

434:1 THE UNITED STATES SECURITIES AND EXCHANGE COMMISSION

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3 In the Matter of:)

4) File No. LA-03370-A

5 COUNTRYWIDE FINANCIAL CORPORATION)

6 WITNESS: John P. McMurray

7 PAGES: 434 through 626

8 PLACE: Perkins Coie

9 1201 Third Avenue, Suite 4800

10 Seattle, Washington

11 DATE: Tuesday, August 5, 2008

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13 The above-entitled matter came on for hearing,

14 pursuant to notice, at 9:03 a.m.

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436:1

C O N T E N T S

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3 WITNESS EXAMINATION

4 John McMurray 438

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6 EXHIBITS

7 EXHIBITS DESCRIPTION IDENTIFIED

8 200 E-mail 446

9 201 E-mails 466

10 202 E-mails 475

11 203 E-mail 482

12 204 E-mail 495

13 205 E-mails 495

14 206 E-mail 514

15 207 Document relating to the hard 535

16 stop issue

17 208 E-mail 583

18 209 E-mail 586

19 210 Mr Mozilo's speech transcript 592

20 211 E-mail 594

21 212 E-mail 596

22 213 E-mail 599

23 214 E-mail 601

24 215 E-mails 604

25 216 E-mail 610

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EXHIBITS

| 2 | EXHIBITS | DESCRIPTION | IDENTIFIED |
|---|----------|--------------------------------|------------|
| 3 | 217 | E-mail | 613 |
| 4 | 218 | "Pay option summary takeaways" | 614 |
| 5 | 219 | E-mail | 614 |
| 6 | 220 | E-mail | 617 |
| 7 | 221 | E-mails | 618 |

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438:1

P R O C E E D I N G S

2 MR. WYNN: Why don't we go on the record. It's 9:03
3 a.m., Tuesday, August 5th, 2008.

4 Whereupon,

5 JOHN McMURRAY

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

8 EXAMINATION

9 BY MR. WYNN:

10 Q Mr. McMurray, please raise your right hand.

11 Do you swear to tell the truth, the whole truth,
12 and nothing but the truth?

13 A I do.

14 Q Spell your name for the record.

15 A John, J-O-H-N; McMurray, M-C-M-U-R-R-A-Y.

16 Q Good morning, Mr. McMurray. My name is Paris Wynn,
17 as you know, and I'm here on behalf of the commission for the
18 purposes of this proceeding.

19 This is an investigation by the United States
20 Securities & Exchange Commission in the matter of Countrywide
21 Financial Corporation, LA-3770, to determine whether there
22 have been violations of certain provisions of the federal
23 securities laws.

24 The facts developed in investigation, however,
25 might constitute violation of other federal or state civil or

439:1 criminal laws.

2 This is really a continuation of your previous
3 testimony.

4 You were here-- we were here on July 8th and July
5 9th, and we talked, and we are going to try to finish up the
6 testimony either today or tomorrow.

7 Mr. McMurray, are you represented by counsel today?

8 A I am.

9 MR. WYNN: Would counsel for Mr. McMurray please
10 introduce themselves by providing names, firm names, and
11 addresses.

12 MR. TAYLOR: Sure. David Taylor, Perkins Coie,
13 1201 Third Avenue, Seattle, Washington 98101.

14 MR. KNOWLES: Sean Knowles, Perkins Coie, 1201
15 Third Avenue, Seattle, Washington 98101.

16 MS. PAN: Emily Pan, Munger Tolles and Olson, 355
17 South Grand Avenue, 35th Floor, Los Angeles, California,
18 90071, representing Mr. McMurray in his official capacity as
19 a former employee of Countrywide now Bank of America.

20 BY MR. WYNN:

21 Q Mr. McMurray, as I mentioned prior to the opening
22 of the record, the documents in front of you are-- first and
23 foremost, you have the two formal orders of investigation in
24 this matter.

25 They will be available throughout today's

440:1 testimony, and if you have any questions regarding either of
2 them at any time, please let me know.

3 The second document, which we've previously marked
4 as Exhibit No. 1, is a copy of an SEC Form 1662, and as I
5 stated previously, that document basically sets forth some of
6 the possible uses of your testimony as well as some of your
7 rights and obligations in connection with today's testimony,
8 and if you have any questions regarding that document at any
9 time, let me know and I'll be happy to try to answer them.

10 A All right.

11 Q Are you aware that you can assert your rights under
12 the Fifth Amendment of the Constitution at any time and
13 refuse to answer any question that may tend to incriminate
14 you?

15 A I am aware of that.

16 Q Mr. McMurray, the first thing I would like to talk
17 about is just the issue of documents.

18 The original subpoena that required you to come and
19 testify also called for production of documents, and I
20 understand, through your counsel, on a number of occasions
21 you have produced documents in the case.

22 I just want to know that are you sure that all
23 documents that are responsive to the subpoena have now been
24 produced.

25 A I'm fairly certain.

441:1 I've moved three times my residence and my office
2 twice, so I have tried to do a couple of sweeps to be
3 thorough on that.

4 Q Okay. And after the last time we met on July 9th,
5 some additional documents were produced by your counsel.

6 Can you describe how you came to find those
7 documents and then produce them?

8 A Sure. There was a CD that I had originally
9 provided that somehow got lost in the process, so that CD
10 contained just files that I thought were responsive that I
11 pulled off of my computer, and so that apparently somehow got
12 lost in the process, so I produced another one of those, and
13 I don't know whether you got the printouts or the compact
14 disk, so that was one, and then the other thing is I just
15 opened a lot of-- went through boxes that I hadn't opened
16 from my move just to look for anything that might be
17 connected to what you were looking at.

18 Q And at any time between July 9th and now, have you
19 talked to anyone other than your attorneys about this
20 investigation?

21 A The only people I remember talking to had-- I had
22 to be out for work today and tomorrow, so I told three people
23 at WaMu, at my employer, Washington Mutual.

24 Q Okay. At any time after July 9th have you talked
25 to any present or former Countrywide employees?

442:1 A I have, so David Spector who was in the secondary
2 marketing department, he called, and he was coming up to
3 visit his brother who lives here in Seattle, and so he wanted
4 to have lunch and then also to see if I wanted to come over
5 and meet his older brother, which my wife and I did go over
6 to meet his older brother and then also to see David's kids.

7 Q Okay.

8 A And we did also have lunch on that same day, just
9 David and I.

10 Let's see, a couple of people have tried to call,
11 like Nick Krsnich, but we never were able to connect.

12 That's about all I can remember right now.

13 David, as you know, particularly-- he actually came
14 up, so there was a phone call or two and then the actual
15 meeting.

16 Q Did you talk at all about this investigation?

17 A No.

18 Q And with respect to Mr. Krsnich, do you know where
19 he's currently employed?

20 A My understanding is he has his own company. I
21 think it's called JMN Financial.

22 Paris, the other thing, there's a couple former
23 Countrywide employees that now work at WaMu, so I frequently
24 have occasion to talk to them, so Don White and then Staus
25 Melnikov both worked for Countrywide and now they work for

443:1 Washington Mutual.

2 Actually, Walter Smiechewicz has had a couple of
3 conversations, so he's interested in a possible job, so I
4 have had a couple of conversations with him.

5 Q Okay. With either Mr. Smiechewicz or Mr. White,
6 with respect to any of those two individuals, did you have
7 any conversations with them regarding this investigation?

8 A With Don White or Walter?

9 Q Right.

10 A No.

11 With Staus, I didn't talk about the investigation,
12 but I said that I had to leave to talk-- for meetings related
13 to Countrywide, but I didn't go into any kind of detail.

14 Q Is Mr. White a former bank employee?

15 A He is a former-- Countrywide Bank?

16 Q Right.

17 A He is.

18 Q Is he the former CFO, to your knowledge?

19 A No.

20 There were two CFOs to my knowledge. One was Mike
21 Muir, M-U-I-R, and then Steve Thompson. He was the CFO after
22 Mike.

23 This is for Countrywide Bank again.

24 Q What was Mr. White's position at Countrywide Bank?

25 A He had a credit risk management position, so he was

444:1 typically a report of the chief credit officer at the bank,
2 so he worked on a variety of credit risk matters, including
3 the reserve recommendation for that held-for-investment
4 portfolio.

5 Q Who was the chief credit risk officer at the bank?

6 A Initially when I arrived at Countrywide, there was
7 a gentleman, Dave Walker, who I believe was the chief lending
8 officer, and there was another gentleman, Robert or Bob
9 Hunter, and I don't know if he technically had the title, but
10 kind of between them, they filled that role.

11 Shortly after I arrived, we hired Clifford Rossi,
12 and then he was the chief credit officer for a number of
13 years, and it may have been Dave again-- so Cliff asked to
14 be-- actually, Cliff was chief credit officer and then also
15 chief risk officer, but the main focus was on credit risk
16 activities, and then Cliff asked to be-- for a different job,
17 which we moved him into a different role, and the job may
18 have been vacant for a while with Dave Walker filling in on
19 an interim basis, and that was more towards 2007.

20 Q Mr. McMurray, after your testimony in early July, I
21 reviewed your transcripts, and one of the issues that wasn't
22 clear is exactly when you started at Countrywide. That may
23 have been due to a poor question on my part, but to the best
24 of your recollection, when did you start at Countrywide?

25 A September 2003, and I am fairly certain of that.

445:1 Q And when you joined in September of 2003, did you
2 assume the position of chief credit officer?

3 A Yeah. The title when I joined was chief credit
4 officer.

5 Q At some point you became the chief risk officer; is
6 that correct?

7 A That's right.

8 The other point we talked a little bit about on the
9 prior two days is that the role evolved through time while I
10 was at Countrywide, so initially when I got there, no direct
11 reports or staff, and then that changed through time.

12 Q Okay. Just the last question on this topic, but do
13 you recall what approximate date you formally assumed the
14 title of chief risk officer?

15 A I can remember the discussion around it, so it was
16 a few months prior to Stan Kurland's lengthy goodbye, and so
17 it was a few months prior to that, so it might have been in
18 late 2005 or early 2006, somewhere around there.

19 I actually recall there was a woman that was Stan's
20 chief of staff. Her name is Ray Johnson, and when Nick
21 Krsnich was leaving the company, Stan was determining how he
22 wanted to restructure things, and so ultimately they gave me
23 the title of chief risk officer, and there was some talk
24 about Walter having that title and then me having some kind
25 of portfolio management title or something to that effect,

446:1 but ultimately they decided to go with the chief risk officer
2 title.

3 Q I wanted to get into some of the documents that you
4 recently produced.

5 The first one I'll show you and I'll mark as
6 Exhibit No. 200, and the general document is September 9th,
7 2004, an e-mail from you to Keith McLaughlin, and the subject
8 is credit risk.

9 This document is JPM 969 through JPM 976, and I'll
10 have the court reporter mark it as Exhibit No. 200 and ask
11 you some questions about it.

12 (SEC Exhibit No. 200 marked for
13 identification.)

14 Q Take a second to look at it and just familiarize
15 yourself with it, and let me know when you're ready.

16 A All right. I am familiar with this document.

17 Q Can you explain what Exhibit No. 200 is?

18 A There's a couple nested e-mails, but let me go back
19 to the original e-mail, which is dated September 9th, 2004,
20 and so this is an e-mail that I sent to Keith McLaughlin, who
21 was the chief financial officer at the time, and so I put
22 this e-mail together to follow up on a conversation I had
23 with Keith to lay out my rationale why I thought credit risk
24 was increasing at the company.

25 There had been conversations-- I can even recall

447:1 around this same time there was a federal-- CFC was regulated
2 by the Federal Reserve, and so there had even been a
3 conversation with them where they didn't think there was a
4 lot of credit risk at the company, and my own point of view
5 was that there was credit risk at the company, and I thought
6 it was increasing.

7 The intent here was just to go through my thoughts
8 on the matter.

9 Q Do you recall in what context the Fed had expressed
10 its opinion that there was no-- that credit risk wasn't a
11 problem at CFC?

12 A What I recall them saying was a little more precise
13 than that, and it was a particular examiner, and I don't
14 remember his name, I'm sorry, but-- so the Federal Reserve,
15 one, tended to have someone on-site everyday, so in
16 connection with one of the exams, the examiner that did his
17 exam said in his opinion he didn't think there was a lot of
18 credit risk present at the company.

19 This was fairly early on during the first year or
20 so I was at Countrywide.

21 I think Keith tended to-- Keith McLaughlin tended
22 to share that view, at least that was my impression, and so--
23 again, what I wanted to do with this e-mail was to try to lay
24 out, in a somewhat organized fashion, my views on the matter.

25 Q Do you think this examiner made this statement

448:1 about risk sometime in 2003?

2 A Would have been either in very late 2003 because
3 that's when I got there or in 2004.

4 Q And at some point you formed the opinion that Keith
5 McLaughlin also felt that CFC's credit risk was low?

6 A That was my impression of what his opinion was.

7 Q Okay. If you look at the e-mail above that,
8 there's a July 26th, 2005 e-mail to Nick Krsnich and Stan
9 Kurland.

10 Why were you forwarding the e-mail to Mr.
11 McLaughlin to these individuals?

12 A I don't remember-- let me just re-read this.
13 If you look at the e-mail, there are areas that I
14 highlighted, so I think what I wanted to do, and I don't
15 remember what my full intent was at the time, was to bring to
16 Nick's attention, who was my boss at the time, and then Stan,
17 who was his boss at the time, some particular areas of this
18 e-mail.

19 Again, on this particular e-mail, it was one that I
20 had spent a little more time thinking about, trying to lay it
21 out in an organized fashion.

22 If you look through the e-mail, you can see a
23 number of sections that are highlighted, so I think that's
24 what I wanted to bring out.

25 Q If you look at that e-mail from yourself to Mr.

449:1 Krsnich, I am going to read some of it, and then I'll ask you
2 to comment.

3 As a follow-up to this morning's discussion, I
4 wanted to forward a copy of an e-mail put together late last
5 year for Keith. Keith told me that Angelo had asked him
6 whether our credit risk was increasing or decreasing. I told
7 Keith that I thought our credit risk was increasing and
8 prepared this e-mail to provide further explanation. This
9 e-mail was also shared with bank management, Carlos, Jim, et
10 cetera, at the time I provided it to Keith, since bank is one
11 of the key areas where we are growing credit risk. I don't
12 know whether Keith shared my e-mail directly with Angelo or
13 just had a discussion. Some of the more relevant passages
14 are highlighted below.

15 With respect to the bank management you referenced,
16 is "Carlos" Mr. Carlos Garcia?

17 A "Carlos" is Carlos Garcia. "Jim" is Jim Furash.

18 Q To your knowledge, was this e-mail ever shown to
19 Mr. Mozilo?

20 A I don't know whether it was or not. In the
21 conversations I had with Keith McLaughlin, he had told me
22 that he had a conversation, at least one or maybe more, with
23 Angelo on the subject of credit risk.

24 Q Was that before or after you sent this e-mail to
25 Mr. McLaughlin?

450:1 A He had mentioned it both before and after, and it
2 was one of the things that prompted me to put the e-mail
3 together.

4 Q Do you mean the original--

5 A The original e-mail.

6 Q So the September 9th, 2004 e-mail, in part, is
7 based upon Mr. McLaughlin telling you that Mr. Mozilo had
8 asked about credit risk?

9 A That he and Angelo had discussed credit risk.

10 Q And if you move to the July 26th, 2005 e-mail, you
11 reference a discussion that occurred in the morning with Mr.
12 Krsnich?

13 A Mm-hm.

14 Q Can you recall what that discussion was about?

15 A I don't recall exactly what the discussion was
16 about.

17 I mean, just only based on looking at the e-mail
18 this morning, I suspect it had something to do with this
19 general topic of credit risk.

20 Q And you close your July 26th, 2005 e-mail by saying
21 that some of the more relevant passages are highlighted
22 below.

23 Now, your copy of this exhibit is in color, but I
24 think the copies we have are in black and white, but could
25 you identify the provisions you highlighted?

451:1 A So the first one I highlighted, I say, "I do think
2 credit risk is increasing, both here at Countrywide and in
3 the industry in general," so that's the first.

4 The second, I highlight, "Underwriting standards
5 for collateral and borrowers have become more aggressive,"
6 and that's Roman Numeral II, Item A, and then under Roman
7 Numeral III, Item B, I highlight, "More loans are being
8 originated under riskier loan programs; e.g. ARMs with
9 riskier features; e.g. low, no doc IO, and at higher
10 CLTVs/LTVs."

11 Then on Roman Numeral IV, Item C, Arabic 2, I
12 highlight, "Loan quality: Guidelines have become more
13 aggressive in all of the dimensions described in loan quality
14 above."

15 Then under the same Roman Numeral IV, Item D,
16 Arabic 2, also "Loan quality," "We are doing less and less
17 mainstream products and more products with one or more
18 incremental risk features."

19 Then still under Roman Numeral IV, Item E, Arabic
20 3, again under "Loan quality," "Loan quality has generally
21 been stable except for increase in reduced documentation
22 loans."

23 As I highlight each of these, kind of the section
24 they are under is important because each one of these is
25 talking about a different product type.

452:1 I think that's it.

2 Q When did you come to the conclusion that credit
3 risk was increasing at Countrywide?

4 A Well, my opinion coming into the company was that
5 across the industry credit risk was increasing, so that was a
6 belief that I arrived at the door with, and so given
7 Countrywide's size and the breadth in which they participated
8 in the industry, I couldn't imagine how credit risk wouldn't
9 be increasing for them, just as a general matter.

10 Q As of September 9, 2004, does Exhibit No. 200
11 represent the most detailed statement to others in the
12 company that you thought credit risk was increasing?

13 A I am not sure about that.

14 There were lots of conversations about this issue
15 over the time that I was there.

16 I don't know whether this was the most detailed.

17 It was certainly one of the more detailed
18 communications I put together, but I don't know whether it
19 was the most detailed.

20 Q And not talking about the entire time you were with
21 the company but just up until September 9, 2004.

22 A Oh, I see.

23 It probably was, yes.

24 Again, so you had asked a moment ago when I
25 started, so I had been at Countrywide just a little bit under

453:1 a year at this time, and so I was more familiar than when I
2 first started at the company with a lot of their operations
3 and what they did, so up to that point, it could have easily
4 been the most detailed assessment like this that I had put
5 together.

6 Q Okay. And why did you highlight the particular
7 passages that you did in Exhibit No. 200?

8 A I suspect, and I can't be certain because-- but I
9 suspect that there had been a conversation that I had with
10 Nick, because I talk about it being a follow-up to the
11 discussion in the morning, and it very well could have
12 included Stan because I copied him, and I wouldn't have
13 copied-- had the conversation just been with Nick and not--
14 I'm not sure I would have-- my inclination would have been
15 not to copy Stan.

16 I suspect we were talking about some of these
17 issues in that meeting in the morning, and so I wanted to
18 point them out in this longer document.

19 Q Okay. Do you think you highlighted certain
20 provisions on the e-mail in September of 2004 or in July
21 2005?

22 A No. I highlighted these provisions in July 2005,
23 so if you went-- I don't recall doing any highlights in the
24 original, and, in fact, I even talk in the July 2005 e-mail
25 to Nick about highlighting some of the more relevant

454:1 passages.

2 Q Okay. If you turn to the second page of Exhibit
3 No. 200, Roman Numeral II, you state that "The economic
4 environment for credit risk is deteriorating because"-- and
5 under Heading A, you state that "The house appreciation we've
6 seen in recent years is unlikely to continue."

7 What was the basis for your statement as of
8 September 2004?

9 A Well, the basis for that opinion was mostly opinion
10 but an opinion informed, just by looking at house price
11 patterns previously, particularly at Freddie Mac, which is
12 where I was prior to coming to Countrywide.

13 For the couple of years following September 2004, I
14 turned out to be wrong, but ultimately this turned out to be
15 the case.

16 Q And just to back up a little bit, what was your
17 position at Freddie Mac?

18 A So at Freddie Mac, I had pricing strategy,
19 product-- offerings is what we called it rather than
20 products, at the very end structured transactions, and then a
21 department called costing.

22 Q What year did you leave Freddie Mac?

23 A I left Freddie Mac in September 2003 and then
24 immediately went to Countrywide.

25 Q Did you have anything to do-- did you do any work

455:1 in the credit risk at Freddie Mac?

2 A So my position wasn't a credit risk position, but
3 the business that Freddie Mac was in, the single-family
4 business, what they were doing was providing guarantees, and
5 so the guarantee was around credit risk, yes.

6 Q Did you do any work with the chief risk officer at
7 Freddie Mac?

8 A Well, yes, I did, and that-- so Dave Andrakonis was
9 chief risk officer, so I worked with him for part of the
10 time. I don't think his title was chief officer at the
11 particular time that I reported to him.

12 Then there was a guy, Bob Tsein, T-S-E-I-N, or I
13 may have the "I" and the "E" backwards, but I did some work
14 with him.

15 Those are the risk officers I remember working with
16 at Freddie Mac.

17 Q Did anyone ask you any questions or for follow-up
18 information regarding any of the issues you raise in Exhibit
19 No. 200?

20 A So let me kind of go through it piece by piece.

21 I'd also provided a copy of this e-mail to one of
22 the directors that was a director at CFC and also at
23 Countrywide Bank. His name is Keith Russell.

24 Let me go kind of through person by person.

25 With Carlos and Jim, we had a number of

456:1 conversations about the e-mail, and Carlos thought that it
2 was comprehensive and complicated, and so I probably had one
3 of the more lengthy conversations with him about the e-mail.

4 Then the next probably most voluminous conversation
5 was with Keith Russell.

6 I had a conversation about it with Keith, of
7 course, and those are the key conversations I remember.

8 Q Did Mr. Garcia disagree with any of the concerns
9 you raised in Exhibit No. 200?

10 A Again, I recall him saying that it was complicated,
11 and he had to think hard to pay attention to get through the
12 whole thing.

13 I don't know that he-- I don't remember him or
14 anybody else vehemently disagreeing with any of the opinions
15 that I was offering up, but I'm not certain.

16 There may have been areas where he disagreed but
17 didn't tell me.

18 Q Now, in addition to Mr. Russell, can you think of
19 anyone else who is not on this e-mail chain that you might
20 have shared this e-mail with?

21 A Well, when I say "bank management," so I said,
22 Carlos, Jim, et cetera," so I believe I also shared it with
23 Dave Walker, Cliff Rossi, and possibly with Mike Muir.

24 In the process of putting the e-mail together,
25 there were people that I had worked mostly with that helped

457:1 pull some of the information together for me, so Michael
2 Burak is one example that comes to mind.

3 If you look at some of the various numbers or
4 diagrams that are in here, Michael helped me put those
5 together.

6 Those are some of the key people I recall sharing
7 the e-mail with.

8 Q If you turn to Page 973, under the heading "F
9 AVMs," you state that "An increasing portion of our loans are
10 originated using AVMs in lieu of a standard appraisal. While
11 not bad, per se, current practice often allows the potential
12 for adverse selection because it inherently allows a borrower
13 or broker to pick the higher of AVM or appraisal."

14 Can you explain that paragraph?

15 A An AVM is an automated valuation model, and just
16 one quick tangent, but I think this is an important one to
17 understand, so Countrywide -- other than Fannie Mae and
18 Freddie Mac, Countrywide is the only institute that I'm aware
19 of that had developed their own automated valuation model.

20 In most cases, institutions used an automated
21 valuation model developed by a vendor, so back off the
22 tangent.

23 The point I was making here is that automated
24 valuation models would be one way to value a property, an
25 appraisal was another way to value a property, but that it

458:1 would be good, in my opinion, to be mindful of the options
2 that you were creating perhaps inadvertently, so with an AVM,
3 I worried about someone getting an AVM run first and looking
4 at the value and then deciding to pursue an appraisal if they
5 didn't like the AVM value.

6 What that created was what I called an adverse
7 selection effect where the broker or the consumer would make
8 choices that in every case could be-- I shouldn't say in
9 every case, but in many cases could be potentially adverse to
10 the lender's interests.

11 Q So when you joined Countrywide, was there a policy
12 that allowed AVMs to be used in conjunction with appraisals?

13 A Let me look back to which heading we are under.

14 So when I joined Countrywide, AVMs were used for a
15 variety of purposes, including as a substitute for an
16 appraisal.

17 Just as an important aside, Countrywide certainly
18 wasn't the only one that followed that practice, so it was
19 used by both GSEs, Fannie and Freddie, as well as other
20 lenders, so it was a widespread practice in the industry, but
21 the answer is yes, they were using AVMs in the origination
22 process.

23 Q Were they also using appraisals?

24 A Yes.

25 An appraisal is a traditional way that you would

459:1 get a valuation for a property, and mortgage lending--
2 there's a couple of important caveats to that, so in the home
3 equity arena, the use of appraisals would be less prevalent.

4 Q Why is that?

5 A Well, so home equity loans are a more traditional
6 bank product rather than a traditional mortgage product, and
7 so the approach with respect to valuation on the properties,
8 documentation on the loan files evolved through time in the
9 industry much differently than first liens.

10 A home equity loan can be a first lien, but it's
11 oftentimes a second lien, but it grew up in a different part
12 of the industry with different standards.

13 Q And to your knowledge, in the origination process
14 of Countrywide, was an AVM used first or was an appraisal--
15 was there never any set order?

