The United States Securities and Exchange Commission

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

WITNESS: John P. McMurray

PAGES: 247 through 433

PLACE: Perkins Coie

1201 Third Avenue, Suite 4800
Seattle, Washington

DATE: Wednesday, July 9, 2008

The above-entitled matter came on for hearing,
pursuant to notice, at 9:07 a.m.

Diversified Reporting Services, Inc.
(202) 467-9200
APPEARANCES:

On behalf of the Securities and Exchange Commission:

PARIS A. WYNN, ESQ.
SPENCER E. BENDELL, ESQ.
Securities and Exchange Commission
5670 Wilshire Boulevard, 11th Floor
Los Angeles, California  90036-3648
323.965.4562

On behalf of the Witness:

DAVID F. TAYLOR, ESQ.
SEAN C. KNOWLES, ESQ.
Perkins Coie
1201 Third Avenue, Suite 4800
Seattle, Washington  98101-3099
206.583.8888

EMILY PAN, ESQ.
Munger, Tolles & Olson
355 S, Grand Avenue, 35th Floor
Los Angeles, California  90071-1560
213.683.9269
<table>
<thead>
<tr>
<th>EXHIBITS</th>
<th>DESCRIPTION</th>
<th>IDENTIFIED</th>
</tr>
</thead>
<tbody>
<tr>
<td>79</td>
<td>E-mail</td>
<td>250</td>
</tr>
<tr>
<td>80</td>
<td>E-mail</td>
<td>256</td>
</tr>
<tr>
<td>38-A</td>
<td>Page 943 of Exhibit 38</td>
<td>349</td>
</tr>
<tr>
<td>81</td>
<td>Enterprise Risk Assessment Map</td>
<td>370</td>
</tr>
<tr>
<td>82</td>
<td>E-mails</td>
<td>388</td>
</tr>
<tr>
<td>83</td>
<td>E-mails</td>
<td>401</td>
</tr>
<tr>
<td>84</td>
<td>E-mails</td>
<td>406</td>
</tr>
</tbody>
</table>
MR. WYNN: Why don't we go back on the record.

It's 9:07 a.m. July 9, 2008.

Whereupon,

JOHN P. MCMURRAY

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

MR. WYNN: How are you doing today, Mr. McMurray?

THE WITNESS: Fine. Thank you.

MR. WYNN: I just want to finish off the circumstances surrounding you leaving Countrywide for Washington Mutual.

MR. BENDELL: I want to note for the record, Mr. McMurray, you understand -- we're continuing the testimony that we adjourned yesterday afternoon. You understand that you remain under subpoena and under oath?

THE WITNESS: I do.

EXAMINATION

BY MR. WYNN:

Q So let me show you Exhibit -- we will mark as Exhibit 79 what is going to be a May 29th, 2007, e-mail from yourself to Mr. Sambol. The subject is the dual employee acknowledgement form. And this document is Bates numbered JPM414.

(SEC Exhibit No. 79 was marked for
251:1 identification.)

2 MS. PAN: Excuse me. What number is this exhibit?
3 MR. WYNNE: 79.
4 MS. PAN: Thank you.
5 BY MR. WYNNE:
6 Q Do you recognize Exhibit 79, Mr. McMurray?
7 A I do.
8 Q Okay. And focus on the May 29th, 2007, e-mail from
9 yourself to Mr. Sambol. Can you explain what a dual employee
10 acknowledgment form is?
11 A A dual acknowledgement -- so Countrywide had a
12 bank, a federally chartered bank subsidiary, and so the dual
13 employee acknowledgment form was a form that the bank had put
14 together that outlined certain expectations for dual
15 employees. So those would have been employees of the bank
16 and employees of one of the other Countrywide entities.
17 Q When you say "other Countrywide entities," would
18 that be inclusive of the parent corporation?
19 A It would be inclusive of CSC, the parent
20 corporation.
21 Q Okay. And as of May 29th, 2007, were you a dual
22 employee?
23 A You know, I'm not -- I'm not sure whether I was or
24 was not at that particular point in time.
25 Q At any point when you worked for Countrywide were
252:1 you a dual employee?
2      A I believe I was, but I don't know exactly what kind
3 of -- what steps would have to executed for that to be
4 official.
5      Q Okay. Did you ever sign a dual employee
6 acknowledgment form?
7      A I believe -- I believe I ended up signing a
8 modified version of the original form. I can't be absolutely
9 sure, but I believe that I did.
10      Q Okay.
11      A I did not sign the original version of the form
12 that they had shown me.
13      Q And why didn't you -- what reservations did you
14 have about signing the form as reflected in Exhibit 79?
15      A So one of the concerns is the way the form was
16 written literally any -- any item that the bank had took
17 priority over anything else without regard to how substantive
18 that was versus anything else.
19       So kind of the joke I used is if Carlos wanted
20 pencils sharpened and me to do that, I would have to go
21 sharpen pencils versus doing anything else the way the form
22 was written.
23       And so that was -- and so I was already very busy
24 and spread thin, and so I just worried about all my time
25 being consumed on bank activities as a result of signing the
form. And then the second concern was, you know, I asked -- I asked people to explain, well, you know, why is this form -- you know, why is it necessary?
And so it turned out it was an interpretation of some verbal conversations rather than actually looking at written regulations and putting something together, so --

Q    When you say it was an interpretation of some verbal conversations, what do you mean by "it"?
A    The dual employee acknowledgment form.

Q    Okay. So the form was -- it's your understanding that the form, itself, was a result of some conversations between some people as opposed to any written policy or guideline?
A    It was my understanding that the form was an interpretation of discussions with -- I believe it was with the OTS, but one of the banking regulators.

Q    Okay. And at the bottom, not the bottom, there's some language that "here's what I've done." And you see that's been redacted?
A    Uh-huh.

Q    To your knowledge, did you describe any communications that you had with an attorney from Countrywide?
A    I believe that's probably what was there.

Q    Okay. You believe that it was a conversation with
254:1 an attorney from Countrywide?

2      A  I believe that it was because --

3      MR. TAYLOR:  Just -- okay. That's enough.

4      BY MR. WYNN:

5      Q  Okay. Do you know which attorney this conversation

6 would have been with?

7      A  Either Jerry --

8      MR. TAYLOR:  Let me interrupt. We can give you

9 that information if you want us to supplement the privilege

10 log. I'm happy to have you answer, I'm just concerned you

11 have him speculating about a document he may not have seen

12 for a long time, and obviously can't see the text of it.

13      MR. WYNN:  I understand.

14      BY MR. WYNN:

15      Q  Do you recall who the attorney was?

16      A  I recall two of them that it probably was.

17      Q  Okay.

18      MR. TAYLOR:  You can answer that just with the

19 names.

20      THE WITNESS:  So it probably would have been either

21 Jerry Hager or Andy Erskine.

22      BY MR. WYNN:

23      Q  And why did you forward this May 29th, 2007, e-mail

24 to Mr. Lederman?

25      A  Well, as I talked about yesterday, he was taking
over a lot of my role as part of the transition, and so --
and he had been a Countrywide Home Loans employee. That's
another -- that was another subsidiary. And so, you know, I
wanted to make him aware of this dual employee situation.
And so that was -- that was the reason for forwarding this.

Q Would you consider this as having anything to do
with the responsibilities he would be taking over in the area
of risk management?
A I do have -- yes, I do think that this would have
something to do with him taking over responsibilities in my
role. The bank was one of the key subsidiaries, you know,
that he would have oversight of, and if he ended up spending
all of his time on bank activities, that would mean that
other activities would -- may not get the attention that they
deserved.

Q Do you recall if he asked you any questions
regarding this e-mail or the dual employee acknowledgment
form?
A He may have. As I was leaving, we met, and we went
through a lot of these e-mails that I had put together for
him.

Q Can you recall any specific question he had?
A I don't recall any specific questions that he had.
Q I want to mark as Exhibit 80 a September, 2007,
e-mail from yourself to -- excuse me-- from Mr. Mozilo to
Q. Do you recognize Exhibit 80?
A. I recognize it.
Q. All right. Can you explain what it is?
A. So after I had resigned from WaMu (sic.), I hadn't had a chance to say anything to Angelo. And so on Friday afternoon, I went by -- on a Friday afternoon -- I think that was my last day was on a Friday afternoon I went by to see him, and he was tied up in a board meeting or some type of a meeting. And so I sent him this e-mail that you see here dated September 15th. And then this is how he responded back to me.
Q. I notice you have used your personal e-mail addresses in connection with this correspondence?
A. I did. I was leaving, so --
Q. At this time did you no longer have a Countrywide account?
A. My Countrywide account very likely may have been turned off by this time. Actually, the 15th was a Saturday, so it would have been turned off.
Q. Okay. And at the top of this page it says,
"Redacted," and, again, there's some language there. My first question is simply, do you know what has been redacted here?

A    I do know what has been redacted there.

Q    To your knowledge did it involve any communication with one of your attorneys?

A    It did.

Q    Okay. And was it an attorney for Countrywide?

A    Well, no, it was -- it was these gentlemen.

Q    Understood. Okay.

And to your knowledge was this September 15th, 2007, e-mail the last time you had any kind of correspondence whether it be verbal or -- excuse me -- any type of communication whether it be verbal or electronic with Mr. Mozilo?

A    This is the last type of communication I'm aware of between myself and Angelo.

Q    What was your start date at Washington Mutual?

A    I believe the official start date was September 24th, 2007.

Q    And was your initial position chief credit officer?

A    Yes, it was.

Q    And subsequently you were promoted to chief risk officer?

A    At the end of April or beginning of May of this
Year.

Q And did you attend Countrywide board of directors meetings?
A I did. Typically the credit committee and the finance committee and then sometimes the whole board meeting, sometimes the audit committee meetings, but regularly attended the credit and finance committee meetings.

Q Okay. So your attendance at board of directors meetings was not regular?
A Not in the full board meeting, no, but on those -- on particularly the finance and credit committees, I would be at virtually every one of those, and I was at quite a few of the audit committee meetings as well, not every time like I would be with the other two and then occasionally the full board.

Q How often would you attend full board meetings?
A I would only attend if I were giving a presentation.

Q Okay. That relates to my next question, which is for what purpose would you attend full board meetings at Countrywide?
A So typically to give a presentation on a specific topic, and then there were also -- I recall two educational sessions that I did for the board.

Q What type of educational sessions?
A Just on credit risk or -- mostly focused on credit risk.

Q And with respect to the presentations you made before the full board at Countrywide, can you recall the subject matter of those presentations?

A One that I recall was on economic capital, and there was a gentleman who worked with me named B.J. Bhasin, B-H-A-S-I-N, and so we did a presentation on economic capital.

And then there was another presentation I recall where Angelo asked me to put together a presentation and then give it to the full board that just outlined all of the major risks that Countrywide faced.

Q When you say "risks," you mean credit risks?

A Well, no, it was a more expansive look at risk than just credit risk.

Q Do you know when that presentation was given?

A They both -- both of these would have been in 2006 or 2007. One of the education sessions that I mentioned would have been in 2007, and the other one might have been in 2005. And the one -- in the earlier one, it may have even been in 2004. But the earlier one, Nick Kresnich participated in the presentation with me, so he -- I focused mainly on credit risk, and he touched on some of the other risks.
Q Are you talking about the economic capital?
A I'm sorry. I'm talking about four different
  things. So --
Q Just the educational things I'm not so interested
  in, more the presentations.
A Okay. Sorry. So the economic capital would have
  been in late 2006 or 2007. That would be my recollection.
And then the multi risk one would have -- I'm thinking late
  2006 possibly.
Q Okay. With respect to the multi risk presentation
  that you believe you gave in late 2006, did you distribute
  any written materials in connection with that presentation?
A I did. There was -- there was a deck -- sorry.
So, you know, a written presentation, multi-page written
  presentation that I gave.
Q Do you have in your personal possession more
  documents related to Countrywide than were produced to the
  Commission?
A I probably do. There were a couple I found in my
  briefcase that I had pulled, and so these guys are looking at
  those to see whether they are responsive. And so -- but most
  of what I have I have turned over to Perkins Coie.
Q Okay. And is that fair to say that the majority of
  the documents that you did have relating to Countrywide are
  those that were -- that you had forwarded to Mr. Lederman in
connection with him taking over your position?
A Yes.
Q Mr. McMurray, I'm going to show you what we have formerly marked as Exhibit 41. It's a copy of Countrywide's 2006 10-K.
A Okay.
(Queen examines the document.)
Q Mr. McMurray, did you work on any sections of the 2006 10-K?
A I do recall working on -- I do recall working on some sections in here.
Q Is it possible to go through the table of contents and identify the sections that you believe you worked on?
A Sure. So -- so, one, if you look at these quantitative and qualitative disclosures about market risk, credit risk management?
Q Could you identify those by page number?
A Sure. So the first one appears as Page 94 in the contents, and the second one appears as Page 100 in the contents. And if you would allow me to look forward on a couple of these pages, there are probably other areas where I had been -- where I participated in discussions.
Q Okay.
(Queen examines the document.)
A So, for example, on Page 124, I recall talking
about some of what appears here, so being in discussion on
that. Let's -- the other thing I recall that I'm looking for
now is the B.J. Bhasin, the gentleman I had talked about
earlier, and I, we had drafted some language on economic
capital. And I don't know whether -- I don't know whether --
I didn't get -- it did not get used exactly as we had put it
together, so -- but some of it may have made it in. So I
wanted to just look.

So on Page 25, you will see a reference to the
interagency guidance on residential mortgage products. So my
team worked with the -- and I was involved in some of these
discussions as well with the FRB, OCC and OTS as this
guidance was being put together and then probably also
provided input into this section on Page 25 in the middle.

Then on Page 26, here you see the Basel II capital
standards. So a moment ago, I mentioned that B.J. had worked
on a draft for me, and so this looks like the material that
he put together. I mean, you know, it's kind of the final
version that made it in. But we would have participated on
that, Page 26.

So starting on Page 36 and 37, 38, probably a
little on 39, these would have been -- these would have been
areas where I would have had discussions or some input.

Q And when you say "discussions," who would those
discussions have been with?
They would have been -- well, particularly so Eric Sieracki, Anne McCallion, Lori Milleman, Greg Hendry. They coordinated the assembly and the writing of these filings, and so it would have -- I imagine that it would have been with them. Others might have been in the discussions as well, but I feel fairly certain it would have included one or more of them.

Q: Okay.

A: And then on 46, again, probably some discussion there on the credit piece. Let's see.

MR. TAYLOR: You said 46?

THE WITNESS: 46, credit in the middle there.

MR. TAYLOR: Okay.

BY MR. WYNN:

Q: Mr. McMurray, let me refer you to a couple particular sections, because we'll go through this document a couple times today.

A: Okay.

Q: Look at Page No. 64.

A: All right.

Q: If you look at the second full paragraph on the page, you know, it references credit risk relating to pay option arms. Did you work on this section at all?

A: I do recall working on this section, you know, not -- and there may have been other pay option references in
some of the Q's as well. So when I recall working on this,
I'm not sure whether -- it's probably very likely it was for
this as well as for the ones on the Q filings as well.
Q  Okay. Do you have a specific recollection of
working on the Q filings and language relating to credit
risks and pay option arms?
A  I remember working on, you know, pay option arm
language a couple -- on a couple of occasions, so exactly,
you know, the specifics of each time, I'm fuzzy on that.
Q  Okay.
A  But there were multiple -- there were multiple
times that it was discussed.
Q  Would you turn to Page 100?
A  All right.
Q  I'm looking under the heading credit risk
management. I think you already stated you worked on this
section beginning on Page 100?
A  I did back when we were -- I think I did talk about
that when we were going through the table of contents.
Q  I want to bring your attention to the second full
paragraph under the heading Credit Risk Management.
A  Uh-huh.
Q  It states, "Management's Credit Committee comprised
of our chief risk officer and other senior executives has
primary responsibility for setting strategies to achieve our
credit risk goals and objectives. Those goals and objectives
are documented in our Credit Policy."

A    Uh-huh.

Q    In 2006 you were the chief risk officer; is that
correct?

A    At the time that this was filed, that would have
been correct.

Q    Okay. Did you hold both positions, chief credit
officer and chief risk officer, at times during 2006?

A    I did because we were recruiting for a chief credit
officer after -- after they moved me up.

Q    Okay. And with reference to the credit policy,
that last sentence of that paragraph says, "Those goals and
objectives are documented in our Credit Policy," can you
explain what that capitalized term Credit Policy means within
the context of this 10-K?

A    So Credit Policy would refer to all of the policies
that we had in place dealing with credit risk. So one
example of that would have been the guidelines that you
showed me yesterday, I can't remember the specific number,
but that would be one example.

Q    So the loan program guides would be one example?

A    Yes. The technical manual that you mentioned
yesterday, that would be another example of part of the
company's credit policy. Within the bank subsidiary, there
would have been specific policies that were part of the
overall consolidated entities credit policy.

Q    Could you -- well, I want to come back to that.
Bank policy, loan program guides, manuals. Can you think of
anything that would have been included in the credit policy?
A    I'm sure there are lots of other things that would
be in there, but the idea was all of the policies that the
company -- that the consolidated entity had, you know, with
regard to managing credit.

Q    The credit policy?
A    Uh-huh.

Q    So to your knowledge there was no, like, one book
or pamphlet titled Credit Policy?
A    I don't believe there was just one single book or
pamphlet titled Credit Policy. I think it was meant to
encompass all of the composite of everything that we had.

BY MR. BENDELL:

Q    Just before we move on, are you aware of anything
that made up part of the credit policy that was not in
written form?
A    Sure. There could have been things that would not
be in written form or they might not be -- they might have
been in transition. So the credit policy was something that
was constantly evolving through time. So as an example, we
might have said, "All right. At this particular" -- here is
one example I'm thinking of was in 2007. We said no exceptions on subprime loans. And I'm sure that that was probably reinforced in e-mails, but that would have been part of our credit policy as well.

So the long-winded answer, yes, there could be things that were part of the credit policy that at any particular point in time weren't set out in writing.

Q Using that example in 2007 when you said no exceptions on subprime loans, was that a change of policy that took place in 2007?

A It was a change that took place in 2007.

Q Do you recall approximately when in 2007 that change took place?

A My guess would be -- it would have been late in the first quarter or early in the second quarter would be what I would guess.

Q Were you involved in the decision to change that policy?

A I was.

Q Can you describe how that came about?

A It -- well, all -- so I talked yesterday about retail, which they also call consumer markets, wholesale, correspondent, they all had -- they all had exception desks and ways of dealing with exceptions. So that was something that had been in place at Countrywide for a long time.
And so in early 2007, as I talked about yesterday, the subprime market -- the secondary or capital markets for subprime started to be dysfunctional. And so my recollection is that the no exceptions policy came out of that discussion. And I think there were prior occasions particular to subprime where we went through a -- a -- kind of a similar process where we tried to -- to enforce more discipline on what was coming through the exception desks.

Q Okay. Well, I know that Paris is going to go through with you in more detail on exceptions generally later, so rather than following up too much on the specifics of narrowing the exceptions there, I guess I would like to ask about the logistics.

Who is it that made the final decision to change the policy such that it would not allow any exceptions on subprime loans in early 2007?

A Well, the final decision would have been Dave Sambol's in that instance. And my recollection is no exceptions. It might have been drastically -- just to be clear -- drastically cut back on the exceptions, but it was something to that effect, either drastically carved back or none at all.

Q All right. Was this something that was discussed at the credit committee -- the corporate credit committee prior to it being finalized?
A: I don't recall. Exceptions were certainly discussed in that committee, but the specific instance that I was talking about was not talked about in the credit committee, but rather in meetings convened after the market conditions were being observed.

Q: So sort of ad hoc meetings of senior management?
A: In response to market conditions, yes.
Q: And how was the change to the policy on exceptions for subprime loans, how was that communicated to the various channels?
A: So it was communicated -- Drew Gissinger, Andrew Gissinger, was part of these discussions, so it was communicated to him. And I'm fairly certain there would have been some e-mails communicating it as well.
Q: Communicating it down to the people below Drew Gissinger.
A: Cascading it down. And it's likely that there were probably e-mails that I had written on the subject and sent out to either people on my team or to Drew and people on his team.
Q: All right. So you've kind of walked me through that example of something that might not be documented in a formal policy.
A: Are you aware of any other examples of where somebody who is involved in the origination process, you
know, trying to determine whether a loan meets Countrywide's
guidelines, where they would need to refer to something other
than one of the written documents that we have talked about
like the technical manual, the loan program guide or I think
you mentioned that the bank had its own subsidiary policies,
written policies, are you aware of any other instances where
that would happen

A  So another example I can think of is there was --
there was a hard stop that we wanted on large $3 million and
above loans at 70 percent -- a 70 percent leverage or LTV
ratio. And so -- and so the idea there was -- so that
wouldn't have been something in the guidelines. But if an
exception came through, no matter what the merits were of the
individual case, we wanted to have a hard stop. So that
would be another example. And I feel quite certain that
that's referenced in a variety of e-mails.

Q   So the way that is communicated to the relevant
decision makers, and by decision makers, I mean the people
who need to sign off on the funding of a loan, is via e-mail?

A   It would typically be e-mail. It might have been
reinforced through conversations as well. And the initial
decision would have happened -- would have happened verbally
and then followed up with e-mails. And then, you know,
eventually some of the changes might even evolve into things
that went into the larger -- the big written policies that we
Q: Are there any other examples of areas where you are aware of whether the decision maker on the funding of a loan would need to be aware of a credit policy that wasn't in any formal documented policy?

