627:1 THE UNITED STATES SECURITIES AND EXCHANGE COMMISSION

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

WITNESS: John P. McMurray
PAGES: 627 through 780
PLACE: Perkins Coie
1201 Third Avenue, Suite 4800
Seattle, Washington
DATE: Wednesday, August 6, 2008

The above-entitled matter came on for hearing, pursuant to notice, at 8:45 a.m.

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C O N T E N T S

EXHIBITS

EXHIBITS	DESCRIPTION	IDENTIFIED
238	E-mail	738
239	Countrywide Financial corporate risk committee, March 21, 2005	747
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P R O C E E D I N G S

Let me go back on the record on Wednesday, August 6th, 2008.

MR. WYNN: Mr. McMurray, we are continuing your testimony from yesterday.

Do you understand that you are still under oath?

THE WITNESS: I do.

Whereupon,

JOHN McMURRAY

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

EXAMINATION

BY MR. WYNN:

Q I wanted to try to finish up talking about the pay options.

Do you still have the last exhibit in front of you?

A We have Exhibit No. 221.

Is that the one you want?

Q Yes, that's right.

I may have asked you this yesterday afternoon, but with respect to the first e-mail-- excuse me, with respect to the e-mail on Page 211, the first page of Exhibit No. 221--

A Yes.

Q The italicized portion of it, it appears that you had sent that to someone else previously.

632:1 Is that right?
A That's right.
Q Do you recall who you sent it to?
A I am not exactly sure. It may have been to someone in the bank, so one of the discussions that had been ongoing is whether-- let me back up.
So option ARMs had been a very key part of the bank's portfolio, and there were some that wanted to continue that emphasis and even increase it, so we talked yesterday about-- one of these e-mails, in fact-- one of the prior exhibits was the bank even wanting to buy option ARMs from other lenders to supplement what was already being done by Countrywide.
From the looking-forward perspective, what might happen out in the years ahead, there was a difference in opinion among the entire executive team, and so this italicized portion, I believe, is something I sent to someone in the bank.
I was arguing against adding even more pay option risks to the bank portfolio.
I suspect it was to someone in the bank.
Q Okay. And with respect to looking forward, as you mentioned, with respect to pay options, what was the difference of opinion that existed in the company?
A So there were some that thought that it was a very

633:1 good product from an investment perspective and something that we should emphasize, and so those would include some of the bank management team that felt very strongly about that.

There were a couple of us -- Kevin and I would be in that camp -- that thought we were overemphasizing that as an investment choice for the bank.

Q When you say "some people in the bank management thought it was a good investment," would that have included Mr. Garcia?

A My recollection is that it was Carlos Garcia, Jim Furash, and Mike Muir, so the chairman, the president, and CEO, and the chief financial officer.

Just to be clear, Mike went from being the chief financial officer of the bank to the chief investment officer of the bank, so that happened at some time around this, and I don't remember exactly when, but Mike Muir was a senior guy at the bank too.

Q With respect to the people that thought looking ahead the company might want to stop or start shedding pay options, what were some of the potential problems that were foreseen with this type of loan?

A As far as stopping, that's probably a more drastic way of describing it, so let's think about two things.

There's the actual origination activity that's going on, and that's within Countrywide, and so those loans

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could either be sold or they could be kept in the bank or it could be some combination of the two, and so that's origination of new loans.

Another consideration is just how much emphasis those loans get in terms of the bank's portfolio.

In other words, do we keep adding as much as was done in the past? less? Is there anything in terms of a credit enhancement on the existing portfolios, loans that were already done and sitting on the bank's balance sheet that would be advisable?

A third consideration, and this goes back to your Exhibit No. 220 that you showed me. In addition to all the things I just said, do we want to further add even more by buying option ARMs from other institutions?

Those would be the kinds of considerations that were under discussion.

Q Okay.

A Through this point of time, the loans had performed very well.

As Kevin and I thought about it, we were concerned-- there were two key things: just in the years ahead what might happen; and two, from a concentration perspective, did we want to have as much emphasis on option ARMs as what some were recommending.

Q Now, was the payment shock issue something that was

635:1 a concern in the years ahead with respect to you and Mr. Bartlett?

A That was one of the items that we thought about, so that was a partial basis for our concern.

Q And in addition to the pay shock issue, what was the other bases for your concern?

A So another concern that we had was on the life cap, so this is more of an interest or market rate risk issue, so many of these ARMs had life caps of 9.9 percent or 9.99 percent, so let's suppose if interest rates went up in the future, those loans would be capped out, so it wasn't just the credit risk, there was also an interest rate risk concern that we thought should be considered.

Now, subsequently we ended up pursuing a transaction-- well, two transactions, one on the credit rate risk side and one on the interest risk side to try to mitigate both of these risks, but that's an example of another type of concern that Kevin and I had.

Q Were there any others besides the ones you have listed?

A The other-- there was another one, and I am trying to remember what it was, and this was Kevin-- a point that Kevin specifically made, but I think it had to do with the amortization of the discounted premium that we had to-- the GAAP rules that we had to follow that he thought posed some

636:1 risk in the years ahead.

I'm sorry I'm a little vague on that one, but I do remember that was one of his concerns.

Q With respect to a deteriorating credit environment as you've described in Exhibit No. 221, does that add to the concern having to do with the pay shock issue?

A The deteriorating credit environment I would describe as a more general issue, so it would apply literally to any real estate loan where you retain some risk, either the entire loan or a portion of the loan, so that would not be unique to option ARMs.

Now, one of the things that I had said at the time was within the prime first lien grouping of loans, from a credit risk perspective, my personal point of view was option ARMs carried the most credit risk of a first lien prime loan.

They tended to carry one of the least amount of risks from an interest rate perspective, so you had those two considerations.

This No. 3 in 221 is really more of a general issue.

It applies to option ARMs and it applies elsewhere.

Q With respect to first lien loans, why did you think the pay option ARMs carried the most risk of--

A Partially because of the loan's features, so the balance could go up rather than down.

637:1

On most loans the balance either stays constant or goes down through time.

On an option ARM, it has a feature where the balance can go up.

Now, that is the case on other consumer loans, but it's one of the few residential-- it's really the only residential first lien product that I can think of that allows that feature where the balance can go up through time rather than down.

Because that balance goes up rather than down, that makes it incrementally more risky than other loans, in my opinion, so that's one.

Secondly, it's an adjustment rate mortgage, so from-- so while the investor faces less interest rate risk, what's happened is the interest rate risks that the investor would have had gets transferred over to the consumer, and so that's true on any-- that's true on any ARM loan.

That is another feature that has incremental risk compared to some other first lien mortgage products.

Q Could you just repeat that?
A Sure.

Let's just do a quick example.

So on a fixed rate loan, the investor bears a lot of interest rate risk.

By switching to an adjustment rate loan, what

638:1 happens is the risks that the investor would have beared with a fixed rate loan is transferred to the consumer, and that's the case on all adjustable rate mortgages.

From a credit risk perspective, in my opinion at least, that makes them riskier because the consumer is taking on that risk that would have previously been borne by the investor.

Q Investor in the secondary market?

A Whoever owned the loans.

It could be in the secondary market, could be a bank if the bank owned the loan.

It's just whoever was the owner of that loan.

Q Okay.

A Largely it would be either a bank or a securities investor.

Q Okay.

A So that would be a second general reason why I held a belief that within the prime first lien space, they were the most risky credit risk loans.

Third would be this pay shock issue, so it's related to the second issue in that it's driven by interest rates, and it's also related to the first balance growing.

The difference in payment on an option ARM loan that could come about is larger, in many cases, than what you would see on other ARM products, so that's still a third

639:1 incremental factor.

Those would be some of the basic reasons for my belief.

Q And do you know the earliest date or time period when you would have arrived at those conclusions regarding the credit risk associated with that type of loan?

A It's something that-- well, I call them opinions, and I had those when I came into Countrywide, and we talked about it-- at least I talked about it since I arrived there.

There was an exhibit that you showed me where I had that square cube we were talking about, just one of those three features, and I think that was in 2004, and if we quickly look back-- I don't know if I pointed it out here. I may have.

Back on Exhibit No. 200, on Page 972, I talk about ARMs and the potential payment shock when the ARMs adjust, just a more general version of what we're talking about now, but that's been my basic belief for a long time.

Q And to your knowledge, were others in the company aware of your belief-- excuse me, aware of your views with respect to the credit risk associated with pay option ARMs?

A I think they were because we had talked about it-- at least I had communicated that on a number of occasions.

Again, in my personal view, you have to look at the credit risk and the interest rate risk at the same time to

640:1 get a complete risk picture.

Q To be clear, do you think that Mr.-- strike that.

Did you ever directly inform Mr. Kurland about your views on the pay option ARMs' credit risk?

A I believe we had a number of conversations on that issue.

Q How about Mr. Sambol?

A I believe we also had a number of conversations on that issue.

Q How about Mr. Bartlett?

A He and I discussed it frequently.

Q And do you know when you and Mr. Bartlett arrived at the firm opinion, I guess, that you might want to start reducing the accumulation of pay options or selling them?

A So this would have been-- Kevin had left the company, and then he had come back, and he was in the correspondent lending division.

After Nick Krsnich left, which I believe was in 2006, then Kevin came back over to the corporate office and was the chief investment officer, and so soon after he arrived, we began talking about this, but my personal belief, it's an opinion that he had already-- he had come to a similar opinion, in my opinion, prior to us talking about it at that time.

Q And what time are you talking about?

641:1 A So around 2006 when he came back over to be the chief investment officer.

Q Okay. So shortly after he assumed the position of chief investment officer, to the best of your recollection, you guys talked about reducing the holdings of pay options?

A What we had talked about is the question of whether we wanted to emphasize pay option ARMs as a bank investment product as much as had been done up to that point in time, so that was the general-- again, he was the chief investment officer for the whole company, and so he needed to have a view on this, and he was getting some views from the bank management and others around the company, and I wanted to provide my view.

He seemed to be interested in hearing my view.

He was just trying to get to an investment strategy with respect to these assets.

Q Did Mr. Sambol ever express an opinion with respect to the strategy the bank should be pursuing on pay options?

A I'm sure that he did, and I'm trying to-- he was in some of the meetings that we had with bank management on this topic.

There were a couple of meetings with Carlos Garcia, Mike Muir, I think Steve Thompson was the bank CFO by that time, so he was there, and plus several other members of bank management, Tim Wentz as an example, so they all came over

642:1 and had a series of meetings that Dave attended and Kevin and I attended.

There were probably others from the nonbank side that may have included Christian, but there were fairly large meetings where we discussed what would be the best investment strategy for the bank, and that included a discussion around pay options and what the best future course would be.

Q And can you recall what Mr. Sambol's position was?

A My recollection is he wasn't as adamant a proponent as the bank management was on continuing to do the option ARMs, so I think he was somewhere between where the bank management was and where Kevin and I were.

Q To your knowledge, was Mr. Gissinger there or did he have anything to do with strategy meetings having to do with the bank's philosophy?

