1:1 THE UNITED STATES SECURITIES AND EXCHANGE COMMISSION

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

WITNESS: JOHN P. MCMURRAY
PAGES: 1 through 246
PLACE: Perkins Coie
1201 3rd Avenue
Suite 4800
Seattle, WA 98101-3099
DATE: Tuesday, July 8, 2008

The above-entitled matter came on for hearing, pursuant to notice, at 9:04 a.m.

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APPEARANCES

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EXHIBITS

P R O C E E D I N G S

MR. WYNN: Let's go on the record at 9:04 a.m. It's Tuesday, July 8th, 2008.

Whereupon,

JOHN McMURRAY

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

EXAMINATION

BY MR. WYNN:

Q Could you please state and spell your full name for the record?

A John, J-O-H-N, Patrick, P-A-T-R-I-C-K, McMurray, M-C-M-U-R-R-A-Y.

Q Mr. McMurray, any name is Paris Wynn and my colleague to my left is Spencer Bendell. We're both here on behalf of the commission for purposes of this proceeding.

This is an investigation by the United States Securities and Exchange Commission in the matter of Countrywide Financial Corporation, LA-3370, to determine whether there have been violations of certain provisions of the federal securities laws. The facts developed in this investigation, however, may constitute violations of other federal or state, civil or criminal laws.

Prior to the opening of the of record, you were provided with copies of the formal orders of investigation in this matter. There will be available for your examination throughout today's proceeding.

Have you had an opportunity to review the two formal orders?

A I have.

Q Do you have any questions regarding either of them at this time?

A Not at this time.

Q And the second document you were given before the record is an SEC Form 1662, which has previously been introduced as Exhibit 1. Have you had a chance to review that?

A I have. I received it in the mail from you.

Q Okay. Do you have any questions regarding the Form 1662 at this time?

A Not at this time.

Q Mr. McMurray, you're represented by counsel today?

A I am.

Q Okay. Would counsel for Mr. McMurray please identify themselves by providing firm names, firm addresses and telephone numbers?

MR. TAYLOR: Sure. David Taylor and Sean Knowles from Perkins Coie, C-O-I-E. Firm address is 1201 Third Avenue, Seattle, Washington, 98101.

MS. PAN: Emily Pan of Munger Tolles & Olson. The address is 355 South Grand Avenue, 35th Floor, Los Angeles, California, 90071. Phone number, 213.683.9100, representing Mr. McMurray in his capacity as a former employee of Countrywide, now Bank of America. Thank you.

BY MR. WYNN:

Q Mr. McMurray, everything we say is being recorded by the court reporter sitting to your left. In order to insure that we get a clean transcript today, I'm going to give you a couple of rules that we should all follow. A lot of them are common sense, but please bear with me so I can get through them and then we can start.

First of all, please answer all my questions verbally, as the court reporter has a difficult time, you know, reporting answers that are in audible such as nods or head shakes. Would you agree to do that?

A Yes.

Q All right. Second, please let me finish my question before you try to answer. The reporter can't record both of us speaking at the same time. I know this is more difficult than it sounds because a number of times today you are going the know the answer before I am finished getting a question out, but please, nevertheless, let me get it out before you try to answer. And by the same token, I will let you get out your answers before I hit you with another question. Okay?

A Yes.

Q If you don't understand a question, please tell me, and I will either repeat it or rephrase it as many times as necessary so that you can understand the question before you try to answer it. It's very important that you do understand the question before you answer it. So please don't hesitate to ask me to clarify or rephrase something if that would help you.

A All right.

Q If you need to take a break for any reason, please let me know, and I will instruct the court reporter to go off the record. But unless you hear me tell her that, then you should assume that everything that is said is still being recorded. Okay?

A All right.

Q And we're currently in the offices of your counsel Perkins Coie. Nevertheless, you should consider yourself to be testifying in a court. The oath you took to tell the truth is the same one that would be given where you to be in court testifying. And the commission may submit today's testimony as evidence to a court or other tribunal in a later proceeding. For this reason, you should make every effort to give candid, accurate and truthful answers to my questions today.

A All right.

Q Will you agree to do that?
A I will.
Q Thank you. At any time during today's testimony, you may assert your right under the Fifth Amendment to the constitution, and if you refuse to answer any of my questions, it may tend to incriminate you. Do you understand that you have that right?
A I do.
Q Okay. Is there any reason why you cannot testify truthfully and accurately today?
A None.
Q Okay. Mr. McMurray, can you describe how you prepared your testimony today?
MR. TAYLOR: You mean other than communications with counsel?
MR. WYNN: Yeah.
BY MR. WYNN:
Q This is a good time to just remind you, as you probably know, Mr. Taylor has told you there's something called attorney-client privilege. I'm not trying to get at any communication between you and your attorney. You should not reveal to me any communications between and you your attorney.
So holding aside any communications between you or your attorney, my question is what did you do to prepare for

your testimony today?
A Other than that was gathering the -- you sent me a list of documents, document requests, so doing the search for those documents. And then I turned those -- kind of the entire amount that I found and turned them over to David and Sean.
Q Prior to today, have you met with your attorneys?
A Yes.
Q Do you know how many times you met with your attorneys?
A Hm, several. You mean including phone calls or actual physical meetings?
Q Just meetings.
A Three to four perhaps.
Q Have you ever met with Mrs. Pan -- excuse me -- Mrs. Pan before?
A This is the first time I have met her.
Q Okay. Did you review any documents to prepare for your testimony?
A Not -- not in detail, no.
Q Did you give any type -- any level of review to any documents to prepare for your testimony?
A Well, I discussed some of the documents with my counsel.
Q Okay. Can you recall any particular document that

you looked at?
MR. TAYLOR: Object. It's privileged.
MR. WYNN: Can you explain a little further the privilege?
MR. TAYLOR: Sure. If he reviewed documents at our request or as part of a communication to counsel, that's protected by the attorney-client privilege.
BY MR. WYNN:
Q Do you recall reviewing any documents other than documents that may have been provided to you or referred to you by your attorneys?
A I'm sorry. I don't -- you mean separate and apart?
Q Right, anything provided to you by any of your attorneys.
A Anything provided from them to me?
Q No, no.
A I'm sorry.
Q Separate and apart from anything provided to you by them.
A I looked -- I looked at the documents that I was gathering together. I didn't read them in detail.
Q Okay.
A But I wouldn't call it a heavy review.
Q Okay. With respect to those documents that you gathered and produced to us, did any of those documents

refresh your recollection on any topics that you can recall?

A A little bit, but, again, I didn't give them a heavy review. I was mainly focused on gathering materials together to turn over to my attorneys so that they could turn it over to you.

Q Do you recall any particular topics that your review of those documents refreshed your recollection with respect to?

A Sure. Some of it -- some of it brought back memories of kind of the events that were going on at the time, but there wasn't anything specific that I gave a hard review. I was mainly focused on gathering the materials together.

Q Okay. Can you recall any of the general topics that those documents refreshed your recollection of that were going on at the time?

A Sure. Most of the documents that I have were e-mails that I forwarded to a gentleman named Jess Lederman. So as I was leaving Countrywide in the late summer and early fall of 2007, Jess was going to take over not all of the aspects of my old role, but many of the aspects of my old role.

So he asked me, "Can you gather together e-mails or other things that might be helpful in that transition." And so I did -- I looked back through a lot of the e-mails and

12:1 other materials that I had done, and I forwarded a series of documents or e-mails to him rather. And some of those I had printed out and kept copies of, and so that was the key. So in the documents that I have turned over to -- not all, but many of them are going to have come from that exercise.

And so what I had attempted to do for Jess was to forward him an assortment of different things that would give him a flavor of the kind of issues that he would be dealing with in his new role.

Q And how did you determine which documents and e-mails to provide to Mr. Lederman?

A I looked through kind of what I considered to be kind of the important issues that if I were him that I thought he ought to be aware of, that he ought to focus on. So that was kind of the key way I thought about it when I was pulling this together.

It was a fairly quick exercise because, as I said, it was on my way out the door as I had taken a position with WaMu, Washington Mutual that is, and so this is one of kind of the last things I did at the end of my time at Countrywide.

Q Can you recall which issues you thought were important that you should bring to Mr. Lederman's attention as he assumed some of your old responsibilities?

A Sure. So one of the issues in particular that I wanted to bring to his attention that had been discussed a lot is I will call it the matching strategy. And so -- do you want me to elaborate on that?

Q Why don't you get the full list out of the issues, and then we can explore some of them.

A Sure. So the -- the -- you know, as I gathered up the documents for you, that was probably one of the key things that came back to me. So that's one -- that's one of the key things that I wanted to bring to his attention.

There were -- and related to that probably some other guideline things that were going on. Another -- another issue that I wanted to bring to his attention was how the bank, and so when I say the bank, Countrywide had -- Countrywide Financial was the holding company. There was a federally charted bank as one subsidiary, and there was a broker-dealer as another subsidiary, and then Countrywide Home Loans was the mortgage banker as yet another subsidiary.

So the bank and the broker-dealer were two subsidiaries that he wouldn't have dealt with very much. He came from Countrywide Home Loans, the mortgage banker. And so I wanted to bring him up to speed on some of the issues going on with those other two subsidiaries that he hadn't worked as closely with. So I recall that being in there.

I -- there was a number of board meetings that I prepared a lot of materials for, not just me personally, but my team. And so that was yet another area that I wanted to make him aware of, including, you know, some of the directors that might be calling him and asking him questions. These are either the CFC or the Countrywide bank board directors. So I believed that was among -- some of those were among the issues that I had forwarded to him.

Q Did you communicate to him what you viewed at that time were the chief credit issues facing the company at the time you departed?

A Well, two things: First, I think he had his own -- his own view on that matter first of all. And secondly, yes, I did communicate some of my views on the matter.

Q And what were your views on that matter?

A My personal views are that the industry -- the industry as a whole had guidelines over the years that the credit environment had been very good, and for a variety of reasons industry guidelines had expanded. And so that was -- that was something that I was increasingly concerned about.

Q Can you recall when you first became concerned about the expansion of -- are you talking about underwriting guidelines?

A Yes.

Q Can you tell me when you first became concerned about the expansion of underwriting guidelines from just your perspective at Countrywide?

A Well, the concern predates Countrywide, so I probably first became concerned with them in the early 2000's while I was at Freddie Mac. So the guideline expansion that took place during the -- during the 2000's, so call it from the latter part of 2000 up through August of 2007, kind of there was a very long stretch of time there. So that's -- that's when I first became concerned about it. And then, you know, it was something that I thought about a lot since that time.

Q Can you -- do you recall when you first communicated your concern regarding the expansion of underwriting guidelines to other people at Countrywide such as your supervisors or coworkers?

A Sure. This was a day in and day out discussion. So we touched very briefly a moment ago on this matching strategy. And so this is probably an appropriate time to talk about that in more detail because it's very important in understanding guidelines at Countrywide, and I would argue even more broadly than Countrywide.

But Countrywide's explicit strategy, and this predates my arrival, was this matching principal. So their strategy was one where they wanted to maximize their market share. They wanted to be ubiquitous, and so think of it kind of as a combination between Wal-Mart and Starbucks. So they wanted to be in every location possible, in all channels of distribution possible and with every product possible with respect to real estate finance. So that was the company's aspiration.

And so in pursuing that aspiration, the key -- a key strategy tenant was this matching principal, whereas if another company had a particular product or a particular guideline, the basic strategy was to match it.

So they weren't one that -- I mean, there were some innovative things that they did, but with respect to guidelines, Countrywide was mostly a follower. So someone else would introduce something, and then in most cases it would be -- it would be matched.

Q Was this matching strategy that you mentioned a written policy?

A Well, it was a strategy rather than a policy is what I would call it. You know, it may have been written down somewhere. I don't recall that specifically. But it was something discussed constantly, you know, up and down the organization. And it may very well have been written kind of outside of my area, but I don't recall seeing something explicit on that.

Q Okay. How did you first become aware of the matching strategy?

A Shortly -- shortly after I arrived at Countrywide. So in the discussions with the production area, and when I say the production area, those are the areas that are -- that you can think of them as sales, the different sales channels. So say there's retail, wholesale and correspondent would be the key sales channels that Countrywide had for its mortgage banking business.

And so particularly with conversations with them, not only did the matching strategy come up, but it framed many of the activities that the company undertook.

And it is, just as an aside, in one of the -- as I looked through documents, one of the documents that I provided was a board -- there was a credit committee of the CFC board, and so I believe the matching strategy is even talked about in that report that I put together and that you should have a copy of, and we can take a look at that.

Q I think I may have asked you this before, but do you ever recall seeing anything written, like, formalizing the matching strategy?

A There were things that I saw about it written, like the one I just told you. But as far as memorializing the strategy, not that I specifically recall.

Q To your knowledge was the strategy something that was created by the sales department or was it by the people in the credit department?

A It certainly was not created by someone in the credit department. So let me elaborate further. It --

18:1 again, if you go back to Countrywide wanting to be ubiquitous and pursuing market share, it was -- it was a strategy in support of that -- of those broader corporate aspirations.

Q Do you know which department or departments within Countrywide initially came up with the matching strategy?

A My personal belief, and this is a belief just based on my own observations, is that it was probably a strategy that Dave Sambol came up with after he took over the production divisions, which predated my arrival at Countrywide. But, you know, he certainly talked about it constantly.

And then there was -- there was a group within the production area, and, again, remember these are the sales areas, that specifically went out and surveyed what various competitors were doing. And so on the -- you know, a couple of the key people that ran that department, you've listed Vijay Lala Steven Trentacosta, I saw that you had listed those names in one of the documents that you had given me, they worked in the production area, and a big part of their job was to survey what other institutions were doing so that the company could understand what was out there and whether it was appropriate to either match products or to match guidelines or -- when I say appropriate, were these actually out there. And if so, then the normal protocol would be to match -- to match those.

Q The group you just mentioned Mr. Lala was a member of that did the surveys of competitors' guidelines and products, do you recall if it had a specific name?

A It did have a specific name, and I'm not recalling it right now. But let me continue to think about it. It might have been product development, but product leadership was -- so it had a couple names while I was there, but product leadership, I believe, was the last name of that group when I -- when I -- in the final time that I was at Countrywide.

Q To your knowledge were there any limitations on the matching strategy?

A That was a matter of some debate, too, so let me just -- there's a couple elements of this. So one of the -- one of the worries that I had was when we were matching something, did we really understand what those other institutions were doing?

So a lot of these products and guidelines are very complicated, and the details matter. So one thing we wanted to be sure is that we understood what was -- what was being matched. And, in fact, I think that's even one of the things that I talked to Jess about as I was leaving cautioning him that, you know, if I were him that that's something I would pay attention to, to be sure you understood what was out there.

20:1 Secondly, an important consideration, so even if you are going to match something is how does it -- how does it get implemented? And so by implemented, there's how are the policies updated, how are the procedures updated, how are the systems updated? You know, do we have -- do we have the capability of offering this in a well-controlled manner?

Another, we haven't talked about this yet, was the strategy to price for risk. And so another question is given this product or given this guidelines, is it something that could be -- could be priced for?

A third dimension would be how would it be -- you know, the objective, the strategic -- another strategic objective of the company was to -- was to sell the loans into the capital markets, and so could that be done in an effective way? So that was a consideration.

I know I'm going to miss some along the way. But there was a whole process and series of considerations. So the way that it worked is the production -- the production divisions, these sales areas, would bring requests where they would observe guidelines, they would observe products that somebody else had. They would bring those requests through Vijay Lala's area, and then there would be a series of discussions and debates that would go on that would talk about the type of things that I just listed off for you.

Q So just to ask you again, are you aware of any specific limitations that there were on the matching strategy?

A We tried -- there were a series -- when you say specific, I want to be careful. But let me talk about some of the other considerations.

So I just listed some important considerations. There were a couple of other considerations that were introduced, not necessarily universally accepted. But as an example, one of the things that I had put together, and this was actually working with Stan Kurland at the time, was something I called the three R's; so risk, return and responsibility.

So in my -- in my view, any time you are contemplating a product that is offered to consumers, and you are a company, those three R's would be things that you would want to think about.

So on the risk, one, do we understand the risks? So even though Countrywide sold most of its production into the capital markets, there was no product, there was no execution. And by execution, I mean that's a method of selling loans into the markets. There was no product or execution that could be done shedding all the risk. Countrywide was always going to retain some portion of the risk. And that --so that's an important -- that's an important fact.

22:1 And so this whole idea of understanding the risks inherent in something I thought was something that we should explicitly consider.

Return is the idea that for a profit seeking company, you should only -- you should only offer products that generate an expected return. That doesn't mean that they would always have a positive return, but at least on an expected future looking basis, that the return would be positive. So I think that's an important principal.

And then responsibility, the reason that "R" of the three R's tried to incorporate several different aspects of responsibility. So there's responsibility to the shareholders. There's responsibility to security holders. So a lot of what Countrywide did was put into mortgage-backed securities. Responsibility to the employees, responsibility to the regulators. Countrywide was highly regulated for most of the time I was there. It was Fed and OCC were the two principal regulators, although, there were lots of others.

So -- and then most -- maybe not most importantly, but very importantly there is a responsibility to whoever your customer or client is. So that -- so that aspect of the third "R" was that a transaction needed to be good for all parties to the transaction.

So the three R's was something that, as I said, I had put together working with Stan. And that was to frame a

23:1 lot of the debates that went on.

So let's suppose in one example I will use, although this is not meant to be unique at all because these debates went on constantly, but Bear Stearns, Credit Suisse First Boston and I think Lehman were all offering very aggressive prime guidelines.

And so the thing that I liked about the three R's, it was a way to frame these debates. And so it was like all right, if we are going to talk about something that somebody is doing, let's talk about at least these three basic elements.

And so it was an attempt to frame the debate. So not so much an explicit restriction, but rather a way to have a rigorous debate on whether to pursue a certain path with respect to a guidelines or a product.

Q Okay. You mentioned the Bear Stearns and Credit Suisse and some other banks had very aggressive prime guidelines. Can you explain what you meant by that?

A This is just one example.

Q I understand.

A Sure. And so this would have been later on, so call it late kind of the second half of '06. You know, another very important date to keep in mind -- so early August, I think it was August 2nd or 3rd, the capital markets for mortgages completely seized up. And so --

MR. TAYLOR: I'm sorry, John. Which year?

THE WITNESS: 2007. Thank you.

MR. TAYLOR: Sorry, Paris.

MR. WYNN: That's okay.

THE WITNESS: Yeah. So I would say not just the world, but the universe changed at that particular point in time. But -- so these broker dealers -- and so just, and I apologize for going on a tangent but this may be helpful to you.

So Lehman, Credit Suisse First Boston, Bear Stearns, they are not really banks. So part of the debate is these guys are broker-dealers. They are not regulated by the Fed, OCC, OTS. There was a gentleman that worked for me that thought that we shouldn't -- we shouldn't consider them in our set of specific competitors. And I tended to agree with that. There were others, though, that disagreed with that.

Countrywide had its own broker-dealer subsidiary, and so they didn't want to exclude those institutions from the set of competitors that we looked to for matching.

Let me go back and make sure I'm staying on your question.

Q Well, when you mentioned that they had very aggressive prime guidelines?

A Yes.

Q What did you mean specifically by that?

A Okay. So with respect to guidelines, let's think about it in a couple key dimensions. There are lots of things that make up a guideline, but let's talk about a couple. So the first is leverage, in other words, how much of a down payment is being put down, if any. The second is the borrower's credit history, very important. A third would be documentation. And by "documentation," there are three key dimensions of documentation. So assets, income and employment, and then under each one of those three key dimensions there are several ways of -- several styles of documentation. So documentation would be a key item that I'm referring to.

Another -- another would be the ownership types, in other words, is it an owner-occupied property, is it a second home, is it an investor property? Units would be another aspect of guideline. Is it a single family, a duplex, triplex, fourplex?

Another -- yet another guideline would be the purpose, is it purchase, rate refinance, cash out refinance? There are others, but those are the kind of things -- those are the kinds of things that would make up guidelines. And so these were very aggressive in my opinion. And so, you know, very little to -- I think it was just pushing the frontier in my opinion.

Q Pushing the frontier of what you considered to be prime?

A No -- so at the appropriate time we should have a discussion about prime and subprime. So, no, not just from a prime perspective, but just thinking about, you know, again on the third "R" from the responsibility standpoint, so, you know, what's the outer boundary? You know, in some respects aggressive guidelines are a good thing. It supports home ownership, and you can argue whether that's a good thing or a bad thing, but a lot of people think that it's a good thing.

And so as you push the guidelines, the probability of that borrower defaulting, particularly in a stressful economic situation, increase. And so, you know, at some point I think that that probability, this is a personal belief, becomes too high, and you may not want to offer that program

Q Well, can you explain some of the things that would make underwriting guidelines aggressive? Like what are some of the features of the underwriting guidelines at Bear and Credit Suisse that led you to believe they were aggressive?

A Sure. So probably the -- in my opinion, again, the most important guideline recently has to do with leverage. So there were a lot of programs, both prime and subprime, with 100 percent leverage, meaning the borrower didn't have to put anything down.

The National Association of Realtors in one of the recent years, so this was before everything abruptly changed in August of 2007, but if we look back at 2006, for example, I think for first-time home buyers, a very high percentage of those transactions were done with 100 percent financing.

You know, I'm going to talk about some other guidelines in a minute, but that -- this question of leverage more than anything else is profoundly impactful on how risky that loan is going forward.

So even with a small down payment, there's very little margin for error that the borrower would have. And so with no down -- with no down payment, there's really nothing there in terms of an equity margin of error. So that would be -- that would be the particular one I would pick out.

You know, to me it's something I'm surprised hasn't gotten more attention. I will tell you there were -- there was pressure on Countrywide not just from inside the company, but also from outside the company to offer high leverage financing.

Q Where would the outside pressure come from?

A The outside pressure would come from advocates, and then not so much our specific regulators, but others more in the legislative area. And the reason for that pressure is if we think about barriers to home ownership, one of the big barriers is coming up with the cash for a down payment and closing costs.

28:1 So to the extent that that can be reduced or eliminated, there are going to be more consumers that would be able to buy a home.

Q And where would the inside pressure at Countrywide have come from more?

A More from the matching perspective.

Q Okay.

A And so I assume we're still kind of on the Bear Stearns, Lehman, Credit Suisse First Boston example. So very aggressive leverage in these guidelines for this prime program, and so that was one of the concerns particularly when combined with some of the other guidelines.

So for these dealer, and when I say dealer, I'm talking about these three, so the combination of very high leverage, a relatively weak credit background requirement, so, in other words, the borrower could have had some rough spots in their credit history, and documentation standards, the combination of all those three in concert with one another in my view was very aggressive.

Q Now, Bear Stearns and Credit Suisse and those types of institutions, did they compete with Countrywide in the loan origination market?

A They did because -- so remember I had talked about production consisting of retail, wholesale and correspondent. So I'm certain in the whole -- excuse me -- in the correspondent area, so the buying of whole loans, a direct competitor there. They were also a competitor with Countrywide's broker-dealer. So all three of those were important competitors to Countrywide.

Q So the matching strategy was not limited to the retail side of Countrywide's business?

A No, it was not -- it was not limited to retail. Now, there is another aspect of retail that we haven't talked about that you should be aware of, and it's the no brokering policy. And this I'm -- although, I don't recall specifically seeing it, I'm fairly certain that this would be a written policy.

So in retail, there was no brokering allowed. So in many institutions outside of Countrywide, brokering is allowed. So suppose that under that institution's guidelines a loan is not able to be approved, the loan officer would be allowed to broker that loan out to another institution that could provide financing to that borrower. Countrywide had a longstanding policy of not allowing loan brokering.

That's important to understand because it fits in -- it fits into some of these broader themes, and it's one of the reasons, but not the only one, why matching was important because they didn't have -- the only outlet was just on the Countrywide menu. They couldn't take the loan outside the firm.

30:1 Q So the no brokering policy meant that you couldn't refer a customer to a different institution; they wanted to keep them inside Countrywide?

A I want to be exact. It couldn't be brokered to another institution. So in the mortgage lending industry, brokering is a very common thing where a loan package is brokered to another institution. So I would distinguish that from a referral. So it wasn't -- I don't believe there was any policy against referrals, but absolutely a hard policy against brokering.

Q Can you explain what you mean by brokering?

A So brokering would mean that this loan package would be brokered or assigned over to another lender, and typically there would be financial consideration given for that. So the lender receiving it would pay the referring institution -- not the referring, but the brokering institution.

Q So is it accurate to say that because Countrywide had a no brokering policy, there was pressure to originate and fund the loan within Countrywide?

A Yes, because it had to be -- if it wasn't going to be done within Countrywide, the loan officer wasn't going to be getting any kind of a commission no matter how much work they had spent on a particular application.

Q Okay. If we could back up a little and go back to your three "R" policy that was risk, return and responsibility?

A (Non-verbal response.)

Q In terms of responsibility, you mentioned that Countrywide had a -- Countrywide with respect to evaluating new products and guideline changes had responsibility to its shareholders?

A Uh-huh.

Q Could you explain that?

A So the idea there is that you would want to do something that generates a return, so that's the principal responsibility is to engage in activities that are expected to generate a positive return.

Q Would you view Countrywide as having any responsibility of developing or offering products that had a low credit risk or would that factor into the return analysis?

A It would, but there's another important principal that we ought to talk about, and that's the idea of risk-based pricing. So this was a very important principal at Countrywide. And I will draw an insurance analogy here, too, but the idea is to price -- to evaluate the risk inherent in a transaction and then price appropriately so it would be expected to deliver a positive return.

Now, the idea of low credit risk, I want to spend a minute on that, too, because simply picking loans that are low credit risk might actually be bad for the shareholders. So let me elaborate on why that's the case.

Q Before you do that, we'll come back to that --

A Sorry.

Q I just wanted to go back to the policy, the three "R" policy. You mentioned that it wasn't universally accepted within Countrywide; is that right?

A That's right.

Q Can you recall who did not accept that policy?

A So in the conversations with Dave Sambol, for example, you know, he acknowledged that Stan and I put that policy -- you know, put that -- I call it more of a principal than a policy, so I wanted to think of it in terms of guiding principals, so something that we could use day in and day out. A lot of the policies that we had were very voluminous, and so I purposely made it very simple, three R's. And so it was more guiding principals than the policy.

So there were several occasions where Dave and I discussed it. And like I said, he acknowledged that Stan and I had put it together, but said that, you know, it was fine if we wanted to frame discussions that way, but, you know, it wasn't something that he endorsed 100 percent.

Q Did Mr. Sambol ever identify any particular concerns he had with that policy?

A I think he was concerned that it might be a method for me to drag my feet on approving things. And so we had the matching principal, and so -- and this is just my impression, but my impression is that he believed that was a superior strategy -- or superior, in other words, kind of a higher up in the hierarchy of strategies and principals that we had than the three R's. And certainly, you know, it long predated the three R's.

Q So it's your opinion Mr. Sambol viewed the matching strategy as being more important to Countrywide than the three "R" strategy?

A That's my opinion.

Q Okay. And what do you base that opinion on?

A Simply various discussions that -- and meetings over the years while I was at Countrywide subsequent to the three R's coming out.

Q Okay. Now if we could go a little farther back to when you were transitioning out of Countrywide and you were informing Mr. Lederman of what you viewed as the chief credit concerns, you mentioned one as being the industry guidelines as a whole expanding?

A Yes.

Q Were there any others?

A There were. And so as I was assembling the documents, one of the things I pointed out to you earlier was

34:1 this package that we had put together for the credit committee at Countrywide's board of directors. And so -- and I don't recall if I specifically discussed this with Jess, but one of the things that I had shown to others at the time was my wall of worries.