16 A No, no, no.

17 A couple of important points here: One use of the
18 AVM at Countrywide, and this actually would have been a
19 little different than was the case elsewhere, is the AVM was
20 used as one of the control features, so the AVM would run in
21 the background, so even on those programs where they could
22 only work with an appraisal, sometimes that would be
23 supplemented with information from the automated valuation
24 model to where that could be an additional check and balance.

25 That was kind of an overlay.

460:1 We talked about clues, the automated underwriting
2 system, so in many cases that was a layer or a wrapper that
3 ran other systems, and one of those would have been what's
4 called CAPES, C-A-P-E-S, which was Countrywide's automated
5 valuation model, and so that's one overlay to understand.

6 Then in addition to that, as we were talking a
7 moment ago, AVMs were allowed for certain products, so home
8 equity would have been a good example.

9 The other theme we should keep in mind while we're
10 talking about all of this is the whole matching strategy.

11 Part of the reason the averages at Countrywide were
12 used in lieu of an appraisal and home equity probably before
13 other areas is simply matching what other competitors did.

14 Q Matching their practices with regards to the use of
15 AVMs?

16 A Exactly.

17 Q So the matching strategy not only involved
18 competitor guidelines and competitor products but the manner
19 in which competitors utilized AVMs?

20 A That's correct, and a broad way to think about it
21 is competitor offerings, so a competitor offering would
22 consist of a couple of key parts, so there would be the
23 guidelines, there would be the-- what I'll broadly call the
24 manufacturing process, so an AVM would be part of the
25 manufacturing process.

461:1 Still another aspect would be the distribution
2 channel it was offered in, so things like wholesale or
3 retail.

4 I am sure there are other aspects, but those are
5 some of the key aspects of what constitutes an offering, so a
6 long answer, but yes, how the property was valued would have
7 been a consideration.

8 Q When you state that the use of AVMs may allow the
9 borrower or broker to pick the higher of AVM, appraisal, can
10 you focus on the loan level and explain how that could happen
11 and what the ramifications would be?

12 A Let's take a home equity loan as an example.

13 The borrower comes and applies for a loan, and they
14 get an AVM value back, and then they might either like that--
15 they might think that value was okay or they might not think
16 that that value was okay.

17 Let's suppose further that they decided they didn't
18 like that value. The borrower could request an appraisal, so
19 my worry was this idea of adverse selection where-- with any
20 model, a model is going to have err, where there's going to
21 be some cases in an AVM where it overvalues, in some cases
22 where it undervalues.

23 My worry was that as the borrowers looked at the
24 values that came back on a case-by-case basis, they would be
25 more inclined to go with the AVM values that were to the high

462:1 side than to the low side, and it would be more prevalent
2 that they would ask for an appraisal to be done when the
3 value came in low.

4 Just simply allowing that alternative would
5 introduce a bias.

6 Another important aside, Countrywide wasn't the
7 only one that-- there again, that was a common practice in
8 the industry to use an appraisal where an AVM didn't work
9 out.

10 There would be other reasons where an AVM couldn't
11 return a value.

12 Suppose you had a property that was very unusual.
13 The modelling techniques on an AVM wouldn't work well for
14 something like that, and then you would have to use an
15 appraisal.

16 Q Did you have any ideas for how this possibility of
17 an adverse selection problem could be curtailed or prevented?

18 A We had discussions around it.

19 The whole idea of adverse selection is a very
20 difficult issue to deal with, and it doesn't just occur with
21 respect to AVMs, but it occurs in a number of areas across
22 the industry.

23 We did have conversations around it, and there were
24 a number of tweaks that were looked at.

25 As an example, we modified guidelines where AVMs

463:1 could or couldn't be used.

2 Q Do you recall looking at any data with respect to
3 how often the higher value was selected between an AVM and an
4 appraisal?

5 A So one of the studies I do recall that we did, and
6 I believe this was even presented publicly, and it's the only
7 one that I recall ever seeing presented publicly, was we did
8 a statistical study where we calculated odds ratios, and so
9 what that allowed us to do was hold all of the other
10 variables constant and then isolate out the effects of
11 different variables, and so one of the things we looked at
12 was the different types of valuation techniques that could be
13 used for a property.

14 You could have a full appraisal, you could have a
15 drive-by appraisal, you could have an AVM.

16 What those odds ratios would tell us is that we
17 could index one of those choices-- not choices but one of
18 those different appraisal techniques to a value of one, and
19 then you could see whether those other valuation techniques
20 had an odds ratio above or below one.

21 It was either in a Fed presentation I did-- it was
22 either that, or it might have been in a September 2006
23 investor presentation where we showed that.

24 That was one study I recall.

25 Q Well, do you recall seeing any data that supported

464:1 your concern that borrowers or brokers would be picking the
2 higher of an AVM or appraisal?

3 A This specific study tended to support that, but my
4 recollection is not as vehemently as maybe I might have
5 complained about it over time, but it's a tough thing to
6 study rigorously, but nonetheless, I still worry about the
7 adverse selection effects.

8 Q So at the loan level, if a borrower gets an AVM, is
9 looking for a HELOC, and doesn't like the value that comes
10 back, he can-- pursuant to Countrywide policy, he could then
11 get a standard appraisal?

12 A Yeah, and it's not just pursuant to Countrywide
13 policy. I think that tends to be a common practice in the
14 industry where a borrower could request that.

15 Q I understand, but I am talking about Countrywide
16 policy.

17 Pursuant to Countrywide policy, he could get an
18 appraisal after the AVM?

19 A If someone felt that there were a problem with the
20 AVM value, in other words that it wasn't accurate for
21 whatever reason, that they could upgrade it to an appraisal.

22 Q And who determines which of the two values is
23 ultimately used? Is it the borrower or is it someone at
24 Countrywide?

25 A It would have been a combination of both, and it

465:1 would have been part of the underwriting process too.

2 Let's suppose that it got upgraded to a full
3 appraisal. That appraisal would have still had to be
4 underwritten.

5 Q What do you mean by that?

6 A So part of the underwriting process is looking at
7 the entire transaction, so you've got the borrower, you've
8 got the property, including whatever valuation technique was
9 used, and then the particular specifics of the transaction
10 they're seeking.

11 The underwriter needs to-- one of their key tasks
12 is to do an evaluation of that entire package of things to
13 make sure that the transaction makes sense. In other words,
14 does the borrower have the ability and willingness to pay?
15 Is the collateral value supported by whatever technique was
16 used?

17 Q So are you saying the underwriter would have to be
18 comfortable that the appraisal was proper?

19 A That's right, and so in particular, that the value
20 that was reached was a fair valuation.

21 Q If the appraisal came back with a value that was
22 lower than the AVM, would it be permissible to then say,
23 "Okay. Let's stick with the AVM"?

24 A My recollection is when they went to appraisal,
25 that they were stuck with that value.

466:1 That's what I remember about the policy and
2 practice.

3 Q Let me show you another e-mail that we'll mark as
4 Exhibit No. 201, and in Exhibit No. 201 is an e-mail from
5 yourself to Mr. Lala, dated May 25th, 2005, and it appears to
6 be JPM 388 through JPM 390.

7 (SEC Exhibit No. 201 marked for
8 identification.)

9 Q Do you recognize any of the e-mails that appear at
10 Exhibit No. 201?

11 A It's been a while, but as I re-read them, I
12 recognize them.

13 Q If you turn to the last page of the exhibit, it's
14 390.

15 A Yes.

16 Q I think there's an e-mail from James Hecht.
17 Do you know who that is?

18 A I vaguely remember the name. I believe that he's
19 in CMD, which is the consumer markets division, which was
20 Countrywide's retail loan origination division.

21 Q Do you know-- does this e-mail appear to be to you?
22 It says, "Hi, John," but I don't see your name--

23 A I don't see my name in there either, but it appears
24 to be me because he says, "Hi, John," and then if you go to
25 the next e-mail up in the chain, I'm replying back to him.

467:1 Q What is a value grid?

2 A A value grid would be a valuation approach that was
3 more akin to an appraisal than an AVM.

4 If you could imagine-- if you looked at a
5 traditional appraisal, there's a grid on the-- what I believe
6 is the second page where they look at comparable properties,
7 and so my recollection of the value grid is that it was just
8 support-- it tried to replicate a portion of the appraisal.

9 The other thing that we haven't talked about yet
10 but is a consideration is just the cost of these techniques.

11 An AVM is very inexpensive to the consumer. A
12 value grid, a human being is actually working on that, so
13 it's a little more expensive, and then you have a couple
14 different kinds of appraisals.

15 For example, you have the full appraisal, where the
16 appraiser is going to go inside the house. Another
17 alternative that would be a little less expensive if you--
18 somewhere in this chain someone references a 2055 E, which
19 that is an exterior appraisal.

20 It's still an appraisal, but the appraiser isn't
21 going inside the house, so that would generally be a little
22 cheaper still, so you've got the cost dimension of this, and
23 then yet another consideration that we should talk about is
24 time frame.

25 An AVM is very fast, that's just a model run. A

468:1 value grid would take a little longer but would be quicker
2 because no one is going out and inspecting the property, so
3 that would be the next quickest.

4 An exterior appraisal would take longer still, but
5 it would still be generally faster than a full appraisal
6 because you wouldn't have to coordinate the schedule between
7 the appraiser and whoever was going to let them inside the
8 property.

9 The final thing I would say is if Landsafe was
10 Countrywide's appraisal subsidiary-- so value grid is their
11 name for this particular product, and someone from Landsafe
12 could probably give you a more cogent and comprehensive
13 description of how that worked.

14 Q As far as your recollection, what is Mr. Hecht
15 asking you to do in that May 20th, 2005 e-mail?

16 A So this is a general follow-up on this adverse
17 selection concern, so that's the general theme here.

18 So the idea is if they got a hit on an AVM, meaning
19 a value, that in order to address this adverse selection
20 idea, that we wouldn't want them then going and using a value
21 grid as an alternative.

22 That's the item under discussion here.

23 Q Is that a policy that you put in place, that if you
24 got an AVM hit, you could not get an appraisal?

25 A Well, no.

469:1 Remember a moment ago we talked about-- so the
2 practice when I got there was if they got an-- even if they
3 got an AVM hit, they could upgrade it to an appraisal.

4 Again, more time, more expense, but they could do
5 that.

6 The value grid is something in-between an AVM and a
7 full appraisal, and so-- generally falling under this adverse
8 selection concern, that's what we're talking about in this
9 chain of e-mails.

10 Q In his second sentence, Mr. Hecht's second
11 sentence, he states, "The issue is we've been told that we
12 can't order the value grid product if we get a hit on an
13 AVM."

14 Are you aware of any policy that prevented ordering
15 a--

16 A I am not aware of the specific policy.

17 However, by this particular time, so we are talking
18 about May 2005, the product group would have moved over to
19 me, and that was headed up by Christian Ingerslev, and so
20 this adverse selection idea with respect to property values
21 was something that we were looking at.

22 I suspect that that's what's going on with this
23 chain of e-mails.

24 Q So Ingerslev or someone else in the product
25 department may have let it known that it was a disfavored

470:1 practice to order--

2 A It was a concern.

3 Then if you'll notice in this first e-mail from
4 James, he starts that "Christian asked that I follow up with
5 you," so what I think happened is that Christian was working
6 with ViJay and James on this issue, and then they're
7 escalating it up to me.

8 Q With respect to the language concerning getting a
9 hit with an AVM, if you ran an AVM, is it possible to come
10 back without a hit?

11 A It is possible to come back without a hit for a
12 number of reasons.

13 One of the reasons would be what I talked about a
14 moment ago, which is there weren't enough properties that
15 would be similar to the property that you are trying to
16 value, and so that would be one reason for coming back
17 without a hit.

18 You also have the consideration-- again, any
19 valuation is going to have an err in it, and you don't know
20 whether it's going to be high or low, but on AVMs, they have
21 what they call a confidence concept, so the idea that the
22 value is this-- within a certain confidence band.

23 Q So is a hit a result--

24 A A hit is a result. It's coming back with a value.

25 Q And if you look at the first page of Exhibit No.

471:1 201, there's an e-mail from yourself to Mr. Lala.

2 A Mm-hm.

3 Q And in the first paragraph you state, "As a
4 discussion separate from the specific issue, we need to
5 revisit what constitutes a decision. My impression is that
6 any request I don't answer with an unqualified 'Yes' is not
7 considered-- is considered not final. This is a more general
8 issue; e.g., the SLG requests we keep saying 'No' to, that we
9 really need to resolve."

10 To your knowledge, had you given an answer on the
11 issue of whether or not you could use the value grid product
12 if you did get a hit from AVM?

13 A So my recollection of this particular issue is that
14 it was a practice that was in place that we were going back
15 and looking at is what I recall, so kind of the exact
16 opposite of how something might work in the normal course.

17 Q Well, what does Mr. Lala want you to do?

18 If you look at the second page of the exhibit, his
19 first e-mail is to you and Mr. Ingerslev.

20 A What I think he wants us to do, and again, I'm
21 speculating on kind of what he wants, but what I think he
22 wants is to support the use of a value grid as an additional
23 valuation tool, and I believe these are for home equity
24 loans.

25 Q So he wants the credit department to support the

472:1 use of the value grid?

2 A I think he wants-- yeah, he wants not only the
3 support of that but then also, I suspect, that part of this
4 is calling off the dogs a little bit.

5 Q Now, you e-mail Mr. Krsnich, and I think you
6 forwarded him the previous conversations you had with Mr.
7 Lala and Mr. Hecht on this issue.

8 A Mm-hm, yes.

9 Q Why did you do that?

10 A Because I wanted him to be aware of the discussions
11 that were going on.

12 He was my boss at the time.

13 Q Okay. Did the credit department ever officially
14 endorse the use of the value grid product?

15 A Let's be careful with the verbiage "endorse."

16 No, it would never endorse-- then we should also be
17 careful with "credit department," because the structure was a
18 little more complicated than that, but again, another long
19 answer to your question, but no, it never endorsed it.

20 With that said, I do think that the value grid idea
21 is another valuable valuation tool. That wasn't what I was
22 concerned with.

23 The concern I had is this adverse selection
24 potential.

25 Q Look at the first page of the exhibit, the last

473:1 paragraph.

2 You reference a \$100,000 AVM limit.

3 A Yes.

4 Q Can you describe what that is?

5 A So one of the concerns that you would have on AVMs
6 are unusual properties, so if you were in a particular area,
7 properties under \$100,000 in value, you would be concerned
8 using an AVM or at least I was concerned about using an AVM
9 in that case, just because those types of properties weren't
10 prevalent, and then that makes statistical techniques more
11 challenging to use.

12 Certainly there's an art to where you would draw
13 that exact dollar limit, but that's the issue that I'm trying
14 to bring out in that last paragraph on the first page.

15 Q You are concerned about the use of AVMs with
16 respect to properties that are worth less than \$100,000?

17 A Yeah. The general concern is the use of AVMs in
18 any area which aren't well supported by the basic technique.

19 On the low dollar-- on the properties with a low
20 value, if there are not very many of them in the area, then
21 the techniques that are used for an AVM would be more
22 challenging, and so the idea of having a limit made sense.

23 Q The top of Exhibit No. 2, there is an e-mail from
24 you to Mr. Lederman, dated September 7th, 2007.

25 You state that "This e-mail is meant to illustrate

474:1 problems with the general CW process and culture using AVMs
2 as one example of a larger issue."

3 What problems were you referencing in that e-mail?

4 A Again, all of these valuation techniques have their
5 place, and they can work well.

6 There are two separate things I am getting at here.

7 The first is this whole idea of creating the
8 potential for adverse selection, so you can have things, all
9 of which are good on an individual basis, but if you combine
10 them in such a way to provide choices, you could get
11 unintended results.

12 That's the first general issue.

13 The second general issue is highlighted in the
14 first paragraph of my May 25th e-mail to ViJay, and so it's
15 this idea-- if I didn't support something, it tended not to
16 die, and they would keep coming back again and again.

17 I probably shouldn't be this way, but sometimes the
18 fifth time through on something, especially when you're
19 stressed then, you can get irritable.

20 Q I am looking at the e-mail from yourself to Mr.
21 Lala from May 25th, 2005.

22 In the second paragraph you use an abbreviation,
23 "CPIW."

24 What does that mean?

25 A Countrywide property inspection waiver is what that

475:1 stands for.

2 Again, back to the matching strategy, this is a
3 copy of Fannie Mae's property inspection waiver, so even on
4 the name, I just put a "C" in front of it.

5 The idea there, given certain characteristics with
6 respect to a transaction, including an AVM running in the
7 background, there wouldn't be an appraisal or property
8 inspection required to do the transaction.

9 Freddie Mac, by the way, had a similar program, and
10 I hated it there, and I hated it at Countrywide, just from a
11 personnel perspective.

12 Q What were your problems with the program?

13 A If you're loaning on real estate, I think it's a
14 good idea to actually look at the real estate. That's my
15 theory.

16 Q Let me show you the last document on this issue,
17 and it's going to be Exhibit No. 202.

18 This is a-- it's a series of e-mails, but the
19 principal one is a May 21st, 2005 e-mail from Mr. Gissinger
20 to yourself with Brian Kuelbs as a CC.

21 This document is JPM 391 to JPM 392.

22 (SEC Exhibit No. 202 marked for
23 identification.)

24 A Do you want me to look at the whole thing?

25 Q Yes.

476:1 A As I read this document, I would like to make a
2 point relative to the document that we just looked at, if we
3 could.

4 Q Sure. Go ahead.

5 A With respect to AVMs, there are two limits that I
6 recall being used at Countrywide, and it's important to
7 understand both of them.

8 The first one is the one I described, which would
9 have been just property value limits. In other words, being
10 within the range where the AVM would work well, so that's
11 limit one.

12 Another relevant limit would be how large of a loan
13 amount would be allowed when an AVM was the valuation
14 technique being used.

15 So two different limits for different things but
16 both connected to the AVMs.

17 As I now look at both of these e-mails together,
18 the 100K limit that we may be talking about here appears to
19 be the second one rather than the first one; in other words,
20 on the size of the loan rather than on the value of the
21 property.

22 Q So in Exhibit No. 202, you think the AVM limitation
23 being referenced has to do with the size of the loan?

24 A I do after looking at this, and that makes me
25 suspect, if we go back to Exhibit No. 201, that it's probably

477:1 the same 100K loan limit rather than property value limit.

2 Q Okay.

3 A So just a clarification.

4 Q So on Exhibit No. 202, the second page, Mr.
5 Gissinger's May 11th, 2005 e-mail to you, is it accurate to
6 say that he was recommending to you that the AVM for loan
7 limit be increased from 100,000 to 250,000?

8 A Well, he's talking about the crawling back of
9 limits for AVMs, one, so like the dollar limit on the loan
10 that we would allow.

11 The second point he's asking-- maybe he's not
12 asking because I don't see a question mark, but the second
13 thing he is mentioning is the idea of using tax assessor
14 values.

15 Q Okay. So still focusing on the AVM issue, when he
16 says, "Crawling back to market levels," was there a time that
17 Countrywide had an AVM limitation on loan amount that was
18 250?

19 A It probably did.

20 I think that was a limit that tended to be adjusted
21 a lot through time, so both in response to market matching,
22 and then in addition to the market matching, there was my
23 complaining, and then a third influence came from a
24 regulatory perspective, so Countrywide was regulated by the
25 Federal Reserve and the OCC at this particular point in time,

478:1 and so that was one of the issues that they had looked at as
2 well.

3 Q If you look at the first page of Exhibit No. 202,
4 at the bottom there's an e-mail from you to Mr. Gissinger,
5 dated May 18th, 2005.

6 You talk about the reasons for retaining the
7 \$100,000 limitations on AVM.

8 A Yes.

9 Q And you reference you needed a compelling rationale
10 on why 100K is too low.

11 Then you go on to state, "Since we don't have this
12 rationale, we should stay with the 100K AVM limit."

13 Just focusing on that language, how do you know
14 there was no rationale to go to 250?

15 A At least that was my opinion, and they hadn't done
16 the rationale at least that satisfied me.

17 Q Well, based upon your experience with the company,
18 knowledge of the matching strategy, would someone else that
19 has a 250K limitation been sufficient rationale?

20 A Yes, it would have.

21 We talked about a couple of these e-mails in the
22 first two days that we met.

23 Just because there is a strategy out there doesn't
24 mean that you should be revisiting it broadly and also
25 revisiting particular elements of it, so that's one.

479:1 Two, that matching strategy-- another strategy that
2 was a companion strategy was this idea of-- so matching
3 competitor guidelines in the primary market but also
4 originating such that the loans would be liquid in the
5 secondary market, so both of those things went together.

6 One of the things that was changing at the time at
7 Countrywide, so if we go back to Exhibit No. 200, in that
8 e-mail to Keith, I talk about more and more loans being put
9 at the bank, and so in my opinion this was an issue that we
10 should consider in spite of the matching strategy since some
11 of these loans were going to be held on the bank balance
12 sheet.

13 Q And the reason for the concern being that loans on
14 the bank balance sheet had a more direct credit risk than
15 other loans?

16 A Yes, because the company would retain all the
17 credit risk on those loans.

18 You know, we haven't talked about this yet, but
19 Countrywide made fairly extensive use of credit enhancements,
20 and so some of the credit risk could be mitigated that way,
21 but generally a loan that was kept on the bank balance sheet
22 you would retain more of the risk in that particular loan
23 than in the other strategies that Countrywide pursued.

24 Q Was the AVM limitation ever moved to 250K?

25 A I believe that it probably was tweaked up and down

480:1 a number of times while I was there, as these discussions
2 went on.

3 Again, you had kind of at least three forces at
4 work. There was the general matching strategy that we talked
5 about, so that would have been competitive forces. There was
6 kind of me complaining. A third would have been the
7 regulatory input from the Federal Reserve or the OCC, so in
8 addition to AVMs, which I recall the OCC in particular taking
9 a look at, there were also these other valuation techniques
10 like assessed values.

11 When I arrived at Countrywide, they even had a
12 stated value program where the borrower just said what the
13 property was, and you can imagine what I-- that I was least
14 fond of that particular valuation technique.

15 Q Now, you've explained what your problems were with
16 the AVM limitation as far as what level value you had to have
17 before the AVM could even work.

18 What were your problems with raising the loan level
19 amount that could be based upon an AVM?

20 A So as we got to higher loan amounts, I would be
21 more comfortable with someone actually having looked at the
22 property, at least with a drive-by appraisal, and so I just--
23 even though it's more expensive and more time consuming, you
24 just-- you know more about the property using that technique
25 than you ever would using an AVM.

481:1 Q The fact that AVMs were never used for
2 nonconforming loans--

3 A I'm sorry, that they were never used for
4 nonconforming loan?

5 Q Right.

6 Well, let me just say for loan amounts over 250K.

7 A I think it-- AVMs were used in a number of ways for
8 all loans, so we had that overlay that I talked about where
9 it ran in the background even when a normal appraisal was
10 being used.

11 Q Okay.

12 A Home equity loans would generally be considered
13 nonconforming, so they were used there, but they are not
14 conforming not so much because of the loan amount but more
15 because of what kind of product they were.

16 On first liens, AVMs were not used in lieu of an
17 appraisal very often.

18 I do think that the CPIW that's in one of these
19 e-mails, and I think it's in 201, I do think the CPIW was
20 rolled out in a limited way for some of the nonconforming
21 products.

22 That's my recollection anyway.

23 Q In Exhibit No. 202, when you have the discussions
24 with Mr. Gissinger, are you talking about home equity loans
25 of credit?

482:1 A Yes, because you can see in the subject line it
2 says, "HELOC."

3 Q Okay. So the 100K limitation would not be for the
4 purchase of a home that costs 100,000, it would be for a--

5 A For a line size of 100,000.

6 I apologize for being confusing, but Countrywide
7 had-- both limits were things that were used there.

8 (Recess 10:30 to 10:41 a.m.)

9 BY MR. WYNN:

10 Q Mr. McMurray, I actually had one more AVM document.

11 This one we are going to call Exhibit No. 203, and
12 the basic document is an August 22nd, 2005 e-mail from
13 yourself to Nick Krsnich.

14 (SEC Exhibit No. 203 marked for
15 identification.)

16 Q Could you identify Exhibit No. 203?

17 A So 203, the primary part of it appears to be an
18 August 2005 e-mail from myself to Nick Krsnich, and it's on
19 appraisal ordering.

20 Q It appears that you are making Mr. Krsnich aware of
21 certain regulations.

22 A In the body of my e-mail I provide links to
23 interagency guidance on appraisals.

24 Q Okay. And what was your purpose in doing that?

25 A So the purpose in doing this was to make him aware

483:1 of conversations that I was having with Carlos, Dave, and
2 Drew, on the issue of appraisal ordering, and also my
3 recollection is sometime around this same time, there were
4 conversations under way with the OCC and the Federal Reserve
5 on this topic as well.

6 Q The bottom of 203, you include excerpts from
7 certain regulations and/or guidances.

8 One of them-- the very last entry states,
9 "Individuals independent from the loan production area should
10 oversee the selection of appraisers."

11 On the next page you include an excerpt that
12 states, "Loan production staff includes those responsible for
13 generating loan volume or approving loans as well as their
14 subordinates. Loan production staff should not select
15 appraisers."

