From: Angelo_Mozilo@Countrywide.com
Date: 06/01/2006 10:38:21 PM
To: Carlos_Garcia@countrywide.com; Jim_Furash@Countrywide.Com
CC: Stan_Kurland@countrywide.com; Dave_Sambol@countrywide.com
Subject: Bank assets

In a discussion with both Stan and Dave it came to my attention that the majority of pay options being originated by us, both wholesale and retail, are based upon stated income. There is also some evidence that the information that the borrower is providing us relative to their income does not match up with IRS records.

As rates continue to climb it is evident that two things are going to happen relative to the loans on the Bank's balance sheet:

1. That the time of reset is going to accelerate because the 115% of the original loan amount will be reached must sooner that scheduled.

2. That the reset payments are going to be substantially higher than the buyer expects and what was used in the initial qualification.

We have at least 20% or more of the Bank's pay option loans at a fico of 700 or less. It is clear that the lower fico borrowers are going to experience a payment shock which is going to be difficult if not impossible for them to manage.

Since we know or can reliably predict what's going to happen in the next couple of years it is imperative that we address the issue now. First and foremost the Bank should not be accumulating any loans below 680 unless the LTV is 75% or lower. Secondly we should comb the assets to assess the risks that we face on Fico's under 700 and determine if we can sell them out of the Bank and replace them with higher quality paper. Thirdly we should take a careful look at our reserves and begin to assume the worst.

Please let me know how you intend to handle this matter.