm seeing something like this. No.

Q Okay. So he never called it to your attention?

A Nobody ever did.

Q And nobody else at the company ever called it to your attention?

A No. And he was one of the certifiers, am I correct?

Q Yes. You know, I asked you if Mr. McMurray ever mentioned this issue to you. Did anyone at the bank ever convey to you that they thought there was too much disclosure

726:1 with respect to credit risk?

A Nobody ever.

Q Did they ever convey to you that they wanted to somehow soften the disclosure with respect to credit risk?

A No.

Q I am handing you now what's been previously marked as Exhibit 233. For the record, this is the Form 10-Q for the period ended March 31st, 2006. And I'll ask you have you ever seen Exhibit 233 before?

(SEC Exhibit No. 233 was referred to.)

A I'm sure I've seen it.

Q Okay. And would your role in its finalization have been as you described with respect to the other 10-Q's and 10-K's we've looked at?

A It was total reliance on the team to put it together.

Q Okay. So you got a draft of it which you certified after receiving certifications from the certifier and sub-certifier?

A I got a final I believe. I got a final of the 10-Q or 10-K. I think that's when I certified this. It would have been a draft I believe. So, anyway, when I got the final they said it's okay, and I got the certifications. I sat down with Susan Bow. Everything is all right. No issues. I peruse the MD and A to see if there's anything

727:1 that stood out in my mind, and then I signed it.

Q Okay. And, in fact, I think for this one -- we'll have to mark this document, 573.

I'm handing you what has been marked as Exhibit 573, which is a multiple-page document. It's a copy of a certification on the first page by Angelo Mozilo dated May 8, 2006 for the Form 10-Q for Countrywide Financial Corporation, and the last page is a certification pursuant to Sarbanes-Oxley, also dated May 8th, 2006. And the Bates stamp numbers are KPMG06QR1001000311 through 313.

Could you turn to the second page of Exhibit 573.

(SEC Exhibit No. 573 was marked for identification.)

A Yes.

Q Is that your signature, Mr. Mozilo?

A Yes, it is.

Q Okay. And then on the third page, is that also your signature?

A It is.

Q Okay. So you did, in fact, certify the Q for the period ended March 31st, 2006, is that right?

A That's correct.

Q If you could turn your attention to page 35 of Exhibit 233. This is the second page of the MD and A -- I'm sorry. We're back on the Q, 233, page 35. This is the

728:1 second page of the MD and A section, and, again, in this loan production section, the second paragraph of that subsection refers to the pay option ARMs. And the second sentence in that section reads:

"We view these loans as a profitable product that does not create disproportionate credit risk."

Do you see that?

A I do.

Q Did you agree with that statement at the time that this 10-Q was filed?

A At the time it was filed, yes.

Q If you'd turn to page 47 of the March 2006 10-Q. This is the discussion of the bank's hold for investment pay option portfolio that we've looked at previously, and there's just one change to the disclosure in the chart. In the three prior Qs that we've looked at and then the 10-K, the delinquency was loans delinquent 60 days or more. In this particular Q it's now reported as 90 days or more. Do you know why that change was made?

A No, I don't.

Q Were you a party to any discussions about making that particular change?

A I don't recall any discussions about that.

Q If you could turn back to Exhibit 232, which was the McMurray MD and A questionnaire.

A This is --

Q It's the first document I handed you, the one below the --

A This one, okay.

Q Yes. And if you could also turn to page 58 of the 10-Q, which is Exhibit 233. Attached to the questionnaire that Mr. McMurray filled out was the text of the 10-Q discussion about credit risk. So that's attached to Exhibit 232, and it starts on the page that ends in Bates stamp number 1079. So immediately below the paragraph numbered 9 of Exhibit 233, there's a text which is described as the discussion of the business unit from the December 31st, 2005 10-K, and Mr. McMurray was given the option to review that and draft proposed changes, and if you look through it, he doesn't actually line any of the material out, but if you look at the discussion of credit risk that starts on page 58 of Exhibit 233, several paragraphs of what Mr. McMurray reviewed do not actually appear --

MR. BRENNER: I think we're on different pages, because the page 58 we have is about market risk, not credit risk.

BY MS. DEAN:

Q Oh, I'm sorry. It is about -- it's -- if you look, they tie up. It's quantitative and qualitative disclosures about market risk in the Exhibit 232, and then that section

730:1 starts at page 58 of the 10-Q. Okay. They track each other right up until you get to page 60 of the 10-Q, which is under the heading credit risk management.

And at that point there are whole paragraphs of what was contained in Exhibit 232 that no longer appear in this 10-Q, starting with the discussion of sales of loans, reps and warranties on page 60, securitization credit recourse, portfolio lending activities, mortgage credit risk on page 61. The whole discussion about loans held for sale and counter party credit risk and loan servicing on page 62, that is all now -- all of the paragraphs that were contained in Exhibit 232 are now no longer in this 10-Q.

My only question to you is were you privy to any discussions about deleting items from the credit risk section of the 10-Q?

A No.

MR. McLUCAS: You're not saying the entire -- I'm not following because the caption does contain credit disclosure in paragraphs under this heading.

MS. DEAN: It does. You know, let's go off the record.

MR. McLUCAS: You're saying there's a difference between what's in that attachment to his questionnaire and what's in the actual Q?

MS. DEAN: No. Let's go -- yes, there is a difference between what's in the questionnaire and what's in the Q, and if we go off the record, I'll figure out exactly what paragraphs they are, and I'll put them in the record. So just give me a second. Let's go off the record.

(A brief recess was taken.)

MS. DEAN: So while we were off the record, we had a discussion with counsel, and essentially the point that I was trying to make, Mr. Mozilo, and I think you answered the question is there's text in the MD and A questionnaire that Mr. McMurray signed under the credit risk section that does not actually appear in the 10-Q for the period ended March 31st, 2006. And my question to you was just did you participate in any discussion about removing any text from the credit risk discussion in the 10-Q for the period ended March 31st, 2006?

THE WITNESS: No, I did not.

BY MS. DEAN:

Q And did anyone call to your attention the fact that information had been removed?

A No.

Q I conjunction with the finalization of the 10-Q for the period ended March 31st, 2006, did you participate in any discussion about whether there should be additional disclosure with respect to credit risk?

A No, I don't recall any additional discussion.

732:1

Q Did you participate in any discussion about whether there should be additional disclosure regarding the percentage of loans that Countrywide was originating based on a reduced documentation or stated income basis?

A I don't recall any conversation.

Q Did you participate in any conversation with respect to whether Countrywide should make additional disclosures with respect to the percentage of Alt A loans it was originating?

A No, I don't recall any.

Q In conjunction with the finalization of the 10-Q for the period ended March 31st, 2006, did you participate in any discussion about whether Countrywide should make additional disclosures about the percentage of loans originated at combined loan to value or loan to value of 95 percent or greater?

A No, I don't recall any conversation --

Q In conjunction with finalizing the March 2006 10-Q, did you participate in any discussion about whether Countrywide should make additional disclosures about the percentage of piggyback seconds it was originating?

A No, I didn't have any conversations of that nature.

Q And, in conjunction with the finalization of the 10-Q for the period ended March 31st, 2006, did you have any discussions with anyone about whether there should be

733:1 additional disclosure of the percentage of loans that were being originated based upon layered risk characteristics?

A No, I don't recall any conversation.

Q Mr. Mozilo, I'm handing you now what has been marked as Exhibit 574. This is a single-page e-mail string, and it's Bates-stamped CFC2007B061677. The e-mail at the top of the page is from Dave Sambol to Angelo Mozilo, and it's dated May 18th, 2006.

Mr. Mozilo, to your knowledge, did you receive the e-mail that's been marked as Exhibit 574?

(SEC Exhibit No. 574 was marked for identification.)

A It was written to me. I assume I received it.

Q And, to your knowledge, did you draft the e-mail contained below that, also dated May 18th, 2006, from Angelo Mozilo to David Sambol, Kevin Bartlett, Eric Sieracki?

A I believe I did.

Q Okay. I just wanted to ask you, this morning we were talking about pay options, and I think you told me that you did not think that the bank had the power to rewrite the loans. One of the suggestions you make here with respect to the balance sheet risk on the pay options is that these borrowers should be encouraged to refinance into interest only loans and that where appropriate the bank should forgive the prepayment penalty.

734:1 A Mm-hmm.

Q Do you know if that was actually done at Countrywide?

A The -- you made a statement that the -- what I was unaware of at the time was one that interest rates were not going to go higher, in fact, went lower. Going higher would exacerbate the negative amortization. And I was unaware that we were able to avoid a reset where appropriate when they couldn't afford it, and modify these loans.

Q Without actually having to refinance the borrower?

A Without having to refinance. I was unaware of that. And so it was against that backdrop.

Now, in terms of refinance, I believe that in working with Steve Bailey that I believe in the monthly statements that went out that -- two things. One is that they -- I think they were encouraged there to refi or tell them if we had refi -- refis available to them, but I think also they were called. I think we had a team. If I remember this right, I believe it was a team assigned to speak to these people about the problems with negative amortization and if they were able to refinance, to refinance. I believe that to be the case, but I can't swear to it.

So there was an effort made because it was in our best interest as well as the mortgagor's best interest to try and get them in a position where they could afford the

735:1 payment and not be put in a -- in a position where they -- you know, where they couldn't make the payments.

I think this also applied to loans outside of the bank, because they say when appropriate, the bank had the right to forgive the prepayment penalty. It was where they're in a security that we may or may not have had the right, and so I think I was addressing pay options in general I think.

Q Okay. You make another comment in this e-mail I wanted to ask you about. It's the fourth paragraph from the bottom, the one that starts with obviously. And you are suggesting that steps should be taken to manage the risk in this particular period both as to the rate environment, but you also make reference to the untested behavior of pay options, do you see that?

A Right.

Q What did you mean by that?

A Well, we had -- it's a new product for us, and it -- although it was time tested with others, we had not had it long enough to -- we know how a 10-year head was going to operate. We know how it's going to perform, but this was a new product. We had not had enough time to see -- you had enough cycles, enough interest rate cycles to see what would happen with these loans, various interest rate cycles.

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

736:1 Exhibit 806. For the record, this is a single page e-mail Bates-stamped CFC2007A371477, and the e-mail at the top is from Angelo Mozilo to Walter Smiechewicz. It's dated June 21st, 2006, and the re line is executive risk amount.

Mr. Mozilo, have you ever seen Exhibit 806 before?

(SEC Exhibit No. 806 was referred to.)

A This e-mail?

Q Yeah.

A I don't recall it, but it was sent to me, so I'm sure I've seen it.

Q Okay. Mr. Smiechewicz references in his e-mail, which is embedded here, a discussion that you had with him at a breakfast meeting apparently and in response to that discussion he says he thought you might want to take a look at the executive risk map. Do you know what discussions you were having with Mr. Smiechewicz that made him suggest that you take a look at the executive risk map?

A It was the week that we had executive dining room. I'd walk in there for -- you know, for what ever, cereal or something, and he was sitting there, and I probably had a two-minute discussion about something I'd seen or a presentation he'd made to the board or something probably. I don't know, but I didn't have a formal breakfast or anything. I don't have formal breakfasts.

Q Do you -- are you familiar generally with the

737:1 executive risk map? Do you know what it is?
A No. I have no idea what this is about.
Q Okay.
A This was a quickie. I must have looked at it, and maybe he sparked my curiosity.
Q Mr. Mozilo, I'm handing you what has been previously marked as Exhibit 302. This is another e-mail string Bates-stamped CFC2007A361984. The e-mail at the top of the page is from Angelo Mozilo to Dave Sambol with a carbon copy to Carlos Garcia, and the date is July 21st, 2006.
Mr. Mozilo, have you ever seen Exhibit 302 before?
(SEC Exhibit No. 302 was referred to.)
A I have no reason to believe I haven't seen it because it's written to me.
Q Okay. So there's an e-mail at the top that's from you, and embedded in that is an e-mail from Mr. Garcia to you. Do you believe that you received that particular e-mail?
A I do.
Q Okay. Just a couple of questions. The very first e-mail that starts this off is an e-mail from you to Mr. Garcia dated July 20, 2006 in which you ask how the bank is doing with respect to growth and assets, liabilities, spreads, and return on investment, and then Mr. Garcia

738:1 responds that the portfolio is actually running behind plan. And then you respond at the top of the page by asking if the slow down in production in margins has caused the bank to sell more loans rather than hold them for investment, and you go on to say that you're committed to growing the bank at an accelerated rate.

A Right.

Q Why were you committed to growing the bank at an accelerated rate in July of 2006?

A Because the -- it wasn't on that date. I was committed long before that because the relationship, the size of the bank related to the size of the mortgage bank was -- was -- lacked the liquidity that the company needed in total. The reason why I bought this little bank and grew the bank was so that the mortgage company could be merged into the bank because I felt that longer term banks were going to be the survivors and there's a question whether mortgage banking with Bank of America and Wells Fargo and Chase now committed to mortgage banking, with their power and their liquidity, whether or not you could survive as a mortgage bank, and that's why I wanted the bank. So the bank had to grow to a level at which it could absorb the mortgage bank, and it was not at that level, and as a result we had to operate two different companies, a bank and a mortgage bank. So that's why I wanted to get the bank growing at an

739:1 accelerated rate, obviously being guided by the Fed and the OCC and the OTS regulators at the time, but that was my reason for it.

Q One of the things that Mr. Garcia said to you in his e-mail was that the bank was having slower than planned asset growth and in addition it was having a lower proportion of HELOCs and a higher proportion of pay options in the loan portfolio mix than had been planned.

In July of 2006, did you have an opinion about whether or not the bank should be continuing to invest in pay option ARM loans as a hold for investment vehicle?

A I don't think I can answer the question in this time frame. I mean, I expressed and you have plenty of evidence of my concern over pay options, and so I don't know how I felt at this particular period of time. I also had problems with, as you know, home equity loans, which was a very common bank investment. But the reality was we had to match our assets with liabilities, and this was the best match we could find for our liabilities. You couldn't put 30-year fixed-rate loans in with one-year CDs. It just didn't work. So we were constantly looking for that product mix that worked for us both in terms of risk reward and in terms of asset and liability mix.

Q So would it be fair to say that despite the concerns that we've seen evidence in the e-mails that you were sending out in the July, August, September 2006 time period you still believed that the pay option ARM loan was the best available asset for the bank to be holding for investment?

A I don't know if I want you to speak for me, you know, in terms of the words you're using. I think you have two -- clear evidence of two things. One, a concern over all assets we were originating, including HELOCs, sub-prime, prime seconds, seconds, as well as these loans and an interaction with my executives who wrote back to me giving me comfort in these areas or -- or, as you can see, that we slowed down in originations and a lot of these products were the result of my concern.

So I'd say it's fair to say that I was concerned about all assets being originated in the bank and originated overall and continuously sought out the opinion of my executives who were dealing with this on a day-to-day basis to give me comfort that we were on the right track. This memo -- the bank is now funding approximately 30 percent of CHL's inventory. We're trying to get to 100 percent. We've got to have reliable liquidity. And, again, I think it's important to have this totality on record. You read the entire memo, expenses are better than planned. The bad debt provision and reserve is higher than planned, but we enjoy lower than planned charge-offs. This is what I'm dealing

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with every day with the people running the operation. So was I comfortable with this, yes, I was comfortable with this memo from Carlos who is a very able executive.

Q Okay. This is a bit of a subject change. I want to hand you now what's been marked as Exhibit 575, which is a multiple-page e-mail Bates-stamped CFC2007C522071 through -073. The e-mail at the top of the first page is from Angelo Mozilo to Dave Sambol and Carlos Garcia. It's also carbon copy to Stan Kurland, Jim Furash, and John McMurray. It's dated July 24, 2006.

Mr. Mozilo, have you -- do you recognize Exhibit 575? Have you seen it before?

(SEC Exhibit No. 575 was marked for identification.)

A I don't know if I've seen it before or not, but I know I wrote it and -- obviously wrote it, but I -- I don't recall.

Q Okay.

A I see so many of these things.

Q I know you don't specifically recall it, but you don't have any reason to believe you --

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

Q Okay. There is an embedded e-mail here again from Walter Smiechewicz, and the re line on these e-mails is salient points from Marny's and my visit with Crisp. Nothing

742:1 I would characterize as a major new item. Do you know who Crisp is?

A Mm-hmm.

Q Who's Crisp?

A Where do you see major new item? Where do you see that?

Q It's just on the re line.

A This is to me.

Q Yeah. It's the same re line as on the top of the page, though.