16 As of the date of this e-mail, which is August
17 22nd, 2005, did you think that loan production staff at
18 Countrywide was selecting appraisers?

19 A So as typical, it's a little more complicated than
20 that, but let me try to sort it out.

21 There was Landsafe, so Landsafe was Countrywide's
22 appraisal subsidiary, so Landsafe was responsible for dealing
23 with appraisers, so they had some of their own on-staff
24 appraisers, and they also had what was called a panel of
25 approved appraisers, so these would have been independent

484:1 appraisers that were not employed by Landsafe but had rather
2 been approved to be on Landsafe's panel.

3 One of the common ways an appraiser would be
4 selected is the appraisal order would go over to Landsafe,
5 and Landsafe would select the appraiser.

6 However, Landsafe practices allowed for one of
7 the-- this, by the way, also deals with retail, so that's not
8 evident in this e-mail chain, but it deals with retail or
9 CMD, consumer markets division.

10 In any case, Landsafe had a practice where they
11 could accept an appraiser recommendation. In other words,
12 someone could recommend this particular appraiser would be
13 qualified to appraise this particular property, so that was
14 one of the particular details that we were talking about and
15 whether that Landsafe practice met these regulatory
16 guidelines.

17 Q And did you think it did as of the date of that
18 e-mail?

19 A We weren't sure, and so I had a concern about it,
20 and then the OCC and the Federal Reserve were also looking at
21 it at around the same time, is my recollection. It might
22 have been a little before or a little after.

23 Q When you say "we weren't sure," do you mean that
24 you weren't sure whether or not the practice was in
25 compliance with the regulation or others at the company--

485:1 A I wasn't sure, and my belief is-- when I say, "we,"
2 my belief is there were others that weren't sure.

3 If you look at this guidance, there are a couple of
4 important things. One, at this particular time, the guidance
5 around appraisals was pretty old, so it dated back quite a
6 few years, and secondly, some of the interpretation-- you had
7 to look at the frequently asked questions section of the
8 guidance, so there was a fair amount of room for
9 interpretation.

10 Q When you were at Countrywide, did you ever become
11 aware of any civil lawsuits that were filed against the
12 company having to do with the selection of appraisers?

13 A It doesn't ring a bell off the top of my head, but
14 let me think about it for a minute.

15 Nothing comes instantly to mind.

16 Q In the second page of Exhibit No. 203, you include
17 some language about Dave's belief with respect to processes
18 and regulations.

19 Is that Dave Sambol?

20 A It is Dave Sambol, and so there was a meeting where
21 I brought copies of the interagency guidance down to Dave's
22 office, and Kevin Bartlett was there, although he wasn't my
23 boss at the time, so he was in another area of the bank.

24 I think Drew was in the meeting, and Carlos may
25 have been in the meeting, but I can't remember for sure.

486:1 Todd Bauer, who was the head of Landsafe, was in
2 the meeting, and so Todd brought his staff. I brought these
3 copies of these various regulations, so that was the
4 conversation I was referring to when I sent this e-mail to
5 Nick.

6 Q At these meetings concerning these regulations, did
7 you ever express what your opinion was as to whether or not
8 the practice whereby Countrywide recommended certain
9 appraisers to Landsafe was in compliance with these
10 regulations?

11 A Let me back up.

12 Jack Schakett, I believe, was also at this meeting
13 in Dave's office, and there's also a second meeting with a
14 similar group that was in Jack Schakett's office, that I
15 think occurred later, and then a gentleman named Joe
16 Anderson. I think he was participating by phone, and he was
17 the head of the consumer markets division at the time.

18 Again, we were-- everyone was offering their
19 opinion on whether what we did in Landsafe did or did not
20 meet these federal banking regulations.

21 Ultimately Stan became involved and Sandy Samuels,
22 and there was lots of back and forth with the OCC and the
23 Federal Reserve, and my recollection is the procedures were
24 tweaked a number of times, at least while I was there, on
25 this specific issue.

487:1 Q And what was your opinion on whether or not the
2 practice whereby Countrywide would recommend a particular
3 appraiser to Landsafe was in compliance with the regulations
4 that you cited in Exhibit No. 203?

5 A My personal opinion was that it was difficult for
6 me to see how it would be in compliance.

7 Q I understand you said that was your personal
8 opinion, but did you express your personal opinion to others
9 in the company?

10 A Sure, I did.

11 Q Did you express it at those meetings where Mr.
12 Kurland and Mr.--

13 A I expressed it at this initial meeting with Dave
14 that I talked about when Jack and others were present.

15 Q And have you ever seen any data having to do with
16 the issue of once Countrywide made a recommendation to
17 Landsafe-- let me ask you a different question.

18 To your knowledge, once Countrywide made a
19 recommendation to Landsafe to use a particular appraiser,
20 would Landsafe typically go ahead and do that, use the
21 appraisers recommended?

22 A My understanding is not always, and I think that
23 would probably be the general practice.

24 Now, Todd Bauer, and again he is the gentleman who
25 ran Landsafe at the time, and there was a gentleman before

488:1 Todd, and I'll think of his name in a minute, but for most of
2 the time Todd Bauer was running Landsafe, so he did have
3 various reports he put together for us on that particular
4 issue.

5 I don't remember exactly what was in them, but I
6 remember those were looked at and discussed along with a
7 number of other reports relevant to this issue at the time.

8 Q If we can look at Exhibit No. 200 again, and I am
9 looking at Roman Numeral III, which has loan quality, and
10 it's on Page 972.

11 Could you explain how loan quality could constitute
12 a significant credit risk?

13 A Sure.

14 The important thing here would be to look at all of
15 the A, B, C, D, et cetera, underneath loan quality, so what
16 I'm doing here is calling out some of the important
17 dimensions of loan quality.

18 As an example, under Item A under Roman Numeral
19 III, I have CLTV/LTV, and that stands for combined loan to
20 value ratio or loan to value ratio, so this is the idea of
21 leverage, and so the more leverage there is in a transaction,
22 generally the riskier it is, and that's a universal principle
23 that would apply to both consumer debt as well as commercial
24 debt.

25 Q In B you mention ARMs.

489:1 Are you talking about pay option ARMs?

2 A Not just pay option ARMs.

3 If you go to Item B, I am talking about ARMs, which
4 are an adjustable rate mortgage, so just the idea that the
5 underlying interest rate can adjust introduces potential
6 risk.

7 Option ARMs and interest-only ARMs would be
8 particular types of ARMs, and those would be other features
9 that could be risk factors as well.

10 Q If you turn to Page 972, Item H is origination
11 process.

12 You state that several developments in the loan
13 manufacturing process could increase credit risk.

14 A I see that.

15 Q Could you explain Item No. 1, which is loan
16 officers?

17 A I can.

18 There is an acronym, "EHLIC."

19 "HLC" stands for home loan consultants, and I
20 believe "E" stands for external.

21 "CMD" is consumer markets division, which is
22 retail, so for many years at Countrywide, they had no loan
23 officers in their retail division, and I should say no
24 commissioned loan officers, so that was the practice for a
25 long time.

490:1 When Dave Sambol took over production, they went
2 with a different more traditional strategy where commissioned
3 loan officers were used.

4 What I am bringing out here is the fact that loan
5 officers, because they're commissioned, that introduces a
6 potential conflict into the transaction, same with a loan
7 broker.

8 Loan brokers, much of their commission is
9 determined by volume as well, and so there again you have a
10 potential-- not anything inherently wrong with it, but there
11 is a potential conflict that you worry about or at least that
12 I worry about.

13 Q So am I correct that Item No. 3, volume pressure,
14 relates to Item No. 1, the loan officers?

15 A Let me just take a quick read.

16 So volume pressure is the idea that both internally
17 with the loan officers and externally with brokers as well as
18 loan officers and correspondents, so correspondents would
19 have been the correspondent lending division, also called
20 CLD, so they bought closed loans from other banks and other
21 mortgage companies, and those other banks and mortgage
22 companies would use commissioned loan officers as well, and
23 so the idea is that-- so they are doing a certain level of
24 volume. If the industry volume drops down, someone's income
25 is going to have to take a hit, and that could create a

491:1 pressure or a conflict, and so that's what I was trying to
2 bring out there.

3 Q And their income would take a hit because--

4 A Because they're paid commission.

5 Q Before Countrywide started paying loan officers on
6 a commission, was it more of a salary-based system?

7 A I believe it was a salary and bonus-based system,
8 but it was quite unique in the industry, and I don't know
9 anyone else that was following a similar strategy.

10 Q Do you have any knowledge with respect to what the
11 bonuses are based upon when Countrywide had this system?

12 A My belief, and again this is history before I got
13 there as an employee of the company, but being an outsider
14 and observing what they were doing, my belief is it was
15 profitability based, so it wouldn't just be volume, but it
16 would have been all of the factors that would have affected
17 the profitability of that particular branch.

18 Q We talked about exceptions a little in July, but
19 could you explain your concern here?

20 A So the concern here is an exception is something
21 that is outside of guidelines, so guidelines are exactly
22 that, they are guidelines, but just almost by definition, you
23 are dealing with a riskier transaction, so that's concern
24 one.

25 Concern two, it's much more of a manual process

492:1 than something that was not an exception.

2 Q Is your concern with exceptions something that you
3 repeatedly expressed during your tenure at Countrywide?

4 A Exceptions were something that were repeatedly
5 discussed.

6 I had a number of concerns with the exceptions, so
7 yes, there were lots of conversations over the course of the
8 time I was there on that.

9 Q Do you recall expressing concerns about exceptions
10 to Mr. Bartlett?

11 A Kevin and I certainly had discussions about
12 exceptions, and I don't know-- perhaps I mentioned this, but
13 just in case, I'll say it again.

14 So each of the production divisions had an SLD,
15 which was a structured loan desk. Secondary marketing also
16 had a structure and loan desk, so when Kevin was my boss, he
17 also ran secondary marketing, which has an exception desk, so
18 we would have talked about it both generally and then
19 specifically with respect to secondary marketing.

20 Of course he-- for a long part of the company's
21 history, he had a very significant role over time so would
22 have been familiar with it from that period as well.

23 Q Just to be a little more specific, at any time
24 during your tenure at Countrywide, were you of the opinion
25 that the manner in which exceptions were handled at the

493:1 company increased the company's credit risk?

2 A Well, again, by their very nature, the underlying
3 transaction is going to be riskier.

4 Whether or not they increase the company's credit
5 risk would have been that-- what was going on with the
6 specific loan coupled with the destination or execution of
7 that loan, so was it put into a security? Was it sold as a
8 whole loan? Was it put onto the bank's balance sheet? You
9 would have to look at both of those things together.

10 The other point I'd make is you'd want to think
11 about kind of different elements of risk.

12 One reason that exceptions were increasing is that
13 as the company was following its matching strategy, it's very
14 difficult to keep the computer systems and other
15 infrastructure concurrent or up to date with those changes,
16 and so the exception process had to be used to accommodate
17 some of the guideline changes while the systems area caught
18 up with the various product developments that were going on
19 at the time.

20 Q Just to return to the question I just asked, do you
21 recall any specific conversations with anyone in which you
22 expressed an opinion that the manner in which exceptions were
23 handled at the company increased the company's credit risk?

24 A Let's go to some specific examples, if we could,
25 because exceptions is-- I mean, think of it as Amazon, and

494:1 there are lots of species in that forest.

2 One of the areas where we talked about this was
3 with respect to subprime, and so there are a couple of
4 concerns that I'll highlight for you there.

5 One, on this guideline issue I was talking about
6 where the exception process had to be used when product
7 changes were introduced initially, that's one discussion that
8 we had.

9 Another discussion was just the types of exceptions
10 being done in subprime, and so again, particularly coupled
11 with some of the secondary executions on those loans-- so you
12 had asked a little bit about the HSBC transaction back in
13 early July, so that would have been an example where we
14 talked about exceptions.

15 In early 2007, we talked about lessening the
16 subprime exceptions that were doing-- to the extent possible,
17 trying to get them as close to zero as possible, and that had
18 to do with some of the economics that were being observed on
19 the subprime loans.

20 Those are a few examples where exceptions would
21 have come up as a topic.

22 Q I am going to show you a document that I'll label
23 as Exhibit No. 204.

24 Again, Exhibit No. 204 is a series of e-mails,
25 e-mail correspondence between yourself and Mr. Todd Dal

495:1 Porto, and then you are forwarding this chain of e-mails to
2 Mr. Krsnich.

3 This e-mail is dated May 2nd, 2005, and it's at JPM
4 383 through JPM 386.

5 (SEC Exhibit No. 204 marked for
6 identification.)

7 Q Mr. McMurray, keep Exhibit No. 204 in front of
8 you-- but I am also going to show you Exhibit No. 205, which
9 relates to the same subject matter.

10 Again, Exhibit No. 205 is a series of e-mails
11 between yourself and Mr. Gissinger and Mr. Krsnich as well as
12 Mr. Dal Porto.

13 Exhibit No. 205 is JPM 269 through 378.

14 (SEC Exhibit No. 205 marked for
15 identification.)

16 A Did you want to start with 205 or 204?

17 Q 205.

18 A I think that was done in a different color, so it's
19 hard to tell what's going on, but--

20 Q Looking at Exhibit No. 205, and I'll just have to
21 tell you that it's hard to follow, as you probably know.

22 Some of the copy just didn't come through, and also
23 there are a lot of forwarding of different e-mails, so it's
24 hard to tell what's first and what's second.

25 A I have some recollection of this, so I could

496:1 probably help.

2 Q Can you identify the e-mail that started this
3 chain?

4 A Okay. Let's take a look here.

5 What I think started this e-mail chain, if we go
6 back to 374-- I think this is one of the first ones that
7 started this e-mail chain where I forward to Debbie Rosen,
8 Steve Blackwell, and Todd Dal Porto this other chain of
9 e-mails that had come into my possession, which is the 375,
10 376, 377, and 378.

11 Q Okay. What about on Page 372? There's a February
12 1st, 2005 e-mail from yourself to Ms. Rosen.

13 A Yes.

14 Q I thought that that started this chain, but you
15 think it's the--

16 A Well, let's take a look.

17 It's possible that that started the chain, and then
18 I just forwarded stuff that I previously had forwarded, so
19 let me just take a quick look.

20 You are right. That could have been the case
21 because the original issue came up, and then it came up
22 again, so I may have forwarded the chain of original e-mails,
23 which would have started back on the date that I had
24 mentioned and then when the issue reemerged.

25 Q If we look at that e-mail on 372 from yourself to

497:1 Debbie Rosen, Steve Blackwell, and Rik Bright-- first of all,
2 who is Debbie Rosen?

3 A She managed an area called SLG, specialty loan
4 group, so within WLD, the wholesale lending division, SLG was
5 the subprime portion of WLD.

6 Debbie Rosen was the-- I can't remember what her
7 title was, but she was the president of that group, so she
8 was the senior most officer of the SLG.

9 Q Is it possible that "SLG" stands for specialty
10 lending group?

11 A It might. "Lending" is probably what it stands
12 for.

13 Steve Blackwell, my recollection is that he ran
14 production at the time.

15 Rik Bright reported to Dave Sambol at the time, and
16 he-- so there was a product management group that was inside
17 of risk management, and then there was a product leadership
18 group which was in production, and Rik ran that at the time.

19 Then you'll see Steven Trentacosta who we have
20 talked about before, and then Frank Aguilera worked in the
21 product management group within risk management.

22 Q So did Rik Bright have the job that ViJay Lala had
23 at some point?

24 A ViJay Lala reported to Rik Bright, and then Brian
25 Kuelbs was brought in and put into the position that Rik had,

498:1 so ViJay reported to one or the other while I was there.

2 Q Then you start your e-mail to Ms. Rosen and others
3 by saying, "The e-mail chain shown below came to me via CLD."

4 What is "CLD"?

5 A The correspondent lending division.

6 We had talked about the idea of having listening
7 posts, and the various divisions were competitive with one
8 another, so you could create a listening post that way where
9 one would tattle on the other, so that's what this is.

10 Q Let me read this e-mail and ask you some questions
11 about it.

12 In your e-mail to Ms. Rosen, you state, "The e-mail
13 chain shown below came to me via CLD. Could you please
14 assist me with the following two issues: One, in mid
15 December we discussed an SLG flyer that was out in the market
16 advertising 620, stated, 80/20 purchases. These guidelines
17 did not have the required corporate approvals as we discussed
18 and as I pointed out in my December 16, 2004 e-mail to you.
19 I still don't understand how the program got offered out into
20 the market in the first place. It's even more difficult to
21 understand why you're still offering these guidelines after
22 we confirmed through both conversations and e-mails over a
23 month and a half ago that it was not approved."

24 Do you have a recollection of sending this e-mail?

25 A I do.

499:1 Q I see you looking at the documents--

2 A Paris, the other thing we need to be careful of is
3 I'm looking at this-- the various dates, so as an example, on
4 the one that you just read, if you look right below that,
5 it's 4/26/05, so that would have come after the February 1st,
6 2005.

7 Anyway, as we talk about this, I just want to be
8 mindful of the dates.

9 Q Understood.

10 With respect to your e-mail to Ms. Rosen, February
11 1st, 2005, do you have a recollection of what was going on
12 that you were disapproving of?

13 A I do.

14 My recollection is that they offered out a program
15 which my-- what I remember is that it was not to be offered,
16 but they were doing so anyway, and they did so without
17 telling anyone within the corporate hierarchy, and then I
18 found out about it in a circuitous manner.

19 Q And so--

20 A I'm sorry, but it happened once, and then something
21 similar happened again, and I was surprised, angry, and
22 disappointed when something very similar had happened after
23 it had already happened once before and I'd had a lot of
24 conversation with Debbie and some of the folks that worked
25 for her, and her boss, which was Todd Dal Porto.

500:1 Q What was the particular product that was being
2 offered--

3 A If you look at the document here, so on Page 372,
4 so this would give us a good example, they had a flyer that
5 was advertising 620, and that's a FICO score, "stated," which
6 refers to a documentation style, and then "80/20" refers to
7 an LTV and CLTV.

8 What I didn't like about the program is that 620 is
9 a relatively low credit score, "stated" means that it's not
10 full documentation, so the borrower is stating their income
11 rather than providing written evidence, and then finally the
12 CLTV is 100 percent, so the borrower is not making a down
13 payment.

14 As a general matter, it's a combination of three
15 risk factors all in one, which made the transaction risky, in
16 my point of view.

17 Secondly, because this was a subprime loan, we
18 retained what's called a residual, and even though
19 Countrywide had a fairly active market to try to sell
20 residuals to minimize the risks that they took, at least when
21 the loans were initially sold, a residual was created on the
22 first liens, and then the second liens were able to be sold,
23 but it wasn't always easy.

24 That was my general concerns with the product.

25 Then from a process point of view, I didn't

501:1 understand how they could offer something when we had
2 explicit conversations to the contrary, so I felt that-- and
3 not just me, but the whole product management group, so that
4 would have included Christian and Frank and I-- had been
5 burnt.

6 We had talked about it, reached an agreement that
7 this wasn't going to be offered, and then subsequently find
8 out that there is advertising on this, and we had to have--
9 someone else brought that to our attention, so that's kind of
10 the gist of this February 1st, 2005 e-mail to Debbie.

11 Q As of February 1st, 2005, was the product, as
12 advertised in the flyer that's referenced, outside of
13 Countrywide's product guidelines?

14 A My belief, particularly looking at this e-mail, is
15 that it was.

16 Q To your knowledge, were these 80/20 loans outside
17 of the guidelines being originated through exceptions?

18 A Yes, so my belief at this particular time was it
19 was outside-- so let's just go down the exception route. I'm
20 sorry to-- let's be precise about this.

21 If there's a flyer that's out there, that should be
22 in accordance, in my opinion, with the official company
23 guidelines.

24 The company shouldn't be advertising something,
25 given my opinion, that doesn't match up with company

502:1 guidelines.

2 I suppose that this type of transaction might be
3 able to be accommodated through an exception. I still
4 wouldn't be comfortable with it, just as an aside. However,
5 it still shouldn't be advertised out in the public.

6 Q If it was originated through the exception process,
7 exceptions shouldn't be advertised?

8 A I don't think so, because then it's hard for me to
9 think of them as an exception if it's being offered broadly
10 to the public.

11 Q If you turn to Page 373, at the bottom there's a
12 February 4th, 2005 e-mail from Ms. Rosen to yourself.

13 She states, "John, Steve copied you on the e-mail
14 he sent this week clearly stating to our sales force that
15 this is not a product we offer. Do we approve loans on an
16 exception basis with a clearly designated exception process?
17 Yes, as we discussed this with you as well during our recent
18 conversations."

19 Do you recall having any conversation with Ms.
20 Rosen?

21 A I do, and the point is that even though it might be
22 able to be approved during the exception, advertising takes
23 it outside of the realm of it being an exception, in my
24 opinion, and so that was one of the key points that I was
25 trying to get across.

503:1 As an aside, if you look at her e-mail, it says she
2 sent me an e-mail stating to the sales force that it's
3 clearly not a product that they offer. Yet there's an
4 advertisement that they have advertising the product.

5 It's hard for me to understand how those both could
6 be true.

7 Q If you turn to Page 274, there's an e-mail from Mr.
8 Blackwell to-- I guess it's to the whole WLD group--

9 A That's what it appears to be.

10 Q Did you receive that e-mail from Mr. Blackwell?

11 A I don't believe that I received this e-mail from
12 Mr. Blackwell. What I think has happened here is as she's
13 forwarding it, this e-mail conversation back and forth, she's
14 inserting it in.

15 If you go back to Page 373, as an example, she
16 talks about that in her February 4th, 2005 e-mail, so I think
17 she's forwarding it just as evidence of what they've done.

18 Q At the bottom of 374 there is another e-mail from
19 yourself to Ms. Rosen.

20 You state that "We continue to see additional
21 evidence that these unapproved guidelines were offered widely
22 in the market. Here is another example I received this
23 afternoon. Please see the e-mail below.

24 "Having two situations in quick succession suggests
25 a lack of appropriate controls. We should determine what

504:1 internal controls failed that allowed this and the previous
2 situation in December to occur. Thanks."

3 When you said "the e-mails below," do you mean the
4 e-mails that are at 375?

5 A I suspect that those are probably the ones, yes.

6 Q Okay. And do you recall who forwarded you the
7 e-mail from David Swayne?

8 A I don't recall who forwarded it to me, but again, I
9 tried to find people that would keep an eye out for things,
10 so I suspect it was one of those listening posts.

11 Q And at the bottom of 374 when you speak of
12 appropriate controls, what types of controls are you
13 referencing?

14 A So the idea that-- again, what we're talking about
15 here is something being advertised out in the market that
16 didn't match up with official Countrywide guidelines, and so
17 that was the issue that I was raising.

18 I was also pointing out that it occurred on more
19 than one occasion, and so the controls I was talking about
20 would have been within SLG on what would have allowed them to
21 advertise programs that the company didn't officially offer.

22 Q Would have been controls having to do with
23 exceptions?

24 A Not so much exceptions.

25 Again, they are advertising out guidelines that the

505:1 company is purported to offer, and those guidelines were not
2 consistent with what the company's official guidelines were.

3 It's that advertising in particular that I was
4 getting at.

5 Q Did Ms. Rosen or anyone else ever give you an
6 explanation as to how this flyer-- how and why this flyer was
7 in market?

8 A There were conversations that I had with Todd and
9 Debbie and Steve Blackwell, and I remember them being long,
10 and at the end of it, I wasn't satisfied that I really
11 understood how it happened, but they had a lengthy soliloquy
12 on how it happened.

13 Q Turning to Page 371, there's an e-mail from Mr. Dal
14 Porto to yourself, and Mr. Gissinger is the CC.

15 Mr. Dal Porto seems to be addressing the same
16 issue, maybe giving his perspective on it.

17 A It appears to be he's setting out his perspective.

18 Q And at the bottom of the page, he states, "As an
19 aside, the pressure on the front line is overwhelming at
20 present, and we are at the risk of losing some of our top
21 people, especially in southern California, who are convinced
22 we remain gapped to the market on a number of fronts. Drew
23 has challenged us to work with Brian Kuelbs to summarize the
24 major product guideline issues so that we can level set and
25 understand the gaps and the priority for the items we believe

506:1 we can, need to address."

2 To your knowledge, when he talks about pressure, is
3 he talking about pressure to do the types of loans that were
4 being done outside of guidelines, in your opinion?

5 A My opinion, he's talking about-- this is product
6 and guideline related pressure.

7 Again, it's the matching strategy, and so where he
8 talks about-- again, this is my best guess at what he's
9 getting at is where he says, "We remain gapped to the
10 market," meaning that their competitors are offering products
11 beyond what Countrywide was offering at the time in their
12 guidelines, so that's what he's getting-- appears to be
13 getting at.

14 Q So you think he's making a general point that
15 Countrywide's guidelines are more restrictive in the market,
16 not just talking about the specific 80/20 loan?

17 A Exactly.

18 Q And on the first page of the Exhibit No. 205, and
19 it is Page 369, there is an e-mail from April 30th, 2005 from
20 Mr. Gissinger to Mr. Dal Porto and yourself.

21 A Yes, I see it.

22 Q He states, "John, product leadership is preparing a
23 peer analysis on product offerings. The goal is to see how
24 we compare and if the shortfall on our product offerings are
25 deemed reasonable and responsible.