A: Well, let me back up. Credit policy is more encompassing than just what someone would use for funding a loan. But, you know, so another example is on a re-purchase request, there was a committee called LERC, the Loss Exposure Review Committee, and so those -- so those requests, the long-standing company policy was to take those requests through this LERC committee. So that's an example that is a little bit outside of the one you were -- that you were giving.

Q: Okay. I'm not sure I exactly understand how the decision of whether something -- I mean, the LERC -- let's come back to the LERC in a moment.

A: Okay.

Q: Are there any other examples limiting to go the area that I'm focusing on, that is the underwriting --

A: The guidelines?

Q: The underwriting or funding of loans, are there any other areas where you understood that the person responsible for authorizing the funding of the loan needed to be aware of a credit policy that wasn't documented within Countrywide?
A: Let's think through here. You know, on that -- on
the particular things that you are talking about now,
typically that would appear somewhere in writing. So the
technical manual, the guidelines, each of the production
divisions also had policies and procedures that they -- that
they put out that would have interpreted and amplified the
central policies and procedures.

So I think in virtually all cases, there would have
been something in writing.

BY MR. WYNN:

Q: Mr. McMurray, we talked yesterday about the
matching strategy. Do you consider that as part of
Countrywide's credit policy?

A: I consider it part of the corporate policy rather.
It's a corporate -- it was a corporate principal and practice
that had a profound effect on credit policy, but I wouldn't
-- I wouldn't explicitly consider it a credit policy.

Now, there were -- there were discussions that went
on, and I'm fairly certain there are e-mails that talk about
this, where I was proposing that we try to address this more
specifically in our risk vision or risk policies.

Q: So would you --

A: But to answer your question -- again, I'm rambling
-- but I personally wouldn't consider it part of the credit
policy, but it is a corporate strategy that affects credit
Q    Do you think it's possible to understand the
application of Countrywide's underwriting policies such as
the technical manual, the loan program guide, without knowing
about the matching strategy?
A    It's not. So if you go back to what we talked
about yesterday, so we talked about the product leadership
group, that is Vijay Lala's group, surveying the competitors,
finding out what they did and then bringing those requests in
and it going through the process that I described yesterday.

And so a lot of what made it into the loan program
guidelines, when you showed me an example yesterday it was
conforming fixed, would have been driven by this matching
strategy.

BY MR. BENDELL:
Q    Well, I guess specifically with regard to the
matching strategy, I understand sort of globally what you
have described where the company was looking at what other
competitors were offering, you know, in many instances
deciding to match that offering, but how about in the
specific instance of, if you are aware, a borrower or an
applicant coming to Countrywide and saying -- you know,
describing to -- and I will be generic because I don't know
what channel this would come through, but describing to the
person, his loan officer or a broker, whatever, you know, the
product that he was aware of from another lender.

And, you know, basically are you aware of matches being made in particular transactions before the product had gone through the entire formal review process and been, you know, rolled out company wide?

A I suspect that that happened via the exception desks. And so just to extend your example, suppose that was in the retail or consumer markets division. And I also talked about the no brokering policy. So that easily could have occurred and probably did occur via that exception process.

Q All right. Is that a phenomenon -- I mean, I understand the example I was coming up with was a hypothetical example, but are you aware of that happening while you were at Countrywide? And by that I mean the exception desk granting exceptions specifically to meet a competitor's -- the product offered by a competitor?

A I don't know of any specific instance, but I'm virtually certain that it happened routinely.

Q Okay. Why do you believe that?

A That's just -- that's just my impression, you know, based on the -- based on conversations that I had with Drew and his folks and -- you know, over the course of the years that I was there.

Q So is it your understanding that -- I mean, at
least often times the way a new product would come into the
menu at Countrywide is first there would be a series of
exceptions granted to match that, you know, some similar
product by a competitor, and then over time something would
go through the formal product leadership process and
Countrywide would have its own product that mirrored those
terms?

A  I do think -- I do think that occurred. In
addition, one other -- one other thing that you should be
aware of even through the product leadership process, so
suppose they went out, documented what a competitor was
doing, often times the initial implementation of that would
have been through the exception desks. So I talked yesterday
about, you know, systems, changes, infrastructure changes and
so forth.

So one of the ways that they used to implement some
of these guidelines to bring it to market faster was via the
exception desks. So, you know, waiting for the systems and
other infrastructure to get built to catch up.

BY MR. WYNN:

Q  What about the -- well, an unrelated question. Are
you aware of any instances where your department rejected
proposals for new products and the people in sales
nevertheless used the exceptions procedure to achieve the
same result?
A    I am aware of some instances. So one -- one

instance I recall, there was -- so her name was Debbie Rosen, and she -- she was in the wholesale division. And so wholesale had a group that was focused on prime and a group that was focused on subprime. And so Debbie focused on subprime.

And so I recall an instance where she was offering guidelines that my group was not supportive of. And then I found out about it, and there was a series of meetings and e-mails on it. So that would be a particular instance that I recall. You know, I'm certain that it wasn't the only time that that happened.

Q    Can you recall any other specific instances?

A    I'm sure -- as I said, I'm sure there were other instances. There might have been some around -- you had mentioned the SHBC situation, and so there were some changes made, you know, communicated out at that time, and so there -- I don't recall the specifics, but that could easily have been a time when that happened.

And then a minute ago, I mentioned early '07. And that -- there could have been instances there as well. So those, you know, I don't recall the specifics of, but seem to me to be likely times when that could have happened -- that kind of thing could have happened.

Q    When you say early '07, do you mean after the
277:1 guidelines had been pulled back, there may have been
2 exceptions given to achieve the old guidelines?
3           A    Well, a couple moments ago I talked about, you
4 know, the no exceptions or the greatly curtailed exceptions
5 for subprime. That's what I was referring to, that episode.
6           BY MR. BENDELL:
7      Q    Wait. Meaning that you understand that after the
8 great curtailing of exceptions in subprime that --
9      A    That someone might have done something that wasn't
10 consistent with those instructions.
11      Q    And do you suspect that, or you were aware of that?
12      A    I think it could have likely occurred. It wouldn't
13 surprise me if it did. I don't have a specific recollection
14 of something that went on, but it's -- you know, so I don't
15 have specifics to offer you.
16           BY MR. WYNN:
17      Q    Do you think that there were many episodes where
18 people used the exception process to achieve underwriting
19 results that had failed at the level of changing policy?
20      A    You said a lot or --
21      Q    Yes, a lot. Was that something that happened a
22 lot? Did you view it as a problem?
23      A    I don't know that someone set out to do something
24 specifically the way you described it with that intent or
25 that objective in mind. My impression is that, you know, if
there was a way to, you know, find a program that could work
for the applicant, that they worked very hard to do so.

So, again, the part of the question I'm -- is just
whether they set out with that intent. That I don't know.

Q    Well, if someone came to you and they wanted to
have a guideline changed, and they were unsuccessful in doing
that, do you think that often they would utilize the
exception process to get what they wanted irrespective of the
fact that you had proposed -- opposed -- successfully opposed
the guideline change?

MR. TAYLOR: I just want to clarify. Are you
asking him if he knows whether that happened?

MR. WYNN: Yes.

THE WITNESS: I strongly suspect that it did. Am I
aware of, you know, specific instances? I don't recollect
specific instances, but that is my strong suspicion, is that
that did happen.

BY MR. WYNN:

Q    And did you ever raise any concern to your
superiors about the granting of exceptions in the manner that
undermined established credit policy?

A    We had a number of meetings and discussions on
exceptions over the years, and I believe this was in 2007,
but there was a credit -- a corporate credit committee
meeting where that was a specific topic of discussion. And
one of the other -- one of the other things that we did --
so, again, if you look at the package for that corporate
credit committee, the written documents, you will see the
materials that were shared at that time.
   In addition, I think Frank probably, too, but
certainly Christian Ingerslev, the gentleman I talked about
yesterday, put together performance stats on exceptions. And
then those were presented to Drew, Kevin, Dave. And so there
were a number of reports that were done along those lines to
track how exceptions were performing.
   Q    You mentioned that this corporate credit committee
meeting for exceptions occurred in 2007. Is it possible for
you to be a little more specific as to when in 2007 it would
have taken place?
   A    It would have been during one of the -- during one
of the corporate credit committee meetings. I don't remember
exactly which one. I do remember, and it may have even
spanned over more than one, but I remember a very heated
discussion on exceptions and the exception process with Dave
Sambol, Rod Williams, Jack Schakett. I think -- I believe
that Christian Ingerslev and Frank Aguilera were in the room.
There were others from the production division.
   And so my recollection is that Jack was supposed to
follow up as a result of the discussion and the reports that
we had reviewed.
Q: Do you recall what quarter of '07 the meeting was?
A: I don't. I'm sorry. I'm virtually certain it was in 2007, but I don't recall which specific meeting on the exchange that I'm talking about right now.

Q: Well, what was the significance of the discussion as it related to exceptions? Like what issue having to do with exceptions was discussed?
A: Well, there are multiple concerns. So was the process well-managed? Were good decisions being made? And the good decisions, there's multiple dimensions to that, in other words, are the right underwriting decisions being made?

Is the right pricing being put on the loan? I talked about the risk based pricing being a strategy. Was that happening?

You know, the tracking.

There was a gentleman, Bill Cobb, that was charged with building an exception tracking system. And so that was worked on. So all of the infrastructure around handling the exceptions in the production division, that was discussed.

From my perspective, it was more from a credit risk point of view, which was the performance on, you know -- you wouldn't expect the performance on the exceptions to be as good by and large, and in many cases it wasn't. And there were particular -- there were particular instances where it was, you know, a particular point of concern. And so Christian and I pressed that particular dimension of this
The dimension being the loans that had been originated through the exception process were performing -- worse -- more poorly -- than the general population. Again, part of which is expected, but if there were a big disparity, that would be a cause for concern and to reevaluate. And was there a big disparity that was being discussed at this meeting?

I do recall specific pockets where there was a big disparity between the performance of those and then the general population. And do you recall if the excessive -- well, the areas where there were big disparities between the performance and exception loans and normal process loans -- excuse me.

Were there particular products you had in mind where the exceptions had been a problem?

Well, my personal concern was just looking at it across all products, not just any in particular. And so what the aim of some of these reports that I described that Christian and Frank put together was to look at, you know, to look at broad sectors, prime and subprime as an example, and then beneath that look at specific -- look at specific
products and how those were performing, including --
including dividing it out or cutting it in certain ways to
try to isolate certain types of exceptions.

Q   You mentioned the discussion was heated. Can you
recall what any of the specific points of contention were?
A   I think that the points -- the points of contention
were unhappiness with how some of the loans were performing,
one, and then, two, just, you know, progress or lack of
progress on the building of infrastructure to manage the
exception process.

Q   And can you assign different positions, different
participants in that discussion? Like what were the
positions expressed in response to your concerns by Mr.
Schakett and the people that may have been involved?
A   Oh, man. I can share my -- you know, my -- I guess
the angle that -- or perspective that I had was more from a
performance perspective, so I recall that. I recall Dave was
one of the ones that was angry about just -- as I said
before, some of the performance and the progress on the
infrastructure build out. Preston James was also there. So
he was another one that was heavily involved in the
discussion.

Q   Who is Preston James?
A   Preston James works for -- or worked for Jack
Schakett. I don't know what he's doing now or whether he's
still there, but he worked for Jack Schakett in an operations
role.

Q  Did anyone ever communicate directly to you or to
your knowledge did anyone ever communicate directly to you or
to others within the company that the reason that they had to
grant so many exceptions was because you were hesitant to
agree or accede to guideline changes?

A  I'm sure they probably said that.

Q  Are you aware of any specific instances where that
was said in your presence?

A  I don't recall a specific instance where it was
said in my presence. It may have been. But I have no doubt
that someone felt that way, and it may have been said.

Q  Why do you have no doubt that people might have
expressed that opinion?

A  Well, I'm stating that too strongly. But, you
know, it would not surprise me at all if that were said. And
the reason I say that is because people complained from time
to time that I was dragging my feet on approving certain
things.

Q  And you say from time to time. I mean, what type
of frequency would you get complaints that you were dragging
your feet on approving guideline changes?

A  What frequency? I mean, it was kind of -- it was
intermittent, but it was certainly something that happened,
you know, on multiple occasions. But it tended to be, you
know, kind of, I guess, frustration would build up and then
boil over, and then I would hear about it. And then we would
go for a period of time where I wouldn't hear about it again.

Q Who was responsible for the enforcement of the
credit policy at CFC?
A The enforcement of it?
Q Right. Do you know what I mean by that?
A No. Go ahead and elaborate.
Q Well, who was responsible for making sure the
credit policy as set forth in the TCM, the loan program
guide, was followed by people that were out in the field
actually underwriting loans?
A Well, the underwriters were certainly responsible
for enforcing those policies. So that would be the first
line of -- the first line of defense. There was a quality
control process that we had in place. And so then -- you
know, that would have cascaded up through the various
production divisions.
Q And when you say quality control, was that a
particular division?
A So quality control was a particular function that
reported to Rod Williams who reported to me. And so what
quality control did is review closed loans for adherence to
the company's policies and to -- and as kind of a double
285:1    check of how loans were being originated.
2      Q    And beyond the quality control group, were any
3 additional entities or layers of supervision with respect to
4   insuring that the underwriting guidelines were followed?
5      A    Well, I believe there would have been something in
6   each of the divisions as well. You know, as I talked a
7 moment ago, the underwriters all reported up through an area,
8 so there was a business unit, kind of a risk manager, so the
9 underwriters would have gone up through that area.
10           But these quality control reviews or audits were
11 one of the key tools that they used.
12      Q    To your knowledge did people in sales -- like I
13 say, Drew Gissinger in particular, did he have any particular
14 responsibility for insuring that credit policy was followed?
15      A    It's not just credit policy. They had a
16 responsibility, and the way we described that, was for
17 manufacturing of quality loan. So that means that if the
18 credit policies are followed, that means that the loan is
19 compliant, that means that other policies -- that other
20 relevant policies to originating that loan are followed. So,
21 you know, in essence they had a responsibility to manufacture
22 quality loans.
23      Q    When you say they, who are you referring to?
24      A    Each of the production divisions, so whoever was
25 originating, processing and closing or buying, as the case
286:1 may be, those loans.

2 Q During your tenure at Countrywide, did there ever
3 come a time where you thought the entities and the
4 departments responsible for producing loans were not
5 producing quality loans from a credit perspective?
6 A That was -- that's been a constant concern of
7 everywhere I've worked, is whether that was being done. And
8 I suspect there are always instances on individual loans
9 where that's not being done. And so, sure, it was a concern.
10 Q Did it ever wrestle up a concern where you took
11 action to address it or talked with your superiors about
12 addressing it?
13 A I think we talked about, and, again, from multiple
14 dimensions from a credit perspective, from a compliance
15 perspective, there were lots and lots of conversations on
16 this quality issue.
17 Q Were any of these conversations in response to a
18 specific instance or practice that you thought resulted in
19 loans being originated that were not of sufficient quality?
20 A I think the conversations were both general and
21 some were tied to specific instances, so I think both
22 occurred.
23 Q Can you recall any specific instances?
24 A Sure. So one example would have been on
25 manufactured housing loans, and so there were a couple
conversations on this. So one conversation I recall is that Christian and I went and met with Dave Sambol, and I can't remember who else was there, but Christian and I met with Dave. And there were probably some other people there. It was on -- this actually we talked about the -- we talked about NINA performance and manufactured housing loans in the same conversation.

And so that was the initial conversation on these loans. And then there was a subsequent discussion in the credit committee on these manufactured housing loans, and that -- and those loans not being manufactured in a correct way. So that's an example of something that I remember specifically.

Q    Do you have any other specific recollections?

A    You know, the other specific recollection that I have tied to when whole -- on some of the whole loan trades. So, again, you talked about the HSBC, but in the process of some of the due diligence reviews that occurred on those whole loan trades, there were manufacturing issues that came up. And so that would be -- and those were probably multiple instances, but that would be another example.

Let me think here. I'm sure there are lots of -- I'm sure there are lots of other examples where -- in the course of either the quality control reports, I mentioned the other tracking reports that we did through looking at those
where we brought up issues and tried to get to the bottom of
what was going on.

Q  How often were the quality control reports issued?
A  So those were being -- those were done
continuously. And then the reports were issued on a fairly
regular sequence. I don't know if there was an exact, like,
every month or something like that, but they came out on a
frequent basis.

Q  And what is a manufactured housing loan?
A  So a manufactured housing loan, that is a loan on a
house that was manufactured and not on the property but off
the property and then brought to the property.

Q  Okay. Would that be a pretty rare type of loan?
A  Well, it depends on which geography you are talking
about. In some parts of the country, they are not rare. But
in the overall scheme of things, it's not a regular loan, but
perhaps more frequent than --

Q  You would think?
A  -- you would think.

Q  Let me show you what we have already marked as
Exhibit 28, which is a portion of the Countrywide Technical
Manual.

MR. TAYLOR:  I was afraid I was going to have to
look at one of these at some point. Loan Underwriting
289:1 BY MR. WYNN:

2 Q Mr. McMurray, I'm also going to show what you we
3 have also marked as Exhibit 57, which is also a portion of
4 the Countrywide Technical Manual, the difference being that
5 they are just -- under the heading Countrywide Technical
6 Manual, you see that they are different revision dates.
7 So the first one, Exhibit 38, has a last revision
8 date on the first page of 7/27/05, whereas Exhibit 57 has a
9 last revision date of 8/27/07.
10 A All right.
11 Q Mr. McMurray, can you identify what Exhibit 38 is?
12 A Exhibit 38 appears to be a printout of the online
13 technical manual for Countrywide.
14 Q And did you have any role in drafting this
15 technical manual?
16 A So Pauline Kennedy who I mentioned before worked
17 for me, and so her team maintained this technical -- this
18 technical manual. And so I did have -- in addition to
19 managing Pauline, I also had provided input into various
20 revisions of this. This existed before I got there, but then
21 after I got there, I was a contributor.
22 Q Now, if you would look at the first full sentence
23 under Introduction on Exhibit 38. It states, "Current policy
24 administration maintains a database supporting the
25 Countrywide Technical Manual."
290:1 A Uh-huh.

Q Can you explain what credit policy administration is?

A So credit policy administration is the group that Pauline Kennedy headed up that I mentioned just a second ago.

Q Would that fall into your division of credit risk?

A It would.

Q And if you look at Exhibit 57 --

A And, Paris, just to be clear, when I first got to Countrywide, she didn't report to me. So that was one of the groups that got moved to me while -- after I had started.

Q Was that in connection with the transition from chief credit officer to risk officer?

A No. As I mentioned before, my role evolved over time. So while I was still chief credit officer, this group came over to me.

Q Okay. So if you look at Exhibit 57, the first sentence under Guidelines states, "Product leadership maintains a database supporting the Countrywide Technical Manual."

To your knowledge had the responsibilities shifted from credit policy administration to product leadership?

A There was a reorganization that was done in the summer of 2007. And so the responsibility for actually doing the physical maintenance of this paper was taken over by the
291:1 product leadership team. And my recollection is even some of
2 the people moved as well.
3  Q Can you identify the reasons behind that move?
4  A I think there were multiple reasons, but I think
5 some -- they were driven by both efficiency and
6 effectiveness. So I'm trying to think how I could elaborate
7 on those. But, again, it was simply for maintaining the --
8 kind of just maintaining the physical paper and online tool,
9 not necessarily for determining -- making the policy
10 decisions.
11  Q Okay.
12  A So I just wanted to draw that distinction.
13  Q Did any responsibility for making the actual policy
14 decisions having to do with the technical manual move from
15 credit policy to product leadership?
16  A I don't believe that that was part of this
17 reorganization.
18  Q Did you advocate the reorganization?
19  A Abdicate or advocate?
20  Q Advocate.
21  A I think there were parts of it that kind of after
22 all of the machinations that we went through that I thought
23 it was probably a good thing, yes.
24  Q To your knowledge did any -- did any -- let me ask
25 re-ask the question.
To your knowledge was the shift from credit policy administration product leadership of some of these administrative functions in any way due to complaints about the rapidity with which you and your department had responded to requests for guideline changes?

On this, I don't -- I don't think so, but I don't know that not to be the case, but I don't think so.

And if we look back at Exhibit 38, the last sentence of that first paragraph states, "Subprime and government products currently support their own technical guidelines." Is it your understanding that subprime and government also had technical manuals?

They did because -- so the government products, those would have been FHA and VA, had very specific regulatory requirements. And then I think there were supplemental materials for subprime, as well.

So in addition to the technical manual, the subprime technical manual, and the government technical manual, were there any other technical manuals?

I don't believe there were any other technical manuals. Now, there are a lot of other guidelines. So this credit policy administration would have maintained lots of policies in addition to these technical manuals.

And --

And each of the divisions would have also had their
own set of policies, too, that further supplemented the central policies.

Q  And you are referring to policies outside of the loan program guide?

A  Yes. So, for example, for compliance, let's just use one example, I think there was probably a manual on the use of Clues, the automated underwriting system, as well.

Q  Did -- how was the Countrywide Technical Manual created?

A  I think my understanding is it predated my arrival, so it had been written well before I got there and then continued to be -- it was a living document and continued to evolve through time.

Q  And did the secondary marketing have any role in the creation or maintenance of the technical manual?

A  So I talked about Pauline's group did not report to me when I got there. When I got there, that group reported to secondary marketing.