And so if you wanted to have a quick look at what my concerns were at that time as I was -- this would have been early 2007, so pre the August date, you could take a look at that. It's just a one-page list of my key worries. So guidelines would have been -- industry guidelines would have been one of -- there were probably 60 worries on the page.

Q Okay. And you think this is a document that you produced to us?

A I do.

Q Okay. And was the particular page called Wall of Worries?

A The page is called Wall of Worries.

Q Without seeing the document, can you recall perhaps what your top five worries were?

A I will make an attempt at this. And the list is semi organized. So home prices would be one, guidelines, again, from an industry perspective would be another, infrastructure. So at any company, infrastructure is very important to doing things right. And so it's something that we thought a lot about at Countrywide.

Let's see. Those are some of the key ones, but I'm not -- I'm not doing -- I'm not doing the wall justice so --

Q Okay. We'll come back to it.

Now, you talked briefly about the distinction between prime and nonprime?

A Uh-huh.

Q Can you explain what the distinction between prime and nonprime is? I'm talking about from a Countrywide perspective. What was the distinction at Countrywide between a prime and nonprime loan?

A Sure. So at Countrywide, the difference was simply by product. So if something -- if something was a prime product, then any loan originated under those guidelines was prime, and anything originated under subprime guidelines was subprime. So that was -- that was the simple definition.

Let me highlight some of the key detailed differences that would -- that would draw that boundary. So foreclosure and bankruptcy seasoning. So for a loan to be -- for a loan to be a prime loan, there are more stringent requirements for foreclosure of bankruptcy seasoning. So if the borrower has a foreclosure in their record or they have a bankruptcy in their record, a certain amount of time has to have passed for them to be considered a prime borrower irrespective of how good their other credit might be. So you

36:1 could have someone with a very high FICO score, but if the amount of seasoning was not sufficient, then they would not be eligible for a prime loan.

Another example would be mortgage payment history. So if that borrower ever had a mortgage loan previously, if they had certain -- a certain type of delinquency pattern, and, again, there was a time element to this as well, they also would not be eligible under the guidelines for a prime loan, again, irrespective of how good their FICO score might have been.

So there were a series of these types of detailed guidelines that helped to mark the difference between prime and subprime.

And then another aspect would just be the combination of guidelines. So in subprime, the combination of some of the key guidelines, so things like documentation, leverage, debt to income ratio, would be more aggressive in subprime than what was available in prime. So that would yet be another difference between the two.

Q When you say that things like documentation would be more aggressive prime --

A In subprime.

Q More aggressive in subprime?

A Yes.

Q Than prime?

37:1

A Uh-huh.
Q What do you mean by that?
A So a few minutes ago, I talked about documentation being income, employment and assets. And so -- and then there's various ways of going about documenting that. So the general standards in the subprime industry around doing that are different than what they are in prime.
Another example would be on housing expense, so getting at what someone's prior housing expense was and verifying that would be different in subprime than in prime.
You know, this might also be useful, I don't know if you have looked at this, the whole subprime industry, that was a separate series of institutions that started that. And then you saw some of the mainstream firms, including Countrywide, Wells, Chase, City, getting involved in that space. But it kind of grew up as almost a separate corner of the industry.
Q Okay. So still talking about the differences between prime and nonprime?
A Uh-huh.
Q So that designation had something to do with attributes of the borrower; is that correct?
A Yes. So, again, the key difference is something that was done under a subprime program was considered subprime. A loan done under a prime program was considered

prime. That was the basic definition. So all of those details that I've talked about after that were simply some of the differences between the basic prime programs and the basic subprime programs.

Q Okay. So in addition to attributes of the program where you had things like documentation, like attributes of a particular loan product or --

A Yeah, another way I would think about it, it's not just attributes of the loan product, but it's actually the way the loan is manufactured.

Q Okay.

A So the type of documents that are looked at. So if the loan is documented versus -- and there's a couple different -- it could be -- this would be useful here: So a loan could be either full documentation, and there's a subcategory of that called alt documentation, it could be stated where the borrower says what their income or assets are but doesn't provide written evidence of that, or it could be not documented at all in any one of those dimensions.

So as an example, in subprime, the assets wouldn't get as much attention or consideration, again, this is just by industry tradition, as what would be the case over on the prime side. And here I'm just speaking about residential loans. If we brought in credit cards or autos, there's some important considerations there, too, on this issue.

39:1 Q So at Countrywide, the difference between a prime and a nonprime loan is that certain loans were created specifically to be prime and certain loans were created specifically to be nonprime?

A That's right. And, you know, the other thing that we haven't talked about yet in very much detail is all of these were originated to be sold into the capital markets. So lots and lots of requirements from the capital markets when selling loans either as whole loans or securities into those markets.

Q Who is responsible for creating loan products at Countrywide?

A So it was an effort that spanned a lot of different areas. So product leadership that I mentioned earlier, that tended to be the nucleus of the entire process. And then they would work across the company with various areas to get a product introduced.

So let me just name a few of the areas that would need to be considered. So you've got the sales channels that I talked about. You've got what I would call the risk people, so that was my area. You had secondary marketing. And secondary marketing, that was the group for pricing, and by pricing I mean the base price, as well as getting those loans packaged and sold into the secondary market. So they were an important consideration.

Legal was an important consideration, so there are all kinds of legal issues that would need to be considered on program guidelines. Servicing, so this is where once the loan is closed, dealing with either the consumer or the commercial client, collecting the payments, dealing with delinquencies, foreclosing if necessary, selling the REO if necessary. Systems would -- so the whole technology area would be another very important group that would be involved in product development.

We also had a committee called responsible lending. This committee changed names a couple times. It was responsible lending and then responsible conduct, and then it ended up being something else. But some things would be escalated up to that committee for discussion.

So those are a few of the main areas that would be involved in introducing a product.

Q And at what point would a new product be designated as prime or nonprime within?

A The way that would start would be very early in the process. So, again, we talked about the matching -- the matching strategy. So from very early on, we would know generally if this was in the prime space or the subprime space.

Q Can you explain -- how would you know that?

A Well, so as you observed the competitors' offering, 41:1 you would know by looking at the guidelines and other aspects whether it was prime or subprime.

So let me give you an example of another aspect. On loans that were sold into the capital markets as subprime, the securitization styles were different than what was done on prime. And so you could easily look at two different securitization's and know this was prime, this was subprime.

And you have got alt A and alt B in between those, so it's kind of a -- it's a whole spectrum. But on the two ends for first liens, you would know just by looking at the securities whether it was prime or subprime. So that would be another way of telling.

Q So is it accurate to say that pretty early in the process of offering a new loan product, you would know whether or not it was prime or nonprime within Countrywide?

A Yes.

Q And in talking with other people at Countrywide, we've heard testimony that there were certain codes assigned to loan programs that you could tell by looking at that code whether or not a product was prime or nonprime. Do you have any knowledge of that?

A Yes, that's -- that's -- that's certainly consistent with my recollection. So every product is going to have a product code. And so there would be hundreds, if not thousands, of product codes and then lots and lots of combinations underneath that.

But that was simply a way of -- I mean, think of it as a model number or model name on a car just to keep the menu of products straight.

Q And do you know who was responsible for coming up with that code?

A So the product leadership area that I talked about, I believe, was the ones that -- they were the ones that assigned the code.

Q And can you identify the reasons that Countrywide designated certain loans as prime and certain loans as nonprime?

A Well, sure. I would -- but it's not just prime or nonprime. The reason -- the reason for those codes is there were a very considerable set of both guidelines and other procedures attached to the various products. And so it was -- it was important to know what you were dealing with on a loan-by-loan basis.

So let me give you -- let me give you an example. One of the companies' policies was to uplift borrowers. So if a borrower came in and applied for a subprime program, the company's policy was to evaluate them for a prime program. And if they qualified for a program -- a prime program, to uplift them.

If you didn't have a code that told you kind of what category the application fell into, it would be hard to know -- to know what you had. So, in other words, if the borrower came in under a prime program, they wouldn't need to be uplifted to a prime program. They would already be there.

Q What about from a credit perspective, a credit risk perspective, what does the designation of prime, nonprime or alt A communicate to people in credit risk or people in the secondary market?

A So there's a couple of important considerations here. And so a few minutes ago I talked about all transactions -- all loan types, all ways of selling loans into the market left some risk with Countrywide. So just on that specific dimension, very important differences between prime and subprime, and I will elaborate on that in a minute.

The other important difference is just looking at the underlying loans themselves. So each loan is going to have a set of attributes that make it more or less risky. And what you would see, even though there's a tremendous overlap on riskiness between prime and subprime, the prime population is going to be a less risky population of loans than the subprime population.

So you've got risk differences in the -- credit risk differences in the loans themselves; you have credit risk differences in the executions.

So here's where I will elaborate. So on a typical prime execution, that could be done where most of the risk was transferred. So in other words, so in a typical prime mortgage securitization, the entire stack could be sold. And when I say "stack," the rating agencies would rate the securities, and it would be carved up into different classes of credit risks, so all the way from triple A down to single B and even unrated. So in a prime securitization, all of those classes could be sold into the market readily.

For subprime, there was something called a residual created. So there it was typically triple B and above that was readily saleable into the market.

Now, Countrywide was fairly active in trying to market the residuals, but there wasn't as ready of market for those as the more highly rated securities. So that execution difference is an important one from a credit risk perspective between prime and subprime as well.

Q So the prime things that were securitizes were more on a nonrecourse basis were the subprime's there was recourse?

A Yeah, and it's not just -- and it's not just recourse. It's also -- because even on a nonrecourse basis, Countrywide still retained important risk even on a nonrecourse transaction. It's just how much of the risk stack could be sold into the market.

So on a subprime, any -- anything below triple B would generally be retained initially, and so that would be the first loss portion that would be Countrywide's.

Now, as I said a moment ago, Countrywide did actively try to sell those residuals and in many cases did sell the residuals into the capital markets.

Q Okay. Were those subprime residuals called NIMs or something like that?

A A NIM is a specific kind of subprime residual.

Q Now, with respect to a conforming prime loan that is eligible to be sold to the government agencies, why isn't the risk is 100 percent transferred from Countrywide to the agency in that type of transaction? What is retained?

A I'm going to draw a couple distinctions. So we're going to talk VA, FHA and then Fannie and Freddie because there's some important differences.

So on Veteran's Administration loans, the insurance that the VA provides only covers a certain portion of the loan. To the extent that the loan -- that the loan defaults and there's -- and when a loan defaults, there's virtually always going to be a loss that is coming, to the extent that that loss is bigger than the amount of insurance they provide, whoever was the -- whoever services that loan is going to be taking the loss. So in Countrywide's case, they retained servicing on virtually everything, so they would take that loss.

On FHA, the Federal Housing Administration loans, on those the FHA -- kind of a couple important elements of risk, so the first is if one of those borrowers defaulted and there was a loss on the loan, and there generally always would be, the FHA would haircut some of the expenses. So in other words, they would refuse to pay for certain expenses or pay the full amount. So kind of think of it as you are submitting your medical claim in, and they come back and don't pay for all of it, that's kind of -- that would be an analogy. So as a result of that haircut, Countrywide would bear the cost of some of those expenses.

In addition, the federal -- the FHA could take a look at the loan, and if they determined based on their review of the loan that it didn't meet all of their guidelines, they could refuse to insure the loan or they could rescind the insurance on the loan. And if that happened, Countrywide or whatever lender had the loan would bear 100 percent of the loss at that point. So that's VA and FHA.

Now we've got the two GSEs, Fannie Mae and Freddie Mac. So they have a set of representations and warranties that a lender makes when they are selling or securitizing loans with the GSEs that are quite extensive. And so they have the ability to come back and assert that a rep or a warrant was breached. And if that happens, they would force the lender to bear the entire loss.

And so just -- you know, just even on those conforming and government insured loans, every one of them has an element of risk where Countrywide would bear losses. It's true for every other lender that participates in those programs.

Q In addition to prime and nonprime, I'm trying to get at the full list of designations of loans at Countrywide. I know there was alt A?

A Yes.

Q I think you mentioned alt B?

A Yes.

Q Were there any others?

A Those are going to be the principal categories and used by not only Countrywide, but also the broader industry.

Q Can you explain about alt A and alt B are?

A Certainly. Alt A, so if you thought about it in terms of the spectrum, we're going to go prime, alt A, alt B and then subprime.

So alt A would be riskier prime loans, and they would generally be riskier because of certain attributes. The way -- and the industry doesn't have good standards around this, but let me explain how we did it at Countrywide.

So anything -- we used documentation as the key demarcation between prime and alt A. You may also hear nomenclature EC or expanded criteria. In my mind, that's just another way of referring to alt A.

So at Countrywide, anything that was either full or alt documentation or preferred documentation, and preferred, you might also hear it referred to as fast and easy, so any one of those three documentation types would be considered core. So that's what we called it at Countrywide, core prime.

Alt A is -- that's a prime transaction as well. And so anything -- anything that had documentation types other than the three that I just listed would be considered expanded criteria or alt A. That's on the origination side.

When those loans were sold into the secondary market, the secondary marketing area made an effort to try to distinguish populations of loans, too. So if you look at those secured -- the Countrywide securitization's, they will have different designations on -- there will be a number that kind of designates what period of time that that security closed, but there would still be a prefix that -- so C-W-A-L-T, CW alt, that's Countrywide alt A. So a lot of the objective there was to put the alt A type loans into those separate types of securitization's and then have the core in their own securitization's. And I think those were CW MBS was the prefix on those, if I recall properly.

Q And what is alt B?

49:1

A So alt B would be if you looked at the -- that portion of subprime that was the most favorable, that would generally be alt B.

Q And what would be some of the, I guess, credit differences between alt B and subprime?

A Well, in many cases, it would be a lot of the details that we talked about. And so in some cases, the alt B would be a hybrid kind of a situation. So two companies -- two specific institutions that I recall talking about or in discussions, one would be First Franklin, and so First Franklin was owned by Nat City, which is a nationally chartered bank, and then First Franklin was sold to Merrill Lynch.

And so they had a subprime program that was kind of a hybrid. So it had -- it had had some subprime characteristics and some prime-ish characteristics, so that might be the type of thing that would go into an alt B securities execution.

Another company was -- I'm trying to remember their name. I will remember it in a minute. But I will come back to that. There was another company based in Orange County that was similar to First Franklin that would have had programs that had kind of a blend of subprime and some prime features.

Q Let me show you a document that we've previously

50:1 marked as Exhibit 40. Exhibit 40 is a portion of Countrywide's loan program guide. It's not the entire loan program guide. Mr. McMurray, do you recognize Exhibit 40?

A I don't recognize it specifically. I generally recognize that it is a typical format for a Countrywide loan program.

Q Okay. In your tenure at Countrywide, did you have any role in operating the loan program guides?

A There was a group that reported -- so yes. There was a group that reported to me, Credit Policy Administration, that did a lot of the administrative work around these loan program guidelines.

So this is a printout of guidelines that were kept electronically. And so if anyone throughout Countrywide wanted to look up the guidelines, those would be available electronically, and they are very voluminous. This is just one example.

And so Pauline Kennedy headed up that group, and she and her team would once -- they would shepherd, as a loan product or guidelines were being -- as a program was being developed or being modified through time, they would help shepherd some of the processes that needed to take place. And once all of those steps were completed, then it was documented in this fashion.

Q Okay. Now, if you look at the top of this page,

51:1 there's like a chart, two column heading, one is Description, one is LPID. Do you know what the LPID stands for?
A Loan program ID.
Q Are the numbers that appear under that heading the loan program numbers?
A Uh-huh.
Q Is that yes?
A Yes, I'm sorry. Yes.
Q That's okay.
And can you tell from those numbers whether or not these particular products are prime or nonprime?
A I personally can't. I'm sure that there's someone within Countrywide that could tell that.
Q Okay. So to your knowledge those numbers do allow an informed person to know whether or not a product is prime or not prime?
A They would. So if someone looked up on the system, looked up the loan program ID, they could look at the top. And so, for example, on this top, it says, "Conforming fixed rate." So on this one, we know that it's not only prime, we know that it's also conforming, and we also know that it's fixed rate.
Q Without those headings, do you think those numbers would give that information also?
A I'm sure --

Q To someone?
A I expect -- I expect they would to someone.
MR. TAYLOR: The LPID numbers?
MR. WYNN: Right.
BY MR. WYNN:
Q Would the LPID numbers give information as to being prime, conforming, all that type of stuff?
A I believe that they would.
MR. BENDELL: Let me ask you this: During your time at Countrywide, do you think -- was it your understanding that if you wanted to generate a printout of a list of loan product ID's sorted by whether they were prime or nonprime, was that something that you understood could be done for you if you asked for it?
THE WITNESS: I think it would be no problem.
MR. BENDELL: Who would you ask if you needed that?
THE WITNESS: There would be several people I could ask. I could ask Vijay who I have talked about earlier, Steven Trentacosta. There were people that -- so Pauline Kennedy who I mentioned a minute ago could have done that for me.
You know, in conversations we typically wouldn't talk about loan program ID's, but rather the name. So you see the descriptions over here? The nice things about the descriptions is it kind of tells you what is going on. The

loan program ID's, on the other hand, are very friendly system wise. And so in dealing with a system that has many, many products, the loan program ID's are friendlier there.

BY MR. WYNN:

Q Later on today we'll get to the actual underwriting guidelines as reflected in the Countrywide Technical Manual. Have you ever heard of that, the Countrywide Technical Manual?

A I have.

Q Can you explain what they are -- what it is?

A Yes. I want to draw a distinction for you between guidelines and the technical manual. So guidelines have to do with a specific program or product, and so they describe the standards, the guidelines, the other things that would govern that specific program or product.

The technical manual was more general in nature. So it talked about the standards that someone should use for underwriting any loan program.

Q Okay.

A And so if someone were evaluating a particular application, they would need to be familiar both with the loan program guide applicable to that product, plus the technical manual.

Q So the loan program guide would be more specific, whereas the technical manual would have general underwriting principals?

A That's correct.

Q And earlier you mentioned something about 100 percent financing?

A Yes.

Q If I'm correct, I think you said that in your opinion it was the most predictive indicator on how a loan would perform?

A I didn't say it was the most predictive. It is a predictive indicator, and it's a key attribute from a risk perspective. It's one of the attributes I would single out that got -- that got pushed very hard in this last credit cycle.

Q Okay. And in terms of predicting how a loan will perform, what is your opinion between a loan to value or the financing percentage and a FICO score? Which of those two attributes is more predictive on loan performance?

A They are both -- they are both very predictive depending on the combination of attributes that you have. You know, one might dominate -- one might dominate the other, but in terms of thinking about how risky a loan is, you would certainly want to look at those two attributes. They are very important.

The other consideration that is important is subsequent to the loan being originated, what happens to home prices and what happens to the general economy in the geography where that particular consumer resides. So, for example, if -- depending on how high the leverage is, those borrowers are going to respond differently to home price declines. But it's the two working together, the original home leverage plus the home cost declines that are important.

The general economy is important because if you have lots of consumers becoming unemployed, that is often a precursor to having not only trouble on their mortgage, but trouble on other credit. So they may have been a very high FICO borrower, in other words, someone with a very clean credit record, but if they become unemployed, even someone that is very good can end up having trouble.

But a long-winded answer of saying both are important, and then depending on the particulars one factor may dominate the other.

Q I think you said home price appreciation or depreciation, is it true that home price depreciation can frustrate a leverage position or make a high leverage position worse?

A Of course. So you could have -- given the home price declines that have occurred recently, you could have had someone that had a relatively moderate loan to value based on what has traditionally been the case that could have ended up in a high leverage position simply because home prices declined.

MR. TAYLOR: Paris, we've been going almost an hour and a half. Whenever you get to a good time to break, it might be a good idea to take a break.

THE WITNESS: Just one last thing I would tell you, Paris. So in another document that I found that you have is it was an AFS, it's an industry securitization group, so there was a presentation that I worked on that talks about the various attributes and how they affect risk in loans. And so if you -- it's one of the documents that I found and gave you. And so you are welcome to look at that. And if you want, I can explain how it works. But it has all of the various curvatures for many of the key attributes on a loan.

BY MR. WYNN:

Q What does AFS stand for?

A It's the securitization agreement for mortgage-backed securities. American -- I'm not sure exactly what it stands for.

Q Okay. And does that group or did they at some point hold annual meetings or semiannual?

A They hold huge annual meetings, and the particular presentation that I mentioned was an annual meeting that they held in January of 2007 is my recollection in Las Vegas. And so I gave a presentation at that meeting. And the conference itself was attended by thousands of people in the industry.

57:1 Q During your tenure at Countrywide, did someone from Countrywide regularly attend those meetings?
A Yes.
Q Okay. Were the opinions and/or concerns expressed by participants at those meetings important to Countrywide?
A Of course.
Q Can you explain why?
A Well, because Countrywide was in that industry. Countrywide participated in -- so this particular conference focused on the capital markets portion of the business, and so Countrywide had its own broker-dealer. Countrywide's strategy was to sell everything into the capital markets. So certainly the opinions and the discussions that took place at those conferences would have been very important to Countrywide.
Q Did you attend those meetings? Have you ever attended one of them?
A Well, I had to when I gave the presentation, I attended it. So normally I wouldn't attend it, but there were people that worked for me that attended it. And then in secondary marketing and in the broker-dealer, there were lots of individuals that attended those conferences.
Q One last question before we go on to the break. But do you recall worked for you attended these meetings on occasion?

A Sure. Christian Ingerslev who -- so we talked about Vijay Lala. So Christian would have been in my organization the key person that Vijay faced off with on product and guideline issues. And so Christian, and that's I-N-G-E-R-S-L-E-V, Christian Ingerslev.

And then a second gentleman, Frank Aguilera, and so Frank's specialty was more on the subprime side, so he would have attended some. And some of these would be in faraway places like Spain and Bermuda. My schedule wouldn't ordinarily permit being out of the office that much, and so sometimes Christian or -- Christian or Frank would go if they wanted one of us there.

Q When you say Christian would face off with Vijay, what did you mean by "face off"?

A So as I described earlier in our conversation, there was vigorous debate. So they -- so Vijay's group would go out and observe what competitors were doing. Those would be assembled into requests. And then he would meet with Christian and Christian's team, and so there would be discussions and debates around those requests.

Q Is it accurate to say that Vijay and his group would want to expand guidelines, whereas your group and Christian's would want to keep them the same or tighten them?

A That would be a fair generalization. But that kind of friction takes place at every institution that I'm aware

59:1 of. So it's a natural friction that would take place, but, yes, that's a fair characterization.

MR. WYNN: Off the record.

(Recess.)

MR. WYNN: All right. Back on the record at 10:41 a.m.

BY MR. WYNN:

Q Mr. McMurray, during the break did you have any discussions with counsel from the SEC?

A No.

Q Okay. To the extent that there are discussions between you and counsel for the SEC during breaks, once we go back on the record, we will summarize those conversations. Is that okay with you?

A It is okay.

Q Okay.

Mr. McMurray, I want to back up and get some of your background information that I should have got earlier. But you gave such great testimony, I just forgot about it.

Can you tell me your current age?

A My current age is 50.

Q Your age. Current age? Okay. 50 years old?

A Yes.

Q Current age and age are kind of -- you are current.

All right. And what is your birth date?

60:1 A April 21st, 1958.
Q And what is your address?
A 6926 Southeast 34th Street, Mercer Island, Washington, 98040.
Q And could you briefly summarize your educational background?
A I have a bachelor of science from Trinity University. I have a master's of Business Administration from the University of Texas at San Antonio. I have a master's of Science from the Massachusetts Institute of Technology.
Q And did you just list those degrees in the order that they were obtained?
A Chronologically, yes.
Q Okay. And could you summarize your employment history?
A I will go backwards. So I'm currently the chief risk officer for Washington Mutual, and that's as of the end of April, 2008. I joined WaMu in September of 2007 as the chief credit officer.
Prior to that, I spent four years at Countrywide. I was originally hired at Countrywide as the chief credit officer and then became chief risk officer, I don't remember the exact year, probably late '05, early '06, I believe.
And then before that, I spent approximately four

years at Freddie Mac. Prior to that, I spent a year and a half or so at Marriott. And then prior to that, there were a couple years that I was attending MIT and then also working on a couple of more entrepreneurial type projects.

Prior to that, I worked at Crestar Bank for a couple years, and then I worked approximately 13 years at BancPLUS. And it was owned by three different ownership groups during the time -- the 13 years I was with them.

Q Do you recall what year you started at Freddie Mac?

A I think it was around early 2000.

Q Early 2000. And when did you leave Freddie Mac?

A Late 2003.

Q What did you do at Freddie Mac?

A Pricing, costing and offerings. So for the single family guarantee business -- so for the single family business, the idea of pricing was determining the appropriate pricing levels and strategy for that business. Offerings had to do with the various product offerings that Freddie Mac had, again, for single family. And then costing was determining the proper economic valuation for the different programs that we had, different securities and so forth.

Q Did you have a title at Freddie Mac?

A I was vice-president of pricing, costing and offerings.

Q Where were you located when you did that job?

62:1

A In McLean, Virginia, so in the Washington DC area.
Q And in 2003, did you join Countrywide?
A In late 2003, I joined Countrywide.
Q How did you go about getting the job at Countrywide?
A A recruiter contacted me.
Q And what position were you hired for originally at Countrywide?
A I was hired to be the chief credit officer.
Q Okay. And then sometime in late 2005, you obtained the chief risk officer?
A I believe that was the approximate time frame. And the job, itself, evolved throughout the time that I was at Countrywide. So as an example, when I initially joined Countrywide as chief credit officer, I didn't have anyone reporting to me. And then I had more and more groups reporting to me through time.
Q So in addition to chief credit officer and chief risk officer, did you hold any other positions at Countrywide?
A I was a bank officer for part of the time. So my main role was at CFC, but I also was a dual officer for the bank doing similar things. I was a director for a time on the bank board of directors, so the bank was one of the subsidiaries. We also had several reinsurance subsidiaries,

so I held officer positions or directorships from time to time in some of those subsidiaries.

Q As the chief credit officer, who were your supervisors at that time?

A So the supervisor that I was hired was named Nick Kresnich, K-R-E-S-N-I-C-H. And he was the chief investment officer of Countrywide at that time.

And so then I worked -- I reported to Nick until he left Countrywide. And I believe that was in 2006. And then for a short time reported to Stan Kurland directly, and then I reported to Kevin Bartlett who was also the chief investment officer.

Q At any point in time -- well, when you reported to Mr. Kurland for that brief period, was he the chief investment officer?

A He was the -- he was the chief operating officer and president during that time, and so he was functioning as the chief investment officer because Nick had left, and he had not filled that position.

Q So it seems your supervisors were -- there was some overlap between -- or you had the same ones while you were chief credit officer and when you moved to chief risk officer?

A That's correct.

Q Okay.

A So when Nick left, that's when I became the chief risk officer. And some of the things that he had that were separate from me previously moved over. So there was a group, as an example, that looked at the market risk that Countrywide had, and so that group got moved over as an example. And then we also created a group to look at economic capital, and so that was one of the new things as being the chief risk officer versus the chief credit officer.

Q So market risk was moved to your purview?

A The market risk monitoring group.

Q Okay. So when you think about market risk, there was also the risk officer for the broker-dealer also was reporting directly to Nick, and then he moved over to me after Nick left. So there were lots of groups in Countrywide responsible for managing the market risk -- managing all the risks for that matter, but then we had groups that also monitored the consolidated risk positions.

So when I say this group that looked at market risk, they were the group for aggregating all of the market risk throughout the company to provide a consolidated picture of the whole.

Q And did that group report to you at some point in time?

A It reported to me after Nick left and I became chief risk officer. So some of the things that he had

65:1 reporting directly to him moved over to me, and those consisted primarily of those groups that I just mentioned.