507:1 "John, as we discussed, it appears that the market
2 has again moved."

3 It seems at some point Mr. Gissinger became
4 involved because while you raised the issue of a product
5 being originated out of guidelines, it seems that the
6 response as well has changed the guidelines.

7 Do you think that's accurate?

8 A So what I think Drew is getting at is his view that
9 the market has moved, meaning that the market-- the
10 competitors in the market were offering wider guidelines than
11 what we offered, and so under the matching strategy, we
12 needed to go back and see where the gaps were.

13 Q To your knowledge, was anyone disciplined or fired
14 for the flyer incident?

15 A You know, I don't know whether anyone was or was
16 not. I'm not sure.

17 Q And when you raised the issue about a lack of
18 adequate controls, was that ever addressed to your
19 satisfaction?

20 A Well, on controls, I don't think-- it's the kind of
21 thing that you're never done with, so I would hate to use the
22 word "satisfied."

23 I do think that-- my understanding is that Todd had
24 a series of conversations with Steve Blackwell and Debbie
25 Rosen on that issue, and then ultimately Steve Blackwell left

508:1 the company, and I believe-- my understanding is that Todd
2 terminated Debbie, not right after this but after a series of
3 things that happened.

4 Q Do you know if that was a result of this incident?

5 A I don't think it was a result of this one incident.
6 I think it was a more comprehensive perspective on a variety
7 of things, including issues like this.

8 Q And can you recall any other incidents, such as
9 this one, where products were being offered that were outside
10 of guidelines?

11 A I suspect there probably were some.

12 This is one of the ones that stands out because it
13 happened on more than one occasion and because there were a
14 series of very contentious discussions about it.

15 Q Did this particular issue ever rise to the level--
16 I see that Mr. Gissinger is involved, but did you ever report
17 this to Mr. Bartlett or Mr. Sambol?

18 A So April 2005? I think Nick would have still--
19 yes. Take a look back on Page 369 of Exhibit No. 205. If we
20 look at the top of the page, you can see that I forwarded it
21 to Nick, who was my boss at the time.

22 Q Okay. Do you know if he took any action with
23 respect to this incident?

24 A I don't know for certain what he did with the whole
25 thing.

509:1 I also discussed it with him in addition to
2 forwarding the series of e-mails.

3 Q I want you to take a look at Exhibit No. 204 if
4 that is still in front of you.

5 A It is.

6 Q I want you to look first at the bottom e-mail from
7 Mr. Dal Porto to Mr. Gissingner where you were CCed.

8 A All right. I am there.

9 Q Turn to the next page at the top e-mail.

10 Do you know where this particular language came
11 from?

12 It seems to be an e-mail that was forwarded by Mr.
13 Dal Porto.

14 A It looks like an e-mail that was forwarded by Todd,
15 and it looks like he may have excerpted one of my e-mails.
16 It looks like the style of e-mail that I do.

17 As I'm looking at it, it looks like they may have
18 added or-- added some things.

19 Q At the top of Page 384 there's a paragraph, and
20 I'll read some of it.

21 "Hey, guys, has anyone noticed that this is
22 standard across the board? Everyone is doing this now. Are
23 we subprime or not? Can someone in corporate make up their
24 minds? So typical apples today, oranges tomorrow.

25 "At this point I have nothing competitive up

510:1 against competition, and that goes for everything: programs,
2 rates, et cetera."

3 Do you know where that comes from?

4 A So if we go to Page 383, do you see where at the
5 very, very bottom it says, "LN from a Sou Cal AM"?

6 What I think that stands for is "LN" is Lotus
7 notes, and then from Southern California, and "AM" would have
8 been an account manager, so it would have been one of the
9 marketing people in SLG.

10 If you go to the top of Page 384, if you looked at
11 the first part up to where it says the word "END" in all
12 caps, it seems quite plausible, the way this was written,
13 that a manager or salesperson type could have written this.

14 Q If you look still on Page 383, Mr. Gissinger's
15 e-mail to Mr. Dal Porto--

16 A The April 30th at 2:21 p.m.?

17 Q Right.

18 Mr. Gissinger references an analysis that he's
19 asked ViJay, which was presumably ViJay Lala, to perform.

20 A That would have been ViJay Lala.

21 Q Do you know what analysis he's referencing?

22 A I do know.

23 So the analysis that he's referencing is-- again,
24 back to the market matching idea, so it's an analysis of what
25 other competitors are offering, and the-- I think what he's

511:1 getting at when he refers to the "no bullshit," is that it
2 needed to be a careful and comprehensive analysis.

3 If you go to the third line of this particular
4 e-mail where he refers to pricing, ops technology, sales
5 strategy, execution, and then on the line above that he talks
6 about products and moving parts, and so when-- on the "no
7 bullshit" part, he wants it to be a complete analysis that
8 would be thorough enough to evaluate what the competitors
9 were doing.

10 That's what I think he's getting at.

11 Q And to your knowledge is he talking about a
12 particular loan product or just guidelines in general?

13 A I think it's in general. However, if we go down to
14 Todd's notes, which is on the same page, 383, he talks about
15 two 100 percent programs, and so I suspect that-- even if it
16 were more general, that that would have been a highlight, and
17 then if you look at Page 384, they talk about some specific
18 things.

19 I think that this appears all to be around
20 subprime, just as an aside.

21 Q Back to those 100 percent programs, were those both
22 80/20 programs or was one loan for 100 percent?

23 A We had both versions, so 100 percent single loan,
24 which would have been a first lien, and then 80/20, which
25 would have been a combination of a first and second lien.

512:1 In the corporate credit committee, one of the
2 things-- and it even talks about it in one of these e-mails.
3 One of the things we frequently did there was a one-page
4 market position analysis where the subprime market was broken
5 down into eight or nine key product categories, and then
6 those were the columns, and the rows were market leaders,
7 kind of mid market, and market laggards with respect to
8 product offerings, and then Countrywide would be ranked
9 against the other key subprime originators.

10 When I say-- Countrywide wasn't a subprime
11 originator like New Century. It offered subprime programs,
12 as did Wells and others, but for those major institutions
13 that offered subprime, it was a ranking within those product
14 categories of where Countrywide stood versus the others.

15 Q If you turn to not the last page but Page 385,
16 there is an e-mail from Joe Miller to I guess the entire
17 wholesale lending division.

18 To your knowledge, is this in regards to the issue
19 we've seen raised in Exhibit No. 205 having to do with the
20 80/20 loans being outside of guidelines?

21 A I think that it is connected with that. That would
22 be my interpretation of this e-mail.

23 Q And on I guess the third paragraph of that e-mail,
24 he states, "Product development/credit has committed to
25 undertake the analysis in order to make this part of our

513:1 standard product guidelines."

2 Do you know if the particular loan program with the
3 attributes mentioned in the first paragraph were made part of
4 the standard product guidelines?

5 A Some variation of it may have been.

6 I know this got looked at again and again.

7 I don't have a specific recollection.

8 Perhaps somebody like either ViJay or Frank
9 Aguilera would have a more specific recollection of what
10 ultimately happened with this.

11 Q I am going to read some of the first paragraph and
12 ask you some questions.

13 "Effective immediately, please communicate to your
14 respective organizations, due to information that has been
15 passed to SLG from corporate credit, no LTV or loan amount
16 exceptions will be allowed for 80/20 loans that have FICO
17 scores less than 580 on full documentation and less than 640
18 on stated documentation.

19 "It has been our practice to allow loan to value
20 and loan amount exceptions through our structured loan
21 process on some of the lower grade bands.

22 "However, in light of particular attribute
23 dimensions and the layering of risk, we have been instructed
24 to cease exceptions in these cases."

25 With respect to the two FICO scores mentioned, 580

514:1 and 640, are those of any particular importance? Like are
2 they on the threshold of distinguishing between non-prime or
3 prime--

4 A Let's go off on a quick tangent, and this is an
5 important one.

6 A number of people in the market have a
7 misconception that the boundary between prime and subprime
8 can be defined simply with a FICO score. It can't.

9 If we look at the distribution of FICO scores for
10 prime and subprime loans and put them next to each other,
11 they would, in fact, overlap by quite a bit.

12 With that said, actually you would see 620 is a
13 more common threshold that you see talked about, but there's
14 no quantitative magic with 620. It's just an often
15 referenced FICO level.

16 580 and 640 are just particular FICOs, but-- 640
17 would be a better credit record than 580 by a pretty
18 significant increment.

19 Q We'll mark as Exhibit No. 206 a May 22nd, 2005
20 e-mail from yourself to Mr. Sambol.

21 (SEC Exhibit No. 206 marked for
22 identification.)

23 Q Do you recognize Exhibit No. 207?

24 A I do remember sending this e-mail to Dave.

25 Q You reference a meeting in Santa Barbara or a

515:1 speech was given in Santa Barbara.

2 Do you recall if that was in connection with some
3 kind of meeting or presentation?

4 A It was.

5 I am trying to remember what we called this
6 meeting, but once a year there would generally be an off-site
7 meeting, and the senior management across the company would
8 gather at this off-site meeting to address a variety of
9 strategic issues, and so this was one of those meetings.

10 Dave gave a speech at this meeting, the one we had
11 in Santa Barbara in 2005, and I thought the speech was good,
12 and the purpose of this e-mail was to tell him so, and then
13 also use it as an opportunity to bring up some issues with
14 him.

15 Q Was the meeting in Santa Barbara, was it limited to
16 just Countrywide personnel or were there any analysts or non-
17 Countrywide--

18 A It was just an internal meeting only.

19 Q In the second paragraph you state that Mr. Sambol
20 described how guidelines and credit standards have become
21 increasingly more aggressive across the industry and here at
22 CW.

23 Do you recall what he specifically said regarding
24 the expansion of credit guidelines?

25 A I think this accurately reflects what he said and

516:1 what I remember.

2 I don't remember specifically what he said. This
3 is now-- gosh, it's been three years, so I don't remember
4 exactly what his words were.

5 Q In the next sentence of that second paragraph, it
6 states, "Since exceptions are generally done at terms even
7 more aggressive than our guidelines, I want to make sure all
8 the various groups are aligned on key SLD exception issues."

9 Is that your language or something he said?

10 A That's my language.

11 Q And could you explain what you mean by "exceptions
12 being done at terms even more aggressive than our
13 guidelines"?

14 A Earlier this morning we talked about the whole
15 essence of an exception is that it's being done at terms that
16 are beyond the standard guidelines, and that's what makes it
17 an exception.

18 By virtue of being beyond those terms, it is going
19 to generally be riskier, at least in the particular
20 dimensions that it's beyond the guidelines.

21 Q And the next paragraph, you state that "CW's
22 approach to exceptions has been lucrative over the past
23 several years," and by that do you mean they were able to
24 originate more loans?

25 A It's a little more complicated than that.

517:1 That's part of it, so let me try to capture some of
2 the key elements.

3 One would be there were more loans, and remember
4 we've talked about the no brokering policy, so having the
5 exception capability was very important relative to the
6 consumer markets or retail division because of that, so that
7 would have been an element of it.

8 Countrywide's long-standing approach to exceptions
9 was also to price for the additional risk, and so there was a
10 margin or pricing element to that too, so it's-- so those
11 would have been the key things that I was referring to that
12 make up the word "lucrative."

13 Q So it was volume and the extra money you were
14 making for taking on the additional risk?

15 A And thirdly, kind of the whole market positioning.

16 From a builder, from a realtor, from a developer's
17 perspective, it was the ability for Countrywide to offer a
18 full range of products and guidelines, so from that
19 perspective too.

20 Q On the last page of this document, you mentioned an
21 SLD summit.

22 A Yes.

23 Q What was that?

24 A "SLD" is structured loan desk, and so there was a--
25 actually, there was an SLD summit that had occurred when I

518:1 first arrived at the company, and this was in the fall of
2 2003, and then the one here appears to be an upcoming SLD
3 summit.

4 This one appears to be an upcoming one.

5 Q And why are these summits held?

6 A A summit is different than a meeting in that a lot
7 of people were invited, and it could last for an extended
8 period of time, so kind of something that was at least four
9 hours to 12 hours was a summit rather than a meeting, and so
10 this was a summit, and so-- actually, now that I'm thinking
11 about it, I do remember attending part of this summit.

12 There would be people that would be in attendance
13 for the entire summit, and then others would come in and out
14 depending on the particular topic being covered.

15 Q Was this an internal summit?

16 A It's an internal summit.

17 Q Only Countrywide personnel?

18 A Only Countrywide personnel.

19 Dave would really only break to go to the bathroom.
20 He would go full blast for all these hours, and then food and
21 drink would be brought into him while he was sitting there
22 asking questions.

23 Q Do you remember what was discussed or any
24 particular issues that arose at the SLD summit that you
25 reference on Page 295?

519:1 A This particular one, now that I'm thinking about
2 it, occurred after this e-mail, and so I remember that it was
3 held in the boardroom at the Calabasas headquarters, so Dave
4 had received this e-mail from me, and so I don't recall him
5 ever responding to me back in e-mail, but he responded back
6 to me verbally in the summit.

7 Q Which item did he respond to?

8 A He just kind of-- the whole e-mail, he said that he
9 had received my e-mail and wanted to address some of the
10 points that I had raised.

11 Q Okay.

12 A So my recollection is that he didn't agree with
13 everything that I had raised as a point.

14 Q Can you recall any of the topics you raised or any
15 of the perspectives you provide that he disagreed with?

16 A I don't remember the specifics right now, but as I
17 continue to think about it, if I can retrieve them back, I'll
18 mention them.

19 Q Did he agree with any of the points that you
20 raised, to your recollection?

21 A I think it was a mixture where he agreed with some
22 and disagreed with others, so he didn't reject the whole
23 thing out of hand, but he didn't accept the whole thing
24 either.

25 Q Can you recall any initiatives or changes in the

520:1 area of SLDs that occurred as a result of this summit?

2 A I can.

3 One of the things that this particular summit
4 addressed as well as other meetings and summits, was that
5 Dave commissioned an exception system to be designed and
6 developed, and there was a gentleman named Bill Kobb who
7 worked directly for Dave, and so he was responsible for
8 designing an exception system, so that was one example of an
9 initiative.

10 Then my belief is that there were a series of other
11 initiatives that Dave had the various divisions pursuing.

12 Q Regarding exceptions?

13 A Regarding exceptions, so this summit was on SLDs,
14 on structured loan desks, which existed to deal with
15 exceptions.

16 Q Do you remember what any of those initiatives were,
17 what the divisions were asked to look at?

18 A It seems like there was constant work underway
19 around these SLDs to tweak various aspects about them.

20 Whether that was pricing, the process flow,
21 systems, staffing both structure and then the particular
22 personnel in those various positions, so all of those things
23 seemed to be being looked at and tweaked over time.

24 (Lunch recess 11:58 to 1:05 p.m.)

25 A F T E R N O O N S E S S I O N

521:1 BY MR. WYNN:

2 Q Back on the record at 1:05 p.m.

3 Mr. McMurray, I am going to show you what we've
4 previously marked as Exhibit No. 88.

5 Exhibit No. 88 is a series of e-mails, the first
6 being a February 1st, 2006 e-mail from yourself to Mr.
7 Kuelbs, a Charles Emeley, and Steven Trentacosta.

8 Can you identify Exhibit No. 88?

9 A Exhibit No. 88 consists of two primary e-mails, one
10 that I had sent to Brian Kuelbs, Charles Emeley, and Steven
11 Trentacosta with copies to a few people, and then a second
12 e-mail where I forwarded the first one to Stan Kurland along
13 with some additional text.

14 Q In your first e-mail to Mr. Kuelbs, first
15 paragraph, you state, "Since I'm continuing to encounter
16 resistance to my efforts and instructions to reign in this
17 program, I thought I would summarize my basic concerns here
18 so that you could address them directly in response to this
19 e-mail."

20 When you reference efforts and instructions to
21 reign in this program, what program are you referencing?

22 A The 80/20.

23 When you look at the subject line, it should say,
24 "Resistance to 80/20 changes."

25 Q When did you initiate the efforts and/or

522:1 instructions to reign in the 80/20 program?

2 A Well, the 80/20 discussion had been going on since
3 I had arrived at Countrywide, and just before the lunch break
4 we talked about some of the discussions on the 80/20 with
5 respect to SLG, so much of this is just a continuing ongoing
6 evaluation of this program from multiple perspectives, from
7 the production perspective, from the risk perspective,
8 profitability perspective, so here at the beginning of 2006,
9 and I don't remember whether there was something specific
10 that prompted us to reign in the program, although somewhere
11 in the e-mail to Stan I reference HSBC, so that may have
12 been-- that was one of the events that caused even further
13 re-looking at this program, so it may have been that.

14 In any case, in my February 1st e-mail to the
15 group, I was laying out, on a very high level, my three basic
16 concerns.

17 Q So if you turn to the next page on Exhibit No. 88,
18 339, and in No. 1 you state, "There is some in the company,
19 including me, which question the basic existence of this
20 program. Do you think that a 100 percent subprime loan is a
21 viable program? Does a loan with no equity, non-prime
22 credit, and in some cases undocumented income make sense?"

23 Did any of the recipients of this e-mail reply
24 back?

25 A What I recall, and I don't know whether it was in

523:1 response to this e-mail or to another one, but I think it was
2 in response to this one, Charles Emeley I think sent me a
3 response, I think.

4 Q Who is Charles Emeley?

5 A Charles Emeley, at the time this e-mail was done,
6 he worked for Brian Kuelbs, so I think it was called product
7 leadership is the area-- was what it was called, so that's
8 where he worked.

9 He had previously run GSE relations and then before
10 that had some other position in secondary marketing.

11 He had moved over from secondary to production, and
12 it may have been directly to this product leadership group.

13 Q Do you recall what his response to you was?

14 A Well, I recall that he was a very eloquent writer,
15 and he responded back. I think a lot of it had to do with
16 this market matching idea is what I recall.

17 I'm sure the e-mail is around somewhere if you
18 wanted to track it down.

19 Q After receiving his response, did you still have
20 the concern listed in concern number one?

21 A I did.

22 Q Still on Page 339 in concern two you state, "Based
23 on what I'm observing, I am gravely concerned that we do not
24 have an execution that accomplishes what's needed. Do you
25 think we have a reliable execution to shed this credit risk,

524:1 which we do not want to retain under any circumstances?"

2 Could you please explain what you mean by that
3 concern?

4 A Sure. Again, I have talked about Countrywide
5 retaining some amount of risk on any transaction that it did.

6 What I was referring to here was a desire with
7 respect to the 20 percent second in particular, that we
8 wanted to retain little to no credit risk.

9 It was something that I wanted, something that Stan
10 Kurland wanted, and in theory, the way to do that was through
11 a whole loan sale, a nonrecourse whole loan sale, but what we
12 learned in the HSBC transaction is that there are things that
13 can go wrong in pursuing that goal, and so that was one that
14 was-- in theory, got rid of most of the risk, but once--
15 after a period of time and after all the dust settled, that
16 turned out not to be the case.

17 The other thing, not to belabor, but if you go back
18 to Page 338, at the bottom, I am just stressing again that we
19 do not want to retain the credit exposure on these loans.

20 In other words, they had to figure out a way, and
21 "they" meaning secondary marketing in this case, along with
22 product leadership, a way that these loans could be sold such
23 that we retained little to no risk.

24 Q And with respect to the HSBC transactions, are you
25 saying that Countrywide had sold 80/20 loans to HSBC on a

525:1 whole loan basis?

2 A They had, and so--

3 Q So it was not securitizations that had-- that
4 Countrywide was doing with HSBC on 80/20 loans?

5 A That's correct, and so with a subprime
6 securitization, those are typically done with a residual
7 interest where the issuer is keeping a first loss piece, and
8 so one but not the only reason that we wanted to do these
9 with a whole loan sale is that it would more effectively
10 transfer the credit risk to the buyer of these loans.

11 Q And with respect to the whole loan transaction,
12 what recourse does a buyer have to-- if they start
13 experiencing defaults on the 80/20--

14 A It's really up to the contract that was negotiated
15 between the two parties, so there's a wide range of
16 possibilities there.

17 In retrospect, one of the concerns that we had with
18 HSBC is that the individuals that negotiated that transaction
19 probably didn't do as good of a job as we would have liked.

20 Q And is that in relation to the fact that there were
21 some contractual language that allowed HSBC to force
22 Countrywide to purchase back some loans that defaulted?

23 A It was, but there again-- so there's the contract
24 and its language itself but also the interpretation of what
25 was in the contract, so that was a second important piece.

526:1 A third important piece is just operationally how
2 HSBC and Countrywide conducted themselves.

3 A fourth piece was this idea of post purchase due
4 diligence.

5 Q And what's post purchase due diligence?

6 A So in a whole loan transaction or even in a
7 securities transaction, there's an idea of due diligence
8 where either all or a sample of the loans are going to be
9 looked at, and in the case of post purchase due diligence,
10 that diligence takes back-- that diligence takes place after
11 closing; in other words, post purchase.

12 I personally advised again and again against that
13 practice because I think it sets up a terrible conflict
14 between the parties.

15 Q Can you elaborate on what you mean by that?

16 A So imagine if you were the buyer. If you're
17 looking at the loans after you purchased it, you can-- if
18 enough time is allowed, you can simply wait and see which
19 loans are struggling, meaning becoming delinquent or going
20 into default, and then include only those loans in your
21 diligence process and seek to find ways to kick them out.

22 In a typical due diligence, the prospective buyer
23 has the ability to kick loans from the transaction.

24 In the case of a post due diligence transaction,
25 that happens after the transaction is closed, so in my

527:1 opinion, that just sets up a horrible conflict where the
2 buyer has an incentive to take an extra hard look at those
3 loans that defaulted, even look for technicalities as a way
4 to put them back.

5 Again, in my view, that's what HSBC did in this
6 instance.

7 Q In the e-mail from yourself to Mr. Kurland, dated
8 February 9th, 2006, in the second sentence you state, "I'm
9 aggressively pressing your desires and request."

10 Can you recall what request of Mr. Kurland's you
11 were trying to implement?

12 A Sure. His desire and request was not to retain
13 credit risk on these loans.

14 I shared that desire, but in order to effectively
15 bring that about, especially if we're going to continue
16 originating the loans, there are a lot of things necessary in
17 order to achieve that.

18 Q And you close that paragraph by stating, "Following
19 are two of the areas where I think we need to exercise care,
20 but where I also-- but where I am also encountering
21 resistance," and then you list, "Loan sales strategy and
22 exceptions."

23 Can you explain what type of resistance you were
24 getting in those areas?

25 A Just one example, so under "Loan sale strategy," I

528:1 talk about discontinuing the use of post purchase due
2 diligence, so that was a practice that I thought should not
3 be used; again, mainly for the reason that I just stated.

4 The reason that that would-- I should present the
5 counterpoint, even though I don't agree with it, but part of
6 the counterpoint is that by having post purchase due
7 diligence, it smooths out the workload so the transactions
8 come in not in a steady sequence, and so the due diligence
9 can get backed up and it's a mad rush sometimes to get things
10 done.

11 If it's done on a post purchase due diligence
12 basis, that can be scheduled such that it fits more cleanly
13 into people's schedules and the other workload that's either
14 with the buyer or with the seller, so that's the
15 counterargument.

16 In any case, that was one area where I was
17 encountering resistance, so I wanted to make him aware of
18 that.

19 The second issue is this whole idea of exceptions.

20 When HSBC-- they did a couple due diligences, so
21 one due diligence was just around kind of the whole product
22 and Countrywide before they finished negotiating their
23 contract, and then there were individual due diligences that
24 had to do with the loans themselves.

25 In that first due diligence, they were made aware

529:1 that there were exceptions, and the exceptions would be
2 outside of guidelines.

3 Despite that discussion and disclosure way ahead of
4 them ever purchasing a single loan, one of the rationales
5 that they asserted to cause the loans to be bought back was
6 that they didn't meet Countrywide's underwriting guidelines.

7 Well, from my perspective, there were two flaws
8 with HSBC's assertion. First, they knew there were
9 exceptions, and secondly, before they bought any of these
10 loans, they knew what the loan level attributes were, so if
11 something was a FICO exception, as an example, they knew for
12 that particular loan what the FICO was, so it wasn't that
13 they were unaware of what they were buying. They knew.

14 That, combined with a post purchase due diligence,
15 they were looking for any reason they could on loans that
16 didn't turn out favorably, to put that back, so that was what
17 I was getting at with this second sub bullet point.

18 Q With respect to that second sub bullet point that
19 reads, "Exceptions," you state that "I have instructed the
20 underwriting managers from the production divisions to stop
21 originating exceptions since many of the HSBC due diligence
22 requests are for guideline exceptions."

23 In what form was your instruction to the divisions
24 to stop originating exception 80/20 loans?

25 A So it would have likely taken the form of an e-mail

530:1 that I would have sent out to product leadership and
2 potentially even the divisions themselves.

3 Each division had its own risk management unit, and
4 then they would have disseminated that information from
5 there.

6 Again, each area had a credit officer, a risk
7 officer that would have helped manage the risks for that
8 particular division.

9 By "division," we are talking about production
10 divisions here.

11 Q Would your e-mail have been-- to your knowledge,
12 was your e-mail viewed as an instruction or a recommendation
13 to its recipients?