Q  And do you know what the rationale was for having Pauline's group -- is it Pauline?

A  Pauline.

Q  Pauline's group report to secondary marketing?

A  I don't know that rationale simply because it was before I arrived.

Q  Okay. In testimony with other -- well, in
testimony with other Countrywide people, Mr. Bartlett in

2 particular, he said the composition of underwriting
3 guidelines as expressed in the technical manual was largely
4 driven by the prime secondary market. Is that your
5 understanding?
6      A    I think that is a -- that's accurate, though, a
7 simplification. Maybe I would argue an over simplification.
8      Q    Can you explain further what you mean by that?
9      A    Sure. So -- so the secondary market requirements
10 had a profound impact on what Countrywide did because the
11 company's strategy was to originate loans that could be sold
12 into the secondary market. So that was something that was
13 desired on every single loan.
14      Q    I hate to stop you --
15      A    I'm sorry.
16      Q    Do you know how long that had been Countrywide's
17 policy that the overwhelming majority of the production was
18 resold into the secondary market?
19      A    Always.
20      Q    Always.
21      A    I mean, my understanding is from the inception of
22 the company.
23      Q    Okay. Please go.
24      A    Okay. So then, yes, the secondary market
25 requirements would have a lot of influence on these. But
there were other things that were mixed in as well, which is why I said it was a simplification. For example, on Exhibit 38, if we go back to the third page in where it says management philosophy, there is no secondary market requirement that I'm aware of specifically that says that a lender has to seek to offer products that benefit all parties related to a loan, including consumers of Countrywide and its shareholders. So that I don't think is really a secondary market requirement, but rather more of a Countrywide policy.

Fannie Mae and Freddie Mac are two instances that I can think of that have tried to do some similar things to this, but these are Countrywide's version of kind of responsible lending aspirations that were put into policy. And so let's take a look. So this borrower benefits, the fourth page in, you know, some of these may have some tie to the secondary market, but they are more expansive than what you typically see in secondary market requirements.

Q How about just like the hard and fast credit variables such as FICO, maybe some of the other variables such as loan to value, were those driven by what the requirements were of the secondary market?

A Well, so we need to be careful when we say hard and fast, and let's use FICO as an example. And this will also help illustrate, as kind a follow on to your question, the
difference between prime and subprime.

So a typical loan, two borrowers, each borrower is going to have three FICO's, so you are going to have six FICO's on that loan. Which FICO -- which of the six FICO's do you assign to the loan? And so -- and on a prime loan, the rule is middle of three, lower of two.

So for each borrower, they are going to have three FICO's, you would take the middle of those three FICO's for each borrower, and then you would -- then you would compare that middle FICO for both borrowers and then take the lower of the two. So that's a typical prime approach to dealing with FICO.

And subprime, a more typical approach would be what is called the primary wage earner, so whichever of the -- if there were two borrowers, whichever one was the primary wage earner, it would be that FICO that got selected to be the FICO for that loan.

So I'm getting us off track here. But what was -- so you said in a hard and fast rule like FICO --

Q  Well, I'm still thinking about, you know, the testimony we received that the underwriting guidelines are largely driven by the requirements of the secondary market.

And the way that was explained is we want to make sure we originate loans that they will eventually buy from us.

A  Right. And I think with the qualifier largely,
it's fair. I just don't want you to get the impression that
that was the only thing that went into these because it
wasn't.

Q Okay. Now, with some of these other things you had
mentioned such as responsible lending, things like that, how
much of a role did that play with respect to, you know, just
a person originating the loan? I've heard some testimony
that there's some form that needs to be filled out that this
loan benefits the borrower, but was that a big deal in the
process?

A The loan borrower form was supposed to be a pretty
big deal, and it got talked about a lot. So -- and I can
even remember an instance -- so Full Spectrum Lending, it was
partly a separate company, and then it became part of the
consumer markets division.

But we had talked about the uplift policy,
uplifting people to prime loans, and so there were some
individuals that got fired out of Full Spectrum for not
following that policy. And that uplift ties into the borrower
benefit type of a concept. There's a tie there.

Q To your knowledge did any of the major players in
the secondary market, by players I mean purchasers of, you
know, NBS, did they issue things like technical manuals or
just any kind of written documents that included -- that
listed the type of characteristics they were interested in,
298:1 that they wanted the loans to have that they would purchase?
2 A Yes, and so let's do a fly -- let's do a fly by on
3 the major ones and then -- so Fannie and Freddie do. There's
4 -- and so that would be the best example I could give you.
5 FHA and VA would be other examples.
6 Now, on Fannie and Freddie, a couple caveats that
7 you should be aware of. So while they have very specific
8 guidelines, for most of the big lenders, there are contracts
9 that are negotiated that will deviate from those published
10 guidelines that Fannie and Freddie have. So that's very
11 common.
12 And then beyond that, both Fannie and Freddie do
13 bulk purchases. And, you know, outside -- I mean anything
14 literally that would fit within their charter from time to
15 time they have bought.
16 Now, they might be more or less expansive on what
17 they were taking in, but the point is they would go way
18 beyond what they published, either through these negotiated
19 contracts or through bulk purchases.
20 Q Now, it's my understanding that the government
21 agencies really weren't purchases of NBS that was not prime
22 or not conforming; is that correct?
23 A When you say "it," you mean Fannie and Freddie?
24 Q Right.
25 A So with respect to loan amount, so there's a
299:1 statutory limit on the loan amount. So using that as the
demarcation between conforming and nonconforming, yes. There
were -- I think they both purchased lots of loans that would
be nonconforming because of guidelines. So they fit within
the statutory loan limit, but they still would have been
outside of their published guidelines.

Q Were there purchasers of nonprime NBS? I'm talking
about Fannie and Freddie.

A So do you mean subprime?

Q Right.

A Yes, they both participated in the subprime market.

Q And what other entities besides government agencies
purchased -- besides Freddie and Fannie purchased Countrywide
securities?

A So Countrywide did the CWABS and the CWALT that I
talked about yesterday, and so those -- that was
Countrywide's shelf registration that was used to issue those
securities. And then actually I think the broker-dealer may
have had some shelves, too. And those would have been -- the
securities would have been rated by the rating agencies.

And the way that worked is the various Countrywide
guidelines would be -- those securities followed
Countrywide's guidelines, including the provision for
exceptions.

And, you know, I wasn't quite as close to this, but
my understanding when those various securities are marketed,
there are offering circulars that describe the underlying
collateral. So, you know, what the FICO looks like, the
LTV's, a lot of other characteristics that go with those
loans.

Q Well, what I'm trying to get at is I want to know
if addition do any other entities or did any other entities
besides, say, Freddie and Fannie issue these guidelines that
set forth the type of loans and the type of loan
characteristics they were interested in purchasing in the
secondary market?

A Well, yes. So Fannie and Freddie, I think, are the
best examples I can give you. However, in addition to
Countrywide, who was a participant in the secondary market,
lots of other big lenders. So I'm just going to blast
through some examples, Wells, Chase, from time to time -- you
know, B of A, some of the broker-dealers would publish
guidelines because they had whole loan purchase programs, so
the Credit Suisse First Boston, the Lehman's, Bears. It
would also include Goldman, Morgan Stanley, Merrill Lynch.
And so anyone participating in that secondary market for
closed loans would have had guidelines.

Q Do you know if there was any industry term that was
used to describe these guidelines? Were they just called
secondary market guidelines or something else?
They could be called secondary market guidelines, and so generically they could be called that.

And do you know if Countrywide maintained physical possession of the secondary market guidelines of different players in the secondary market?

So I talked about product leadership. So they would have -- they would have not only collected those guidelines, but the guidelines are constant -- or the practice was among all participants and lenders to update those guidelines through time, and so they would have -- or what they were supposed to be doing is collecting the updated guidelines as chose changed through time.

MR. TAYLOR: Paris, we've been going for an hour and a half. Whenever you get to a convenient spot for a break, I'd appreciate it.

BY MR. WYNN:

And I think earlier you described the technical manuals as laying down general underwriting principals for all loans originated; is that correct?

That is one of the purposes of this, yes.

And then for more detailed underwriting requirements for particular loan products, you would go to the loan program guides?

The loan program guides set out some of the specifics with respect to a particular product.
And then the technical manual was something that was a companion that would be used in concert with those specific guidelines.

And besides those two documents or sets of guidelines, the technical manual and the loan program guide, were there any other underwriting guidelines that went into the underwriting decision? And I'm only talking about automated underwriting at this point.

You are going to automated?

I'm only talking about automated underwriting or would the guidelines apply or taken into account by Clues or any other AUS that was used by Countrywide when you worked there only the guidelines set forth in the technical manuals and the loan program guides?

No. So in the automated underwriting system, it's going to have a series of three or four broad things. So it's going to have the guidelines themselves. So what you saw in the written guidelines would have been replicated in the system. So that's first of all.

Secondly, it would have the quantitative scorecard that I talked about yesterday. Thirdly, it would have screens that would generate red -- that would generate red flags that were supposed to be cleared.

So let me give you a quick example of that.
Countrywide maintained a database of every property that sold across the US. And so Clues would do a check to see whether that property had sold recently. And the concern was if that property had just recently sold right before the transaction that we were contemplating, that we would want the processor or the underwriter to check out -- to check that situation out and make sure it was legitimate because, you know, two purchase and sales stacked closely together, you worry about it being a flip type of transaction.

So that would be an example of just not required by the secondary market, not -- you know, just kind of some general detective controls that were part of the automated underwriting system. There are other rules in there that would be similar to that.

And then the fourth would be compliance-related screens. And so the loan could be kicked out because it didn't pass the quantitative scorecard because -- when I say kicked out, it would generate what is called a refer, meaning a refer to a manual underwriter because it busted one or more of the program guidelines or because of these red flags.

Q But just to be clear, Clues would take into account the technical manuals and loan program guides?

A It takes into account the loan program guides.

Q Okay.

A Where this technical manual talks about ability to
pay, and so that's a judgment made by a human being. The way
that was replicated in the automated underwriting score -- in
the underwriting automated system was through the scorecard
that I mentioned.

MR. WYNN: Okay. Off the record.

(A brief recess was taken.)

BY MR. WYNN:

Q Back on the record at 10:46 a.m.

Mr. McMurray, I want to talk briefly about
automated underwriting systems and particularly about the
Clues automated underwriting system.

Can you explain generally what the purpose of
automated underwriting is?

A The purpose of automated underwriting is to
evaluate a loan application using a computer system rather
than a human being and to use that computer system to render
a decision.

Q Okay. And besides just the efficiency of computers
as opposed to a human, the processing speed, are there any
advantages to using an automated underwriting system over a
human?

A There are, and let me stipulate that this is my
opinion, but let me share it. So you talked about the speed
and efficiency. I agree with that. In my opinion another
important feature of automated underwriting systems is
consistency. And so it's much easier to have a consistent
treatment across many applicants using a computer system than
an army of people.

Yet another advantage in my opinion would be the
ability to deal with multiple variables all at one time. So
I talked about the quantitative scorecard. A quantitative
scorecard could deal with multiple variables, I would argue,
more effectively than a human being could process, say, 10
variables simultaneously in making the various tradeoffs
between one variable and another.

Q And would you agree that the consistency advantage
that AUS has over a manual underwriting or human underwriting
can be underlined by exceptions?

A That would be my opinion. And just to be clear, I
don't -- there might be others that would argue against that
opinion, and the argument would go something like this, I
just want you to have both sides of the answer, I think the
argument would say that no matter how carefully an automated
an underwriting is built, it's not going to have -- it's not
going to have all of the information that a human underwriter
would have in front of it. So that would be the counter to
that, to the opinion I just gave, or one of the counters.

Q And did anyone at Countrywide ever give you that
opinion?

A I've heard that opinion at Countrywide, and I have
heard that opinion before Countrywide, and I have heard that
opinion after Countrywide.

Q And you've mentioned first yesterday we were
talking about models and now a couple times today this
underwriting scorecard; is that correct?

A Tell me again. We talked about the models and the
underwriting -- automated underwriting --

Q In the context of talking about the models, you
mentioned the underwriting scorecards are a type of model
worked on?

A It is, although it's the quantitative scorecard
within the underwriting system is a type of a model.

Q Okay. Can you explain what that quantitative
scorecard is?

A A quantitative scorecard, it's a statistical model.
And in this particular application it's designed to rank
loans. So I mentioned yesterday how not long after I arrived
at Countrywide that we redid the quantitative scorecard that
they had in place. And so it ranked loans -- I want to make
sure that I recollect this right. It was the likelihood --
it was based on the predicted likelihood that the borrower
became seriously delinquent over a specified time frame.

Q Okay. So it's accurate to state the purpose of
this quantitative scorecard was to predict how likely a
potential borrower was to go into serious delinquency over a
In general, yes. The specific is it's a ranking tool. So if you had 10 loans, the idea would be able to rank each of those loans 1 through 10 on -- as to the relative likelihood of, you know, them going into a serious delinquency status at some point in the future.

And what would be the purpose of ranking the loans?

So the idea -- the idea is to get at this ability to pay concept that you would see in a technical manual. So one way to do it would be if you are doing manual underwriting is to apply judgment to make that determination.

In an automated underwriting system, you are using a statistical scorecard to do rankings, and then you draw -- you draw a cutoff, a score cutoff. So think about FICO scores. We have talked about those a little bit. That's a ranking tool as well. And so people use FICO scores all the time where they'll pick a particular FICO and say, "Above this, it's going to be treated one way. Below this, it may be outside of guidelines."

And so the way Countrywide's automated underwriting system worked is if it failed the cutoff on the quantitative scorecard, it would deliver an ability to pay referral, and then the loan would be manually underwritten.

So the scorecard dealt -- is it accurate the scorecard dealt only with ability to pay?
That's accurate, but that's a broad concept. So with understanding that, yes.

Did the quantitative scorecard assess other variables that affected the likelihood of repayment besides attributes of the borrower such as documentation type?

Well, that's an attribute of the transaction is I would consider documentation. So when I got to Countrywide, documentation was not an attribute in the scorecard. In the very first scorecard that we did and in the subsequent ones that we did, documentation was a scorecard variable.

So you try -- what you try to include in these quantitative scorecards are all of the variables that are going to help be predictive and help in ranking the loans.

So why did you redo the scorecard once you joined Countrywide?

Two reasons: The scorecard that they had hadn't been looked at in a while first of all. And then secondly as I looked at the scorecard, and I mentioned yesterday by this time Cliff Rossi had joined the bank, and he was a former colleague -- and I had worked together at Freddie Mac, as we looked at the scorecard, it was our collective opinion -- our independent and collective opinion that it needed to be replaced.

And what types of considerations had formed that opinion? Like why did you think it needed to be replaced?
Based on work that we had done at Freddie Mac, it seemed like too simple of a scorecard.

Did you add variables to it?

We did add variables to it.

In addition to the documentation type, what other variables were added?

Oh, boy. There was probably at least around the original scorecard had four variables that I remember, and one of those variables my recollection is was a ratio. So that could even be thought of as a combination of two variables. So documentation was one of the key additions. But there were other additions, as well.

Do you remember what the four existing variables were when you joined?

I believe -- so my understanding is that Fair Isaac had put the prior quantitative scorecard together for Countrywide. So FICO was one of the variables. I think leverage -- there was a leverage ratio or an LTV. There was -- the variable that was the ratio, what I remember is income to loan amounts, so the borrower's income divided by the loan amount, and that fraction may have been inverted the other way.

Was debt to income an existing variable?

No. So that ratio of income to loan amount is a proxy for debt to income.
Okay.

Now, on the new scorecard we included debt to income as a variable. It didn't turn out to be very predictive, and most of time over the course of my career that I've had occasion to either participate in or observe studies, that typically doesn't come out as being a very predictive variable.

The other thing -- the other thing we did, so we thought the scorecard could be improved from a credit perspective. The other thing we wanted to do with a scorecard is introduce a fair lending technique. And so in the literature, there's a technique called the Liqueur Little Technique, and we wanted to use that in the scorecard, and we did, to address fair lending concerns.

Can you briefly explain what you mean by fair lending concerns?

So a concern is so, you know, suppose that you have two applicants, you know, one is a man, one is a woman. You want them to be treated the same. Suppose one is one race, one is another race, you want them to be treated the same. So that's the kind of thing that I'm referring to.

Did that result in gender and race being variables that were factored into the scorecard?

The statistical technique worked like this: So you are not supposed to have those variables in the scorecard.
What we were worried about, though, is that some of the variables that were in the scorecard might be correlated to those other prohibitive variables. So the technique is you estimate the scorecard without those variables, then you estimate the scorecard with those variables, and then whatever coefficients that are on those prohibitive variables you just simply throw out. So what that does, it draws any correlation away that exists on the non prohibitive variables to the prohibited ones, and then you can extract it explicitly.

Q Was the type of loan being sought, the particular loan product, added as a variable?
A I recall that it was added as a variable.
Q And for what purpose would you do that?
A So one of the things in the various studies that you would observe is that after you adjust for the other common loan attributes, that simply the borrower's choice of product has an effect on the likelihood of the loan becoming seriously delinquent or defaulting. So, again, that's after you've adjusted for everything else, you will often see a residual effect.
Q If you turn to the page ending 905 in Exhibit 38?
A All right.
Q You see there's a chart at the bottom of the page?
A I do see the chart.
We'll talk more about that in detail, but if you look at the column that says "significantly increases risk"?

Yes.

And you go to the bottom, and there's, "pay option"?

Yes.

Now, is that related to what we were just discussing that the type of loan product affects, you know, the ability to repay -- not the ability to repay, but the likelihood that the loan will go delinquent or default?

So yes. So what I was talking about a minute ago was evaluating that particular issue from a statistical perspective and some of the things that I observed.

What you see on Page -- the page ending in 905, this was -- this was an attempt to provide a tool to the underwriters when they were making that same kind of determination just from, you know, using their judgment. So it was to help them inform their judgment. So it was kind of the same idea --

But doing the manual --

But doing it manually versus through a computer system.

Do you recall any opposition from anyone at Countrywide when you were adding variables to the scorecard?

Well, there were a couple different instances that
we redid the scorecard. The first time -- the first time --
the first time that the scorecard was redone, I didn't
broadcast that we were doing it, and I changed the scorecard
out and then put it in. It was subsequent -- you know, it
subsequently became broad knowledge, and so there were
discussions about it.

Q What kind of discussions?
A You know, "before you do that again, come talk to
me." That was Dave.

Q Okay. What was the impact of the addition of the
new variables the first time you changed the underwriting
scorecard?
A Well, there would have been some loans that would
have been kicked out previously that then passed the
scorecard, and then there also would have been some loans
that wouldn't have -- that wouldn't have been kicked out that
now were.

Q Which of those two was more a predominant result of
your changes?
A Probably the second. And the other thing that I
recall is that the scorecard that was in place didn't really
specifically deal with HELOCs, that it had been developed
before that time frame, and that we needed something to deal
with HELOCs.

So on the home equity loans, prior to the scorecard
change that I'm talking about, the first one, I don't think
HELOCs would have been referred for inability to pay because
there wasn't a specific quantitative scorecard way of dealing
with those. So they are clearly -- there were more
referrals.

Q Once that was added to the scorecard?
A That's correct.

Q But after the initial additions, the predominant
effect was that more loans were either referred or kicked out
during that process?
A More loans would have been referred for ability to
pay. You know, those -- my guess is those would have out
numbered the ones that, you know -- the incremental kick outs
would have outweighed, you know, the incremental not kick
outs.

Q Did anyone ever complain to you about that specific
phenomenon where a loan is being kicked out?
A Yes.

Q Do you recall who that was?
A One discussion I recall was from the correspondent
lending area, so Doug Jones ran that area. So then I even
did a presentation for them on the scorecard as a follow-up
to that conversation.

Q Can you recall specifically anyone else complaining
about it?
A Well, there was a conversation that Dave and I had in my office.

Q Dave Sambol?

A Yes. Sorry. And that was after the scorecard was implemented and when he first became aware of it.

Q Can you recall what he said?

A One thing he said was he didn't -- so Cliff worked for the bank, and then Don White also worked for the bank. And so he didn't -- he didn't want the bank people working on the scorecard. And I explained that I didn't have those same type of resources under me, and so that's part of the reason I had used them, one, and then, two, Cliff and I had worked on these type of projects in the past, and so it was a way to get it done quickly.

Q Was there any additional complaints about it besides the use of bank personnel?

A I think another complaint is he would have rather been made aware of it from the beginning so he could weigh in on whether it was done or not.

Q Do you recall any other instances where you had to make any changes to the underwriting scorecard based upon complaints from others within the company?

A There were tweaks done to the scorecard, and some of those could have -- some of those could have come from complaints.
Can you recall any particular tweaks?

You know, one thing that was discussed, so loan amount was one of the variables in the scorecard. And I don't remember if it was changed or not, but that was -- that was one discussion I recall.

Another, you know, on this Liquere Little fair lending method, we eventually took that out. That was in response to a complaint by the Fed. So they decided -- well, they got -- as their personnel changed, the new person that looked at those issues didn't like the Liquere Little method, so we took that out. So that was kind of a complaint.

You know, I do suspect there were some tweaks in response to some complaints. On the other hand, the scorecard -- the new scorecard in my opinion was so much vastly better than what was in place, that even if I lost a little ground through some of the complaints, we were way better off than where we had been previously.

Can you remember any of the complaints from Countrywide that may have led to some tweaking of the scorecard?