Q Was Mr. Sambol ever your supervisor in either of your positions?

A Not directly.

Q And how about Mr. Mozilo?

A No, I was always three levels down from Angelo.

Q Okay.

A So it would have been Angelo and then the president or chief operating officer and then the chief investment officer and then me.

Q Okay. Did you ever receive direct instruction from Mr. Sambol?

A There -- one of the things that I talked about earlier -- well the short answer is yes, but let me elaborate, please.

Q Uh-huh.

A So Dave and Stan, for that matter, were very, very involved in the day-to-day. So there were often various types of committee meetings or other meetings that were held. And so Stan or Dave might give direction to anyone attending those meetings, and sometimes that would include me.

Q Okay. How about from Mr. Mozilo, did he ever give you direct instructions?

A He was not as involved in the day-to-day. But there were a number of occasions where I worked on a few things directly for him.

Q Can you recall any particular things you worked on directly for Mr. Mozilo?

A Sure. One thing that I worked on directly with him, there was a board member Keith Russell that was on the bank board and on the CFC board, so he and I would talk regularly. And so we wanted to do a memo --

Q I'm sorry. When you say he and I, did you mean --

A I'm sorry. Keith and I had talked about having Angelo issue a memo on pay option arms that would go to the board of directors. And so I helped Angelo write that memo. So that would be an example.

Another time, Keith Russell and I had a conversation about subprime, and we thought that we ought -- there had been an article in the Wall Street Journal, and so we thought that there ought to be another -- I think this came after the pay option memo that we ought to do a similar approach where Angelo would write a memo to the board. And so I helped Angelo write that memo.

Let's see. I'm trying to think of some other things where I worked specifically with Angelo. Oh, for a short time -- for a short time or -- let me back up.

For part of the time that I worked at Countrywide, the central compliance group reported to me, and included in that was privacy. And so Angelo -- one of the things he was interested in is any kind of privacy breaches. And so I would communicate with him either e-mail, phone call or directly on -- to make him aware of privacy breaches that had occurred.

Q By "privacy breaches," do you mean of Countrywide customers?

A Yes. So, for example, if someone lost their laptop, that would be a privacy breach. So if something happened in servicing where someone's customer information was inadvertently given out, that would be a privacy breach. So that was one of the things that Angelo was particularly interested in. So we interacted on that for the brief time that I had the privacy group reporting to me. And, in fact, we had talked about the best way of having that be set up or from an organizational perspective.

Q Besides those three items, can you recall any other projects that you worked on directly for Mr. Mozilo?

A I'm sure -- I'm sure there were others. Let me think about this for a minute or two. I know there were others. They'll come back to me.

Q Okay. Could you describe your relationship with Mr. Mozilo?

A I -- I was -- I was one of the officers that sat on the same floor that he did. And as I said a moment ago, I reported three levels down from him. So early on at Countrywide, I had very little -- I had very little interaction with him directly because of the layers in between me and him. And then, you know, as I had occasion to interact with him a little bit, you know, I had more -- I had more interactions. But it wasn't regular interaction that I would have with some of the other individuals on the floor.

So as an example, Angelo didn't attend a lot of the committee meetings and other meetings that we had that Stan and that Dave Sambol would attend.

Q Could you describe your relationship with Mr. Kurland?

A So he -- Stan was my boss's boss, but there would be certain occasions where I would go -- well, so a couple things. He would be at a lot of the major meetings that we would have, and so I would have occasion to be at those meetings. And then from time to time, we would also interact with me just meeting with him either by myself or with others in his office on certain topics.

Q Did you have any type of personal relationship with Mr. Kurland, meaning did he become your friend?

A We never did anything socially ever.

Q Okay.

A So, no, I wouldn't consider him a friend. I mean, I like him as an -- a human being, but we never, like I said, 69:1 did anything outside of work.

Q Could you describe your relationship with Mr. Sambol?

A So similar to the one with Stan. The difference would be for much of the time that I was there, Dave worked for Stan, and he ran the broker-dealer, and he ran the production areas. And so as a result of that, there would be a natural friction between Dave and between me.

Q Because of what?

A Because he ran the production areas and the broker-dealer, so he was about generating new business. I was -- my role was to provide a perspective on risk. And so that's a natural friction that you would have in an institution.

Q Okay.

A Again, by the way, I view that as a very positive thing. It's the way for -- it's the way for issues to be debated and discussed and to try to determine what the best course of action is for the company.

Q Okay. And did you consider Mr. Sambol to be a friend at any point in time of yours?

A No. I mean, similar to Stan, I didn't interact with him outside of work.

Q Do you know what position Mr. Kurland held before he became COO?

70:1 A He was -- my understanding was that he was the chief financial officer. When I arrived at Countrywide, he had been the president for a number of years.
Q Okay.
A So --
Q Do you know why Mr. Kurland left the company?
A Well, I know that the rumors -- I mean, I observed conversations, but I don't know exactly why he left the company.
Q Well, what conversations did you observe?
A So what I observed was that the general understanding seemed to be that he was going to be Angelo's successor and that he would become CEO. And what I heard was that Angelo and Stan had -- there was discord between them over how that transition would occur and who had what office and who was going to play, you know, what role and how active Angelo would be once that transition occurred. That's my -- that's my understanding of the source of the discord between them.
Q And is that what you meant when you said rumors?
A It is, because neither Stan nor Angelo really elaborated directly to me on the issues.
Q Were you aware of any professional or strategic disagreements that may have led to Mr. Kurland's departure?
A Not specifically. I suspect -- you know, there

might been some, but I probably couldn't elaborate on them directly. Again, they didn't have -- neither one of them got into detail on that with me.

Q Do you have any general, you know, understanding of any strategic or business disagreements that may have led to Mr. Kurland's departure?

A I will share some generalizations with you. I think Stan was more of a finance and risk guy, and Angelo was more of a sales guy. And I only mean that kind of in the way I have talked about Dave and I having that natural friction. And so there was that, but I think that's kind of a natural thing that you would have in an institution.

You know, I do think there was, as I said, discord over what role Angelo was going to play and what role Stan was going to play after the transition or during the transition.

Q Can you provide any more specifics about the disagreement as to what role would be played by who?

A Yeah, who -- how often Angelo would be in the office because he had a very large presence. So I think Stan worried about that being a distraction. Who was going to talk to the press? So if Angelo continued to talk to the press, I believe Stan's concern was that that would diminish his presence as the chief executive officer. So I think those would be examples. My understanding is like who was

72:1 going to sit in the CEO's office was also a point of contention.

Q To your knowledge did Mr. Kurland ever express any unhappiness to Mr. Mozilo or Mr. Sambol about the direction of credit policy at Countrywide?

A We had -- we had debates on that issue. Dissatisfaction I'm not sure is the right word. I would call it more of the form of debates. And so there were certainly -- there were certainly debates on a number of areas on what would be the best course of action for the company.

And so, you know, the debates there were balancing risk and reward. So there was something that might be a potential rewarding path to pursue, but it would also have risks associated with it. In fact, all of the strategies would fall into that category. So certainly there were discussions in that vein.

Q And is it accurate to characterize -- well, is it possible to characterize Mr. Kurland was more concerned with the risk component of what you just mentioned?

A Yes. He reflected more the risk perspective in these discussions and debates.

Q And when you reference "these discussions and debates," are you talking about regular institutionalized meetings or just ad hoc meetings that would occur?

A Both. So there was a committee meeting called

ALCO, asset liability committee. So that would be one place where debates would take place. There was a meeting every morning called the Hedge meeting. Some of the debates would take place there. There was a Credit Committee meeting that -- there was one at the bank and one at the holding company, and there were debates that would take place there. And there were other -- there were other regular committee type meetings, the CERC, the Corporate -- or the Countrywide Executive Risk Committee, debates would take place there. The responsible lending or responsible conduct committee that I mentioned to you, debates would take place there.

I know I'm missing some. There were -- you know, some issues would be escalated up to the board committee, so there were sister board committees to each of these corporate committees.

Then there were ad hoc committees that were convened to address specific issues. And, again, the debates would take place there as well. And so that was just considered a normal part of the process of determining what the best course of action would be throughout time.

Q Okay. Backing up a little bit, have you -- other than your attorneys, have you spoken with anyone else about this investigation and your appearance here today?

A I told my wife that I was going to be here. I told my supervisor yesterday -- or I e-mailed him yesterday, a very short e-mail, that I would be out today and that it was to have -- it was an inquiry by the SEC. That's the only people I recall revealing this -- your subpoena to.

Q Have you talked to anyone at Countrywide about your appearance here today?

A No. I have talked to people at Countrywide, but not about this.

Q Okay.

A Oh, Susan -- I'm sorry. When I got the subpoena -- I apologize. When I got the subpoena, I called Susan Bow, who is an attorney at Countrywide. And so I had talked to her and to Doug Thompson, who is another attorney that works for Countrywide. I apologize. And that was to make them aware that I got the somebody and also the protocol I should follow for attorney represented --

MS. PAN: Excuse me. Just to the extent that those are attorney-client privileged communications, I would request that you not answer the question.

THE WITNESS: All right.

MS. PAN: Thank you.

THE WITNESS: I'm just trying to be complete.

BY MR. WYNN:

Q Now, you had mentioned that you had spoken with people at Countrywide recently, but not about this investigation and your appearance; is that right?

A That's correct.
Q Who from Countrywide have you talked to recently?
A There are two individuals that work for me at WaMu that used to work with me at Countrywide. So one is named Don White and the other is named Staus Melnikov, M-E-L-N-I-K-O-V. So I talk to them every day simply because they work for me now.
I have talked to Kevin Bartlett twice, including once yesterday. It wasn't about this. I have talked to -- how far back do you want me to go?
Q Well, what did you talk to Mr. Bartlett about yesterday, just generally?
A Well, so he called to say that a recruiter had called him on a market risk job that reported to John Gibbons, who used to be the chief financial officer at Freddie Mac and who now works for Wells Fargo, and he wanted to submit my name, and so he wanted to ask me about that. So that's the primary thing we talked about.
I also asked -- his son was very sick, and so I asked how he was doing. And so that was the gist of yesterday's conversation.
Q So in addition to Mr. Bartlett, have you talked to any other current Countrywide employees in the past, say, two months?
A Christian Ingerslev called me. That was in the

past month or so on one Saturday just to catch up. And it was more about the transition to Bank of America.

Steven Trentacosta called me in the last couple of months to verify what we were doing on a guideline. So recall I said a couple times about how Countrywide wanted to survey and be precise about what other institutions were doing.

Q So Mr. Trentacosta called you about some project he had worked on when he was still at Countrywide?

A No, no. So he said are you -- at WaMu are you guys doing this?

Q Understood. All right.

A Let's see. So you want me to go back two months?

Q Yes, that's fine.

A The first conversation I had with Kevin was probably inside of that time frame, and that was really the first time that we've talked since I left Countrywide. So that was just a general catch up. Oh, I know what it was. He also said, you know, he saw that I had been promoted at WaMu, so we talked about -- we talked about that. So that would have been around the end of April, early May that that conversation occurred. So that was the first conversation with Kevin.

I talked with Mary Jane Seebach, so she's in the legal department. I won't say anything privileged. So Mary

Jane runs public affairs for -- she, for the short time that I had compliance, she was the chief compliance officer. And then she left that role to become head of government affairs at Countrywide.

And so we just talked about general things happening with the transition from Countrywide to BofA and also other things going on in the industry. And then also particularly how, you know, how the Fed, the OTS, the OCC, and not you guys, but the typical regulators that would be involved in banking are dealing with the crisis that we're going through, how legislatively -- you know, some of the key legislative things going on that she works on.

Let's see. There are probably some others. And I will continue to think about others that I talked to. But most of it would have been in the form of just catch up, you know, how is it going.

Q Holding aside the two-month limitation we just talked about, has anyone from Countrywide ever contacted you and discussed matters relating to this investigation?

A No, not other than what we have talked about. Now I will say -- now Don White who works for me now has asked just about general things. I have no idea whether he knows about this investigation or not. But, you know, he's noticed that Countrywide has had some civil suits filed, and so he's wondered, gosh, will I ever have to give a deposition or

78:1 testimony. I have no idea whether he has any clue about this investigation or not, and I didn't offer anything up.

Q When did you become aware that Countrywide was being investigated by the SEC?

A When I got your subpoena. Now, I was aware there were some letters that were sent while I was still employed there that -- the SEC sent some letters to the accounting area to Eric Sieracki and to Anne McCallion, so I was aware of those. But I don't know how those connect with this so --

Q And who is Don White?

A Don White is the -- he works for me now. He worked in Countrywide bank helping manage credit risk. And then right before we left, we gave him a more expansive role, and we were also moving more things under the bank at that time.

And then subsequently he was one of several people that inquired about job opportunities at WaMu, and so we commenced a discussion, and he was hired at the end -- either the end of last year or the beginning of this year at Washington Mutual.

Q Did Mr. White have a title when he worked at the bank, Countrywide Bank?

A He did, and it was something dealing with credit risk, I believe. I don't remember the exact title.

Q And was his supervisor Mr. Garcia or was it you?

A Well, I don't believe his supervisor was ever

79:1 directly Carlos, if I can call Mr. Garcia that, but, you know, Carlos had a habit, like a lot of the -- with Stan and Dave about going directly to people, and so he would go directly to Don on things. But Carlos was the chairman of the bank subsidiary.

Q Did you work with Mr. White when you were at Countrywide?

A Yes.

Q Did he report to you or did he report to someone else?

A He never reported directly to me, so he always reported to someone who reported to me. But I would still have occasion to interact with him directly on a frequent basis.

Q And after you left Countrywide and while Mr. White was still an employee, he contacted you about job opportunities at WaMu?

A He did.

Q And what does he currently do at WaMu?

A He is the chief risk officer for the home loans area. So the residential mortgage area is -- he's the risk officer for that business.

That's a recent change. I hired him to focus on financial reporting on credit issues is what I originally hired him to do.

80:1

Q Have you hired any additional people from Countrywide besides Mr. White?

A Staus Melnikov, and his full name is Stanislaus, S-T-A-N-I-S-L-A-U-S, Melnikov. So I hired him earlier. He also contacted me as I was leaving Countrywide, and so I hired him as well.

Q What is his position here at WaMu?

A So he works directly for me doing various analyses and helping me put together presentations.

Q Okay. What did he do at Countrywide?

A A very similar role.

Q Could you describe your duties at Countrywide as chief risk officer? And after that I'm going to ask you the same question as opposed to -- excuse me -- chief credit officer first and then chief risk officer?

A So the principal part of the chief credit officer role is to provide a -- is to provide a credit perspective in the various decisions, strategies and businesses that Countrywide was involved in. So said in a brief sentence, that is what being a chief credit officer is -- was about at Countrywide.

A chief risk officer is similar, but it's providing a more holistic view on risk, so not just credit risk, but weaving in other types of risk as well.

Q So as chief credit officer, when you say that perhaps the primary function was to provide a credit perspective, are you talking about a credit risk perspective or could it be other things like obtaining credit, things like that?

A Well, it's primarily a credit risk perspective, but what you just mentioned is probably encompassed by credit risk. But let me be sure when you say obtaining credit, tell me what you mean. I want to be sure I understand that.

Q Well, were you involved in negotiating with banks for lines of credit or things like that?

A Oh, no. So we had a treasurer that worked for the chief financial officer that was responsible for that. Now, there were presentations that were done for banks where we obtained financing or for investors that bought corporate bonds or for investors that held other types of debt or equity, I would be one of several or multiple presenters.

Q So what do you mean by credit perspective as used in your answer when you say that perhaps your main function was to provide the company with a credit perspective on all its business endeavors?

A So I mentioned before, there was really no business transaction that the company undertook that wouldn't leave it with some type of risk, including credit risk. And so it was to provide a perspective and an opinion on that. And as we had these debates, to represent that point of view.

82:1

Q Can you explain what credit risk is?

A Credit risk broadly is the risk that a counter party, so that could be a customer, it could be other types of entities that you have an agreement with, that they default on their agreement, and as a result of that defaulting on their agreement, that could -- that could give rise to various types of economic consequences.

Q And were you the chief credit officer for CFC as a whole, including the subsidiaries?

A Yes.

Q And can you list for me your specific duties as credit risk officer -- excuse me -- as chief credit officer?

A So, again, a lot of them -- a lot of them tie back to providing this credit perspective. And so there were a series of analyses and tracking reports that I generated. We had -- we wanted to provide that perspective not only inside the company, but also to the board of directors who prepared presentations and reports for the board, also reports and information to be provided to outside parties. So that would include the disclosures that we make for you guys. That's the various SEC disclosures, other types of investor presentations, presentations and discussions with the rating agencies, the regulators.

So I worked extensively with the Fed in particular and to a lesser degree the OCC on their regulation of

83:1 Countrywide and its subsidiaries. So they were very interested in credit risk. So I was one of the key people that they worked through. So that would be another example.
Q You mentioned you worked on SEC disclosures; is that correct?
A Yes.
Q Can you describe your role in that process?
A So I would recommend various types of information to be included, and the Q's and the K's would be one of the primary examples of that.
Q What types of disclosures would you recommend for the Q's and K's?
A So information, both quantitative and text information, on the various credit exposures that we had across Countrywide. We also -- some of the presentations that were done weren't directly dealing with one of your forms, but sometimes they would be attached to, I think, it's an AK.
Q Now, were your recommendations for things to be included in the SEC filings always followed?
A They were debated, and generally they were included.
Q Can you recall any instances where one of your recommendations was not included?
A I don't recall anything that was excluded. There

were things that were honed through these discussions, and so maybe there was a better way -- a clearer way of saying something than what I might have recommended originally. And there are other things that people -- you know, that were discussed and that ultimately made it in.

So as an example, we were one of the early ones providing more detail on these option arms. And so, you know, I think the natural concern is when you are one of the -- when you are providing details earlier than someone else, just how -- just how that will be recorded by others when there's no reference point.

Q So you worked on disclosures having to do with pay options and 10 K's and/or AK's?

A Well, mostly it was the 10 K's and the 10 Q's, so that would be typically where I got involved. And Countrywide had a pretty elaborate certification process that we went through. And so I'm talking not about just the SOX type certifications, but then also on the K's and the Q's, those were -- work on those commenced well before the time that they were due. And so those would be drafted and redrafted and then also circulated around to make sure that they were accurate.

Q Do you know who was in charge of the process -- that certification process you just mentioned?

A Anne McCallion and Lori Milleman were the two senior officers that were responsible for that. And then they had people that reported to them that, you know, were the specific shepherds of making sure that that happened in a comprehensive and timely manner.

Q Were either Ms. McCallion or Ms. Milleman, would it be fair to say they were authors of the document or did they just coordinate other people writing sections?

A My observation was that lots and lots of people contributed information to the document, and so I think the objective was to try to go to whoever had the most -- you know, the most knowledge of a particular area and start there as the document was drafted.

Q And do you know if there was any person that was responsible for, you know, language in the document, making sure you had a cohesive document?

A There probably was, and I don't know whether that was Anne or Lori. I don't know who that may have been specifically. When I first arrived, the CFO was Keith McLaughlin. And so when I first arrived, he would personally write most of the document. I mean, there were others of us that would provide information to him that he would include in it, and he would share it to be reviewed.

But -- so this would have been in late 2003. So at that time, there was more just one person that would author the thing. And then through time, more and more people got

86:1 involved after Keith's departure.

Q After Keith left, is that when Mr. Sieracki took over the CFO job?

A It is.

Q And did he no longer act as, you know, the primary coordinator and/or author of the filings?

A I'm sure, you know, he was absolutely involved in the process and read the drafts and participated in the discussions. He wasn't the one operating Microsoft Word anymore, which is what Keith did.

Q Who did you interact with with respect to the sections of the 10 K's and 10 Q's that you worked on?

A Well, I had extensive interaction with Lori Milleman and Anne McCallion and also some interaction with Eric Sieracki. And that would be just kind of the regular interaction. And then beyond that, depending on the specific issue -- and then Kevin as my supervisor interacted with him on it. And then beyond that, interact with lots of different people across the company depending on the specific issue that was under discussion.

Now, there's another gentleman Greg Hendry. And so he worked for Lori Milleman, and so I interacted with him a lot. And then we also invited him to a lot of, like, the credit committees so he could observe those. So he worked in corporate accounting, and he did a tremendous amount of work

87:1 on the various filings, as well as just the basic financial statement preparation.

Q Now, with respect to 10 Q's and 10 K's, can you recall the particular sections that you would have worked on or reviewed?

A Well, there was a credit -- there was a credit risk section, so that one would have received a lot of attention. But there were other sections as well that I had occasion to discuss. So one of the things that was the normal process was they wanted everyone to read through the entire document to -- just to see if there were any things that were either inaccurate or unclear. And so that was the general approach each quarter.

Q Did you ever -- again, this is probably a yes/no question, don't give me any kind of attorney-client information, but did you ever discuss with anyone the types of things that needed to be disclosed from the credit area in the SEC filings?

A We -- every time we discussed what would be best to include in there.

Q How did you determine the types of things to be disclosed from your area in the SEC filings?

A Greg Hendry and Anne McCallion and Lori and others in corporate accounting would try to be familiar not only with your reg's, but I guess you guys have regular conferences or something where you talk about different issues. So that would be one way.

We would also observe what other institutions were having in their filings to try to get ideas. So we didn't want to be at a disadvantage if someone was disclosing -- you know, if someone was disclosing a lot more than we were, we would consider that to be putting us at a disadvantage. So we looked at others -- how others were approaching the issue.

And then, you know, some of it would also simply be topical to a particular point in time. So I had talked about August or the summer of 2007. So we included -- we included text about what was going on in the securities market at that time in our disclosures that were filed with you. And so that -- so normally that wouldn't be included because those types of things weren't going on, but they were at that time.

Q And you probably mentioned this before, I think you did, but can you tell me one more time what additional duties and/or responsibilities you assumed once you became the chief risk officer?

A So when I became the -- some of the key differences between the old role and the new role, and, remember, throughout the four years I was at Countrywide, both roles were evolving through time, but there was a market risk monitoring area, and that was headed by a gentleman named Mark Monahan. So he moved over to me. There was another gentleman named David Fox who was the risk officer for the broker-dealer, so he moved over to me. We created the economic capital area.

Let me make sure I didn't miss anything there. Those were the key things that moved over as part of me becoming chief risk officer.

Q Do you remember Smiechewicz -- excuse me.

A Walter Smiechewicz.

Q Okay. Walter Smiechewicz. That's the third way I've heard that name now.

A And actually I apologize. I briefly talked with him about possible -- he had sent me a resume last year, and then when I got my new role, I contacted him again and had a brief conversation to see if he was still interested. So that jogged my memory.

Q Okay.

A But I'm pretty sure Smiechewicz is the right pronunciation. And, I'm sorry, that one I can't spell.

Q At any point in time did he work for you?

A He never reported to me.

Q Okay. To your knowledge did he have any function within the area of credit risk or market risk?

A He did. So there were three areas that reported to him that -- where you would have had contact points. So the first is internal audit, and so that's one of the key ways that operational risk is monitored in a firm.

Secondly, he had the regulatory relations area. And so as I mentioned earlier, we had extensive interaction with the banking regulators and others, too, but especially the two banking regulators.

And then the third area is risk assessment. So he assessed, you know, how we were managing risk, so kind of a third-party independent view of kind of looking at the centralized function, which was what I was -- which is what I was part of, as well as the decentralized functions out in the various businesses and how were those all working together and giving an opinion on that. So he did a heat map as an example that was shared with the board audit committee on their risk assessment.

Q What is a heat map?

A Red, yellow, green, and so it would be a detailed listing of the various types of risks that the company faced. And then based on particularly environmental conditions, as well as the businesses that we were in, the heat map would glow in different colors depending on the areas that we were more or less concerned with.

Q Okay.

MR. BENDELL: Paris, just before we move on to a different document.

Mr. McMurray, with regard to the description you

91:1 gave of giving comments on the 10 K's and 10 Q's of Countrywide, I'm curious just about the logistics of that. Were the drafts of those periodic filings circulated via e-mail to the various people who needed to review and comment?

THE WITNESS: They would have come in a couple ways. They would have come in e-mail. That would be one way. Or they could also be handed out physically. So Lori or Greg and/or Anne might call meetings where they would hand out physical drafts and get a group of people together to review them.

MR. BENDELL: And in the typical -- if this is different for 10 K's and 10 Q's, then let me know that and we'll break it out separately, but I'm going to try to talk about them grouped together if possible.

In the typical review of one of those periodic filings, would you generally see more than one draft before the final version?

THE WITNESS: Oh, yes. And then just on the 10 K's and 10 Q's, I hope this isn't sacrilegious, but I didn't really view them as that different. The 10 K was just kind of a super 10 Q is how I thought of it. That's what it seemed to me. But, yes, there would be -- and a lot of this wasn't because there was necessarily any disagreement, but it was just stuff was flowing in.

92:1 So we would start with the shell way before the quarter was ever finalized. So we would be looking at things before -- you know, what it was going to look like before being able to fill in the numbers because the quarter hadn't been closed yet. And then as we went through the close process, that would be updated. So there would be multiple drafts as the thing got finalized.

MR. BENDELL: And how did you provide -- and you provided your comments back to Ms. McCallion or Ms. Milleman or whom?

THE WITNESS: It could have been to Anne McCallion, to Lori Milleman, to Greg Hendry, to people that worked for one of those individuals. And it might have been through e-mail. That was a frequent way of providing comments. And then also marking up the physical documents and then providing those suggested edits.

MR. BENDELL: So sometimes, I guess, it would just depend on how extensive your changes were whether you could describe them in an e-mail or needed to do a handwritten markup; is that the idea?

THE WITNESS: That's correct.

MR. BENDELL: If you did a handwritten markup, did you keep a copy of that?

THE WITNESS: I kept copies of some of the certification-related suggestions I did. So, again, I talked

93:1 about the certification process that they had us go through. And so I recall keeping copies of a lot of those at work. You know, they should have them at Countrywide.

MR. BENDELL: Yeah --

THE WITNESS: They were in two places, both in my files, and then when I sent them over to corporate accounting, they should have kept copies of those comments as well.

MR. BENDELL: So these are on your certification form that you were required to do with each quarter, you would make notes on those forms?

THE WITNESS: Those would typically be the ones that I kept a copy of. Now, when they would hand out drafts at these meetings and sometimes I would make notes on that, I typically wouldn't keep copies of those. They might have.

MR. BENDELL: Okay. So you wouldn't have -- if, for example, a 10 Q you made some handwritten markups on the draft, you wouldn't have kept a copy of that handwritten markup on the draft?

THE WITNESS: Not normally.

MR. BENDELL: And then I just want to be sure that I'm clear on this. You described that there's the Sarbanes-Oxley certification process and another certification process. Can you just explain what you meant by that?

94:1 THE WITNESS: Well, it seemed like we had to certify a lot of things. So -- so, you know, there was the basics -- when I say the Sarbanes-Oxley, what I'm talking about there is so setting the reserves. And I didn't talk about this earlier, but this is as good of time as any, so we made recommendations on certain reserve levels. So we do a certification -- there were people that were -- there were these cascading certifications.

So the people that actually did the very detailed work would certify, the next level up would certify, then it would come to me and I would certify, and then those certifications would go to corporate accounting, and then they would certify, and it would cascade all the way out to Angelo and to Eric or to Keith before Eric.

MR. BENDELL: And you understood that to be the basis for the Sarbanes-Oxley certifications that they needed to sign as the principal executive and principal financial officer for SEC filings?

THE WITNESS: That's my understanding. And so when I call -- I just call that the Sarbanes-Oxley certification process. So we had that. You know, there were press releases that were done. So we had -- you know, those oftentimes, they circulated those and had those certified to make -- they were concerned that the -- so these would have been the press releases that accompanied -- or that preceded

95:1 the earnings calls. And so they wanted those looked at and certified.