A Okay. I'm sorry. Yeah, right. I'm sorry. Okay. So Stan Crisp was the new -- we had been with -- we had been regulated by the Fed and this I think was the five-year date where the individual officer from the Fed had to roll off. I think it was a five-year term. That's my recollection anyway, and he -- and that person rolled off, and Stan Crisp took his place. He worked for the Fed. He was the individual involved with regulating Countrywide because they regulated both the bank and the parent.

Q One of the things you say in response to Mr. Smiechewicz' e-mail is:

"As you can see, Crisp has become aware of the OTS matter."

A Mm-hmm.

Q What's the OTS matter?

A In a meeting with Stan Crisp he was, you know, relatively new to the account, he said "I'm having a problem with understanding your company," and I said, "What is the problem. You've been regulating for five years." He says, "I'm having a problem with it because you're really not a bank."

You know, I was stunned, and I said, "Well, what are we?" He said, "You're a thrift. You just do mortgages, and you're the exact opposite of what I see and what I regulate. I regulate big banks with small mortgage companies, not big mortgage companies with small banks." And I said, "So I understand from you that you're saying we're a thrift and not a bank and this is the problem you're having in terms of understanding our business model?" He said, "Yes."

At the time, parent was regulated by the Fed, the bank was regulated by the OCC. That's -- because when I bought the bank, that was the regulatory protocol. I then -- I checked with -- with the OTS, and said, "Look, let me ask you this. Let me tell you what I've just been told and let me -- do you agree with this? Do you think that this is more of a model the OTS regulates? Plus it would do this for me. It would" -- I had a bifurcated regulator. I had the Fed, and I had the OCC, a lot of support, a lot of experience, and they would regulate both. The OTS would be a

744: single regulator, and they came over to see me and talk to me.

When I talk about the OTS matter, Crisp became aware -- I didn't try to make a secret of it. In fact, I may have told him I'm going to check this out to see, you know, if maybe we are a thrift, not a bank. So he came over to the office, and I think his name was Finn. Whoever it was from the OTS, and I had a phone conversation with him, and I said "Can we do this? Can you take over the regulation," and he said yes. And so I went through the process of changing regulators for that reason. I would have never thought about it unless the Fed told me, you know, that -- I don't think the Fed was happy at the end of the day that Stan Crisp made that comment to me, because otherwise I would have never thought about it.

Q One of the things that Mr. Crisp apparently said to Mr. Smiechewicz, at least as report in his e-mail to you -- and it's about midway down the e-mail -- that he planned to grow the OCC staff at the bank significantly.

A He had no control of the OCC.

Q Crisp didn't?

A No. No. That was run by Duka, John Duka.

Q So this was just a comment, he believed that the OCC staff at the --

A May have been. I have no idea.

745:1 Q Did that -- well, you in your e-mail back to Mr. Sambol, Mr. Garcia, you say, you know, note that comment about the significant growth at the bank. Did that cause you concern?

A Always, yeah, because it's expensive to -- I didn't -- the regulation part of it didn't concern me. It's that when they grow staff, I have to have support for that staff, and that always concerns me because we're operating on a very thin edge, you know, in terms of margins, and so the more that they pile in in terms of people, I have to have space. I have to have support. I have to have a whole bunch of stuff, and I don't know where Crisp got that from, you know, where -- why he said what he said.

Q And then the last thing I wanted to ask you about, apparently Mr. Crisp made a comment that he had seen others in the industry use mortgage servicing rights to manage earnings, but he didn't think that was the case at Countrywide. And you responded in your e-mail to Mr. Sambol and Mr. Garcia that you were stunned by that comment. Why were you stunned by that comment?

A Where did I say that?

Q It's in your e-mail. It's the last sentence.

A Yes, I talk about -- but say -- say it again.

MR. McLUCAS: I was also stunned by his comment.

MS. DEAN: That most --

746:1 MR. McLUCAS: -- that most lenders use --
THE WITNESS: Yeah, because, you know, in the old days that was true because what you do, which we didn't do, but you'd sell servicing rights. You'd sell off servicing rights and generate earnings that way because the value -- the intrinsic value of the servicing was greater than the -- than reflected on the balance sheet. It's just the way it was booked. And so in the old days people used to do that, but all the major players these days were banks that, you know, they were not going to sell servicing. They're growing their servicing portfolio in order to have the proper macro hedge in the institution, but I didn't -- I don't know where he got that from.
BY MS. DEAN:
Q And, to your knowledge, that was not something that Countrywide was doing?
A No. We didn't sell any servicing. From time to time we would -- we'd buy servicing, and I don't remember us selling servicing. I don't know where the buyers would come from. We may have sold sub-prime. I'm not sure, but it wasn't part of our -- I'm not saying we never sold any servicing in the recent years, but it was not part of our protocol.
Q I'm handing you now what has been previously marked as Exhibit 234. It's a two-page e-mail. The Bates stamp is

747:1 JTM001039 through -1040, and the e-mail at the top of the first page is from John McMurray to Greg Hendry and Jie Ling, with some carbon copies to Clifford Rossi and Rod Williams. The date is July 17th, 2006.

You are not actually copied on this e-mail, but I wanted to ask you if you had, in fact, ever seen it?

(SEC Exhibit No. 234 was referred to.)

A Never saw it.

Q Okay. I asked you about Mr. Hendry before. I don't think I asked you do you know who Jie Ling is?

A No.

Q Okay. If you look at the second page of this e-mail, it's actually -- there's an embedded e-mail there dated July 15th from Greg Hendry to John McMurray, and the re line is disclosures of credit risk management policies. And the first line of it is:

"As we discussed last month, I am in the process of drafting more robust disclosures surrounding credit risk management and the allowance/provision for loan losses."

Do you see that?

A Yeah.

Q Okay. Does that refresh your recollection in any way about what Mr. Hendry's job might have been at Countrywide?

A No.

748:1

Q In response to that e-mail, Mr. McMurray wrote back to Mr. Hendry, and the first line of his e-mail is:

"I'm a huge advocate of expanding our disclosures in this area, including adding information to the Q's ahead of the K."

He then goes on to say:

"Can we please beef up our disclosures in the following areas?"

And then he lists some items. Did Mr. McMurray ever tell you that he wanted additional disclosure in any of the areas that I identified on Exhibit 234?

A No.

Q Did Mr. Hendry ever tell you that Mr. McMurray as chief credit risk officer had suggested additional disclosures?

A No. I don't think I ever met Mr. Hendry. I'm not sure.

Q Okay. And did --

A The name is familiar to me, but I don't --

Q Okay. Fair enough. And did anyone at Countrywide ever tell you that Mr. McMurray had advocated for additional disclosures in the areas identified in Exhibit 234?

A No.

Q I am handing you now what was previously marked as Exhibit 1033, which, for the record, is a copy of the Form

10-Q for the period ended June 30, 2006. Have you ever seen Exhibit 1033?

(SEC Exhibit No. 1033 was referred to.)

A I'm sure I have, yes.

Q Okay. And did you have the same role with its preparation as you described with respect to the other Q's we've looked at?

A No role.

Q But you received a final copy and you certified it after receiving certification?

A You asked me the creation of it I thought was the question.

Q Okay. Fair enough. I might have said it that way. Let me ask it in the positive instead of the negative. Did you, in fact, certify the Form 10-Q for the period ended June 30, 2006?

A I'm sure I did.

Q Okay. And let's mark this. I'm handing you now what's been marked as Exhibit 576, which for the record is a multiple-page document Bates-stamped KPMGXXTCC000-0320150 through -155. And the first two pages are a certification by Angelo Mozilo of the 10-Q for Countrywide Financial, and then the second page from the end is a certification pursuant to Sarbanes-Oxley, also by Angelo Mozilo. They're both dated August 7, 2006. Is that your signature on the second page of

750:1 Exhibit 576?

(SEC Exhibit No. 576 was marked for identification.)

A Yes.

Q Okay. And is that also your signature on the second-to-the-last page on the Sarbanes-Oxley certification?

A It is.

Q Now, I know that you would sign the certification after being informed that all the sub certifications had been signed. Was it your practice to also review the MD and A section of the Q before doing that?

A I -- I don't recall the timing or the sequence.

Q Well, what I wanted to clear up was I know that you reviewed the MD and A section of the 10-K's because there was a meeting, and we've talked about that, but I'm not really clear -- I'm not sure the record is clear with respect to the 10-Q's, whether you actually reviewed the MD and A section of the document before you signed it or before you certified it.

A Before I certified it, yes. Before I signed it, I reviewed the MD and A section. I mean, I perused it. I didn't go through word by word, certainly the tables. I was more concerned with concepts. I left it up to -- we had a very disciplined process for certification, and I relied upon those people and that process, and so I don't think I ever in reviewing it found something that I noted was problematic.

751:1

Q Okay. With respect to Exhibit 1033, if you could turn to page 37. This is, again, the second page of the MD and A discussion, and it's the -- under the heading of loan production. Second paragraph of that section there's a discussion pay option ARM loans.

A What page are you on?

Q We're on page 37.

A On page 37.

Q This is substantially the same disclosure we have seen before, but there is one addition that didn't appear in any prior Q. It's the third sentence from the end of the second paragraph under loan production, and it reads:

"Substantially all of the pay option loans we originate are underwritten based on reduced documentation standards whereby the loan applicant's income is not fully documented."

Were you privy to any discussion in connection with the preparation of the Form 10-Q for the period ended June 30, 2006, including this reduced documentation disclosure?

A No.

Q Okay. Did you have any discussions with -- did you notice this disclosure when you reviewed the Q?

A No. And one thing I did not go back as you have done, go back and compare Q's over the last 30 years to see what's been added and subtracted from it.

752:1 Q Okay. And no one called this particular disclosure to your attention?
A Not to my knowledge, no.
Q After this particular 10-Q was filed, did anyone at the company tell you that they thought that this particular disclosure should be eliminated from the 10-Q?
A No.
Q Do you recall any discussion whatsoever either before or after this particular 10-Q was filed about this reduced documentation disclosure?
A Say it again.
Q Do you recall participating in any discussion either before or after this particular 10-Q was filed --
A No.
Q -- about the reduced documentation disclosure?
A No, no recall.
Q In conjunction with the filing of the 10-Q for the period ended June 30, 2006, did you have any discussion with anyone at Countrywide about whether there should be additional disclosure regarding credit risk?
A Not that I recall, no.
Q In conjunction with the filing of the 10-Q for the second quarter of 2006, did you have any discussion about whether the percentage of loans other than pay options being originated based on reduced documentation or stated income

753:1 should be disclosed?
A I don't recall any of that, no.
Q Did you ever have any discussion in conjunction with the finalization of the 10-Q for the second quarter of 2006 about whether the percentage of Alt A loans being originated at Countrywide should be disclosed?
A No.
Q Did you ever have any discussion in conjunction with the preparation of the 10-Q for the second quarter of 2006 about whether the percentage of loans that -- loans to value or combined loans to value of 95 percent or greater should be disclosed?
A No.
Q Did you ever have any discussion with anyone in conjunction with the preparation of the 10-Q for the second quarter of 2006 about whether the percentage of loans originated with piggyback seconds should be disclosed?
A No.
Q Did you ever have any discussion in conjunction with the filing of the 10-Q for the period ended June 30, 2006 about whether the percentage of loans originated with layered risk features should be disclosed?
A No.
MS. DEAN: Let's go off the record.
(A brief recess was taken.)

MS. DEAN: Back on the record.

BY MS. DEAN:

Q Mr. Mozilo, I'm handing you now what has been marked as Exhibit 577, which is a two-page e-mail Bates-stamped CFC2007A371667 through -668. And the e-mail at the top of the first page is from Angelo Mozilo to Carlos Garcia. It's dated September 1st, 2006.

Is it your belief that you wrote the e-mail that's at the top of Exhibit page 577?

(SEC Exhibit No. 577 was marked for identification.)

A I believe I did, yes.

Q Okay. Starting at the back of this just for some context, the first e-mail in this string which is on the second page is from Jeff Speakes to Stan Kurland, Dave Sambol, Kevin Bartlett, Eric Sieracki and Carlos Garcia, and it transmits a draft of a September economic outlook, and Mr. Speakes says the topic of that is the likely severity of the housing downturn.

Who's Mr. Speakes?

A Jeff Speakes was the economist, Countrywide's economist.

Q Okay. And that economic outlook got forwarded to several people at the bottom of the first page of 577, and then Clifford Rossi forwarded it to Carlos Garcia and a bunch of other recipients with a comment that suggests that he thinks that Speakes' analysis is correct.

Mr. Garcia then decided to forward it to you, which is the second e-mail on the first page, and then you responded to the whole string with the comment:

"Narrowing down to Countrywide's issues, it really depends on what happens to the option ARMs on your balance sheet."

A Right.

Q So what was the basis for your comment that the economic outlook for Countrywide really depended on the option ARMs on the bank's balance sheet?

A Because the bank's balance sheet was primarily option ARMs, and Jeff Speakes was wrong. My answer was not soft but not cataclysmic. He was wrong. He was cataclysmic.

Q Right. But was there some reason that caused you to focus specifically on the option ARMs in response to Mr. Speakes' economic forecast?

A Well, because I think -- I mean, I'd have to go through that whole Carlos -- Cliff writes and says I think he's right on, booms are always followed by busts, and you can see what's going on here. And when I read the report, when I read Jeff's report, I said we have to narrow it down to our issues and how would it impact our balance sheet, the pay option -- which the balance sheet was pay options. So my

756:1 concern always was with the balance sheet of the bank. If it was 30-year fixed-rate loans, I would have had -- if that's what they had, whatever they had.

Q I'm handing you what has been previously marked as Exhibit 243, which is a two-page e-mail Bates-stamped JPM001063 through -1064. And the e-mail at the top of the first page is from John McMurray to Greg Hendry and Jie Ling with copies to Rod Williams and Ted Beck, and the subject line is Q-3 10-Q answers.

Q Now, I know that you're not copied on Exhibit 243, but have you ever seen it before?

(SEC Exhibit No. 243 was referred to.)

A No, I've never seen it.

Q In Mr. McMurray's e-mail -- there actually are two e-mails here --

MR. BRENNER: Can we --

MS. DEAN: Did I hand you the wrong document?

MR. BRENNER: I don't think I have the right document. Mine is about MD and A credit risk.

MS. DEAN: Sorry about that.

MR. BRENNER: I just want to make sure we're on the same page.

BY MS. DEAN:

Q Okay. So 243, there are actually two e-mails here, the first of which is dated October 17th, 2006. That's at

757:1 the bottom of the first page, going over onto the second, and then there's another one at the top dated October 23rd. It looks like the bottom e-mail was Mr. McMurray's attempt to respond to the MD and A template questionnaire, and then he forwarded his responses again on October 23rd, which is the e-mail at the top, with the note that he "wanted to resurface some issues, requests I've raised previously," and then he goes on to list those.

Do you see that?

A Mm-hmm. Yes, I do.

Q The first thing that he raises is he says that the concept of certifying the 10-Q prior to actually seeing the numbers doesn't make a lot of sense to him. Did Mr. McMurray ever indicate to you that he had concerns about having to certify the 10-Q before it was -- before the final numbers were inserted?

A Never.

Q Okay. Did anyone at Countrywide ever raise that as an issue?

A Never.

Q Number 2, he indicates to Mr. Hendry and Ms. Ling that he wanted to see "further detail added to the risk sections of the 10-Q's and upcoming 10-K. Perhaps we'll get pushed back like we did from the bank last quarter, but I still think it makes sense to pursue."

758:1 Did Mr. McMurray ever tell you that he had gotten pushed back from the bank with respect to suggestions he'd made for incorporation of language into the 10-Q?

A Never.

Q Did anyone else at the company ever tell you that?

A No.

Q If you look at the bottom of the first page, which is there's a paragraph there numbered 3, the question that was asked by the financial reporting group was please describe any changes in loan quality and impact on the allowance for loan losses, and Mr. McMurray's answer is on the next page.

And he wrote back:

"As I've communicated to you previously, underwriting guidelines have widened dramatically over the past five or so years. Loan quality has deteriorated as a consequence of this guideline widening."

Do you see that?

A I do.

Q Did Mr. McMurray ever communicate that concern to you?

A No, never to me nor to the board.

Q Were you, generally speaking, aware that underwriting guidelines had, in fact, widened dramatically over the past five or so years?

759:1 A I wouldn't -- I don't know specifically five or so years. It's clear that the effort to put minorities into homes by both the administration and the -- and the regulators and by the non-profits had caused a widening of guidelines. And also the advent of the no doc concept had -- was relatively new to the mortgage process.