So I talked about the loan amount. The other thing that happened is one of the last times the scorecard was completely redeveloped, we had Jack Schakett and Preston James were heavily involved, and this time Steve Lang was the modeler that did the work on the scorecard. So there was
lots of discussion around the variables and what made sense, what didn't make sense, both from -- there was kind of a statistical perspective and then you also just need to over lay just good judgment on what goes into a model. So there were those discussions. 

Q Can you recall any particular complaint about the revised scorecard leading to additional refer or kickout decisions that led to subsequent tweaks?

A Well, there were certainly -- there were certainly complaints about the additional referrers being generated. So, you know, that I do recall. And there probably were some tweaks. I'm just struggling and thinking back. You know, this was looked at constantly, you know, during the time that I was there. So I'm trying to remember specific changes.

Q Now, if we go back to this chart on the page ending in 905, I see that you are there?

A I'm on 905.

Q Can you just generally explain what this chart depicts?

A This chart depicts a framework that an underwriter could use in evaluating an applicant's ability to pay.

Q Okay. And at the top heading -- excuse me -- the top column -- excuse me -- the top row, there are one two, three -- I guess five headings, significantly decreases risk,
318:1 decreases risk, neutral, increases risk, significantly
2 increases risk, what risk is referenced in that row?
3 A The risk there is the likelihood of the borrower
4 defaulting.
5 Q Okay.
6 A Or becoming seriously delinquent, could be a proxy
7 for default.
8 Q And so on the left-hand column, there’s some
9 features listed such as reserves, back end ratio. Do you see
10 that?
11 A I do.
12 Q How would you characterize those headings, like,
13 what are they depicting?
14 A These headings are depicting attributes of the
15 transaction.
16 Q And one of the attributes, the last one on that
17 page, is product?
18 A Yes.
19 Q How did the company go about identifying which
20 products posed more of a risk than others?
21 A Two ways: The first way is through some of these
22 statistical studies that I mentioned to you and including --
23 I would include in that the work done on the scorecard. But
24 there were other studies done, statistical studies done. So
25 that would be one.
And then the second way is just based on judgment and experience.

Q: Holding aside the underwriting scorecard, what were the other statistical studies that informed the decision as to which products were more -- was more of a repayment risk than others?

A: So there were these group of studies that were done. I would put them under the heading odds ratio studies. And so -- and I had presented these both inside and outside the company. And so that series of studies also showed product type as being a predictive variable for explaining serious delinquency.

Q: And, you know, if you wanted to get these studies today, how would you go about doing that?

A: Well, I presented one -- I think they are included in the materials I gave you, the ones I had. But you could go -- I presented one to -- the Chicago Fed has a conference every spring, and so I presented the study at that Fed conference.

I presented it at the AFS, and I think that was January of 2007 maybe. So I presented it there. I presented it in September of 2006. There was a fixed income and equity investor conference in New York that I participated in with Countrywide, and so I presented some of those results there, not the entire study, but on the earnings call, on one of the
earnings call that they had me speak on, I think I presented some of the results of the statistical studies there. I presented it to the rating agencies. And then also just various investor -- smaller investor presentations, we went through these odds ratio studies. So that's a few places. But I do think you could find it out -- easily find it publicly.

Q Well, if you look on the first page of Exhibit 38, we'll go right back to the chart, but as you can see the last revision date of this particular portion of this document is July 27th, 2005?

A On this version, yes.

Q Right. So would it be accurate to say that as of July 27th, 2005, the company was aware that, for instance, a pay option loan product was a feature that significantly increased the risk of a loan going into delinquency or default?

MS. PAN: Excuse me, Paris. I would like to clarify. Actually, the revision date on the section that is in incorporated by the digits 905 is February 21st, 2006, as reflected on the page.

MR. WYNN: Okay. I see that.

BY MR. WYNN:

Q Okay. So the same question with February 21st, 2006.
A Can I hear the question again, please?
Q Was Countrywide aware that a pay option loan was a characteristic or product that significantly increased the risk of a loan going into delinquency or not performing?
A So I think -- so on the pay option loans, my -- my personal belief is that the possibility of having negative amortization was a well -- was an understood risk factor even when they introduced that product, which was prior to me getting there. So that would be -- that would be my belief.
Q Was this matrix here something that was, you know, distributed to other people besides underwriters or would only underwriters have occasion to look at it?
A So this is something that Christian and I and others worked on together. And so others would have -- others would have had occasion to look at this. The reason that we put it together was just to try to be helpful to the underwriters and have a framework that they could use to help them make the ability to make a determination that they were required to make on every loan.
Q Now, I'm going to ask you maybe the same question, Mr. McMurray, just to get a clear answer, but as Ms. Pan mentioned, this portion of the technical manual that includes that chart has a date of February 21st, 2006?
A Uh-huh.
Q And so my question is to your knowledge was the
company aware as of February 21st, 2006, that the pay option loan product was something that significantly increased the risk of a loan going into delinquency or default?

A And the way that I answered it is my belief was that it was well understood that that was a risk factor.

Now, on -- if you go back to Page 905, one of the disadvantages of a framework like this is you are boiling things down to fairly simple terms. And so there are limitations that go along with coming up with something that is simple.

Q Can you explain why the pay option product is included in the column for significantly increases risk?

A For three reasons is what I recollect, two which I have touched on, so one is statistical studies that we did, two, just the experience with the product, and then three, that was the belief, emerging belief, among the regulatory community as well.

Q If we first go to you said your experience of the product, are you talking about Countrywide's experience with the product?

A No, the industry's experience with the product.

Q And the first item you said was the statistical studies that had been done?

A I was giving you the different -- some of the different reasons where that -- you know, for putting it over
in the far right corner.

Q Right. And the first thing you said was the
statistical studies that looked at it. I know you were aware
of these studies, but who else was aware of them?
A We shared them fairly broadly. So --
Q What --
A -- with various members of management.
Q Would Mr. Kurland have been aware of these studies?
A Mr. Kurland would have been aware of these studies.
I'm fairly certain that I showed it to him at one point in
time. And, in fact, I do remember a specific meeting I had
in his office where we walked through the quantitative
scorecard, the new quantitative scorecard. And we went
through each variable, as well as the statistical technique
that was used to put it together.
Q Okay. Would Mr. Sambol been aware of these
statistical studies?
A You said Mr. Kurland.
Q I know. Now I said Mr. Sambol.
A Now you are switching?
Q Yes?
A He would have. He didn't like the odds ratio way
of explaining things.
Q What is the odds ratio?
A Well, the odds ratio -- I said a moment ago these
statistical studies that I put under the category of odds ratio studies.

Q  Okay.

A  So the odds ratio is a statistical -- is a statistical measure of boiling something down. You can think of it as a risk multiplier. And so I don't think -- it just -- to him, it wasn't as cool of a tool as I thought it was.

Q  Okay. That rhymes. Okay.

How about Mr. Mozilo, to your knowledge was he aware of the statistical studies that you are referencing?

A  Two things: One, I didn't interact that frequently with Angelo. And then, secondly, he was not a fan of detailed complicated things, and most statistical studies are detailed, complicated things, so --

Q  Did either Mr. Bartlett or Nick, the guy that had the chief investment officer position before Mr. Bartlett, what was his name?

A  Kresnich.

Q  Nick Kresnich, okay. Did either of these gentlemen know about these studies?

A  Sure.

Q  And if you flip the page, the first entry in that left-hand column is "doc type." And then, you know, in the column for significantly increases risk, we see NINA. Is that no income no assets?
A  That is.
Q  And SINA, stated income no assets?
A  Yes.
Q  And what does no ratio?
A  So no ratio would be a NIVA, no income verified
asset. And just very quickly, I want to clarify I certainly
showed to Nick and to Kevin many times the odds ratio
studies. I don't know how they would answer the question, but
I certainly shared it with them. So I don't want -- I can't
predict how they would answer.
Q  When you shared it with them, was it in the context
of presenting a certain position or did you just say, "Hey,
look at these"?
A  Well, it was both. One, these are interesting, and
then, two, one of the ways I wanted to use them was to help
drive policy decisions.
Q  What type of policy decisions?
A  Credit policy decisions for one. Investing policy
decisions for two.
Q  Did you ever use those studies with them in
conversations to support any position with respect to pay
options?
A  I don't recall a specific instance where I did
that. However, it could have easily occurred.
Q  And why are the documents -- why are the NINA, SINA
and no ratio document types included in that column for significantly increases risk?

A  So once again it would be similar to the three reasons I just gave you on the pay option. So one would be as a result of the various statistical studies. Two, based on judgment and experience. And then, three, also reflecting a regulatory point of view.

Q  If you go one column over, still in doc type, we see F&E. Is that fast and easy?

A  That's fast and easy.

Q  And reduced is reduced doc?

A  Reduced doc is a SIVA, stated income verified asset.

Q  Do you recall how often these -- the technical manual was revised?

A  The technical manual was revised frequently, though, not as frequently as the guidelines.

Q  When you say the guidelines, do you mean the loan program guidelines?

A  The loan program guidelines. I'm sorry.

Q  And looking at the chart again, can you recall when this first appeared in the technical manual?

A  I don't recall when it first appeared. I can remember the discussions that -- you know, we had discussions over time, and then they culminated with the development of
And, you know, in addition to Christian and I, Isa, I-S-A, Backley, and then Backley, Christian, Jack Schakett, Joanne Kruse, which is someone who had worked for Jack, K-R-U-S-E, Pauline, that's Pauline Kennedy, you know, we were all involved in discussing and hashing out, you know, the revision to the technical manual where this table went in.

Q To your recollection was this table included in the technical manual -- excuse me. Was this table included in the technical manual at any time in 2005?

A I would be guessing, so I'm not sure.

Q And at the top of this table, Exhibit 38, there's a title Risk Layering and Compensating Factors. Can you explain what that means, what those two concepts mean?

A Certainly. The risk layering is this idea of having multiple attributes. So an example of risk layering just using this table, let's suppose for the application, the transaction being looked at had no reserves. Let's suppose the back end ratio were high, you know. Let's suppose that the loan amount were high. That would be an example of risk layering because the loan had multiple high risk factors.

Let's do the opposite example. Suppose that the borrower had a lot of reserves. Let's suppose that they had a high FICO. So look on the next page, Page 906. They had a high FICO. That would be an example of risk layering where
there were multiple low risk factors that were all together.
So the idea with risk layering is the combining of different attributes to get to an overall judgment of risk view of the transaction in question. So that's risk layering.
Compensate -- the idea of a compensating factor is, you know, the classic example would be used in the exception process. So where the transaction in question was outside of the guidelines on one or more dimensions where there could be compensating factors that would offset that -- that would offset the area where it was outside of guidelines. So that's the idea behind the compensating factor.

Q And with respect to these features on the left-hand column such as reserves and ratio and FICO score, to your knowledge did they receive different weights within the analysis done within the scorecard?
A The quantitative scorecard?
Q Right.
A Yes, they would. And one of the advantages, and I'm going to go back into my opinion, one of the advantages in my opinion of a quantitative scorecard is that you can more precisely weight the different factors than is easily done with human judgment.
Q And can you identify some of the factors that would have had higher weights or to the extent you can describe the
hierarchy of weight assigned to these different variables?

A  I can. And there were also some presentations that
I have done that had pie charts that would show the
statistical weights of the different factors just to give you
an example of that.

So FICO on the second page, so for residential
loans, FICO often comes out as having a very heavy weight.
So that would be something that would be weighted heavily.
At the opposite end of the spectrum would be -- you see where
it says back end ratio? That's a debt to income ratio. That
typically will not have a high weight. So on the various
statistical studies that I have seen, both the ones done at
Countrywide and the ones that I was involved with prior to
Countrywide, the ratios never came out as having much
statistical significance.

Now, part of the reason I wanted to leave it in the
scorecard is to be able to say that it was in the scorecard
so that the underwriters would look at that because from a
logical -- a logical perspective, it seems like it should be
important even though the statistical evidence doesn't bear
that out.

Q  And can you just rank some of the other features in
that hierarchy we -- FICO is at the top, back end is at the
bottom, so where would something like --

A  So that -- well, let me go to the other direction,
330:1 if I could. So FICO and then leverage -- let me find that.

2 Is that in here?

3 Sorry. Thank you. Yes, so go to the back page.

4 So you see the leverage there, 100, 95, 90, 80 and 70, and
then FICO is within those boxes, so these two together would
be important. You know, those would have a heavy statistical
rate.

8 And then documentation type, that would be

9 important. The product type would be -- would be more

10 meaningful statistically than typically the debt to income

11 ratio, but it wouldn't have -- it wouldn't have the same

12 weight as the ones I just mentioned. So it would tend to be

13 one of the lesser weights.

14 I just remembered one of the tweaks by the way.

15 Sorry.

16 Q Oh, sure.

17 A And I'm pretty certain this change got made, but

18 I'm not absolutely certain. So one of the things people were

19 not happy about was in the scorecard when Cliff, Don and I

20 originally did it, there was a division variable, so like

21 what division that it came from. And I can -- you know, I

22 can show you if I had access to those documents that it's

23 statistical evidence that it's important. But, yes, people

24 were pissed off about that. So I think that had to get -- I

25 think that had to get adjusted.
Q: Which divisions, you know, performed poorly or resulted in more kick outs?

A: Well, wholesale -- wholesale -- if you adjust for all of the other typical factors, wholesale is generally going to underperform. And when I say wholesale, that's with loan brokers.

Q: Do you have any idea whatsoever why those loans performed more poorly than the others?

A: Sure. You mean like anecdotal or --

Q: Right. Whatever you have.

A: So on a retail transaction, you will have a borrower and possibly a realtor involved, both of whom have inherent conflicts in the transaction. They both want to see the transaction get done.

If you introduce a loan broker, you add -- you add another individual in the transaction that has got an inherent conflict towards getting the transaction done. And kind of the other thing, and this is changing now, but I grew up in Texas, and I used to joke it would be more difficult to be a dog than a loan broker in Texas because as a dog you needed a license.

And so loan brokers have become more and more regulated, but, you know, even today they are not federally regulated like a bank would be. And so those are some of the reasons in my opinion why a loan -- why loans out of
wholesale would have a higher incidence of default all else equal.

Q And when you mention that there are players with an incentive for the transaction to be executed, are you saying that because of that, they would have incentive to, you know, engage in improper practices?

A I'm not -- I'm not saying that specifically. My worry as a risk guy is if someone is getting paid a commission on a deal, that, you know, they are going to have a strong interest in seeing that close. So that would be the realtor, the loan broker, the loan officer. And so you always worry about those inherent conflicts.

Q Well, on the other hand, Countrywide also would have an interest in successfully originating a loan; is that right?

A Sure -- of course. Every lender has an interest in originating loans.

Q So would the only -- what would be the counter veiling incentive to, you know, be careful not to originate loans that are outside of guidelines?

A So from -- so from -- so let me wrap in the guideline piece. I want to say it more precisely. From Countrywide's perspective, they want to originate loans that don't default. You recall yesterday I talked about there being no type of a loan or way of selling
that loan where all of the risk was removed -- some of the
risk always stayed with Countrywide.

And so if the loan defaulted, Countrywide would
bear some of the consequences of that. And because of the
margins in this business, one loan going bad is going to
overwhelm the margins on multiple good loans. So the
consequences of a bad loan are more severe than the
consequences -- than the good consequences of a loan that
turns out to be good, if that makes sense.

Q So what you are saying is that if 95 percent of the
loans are doing fine, and 5 percent are in delinquency or
default, that 5 percent can outweigh the benefit of the 95?

A That's kind of the idea. So just if you think of
servicing as an example and the amount of personnel assigned
to the servicing task, it's on the order of half of the
people are, just to use your example, servicing those 95
percent of the good loans, and the other 50 percent of the
people are servicing those 5 percent that are delinquent.

And then as that borrower becomes increasingly
delinquent, the amount of resources that have to be assigned
to that loan go up drastically the more delinquent it gets.
And then even more when it gets into a loss situation, and
the property has to be taken back and then resold.

Q So back to this concept of risk layering, would it
be accurate to say that a goal of the -- you know, of the
automated underwriting system was to avoid the layering of risk?

A What would be accurate to say -- automated underwriting is the scorecard, the quantitative scorecard, is a way of getting at the interaction between the various risk variables. So, in other words, to provide a point of view on the -- on how all those interact.

Q Well, is it true that one of the outputs from Clues, the Clues renders, is that this loan has excessive risk layering or this loan does not have excessive risk layering?

A I do think that was one of the outputs from the Clues messages. That's my recollection. I don't recall the specific. There were multiple messages, by the way, that Clues fired depending on the specifics on the transaction. So that very well could have been one of them.

Q And things like FICO score and loan to value, DTI, those are already factors considered by the automated underwriting system Clues; is that correct?

A FICO, yes. DTI, after we made this change in the quantitative scorecard?

Q Right.

A I just remembered, another thing that got taken out, this was after the wholesale or retail thing, there were some very old rules that were in Clues that really weren't
relevant anymore. I had originally -- so before Clues had a quantitative scorecard, it was an attempt to try to replicate what a quantitative scorecard would do by using a rule set. And so by leaving those rules in, it was kind of belt and suspenders, you know, plus a rope. And so, you know, as we went back and re-visited that, we did take out those rules that were many years ago. So that was something -- that was a tweak that I remember that was done at some point in time.

Q And is that tweak something you supported doing?
A That tweak is something that I reported doing because much of what was trying to be contemplated by that very old rule set was handled better with the quantitative scorecard.

Q Okay. So back to what I was just mentioning, so Clues already takes things into account such as FICO and --
A Debt to income.
Q -- debt to income, loan to value, doc type; is that correct?
A That's correct.
Q Okay. So --
A And just to be clear, the version after I got there changed it. So doc type wouldn't have been part of the scorecard before.
Q Before you got there. Okay.
Well, the question is in going through the manual underwriting and/or the exception process when an underwriter is looking for a compensating factor in order to make the risk layering factor work out, could they point to something that Clues had already taken into account like, oh, this guy has a really high FICO score?

A They would, but, again, the processes are designed to do a similar thing, but from different approaches. So in the quantitative scorecard, that's a mathematical equation that is ranking the loans, and so that is the approach there.

On a manual underwriting basis, you are trying to do something similar, but just applying judgment instead.

The other important thing to know is, and this would be the case with the GSEs and a lot of other other lenders, when automated underwriting went in for residential mortgages, it's seldom the case where something would be what is called a dead red, which is where the automated underwriting system rejects an applicant.

So the practice is that it either accepts or refers it to manual underwriting. That's the prevalent practice.

Q If you look at the second to the last page of Exhibit 38?

MR. TAYLOR: 942.

MR. WYNN: 942.

THE WITNESS: Yes.
MR. WYNN: Is everyone missing that page?

MR. BENDELL: Does the witness have it?

THE WITNESS: I have 942 and 944.

MR. WYNN: All right.

BY MR. BENDELL:

Q So going back, Mr. McMurray, to the table on the page ending with 905 and 906 in Exhibit 38, was there a -- I think you described this -- the manual, the Countrywide Technical Manual, being developed by -- not developed by, but maintained by the credit policy administration group, which was under you.

A So I think that evolved through time is my understanding. And towards -- towards my final months or quarters at Countrywide, there would have been multiple people weighing in before a major change got put in. So that would have included my group on up through me in some cases. It would have included Jack Schakett. It was likely to be run by Drew and maybe even Dave Sambol, but more likely Drew.

So as an example, this matrix that we're talking about here, that was something that Jack and his team worked on closely with me and my team before it got put in.

Q Okay. But in terms of people above you, was there anyone whose approval was necessary?
A  Not necessary. Now, if something got put into it
that someone didn't like, someone could have said something.
I don't know -- I can't recall a specific instance of that
happening, but it's kind of along the lines of the automated
underwriting scorecard that I gave you.
Q  All right. And then so if somebody had an
objection to something that was done either in the manual or
to the automated scorecard, that was something that could be
raised to a level above you; is that what you are saying?
A  It could, and it sometimes was.
Q  And the specific example you gave earlier was I
think Dave Sambol raising an issue with you with regard to
the inclusion of the pay option arms as a factor in the
quantitative scorecard; is that what you are referring to or
something else?
A  No, I don't recall me saying has when I gave the
example with wholesale and retail, the different divisions.
Q  Oh, okay.
A  So he did object to that.
Q  Well, after the wholesale and retail change was
made and then, I guess, that factor was put into the
scorecard and then taken out of the scorecard as a result of
the objections, were there any new procedures or policies
that were put in place to prevent, you know, changes being
made to the scorecard that then needed to be, you know,
undone pretty quickly?

We tried to have more visibility around the scorecard being any kind of changes that were being made to that to have more visibility among all those that were affected before they went in.

So in other words, making it more --

Transparent.

-- transparent that a change would be made and making that information more widely available within Countrywide?

That's right. Now, I do recall you mentioned a pay option arm, and we haven't talked about that. So I do recall when the scorecard was originally redeveloped, a lot of the arm types came out as being less risky than fixed rate. And so that was based on all of the data available at the time.

And so I recall a change being made to pay option where we overrode that and made it, you know -- you know, made it a higher risk factoring in the quantitative scorecard.

Prior to making changes to the quantitative scorecard, did you do -- did you -- sorry. Let me rephrase the question.

Prior to making any changes to the quantitative scorecard, did anyone at Countrywide do any analysis as to what the effect of that change would be before implementing
A When we -- as part of developing the scorecard, we had a development population of loans, and so we looked -- we did do some analysis. So there's a gentleman Iain Stobie who worked for Nick Kresnich at the time. He had -- he had a team of people under him that helped us do some analysis on that scorecard before -- the new scorecard before it was put in.