A Drew did participate in discussions, so a little bit of history is important here.

When I arrived in 2003, Drew was actually a senior officer at the bank, and so-- and then a year or so later, then he moved out from Carlos and under Dave Sambol and ran production, and so yes, he did-- I don't know that he attended the entire meetings, but he certainly provided his point of view.

I will do the best I can to represent his point of view.

643:1 I think his point of view was that the mortgage production business was Countrywide's most important business, and so the bank needed to be supportive of that.

In other words, he would rather see the bank doing more of some of these products on its balance sheet rather than less I think would be his general view.

Q Is that on loans in general or pay options in particular?

A I think it would be both in general and then pay options and home equity loans in particular.

Q I have read in a couple of places that-- I think you might have just said that while the pay options have a higher credit risk than some other loans, they have better interest rate attributes.

Can you explain that?

A It gets back to what we just talked about a few minutes ago.

Because the underlying accrual rate adjusts every month, it is a floating rate asset, so that investor, and that could be a bank, like Countrywide Bank, from an investor's perspective, it has less interest rate risk than-- an extreme example would be a fixed rate loan.

Q What are the investment risks from an investor's perspective of a fixed rate loan?

A So the classic example of this would be the savings

644:1 and loan crisis back from the mid '80s, and so one of the things that happened-- there are a number of things that happened there, but one of the things, and maybe even a little earlier than the mid '80s, but there was a mismatch, so the savings and loans and some banks at that time had loaned on a fixed rate basis, and that's the asset side of the balance sheet.

The liability side of the balance sheet was largely floating rate, and so when interest rates went up, they had to pay more interest on their liabilities, but the assets that earned them interest were fixed, and so they became upside down.

Fixed rate loans pose more interest rate risk.

I think that history is important because that mismatch caused a lot of institutions to fail, so I would say up through August of 2007, that was still firmly seared into people's minds, that interest rate risk and the need to be very careful around that issue.

Q If you turn to the second page of Exhibit No. 221, the last, final paragraph, Mr. Mozilo states, "Therefore I believe the timing is right for us to sell all newly originated pay options and begin rolling off the balance sheet in an orderly manner pay options currently in their port."

Could you explain those two concepts, one being

645:1 selling all newly originated pay options, and the second being selling off the pay options currently in their port?

A So this would be my interpretation of what he is saying.

On selling the newly originated pay options, what he means there, and this will also tie back to something we talked about a minute ago, so Countrywide was originating new pay option loans each month, and Countrywide had a choice to make. They could either sell the loans or they could keep it in the bank's portfolio or they could do a blend of the two strategies where they sold some and kept some.

For most of the time while I was at Countrywide, they pursued that middle course where they sold some and kept some.

My interpretation of the first part of his sentence is he's saying rather than do the strategy where we keep some and sell some, he's saying to sell all of the newly originated pay options, so that's the way I would interpret that.

The "begin rolling off the bank balance sheet," there's two ways to interpret that. One would be actually trying to sell some of the loans that were in the held-for-investment portfolio, and I think there would be some issues with pursuing that strategy, but that may be what he meant.

646:1 Another possible interpretation is that by simply stopping the origination of new loans, the pay options tended to have a very high prepayment rate, so the loans would have rolled off its balance sheet quickly, just simply if the prepayment rates that were being experienced were maintained into the future, so I suspect it's one of those two interpretations is what he meant.

Q To your knowledge, was the high prepayment rate associated with pay options due to people refinancing out of those loans?

A I think it could be either refinancing and/or people selling the property, so either one of those could result in a prepayment, and I think there tended to be high activity levels for both of those behaviors with pay option loans.

Q And with respect to concept one that Mr. Mozilo may be talking about, meaning selling newly originated pay options as opposed to holding them at the bank, do you know if that was a strategy that was pursued after September 2006?

A So the idea of actually selling loans out of the HFI portfolio, that interpretation.

Q No, rather than doing a blend of holding them at the bank and selling them, he decided just to sell them.

A So on the newly originated loans?

Q Right.

647:1 A I think my recollection is that it moved in that direction while I was still there, but I don't think that it ever went to the extreme that he appears to be recommending here.

Q And whose decision would it have been as to what strategy to pursue on the pay options?

A That would have had to be made at the very top of the house and would have included Carlos Garcia, Dave Sambol, and Angelo, in my opinion, because these type of strategic issues crossed multiple business units in the company.

Q To your knowledge, who was really responsible for making such strategic decisions between the CEO of Mr. Sambol and the CEO of Mr. Mozilo?

A I am not sure what they have worked out between them.

Kevin would have certainly advised them on those investment decisions, and so he would have weighed in, and I also think Carlos would have had a strong point of view and had weighed in, but I wasn't privy to the discussions between Dave and Angelo on many occasions, so I don't know how that worked.

Paris, just as a quick aside, some of these issues, at least in the credit risk committee, would have also-- we would have informed the credit risk committee of the board of directors at both the bank and at the holding company, CFC, 648:1 would have been just-- at least talked about there too, so they likely had an opinion as well.

Again, I don't know how that ultimately all played out among the board of directors, Angelo, and Dave.

Q Was Keith Russell ever on the board of directors?

A Keith Russell was a member of the bank board of directors and also a member of the CFC board of directors.

Q Was he a member of the board level credit committee?

A He was the chair of the board level credit committee at CFC.

Q Did you interact with him a lot?

A I interacted with him a lot, yes.

Q Do you know if he held a position in 2006 with respect to whether the investment strategy should be pursued with respect to pay options?

A My belief is he undoubtedly had an opinion on it. I'm not sure what he may have communicated to Carlos, Jim Furash, Angelo or Dave.

Q So 222 is a November 3rd, 2006 e-mail from Mr. McMurray to Mr. Gissinger. It is JPM 296.

(SEC Exhibit No. 222 marked for identification.)

A All right.

Q The subject line of your e-mail is a pay option

649:

contest.

Do you recall what that means?

A I had heard, again from one of the listening posts, that FSL was running a pay option contest, and so I wanted to ask Drew about that.

Q Do you have any details as to what type of contest it was?

A I don't have any details, so again, it was just one of these back channel communications to me, and so then I wanted to ask Drew about it.

Q Did you ever find out that it had something to do with who could originate the most pay options?

A I was worried that that might be what the contest was about, and so that's why I wanted to raise the concern with Drew, and so that was the purpose of sending this e-mail.

Q Did you ever have a conversation or a meeting with Drew about this?

A I had a brief conversation with him about it, and my understanding was that he shared the concern and was going to go back to Greg Lumsden and address the situation.

Q Did he provide any details as to what type of contest it was?

A He didn't, not to me anyway.

Q As of November 2006, to your knowledge did the

650:1 company decide to pursue a strategy with pay options that focused on originating and/or accumulating less of them?

A I would draw a distinction.

One of the themes we were just on prior to talking about Exhibit No. 222 was more from an investment perspective.

In other words, were pay options a good investment, should they be kept on the bank's balance sheet versus sold into the secondary market.

With Exhibit No. 222, we are now shifting to more of an origination focus rather than an investment focus, and so the reason I wanted to-- I didn't know anything about the contest. However, the pay option product was controversial even at this point in time, so to me it didn't strike me as-- the idea of having a contest around a controversial product just raised potential concerns, so I wanted to ask Drew about it.

Again, that's the purpose of this e-mail.

Q You mentioned to Mr. Gissinger that you wanted to circle back on some long-standing pay option items.

Do you recall what those items were?

A My recollection is there were two, so one of them talks about these broker YSPs.

"YSP" stands for yield spread premiums.

You showed me an exhibit yesterday that we talked

651:1 about-- if you want, I can page through-- it ties back to another exhibit that you showed me yesterday.

The second issue that isn't explicitly mentioned in this e-mail that I recall was the difference between the minimum pay rate and the current accrual rate on pay option loans, so one of the things that I had encouraged and Stan had even encouraged while he was there was having a higher minimum payment rate for newly originated pay option loans.

Q Mr. Kurland had that idea earlier?

A He had that opinion as well while he was there, towards the end of his tenure.

Q Why were you raising that issue with Mr. Gissinger?

Did he have any authority to make higher minimum payment rates a reality?

A He did.

As the head of the mortgage banking business, I suspect if he agreed and insisted on that, then that's what would have happened.

Q Did he agree?

A I don't-- so no, he didn't agree.

There are more asides to this issue, so it was something that had been considered previously.

There were-- some of the minimum pay rates had been raised, so there were prior rounds of this same recommendation, and Christian Ingerslev in particular spent a

652:1 fair amount of time working with product leadership and even specifically with Drew on this topic.

Drew held these frequent product summits, and so that's one of the topics that Christian brought to the product summit, and so it had been discussed before.

They had raised the minimum payment rate on some types of pay option loans but not across the board.

Q Do you know what "BRD" stands for in the context of a BRD guide or BRD meeting?

A I think the "BR" part probably stands for business review is what I would-- what my guess would be.

Q And I've seen documents mentioning BRD with Mr. Lala's name on it.

Does that add anything--

A I think it probably has to do with the business review, so each of the production divisions had a business review meeting each month, so it was akin to the summits, except that it was a recurring meeting that happened every month where they would come in and discuss their results.

Q Okay.

A So Dave ran those meetings for a long time, and then when Dave moved into Stan's position, then Drew ran those meetings.

Q To your knowledge, were any other topics besides origination results discussed there?

653:1

A Anything and everything about the business, so they looked at voluminous reports, so it wasn't just the origination results. It was everything about each of those businesses that would have been fair game at those business reviews.

Q With respect to the issue of raising the minimum payment on pay options, why do you think that was a good idea?

A The reason that I thought it was a good idea is that less amortization would have occurred if the borrower selected the minimum payment rate.

Q Do you recall why Mr. Gissinger may have disagreed with you?

A I recall two reasons that he mentioned.

The first reason was competitive, so it was-- he considered it a pricing issue, and so there were other lenders out in the market who had not raised their minimum payment rate, so that was one objection I recall him raising.

The second objection I recall him raising is that based on Christian and I bringing up the issue earlier, they did a study with secondary marketing to see what the investor effect would be. In other words, is it something that investors would be more desirous of, and they found that there wouldn't be much of a price increase in the secondary market by raising the minimum payment rate, so their

654:1 conclusion was it wasn't something that investors cared that much about, and that coupled with the competitive issue would have been bad for their business.

That's my recollection of his two basic objections.

Q With the issue having to do with broker YSPs, is that issue basically an issue of optics as opposed to credit risk?

A It is not really one of credit risk.

By the way-- so Exhibit No. 212, I looked back through your stack yesterday, and if you look back at Exhibit No. 212, that's what I'm talking about here in Exhibit No. 222 when I talk about broker YSPs.

I want to quickly apologize.

I said "piggish" yesterday, and I was tired. That was probably too pejorative of a word.

Again, I think it's mostly an optics issue that the brokers were keeping all or most of this YSP rather than passing it through to the consumer.

Q Do you recall raising that issue with Mr. Gissinger when you met with him?