Q Mr. McMurray went on to write:

"The transition from extremely favorable conditions which prevailed over the past several years to a more difficult environment will also adversely affect loan quality and loan performance."

Do you see that?

A I don't.

MR. McLUCAS: The sentence in the top, the transition from extremely favorable.

THE WITNESS: Okay. I see that.

BY MS. DEAN:

Q Did Mr. McMurray ever communicate that to you as a concern with respect to credit risk at the company?

A No, not that I recall. He never came into my office. I had open doors on the same floor he was on. Never any of these issues, and I gave him a forum to the board, and I think he could present it at the credit committee, and none of the board members ever came to me about these issues.

Q So were there board members on the credit risk

760:1 committee?
A Not credit. There's a -- part of the finance committee -- I know he had to present to one of the committees of the board. I forget which committee it was. I know it was on a regular basis, but he had to present there, and I never attended the committee meetings. And also I had him any number of times a year come in to go through a -- the credit issues because they were very topical issues and one that the board members were concerned about and should have been concerned about. And so he was trying to make a very full -- I don't know if you got those presentations, but they were very robust presentations on credit quality and delinquency rates and trends and that sort of thing. But he never came to me personally.
Q To the extent -- I mean, we've now seen I think -- I haven't wanted to mischaracterize it. It's either two or three e-mails from Mr. McMurray to the financial reporting group suggesting that he thinks there should be some additional disclosure. To the extent that there was a dispute between what Mr. McMurray wanted to be disclosed and what the financial reporting staff wanted to put in the documents, was that a dispute that you would have expected to be escalated?
A I would expect the head of credit, John McMurray, to come to me if he has these kinds of issues, absolutely

761:1 come to me. Now, I don't know what the other memo is. I haven't looked at it. But I don't see Dave Sambol here. I don't see Sieracki here. I don't see -- I didn't see Carlos Garcia in this memo, you know, people -- the senior people of the company are not on this, at least not on this one. I don't know any of these people.

Q To the extent that Mr. McMurray did, in fact, communicate his concerns to, say, Eric Sieracki for example, would you have expected Mr. Sieracki to have communicated those concerns to you?

A Yes.

Q If he had communicated his concerns to Stan Kurland, would you expect Sam Kurland to communicate those concerns to you?

A I would. If Stan couldn't resolve it. I mean, Stan -- you know, I, again, would assume that Stan -- or particularly with Stan or Dave Sambol in that position -- Stan was in the position most of the time -- would resolve the issue because Stan has a CPA background, you know, that he would -- there's no reason not to do it.

Q In working with Mr. Kurland, did you ever observe that he was sometimes unfocused?

A What does that mean?

Q You're right. Did you ever observe Mr. Kurland

762:1 appear to have difficulty remembering details about things?

A No. He was a very competent executive in my opinion.

Q I am handing you now what's been previously marked as Exhibit 1034.

(SEC Exhibit No. 1034 was referred to.)

MS. DEAN: Off the record.

(A brief recess was taken.)

BY MS. DEAN:

Q Mr. Mozilo, I've handed you what has been marked as Exhibit 1034, which is a copy of the Form 10-Q for the period ended September 30, 2006. Have you ever seen Exhibit 1034 before?

A Yes, I have.

Q Okay. And did you certify Exhibit 1034? I don't think the certification is attached, but I'm going to hand it to you right now. I'm handing you what has been marked as Exhibit 578.

(SEC Exhibit No. 578 was marked for identification.)

A Okay. Yes, I certified it. It's my signature, both pages.

Q So you did certify Exhibit 1034 and your signature appears on the certification and the Sarbanes-Oxley certification letter that comprise Exhibit 578?

A Yes, I did.
Q Okay. And just for the record, Exhibit 578 is Bates-stamped KPMG06QR3-0001-000436 through -438. Did you read the MD and A section of the September 2006 10-Q before certifying it?
A I think it's fair to say I read through it and didn't read every word, every table. I perused it. Again, I repeat I had a very, very competent group that had a process, I thought a very disciplined process to get to the 10-Q and the 10-K to get to that point.
Q Well, let me just call your attention to a couple of items in Exhibit 1034. If you'd turn to page 40 of the document. Starting actually at page 39 and then going over to the top --
A You're looking at the bottom page?
Q Yes, page 39 and going to the top of page 40 of Exhibit 1034, there is a discussion of the pay option loans held for investment at the bank, and at the top of page 40, there is a slightly revised version of the reduced documentation disclosure that we previously saw. This one indicates that "Substantially all of the pay option loans we originate are underwritten based on reduced documentation standards whereby the loan applicant's income is based on representations provided by the borrower."
Did you participate in any discussions about the

inclusion of that particular disclosure?
A No, I did not.
Q In conjunction with the filing of the 10-Q for the period ended September 30, 2006, did you have any discussion with anyone at Countrywide about whether there should be additional disclosure with respect to credit risk?
A No.
Q Did you have any discussion with anyone at Countrywide about whether there should be additional disclosure about the percentage of loans that were originated based on reduced documentation or stated income in the 10-Q for the period ended September 30, 2006?
A No.
Q Did you have any discussion about whether the percentage of Alt A loans originated by Countrywide should be disclosed in the third quarter 10-Q?
A No.
Q Did you have any discussion with respect to whether there should be additional disclosure with respect to the percentage of loans originated at loans to value or combined loans to value of 95 percent or greater in the 10-Q for the third quarter of 2006?
A No, I did not.
Q In conjunction of the filing of the 10-Q for the third quarter of 2006, did you have any discussion with

765:1 anyone at Countrywide about whether the percentage of loans originating with piggyback seconds should be disclosed?
A No, I did not.
Q In conjunction with the filing of the 10-Q for the third quarter of 2006, did you have any discussion with anyone at Countrywide about whether there should be disclosures with respect to the percentage of loans originated with layered risk characteristics?
A No, I did not.
Q Mr. Mozilo, did you attend audit committee meetings of the Countrywide board of directors?
A No, I did not.
Q Were you aware that Countrywide Bank would file suspicious activity reports with respect to certain of the loans that it originated?
A I was not aware of any.
Q Okay. Were you aware that at one point the bank undertook a survey of those loans that the QC process had designated as severely unsatisfactory?
A Say again.
Q Well, let me ask a foundational question. Were you aware that the bank had a quality control process whereby certain loans would be reviewed post-origination and that they could be rated severely unsatisfactory?
A My recollection is the entire company did that.

766:1 Countrywide Home Loans as well as the bank had a -- I'd say rating or ranking of loans, and there was also the board would monitor that, the board -- the parent. I don't know if the board of the bank did, but the board of the parent did.

Q And were you aware that at some point the company -- well, at some point the bank anyway conducted a review of the SARS that it had filed with respect to severely unsatisfactory loans and quantified the number of loans where IRS income tax information was different than the borrower information listed on their loan application?

A I was unaware -- I was unaware -- I don't recall any of that related to the bank. I was aware that that was a common problem and a system I thought had been developed with the IRS to electronically feed back information because the problem was time. We couldn't get it in time. These loans would be closed, and then we'd find out, but I thought that -- my recollection is that that was resolved with the IRS so we could get accurate numbers, but I wasn't aware of that specific issue and the bank.

Q Were you aware that in November and December of 2006, 78 percent of all of the mortgage related SARS filed by the bank related to issues where the borrower's income listed on their loan application was different than the income they reported to the IRS?

A I was unaware of that.

767:1 Q Mr. Mozilo, I'm handing you what was previously marked as Exhibit 244. For the record, 244 is a multiple-page document Bates-stamped JPM00100 -- I'm sorry. It's Bates-stamped JPM0011115 through -1125. The cover page is again a fax cover sheet dated January 25, 2007 to Jie Ling. The re line is McMurray certification 10-K.

I know you're not copied on this, but have you ever seen Exhibit 244 before?

(SEC Exhibit No. 244 was referred to.)

A No, I don't recall seeing this document.

Q I'm also going to hand you at this time what was previously marked as Exhibit 245. Exhibit 245 is a multiple-page e-mail string Bates-stamped JPM001054 through -1058. And the e-mail at the top of the first page is from John McMurray to Jie Ling, with a carbon copy to Erica Joseph and Greg Hendry, and it's dated January 25, 2007, and it forwards an e-mail dated January 2nd, 2007.

The reason I've handed them both to you at the same time is if you turn to the second page of Exhibit 244, which is the one with the fax cover page, in responding to the MD and A questionnaire for the 10-K for the year ended December 31st, 2006, Mr. McMurray's response to question one is to incorporate an e-mail that he wrote to Eric Sieracki dated January 2nd, 2007, and if you look at Exhibit 245, Mr. McMurray has forwarded his January 2nd, 2007 e-mail to

768:1 Eric Sieracki to Jie Ling, Erica Joseph, and Greg Hendry.
A January 2nd, okay.
Q Yeah. Now, have you sever seen Exhibit 245 before?
(SEC Exhibit No. 245 was referred to.)
A No, I don't recall ever seeing this exhibit.
Q Okay. Now, Mr. McMurray's January 2nd, 2007 e-mail to Eric Sieracki, which also, by the way, went to Tom Scrivener, Kevin Bartlett, and Rod Williams, is -- has a subject line "Impact of rising delinquencies on financial results." Would you have expected Mr. Sieracki, Mr. Scrivener, Mr. Bartlett, or Mr. Williams to share with you Mr. McMurray's concerns about the potential for delinquencies to increase and affect Countrywide's financial results?
A If they digested it, analyzed it, and determined that the issues he raised were material, yes, I would expect it.
Q Mr. McMurray's January 2nd e-mail actually -- he appears to have created a brief introduction at the front which he then flushed out starting at page 2 with some more detail. So let's just start with the more fulsome explanation which starts on page 2 of the e-mail, which is the page ending in Bates stamp 1055.
Starting at the heading "Introduction why delinquencies will increase," Mr. McMurray wrote that he believed delinquencies would increase because of five or six

769:1 actually conditions, including the real estate market conditions, the term structure which he defines as flattening yield curves and rising interest rates, macro economic conditions, portfolio seasoning, widened guidelines, and regulatory and institutional responses.

Did Mr. McMurray ever convey to you his concerns with respect to those issues?

A No, he did not.

Q And I take it none of the persons who were addressed on this e-mail, including Erica Joseph, Greg Hendry, Eric Sieracki, Tom Scrivener or Kevin Bartlett or Rod Williams, conveyed these concerns to you?

A To my recollection, nobody came to me on these issues. These are not -- you put my e-mails together, I had the same concerns. This is not an epiphany on his part.

Q Below what he believes to be the factors which would cause delinquencies to increase, Mr. McMurray also provides an outline of how he thinks those factors are actually going to -- or how the rising delinquencies would affect financial results.

And if you look at the held for investment portfolio, which is II at the bottom of page 1056, he explains that an increase in delinquencies will manifest in the held for investment portfolio in the form of increased reserve requirements and higher -- caused by an increase in the general reserve, an increase in the specific reserve, and then higher severities.

Did Mr. McMurray ever express those concerns to you?

A No, he did not.

Q If you look under III which is on the page 1057, Mr. McMurray wrote that he also believed that increasing delinquencies would affect the repurchase and indemnification reserve because it would result in increased repurchase requests. Did he ever share that concern with you?

A No, but that's common -- this is common knowledge. You know, you'll never get buyback requests when things are going well. It's only when things are going bad. But, again, he had every opportunity to share this with me and didn't. Plus, I have no -- I don't know whether or not all of these factors were, in fact, taken into consideration in the reserves or in the financials and may have been addressed. I don't know.

Q Well, if your chief credit risk officer believed that delinquencies would be increasing in the early part of 2007 due to all the conditions that he identifies in the e-mail, is that something that you would have thought would be material to disclose for investors? Regardless of whether you know if it was disclosed or not, I'm just asking if you think that information would have been material?

771:1 A I think after -- Sam asked me originally when we started this whole process my management style, and it's collaborative, and I -- if, in fact, I was aware of these concerns by the credit risk officer as the CEO they made me aware of it and I called the team together because credit risk officers do not necessarily speak ex cathedra and once I was convinced that, in fact, these issues are valid, they are material, and we had documented his concerns, then we should -- they should be disclosed. I was never involved in this.

So I have to answer your question in that way, Lynn, is that if this was brought before me and the team got together and discussed it, everything, it's to our benefit to disclose, not to our disbenefit. And so -- but it was never brought to may attention. A lot of it we're aware of it. A lot of it -- you know, we talked about increased delinquencies. We have that in the charts. You know, we have increased delinquencies, increased negative am. We have these factors. And so much of it -- a lot of it was disclosed. In terms of the reserves put aside, I don't -- I'm not privy to, you know, whether or not we addressed all those reserves.

Q Did you have any role in setting the reserves?

A No.

Q Would that have all been done at the level of the

772:1 CFO?

A Well, you had the CFO. You had the outside accounting firm who had their own models that matched. So it would be -- you had also the -- Jeff Speakes I believe played a role in it. As the economist, he also played a role in the committee that did the hedging so that here was a group. Stan Kurland played a major role in the reserves. So it was a collective effort in looking at all of the pieces, including servicing. All those areas had to be put aside.

Q Let me ask you this, to your knowledge -- well, at the point in time that the December 31st, 2006 10-K was filed, did you personally believe that the company had made adequate disclosures with respect to the credit risk faced by the company?

A I had no reason to believe otherwise. Neither he nor any of his people ever came to me and said we have a difference of opinion, none of that, totally unaware of until you disclosed this to me now that this was going on.

Q One last thing about Exhibit 244. If you look at the last page, this is the one Bates-stamped 1125.

A Exhibit 244 --

Q It's the questionnaire with the fax cover sheet. Mr. McMurray wrote a note at the bottom of the last page of Exhibit 244 in which he says:

"This draft of the 10-K is obviously still missing

773:1 many of the key numbers as well as discussion items. Please see various changes I've suggested to text."

Do you see that?

A Yes.

Q Did Mr. McMurray or for that matter anyone else at the company ever tell you that they were being asked to certify drafts of the 10-K that did not have all of the information included in them?

A No. It says here to him:

"As you are aware, Angelo Mozilo and Eric Sieracki are required to make certifications to the financial information contained in our annual Form 10-K. You will be asked to sign a certification as to the fairness and accuracy."

Then it goes on. This is what he's signing to, and then he makes these notes to people who are not either Angelo Mozilo or Eric Sieracki.

Q And, just so the record is clear, you're reading actually from the second page of Exhibit 244, which is the paragraph under the heading "Overview," correct?

A Yeah, as to his -- that's correct. Yeah, as to his mandate. What I expected from each of these executives is that they take this seriously and if they have any issues to make sure that they rise up to people who have to certify, which is myself and Eric Sieracki, the CFO. And I've never

774:1 seen any of these documents or notes or concerns. As I said, he made substantial presentations to fixed income investors particularly over the years and, you know, none of this came up. And maybe they were resolved. I don't know. You know, as he goes through this process, I don't know if they were resolved with Stan or Eric or whoever he was ultimately interacting with, but here it only indicates he's interacting primarily with these people. I really don't know.

Q But, in any case, these issues were not raised to your level? You were not aware of Mr. McMurray's concerns?

A No. I had every reason to as CEO of the company and as the founder of the company, to be very concerned about anything of this nature that was left outstanding that could be resolved.

Q I am handing you now what was previously marked as Exhibit 41, which is the Form 10-K for the fiscal year ended December 31st, 2006 for Countrywide Financial Corporation.

(SEC Exhibit No. 41 was referred to.)

A It's hard to believe that these volume -- this volume of paper that we didn't have disclosures.

Q And, Mr. Mozilo, have you ever seen Exhibit 41 before?

A Yes, I have.

Q Okay. And did you review Exhibit 41 in conformity with the 10-K review process that you described to me this

775:1 morning?
A Yes.
Q The -- I don't actually have the certification for this particular 10-K here in the room with me, but do you have any reason to believe you didn't certify it?
A I have no reason to believe I didn't certify it.
Q I wanted to call your attention to pages 63 through 64 of this particular 10-K. And also this -- essentially the same disclosure that appears on those pages which has to do with the bank's investment in pay option ARMs, also appears at pages 107 and 108 of the document. You can take all the time you want to look at it. I'll just represent to you what the issue is, which is that the disclosure that we saw in the second and third quarters of 2006 about reduced documentation in the underwriting for the pay option ARM loans doesn't appear anywhere in the 10-K either in the discussion on page 63 through 64 or in the discussion on pages 107 through 108 where the pay option portfolio is discussed.
Did you have any discussion with anyone at Countrywide about removing that particular disclosure from the periodic filing?
A No.
Q Did anyone call your attention to the fact that the disclosure had been removed?