Q So, I mean, I guess some of that work would be to determine, you know, if the refer -- the percentage of loans that was going to come out as refer were going to drastically jump up, you would want to be aware of that before you implemented a change; is that fair?

A Well, another thing that you would want to be aware of is what is called the swap in and swap out. So if you look at what the original scorecard, you know, the population of refers and accepts out of that, and then you would run the new scorecard against that same population, and then the swap in and swap out, the swap in would be loans that had been referrers that were not accepts, and the swap out were ones that were approves that then became referrers. So you would look at that as well.

Q And why would that information be relevant?

A Because you would want to have a sense of what was being swapped in and swapped out. So as powerful as these
techniques are, you still want to apply some judgment as well.

Q    You mean basically looking at them with the benefit of experience and seeing if the changes seem to make sense?

A    That's right.

Q    Now, specifically you mentioned trying to have more transparency before making changes to the quantitative scorecard. Specifically did you start informing Mr. Sambol before making changes to the quantitative scorecard?

A    They would have been individuals that worked for Dave. So the production area, Jack Schakett specifically, because on operations type issues, which this would be an operations type issue as well as a credit issue, you know, there was a desire to have better coordination with that group. And then they would handle the coordination with production.

Q    All right. And did -- so after you had that greater transparency, was there ever a time when you were indicating that a change was going to be made to the scorecard where somebody overruled that?

A    There may have been. I will try to think of some examples.

Q    Oh, you mean you are going to try to think of some examples later?

A    I'm sorry. I'm thinking. I'm thinking. I will
342:1 try to pull them out. I'm sorry.
  2 Q You were looking at me like I was supposed to ask
  3 another question. I thought you were thinking.
  4 A I was looking at you because I thought you were
  5 about to ask a question.
  6 Q So I guess, I mean, just to put it back on the
  7 table, can you give me any examples of instances where you
  8 were suggesting a change to the quantitative scorecard and
  9 that suggestion was overruled?
 10 A There may have been kind of the one thing that
 11 presently sticks in my mind was around loan amount, and so
 12 there was a lot of discussion around that. There may have
 13 been others as well, and I will continue to think about it.
 14 If I am able to retrieve anything, I will let you know.
 15 Q In terms of the manual underwriting process, it's
 16 in that process that the manual underwriter would be expected
 17 to look at the chart that appears on Pages 905 and 906 of
 18 Exhibit 38; is that right?
 19 A So the manual underwriter -- or the underwriter who
 20 is underwriting a loan manually is responsible for making a
 21 decision on ability to pay. And so the chart that we see on
 22 Pages 905 and 906 is one of the tools that we developed to
 23 help them make that determination.
 24 Q So even if they didn't look at it in every
 25 instance, I mean, they were expected to be familiar with it;
is that fair?

A They're expected to render a judgment on each loan that they underwrote, and so two things: They should be familiar with the technical manual because that had Countrywide's policies in it, first of all, and, secondly, one of the key tasks with underwriting is concluding that the borrower, irrespective of the guidelines, has the willingness and ability to pay.

Q Okay. But, again, among the tools that underwriters are expected to be familiar with and to use is this chart. And I understand the version would have changed over time, but a chart similar to the one on Pages 905 and 906?

A Yes, it's part of the technical manual. They should be using it.

Q All right. So is there any guidance that is provided to the underwriter -- you described earlier that for the quantitative scorecard, various of the factors that appear -- that also appear in this chart are weighted and you explained that you could even show on a pie chart how much weight each is given.

Was that information about how much weight to apply to each of these factors that appears in the table on 905 and 906, was that information given to the underwriters?

A That information wasn't given to the underwriters.
344:1 It was mainly just to give people a general idea of what the
weights were. But that -- that in itself is an over
simplification of how the statistical models work.
4 So I wasn't even crazy about doing the pie charts,
5 but people always want to know, like, what is most important,
6 what is next most important. So you end up simplifying it
down.

Q Well, understanding that humans aren't computers, I
mean, is there some way to communicate to the human
underwriter, you know, how to weigh the various factors that
-- you know, the various risks that go into a risk layering
analysis?
A Well, this is one of the key attempts at doing
that.
Q Okay. But, again, what I'm trying to get at is how
one communicates to the underwriters the relative weights to
put on each factor.
A One of the things that we hesitated to do, we
wanted them to look at all of these factors. And the concern
that you have, if you tell someone this is more important
than that, and then they don't look at the that that is not
more important. So that was one of the concerns several of
us had, you know, trying to weight these out for somebody.
Q I understand that, but I guess, you know, I'm
sensing that there might also be a counter veiling concern
that, you know, an underwriter might give too much credence
to something that is generally shown to not have a huge
statistical significance such as debt to income ratio?
I mean, did you take any steps, with that example
in mind, to prevent over reliance on debt to income ratio?
A  So let's talk about that one for a minute. So
statistically it's not shown to have much significance. I
think there are aspects of the process -- of the loan
manufacturing process across the industry that causes that
particular measure to have less statistical significance.

And so while, yes, it does come out as not being
important statistically, I would still argue from a logical
perspective you could consider it important. And if some of
these manufacturing practices, you know, could be addressed
across the industry, maybe it would become more important.

And so, you know, yes, there might have been some
advantages to giving the weights out to the underwriters, but
there also were -- would be some disadvantages. And so --
Q  All right. So just to be sure I'm clear, so in
your understanding information about how to weigh the various
factors was not circulated out to the underwriters?
A  Not to -- not to my knowledge. You know, I do
believe, however, that there was -- you know, that people --
that people understood, you know, including the underwriters,
that some of these would have been more important than
Q Okay. Why do you believe that?
A Because I believe that for those that have been in the industry for a long time, they'll have experience and judgment that will help inform -- inform their thinking on that.
Q But you wouldn't have any way of knowing whether the various underwriters -- I mean, it's the consistency issue, right, because you wouldn't have any way of knowing if various underwriters had the same experience causing them to come to the same conclusions about relative weights; is that right?
A Yes, that is the consistency concern that I mentioned earlier.
Q I mean, let me just ask one other question I think on this, which is was there any -- in looking at compensating factors, was there any procedure or policy in place to prevent an underwriter from offsetting a risk factor that increased risk that was, you know, a factor that was known to have a high predictive quality with another factor that was a factor that decreased risk in that instance, but that was a factor that was known to have a low predictive quality? Was there any procedure in place to prevent that?
A I could tell you from my personal perspectives, so I was part of discussions with different members of Drew's
347:1 team, for example, where I talked about that particular
2 issue. But, you know, it's a tough one to do. And this was
3 the -- this was our -- this was one of our attempts to do
4 that. But there were also discussions around the issue that
5 you are just talking about now.
6      Q Okay. Can you describe the context of how those
7 discussions arose at all?
8      A I think they arose through various means. Just
9 there were business reviews that Drew held, and Dave before
10 Drew when Dave had the -- was running the production
11 division. So underwriting might have been addressed -- or
12 was addressed in some of those business reviews. So that
13 would be an example.
14           In other cases, from time -- from time to time, I
15 would have occasion to see a specific exception. And so, you
16 know, like everyone else, you know, I'd have my own judgment,
17 and so, you know, I would express it if I thought, you know,
18 they were trying to offset one -- call one thing out as a
19 compensating factor and shouldn't, I would offer up my
20 opinion on the matter.
21      Q But, I mean, if you are talking about on a specific
22 loan?
23      A Yeah, so what I was describing to you are the
24 occasions where this particular issue would come up. So one
25 might have been in these broader discussions, and it could
also -- it could also come up, if, for example, and I'm certain that this was the case, I might have had occasion to see a specific transaction. And if I disagreed with the approach that the underwriter took, I would say so.

You know, in quality control, by the way, those loans got re-underwritten, and so a lot of it would come down to a battle of judgment.

Q    And when you say if you saw, you know, decisions that were made in the transaction that you didn't agree with, you would say so, say so to whom?

A    I would say so to -- so Gene Soda as an example, so he was head of underwriting for the retailer or consumer markets area. And from time to time, he showed me transactions or they got forwarded to me, and so -- and understand a lot of these, you know, might have been kind of very tough or gnarly, and so if I disagreed with the approach that they were taking on it, I would say so.

Q    And in terms of the more general discussions in the business reviews, that's something that would take place at what level? I mean, who were the people that would be conducting or participating in those business reviews with?

A    So for part of the time I was there, Dave would conduct the business reviews. So he would have in -- he would have in the key members of -- so they would do a business review for correspondent, a business review for
consumer markets, a business review for wholesale and so forth. And from time to time, I might be called in, and so this underwriting would be -- that would be -- that could be the type of an example where I could be called in, and we would discuss these types of things.

MR. BENDELL: Let's go off the record.

(A brief recess was taken.)

BY MR. WYNN:

Q    Let's go back on the record at 1:21 p.m.

Mr. McMurray, let me hand you one of the pages that was missing from that Exhibit 38, the manual. It ends in 943. You have the page before and after it, but just not that one.

A    All right.

MR. TAYLOR: Should we mark this as an exhibit?

MR. BENDELL: I think -- I'm confirming, but I think, actually, the page did appear in the exhibit. It's just not in the photocopies of the exhibit that we brought down.

(Discussion off the record.)

(SEC Exhibit No. 38-A was marked for identification.)

BY MR. WYNN:

Q    So if you look at Exhibit 38-A in conjunction with
A: Yes.

Q: Where they are talking about compensating factors? One of the compensating factors listed is high credit score. Do you see that?

A: I see that.

Q: Do you know at what point at Countrywide a credit score was considered high, like, you know, what miracle range was considered a high credit score?

A: You said at what time or --

Q: What is a high credit score? What did Countrywide consider a high credit score?

A: A high credit score -- so a typical credit score would be around 700 or so. And then -- so that would be across all consumers. Then as you move to a higher numerical number, then that would be considered a higher and higher credit score.

Q: Okay. So say, 700 or so?

A: Well, 700 is around average, so as you moved higher from that, that would start to be considered a high credit score.

Q: Okay.

A: I don't -- I don't recall a specific number being set out. And then kind of the other thing is you would want to think about this in the context of the particular product.
sector that you were in as well.

So in the pure prime world, you are going to tend to see -- if you look at all of the credit scores there, they are going to tend to be higher than in the subprime world. So what is high in one group may, you know, not be high in the other.

Q Okay. But in terms of Exhibit 38, which is the technical manual, we're talking about basically prime stuff, prime loans?

A Uh-huh.

Q So when you see that term, that bullet point high credit score, the range you are thinking is above 700?

A That's how I would think of it.

Q Okay. I think you've already answered this, but one of the variables in the underwriting scorecard that is utilized by Clues was FICO score, right?

A It was, and just to be clear, I think in the original version, it was bin FICO score, so FICO score ranges, and then I think the next one might have been splined. So I just wanted to be precise.

Q Now you have to tell us what that means.

A So what a bin is, so in putting together a statistical scorecard, there would be a range of FICO's. And so that would be opposed to just simply using the score itself as a continuous variable and the advantage of binning
And then splining it, it would be a very similar thing to binning it. It's just a different mathematical technique. And the reason for doing that would be to capture the curvature that might exist in a relationship between FICO and whatever -- whatever you were trying to predict. So you would get a better fitting -- you could get a better fitting model by using binning or splining for a variable.

Q   Do you know what the reason was for allowing an underwriter to consider credit score in the manual underwriting process when it was already factored into the underwriting scorecard?

A   So, again, remember two different approaches to try to get at the same thing. The underwriter can't see what is going on inside of the black box. So you would want the underwriter to consider most of the same -- all or most of the same factors that the quantitative scorecard considered. You would want the underwriter looking at the loan manually to consider the same things, including credit score.

Q   Okay. Talking specifically about determining whether or not excessive lending risk is present as opposed to just the overall underwriting decision, do you still think it's appropriate for the underwriter to, again, look at credit score even though --

A   The layering of risk in my opinion is part of
getting to the overall underwriting decision.

Q  Okay.  Well, let me show you the other exhibit, you
should already have it, which is 57.  It's just a later
version of the technical manual.

A  All right.

Q  And if you turn to Page ending in 232, and I'm
looking at the bottom number with the CFC prefix?

A  I'm there.

Q  So in the compensating factors, there's the
following language, "The following factors may not be used as
a basis for concluding that lending of risk is not present
because the AUS has already considered them in the decision
recommendation."

And the second to last bullet point is the credit
score.

A  Uh-huh.

Q  Do you know the reason behind that change?

A  I don't -- I don't remember the exact reason behind
that change.  Now, if we look -- if we look at the date on
this, so you see that it's September 10th, 2007, is the date
that I see there.  So that would have been among my last days
at Countrywide.

So it's possible that I might have been involved in
this discussion, but this would have been late -- very, very
late in my tenure there.
354:1    Q    Do you recall being involved in that discussion at 
2      all?
3      A    I recall being involved in these types of 
4 discussions. As far as the one that led to this 
5 specifically, I don't have specific recollection of that. 
6      Q    To your knowledge could that change have taken 
7 place without you being involved?
8      A    It's possible that it could have taken place 
9 without me being involved.
10      Q    Okay. And just a word on the date, like, you know, 
11 I have got one, you know, just a couple snapshots of revision 
12 dates. I don't have a complete listing of them. 
13      A    You don't have the which?
14      Q    A complete listing of all iterations of the 
15 technical manual. We don't have that. 
16      A    I see.
17      Q    So I'm not sure that September 10th, 2007, is when 
18 that change was made.
19      A    All right.
20      Q    Do you have any knowledge as to whether or not 
21 September 10th, 2007, was the first time a change in the risk 
22 layering analysis had changed?
23      A    I don't. And, again, I think this was one of the 
24 issues, and the other one that we were looking at was for 
25 manual underwriting, which this is as well. And so I think
that was under continuous evolution and refinement.

Q And what is the difference between manual
underwriting and exception?

A Well, an exception is going to be manually
underwritten, and so it's -- if you think about the -- you
have loans that were manually underwritten, and they could
get there in one of several ways: One, they either didn't
pass the quantitative scorecard or one of the rules inside of
Clues, so it would be as a referrer. It could have been
manually underwritten from the start. So those would be the
two ways that you would have manually underwritten loans.

And inside of the -- you know, inside of that,
those general criteria, you could have exceptions, so
something that didn't meet the guidelines.

Q Why would a loan be manually underwritten from the
start?

A That -- you know, that's the practice in some
instances. One of the things that I worked on was to try to
courage loans to go through the automated process. And
hopefully that is talked about in this manual because it's
part of the discussions we had as this thing evolved through
time.

Q Do you know what percentage of Countrywide
underwritten loans were manually underwritten in, say, 2006?

A I don't remember that specific number. However,
there were reports that calculated that.

Q    Did these reports have a title?
A    I'm sure they do, but I don't remember what it was.

And just as an aside, it probably appeared on more than one
-- more than one -- there was probably more than one report
where that ratio would have appeared.

Q    And do you know how the decision was made whether
to manually underwrite a loan or run it through Clues?
A    I don't.  The underwriting didn't report to me, so
I don't -- you know, I'm sure -- I shouldn't say I'm sure.
It could have been a case by case basis, but I'm not sure.

(Discussion off the record.)

BY MR. WYNN:

Q    You just said underwriting didn't report to you.
A    Who did the underwriting department report to?

Each was sales units, so consumer markets,
wholesale, correspondent, had an underwriting department that
reported up that way.

Q    Okay.  Was a decision left up to the individual
employee that was originating the loan whether or not to run
it through Clues or do it manually?

A    They were -- so my understanding is that they were
encouraged to use the automated underwriting system whenever
possible, although, manual underwriting was allowed.

BY MR. BENDELL:
Were reports generated that compared the performance of manually underwritten loans versus loans that were underwritten by the automated process?

I suspect -- yeah, I think that they were. I mean, exactly what the report name was, I don't remember that. But I suspect that they were generated.

I mean, is that a report that you saw from time to time?

This whole manual underwriting issue is something that I got involved in and looked at. And so even if it weren't a standard report, it might have been a special ad hoc report that we ran.

And out of what database could one run such an ad hoc report or databases if it's more than one?

So there were a couple databases at Countrywide that could be used, but even the database associated with Clues could be used to gather that information.

I do also recall, and I think it was Freddie Mac, also provided information to us externally on how the manually underwritten loans performed relative to the ones that had been through an automated system.

Industry-wide, or based on Countrywide loans alone?

They talked to us about both, you know, both industry and Countrywide. But I think my recollection is what they shared with us was just for Countrywide. But they
said it was an industry issue.

BY MR. WYNN:

Q    I want to refer you back to Exhibit 38, and I want
you to look at the page ending in 907 specifically.

MR. TAYLOR: I'm sorry. What was the page?

THE WITNESS: It ends in 907.

BY MR. WYNN:

Q    Mr. McMurray, I'm looking at the first paragraph
under the heading Underwriting Exception Guidance Update.

A    Uh-huh.

Q    I will read this and then ask you a couple of
questions.

A    All right.

Q    "Requests for certain types of underwriting
exceptions have grown recently. Below is a description of
the most frequently requested exceptions and credit guidance
to be followed when evaluating these requests. This
information is provided for divisional and secondary
structured loan debts usage only. The objective is to
provide consistent credit decisions with exception of credit
and review process. This is not to be viewed as a change to
credit policy or to be distributed outside of the SLD
employees.

"Furthermore, the flexibilities outlined below
should be used judiciously in order to avoid a high
concentration of these exceptions, and additional layered risk should be minimized."

Do you recall having any involvement in putting that paragraph together, or this section?

A I don't recall having involvement in putting the paragraph together. But as I scan through some of the issues that are highlighted on the subsequent pages, I do recall being involved in those discussions and expressing a point of view.

Q Could you identify the specific exception or request that you were involved in?

A Sure. Let's take a gander. So let me start, and this is one we talked about, so on the page labeled 910, do you see where it says super jumbo?

Q Yes.

A So I had talked earlier about hard stop at 70 percent, and so you see -- and so that was, you know, verbally and also through emails communicated previously. And so here you see it being in incorporated into the written -- into the more formal written policy. So that would be an example.

On the bottom of this page is acreage, and so that would be an example. Another example would be on the bottom of Page -- on the page labeled 911 Non Warrantable Condos, so one of the things that we spent time looking at and that I
360:1 was involved in was this condo question. And so there are
2 all types of different condos, so that would be an example.
3 Let's see. The foreign national one would have
4 been one where I was involved in discussions. The OTC, which
5 -- I'm sorry -- this is on the bottom of 909, those are
6 one-time closed loans, so I was involved in some discussions
7 around that. The AD 20, I was involved in discussions there.
8
9      Q    Let me ask you, this chart includes certain
10 requests. Are these -- are they allowing something new or
11 are they new restrictions?
12      A    It's the latter, more along the lines of either
13 disallowing things that had been through the exception area
14 or trying to provide greater clarity as the exception desks
15 out in the various divisions evaluated transactions that
16 might have had these types of exceptions.
17      Q    Okay. And looking at the chart, the first, you
18 know, on Page 907 at the top, there's a row that has certain
19 headings.
20      A    Uh-huh.
21      Q    One is Nature of Request, and then there's
22 guidance, and then there's pricing impact, hard stop and
23 price home equity. What does the pricing impact mean?
24      A    So we have talked before about this idea before of
25 risk based pricing. And so in of these -- not all of them,
26 but some of the issues that are raised here, we had a name
for them. But like the acreage is going to be an example
that I will use, that it was more of a detailed underwriting
type question rather than a guideline type question. And so
the simple fact that a property had more acreage, it was
trying to get consistency on whether pricing should or should
not be adjusted for that. So just consistency there.

Q And would the reason for -- would the only reason
for increasing the price be to address the increased risk by
allowing the exception?

A There would be a couple reasons for it. So that
would be one. But also we've talked about the loans were
originated to be sold into the secondary market, so there
might -- another source of pricing impact would have been
just the yield requirements that investors required as well.

Q And moving to the right, what does a hard stop
mean?

A So the idea that we're trying to communicate with a
hard stop is -- so let me take you back to Page 910. On the
super jumbo, that 70 percent is a hard stop. So when we're
talking about guidelines, they mean exactly that, they are
guidelines, so not necessarily set in stone.

And the idea of a hard stop is this was something
that we did want to be a hard stop, in other words, not to be
-- not to be gone through.

Q And what are the reasons for having hard stops?
A What?
Q What led to a hard stop? What would you need as far as performance to make you think, okay, we need a hard stop on this?
A So we'll just stay with this 70 percent super jumbo example. What led to that was just continuing to see examples where that 70 percent had been -- it had been previously communicated out as an LTV that we didn't want to exceed, and that was mostly based on judgment when that was put in place. We didn't have a lot of history on these very large loans, and so on a lot of these guidelines, and this is a good example, you have to apply judgment if you don't have a historical data to apply.
Q And if we look back at Page 907 under the heading Underwriting Exception Guidance Update?
A Yes.
Q The first sentence is, "Request for certain types of underwriting exceptions have grown recently." Do you know what that refers to, what particular types of underwriting exception is being referred to?
A My belief is that it's the kind of thing like acreage, the multiple mortgages to CFC, so a lot of the things that you see here. I also suspect that there's some other things that were thrown in at the same time.
Q The third line states, "This information is
363:1 provided for divisional and secondary structured loan desk
usage only."