A I do recall raising that issue with Mr. Gissinger when I met with him.

Q Do you recall any opinions that he may have expressed on the matter?

A Yes. The basic issue I recall, again, was this

655:1 competitive issue, that it was very difficult for us to do something in isolation when the competitors were pursuing a different practice, so I recall that.

My recollection was or is that he was going to talk to Todd Dal Porto about it.

Q So he was saying that other lenders and brokers are also keeping most of this money?

A Well, what he-- yes. What he was saying is that other lenders were pursuing the same yield spread premium approach and policies that Countrywide had, and so trying to do something unilaterally would be difficult from a competitive point of view.

Q I am going to show you Exhibit No. 59, which I may have showed you last time.

Exhibit No. 59 is an October 17th, 2006 e-mail from Mr. Mozilo and Mr. Sambol.

A All right. You may have shown this to me. I don't remember it though.

Q Do you recall attending any meeting, an all-hands meeting, on November 13th, 2006?

A What I recall is that I did not attend this meeting but that Kevin attended it, and so you can see in this exhibit, up at the very top where Dave says, "Kevin Bartlett and Sandy."

Q Did Mr. Bartlett tell you what transpired at this

656:1 meeting?

A He talked to me a little bit about it, but it wasn't any kind of comprehensive debrief of everything that was discussed.

Q What did he tell you about it?

MS. PAN: I would like to limit that to the extent that it doesn't involve the advice of counsel because Sandy Samuels and Brian Hale are attorneys.

THE WITNESS: Sandy and I didn't talk about it, so I don't know what his point of view would be.

Kevin just told me they had it, and I think that it went on all day, but I don't remember very many-- it wasn't a long conversation that I had with him, so I don't remember really any specifics of-- I'm sure if Kevin were there, he would have talked about the investment and risk perspectives, so I'm sure he wasn't shy about that.

Again, I wasn't there, and we only-- I only recall having a brief discussion with him about this.

BY MR. WYNN:

Q I am going to show you another e-mail, Exhibit No. 223, and it's a February 7th, 2007 e-mail from you to Mr. Sambol, Kevin Bartlett, and Sandy Samuels.

It's at CFC 2007B657609 through 610.

(SEC Exhibit No. 223 marked for identification.)

657:1 A Okay.

Q Mr. McMurray, did you send this e-mail-- I see you have included Mr. Samuels, Sandy Samuels-- is that a man or woman?

A It is a man.

Q Were you seeking any type of legal advice in sending him this article?

A No, and very importantly, I am forwarding an article here, so where it says, "Sub-prime politics," this is an article that appeared in the Wall Street Journal, so this isn't something I wrote but rather an article that I was forwarding.

The part that I wrote appears to be redacted.

Q Why did you send this e-mail to Mr. Sambol, Mr. Bartlett, and Mr. Samuels?

A Because I thought the article was interesting and was just forwarding it on for them to take a look at.

Q But to your recollection-- why did you include Mr. Samuels?

A So while Sandy was the general counsel, he also was in charge of government relations for Countrywide, and so one of the ways that I interacted with Sandy Samuels and Mary Jane Seebach frequently was on government relations issues, and so one of the things that Sandy and I and Mary Jane tried very hard to do was to educate regulators, legislators on

658:1 industry issues, and so this would have been sent in that context.

You can see the Wall Street Journal talks about the senate banking committee holding hearings, so on the first page of 223 at the very beginning paragraph of sub-prime politics-- and so I thought that would have been interesting to Sandy and Mary Jane in their government relations roles.

Q Now, the part of this e-mail that you appear to have written was redacted.

Do you recall what your comment was?

A I don't recall exactly what it was.

I don't think there was much more to it than, "Hey, here is the article that appeared in the Wall Street Journal today that you may be interested in."

Q Mr. McMurray, I am going to show you what we have already marked as Exhibit No. 117.

117 is a series of e-mails, the last being a February 9, 2007 e-mail from Mr. Mozilo to Anne McCallion, Dave Sambol, and Eric Sieracki.

A All right. I have taken a glance.

Q If you could turn to the third page of the document, it ends in 470.

A I am there.

Q At the top of that page there is an e-mail from Mr. Mozilo to Mr. Garcia.

659:1 You don't appear to have received this e-mail. Is that correct?

A I don't recall seeing any of this chain.

Q If you could read Mr. Mozilo's e-mail to Mr. Garcia, just to yourself, and then I'll ask you a question about it.

A Okay.

Q To your knowledge, is the proposal he's making in this e-mail with respect to selling pay options different than proposals he made in Exhibit No. 221 in September of 2006?

A I am not-- it seems to be in the same general vein, but I don't know whether they're tightly connected or not specifically connected at all, so I can't be sure about that.

Q Okay. Do you recall being involved at all in January and/or February of 2007 in any discussions about selling pay options out of the bank?

A Not to my recollection.

As I mentioned before, there were discussions from time to time that Kevin and I had had with members of bank management and probably Dave as well, so recall a few moments ago that I talked about those bank investment summits that we had where we would have talked about the possibility of selling assets, selling pay option assets.

Q If you turn to the first page of the exhibit,

660:1 there's an e-mail from Ms. McCallion to Mr. Mozilo, Mr. Sambol, Mr. Sieracki, Mr. Bartlett, and Mr. Garcia.
Do you see that?
A I see that.
Just one last quick comment on the Angelo e-mail before we leave that, I don't know that I would agree with the middle part of his e-mail there on the HELOCs being a higher total risk rate of return-- so I'm not sure that that strategy makes absolute sense to me, and I'm not-- I don't know, but I'm not sure that Kevin would completely share that view either.
Anyhow, I am back on the first page of 117.
Q Ms. McCallion's e-mail reads, "KPMG has given the go-ahead to sell pay option ARMs out of the bank portfolio on a one-time basis."
Do you have any knowledge of KPMG ever giving the go-ahead to sell the pay options?
A I don't have specific knowledge of that.
I suspect the issue has to do with these loans being designated as held-for-investment assets, so normally the idea would not be to sell those, so I suspect that's why Anne was talking to KPMG.
Q At some point the company decided to purchase some type of insurance to cover the pay option portfolio?
A Pool insurance.

Q Was that in 2006?

A That would have been before this period of time, to my recollection, so I think it was in 2006 when a lot of that activity occurred.

Q Was the purchase of the pool insurance to provide some type of coverage for the bank's HFI portfolio of those pay options?

A It was.

Let me elaborate a little bit.

As I mentioned to you, Kevin and I were talking about how the pay option ARMs might perform in the future and some concerns we have, particularly given the concentration of pay options that we had in the bank portfolio, and then others in the bank and outside of the bank had points of view on this.

One of the compromises that we reached was this idea of trying to secure pool insurance, and so Rod Williams, who I mentioned, who worked for me, one of the units that he had was the mortgage insurance unit, so they went and talked to many of the big mortgage insurance companies, in fact probably all of them, to solicit pool insurance proposals.

Through time, there were-- my recollection is there were several pool policies that were secured explicitly for pay option loans in the bank portfolio.

Q And can you describe the level of coverage afforded

662:1 by pool insurance, like how much of the portfolio would have been insured and for how much?

A The way pool insurance works is the population of loans that the policy is placed on covers all loans in that population, so it's a very general policy, which from a credit risk standpoint is a good thing.

It is also going to have what is called a stop loss on it typically, so after cumulative losses on that population of loans reach a certain level, then the insurance company no longer has to provide ongoing coverage.

Another very common term in these insurance policies would be how long the coverage was in place for, so typically it would be multiyear policies, so the pool insurance would be placed, and it would cover losses going out for a number of years, perhaps ten years or so, and so it's a good credit enhancement to have.

Countrywide, to my recollection, as I think back on it, pursued two types of pool policies on the pay option ARMs.

One would be first loss protection, so the very first losses that were incurred on these loans would be covered by the pool policy.

Another approach is a mezzanine approach, so Countrywide would take the first losses, and once those reached a certain point, then the mortgage insurance company

663:1 would be responsible for the cumulative losses up to a certain point, and if the situation were such that it pierced that second layer, then Countrywide would be responsible again.

Q With respect to either first loss or mezzanine policies, do you know what the stop loss would have been?

A I don't remember exactly what it would have been, but that's something that Countrywide, now Bank of America, should be able to provide you with great precision.

Q But to your knowledge, would the stop loss have been something like five percent or closer to 50 percent?

A It would not be 50 percent, and let me do just a quick example of why that would be the case.

These are first liens, these pay options, so if a borrower defaults, the lender is going to get the property back and then resell the property.

If we look at just that one loan, a typical loss on that one loan might be between, say, 25 and 40 percent. That's a big range, but that would be a typical loss rate for one loan on a first lien.

If you had a 50 percent stop loss, you could have every single loan in the population defaulting, and you still might not reach that stop loss, so something in the couple percent range would be more typical for first liens.

Q And to your knowledge, was the bank's entire

664:1 portfolio covered or was it just certain loans having certain characteristics--

A Not all of the loans were covered, and so the approach that was undertaken was to try to pick portions of the portfolio that we thought posed the most risk and get the pool insurance on those.

Now, there were some loans that the insurance companies-- they didn't want to cover everything that we brought to them, and so from the insurance company's perspective, what they are trying to do is also identify the riskiest loans and exclude those, so that was part of the negotiation back and forth between Countrywide and these various insurers.

From Countrywide's perspective, the idea was to try to pick out the riskier groups of loans to put the pool insurance on.

Q The insurers had the opposite desire, they wanted to cover the less risky parts of the portfolio?

A That's natural, yes.

If you are an insurance company, you would like to have a policy on something where there would never be a claim.

Q Do you know what categories or types of loans that the insurance companies were successful in not covering?

A I don't remember all of them, but let me give you

665:1 some examples that I do remember.

Large loan balances were not something they were comfortable with, and so there I think it was mainly a lack of experience that caused them concern, so that was one of the exclusions that at least one of the mortgage insurers wanted to have, and it may have even been more than one.

There would have been other exclusions in the combinations of risk factors where they sought to exclude the loans.

(Recess 10:05 to 10:19 a.m.)

BY MR. WYNN:

Q Let's take a slight detour back to product leadership.

I want to show you Exhibit No. 224, and this is a series of e-mails, the last being a March 1st 2006 e-mail from yourself to Mr. Gissinger.

(SEC Exhibit No. 224 marked for identification.)

Q Exhibit No. 224 is at JPM 289 through 290.

A All right.

Q Do you recall what issue Mr. Gissinger is raising with you on the second page of this exhibit?

A So what I believe that he's raising with me is one of two things, but they had a similar connection.

It has to do with guidelines on larger loans, and

666:1 there was one initiative or series of discussions that we had on prime loans, and then there was a separate series related to loan size also of sub-prime, so it's one of those two issues.

Q Okay.

A And I'm guessing, by looking at this, that it may be the sub-prime version, and I think there might have even been that confusion in this e-mail chain because on the first page, labelled 289, I say, "When I saw CMD and Joe," that I assumed Joe Anderson, and that's why I thought it might be CMD, but if it were Joe Miller, then it would have been the sub-prime version.