On the -- on the filings themselves, I believe there was also a certification process on those. And let me draw a distinction. One is actually the certification just on the various numbers that go into the financial statements. That was one process. But then the actual writing and assembling of these disclosures was another separate process that also had certifications with it.

MR. BENDELL: And you participated -- you were one of the people that needed to sign a certification for both of those, the clarification of the numbers and the certification of the writing and assembly of the document?

THE WITNESS: Yes, I was. I was part of that cascading hierarchy that I talked about. So there were people below me that helped certify things that I ended up certifying, and then my certification, along with the people that were -- that reported to me were then cascaded upward.

MR. BENDELL: Did you have any understanding as to what would happen if you didn't certify for a particular filing?

THE WITNESS: Sure, that it would -- it throws a wrench into the gears. The financial statements would not be issued. And just to give an example, there was something that I had written on my certification. Anne wanted -- she

-- Anne McCallion, sorry, she wanted clarification on that. She called me while I was having a hemorrhoid removed to make sure that that was cleared or she said it would not -- it would not go forward. That's just an example. It seemed to be a very important thing.

MR. BENDELL: And I'm going to jump around a little bit because these are just some notes I have made along the way and since I have already interposed myself and interrupted.

Do you, during the time that you were employed at Countrywide, did you maintain any brokerage accounts personally?

THE WITNESS: I had brokerage -- I had brokerage accounts that I had when I joined Countrywide, and those are the same ones that I still have.

MR. BENDELL: Okay. And what is the -- what is or are the brokerages where you have accounts.

THE WITNESS: Charles Schwab is the key brokerage account. And I have got -- I mean that's where -- as far as trading stocks. I did set up an account with Revco, and I went to Susan Bow to ask for -- you know, to make sure she was aware of that. I never ended up doing any trades in the Revco account. That's a futures broker.

MR. BENDELL: All right. Have you ever held any -- have you ever owned any Countrywide securities?

97:1

THE WITNESS: I have. I was -- I was given options when I joined Countrywide, and then I was given options every year as part of my compensation package. And I believe that one year there was an alternative to get some restricted stock rather than options. And so that would be -- that would be the way that I came about owning Countrywide --

MR. BENDELL: All right.

THE WITNESS: -- shares.

MR. BENDELL: And so starting with those options, did you -- did you exercise your stock options at any point this time?

THE WITNESS: I did. So my general philosophy on that was to exercise them as soon as they could be exercised and generally seldom. Some of the options were -- there were MSO's and ISO's. And so the ISO's had -- if the shares were held for more than a year, they would get long-term capital gains treatment. And so, you know, I would try to optimize from a tax perspective as well.

MR. BENDELL: So is it fair to say then that during the time that you were employed by Countrywide, you were sort of routinely selling your options once -- after they were exercised and at such point as it was to your maximum tax advantage?

THE WITNESS: That's the general approach that I followed, yes.

98:1

MR. BENDELL: Okay. Did you ever buy or sell any Countrywide stock other than what you were granted as compensation either in the form of options or restricted stock?

THE WITNESS: On shares, no. On the very first options that I exercised, I got -- I went to legal and asked for permission to put on what is known as a collar, so for the ISOs that you had to hold for a year. But, again, my general principal was to exercise and sell promptly, as I already had lots of exposure to Countrywide just being an employee there. So I got permission to put on this option collar. And so that's the only thing that I can recall that wasn't explicitly from these option grants or restricted stock.

MR. BENDELL: And without getting too far into the details of the collar, because I know how confusing those transactions can be, was the basic economic substance of the collar transaction to try to limit some of the downside risk to holding the options and in exchange also giving away some of the upside?

THE WITNESS: That's a fair characterization. So it's selling it out of the money call and buying it out of the money put. So it gave up the upside and protected the downside.

MR. BENDELL: And where -- at what brokerage did

99:1 you deposit either the options or the shares upon exercise?

THE WITNESS: Schwab. Two reasons for that: One, I already had an account there, and then, two, that was who Countrywide used just by coincidence.

MR. BENDELL: And so I think you actually answered with the collar, but I just want to make sure. Other than the collar, have you ever bought or sold any securities of Countrywide other than the options or shares that you obtained as compensation from the company?

THE WITNESS: No, I don't recall anything other than the collar.

MR. BENDELL: And you mentioned earlier that a significant portion of your -- of the documents you gave to your counsel to produce to the SEC were assembled in the context of you trying to gather e-mails that Mr. Lederman would find relevant in his role as sort of replacing you. I'm curious, why did you keep a copy of those e-mails that you were providing to Mr. Lederman?

THE WITNESS: Two reasons: I printed some of them out so I could have the conversation with him. So as you look at the documents, you will notice that I forwarded those to him. And then he wanted to have a meeting about it, so I initially printed them out to facilitate -- to facilitate that meeting and then ended up keeping them.

MR. BENDELL: And where were they -- where did you

100:1 find them when you were responding to the subpoena?

THE WITNESS: They were in -- in just a box that I had of Countrywide stuff.

MR. BENDELL: At your house?

THE WITNESS: At my house.

MR. BENDELL: And, I mean, is there any reason why you took those documents with you when you left Countrywide?

THE WITNESS: I had them right -- I had them right at the end, not any specific reason. Just as an aside, there were other documents that I had in my box that didn't come from that that I gave you as well, so not all of them came from that. Some of them I had for other reasons. And there were some that were on my computer that we printed out for you.

So as I worked on presentations, I would often work on those from home, and so some of those are intermediate drafts, but I printed those out for you as well.

MR. BENDELL: Okay. Thanks a lot.

MR. TAYLOR: Paris, just a question on timing. Do you think we can break around noon for lunch?

MR. WYNN: Sure.

BY MR. WYNN:

Q I'm going to have the court reporter mark as Exhibit 75 a May 5th, 2008, subpoena issued by the United States Security & Exchange Commission to Mr. John McMurray.

(SEC Exhibit No. 75 marked for identification.)

MR. TAYLOR: Are we going to get sort of overlapping exhibit numbers here? I mean, it looks like previously you have numbered as high as 40, and now we're going back to 5.

MR. WYNN: No, that's 75.

THE WITNESS: 75.

MR. TAYLOR: Oh, 75. Okay. Never mind. Thanks. Just getting worried about keeping things straight.

MR. WYNN: A constant worry of mine.

BY MR. WYNN:

Q Mr. McMurray, do you recognize Exhibit 75?

A I do recognize it.

Q Is that a copy of the subpoena under which you are appearing here today?

A It appears to be so.

Q And does that subpoena call for the production of documents?

A It does.

Q And in your discussions with Mr. Bendell, you kind of touched upon how you went about producing documents to us. But could you fully describe the process by which you gathered and produced documents to us in response to Exhibit 75?

A So I looked in my boxes of documents that we moved up from California. I looked on my various personal and work e-mail accounts. That did not include my Countrywide work e-mail account. I lost access to that immediately upon leaving Countrywide.

But a couple of the documents that I provided to you came from my WaMu work e-mail account. So I looked through that. I looked through my personal e-mail accounts. I looked on my computer. And, again, through the various document boxes that we had moved up from California.

Q Did you have a practice of using your personal account to conduct business while you worked at Countrywide?

A No, not really. I would sometimes send documents to my personal e-mail account so I could -- so I could easily retrieve it to work on it in the evening. So one of the examples that we printed out for you came as a part of that.

And then in addition, after I left Countrywide in particular, people were e-mailing me on my personal account. So there's an e-mail exchange between myself and Stan Kurland as an example, and so that was on my personal account. So we thought that was responsive, and so I provided that.

Q Can you list all of your personal e-mail accounts?

A I have -- well, I have got my WaMu work account. I have got a -- I have got a Yahoo account, and then I have a gmail account. The gmail account also has -- there's a

103:1 forwarding address, so sometimes that will be at gmail.com and sometimes it will be at alum.mit.edu. That comes into the same mailbox.

Q Could you give me your Yahoo address?

A Jpmcmurrayat@yahoo.com.

Q And how about the gmail?

A Jpmcmurray@gmail.com.

Q And, finally, how about the MIT address?

A McMurray@alum.mit.edu.

Q To your knowledge were any documents called for by the subpoena withheld on the basis of any type of privilege?

A I think that there may have been a couple that were withheld on the basis of privilege.

Q Do you recall how many?

A I don't recall specifically how many.

Q Do you recall any documents that were withheld on the basis for any other reason?

A Not for any other reason. You know, as I look through this, you had a list of things that you were looking for, so I tried to kind of interpret that in an expansive way.

Q We were talking about Mr. Smiechewicz before?

A Smiechewica.

Q I wanted to show you Exhibit No. 58, which is a document entitled Enterprise Risk Assessment Map dated

August, 2006. And, again, we previously marked this as Exhibit 58.

A Uh-huh.

Q Do you recognize Exhibit 58?

A I do.

Q Okay. Can you explain what it is?

A So there were two comments that I made earlier that are going to tie back to this. The heat map that I talked about a minute ago, so had you printed this out in color, we would have seen that this was color coded differently. So, for example, on Page 8, on Page 8 can you see how this is shaded? So this would have been probably in yellow or red.

Q Okay.

A And so that's why it's called a heat map. And then also I mentioned -- I mentioned the CERC committee, the Countrywide Executive Risk Committee, so this would have been one of the documents that might have been discussed in a typical CERC meeting.

And then I also mentioned the Board Audit Committee, and my understanding is that this would have been a document that Walter would have typically provided to the Board Audit Committee.

And then finally on Page 4, I talked about sister committees, you know, where there would be a corporate committee and then a companion board committee that goes with that?

Q Uh-huh.

A That's -- and that would show that. So ALCO goes to finance. Credit committee goes to credit committee. Operational risk committee goes to, I think, it's operations and public policy. Do you see that over on the right?

Q I do.

A So --

Q So if we stay on Page 4 and look at that first column, you know, board governance on the left, institutional?

A Uh-huh.

Q So for institutional governance, would that be the corporate committees that we see in the right-hand side?

A It would. And, again, ALCO credit and operational risk, those would be the main risk committees that the company had.

Then you will also see in Walter's area, internal audit, enterprise risk assessment, and the enterprise risk assessment is going to assesses credit risk, market risk, operations risk and then also corporate governance.

And then down below on the final major row, you are going to see some of the key business units. So as you look across there, you see consumer markets division. That is the retail area of residential lending. So it's going to show

106:1 you the business head. It's going to show you the risk manager for that area. And then it's going -- then it's going to do that across all of the various businesses.

Q Okay. Now, did these risk managers, did they report to you or someone else?

A No, these risk -- in this third or bottom row, these reported to the business unit.

Q Okay.

A One of the things that we had talked about right up through the time I had left was the ideal corporate structure for risk, in other words, whether these guys should have a dotted line to me. So that was something that we were looking to tune through time. But for the time I was there, they reported to the business units.

Q Now, on the right-hand side of this chart, your name appears in the box above credit risk?

A Yes.

Q Is this the credit risk committee?

A It is the corporate credit risk committee.

Q The corporate credit risk committee. And were you the head of that committee?

A I was the chairman of that committee.

Q Chairman. Okay. And do you recall who the other members of that committee were?

A I don't recall specifically, but let me list off

107:1 some of the ones that were not only likely members, but frequent attendees.

Q Okay.

A So while Stan was there, he was typically a member and an attendee. When we created the CERC, the Corporate Executive Risk Committee, then he came off ALCO, and he came off credit risk, but up until that time he was a member. Dave Sambol would attend, Drew Gissinger, typically somebody would attend from the broker-dealer. Vijay would often attend as product leadership.

Oftentimes as that committee evolved, we would have different business units come in and give a report on their risks. So especially on the later meetings, various business units would be represented. Pauline Kennedy, who I mentioned administered all of the policies and the guidelines, she would typically be an attendee.

There was a gentleman -- so Carlos Garcia, you asked about him. He would typically attend. Eric Sieracki would often -- he would often be there or sometimes would be there. Kevin would sometimes be there -- Kevin Bartlett. Sorry. Greg Hendry or others from corporate accounting would attend.

There was a charter and a specific membership. I'm just trying to go off of the typical attendees, so there would be overlap between members and nonvoting members.

108:1 Q And above your name there's something that says "supporting corporate committees." What does that mean?
A Supporting corporate committees, I'm not sure what Walter meant by -- what I think that means, I think it's just a heading. So if you look up -- if you look up to the top line where it has the board committees, finance, credit and op's, I think what he's trying to show here is these are the supporting corporate committees. So credit -- corporate credit risk committee is a supporting committee to corporate -- to the board corporate credit committee. ALCO is a supporting corporate credit committee to the finance credit committee.
Q And how often -- well, during your time at Countrywide when you were a member of the credit committee, how often does it meet?
A It typically meant on a quarterly basis. And this is just the CFC credit committee. There was also a bank credit committee and then a number of subcommittees that met. But typically on a quarterly basis is when we met, and we tried to time that so that it would be supportive of what was happening at the at the board level as well.
Q Okay.
A So that was the typical schedule. That went through an evolution while I was there. So when I arrived, it was a relatively informal committee, and it just reviewed

a standard set of reports. And then it got increasingly more sophisticated through time.

Q And as far as the board level credit committee, what did you call that before? There was a corporate credit committee and then the one above that is the --

A There's the board credit committee and then a corporate credit committee.

Q Okay. Were you a member of the board level credit committee?

A I was the liaison, so I wasn't an official member. But I would coordinate the assembly of the reports that we gave to that committee, and I would also be one of the key presenters of those reports. The actual committee membership was made up of directors.

Q Okay. Do you know how often the board level credit committee met?

A The board level credit committee generally met whenever there was a board meeting. So they would have general board meetings, and then they would typically pair that with a bunch of the meetings of the various board committees.

Q Okay. Is it accurate to say that the board level credit committee performed more of an oversight role of the corporate level credit committee?

A Well, they both performed oversight roles, but one was from a board perspective and one was from a corporate perspective. So there were many, many issues that they considered and had comment. And there are pretty extensive decks, reports, that go with both of those committees. And so if you looked at those, you would see a lot of overlap in issues one to the other.

Q What do you mean by "decks and reports"?

A So we haven't looked at one yet, but it would be a report that would show particularly a lot of graphical or quantitative information.

Q And were these things at company meetings or distributed at the meetings?

A They were distributed at the meetings and were one of the key tools that were used to facilitate the discussion.

MR. TAYLOR: The deck is a Powerpoint presentation.

THE WITNESS: A deck is a Powerpoint presentation. I'm sorry.

BY MR. WYNN:

Q Okay. Thank you.

A Think deck like a card deck, but a report.

Q So these reports and decks were separate from the written minutes of these meetings?

A They were. So the reports or decks would be presented at the meetings, and there would be someone that was responsible for taking minutes at the meetings that would

111:1 capture the gist of the conversations that took place.

Q To my knowledge you are also a member of the ALCO committee; is that correct?

A I was a member of ALCO.

Q Okay. Were you a main member of that committee or did you just attend for informational purposes?

A I was -- I got to vote on matters where we voted, so -- and I did attend them whenever I was there -- was there, which was typically. And I would participate where I had an opinion I thought would be valuable or input that I thought would be valuable.

Q And the operations risk committee that is depicted on Page 4, would that be things like -- well, can you explain what the operations risk committee is?

A So if you think about the key types of risks in a financial institution, they are market risk, credit risk and operational risk. So the operations risk committee focused on operations risk. So that's the policies, the procedures, the infrastructure for conducting the various businesses and then the various risks that can give rise from all that machinery.

Q And who is Jack Schakett?

A So Jack Schakett, he had a couple different roles. He was head of operations -- he was one of the very senior people for the correspondent lending area for much of the

112:1 time that I was there. And then he was promoted into more of a broader operational risk role one of the times that Dave Sambol was promoted.

Q Did you ever work with Mr. Schakett?

A I worked with Jack all the time.

Q Okay. Was there any -- were there any types of main areas that you guys worked on together?

A Sure. Most of them had an operational bent, but let me bring a couple of those to life. So we've talked about guidelines as an example. You know, the guidelines can exist in policy, but those have to be implemented into the business. And so there are all types of operational considerations.

He also from the business perspective represented -- you know, he had a view on -- well, particularly on operating risk, but also more generally on the other types of risks that we had. So he would provide his perspective there.

So guidelines, products, compliance, servicing of the loans, operational issues related to the selling of the loans, you know, operating issues related to, you know, accounting for the loans. So anything that systems or manual processes would touch, he would be one of the key guys that I would work with.

Q How often were enterprise risk assessment maps as

113:1 depicted in Exhibit 58 issued?

A I don't know the exact schedule that Walter was on. My observation was that it generally coincided with board meetings, so that those would be refreshed right before a board meeting would occur so that the audit committee would have the -- would have an updated assessment.

Q And did he have a role in creating these enterprise risk assessment maps?

A I didn't create them. So in some cases they were maps on some things that I had input on. So the idea was Walter would do the assessment. Now, he would go around to the various areas, so to me, for example, to Jeff Speakes, to others to see whether there was agreement or disagreement on a particular rating.

But Walter and his guys were the ones that created the assessment.

Q Well, if you turn to Page 11? There's a heading Credit Risk?

A Yes.

Q We see your name?

A Yes.

Q Did you have input in these sections under Credit Risk?

A I had -- I had input, but at the end of the day these are Walter's assessment. The other thing that I would say on this, one of the things that the board wanted to do was to on each one of these to boil the risk down to just one person, which you can do on a piece of paper, but the actual operations, you know, on all of these I would say are much more complicated than what can be represented here.

Q So if you look on Page 12, the left-hand column, there's a credit portfolio loan and securities risk?

A Yes.

Q And then you look under the heading Risk, it describes that risk?

A Uh-huh.

Q Now, were you responsible for identifying this as risk or is that something that Walter did?

A Well, I was responsible for providing a perspective on these type of risks, and then Walter was responsible for doing an independent assessment of how we were doing this.

But here is a great example where, and there's another important point I'm going to make here in a minute, but here is a great example where it's impossible to boil this down to one person.

So I talked earlier about this idea of the matching strategy, so that's going to profoundly affect the type of risk that we have in the loan and in the securities portfolio. And there would be other strategies as well that would tie -- that would tie into that.

Q Okay.
A But here, you know, keeping in mind the idea that at least from my perspective I think it's impossible to boil most of these down to one person as being responsible comprehensively, the idea was for each of these is to give the board an idea of what was going on in a summary fashion.
Now, I had my own reports that I would give at the credit committee as an example that would provide my view. But this is mostly Walter's view on what is going on.
The other point I was going to make, you see where it says CORAD Risk and CORAD Controls?
Q Yes.
A So CORAD was the system where the various controls were tracked by Walter's area. So, again, that also tied into the Sarbanes-Oxley process and the certification, so keeping account of all the various controls that the various areas had.
Q Now, besides the credit committee and ALCO, were you on any other committees at Countrywide?
A The responsible lending, responsible conduct and then it had a third name, I was on that committee. Let's see here. The bank had a credit committee. I was on that committee. I'm sure there were some other committees that I was on, but those were some of the key committees that I had membership on.

Q Okay.
A CERC, I went to CERC.
Q What does CERC stand for again?
A C-E-R-C, Countrywide Executive Risk Committee.
Q Do you know what BURC stands for, B-U-R-C?
A Business Unit Risk Committee.
MR. WYNN: Off the record.
(Recess.)
MR. WYNN: All right. Back on the record at 1:22 p.m.
BY MR. WYNN:
Q Mr. McMurray, I want to return to the topic we were discussing before the break, which was your responsibilities and duties while you worked at Countrywide, both as a chief credit officer and then subsequently as chief risk officer.
A All right.
Q In any of those two positions, did you have any role in the preparation or validation of models?
A So I did have -- you said preparation and validation?
Q Uh-huh.
A So early on I was mostly an opiner on models, so just provided my opinion. Many -- so let me talk about this progression. So many of the models at that time that were used across Countrywide were developed inside of the

117:1 broker-dealer, so the broker-dealer had a research department where they had modelers. And so many of the models that they developed that were used within the context of the broker-dealer were also used outside of the broker-dealer.

So that's by and large how the process worked when I arrived at Countrywide. There were some models, and let me stop for a second. There's like a couple different categories of models, and I will tell you about each category and then you can tell me about which one you want to talk about.

There are models -- there are two types of behavioral models, one that predicts prepayment, a second type of behavioral model that predicts delinquency or default, so that would be one category of models.

There are also models, stochastic models, that would generate possible paths, future paths of interest rate risk -- or interest rate -- excuse me -- future interest rates, so that would be another category of models. There would be cash flow models that you would take -- you would take the first two categories of models that I described and then use those to drive a cash flow engine to predict cash flows.

So did you want me to talk about all of those or some of those?

Q Well, probably the ones I most want to hear about

118:1 is the delinquency default models.

A All right.

MR. TAYLOR: So -- I'm not -- was there a question there? I'm just not sure what the question is.

BY MR. WYNN:

Q Well, you can just go back to how you were explaining that you first started --

A How I was involved with those models?

Q Right.

A So initially what I first described, as I mentioned, is by and large these delinquency and default prediction models were in the broker-dealer. There were a couple that were just starting to be developed outside of the broker-dealer in secondary marketing. And so initially I was an opiner on these models. And then through time, I was able to get more and more involved.

And so let me talk about some of the ways that that came about. So I'm just talking about the models now and not the validation, which is a separate step. So when I got there, there was an automated underwriting model that Countrywide had had for a long time named Clues, C-L-U-E-S. And that had a quantitative score card inside of it. So the automated underwriting system consisted of the quantitative score card, which is in essence a model, plus a very lengthy rule set that were tied to the guidelines plus some

119:1 additional factors.

So one of the other things that I did, there was a gentleman Clifford Rossi that was hired by the bank subsidiary. Cliff and I had worked together at Freddie Mac. And so one of the things that we undertook, and this was early on while I was at Countrywide, is to redo the quantitative score card that -- which is a model that is inside of Clues.

So Don White, the other gentleman that I spoke to you about, he had been a student at the University of Maryland for Cliff, and so he -- he had a lot of work at developing quantitative score cards for underwriting models. So the three of us working together put together a new quantitative score card for Clues. And so that was implemented fairly early on. So I had a lot of involvement in that.

One of the other things that I did, so Staus Melnikov, one of the other gentleman I mentioned earlier, so I had hired him right out of the University of Southern California, so he put together some specific models at my request to -- and these were to evaluate the likelihood of serious delinquency. And so I used those for a variety of purposes, both inside and outside the Countrywide.

The bank, after we hired Don, the bank hired some additional modelers, and so we continued to develop more

120:1 behavioral models around serious delinquency and default prediction. And so then -- so those we started to introduce those in the reserve recommendations that we were making.

And so through time, more and more of those type of models migrated out of the broker-dealer and to other areas of the firm.

Q When you said you added additional modelers, who were those people?

A So one of the things that -- one of the enhancements that we wanted to make was to consider -- consider this issue in the context of what is called a competing risk framework. So a loan can default and a loan can prepay. Those two are very related to one another, and it's much more difficult, but the ideal way to think about those two risks are in concert with one another.

So the bank opened up a model development team in Tysons Corner, Virginia. And so the -- and the reason for that, Fannie is there, Freddie is there, OTS, OCC, Ginnie Mae, on and on. So there is a lot of -- there's a lot of talent in the area, and that's why it was opened there. So there were a number of people hired for that model development team.

Q Have you ever heard of someone called Steven Lang?

A Yes. So Steven Lang was one of the people that we hired. And not in Virginia, though. And he fits into this evolution that I talked about. So let me talk about him in a couple contexts.

So he was a bank employee. The difference is he was hired in Los Angeles. So a couple of us knew him from Freddie Mac, but then he had since gone to IndyMac, and he was working at IndyMac, and then we hired him into Countrywide bank. And so we were happy to get him.

So the competing risk approach I just talked about, that was something he was familiar with. So while I was there, Steven did a couple things, and I had occasion to work directly with him. So the quantitative score card and Clues that I had talked about, we had continued to try to enhance that through time. And so Steven developed a new version of that score card for us.

And I talked earlier about Jack Schakett, so he was involved in that redevelopment of that quantitative score card. So he did that.

The other thing that we wanted to do for the HELOCs, that's H-E-L-O-C-s, home equity line of credits, we wanted to update the models that we were using for that. So we had models that were developed in the broker-dealer. We had another version that had been developed in secondary marketing. We wanted to develop new versions of those models outside of those two areas and using this competing risk framework.

So Steven and -- Steven Lang and then Staus Melnikov, I mentioned earlier, also helped him, but there were lots of other people that worked on this project. So we had two separate teams working separately, but at the same time to try to update these home equity line of credit models. And so Steven worked on that as well.

And so eventually those were finished and then were put into use. And so when I say "put into use," for the reserve recommendation as an example. And then also the other -- the other place we wanted to use those was in the valuation of the home equity residuals.

Q How about a gentleman by the name of Wei Wang?

A Wei Wang.

Q Okay.

A So Wei was -- so Wei worked in the broker-dealer, and so he headed up the modeling team in the broker-dealer. So when I talked about arriving at Countrywide in 2003, a lot of the models that were in use at that time had been developed by Wei's team, and he continued to develop models the whole time that I was there. He had been at Freddie Mac, too, by the way, just as an aside.

Q And for what purposes did the broker-dealer and secondary marketing create default and delinquency models?

A For several purposes. So one of the -- and they were kind of both financial statement purposes and non financial statement purposes. So for financial statement purposes, one of the reasons that you would need a model is if you were doing valuation of certain types of assets or certain types of liabilities, you would need to project future cash flows.

In order to project those future cash flows, a model can be very helpful in doing those projections. So that was one very common use of the models.

Those same models would also be used for pricing purposes. So I mentioned before that a key strategic tenant was risk-based pricing, and so the models would be used to do the risk-based pricing. That would be another use.

Still another use would be in buying or originating -- in buying or originating loans, those same models would be used for evaluating potential purposes of loans.

Q What about for the purpose of setting loan loss reserves, were models used for that purpose?

A The models would be used for that purpose. And so, you know, depending on the type of reserve that you are talking about, that would be a direct output of the model or there may be some additional steps that were necessary depending on specifically what we're talking about.

Q So is it accurate to say that for a time, the credit department, credit risk department, relied upon models that were created by the broker-dealers and secondary

marketing?
A Well, I would say it slightly differently than that. So the models that either the broker-dealer and/or the secondary marketing did were used for a variety of purposes, mainly the ones that I just described. And some of those would have been for credit risk purposes, but it was kind of the idea that I want to communicate to you is it was more expansive than that.
So, yes, credit risk was important, but there were other risks and return considerations that were all -- you know, that we wanted to bring together to either make decisions, you know, to determine, you know, what reserves should be, determine what valuations would be, determine what pricing should be.
Q Are those things that credit people are involved in, like, determining what pricing should be and setting reserves?
A So setting -- the recommendation of reserves is the credit risk area would be very involved in that, the setting of pricing much less so.
Q Did there ever come any point in time when you had your own models created solely for the area of credit risk?
A Well, I don't -- there were some models that we did solely for credit risk, and I will talk about those. But the other thing that I think we need to be cautious of is if

like, say, for the financial statement purposes things were just represented from one perspective, then you would be concerned on whether you had an expansive enough view that all of the considerations were taken into account.

So as an example, on the valuation of the residuals in the example you would have to consider both the credit risk and the prepayment risk. Both of those had to be considered together to get -- to get a comprehensive valuation.

Q And I think I had asked you a question, and before you answered it you wanted to tell me something, which you just told me. Do you remember what my last question was?

A I'm sorry.

Q That's all right.

A I forget.

