Angelo Mozilo/Managing Directors/CF/CCI

11/04/2007 08:25:52 AM

To Carlos Garcia/Managing Directors/CF/CCI@COUNTRYWIDE
cc Dave Sambol/Managing Directors/CF/CCI@COUNTRYWIDE
bcc
Subject Re: Questions on POAs

Pay options have hurt the Company and the Bank badly despite your belief that it is a viable product. World Savings culture permits them to make these loans in a sound manner and our culture does not. You and Dave should sit down with Steve Bailey to fully understand the problems with pay options and the fact that fico scores are no indication of how these loans will perform. The only way these loans can work out is with stable to ever increasing real estate values. I do not like this product because they are not fixable in the event of serious default and also because they promote the worst behavior from the mortgagors who opt for this product irrespective of the fact that they are prime and super prime borrowers.

Carlos Garcia/Managing Directors/CF/CCI
11/04/2007 06:05 AM

To Angelo Mozilo/Managing Directors/CF/CCI@COUNTRYWIDE
cc Dave Sambol/Managing Directors/CF/CCI@COUNTRYWIDE
bcc
Subject Re: Questions on POAs

In August we implemented deep guideline cuts that eliminated close to 90% of POA production (i.e. 90% of the portfolio became ineligible under the new guides). In Q4 CHL expects to originate appx $25 million per month of POAs. CHL also expects to originate appx $110 million per month in Payment Advantage loans (a fixed rate loan for 5 years similar to a hybrid but with payment options similar to a POA). We will send you a comparison of the delinquency performance of POAs in general, POAs meeting the new guidelines and POAs meeting your delineation of sound loans. This comparison will show you that the delinquency performance of POAs meeting the new guides has been very acceptable.

If we cut out the remaining POA guides from the Bank, CHL will need to stop offering the product. This will hurt the mortgage franchise and the Bank.

Keep in mind the Bank has generated over $3 billion pretax income since inception, while giving back only $400 million this QTR, and that was after recording a provision for losses of nearly $800 million and building reserves over $1Billion, most of which covers performing loans. This reserve was calculated assumming delinquency keeps increasing at a faster pace than we saw in Q3 for six more QTRs. In addition, 71% of the POA portfolio is covered by MI.

From: Angelo Mozilo
Sent: 11/03/2007 05:33 PM PDT
To: Carlos Garcia
Cc: Dave Sambol
Subject: Fw: Questions on POAs

I don't want any more Pay Options originated for the Bank. I also question whether we should touch this product going forward because of our inability to properly underwrite these combined with the fact that these loans are inherently unsound unless they are full doc, no more than 75% LTV and no piggys.
----- Forwarded by Angelo Mozilo/Managing Directors/CF/CCI on 11/03/2007 05:32 PM -----

GOVERNMENT EXHIBIT 306

Jess Lederman/Managing Directors/CF/CCI
11/02/2007 04:51 PM

To Angelo Mozilo/Managing Directors/CF/CCI@COUNTRYWIDE
cc Carlos Garcia/Managing Directors/CF/CCI@COUNTRYWIDE, Adan Farinas/Bank/CF/CCI@Countrywide, Mark Fireman/Bank/CF/CCI@Countrywide, Brian Kuelbs/Managing Directors/CF/CCI@Countrywide, Dave Sambol/Managing Directors/CF/CCI@COUNTRYWIDE, Amit Munjal/Bank/CF/CCI@Countrywide
bcc
Subject Questions on POAs

Memo_Angelo_Questions_for_Carlos.doc

Countrywide®

MEMORANDUM

TO: Angelo Mozilo

FROM: Jess Lederman

SUBJECT: To address POA questions posed to Carlos

DATE: November 2, 2007

CC: Carlos Garcia, Brian Kuelbs, Adan Farinas, Amit Munjal, Mark Fireman, Dave Sambol

In response to the questions you posed to Carlos, I've provided a summary followed by more detailed answers to each question.