776:1
A No.
Q Do you remember having any discussions with anyone at Countrywide who expressed dissatisfaction that that disclosure had been included in the prior two 10-Q's for the second and third quarter?
A No. Was it in -- can I ask you a question? Was it in the subsequent ones? Was it put back in?
Q It makes a reappearance but not for a couple of quarters.
A Yeah.
Q It does show back up in the third quarter of --
A It seems like it would be in error, you know. I don't know. Nobody had a discussion with me. I know -- also I just want it a matter of record that, you know, the problem is with Countrywide not pay options. This has been your focus for four or five days now. You know, those loans it's very possible the way it works out that Bank of America will do very well in those loans. The problem that the whole industry faced, as you see what's been happening now with AIG and Fannie and Freddie is liquidity. It had nothing to do with the loans or these issues because these issues worked their way through, but it's the -- but it is the liquidity issue that -- you can't exist without oxygen, and that's really what caused the problem.
Q Well, to that end, in your mind what caused the

777:1 issues that the industry is currently experiencing with liquidity?

A What caused that?

Q Mm-hmm.

A It's in debate, and maybe one day I'll write a book, but I think the beginning of it was when the rating agencies downgraded AAA's to junk overnight that the year before had rated AAA and had laid out what the prerequisite was for AAA. They -- so it's how you tranche them is how you do it, and when they -- when they went to junk, the secondary market that bought this product that held this AAA was now holding junk, that was the end of it. It was illiquid now. Plus, they weren't going to buy any more mortgage-backed securities because they were misled. And that was -- I think that's what sort of was the cascading thing in my mind, and then it took on a life of its own. And in Countrywide's case, it really wasn't until -- because we were doing -- in June we did $40 billion in loans. We were doing June of '07 we were doing great. And then it was in July I bought stock at $194 a share. So they -- what it was really -- and then it sort of kept on cascading down, and in August we were cut off. We had -- our repo lines were not -- and that's what we live off. That's our option, the repo lines, commercial paper, and medium term notes. We couldn't issue anything. The very thing just a few months before people were begging

778:1 us for to be part of issuance of the securities we couldn't issue, and it just cascaded, and I think that's why Dick Fuld gets up and says, you know, I've got plenty of capital, I've got plenty of liquidity, and two days later he's going down at Lehman Brothers or -- I think these are honest guys that at the time they made the statement "I have plenty of liquidity. I have plenty of capital," was correct. They had it, but the next day they didn't have it because their lines were pulled or they went to access commercial paper market and couldn't get it.

And that's really the cause of it. It's not -- we worked our way through terrible times in 40 years in the business and got through it, came through it stronger. We would have come through this stronger. The one thing we had never anticipated was that our lines of credit be cut off, and that -- and for Countrywide, the only thing that saved us was that we had 11-and-a-half billion of backup lines on our commercial paper which you don't want to pull down, because once you do that's the death nail, but I had to do it. I had to pull -- I called the banks and said I'm going to do it. I'm going to pull it down if you can't give me more credit, and they wouldn't give me more credit, and I pulled it down. But it was that lack of liquidity.

You take an AIG, it's an incredible company, out of business. Fannie and Freddie, regulated, had 100 regulators

779:1 in their offices constantly. It wasn't about regulation. It was about the basic principles we all operated under that we had access to liquidity and suddenly one day we woke up, we didn't have it.

Q Well, I think the event that you suggested started the liquidity crisis was the downgrade of MBS securities by the ratings agencies.

A There's a big difference of opinion there. That's my opinion. I think that was the start of it.

Q But wasn't what caused that downgrade the rise in delinquencies first in the sub-prime MBS and then later in the Alt A MBS securities?

A I think that, yes, certainly the delinquencies had part in it but the way that the Moody's and S and P dealt with it, particularly S and P, was that they acted suddenly. In other words, they didn't give a chance for this thing to work through and pulled the plug on the entire market virtually overnight.

So, for example, they said, look, we're going to weight these things differently. So when you tranche, in order to get AAA, you're going to have to have over-collateralization of X squared, not just X. And that -- but they didn't do that. They just -- you know, they told us how to do it, told us what to do to get AAA and then pulled it, and once they pulled it, the whole thing just kept

780:

on cascading down. There are people that have a lot different opinions here as to what -- you know, what started the tumbling, but it just -- and in Countrywide's case, in terms of liquidity and what caused the deep concern was when the L.A. Times printed the article that they took a page out of an analyst's report and said that there's a potential for Countrywide to go bankrupt. Well, there's a potential for anybody to go bankrupt that's been displayed, and then they just took that. The L.A. Times ran with it and printed the address and the phone number of each of our bank branches. That was on a Sunday. I don't get the L.A. Times. Monday morning I get a panic call of thousands of people at our branch offices to pull money out, $8 billion out of the banks in cash just in one day, like that. And they don't get over it because they keep on hitting it. The L.A. Times hit it time after time. After the third run, my people were just tired. They just couldn't do this anymore. And, fortunate for us, it happened early and I had to make the tough decisions early, you know, to take a company that I loved, who has been part of my life and shut it down or sell it, very hard for me to do it. But it was -- I just thought that, look, this thing could really get bad if this thing continues, and I can't continue sustaining these runs on the banks.

So that was part of the liquidity issue with

Countrywide, because I was looking to the bank for liquidity. That was my last -- the last -- that was the last place I could go for liquidity, and that was being taken away from me. But I think clearly with all these institutions, when this story is really told, it's not greed CEO's. It's not any of those things. It's not an Enron or that kind of thing. These are real businesses. Dick Fuld spent his entire working life at Lehman Brothers. He was one of the top CEO's in the world, one of the top companies in the world. Greenberg, Hank Greenberg at AIG, I mean, these are great, great companies that are gone. AIG is basically done. It's finished. Merrill Lynch gone. You know, these are 150-year-old companies gone. They sustained the Depression and everything else, but nobody ever saw what we saw here, the complete -- well, first of all, the system was based upon liquidity. You know, we've never had a system so dependent upon liquidity as we had. That was really -- I know your focus is on pay options and you see me get irritated from time to time, but, you know, I don't know where we are, but when I left the company our pay options were performing better than anybody else, and we'll come out of it. We'll refinance those people. We'll keep them in their houses. You know, all of that we've stopped. So that's going to be okay. House values will go up eventually. And so everybody will come out of it.

782:1 But the liquidity crisis -- and it's not over because the legislation that's being passed in my opinion does not address the problem at all. It doesn't address that home owner in that home getting -- being able to refinance their mortgage. It doesn't do that. So, anyway, I didn't mean to take you off track like that, but --

Q No, I appreciate that.

A But I know your focus has been here and it's -- it's not -- it could have been anything. It could have been HELOCs. It could have been 15 yield loans, any of those things. Ex cathedra, you have to be catholic. She's evidently had exposure to both. You have to understand it's any time the Pope speaks ex cathedra, he's infallible. No pope ever does that, or rarely does that.

MR. SIEGEL: I was going to blend the water, but --

MS. DEAN: Thank you.

BY MS. DEAN:

Q Let's turn to page 114 of Exhibit 41. At the top of the page -- this is actually in the second of the document -- the MD and A section that addresses loan servicing. There is a paragraph there that discusses an increase in delinquencies in the servicing portfolio.

A We're at 114?

Q Yes, the very top of the page, we attribute.

A Okay.

783:1 Q And the company attributed an increase in delinquencies in the servicing portfolio to several factors, including portfolio seasoning, changing economic and housing market conditions, increased delinquency in loans and hurricane-affected areas and then goes on to say:
"In addition, changing borrower profiles and higher combined loan to value ratios contributed to the increased non-prime delinquency."
With respect to that sentence, the one about borrower profiles and higher combined loan to value ratios, did you have any discussion with anybody about the inclusion of that particular disclosure on the 10-K?
A No, I did not. But what's interesting to me is it encompasses much of what McMurray was concerned about. I mean, it doesn't do it in -- you know, in the detail he has, but this --
Q Well, here's what I wanted to ask you about it. It's limited to non-prime. The discussion here is -- it says that those factors contributed to the increase "non-prime delinquency." And I'm wondering if those issues, the changing borrower profiles and higher LTVs were only a factor with respect non-prime?
A It appears that way because if you look at the preceding page, you had a small -- you know, you had 11 basis points increase in conventional which is prime I assume, and

784:1 then the non-prime you had a 150 basis point increase in delinquencies.

Q And just so the record --

A I'm sorry, loans pending foreclosure. And that's -- in conventional you had very little increase. In the non-prime you can see a 400 basis point increase in delinquencies and it feeds down into the foreclosure number. So I think that that's the reason why you had a -- he pointed out that you had a pretty substantial increase in non-prime. I assume that's why they talked about it.

Q Okay. And just so the record is clear, what you were referring to there was the table on page 113 that sets out the composition of the owned servicing portfolio year over year, year end 2005 to 2006 and then breaks out delinquent mortgage loans and loans pending foreclosure?

A That's correct. Though the overall -- you can see on the same page the overall delinquency was -- you know, had a 50 basis points increase but it was really in the non-prime was the problem.

Q Okay. So at this point in time, at year end 2006, the focus with respect to delinquencies at least for disclosure purposes was the non-prime delinquencies that you pointed out on page 113?

A Yes. Because the numbers indicated the problem.

Q In conjunction with the finalization and filing of

785:1 the 10-K for the year end December 31st, 2006, did you participate in any discussions in which it was suggested that there should be additional disclosure with respect to credit risk at the company?

A Not that I recall.

Q In conjunction with the filing of the 10-K for 2006, did you participate in any discussions at which the subject of whether the company should make additional disclosure with respect to the percentage of reduced documentation or stated income loans being originated by it should be disclosed?

A Not that I recall.

Q In conjunction with the filing of the 10-K for year end 2006, did you participate in any discussions at which the topic of whether the company should disclose the percentage of Alt A loans it was making should be disclosed was discussed?

A Not that I recall.

Q Did you participate in any discussions with respect to whether the percentage of loans originated at loans to value or combined loans to value of 95 percent or greater should be disclosed with --

A Not that I recall.

Q Did you participate in any discussions with respect to the year end 2006 10-K at which the subject of whether the percentage of loans being originated with piggyback seconds should be disclosed was discussed?

A   Not that I recall.

Q   And did you participate in any discussion with respect to the preparation of the year end 10-K for 2006 at which the subject of the percentage of loans Countrywide was originating with layered risk characteristics should be disclosed?

A   Not that I recall.

MS. DEAN: Thank you. Off the record.

(A brief recess was taken.)

MS. DEAN: Back on the record.

BY MS. DEAN:

Q   Mr. Mozilo, I'm handing you now what has been marked as Exhibit 579. For the record, this is a two-page -- or, actually -- yeah, it's a two-page e-mail with no text on the second page, and the Bates stamp number is CFC2007A477511 through -512, and the e-mail at the top of the first page is Angelo Mozilo to Dan Tarman, Kay Garfen, and Eric Sieracki dated March 11, 2007.

Do you recall writing the e-mail that's now been marked as Exhibit 579?

(SEC Exhibit No. 579 was marked for identification.)

A   I don't recall writing it, but I'm sure I did.

787:1

Q Okay. Your e-mail at the top of the page was actually written in response to a forward contained below. Dan Tarman apparently forwarded to you an e-mail from Maria Bartiromo. And I think earlier today we talked about a Business Week interview that you might have done with Maria Bartiromo. Did you do more than one of those?
A I don't think so. I only think I did one.
Q Okay.
A I did interviews with her but not Business Week.
Q Okay. So this e-mail probably relates to the same interview?
A I would think so, yeah.
Q I just had a couple of questions. In preparing for the call, you apparently wanted some information provided to you so that you could be prepared to respond to her questions, and you asked for the percentage of Countrywide production in 2006 that was sub-prime and also the percentage that was Alt A. This is at the top of the --
A Yeah, I know, but I'm looking at her -- I think what prompted -- I wouldn't ask these questions unless something had prompted it.
Q Well, she asked how exposed Countrywide would be to the sub-prime --
A Okay.
Q So my question is if the question is how exposed

788:1 was Countrywide to the sub-prime fallout, why were you interested in the percentage of Alt A production?

A I think I was just trying to prepare myself for any question. When you're dealing with these reporters, they come from all angles. So I just wanted to make sure to give accurate information, just be sure I covered all my bases. I would -- that's what I assume.

Q Did you have any reason to believe in March of 2007 that the defaults that you -- that Countrywide had been experiencing in its sub-prime portfolio were going to also be experienced in the Alt A loans that it originated?

A No, I had no reason to believe that.

Q You know, I should have asked you this when we had the 10-K in front of us. That disclosure about the non-prime delinquencies contained a phrase changing borrower profiles. Do you know what was meant by that?

A It would be an assumption is what McMurray talked about in terms of expanding -- the expanded guidelines. That's the only frame of reference I would have for it.

Q So expanding guidelines would change the borrower profile because, for example, you might have borrowers with lower FICO scores?

A Lower FICO scores or lower income ratios to the mortgage payment, that kind of thing. I think that would be the basic elements of the profile.

789:1 Q I'm going to hand you now what was previously marked as Exhibit 246. Exhibit 246, for the record, is a multiple-page e-mail string Bates-stamped JPM001036 through -1038. The e-mail at the top of the first page is from John McMurray to Erica Joseph and Jie Ling, and it's dated April 10, 2007.

You're not copied on this particular e-mail string, but I wanted to ask you if you've ever seen it before?

(SEC Exhibit No. 246 was referred to.)

A I've never seen it before.

Q This is another one of Mr. McMurray's attempts to respond to the MD and A questionnaire that was being circulated, this time in conjunction with the first quarter 10-Q for 2007, and I really just wanted to call your attention to a couple of things in it and ask you if Mr. McMurray had ever pointed those things out to you.

If you look at the e-mail that starts at the bottom of the first page, which is dated April 9th, 2007 and then it spills over onto the second page, item number 1 in that particular e-mail Mr. McMurray, he apparently is responding to whatever -- something in the template that says is there anything you would like to add, and he writes in item number 1:

"As I've mentioned previously, I still worry about timing. There are still decisions being made which will

790:1 ultimately affect these disclosures."

Had Mr. McMurray ever expressed to you a concern about the timing of the certification process and being asked to certify documents before disclosures were finalized?

A Never.

Q Did anyone else at the company ever express that concern to you?

A Never.

Q Item number 2 in that same e-mail, Mr. McMurray wrote:

"I recommend more adherence to existing governance processes."

That's on the top of page 1037. Did Mr. McMurray ever express a concern to you that the company was not adhering to existing governance processes?

A He never expressed it to me, nor did he use any intermediary to express it to me.

Q So nobody in the company ever told you that Mr. McMurray had that concern?

A No. And my door was open all the time.

Q Item number 3 Mr. McMurray, it's a long comment, and I'll just summarize it. He makes a note that the company is going through a transitioning credit environment, and then the last sentence of that comment he notes that as a result of that transitioning environment and the unwinding of market

791:1 excesses and structural changes, will be that "our estimates used for valuations, reserves, et cetera, will be less accurate than before."

Do you see that?

A Yes.

Q Did he ever express that concern to you?

A Never expressed it to me.

Q Did anyone in the company ever express a concern to you that the rapidly transitioning credit environment in the first part of 2007 might affect estimates for valuations and reserves?

A No, not in this context where there was a concern on governance or any of that. Plus, I'm not sure that what was the ultimate resolution of all of these e-mails, did it feed into the -- ultimately feed into the disclosures, you know, I don't know, but there was never a discussion with me about his issues about any of this, and in terms of reserves, the -- the process for that was to have our CFO go through the financials with the board and me present at the quarterly meetings as to what impact did the earnings and the company plus or minus these reserves. So reserves were discussed at that level with the senior management, but none of this was evident to me.

Q At the top of the first page of Exhibit 246, the e-mail from Mr. McMurray to Erica Joseph that's dated

792:1 April 10, 2007, Mr. McMurray is responding to an e-mail from Ms. Joseph in which she says that she wants him to complete a template and they'll update the 10-Q, and he asks what is that template. Then he goes on to say:

"As an aside, not all of my comments have made it into your previous filings."

Did Mr. McMurray ever express that concern to you?

A Never.