(Question read by the reporter.)

THE WITNESS: Oh, yes. So there were some instances, so when I mentioned Staus Melnikov, he put together a series of models that were really just done from a credit risk perspective. So that was undertaken without anybody else -- without anyone else's influence. And as I said, I used those for a variety of purposes inside and outside the CFC.

You know, I should say in many cases we wanted to have, you know, the best minds that we could contributing to

126:1 what went into these models. They are difficult to do. They are predictions of the future, which is inherently uncertain, so you want to have the best thinking that you can.

BY MR. WYNN:

Q Did you ever work with Jeff Speakes? Do you know who Jeff Speakes is?

A Yes, I sat next to him.

Q Okay. Did you work with him on any kind of models?

A Yes, we did. So you talked about model validation, so he and I were both on the model validation committee, and actually that's one of the committee memberships I didn't recall earlier that I recall now. So we were on the validation committee together. That whole validation process went through a series of evolution while I was there. So Jeff and I worked in that way.

Jeff and I would talk about term structure models, so that stochastic process that I described that would generate interest rate paths. So he and I would discuss that. We would discuss prepay models. We would discuss the delinquency and default models.

There are other series of models. So for a given set of interest rates and for, you know, a given set of consumer behaviors, there's other models that you would want to predict what market pricing would do in those instances. So there was a series of models that Guy and Jeff's team put

127:1 together for that. So that was areas run first by a gentleman named Quan Zou, and then after Quan left by Scott Spear.

Q To your knowledge were there ever any delinquency and default models that were created with respect to particular loan products?

A Yes. Because -- so how a model would work, so I mentioned the home equity lines of credit, there's particular features about that product that you would need to have a separate model for those. For first liens, you would have to have a model for those. For second liens that were not revolving lines, you would need a series of models for those. And so -- and then you may even want to divide it up even within a product and have specialized models.

So as an example, you might want to have one model for loans that are current. You might want to have a second model for loans that are one payment past due and so on. So there are many, many models that were developed and used.

And so there's a reporting packet -- there was a reporting package that was put out on a regular basis that would show model predictions versus actual predictions. So whoever wanted to could -- and those are both inside the firm, as well as the regulators could look and see how the various models were performing relative to what the model forecasted. And then depending on how those performed, that

128:1 would trigger the need to redevelop certain models.

There were also, when I talk about prepay models, there are loan level prepay models and then pool level prepay models. So the valuation of an SMR as an example, you tended to use more pool level prepayment models, and pricing and some of the other uses tended to use more of the loan level prepayment models.

Q And in the testimony with the staff or the commission, Kevin Bartlett mentioned that sometime in 2006 certain delinquency and default models were updated in order to include home price appreciation and/or depreciation as a variable?

A Uh-huh.

Q Do you have any recollection of that?

A I'm not sure -- I'm not sure about the exact date, but one of the -- one of the -- there were two aspirations we had. One is to explicitly include home prices as a variable. And my recollection is that that was -- that was sequenced in at various times depending on the specific model being redeveloped.

And then one of the things that we had talked about but never could get to work right was the idea of rather than just having a specific house price prediction embedded in the model, to have what is called a stochastic process so that you would -- so as with interest rates, you would generate hundreds or thousands of paths for house prices, and then you could -- and then you could predict behavior for each of those house price paths.

Q Do you recall working on any specific models by updating it with housing price depreciation as a variable?

A I call it house prices and not necessarily depreciation because they can either depreciate or appreciate. But the home equity models, when those were redeveloped, one of the things we wanted to do is incorporate house prices more robustly in that model.

And there's a variety of ways of incorporating house prices into a model. One of the more sophisticated would be that stochastic process I described. There would be some simpler versions where you just incorporated home prices into what is called the severity portion. So you could think of loan losses as the probability that someone defaults, and then if they do default, how much gets lost on that loan. So house prices would affect both. That's the theory.

And so my recollection is on the severity side, home prices were incorporated into that view even earlier than the time period that you are talking about.

Q So earlier than '06?

A I think you said like late '06 maybe?

Q Yes.

A So it might have been earlier in '06 or even

130:1 earlier still. But that's -- it makes the model much more complicated to do that, but that was something that we were -- that we worked hard to do.

Q And why is housing prices something that -- assuming you know, why were housing prices included as a variable in certain delinquency and default models in 2006?

A Because we thought that that would be an improvement to the model. So one of the things that we always sought to do was to improve the model. And so to the extent you can identify an additional variable that would give the model more predictive power, you would want to include that.

So, you know, I wouldn't want you to have the characterization that that was kind of the only thing considered. There were a whole series of things considered, some included based on their potential merit and others not because they didn't pan out.

Q Do you know why a housing price -- housing prices weren't included in some of these models prior to 2006?

A Why they were not?

Q Right.

A I think mostly just because of technical difficulty would be one of the key reasons. And, you know, the other thing, you would almost have to go through model by model to see what -- either the explicit or implicit house price

131:1 assumptions were. Because I don't know that's -- I would be careful of a sweeping statement. There are literally hundreds of models that the company used. And so my recollection is house prices were included in some prior to that to the date we just talked about.

Q To your knowledge, when you worked at Countrywide was there any way that you could get a list of all the delinquency and/or default models that were used by the company?

A We maintained an inventory of models. So one of the things that Walter's area did is maintain a model inventory.

Q Do you know what department or person at Countrywide would be responsible for maintaining -- excuse me -- be responsible for maintaining that inventory? Was it Walter?

A I think. And the model validation team, which was separate from the model developers, I am virtually certain that they kept a list as well, not absolutely, but pretty darn sure that they did.

And I believe that Walter's area kept a list of the models as well.

MR. BENDELL: I'm sorry to interrupt you. Is the model valuation team different than the model validation committee that you mentioned earlier?

132:1

THE WITNESS: It is. So the model validation team is the group of people that actually do the model validations. And then once they completed their work, that would go to the model validation committee to determine whether the validations would be accepted or not.

MR. BENDELL: And who was it that headed the group that had the model validation team in it?

THE WITNESS: So Scott Spear headed it for quite a while. And then my -- what I recall is him moving to a different role, and then I believe Skylar -- what was Skylar's last name? You didn't have to remember his last name too often because he was the only Skylar we had.

But, anyway, Skylar had been with the New York Fed and had worked specifically on modeling issues. And so that's where we had hired him from to help us head up the model validation effort and team.

MR. BENDELL: And is that model validation team located at the parent company or in one of the subsidiaries? At the time. Sorry.

THE WITNESS: That's okay. It's located at the parent company. However, the division was that we would wrap everything under that umbrella.

MR. BENDELL: What do you mean by that?

THE WITNESS: So the model validation committee, the model validation team. We wanted that to be all

133:1 encompassing. So we wanted to bring the broker-dealer models in, the bank models.

MR. BENDELL: So enterprise wide?

THE WITNESS: Enterprise wide was the division for that.

MR. BENDELL: And I'm not trying to parse your words too carefully, but when you say it's division, I take from that that maybe that wasn't completely accomplished at the time; is that what you are trying to communicate?

THE WITNESS: I think we made good progress towards it, you know, particularly to what I knew based on other firms. But I don't think it's -- it's not something that is ever complete. And so, I mean, there's going to be something cropping up somewhere in the firm that you are going to want to pull in.

MR. BENDELL: By that something cropping up, just so I understand, you mean that there might -- there could occasionally be models that were developed in various parts of the business that hadn't been run through this formal --

THE WITNESS: Process, exactly.

MR. BENDELL: -- process?

THE WITNESS: And then the other very important consideration is just moving through the sheer amount of work and not doing it in what I would call a ceremonial way.

So, you know, one of the considerations is that we

134:1 wanted this to be robust and meaningful and not just a rubber stamp.

BY MR. WYNN:

Q Talking about the 2005, 2006, 2007 time frame, do you recall which specific models were used to calculate the level of loan loss reserves?

A So are you talking about the classic loan loss reserves or the ones for reps and warrants?

Q Classic.

A The ones for the -- the classic.

Q Right.

A Okay. So the main --

Q Let me stop you first. You better explain what the classic loan loss reserves are before you answer.

A So when I say -- and so there's actual tables that -- and including in the documents. One of the documents we produced for you was just something I pulled off of the Countrywide web site that has a nice little summary of the key reserves that we did for an earnings call.

But the classic loan loss reserve is if you own whole loans on your balance sheet classified as HFI, which means health for investment, the reserve associated with those.

Most of the HFI at Countrywide was inside of the bank. So that there was a little bit that was held outside

135:1 of the bank, but those would be what I would call damaged loans. So, in other words, they were the leftovers from -- that were culled out of the normal process of selling loans into the secondary market. So that tended to be a relatively small portfolio.

So the major classic loan portfolio health for investment was in the bank subsidiary. And so there was a series of models and model improvements done while I was there that were used to recommend reserve levels for that particular portfolio.

So when I got there, it was a rating agency type of an approach to set that reserve. And then we used the -- you recall that I talked about the model that we used for the score card? We used -- that was an improvement over the rating agency approach that we had, so we used that for a while. And then subsequent models were developed that were improvements over the last ones.

The other key thing here is on this portfolio, it's an incurred loss concept. So the idea of what loss is in the portfolio that is incurred, it may not be directly observable, in other words, it's for pool loans so the loans may not yet be delinquent, but you know there's some people in that portfolio that might have lost their jobs or become divorced that are going to become delinquent in the future and default in the future, and so you would need to hold a

136:1 reserve today for them.

Q How forward looking were the models used for the classic loan loss reserves? Like how far out in time did they extend?

A So we used two different approaches while I was at Countrywide. So the first approach that we used was a general and a specific reserve where the specific reserve looked at anything that was 90 days or more past due, and that looked at the life alone. So like what -- in other words, asking what do we expect out of this particular population to default for the remaining life of these loans? So that was part one of the reserve.

And then for anything that was not 90 days or more past due, there was a general reserve. And so the time frame on that looked out one year and asked the question, you know, what percentage of loans do we expect to become 90 during this one-year time frame? So that was the first approach that was used.

And then -- and then later on, it was changed to what do we -- just kind of a single approach. And I think the way it worked is expected charge offs within a one-year time frame, which was more consistent with the banking regulatory framework.

Q And by charge off, do you mean like a bad debt that is going to be written off that you have no expectation of collecting?

A In a way. But let me be more specific. When I say regulators, do you mind if I just mean the banking regulators?

Q No.

A You are not offended by that.

So the regulators have a definition of charge off that at 180 days past due, you generally have to charge the loan off or down to net realizable value. And so because we were regulated by the Fed and OCC and then for the last few months by the OTS, we needed to adhere to that regulation. And that could also be used for financial statement purposes.

So when I say charge off, the main charge off is the one that occurs at 180 days past due. Again, we're talking about the health for investment loan portfolio. And then there could be subsequent charge offs later on as those loans were reevaluated.

MR. BENDELL: So, for example, if the severity -- the initial charge off, if the severity was estimated incorrectly and therefore it turned out to be greater, you would revise it?

THE WITNESS: You'd adjust it. There could be a couple things. So that could be something that could happen. Another thing that could happen are cures. So even though a borrower goes down 180 days, for most of the time while I was at Countrywide, a fair number of those loans did what was called cured, and so they would actually recover so the borrower would be able to sell the property or get a refinance or there would be a workout arrangement made with them through the servicing area, and they would recover.

And my recollection is for the HELOCs, that even though those were second liens, that for a long period of time that cure rate ran near 50 percent. So that would be a second reason that would introduce some adjustments that would be needed after the first 180-day charge off.

BY MR. WYNN:

Q Did your group have primary responsibility for the setting of loan loss reserves?

A So what we did is we recommended a loan loss reserve level to corporate accounting, and then each quarter we met on that. And we had to take corporate accounting and others through the details of those recommendations.

Q Who would you interact with from corporate accounting during these meetings?

A Eric and then Keith before Eric. That's the CFO. Lori Milleman, corporate controller. Anne McCallion, who was one of the senior accounting officers. Sometimes with Dave or Stan -- Dave Sambol or Stan Kurland in their role as the chief operating officer. They would be involved in the review. Carlos Garcia was typically involved in the review

139:1 each quarter.

Those are some of the key people that -- and then there were -- did I mention Greg Hendry? So Greg Hendry sat in. Let's see. What is his -- Richard Pohl, P-O-H-L, he also worked for Lori Milleman, so he sat in on these reviews. I'm missing some other people. Oh, Rod Williams. I mean, lots of people that worked for me sat in, so Ron Williams, Cliff Rossi, Don White, Ted Beck. And, again, this is just on the classic loan loss reserve.

Q Do you recall ever recommending a larger loan loss reserve than was ultimately approved?

A You know, I don't recall anything happening the way that you just described it. So the way that it worked is so most of these were model driven, and so we would get into a lot of details on the model before the model ran and even, you know, calc'd a reserve. So a lot of the discussions and debates would happen at that level before we even saw what the result was.

Q Okay.

A So, you know, there were occasions I can recall, for example, a meeting with Stan where Rod Williams, Ted Beck and myself went one quarter through all of the various reserves, not just the health for investment loan loss reserve, and had to, you know, debrief him and defend the recommendation.

140:1 Q Defend the recommendation to Stan?
A That's right. And the recommendation -- and when I say defend it, the way I think about the reserves is Goldilocks. So you want the reserve to be just right, not too hot and not too cold. You know, either, you know, being -- having something that was, you know, overly conservative or overly aggressive, both were not what you wanted.
Q And do you recall at what point that -- we've been over some of this, but do you recall at what point the models were used in predicting -- in setting the loan loss reserves began to incorporate housing prices as a variable?
A I don't remember the exact date. It was something that had been talked about for a while. Maybe 2006. I don't remember. You know, and then the other question is on which -- so you've got the -- just thinking about the bank where the main FIH portfolio is, you are going to have both HELOCs, closed-in second liens and then first liens. And so there might be more than one model on each of those. So I don't recall the exact sequence that that was put in place.
Q Do you recall what the addition of the housing price variable to the models had any effect on loan loss reserves?
A I don't recall them having a specific effect. You know, what our research told us was that the house prices would be a good variable to use. And so, you know, clearly

141:1 the concern was that, you know, if we got into an environment where house prices were going down, you would want to have that variable.

You know, the opposite concern is by not having that variable, you may end up with something that is too conservative in a time when house prices were going up. So it could cut in both directions. But I don't remember the specific impact when that was introduced in the various models.

Q And you mentioned we've been talking about classical loan loss reserves?

A Yes.

Q What are the other types?

A Before I get to the other types, the other important thing is there was not -- when these models were redeveloped, so I don't want you to get the impression it was just house prices in or out. There were lots of other attributes that were considered and also what are called transformations of the attributes. So FICO as an example, how are you going to incorporate that in the model? There are a variety of ways of treating FICO. Is the model going to be what is called a proportional hazard, a stand alone versus the competing risk?

So I don't want you to get the impression it's just kind of one thing at a time. When a model was being

142:1 improved, we tried to introduce a number of improvements.

So back to your other question, so the other type of reserves, so we have got just the health for investment. Another --

Q Is that the classical loan?

A That's what I call the classic bank loan loss reserve, classic bank type loan loss reserve.

We had a reserve for rep and warranty risk. So I talked earlier about Fannie, Freddie, FHA -- I'm going to leave the FHA and VA to the side. If FHA required us to repurchase a loan, that would fall in this rep and warranty, too. So for the potential breaches of a rep and warranty, so there was a reserve for that.

There was -- this wasn't really a reserve, but more of a liability. But on the secondary marketing side, if what I would call short term reps and warranties were breached or other things over the short run that would cause loans to come back and have to be repurchased, there was a liability held for those. So it's kind of like a reserve, but that was a separate liability that was calc'd and held.

Q Did it have a name?

A It did have a name, and I will think of it in a minute. But it's part of the market -- so when the gain on sale is calculated, so it's an amount removed from the gain on sale. And instead of it going through as a gain on the income statement, it's held in a liability account for these potential short run breaches. So there was that.

Q Let me stop you for a second so I understand what you are saying at some point in time, the HSBC began to kick back certain loans?

A This would be an example of that.

Q Okay. So when you had to, you know, account for the loans that were being rejected by HSBC, would it come through this third reserve that we don't have a name for yet?

A That's right. It's something liability is what we called it. I will remember it in a minute.

And so the rep and warranty reserve, so those three. We had reinsurance arrangements. So this is where for private mortgage insurance where we took back a mezzanine piece of risk and then -- in return for receiving a portion of the premiums, so we held reserves on that reinsurance risk.

The valuation of the residuals, there was a credit component in there. So that's not really a classic reserve, but that's a type of credit risk that we called out and tried to point out to people what -- you know, what was inherent there.

Servicing advances, so that VA -- the FHA haircut that I talked about where extra expenses would be charged back, the VA where they didn't cover all of the loss with

144:1 their insurance, that would be incorporated under the servicing advance idea. So that was a type of liability or reserve that was looked at.

I'm just making sure I'm giving you a complete picture. There is in one of the documents I provided, there's a one-page summary of these key liabilities or reserves that relate to credit risk.

Q At any point between 2005 and 2007, did you identify deficiencies in any type of model as a potential credit risk to the company?

A Well, so modeling risk is a risk for any financial institution, and any and every model is going to have deficiencies. I have not yet seen the perfect model. So that was something we're constantly looking at.

The other thing that happened is as the company grew and had more resources, we were able -- we were able to devote more resources to building and validating models. So that was a constant process of improvement through time.

Q But do you recall any specific occasions where you were concerned that a particular model was, you know, under performing to such an extent that you viewed it as a credit risk?

A Well, I viewed it as a constant risk, first of all. And, in fact, just to underscore that point, on economic capital, so from our economic capital, we had a 10 percent

145:1 charge, and this, by the way, was over and above the BASEL requirements just for model risk. And the reason was is to call that out as a very specific risk both inside and outside the company.

So it's always -- it's always a risk. As we move through time, so kind of go back to the middle part of 2006 or so, you know, in our view, you know, the housing market -- certain housing markets were getting increasingly, you know, highly valued, and so that was something that we were watching.

We subscribed to a service called economy.com, and so that service -- they had an independent view on specific MSA's, that's the metropolitan statistical area, and so we would subscribe to that. And the gentleman that ran economy.com, his name is Mark Zandi, I had him even come in and talk about housing valuation to the board credit committee. That was probably in late -- either late '06 or late '07.

But one of the concerns that you've got about any model is how it would perform in a stress environment.

Q Okay. What's a stress environment?

A A stress environment could be one of several things. So it could be about house price environment. It could be about interest rate environment. It could be about economic environment. And when I say economic, I'm talking

146:1 about the general economy, so unemployment being very high. It could be structural changes, structural changes in the market.

And a great example of that is when the second -- when the capital markets closed down in August, any model that anyone had up to that point in time was basically probably, you know, a throw-away no matter how carefully it had been done previously.

Q Do you view how they valued MSAs as presenting a stress environment for models?

A Where it -- it's a modeling problem because what is happening is you are observing events that aren't represented well historically. So something to keep in mind with all of these models is that they are developed from empirical data, in other words, from historical data. And so if you have a situation developing that is not well represented in the historical data, then you worry more about the predictive power of the models.

MR. BENDELL: You mentioned something about the economic capital model, and in describing that, you used a lot of -- there was a lot to that answer, most of which I didn't understand. So I'm going --

THE WITNESS: I apologize for that.

MR. BENDELL: It's not your fault. But I need to ask you a couple of questions.

147:1 THE WITNESS: Sure.

MR. BENDELL: First of all, what is meant by economic capital?

THE WITNESS: So I would think about it in two ways: There's a regulatory meaning, so this is from the banking regulators again, so Basel, so Basel IA, Basel II, so those regulations are from an economic capital perspective. So the idea is how much capital would a firm need to hold -- to get it through a stress environment? And so there's a regulatory definition behind that.

I would add a second way of thinking about economic capital, just internally, you know, what you think you need to operate your business, what is your capital structure, how much equity, how much debt? And so those are the two ways I think about it and within the way we talked about it inside of Countrywide

MR. BENDELL: Okay. So it essentially boils down to the equity requirements for a bank essentially?

THE WITNESS: Yes, it does.

MR. BENDELL: The -- I'm sorry. I didn't mean to interrupt you. Go ahead.

THE WITNESS: I was going to say, so market, credit and operational risk are some of the key -- are the three key things that the regulatory requirements have. We added model risk as a fourth one. So that wasn't an explicit regulatory

148:1 requirement.

But his questions on modeling, I was just trying to underscore that we thought this issue was important and that -- and also the idea that you can never have the perfect -- models are always going to be imperfect no matter how carefully developed and validated they are.

And my recollection is 10 percent -- that that was a 10 percent allocation. So whatever we came up with with the other elements, that there would be a 10 percent add for model risk.

MR. BENDELL: Now you mentioned several different times was it Basel?

THE WITNESS: Basel, B-A-S-E-L.

MR. BENDELL: And that's the modeling methodology required by the banking regulators; is that correct?

THE WITNESS: It's an international regulation that the US is participating in.

MR. BENDELL: Then just going back to your description of the discussions that surrounded the use of modeling as that flowed through to classical loan loss reserves.

THE WITNESS: Uh-huh.

MR. BENDELL: You had mentioned that a lot of times the discussions would take place before the model had even been run and generated a recommended reserve. And my question is in what context would those discussions take place? Was that in the model validation committee or in some other context?

THE WITNESS: Well, it would take place in model validation, but not with respect to setting the reserve. So the model validation committee was charged with, you know, whether the model was officially validated for use or not. So it never got into the idea of the actual use of the model in doing valuations that are reserve setting.

So the discussions I was referring to might have been with corporate accounting, with Stan, with Dave Sambol, with Carlos Garcia, you know, on what was the best way to approach these issues.

MR. BENDELL: But what would the context of a discussion with people at that level, the Stan Kurland, the Dave Sambol or Carlos Garcia type personnel, what's the context? You are talking about before running the models to generate the reserve for any particular --

THE WITNESS: You know, are we comfortable with the way the model is working? You know, do we think it needs to be redeveloped? If we have to redevelop it, that is going to take time and money. And so it's not an insignificant decision.

Another concern is the tradeoff between transparency and sophistication. So you can have a very sophisticated model that was also very complicated. So one of the things that Dave in particular challenged us on is, gosh, don't bring me something so complicated that I can't understand it. So even though it might work really well, I want to be able to understand it. So there was that tradeoff that was discussed.

MR. BENDELL: But, again, I guess I'm having a little trouble understanding the context for this. I mean, if there's a formal process for model validation, are these types of discussions something that would happen before that formal process, after, simultaneously?

THE WITNESS: No, just separate and apart from it. So, you know, each of the individuals that I named had to sign certifications as well, and so they wanted to be sure that they, you know, got their two cents in not just on the reserve setting, it would have been on running all the models and a lot of issues, too. So, you know, what are you going to say, "I'm not signing my certification until we have a detailed discussion about what is in this model," or fill in the blank. It could be other issues as well.

MR. BENDELL: Okay. But that sounds to me like something that would come up after the model had been run and a number had been generated, whether it's a reserve or some other number.

THE WITNESS: It could, but that wasn't always the

151:1 case that it happened. So, you know, in ALCO, for example, Stan might have -- so we looked at some of the, in particular, prepay models there, and he would say I'm not happy with the way -- I'm not happy with the way these are working. We need to have, you know, a specific discussion on this.

MR. BENDELL: Okay. Are you aware of any instances where any model was run to generate either a reserve or a liability recommendation -- a recommendation for the amount of a reserve or a liability where after that amount was run, someone told you to go back and rerun the model with different assumptions?

THE WITNESS: Yeah, I would say that that happened on more than one occasion. So, again, just trying to -- and different people had different perspectives. So let me give you an example.

On the first quarter of 2007, you know, there were observations that we were making in the secondary market of where, you know, how subprime was trading. And so the valuation for those subprime residuals, what we eventually went with was lower than what the model originally returned. And that was based on observing what was happening in the secondary market.

MR. BENDELL: Okay. And was the decision to go back -- so when you say it's lower, you are saying that the

152:1 value that was ultimately reflected for the residual interest on Countrywide's books was -- that asset value was actually written down to a level below what initially was recommended out of the model?

THE WITNESS: That's right.

MR. BENDELL: And at whose suggestion was -- well, let me take that back.

Who first raised the idea of going back and potentially using a lower number than what was recommended by the model in that instance?

THE WITNESS: I think that that came out of the -- there was -- ALCO would meet frequently as these valuations were finalized. And it was kind of a mini ALCO meeting, so it wouldn't go the whole day long like the usual ALCO. So it was just specifically looking at these valuations.

So my recollection is that it came out of that discussion. But that's just my perspective. There could have been other people discussing it prior to that happening.

MR. BENDELL: Okay. Other than this example in the first quarter of 2007 regarding the valuation of residuals -- well, actually, I understand and I appreciate that answer, and that's an example of, I guess, an instance where -- well, how did -- I'm sorry. I need to take a step back and try to formulate a coherent question.

Logistically how did you adjust, make that

153:1 adjustment that you have just described to go with the lower number than what was initially output by the model? Was that a manual adjustment or some type of a change to an assumption in the model or how was it done?

THE WITNESS: My recollection on how that was done is through the use of multipliers, so that where the loss factors, and by that I mean just the extreme of assumed losses, were scaled up. And I think there was something similar done on the prepayments as well.

So one of the things that we wanted to do -- so whatever the models did, to the extent we were able to have external market indicators of what was going on, we would want to look at those. This is for that -- for this specific example. You don't have that for the reserves or what I was calling the classic reserves.

MR. BENDELL: All right. And how about any instances where literally the instruction was to change an assumption and rerun the model and use a different output?

THE WITNESS: Well, there were occasions where different assumptions were put into the model. But tell me what you mean by use a different output.

MR. BENDELL: Yes, sorry. There may have been just one phrase too many in the question.

I'm trying to get back to if you could describe for me any instances where you are aware of a model being run and

154:1 giving an output that is a recommended either reserve or liability for the financial statements where after that was run and a number was -- a recommended number was output from the model, you or your group was instructed to go back and rerun the model with different assumptions?

THE WITNESS: There were occasions. The other thing we should talk about is just kind of the normal governance that happened around this. We touched on it a little when you asked about the reserves. But we -- so one of the other numbers that had to be put in was what is called an OAS, an option adjusted spread. And so, you know, that would be rerun, you know, sometimes multiple times over the course of getting the financials closed and trying to get to what we thought the best valuation was.

You know, there were other instances where things were rerun and, you know, even vigorous debates throughout that process.

MR. BENDELL: Sure. And I guess I'm asking for any of the examples that you can specifically recall.

THE WITNESS: Sure. So we had the one example on the subprime. So in the first half of 2007, something else that we wanted to update were the home equity line of credit models. And so those were not even completely done by the time that I left in September.

However, the performance on those was deteriorating

155:1 such that we didn't think the existing models were performing adequately. So we put together things from a number of different perspectives to try to scale up what we thought those losses would be simply because the models that had been developed we didn't think would be working properly anymore.

So lots and lot of discussions around that, much more so in the second quarter of 2007 than in the first quarter.

MR. BENDELL: Is that another example of an instance where multipliers were used to adjust for what was perceived to be the imperfect performance of the models?

THE WITNESS: I believe that they were. So there wasn't -- you know, there were some models that hadn't yet been validated, and so it's not just validating, it's actually getting them hooked up to the cash flow machinery to do all of the projections that would need to be necessary to do those valuations. So my recollection is the only way to be able to do that for the second quarter was through the use of multipliers.

However, the runs from that model and from a number -- other analyses were used to inform what that multiplier should be. The other thing I'm just thinking back on this now, the other debate that we had, and this is a nuance, but it's an important one, some models used delinquency status as an important variable. So a loan that becomes delinquent is much, much more likely to default.