Q It seems that a proposal from credit was approved by product leadership and is about to be deployed, and Mr. Gissinger is unhappy with that--

A Let's just assume for a moment that this was the sub-prime version.

So Frank Aguilera put together a proposal, and he had asked for my opinions, and I had worked with him some on that, and then Frank went to product leadership and discussed it with them, and we had even asked them for their proposal on doing something to address this concern, and they didn't have one.

What Drew was talking about is the proposal that product management, Christian and Frank Aguilera, put

667:1 together, and those guys worked under me, and so he appears to be disagreeing with that, that it's more conservative than the market and that he doesn't intend to deploy it.

Q Okay. Are the guidelines he's talking about something that has successfully made it through the product leadership at this point in time or is it just a proposal that has come from product management--

A The way I would interpret this is the proposal went from credit over to product leadership, and then product leadership is passing it along to Drew.

I am not absolutely sure whether they said that they concurred or approved it, but it appears they are certainly passing it on to him.

Q Okay. And just from the perspective of authority levels, did Mr. Gissinger have authority, as of the day of this e-mail, to tell you he's not-- he doesn't intend to deploy a guideline?

A Again, there wasn't absolute clarity on that, and one of the reasons I say that gets back to the matching strategy, and so he's referencing that on Page 2 here where he says it's more conservative than the market.

On an issue like that, he probably would have the umph, the organizational power to refuse to deploy something.

Q On the basis of the matching strategy?

A On the basis of the matching strategy.

668:1 My recollection on this was that Frank Aguilera and I had concerns on these larger sub-prime loans, and we thought it would be advisable to implement additional controls around these larger balance sub-prime loans.

Q On the first page of the exhibit, his last e-mail to you, he states, "Clearly a production view is not represented."

Do you agree with that?

A Well, we worked through his team in product leadership, and so a production view may not have been represented, but it wasn't my place to represent that view.

I mean, that's-- product leadership was one of the advocates for production, and they had been worked with on this issue.

Q I think you say some of that in your last e-mail, that the proposed controls were shared with Brian?

A That would be Brian Kuelbs.

Q He is in the production department?

A He was running production leadership at this particular point in time.

Just as a quick aside, when production leadership was meeting with me or my team, they should be representing the production point of view.

On the other hand, when they were meeting with production, I would expect them to represent the risk or

669:1 credit view.

Q Okay. One more thing on this document, the last page, 290, Mr. Gissinger's e-mail to you states that he is in a BRM with CMD.

I already asked you about what a BRM was.

Does that add any--

A A BRM is a business review meeting.

You had also asked about a BRD, and I was trying to remember exactly what that was, but it may be the same thing.

Q Exhibit No. 225 is going to be a series of e-mails from yourself to Mr. Gissinger.

The first is on January 23rd, 2007, and the second is on January 24th, 2007.

This document is Bates No. JPM 183 through JPM 184.

(SEC Exhibit No. 225 marked for identification.)

A All right. I have taken a glance.

Q So if you look at your first e-mail to him, you start it by stating, "The purpose of this e-mail is to summarize some of my long-standing concerns that are germane to both the discussion in the last product BRM as well as your upcoming meeting on sub-prime guidelines."

What is a product BRM?

A "BRM" is a business review meeting, so on most of the business reviews that had historically taken place, they

670:1 would have been for a particular business, so CMD, WLD, CLD, as an example.

Actually, I think Dave had done a couple similar ideas, but Drew instituted regular product BRMs where they would talk about the products that-- the product lineup and whether it was sufficient, from their point of view, themes with specific products that were going well or not going well.

BRM is a business review meeting around the company's products that were offered out.

Q At these product BRMs, would people in production advocate for new products or different guidelines?

A They would.

Q Why did you send Mr. Gissinger this e-mail?

A Well, some of this, just as I look at it, kind of falls into the category of another rant, but I was just trying to summarize some of the frustrations that I had on prior discussions around product issues.

You know, there's a couple of things here, but whatever you think about the matching strategy, to do it-- to execute it effectively, you'd need to be very precise and exact with what the competitors are doing, so you would want to understand exactly what they were doing.

Q Okay.

A And so that's one of the themes that I was getting at here.

Q That's Item No. 1?

A I would say it's a general theme throughout the whole e-mail, so on Item No. 1 we are talking about their guidelines, Item No. 3 we are talking about some critical details which may not be guideline-related, but they could have risk effects, so I give some examples there.

Then on 4-- it's not just observing the guidelines but it's also understanding them, so that's why I did the heading, "Comprehension."

Q The second page ending in 184, you close the e-mail by stating, "Aside from issues around the guideline process, we still need to discuss the risk vision I sent you to determine we were not aligned."

Are you referring to the three Rs policy?

A The three Rs could have been one part of the risk vision, so at around this time frame and even further into 2007, I was seeking to crystallize everyone around a specific risk vision so we could use that in discussing different strategies or other business decisions.

Q Now, you are in credit risk and Mr. Gissinger is in the area of production, but to your knowledge did Mr. Gissinger have any responsibilities in the area of credit risk?

A Here is how I would explain it: At this particular

672:1 point in time Drew was running several businesses. The businesses were focused on production originating loans. However, my view would be that he had responsibility for those businesses on a comprehensive basis, so it would have been production, credit risk, kind of all of the key dimensions of that business.

Based on various meetings I had with him and others, I think that view would be shared.

Q Did he ever acknowledge to you that he had no role in credit risk management?

A He did, so he understood that credit risk is something that could hurt the company and hurt the company's results.

What I recall, when I talked about it with him, is that he would stress the need for balance, so on all of these things, there is a range of strategies that you could pursue, and there's always going to be some risk that you were taking.

What I recall about many of the discussions was just him arguing for what that right balance should be.

Q If you look at Item No. 2 in your January 23rd e-mail to Mr. Gissinger, you state, "If we separately match the most aggressive terms offered by more than one lender, our guidelines are a composite that ends up being more aggressive than anyone else in the market. I don't think we

673:1 want to be the most aggressive lender in the market, but if we don't explicitly consider this composite effect, that's exactly where we end up."

Did Mr. Gissinger ever directly respond to that concern?

A My recollection is that he and Mark were irritated by this e-mail.

That's my recollection.

I do think there were discussions around this, and I'm not sure that they shared my specific point of view.

Q Do you remember any counterpoint that he made on the merits of the issue you raised?

A I don't remember the-- I suspect that they did make a counterpoint. I don't remember exactly what the counterpoint was.

Q A little over 24 hours later, it seems you sent an additional e-mail to Mr. Gissinger where you added an additional concern about the product leadership process.

Why did you send that additional e-mail?

A Because I forgot to include it.

As I was thinking about what I had originally sent to them, that was one other issue that I hadn't outlined, and so I wanted to get that over to him as well.

Q Okay. As far as the last sentence in Item No. 5, which states, "The current approach gives us the riskiest but

674:1 not the most profitable guidelines," what did you mean by that?

A Again, so the objective I am talking about here in 5, that plus this composite effect that I am talking about back in 2, in my opinion, that composite effect and then also product leadership pushing for whatever they can get, in my view, would tend to give us the riskiest guidelines but not the most profitable guidelines because they weren't simultaneously pushing on the pricing side, at least that was my impression.

Again, I don't think he agreed with this point of view either.

Q I understand that risk factor, but why would the approach that you viewed Mr. Gissinger and product leadership to be pursuing not yield the most profitable guidelines?

A I think the concern would be-- again, it gets to a lot of these issues here, so on some of these critical details, as an example, if those weren't explicitly considered in the pricing, then we would be taking on additional risk but not pricing for that additional risk.

Q Do you recall if Mr. Gissinger ever responded by e-mail to the e-mails you sent him in Exhibit No. 225?

A He may have, and so this particular exhibit is another example that I forwarded to Jess Lederman to talk to him, and so when I went through that process of pulling stuff

675:1 together for Jess, I looked through stuff that I had sent, which even though that was voluminous, it was a lot less voluminous than what I had received, and so Drew-- I mean, he very well could have responded in an e-mail fashion.

I know that he and Mark both talked to me-- I shouldn't say that I know.

I recall them talking to me verbally about this e-mail because they didn't seem happy to receive it.

Q Did Mr. Elbaum have a strategy position?

A Personally?

Q Right.

A You know, I don't-- I'm not sure exactly what his personal perspective would be on some of these issues.

Q What position did he have as a--

A Oh, so one, he was the chief financial officer for Drew's businesses, and then when Dave had the position before, he was the chief financial officer when Dave had the position, although Dave's position was a little more expansive.

At least for some of the time product leadership also reported to Mark.

My recollection is that Brian moved to secondary marketing, and when that happened, product leadership then reported to Mark Elbaum, so that would have been during this time frame.

Q In the first e-mail to Mr. Gissinger, you reference an upcoming meeting on sub-prime guidelines.
A Yes.
Q Do you recall if that meeting occurred and what transpired there?
A You are asking did it occur?
Q First, did such a meeting occur?
A I suspect that it did because we had a lot of meetings like this, and part of my reason for sending this was to get this out ahead of the meeting because the way these meetings would often go was there was a list of complaints about what the competitors had and what we didn't have, and so I wanted to get some of my concerns out ahead of that meeting.
Q To your knowledge, as of January 23rd, 2007, were there some divisions in production that were still pushing for expansions of sub-prime underwriting guidelines?
A Well, just to clarify, not every production division would have access to sub-prime, and so it would just be-- there would be subsets of each of the divisions, and so my belief was-- at this time, was yes, they were still pushing for expansion of sub-prime guidelines.
Again, that's in January of 2007.
Q Exhibit No. 226 is going to be a series of e-mails between you and Mr. Sambol and Mr. Gissinger, the last e-mail

677:1 being a June 24th, 2005 e-mail from yourself to Mr. Sambol.

Exhibit No. 226 is Bates No. JPM 313 through JPM 316.

(SEC Exhibit No. 226 marked for identification.)

A All right. I have taken a look at this.

Q Turn to the page ending in 315. It is the second to last--

A Yes.

Q It is an e-mail from Mr. Aguilera to you.

If you look at the subject of his e-mail, it's Q 1 and Q 2 product changes, ALCO.

Do you recall what Mr. Aguilera is sending you?

A So what Frank-- what I think Frank is doing, and this is going to tie back to some of the discussion that we had in previous days, so I talked about the three R policy and we talked about the policy on high-risk products, and so there were these triggers, and so what he's doing is taking product changes that were either requested or were in process, and then taking them through that filter to show whether those triggers were tripped or not.

That's what I believe-- we don't have the attachment here, but I think that's what he's doing.

Q Okay. Immediately above that e-mail, there's an e-mail, a June 13th, 2005 e-mail, from you to Mr. Gissinger, 678:1 and Mr. Sambol is a CC.

It's the same subject line.

Why did you send this e-mail?

A Why did I send it?

Q Yeah.

A So Frank had done this work, and so I wanted to point out a couple things.