Did each of the production divisions such as CMD and Full Spectrum have their own structured loan desk?

A They did. That's where the exceptions were handled.

Q Okay. And so this exception guidance was only to be shown to them and not the people below them?

A That was the intent of this. And the idea, so it would only be used in an exception type of an instance and not -- the worry was about incentives and exceptions.

Q Making people think that exceptions were routine?

A Yeah, exactly. So, in other words, okay, it says you can do this here, so that then becomes the de facto new guidelines.

Q Do you know at any point in time if the exception guidelines had been made available to the lower level employees that were actually underwriting in the first instance?

A I don't know that.

Q The last paragraph in this sentence states, "Furthermore, the flexibilities outlined below should be used judiciously in order to avoid a high concentration of these exceptions."

Now, during your tenure at Countrywide, did you
ever notice any high concentration of exceptions that you
became concerned about?

A So if you scan down this list, as I said before,
there are a couple of these that from my perspective were
concerns, and so yes.

Q Which ones that are listed did you have concerns
about from a concentration perspective?

A So the business funds utilized as a source of down
payment, that was something that I had been in a number of
conversations around that.

The multiple CFC mortgages, so these could be loans
even that met the company's guidelines, but just having a lot
of loans to one borrower or the same borrower. 80/20, so if
you add 80 and 20 together, it's a first and second lien, and
you get to 100 percent financing, and we talked about that
being a concern of mine.

The Texas A6, I believe that's a specific
compliance with a state law that is at issue there. On the
top of 909, the seasoning, so that's also an area where I had
a number of discussions. And so it's -- that gets to the
seasoning of the loan being refinanced and when it would be
-- when it would be appropriate to use a new value or a new
appraised value in considering that refinance. So that's the
issue that is being dealt with there.

On the bottom of that page, OTC, the one-time
closed loans, that's a construction loan. Just simply by
introducing the fact that you are building a house rather
than being finished, that introduces an additional risk
element. So that was -- you know, from my perspective, that
would have been a concern.

On the super jumbo, this is something that I even
recall conversations with Stan Kurland and with Carlos Garcia
on this. And so, you know, one -- a couple concerns here:
One, statistically we had shown that larger loans tended to
have higher risk, although, there was some debate around the
validity of those results. But higher priced homes do tend
to have more price volatility, so they are more susceptible
in up and down markets. So that was a concern there.

Q And in going through this, and we're talking about
concerns, I want to make sure you are talking about areas
where you are concerned about there having been a high
concentration of exceptions with respect to this type of
loan?

A Well, you know, I don't know whether there was a
high concentration or not. But on most of these, they had
come up with enough frequency that we wanted to address them
with guidance. And in some cases, there may not -- I mean,
the amount of these may have been very small. But, you know,
it's a loan by loan business, and you want to make the best
decision you can on each individual loan.
Okay. Did you finish?

A The acreage, you know, I was involved in that discussion. I don't recall being involved in the lava flow discussion. Although, now that I see it, I would be concerned about it.

And the condo discussion, this was part of a bigger discussion around condos. And so there were a number of discussions that I was involved in, e-mail exchanges on the condo issues.

Q Okay. Could you just briefly explain what the issue was with respect to condos, non warrantable condos?

A So Fannie Mae and Freddie Mac have warranties that either can or cannot be made on a condominium project. So it might involve things like -- or I recall it involving things like presale requirements. So if a condo were under construction or conversion, having a certain amount pre sold.

So a non warrantable condo would be a condominium project that couldn't -- that wasn't -- that for one reason or another couldn't provide those warranties.

Q Okay. So that kind of condition at certain times resulted in a Clues deferred decision in which scenario an exception would be sought, and here you are providing some limitations or guidance on those exceptions?

A Yeah. And the other thing we have to be careful of, I'm not sure that -- some things in here could be
contemplated by Clues and picked up in the system. I'm not sure that everything that we see here could be picked up or contemplated by Clues. So I do -- you know, compared to the other automated underwriting systems that I have seen, I think Clues is pretty comprehensive, but none of them that I have seen are completely comprehensive.

Q    Okay. And going back to Page 907, could you explain what the issue is surrounding business funds utilized as a source of down payment and closing costs?

A    So the concern there was if funds that were in a business, so suppose it were a corporation, if the borrower were to take those funds out, it would -- you know, a typical way would either be a loan, which the borrower would have to pay back, or it would be as compensation where taxes would have to be deducted.

So that -- or third, another concern would be, you know, suppose the applicant -- our applicant didn't own 100 percent of the business and wasn't able to take the funds out just based on their authority alone. So those are the types of concerns you would have around using -- considering business funds.

Q    Okay. And this paragraph we were just looking at states that the flexibilities outlined below should be used judiciously in order to avoid a high concentration of exceptions. Why was it a goal of the CTM to have the
exceptions used judiciously?

We talked before about exceptions being a higher risk loan just by their very nature. And so that's why you would want to do them judiciously and also to avoid a high concentration of them.

And were there any institutional mechanisms in place at Countrywide to insure that exceptions were utilized judiciously?

There were the various SLD's, the structured loan desks. And so, you know, that was the key mechanism. In addition to that, I talked earlier about this exception tracking system that Bill Cobb had developed, so that was another mechanism that they had developed.

Is there any -- well, can you recall any particular percentage or any way to quantify a certain number at which point you would become concerned that there are too many exceptions being granted? Perhaps a percentage of loans being originated at this percentage --

Personally, I would be careful calling out a specific percentage, and let me explain why. I think it's both a frequency and a severity consideration. So you would have to consider, you know, on that specific exception, you know, how far did it go, just a little through or a lot through? Is it something that was a big deal or not such a big deal?
Thirdly, did you consider it in the context of the other attributes on the loan? So you would want to consider those second and third things along with how frequently that was represented in the population.

Q Okay. So I think you are saying that, again, some exceptions might be more consequential than others? So to the extent there are a large percentage of exceptions, that wouldn't tell you the whole story? You would need to know what the exceptions related to?

A That's right. And so you could think of it, if I asked you what does being healthy mean, there's a lot of things we could talk about that would be indicators of that. But it's hard to put a specific, you know, one number on it.

Q Well, if someone told you that 30 percent of a division's production for a given year had an exception associated with it, would that -- just that information alone concern you?

A Not on the surface. And so, you know, one of the things I would want to know, so we talked also about that some product and guideline changes were introduced first through these -- through the exception desk before the system or the other infrastructure had a chance to catch up. So I would want to split that out of the 30 percent. So that's one thing that I would want to do. I would want to split out kind of the nature of the exceptions.
Q    I'm going to show you a document we're going to call Exhibit 81. It's a June, 2006, Enterprise Risk Assessment Map. This document has a Bates number CFC2007A345225 through 235. (SEC Exhibit No. 81 was marked for identification.)

BY MR. WYNN:

Q    Mr. McMurray, I believe we have seen one of these documents before, these risk assessment maps. I think you called it something else, a heat map?

A    Yes.

Q    I think the last one was from August. This one is from June. If you look at Page 11?

And I'm looking at the heading Credit Portfolio Loan and Securities Risk?

A    Yes.

Q    The last entry under risk is for loan -- I will just read it, "Loan underwriting guideline exceptions may or may not be undetected due to flowed audit program design or they may be made without sufficient compensating factors and/or with the -- and/or without the addition of adequate exception pricing add-ons."

And the Observation section, which I assume is the steps that are taken to address this risk; is that right?

A    I think that the observation -- this came out of
Walter's area. So my understanding of the observations is they are simply that, observations.

Q   Okay. So do you agree that that is a potential risk, the one I just read out in this document?

A   Yeah, I do agree that this is a potential risk.

Q   And do you know what Walter did in order to identify these risks? Are these based upon his having gone out to the different divisions and interviewed people or just things he came up with?

MR. TAYLOR: The question is do you know.

THE WITNESS: So do I --

BY MR. WYNN:

Q   Do you know how Walter identified the risks that he identified in the heat map?

A   This specific one or more generally?

Q   More generally.

A   I think he had a risk assessment team that went out and did analyses and interviewed people is my understanding.

Q   Do you recall ever being interviewed by this team?

A   I recall meeting with them on frequent occasions.

Q   Do you recall ever being interviewed by them on any of those occasions?

A   The difference between a meeting and an interview, I just -- are you trying to draw a distinction between the two?
No, I'm trying to figure out if there was ever an occasion where they told you they wanted to talk to you about identifying potential risks in your department and asking you questions to that end regarding potential risk in your department?

Yes, that kind of discussion would have occurred, and it wouldn't have been limited to just risk in my area, but it would have included them asking me for my opinion more globally, as well.

Okay. So in addition to asking particular departments to, you know, opine on their area, they would ask for, you know, company-wide risk areas you may have had knowledge of?

In the conversations with me, yes.

Okay. Did you have such conversations specifically with Walter?

I know I had conversations with a gentleman named David Boberg who reported to Walter. So I can think of -- and I don't know the exact date, but I can think of a number of occasions where David and I talked about those types of issues I just described.

There may have also been discussions with Walter, but Dave Boberg would have been the person that I would typically interact with on this type of discussion.

Okay. Could you spell his last name?
A    B-O-B-E-R-G.

Q    Did Walter's department ever issue any kind of
written questionnaires to you or anyone else you have
knowledge of regarding risks they are aware of?

A    Well, when you say his whole department, he had
regulatory regulations, internal audit, plus risk assessment.
So are you talking about all of his --

Q    Just specifically risk assessment.

A    I don't know if they -- I don't know if they
specifically did questionnaires. I mean, there were written
-- I saw written write ups and drafts they had prepared and
asked me to review. I don't know if those were the result of
questionnaires or not.

Q    Do you recall having any conversation with Walter
or David in which you identified the possibility that loan
underwriting guideline exceptions were being made without
sufficient compensating factors?

A    I'm fairly certain that that occurred and probably
on more than one occasion because the issue of, you know,
derunderwriting in general and, you know, the exception portion
of underwriting, you know, was a source of attention and
concern throughout my time there.

BY MR. BENDELL:

Q    Can you compare the level of attention and concern
you had about exceptions in the underwriting process at
Countrywide as compared to your other professional experience?

Sure. So in terms of the infrastructure and databases that Countrywide had?

No --

This is an important piece, if it's okay.

I want to make sure you understand the question.

You are free to answer it with whatever you think is relevant, but the question is in terms of your level of concern and attention as you just described it being present during the whole time that you were at Countrywide, I'm trying to get -- understanding that it was of some concern and attention during your whole tenure at Countrywide, and you've described that several times, and now I'm trying to take a step back and say, okay, well, comparing that to your -- I mean, you described yesterday a lot of experience you've had in the mortgage industry.

So I'm trying to get a sense for whether you viewed exceptions as a bigger -- a more serious risk at Countrywide than at other places that you have worked in the mortgage industry?

And so -- and I want to answer that question by providing two perspectives. So -- and some of this is going to tie back things that we have already talked about.

So the level of exceptions was higher there.
compared to, you know, my observations elsewhere. There are multiple reasons for that. We have talked about the matching policy. We talked about the no brokering policy. We've also talked about the exception process being used to introduce new guidelines and product changes. So that's perspective one.

Perspective two is in terms of being able to track the activity that was flowing through, in my opinion Countrywide is probably the best at that. So there would be other institutions where you could have the same kind of thing going on, and it would have escaped detection, and it would have been the kind of thing that would have been latent and undiscovered.

And so, you know, the whole idea of exceptions is something that I have seen in virtually every institution. Countrywide had a much, much better ability to track them and measure them, but I think that they were used for more things than seemed to be the case at other places I was familiar with.

Q In terms of your role eventually as chief risk officer, did you see the exceptions as posing a greater risk to Countrywide than exceptions did at other lenders you had familiarity with?

A Well, my view was at Countrywide that they posed a risk, which is why they got talked about and discussed. As
far as whether there would be a greater risk there than elsewhere, that one is difficult to answer because I think in some cases there are some institutions that wouldn't have the ability to even figure out that they had them.

Q So you couldn't measure the risks?

A So you couldn't measure it.

MR. BENDELL: Okay. Thank you.

BY MR. WYNN:

Q Do you know who Joe Miller is?

A I do.

Q Okay. Who is Mr. Miller?

A So let me -- he had several jobs when I -- and I will go through -- so when I first met him, I believe he was the underwriting manager for the wholesale -- the subprime wholesale area is my recollection. And then I think he lives in Dallas. And so he -- I think he moved over to be at CMD. So I think that's roughly how he moved around while I was at Countrywide.

Q Now, you said at some point he worked in connection with wholesale subprime on the production side?

A Well, no. I'm sorry. So my recollection is when I first met him, that he was the head of underwriting for the subprime area of wholesale. So remember I talked about Debbie Rosen earlier this morning, and so she ran subprime wholesale, and then he would have run underwriting for her.
So within each -- is it accurate that within each production division, there was someone in charge of underwriting?

Yes.

Okay. And do you know who that person would have been, say, for 2006 in the area of prime lending, prime loans?

Which division?

At CMD.

In CMD, it probably would have been Gene Soda, S-O-D-A. And I'm just thinking -- I'm trying to remember after -- so, again, Joe lived in Dallas, and he was going to -- and, you know, he needed to stay in Dallas because of his family, and so they moved him around a little bit. He still was in an underwriting capacity, but his role changed at least a couple times while I was at Countrywide.

And within the wholesale division, do you know who would have been in charge of prime underwriting?

So --

Say 2006.

I believe it would have been Barry Wolfgram. But he got sick, and I don't remember exactly when he got sick. So he had a -- I think it was a stroke. And so he was in charge of it for a significant portion of time while I was...
there, and then -- and Joe might have even filled in after
Barry got sick, but I'm a little fuzzy on the exact sequencing.

Q    Okay.  And just for descriptive purposes, were CMD
and Full Spectrum considered separate or was Full Spectrum a
part of CMD?
A    When I left Countrywide, Full Spectrum was part of
CMD, but that wasn't always the case.  So when I first
arrived at Countrywide, Full Spectrum was separate from CMD.
Q    Throughout 2006, do you recall if Full Spectrum was
separate from CMD?
A    Full Spectrum got folded into CMD.  I don't
remember the exact date when that happened.
Q    Can you recall who was in charge of underwriting at
Full Spectrum in 2006?
A    I believe that it was Cliff Kitashima.
Q    Can you spell that last name?
Q    And did these people you have named as far as being
in charge of underwriting at the separate production
divisions, did they report to you or did they report to
someone within production?
A    They reported to the production -- into the
production chain of command.
Q    Okay. And is it accurate to say that these people
basically applied existing underwriting guidelines as opposed to being involved in the setting of policy with respect to underwriting?

A So their principal job was applying the guidelines and then also making the determination on each loan on the ability and willingness to pay.

They would be involved in policy discussions, however, so I have talked about the matching, and so they would typically be involved in those discussions from time to time as well.

And there were a couple of occasions, so we're talking about Full Spectrum where Cliff or someone that he worked -- or that he worked with, I think Patrick Aliano, it's an instance I recall on a couple of occasions where they brought me proposed guidelines for my reaction.

Q Okay. So people that are in charge of underwriting at the different divisions would sometimes bring you proposed guideline changes to see what you thought of them?

A Well, sometimes they would do that, and I can remember specific instances or I can remember instances where that was the case with Cliff and Patrick Aliano.

Q And which department did Patrick work in?

A Patrick worked for Cliff.

Q Patrick worked for Cliff. And can you recall the specific guideline proposals they made to you?
I don't recall the -- I don't recall the specific proposals that they made.

And in the conduit department, do you know who was in charge of underwriting there?

So that could be two things: So there's correspondent lending, that could be considered a type of conduit, and then there was also the broker-dealer bought, and sometimes that would be referred to as a conduit where they would buy closed -- bulk packages of closed loans.

What was the first one?

Correspondent.

Correspondent, then you said that could mean two things?

So are you asking about correspondent?

Yes. So was anyone in charge of underwriting there?

Carlos Novas, N-O-V-A-S.

And did corresponding originate prime and unprime or just prime to your knowledge?

They originated the whole spectrum of product offerings.

Okay. So was Mr. Novas in charge of all product offerings or was there a split?

I don't think there was a split.

Okay. And just to go back to something you
mentioned earlier today, as well as yesterday, risk-based
pricing, could you explain what that is in detail?

A The idea behind risk-based pricing is that as risk
increased, a higher price would be collected or charged. So
you could think of it like an insurance example, a higher
risk in insurance gets charged a higher premium, so the same
kind of idea for loans. And lower risk would get a lower
price.

Q And is risk-based pricing a concept intended to
reduce risk, a risk management tool?

A Risk-based pricing is a tool designed to be
compensated for the risk.

Q Okay. I don't know if we'll get into it
today or another time, but I have seen a couple of e-mails
where people are asking you, you know, to change the
guidelines. And you are resisting them, and they come back
and saying, "Well, isn't this just a question of risk-based
pricing? Why don't you price for it and change the
guideline?" Do you recall any such interactions?

A Vividly.

Q Okay. And so it seems that you don't believe that
risk-based pricing alone is sufficient to address a credit
risk; is that accurate to say?

A Here's my personal belief on risk-based pricing.

Q Okay.
So, yes, it can be a success -- it can be a successful approach. Is it the solution to every problem?

No. Let me give you an example. So suppose an insurance -- someone comes to you and wants an insurance policy and their house is on fire, and it's raging. You know, what is the risk-based price you are going to charge for that insurance premium?

And so that's a drastic example, but my opinion was that there were certain instances on some risks that they would not be able to be easily priced or effectively priced in order to get proper compensation for the extra risk that was being taken on.

Again, that's my opinion. There would probably be others with different opinions.

And I'm sorry, but I didn't understand the import of the example about the house being on fire.

So the house is going to burn down, and so the insurance premium on it would be like the price of the house -- to rebuild the whole house. And so, in other words, it's not like you would just double the insurance premium or triple the insurance premium. You know, you are basically -- you would have to charge a premium to replace the entire house because the whole thing was -- the fire had progressed to such a stage that it was beyond, you know, irretrievable.

Okay. So you are saying in response to certain
calls for just on risk-based pricing, your response would be
that, well, the price you are thinking of isn't high enough,
we need to --

A  It's not just that. For one, just having like a
hammer and using that for every possible task that faces you,
it's not good thinking. And so people would bring -- trot
that out all the time for everything rather than trying --
and so in my opinion, I think it's better to be thoughtful --
more thoughtful on some of these things. And there are, in
my opinion, certain instances where even if you charged them
a much higher price, it may not have been sufficient for the
transaction to make economic sense. That's my opinion.

Q  And I apologize for asking you more questions about
it, but I'm just not understanding what you viewed as the
concrete limitations of risk-based pricing.

A  Well, let me try again. And I apologize for not
doing a good job explaining it.

Q  It's just alien to me. That's the limitation.

A  So let's try another example. So in some cases --
or not in some cases -- in many cases, in most cases,
probably risk-based pricing would be collected through
collecting a higher rate. And so suppose you had a risky
transaction, and you collected the risk-based pricing in
terms of higher rate. There are two events that could happen
that could make your strategy of collecting the higher rate
The first event that could happen is the borrower could prepay sooner than you expected. So the extra rate that you charge didn't last long enough through time in order to collect the sufficient risk-based premium to offset the risk.

Let's suppose in the same pool, there was another borrower that defaulted very quickly. Suppose they defaulted on the first payment out. You may not have collected a single bit of the risk-based pricing, but yet you had the default to deal with.

And so my concern on the risk-based pricing were these types of dynamics, you know, the ability to be able to actually realize some of the extra pricing through time to apply it to the extra risk that was being taken.

BY MR. BENDELL:

Q    Were you involved in doing calculations of the expected, I don't know if it's return on investment or expected return on various loans, to determine if pricing was adequate?

A    I wasn't officially involved, but I poked my nose in on a number of occasions.

Q    What group had the official responsibility for that?

A    So primarily secondary marketing.
Q And what about -- would that be true also for help for investment loans?
A So the bank -- the bank would have had individuals that would have been involved for that calculation over at the bank. An important tangent to go off on, though, so the idea was Countrywide originated all these loans to be sold into the secondary market. The secondary marketing was responsible for coming up with the base pricing, so in other words the base -- or rack rate that was supplied out to the production divisions. So that was the basic pricing that the production divisions originated against.

And so early on what the bank -- the bank, what they did is they just selected loans from the flow to move over to that portfolio. Now, the evolution of things was that in some instances we used the bank's return to calculate a price, although, there was some controversy around that calculation. There were some of us that thought everything should be originated to the secondary price, and if it worked for the bank, that was great, and if it didn't work for the bank, then the loan would simply be sold into the secondary market.

Q I don't think I understand the distinction that you were just drawing between pricing it to the secondary market versus pricing it to the bank. Could you explain that one more time?
So the approach was for, you know, I think the concept that at least I understood is the bank was supposed to select loans out of the flow, and those were priced to the secondary market. Now, they had their own return calculation.

Requirement, you mean?

Yes, a return requirement. And so the distinction I'm drawing is that, you know, let's suppose that their return -- I mean, their requirement should be whatever it was, and then they could decide to take the loans or not.

Now, there were some that pushed for, well, if the bank has a lower return requirement than the secondary market, we should pass that through.

But I guess then the issue would be whether you might end up with more loans than the bank could -- if you ended up with excess loans beyond what the bank wanted or needed for its own balance sheet, what would you do with those loans? Was that the counter veiling concern?