And so some models will simply adjust to where they need to be simply as the loans become delinquent. But one of the other debates that we had is, and this is going to be more of an opinion, but I will give it, is that you would want to evaluate the current loans before those default in doing valuation or reserve. So that was one of the areas that was debated as well.

MR. BENDELL: Can you just explain that debate? I didn't quite follow you.

THE WITNESS: So say you have an existing model that takes delinquency status into account. So as soon as that loan goes one payment past due, the reserve on it or the expected loss on it is going to go up tremendously. So it's going to adjust automatically.

Another way to think about that would be rather than waiting for that loan to go one payment past due would be to reflect some of that probability in the current loans before that happens. And so I recall that being one of the discussion items that we had for the home equity lines of credit.

MR. BENDELL: All right. Are there any other areas where you recall there being -- well, to get back to, I think the original question, where instances where a model was run, generated a recommendation for a reserve or a liability where

157:1 a decision was made to go back and rerun the model using different assumptions?

THE WITNESS: Yeah, I'm sure that that occurred, you know. So I want think back through the various things. And, again, I think people were just trying to get to what they thought the most accurate number was.

On the rep and warranty reserve, that was discussed almost every quarter. For most of the time that I was there, people were worried about it being too high because it was many, many times the quarterly pace of losses that were actually occurring. So I recall that. I recall that being an issue.

There were lots of discussions around the residual valuation, you know, over time, that's both prepay models, the loss assumptions, the OAS assumptions, the market -- you know, the market observations. You know, there were discussions also around the MSR. You know, there was a whole process for evaluating the MSR evaluation where we would go through similar steps. So I'm not sure if I'm exactly getting to your question.

MR. BENDELL: Well, if you are not getting to my question, you are getting beyond my ability to ask another one, which is the same thing.

MR. TAYLOR: That's the reason we all went to law school.

158:1 THE WITNESS: Do you mind if I take a two-minute pit stop?

MR. BENDELL: Sure. Off the record.

(Recess.)

MR. WYNN: Back on the record at 2:35 p.m.

MR. BENDELL: Mr. McMurray, before the break, we were talking about instances where you were asked or instructed or someone in your group was asked or instructed to rerun models. I wanted to ask if you were aware of any instances where -- and you listed several examples, but were you aware of any instances where after a model was run and generated a recommendation, the instruction came back to re run the model in such a way that it would generate a lower reserve number?

THE WITNESS: There might have been an instance, and I'm just trying to think -- I'm trying to think back. You know, so one -- you know, one example, and it didn't happen exactly the way that you described it, but when was this? This was during 2007. You know, one of the things that was looked at and discussed on the reinsurance reserve was whether it was appropriate to continue to hold the reserve on the 2003 book of business.

And so I think originally we started out with the 2003 book having a reserve on it, and then ultimately what we ended up with is a reserve that didn't include the 2003 book

159:1 with the idea after, you know, discussion and debate that the likelihood of having any claims on that book was remote.

MR. BENDELL: All right. How about other than that reinsurance issue, are you aware of any other instances where the model's recommendation was rejected if you are comfortable using that word, but if not we'll come up with a different word, but where the model recommendation was rejected in favor of a lower reserve number?

THE WITNESS: I wouldn't be comfortable with rejected.

MR. BENDELL: All right. That's fine. Let me rephrase the question. As I was saying it, I thought that might be a problem.

So are you aware of any instances where after -- any instances other than the reinsurance reserve you just mentioned where after the model generated a reserve, the company instead decided to use a lower reserve number than what was initially generated by the model?

THE WITNESS: So one of the other examples I can think, so, again, on this HELOC discussion for 2007, the first half of the year, it wasn't so much that the initial model run was rejected. We were concerned that the model that was being used was out of date, didn't have the replacement model yesterday, so it needed to be rerun to be scaled up. So I am aware of that happening.

160:1 And so, again, staying with the same example, there might be -- there might have been multiple outputs that were generated to try to get the most comprehensive look at that particular issue in determining what the final multiplier would be. And that's what I recall for the HELOCs for that example.

MR. BENDELL: So since you were running a variety of models, including some that hadn't been validated, some of them might have generated reserves that were higher than the one that was ultimately used; is that what you are saying?

THE WITNESS: That's what I'm saying.

MR. BENDELL: All right. And others -- so we have the reinsurance reserve issue and this HELOC modeling in 2007. Are there any other instances that you are aware of where the reserve was ultimately -- the reserve adopted was lower than what was recommended by a model?

THE WITNESS: I'm spinning. I want to spin a second thinking back through this. So I know there was discussion on subprime at various times. I gave you -- I talked about the example particularly in the first quarter. I suspect there were others.

MR. BENDELL: Well, I want to be clear just so you understand my question. I think the subprime example that you gave was you mentioned that the reserve that was ultimately used was higher than what was --

THE WITNESS: The loss assumption was higher.

MR. BENDELL: Right. So I'm asking for instances where the decision was made to go the other way, to go with a lower loss assumption or a lower reserve -- ultimate reserve number than what was initially recommended by the model.

THE WITNESS: I don't recall specific ones. There might have been, but none stick in my mind.

MR. BENDELL: All right. And then the same question with regard to models that went into calculating a liability as opposed to a reserve. I know that's a distinction you drew earlier. So, again, are you aware of any specific instances where the model generated a recommendation for a liability line item and where the number that was ultimately used was lower than what was initially recommended by the model?

THE WITNESS: I guess I want to -- there might have been instances, but I want to be careful. In many cases, some of the examples that I can think of would have been akin to the HELOCs either in the first or second quarter of 2007, and maybe even 2006 towards the end of the year, but I think it was 2007.

And it wasn't so much the model coming back and then that being rejected, but rather just the concerns that the model wasn't working as well as it should.

MR. BENDELL: But, again, those were concerns you

162:1 described coming up that the consensus was that the model was under predicting losses?

THE WITNESS: Generally that was the case. Now, I don't remember -- this would have been later on while I was there. I think there might have been one quarter on the HELOCs where people felt that it was coming back high. This was after some other changes had been made to the model.

MR. BENDELL: And can you tell me approximately when that quarter was?

THE WITNESS: Maybe late '06, late '07.

MR. BENDELL: All right. And do you know whether those concerns about the model potentially over predicting losses in HELOCs, whether that led to an adjustment to reserve?

THE WITNESS: This would have been a HELOC valuation and not so much a reserve is the one I'm recalling, so just to be specific. And I think to my recollection is that it did, and I think we looked at rating agency models and some other things to try to hone in on that answer.

MR. BENDELL: And who was it that was -- if there's any particular person who was most -- if there was one person sort of driving the decision of what model to ultimately -- or sorry -- what model or adjustment or whatever it was to use on the HELOC valuation, was there a person who was sort of driving that?

THE WITNESS: You know, I think there were -- how I would describe it, there were things broke down kind of along natural lines. So Dave who came up from the business side and the people from the business side, you know, always, you know, they would have a tendency to think the reserves ought to be lower and values higher.

And people from the risk side, which I was part of, would generally take the opposite, you know, come from the opposite perspective. So that's how things would typically break down.

MR. BENDELL: So I think you described this earlier or mentioned earlier that there's a governance process on the use of the models?

THE WITNESS: Uh-huh.

MR. BENDELL: So maybe you could describe for me, you know, what the procedures were for resolving this divergence of opinions that you just described?

THE WITNESS: Sure. So separate and apart from model validation, we would convene a special meeting of ALCO. So, for example, on the HELOCs, I can recall a specific -- it wasn't just HELOCs, but that was one of the issues that was discussed in the specific ALCO I'm about to describe to you.

And so Dave Sambol, Carlos Garcia, Kevin -- I don't know if Kevin was there on this occasion, I think his wife was sick, but Don White, Rod Williams, myself, Anne

164:1 McCallion, Eric Sieracki, I think I may have mentioned him, what was his name, Tom Rettinger, Alice Wang, you know, would have sat around the table, so this would be the MSR valuation, the HELOC valuation. The HELOC valuation, we would also want to make sure that was consistent with the HELOC reserve.

So that would have been -- that would have been the type of governance committee that convened to discuss these issues. And so at those -- at those meetings, we would have presented the results of various analyses --

MR. BENDELL: So the --

THE WITNESS: -- and decide what to ultimately do.

MR. BENDELL: So the ALCO committee would essentially vote and make the final determination on whether to use one version of a model or another or to apply multipliers or make any other adjustment?

THE WITNESS: Both of those. So, one, kind of, you know, what approach made the most sense, and then, two, how to go -- how it would be most appropriately implemented. So the multiplier example.

MR. BENDELL: All right. And then -- and, again, I'm asking specifically about changes to a model or supplementation to a model where the change was made to lower a liability number. Have you listed all the examples of that happening that you can recall?

THE WITNESS: All the ones I can specifically recall. You know, I feel quite confident there were probably others.

MR. BENDELL: Right. And I'm only asking for what you remember as you sit here today.

THE WITNESS: Yeah.

MR. BENDELL: And then I think the third type of financial statement line item that you described potentially being directly affected by these default and delinquency models was the asset -- was various asset valuations.

So my next question is are you aware of any specific instances where the model output was -- where a model output was either changed, revised or the model output was -- the model was rerun with different assumptions with the goal of obtaining a higher, specifically higher, asset valuation?

THE WITNESS: Two things: The examples that I went through with you, I guess I was including not just liabilities and reserves, but also that component of these asset valuations. And so the second thing I guess I want to be careful what you characterized it by with a specific goal of it turning out higher, and so --

MR. BENDELL: Yeah, let me rephrase the question. Again, I'm just trying to as closely as I can adhere to the questions I asked you earlier, but I'm probably not doing it precisely.

Again, my question is are you aware of any instances where a model output and number for a recommended asset valuation number, where after that output was looked at, the decision was made to use a higher number for that asset's value?

THE WITNESS: And the ones I recall are the examples that I went through. And the other thing is, you know, I recall things going both directions, sometimes higher, sometimes lower.

MR. BENDELL: When you say sometimes higher, sometimes lower, you mean in one quarter moving it higher and in another quarter moving it lower or what do you mean?

THE WITNESS: No. I'm sorry. Thank you for pressing me. What I mean by that is more issue kind of -- kind of issue by issue, you know, depending on what was being considered at the time. So, you know, if we were worrying about a particular model being out of whack as an example or we observed market conditions, so the subprime example that I gave you earlier with that market deteriorating. And some of the assets I talked about us doing valuations on, the accounting standard is fair market value. And so we have to be cognizant of the fair market value indicators, the MSR, the same thing.

MR. BENDELL: Did there ever come a time when you

167:1 became aware or aware of any concerns within Countrywide as to the performance of the models that went into valuing MSRs?

THE WITNESS: I think the whole time I was there, we were concerned about whether the prepaid models were performing up to snuff. So that was one of the things that we considered. And ALCO was one of the things that we considered in the model valuation committee and also in other settings as well.

MR. BENDELL: How about specifically default or delinquency models and their effect on the calculation of MSRs, was that ever the subject of any concerns within Countrywide that you were aware of?

THE WITNESS: It was. And several examples that I can give you. So one example I'll give you is Katrina. So when Katrina happened, so there were a number of different reserves and valuations that needed to be adjusted for what we expected to happen there. It turned out not to be as bad as we had feared, but I can recall something being done to the MSR to reflect those increased expenses as a result of default. So that would be one recollection.

As we went into 2007, I believe that it was contemplated and reflected then as well. I do recall it being discussed. I don't know -- I don't remember exactly what ultimately went into the MSR.

Now, the MSR there were more -- I mean, there were more external values that we could use as a reference point on that.

MR. BENDELL: And, again, the place where these decisions are being made on the MSR, you are referring to those are decisions or discussions within the ALCO meeting?

THE WITNESS: Yes.

MR. BENDELL: And earlier you mentioned something called the option adjusted spread. Can you tell me what that is?

THE WITNESS: The -- sure. The option adjusted spread would be that spread that you would put into a cash flow model that would be necessary to equate the model valuation to what you observe coming into the market.

It's also the -- you could also think about it -- so that's one definition. Another -- the more theoretical definition is that spread that you are earning after you take out the effect of the embedded options. So, you know, a loan has an embedded call option because the borrower can prepay. So after giving effect to the value of that option, the spread that remains would be an option adjusted spread. And it's kind of an expected concept, so what you expect to earn in the future.

MR. BENDELL: So does that essentially -- is that similar to the concept you described earlier of trying to take into account both the default risk and the prepayment risk at the same time?

THE WITNESS: No, that's the competing risk approach is what that with one is. So the option adjusted -- you can have an option adjusted spread. So, you know, on the competing risk approach, an element of that can be the option adjusted spread. So they are not unrelated concepts, but they are not the same thing.

So -- but this idea of an option adjusted spread for doing MSR, mortgaging service rights, valuations, is a very common thing that is done across institutions that hold that asset.

MR. BENDELL: Does the option adjusted spread, is that a concept that affects valuations other than the mortgage servicing rights as well?

THE WITNESS: For the residuals, there's a discount rate that is used, and that's akin to an option adjusted spread. But it's both -- it's both -- you could think of it as an option adjusted spread plus the base interest rate added together.

MR. BENDELL: All right. Is there any other financial statement items that you are aware of that are at least in part determined by the option adjusted spread?

THE WITNESS: Perhaps some of the -- Countrywide didn't have any HTM securities that I can recall, but it could have been -- there may have been some other AFS, which is available for sale securities, where an option adjusted spread concept could have come into play, but I'm not sure. The ones that I have described here are the ones that I specifically remember.

MR. BENDELL: Okay. Thanks.

BY MR. WYNN:

Q Mr. McMurray, I want to mark as Exhibit 76 a series of e-mails between Eric Sieracki and Anne McCallion. The document is Bates numbered 2008471339 through 341. And the e-mail spans from January 10th, 2007, to January 12th, 2007, and it seems to reflect some of the issues regarding HELOCs and modeling that we were just discussing.

(SEC Exhibit No. 76 marked for identification.)

BY MR. WYNN:

Q Take as much time as you need to look through that and let me know when you are finished, and I will ask you some questions.

A Okay. I have had a chance to read through it.

Q Okay. Mr. McMurray, I know you don't appear to be a recipient or a cc of any of these e-mails and a lot of the concepts are alien to me, so we will stumble through it together.

A Okay.

Q I'm going to start with the first -- I guess the

171:1 second full e-mail. It's on the Page ending in 40?

A Yep. To Eric?

Q Right. And the subject is MSR and, I guess, residual valuation?

A Uh-huh.

Q Do you know what that subject means?

A Well, MSR is mortgage servicing right, and resid is shorthand for residual.

Q Okay. And if you look at her e-mail, I will just read the first paragraph into the record and then ask you some questions about it.

"The focus is on losses projected in the HELOC residual valuation. The breakthrough yesterday is that losses on subsequent draws are included in the model, and as we all know, we can't project any revenue or benefit from sub draws. We are trying to quantify impact, and then we need to deal with the question of whether it's only a fourth quarter phenomenon."

Do you know what Ms. McCallion is talking about in the paragraph?

A I do. So sub draws means subsequent draws. So HELOCs or home equity lines of credits as we mentioned a moment ago, and those are revolving types of accounts where the borrower can pay down the account and then draw it back out.

172:1 And so what I believe that she's talking about here is the idea that KPMG at one point in time much earlier than this said that the cash flows from subsequent draws could not be included in the valuation. And so neither the revenues nor the cash outflows could be included from those. And that as those draws occurred, then they could be brought into the valuation. So that's what I believe she's talking about there.

And the particular model in question, and I don't remember whether this was a secondary model or a broker-dealer model, the issue she was talking about here is the discovery that while the revenues were being excluded as they should be, the losses assumed for those subsequent draws were still being included in the valuation. So that's what she's talking about here.

Q So she's saying that the model is, therefore, over predicting losses?

A Yes.

Q Okay.

A Well, let me be very clear. She says it's over predicting losses relative to the accounting standard that was in place, meaning that losses from subsequent draws were not supposed -- neither losses nor revenues from subsequent draws were supposed to be used in the valuation.

Q Okay. And if you turn to the last page, she continues.

A Uh-huh.

Q I will just read the second paragraph into the record.

"Apparently Sambol told the loan servicing people in July not to make collection calls to not portfolio HELOCs that were down 30 or 60 days. This had the unintended consequence of increasing the delinquency rates in the loans comprising of residuals. The good news is that if we can cause the delinquencies to go up, we can also cause them to go down meaning that the delinquencies shouldn't be projected to continue at the high rate once we start making the collection calls again. In addition the timing of this actions points to a fourth quarter event."

Do you have any understanding of what she's talking about there?

A I vaguely remember something around this specific topic, but I wasn't involved in it directly that I recall.

But I think -- and I can't remember, but there was some specific reason that Dave had asked them not to make those calls back in the middle of 2006, but I don't recall what it was.

Q The third paragraph. "The third factors that the model projects losses to occur quickly after a delinquency; whereas we know it takes longer than the model indicates.

This will be corrected by new models that will be validated and implemented in the first quarter."

And I will go on, "Mike, Tom and I are working with McMurray, Kevin, Rod W. and their modeling teams to address this."

Do you know what she's talking about there?

A So this gets to one of the things that I mentioned earlier where when a loan becomes delinquent, that's a variable in the loss model. And so the loss probability would be elevated for a loan that is delinquent.

This is also bringing another idea in that we haven't talked about yet, and that has to do with the timing of cash flows. So it's not just the level of cash flows that are important to these valuations, it's also the timing of them as well.

And so I think she's trying to bring in both concepts here is what I think that she's trying to do.

Q And as far as context of these e-mails that are Exhibit 76, to me just from having read it, it seems there's an earnings call coming up.

A Uh-huh.

Q And, you know, due to the results of a HELOC model, the earnings are going to be one number and the suggesting ways that that number could be -- the earnings per share number could be higher were certain corrections made to the

175:1 model. Is that your reading of this? Do you have any recollection of that?

A I don't have any recollection of that. You know, I think it's obvious as these valuations change, they are going to flow through earnings. And I know there was always a rush to have things wrapped up both for the earnings call and the various filings that we did. There was a schedule that had to be adhered to. But, I mean, I don't want to speak for Anne.

Q Sure. And earlier when you were talking with Mr. Bendell, you mentioned at some point you or others at Countrywide thought that the HELOC model was giving out numbers of perspective losses that were lower than they should have been; is that right?

A Uh-huh, particularly in the second quarter, that's right.

Q Okay. Second quarter of?

A 2007.

Q So would that have been or before these e-mails that are in early January, 2007?

A It probably would have been after these.

Q Okay.

A This looks like it may have still been in the fourth quarter just as I'm looking at it, the fourth quarter of 2006 that is.

176:1 Q Okay. And if we move to the second to the last page ending in 340?

A Uh-huh.

Q In the middle of the page, there's an e-mail from Ms. McCallion to Mr. Sieracki on January 11th, 2007.

A I'm there.

Q I just wanted to ask you about a couple of abbreviations. OAS, what does that stand for?

A That's the option adjusted spread that your colleague was asking about.

Q And how about VAN, V-A-N?

A V-A-N is VAN, and that stands for valuation and analysis. And that's actually the group that ran the valuations. So for the residual subprime and HELOCs VAN, which reported up under Anne and Eric were the ones that did the valuation so --

Q Okay. I will read some of this, and then I will ask you some questions again. I'm still in that same e-mail we were just talking about.

"Here's the update: We're processing the final journal entries now and think EPS is going to be 99 cents or a dollar. The OAS change up 25 did get booked. The change in HELOC residual losses is roughly 13 cents positive. The HELOC change is broken down into two major components: The impact of the sub point draw I described to you the other day

177:1 is a $65 million improvement, the second component is a reduction in the negative impact of low no doc loans."

When she mentions there's a $65 million improvement due to the impact of the sub point draw point that she described earlier, is that the point about not including the losses or gains on the subsequent draws on HELOC loans?

A That would be my understanding of reading this, yes.

Q Okay. And do you have any understanding of what she means by a reduction in the negative impact of low no documentation loans?

A So this is the issue that I mentioned a moment ago to your colleague. So we're -- so read where it talks about the model, this is -- and, again, I don't remember whether this was the secondary or a broker-dealer model. But the factor that it had on no doc loans was four, and there was a rating agency and a subsequent internal analysis done to double check the validity of that, and that came back more in the two and a half to -- or the two to two and a half range.

Q Okay.

A And so that's one of the things that I was mentioning earlier.

And then this OAS going up would actually be a value reduction. So that would go the other way.

Q Can you explain that a little more?

178:1

A So if the OAS is higher, the values are lower.

Q And she mentions that one of McMurray's modelers -- that one of your modelers determined that the factor applied to the low doc/no doc loan was too high. Do you know who that was?

A I believe that was Staus, who I mentioned earlier, Staus Melnikov, I think he was the person that did that analysis. And, again, this is kind of along the lines of what we talked about earlier where these are just two different perspectives, a rating agency perspective and then another internal analysis that was being applied to a model that had been used for some time that was getting increasingly out of date.

Q I want to look at the e-mail immediately above Ms. McCallion's. It's a January 12th e-mail from Mr. Sieracki to Ms. McCallion?

A Yes.

Q And I just want to look at the second full paragraph on the page ending in 340?

A Yes.

Q Mr. Sieracki states, "I tried to gauge Dave's reaction to the resolution of the OAS and residual valuation issues. He was reasonable, but appropriately indicated that we have some remedial work to do. I want to gauge his proclivity to move valuation to Kevin. I do not want that to

179:1 happen."

Focusing on the language, "I want to gauge his proclivity to move evaluation to Kevin," do you know what Mr. Sieracki meant by "valuation"?

A My guess would be moving the VAN group, the valuation and analysis, over to Kevin. So at the time it reported up to Anne and to Eric.

Q Okay. Do you know if during your tenure at Countrywide that valuation group was ever moved to Mr. Bartlett?

A I don't believe that it was. I'm not absolutely sure, but I don't believe so.

Q Do you have knowledge of any internal debate at Countrywide as to whether that department should have moved to Mr. Bartlett?

A I believe that it was discussed, and it predated -- it predated Kevin. I think Nick also argued to have it moved over to him is my recollection.

Q Are you aware of any of the reasons why the valuation group might have been moved to Mr. Bartlett?

A I just think, you know, every -- not everyone, probably both Kevin and Nick before him thought that they could do it -- could do it better.

Q Okay.

A And I take it from this e-mail that Anne and Eric

180:1 were not of that opinion.

Q In your opinion -- well, did you ever identify any deficiencies in how valuation was handled by Mr. Sieracki and others?

A Sure. I mean, if you look through my e-mails, you will see there's a guy Tom Rettinger that I would send e-mails to or Anne, so there were criticisms that I made on various things that they did. And, again, as we talked about before, this process is about predicting the future, and so there's always going to be differences of opinion on how best to do that.

Q Can you summarize the types of differences you would have communicated to them?

A Sure. So let me stay with a theme that we were on a minute ago. So this was for the fourth quarter of 2006. For the second quarter of 2007, we had a lot of discussions around the HELOCs like we talked about a minute ago. We thought the models that we had were out of date, and we ended up doing something that was an add on to those models, but that was one of the debates that I had with the VAN group and specifically Tom Rettinger, you know, who was a capable guy, but he and I didn't see eye to eye with him on everything.

Q And can you describe the different positions that you had at the time with respect to the HELOC models that contrast the positions you had with those held by Mr.

181:1 Rettinger and others?
A Yeah. Basically, it boiled down to me thinking that I would like to have a new model put in place to replace what we were using and that the losses in my view would probably be higher. And I think Tom was of the view that my view was too high, the losses were being too high, one, and that, two, the model was working okay and didn't need to be replaced. So I think those were -- on that particular discussion, I think those were two points of debate.
Q And which of those viewpoints ultimately one out? Was it yours or the one expressed by Mr. Rettinger?
A I think it was actually something of a compromise at the end where the losses were increased above what the model would have outputted, but, you know, among the various analyses that were shown, this goes back to that meeting that I described to you all a moment ago, that it wasn't the highest loss on the -- you know, of the different analyses, but certainly higher than what was coming out of the model.
Q I'm sorry. I just lost the individual's name who was your not your opponent, but your antagonist on this issue? What was his name.
A Well, he's a colleague. He's a colleague with a different opinion.
Q Okay.
A And his name was Tom Rettinger.

182:1

Q What was his position?
A He was the head of VAN.
Q Okay. Do you know who he reported to?
A He reported to Anne McCallion.
Q Okay. Please feel free to correct me any time you don't like my pejorative language. That's fine. I'm not trying to make you accept it.
A Okay.
Q Can you recall any other disagreements you might have had with the valuation group aside from the one over the HELOC model you mentioned?
A Sure. So a general was I personally liked more sophisticated, complicated models. They did not like that because, just to be blunt, it was like a huge pain in the butt to implement. And so that would be kind of a general area of not disagreement, but just different points of view.
Q Did you think that the more complex models yielded better results?
A If they are done properly, I think that they do.
Q Okay. Can you recall any other areas of disagreement?
A Oh, I'm sure there were as I think back. There could have been disagreements on prepayments. That wouldn't have been as much -- that wouldn't have been as vigorous a debate as around the credit loss assumptions. That's all I

183:1 can recall at the moment, although, I'm sure there were other discussions over time with that group.

It was headed previously -- Steve Swatzick headed it before Tom, and so, I mean, when he was in that group, there were, you know, debates that we had with him at the time, and that would have been a couple years prior.

Q When you said the prepayment issues wouldn't have been as big of a deal as credit loss assumptions; is that what you said?

A Uh-huh.

Q What were the credit loss assumptions you were referencing?

A Well, those would have been the projected losses.

Q Like for instance, in the HELOC model we're talking about?

A In the HELOC model we're talking about, in the subprime model we talked about a few moments ago.

Q Okay. And if you turn to the first page of Exhibit 76, there's an e-mail from Ms. McCallion to Mr. Sieracki, the middle of the page, "We're working on guidance and have briefly discussed it with Dave. The forecast and budget are both around 4.25. We need to finalize our analysis with credit risk management of exposures to credit events. We're also analyzing what 'normalized' servicing should look like. One thing to keep in mind on the HELOC residuals is that

McMurray has argued for several quarters that losses are okay. It wasn't until we got into this that he saw the issue."

Do you know what Ms. McCallion is talking about when she says she needs to finalize her analysis with credit risk management of exposures with credit events?

A So I think she's getting at a couple things here. But, you know, one of the questions that we asked at the time, do we think delinquencies are going up or going down? Because that would tie into a lot of things. So at the time that's one of the things I recall discussing with Anne and Eric. So what my view was at the time versus what others' views were.

And then this issue on the losses, the -- she says it wasn't until we got into this that he saw the issue. I believe she's talking about the subsequent draw issue. But I think there what she's getting at is that I was arguing -- I think others were arguing specifically in VAN that the losses coming out of the model were too high, and I was arguing that they were okay. I think that's what she's getting at there.

Q And -- okay. Do you agree with her that it wasn't until, whatever she means by we got into it, that you saw the issue with the subsequent draws?

A Say that one more time.

Q Do you agree with her characterization that it

185:1 wasn't until she got involved in this issue that you became aware of the subsequent draw?

A If that's what she's getting at here, and I think she is, yes, because, again, the model that was being used was an older model. It was developed, again, outside my area either in secondary marketing or in the broker-dealer. And so at this particular period of time is when we got into the guts of the model and looked at how -- and looked at the various intricacies on how it worked.

Q And finally the last paragraph where she references Mr. Sieracki mentions talking to Mr. Sambol about I guess you not being aware of the subsequent draw issue before Ms. McCallion?

A Uh-huh.

Q Did Mr. Sambol ever mention anything to you about this episode?

A I'm sure he did, you know, because I think this issue was discussed at length with the people here and then including Dave and Carlos and others.