If you look in my e-mail, the first point I'm making is SLG, and this is the specialty lending group we talked about yesterday, so we are saying we have approved their request except for the sales that are outside the guiding principle, and this is the three Rs and the high-risk policy we talked about, and also I mentioned the RCC, the responsible conduct committee meeting, and so the first reason was to provide that update as to where the requests were, so there was lots of pressure to respond to these requests in a timely manner.

Part of what I wanted to do is just explain where we were and why not everything had been approved and moved through.

That's the point of No. 1 in the e-mail.

Q Okay.

A Point 2, and we just saw this a moment ago, it's this idea that verifying what competitors are truly offering is challenging, and so for all the reasons I pointed out in

679:1 the e-mail to Drew and to Mark Elbaum, that we looked at just previously, this is-- I'm pointing this out to Drew and to Brian Kuelbs and copying Dave.

Thirdly is this composite effect.

In this particular e-mail we're discussing, I don't do a very good job explaining this here, but that's what I was attempting to get at.

Q In Item No. 3?

A In Item No. 3.

Q Let me just read that for the record.

Item No. 3, you state, "As a consequence of CW's strategy to have the widest product line in the industry, we are clearly out on the frontier in many areas. While I'm sure you already know this, I think we should be very deliberate since the outer boundaries are potentially controversial and have high expected default rates and losses."

What did you mean by "the outer boundaries are potentially controversial?"

A If you think about guidelines, the outer boundaries would be combining the most aggressive features that would be available in the guidelines or even considering exceptions that were a little bit over those boundaries.

When you're out at the boundaries, those are generally going to be a riskier loan than compared to

680:1 something well inside the guideline boundaries.

Q To your knowledge, is this the first time that you raised this composite effect to Mr. Gissinger and Mr. Sambol?

A I don't know whether it's the first time. I suspect it is not.

Q Bottom of 314, top of 315, Mr. Sambol responds to you, and he wants clarification about what you mean that the company is on the frontier.

A That appears that that's what he's asking for.

Subsequently, I attempt to provide that clarification.

Q Okay. To your knowledge, did Mr. Sambol respond to any of your June 24th e-mails?

A I don't recall him responding in e-mail fashion to these. He might have, but I don't recall it.

Q I know you mentioned to me, when we met in July, that you were not a proponent of the matching strategy and had some concerns about it.

Do you recall when you first expressed those concerns to either Mr. Kurland, Mr. Sambol or Mr. Bartlett?

A So I would have first expressed those concerns to Nick Krsnich, who was my boss, early on, and, in fact, even at the time that-- back in 2005 when these e-mails took place, I was working for Nick, so he would have been the main person that I would have discussed those concerns with.

Here I was able to jump over organization lines and the chain of command a little bit because I was updating-- I was providing an update on some product requests, but I normally wouldn't have jumped the chain of command just out of the blue.

Q Okay. Is it possible that you voiced your concerns about the matching strategy to Mr. Krsnich in 2004?

A I may have.

Q If you review Exhibit No. 226, does Exhibit No. 226 fully set forth the concerns that you had about the matching strategy?

A It sets forth the key concerns that I have on it, to the extent of my ability to summarize and write, which I expect neither are that good, but I think it captures the essence of my concerns.

Q As you read it today, is there anything that you feel is left out, as far as one of the more salient concerns you had about the matching strategy?

A The two exhibits I would combine would be this one, and then I would also combine-- let me find it. It's the e-mails to Drew and Mark Elbaum, wherever those are-- which would be Exhibit No. 225.

The way I would think about it is Exhibit No. 226 are my general concerns on the matching strategy, and Exhibit No. 225 would be "If you're going to pursue the matching

682:1 strategy, then here are some concerns that you need to attend to within that strategy, if it was one that you decided to pursue."

Q So is that to say that in Exhibit No. 226, you are describing your concerns about the strategy in principle, and in 225 you are describing your concerns about the execution of the strategy?

A That's largely how I would describe it is just how you said it.

There is a little bit of overlap between the two exhibits, but that's a reasonable division.

I would take the two e-mails-- those two exhibits together to get a reasonable summary of my thinking on the matter.

Q Did you ever have occasion to express your concerns about the matching strategy directly to Mr. Mozilo?

A I don't recall that.

However, we talked yesterday about a meeting of all the top management, and I don't recall whether Angelo was there or not.

I know that Dave and all of his key direct reports were there.

This is the meeting I described yesterday where Dave said, "Okay. We'll re-debate the matching strategy," and so-- in fact, I think even one of the pages from my

683:1 notebook that we gave to you even has a note or two from that meeting.

Q I am going to show you what we've already marked as Exhibit No. 84, which is a November 2nd, 2006 e-mail from yourself to Mr. Bartlett.

A All right. This looks like one you showed me in the prior days.

Q If you look at the second page of Exhibit No. 84, it seems that as of November 2nd, 2006, you are still concerned about the matching strategy, and you are still telling your superiors about your concerns.

Is that accurate?

A That's accurate. I'm a broken record.

Q Keep that one out for a second. I'm going to ask you some more questions on it.

A All right.

Q I am going to mark as Exhibit No. 227 a November 3rd, 2006 e-mail from yourself to Mr. Bartlett.

This document is Bates numbered JPM 1024.

(SEC Exhibit No. 227 marked for identification.)

A All right. I have taken a look.

Q A day after November 2nd and the day after the product summit that's depicted in Exhibit No. 84, it appears that you at least attempted to resign from the company.

684:1 A I did.

Q And with respect to the handwritten note at the bottom, the one, two, and three, are those the reasons you decided to resign?

A So what happened-- I wouldn't tightly connect these two exhibits together. There's a common theme or two between the two, but I don't think they're tightly connected.

I sent this e-mail to Kevin, and then Kevin came and talked to me, and he said, "Well, you're going to have to-- you'll have to talk to Dave," and then he also asked if I would interview Alan Boyce who was scheduled that afternoon.

He said, "Would you hang around to interview Alan," and I said, "Yes," and I think it was a Friday afternoon. It was late.

He said, "You need to also hang around and talk to Dave," so I did talk to Dave.

I wrote some notes down on this, and I think I gave the original to Kevin because he wanted to know what the gist of the conversation with Dave was.

In the handwritten notes on the bottom of this, I am just talking about a couple of the key concerns that I had that I conveyed to Dave during the conversation, and then also to Kevin when I talked to him before the conversation with Dave.

Q Okay. Now, are any of these three concerns, concerns that led you to resign?

A What led me to resign were kind of two things, so some of them were these concerns, and then also the opportunity that I had appeared to be pretty good, so it was a combination of those two things together.

Q In Item No. 1 you state, "Concern about personal risk, do not want to be blamed for products, guidelines, et cetera that I never advocated and often recommended against; concerns about inadequate controls, infrastructure, et cetera."

What did you mean by "personal risk"?

A So the concern there was from time to time someone would say, someone from within the company, "How could we be offering this product? It went through the approval process."

Well, the fact of the matter was it was part of the matching strategy, so yes, while it went through the approval process, it was part of a larger company strategy, and people would have amnesia on that fact, and so on that first sentence, that is what I was particularly concerned about is that people would conveniently forget that and then blame me for a particular product or guideline that the company was offering.

Q Okay. But because of your position in credit risk

686:1 management, someone would see a product that they viewed as being risky and would ask you how this got into the market?

A Exactly.

Again, if people understood the broader context and the matching strategy, maybe they would have an appreciation for kind of the whole process, but on the other hand, they might not, and so that was my concern.

Q Can you recall any particular people who came to you with those types of questions about how a certain product got through--

A At this particular moment, I'm not remembering anyone specific, but give me a minute or two, and I might be able to come up with some specific examples for you.

Q Okay. As far as your concern about personal risk, did you ever think that you were in any type of legal or regulatory risk because of your position at Countrywide?

A You know, I wasn't-- I didn't think that I was in legal or regulatory risk, so I didn't think that.

Now, one example-- if I think about the Federal Reserve or the OCC, they did not like some of these products or at least that was my impression, that they didn't.

At the same time, they were also products that-- so the option ARM, sub-prime, as examples, nontraditional mortgage is another example of which option ARMs would just be a subset of that.

687:1

It was something they were clearly looking at and not something that they necessarily advocated.

With me being kind of at the crossroads between them and the company, that would be an example.

I was comfortable with what I was-- I guess my personal approach to it. I was worried about people just coming to an incomplete understanding and then thinking this was something that I advocated when it wasn't really something that I advocated.

Q Just to be clear, when you say "concern about personal risk," that does not include concern with you being in any type of legal trouble--

A I was not concerned about legal jeopardy. I was concerned about my job from two directions, so one, someone blaming me for something that I didn't advocate, and that would be one angle of attack, and the other would be-- the other angle was I was being uncooperative, so I was raising a lot of concerns along the way, and I worried about people getting sick of hearing about those, so it could have come from either direction.

Q I am going to mark as Exhibit No. 228 a November 4th e-mail from Mr. Bartlett to yourself, and also it's a November 4th e-mail from you to Mr. Bartlett.

This document is at JPM 1025.

(SEC Exhibit No. 228 marked for

688:1 identification.)

A All right. I have taken a look.

Q From the last time we talked, after you resigned, you did talk to Mr. Sambol, and he gave you a level of comfort about the personal risk issue?

A So if we looked at the prior exhibit, in that I outlined some of the key things that we talked about, and then this e-mail gets at it in a very brief fashion.

What I talked to Dave about was my concerns about the personal risk, that I just described to you a moment ago, and then I also talked about the matching strategy and how Countrywide took and managed credit risk, so in that conversation I came away with the understanding that he agreed that we needed to build out a lot of the infrastructure and be more precise with respect to a risk vision.

He seemed to be sensitive to some of the risk concerns that I was raising.

Q So obviously you decided to stay after that meeting with--

A I did decide to stay after that meeting.

Q Had you already accepted the job at WaMu as of November 3rd?

A I hadn't accepted it in writing. I told them that I planned to accept it, verbally, and that I still needed to go through the resignation process.

Q What did you do to inform them that you would be staying at Countrywide-- at that point were you in touch directly with the company or were you still working with the headhunter?

A Both.

I think I had conversations-- I definitely recall a conversation with the recruiter where we talked about it, and I either-- it was either a voice mail or an e-mail or a phone conversation with one of the HR people at WaMu.

Q Now, was the position that you had come close to accepting in November 2006 the same position that you currently have at WaMu?

A The position that I came close to accepting in November of 2006 was essentially the same position that I accepted in September of 2007.

Q And subsequently you've been promoted?

A That's correct. I was promoted subsequently.

Q Exhibit No. 229 is a November 16th, 2006 e-mail from yourself to Mr. Sambol.

(SEC Exhibit No. 229 marked for identification.)

A All right. I have taken a look.

Q So it's November 16th, and you decided to stay, and you're still bringing issues to Mr. Sambol's attention.

690:1 What is the extreme Alt A issue that you are trying to get some assistance on?