Well, that was one concern. Another concern was simply just having -- you know, following a disciplined strategy and not having people distracted with what was going on in the bank's balance sheet. So in other words, that was a separate -- how originally conceived, that was supposed to be a separate business from the production area. And so then you worry about melding the things together and making things
murky.

Q All right. And so just so I'm clear, in terms of Countrywide's expected return on loans held for investment, that was calculated -- what group was calculating that? I'm sorry.

A So it was the bank and underneath the bank's chief financial officer. I think, I think, in the treasury area is where that calculation occurred. And so one of the ways that I got involved, I talked yesterday about economic capital and hiring B.J. Bhasin. And so with economic capital, you can specify the amount of capital that would be assigned to an asset, and then that could be used for the return calculation.

Q And as part of the return calculation, I mean, it would include as part of it a -- I mean, the probability of default is included in there, correct?

A The probability of default, the probability of prepayment on arms. You also have the probability that the rate gets adjusted up or down. The probability that you hit a cap or floor.

Q So, I mean, were there instances where you were actually opining, you know, because you mentioned, I think, that -- I think you mentioned that often the response to a concern about a guideline was that we should --

A Price for it.
388:1  Q    -- just price for it. Were you in the position of
looking at a particular, I don't know, adjustment to price
based on one of those and saying that's not sufficient,
that's not going to do it?

A    No, that wouldn't be a typical way that I would get
involved. I was more involved from the strategy or
principal's perspective so that that particular instance that
you are describing would -- you always worry about that
happening no matter how elegant of an approach you have, you
are going to have that happen in certain instances.

But as a matter of strategy and the way things are
constructed, you know, from strategy wise, you want to
minimize the likelihood of that happening.

Q    The likelihood of exactly what happening?

A    That the price that you charged was insufficient
for the risk -- the incremental price was insufficient for
the incremental risk.

Q    Now -- actually, I don't have any more questions.

Go ahead.

MR. WYNN: Off the record.

(Discussion off the record.)

(SEC Exhibit No. 82 was marked for
identification.)

BY MR. WYNN:

Q    Back on the record. Mr. McMurray, you don't appear
to be a recipient or a cc of any of the e-mails that are
reflected on Exhibit 82; is that correct?
A It doesn't appear that I'm a recipient on this.
Q Okay. Having -- have you read --
A I have read it.
Q And do you have any recollection regarding the
subject matter?
A I do.
Q Okay. Before we get to that, I just want to see if
you can identify a couple people, the first being Brian
Kuelbs?
A So Brian was someone that Drew hired, I'm thinking
in 2005, somewhere around that time frame. And he was hired
in over Vijay. And so he had the product leadership
function, but plus some other things, I believe, as well.
Q Okay. All right. So if we look at the first
e-mail from Mr. Lala to Mr. Sambol?
A Starting from the back?
Q Yes. Well, starting on the first page of the
exhibit.
A Yes. The 1:38 p.m.?
Q Right.
A Okay.
Q Now, the first sentence states, "Dave, CMD has
repeatedly asked for a product change that would allow down
payment assistance from a HUD-approved nonprofit." Do you
know what that refers to?

A    I do know what it refers to.

Q    Is Mr. Lala referring to a specific program?

A    He's referring to a specific program dealing with
FHA loans.

Q    Okay. Did that program have a name?

A    Do you see where it says DPA? Down payment
assistance is the name of the program.

Q    Okay. And as of the date of this e-mail, did
Countrywide not underwrite this program?

A    No. So if you would look further, the issue here
is between the 6 percent versus the 9 percent.

Q    Okay.

A    So 6 percent is a typical level a seller
concessions or contributes, and this is just part of industry
tradition. And so the request -- so the request is to go
from 6 percent to 9 percent. But let me explain exactly how
this program works.

So the way this HUD program works is the builder,
it would typically be a builder, it could just be a regular
seller of a property, but oftentimes it was a builder, would
donate money to a nonprofit. So somewhere in here you will
see a nonprofit referred to. So that money is donated to the
nonprofit. The nonprofit then turns around and provides it
And who would the nonprofit be?

Oh, there were a number -- there were a number of them out there. One of them -- either their program or the entity name was Neomia. But there were a series of these nonprofit's that handled this type of business.

Now, by nonprofit, we are not talking about something like the United Way? It's something different than that, though?

What's the tax code, 401? I will think of the code number in a minute. But there's a specific section of the tax code for nonprofit's. So these -- so not exactly like the United Way, but it would be organized as a nonprofit like United Way would.

But would the particular purpose of these nonprofit's be to allow home builders to purchase a particular home?

The purpose -- the purpose of the nonprofit's was to provide the down payment assistance to the buyer.

Okay.

So let me just explain my concerns, which were several fold. To me, so you have the builder giving the money to a nonprofit who gives it to the buyer. That's in economic substance the same as the builder is almost giving the money directly to the buyer in the first place.
Like a rebate or not a rebate --

Kind of, yeah. So in this type of seller concession or contribution, and so you worry about -- you worry about a couple things: One, it's not the buyer putting their own skin into the game. You worry about the valuation of the property being elevated, again, from an economic substance standpoint.

And in my opinion, if the builder is willing to gift this money to someone, then the house is kind of worth that price minus that amount. Someone could make that argument. And so just for this type of program at all, that was my general concern.

So the 6 percent, allowing it at 6 percent had been something that had been in place for a long time. And so this request is to go from 6 percent for this down payment assistance program to 9 percent.

And was it your opinion that that would have aggravated the concerns already listed?

My opinion is that would have aggravated the -- the concerns I described would have been aggravated by doing this. And, you know, they are talking about other lenders doing it, which I believe to be the case. I mean, they brought me things that suggested that other lenders were doing this.

I just -- I just didn't think that it was -- that
-- I thought that we shouldn't do it. And so I talked about general concerns. And then if you look here at the bottom of the first page, we had done -- in response to repeatedly being asked about this, we had done a study to measure the delinquency rate on these down payment assistance loans to loans that didn't have a down payment assistance, and there was a big difference. And so that tended to corroborate my concerns.

Q Did Countrywide do a study or did you just point them to a GAO study?

A No, we did a study. Now, the GAO did eventually look at this program. I recall that.

Q When Vijay states a credit, and he says McMurray and Stan have repeatedly said no, why is he including Stan in credit?

A A couple reasons: So Stan was in my chain of command, so I reported -- let's see what date was this? I'm not sure whether I reported to Nick or Kevin at the time, but I would have reported to someone who reported to Stan. And so that's one reason.

And then, two, Stan was viewed as being more sympathetic to the risk view, and so he would get -- he would get lumped in with us.

Q And did you say he was viewed -- was viewed by people in production or viewed --
A: By people in production, yes, and the broker-dealer.

Q: Okay. If you look at the second page of Exhibit 82, the first paragraph states, "This product is clearly in the market place and is being originated by multiple lenders including Wells, Chase, B of A and WaMu. As such, CND is making loan level exceptions to do these loans. They are currently making exceptions on a couple of loans a month. McMurray is concerned that credit policy is not being followed."

Did you ever tell Mr. Lala or anyone else in production that you were concerned that the exceptions they were making in order to do these 9 percent EPA loans were resulting in credit policy not being followed?

A: I was. And so here, in my opinion, this is a different type of exception, so it's not just an underwriting guideline. I mean, I think it goes to some -- it gets into some different issues. And so I didn't -- in my opinion it wasn't the right type of thing to handle on an exception basis.

Q: Can you explain in greater detail what you mean by this type of exception being different than a run of the mill underwriting guideline exception?

A: The economic -- the economic substance was the money went from the seller to the nonprofit over to the
buyer. So that's a different type of thing in my mind than simply an LTV that is a little bit high, a FICO that is a little bit low. So I'm drawing a distinction there. Again, my opinion, but --

BY MR. BENDELL:

Q Is the distinction based on the potential for abuse?

A Yes. And just the worry -- the worry about the economic substance of the transaction.

BY MR. WYNN:

Q And do you have a recollection of tell Mr. Lala or anyone else in production that you thought that the credit policy was not being followed with respect to the exceptions?

A It's likely that I said something like that. I mean, I do recall multiple conversations with Vijay and Drew and others on this particular issue. I'm not -- I can't remember exactly how I phrased things, but that would have been the gist of it.

Q And I'm sorry. Go ahead.

A No, again, the difference here is it's kind of like levitation, and so how could the house be worth something and then be able to give away 9 percent and it still be worth the higher amount? That's my opinion.

Q I see. How did you become aware that they were doing these type of exceptions with respect to these type of
loans?

A I'm not -- I don't know how this one came to me, but I tried to have what I would call listening posts, which is a polite way of, you know, just people tattling.

Q Okay. So you think you would become aware of these exceptions through what you call listening posts?

A This might have been how I found out about this one.

MR. TAYLOR: Do you recall?

THE WITNESS: I don't recall specifically, but that's the way I found out about a lot of these things.

BY MR. WYNN:

Q Now, I have to ask you if you recall if you had any particular -- did you have listening posts in production?

A I did. People would tell me things.

BY MR. BENDELL:

Q Were there a top few people who were your most reliable sources of information from the production division?

Can you just list them for us?

A Sure. And this listening post thing is something I have tried to use everywhere, too, so it's a good thing to do I think.

So Gene Soda would tell me things from time to time. There was this -- this is horrible. I can't remember her name. There was a woman that worked in underwriting in
wholesale. I will remember her name in a minute. So she
told me things. Barry Wolfgram would tell me things.

And then some of the people that worked for also
had their own listening posts, and so they -- you know, I
would get things funneled that way. So Steven Trentacosta
would tell me things. And I'm a little worried. I think he
still works there and so probably would be in trouble. You
know, there was a protocol they were supposed to follow
rather than this circuitous route.

Q I understand your concern, but, you know, if you
can remember the names, we need them for our purposes, which
has nothing to do with, you know, the various internal
political divisions within the company.

A So, again, Pauline, Christian, Frank Aguilera, they
would know people and they could find out things and then
tell me. And I don't want to give you the impression that
that's the only way I found out about things, because a lot
-- you know, probably the bulk of it came just through the
traditional channel where, you know, they just came and hit
me head on.

MR. BENDELL: Thanks.

BY MR. WYNN:

Q How was this issue ultimately resolved? We see an
e-mail that was being brought to Dave Sambol's attention.

A So the last -- the last substantive conversation I
recalled on this was Stan and Drew and I were in Drew's
office one evening and were debating this. And so neither
Stan nor I were supportive of doing it. And we weren't --
you know, we weren't going to endorse it. And so that's the
last substantive conversation I recall on it.
I recall a GAO study being done on the program, and
then also I think eventually there was an IRS issue on the
program. So I think that it died of natural causes.
Q Okay. So to your knowledge there was never a
guideline change?
A I don't believe there was a guideline -- I don't
recall a guideline change up to the 9 percent. As I said,
the last -- the last substantive conversation I recall is the
one with Stan and Drew meaning Drew Gissinger in Drew's
office.
Q Can you recall what Mr. Sambol's opinion was with
the program?
A He didn't -- he was -- he was equally unsupportive
to me. I mean, in other words, he didn't like it either and
was not supportive.
Q And when Mr. Lala mentions, you know, I will just
read in the last paragraph, there's a sentence where he
states, "If you were standing by our value proposition to
offer what other legitimate lenders are offering in the
marketplace, I don't know how we can turn away from this
A: That's the matching strategy.

Q: As far as legitimate lenders, in terms of matching strategy, what was considered a legitimate lender?

A: Well, so two things on that. First of all, there would be people that would dispute that that even should be considered in the matching strategy. If it was a competitor, then it needed to be considered in this matching set.

So one of the things that got introduced while I was there was this idea that the lender needed to be legitimate. So -- well, give me a chance.

Suppose, you know, that some tiny little lender that nobody has heard of, you know, and that is -- that's going to be our reference point? So the idea of interjecting the word legitimate was to cut down on the number of conversations where you hate to call anyone illegitimate, but that it wasn't -- it wasn't a, quote, "real," unquote, competitor.

So remember yesterday I talked about I think it was on the extreme alt day where Christian and I wanted to even take out the broker-dealers so they would be considered not legitimate because they weren't bank-regulated entities.

Q: So to the extent there was a predominant view in terms of matching strategy, was that to match whatever anyone was doing or was there this legitimate qualifier?
Well, a legitimate qualifier got introduced, and I'm happy to see him using it here. So -- and there will be -- there are other occasions, I think I even put it in some proposed policy that we, you know, officially add that in. But very late while I was at Countrywide, I can remember discussion among the senior managers and Dave, and Dave said, "Let's argue the matching strategy again." And so Dave said, "Let's argue that," and so Dave put the word "legitimate." And then Brian Hale, the head of CMD, said, "Hey, what is this legitimate? I have never heard of this as being part of the strategy." And so that was just his -- that was just his view. But I think my belief is that Dave thought it needed to be a substantive lender and not a fly-by-night lender for this matching.

Q Okay. Have you ever heard of New Century?
A I have heard of New Century.
Q Were they considered a legitimate competitor?
A Yes, Dave would consider them a legitimate competitor, and I would at the time reluctantly have to consider them a legitimate competitor.
Q Let me show you another document, a related document, which we'll mark as Exhibit 83. It's a series of e-mails between Mr. Bartlett, Mr. Sambol and Mr. Gissinger, and it appears at CFC2007B009577 through 578.
(SEC Exhibit No. 83 was marked for identification.)

(Witness examines the document.)

THE WITNESS: All right. I have taken a read through this.

BY MR. WYNN:

Q All right. Have you ever seen Exhibit 83 before?

A Seen this chain of e-mails?

Q Yes.

A I don't recall ever seeing this.

Q If you look at the first e-mail starting at the bottom of 577?

A Yes.

Q There's a guy Roger Gerarious or something like that?

A Yes.

Q Do you know who he is?

A I don't know who he is.

Q If you look at Mr. Gissinger's May 3rd, 2006, e-mail to Mr. Sambol, he states, "Please see the note below. Our business model is under review and at risk here. With all of the moving parts in CMD now, I need to conclude on this topic. You have the aura for getting this approval completed. Vijay provided the supporting details. Let me know if you need anything else. We have lost one COE member
and have two others teetering as a result of not having this
program. This is also a pending issue for builder JV's that
have surfaced and will again. Time is our enemy."

First of all, do you know what a COE member is?
A I believe that it's a Circle of Excellence member.
Q Are these people that originate loans like high --
that have high volume originations, they give a gold star or
something?
A Yes, I have no idea what the requirements are, but
I think I remember hearing them talking about a Circle of
Excellence. So the people had to meet certain criteria to be
inside of the circle.
Q And it seems that Mr. Gissinger is talking about
this DPA assistance program that was reflected in Exhibit 82.
Would you agree with that?
A I would agree with that.
Q Okay. And we see that Mr. Sambol forwarded the
e-mail to Mr. Bartlett and then Mr. Bartlett at the top of
Exhibit 3 -- 83 tells Mr. Sambol that you are okay, that
McMurray is okay, but I have asked for a recap of the points
to make to SLK. Is SLK to your knowledge Mr. Kurland?
A I think it's Stanford Lee Kurland is what that is.
Q And when Mr. Bartlett states that McMurray is okay,
do you know what he means by that?
A I don't know what he means by that.
Okay. Now, to your knowledge were you ever okay with approving the move from 6 percent to 9 percent on the DPA?

A    I don't -- I never thought that it was a good thing to do.

Q    Okay. And when Mr. Bartlett states, "I plan to get him on board," to your knowledge does he mean you or Mr. Kurland?

A    I'm not sure who -- I'm sure he's referring to one of us, but I'm not sure which one or both maybe.

Q    And to your knowledge was Mr. Kurland ever okay with going from 6 to 9 percent on the DPA's?

A    You know, I don't remember how this particular one wrapped up or what we ended up with. So I -- I would be surprised if Stan were okay with it. I mean, he may have -- he may have conceded the battle, but I don't think it would have been something he would have ever endorsed.

Q    We also see the abbreviation CRF used in that e-mail. Do you know what CRF means?

A    That's craft. That's commercial real estate finance. So that's commercial lending, commercial real estate lending.

Q    And on these last two items -- well, last three items, to your knowledge is Mr. Bartlett still talking about this DPA issue or is he moving on to other issues?
A The CRF is not the DPA issue. That's something else where approval on the large commercial loans is what I think he's getting at there. And I think the next paragraph is something even yet different still. And then the fourth one is yet something different still.

Q Okay. Do you know who Tamenhill is?
A Steve Tamenhill worked in the broker-dealer.
Q And do you know what a subprime servicing plan is?
A I don't know what he's referring to by his subprime servicing plan.
Q All right. And what about ARC's, do you know what those are?
A I think ARC's is actually a company, and I think it's Howard Lavine is the Howard he's talking about.
Q Do you know what kind of company ARC's is?
A I believe they originate multifamily loans.
Q Okay. Taking a step back just to general underwriting guidelines, to your knowledge did the bank have different -- its own underwriting guidelines with respect to loans, HFI loans?
A So we went through a number of iterations on this. So there were times that they did their own underwriting guidelines, there were times when they -- when they were matched up. So we tried out a number of different approaches with that.
Q  Let's say for the time period of the year 2006, do you recall if the guidelines were matched up or if the bank had their own set?
A  I don't recall -- I don't recall specifically which approach was being used at that period of time. Be careful, though, concluding that underwriting guidelines are the only determinative of what did or didn't go into the bank.
Q  Okay. Do you know what the reasons were for the bank at certain times having underwriting guidelines that differed from the company's overall guidelines?
A  I think there were multiple reasons for it. So one thing that we sought to do was to -- was to put lower risk loans into the bank and lower risks from a comprehensive perspective, not just a credit risk perspective. And so one way of doing that would have been with separate underwriting guidelines.
I think there were some operational -- there were operational considerations also, so that would have been the rationale behind the different approaches. And I'm sure there were other considerations besides those two examples, but those are two that I recall.
Q  On the occasions when the bank did have separate underwriting guidelines, do you recall if they were more stringent than the company's guidelines?
A  I can recall an instance where some of them were
Q  Does any particular guideline come to mind that you remember being more stringent?
A  Yes. So very early on, there was a FICO floor required for bank loans. And so that would be an example where there was more a stringent requirement.
Q  And when you say very early on --
A  So very early on when I got there. I'm sorry. So even when I got there, the bank was still considered a de novo. And so as part of that launch, that was one of the -- one of the arrangements worked out with -- it was either the Fed or the OCC, I think it was the Fed actually.
Q  Now when you say one of the arrangements, what do you mean by that?
A  So Countrywide purchased a very small bank and then was going to build it out. And so just one of the agreements to launch the bank was that the loans that went on the balance sheet would have a certain FICO or higher. So that would be an example of what you were asking about.
Q  I'm going to mark as Exhibit 84 a series of e-mails, the first being between you and Mr. Bartlett, the second between being between Mr. Sambol and Mr. Bartlett. These e-mails are dated November 2nd, 2006, and they appear at CFC2007B062313 through 314.

(SEC Exhibit No. 84 was marked for
BY MR. WYNN:

Q. Mr. McMurray, do you recognize the Exhibit 84?

A. May I ask him -- may I ask Sean a question?

MR. WYNN: Off the record.

(Discussion off the record.)

MR. WYNN: Back on the record at 3:01 p.m.

MR. KNOWLES: Paris, could you please repeat your question?

BY MR. WYNN:

Q. Mr. McMurray, do you recognize the November 2nd, 2006, e-mail from yourself to Mr. Bartlett?

A. I recognize the e-mail that starts on the lower half of this page.

Q. Okay. And aside from any meetings with counsel, have you ever seen the November 2nd e-mail from Mr. Sambol to Mr. Bartlett that appears in Exhibit 84?

A. I have not.

Q. If you look at the subject line of your November 2nd, 2006, e-mail, it says, "Product summit." Do you see that?

A. I see that.

Q. Can you explain what a product summit is?

A. So Countrywide had -- so a summit was a type of a meeting. So if it was going to go on longer than two or
three hours, then it would be called a summit rather than a
meeting. And sometimes the summits could go 12 hours, 13
hours straight. So that's what summit means.

Q    Is that an official description or an unofficial?
A    It's an unofficial description.
Q    Okay. And are product summits something that
happened often?
A    So product summits were something that happened
from time to time. They weren't on a regular basis. But
Dave, when he had the head of production position, he would
call them from time to time. And then subsequently when Drew
had that head of production position, he would call them from
time to time.
Q    Okay. And so what would go on at these product
summits?
A    And just one more thing, I do think Drew ended up
going with a regular schedule. I don't know if he called it
a product summit, but product type issues were discussed
there.
So, anyway, back to your question, so what would go
on there is a discussion of the product lineup that
Countrywide had vis-a-vis other competitors. So this is just
a comprehensive discussion of the different products.
Q    Okay.
A    Infrastructure issues inside the company, you know,
what had system support, what needed system support, all the various topics that would be relevant to products.

Q With respect to Item No. 1 in your e-mail request, are you listing requests that were made at the product summit by Mr. Gissinger with respect to guideline changes?

A So these are topics that all -- or requests that came up during the course of the summit.

Q Were they requests directly from Mr. Gissinger?

A In essence, they were directly from Mr. Gissinger because even if he may not have told me or, you know, requested them directly, he endorsed them as part of the meeting.

Q Okay. So all these -- there are five items under requests, Mr. Gissinger had endorsed all of those?

A My interpretation was that he was supportive of all these.

Q Okay. And at the product summit, did he explicitly seek your support for them as well?

A I don't remember exactly. He probably -- he probably did.