Summary

Loans 90+ delinquent as a percentage of the Bank's $28 billion portfolio of POAs increased nearly ten-fold over the past year, from .3% to 2.91%. Since significant recast activity will not begin until 2009, payment shock has not been the issue. The primary drivers of the increase were loans in areas that experienced the greatest declines in home values since origination, as well as low-doc loans with CLTV's in excess of 80% (typically involving a piggyback HELOC rather than mortgage insurance). For example, 90+ delinquencies in California increased 12-fold over the past year, 14-fold in Florida (which accounts for 9% of the POA portfolio), and 12-fold for all low-doc high-CLTV. On the surface, delinquencies on non-owner-occupied properties appear to be substantially lower than on owner-occupied loans. However, it is my opinion that would-be flippers misrepresented occupancy and income in order to obtain maximum leverage on speculative transactions, and that their defaults are a meaningful component of the delinquency spike during the past year.

While defaults are far higher than originally predicted, the decision to acquire mortgage pool insurance on nearly two-thirds of the POA portfolio has substantially reduced the Bank's exposure to loss. The recent rally in rates will result in meaningful declines in the MTA index and slow the rate of negative amortization, and has in fact pushed the majority of recasts out to 2010 and beyond. While the timing of recognition of credit losses has had a volatile impact on the income statement, the high margins priced into the product suggest that the lifetime return on the 2004-2007 POA book will still come in above 15% pre-tax. Guidelines have been cut back to increase minimum FICOs and eliminate high-CLTV low-doc lending. New originations (almost entirely hybrid POAs), though modest in volume, are projected to generate a 25% return on capital.

1. How many POA (PayOption) loans do we have on the balance sheet?

Since the inception, the bank has invested in $51 billion of POA loans including the $2.06 billion transfer from HFS to HFI as of Sept-07.

The Bank HFI portfolio has a total UPB of $28.2 billion in POAs as of Sept-2007; this represents a 22.5% YOY decline from $36.4 billion as of Sept-2006.

California loans comprise 56% or $15.8 billion of the $28.2 billion portfolio.

2. How many have HELOCs behind them?

10% ($2.6 billion) of the $28.2 billion POA portfolio has a Bank owned 2nd lien behind it. 12% ($3.5 billion) of the $28.2 billion POA portfolio has a CHL 2nd lien behind it. So, in total 22% or $6.1 billion of the $28.2 billion POA portfolio has a Countrywide 2nd lien behind it.

The total drawn amount on the 2nd liens is $605 million as of Sept-2007 (Line amount totals $852 Million).

3. What is the delinquency rate?

As of Sept. 30th 2007, 90+ day delinquencies total 2.91%, or $821 million. This represents a 261 basis point increase in the 90+ day delinquency rate from Sept. 30th 2006, and 123 basis points increase from June- 07. As the portfolio balance declines, the effects of seasoning and the housing market have amplified the impact of deteriorating portfolio performance on the delinquency rate.

California 90+ day delinquencies total 3.10% or $492 million as of Sept. 30th 2007. This is approximately 1.5 times the non-California 90+ day delinquency rate of approximately 2.67%.

All Bank vintages are performing better than similar vintage CHL-serviced PayOption ARMs. Bank Ever 60 DLQ rates have run at approximately half of CHL's level.

4. How many are in foreclosure?

0.19% ($52 million) of the $28.2 billion POA portfolio is in foreclosure as of Sept. 30th 2007. (182 loans). Bank POA lifetime charge offs total $52 million (Includes Charge-offs on Loans that were put-back from Bank to CHL). Bank POA lifetime net charge offs excluding the ones on putback loans total $40.7 Million.

5. What is the rate of prepayment on these loans?

The September 2007 prepayment rate for Bank PayOptions was a 24% CPR, down from a 34% CPR in 2Q07. Bank 3-year prepayment penalty POA have prepaid at 25% CPR from Sept 2006 to April 2007. They have declined to 12% CPR in Sept. 2007. The reduction in prepayment speed is attributable to a decline in HPA, increased cost of non-agency refinancing, and a market contraction of underwriting guidelines.