A Extreme Alt A was the internal name that was used to describe a set of products that production wanted, particularly CLD, the correspondent lending division, and so these products were being offered out by the broker dealer mortgage-owned companies, so Bear Stearns, Credit Suisse First Boston are two particular ones that come to mind, and I think actually Lehman had a mortgage company that was offering out these products.

The extreme Alt A request was to match those products.

This raises some issues that I had raised before, and one of them was we didn't want to keep the risk on these, so they would have had to be sold as whole loans, so I am raising the issue, "Do we have the required infrastructure and liquidity outlets in order to do this product," and I was not convinced that we did.

Then a second concern was just around the whole process and discipline with introducing products.

Over the whole time that I was there, the process and governance around approving products was built up, but it was a change compared to how the company had operated through time, and so there wasn't always 100 percent compliance with those policies and processes, so I'm raising that concern.

691:1 Thirdly, this idea of having a risk vision, I'm bringing that up again, that we need to work on that and agree on it.

Coupled with the risk vision is this set of guiding principles, so those are the three Rs that I talked about, so I had created those working with Stan, but there hadn't been widespread acceptance within the company and the production business units for actually adopting those principles, so those are the key things that I'm getting at here with just more generally and then with respect to the extreme Alt A request.

Q If you look at Exhibit No. 84, at Mr. Bartlett's e-mail, he states, "I'm a little worried about John. He's been withholding sign-offs on certain issues that should be priced for. The latest was on an extreme Alt A where Drew and crowd needed me to sign off when John was out after John dragged his feet for over 30 days. Of course they picked the day that he's out to tell me they needed a decision."

To your knowledge, is Mr. Bartlett referencing the extreme Alt A issue that you're raising in Exhibit No. 229?

A I believe that he is.

Q Did you ever sign off on the product, to your knowledge?

A I don't believe that I did.

It was discussed dozens of times and probably more,

692:1 and I don't think I ever ultimately signed off on it.
Q And were people doing Alt A transactions without your sign-off?
A Well, let's distinguish between extreme Alt A and Alt A.
Alt A is a very general moniker that is used for big portions of the market.
Extreme Alt A was just the internal name that we had for this specific set of requests that matched what Lehman, Credit Suisse First Boston, Bear Stearns were doing.
They may have been doing those via the exception process.
I want to look back at this Exhibit No. 229 for a moment.
I am not sure exactly whether they were doing it or not.
They might have through the exception process, but I'm not-- I can't be sure.
Q In Exhibit No. 229, if you look at the paragraph that begins-- you state, "There are several recent examples where products or transactions proceeded without the required risk approvals, a contradiction of established policy. Extreme Alt A is one of these examples."
Does that refresh your--
A It seems, as I was looking at this, that it was one

of the examples, and if it was, I don't think it was the only instance.

Again, I am trying to think back and remember exactly what might have been going on with that.

It also could have been, as I'm just thinking here, CLD had a bulk bidding process, and perhaps they rolled it out through that avenue.

I just don't remember-- I don't remember what might have been happening with extreme Alt A.

Q Exhibit No. 230 is going to be another series of e-mails. The last one is dated February 11th, 2007 from you to Dave Sambol.

This exhibit is Bates No. JPM 237 through JPM 241.

(SEC Exhibit No. 230 marked for identification.)

A I have taken a quick glance at this, but I recognize the e-mail.

Q Under "Risk vision," on the first page, you state, "After Stan's departure and based on conversations with both of you, I put together a new risk vision. Both of you reacted favorably to the document when I shared it with you. I include a reference copy of this vision at the end of this e-mail under 'Epilogue,'" so if you turn to Page 239, there is a heading of "Epilogue."

To your knowledge, is that the risk vision that you

694:1 sent to Mr. Bartlett, Mr. Sambol after Mr. Kurland's departure?

A This risk vision would have been sent-- it would have been well after Stan's departure.

Stan, I believe, left in perhaps the middle part of 2006, and this particular risk vision that starts on the bottom of Page 239, I would have done that in very late 2006 or early 2007.

Q Okay.

A Probably more towards the first part of 2007 is when I would have done that.

Q As of February 11, 2007, it appears in the e-mail that some business units had not adopted this risk vision.

A So just thinking about it from the entire company's perspective, even though Kevin and Dave had seemed to react favorably to what I proposed previously, it wasn't the official vision for the company, and so what I was seeking to do with this February 11th e-mail is to try to drive that forward.

Q Drive the risk vision forward?

A To drive the risk vision forward and to consider what I had proposed, and to the extent that someone had a better or different idea, I wanted to understand what that was and then attempt to bring the matter to a conclusion so that we would have a framework and a vision to operate around

695:1 that everybody bought into.

Q On the first page of the exhibit, under the "Matching" heading, you state that "Instead of my risk vision, a key operating unit proposes an approach based on matching alone. If a product guideline or transaction is in the market, then we can and most likely will offer the same thing."

Which key operating unit were you referencing?

A The production-- the mortgage banking unit or production.

Q When you say "they proposed an alternate approach," was their proposal in the form of something written, like your--

A Not to my knowledge that it was written. It was more-- at least what I saw was more-- what I observed was more verbal.

They may have had something that was written. I don't remember seeing it.

Q And in your e-mail to Mr. Lederman at the top of Exhibit No. 229, the second sentence states, "Some of what I propose is anathematic."

What are you referencing when you say "the embedded culture"? Is that the matching strategy?

A It is the matching strategy. It is the no-brokering strategy. It is those types of things that made

696:1 some of what I wanted to do swimming upstream, just to use another--

Q Did you ever propose or recommend that the company move away from the no-brokering policy?

A Drew and I talked about that on a couple of occasions, and so Drew was open to it.

My understanding was that it wasn't something that Angelo was open to at all, but my understanding was that Drew was going to try to pursue that with Dave and with Angelo, but I don't know if that was ever done or what the outcome of those discussions were.

Q It seems if you got rid of the brokering policy, it might mitigate some of the bad effects of the matching strategy.

A Well, the brokering-- the no-brokering strategy created a couple pressure points, so one would be on the exception process, so I think by having no brokering, that put a lot of additional pressure on the structured loan desks and more and more pressure to do and approve exceptions as they came through, so that would be one element.

Then another element was just the product expansion. There would be a lot of pressure to expand the product guidelines to meet competitors with a no-brokering strategy because there wasn't that relief valve, so those are the two key elements that I would point out.

697:1 Q With respect to lenders that do allow brokering, are they compensated for the referral?

A My understanding is that the loan officers generally do receive some type of compensation for the referral.

Q And would it be from their employer or to the institute that they referred the loan to?

A I am not exactly sure, and it would differ from institution to institution how that might work.

Q Exhibit No. 231 is a series of e-mails, the last being a November 8th, 2006 e-mail from Carlos Garcia to Kevin Bartlett.

(SEC Exhibit No. 231 marked for identification.)

A All right.

Q Mr. McMurray, do you recall what the Ryland transaction was?

A Just as a little bit of background, do you see the acronym "BFG" in Carlos's e-mail, and that stands for the builder finance group, and so Ryland is a builder, and so my recollection of this transaction-- I think it's a syndicated deal where there were a number of banks involved, and so the transaction would have been for Countrywide to be part of that syndicate, and so this is just an e-mail chain making sure that the appropriate people had looked at it and

698:1 supported doing the transaction.

(Lunch recess 11:27 to 12:38 p.m.)

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

BY MR. WYNN:

Q Back on the record at 12:38 p.m.

Mr. McMurray, I will hand you Exhibit No. 232, which is an April 20th, 2006 fax to Jie Ling from Karica Rich.

(SEC Exhibit No. 232 marked for identification.)

A Okay. I have taken a glance at this.

Q Who is Jie Ling?

A Jie Ling worked in corporate accounting, and so she worked in the disclosure area, so corporate accounting had an area that produced the various SEC filings that we did, and then they had a separate group that did the SOX process, and so I can't remember exactly who Jie Ling worked for, but ultimately she reported up to Laurie Milleman and then Anne McCallion and then Eric Sieracki.

There would be lots of discussions and back and forth as various accounting issues were worked on, but she was one of the ones that coordinated the various certifications that they put together each quarter.

Q And do you know who Greg Hendry is?

A I do.

699:1 He worked for Laurie Milleman, so one of the things that he-- at least my interaction with him, he drafted a lot of the filings that he would have sought my input on, among others, and so he worked in that same disclosure area.

Jie Ling might have even worked for him. I'm just fuzzy on whether she did or not.

Q If you turn to the second page of Exhibit No. 232, can you explain what type of document this is?

A So this document was a form that Jie Ling put together that she sent around to everyone.

My understanding of it is it is the sign-off on the text of the different filings they would do.

I think what they wanted us to make sure-- all of the various officers across the company had a chance to review and comment on the document.

Also, they had this form to fill out.

I generally had extensive conversations with Greg, with Laurie, with Anne. They were also invited to the corporate credit risk meetings. Eric and Anne attended the ALCO meetings as well--

Q With respect to the corporate credit risk meetings who from financial reporting attended those meetings?

A So Eric was a member of the corporate credit risk committee. He didn't always attend. Anne often attended, Greg Hendry often attended. I don't remember Laurie

700:1 attending regularly.
Then in addition to that, there were a number of others that attended that meeting that would also interact with corporate accounting, so just a very quick rundown:
Rod Williams who worked with me interacted extensively with corporate accounting on a host of issues, so he attended.
Ted Beck, who worked for Rod, worked with corporate accounting, and he attended.
Christian, who would have some interaction, attended.
I know I am missing some others.
Just as an aside, Drew Gissinger and Dave Sambol would normally attend, Jack Schakett would normally attend, so those are a few of the people that would attend.
Q So can you explain how the process would work, starting with your receipt of the document such as Exhibit No. 232?
A This was only a part of the process, at least that I observed, so kind of more substantive than this was that Greg Hendry would go set up various meetings, and so in my case it would be with me and some of the others in my area, and so those meetings would happen on a reasonably regular basis.
Then at least once a quarter, we'd have a meeting

701:1 with Anne-- I mean, there would be more regular interim meetings, but there was a major meeting that we had with Anne, Laurie Milleman, Greg Hendry. I think Richard Pohl also attended. It was myself, Rod Williams, Ted Beck, and there were others, to talk about, specifically, the credit results for the quarter, and so-- and then sometimes Eric came, and before that sometimes Keith came.

When Nick was my boss, he came.

I can't-- I don't recall Kevin attending regularly, but that was at least once a quarter where we convened that meeting, and it was focused on the credit-oriented results.

Q What do you mean by "credit-oriented results"?

A As an example, the reserve setting, so that would be an example, and there are a couple of different kinds of reserves that we set, but anything credit related would be discussed at that-- that touched corporate accounting, so that would be both the financial statements and these various disclosures that they would do.

Q So when the quarterly meetings took place with Ms. McCallion, would the issue of what types of disclosures should be made from the credit risk perspective be addressed at those meetings?

A They would.

Just to be clear, that wasn't the only one. There were other meetings where it was discussed.