14 A I hope it was viewed as an instruction.

15 I would have worded it that way, rather than just a
16 recommendation.

17 Q Did you have authority to instruct the divisions to
18 stop granting certain types of exceptions?

19 A In my view, yes.

20 One of the themes that we've talked about here is
21 just an evolution of policies and processes.

22 I don't think there was absolute clarity on that
23 particular issue.

24 Q Of whether or not you had authority--

25 A To issue that kind of a death penalty instruction.

531:1 Q In the final e-mail from yourself to Mr. Lederman,
2 you state, "I wasn't supported on this."

3 Can you explain what you mean by that?

4 A Just in the whole general-- the whole 80/20 thing
5 was something-- if you look at some of the dates on these
6 e-mails, the thing drug on and on and on, and so on "this,"
7 meaning the whole 80/20 product.

8 Q Let me show you a related string of e-mails marked
9 as Exhibit No. 89.

10 The first e-mail on Exhibit No. 89 is a February
11 9th, 2006 e-mail from Cliff Kitashima to Greg Lumsden, and on
12 the first page there's a response e-mail from you to Mr.
13 Lumsden.

14 Do you recognize Exhibit No. 89?

15 A I do.

16 Q Can you identify who Cliff Kitashima is?

17 A He is the risk officer for full spectrum lending,
18 so that is the retail subprime unit for Countrywide, and then
19 Greg Lumsden is the president of full spectrum lending.

20 Q Okay. Now, as of February 9th, 2006, had you
21 already sent your instruction to the division with respect to
22 not granting exceptions with respect to 80/20 loans?

23 A I had sent-- if you go back to Exhibit No. 88, you
24 can take a look at the dates on that, and then this series of
25 e-mails is dated after that, and so you can see what Cliff is

532:1 recommending, which is that-- where he is saying that he
2 wants to recommend to grant these exceptions, and then you
3 can see Greg Lumsden comes on top and supports that, and he's
4 sending that to Drew and to me as well and to Brian Kuelbs.

5 Then I'm coming back to the group and saying that
6 we need to stay with the no-exception policy for now, and
7 then I describe the rationale for that.

8 On the same-- shortly thereafter, like two minutes
9 thereafter, I forward this e-mail to Stan to make him aware
10 of the interaction that's taking place.

11 Q If you look at Page 342, Mr. Kitashima's e-mail, he
12 references something called central underwriting.

13 A Yes.

14 Q What is that?

15 A I believe it's something inside of full spectrum
16 where it's a centralized underwriting versus the underwriting
17 they may have decentralized out in their branches.

18 I am not absolutely sure, but I suspect that's what
19 that is.

20 Q And then at the bottom of Page 341, Greg Lumsden
21 has e-mailed Mr. Gissinger, in the first sentence of his
22 e-mail to Mr. Gissinger, "Planning to move forward with this
23 on Monday morning."

24 Is he saying that we are going to change the
25 guideline on Monday morning or we are going to submit this to

533:1 the product leadership to see if we can get it changed?

2 A My interpretation of this is that he's planning to
3 move forward with what Cliff Kitashima is recommending, which
4 is allowing exceptions to be done with some boundaries which
5 Cliff outlines on the bottom of Page 342, but that would be
6 how I would interpret it.

7 Q So not going to product leadership, but starting
8 to--

9 A To do it on his own.

10 Q And then your response to Mr. Lumsden, you state,
11 "We need to stay with the no-exceptions policy for these
12 loans for now."

13 To your knowledge, did the full spectrum department
14 adhere to the no-exceptions policy?

15 A In this specific instance, I don't remember exactly
16 what transpired.

17 Q And then in your e-mail to Mr. Lederman, dated
18 September 7th, 2007, you state, "In my opinion, the exception
19 process has never worked properly. The FSL issue we
20 discussed is germane here. In this instance, FSL was
21 actually a little better than the other divisions in that
22 they at least escalated the issue, rather than ignoring it."

23 With respect to the first sentence where you state
24 that the exception process has never worked properly, are you
25 speaking specifically as it related to the 80/20 loans or in

534:1 general?

2 A A couple of things, so these e-mails that I
3 forwarded to Mr. Lederman, he asked me to look through things
4 and then forward e-mails to him.

5 He was taking over the chief risk officer role at
6 Countrywide after me, so I was trying to bring him up to
7 speed, and so sometimes I would put a little blurb, and so
8 there are many, many aspects of the exception process, and so
9 I think what I was getting at at the time was that all
10 aspects of it, if you take them all together, didn't work
11 properly, not that the whole thing didn't work but there
12 always seemed to be some piece that needed further
13 enhancement or correction.

14 Then I'm bringing to light a specific-- this
15 specific FSL issue as well.

16 Q Second sentence you state, "In this instance, FSL
17 was a little better than other divisions in at least they
18 escalated the issue, rather than ignoring it."

19 Were there cases where other divisions simply
20 ignored your 80/20 policy without informing you?

21 A I would make it a little more general than that.

22 There were some other instances where guidance that
23 I put out was not followed to the letter, and I wasn't made
24 aware of that.

25 What I think-- one of the good things here was at

535:1 least they got the instructions, they didn't agree with them,
2 and so they were going back to Drew, who was Greg's manager
3 at the time, and so even though they wanted to do something
4 different than what I had sent to them, at least they were
5 coming back up the chain, so I thought that was good.

6 Q Okay. But there were occasions when other
7 divisions had not come up the chain?

8 A That's right, so as an example, there was-- on
9 super jumbo loans, there was a 70 percent LTV and CLTV hard
10 stop, so from time to time I became aware of exceptions being
11 made to that policy, and in some occasions it wasn't
12 something that was brought to my attention, but I just found
13 out through back channel methods.

14 Q Let me show you Exhibit No. 207 because I think it
15 might relate to this hard stop issue.

16 (SEC Exhibit No. 207 marked for
17 identification.)

18 Q Does Exhibit No. 207 reflect the 70 percent hard
19 stop issue that you just referenced?

20 A It does.

21 Q The subject of some of these e-mails is Barr
22 exception.

23 Do you know what that means?

24 A I think "Barr" is probably the borrower's last
25 name, is what I suspect.

536:1 Q Have you ever heard of what's been called by the
2 media as the friends of Angelo program?

3 A I have heard of that.

4 Q Do you have any knowledge of such a program like
5 that or under any other name while you were at Countrywide?

6 A I don't know that friends of Angelo was an official
7 program, but Angelo did work with borrowers directly and did
8 approve his own loans.

9 There were a couple of occasions that I observed
10 some of this happening, and then I also believed that the
11 servicing department, the group that works with borrowers to
12 collect payments and pay taxes and insurance, I believe that
13 they had a specific investor control for these loans.

14 In fact, I shouldn't say-- I think that's the case.

15 Q And what's an investor control?

16 A An investor control is a grouping that servicing
17 would have to put loans in different buckets or groups, so a
18 particular security might have an investor control, so all
19 the payments associated with that could be grouped together
20 and then sent to that investor, as an example.

21 Q Who is Preston James?

22 A Preston James, when I first got to Countrywide,
23 worked for Todd Dal Porto as his head of operations.

24 Then he subsequently, and at the time of this
25 particular chain of e-mails, worked for Jack Schakett, and so

537:1 he worked in an operations capacity.

2 Jack was the head of operations for much of
3 Countrywide, and then Preston was one of his key direct
4 reports.

5 Q With respect to what I call the friends of Angelo
6 program, once he approved the loan, was that the end of the
7 story? Was there any other layers of review for those loans?

8 A Like a couple of other things, this was somewhat of
9 an evolution, but early on I think what you just described
10 was the case, where he approved the loans.

11 On a couple of occasions, I became aware of some of
12 these transactions, and then I encouraged Nick, who was my
13 boss at the time, when I first became aware of the program,
14 to suggest to Stan to suggest to Angelo that perhaps some
15 more structure around the program would make sense rather
16 than to just have Angelo do it off the side of his desk.

17 I repeated that suggestion a couple of times, and
18 then when Drew-- let's look at the date on these.

19 When Drew moved into Dave Sambol's old position
20 where he was head of production, we talked about the issue
21 again, and Drew was going to talk to him, and then Drew even
22 hired a special underwriter that would-- I am trying to--
23 they had a specific name for the desk.

24 There was going to be a special desk to deal with
25 large loans and VIP loans, and Drew wanted to pull the

538:1 friends of Angelo program under that umbrella.

2 The gentleman that they hired was from Bank of
3 America, I believe, and his name was Wes. I can't remember
4 his last name right now, but I think his first name was Wes.

5 Q To your knowledge, was Mr. Gissinger successful in
6 getting this friends of Angelo program moved into the large
7 loan VIP department?

8 A You know, just based on what I've read, I'm not
9 sure that he was.

10 Q Okay.

11 A So that was all happening as I was leaving the
12 company, so I'm not sure exactly where that ended up
13 ultimately.

14 Q So Mr. Gissinger's efforts to give the program more
15 structure was heard sometime in late 2007?

16 A These are late 2006 at the time this is happening,
17 so the idea of having this special desk for VIPs that would
18 include the friends of Angelo would have dated back to that,
19 but Drew was trying to design a structure, procedures, and so
20 forth, and that still was going on at the time that I left in
21 September of 2007.

22 He had made a fair amount of progress, from what I
23 could tell, including hiring this gentleman from B of A.

24 Q To your knowledge, portions of the loan file that
25 are included in Exhibit No. 207, do they reflect a friends of

539:1 Angelo loan?

2 A My guess-- I don't know for sure.

3 As I look at it, I don't see anything here where
4 they are talking about it being a friends of Angelo loan, but
5 let's just take another look.

6 By the way, see where it says on Page 410,
7 "Structured loan desk exception summary," I mentioned earlier
8 Bill Kobb developing an exception loan system, so this would
9 have been-- I talked about the SLD summit, so this is
10 actually a couple of years later or a year later or
11 something, and this would have been the actual system being
12 used.

13 I don't know whether this was a friends of Angelo
14 loan.

15 I can't tell from what we have here.

16 Q Well, what is the system doing that was not done
17 before?

18 A So the-- there are a couple of things that are
19 important.

20 One, it is identifying a loan as being an
21 exception, and a loan can be excepted for a multitude of
22 reasons.

23 First, it is identifying it as an exception, and
24 then it's capturing information within the system so that it
25 can be presented to the structured loan desk first of all and

540:1 then also to anyone else that was looking at the transaction
2 that wouldn't have access to the loan documents themselves,
3 so they could look at the system and get a sense of the key
4 attributes of the transaction under consideration.

5 Q Is the 70 percent LTV hard stop reflected anywhere
6 in this output?

7 A It is, so let's just look here.

8 Let's look to Page 411.

9 If you go down about midway, it says, "LTV/CLTV,"
10 and then it has, "26.6 percent/73.4," so that's the LTV on
11 the left and CLTV on the right, and you can see that it's
12 over 70 percent, and then you can also-- if we took the first
13 lien amount, which is-- if you go a little further down where
14 it says \$2.2 million, and then if we added the line amount
15 for the home equity, which it would go up-- see the \$1.25
16 million?

17 The two of those added together are above three,
18 and so the 70 percent hard stop would be applicable here.

19 Q On Page 409, there is an e-mail from Mr. Soda to
20 Mr. Gissinger?

21 A Yes.

22 Q And he references a 70 percent hard stop, but he
23 seems to be seeking to nevertheless find a way to approve the
24 loan.

25 Was there any mechanism to approve a loan that had

541:1 a hard stop?

2 A Well, again, it would depend on the type of hard
3 stop that was in place, so there were a number of controls
4 built into the system itself, but ultimately an underwriter
5 could sign off on something and commit the company, even
6 though that hard stop might have been in place, and if you
7 look at the top of Page 409, do you see Drew's e-mail to
8 Preston and to me, and he says, "It appears, not verified
9 yet, that we approved this"-- so something that came up from
10 time to time is where somebody communicated out an approval
11 that may have gone beyond a hard stop or some other policy,
12 and in many cases the position from either legal or from
13 production is that approval that had been communicated needed
14 to be honored even though it didn't conform to a particular
15 company policy, so that seems to be what he's saying here in
16 his December 7th e-mail to Preston and to me.

17 Q So if you told an applicant or borrower that a loan
18 was approved, you needed to fund it, even though it was
19 outside of guidelines?

20 A That would typically be the practice.

21 Q To your knowledge, is Mr. Gissinger, in his e-mail
22 on that page, saying that the loan was approved with pricing
23 renegotiated, so just with a higher price?

24 A You know, I can interpret it a couple of ways.

25 I don't know if he means renegotiated or that we

542:1 reneged on the pricing. I am not sure what he means there.

2 Q Then on Page 408 you e-mail Mr. Soda with the
3 problems you had with the loan.

4 Who is Gene Soda?

5 A Was the head of underwriting for CMD.

6 Q In the same fashion that Joe Miller is the head for
7 WLD?

8 A That is correct, although Joe Miller moved around
9 to a couple of different positions, but he was the head of
10 WLD underwriting at one time.

11 Q On the top of Page 409, your last full paragraph,
12 you state, "As a general matter, there are two topics we need
13 to discuss: One, the credit rationale here parallels what I
14 have seen on other CMD exceptions and raises concerns about
15 the quality of CMD underwriting on large and/or challenging
16 loans."

17 What do you mean by "the credit rationale"? Do you
18 mean the manner in which they tried to support this loan?

19 A That's what I mean.

20 In order to move forward on a loan, the underwriter
21 has to arrive at a rationale that the borrower can and will
22 pay the transaction, and so in this particular example and in
23 other examples I saw, it wasn't apparent how they arrived at
24 that rationale.

25 Q What rationale were they using because you say you

543:1 have seen the rationale before?

2 I mean, was it just a reliance on FICO that--

3 A I am just kind of doing this live as we sit here,
4 so it's a reduced documentation loan, it's a very high loan
5 amount, and you'll notice that it's in-- I think it's in Palm
6 Desert, so it's a very expensive property in a resort area
7 with reduced documentation.

8 The LTV on it is very high for the loan amount.

9 I don't-- the FICO-- let's see, do we know the
10 FICO?

11 Q On Page 409, at the bottom.

12 A The FICO is very good, so that's a positive aspect
13 on this loan, but I don't see-- so when Gene says -- let me
14 find this.

15 They don't really lay out why they think it's a
16 good loan, so other than the FICO being favorable, which I
17 pulled out of here, there is no other rationale that they are
18 presenting on why we should make this exception.

19 Just as an aside, the other thing, as I'm scanning
20 this, the DTI is 52 percent, so that strikes me as kind of
21 high, so that would be another risk factor.

22 Q You also state with respect to DTI, it's difficult
23 to place much emphasis on it because it's reduced
24 documentation?

25 A That's right, so the borrower in this case would

544:1 be-- it's a reduced doc loan, meaning he's stating his income
2 and then verifying his assets, and so you're taking the
3 borrower at their word, but when someone documents their
4 income, you are able to look at those documents and learn
5 other things about the borrower that at least I believe would
6 be helpful in making an underwriting decision.

7 Q At the sentence on 409 where you state, "The credit
8 rationale here parallels what I have seen on other CMD
9 exceptions," do you have any other recollection of what you
10 meant by-- what credit rationale were you envisioning that
11 you see with respect to this loan that you'd seen on other
12 CMD loans?

13 A Well, I will use an example, and I am sure there
14 are e-mails on this, but there is a developer in Los Angeles
15 that's developed-- do you know that shopping center, The
16 Grove?

17 Q Yes.

18 A Rick Caruso is the developer's name, I believe.
19 He applied to Countrywide for a loan, and so they
20 wanted me to take a look at it, which I was willing to do, so
21 I was imagining that they had looked at the loan and at least
22 had an opinion on it, but instead what they gave me was a
23 jumbled up box of papers that weren't in order, and so I had
24 to sort through the tax returns and put those in order and
25 all the other documents.

545:1 I was very disappointed by that because it didn't
2 look like they had spent the effort to try to get a sense of
3 this particular transaction.

4 That would be an example.

5 On a big transaction like that, it seems like they
6 should pull out all the stops and at least by the time they
7 ask me to take a look at it, to have it in some semblance of
8 order.

9 Q Do you know what ultimately happened with respect
10 to this loan? Was it approved or not approved?

11 A The Barr or Caruso?

12 Q Barr.

13 A I don't know what happened with Barr.

14 Q What about Caruso?

15 A Caruso-- Jack Schakett and I personally sat down at
16 Jack's table and personally went through the documents that
17 were presented, and we put those in order, and then we put
18 together a series of questions, and Jack even had to go out
19 and meet with Mr. Caruso's CFO, and eventually we got enough
20 documents to figure out the specifics on the transaction, and
21 I believe that one was approved but not after a lot of work
22 had been done outside of CMD.

23 Q Okay. Why would Mr. Schakett have been involved in
24 that?

25 A He was head of operations, and he has a financial

546:1 background and worked at-- I think it was Ernst & Winnie at
2 the time, so he was someone that was sitting on the floor, so
3 as I look through the tax returns-- they were very
4 complicated, so I wanted a second point of view.

5 In addition, the underwriting units reported-- had
6 a reporting line over to Jack, so I wanted him to see the box
7 of papers that had been sent over to me, so he was unhappy
8 with how they had approached that as well.

9 Q So you requested that Mr. Schakett be involved with
10 this Caruso process?

11 A Two things, I wanted him to see how it was sent
12 over, first of all, and then second of all I thought that he
13 could provide a valuable point of view on the transaction.

14 Q Getting back to the topic of 80/20, I am going to
15 show you what was previously marked as Exhibit No. 91.

16 This is a series of e-mails, the first e-mail being
17 a March 23rd, 2006 e-mail from you to David Spector and
18 others.

19 Mr. McMurray, do you recognize Exhibit No. 91?

20 A I do recognize it.

21 Q Your March 23rd, 2006 e-mail to David Spector and
22 others references a policy on high risk products.

23 Can you explain what that was?

24 A So this is a policy that we were putting together,
25 and there is-- there was a definition of "high-risk

547:1 products," and I believe that it ties back to the three Rs
2 that I talked to you about because on the bottom of Page 349,
3 on that e-mail, I talk about a copy of the guiding principles
4 for products, which defines ALCO and RCC triggers is
5 attached.

6 So I think something that went outside of the ALCO,
7 which is the asset liability committee or the RCC, which is
8 the responsible conduct committee, so something outside of
9 those triggers would be a high-risk policy.

10 What I was setting out here is in the case that one
11 of those triggers had been tripped, these were some of the
12 practices that we wanted to follow with respect to a product
13 that fell into that category.

14 Q What does "RCC" stand for again?

15 A Responsible conduct committee, and it's the
16 successor committee-- there was a responsible lending
17 committee, and then that was broadened to be the responsible
18 conduct committee.

19 I think it got renamed again, and I can't remember
20 what the third name was.

21 Q If you could, take a look back at Exhibit No. 88.

22 A I've got it.

23 Q The second page of Exhibit No. 88, concern one, was
24 that question ever addressed or taken up by the responsible
25 conduct committee?

548:1 A So the 100 percent financing was discussed at the
2 responsible conduct committee.

3 You know, one thing to understand is there were
4 differences in opinion on this 100 percent financing, so 100
5 percent financing, if you look at the veterans'
6 administration program, it is something they have offered for
7 a long time, so my point of view on this is one point of
8 view, but there are other points of view.

9 I do believe that 100 percent financing would have
10 been discussed a time or two at least at the responsible
11 conduct or the responsible lending committee.

12 Q Just to be more specific, do you think the issue of
13 100 percent subprime financing was discussed at that
14 committee?

15 A I suspect so.

16 If 100 percent financing were discussed in general,
17 even in that context, I would expect the subprime dimension
18 to have been explored as well.

19 Q Does that committee have the authority to disallow
20 any loan programs, products?

21 A There could easily be a decision reached at that
22 committee, but it wasn't-- let's suppose that Stan at the
23 time or then Dave subsequently, and Dave would have been
24 there even when Stan was the senior most person there. If
25 they had a very strong point of view and were insisting that

549:1 it be one way or the other, that's generally the direction
2 that we would have gone, though it would have happened after
3 a fair bit of discussion and sometimes even debate.

4 Q At the top of Page 349, Exhibit No. 91, you state
5 to Mr. Lederman, "I was never supported on this, and
6 secondary production and CCM basically continue to operate as
7 though they never received this policy."

8 First of all, can you explain what "CCM" stands
9 for?

10 A Countrywide Capital Markets.

11 It's the broker dealer for Countrywide.

12 Q Can you explain in greater detail what you were
13 never supported on?

14 A Sure.

15 There are a host of issues here, so let's pick one
16 or two.

17 On post purchase due diligence, so saying that's
18 not allowed on high-risk products, so despite laying that out
19 here and talking about it subsequently and I suspect there
20 were additional e-mails subsequent to this, that practice
21 still occurred, so that would be an example.

22 Another example--

23 Q Could you address the underwriting approach issue
24 on page--

25 A Sure. Let me take a look at that.

550:1 So the idea here, and this exception guidance I
2 think was probably in the technical manual or something that
3 Pauline Kennedy put out, and I think we may have looked at a
4 version of that.

5 What I am getting at here on the underwriting
6 approach is that whoever is underwriting a loan, they have to
7 reach the conclusion that the loan-- that the borrower can
8 and will pay the payment, and so that needs to appear in the
9 documentation, so the loan either needs to clearly meet the
10 program guidelines or if there's an exception, it needs to be
11 documented in such a way that when someone looked at the
12 closed transaction subsequently, they could follow the
13 rationale for making the loan and reaching the conclusion
14 that the borrower can and would pay based on the information
15 in the loan file.

16 Q Were those things not done to your satisfaction?

17 A You'll see a gentleman referenced on here named Rod
18 Williams up at the top. He was one of the key reports to me.

19 One of Rod's departments was called quality
20 control, and so those would look at loans after they closed
21 to see how they conformed with corporate policies as well as
22 other quality measures, and so based on those QC results,
23 that gave me some pause.

24 In addition to that, we had due diligence results,
25 so when someone outside the firm came in and had done a due

551:1 diligence, they might pick loans to be removed from the
2 transaction, and so based on those results, that caused me to
3 have some concerns.

4 Those would be the two key sources of my concern,
5 and then a third approach would be some of these individual
6 transactions that I would see not very often but
7 occasionally, like the Barr exception we just looked at, and
8 that would be another source of concern.

9 Actually, you can see this is 2006-- I mean, I
10 think that was probably back in 2005 maybe, Barr, wherever it
11 is-- so, it's in 2006 as well, so Barr was after this one,
12 but still, the situations like Barr, as I came across them,
13 that would be a third source of concern.

14 Q Was the high-risk policy first presented by you to
15 others on March 23rd, 2006?

16 A My recollection is that it actually came about
17 before that, so this is something that Stan and I had worked
18 on together and that he had supported, and then I shared it
19 around the company.

20 It's also called the three Rs: risk, return, and
21 responsibility.

22 Q The high-risk policy with respect to Exhibit No.
23 91, the same thing as the three Rs or is it a subset of the
24 three Rs?

25 A It's connected, and I think possibly fairly tightly

552:1 so, but-- because in the three Rs it talks about either ALCO
2 or RCC triggers, and so those are outlined in the three Rs.

3 Q I am going to hand you what has already been marked
4 as Exhibit No. 69.

5 Exhibit No. 69 is a series of e-mails, the last
6 being a March 23rd, 2006 e-mail from Mr. Sambol to Mr.
7 Gissinger.

8 A Okay. So here is the high-risk policy.

9 Q So the policy referenced in Exhibit No. 69 is the
10 same reference in Exhibit No. 91, right?

11 A I believe so, yes.

12 Q And it seems from Exhibit No. 69, the first page,
13 that Mr. Kuelbs forwarded the policy to Mr. Gissinger.

14 Is that right?

15 A It does appear so.

16 Q And then Mr. Gissinger forwards the policy to Mr.
17 Sambol along with an e-mail about a matrix meeting.

18 Do you know what a matrix meeting is?

19 A A matrix meeting is financial planning, which was
20 part of the CFOs' organization.

21 They held financial planning to look at the balance
22 sheet, and the forecasted income sheet and balance statement.

23 I think where "matrix" came from is they looked at
24 things over a range of environmental conditions, like
25 interest rates going up or down.

553:1 Q In his e-mail Mr. Gissinger states, "Yesterday
2 during the matrix meeting, Stan opined that no non-prime
3 seconds to go into securities as he does not want to hold any
4 credit risk. This is not consistent with your instructions
5 and contrary to market activity execution."

6 Do you know what Mr. Gissinger means when he says
7 "no non-prime seconds could go into securities"?

8 A Yes. This is on the theme that we've been talking
9 about, so an 80/20 is an example. The 20 is the seconds
10 portion, so what he's talking about here is those seconds
11 could not go into securities because if they went into
12 securities, we would be exposed to that credit risk through
13 the residual.

14 Q Now, as of March 24th, 2006, was there a guideline
15 placed or a policy in place that presented non-prime seconds
16 to go into securities?

17 A A little more complicated than that, but again this
18 goes back to what we were talking about.

19 Neither Stan nor I wanted to keep credit risk on
20 these loans, and so what we wanted secondary to do is to do a
21 whole loan sale where most of the credit risk could be sold.