Q Okay. Do you have any specific recollection of him talking about this?

MR. TAYLOR: Of Dave Sambol talking to him?

MR. WYNN: Yes.

THE WITNESS: I think I can recall a big meeting or a couple meetings that we were in where it was talked about.

186:1 And I was -- even before we got into the guts of this issue where he is saying, you know, the model -- he along with others were saying that the model was too high, and I was saying, no, I don't want to -- I don't support changing it.

And, again, I talked about me providing a risk perspective early on this morning, so this would be an instance of that where I would give my opinion on whether I thought the projected losses were too high or too low

BY MR. WYNN:

Q And are you speaking of the HELOC model in particular?

A We're talking just about the HELOC right now.

Q Who in addition to Mr. Sambol expressed the opinion that the model was predicting losses that were too high?

A So my recollection is Tom Rettinger, the gentleman that ran VAN.

Q Okay. Anyone else?

A I'm sure -- I'm sure there were others that were of a similar point of view, although, you know, I don't recall specific conversations with them. And I don't, as I think back on it, I'm not sure exactly where Kevin's point of view was on this issue, but I know he was involved in these discussions, you know, as we worked through this issue.

Q And in what context would these discussions have taken place where Sambol and -- who is the other guy, Rettinger?

A Tom Rettinger.

Q Tom Rettinger expressed their opinion that the model was over predicting losses?

A So either in the normal ALCO committee meetings or in the special ALCO committee meetings or in any ad hoc meetings called to discuss this issue.

Q Okay. To your knowledge -- do you know Andrew Gissinger?

A Oh, I do know Drew, yes. I have known him for 20 years.

Q All right. Was he a member of the ALCO committee?

A He was not an official member of the ALCO.

Q And before I move on, could you just describe your -- how you first met Mr. Gissinger and how you have a 20-year relationship with him?

A Sure. I first met Drew -- it may even be longer than 20 years. I first met Drew in the mid 80's. And he was a senior officer at First National Bank of San Diego, and we bought -- we bought and sold loans and servicing between the institution I was at, which was BancPLUS, and the First National Bank of San Diego. And, as I said, Drew was a senior officer there. So that's where I first met him.

Q Okay.

A And then through the course of time, you know, 188:1 there are other occasions where I met him just as being part of the mortgage industry. And then when I got to Countrywide, he was there.

Q What position did he hold when you got to Countrywide?

A When -- let's see. How does this go? I believe that he was running the insurance operations when I first got to Countrywide. And then shortly -- very shortly thereafter, he went to work for the bank. And then when Dave was promoted on two separate occasions, Drew moved up kind of into positions that Dave Sambol had or close to the positions that Dave Sambol had or close to the position. They weren't exactly.

Q Is it fair to say he was in the production origination area?

A Yeah, his background is on the production and sales side.

Q Okay.

A I mean, he's got a more expansive background than that, but that's his forte.

Q You left Countrywide in September of 2007; is that right?

A That's correct.

Q Why did you leave the company?

A I was recruited by Washington Mutual, and so -- and

189:1 if you think back to that time, I talked about the beginning of August, August 2nd or 3rd, when the secondary market shut down. That particular event had enormous consequences for Countrywide since that was one of the key mechanisms that Countrywide used to operate its business.

And so after that point in time, Countrywide was not the same. It was not as viable of an institution after that particular point in time, especially after that event occurred. And then things got better rather than worse over the course of August and into September.

MR. BENDELL: Better rather than worse?

THE WITNESS: They got worse rather than better. I'm sorry. Thank you. They continued to spiral downward. Let's be clear about it. It was the whole market, and Countrywide is one of the key institutions being pulled down by this market. So thank you again.

BY MR. WYNN:

Q Do you recall when you were approached by this head hunter or recruiter about the job at WaMu, when you were first approached by them?

A Well, I was first approached the year before by him and so had planned to go to WaMu at that time. But then was, you know, after talking to Kevin and Dave and others, I decided to stay at Countrywide.

And then after this -- you know, the capital

190:1 markets tsunami hit, the recruiter came back and approached me again.

Q Do you recall what the date was that he originally approached you before the August events?

A He had approached me a couple times. So he had approached me a couple years before. This probably would have been in 2005, he first approached me in 2005, and I had some conversations with him at that time. And then he approached me again in 2006 late in the year. And then that's when I almost came up here at that time.

And then he approached me again either in August or -- either late August or early September of 2007.

Q And when he approached you in '06, I think you said you were close to accepting the job and then talked to Mr. Bartlett and Mr. Sambol about it ; is that right?

A Uh-huh, that's right. Well, I resigned is what I did.

Q You resigned in 2006?

A Yes, I resigned. And then -- I sent an e-mail to Kevin saying that I was resigning. That prompted that conversation.

Q Do you recall when you sent that e-mail to Mr. Bartlett?

A It would have been in late 2006, maybe in November, somewhere around that time frame, maybe late October into early November.

Q Was your e-mail to Mr. Bartlett the first indication that Mr. Bartlett had that you were leaving?

A Yes.

Q So you hadn't talked to him about the interview process and things like that?

A No.

Q And when did you first tell Mr. Bartlett -- excuse me -- Mr. Sambol that you were resigning in 2006?

A Well, so I sent the e-mail to Kevin, and then Kevin and I talked. And he said, look, you are going to have to talk to Dave. And so then -- so that same evening, I had a conversation with Dave.

Q What were the reasons that you decided to resign in 2006?

A There were at least three key issues, maybe a couple more, so let me try to organize these.

So when Stan was still at the company, I reported up through his side of the organization, and so that put me in a regular conflict with Dave and his side of the organization when Dave had the position where he worked for Stan.

And so then Stan left, so one of my concerns was that someone was -- the president and chief operating officer of the company that I had -- because of my position had been in conflict with, so that was concern one.

Concern two was kind of around the whole matching thing that we talked about. And, you know, I do -- to be fair to both sides, there were occasions where there were things that weren't matched because we went through a discussion and ultimately decided not to do it for various reasons. And there were things that were matched that were subsequently withdrawn.

But in my personal view, I would have liked to see that happen more than it did and, again, recognizing that I come from the risk perspective. And so that was a concern.

I was also concerned on compensation issues, and so there was -- so Kevin had put in for my compensation to be adjusted, and Dave didn't approve it. So that was a concern because that seemed to send a signal to me.

Also there was a meeting convened of the top -- the senior officers of Countrywide that Dave ran. It was a strategy session. And so when comp issues came up, we were talking about what people in the broker-dealer earned, and so he even called me out as an example. He was like, well, I can't remember the exact words, but, you know, we have John over here who might be as capable as these other people, but much to his chagrin, we are not going to pay him the same. And so that didn't give -- especially in front of a big group, that didn't give me a warm and fuzzy feeling. So

193:1 those kind of couple of comments around the comp.

And, you know, again, the whole matching and pricing for risk, you know, I wasn't a complete buyer of that, but I just wanted -- I point out that's just a difference of opinion and the fact that he was running things now rather than Stan, I worried about whether I would still be able to express that opinion.

Q Well, to the best of your recollection, what was Mr. Kurland's view of the matching strategy?

A Well, you know, I don't know what he would say, but, you know, it went on for much of the time that he was there. And I don't -- I want to be careful that I'm not diminishing it too much because it's just my -- it's just my point of view. And there were a lot of processes around it, so it just wasn't done blindly.

But, you know, I don't think he would be as much a proponent for it as, say, Dave or others that were more sales oriented.

Q Now, going back to the first of the three or four issues you mentioned about, you know, what led you to resign in '06, you mentioned a potential for conflict with Mr. Sambol; is that correct?

A Well, not just a potential. I had had conflict with him, you know, leading up to that point.

Q Okay.

194:1 A And, again, it was kind of the natural conflict that would occur given our two roles, but now he was in -- he was in charge so --

Q Yeah. I guess my question is you had mentioned it before, and you had characterized this natural conflict of institutional players and institutional rivals, but it seems to me that it was a little more than that, the reason why you wanted to leave or --

A It was one of the concerns.

Q Okay.

A And so I want to make sure I characterize this precisely. So the specific concern was here is this guy that had been a big pain in his side, and, you know, now he was going to have to, you know, work with me even more.

Q Okay. Before you resigned, had you attempted to talk to Mr. Sambol, Mr. Bartlett or anyone else about your concerns about having the conflict with him?

A Well, so remember I didn't report directly to Mr. Sambol, so it wouldn't be something that I would talk to him directly about.

On a lot of the strategy issues, sure, Kevin and I -- Kevin and I had talked about it, not necessarily to the point where, you know, I was suggesting that I would leave because those are always dangerous conversations to have prematurely.

195:1 So on a lot of the philosophical issues, sure, I had talked to Kevin about those.

Q Okay. But did you ever talk to Kevin about having conflict with Sambol?

A No. I mean, if you look back in some of the e-mail exchanges between Kevin and me or Dave and me, you will observe it.

Q Okay. So he knew about them?

A Oh, sure.

Q Okay.

A It wasn't nasty conflict. It was just a difference of opinion.

Q Okay. And do you recall what Mr. Kurland's position was on the matching strategy? Was he a proponent of it?

A I think he was probably somewhere between where I was and where Dave was. So he wasn't as strong of a proponent as Dave was, but he wasn't as much of a skeptic as I was.

Q Okay. And I want to get into greater detail about the matching strategy later, but could you just briefly summarize your chief concerns about it?

A Yeah, the chief concern on it is that some of your risk standards get ceded to other institutions by following that strategy. That is my chief concern.

Q And did you express that concern to Mr. Sambol?
A I did.
Q Okay. Did you express it to Mr. Bartlett?
A Certainly.
Q Did you ever directly express that concern to Mr. Mozilo?
A I brought it up to the credit committee of the board. And you will see that in at least one of the documents that I gave to them. I don't recall specifically talking to Angelo about it. That wouldn't be the kind of conversation that I would get into with Angelo.
Q Okay.
A There were some tangential ways where it came up, but not me talking what I thought the company strategy should be with Angelo.
Q What were those tangential ways that it came up with?
A You mentioned HSBC before, and so that was an issue that Angelo got involved in. So a great example of something where a product was matched, and despite great efforts for it to be done carefully, you know, there were pieces of it that didn't come off perfectly, and, you know, bad consequences ultimately ensued.
Q Besides the HSBC incident, were there any other occurrences where the credit policy -- excuse me -- the

197:1 matching strategy came up between you and Mr. Mozilo?

A So, again, the matching strategy didn't come up directly with Angelo and I. It was more examples of it being implemented. So the option arms was another -- that was another product that there were a couple of occasions that I had to discuss it with Angelo. So one was the memo that I talked about where I had helped him prepare that.

Another instance I recall is on what type of -- you know, what type of option arms should be held on the bank's balance sheet.

Q Can you think of any other areas?

A None come specifically -- I mean, there may have been some other areas, but I don't recall them right now.

Q Okay.

MR. BENDELL: I'm sorry to interrupt, but could you remind me, the memos that you helped Mr. Mozilo write, were those addressed to the entire board of directors or to the credit committee?

THE WITNESS: They were addressed to the entire board.

BY MR. WYNN:

Q And the issue being the compensation issue?

A Uh-huh.

Q Okay.

A And there were some other things, but those were

198:1 the key -- you are talking about me leaving in --

Q '06?

A -- '06?

Q Right?

A Those are the key things. There were some other things we discussed as well, but those are the ones I remember right now.

Q You can't recall any of the other things?

A Not at the moment.

Q Okay. This may or may not relate to what we're talking about, but I wanted to show you another document that we'll mark as Exhibit 77. Exhibit 77 is a series of e-mails, the last being a March 30th, 2006, e-mail from Ron Kripalani to Mr. Sambol.

(SEC Exhibit No. 77 marked for identification.)

BY MR. WYNN:

Q Mr. McMurray, do you recognize any of the e-mails that are depicted in Exhibit 77?

A So I recognize some of the -- I don't recognize the top one that Ron sent to Dave, so I'm not copied on that. But the other ones are e-mails that Grant sent to me on -- well, not all of them, but there's a couple that are addressed to me in here. And so I do recall conversations with Grant about this particular issue.

Q Okay. And just let the record reflect that Exhibit 77 is a CFC2000B008679 through 008681.

Mr. McMurray, who is Grant Couch?

A Grant -- let me go through the hierarchy here. Ron Kripalani is the head of the broker-dealer. Dave Sambol we already know. Grant Couch is -- I would characterize him as the second in command for the broker dealer and one of Ron Kripalani's key direct reports. So among the areas he ran for the broker-dealer, it included trading -- it included some things beyond trading, but he was one of the key guys in the broker-dealer.

Q And just looking at the e-mail from Mr. Couch to you on the first page of Exhibit 77?

A Uh-huh.

Q It seems he's trying to get you involved in the process of hiring a senior manager for --

A Well, there are two separate issues going on here.

Q Okay.

A So the broker-dealer had a counter party credit risk department, and so that department was responsible for managing the credit risk for the different counter parties that they did business with. So that would be everyone from small mortgage bankers on up through Fannie Mae, Freddie Mac, Bank of America, City Corp, et cetera, all of the various counter parties that they would do trades or other -- conduct

200:1 other business with.

Each of those counter parties had to be approved, and there was a department inside the broker-dealer that managed that credit function. And so the gentleman that was running that, as the broker-dealer's business grew both in volume and the types of businesses they were in, we didn't think -- or I didn't think and they agreed that the guy that they had was up to the task.

And so one of the two issues was getting a new person to head up that function, and the second possible idea that was being kicked around is moving the function either over into the corporate credit area, the central credit area, which I had, or kind of 2B, that is 2A, so issue 2B was potentially putting it under David Fox. So he was the risk manager for the broker-dealer, but this counter party credit piece was carved out separately.

Q What was your opinion of having the function moved into your department?

A I wasn't crazy about the idea for a variety of reasons. So that was my thinking at the time.

Q Okay. What were the reasons that you weren't crazy about the idea?

A From a couple different perspectives: One, I already had a lot of things going on, so it would be adding another diminishment of my focus. So that was one concern.

201:1 A second concern was there was -- there was some improvements that I think -- that I thought needed to be made to this function, and we talked about one, hiring the new head of it. And so especially given all the other activities that I had or that I was involved in, I wasn't anxious to take on a fix-it project.

You know, third, I wanted them to be more in charge of their own destiny and not pushing this off and simply complaining about it. So those are the three -- kind of three issues that I recall not being anxious to support that being moved over.

Q So in the e-mails from Mr. Grant to yourself on the first couple of pages -- the first two pages of Exhibit 77, what is it that Mr. Grant is trying to get you to do?

A Well, you know --

Q Or Mr. Couch, what is he trying to get you to do?

A I don't agree with Ron's characterization at the top of the page. And my recollection is that I had conversations with Grant about this issue at the time. He sat just downstairs from me. So he was not only an easy phone call away, I could literally just go right down the stairs and be in his office or he could come right up the stairs and be in my office.

So these e-mails reflect only a small portion of the various conversations that went on around these issues.

202:1 So I think he wanted to talk about both issues, the possibility of the reorganization, which you see on the top of the second page, so that's one, and then two, he wanted me to either have a phone call or meeting with one of these candidates. And so that was the other issue.

And I did have interviews and/or phone calls with some of the various candidates that we considered, and we even ended up -- we even ended up hiring a guy that we ultimately decided wasn't strong enough to run the department, but that was an important supplement to the department.

Q Who is that?

A His name was Szerzetes, like the Persian prince, and Sarkay, I think it's S-A-R-K-- S-A-R-K-A-Y, I think, is the last name.

Q So in a March 29th, '06, e-mail Mr. Couch says he tried to contact you many times. Do you think you subsequently talked to him or had you already talked to him about these issues?

A I had a lot of conversations with him on these issues over time. I don't know how those interspersed with these particular dates, but I had many conversations with him about this particular issue.

Q And you mentioned the e-mail to Mr. Sambol, do you think -- well, he seemed to be upset. Do you know what is

203:1 behind that?

A Well, I think there were a lot of things that they were -- let me back up.

There were things that they worked with us on, and this would just be one example, but there were others where they wanted it to be treated as their -- whatever their issue was to be treated as top priority and to be put on the top of the stack.

Q Okay.

A And a -- yeah, so that would have been the key -- that would have been one of the key beefs that he had with me in general was just how his issues got prioritized relative to other issues going on in the company.

Q Did he ever directly communicate those concerns to you?

A Sure. We had conversations -- usually not in such a general way, but more on specific issues where he would want them done -- where he would want them moved ahead or done sooner.

Q Is this -- would this be an unusual? By "this" I mean to have someone going to Mr. Sambol about an issue like this with you?

A No.

Q Did that happen --

A It wouldn't be unusual.

204:1
Q So it happened on occasion?
A Sure, it happened on occasion.
Q Okay. Were others aware that you had institutional disagreements with Mr. Sambol?
A Well, let's be -- when you say institutional disagreements, tell me what you mean by that.
Q I'm --
A I'm not sure if you are watering it down or ramping it up.
Q I won't say issues. But did people know that from time to time that you had policy disagreements with Mr. Sambol?
A I think so. This isn't really so much of that kind of an issue, though. This is just more of one of prioritization.
Q Right. I'm just saying, you know, to your knowledge did Ron think that Dave had a sympathetic ear to complaints about you?
A He was my boss's boss, so if they needed help with anything that I was involved in, that would be one way -- that would be one way to get it. That would probably be quicker than going to Kevin.
Q Okay.
A Also remember that Ron worked for Dave for many years, so still reported to him directly and so, you know, it

205:1 would have been a reasonable avenue for him to take.

Q Is today the first time you have seen the e-mail from Ron to Dave?

A I saw it previously just the other day for the first time.

Q Okay. Did Mr. Sambol ever talk to you about Mr. -- Ron's complaints?

A I don't recall this specific one being talked about, but there were others that were talked about. And so the commercial real estate area, so there were frequent prioritization issues there as well.

So as a matter -- and commercial real estate was developed later on, so the whole process around that was more involved than what we had done on some of the other businesses. So that was often an issue. The repo financing, you know, whether I was supportive -- whether I was supportive on, you know, certain counter parties, that was an issue, certain product types, that was an issue.

So Dave was his boss the whole time that I was there, and so he would go to Dave directly if he wasn't -- if he wasn't satisfied with how I was viewing the issue.

Q So the three issues you just mentioned are issues that Ron and/or his department had with you?

A Yeah, they were common -- they were common areas of debate.

206:1

Q Between your division and Ron's?

A Uh-huh.

Q Okay.

MR. TAYLOR: Is that a yes?

THE WITNESS: Yes, that's a yes. I'm sorry. Yes.

MR. TAYLOR: Paris, can we go off the record when you get to a convenient stop just to talk about timing for a moment?

MR. WYNN: Sure. We can go off the record now.

(Discussion off the record.)

BY MR. WYNN:

Q Why don't we go back on the record. It's 4:04 p.m. Mr. McMurray, if we could look at Exhibit 77 one more time? It's an e-mail from Mr. --

A Kripalani.

Q -- Kripalani to Mr. Sambol?

A Uh-huh.

Q Do you recall where you were when you first saw this e-mail?

A I was sitting in this room.

Q Okay.

MR. BENDELL: I'm going to ask you one additional question. When you saw the e-mail sitting in this room before today, did it have any what we call Bates numbers which is the -- you see the number on the bottom right there

207:1 that begins CFC2000?

MR. TAYLOR: I'm going to object on grounds of privilege.

MR. BENDELL: I don't think the contents of a document including the Bates numbers -- I mean, are you saying the document itself is privileged?

MR. TAYLOR: No. If he saw it in the last couple of days in this room, it was in the context of a privileged communication.

MR. BENDELL: Right. And what I'm trying to get at is whether the version of the e-mail that he has seen has been produced to the commission. I'm not sure that the witness -- I could ask him that question, but I doubt that he's going to have the information. And one indicia of that would be whether it had a Bates number and what the prefixes he remembers was.

I think I'm entitled to it. I think I'm entitled to any questions about the contents of the document regardless of the circumstances of where he saw it. I don't think the contents of this document or any version of it, there's no lawyer on here, there's no privilege.

MR. TAYLOR: No, but what version of any document he was shown in a privileged communication I do think is privileged. And I'm going to object on grounds of privilege and instruct him not to answer.

208:1

MR. BENDELL: Can I have the question back, please?

(Question read by the reporter.)

MR. BENDELL: I'm going to ask the question just one more time to try to ask a more precise question, and if you want to instruct again, I understand.

But, Mr. McMurray, you testified earlier that you had seen the exhibit that -- I'm sorry -- the e-mail that is at the top of Exhibit 77, the e-mail from Mr. Kripalani to Mr. Sambol, previously while sitting in this room.

My question is when you saw this e-mail from Mr. Kripalani to Mr. Sambol previously, did the version of the e-mail that you saw have the Bates numbers -- did it have Bates numbers on it? And by Bates numbers I mean a sequential numbering system on the bottom of each page.

MR. TAYLOR: Yes, I'm going to object on the grounds of attorney-client privilege and work product and instruct the witness not to answer.

MR. BENDELL: All right. And, Mr. McMurray, are you going to follow your attorney's instruction not to answer that question?

THE WITNESS: (Non-verbal response.)

MR. TAYLOR: Yes.

THE WITNESS: Yes.

MR. TAYLOR: You are.

BY MR. WYNN:

209:1

Q Mr. McMurray, when you told Mr. Bartlett that -- when you resigned and sent an e-mail that you were resigning, what did Mr. Bartlett do to -- well, excuse me. What did Mr. Bartlett do once he received the e-mail?
A So --
Q In 2006, the first one.
A Yes. So, you know, he called me over and said, "You are not going to resign." And then -- and so we talked about it for a while. And then I left his office.
And we were interviewing a gentleman named Allen -- I will remember his name in a minute. And so he came over to my office and said two things: One, "Would you still please interview Allen, I would like you to interview him, so please do that," and I think it was on a Friday that this all occurred. So he said, "You know, I know it's late in the afternoon, but please interview him anyway. And, secondly, Dave is going to come by and grab you to talk to you, so, you know, that's going to -- that's going to probably happen sometime this afternoon or this evening."
Q When you talked to Mr. Bartlett, did you mention any of the three factors you just described to me as the factors that led you to want to leave?
A I recall mentioning all of them and then -- but with more elaboration than I can recall today. But, you know, those three would certainly be the ones I recall. And

I think there were other parts to the discussion as well.
Q Did your e-mail, your e-mail resignation, contain the reasons why you were resigning?
A My recollection on the e-mail was that it was fairly short and to the point, maybe just a sentence or two.
Q Okay. Did you give two weeks' notice or do you know how long you gave?
A I don't think I specified a particular amount of time in the e-mail is what I recall, just the fact that I was -- that I was leaving, that I was resigning.
Q Okay. And if you recall, how long after Mr. Sambol's public comment about your salary did you resign in 2006?
A The public one? That had happened earlier the same year. It was, you know, a couple months at least before. I don't remember exactly when that -- I don't remember exactly when that occurred, but the same year some number of months before.
Q And in addition to Mr. Bartlett and Mr. Sambol, were there any other recipients of your resignation e-mail in 2006?
A I sent the e-mail to Kevin --
MR. TAYLOR: I was going to say I think he said in addition to Mr. Bartlett and Mr. Sambol.
MR. WYNN: I did.

MR. TAYLOR: I think his earlier testimony was he sent it just to Mr. Bartlett.

MR. TAYLOR: Perhaps you want to clarify.

THE WITNESS: I just Kent it to Kevin.

BY MR. WYNN:

Q And you assume that he told Mr. Sambol?

A I suspect he probably forwarded the e-mail. That would have been more his style. But he either told him or forwarded the e-mail, one of the two.

Q Okay. But in any event, he told you that Mr. Sambol wanted to talk to you?

A He did.

Q Did you end up talking to Mr. Sambol?

A I did.

Q And what did he say?

A We went through all of the various concerns one by one, and he gave me his perspective.

Q Okay. Did you discuss your concerns about the matching strategy?

A We talked about -- we talked -- I don't know if I framed it exactly in matching strategy, but rather just the expansion of guidelines that had occurred over time as a result of the matching strategy. That may have been more along the lines of the way that I framed it. But we talked about that, and, you know, my -- you know, my ability to have

212:1 input and meaningful input into the strategy.

Q Did you discuss with Mr. Sambol your point about just having disagreements with him and being a little leery of him being your boss's boss?

A Yeah, we did -- yeah, we talked about him and the role he had prior to Stan and the fact that I had worked for -- in Stan's chain of command and that I had also worked for Nick Kresnich and there had been conflict and that that was a concern.

Q Now, what did he say in response to that concern?

A Well, he dismissed the concerns, but I'm saying that in too harsh of a way. I mean, he had a more elegant way of dismissing it.

Q And what about your point about the expansion of guidelines, did he address that?

A He did. We talked -- we talked about that. You know, he had his own point of view on that. So, you know, from his point of view, you know, the company's -- that was very important in the company's strategy. But he indicated, you know, that he wanted to hear the other perspective, meaning my perspective.

Q And did you raise the compensation issue with him?

A I did.

Q And how did he respond to that?

A He said -- he said to come back with a proposal.

213:1 Q Okay. Did you eventually get an increased compensation package as a result of these discussions?

A I did -- I put together -- I put together a proposal and showed it to Kevin and to Dave, and Kevin said that it looked reasonable, and so that was the arrangement that I had -- was operating on from then forward.

Q To the best of your recollection, what was the date that you resigned in 2006? Do you remember what month it was?

A As I said before, I think it's in either October or November of 2006, somewhere in that time frame.

Q Did you have any kind of trepidation about staying with the company having already submitted a notice of resignation?

A I had trepidation about leaving and trepidation about staying. So leaving a company is always tough to do because you are leaving a known and going to something that is an unknown, so I had trepidation around that. But also I had some trepidation with staying as well.

Q Did Mr. Sambol or Mr. Bartlett in any way tell you that there would be no repercussions as a result of you having resigned now that you had decided to stay?

A They said something to that effect. I don't think it was phrased exactly that way. But we talked about that. We talked about -- or I worried about that, that, you know, if I stay is any part of this going to be held against me in some way. So, sure, that was a concern that we talked a little bit about.

Q But at some point you became comfortable that it wouldn't be a concern or did you become comfortable?

A Well, I don't know that you can ever become completely comfortable about something like that. But, you know, I was comfortable enough to stay.

Q Okay.

A And we did talk -- we did talk about it, and both Kevin and Dave reassured me that it wouldn't be something that would be held against me.

Q Now, outside of Mr. Sambol and Mr. Bartlett, did anyone else know about your resignation in 2006 at Countrywide?

A At the time?

Q Yes.

A I'm not sure. I mean, I didn't -- I didn't talk about anyone -- I didn't talk about it with anyone else at the time that I recollect -- or that I recollect right now. There were a few other people that I mentioned it to subsequently.

Q After you decided to stay?

A After I decided to stay, you know, kind of in the end of the year or so that transpired between that time frame and when I did eventually leave.

Q Did you discuss -- did you ever discuss your 2006 resignation with Mr. Kurland?

A You know, not right -- not right at the time because he had already left the company. But it may have come up in a subsequent conversation. So at the end of -- towards the end of 2007 or the beginning of 2008, there were some communications that I had with Stan, so it might have come up in that conversation.

Q Okay.

A I don't remember specifically, but, I mean, it could have easily come up.

Q To your knowledge was Mr. Mozilo ever made aware of the fact that you had resigned in 2006?

A I don't know whether he was or wasn't.

Q So it seems like your 2006 resignation didn't go very far. Did you resign and then within a few days did you withdraw the resignation? Or what was the time process?

A It was pretty -- you know, in the course of the next few days, I decided to stay.

Q Okay.