6. What are the prospects for future delinquencies and foreclosures?

Current forecasts call for the rate of new 90-day delinquencies on the Bank POA portfolio to continue to increase for the next four quarters, and to stay above the Q3 rate until the second half of 2009. This forecast for worsening delinquencies is consistent with Moody's HPA projections, which call for home prices to continue to decline during that time period.

Estimates of potential future delinquencies and foreclosures do not consider the firm's resources focused on loss mitigation in the form of loan modifications and refinances. Loss mitigation efforts may partially mute expected delinquency and foreclosure estimates.

Although we have not factored this possibility into the Bank's POA loss reserve projections, there is a possibility that the current spike in delinquencies could be related to a "flame out" in would-be flip transactions. Approximately 30% of the 2005 / 2006 POA book consists of 90% CLTV low-doc loans, with a 90+ delinquency rate of about 5%. Many of these delinquent loans may be speculators who misrepresented occupancy to obtain maximum leverage and likely misrepresented income as well. When it became apparent that no quick flip would be possible, default ensued.

7. How are we mitigating the risks posed by housing market and POA performance?

63% of the portfolio has first loss or mezzanine credit support in the form of mortgage insurance. 38% or $10.7 billion has first loss coverage to a 3% cap. 13% or $3.8 billion has mezzanine coverage from 1.75% to 4.75%. 12% or $3.3 billion has mezzanine coverage from 1.00% to 4.00%.

8. Relative contribution of delinquency growth due to HPA and other factors.

Declining house prices have had a significant impact on the performance of the most recent POA Vintages. The projected lifetime ever-90 delinquency rate for 2004 vintage is 2.85% versus 31.88% for the 2006 vintage (11x multiple). After adjusting for the greater seasoning of the 2004 vintage and less favorable borrower attributes in the 2006 vintage, the ever-90 rate for 2006 vintage is still 9.5 times that of the 2004 vintage. This variance is attributable to declining HPA and deteriorating credit environment.

9. Are we still putting these loans on our balance sheet, and if so, why?

Yes, the bank continues to retain POA loans for investment on balance sheet. The risk-return profile of these loans has been materially improved due to underwriting changes made in Q3 2007. Production of POAs has substantially declined due to borrower preference for hybrid negative amortization loan programs. The bank projection for Q4 originations of Payment Advantage loans for portfolio totals $427 Million compared with $71 Million in POA. The Payment Advantage portfolio is $1.4 Billion as of Sept-07.

10. Relative credit performance of POA versus Hybrid ARMs?

For 2004 POA Vintage, Bank Ever-90 delinquency rate is 0.85%.
For 2004 Hybrid Vintage, Bank Ever-90 delinquency rate is 0.74%.

For 2006 POA Vintage, Bank Ever-90 delinquency rate is 3.94%.
For 2006 Hybrid Vintage, Bank Ever-90 delinquency rate is 5.25%.

For the 2006 vintage, Hybrid ARMs layered risk is greater than POA's resulting in greater Ever-90 rates. (One Borrower % is 70% for Hybrids compared to 66% for POA; the combination of CLTV>95 and LOW Doc % is 12% for Hybrids compared to 1% for POAs). POA delinquency rates run lower early in the life of the loan due to the minimum payment option (80% of POA customers currently choose the minimum payment option).

11. Bank POA Cumulative Loss Assumptions and Resulting Returns

Cumulative losses assumed in pricing POAs from 2004 through 2007 vintages average 0.64%. The 0.64% cumulative loss estimate produced an expected return on capital of 21%. Retrospective cumulative loss estimates for the same POA vintages average 2.66%. These estimates produce a 15.8% return on capital expectation. The 2004-2007 book is anticipated to generate approximately $1.98 billion in pre-tax earnings net of losses from its inception through the remaining life of the portfolio.

Current guidelines produce a cumulative loss estimate of 0.90%, which is used to price new production. Current guidelines cumulative loss estimates generate a 25% return on capital expectation.

Jess Lederman

SMD & Chief Risk Officer

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