22 That was the desire and the instructions to
23 everyone was that course of action.

24 I don't know that I'd call it a policy, per se, but
25 that was clearly what the instructions were.

554:1 Q To not put non-prime seconds in securities?

2 A Exactly, to not-- one, to not put them into
3 securities, and then two, to get a secondary execution such
4 that we would not retain much, if any, credit risk.

5 Q Mr. Gissinger goes on to state, "This is not
6 consistent with your instructions and contrary to market
7 activity execution."

8 Are you aware of Mr. Sambol having issue on an
9 instruction that was contrary to the instruction to you and
10 Mr. Kurland?

11 A I'm not aware of it specifically.

12 On the other hand, I could envision it happening.

13 Q But to your knowledge, had that been happening as
14 of March 24th, 2006?

15 A I suspect there still was some of this activity
16 going on, but I don't know it for an absolute fact.

17 Q Do you know what Mr. Gissinger means when he
18 states, "It appears we are leaving money on the table"?

19 A I suspect what he means by that is by pursuing
20 these instructions, that would mean-- either by not doing the
21 loans or by doing them in this particular way, in other words
22 as a whole loan sale, that the economics would, in either
23 case, be diminished.

24 Q To your knowledge, is Mr. Gissinger saying that the
25 company can make more money by securitizing the non-prime

555:1 seconds as opposed to selling them through whole loans?

2 A That appears to be what he is saying, I think,
3 also-- you know, whether-- you know, how we would do the
4 loans at all because you could see here where he talks about
5 secondary is always looking for ways to maximize a whole loan
6 strategy.

7 "Sea bass looks like a sales avenue in a 95-ish
8 indication"-- he may be talking about some possible whole
9 loan sales too.

10 Q Let me show you Exhibit No. 92, which is an April
11 13th, 2006 e-mail from Mr. Mozilo and Mr. Sieracki. You were
12 CCed on this particular e-mail.

13 A Okay.

14 Q If you look at the second e-mail that's depicted on
15 Exhibit No. 92, it's-- well, the first e-mail is an e-mail
16 from Mr. Sieracki to Mr. Mozilo, and at the bottom paragraph,
17 the issue of reserves comes up.

18 Your name is referenced.

19 Can you explain what's going on in that paragraph?

20 A So we are talking about a mark to market on HSBC
21 loans and loans acquired through cleanup calls, so cleanup
22 calls would be where a securities-- ten percent would be the
23 typical threshold.

24 When it got below ten percent, the secondary could
25 go out on the market and buy the-- call back that security

556:1 and have the loans, and so in that process, if the intent was
2 to re-sell them, what secondary should have been doing is a
3 mark to market on both of these, so-- the issue is a little
4 different on each, so on the cleanup calls, as those loans
5 were being bought back in, some of the loans would be good,
6 some of the loans would not be good, but with secondary-- the
7 ideal situation would be they would mark each of those loans
8 to market and then potentially have a-- call it a basis
9 adjustment more so than a reserve, and then in the case of
10 HSBC, as they sold those loans, I would call it a settlement
11 liability rather than a reserve.

12 At the time that they did any sale, if they
13 expected some repurchase activity, they would want to
14 estimate what the cost of that repurchase activity was and
15 then record a liability as part of booking that sales
16 transaction.

17 That's what he's getting at there.

18 With respect to these two issues, the marks that
19 they did were subsequently determined, with the benefit of
20 hindsight, not to be sufficient.

21 Q Okay. From reading that, I got the impression that
22 HSBC had kicked back some loans and it was costing
23 Countrywide some money.

24 Is that right, as of this date?

25 A That's right, yes.

557:1 Q April 13th, 2006?

2 A That's right.

3 Q And then Mr. Mozilo, his e-mail seems to be upset
4 about that and is listing his problems with the HSBC
5 transaction.

6 A He is.

7 Before we leave, and I don't mean to belabor this,
8 but when those loans were bought back from HSBC, one of the
9 things from the credit perspective, as we were observing what
10 was happening, we pointed out to secondary that, "Look, these
11 loans that are coming back for repurchases are not going to
12 have the full market value of just a typical loan of those
13 attributes and as a result of that they would need to be
14 marked down," so that's what's happening-- that's what's
15 being described in the last paragraph.

16 Q So when purchased back from HSBC, they are worth
17 less than you had originally sold them?

18 A Yeah. As a result, that would have to be compared
19 to the liability that was originally set up for the
20 repurchase exposure, and if it was not sufficient, an
21 adjustment would have to be made, and that's what you're
22 seeing here in the bottom paragraph.

23 Q And on Mr. Mozilo's e-mail to Mr. Sieracki, No. 2,
24 he states, "The loans were originated through our channels,
25 but serious disregard for process, compliance with

558:1 guidelines, and irresponsible behavior relative to meeting
2 time lines"-- had you had any conversations with Mr. Mozilo
3 prior to April 13th regarding the process by which 80/20
4 loans were originated?

5 A There was a meeting, and it would have been around
6 this time, and I think it was actually before Angelo sent
7 this e-mail.

8 What I recall was there was a meeting in the
9 afternoon between Stan, Angelo, Dave Sambol, David Spector,
10 and then I came in for part of the meeting where a lot of
11 these issues were discussed, including this Item No. 2, and
12 so the sequence I believe that happened was that after that
13 meeting that Angelo sent out this e-mail that night.

14 Q Do you know where Mr. Mozilo got his information
15 regarding the problems with the origination process and the
16 disregarding of underwriting guidelines?

17 A I think it was as a result of that-- it could have
18 been as a result of that discussion-- he could have had
19 supplemental information that he received elsewhere, but some
20 of it could have come from that discussion we had in his
21 office that afternoon.

22 Q During that discussion in his office that
23 afternoon, did you personally express the opinion that
24 guidelines hadn't been followed?

25 A I may have.

559:1 It was a very emotionally charged meeting, and then
2 Angelo has a tendency to state things in more severe terms
3 than I might use.

4 There was certainly discussion about the
5 origination process, and flaws in it that worsened the
6 situation, so that was discussed, but I don't remember
7 exactly how-- who said what or how it was described.

8 Q Why do you say it was an emotionally charged
9 meeting?

10 A Because people were angry, voices were raised.

11 Q Who attended that meeting?

12 A It was in Angelo's office, so Angelo, Stan,
13 Kurland, Dave Sambol, David Spector, and myself were the ones
14 that I remember.

15 I wasn't there for the entire meeting.

16 There was a bank board meeting that I had to
17 attend, and so as soon as I finished with that meeting, then
18 I came back to Calabasas and joined the meeting that was
19 underway in Angelo's office.

20 Q If you look at his final paragraph, about midway
21 down, he states, "In my conversations with Sambol, he calls
22 the 100 percent subprime seconds as the milk of the business.
23 Frankly, I consider that pride line to be the poison of ours.

24 "Obviously, as CEO, I cannot continue the
25 sanctioning of the origination of this product until such

560:1 time as I can get concrete assurances that we are not facing
2 a continuous catastrophe."

3 After April 13th, 2006, and Mr. Mozilo had
4 expressed this opinion, did you have more success in your
5 efforts to reign in the 80/20 product?

6 A Some, but still not as much as I would have
7 expected based on this e-mail.

8 There were already some things that we started, so
9 some of that is the high-risk policy we talked about a minute
10 ago, so if you look at the date on that, that was earlier--
11 that was a month or so earlier, maybe a little more, than
12 this, and so things had already started in this regard, and
13 then we continued to press on some of those.

14 One of the things that was done was Brian Kuelbs
15 was charged of putting together a financial analysis of the
16 whole HSBC to determine how much money we lost on it, to
17 state it a different way, and so that was one of the key
18 initiatives.

19 Another key initiative was one that Jack Schakett
20 ran with Preston James where they were re-looking at the
21 entire origination process and then better tying that to what
22 happened in secondary marketing.

23 There were a couple conversations I had with Stan,
24 and I even put together a list of recommendations on
25 secondary and how that might be improved, so there were

561:1 things that were undertaken, so I may be stating it a little
2 too negatively.

3 My recollection is that we continued to originate
4 100 percent subprime seconds, even after this, even though
5 some things were trimmed back.

6 I guess from my own selfish perspective, I would
7 have been disappointed with anything else-- I would have
8 loved to see us not do 100 percent subprime seconds.

9 Q Exhibit No. 56 is another series of e-mails, the
10 first being an April 17th, 2006 e-mail from Angelo Mozilo to
11 Mr. Sambol with you and Mr. Kurland as CCs.

12 Do you recall receiving these e-mails, Exhibit No.
13 56?

14 A I do recall receiving this.

15 Q Mr. Mozilo's e-mail to Mr. Sambol, he seems to be
16 repeating some of the concerns that you had previously
17 expressed with respect to subprime seconds.

18 Would you agree with that?

19 A I would agree with that.

20 Q At the bottom of Page 478 he states that there has
21 to be major changes in the program, including substantial
22 increases in the minimum FICO. "No margin, no matter how
23 high, could ever recover the inevitable losses of loans of
24 FICOs under 600."

25 Do you recall there being a substantial increase in

562:1 the minimum FICO after this e-mail?

2 A I do believe that the FICOs were re-looked at.

3 I don't remember the exact sequence of what
4 happened subsequent to this, but I do think a number of
5 process and guideline changes occurred as a result of this.

6 In addition, if you look at the top of the page,
7 478, you can see this analysis that I mentioned a moment ago
8 where Dave is asking Kevin to work with Kuelbs, which is
9 Brian Kuelbs, on the analysis.

10 Q Is the competitive analysis that you just
11 referenced, is that just comparing underwriting guidelines
12 between lenders?

13 A Yeah, so the analysis had two parts.

14 There was the competitive analysis, in other words
15 what others were doing, and then also there was a financial
16 analysis that Brian undertook as well.

17 Q You think after April 17th, a minimum FICO on
18 80/20s was increased?

19 A I think that it was, but one thing I want to direct
20 your attention to, as we stay on Exhibit No. 56, so go to
21 Dave's e-mail to Angelo, and go to the third line down that
22 starts, "I do, however, believe that"-- wait a second.

23 The sentence about halfway down that starts, "What
24 I do know at this point is that our current guidelines for
25 these products are not more aggressive than those offered in

563:1 the general market, and these loans are pervasively offered
2 in the marketplace by virtually every relevant competitor of
3 ours," and so again back to the market matching principle,
4 this competitive analysis was an important part of this as
5 well.

6 Q I am going to show you Exhibit No. 71, another
7 series of e-mails, the last having an April 28th, 2006 e-mail
8 from Dave Sambol to Brian Kuelbs.

9 A All right.

10 Q So from Exhibit No. 56 we see that Mr. Mozilo seems
11 to want the FICO increased on 80/20s. Then in Exhibit No.
12 71--

13 A You see where credit is proposing that?

14 Q Right. And it appears that product leadership has
15 actually supported the recommendation, and then from the top
16 e-mail it seems that Mr. Sambol doesn't like it.

17 I want to know if you recall that that increase in
18 FICO went through-- whether or not Mr. Sambol--

19 A I don't recall the ultimate outcome on this
20 particular exchange.

21 As I read this, I recall the proposal being put
22 together, and so Frank Aguilera would have been one of the
23 key people in my area that would have led the construction of
24 that proposal, and it does-- it certainly was influenced by
25 Angelo and the discussions with him.

564:1 It does appear on this particular occasion that
2 product leadership supported it, but Dave disagreed with it.

3 At this time Stan would have still been-- I think
4 Stan would have still been at Countrywide at this time.

5 I know it was discussed vigorously, but I don't
6 recall the exact outcome. There may have been some
7 compromise that was reached after this. I just don't
8 remember.

9 Q To your knowledge, was Mr. Gissinger involved in
10 product leadership's evaluation of the credit risk
11 management's recommendation to increase the FICOs?

12 A I don't know for certain whether he was or wasn't.
13 However, Brian Kuelbs reported directly to Drew, so
14 I would be surprised if they had not discussed it.

15 Q In testimony with others, I've heard product
16 leadership described as an advocate for the production
17 department.

18 Is that accurate?

19 A From my point of view, yes.

20 Q Was it a rare occurrence when product leadership
21 agreed with the request of management to increase or restrict
22 guidelines?

23 A That would be atypical, yes, and unusual, if you
24 like that adjective.

25 Q I am going to show you Exhibit No. 93, which has an

565:1 April 16th, 2006 e-mail from yourself to Mr. Sambol, and Mr.
2 Bartlett was CCed.

3 A All right. I have taken a quick glance at this,
4 and I recall the e-mail and some of the discussions around
5 this.

6 Q All right. Looking at your e-mail, it appears that
7 you're trying to put into effect some of Mr. Mozilo's wishes
8 having to do with 80/20 loans and the way they are
9 originated.

10 Is that accurate?

11 A That is accurate.

12 Q It seems that someone has added some comments or
13 language to your e-mail.

14 A So the bolded letters came from David Spector.

15 Q Okay. And if you look at your e-mail, there are
16 certain topic headings: loan manufacturing, product,
17 inventory control, settlement accounting, and transaction
18 management.

19 A Yes.

20 Q Why are those headings in this e-mail?

21 A Those are headings that I came up with, and it's
22 just to organize the e-mail into a number of discrete
23 e-mails.

24 Q But do the headings depict what you consider to be
25 issue areas that caused some problems with the HSBC

566:1 transaction?

2 A Most of them have to do with issues dealing with
3 the HSBC transaction, and again, I was just trying to
4 organize things into separate chunks because each of these
5 would affect different areas of the company.

6 Q Okay. Now, in conversations with people in the
7 production department, they identify transaction management
8 as being largely responsible for the problems that were
9 experienced in the HSBC transaction.

10 Would you agree with that?

11 A I would agree transaction management was one of the
12 major problems, but I would be hesitant to say it was the
13 only one.

14 Q And why is that?

15 A Why would I say it's not the only one or why
16 would--

17 Q Why would you say it's not the only one?

18 A Well, because I think the whole idea of 100
19 percent-- sorry to be a broken record of this, but the whole
20 100 percent subprime thing was a concern I had identified
21 previously.

22 I think if you look at Angelo's e-mail, he would
23 tend to concur with that point of view.

24 This inventory control is a whole separate issue
25 from transaction management.

567:1 Something that's not brought up in this specific
2 e-mail but was something that was worked on was just
3 production and underwriting processes too, so that would be
4 at another dimension to what manifested itself with HSBC.

5 While I agree that transaction management was a
6 major issue here, I wouldn't say that it's the only issue.

7 Q And was loan-- were deficiencies in loan
8 manufacturing in any way-- did they in any way cause some of
9 the HSBC kickbacks?

10 A They certainly didn't help.

11 I don't know that they were a direct cause, but
12 they certainly created more problems than would have occurred
13 had those processes been pristine.

14 Q What are the points you are making under the
15 product heading in this exhibit?

16 What do they relate to?

17 A So under the product heading-- this kind of gets
18 back generally to the 100 percent LTV concern or CLTV
19 concern, and so what I'm advocating here is in addition to
20 some of the more operationally oriented remedies to consider,
21 that we consider making tweaks to the product menu.

22 As an example, replacing the subprime products with
23 Alt A alternatives. That's a suggestion, and then allowing
24 SLG to have access to the prime menu, so for most of the--
25 for most of the time at least and maybe all of the time, but

568:1 for most of the time I was at Countrywide, SLG was not
2 allowed to have access to the prime menu, and so I think that
3 caused problems, in my opinion.

4 Q You mean that SLG couldn't offer prime products?

5 A SLG couldn't offer prime products, and then the
6 other part of wholesale couldn't offer subprime products.

7 If something came in that didn't fit their menu,
8 they had to transfer it over to the other division.

9 Q They were supposed to transfer--

10 A They were supposed to transfer it, and I do think
11 that happened in most cases.

12 My concern is you've got-- you are working against
13 some incentives, so a lot of those individuals were either
14 under volume or profitability incentive plans, so that
15 created a potential conflict.

16 Q So they wouldn't refer it but they would maybe use
17 the exception process to write it in their division?

18 A There was certainly the potential for conflict to
19 want to keep a loan within their division rather than
20 transferring it because it could have profitability
21 consequences to them.

22 Q And in order to stay in the area of non-prime,
23 specialty lending desk--

24 A Specialty lending group.

25 Q So in that group, they couldn't offer things from

569:1 the prime menu, but how would they keep them on there when
2 they are supposed to take it up to prime--

3 A By policy, they were required-- if a borrower came
4 in and they qualified for a prime loan, they had to upstream
5 them up to a prime loan. That was the company's policy.

6 In fact, I don't know about this wholesale, but
7 certainly in full spectrum, there were individuals fired for
8 not following that policy.

9 In any case, what I'm advocating here with product
10 is just to consider some tweaks there that might get around
11 those incentive-- those incentive and conflict issues and
12 then rely on less medieval controls than firing people.

13 (Recess 2:37 to 2:51 p.m.)

14 BY MR. WYNN:

15 Q Mr. McMurray, I want to show you Exhibit No. 55,
16 which I may have shown to you previously. If so, please let
17 me know.

18 A You may have shown this to me. It doesn't ring a
19 bell offhand.

20 Q Okay. In your previous testimony you mentioned
21 having gone to an ASF conference and made a presentation.

22 Do you know if it was this one that occurred
23 sometime in February of 2007 or perhaps it was in January--

24 A So the one that I-- let me think about this.

25 The one that I presented at was either 2006 or

570:1 2007.

2 Let me just take a glance here.

3 I think I may have gone to the one in 2006. I'm
4 not sure. It is something we could find out though.

5 There was-- one of the documents I gave to you guys
6 was the ASF presentation I did. It may be dated, so we could
7 look at that.

8 Q All right.

9 A The other thing, as I look at this, I can-- on the
10 one that I went to and did the presentation, Frank Aguilera
11 was definitely with me. I don't remember Christian being
12 with me.

13 He could have been there because we would generally
14 split up to cover more things, but I just don't remember him
15 being there, although he might have.

16 Q Okay. If you turn to the third page of the e-mail
17 where Christian's e-mail begins, the second observation he
18 makes is that the obvious big topic of discussion was 2006
19 vintage performance, both prime and subprime.

20 Do you know what he means by that, "2006 vintage
21 performance"?

22 A So similar to what's done with lines, loans are
23 classified by the vintage and the year that they were
24 originated, and so 2006 vintage would mean loans that were
25 closed and/or had a first payment date during the year 2006.

571:1 Q Okay. And by "performance," does that mean default
2 performance or credit--

3 A That is going to take on several dimensions, so
4 delinquencies, defaults, and prepayments would be the main
5 types of performance that's being measured.

6 Q His next observation is that "All recognized that
7 80/20 and the later risk on top of them are definitely the
8 main culprit, and our concern is that the rating agency sized
9 it wrong."

10 First of all, from that observation of Mr.
11 Ingerslev, can we rule out prepayments as being included in
12 the performance point?

13 A I would say no, and here is the reason why:

14 Now, one of the key performance points that he's
15 getting at here are delinquencies and defaults, so that's
16 going to be the primary emphasis.

17 The reason I wouldn't rule out prepayments is one
18 of the things that you observe on high-risk loans is their
19 prepayment rate tends to be lower so that can tend to
20 exacerbate the situation.

21 Once a loan prepays, then you don't have to worry
22 about it defaulting, so there would be a prepayment, although
23 I think in this particular instance, it's going to be mainly
24 delinquencies and default.

25 Q So investors in the secondary market are

572:1 complaining about the performance of 2006 vintage,
2 particularly 80/20s?

3 A So two things here, so the first would be just
4 simply a comparison of the 2006 vintages-- 2006 vintage to
5 earlier vintages at the same point in those vintages' lives,
6 and you can do a comparison of delinquencies and defaults and
7 see which ones are worse.

8 The first is just simply the fact that 2006 was off
9 to a very poor start, and this, I think, was early 2007, yes,
10 so that's point one.

11 Underneath point one he is making a point that
12 80/20s were likely one of the key drivers of that poor
13 performance.

14 His third point has to do with the rating agencies.

15 Q Now, how were investors in the secondary market
16 feeling or being affected by the poor performance of 2006
17 vintage?

18 A It depends on what kind of loan or security that
19 they held.

20 If they were a buyer of whole loans, they would
21 have felt the effects very directly. If they were a buyer or
22 an owner of a residual interest, they would have felt the
23 effects very directly.

24 On the other hand, if they bought a more protected
25 security, they mainly would have felt the effects, I suspect,

573:1 through the market value of those securities.

2 Q Do you know what the concern is having to do with
3 rating agencies that Mr. Ingerslev mentions?

4 A I think what his--

5 MR. TAYLOR: Let me clarify one thing.

6 You have asked several questions about this memo
7 and asked him what he thinks Mr. Ingerslev is referring to.

8 I am not going to object, but I do want to point
9 out for the record that Mr. McMurray is not the author of
10 this e-mail, and he can give you his understanding of the
11 words, but I want to make it clear he doesn't really have a
12 foundation to talk about what Mr. Ingerslev may or may not
13 have intended here.

14 BY MR. WYNN:

15 Q Okay. Did you receive this e-mail from Mr.
16 Ingerslev?

17 A I did.

18 What I think that he thinks is-- on this rating
19 agency issue is by sizing it wrong means that the
20 subordination levels weren't appropriately sized with the
21 risk inherent in the population of loans when securitizations
22 were done.

23 Q All right. So what does that mean?

24 A So many of these securities are done as a senior
25 sub structure, and so you have first loss, second loss, third

574:1 loss, and so on, and so there's a class system of securities,
2 and the very best security would be a triple A, and then
3 you'd have the other rating agency ratings as you go down.

4 Something like a residual interest would be an
5 unrated security because it's going to take the first losses.

6 A key feature of this approach is-- so if we take
7 triple A securities as an example, the way to protect those
8 is to size all of the subordinate tranches to a degree that
9 even in adverse environments, that the triple A isn't
10 breached.

11 In other words, the losses don't reach it but
12 rather they consume the more junior securities.

13 The rating agencies getting it-- sizing it wrong
14 means that those subordinate tranches weren't large enough
15 for the risk that was ultimately learned to be present in
16 those loans.

17 Just as a quick aside, one of the concerns we had
18 is that if the rating agency sized it wrong, meaning they
19 didn't have it large enough, that someone was going to end up
20 getting disappointed, particularly the investor, and we
21 thought that was ultimately a bad thing for the market.

22 Q Is that because it would drive down demand for that
23 product?

24 A It would be because-- yes, but what would happen--
25 the reason demand would be driven down is because investors

575:1 would be surprised, so if they bought something with a
2 certain rating and then that was hurt in circumstances less
3 severe than what that rating was designed to withstand, that
4 they would be disappointed and then be discouraged away from
5 participating in the market.

6 Q Are you aware that in the past couple of days,
7 several categories of Countrywide's securitizations have been
8 downgraded?

9 A I wasn't aware of that, although over the years
10 lots of securities, Countrywide's and others, have been
11 downgraded, so that's a whole tangent in itself.

12 Q The next comment in this e-mail, "All want to know
13 when we are pulling back guidelines and why we haven't
14 already."

15 To your knowledge, is that for the underwriting
16 guidelines having to do with 80/20 loans?

17 A It has to do with underwriting guidelines. I don't
18 know if he's talking specifically about 80/20 here.

19 Q In conversations that we have had, and when I say
20 "we," my colleagues and I with Mr. Bartlett, he mentioned
21 this conference and observations that were made by
22 Countrywide employees at this conference as a reason why
23 there was some impetus to restrict guidelines in early 2007.

24 Do you recall that being the case?

25 A I believe that was the case.

576:1 Q And do you have any specific recollection of what
2 it was about this conference and the opinions expressed at
3 the conference that led the company to consider further
4 restricting guidelines?

5 A Well, so at this particular conference, it's going
6 to be a meeting with all of the-- not all but many of the
7 participants in the mortgage securities market, so both the
8 broker-- the broker dealers, the lenders, the investors. You
9 can even see that Christian talks about, I think, 10,000
10 being in attendance.

11 It's an opportunity to share observations from
12 multiple perspectives: the investor perspective, the issuer
13 perspective, the lender perspective, the broker dealer
14 perspective.

15 Q First page of Exhibit No. 55, you see some good
16 names, and if you turn it, you see some bad names also.

17 Under bad names, there's Fremont, WMC, and Long
18 Beach.

19 Are those names that were considered with respect
20 to the matching strategy?

21 A I believe that they were.

22 Q I have seen public statements in which high-level
23 Countrywide executives state that "We are not mono line
24 subprime lenders."

25 Have you ever seen such statements?

577:1 A I have heard those comments. I am not sure that it
2 was in a public setting. It might have been inside of
3 Countrywide, but--

4 Q You have heard those comments?

5 A I have.

6 Q Do you think such comments are accurate when you
7 consider the matching strategy?

8 A Actually, as a result of the matching-- the
9 matching strategy would, in fact, take Countrywide further
10 away rather than closer to being a subprime mono line
11 company, so let me elaborate.

12 If I think about someone like Ameriquest or New
13 Century or WMC, Long Beach, those companies focus solely on
14 subprime lending. They don't have prime lending, and so that
15 is a key difference, and so if we think about-- as an
16 example, let's compare Countrywide as it was before the B of
17 A purchase to New Century or Ameriquest.