Q And did anyone in the company ever express a concern to you not just about credit risk but just generally speaking any of the certifiers, did they ever express a concern to you that not all of their comments were making it into the periodic filings?

A No. My process was to have these certifications submitted to counsel, and I sat down with counsel and said "Are there any issues raised in the certification? Before I certify, has anybody raised any issues or concerns," and the answer -- I asked that question each time for each quarter, and I never got an answer. Susan Bow or it may have been from time to time Sandy Samuels ever said there's a problem here. Never. You're clear to sign.

He went with Washington Mutual I believe, right?

Q Mr. McMurray.

A And they went down.

Q Yes. Mr. Mozilo, I'm handing you what's been marked as Exhibit 580. For the record, this is a two-page e-mail Bates-stamped CFC2007A366334 through -335. The e-mail at the top of the first page is from Angelo Mozilo to Greg Hendry dated April 27, 2007. Subject is draft quarterly report on Form 10-Q for your review and certification by noon on Wednesday, May 2.

Did you write the e-mail that appears at the top of Exhibit 580?

(SEC Exhibit No. 580 was marked for identification.)

A I reviewed it and its content appears correct to the best of my knowledge.

Q Okay. So you did -- you received a copy of the Form 10-Q from Mr. Hendry, you reviewed it, and then you responded to him that it was correct to the best of your knowledge?

A Correct.

Q Okay. Does that refresh your recollection as to who Mr. Hendry might have been?

A No. I mean, I know the name. I've seen the name over and over, but I don't think I ever met him personally.

Q Well, does this e-mail refresh your recollection to the extent that you believe that Mr. Hendry worked in the OCC filing or the periodic filing group?

A Yeah, sure.

Q Okay.
A I accept that. Are these all the people that have to certify? I can't believe that. Do you know?
MS. DEAN: Off the record.
(A brief recess was taken.)
MS. DEAN: Back on the record.
BY MS. DEAN:
Q Mr. Mozilo, I'm handing you what's now been marked as Exhibit 581, which is multiple-page document Bates-stamped KPMG07QR1-002-000230 through -231 and then page 234 is also attached at the back. I actually compiled this document. So we have a two-page certification and then a certification pursuant to Sarbanes-Oxley, both of which purport to be signed by Angelo Mozilo. Is that, in fact, your signature on page 2 and then page 3 of Exhibit 581?
(SEC Exhibit No. 581 was marked for identification.)
A It appears so, yes.
Q And did you certify the Form 10-Q for the first quarter of 2006 for Countrywide Financial Corporation?
A 2006 or 2007?
Q Sorry, 2007.
A Yes, I did.
Q I am now handing you what has previously been marked as Exhibit 1035, and I apologize there's a loose page

795:1 at the back of that. It's kind of coming out of the staple. Exhibit 1035 is a copy of the Form 10-Q for the period ended March 31st, 2007 for Countrywide Financial Corporation. Do you recognize Exhibit 1035?

(SEC Exhibit No. 1035 was referred to.)

A I do.

Q Okay. And did you review the MD and A section of Exhibit 1035 prior to its filing with the SEC?

A I believe I did.

Q I'm going to take your counsel's suggestion at this point and just ask you an omnibus question for all of the filings with respect to 2007. So with respect to the 10-Q for -- or the 10-Q's for the first quarter, second quarter, and third quarter of 2007 and the Form 10-K for the year ended 2007, did you ever participate in any discussion with anyone at Countrywide about whether there should be additional disclosure with respect to credit risk?

A No, I didn't, but let me just correct the -- I just want to make sure we're right here. Did we have a -- did Countrywide produce a 10-K for 2007?

MR. BRENNER: Yes.

THE WITNESS: It did. Okay. I'm sorry.

No, I didn't.

BY MS. DEAN:

Q Okay. So you did not have that discussion?

A Did not.

Q And did you -- in connection with those -- I'm sorry. Did I --

MR. McLUCAS: As far as he remembers. I just want to be careful because his memory is not absolute.

THE WITNESS: I don't recall doing it.

BY MS. DEAN:

Q Okay. Fair enough. And with respect to the -- the 10-Q's for the first three quarters of 2007 and the 10-K for the year ended 2007, did you ever have any discussion with anyone at Countrywide about whether there should be additional disclosure with respect to the percentage of loans being originated by the company on a reduced documentation or stated income basis?

A I don't recall any discussion.

Q And with respect to the 10-Q's and the 10-K for 2007, did you participate in any discussion with anyone at Countrywide about whether there's the additional disclosure with respect to the percentage of loans being originated by the company that were Alt A loans?

A I don't recall that.

Q In connection with the filing of the 10-Q's and the 10-K for 2007, did you have any discussions with anyone at Countrywide about whether there should be additional disclosure of those loans originated by the company that had loans to value or combined loans to value of greater than 95 percent?

A I don't recall.

Q With respect to the preparation and filing of the 10-Q's and the Form 10-K for the period 2007, did you have any discussion with anyone at Countrywide about whether there should be additional disclosure about the percentage of loans being originated that had piggyback seconds?

A I don't recall any discussion.

Q Okay. And with respect to the Forms 10-Q and the Form 10-K for 2007, did you have any discussion with anyone at Countrywide about whether there should be additional disclosure with respect to the percentage of loans being originated with layered risk characteristics?

A I don't recall that discussion.

Q I just want to call your attention to a couple of items in this particular 10-Q that's been marked as Exhibit 1035. On page 36 of the document this is a portion of the MD and A that discusses the loan production sector, and there's a chart at the top of page 36 that breaks out pretax earnings, and then immediately below that there is a disclosure about -- a narrative disclosure about the revenues, and five lines up from the bottom of that paragraph starting on the left-hand side of the page with the phrase non-prime revenues there's a sentence there that indicates that in the first quarter of 2007, Countrywide had to write down $217.8 million in non-prime mortgage loans that had been held for sale.

A Now, where are you -- are you looking at the table or the narrative?

Q No. I'm looking at the narrative paragraph.

A Okay. I'm sorry.

Q That's okay. So in that paragraph, immediately below the table, five lines from the bottom of the paragraph, starting with the phrase non-prime revenues on the left-hand side.

A I see that.

Q Okay. There is a disclosure there that indicates that Countrywide took a $217.8 million write down of non-prime mortgage loans held for sale predominantly related to loans that were transferred to loans held for investment. Do you know why those loans were transferred from held for investment to held for sale in the first quarter of 2007?

A I don't recall.

Q Did you -- did you participate in any discussions about the decision to move those loans from held for sale into held for investment?

A I don't -- I don't recall, and they took a write down of those loans. So they brought them to market I assume when they put them into HFI, yeah. I don't recall a

799:1 conversation.

Q Okay. Did Countrywide to your knowledge have -- was there a held for investment portfolio at CHL in addition to the one at the bank?

A If there was, it was tiny because we didn't have liabilities to offset it. We didn't have deposits in CHL. So the key to Countrywide, that's where we originated everything, would be sale going to the secondary market. So everything would be sold. The only time we held loans for investment was where we made a mistake, you know, we couldn't sell the loan and we had to perfect it in some way or do something, but it was -- the goal was always to have no loans held for investment.

Q In the first quarter of 2006, did it come to your attention that Countrywide was actually having some difficulty securitizing non-prime loans into the secondary market?

MR. BRENNER: 2007.

THE WITNESS: 2007?

BY MS. DEAN:

Q Let me ask it again just so the record is clear. In the first quarter of 2007, did it come to your attention that Countrywide was, in fact, experiencing difficulty in securitizing non-prime loans?

A I don't -- I don't recall that.

800:1 Q Okay. At the bottom of page 41 and then going over to the top of page 42 --

A That's not saying it didn't happen. I'm just -- I just don't recall. I mean, a lot of things were happening in 2007.

Q I understand, and I just wanted to get from you whether or not you recalled being involved in discussions about that, and it sounds like the answer is no.

A I don't -- I wouldn't say -- I just don't -- you know, there's lots of discussion about HFI and, you know, HFS, and, you know, some of it I'm not involved at all as I read this, some of it I may have heard about. I don't know, but I don't recall it.

Q At the bottom of page 41 and moving over to the top of page 42, this is the discussion that we've previously seen about the bank's held for investment portfolio of the pay option ARMs, and I just wanted to ask you a couple of things about it, the first of which is I just want to note that, again, that disclosure about reduced documentation that we saw in the second and third quarters of 2006 doesn't appear here, and I wanted to know if you participated in any discussions with respect to whether or not that disclosure should be included in the first quarter 10-Q for 2007?

A Don't recall any discussion that.

Q And you don't recall anyone calling it to your attention one way or the other?

A No.

Q Okay. The other thing I wanted to ask you about with respect to this particular disclosure if you look on page 42, the loans delinquent 90 days or more, which is the last line in the chart on page 42 --

A Correct.

Q -- delinquencies year over year, they were at .63 percent at year end December of 2006, and then they were at 1.02 percent in March 31st -- it's actually delinquency. Let me strike and try this question again.

If you look at loans delinquent 90 days or more, the disclosure in that table, it compares the percentage delinquent at year end 2006 with the percentage delinquent at the end of the first quarter of 2007. And then delinquencies have risen from .63 at year end '06 to 1.02 percent at March 31st, 2007.

Would you have found that delinquency trend to be an indicator that there might be potential problems with this particular portfolio?

A No, not at all. It's very, very low, extraordinarily low delinquency rate.

Q So the fact that the delinquency trend was increasing was not an issue of concern?

A When you start from a very low number, that's not uncommon, you know, as the portfolio seasons.

Q One last thing about this document, Exhibit 1035, on page 67 there is a disclosure here that is headed "Impact of declines in credit performance." And I -- my first question is do you recall reviewing this particular disclosure in conjunction with the filing of this 10-Q?

A I do not.

Q Did you ever -- did you have any discussions that you can recall about the inclusion of this particular disclosure?

A No, I didn't. But, again, I do see McMurray's inputs here.

Q Right. This is actually -- there's a disclosure. The second sentence in this particular paragraph, there's -- this is a new disclosure for this Q, and it reads:

"In 2007, we have observed a marked decline in credit performance (as adjusted for age) for recent vintages, especially those loans with higher risk characteristics, including limited documentation, higher loan to value ratios, or weak credit scores."

Was that trend, the decline in credit performance, a trend that Countrywide only began to observe in 2007?

A I don't know the answer to that question to be honest with you. There's been disclosure after disclosure about the performance of sub-prime and Alt A's in the previous disclosures, and I -- I mean, are you saying this is the first time this is in here?

Q This particular language, this is the first time. It's the only reference to reduced documentation in this particular Q, and it's the first time that there's been a discussion about a declining credit performance being attributable to both reduced documentation and lower FICO scores and --

A Well, again, I think that this is --

Q Let me just -- and higher loan to value ratios.

A Yeah. Again, going back to what you showed me in terms of the memos that were going back and forth with McMurray and the SEC filing people, that this was -- this was an issue that the credit risk people were concerned about and, therefore, disclosed. But I'm not -- you know, phrase your question again to me. I'm sorry.

Q Well, it's just the disclosure says in 2007 Countrywide observed marked decline in credit performance.

A Right.

Q Was that the first time -- was that marked decline and credit performance something that was limited to the first quarter of 2007 or had that been a trend that was observable in 2006?

A It -- I can't answer that question. The people that put this together, you know, in terms of disclosure, 804:1 things have begun to change. I can't tell you whether it was December of '06 or November of '06 or January of '07, but there was no question it was common knowledge now that there was a -- some deterioration in credit quality. But yet delinquencies were very, very tolerable levels. So this is a foreshadowing of what may happen going forward, but that's, you know --

Q Okay. Let me hand you what has been previously marked as Exhibit 750. I apologize for the tiny print. This is -- 750 is Bates-stamped CFC2007G048653 through -674, and the -- the header on the first page is "First quarter 2007 supplemental presentation, sub-prime business and credit summary April 26, 2007."

Do you recognize Exhibit 750?

(SEC Exhibit No. 750 was referred to.)

A I do not.

Q To your knowledge, did Countrywide prepare PowerPoint presentations that were used at the earnings calls that it had with analysts?

A Yes. As I recall -- this is my -- we used PowerPoint for -- for internal presentations. We used PowerPoint for external presentations, for the meeting, and so I don't know what this is -- I don't know what this was prepared for.

Q Well, I'll represent to you that there was, in

805:1 fact, an earnings call on April 26, 2007 at which the first quarter earnings were presented and this particular PowerPoint --

A Who did the presentation?

Q I don't remember who spoke. I know McMurray spoke, but I'm not sure who else did.

A It's probably his presentation.

Q Well, what I wanted to ask you, leaving this document aside since you don't recognize it, did you yourself have any role in the preparation of any of the supplemental presentations that were provided during earnings calls?

MR. BRENNER: You mean ever?

MS. DEAN: Ever, yeah, leaving this document aside.

THE WITNESS: Oh, leaving this document aside?

BY MS. DEAN:

Q Just in general, did you ever have any role in that preparation process?

A In the earnings calls?

Q Yes.

A Yes. My role was to review the script that was given to me, and so they would give me a -- they gave me various versions of a script. I review it and see if -- most of the time it's fine. Sometimes I've had corrections or opinions. So that was between myself and IR, investor relations. Dave Bigelow and Lisa Riordan are the two

806:1 participants.

Q Aside from the script, if there was a supplemental handout of -- either a handout or a PowerPoint presentation, did you have any role in the preparation of those documents?

A I don't believe I ever did, no.

Q Okay.

A I don't recall that.

Q This particular presentation, the one that was made at the first quarter earnings call, focused on sub-prime issues. Do you have any insight into why that would have been the focus of the presentation in the first quarter of 2007?

A I have no idea. And this is an earnings call?

Q Yes.

A I would only -- again, I could only assume that that was a topical issue and I wanted McMurray our chief risk officer to give his views on it.

Q Well, let me direct your attention to page 6 of Exhibit 750. It's the one that ends on Bates stamp 658. There's a chart at this page and it's headed sub-prime business estimated impact on our originations, and without going through the whole document, I'll represent to you that the prior chart -- the prior pages contain some representations about how Countrywide was tightening its underwriting guidelines in the sub-prime area, and this chart

807:1 appears to be an attempt to quantify what effect those guideline changes would have on originations.

A Would have or --

Q Would have.

A Would have.

Q Because there's an estimate. And there are some statistics provided here both with respect to sub-prime as a whole in terms of sub-prime volume and then different sub-prime products broken out below that. There's a sub-prime production profile. Did you have any role in deciding to disclose this information in the first quarter earnings call?

A No, I did not.

Q Okay. And who would have been responsible for deciding what the topic would be in a particular earnings call?

A It generally emanated from IR because over the period of the quarter they're getting inquiries from analysts and so I think it was the -- it was the results of those conversations that created the topics that they were going to be addressed or it might have been -- it also went in from IR as to media articles about particular topics where investors would be concerned.

Q I'm just going to ask you a vocabulary question on this particular page. The last line item is FTHB as a

808:1 percentage of total. Do you know what FTHB stands for?

A I have no idea.

Q Okay.

A They go from 22 percent to 100 percent. I don't know.

MR. BRENNER: First time home buyers.

THE WITNESS: Yeah, very good.

MS. DEAN: Very good.

THE WITNESS: That's very good. How did you come up with that?

MS. HOGAN: I read a lot of documents.

THE WITNESS: Oh, okay. So it's first time home buyers, okay.

BY MS. DEAN:

Q Okay. So the changes in guidelines with respect to that line item would have -- the fourth quarter '06 production of sub-prime loans to first time home buyers was 22 percent and they're estimating second quarter of '07 that it will be 5 percent.

A That's the problem we face today.

Q Okay.

A First time home buyers can't get loans at all.

Q Okay. All right. But you yourself didn't have any role in deciding to disclose this particular set of information?

809:1

A No, I did not.

Q If investor relations decided that they wanted to focus the presentation on a particular area, who would they have worked with in order to make that happen?

A You mean to get clearance that it's okay to present it?

Q Yes.

A They might come to me from time to time. I didn't want to have control over that issue, and so if they felt it was appropriate, then they did it. They'd come to me. Basically Dave Bigelow headed it, would give me the agenda. Now there were times that I have said I want to cover a particular topic and, you know, from time to time that might have been what I may have said, I want to cover this particular area because it's a concern to people.

Q But that wasn't the case in the first quarter of 2007?

A It wasn't the case relative to this. I don't know what the whole agenda was.

Q Okay. Let me hand you what has previously been marked as Exhibit 304. This is a single-page e-mail from Angelo Mozilo to Carlos Garcia with a carbon copy to Dave Sambol. It's dated May 20, 2007, and the Bates stamp is CFC2007B015473.