Q With respect to the first one, FSL, does that stand for Full Spectrum lending?

A That does stand for Full Spectrum Lending.

Q Well, could you explain what that means, FSL less than 500 FICO?
410:1    A    So I don't remember the exact details on this
2    request. I can tell from reading this that it's dealing with
3    loans that would have a FICO less than 500.
4    Q    To your knowledge prior to November 2nd, 2006, did
5    the Full Spectrum Lending department underwrite loans with a
6    FICO of less than 500?
7    A    I don't remember those details exactly.
8    Q    Would those details be in the loan program guides
9    and/or the subprime technical manual?
10   A    It's unlikely they would be in the technical
11    manual. The technical manual is more general in nature. It's
12    possible, but I would think it would be more likely to be in
13    the program guidelines.
14    Q    Okay.
15   A    In addition, there would have been -- there would
16    have been decks, in other words, presentation packages that
17    would have been brought to Drew's product summit. And so
18    there would have been details on each of these requests
19    there.
20    Q    Okay. So at the product summit, you think there
21    were --
22   A    Supporting documents that were presented.
23    Q    That were distributed. Okay.
24    The second entry is for something called hard money
25    lending.
411:1      A    Yes.

2      Q    And I will just read it, "You state under this
3 program loans would be made -- loans would be solely made on
4 the basis of the borrower's equity position." What did you
5 mean by that?
6      A    So we talked about this program yesterday, so it's
7 the idea that the borrower's credit record and their income
8 and assets, other assets, that is, outside of the home would
9 not be explicitly considered in making the underwriting
10 decision.
11      Q    So what remains to be considered when making an
12 underwriting decision with respect to hard money lending?
13      A    So the principal remaining consideration would be
14 just the collateral itself, just the house.
15      Q    And you go on to state that I think there are legal
16 regulatory and reputational considerations to resolve before
17 we move forward with this type of lending. Can you identify
18 what kind of legal considerations you were referencing there?
19      A    So the idea of predatory pricing -- or not
20 predatory pricing, but predatory lending.
21      Q    Can you explain that a little further?
22      A    So for virtually every loan that is normally done,
23 if the borrower -- if the borrower defaults, that ends up
24 being a bad thing for the lender. And the nice thing about
25 that is that the lender and the borrower's interests become
aligned, so neither of the two parties wants to default.

And so that's the overwhelming situation and in my opinion the way all loans should be done. What I'm calling a predatory situation could be where in order to make the economics work, the borrower would have to default, the lender would get back the house and then sell the house. So that's the concern. That's the potential concern that I was getting at there.

Q What are the differences between a hard money lending situation and an 80/20 loan?

A Well, you've got almost the other extreme there. So on an 80/20 loan, 80 is first lien, 20 is the second lien, you add them together, and you get -- it's 100 percent financing.

Q Okay. And hard money lending is not necessarily 100 percent financing?

A No. The concern on hard money lending, so suppose the borrower has a bad credit record, but they've got a lot of equity in their house.

Q Okay.

A So it typically would be a lower LTV. So that why it's different than the next request down.

Q And what were the regulatory concerns you were thinking of in the hard money lending context?

A So in addition to the various predatory legislation
that various municipalities -- or various entities have passed. This is something that the regulators were interested in as well. They were not fans of this type of lending.

Q With respect to that first request, the Full Spectrum Lending request, do you know how that was ultimately resolved?
A I don't.

Q How about with respect to the hard money lending?
A So this ended up going to that responsible conduct committee. I don't remember the exact sequencing, whether this came before that or after that. But one of the -- we did discuss that -- that issue did get escalated up to the responsible conduct committee for discussion.

Q And what was the result of that discussion?
A You know, I don't think there was a conclusive resolution. We talked yesterday about it touched multiple divisions. So the broker-dealer could buy closed loans that could have these types of characteristics. There was a commercial lending area that did warehouse lending, so these were loans to other banks and other mortgage lenders.

And so I could think of one instance where one of the -- one of the lenders being given warehouse financing were originating some loans that might be considered hard money lending, so that was one -- that was one aspect. Full
Spectrum wanted -- was interested in doing these loans and correspondent lending was interested in doing these loans. So I don't recall getting to a conclusive answer across all of those different dimensions on that day that we discussed it at a responsible conduct committee.

Q    What about the third item, 80/20 with the 580 FICO?
A    Uh-huh. So what I was getting at there is that a competitor may offer an 80/20 down to a 580 FICO score, but that would be coupled with other requirements. So if it was something that they were going to match, they should also match these other requirements.

Q    Okay. I think that was one of your consistent -- one of the -- one of the issues you raised consistently with respect to the matching strategy was that we just don't match the price, we match other safeguards they have built into those products; is that right?
A    Yes.
Q    And using cash out of reserves, can you explain what that means?
A    So what reserves mean, these are funds that the borrower would have left in their possession after they closed the transaction. And so this request was for the borrower to do a cash out refinance, in other words, there be proceeds from doing the loan, and then turning around and counting those as reserves.
And so this kind of -- this -- I talked about kind
of economic levitation. This would be another economic
levitation. They wouldn't have the money without the loan,
so how could you consider it as money they had?

Q  All right. And do you know how that was ultimately
resolved?
A  I don't -- I don't remember exactly how that was
resolved. I think that we didn't end up doing this. That's
what I think.

Q  Okay. And the pay options, you state they want to
make both the hybrid pay options and the traditional pay
option more aggressive. Can you explain hybrid pay option?
A  So on a traditional pay option, the accrual rate
has the potential to adjust every month. On a hybrid pay
option, the accrual rate will be fixed for a period -- for an
initial period. That's the difference. So an hybrid pay
option is akin to a hybrid arm.

Q  And can you explain what requests Gissinger and his
group made with respect to traditional pay options?
A  So as I'm just reading this, part of the request
appears to be the minimum pay rates. And so that -- that was
an issue that was discussed frequently even outside of this
meeting, but that appears to be part of the request.

Q  What is the minimum pay rate?
A  So the minimum -- so on an option arm, the borrower
has four choices: They can pay the interest only in payment, they can pay the -- they can make the fully amortizing payment, they can make a curtailed payment or they can make a minimum payment.

And on the minimum payment, particularly early in an option arm's life, it will be insufficient to pay all of the interest that is due for that month, and then the balance would be added to the loan's principal.

Q Well, at the bottom of this paragraph, it states, "For the traditional pay option, they proposed removing the 7.5 percent annual payment adjustment"?

A Uh-huh.

Q What is that, the 7.5?

A So the way a typical pay option loan works is that minimum payment ratchets up by seven and a half percent each year. So if the minimum payment were $100 this year, next year it would be $107.50 and so on.

Q So if that 7.5 percent thing -- excuse me.

If the 7.5 percent annual payment adjustment was removed, would that result in a high rate of negative amortization?

A It would because that -- the lower minimum payment ability would persist for a longer period of time. And by moving the minimum payment up, there's less -- they are going to have less potential or less neg am. It still could neg
am, but not at the same pace if you had not done that.

Q Were Gissinger and his group successful in having that 7.5 annual payment adjustment removed?

A I don't remember whether they were or not. I don't think so but --

Q Do you know how one would go about determining whether or not they were successful in having that done?

A You could look at the guidelines after this period of time.

Q The loan program guidelines?

A The loan program guidelines.

Q Is the loan program guide, is that inclusive of prime and subprime products or was there more than one loan program guide?

A There were program guidelines around all the programs, both prime and subprime. And so you should be able to get copies of either if you wanted.

Q But what I'm asking is is there more than one loan program guide or is there just one?

A Well, for any product type, for any product, there's going to be loan program guidelines for it. There will be one set of guidelines for it, if that makes sense.

Q Well, I think I showed you an exhibit earlier. Let me show it to you again.

A Okay.
418:1    Q    Exhibit 40.  That's not the entire loan program
guide.  It's just an excerpt.  But if I had the entire --
2      A    No, this is not even -- this isn't even close.
3      Q    Right, not even close.  But if I had that entire
document, would that include --
4      A    If you had all the loan program guidelines, you
should be able to see this specific issue in there.  So that
would be one place you could look for it.
5           Another place you could look for it is actually the
6      Q    loan documents themselves to see actually what was written
7      A    into the loan documents.  That would be more of a brute force
8      Q    method.  So those off the top of my head are the two ways to
determine what happened there.
9      A    Okay.  And in Item No. 2, I will read this and then
10      Q    ask you some questions about is, "As I responded to the
11      A    various requests, Drew and others minded me that the
12      Q    company's policy is we match whatever anyone else has out in
13      A    the market.  I've obviously heard this many times before.
14      Q    Following up some of the concerns I've raised in the past
15      A    with respect to this approach.  Composite guidelines, when
16      Q    this approach is done across lenders, across products and
17      A    across guidelines, the composite set of guidelines will be
18      Q    the most aggressive credit in the market.
19      A    Ceding credit policy.  With this approach, our
20      Q    credit policy -- our credit policy is ceded on both a
product-by-product as well as an item-by-item basis to the
most aggressive lenders in the market. Do we want to
effectively cede our policy? And is this approach saleable
from a risk perspective to those constituents that may worry
about our risk profile?"

Did Mr. Bartlett ever respond to you with respect
to the concerns you raised under the "approach" heading?

A    I -- I'm pretty sure that we talked about these
issues from time to time. I don't know if he specifically
responded in this instance to me. But these weren't -- these
weren't new concerns that I had brought up.

Q    Well, to me it seems like a pretty serious concern
that the chief risk officer is telling his boss I think we're
ceding our credit policy to the most aggressive players in
the market. Would you agree that that's a pretty serious
concern you raised to Mr. Bartlett?

A    In my opinion, yes. Again, I do not believe this
was the first time that I raised this type of concern.

Q    Do you have any specific recollection of how he
responded to this e-mail?

A    So at other times when I raised these concerns, you
know, they could come up with examples. The FHA is one
where, you know, where there are lots of other lenders that
were doing things that were beyond what we were doing. In my
opinion, that tended to be more the exception than the rule,
Another comeback would be the fact that all of these loans were designed to be sold into the secondary market and that risk-based pricing was employed. So that would be another response.

Q    Did you consider any of those responses to adequately address your concerns?
A    So on the risk-based pricing earlier this afternoon, we talked about some of my concerns with risk-based pricing. So, yes, it can be an effective tool. It's not a cure all. So that would be my opinion on that.

And it's true that they originated everything to be sold into the secondary market. I guess my comeback to the comeback would be that there wasn't any transaction that we did that didn't leave us with some risk, even though in many cases most of the risk might have been distributed out into the market.

So I think that would be -- that would be the gist of how a lot of these conversations went.

Q    And you mentioned yesterday that in early 2007 there was some disruptions in the secondary market having to do with subprime?
A    Yes.
Q    In your opinion do you think any of that is attributable to the general expansion of underwriting
421:1 guidelines that has occurred?

2 A You know, I don't remember the specific -- I don't remember the specific trigger events that caused that. But I think, you know, certainly the industry expansion of guidelines that happened over time, particularly call it 2000 through 2007, you know, heightened some -- you know, heightened some of the issues that we're seeing now.

8 Q Yesterday you mentioned that you had at one point tendered a letter of resignation to Mr. Bartlett?

10 A An e-mail.

11 Q An e-mail. Excuse me. Do you recall if that was before or after November 2nd, 2006?

13 A I don't -- I don't remember whether it was before or after. It would have been about -- I think it would have been about this time frame, but I don't remember whether it would have been sequenced before or after this.

17 Q And in this e-mail to Mr. Bartlett, it states, "I'm a little worried about John. He's been withholding sign offs on certain issues that should be priced for."

20 What particular procedures is he talking about with respect to sign offs?

22 A Well, so one of the -- I talked about things evolving at Countrywide, and so one of the things that we evolved was the process for signing off on various changes.

25 And so what we wanted is more explicit -- more explicit sign
offs before program guidelines were released for loans to be originated against them. So I think that's what he's talking about.

Q And when he goes on to say, you know, he's been withholding sign offs that should be priced for, to your knowledge is he talking about risk-based pricing again?

A He is talking about risk-based pricing. I can't say for sure, but that would be my conclusion.

Q And do you recall the incident he's talking about when he references extreme alt day?

A I do remember extreme alt day.

Q Can you describe that incident?

A So extreme alt day was the program that I mentioned yesterday. This was Credit Suisse First Boston, Bear Stearns and Lehman. And so they were the ones that were offering this -- these products that we called internally extreme alt day. And so I wasn't -- I wasn't fond of the program for the reasons I mentioned yesterday. So that's what he's referring to here.

Q And when he says you were dragging your feet, did you not respond to requests for a sign off or were you just in generally responding in the negative?

A My recollection is that I'm not willing to sign that.

Q Okay. To your knowledge did Mr. Bartlett
I remember Christian, Kevin and I having a meeting about this in Kevin's office at about this time. I don't remember exactly what transpired. I don't think anyone signed it on that evening. I remember it being discussed.

You seem to say that — well, he says that, you know, Drew and crowd needed to sign off when you were out.

Uh-huh.

Same question, so you don't have any recollection of Mr. Bartlett actually doing the sign off in your place?

I don't have a recollection of him doing that. It doesn't mean he did. I just don't have a recollection of him doing that. And also I remember this dragging on for a lot more than 30 days. I think it first came up long before this.

And Mr. Bartlett goes on -- I'm sorry.

No, sorry.

He says, "We should discuss a few of these together with John and make sure we have a policy that we're still comfortable with. I don't want to lose John because he feels powerless." Do you recall ever sitting down with Mr. Bartlett and Mr. Sambol to discuss some of these requests at Exhibit 84?

I suspect I discussed the list with Kevin. I don't remember -- I could have ended up talking to Dave about
these. I don't recall that specifically. I do, as I said, recall specifically meeting with Kevin and with Christian on extreme alt day, and I think even Frank might have been part of the discussion, Frank Aguilera.

Q: Do you think that was before or after November 2nd?
A: I think it was -- I think that it was after.
Q: To your knowledge do you ever recall any discussion within the company about whether or not the matching strategy was something that should be disclosed in any type of FEC filing?
A: I don't recall a specific discussion on that. I'm just trying to think back. I think there may have been occasions where either Angelo or Dave talked about it in investor presentations.
Q: And investor presentations before whom?
A: Perhaps an earnings call or another type of investor presentation.

THE WITNESS: Can I run down the haul for two minutes?

MR. WYNN: Yes. Off the record.
(Discussion off the record.)
MR. WYNN: Back on the record at 3:31 p.m.

BY MR. BENDELL: 
Q: Mr. McMurray, if you take a look again at -- what is the exhibit number -- I didn't write it down.
MR. WYNN: 84.

BY MR. BENDELL:

At Exhibit 84, the e-mail on the first page of Exhibit 84 above the e-mail from you to Kevin Bartlett, there's the e-mail from Kevin Bartlett to Dave Sambol dated November 2nd, 2006, at 9:17 p.m. Do you see that e-mail?

I see it.

All right. I recognize that you are not either a recipient or a cc recipient of that e-mail. But I do want to ask you about that last sentence in that e-mail there where it says, "If you look at the below list, we're really down to some fringes." And then in parentheses it says, "And some pricing scams."

Do you have any understanding as to what the pricing scams that are being referenced there, what that means?

Let me take a glance through it. I'm not sure that I see any, quote, "pricing scams."

Okay. Go ahead and take a minute.

The fringe part, I would agree with fringe, but let me look. I can't be sure --

Okay.

-- what he means or which specific item or items he's referring to there.

All right. What do you see in the -- in your
e-mail to Kevin Bartlett that you would consider to be a fringe item?

A Well, let's go through each one.

Q You know, maybe we should take a step back. Could you tell me what you understand a fringe issue or item to be?

A So if we look at the whole potential population of potential real estate, residential real estate transactions out there, a fringe would be one at the outer edge. So if you looked at the particular issue under discussion, if that was way out, that would be unusual.

Q So in your understanding would the fringe -- as you are looking through this for fringe, are you looking for the fringe of credit risk, is that what you are talking about or some other --

A No, that could be one way to be out. That's one dimension of fringiness. There are other -- there are other dimensions of fringiness as well.

Q Okay. So let's just go through the items then. Of the items under your request section of your e-mail, do you see any that you think have a high level of fringiness?

A So let's look at the first one. FICOs less than 500, a 500 is a very low FICO. You know, it's basically -- it's comatose from a credit perspective. You know, someone to get a less than 500 FICO has had to do lots -- have lots of problems with their credit to get that low. And so there
are not even going to be very many borrowers in the
collection that have managed to achieve such a low credit
score. So hence it's out on the fringe.

So in another dimension of fringiness, the cash out
as reserves, again, that's just -- fringe is Kevin's term,
not mine -- but that's levitating. You are using money that
was just given to you by the transaction to count it. Let's
see. So those would be -- those would be the examples that I
would personally pick out.

Q  Okay. And I know you mentioned that you didn't see
anything in your e-mail that you would -- you would
understand to be referencing a pricing scam. But during your
tenure at Countrywide, did you ever hear the term "pricing
scam"?

A  It's not something I recall hearing.

Q  Do you have, separate and apart from what is in
this e-mail, do you have any understanding of what a pricing
scam is?

A  I mean, it could mean different things to different
people.

Q  Right. To you, in your professional experience, do
you have any understanding of what the term pricing scam
means. Recognizing that you don't know what Kevin Bartlett
meant when he wrote this e-mail. That's understood as part
of the question. But just your own understanding?
A: You know, again, I mean, there's certain things that I might describe as that.

Although, I don't think I would have used that language exactly. So it seems a little imprecise.

Q: So it's not a term that you have either heard or used?

A: Not that I can recall. I'm sure I have heard it. People call lots of things scams.

Q: But it certainly didn't have any, as you understood it, sort of a consensus meaning within Countrywide that was a term -- let me rephrase the question.

It wasn't a term that you heard used with any regularity within Countrywide; is that fair?

A: It's not a term that I have heard used with any regularity inside of Countrywide.

MR. BENDELL: Okay. I don't have any more questions about Exhibit 84.

BY MR. WYNN:

Q: Mr. McMurray, one more question. Do you have in your personal possession a copy of your 2006 resignation e-mail?

A: I will look. I don't believe so. It was sent from, you know, my Lotus notes e-mail, so Countrywide should have it.

Q: You mean it was sent from your Countrywide account?
429:1 A Uh-huh.
2 BY MR. BENDELL:
3 Q Is that a yes?
4 A Yes, it was sent from my Countrywide account.
5 Q Actually, I have one separate question I want to ask while we're here today, which is as part of your ultimate departure from Countrywide, did you sign any type of a settlement agreement -- any type of an agreement memorializing the terms of your departure from the company?
6 A Well, this is when I left just recently at the end of September?
7 Q When you actually left.
8 A When I actually left. I don't recall signing any kind of a settlement agreement. You know, I'm virtually certain that I didn't. I'm just -- I mean, there were things while I was employed there that, you know, various policy things that I signed.
9 Q Just getting back to it, I recall yesterday, and I'm sorry I don't recall his name, but through the e-mail traffic it became clear that you had retained your own lawyer to help you in your transition out of Countrywide?
10 A Yes.
11 Q Did that lawyer have direct contact with Countrywide, if you know?
12 A He did not, not to my knowledge.
Q    All right. And did Countrywide ask you to sign anything as part of your departure from Countrywide?
A    So I don't remember -- I don't remember them asking anything. The only thing I can think of is maybe there was something that Leora Goren asked me to sign. It wouldn't have been -- I don't think it was along the lines of what you just asked for because I would have remembered that. So I don't think so.
Q    Did you -- upon your departure from Countrywide, what, if any, financial compensation did you receive?
A    Upon the departure, nothing. I went back and asked Leora, there was a minimum bonus arrangement that I had per quarter, and so she pro rated that. And so it wasn't something specifically that she had agreed to, but something we discussed, and then they ended up pro rating it.
Q    All right. And other than the pro rated portion of your bonus, I guess you probably received some type of payment for unused vacation time or something like that?
A    I did receive a payment for unused vacation time.
Q    Was there any other financial compensation received as part of your departure?
A    Not other than what we just talked about.
MR. WYNN: Okay. Well, we're going to conclude your testimony for today and resume it at a later date to be, you know, mutually determined at some point down the road.
At this point do you want to clarify anything for the record?

THE WITNESS: Not that I can think of. I'm a little tired. I'm sorry.

MR. WYNN: That's okay.

Would any of Mr. McMurray's counsel like to clarify anything for the record at this time?

MR. TAYLOR: Nothing specific. There were a lot of very general questions that were asked, and, you know, but nothing specific at this point.

MR. WYNN: Okay. Well, why don't we go off the record at 3:41 p.m., July 9, 2008.

(Whereupon, at 3:41 p.m., the examination was adjourned sine die.)

* * * * *
PROOFREADER'S CERTIFICATE

In the Matter of: COUNTRYWIDE FINANCIAL CORPORATION
Witness: John P. McMurray
File Number: LA-03370-A
Date: Wednesday, July 9, 2008
Location: Seattle, Washington

This is to certify that I, David W. Baker (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)
I, Barbara Castrow, reporter, hereby verify that
the foregoing transcript of 184 pages is a complete, true,
and accurate transcript of the testimony indicated, held on
July 9, 2008, at 1201 Third Avenue, Suite 4800, in the matter
of Countrywide.

I further certify that this proceeding was recorded
by me, and that the foregoing transcript was prepared under
my direction.

Date: July 15, 2008

Official Reporter: __________________________

Diversified Reporting Services, Inc.