18 Countrywide was a primary dealer for the Federal
19 Reserve. None of those subprime mono line companies were.

20 Countrywide had a federally chartered bank. None
21 of those subprime mono lines did.

22 Countrywide was the biggest seller to the GSEs for
23 prime loans. Very few of those mono lines had a big prime
24 business like Countrywide had, so those are just a couple of
25 the differences between Countrywide and then the subprime

578:1 mono line companies.

2 Q With respect to product offerings, were you aware
3 of-- were there big differences between subprime products
4 offered by mono line lenders and those offered by
5 Countrywide?

6 A I would say if you looked at Countrywide's real
7 estate lending menu compared to one of those, it would be
8 many, many multiples times bigger than those mono line
9 subprime companies.

10 Q But let me ask another question.

11 Are there any categories of subprime products that
12 were in the market that subprime-- excuse me, that
13 Countrywide was not willing to match?

14 A I think that there were some pockets where that was
15 the case, and I'll have to think here for a minute.

16 As an example, one of the ones that I recall being
17 discussed was maybe euphemistically called a hard money type
18 of product, and so that-- for most of the time that I was at
19 Countrywide, that was not something that was offered out
20 through the production channels.

21 It got debated at RCC, and so that started to
22 change, and then the market closed down, but that's one
23 example that comes to mind.

24 Q Looking at Exhibit No. 95, which is an e-mail
25 correspondence between Dave Sambol and ViJay Lala occurring

579:1 on April 2nd, 2007, is it possible to compare this exhibit
2 with Exhibit No. 71?

3 I am trying to figure out if that 20 point FICO
4 went up--

5 A Oh, on the thing with Angelo?

6 Q So compare 71 with--

7 A I have it here.

8 So this is April 2007, and this is April 2006, so
9 my personal belief is that they're not directly connected,
10 and the contraction that we see here was done as a result of
11 the matching strategy, so the matching strategy worked both
12 ways.

13 If somebody expanded, Countrywide would seek to
14 expand. If competitors contracted, Countrywide would seek to
15 contract.

16 As I glanced through this one, it's being driven
17 more by the matching strategy as opposed to this April 2006
18 e-mail.

19 The reason I say this, if we just kind of scan
20 through-- so on page-- the second page of Exhibit No. 95, and
21 it's Page 14603, at the bottom of that page, you can talk
22 about the comparison, so option one, BNC, and then if we go
23 to the first page, 14602, you can see in the middle of the
24 page, which is an e-mail from ViJay to Dave where he's
25 talking about the only remaining support being First Horizon

580:1 and Long Beach, and then he talks about where Chase and First
2 Franklin are and then all others, so here they are doing a
3 comparison to what's out on the market.

4 That is a difference perspective than Exhibit No.
5 71, which is driven from a different point of view.

6 Q If you look at Exhibit No. 71, and you look at Mr.
7 Kuelbs e-mail to Mr. Sambol, he states that credit risk
8 management has requested that the minimum required credit
9 score be increased 20 points for full doc from 580 to 600 and
10 from stated doc from 620 to 640.

11 Exhibit No. 95, Mr. Sambol, on Page 603, is asking
12 what's the minimum FICO--

13 A A couple of key differences on the comparison.

14 There is a connection because back on 71 Dave does
15 talk about the matching strategy, but on 71 remember that
16 this has to do with-- this was put into motion as a result of
17 those e-mails from Angelo on HSBC, so that's first of all.

18 Then secondly, 71 deals with 80/20 products.

19 Now, if we go over to Exhibit No. 95, if I look at
20 the various e-mails here, this appears to be coming solely
21 from a matching perspective only, first of all, and then
22 secondly, Dave is asking about the FICO on a stated 90
23 percent not 100 percent.

24 Now, there is, down lower in the e-mail, it talks
25 about 100 percent, but then I think Dave switches the

581:1 question to 90 percent, and then ViJay is answering it.

2 That would be how I would interpret it.

3 Q The main reason I showed you Exhibit No. 95 is
4 because I was wondering if you could tell from Exhibit No. 95
5 whether or not the credit risk recommendation that the credit
6 score be increased by 20 points for the subprime 80/20
7 products ever got put into effect.

8 A And I don't remember precisely what ultimately
9 happened.

10 Out of my area-- Frank Aguilera would probably be
11 best situated-- he would likely have the best recollection on
12 that since he would have been the key person leading that.

13 Q With respect to matching strategy, I've heard that
14 at various times you needed one lender support for a match,
15 and then later on it was a two lender support.

16 Do you have any knowledge regarding how many
17 lenders it would take before you would match something?

18 A So that was discussed and debated as well, and like
19 some of the other things we have talked about, there are
20 multiple dimensions, and so one dimension was the type of
21 lender.

22 In my opinion, it had to be, quote, a "legitimate
23 lender," and there's ways to define "legitimate," and we can
24 go off on that tangent in a moment, if you want.

25 After Stan left, so this would have been in 2006,

582:1 Dave Sambol convened a meeting with most of the senior
2 officers in the company, and so he said, "Let's debate. John
3 has asked us-- let's debate the matching strategy again," and
4 at that meeting-- so Dave even said "legitimate," so I was
5 able to say that enough times so he had it in his
6 subconscious.

7 Brian Hale, who was the head of CMB, said, "We
8 never agreed to 'legitimate,'" so we had to have a whole
9 swirl around that. So that was one dimension.

10 Q Before you go on, how was that handled? What was
11 the resolution of the "legitimate" issue?

12 A There was lots of debate, so yes, the consensus was
13 that the matching strategy should still be followed, and then
14 my recollection is that the consensus also was that the match
15 needed to be someone that was a legitimate lender.

16 Now, kind of a sub part under that is what is a
17 legitimate lender, so Christian and I tried to argue that
18 Bear Stearns, Credit Suisse First Boston, someone like that
19 were a broker dealer, weren't a legitimate lender.

20 We liked Wells, Chase, institutions like those as
21 our definition of "legitimate."

22 You also asked the question about how many, so we
23 had also proposed that it needed to be more than one lender.
24 It needed to be at least two that were offering something, so
25 that was a standard that we had proposed to tweak the

583:1 matching strategy.

2 I don't know if that was ever fully adopted.

3 However, when product leadership presented things,
4 they carefully went through what all of the major competitors
5 were doing and outlined that.

6 Q It was Mr. Trentacosta that said with respect to
7 matching full spectrum and subprime, he went off of a list
8 just by lenders and their volume, so there was some kind of
9 publication that would list the top 20 subprime lenders in
10 terms of origination, and any of those would be acceptable
11 competitors for the matching strategy?

12 A That had to do with the "legitimate" concept; so in
13 other words, not some obscure institution that no one had
14 ever heard of and really wasn't meaningful in the market.

15 Q So that sounds about right, that publications were
16 looked at--

17 A They did look at the publications, and the other
18 thing I mentioned, that the CRMC, credit risk management
19 committee, there was a market position analysis presented at
20 most of those, and it would include most of those top 20
21 lenders, and it would slot them in order of whether they were
22 a market leader or market follower across eight or so key
23 subprime product types.

24 (SEC Exhibit No. 208 marked for
25 identification.)

584:1 Q Exhibit No. 208 is going to be a January 12th, 2007
2 e-mail from Mr. McMurray to Mr. Gissinger and it's at JPM 308
3 to JPM 309.

4 A Okay. Let's take a look here.

5 Q Mr. McMurray, what are you asking Mr. Gissinger to
6 do in your January 12th, 2007 e-mail to him?

7 A Let's set this up.

8 Nancy DeLiban worked in the broker dealer, and she
9 would also sometimes function as a listening post, and so
10 she-- I don't know who this Alexander Gurin is, but he's
11 forwarding something to me, which suggests that on these 100
12 percent CLTVs, that Fremont is pulling back, so then I'm
13 sending it to Drew and Mark Gissinger saying that here is
14 another example of a lender that appears to be pulling back.

15 I am also saying that I have communicated with
16 product leadership, and so the idea was to prompt them to
17 stay on top of contracting guidelines so that as other
18 competitors contracted guidelines, that we did so in concert
19 so that we wouldn't be left hanging out there with guidelines
20 more aggressive than the rest of the market.

21 Q When did you start raising these issues, and I mean
22 matching competitor guideline restrictions with product
23 leadership?

24 A So just as a general matter, I wasn't a fan of the
25 matching strategy, so just with that preface-- the other

585:1 thing I thought is if that strategy was going to be pursued,
2 it was very important that product leadership monitor on a
3 constant and rigorous basis what other lenders were doing for
4 a couple of reasons.

5 One, if they were pulling back, that we should pull
6 back, and this is an example here, but there is just one that
7 came up over the years.

8 In addition to that, they would also want to
9 monitor it rigorously for a lot of the little details because
10 those little details would have been important in
11 understanding the competitor offerings.

12 Q So this e-mail, it doesn't seem that product
13 leadership was receptive to your proposal to match
14 guideline-- from this e-mail it seems that product leadership
15 was not as responsive to your request to use the matrix
16 strategy to restrict guidelines as they were to the
17 production division's request to use the matching strategy to
18 expand guidelines.

19 Is that accurate?

20 A So keep in mind a lot of this is human behavior, so
21 an expansion of any kind of privileges is always more
22 appealing than a retraction of them, so you're probably
23 right, but it's not-- it's just kind of an unfortunate aspect
24 of human behavior.

25 Q When we're talking about 100 percent, loan to value

586:1 purchases, do you know if that's concerning 80/20 loans--

2 A The fact that it says "CLTV" rather than "LTV"
3 indicates to me that would be a first and second combination.

4 Q Exhibit No. 209 is going to be a February 20th,
5 2004 e-mail from yourself to Mr. Walker and other
6 individuals.

7 It's JPM 356 through JPM 357.

8 (SEC Exhibit No. 209 marked for
9 identification.)

10 A All right. I have taken a look at this.
11 This is actually a little more general than pay
12 options, but--

13 Q If you look at the first e-mail on 358?

14 A From Ray Walsh?

15 Q Yes.

16 Who is that?

17 A Ray worked briefly at Countrywide Bank during late
18 2003 and early 2004.

19 Q And he references a pay option meeting that
20 occurred on February 19th, 2004.

21 Did you attend that meeting?

22 A I don't think I attended that meeting.

23 It appears to be a meeting that took place out of
24 the bank, which was in Thousand Oaks.

25 Q On the next page there is an e-mail from Mr. Rossi

587:1 to Mr. Walsh where you're CCed.

2 A Yes.

3 Q And he starts out by saying that he had a
4 conversation with John about presumably the payment shock
5 issue.

6 A I see that.

7 Q Do you recall having any such conversation with Mr.
8 Rossi?

9 A Yes, I do recall having a conversation about this.

10 Q What was discussed?

11 A Well, what was discussed were different ways of
12 analyzing this pay option-- this pay shock issue and using
13 the stochastic process that Countrywide had to model interest
14 rates, and so that ultimately led into the development of a
15 pay shock analysis that to my recollection was shared with
16 Countrywide Bank's board.

17 Q Was there any central conclusion in this analysis
18 or what was analyzed?

19 A What was analyzed is how large the pay shock could
20 be under possible future interest rate scenarios.

21 Q Okay.

22 A And by using the stochastic process, we could have
23 some sense of the distribution, the probability distribution
24 of those future interest rate scenarios.

25 Q And for what purpose was that analysis undertaken?

588:1 A The purpose of the analysis was undertaken just to
2 understand how large pay shocks could potentially be on these
3 loans.

4 Q And how is that information used in order to make
5 what type of decision?

6 A Well, it was used in several ways.

7 One, it was used to promote understanding, and so
8 one of the things that at least Cliff and I wanted people to
9 understand were how large these potential pay shocks could
10 be, so we wanted to communicate that out and then give some
11 sense of probability around that; in other words, the pay
12 shock being one amount versus another. There was that, and
13 then two, to think about the credit risk that the pay shock
14 might pose.

15 Keep in mind that we're talking about Countrywide
16 Bank, so these loans were being held in the bank's portfolio,
17 so Countrywide bore the majority of the credit risk on these.

18 Q As of February 20th, 2004, did the bank have a
19 substantial amount of pay options on the books?

20 A They did.

21 In fact, when I arrived in late 2003, the bank's
22 portfolio consisted mainly of pay option loans and HELOC, and
23 it continued to be pay option loans and HELOCs.

24 Q So the bank was aware in early 2004 of the payment
25 shock issue?

589:1 A I would say the bank was aware of the pay shock
2 issue before that, and so this pay shock issue-- and so pay
3 option is what Countrywide called their option ARM product,
4 but the pay shock issue is something you would have with all
5 adjustment rate mortgages, and it's particularly accentuated
6 with those adjustable rate mortgages that have the potential
7 for negative amortization.

8 Q At the top of 357 when you're referencing this
9 graph, you state that it's the front-lower corner of the
10 space we need to be worried about.

11 Could you just point me out to where the
12 front-lower corner--

13 A We have a three-dimensional space that we have
14 depicted on this page, so vertically that's rates high or
15 rates low, so up at the top portion of the cube, that would
16 mean rates are low, all right?

17 Q Mm-hm.

18 A Excuse me, scratch all that and start again.

19 The vertical distance is pay shock, so the pay
20 shock would be low at the top of the box. The pay shock
21 would be high at the bottom of the box.

22 On the left-hand dimension, that's rates, and you
23 can see far left is rates low, far right is rates high, and
24 then on the right-hand dimension of the cube, we have house
25 prices, so the bottom there is house prices down, and the

590:1 upper portion is house prices up.

2 This area I circled right here would be the most
3 concern because what you have there are two things going on,
4 so rates are going up, which is going to accentuate the pay
5 shock. At the same time, house prices are going down, which
6 reduces the value of the collateral and increases the mark to
7 market loan to value ratio or leverage.

8 That's why you would be most concerned with that
9 corner of this space.

10 Q So in that corner you just pointed out you would
11 have borrowers that were underwater?

12 A You would be worried about two things: Borrowers
13 that were underwater but that also had a potential for even a
14 higher rate shock, so it would be those two things in
15 combination.

16 Q Did you ever show that chart to anyone else,
17 besides the people on the e-mail chain?

18 A There was another three-dimensional chart that I
19 did that was similar-- first off, yes, so it would have been
20 shown to Carlos-- let me see if he is copied here, but it was
21 certainly shown to him, and Nick is copied here.

22 There were probably others that it was shown to.

23 There's a similar-- at about this same time, we did
24 a chart with interest-- with credit risk and interest rate
25 risk too. That was a three-dimensional chart that was done

591:1 about the same time.

2 Just as a quick aside, Paris, this formula on Page
3 356, where you get the loan value after you add up all of
4 these things, so that would have been shown to a wider group
5 still.

6 Q What is a default put?

7 A When a borrower takes out a loan, the lender grants
8 two options to that borrower.

9 There's a default put, meaning they could decide to
10 stop paying the loan, and they are going to put the property
11 back to the lender, so just like a put option. That's the
12 way you could think about that.

13 I also have in here a prepayment call, so the
14 borrower can also prepay their loan at any time, and so
15 that's akin to a call option.

16 The lender is short both of those options, so to
17 get to the loan value, the theory is that you'd calculate the
18 value of those two options as deducts from the other elements
19 of value that you have to get to a loan's final value.

20 Q With respect to pay option ARMs specifically, were
21 those offered by Countrywide when you joined the company in--

22 A They were.

23 Q Do you know how long they had been on the company's
24 product menu?

25 A I don't know how long they had been on.

592:1 It was perhaps for a year or so. It could have
2 been longer.

3 I think when they started the bank, that was one of
4 the programs that they wanted to offer as they looked at
5 other banks that had been successful in the mortgage
6 business, like World Savings or, slash, Golden West it's also
7 called.

8 I think that was part of the impetus for offering
9 that program, and then as well as just the plain matching
10 strategy.

11 Q Exhibit No. 210 is going to be transcripts from a
12 speech that Mr. Mozilo gave at a Sanford Bernstein's Puget
13 decisions conference.

14 It's at CFC 200782677 through CFC 2007826812.

15 (SEC Exhibit No. 210 marked for
16 identification.)

17 Q Mr. McMurray, do you know if you attended this
18 conference on May 31st, 2006?

19 A I don't believe I did.

20 Q Turn to Page 20.

21 It is a discussion having to do with the pay option
22 loans on the bank's portfolio.

23 A I see that.

24 Q Do you know if you were involved in putting
25 together whatever talking points Mr. Mozilo used at this

593:1 conference?

2 A Occasionally they would ask me for input. I don't
3 know whether I gave specific input here.

4 A lot of these-- the dollar balance and these other
5 statistics would have been available off of Countrywide's
6 technology system.

7 Q If you look at the second full paragraph, on the
8 last sentence it states, "The performance profile of this
9 product is well understood because of its 20-year history,
10 which includes stress tests and difficult environments."

11 Do you know what 20-year history is being referred
12 to there?

13 A I can speculate as to what we're talking about.

14 As I look at this, I would have suggested that he
15 state this a little differently, so I don't think this was
16 passed by me, but I don't know for sure.

17 With that said, the 20-year history I think he's
18 talking about-- this would have been in 2006, and you roll
19 back to 20 years and you get to 1986.

20 There was a period in the late '80s and early '90s,
21 particularly in California, where this product was prevalent,
22 and it went through a very tough economy and housing market,
23 so I suspect that's what he's talking about.

24 Q And why would you have said things differently with
25 respect to that statement?

594:1 A I just would have phrased things differently-- not
2 with that statement. Just as I glance over the other things,
3 I would have phrased it differently.

4 Q Which things would you have phrased differently?

5 A I would never say with respect to anything dealing
6 with a human being, which a lot of the loan performance is
7 driven by human behavior, I personally would be reluctant to
8 use the term "well understood" with regards to human beings
9 or human behavior.

10 Others might disagree with me, but that would be my
11 personal preference.

12 Q To your knowledge, is Mr. Mozilo referring to the
13 experience that World Savings may have had with pay option
14 ARMS?

15 A It wouldn't have just been World Savings, but World
16 Savings would have been one of the institutions that was very
17 prevalent in this product, but there were others as well.

18 A lot of the institutions that Washington Mutual
19 purchased, American Savings, Great Western, would be
20 examples, and there are others as well.

21 Q I am going to show you Exhibit No. 211.

22 Exhibit No. 211 is largely a July 19th, 2005 e-mail
23 from yourself to Mr. Kurland. It's at JPM 317 through 318.

24 (SEC Exhibit No. 211 marked for
25 identification.)

595:1 Q If you look at Mr. Kurland's e-mail to you on the
2 second page of this exhibit, do you know if this e-mail arose
3 in the context of proposals to adopt World Savings'
4 guidelines with respect to pay options?

5 A So my recollection on this issue coming up was Dave
6 Sambol and Carlos Garcia looking at what World Savings was
7 doing and observing that a lot of their FICOs were relatively
8 low and that adaptations needed to be made to Countrywide's
9 product to compete, so that was one dimension.

10 The second dimension was more from the bank where
11 they wondered whether some of World's practices would make
12 sense to adopt to improve what the bank was holding, in terms
13 of loan portfolio.

14 Q To your knowledge, are any of World Savings'
15 guidelines and/or practices adopted by Countrywide?

16 A I don't believe so.

17 This was discussed, but I don't think that the
18 approach that World Savings had translated to Countrywide's
19 culture, infrastructure systems.

20 Q Exhibit 212 is going to be an August 22nd, 2005
21 e-mail from yourself to Mr. Sambol.

22 It is JPM 228 to 230.

23 (SEC Exhibit No. 212 marked for
24 identification.)

25 Q If you look at the e-mail from yourself to Mr.

596:1 Lederman at the top of the first page of Exhibit No. 212, you
2 state that "Another pay option issue I've raised multiple
3 times with various people, including Stan, while he was still
4 here"-- what is the issue that you've raised multiple times
5 with various people?

6 A In general, you could look at this article that
7 I've forwarded on to Dave here, so it starts, "Housing seeing
8 the hidden perils of pay option loans," so that just lays out
9 some general observations about option ARMs. That's the more
10 generic term for "pay option."

11 Then in the e-mail that I write above the article
12 that I forwarded to Dave, I talk about a QC audit, so
13 remember the QC, the quality control department, reported to
14 Rob Williams, and he was in my group, and so one of the
15 things that they did, actually, I think, which was
16 Christian's idea, was to look at HUD ones for pay option
17 loans that had been done by WLD, and so this is a relative
18 sample, but it was looking at the premium price loans, in
19 other words where there was a rebate available, so in
20 exchange for the borrower taking on a higher interest rate
21 and/or a prepayment penalty, there would be a rebate
22 available back.

23 That rebate could be-- all of it could go to the
24 broker, all of it could go to the borrower, it could be
25 shared by the broker and borrower, so what I'm pointing out

597:1 here is that out of the 47 where Countrywide had contributed
2 300 basis points, which is three percent, in terms of a
3 rebate, to the transaction, only one of the 47 had any of
4 this credit shared with the borrower to offset fees, meaning
5 that in the other 46 cases, the entire rebate was kept by the
6 loan broker.

7 Q What is your concern with that practice?

8 A To me, it seemed that the brokers were being
9 piggish.

10 In other words, that three percent is, in my view
11 anyway, a big percentage of the loan amount, and either they
12 should have shared more of that with the borrower or changed
13 the-- done something with a lower rebate that would have had
14 better terms for the borrower, so a lesser prepayment penalty
15 or no prepayment penalty or a different margin.

16 Q Were there rebates associated with the pay option
17 product larger than with other loan products?

18 A You could get loan products with big rebates over
19 and above pay option ARMs, so I don't know-- I wouldn't make
20 that broad, sweeping characterization, but on the option ARMs
21 my recollection is that in order to get a rebate, there had
22 to be-- the loans could be done with or without a prepayment
23 penalty, but the only way to get a large rebate is with a
24 prepayment penalty, is what I recall.

25 Q Did the prepayment penalties in any way relate to

598:1 the payment shock issue?

2 A They didn't relate directly to the pay shock issue,
3 and the reason for that-- and there's some exceptions to
4 this, but in general, the prepay penalties would expire
5 before the loan recast, and the recast is where the big pay
6 shock issue comes about on an option ARM loan.

7 Q Okay. So do you in any way view this broker
8 compensation issue as a credit risk issue or just a practice
9 you didn't like for other reasons?

10 A It was more of a practice I didn't like.

11 It is not a direct risk issue per se, but again, as
12 I looked at it, it was something that I thought should be
13 escalated up, so that's what I did.

14 Q And who else, besides Mr. Kurland, did you raise
15 this issue with?

16 A Well, I sent it to Dave Sambol, so I raised it with
17 him, and then I also talked about it to Drew Gissinger.

18 I believe, and I'm not certain about this, but I
19 believe that Christian raised it with product leadership as
20 well.

21 Q Was there ever any action taken to address the
22 rebate issue?

23 A None that I'm aware of while I was there.

24 The product-- keep in mind that in-- especially on
25 prime products in the early August of 2007-- kind of

599:1 everything caved in from the secondary market perspective,
2 and a lot of these issues became moot at that point, but
3 prior to that, I don't have specific knowledge of anything
4 being done.

5 I will say that they, meaning production, did agree
6 to redoing all of the brochures and consumer information that
7 we did on pay option ARMs, so that was done, I think, around
8 2006 where that was all redone and approved.

9 One other thing, I talked to Rick Wentz about this,
10 and then there was a disclosure that was used in WLD, so he
11 had a conversation about the whole rebate thing with-- and
12 not just on pay options but more generally with Todd Dal
13 Porto, so that was another thing that happened.

14 Q So Exhibit No. 213 would be an e-mail from David
15 Bigelow to Mr. Mozilo, and it's Bates No. CFC 2007A371317
16 through 371318.

17 (SEC Exhibit No. 213 marked for
18 identification.)

19 A All right. I have taken a quick blast through
20 this.

21 Q Mr. McMurray, I know you are not a recipient of any
22 of the e-mails in Exhibit No. 213, but it does seem to relate
23 to Exhibit No. 210.

24 A It does.

25 Q And Mr. Bigelow seems to think that you may have

600:1 been involved in preparing the pay option position.

2 Does it refresh your recollection in any manner as
3 to whether or not you did have any hand in developing that
4 position?

5 A I think what he said is he got input from a number
6 of people, so I'm not sure whether he showed the final
7 position to me or not or just got input from me.

8 Q Okay.

9 A I wanted to point you out to-- if you look at the
10 second full paragraph that begins, "Pay option loans
11 represent the best whole loan"-- and so I do recall helping
12 him on that, so it's the idea you just can't think about
13 credit risk, you have to think about expected return and you
14 also have to think about interest rate risk as well.

15 You can see that pay options carry the lowest
16 interest rate risk.

17 From that combined perspective at that particular
18 time, out of the things that were available to Countrywide
19 Bank, it was the best alternative at that particular point in
20 time.

21 MS. PAN: Paris, I would like to reserve the right
22 to call back portions of this document potentially. As
23 you'll see under bullet point three, this was developed with
24 input from individuals, including Mary Jane Seebach who is an
25 attorney at Countrywide.

601:1 BY MR. WYNN:

2 Q Exhibit No. 214 is going to be an e-mail from Mr.
3 Mozilo to Mr. Garcia, Mr. Furash, and Mr. Kurland, as well as
4 Mr. Sambol, and it's dated June 1st, 2006, and it's Bates No.
5 CFC 2007A371364.