702:1 Furthermore, once the corporate accounting area put drafts together of the different 10-Qs, which are the ones I most frequently remember, and then the Ks would come, those would be circulated around very widely for people to react to and provide comments, and then ultimately Anne and Laurie and, I assume, Eric would get together and try to take all of the different commentary and weave that into what they thought should be in the final.

We would see a final version too.

Q To your knowledge, was Mr. Kurland involved in the process you described of putting together SEC filings?

A You know, I know that when Keith was there, he and Keith would meet all the time, and they had that matrix meeting that you asked me about yesterday, so it's my belief he participated actively.

Q How about Mr. Sambol? Was he involved in the process of putting together SEC filings?

A So before he took Stan's place, I feel certain that they showed him drafts and asked for his input because that seemed to be corporate accounting's practice is to go around and seek input from everybody and then show off these various versions of the draft.

After Sambol took Stan's place, I observed him reviewing the various drafts.

Q You observed him doing that?

703:1 A Yeah. I mean, I observed that they were on his desk.

Q To your knowledge, was Mr. Sambol ever involved in determining what types of disclosures to make in the SEC filings from a credit risk perspective?

A I suspect he had an opinion.

I don't recall a specific instance where he and I were discussing it.

There were occasions where Kevin and I discussed things, and the particular exhibit that you have pulled out was one of those occasions where Kevin and I discussed a particular item.

It would have been more frequent that Kevin and I would have had the conversations because he was my boss.

Q To your knowledge, was Mr. Mozilo involved in the process of putting together the SEC filings?

A You know, I was three layers removed from him, so I don't know exactly how active he got involved in the filings.

Q Exhibit No. 232 appears to have been generated in connection with putting together Countrywide's 10-Q for the quarter ending March 31st, 2006.

Is that correct?

A That's what it appears to be.

Q In this first column, can you make out what the handwriting is, the first-- about "How has your business

704:1 changed?"

A "Increasingly aggressive products in market."

Q Okay.

A It's just terrible writing. I can't make out the second one.

Then in the second question is "Flat curve," which refers to the yield curve, and "Increase interest rates."

Q You have a bracket and an arrow from the first box to the second.

Are you signifying that you want to have those two comments included in Item No. 2 as well?

A Yes. It signifies that they would be apropos in both places.

Q If you turn to the last page of this exhibit, Exhibit No. 232, there's some handwritten comments.

Did you make those comments?

A This is my writing.

Q Item No. 1 states--

A It should say, "Please see my comment on the SOX form I signed."

Separate and apart from this, there would have been a SOX form that various people signed, including myself.

Q Did you sign a SOX form on your own, meaning you were the only person that signed it or was it a form that multiple people signed?

705:1 A What would happen is the individual copies of the form would be signed by multiple people, so all the people that worked for me, they would do their review and cascade them upward, and then I would sign mine, and it would cascade upward to Kevin.

Q Do you recall what comments you are referring to that were on the SOX form--

A I don't remember what the comments were on the SOX form.

Q With respect to Item No. 2, just because I can't make out your handwriting, can you read that for the record?

A "I had discussions with Greg Hendry and others about keeping language in this document," and then I clarified, "10-Q. There had been a recommendation from an officer at Countrywide Bank to remove or soften some of the language on credit risk. I think this language should remain and was told by Greg it would stay in the 10-Q."

Q Do you recall who the officer at the bank is that you were referring to?

A I am fairly certain that it was Mike Muir.

Q Do you know what language you wanted to keep in the document that he--

A Kevin and I wanted to include some language-- an expansion of the disclosure around the option ARMs, so that was my recommendation, and I think Mike was concerned that the language that we were proposing was too negative.

Q Do you recall what language it was?

A My recollection is it was an expanded disclosure around the option ARM so to provide more details around the option ARM product.

Q Can you recall what particular details?

A I can't recall what particular details.

I think there might have been this idea of including an example, and I don't think that ultimately made it in, but again, it was just-- my recollection is it was for an expanded text for that particular product is what I recall.

Q When you said you had discussions with Greg Hendry and others about keeping the language in the document, who, in addition to Mr. Hendry, did you have those conversations with?

A Greg was the key point person on drafting these, and so that's why I talked to him, but Anne and Laurie would have been others, and then also I just mentioned a minute ago that Kevin and I had talked about it, so those would have been the others.

Q To your knowledge, did the language you want included actually stay in the document?

A I think my recollection is that much of it did stay in the document. That's what I recall.

707:1 What this is indicating is that Greg told me that it would stay in.

Q Would the first quarter of 2006 be the first time that Mr. Bartlett had recommended such a disclosure to be included in the 10-Q?

A Well, if I-- that would have been-- you mean-- there were disclosures on the option ARM prior to this time, so that was in there previously.

What we were recommending is to expand what was already in place.

Q Okay.

A And just some quick history, and this may be helpful too, so the first part of history-- so early 2006 would be right when Kevin came over to be my new boss, and before that it would have been Nick.

The other thing, prior to me coming to Countrywide, I had never been involved-- I haven't experienced or was never asked to look at anything like this before.

During the time I was at Countrywide, I tried to look more and more so-- I think I told you in one of the meetings that when I first got there, Keith McLaughlin drafted most-- he seemed to be actually writing a lot of it on his PC, and then they made it more and more formalized through time where they had a specific department that did it, and they had an increasingly elaborate process of making

708:1 sure that practically everyone got a chance to look at it and comment on the drafts.

Q Do you know why you and Mr. Bartlett wanted to expand disclosures regarding pay options in the first quarter of 2006?

A The product was getting more attention in the press, so that was one reason.

The second reason was that it was a growing exposure on the institution's balance sheet, so we thought that given those reasons, it might make sense to expand the text that we had on the option ARMs.

Q Let me mark as Exhibit No. 233 a copy of the company's 10-Q for the first quarter of 2006, the period ending March 31, 2006.

(SEC Exhibit No. 233 marked for identification.)

BY MR. WYNN:

Q All right. Mr. McMurray, we are still looking at Exhibit No. 233, and the first page I want to draw your attention to is Page 35 of Exhibit No. 233.

The first heading on Page 35, Exhibit No. 233, states, "Loan production."

A I see that.

Q Both of your counsel have been given Page 35, although they don't have the complete copy of Exhibit No.

709:1 233.

What I would like you to do is look at the second paragraph on Page 35.

A All right.

Q I want to see if you can tell which language you think was added upon the recommendation of yourself and Mr. Bartlett that certain individuals within the bank were opposed to adding.

MS. PAN: For clarification, Paris, the second paragraph starting with what language?

BY MR. WYNN:

Q "Pay option loans."

A The other thing I recall, Paris, is that Mike Muir sent an e-mail around where he talked about his concerns on the language that Kevin and I proposed.

I don't know if it was addressed to me, but I remember seeing a copy of that e-mail, which would have been around this same time.

Q You think the e-mail was addressed to yourself and Mr. Bartlett?

A I don't think that it was addressed to me. It may have been addressed to Carlos, and I'm fuzzier on that part of the recollection, but in any case, what I recall is Mike Muir expressing concerns in his e-mail about the language that Kevin and I were proposing.

710:1 So let me take a look at this now.

What I think, Paris, is it has to do with these last two sentences. I am not 100 percent sure, but this is what I think.

Do you see where it says, "This high credit quality, notwithstanding lower initial pay requirements, the pay option loans may increase the credit risk inherent in our loans held for investment. This is because when the required monthly payments for pay option loans eventually increase, borrowers may be less able to pay the increased amounts and therefore are more likely to default on the loan than a borrower using a more traditional monthly amortizing loan"?

Q You think that's the language--

A I think that it is.

Q Do you recall any of the concerns that Mr. Muir expressed about adding that language to the 10-Q?

A In addition to the e-mail that I mentioned to you, I think there was also some discussion around this, so my recollection is that when you compared this to other companies that were offering this product, that this language was more negative than other disclosures they had seen.

That's my recollection of what the concern was.

Q To your knowledge, and this is a serious question, was there any matching strategy with respect to other company's SEC filings?

711:1 A Not to my knowledge, no.

Q That language you mentioned about-- the language you just mentioned, that wasn't new knowledge to the company; is that correct?

A I don't think that it was new knowledge to the company.

Q I think you said that you were aware-- the company was aware of the payment shock issue and the NegAm issue from the time it offered the product to the market; is that right?

A That's my belief.

One quick thing to draw your attention to, so back on the prior exhibit, if I could, so one of the things that we had talked about was the yield curve being flat and interest rates being increased. What I want to do is explain how that's important and how that ties in here too.

I will also take you back to an exhibit that we looked at yesterday, and that was that cube that I showed you that had interest rates and house prices as different dimensions in the cube.

When interest rates go up, the index that's used for the option ARM, which is what determines its accrual rate, is going to rise, and if the-- just forget about the minimum payments for a minute. Let's just say existing loans in the portfolio.

If interest rates rise and the borrowers continue

712:1 making the minimum payments or less than the fully amortizing payment, what you'll have happening is faster negative amortization, so I just don't want to lose sight of the fact that there are environmental conditions that you'd want to be cognizant of too.

In an environment like the one that we talked about here, where the yield curve was flat and interest rates were rising, this would be a more significant concern than in prior environments where the yield curve was steeper and interest rates were lower.

Q Still, under the second paragraph under the "Pay option" heading, the paragraph that starts with "Pay options differ," if you look at the third sentence, it states, "Our pay option loan portfolio had very high initial loan quality with average FICO scores of 721"--

A I see the sentence.

Q Is that your language having to do with the very high initial loan quality?

A No, that's not my language.

Again, this was typically drafted by someone in corporate accounting, and they weaved in input from various people.

From my personal perspective, I don't like those type of adjectives, in either direction, if it were negative or positive.

713:1 With that said, an average 721 FICO is a relatively high FICO for a whole portfolio alone, so I would agree with that, but that would not have been my personal word choice if I were the only one that was providing input.

Q Who else was providing input on this particular section?

A Well, lots of people, so you've got the corporate accounting people that were the ones drafting and then gathering together all the input, but as I mentioned, this is talking about loans in the bank, so there would have been multiple individuals in the bank that were providing input. Kevin and I certainly would have looked at it, and there would be people in my organization that would look at it and provide input, so I had mentioned Rod Williams, and he would be a typical person. Another typical person might be Christian on this specific topic.

Q Okay.

A And those are just a few.

Q When you were working on this 10-Q, was there any thought to adding information as far as the documentation level associated with most of the pay options held in the bank's portfolio?

A I don't know if there was a discussion on-- for this particular time.

The documentation topic was discussed, I mentioned, 714:1 and I think it was yesterday, but the tradition for pay option loans was that most of-- over many years, most of them were done in a reduced doc manner.

I know at my current employer, that clarification, in fact, was just made recently, so it was something that I suggested when I got to WaMu that they recently added.

Again, the option ARMs for a long time had been done on that basis, and across the industry, when I say "on that basis."

Q Do you know why information concerning the documentation level concerning pay options held at the bank was not included in the 10-Q for the first quarter of 2006?

A You know, I don't know that it was specifically excluded, so I don't think that is a characterization, but as to why it wasn't included in this paragraph, I don't recall that.