Mr. Mozilo, did you write the e-mail that's now

810:1 been marked as Exhibit 304?

(SEC Exhibit No. 304 was referred to.)

A I did.

Q Okay. This particular e-mail appears to deal with an inquiry that you made about delinquency issues at Countrywide Bank. Can you tell me what prompted you to inquire about delinquencies at the bank in May of 2007?

A My overriding concern about everything that goes on at Countrywide. It was nothing that -- you know, nothing I could recall that prompted me. I do this continuously. You have to pull out this one memo when I wrote plenty around this issue, because REOs, you know, are very problematic to a bank, and delinquencies lead to REOs, and so I just want to get a sense of where we were, and the second part of it was to the extent that you change the mix and you add new loans onto the -- onto the balance sheet that are high quality, then you dilute the delinquency issue.

Q Well, was Countrywide actually experiencing a delinquency issue at the bank in May of 2007?

A I'm not aware of that. I think it was -- as the CEO of a bank, these are the issues that at least I believe you should be focused on all the time and I want to make sure they're focused on it.

Q Let me hand you what has been previously marked as Exhibit 305. 305 is a two-page e-mail -- or, sorry -- three-page e-mail Bates-stamped CFC2007A366555 through -557. The e-mail at the top of the first page is from Angelo Mozilo to Carlos Garcia and Dave Sambol. It's dated May 24, 2007.

And I think if you turn to the back of this particular e-mail, the page that's Bates-stamped 557, the first e-mail that started off this particular chain is the one that we just looked at which is your May 2007 request. And in response to that, Mr. Don White wrote you an e-mail on May 21st, 2007.

Do you recall receiving Mr. White's e-mail?

(SEC Exhibit No. 305 was referred to.)

A I'm sure I did. I don't even know who he is.

Q I was just going to ask you what his role was.

A Okay.

MR. BRENNER: But you're on a first-name basis with him.

THE WITNESS: Yeah, Dear Angelo, yeah. Well, that shows you how easygoing I am.

BY MS. DEAN:

Q In Mr. White's e-mail, he makes the following statement. He says that as of April -- this is the second paragraph of his e-mail. It's on the first page. The bank's 90-plus delinquency rate had increased to 88 basis points versus 27 basis points one year ago. And then he attributes that to some factors. Was that a significant increase in delinquent -- 90-plus delinquency rates to your mind?

A Not in my mind.

Q Okay.

A Not in my mind.

Q If you'd turn to the second page of Mr. White's e-mail, the one that ends in Bates stamp 556, the second paragraph there, the one that starts as of April, he notes that the bank's portfolio had shrunk to 68 billion down from the high water mark of 76 billion in August of 2006. Was that a cause for concern to you at this time?

A Yeah, because it distorts delinquencies because what it -- first of all, on the pay options remember we discussed that you have a very fast prepay on those loans, and the ones that prepay are the good loans. So you tend to have adverse selection down the line when you have this kind of shrinkage. You know, it's one thing if you're going to prepay them, but replacing them, we were not replacing them. So that would be a cause of concern, yeah. And you can see what he says here.

Q That it's caused a steeping in the delinquency curve?

A Yeah.

Q The other thing that he -- the other comment he made in this e-mail which is the second full paragraph from

813:1 the bottom, the one -- the paragraph that starts delinquency growth --
A Right.
Q -- he breaks it out by product, and he notes that HELOC delinquencies have increased much faster than fixed rate seconds, and then he appears to attribute that to the fact that the HELOCs had a higher concentration in California. Then he goes on to say the pay option delinquencies have grown faster than other ARMs, 83 basis points versus 46 basis points.
A Can these statistics be explained by the housing market --
Q Yes.
A -- it says here.
Q Yes. So were those statistics of concern to you when you received this e-mail in May of 2007?
A Well, you know, I mean, anything like this, I mean, these trends are a concern. It's a question of how far they go, how high they go and whether or not they tend to level off and get corrected, but that -- and that's why I asked these questions and am continuously, you know, on their rear-ends about it, and, yeah, anything of an adverse nature to the company concerns me. This is -- you know, the trend of delinquencies was going the wrong direction.
Q Your response to Mr. White's e-mail which was

forwarded to you again by Carlos Garcia was to say that the quickest resolution to a shrinking balance sheet and rising delinquencies would be to grow the bank's assets with high quality loans.

A With high quality loans.

Q And what did you mean by that?

A You know, just what I said. What -- the part you left out, just for the record, was I think I said also that we have to take lower -- our bogey for returns would be lower because generally the higher quality -- the less risk you're taking, the less rewards you're going to get. That's the way it should work. And so I was willing to lower the returns, the bogey that I talked about, in order to get higher quality loans. You know, it's always an issue, well, if you do these kinds of loans, your margins shrink, and I said fine, let the margins shrink. Let's get higher quality loans on the balance sheet. Because the run up was very quick. You know, these pay options were quick -- paying off very quickly.

Q At this point had you considered -- well, this e-mail is actually a few months after the last e-mail we saw in February of 2007 where you were suggesting that the pay option loans be sold out of the bank's held for investment portfolio. Were you -- at this point in May of 2004, were you comfortable with the quantity of pay option ARM loans that the bank was holding in its HFI portfolio?

815:1

MR. BRENNER: You mean May 2007?

MR. SIEGEL: You said '04.

BY MS. DEAN:

Q Sorry. In May of 2007, were you comfortable with the quantity of pay option loans that the bank had in its HFI portfolio?

A I don't know what my comfort level was. My recollection was that I was concerned about the pay option product, had suggested that they be sold, in fact, mandated at one point that they be sold until I was enlightened that -- that there is -- this is the best product for the bank and now we're going to -- and I don't know the timing on this, but over time we're going to get -- we think we could get insurance that can give the bank comfort and that the economics for the shareholders would be -- the shareholders would be better served if we hold onto this with insurance rather than sell it. Plus, if we did sell it, something I didn't think about, what do we replace it with in terms of assets. We'd have to dramatically shrink the bank overnight, and so -- but I can't tell you what I felt on that in May or what I wrote here.

Q Well, I mean, your suggestion here is that the bank should continue to attempt to grow its held for investment portfolio.

A With good quality loans.

816:1 Q Right. Right. But you don't -- you don't make any comment about either the HELOC delinquencies or the pay option delinquencies. So I'm just trying to understand were you at this point in May of 2007 were you comfortable with where the bank was at with respect to those assets?
A I just wouldn't phrase them. I'm never comfortable -- I'm never comfortable with anything. I mean, there's always issues. When you're in the business that we're in, you know, taking risks every day, I don't think you can be comfortable when you're in that position of taking risks. So, no, I wouldn't -- I've never been comfortable. At the time business was great. I knew at some point it wouldn't be great. I just didn't know when.
Q I'm going to hand you what was previously marked as Exhibit 817. 817 is a two-page e-mail Bates-stamped CFC2007A479051 through -052, and the e-mail at the top of the first page is from Thomas Rettinger to John McMurray, Eric Sieracki, Ann McCallion, and Alice Wang. You were not actually copied on this particular e-mail string, but I wanted to ask you about some of the statistics that are in Mr. McMurray's e-mail at the bottom of the page. So I'll give you a second to read it, and I just wanted to ask --
A Go ahead and ask me.
Q Okay. Mr. McMurray wrote on June 11th to Rod Williams and Kevin Bartlett and provided them with some

817:1 information having to do with the draft HELOC default model, and I in particular wanted to focus on his comments about the deteriorating mix. He indicated to Mr. Williams and Mr. Bartlett that compared to the 2005 vintage, recent HELOC fundings have had much higher risk characteristics, and then he goes on to elaborate on what those are. He says several things. He says FICO scores have actually improved, but then he also notes that the combined loan to value has deteriorated from 70.2 percent to 83.6 percent.

Were you aware of that particular statistic in --

A I don't recall being aware of it.

Q Okay. He also makes the point that no equity loans, which he defines as CLTVs, above 95 percent were up 1927 percent. Were you aware of that particular statistic?

A I was not.

Q At the time --

A I don't think I was at the time.

Q Okay. At the top of the second page, he notes that low documentation HELOC loans are up 1200 --

A And, you know, it's important to note that was 1.1 percent, you know. It was virtually zero.

Q Okay.

A You know, to help you put it in perspective, it was 1.1 percent, to 22 percent.

Q All right. So you're just referring to -- he says

818:1 that the no equity loans are up 1927 percent from 1.1 percent of originations to 22.3 percent of origination?
A I'm not saying that it's not -- it's not a significant move, but there is a distortion in a 1,000 percent increase.
Q Okay.
A When you start from zero.
Q And then low documentation loans, HELOC loans, he says originations of those are up 1286 percent from 4.3 percent to 59.6 percent. Were you aware of that statistic?
A I was not.
Q He says that one borrower loans were up 235 percent from 19.4 percent to 64.9 percent. Were you aware of that statistic?
A No. I only became aware of the one borrower loan close to when, you know, Countrywide was over with. I had no idea they were going on, these one borrower. I never heard of such a thing.
Q Well, tell me what a one borrower loan is.
A Well, I think what it is -- I think what it -- the way it was explained to me is this is a couple, could be husband and wife, have figured out -- let's -- and let's say one has a 550 FICO and one has a 700 FICO and they both work, they both can support -- you know, say, look, I'm not going

819:1 to go in because with my 550, we're going to have to pay a lot more. So I'm not taking title. I'm not in the mortgage. I'm not part of it. It's just -- that's my understanding of it. And so they did it to avoid detection of the 550 FICO, and it is also my understanding -- I have not validated this. I don't have any statistics to prove it -- that these loans performed worse than you would see in the more classic husband and wife type loan. But that's my understanding of the one borrower.

Q And you weren't aware that Countrywide was originating those until sometime later in 2007?

A Yeah, at the end of 2007. I didn't know what they were talking about.

Q Okay. Mr. McMurray also makes the point that HELOC loans made to investors -- by which I gather he means non-owner occupiers?

A Right.

Q -- were up 1460 percent from .5 percent to 7.8 percent.

A Yeah.

Q Were you aware of that statistic?

A I was not aware of it. But, again, you know, you have to look at the actual percentage rather than the -- it's still a relatively low number, but -- anyway, it is what it is.

820

Q And then with respect to layered risk which Mr. McMurray defines in this e-mail as greater than 95 percent CLTV plus low documentation, he says those loans are up from 9 to 15.3 percent with respect to HELOC originations. Were you aware of that statistic?

A No, I was not. When was this presentation made?

Q This particular e-mail is June of 2007.

A Okay. This is April. I'm looking at the presentation in April because I didn't see any of this stuff. Okay.

Q Just for the record, you were referring to the first quarter earnings presentation just then?

A Right. And, by the way, the average FICO, that's okay. The average CLTV they call it refreshing. This is prior to any refreshing out. I don't know what happened to values, but for a long period of time, you would -- you take your CLTV, combined loan to value, and you would -- you would -- you would use the number that was the case at the time you originate a loan, and that's what we did. We never -- to my knowledge, we hadn't refreshed. Refreshing means many companies, many banks went back because values went up. The loan amount stayed the same. The values went up. Their combined loan to value was much lower than ours. I don't know if we ultimately went to refreshing or not. And but this -- you know, this is -- 83 percent is still, you

821:1 know, 16, 17 percent equity. It's not -- we make those loans every day, you know, every day of the week.

Q On the second page of Mr. McMurray's e-mail, the one that ends in Bates stamp 052, he -- in the paragraph head "Performance has deteriorated," he makes the point that HELOC delinquency is up almost 200 percent over the past year from 1.87 percent to 5.54 percent and up 600 percent since '03 and '04 when the total HELOC delinquencies were stable at around .77 percent. Were you aware of those statistics?

A I was not aware of those statistics, no.

Q Okay. He also goes on to say that since March of 2000, total HELOC delinquencies were up over 800 percent while sub-prime delinquencies were up only 107 percent. Were you aware of that statistic?

A I was not. I think in 2000 we didn't do too many home equity loans. You have to look at the denominator of all these numbers, you know. They're going to start up with a low number. It's going to be a higher number. But I was getting -- you know, I got flash reports every month and was following over all delinquencies and -- they weren't parsed out the way he's laid them out here. I'm sure they're -- I'm sure he's accurate.

Q To the extent that you had been aware of these statistics, would you have believed this information to be material to investors?

A I'd have to put it through a process. After the -- going through with my colleagues all of these numbers, what was our starting point, where are we today, how do we compare to other banks in terms of these numbers, where is it headed. I -- you know, at that point we make a collective decision whether we have in those I believe in these disclosures that delinquencies are -- we have delinquency -- we have tables of delinquencies. We disclose that to investors. We have it by category. We disclose that to investors. We talked about the -- the widening of the -- the underwriting standards. All of that was disclosed in one form or another. But I'd have to go back to those and see does it really cover this specific issue. I don't think I can answer your question unless I digest it, get all the numbers, get all the factors and if it's material to the company's performance, material to the shareholders, then it should be disclosed, but I'm not sure this does that, this one document does that.

MR. BENDALL: You mean crosses the --

BY MS. DEAN:

Q Provides you with enough information to make a determination of --

A Yeah. I mean, you asked me a question would I disclose this. I think, again, as I reviewed the disclosures as you went over each of these tables with me that we had in

823:1 the 10-Q's and the 10-K's, much of this was covered, and if you go through the -- through the Q and As of investors, superimposed on these disclosures, I think all of it -- you know, clearly the deterioration in delinquencies was common knowledge, and we disclosed that. You know, and what was happening with the pay options, we disclosed that specifically as what was happening with pay options and what was happening with home equity loans.

So I think from my perspective, not even ever seeing this document, my base of knowledge, I thought that the -- the shareholders, investors, had all the information that was material. That was my -- based upon what I've seen here.

Q Well, you -- and I understand that -- I understand that, and you said in your response just now that you believed that information with respect to the widening of the underwriting guidelines had been disclosed to investors.

A I think I read a lot of stuff today. I don't know if that was part of it.

Q Well, I mean, I'll represent to you that I actually -- I have looked at all the Q's and the K's, and the thing that appears to be missing is the thing that I've been asking you about, which is disclosure about reduced documentation, higher loan to value, piggyback seconds, Alt A loans, the phrase Alt A doesn't appear in any Countrywide

824:1 filing. So I'm wondering --

A I thought reduced documentation was in the Q.

Q With respect to pay option ARMs. There's a disclosure about reduced documentation with respect to pay option ARM loans in the bank's held for investment portfolio. But in light of the fact that the other -- the other things that I've been asking you about today are not disclosed, the reduced documentation originations, the piggyback seconds, the higher loans to value, are those things that in light of the increasing delinquencies that were being experienced by Countrywide in 2007 that in your mind should have been disclosed to investors?

A I think knowing what we know today, you know, I don't know how to respond to that. I think that -- you saw my e-mails to the management team and all my concerns and admonitions. I had a process by which everybody had to take a look at this and to create the 10-Qs and 10-K's, and they were guided by requirements for disclosure to the SEC requirements, and I -- it was my understanding that we were disclosing everything material to the shareholders, and I accepted that as part of the process going through legal, going through the board, the audit committee, the chief legal officer, the chief risk officer. All of those people were exposed to those -- to the -- to the provisions in the 10-Q and 10-K and it was an evolving situation. You know, you look at the FICO scores, 705, 715, that's okay. And the CLTV's, fine. You know, whether the -- I don't know how much we did in Alt A loans, frankly. I don't know what our volume was in Alt A. I don't know. Maybe that was disclosed in the tables. I have no idea. Do you know?

Q It's not in the tables.

A I mean, I -- you know, it's wonderful to be able to look at this thing in hindsight. It's a great position to be in, but, you know, we were dealing -- I was dealing with what was being presented to me on a day-to-day basis and relying upon a whole team of people trained in these areas to make certain -- and the fact that their chief risk officer doesn't send me the e-mails that he's sending to people I don't even know, you know. So I had no reason to believe that we didn't have full disclosure.

MR. McLUCAS: When you -- can we take a two-minute break?

BY MS. DEAN:

Q One question and then -- you'll actually like this question. But at the time that you were reviewing and certifying the 10-Q's and the 10-K's, the question that I just asked you, should we be disclosing more about these particular loan types, that had never come up, correct?