6 (SEC Exhibit No. 214 marked for
7 identification.)

8 Q Have you ever seen Exhibit No. 214 before?

9 A I don't recall seeing this specifically.

10 Q Okay. In the first paragraph, Mr. Mozilo
11 references a discussion with Stan and Dave in which it came
12 to his attention that the majority of pay options being
13 originated were based upon stated income.

14 Do you know whether or not you ever were a
15 participant in any of those conversations?

16 A I participated in-- I don't know if I participated
17 in this specific conversation, but there are conversations
18 around pay options in the bank's portfolio that I was part
19 of.

20 Q Okay. As of June 1st, 2006, were you aware that
21 most of the pay options being originated were based upon
22 stated income?

23 A It surprises me a little bit to read him saying
24 this, at this point in time. The pay option program has
25 always been that way, even going back for years, even before

602:1 Countrywide ever offered the program, much of it was done on
2 a stated basis, so that's been the program's history.

3 Once Countrywide began offering that program, it
4 was consistent with the history that preceded it.

5 Q Are you saying the history of the program was that
6 it was a stated income program?

7 A Certainly the alternative to go full doc was
8 required in certain cases and could be done, but that more so
9 than any other first lien program that I can think of, the
10 tradition for option ARM loans was a much higher portion of
11 stated income.

12 Again, that predates Countrywide ever participating
13 in this market.

14 Q Okay. That same paragraph, it is stated there is
15 also some evidence that the information that the borrower is
16 providing us relative to their income does not match up with
17 IRS records.

18 Is that something you were aware of as of June
19 2006?

20 A There were a couple studies that we did along these
21 lines where there were samples of loans where the borrower
22 had provided a 4506, and you can get tax information from the
23 IRS.

24 These analyses are a little tricky for a couple of
25 reasons.

603:1 One, there's a reconciliation that you would need
2 to get to to go from taxable income to the income that's used
3 for qualifying for a loan. That's kind of the first point.

4 Secondly, and I'll agree that this should not be
5 the case, but for some borrowers, there's going to be--
6 there's at least going to be the temptation to provide a low
7 number to the IRS and a high number when they're trying to
8 qualify for a loan.

9 It's tough to draw sweeping conclusions from some
10 of those studies because you don't have all of the parts, but
11 there were a number of times that we did those types of
12 things at Countrywide.

13 Q If you look at the last paragraph, Mr. Mozilo
14 states, "Since we know or can reliably predict what's going
15 to happen in the next couple of years, it is imperative that
16 we address the issue now."

17 Do you know what he's talking about now?

18 A I don't, but I'm impressed that we can reliably
19 predict what's going to happen in the next couple of years
20 because I don't know how we could do that reliably.

21 Q On May 31st, if you look at Exhibit No. 210, you
22 give a pretty positive description of pay options and the
23 bank's holdings of pay options.

24 A Yes.

25 Q Exhibit No. 214, which appears to be the day after

604:1 he gave his presentation, he's sending an internal e-mail
2 that has a less rosy depiction of those loans and the bank's
3 holdings on those loans.

4 To your knowledge, did anything happen between May
5 31st and June 1st, 2006 that gave Countrywide cause to be
6 more alarmed on pay options?

7 A Not that I know about.

8 I don't know what time frame this was, but there
9 were conversations that Kevin and I had with the bank where
10 we wanted to consider possibly selling a lot of the pay
11 option loans, and the bank management was vehemently against
12 that proposal, and the compromise that was eventually reached
13 was using pool insurance instead.

14 It would have been around this same time, but I
15 don't know exactly when that was.

16 Q 215 is a series of e-mails, one of which being an
17 8/31/05 e-mail from yourself to Mr. Kurland.

18 This document appears at JPM 321 through 322.

19 (SEC Exhibit No. 215 marked for
20 identification.)

21 A All right. I have taken a glance at this.

22 Q Exhibit No. 215, the first e-mail is an August 25th
23 e-mail from yourself to Mr. Garcia.

24 Was this-- to your knowledge, was this e-mail in
25 response to Mr. Garcia asking you to assess the possibility

605:1 of requiring less documentation with respect to some pay
2 option loans?

3 A I am not sure it was a request.

4 I think it was-- I became aware of their desire to
5 do this, and then I wanted to offer my view. That is my
6 recollection of it.

7 Q Now, a moment ago you mentioned that the pay option
8 program had always been a stated income program.

9 A I did.

10 Q Okay. So what--

11 A That was prevalent, not 100 percent remember, but
12 it was prevalent, most of it.

13 Q So Mr. Garcia wants to make it more so a stated
14 program?

15 A Yeah. The way I would describe it is his desire
16 was to increase the guidelines around the stated features.

17 When I say "increase the guidelines," make them
18 more lenient.

19 Q And on the first page of Exhibit No. 215, you raise
20 the issue with Mr. Kurland, and you advise that this move
21 would be ill advised.

22 Do you know whatever happened with this issue?

23 Was Mr. Garcia successful in getting additional
24 documentation relief?

25 A I don't remember exactly how this one turned out.

606:1 Q On the second page, Item No. 3, "Documentation as a
2 variable," you state that "Next to FICO and LTV/CLTV,
3 documentations are one of the most dominant variables for
4 predicting defaults. The relationship is the same every time
5 I've looked, a negative correlation between documentation and
6 defaults; i.e., less documentation equals more defaults."

7 When we met in early July, I think you mentioned
8 that you had done some statistical studies that lay out that
9 relationship.

10 Are there any other studies you have done to reach
11 that conclusion regarding documentation?

12 A While I was at Freddie Mac, these types of studies
13 were done and reached that conclusion.

14 When I got to Countrywide, these studies were done
15 multiple times and reached the same conclusion.

16 On numerous occasions I shared these results both
17 internally and publicly externally.

18 Q What types of venues would you share the studies
19 externally?

20 A So the ASF conference that we talked about was one
21 example.

22 The Federal Reserve had a conference where I shared
23 these, and that's another example.

24 There was a conference, and I think it was in
25 September of 2006, an investor conference, and there was one

607:1 day that was fixed income and there was one day that it was
2 equity, and I shared it there, and it was in New York and was
3 attended by hundreds.

4 On one of the-- on a couple earnings calls, they
5 had me do a speaking role, and I shared it there.

6 I shared it with the rating agencies. I shared it
7 with Fannie Mae and Freddie Mac. I shared it with the
8 mortgage insurers, and then with CCM, Countrywide Capital
9 Markets. I would do public speaking for them, and I shared
10 it on several dozen different settings there publicly.

11 Q Do you recall ever publicly stating that all those
12 constant loans with reduced-level documentation have a higher
13 rate of default and that the pay option portfolio at
14 Countrywide Bank are largely based upon reduced documentation
15 loans?

16 A So let's take those two one at a time.

17 On the documentation issue, if you looked at the
18 presentations that I did publicly, what those will show is a
19 higher odds ratio for the lower documentation loans, meaning
20 the lower documentation loans did have a higher incidence of
21 default.

22 With respect to specifically marrying that with pay
23 option, I am not sure I did that.

24 The "however" would be I think it was widely
25 understood that pay option loans were-- many of them were

608:1 done on a limited doc basis.

2 Q Okay. But just to be clear, can you recall any
3 incidences where you gave a public speech where you stated
4 that the reduced documentation loans had a higher default
5 rate and the majority of the pay options held at Countrywide
6 Bank were reduced documentation pay options?

7 A I might have.

8 I am trying to think back. I could have easily
9 made a statement like that.

10 MR. TAYLOR: I think the question, John, is whether
11 you recall doing that.

12 THE WITNESS: I don't recall a specific instance.

13 BY MR. WYNN:

14 Q I am going to show you what we've previously marked
15 as Exhibit No. 44, which is a July 10th, 2006 e-mail from Mr.
16 Mozilo to Mr. Bailey.

17 Have you ever seen Exhibit No. 44 before?

18 A I don't recall seeing this before.

19 Q Do you recall ever hearing in July 2006 that Mr.
20 Mozilo was concerned with the performance of the pay option
21 loans?

22 A I don't.

23 Q Were you aware in July of 2006 of the information
24 in Exhibit No. 44?

25 A Well, this is a sweeping comment, and when Stan and

609:1 I would see things like this, we would always remind
2 ourselves of an Einstein quote that things should be made as
3 simple as possible but not simpler.

4 When I see something like this, it would make me
5 want to dive into some of the more specifics to see what's
6 going on.

7 For example, we don't know what the other
8 differences were, so to conclude it's simply the result of
9 NegAm is a stretch.

10 To be fair to him, he's asking, "I would like your
11 thoughts and observations," but the way I would approach this
12 is with some of the statistical techniques we described
13 before where you try to calculate the odds ratios and try to
14 calculate out these variables one by one.

15 Q Were you a recipient of pay option ARM flash
16 reports in 2006?

17 A I don't know if I-- I had access to the flash
18 reports. However, we had much better information than that
19 that we had available to us, so these were pretty basic
20 reports.

21 There were a series of product books that we
22 published every month, including a specific one on pay option
23 that was on the order of 100 pages or many of very detailed
24 information.

25 What I liked to do was look at the more

610:1 comprehensive reports rather than just looking at these
2 flashes.

3 Q I am going to mark as Exhibit No. 216 a July 20th,
4 2006 e-mail from Susan Martin to Eric Sieracki, and Mr.
5 McMurray you are a CC on this e-mail.

6 Exhibit No. 216 appears at CFC 2007A473297 through
7 473298.

8 (SEC Exhibit No. 216 marked for
9 identification.)

10 Q Do you remember working on a response to this Wall
11 Street Journal article?

12 A I remember talking to Susan Martin about it.

13 Greenwich had come out with a research study
14 comparing option ARMs across different companies, and so
15 that's what-- and then my recollection is that the Wall
16 Street Journal was planning to run an article on that
17 Greenwich study, so I helped Susan understand at least what
18 we knew about the study and how the researcher might have
19 gone about it.

20 Q Under the heading, "Statement," that first
21 paragraph, "Countrywide-originated option ARM loans are
22 performing within the company's expectations on both an
23 absolute and on a comparative basis. These loans are
24 performing favorably with expected delinquency rates relative
25 to other types within our portfolio, including 30-year fixed

611:1 rate mortgages."

2 Mr. McMurray, is that a paragraph that you either
3 drafted or had input on?

4 A I suspected I very likely had input on this, and so
5 it would have been drawn from the various reports that we
6 had-- internal reports that we had available.

7 It could have actually maybe even been-- you could
8 have observed it potentially from some of the externally--
9 there was an operations release that Countrywide did every
10 month, and you might have been able to draw that conclusion
11 on the comparative basis even there.

12 Q As of the date of this e-mail, I guess July 20th,
13 2006, had anyone-- had you heard anyone express any concern
14 about the performance of pay option ARMs?

15 A The concern was more-- the concern that was
16 discussed, both internally and externally, was more future
17 looking, so we had talked about the recast issue.

18 In fact, what seemed like a dozen exhibits or so
19 ago, we talked about that pay shock analysis that was done,
20 so the concerns were more future looking.

21 In addition, the Greenwich study, what I remember
22 is it was comparing option ARM to option ARM.

23 In other words, it wasn't comparing across product
24 types but rather option ARMs from different originators is
25 what I remember about the study.

612:1 Q Do you know who was in charge of loan servicing in
2 2006?

3 A I think by that time it would have been Steve
4 Bailey.

5 Q That's right.

6 In helping to prepare the response to the Greenwich
7 article, did you consult with Steve Bailey at all?

8 A I might have, although if I wanted to look at loan
9 performance information, he wouldn't be the first place that
10 I would go to.

11 I mean, I consulted with him on a lot of things,
12 but on loan performance, the typical path would have been to
13 go and look within the company's information systems, which
14 had quite detailed information on loan performance that we
15 had access to, so I might have asked Michael Burak or someone
16 like that to take a look.

17 Paris, just as a quick aside, if I wanted something
18 anecdotal, Steve might have been a good source for that, but
19 for hard numbers, there were quicker ways to get things, and
20 Michael Burak, the gentleman that I referred to, even on
21 behalf of servicing from time to time, put numbers together
22 for them, so that would have been my more typical route to
23 get at performance information.

24 (Recess 4:20 to 4:31 p.m.)

25 BY MR. WYNN:

613:1 Q Mr. McMurray, do you recall attending something
2 called a pay option summit around July 2006?

3 A It's very likely I could have been there. I don't
4 remember it specifically.

5 I mean, there were a number of summits that were
6 held.

7 Q Okay. I want to show you a document that might
8 refresh your recollection.

9 I think we'll mark it as Exhibit No. 217. It's a
10 one-page document.

11 It's a July 24th, 2006 e-mail from Dave Walker to
12 Sherry Ramaila.

13 It's CFC 2007B282262.

14 (SEC Exhibit No. 217 marked for
15 identification.)

16 A Okay. I've taken a look here.

17 Q Does this document refresh your recollection as to
18 what the pay option summit was or when it was held?

19 MR. TAYLOR: I am going to object.

20 What I think he said is he didn't recall whether he
21 attended.

22 THE WITNESS: I'm sorry, this doesn't help me.

23 BY MR. WYNN:

24 Q Exhibit No. 218 will be a document entitled, "Pay
25 option summit takeaways," and it's CFC 2007B282263.

614:1 (SEC Exhibit No. 218 marked for
2 identification.)

3 Q Have you ever seen Exhibit No. 218 before?

4 A I may have. It doesn't-- I may not have also, so
5 it doesn't-- while I recognize some of the initiatives in
6 here, I don't recall seeing this specific format before.

7 Just very quickly, I vaguely remember Christian
8 perhaps attending a pay option summit with the bank around
9 this time. That's kind of the only thing I'm able to
10 extract.

11 Q You think he proposed a meeting with the bank?

12 A As I look at this, it doesn't look like something
13 he would propose. It looks like-- just based on me scanning
14 this, it looks bank centric, even though there's nonbank
15 folks listed as responsible. It looks like something the
16 bank-- they put together.

17 Q We'll mark as Exhibit No. 219 an August 19, 2006
18 e-mail from Mr. Garcia to Mr. McMurray, Mike Muir, and this
19 document is CFC 2007B010891.

20 (SEC Exhibit No. 219 marked for
21 identification.)

22 A All right. I have glanced at this.

23 Q Do you recall receiving this e-mail?

24 A I don't recall receiving it specifically. However,
25 a lot of the initiatives that he talks about, my recollection

615:1 is that some of those predate this document that you showed
2 me a moment ago.

3 You said this was in 2006, so as an example, this
4 idea of credit enhancements would be one example. Another
5 example that predated was this idea of the new-- let me just
6 read it exactly.

7 Disclosures for production and servicing, that was
8 being worked on prior to this summit.

9 The summit that he's talking about may have
10 reinforced that, but some of these things were already in
11 motion.

12 Q With respect to that language you mentioned about
13 disclosures, is that talking about disclosures to pay option
14 borrowers?

15 A It is, so both when the borrowers initially apply
16 for the loan and then after their loans close and it's
17 initially being set up in servicing.

18 There were two types of disclosures that were given
19 to the borrower to help familiarize them with the product.

20 Q And the next paragraph speaks of portfolio risk
21 mitigation steps.

22 Were you involved in addressing any of those items?

23 A I was, and so I mentioned a while back Kevin and I
24 had even suggested kind of the extreme idea of just simply
25 selling the loans, and one of the key risk mitigation steps

616:1 that we took was purchasing pool insurance, so a fair amount
2 of pool insurance was purchased for these pay option loans
3 that were in the bank's portfolio.

4 Q When did you and Mr. Bartlett first present the
5 idea of selling the pay option loans that were in the bank's
6 portfolio?

7 A It probably would have been sometime around this
8 time.

9 Again, what we were worried about was more future
10 looking, so even though the loans were performing well now,
11 we worried about years out, whether that would still be the
12 case.

13 Just to kind of-- the time to think about insurance
14 is well before the catastrophe is on top of you.

15 Q What kinds of things were you seeing on the horizon
16 that made you think it may be a good idea to sell these?

17 A So one concern was the pay option-- excuse me, the
18 pay shock, and so again go back to that e-mail exchange, and
19 I think it's 2004 that we talked about pay shocks, so that
20 was something that had been on our minds for a while.

21 By this time, the real estate market had had a very
22 long favorable run, and over history the real estate market
23 has been typified by cycles, so that would be another
24 concern.

25 Q I think you mentioned the bank was opposed to

617:1 selling the pay options?

2 A The bank management was opposed to selling the pay
3 options.

4 Q By "bank management," I assume you would mean Mr.
5 Garcia?

6 A He would be one of the bank managers that would be
7 opposed to it, but he wasn't the only one.

8 Q What were some of the reasons that Mr. Garcia and
9 other members of the bank management had in opposition to
10 selling the--

11 A Because they continued to believe that the
12 investment was favorable to any alternative that was
13 available.

14 Again, the idea about being good on a relative,
15 absolute basis, they still believed that to be the case.

16 Q Exhibit No. 220 is principally an August 31st, 2006
17 e-mail from yourself to Jim Furash.

18 It's JPM 213 through 215.

19 (SEC Exhibit No. 220 marked for
20 identification.)

21 A All right. I have taken a glance at this.

22 Q The first page of Exhibit No. 220, there's an
23 e-mail from you to Jim Furash.

24 Under Item No. 1 A, "Pay option summit," does
25 that-- does that sentence or those sentences under that

618:1 heading in any way refresh your recollection as to what
2 transpired at this pay option summit?

3 A Unfortunately, it doesn't, and the vague
4 recollection I have is that Christian attended and I didn't,
5 but there was another series of meetings that we had with
6 bank management, so Sambol, Kevin Bartlett, myself, and then
7 the bank management team, and there were probably some others
8 there as well, but my recollection of that series of
9 meetings, it wasn't focused just on pay options but rather a
10 broader range of the bank's investment alternatives.

11 Something focused just on pay option, the only
12 recollection I have is I think that Christian attended.

13 Q Exhibit No. 221 is a series of e-mails on September
14 26th, 2006.

15 The first e-mail is from yourself to Mr. Sambol--
16 from Mr. Mozilo to Mr. Sambol, and then the second e-mail,
17 Exhibit No. 221, is an e-mail from yourself to Mr. Mozilo.

18 (SEC Exhibit No. 221 marked for
19 identification.)

20 A All right.

21 Q If you look at the second page of Exhibit No. 221,
22 it looks like somehow Mr. Mozilo's e-mail to Mr. Sambol was
23 forwarded to you.

24 A He blind copied me.

25 Q Mr. Mozilo blind copied you?

619:1 A Yes.

2 Q Had you had a conversation with Mr. Mozilo prior to
3 him sending this e-mail?

4 A I hadn't. It just showed up out of the blue.

5 Q Do you know why he blind copied you on it?

6 A He had a tendency to use blind copies is my
7 observation.

8 I'm not sure exactly why he did that.

9 Q And in your reply e-mail to him, you mention that
10 you were forwarding an e-mail that you had sent to someone
11 else.

12 Who is the person you originally forwarded that
13 e-mail to?

14 A I'm not sure who I sent this to, and one thing that
15 you didn't ask but I'm going to point it out anyway, back on
16 Exhibit No. 220, the one you just asked me about, something
17 that I wanted to be sure that you recognized here was if you
18 read through the whole chain, what the bank is doing-- so
19 they are not only keeping pay option loans that are
20 originated by Countrywide, they are going outside of
21 Countrywide and buying pay option loans from someone else.

22 We already had a lot of this, and then they were
23 adding to what was being done by buying from-- buying the
24 product from others.

25 Q Okay.

620:1 A So I'm back to 221.

2 I'm not sure exactly who-- I am not sure exactly
3 who I sent this to.

4 Q Now, with respect to Mr. Mozilo's e-mail, on the
5 second page of Exhibit No. 221, the final paragraph, he
6 mentions that the time is right to start selling newly
7 originated pay options.

8 Had you and Mr. Bartlett already presented the idea
9 or is Mr. Mozilo the first person to present it?

10 A I don't think Angelo was the first person to
11 present it, but I want to draw up an important point here.

12 He talks about selling all newly originated pay
13 option loans, so I want to distinguish that from the idea
14 that I had mentioned earlier that Kevin and I had talked
15 about when we said to sell the bank's pay option loans, and
16 those would have been previously originated.

17 One of the things he's getting at here, what a
18 common practice at Countrywide would be is for the bank to
19 select the pay option, home equity or other loans that they
20 wanted out of the production flow that Countrywide had to
21 include in the bank's portfolio.

22 What Angelo appears to be suggesting here is that
23 all newly originated pay options be sold; in other words,
24 none of them be diverted to the bank's portfolio.

25 Then he goes on to say, "And begin rolling off the

621:1 bank balance sheet," so kind of two separate strategies that
2 he appears to be advocating there.

3 I don't believe, just as an aside, that you could
4 roll them off in an orderly way.

5 If you've decided to-- those loans were held for
6 investment, so if there was a decision made to sell them,
7 it's kind of more of an all or nothing thing, to my
8 understanding.

9 Q If you look at Item No. 2 in his e-mail, he states
10 that "We have no way, in any reasonable certainty, to assess
11 the real risk of holding these loans on our balance sheet.
12 The only history we can look to is that of World Savings, how
13 their portfolio was fundamentally different than ours in that
14 their focus was equity and our focus is FICO. In my judgment
15 as a long-term lender, I would always trade-off FICO for
16 equity. The bottom line is we are flying blind on how these
17 loans will perform in a stressed environment of high
18 unemployment, reduced values, and slowing home sales."

19 If you compare that to the statement on May 31st,
20 that presentation, where he said that-- on Exhibit No. 210
21 where he mentioned there is a 20-year history with these
22 loans, including how they perform in stress environments--
23 again, it appears-- did something change internally with
24 respect to how Countrywide assessed their risk of holding pay
25 options?

622:1 A Not that-- there was not an abrupt shift that I
2 recall.

3 The other thing that I would point out on No. 2,
4 with his point "There's no way with reasonable certainty," I
5 think that rationale would apply to all loans looking
6 forward, not just pay option.

7 You might be able to argue there's more uncertainty
8 around pay option than other loans, but the way he has this
9 argument set up here, I would say that it would apply to
10 everything and not just that one loan type.

11 Q So when he says, "The bottom line is that we are
12 flying blind on how these loans would perform in a stress
13 environment with higher unemployment, reduced values, and
14 slower home sales," you think that observation could have
15 been made to all loans?

16 A I do, and if you go back to some of the exhibits
17 that we looked at earlier and this idea of guidelines that
18 advanced in the industry beyond anything that existed
19 previously, I do think you could generalize his observation
20 to a much broader set of loans than just pay option.

21 Q In Item No. 3 it states, "It appears to me that the
22 pay options are currently mispriced in the secondary market
23 and that the spread could easily disappear quickly if an
24 unforeseen headline event, such as another lender getting
25 into deep trouble with this product, or because of a negative

623:1 investor occurrence"-- to your knowledge, is Mr. Mozilo
2 stating that he believes that pay options are overpriced in
3 the secondary market?

4 A So what he's getting at here, and I also get to the
5 same issue in the e-mail that I came back to him with, so on
6 Item No. 1 on 211, on the front page of this exhibit, I talk
7 about tight credit spreads.

8 That is the same issue.

9 In this particular time, in the capital or
10 secondary markets, credit spreads were very tight, so there
11 was not a high risk compensation for taking-- what you were
12 paid for taking on risks for this loan as well as others was
13 not very high relative to historical spread levels.

14 Q Okay. To your knowledge, in Item No. 3 is Mr.
15 Mozilo saying that "Right now we are being overpaid for these
16 loans, so we should go ahead and sell them before we are no
17 longer overpaid for them" or is he saying--

18 A Not necessarily overpaid.

19 The way I would interpret what he's saying is that
20 the spread compensation that you receive for holding these
21 assets is not high relative to historical norms, and so it
22 may not make sense to hold them now.

23 There is a pricing element to that.

24 "Overpaid," I need to think of the right way to
25 describe that because I don't think--

624:1 Q It could be that he's saying, "We are being
2 underpaid," and that "We are not being paid enough for the
3 risk" or--

4 A You are being underpaid in the spread, but a lower
5 spread is going to mean a higher price.

6 Q Okay.

7 (Discussion off the record.)

8 BY MR. WYNN:

9 Q Mr. McMurray, we are going to conclude your
10 testimony for today and resume tomorrow morning at 9 a.m.

11 At this point would any of Mr. McMurray's counsels
12 like to ask any clarifying questions?

13 MR. TAYLOR: Not at this time.

14 MS. PAN: Not at this time.

15 MR. WYNN: All right. Off the record at 4:58 p.m.

16 (Whereupon, at 4:58 p.m., the examination was
17 adjourned.)

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625:1

PROOFREADER'S CERTIFICATE

2

3 In the Matter of: COUNTRYWIDE FINANCIAL CORPORATION

4 Witness: John P. McMurray

5 File Number: LA-03370-A

6 Date: Tuesday, August 5, 2008

7 Location: Seattle, Washington

8

9

10 This is to certify that I, Laurie Andrews (the
11 undersigned), do hereby swear and affirm that the attached
12 proceedings before the U.S. Securities and Exchange
13 Commission were held according to the record and that this is
14 the original, complete, true and accurate transcript that has
15 been compared to the reporting or recording accomplished at
16 the hearing.

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