Angelo Mozilo/Managing Directors/CF/CCI

03/22/2007 09:05:24 AM

To dave sambol

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Subject Fw: Board Agenda 3,/22/07

This is the background info that I will be sharing with the Board this morning as well as dealing with your contract. It is of utmost importance that you mobilize Schakett, Gissinger, Bailey, Sieracki, Sandefur, Kripalani, Bartlett, Hale and all other senior executives to assure that they leave no stone unturned in minimizing losses and maximizing returns to our shareholders.

----- Forwarded by Angelo Mozilo/Managing Directors/CF/CCI on 03/22/2007 10:01 AM -----

Angelo Mozilo/Managing Directors/CF/CCI

03/22/2007 06:39 AM

To Angelo Mozilo/Managing Directors/CF/CCI@COUNTRYWIDE

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Subject Board Agenda 3,/22/07

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1. Current events such as sub prime, liquidity, profitability, etc. that are impacting our Company.

2. Issues surrounding Countrywide Bank

3. David's proposed contract

4. Any questions that you might have relative to any of the issues discussed.

1. **Current situations faced by the Company-**

a. **Assault by the media has been relentless** and for whatever reason we have been lumped in with the monoline subprime lenders but also have been linked with GE and HSBC. In this regard we are appearing before Senator Dodd's committee (Sandy and Lloyd Seargant) to testify. We have a great story to tell but my guess is that this will be mean spirited political theater in which we will be painted as the bad guy. In fact one of the advocates is bringing in a 77 year old woman who is claiming the she has been duped and abused by Countrywide. We will attempt to bring our the fact that his woman was in foreclosure with another lender and we saved her from foreclosure, consolidated her massive delinquent credit card debt and lowered her overall debt payment by approximately $300 per month. She went ahead and defaulted on our loan and is claiming foul. This is a loan we would make today under the tightest of guidelines and we will do everything possible to get that story out. We will continue to tell our entire story which demonstrates Countrywide's desire to always do the right thing represented by our 40 year commitment to lower the barriers to homeownership to African Americans, Hispanics and lower income families. We have mountains of evidence to support our long history relative to this commitment.

b. **The genesis of this next subject is the irrational exuberance that existed over the past five years relative to the seemingly unending housing bubble-** Basically three segments of our population entered the arena to seek homeownership during the bubble and that was families who felt that they had to do everything possible to qualify for a home of their choice because the affordablility index was falling rapidly or speculators looking for a quick buck or individual or syndicated crooks who looked for holes in the system. This all worked o.k. as long as values were rising and the appreciation in real estate covered all the sins of those who were gaming the system. As values began to recede then all the sins of the past were exposed and then some. What has clearly exacerbated the problems that we face today but is not totally responsible for all of the consequences are:

1. The 17 consecutive increases in the fed funds rate which materially impacted ARM loan.
2. The actions by the Fed to virtually cut off the use of pay option and interest only loans by laying out draconian guidelines
3. The proposed action of the Congress to cut off traditional liquidity to first time home buyers.

All of these factors and others have lead to a substantial slowdown in homebuying and refinance activity (liquidity), increase in delinquencies and potential substantial increases in foreclosures and REO's. Delinquencies,foreclosures and REO's are currently not at unprecedented levels but a case can be made that absent some positive event that we will reach historic highs.

In this regard we have taken several important steps:

1. Substantially **tightened** underwriting guidelines in order to stop the flow of additional problematic loans.
2. During the past five years there has been a **substantial amount of fraud of various types that was undetectable under our present protocols** and this fraud was perpetrated upon the entire industry. The primary reason for the fraud staying under the radar screen was because of the ever increasing real estate values which permitted the perpetrators to dump the property at a profit and pay off the loan. Once values began to recede the fraud became clearly evident. In this regard we have now employed state of the art fraud detection methodology's which will substantially limit the flow of fraud loans into the Company. You will never completely eliminated fraud because, unfortunately, some crooks are smarter than the smartest lenders. In addition fraud will be reduced by the natural forces of the market because there is no longer the pot to gold at the end of the rainbow to steal.

3. In addition we have substantially **beefed up loan administration in all of their functional responsibilities** such as delinquency call centers, loss mitigation in order to modify loans, where possible, in order to make payments more affordable as well as making certain that our foreclosure and REO departments are operating under both best practices and best of class methodology's..

4. There are substantial problems in **modifying loans** in today's environment because most of the loans originated in the past decade are contained in mortgage backed securities which for the most part are immutable under current law and regulation. We could obviously reduce mortgagor's payments but the cash difference between the deficient payment and what we owe the security holder would eventually eat up our cash reserves. Lew Renieri, Dave and I are working on ideas that could potentially cause legislative changes to render it possible to modify loans within securitizations. I will keep you apprised of any progress but don't hold out much hope.

5. **Residuals and liquidity-**

a. There appears to be no liquidity issues for prime product in the secondary market nor is there spread widening at this time. There is also sufficient liquidity for ALT-A but spreads are widening slightly because of the perceived risk of contagion from sub prime.

b. BBB including the residuals that we hold on the balance sheet have always experience a narrow and shallow market and that liquidity has worsened as a result of the real and perceived problems with sub prime. So the market for sub prime residuals is now both shallow and heavily discounted.. Therefore under the most extreme of circumstances, which is possible in this environment, which totals approximately $400 million could be wiped out. If this happens it most likely would take place over a protracted period of time such as a year or more.

6. As for general corporate liquidity there appears to be no issues at this time. We have deep markets for our commercial paper as well as for our MTN's. In fact Moody has not only recently upgraded the Bank but has put the Company on watch for an upgrade.

6. **Competition-** There is massive consolidation taking place resulting in a substantial increase in our application flow of both purchase and refinance business, dominated by refinances. The current application flow would indicate monthly funding volumes of $40 to $45 billion per month for at least the next several months. These loans, for the reasons noted above are of higher quality and at healthier margins than in the past couple of years.

Bottom line:

1. We have much work to do, which we are currently doing, to defend ourselves against the bad guys, particularly mortgage brokers.

2. We have to continue to refine, which we are doing, all of our servicing activities to deal with the force majeure of delinquencies, foreclosures and REO's

3. We must explore every means possible, which we are doing, to keep legitimate mortgagors and their families in their homes.

4. We must work diligently on the PR side of our business to protect and preserve our reputation.

5. We must stay on our course of carrying out our mission of lowering the barriers of entry towards homeownership for African Americans, Hispanics and lower income borrowers. and

6. We must employ every loss mitigation technique known or yet to be invented in the industry. These are the essence of our mandates in this current environment.

7. **The Bank**

a. Jim Furash, Mike Muir replaced by Tim Winnes, Alan Boyce and Paul Deitz.
b. Reserves are being aggressively set aside within the restrictions of GAAP and regulatory guidelines.
c. Delinquencies are increasing but overall delinquencies remain low based upon historical standards.
d. Reorganization is taking place relative to the recent departures and because of the merging of the bank and the mortgage bank as well as the merging of the investment regime.

Situation-

I must alert you that the situation remains very fluid and everything that we have discussed could change minimally or materially. I will keep you apprised of any material changes if and when the occur however Dave Sambol will be making a complete report at our next Board meeting because at that time we will have financial results from the first quarter as well as the other issues I have mentioned will be further developed.