A It never came up. It never came up to me nor did it ever occur to me that those were significant issues

826:1 because I looked at the total portfolio, looked at delinquencies in total portfolio, and the -- because that to me was the ultimate performance of the loan, no matter how you categorize them as Alt A, sub-prime, prime, you know, documented, not documented, to me the end result was my concern was overall delinquency trends which were disclosed fully, and they could have been zebra loan, whatever you call them. They were loans. They were loans to consumers who had to make payments every month, and either they were or they weren't, and labeling them in a -- for example, you know, frankly, I can't define an Alt A. And I think if you went to the COO's of every bank and asked them to define Alt A, they'd have different definitions for it. So my -- again, my concern was the quality of loans that we're putting into portfolio. Like we had a 660 number in the bank for a long period of time and what was my delinquencies. That was the heart of the matter. I mean, we could have had -- you know, so to me the earnings, the reserves, and the delinquencies and foreclosures were critical to what was going to happen to the company, not the labeling of what kind of loan it was. You know, as I think about it now, but it never occurred to me as I was looking at the -- at the -- at the MD and As.

MS. DEAN: Okay. Thank you.

Let's go off the record.

(A brief recess was taken.)

827:1 MS. DEAN: Back on the record.

BY MS. DEAN:

Q Mr. Mozilo, I have handed you what has been marked as Exhibit 582, which is a two-page document Bates-stamped CFC2007830229 through -230. It's dated June 26, 2007, and it's from Angelo Mozilo to the CFC board of directors.

Do you recognize Exhibit 582?

(SEC Exhibit No. 582 was marked for identification.)

A I recall it.

Q Okay. To your knowledge, did you actually draft Exhibit 582?

A I did not.

Q Do you know who did?

A I don't know. I don't know who did.

Q Okay.

A I couldn't even venture a guess who did. I'm not sure.

Q Did you direct somebody to draft it for you?

A I did.

Q The subject line here is "Impact of CDO Issue on Countrywide." What was the CDO issue that was referenced there?

A Well, that was the collateralized debt obligations, which was a -- became very topical in the media and I think

828:1 Bear Sterns was the -- there was some adverse publicity about it relative to Bear Sterns and other -- and other investment bankers, and I inquired as to, you know, what they were and did we have any exposure and went to our capital markets people, and I think it says here we have a $1,000,000 investment that we retained, period. And that was -- we never really got into it because the time that we were discussing it as a potential product for our capital markets, the thing began to unravel, and so we never really got -- really got involved.

Q One of the things that you say in this particular e-mail -- it's in the second paragraph -- you reference a spillover into the sub-prime space which caused a -- caused spread widening on sub-prime and Alt A residuals as well as the entirety of the sub-prime pricing. What did you mean by that?

A The -- the price for -- that buyers would buy them at steepened because of the perceived greater risk because my understanding was that CDOs was one of the vehicles that -- where these instruments were sold into, and that created greater liquidity for it and a greater demand for these products. Once the CDOs were viewed as -- I'll use this word -- as toxic or close to that, there was less liquidity for that product and, therefore, the less demand and the price steepened and margins narrowed for the -- for

829:1 this product.
Q And when you say this product, you're referring to sub-prime and Alt A?
A Yeah, whatever is noted here.
Q Okay.
A I talked about Fannie and Freddie, to assist buyers having problems in refinancing their current loans, which wasn't done.
Q You're referring to the third paragraph of this --
A That's right.
Q -- particular memo?
A Yeah, because at this same time, as I recall, OFHEO, who's the regulator for Fannie and Freddie, capped the balance sheet of both Fannie and Freddie and restricted their activities. At the time I felt strongly that they should have been much more engaged in helping these borrowers. Instead, they came out with their HOPE program.
Q One of the things I was curious about, in the last paragraph on the first page, the second sentence that starts with "In addition," you note that the company is working diligently to place as many states under the bank in order to avoid the consequences of state laws that prohibit us from doing business in the state.
A Right.
Q What was that a reference to?

A That's in reference to -- let me see if I can recall the term. Banks, because they're regulated, are not subject to state law because they're federally regulated, and we were -- and it had to do with not disparate treatment. I forget. There was a term for it, but we really couldn't originate. We were subject to legal action on loans that were being originated by banks in these same states. We couldn't do it because we had -- we could be sued by the state. Each of these states had different laws -- preemption. It was preemption laws, and we had -- we had no preemption. We were subject to every state law, which made it subject to a lot of litigation, and so a bank such as Wells Fargo, Bank of America, J.P. Morgan operating in the same area that we are, originating loans that we want to originate would do it but we'd be preempted because they're regulated, and that was the -- that was the -- it was the preemption law.

Q So there were -- in and around this time period, the sort of middle part of 2007, certain states had passed regulations prohibiting the origination of particular mortgage types, is that right?

A Yeah. It had to do with what they called -- I can't remember the stuff. But it was more than the sub-prime area. And they had thresholds that you had to meet, and if you get a hold of them, it was very complicated for each state, and we had to keep 50 sets of rules in our algorithms, and it was virtually impossible to get it right, and so there was also exposure to -- to litigation, and so we were trying to get as many states under the bank, particularly -- and there were states that were problematic, and I forget which ones they were, but they were states that were problematic and we wanted to move quick in those stated under the bank to get -- so we could compete on a level playing field with the -- with our competitors.

Q Okay. So in order to continue to originate certain types of mortgage loans that might be prohibited in one state versus another state, Countrywide was attempting to put all of its originations under the bank because due to federal preemption, the bank could continue to originate those mortgage products?

A Can't compete. We were closed out of markets that we shouldn't have been closed out of and -- yeah. See, again, over time our ability to compete against major players will simply be reduced if we don't move as expeditious as possible to put the originations under the bank.

Q And, again, you're referring to the fourth paragraph of Exhibit 582, at the top of the second page?

A Yes, thank you.

Q Sure. I notice that you repeated your comment at the bottom of this e-mail about in 53 years you've never seen

832:1 a soft landing?
A I had never seen it.
Q Was there a reason that you included that particular comment in the memo to the board?
A The only reason I think is that I was getting a lot of flack from the industry about that statement, from the home building industry and mortgage bank industry, that I was Darth Vader, I was gloom and doom and I was hurting everybody when I made the statement like that. So, yes, I just restated it.
Q Let me hand you what has been marked as Exhibit 583.
(SEC Exhibit No. 583 was marked for identification.)
A I did make that statement public, by the way.
Q It was in an earnings call, right? Yeah.
A It was just in response to a question. Somebody said "We're going to have a soft landing, right?"
Q Let me hand you what has been marked Exhibit 583. It's Bates-stamped CFC2007B004980 through -982. The e-mail at the top of the first page is from Dave Sambol to Angelo Mozilo. It's dated June 30, 2007. The subject is MBA comments on federal sub-prime guidance.
Do you recall receiving the e-mail that's at the top of Exhibit 583?

833:1 A I don't recall the specific e-mail, but I do certainly recall these issues.
Q Okay.
A And there's no doubt I received it.
Q All right. And then immediately below that e-mail there's one to you from -- one from you to David Sambol asking him to provide you with a sense of how the sub-prime mortgage guidance would affect Countrywide. So I really -- let me just ask you what was the -- the sub-prime mortgage lending guidance, if you know?
A It was -- I don't think it was only sub-prime. I think it was anything that was not a 30-year fixed, anything that had a reset provision to it, whether it be prime or sub-prime is my recollection of it and that the FDIC, OTS, OCC and the Fed put out for comment guidance on three or four topics. One was relative to -- I think relative to the appraisal process. The other was how you underwrite these indexed loans, do you -- because they were being approved at the start rate rather than the fully indexed rate. So they wanted those -- that was part of a mandate that everything be at a fully indexed rate. There was a couple of other elements of the guidelines, and they put it out for comment for 90 days. The MBA I think took a position on it. I remember my concern at the time was that we're all playing on the level playing field. I said does everybody have to do

this, you know, or is it just banks, and the problem was that, no, not everybody had to do it, just banks, just regulated entities, which meant that these loans would then gravitate to wholesale, to mortgage brokers who were not under these restrictions and find their way into -- on the balance sheet at banks, either through purchases or something like that, through correspondence and back in, and we'd end up with a real bad portfolio because they're emanating from mortgage brokers. So they don't have any sense of financial responsibility relative to the loans they originate. They're not held accountable, and so I thought it was a mandate that would cause banks problems because it was not across the board, and there was no way they could do it. They couldn't regulate the mortgage brokers, and they couldn't regulate a lot of the correspondence who will just -- you know, they were small mortgage bankers. So it would only be related to banks. So it created this uneven playing field.

And I believe that we submitted comments to the agencies and lost. They went ahead -- without I think changing anything went ahead and approved their -- the mandate.

Q Well, let me ask you a couple of questions about Mr. Mozilo's or Mr. Sambol's response to your request for, you know, how is this going to affect us. In the third paragraph of his e-mail, at the top of the first page of

835:1 Exhibit 583, he makes two statements. One he says that the guidance mandates that all sub-prime ARMs be underwritten to the fully indexed rate without qualifications or exceptions.

To your knowledge, in June of 2007, was that different than the way Countrywide was currently underwriting its sub-prime ARMs?

A I don't know.

Q Okay. And then he also goes on to state that under the new guidance stated income for sub-prime loans could only be offered if there were mitigating circumstances that minimized the need for income verification. Was Countrywide writing stated income sub-prime loans in June of 2007?

A I'm not aware of that. I don't know.

Q Okay. And then at the top of the next paragraph, Mr. Sambol goes on to say that he thinks the guidance will "further reduce our sub-prime volumes as it will overall sub-prime volumes in the market."

Was Countrywide still -- well, was Countrywide interested in maintaining its existing level of sub-prime volume in June of 2007 or was it attempting to exit that market?

A We were pulling our guidelines back, and my understanding was that -- and we were seeing -- I was seeing continuous reduction in that volume, and I was okay with that. And ultimately it was okay with the guidance -- with

836:1 the -- except for the inequity that was created between regulated institutions and non-regulated institutions. And I frankly don't know what ever happened with that.

Q Let me hand you what has previously been marked as Exhibit 306. Exhibit 306 is Bates-stamped CFC2007B039050 through -055. The e-mail at the top of the first page is from Angelo Mozilo to Carlos Garcia and Dave Sambol, and it's dated November 4th, 2007.

Have you ever seen the document that's been marked as Exhibit 306?

(SEC Exhibit No. 306 was referred to.)

A Yes, I have.

Q Okay. And did you write the e-mail that's at the top of the first page of Exhibit 306?

A I did.

Q It appears based on this particular string there's actually a memo that is attached starting on page 2 which is the one that ends in Bates stamp 051, and the memo is from Jess Letterman to Angelo Mozilo, and the subject is to address POA questions posed to Carlos.

Have you, in fact, addressed some questions to Mr. Garcia with respect to pay option ARM loans in the November or late October time period of 2007?

A You mean relative --

Q I'm on the second page.

837:1 A The second page, okay.

Q There's a memo from Jess Letterman to yourself that has the subject line to address POA questions posed to Carlos.

A Mm-hmm.

Q And the first line of Mr. Letterman's memo is:

"In response to the questions you posed to Carlos, I've provided a summary."

Did you ask some questions about pay option ARMs to Carlos?

A I have. Over -- both in terms of e-mails you've seen to Carlos over time and he and I have had discussions about the pay options since that was the majority of the bank's balance sheet or a significant part of the bank's balance sheet, yes.

Q But do you recall asking him some questions about these loans in late October, early November?

A I don't recall that specific. It was a continuum.

Q Mr. Letterman provides some statistics with respect to the pay option portfolio that was currently on the bank's balance sheet including how many loans there were and how many of those had HELOC loans behind them. If you look at page 3 of Exhibit 306, question number 2 there is how many have HELOCs behind them, and Mr. Letterman's memo to you indicates that 10 percent of the portfolio had bank owned

838:1 second liens behind them and 12 percent had CHL second liens. So a total of 22 percent of the pay option portfolio had second liens behind them.

What prompted you to ask how many of the pay option ARM loans had home equity lines of credit associated with them?

A It was -- I can only assume there was my -- it's one of the indications of how much equity the people have in their homes. The more equity they have, the less chance they are for default. They extract their equity, through, you know, a second mortgage or home equity loan that creates greater vulnerability, probably would be the reason why. I think also the fact that how much did we have of the seconds was an important factor because if we control the second, then we also had control of the first. We weren't going to be surprised by -- by somebody else holding a second and something's happening we're not aware of.

Q Question number 3 in the e-mail that Mr. Letterman wrote was what is the delinquency rate on the pay option portfolio. It's at the page ending in Bates stamp 052. And Mr. Letterman indicates that as of September 30th, 2007, 90-plus delinquencies totaled 2.91 percent of the total portfolio, which he puts out as a 261 basis point increase over the prior year period.

Did that increase in the delinquency rate cause you to be concerned?

A No. It's still a very low -- start with the denominator and this is still a very -- 3 percent delinquency rate is a relatively low rate on a -- on a historical basis. So obviously rising delinquencies is not something that I'm pleased about, but it was still within a range of reasonableness.

Q Well, let me ask you this.

A Well, let me just -- if I'm right -- I'm sorry. If I'm right -- well, defaults are far higher. If you go back up to the -- you know, to get balance to this, but Letterman is saying -- and, by the way, Letterman was the one that replaced McMurray.

Q Right.

A Well, defaults are far higher than originally predicted. Decisions to acquire mortgage pool insurance are nearly two-thirds of the pay option portfolio has substantially reduced the bank's exposure to loss.

Q And, for the record, you're looking at the second paragraph at the top of the third page of Exhibit 306?

A That's correct.

Q Well, in light of that, what I wanted to ask you about was your comment at the bottom of the first page of Exhibit 306. There's an e-mail there dated November 3rd, 2007 from you to Carlos Garcia with a copy to Dave Sambol.

840:1 The first line of which is "I don't want any more pay options originated for the bank." And then you go on to say that you question whether Countrywide should touch the product going forward "because of our inability to properly underwrite these, combined with the fact that these loans are inherently unsound unless they are full doc, no more than 75 percent LTD and no piggies."

A Right.

Q Why did you write that?

A I wrote it to provoke management to look into this product to make sure we're doing the right thing. It's the pattern you'll see in all the memos, that I expect them to come back to me and say, okay, we're not going to do any more because that's the right thing to do or that you're dead wrong and let me tell you why you're dead wrong.

Q Well, was your e-mail in response to the data that Mr. Letterman provided?

A No.

Q It wasn't?

A I don't think so because -- well, you have it attached to it. I don't think so because I take great comfort in what he said here in terms of his view of this product and delinquency rate and the fact that we have coverage on it and, you know, although this is 11/3 and this is 11/2, I don't -- I don't think so.

Q Well, I'll represent to you -- I mean, if you look at the top of the second page of this document, the -- there's an e-mail there from Jess Letterman directed to you with some copies, and there's a Word file that was attached to that e-mail, and, yeah, we were -- I mean, the memo that's attached here is a printout of that Word file.

A I don't know what that means.

Q In other words, Mr. Letterman e-mailed --

A So why don't you tell me you think this is in response to what he said to --

Q Mr. Letterman e-mailed the memo to you on November 2nd, and on November 3rd, you wrote to him "I don't want any more pay option" --

A I didn't write to him. I wrote to Carlos.

Q Oh, sorry. You wrote to Carlos Garcia saying I don't want any more pay options originating in the bank.

A Right.

Q So you had in your possession Mr. Letterman's comments at the time that you wrote the e-mail to Mr. Garcia.

A I may have had it in my possession, but I don't know if I read it or I didn't read it. I don't know. I mean, this is my reaction, and they came back to me with -- as you see in the series of memos, that these loans were performing better than HELOCs, better than any other product that we could put in the bank that would match our

842:1 liabilities, that we are seeking or had received insurance and are going to increase the insurance on these loans, and -- because if I wanted this mandated, and I was absolutely convinced this is the only way to go, then that would have been done. But the fact that it wasn't done and that we didn't sell those loans out of the bank and continued to originate -- now, we kept on pulling back our guidelines substantially on this product as a result. I was provoking them to continue to look at this thing and try to -- so I gave some guidelines, but you don't do this overnight. You don't take a system like that and just stop it overnight. You have loans and process by the billions that you've committed to, and it just takes time to work -- work these guidelines out, but ultimately there were substantial changes to the guidelines.

I'm not sure of the piggyback, whether or not that stopped. I'm not sure.

Q Well, to your point about guideline changes, Mr. Garcia responded to your November 3rd e-mail -- it's in the middle of the first page of this document -- by saying in August we implemented deep guideline cuts that eliminated close to 90 percent of the pay option ARM production. Do you see that?

A It was pretty effective.