A And then just kind of went back into the normal routine.

Q Okay. Had you done any formal, you know, resignation procedures like, you know, alerted HR or

216:1 Countrywide or people like that?
A I had not alerted HR yet. Again, the sequence was e-mail to Kevin, discussion with Kevin, conversation with Dave, that was all in the same day is what I recall.
Q All right. And how soon after your decision to stay at the company did you have your first additional contact with the head hunter about the WaMu position?
A It didn't -- the contact and the gentleman's name is Mike Bruce. That didn't occur until the late summer or early fall of 2007.
Q Okay. Do you know when you accepted the offer at WaMu?
A It would have been sometime in September of 2007.
Q Did you use anyone at Countrywide as a reference?
A No -- I mean no. I mean, they may have talked -- now subsequently Stan told me that Kerry Killinger called him, but I didn't give Stan out as a reference. Kerry just called him on his own.
Q Kerry who?
A Killinger, who is the CEO of WaMu. So Stan made me aware that Kerry had called him, I think, when I actually got hired this time.
Q In September of 2007 before you accepted the WaMu offer, were you of the opinion that your concerns as to the matching strategy and/or the general expansions of

217:1 underwriting guidelines had been adequately addressed by the company?

A Well, I do want to be -- before I answer that, I want to be clear what prompted me to consider the WaMu offer was mostly driven by what had happened in the capital markets. So let's go back to that time frame. So the secondary and the capital markets closed down for mortgages and mortgage securities. Countrywide lost its ability to do commercial paper. The ability to do medium term notes was gone. The federal reserve would not let us borrow at the discount window outside of the -- outside of the bank proper, even though we were a primary dealer. And what else happened?

So we had to exercise the backup -- or hit the backup lines, which are something you normally would never -- would never draw against. So that's, you know, really a last resort kind of a thing.

So all of those things happened before I resigned. And those were the biggest factor that prompted me to make the move. So I just wanted to be clear about that.

Q Okay. And if you recall my question, could you go ahead and answer that one?

A So your question had to do with matching strategy, and I want to be sure I understand it.

Q I will just ask you again. As of early 2007, 218:1 before you accepted the WaMu offer, had the concerns you expressed to people at Countrywide about the matching strategy been adequately addressed?

A I want to be careful with the word "adequately." They had been better addressed. But as far as what is adequate, I would have to think about that. But I do -- and there's two periods of time that I want to separate out, two or three periods of time.

So when I decided to stay and through the entire period where there really wasn't any disruption in the secondary market, my impression was that I was being listened to a little more than I was before on matters of strategy. So that was my impression, although, the matching strategy was still in place, and we even had an open debate about it.

So there was a meeting where we assembled all of the senior managers. And so Dave even asked, he's like, you know, John wants -- let's talk about the matching strategy with all of the senior people in the room to see what people think.

And so there was that kind of public debate about the strategy. I think the consensus was that the company would be better off continuing to follow that strategy than not follow it. And so that happened.

So then there was the initial disruption in the secondary markets, which was in early 2007. So when that

219:1 happened, we started more aggressively cutting back guidelines without -- you know, without so much attention being given to what competitors were doing.

And then as we moved into the second quarter, the tempo of that picked up to a much greater degree. A lot of that, though, to be fair wasn't driven so much by my views, but rather simply by things that were happening in the secondary market.

MR. BENDELL: In other words, the inability to sell the loans or the packages -- the securities of the loan packages on in the secondary market?

THE WITNESS: That's right. And, again, you know, I want to characterize this because there were several phases. So things particularly around subprime started to get -- started to get rough -- I guess rough is a good word -- but, you know, started to depart from normal in the early part and the middle part of 2007. It wasn't until August that things completely shut down.

BY MR. WYNN:

Q You mentioned the initial disruption of a secondary part in early '07.

A Uh-uh.

Q Can you describe that a little more fully?

A So that was mostly around subprime. So, you know, one example of that is some of the disruption that occurred

220:1 in the two Bear Stearns funds, so that would be an example where the trading activity and the various subprime types of securities was not -- was not being -- you know, not happening in the way that it traditionally had.

Q What do you mean by that?

A So just things not being able to be as readily bought and sold as before.

Q So some subprimes accreditation pools were not as liquid as they were before?

A That's right. You characterized it more elegantly.

Q Okay. And I think you said that that resulted in some underwriting changes at Countrywide?

A It resulted in a couple things. So a little while ago we talked about the subprime residuals being written down, so that was one thing that happened. And then it also -- it also weighed in on some of the underwriting -- or some of the underwriting and guideline issues that were being discussed at the time.

Q I'm going to show you what we'll mark as Exhibit No. 78. Exhibit 78 is a September 11 e-mail from yourself to Mr. Sandy Samuels, Susan Bow and Leora Goren.

A Uh-huh.

(SEC Exhibit No. 78 marked for identification.)

BY MR. WYNN:

221:1

Q And to clarify, Exhibit 78 is a September 11th, 2007, e-mail. Mr. McMurray, do you recognize Exhibit 78?

A I do.

Q Okay. What is Exhibit 78?

A Exhibit 78 is an e-mail I sent to the people that you just listed off.

Q Okay. And did you also cc yourself on this e-mail to your Yahoo account?

A I did.

Q Why did you do that?

A Because I wanted a copy.

Q And if you look at the "to" line, can you tell me who Sandy Samuels is?

A Sandy Samuels is the general counsel for Countrywide. Susan Bow is an attorney that reports to him that is responsible for securities and a number of other things. Leora Goren is the head of HR. Kevin was my boss -- Kevin -- or Dave Sambol, my boss's boss, and Drew Gissinger, the head of the production areas. And then Michael Tudzin is an attorney that was helping me with resigning from Countrywide and going to WaMu, so someone I personally retained, the mtudzin@tudzinweiss.com.

MS. PAN: I would just like to reserve the right to contest this later on privileged grounds. Thanks.

BY MR. WYNN:

222:1

Q I'm going to read some of this out, and then I will ask you some questions about it.

All right. "The purposes of this e-mail is twofold. First, I wanted to express my gratitude and respect. My time at Countrywide has afforded me the opportunity to see and learn a lot. The company's breadth and depth in mortgages is unmatched and there are many out standing professionals working here. My strong desire is to part ways amicably.

Second, I wanted to express a concern. I've now heard from several people both inside and outside the company that my departure is being described as me being forced out of Countrywide as a scapegoat for aggressive underwriting practices, liquidity issues, et cetera. The reason I'm concerned is that this version of events is not only inaccurate, it's also damaging to my reputation. I'm leaving Countrywide of my own accord to accept a position at a larger and more diversified institution. Countrywide's guideline expansion was driven by the company's long-standing corporate strategy of matching competitor offerings. This strategy predates my arrival at Countrywide and has since been debated on a number of occasions with me providing the countervaling perspective. While I'll concede my view was wrong for most of my time here at Countrywide (i.e. matching was a successful strategy), I don't want to take credit or blame

223:1 for a strategy I didn't create and often questioned.

The last thing I want is to be in a position of having to refute inaccuracies, though I am prepared to do so if necessary. Thank you for your help in keeping the information accurate and the transition amicable."

Mr. McMurray, what led you to send that e-mail to the recipients indicated?

A There was a gentleman Dave Stevens who I worked with at Freddie Mac. And so he was at Long and Foster. He was the president of Long and Foster's mortgage company. As I said, I knew him from Freddie Mac and have stayed in touch with him.

So he told me about a conversation that he had with some people that worked for Drew where -- and again this was second or third hand, but he said -- his impression was that those Countrywide folks were describing the situation as me being forced out.

And so when I heard that, I was -- I was quite concerned, and that's what led to me sending this e-mail.

Q When you say that you have heard from several people both inside and outside the company, was there anyone else besides Mr. Stevens that told you about these?

A Dave was the main one. But then I tried to think through who he might have talked to as a Countrywide employee, and then I attempted to catch up with some of those

224:1 folks and have conversations with them.

So Dave was the guy outside the company, and then some of these other guys, and I'm sorry I don't remember their names, that I tried to catch up with inside the company that would have worked way down in the organization under Drew were the people inside the company that I caught up with.

Q So you don't recall their names, but you did contact them?

A I did contact them. Here today, off the top of my head, I don't recall their names because they wouldn't have been someone that I would have dealt with on a typical day in and day out basis.

Q And did these people confirm that rumor was being propagated that you had been forced out due to underwriting?

A They were murky -- they were murky on it, and so I think a lot of it was just speculation is kind of what the conclusion -- or yeah, I didn't ever come to a conclusive determination of what happened, but to me it sounded like it could have been some speculation that was going on. That was a possibility.

Q Were you ever able to obtain any proof or evidence besides Mr. Stevens' comments to you that these rumors were being spread about you?

A Just the conversations with Dave and then the

225:1 conversations with some of the other people that had conversations with him kind of was the extent of my looking into this.

Q Did Mr. Stevens identify any people who he had talked to?

A No, he wouldn't. And so that's why I had to go looking around in Outlook which is the corporate -- you know, that shows all the corporate hierarchy of who was his rep at Countrywide since he wouldn't tell me.

Q And what was the name of this attorney again?

A Michael Tudzin.

Q Michael Tudzin. Okay. Did you retain Mr. Tudzin before or after you had heard these rumors?

A I retained him before I heard these rumors to help me on resigning from Countrywide and going to WaMu to make sure that, you know, I considered all the appropriate things. And so I copied him on this. And when I wrote this, I was unhappy. And so, you know, in retrospect, I might not have worded it as strongly, but it irritated me when I heard the rumor.

Q And why did you decide to direct the e-mail to people at Countrywide's legal department?

A Well, let me go through each person. So, you know, Sandy and Susan, you know, there were a number of issues over the years that I had talked to them about, and so they were

226:1 more -- they were more sympathizers with my point of view than others. So that's part of the reason I sent it to those two.

Leora was the head of HR. I sent it to her because she's the head of HR. Kevin because he was my boss. Dave because we had talked about some of these issues. And Drew, because the people that were saying -- supposedly saying these things to Dave Stevens worked in his organization.

Q And you mentioned you talked to Sandy and Susan about some of these issues?

A Uh-huh, over the years.

Q When you had conversations with them were you seeking legal advice?

A No.

Q So why would you have discussions with attorneys at Countrywide about these issues?

A They were colleagues I worked with every day, day in and day out.

Q Okay. And what were some of the issues you talked to them about over the years?

A Oh, my gosh. So with Sandy, we talked about, you know, the responsible conduct and responsible lending committee. He was on that. So one of the issues that he and I talked a lot about was, you know, how we had done a number of borrower education pieces at Countrywide, and there were a

227:1 couple that I had even written up and shown to Sandy.

Also I worked with Sandy on legislative and regulatory issues, so there were things in his opinion and my opinion that the legislative -- as a matter of legislation or a matter of regulation that could be handled differently. And so I talked to him about those issues.

You know, Susan worked on a lot of governance issues, so we talked about the credit committee. We didn't always have a credit committee. It was finance and credit together and then that got split apart. So on matters with the board and with the other corporate governance, I worked with Susan closely on those issues.

So those are just a couple of examples on those two of the kind of business-related things that I would work with them on.

Q Well, with respect to discussions with Sandy Samuels, you mentioned responsible lending?

A Yes.

Q Did you have any problems or concerns with responsible lending from a Countrywide perspective?

MR. TAYLOR: I think I need to clarify on privilege issues here. I presume you are not asking him for any items discussed with Mr. Samuels -- discussions related to getting legal advice? You are asking for discussions that he had that were not involving legal advice; is that right?

228:1 MR. WYNN: That's right.
MR. TAYLOR: Okay. So with that clarification, limit your answer to discussions that were not either you seeking legal advice or him providing legal advice or giving you direction with respect to legal issues.
A All right. So and this what I'm about to tell you about is a very important issue in my view for the whole industry.
So where -- you know, you want to have -- you know, it's a social good to have more people in houses. You know, where do you draw the line on -- in order to get more people in houses, you have to -- you are going to have to have more aggressive underwriting guidelines. Where do you draw the line? How do you strike the balance? So that was one -- that was an example of a responsible lending issue that Sandy and I talked about all the time, you know, what was the best way to draw the line.
And, in fact, when we would ask people outside of the company how we should draw that line, I don't ever recall getting a cogent answer.
BY MR. WYNN:
Q Did you ever discuss with Mr. -- Sandy Samuels, is that a woman or a man?
A He's a man.
Q Okay. Did you ever discuss with Mr. Samuels --

well, did you ever tell Mr. Samuels that your position was that the line had been drawn too far, as far as being too close to, you know, expansive underwriting guidelines as opposed to tightening it?

A That's -- that way of characterizing it is probably an over simplification of things, and so I would want to be careful about -- I would want to be careful about that just drawing a sweeping conclusion.

Now, on any one of the -- not any one, but on many of the sub issues kind of that comprise underwriting guidelines and products, sure, Sandy and I had lots of discussions about that because I wanted to get his business opinion. I mean, there were -- there could have been legal opinions, too, which I won't tell you about, but just to get his business opinion, you know, because he was responsible working on the legislative front. And so that was something we tried to have conversations with various legislators.

Q Well, at any point in time did you ever come to the conclusion that Countrywide had gone too far with respect to the expansion of underwriting guidelines from a responsible lending perspective?

A From a responsible lending perspective? Again, I don't want to make a sweeping conclusion like that. But there were a variety of things of specific instances that came up, and I can give you some examples that we talked

230:1 about where that was my opinion. And those got debated and some were -- some were carved -- you know, sometimes my view prevailed and sometimes my view didn't prevail.

Q Okay. What are some of those instances?

A So one that I recall and kind of the slang term on this is hard money lending, and so it would be underwriting -- you know, giving credit basically mostly on the basis of collateral rather than on the basis of collateral plus the ability the borrow -- the borrowers projected ability to repay. So that was one thing that we discussed at the responsible conduct committee, that particular program.

And just to give you an idea of some of the nuances of it, you know, should we -- should we buy closed loans from somebody else? Should we be originating these loans on our own? If we have an existing customer that's in foreclosure that might be saved by one of these loans, should we provide them financing? In the wholesale area where loans were brokered in, is that somewhere where we ought to participate?

So the question was should we participate at all? If so, how? And then also, you know, this is kind of the prime subprime question exactly how should we define -- how should we define this?

You know, another area of debate is we had done some of our brochures and material for the -- for our pay option arm, and so there were differences of view on how --

231:1 on how -- how to go about that.
Q How to go about doing brochures?
A You know, how to do the brochures, what should the content -- you know, what should the content be, how stern should the warnings be, that kind of a thing. And so he was involved in that.
Q Since you mentioned brochures, I just want to show you Exhibit 39, which is a Countrywide pay option arm brochure. Have you ever seen Exhibit 39 before?
A I don't recall seeing this specific one. It appears to be one out of the wholesale area. If you look in the upper left, it says Countrywide's America's Wholesale Lender. So it appears to be one that that particular division put out.
Q If you focus on certain elements of the Exhibit 39, like, say, the exclamation after 10-year recast?
A Uh-huh.
Q You know, the documentation information, full, reduced, and then the loan to value ratios are mentioned?
A Uh-huh.
Q Do you have any thoughts about whether this -- you know, where this document falls with respect to responsible lending?
A You know, I have opinions on it depending on who else you had in the room could be hotly debated.

232:1

Q What do you mean by that?

A Meaning while I may have opinions on some of these various things, I'm not -- I'm not -- I'm far from the last word, you know, on having an opinion on these things. So, in other words, there could be different points of view, all of which might be equally valid.

Q Understood. But what are your own opinions on that?

A So we talked about leverage earlier, and so that's a comment that I made generally that would apply to all loans. I would say it even applies more so to the option arms. Option arms weren't offered at 100 percent LTV, however, 95 and 90 are relatively high LTV's. And with an option arm, it has got the provision for negative amortization, so the balance on the loans can go up.

You know, just a couple other risk issues to point out, so that's more from the borrow's perspective. From Countrywide's perspective on the 95 percent LTV, that particular program I'm virtually certain would have included mortgage insurance. So a big portion of that risk would have been born by a mortgage insurer.

Where it says 90 percent CLTV, that's combined loan to value ratio. So there there's a second lien that would be involved. And so with second liens, there's even a bigger portion of the risk that would be retained by Countrywide;

233:1 although, the leverage itself is lower than the 95.

I talked before about documentation being an important driver of credit risk, and so you see a couple different documentation types offered there.

Also we talked about the owner occupied second and investment. We haven't talked about the four payment options. That's something that is unique to an option arm program.

Q So the things you just mentioned, and I will list them, so loan to value, a high loan to value is something that you consider a risk factor?

A The higher -- it works like this: The higher the loan to value, the riskier the loan is, all else equal.

Q And at any time during your tenure at Countrywide, did you ever see any type of correlation between loan to value ratios and default rates?

A I did, and there was a number of reports and studies that were shown both inside the firm and outside the firm that showed the relationship between leverage and serious delinquency or default.

Q And what is the relationship -- what was the relationship?

A The higher the leverage, in other words, the higher the loan to value or the combined loan to value, the higher the likelihood of a serious delinquency and hence a default.

234:1

Q And is that -- is this correlation and that phenomenon with loan to value something that you communicated to senior management at Countrywide as being a potential credit risk?

A First of all, I think that was generally well understood by most in the company. And despite that, yes, it is something that we looked at and talked about. And it was -- there were a series of reports that my group generated every month, and so there were various ways that different LTV's, the performance on those, was shown.

Q What types of reports are you referencing?

A So these are -- the generic term was product books, so there was a subprime product book, a conforming product book, a single family prime product book, a HELOC book. And so these were, you know, perhaps 100 pages or so of detailed performance information on the various loan programs, and it would look at different, what I will call, cuts, like loan to value, how the different loan to values were performing, how the different FICOs were performing, different occupancy types, different documentation types.

Q And why were these books made?

A So we could see how the loans were performing.

Q Who were these distributed to?

A They were made -- anyone from board directors that wanted it to virtually anyone inside of the company. There

235:1 was a distribution list that they went to just as a matter of course, but they had very wide distribution throughout the company. And then the work that was done on those was used as the basis for a lot of other presentations, either to the board, the internal credit committee, presentations that were done for outsiders, for the rating agencies.
Q If you wanted to get those books today, who would you ask or what department would you go to get them at Countrywide?
A So I mentioned Christian Ingerslev earlier. So there's a gentleman that works for him, I don't even know if he's still there, but Michael Burak, B-U-R-A-K. And so he was the person that generated these reports.
Q Could you spell the last name one more time?
A B-U-R-A-K.
Q What was the first name Michael?
A Michael. And Christian could help get not only these standard reports that came out every month, but there were a whole series of supplements that we did.
Q When you say these were distributed widely, did the people in product leadership have access to these?
A Yes.
Q How about senior management like the CFO, COO, CEO?
A They did. It's not something -- it's not the kind of thing Angelo would be excited to get, but it would be the

236:1 kind of thing that other people would be anxious to see just because it was very, very detailed.

Q When you say "other people," who are you thinking of?

A Stan, Dave, Eric, Carlos, Drew. You know, those are just a few to name a few that might look at these reports or some of the supplements that we did.

Q I'm looking --

A Kevin, Nick when he was there. Nick is the one that actually got the nucleus of this reporting process started. You know, also people in some of the production divisions, they could have looked at them from time to time. So they had a pretty -- they had a wide availability.

Q Did you ever identify any correlation between document type? And by document type, I mean full documentation produced SIVA or NIVA and default rates?

A Yes. So both through the reports plus through statistical studies that were shared inside and outside the company.

Q And what is the correlation between documentation type and default rate?

A So the general correlation works like this, all else equal, the less documentation that you have, the higher the likelihood of serious delinquency and hence default. That's not a new revelation, by the way. But it's one that, 237:1 you know, that we looked at to try to measure the strength of that relationship and how that performed in different instances like across geographies, across product types, among the various nuances between the different document types.

Q And to the extent you know, loans originated by Countrywide's home sale division, were those -- did any of those end up on the bank's books?

A Sure.

Q Can you say what percentage of them may have ended up on the bank's books?

A You know, it would have been a relatively low percent because a relatively low percent of the loan -- the total loans that Countrywide did ended up on the bank's books simply as a matter of balance sheet capacity. But putting a specific number on it, I couldn't do that.

Q Well, I'm thinking about the total number of pay options held by the bank. Do you know what percentage of them would have been originated by the wholesale division?

A I wouldn't. But, you know, one thing that if you don't understand that is important to understand, the principal two types of loans that the bank put on its balance sheet were home equity loans and pay option loans. And one of the key risk concerns was market risk. So loans have credit risk, but they also have interest rate or market risk.

238:1 And so if you think about why a lot of the savings and loans failed in the previous crisis, it was -- or in one of the prior crises, it was because of market risk. And so there was a desire to avoid market or interest rate risk, and so those were -- that was the principal reason that pay option and home equity loans were emphasized for the bank's portfolio.

MR. BENDELL: Just before we move off Exhibit 39, under the third bullet point there, the one about the various types of documentation that are available, could you just -- you may have covered this, but I just want to make sure the record is clear, can you tell me what SISA stands for?

THE WITNESS: Stated income stated asset. So the best -- or one way of thinking about this, if you apply for a car loan or a credit card loan, that's a SISA because you are saying what your income is and in some cases what your assets are, but you are not providing written evidence of either of those.

MR. BENDELL: All right. Is stated income stated asset the same thing or something different from a no doc loan?

THE WITNESS: Well, no doc is kind of a generic designation. So in most cases, it would be what I would call a SIVA, which is a stated income verified asset. So the borrower is stating their income, stating and verifying their

239:1 asset. But, again, the no doc tends to be a generic term. And so that could mean a slightly different thing depending on who is saying it.

MR. BENDELL: Okay. But would a SIVA loan be an example of one example of perhaps many types of no doc loans?

THE WITNESS: Yes, so let's just take income and assets as an example and quickly run through those. So SISA, stated income stated asset. SIVA, stated income verified asset. NINA, no income, no asset. So the borrower is neither stating their income nor providing documentation. NIVA, no income verified asset. They are not stating or verifying written income, but they are verifying the assets.

Preferred doc, that is someone that is coming in expecting -- the theory on that, they are expecting to document their income, and based on achieving a certain underwriting quantitative score or by meeting other credit criteria, they get what is called doc relief. So that's called fast and easy at Countrywide. It's called accept plus at Freddie Mac. Fannie has a name for it. So that preferred doc program is another widely offered documentation style.

Does that help?

MR. BENDELL: It does help. To go back to the example, one of the examples that you mentioned, NINA, no income no assets, what does that mean exactly?

THE WITNESS: So the borrower is not saying what

240:1 their income is, and the borrower is not saying what their assets are.

MR. BENDELL: And --

THE WITNESS: They are -- you know, you are measuring what the leverage is in the transaction, and you are also looking at what the borrower's credit record is.

MR. BENDELL: Is that an example of the hard money lending that you described earlier?

THE WITNESS: Not exactly. It's akin to that. But the difference would be on a NINA loan, those would generally be offered to someone that would more likely -- it could be a purchaser refinance, but a purchase might be more prevalent. And their FICO score would generally be middling to favorable.

When I think of -- when I think of a hard money loan, and, again, that's kind of a slang term in the industry, what I worry about, you know, someone is in credit trouble so they've had things happen to them where their credit is impaired, but they've got equity in their property, and someone gives them a loan on the basis of the property alone.

So in other words they are looking past their ability to pay, they are looking past the credit record, and they are looking solely to the collateral. So that's the distinction I would draw.

241:1 MR. BENDELL: But as far as I can tell from what you just explained, the only distinction there would be looking at the credit record?

THE WITNESS: That's correct. But if you looked at some of those studies that I published externally you would see how important the credit record was to predicting how someone would perform.

MR. BENDELL: The credit record, would that include factors beyond a FICO store?

THE WITNESS: FICO would be -- so FICO was the example that we typically showed out because that is one that everyone understands, but it could include things beyond just the basic credit. It could go beyond just what is in the FICO calculation.

MR. BENDELL: So in terms of measuring the borrower's ability to repay in a NINA loan, in your view the information that Countrywide or any other lender for that matter would have in assessing ability to repay on a NINA loan would be based on the credit history of the borrower?

THE WITNESS: Two things, credit history and the leverage would be the two principal things that were looked at. Now, there's some other attributes, the owner occupied, second home, investment property, that would be a consideration. Whether it was a cash out or a rate and term refinance, that would be an example of another type of a

242:1 consideration.

You know, I should tell you shortly after I got to Countrywide, so they were doing NINA loans, and we actually brought some of the -- so the reports that I referred to a minute ago, so we excerpted portions of those and went and talked to Dave who was head of production at the time, and he even agreed to cut back the NINAs based on that debate. That's just to kind of present both sides.

But, you know, nonetheless, even though others were offering that -- I mean, we offered kind of a diminished version of the NINA after that. And that, you know, continued to get tweaked through time.

MR. BENDELL: By diminished version, you mean that it was offered to fewer borrowers or do you mean something else?

THE WITNESS: It was offered to fewer borrowers because the guidelines were cut back.

MR. BENDELL: And I guess given -- never mind. That's all the questions I can ask about that.

BY MR. WYNN:

Q Back to Exhibit 78. Is it accurate to state the reason you included Sandy Samuels and Susan Bow is because from your informal discussions with them, they knew you were not a proponent of aggressive underwriting guidelines?

A I think so. Again, when I wrote this, I was very

243:1 unhappy, and so I tried to include people that I thought would care. That was part of it. And I thought that they would care. And then also people that I thought needed to know.

Q Okay. Just to be clear, you thought that Samuels and Bow knew what your true position was with respect to the matching strategy?

A The matching strategy is -- I worry about over simplifying it, but, you know, the stricter strategies on things, the more risk-oriented view.

Q Okay. So you felt that those two individuals, Samuels and Bow, knew that you had a more risk-oriented view than had been rumored --

A I felt that they would be more sympathetic to that view.

Q Okay. And why did you think that?

A Just based on interacting with them over the years.

Q Was it more a situation where you felt that they knew your view or that they shared your view?

A The latter, the sharing the view. Sympathetic to the view is the way I would describe it.

Q Did you get any responses from anyone -- either of the two cc's on this e-mail?

A So Kevin goes, "What was that," is what his response was to me in person. And then I said, "Here's what

244:1 happened." And he's like, "You are overreacting."
Q Did anyone else respond?
A No, not that I remember. I just remember talking to Kevin about it.
Q By respond, I mean did anyone reply to the e-mail?
A I don't recall any replies to it. And the discussion with Kevin was in person verbally.
Q Okay.
MR. WYNN: Off the record.
(Discussion off the record.)
MR. WYNN: Back on the record. Mr. McMurray, we are going to conclude your testimony today, and we're going to resume tomorrow at 9 a.m.
THE WITNESS: All right.
MR. WYNN: Off the record.
(Whereupon, at 4:30 p.m., the examination was adjourned.)

245:1 PROOFREADER'S CERTIFICATE

In the Matter of: COUNTRYWIDE FINANCIAL CORPORATION
Witness: JOHN P. MCMURRAY
File Number: LA-03370-A
Date: Tuesday, July 8, 2008
Location: Seattle, WA

This is to certify that I, Laurie Andrews (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)

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UNITED STATES SECURITIES AND EXCHANGE COMMISSION

REPORTER'S CERTIFICATE

I, Barbara Castrow, reporter, hereby verify that the foregoing transcript of John McMurray is a complete, true, and accurate transcript of the testimony indicated, held on July 8, 2008, at 1201 Third Avenue, Suite 4800 in the matter of: Countrywide Financial Services. I further certify that this proceeding was recorded by me, and that the foregoing transcript was prepared under my direction.

Official Reporter: Barbara Castrow, RPR

Date: July 14, 2008