Q Okay. But you responded to that e-mail at the top of the page by writing back "Pay options have hurt the company and the bank badly despite your belief that it is a viable product." Do you see that?

A Yeah, I see it.

Q So why did you believe that pay options had hurt the company and the bank badly in November of 2007 if you weren't concerned about the increase in the delinquency rate?

A Well, it was a -- because -- my concern was the -- we were receiving feedback from the regulators that they were concerned about it. There was constant media. There's reputational issues relative to this product. Whether it was -- you know, whether it was valid or not, it was reputational. The -- the losses -- but we had reserves. We had delinquencies. We knew that. It was just that it was a nagging issue with me that we were unable to substitute that product with anything else, and I think that -- you know, frankly, I think I went overboard, but I did say this, you know, you and Dave sit down with Steve Bailey and fully understand the problems with pay options. And, in fact, the FICO scores are not an indication of how these loans will perform because we saw high FICO going down, which I had not seen before.

Now, the subsequent fact is that high FICOs went down on every product. Thirty-year fixed went down. The house value went down, people -- we never saw that before.

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They still had their same job, no health issues, no marital issues. Nothing happened except the house went down 25 percent. They're gone. They gave us the keys.

So there's a lot of things that ultimately impacted all loans and the pay option went along with that. But I just had a -- it was a nagging issue with me and I make a comment here that the culture of Wold Savings -- I'm sure you'll probably get to that -- was different than ours, and --

Q Well, yeah, I do have a question about that. You wrote in your e-mail that "World Savings culture permits them to make these loans in a sound manner and our culture does not."

A Yeah.

Q What did you mean by that?

A What I meant by that -- and, again, I use words very loosely in these memos because they were not designed for the SEC. That was not -- otherwise I would have wrote no memos. But what I -- they were principally sub-prime lenders, World Savings was. But what they did was they had a culture whereby they would take you, give you a loan, pay option loan, and refinance you next year in another pay option loan and two years later again on the pay option loan. So you never really had a chance to go delinquent. They just keep on coming back to you because this is in their

845:1 portfolio. They can manage it totally. There's no secondary market involved, and so they -- they had full control, and they had the same basic customers. They just churn them over and over again, not in a bad way. That's how they operated.

We don't do that. We don't go back and refinance these people. That's not how we operate. They had the same field people calling on the same people over and over again. So it was just a different -- you know, a different style of operation, a totally different culture, and obviously I was dead wrong here. To my knowledge, the bank that bought World Savings went under, and they went under because of some of the problems on these loans. So -- that was Wachovia, right. They bought World Savings, and it appeared at that time they were the model. They did it perfectly, but they -- you know, the end result was that -- that the economic environment impacted everybody, no matter who you were, but I -- you know, I just keep on pursuing an issue until I'm satisfied I've got it surrounded, and this was an issue that I wanted some changes made, you know, they're down 90 percent -- 90 percent of the volume became ineligible under our new guidelines, it was over.

Q Well, but even in response to Mr. Garcia telling you that they had eliminated close to 90 percent of the production, you still wrote back to him that the --

A It just takes a lot to satisfy me. It was more of a personal thing with me and Carlos. Carlos was a big advocate of this product, and, you know, it was -- it was just trying to drive another nail, you know, in and unnecessary because the end result was it went away anyway.

Q And I don't mean to belabor this, but did you have a specific reason for believing that the pay option loans had hurt the company and the bank in November of 2007?

A I don't remember particularly in November. All I remember is that that product was problematic to -- because it got, again, a lot of media attention and it kept on surfacing up to regulators, to directors, and so it always had my attention. Now, I got to tell you I spoke to Steve Bailey about it continuously, who was head of servicing operation, and it was a product that he was relatively -- and I don't know how he feels today but at the time relatively comfortable with, thought it was under control, and we put in all of these -- which you have already asked me about and we've outlined. We put in four different payment coupons. We gave them warning letters. We gave them -- we had a team to try to refinance them. We did all kinds of stuff to try to mitigate it, but it was just -- I was just going to keep on hitting on this thing until I was totally satisfied we had it surrounded.

Q I am handing you what was previously marked as Exhibit 146. This is a copy of the Form 10-Q for the second

847:1 quarter of 2007. And, Mr. Mozilo, do you recognize Exhibit 146?

(SEC Exhibit No. 146 was referred to.)

A I do.

Q And did you certify Exhibit 146?

A I did.

Q I'm handing you what has been marked as Exhibit 584, which is a multiple-page document Bates-stamped KPMG07QR2-002-00219 through -224. The first two pages are certification by Angelo Mozilo, and the fifth page is a Sarbanes-Oxley certification also purportedly signed by Angelo Mozilo.

Is that your signature on the second page of Exhibit 584?

(SEC Exhibit No. 584 was marked for identification.)

A It is.

Q And is that your signature on the fifth page of Exhibit 584?

A It is.

Q And did you review Exhibit 146 prior to signing the certification?

A As I did most of the 10-Q's, I perused the MD and A portion of it.

Q I really only had one question about this

848:1 particular document which is if you look at page 85, this is the discussion about the bank's portfolio of pay option ARM loans. It starts in the middle of the page. The third paragraph are -- in that particular discussion, which is the last paragraph on page 85, there is a disclosure with respect to the underwriting standards for the option ARMs which states that the underwriting standards at Countrywide conform to those required to make the pay option ARM loans salable into the secondary market, and then the last sentence of that paragraph reads:

"However, these standards also allow for stated or limited income documentation."

Did you have any discussion with anyone at Countrywide about the inclusion of this particular disclosure in Exhibit 146?

A I don't recall ever having discussion of this nature.

Q Do you recall having any discussion with anyone in or around the time period when the June 30, 2007 Form 10-Q was prepared about whether Countrywide ought to attempt to quantify the percentage of pay option ARM loans that it was originating on a reduced documentation basis?

A I don't recall any conversation of that nature.

Q And no one -- you don't recall anyone ever telling you that that was a disclosure that they did not want to

include in the Form 10-Q?
A No.
Q How are you guys doing?
A Keep going.
Q I am handing you what was previously marked as Exhibit 751, which is a copy of a -- a multiple-page document Bates-stamped BOASEC000015977 through -991. And the heading is second quarter 2007, supplemental presentation credit summary and it's dated July 24, 2007.
Do you recognize Exhibit 751?
(SEC Exhibit No. 751 was referred to.)
A Just as I peruse it, then I just recognize the first slide because it's a slide that I've seen McMurray prepare.
Q Okay. And that's the one that's at --
A It says "Housing values MSA level."
Q Okay.
A You know, this presentation was made at at least one conference that I went to by John, but other than that I don't -- it doesn't ring any bells for me.
Q Well, I will represent to you that this was actually the PowerPoint presentation that was presented at the second quarter earnings call that took place on July 24th, 2007.
A By either Letterman or by McMurray?

850:1 Q I think this one was by McMurray.

A Mm-hmm.

Q Did you have any role in determining the subject matter of this particular presentation?

A I had no role.

Q There is -- let's see, starting at page 6 and continuing on page 7, there are two charts there. The one on page 6 is entitled "Home Equity and HFI Pay Option Portfolio Composition," and page 7 is entitled "Sub-Prime Residual Portfolio Composition," and there's a fair amount of information presented here about the kinds of things we were talking about earlier about --

A Low doc and --

Q Yeah, the percentage of piggyback loans, the CLTV values, FICO scores, percentage of low documentation. Did you have any role in determining that this information would be disclosed to investors in the second quarter earnings call?

A I did not.

Q Did you ever have any discussion about anyone about -- strike that.

Did you ever have any discussion in connection with the second quarter 10-Q about whether this information should be included in the 10-Q as opposed to being included in the earnings presentation?

A I don't recall any conversation of that nature.

Q And as you sit here today, do you have any understanding of why the supplemental presentation for the second quarter 2007 earnings call was focused on credit risk issues?

A I don't recall. I mean, the topics that come up at these meetings, these earnings calls are generally driven by IRs, as I said before, by investor relations, assessment of the topical issues or by directors who say, look, we'd like to have a discussion on a particular issue, not necessarily an earnings call but certainly in a board presentation, but I -- I don't know what drove -- you know, what drove this. I would say that it's probably IR that -- and analyst questions about -- and these are topical issues. Sub-prime is a big issue, and house value is a big issue, and so it's -- you know, we just wanted to include that in the presentation.

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

(A brief recess was taken.)

MS. DEAN: Back on the record.

BY MS. DEAN:

Q Mr. Mozilo, I'm handing you what has been marked as Exhibit 585, which is a multiple-page e-mail Bates-stamped CFC2007B017298 through -300. And the e-mail at the top of the first page is from Marshal Gates to Dave Sambol, Dan Tarman, and Eric Sieracki, dated July 29, 2007. The re line is new analyst report out today from Steve Fuld, very negative on CFC.

You are not actually included in this e-mail string until you get to the second page. At the top of the second page there's an e-mail from you, and then it looks like you either sent or received all the e-mails below that. So, concentrating on the portion of the document where your name appears, starting at the top of the second page, have you ever seen Exhibit 585 before?

(SEC Exhibit No. 585 was marked for identification.)

A No, I don't think I've seen it. You're talking about this memo here?

Q Well, turn to the second page.

A I'm sorry.

Q That's okay. At the top of the second page there's an e-mail from you to Dave Sambol and Dan Tarman dated July 27, 2007.

A Where I say "You should get Tarman to start putting" --

Q Right. So my question is starting with that e-mail and going through the end of the e-mail, onto the page Bates-stamped 300, have you ever seen that portion of Exhibit 585 before?

A Okay. Three hundred?

853:1 Q Yeah, just the last two pages.

MR. BRENNER: Start at the back and then move forward.

THE WITNESS: Start at the back and move forward. Lisa Riordan, okay, to Dave Sambol, copy to me, which recent -- okay. Okay. I don't remember this, but --

BY MS. DEAN:

Q Okay. Do you have any reason to believe that you didn't actually receive this e-mail?

A No, I have no reason.

Q Okay. So starting at the last page of Exhibit 585, which is the e-mail from Lisa Riordan to Dave Sambol and several other people, including yourself, Ms. Riordan attaches an analyst report from Stifel Nicolaus, and she excerpts a portion of the report in the center of her e-mail, which reads:

"Indeed, given the magnitude of the credit problems in the bank, we think management made serious miscalculations and possibly misrepresentations about the quality of loans added to the bank."

Do you recall being apprised of this particular analyst report?

A I don't remember specifically. I don't.

Q Okay.

A It doesn't mean I wasn't apprised. I just don't.

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Q Well, and you responded to the e-mail, which is actually the e-mail that's at the bottom of the preceding page.

A Yeah, but I don't know if I received the report. I'm looking at this -- I'm looking at the e-mail. I don't -- I rarely read -- I don't read fiction.

Q Okay.

A Okay.

Q Do you view analyst reports as fiction?

A Mostly.

Q Why is that?

A Because I don't know what their motivations are. This could be a short seller. We've been subject to a lot of that. And it's irresponsible for a person to make a statement like that, particularly with the history of the company, 40-year history and how we've operated over 40 years. So it's just unbelievable. But that -- I don't know what the -- and generally it was a short seller who would send something out of that nature.

Q Well, this -- this particular analyst report came out three days after the July 24 earnings presentation that we just looked at.

A Right.

Q Which included the information about credit risk, and regardless of his motivation, he made the comment that he

855:1 believed that given the magnitude of credit problems in the bank, he believed management had made some serious miscalculations and possibly misrepresentations about the quality of loans added to the bank.

Do you recall being informed about that particular issue, that he made that representation?

A It's right here in the memo.

Q Okay. And then your response to that is contained in the e-mail that's on page 299, and you said you think your use of the word misrepresentation is disturbing, and then you go on to say that you've never misrepresented any facts and have never been accused of misrepresenting any facts.

A Never. In 40 years, never.

Q Do you -- and I know it's been more than a year, but do you have any independent recollection of these events, of being informed of this and your reaction?

A No. Other than what I'm reading here, I don't know. I just --

Q Okay.

A Did Maria's interview have something to do with it? I -- there's no representation whatsoever and there's reference to --

Q I'm sorry. What are --

A As far as I'm reading here --

MR. BRENNER: He's just reading the rest of the

856:1 e-mail.

THE WITNESS: Yeah, to me from Dave Sambol. It says, "In fact, the feedback we have received from the earnings calls that we might have overdone the pessimism came off -- we were dejected." I mean, that's the kind of stuff -- I can't -- you know, the intonation of my -- when you begin monitoring the intonation of my voice and how I blink my eyes, that's -- you know, but, no, I don't -- this doesn't ring any major bells with me because I think I just must have dismissed it as, you know, a very irresponsible attack.

BY MS. DEAN:

Q Well, let me -- since you sent to Mr. Sambol's e-mail, I wanted to ask you about that. In this particular earnings call, the one that was held on July 24th, 2007, in response to a question that you received from an analyst, you made the comment that Countrywide was -- that the country was experiencing the sort of home price depreciation that had not been experienced since the Great Depression.

A That's my comment, right.

Q Right.

A It was prophetic, unfortunately.

Q And, in fact, Mr. Sambol I think references that in the last paragraph of his e-mail, which is dated July 27, where he suggests that perhaps you might give Maria Bartiromo

857:1 an interview and give her some perspective on that particular comment.

A Did I?

Q I don't know. My -- my question really goes to the decision making that went into deciding to disclose information about credit risk in the earnings call and the comments that were made about the Great Depression and the potential for no recovery until 2009. I mean, prior to the earnings call, had there been any discussion internally at Countrywide about the tone that Countrywide wanted to set with respect to this particular earnings call?

A No, we never discussed tone. It's in -- one, it's an ad hoc event. We had a presentation, and I have to only assume that either -- either the IR director or myself said, look, it's time to -- let's put out a -- you know, it was really more or less leaving it up to John McMurray, say, John, look, let's go through a credit review and -- because it's very topical these days, and do that.

And then we get into the Q and A, and that's when the personality comes out. One of, you know, response to questions that I consider irrelevant and I get annoyed and I -- you know, that's one part of it. And these were, you know, becoming tougher times in July and August, right before the -- and yet in July, despite my tone, I took down 20,000 shares of Countrywide because I believed longer term that we would be a beneficiary of all of this, that the weaker players would go and we'd be there, never thinking that the oxygen tank would be taken away from us. But so that that -- that -- you can't win these things. So if I was up, people would say, what happened? You were up. You had information like this. How do you -- you know, what makes you so positive?

So I just -- I reflect how I think at the time and respond to the questions. So there's -- but nobody sits down and says, look, the tone of this has to be up or down or sideways. I just say it as I see it, and, you know, I guess I talk about my potential retirement here or -- somebody said 68 years old.

Q Well, I guess let me -- was there any thought internally in preparation for this particular earnings call -- let me ask another question. Did you think in preparation for this particular earnings call that you needed to start reducing investor expectations with respect to future earnings?

A No.

Q At the point in time that you were preparing for the earnings presentation that was given on July 24, 2007, did you anticipate that Countrywide was going to post losses in the third quarter of 2007?

A In the third quarter, which ended in August?

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Q September.

A In September? I don't think I had that kind of insight. Generally I don't. I mean, I don't get the numbers until they're -- because so much has to be done with internal accounting as well as the external accountants and markets and that sort of thing. So I would have no idea.

Q And I see your reaction to this analyst report at the bottom of page 2 of Exhibit 585. As of July 24th, 2007, did you personally have a belief that Countrywide had previously either affirmatively misrepresented or omitted material information about its credit risk in conjunction with either its earnings calls or its periodic filings with the SEC?

A No.

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

(A brief recess was taken.)

MS. DEAN: Back on the record.

Mr. Mozilo, we have taken some breaks today, including the lunch break. Did you have any substantive discussion about this investigation with the staff of the Commission during those breaks?

THE WITNESS: No.

MS. DEAN: And did you or your counsel and the staff of the Commission arrive at any agreements with respect to this investigation during those breaks?

860:1 THE WITNESS: No, we did not.

MS. DEAN: Okay. And does anybody want to ask any clarifying questions before we end for the day?

All right. Okay. We can go ahead and go off the record, then, at 5:40.

(Whereupon, at 5:40 p.m., the examination was adjourned.)

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PROOFREADER'S CERTIFICATE

In the Matter of: COUNTRYWIDE FINANCIAL CORPORATION
Witness: Angelo Mozilo
File Number: LA-03370-A
Date: Thursday, October 2, 2008
Location: Los Angeles, California

This is to certify that I, Carol Ready (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)