Again, the product itself has-- since its inception in the industry, it has been one where a lot of it is done on a limited documentation basis.

Paris, just to drive that point home a little more, if you look at the home equity product out in the industry, that's even more so limited documentation, and that's not-- Countrywide is actually less limited documentation than most institutions in that regard, but the majority of home equity loan populations that I've seen are by and large limited documentation.

Q Do you know what the purpose was in including the FICO number, the average FICO number description, on Page 35 of Exhibit No. 233?

A I'm not exactly sure who suggested that it be included, and so I would be speculating somewhat to what their intent was of including it.

I do know that the corporate accounting guys had a process for double checking a lot of these numbers that ended up getting shown out to the public, and this would be an instance of that.

Q Well, is FICO score an indication of loan quality?

A FICO is an indication of loan quality.

Q And is loan to value an indication of loan quality?

A It is an indication of loan quality.

Q And is a documentation status an indication of loan quality?

A It is.

I think the distinction that I would draw here, and I think that this is an important one, so suppose you compared the option ARM portfolio here to Golden West or World Savings, theirs would be largely limited documentation as well, so not much of a difference there.

On the other hand, the loan to value and the FICO scores likely would be different between those two

716:1 institutions.

Q Just to be clear, do you recall being a part of any discussion or meeting where the issue came up of whether or not documentation levels should be included in the pay option disclosures for the 10-Q for the first quarter of 2006?

A I don't have that specific of a recollection.

The other thing that is causing the recollection to be even fuzzier still is I just had, as I mentioned a moment ago, a discussion around this at my current employer, so there may have been a discussion on something that specific. At this specific time I just don't have a precise recollection.

Q Is it accurate that by the first quarter of 2006, it was known within the company that all else being equal, the less documentation you had, the higher the odds were for default?

A It was, but I want to be careful here because that is a generalization that would apply to all loans and not just pay option loans.

I want to draw another very important distinction that's relevant here.

Because the prevalence of low documentation is higher in the pay option population than in other loan types, you probably have a somewhat diminished effect from the documentation than just the pay option population perhaps.

717:1 I want to be comprehensive that that observation that I talked about on documentation applied across all loans and not just pay option.

Just as another quick aside, there were public presentations that I gave where we shared some of the results that we had from our research with the public, which I think I mentioned yesterday.

I think an example I gave was the Federal Reserve meeting that was attended by a lot of folks and then some of the other presentations that I gave publicly.

Q I remember us discussing that, and my question was whether or not you ever mentioned in a public forum the two concepts, one being that all else constant, the less documentation you have, the higher the odds of default, the second concept being a majority of the pay options held at the bank are on reduced documentation status.

Do you ever remember discussing those two points in conjunction?

A On the first one, absolutely, I disclosed the documentation point.

As far as the percentage of the various loan types that were limited documentation, I may have talked about that too. I don't have a specific recollection about an instance where that happened.

One of the things, and this is out in the public

718:1 domain somewhere, but I had mentioned a September 2006 presentation that I gave, so I definitely talked about the first point, and my recollection was that we included not only the results from these odds ratio studies but also kind of the level of-- the prevalence of each of the observations as well.

I would have to go back to look at that, but that's one instance where that might have been talked about.

Q If we now turn to Page 67 of Exhibit No. 233, the first full heading should be "Housing appreciation."

Do you know if you had any role in putting that paragraph together?

A Let me read through it.

I don't think I-- this doesn't look like language I specifically proposed.

However, I could have easily seen Greg or one of the other corporate accounting folks talking to me about this issue and soliciting input.

Q Exhibit No. 200, which was from yesterday--

A I've got it.

Q On 970, under Item No. 2, the economic environment, there's a statement regarding house price appreciation.

The statement is, "The house price appreciation we've seen in recent years is unlikely to continue," and if you measure that statement with the statement regarding

719:1 housing appreciation on Exhibit No. 233, the outlook is more optimistic in Exhibit No. 233.

A 233 is more optimistic than 970?

Q Right.

The first question I asked is: Do you agree that one is more optimistic than the other?

A I want to draw out a couple of distinct differences between the two.

On Page 970, which is Exhibit No. 200, this is my writing by myself without having anyone else's input, so just reflecting my opinion, so I think that's an important point to understand.

The other distinction I would draw is if we go back to late 2004, when this was written, and look at the rate of home price appreciation, it had been very high for a number of years.

If we roll forward to 2006, home price appreciation was still at a relatively high rate at that time.

When I say, "The home price appreciation we've seen in recent years is unlikely to continue," I am not necessarily saying that house prices are going to decline, but rather that the high rates of appreciation that we saw and then also the breadth of appreciation together were unlikely to continue.

I don't agree that-- at least my interpretation, as

720:1 you state it that way, that the two are necessarily at odds with one another--

Q My specific question was whether or not you thought that one of the descriptions was more optimistic than the other in the two exhibits we are comparing, 200 and 233.

A You know, as I look at the two, if I just take both of them on a first pass, I would say what I have in my write-up, which is Exhibit No. 200, is probably stated in a more pessimistic way.

Q Do you recall who within the company was responsible or may have engaged in attempts to determine where housing price appreciation would be going in the future?

A There are a lot of people that weighed in on that, including Jeff Speakes, who was the chief economist, so he would have had one of the key outlooks on this particular front and even had some folks that were working on models.

There was a gentleman that transferred over to me-- I shouldn't say to me directly, but he worked for Cliff Rossi, and I will try to remember his name.

He was working on a stochastic process for house prices, so that was the idea that we don't know where house prices are going to go, and so we're going to have this forecasting machine that generates many, many possible house price paths.

Joe Fairchild was that gentleman's name.

Joe Fairchild was working for Cliff on the stochastic process for house prices, and then he was working with Jeff Speakes' team on this idea of house price outlook.

The other thing I would point out is up to this point in time, which was early 2006, if you look back at recorded history, where good records were kept, at that point in time if you looked at houses on a national basis, there had not been a decline.

Again, that's in the recorded history.

Q Am I correct that-- I am looking at Exhibit No. 200, but September of 2004 was not the last time that you expressed-- September of 2004 was not the last time you expressed the opinion that housing price appreciation was unlikely to continue at the same rates; is that correct?

A My personal view on this matter was that house prices were not likely to continue to appreciate at both the high rate of appreciation that they had seen nor at the breadth of appreciation.

If we go back to 2004 and even look into 2005, it's not just that the house prices were appreciating fast, but also that was very broad across the entire country and in most MSAs.

If we go to Exhibit No. 233, they are giving credence to one of the points that I was making along the

722:1 way, so if we see-- let me find this here.

They talk about that there may be some markets that experience home price depreciation, "We believe price depreciation will not occur nationwide," so I think they're getting to my idea about this breadth.

Q Exhibit No. 234 will be a July 17th, 2006 e-mail from yourself to Greg Hendry and Jie Ling.

(SEC Exhibit No. 234 marked for identification.)

A I have taken a glance here.

Q If you look at the second page of Exhibit No. 234, which is Bates No. 1040, and Exhibit No. 234 is JPM 1039 through JPM 1040, and if you look at Mr. Hendry's e-mail, he seems to be asking about the specific issue of drafting more robust disclosures around the allowance for loan loss provision.

Is that correct?

A So the way I read this is that he is saying that-- he is in the process of drafting more robust disclosures around credit risk management and the allowance provision for loan losses, so both.

Q And it appears that, at least in part, this effort of his is driven by some disclosures that Wells Fargo may have made in their own filings?

A That seems to be what he's saying.

723:1 Q Do you know if around July 15th, 2006 you were working on any particular type of Countrywide SEC filing?
A I'm not sure.
Again, let me go back and just clarify.
I was pulled in as the corporate accounting guys needed me.
They were the ones that assembled the filings and were in charge of that process.
They may have been-- I mean, they appear to be asking me about something around July 15th, and so what I'm doing is responding back to him.
Q But can you recall if his question to you on July 15th was in connection with him being involved in putting together a particular Countrywide SEC filing?
A Gosh, no.
A lot of times they would ask for input, and I would not be aware of what specific filing they were working on.
Q In your July 17th, 2006 e-mail to him, you state, "I'm a huge advocate of expanding our disclosures in this area, including adding information to the Qs ahead of the K. I'll check on doing something like Wells.
"In the meantime, can you please beef up our disclosures in the following areas?"
Why did you think that Countrywide's disclosures

724:1 needed to be beefed up in the areas you listed in Exhibit No. 234?

A Well, from time to time, in the process of them soliciting input, one of the responses was, "That particular type of thing would be more appropriate in the 10-K rather than a 10-Q," so that's what prompted that.

Q So the items you list under "Environmental factors" are housing prices, credit guidelines, interest rates, and economy.

Had you been told that those were topics that were better addressed in a K as opposed to a Q?

A I don't know if-- I may have, so again, what I recollect is in the various conversations where they ask for input, from time to time, as we talk, they said some things would be more appropriate in a 10-K rather than a 10-Q, and it could have included some of these issues, but I don't remember if there were specific conversations where these specific issues were discussed in that way.

Q If you look at the second item under the "Environmental factors," "Credit guidelines," it reads, "The industry has expanded credit guidelines very aggressively over the past several years. Some transactions combine risk factors or risk levels that were not seen in previous cycles.

"The delinquencies and defaults from these transactions will be higher."

725:1 To your recollection, was any type of disclosure regarding this issue ever raised at any of Countrywide's SEC filings in 2006?

A You know, I don't remember that specifically.

Q Aside from this e-mail, did you ever advocate for the inclusion of a disclosure regarding the expansion of credit guidelines in 2006?

A I probably did, but I guess one of the key things that I want to point out is there were a lot of things that I was doing, and one of those many things was giving input when the accounting people were working on these filings, so it wasn't something I was taking the lead on, but it's certainly possible that I would have advocated that outside of this one single e-mail.

Q Why did you advocate for some type of disclosure having to do with the expansion of credit guidelines?

A In my opinion, the industry expansion and credit guidelines is an important context for people to understand, again, in my opinion.

Again, in my opinion, I think we're seeing both sides of that today.

Q Can you please explain what you mean by that?

A Sure. So while the environment was favorable, the industry expanded guidelines very aggressively, and what we've seen more recently is the opposite extreme, so what's

726:1 happened is institutions have very aggressively withdrawn credit guidelines, so that's made the situation vastly worse than it ever would have been otherwise.

We have seen two relative extremes in short succession.

Q When you say "vastly worse than it would have been other," what do you mean by "otherwise"?

A Suppose all of these institutions did not aggressively withdraw credit guidelines, so the credit guidelines that exist in the market today are tighter than they've been in many, many years, including before this expansion of guidelines occurred.

The adjustment back the other direction has been even more severe, in many cases, than the expansion was.

As a result of that, it makes it more difficult for people to buy homes, it makes it more difficult for people to refinance, and those two facts, simply by themselves, are going to make the delinquencies and the defaults much worse than they would be otherwise.

Q Can you recall getting any feedback from anyone in the company with respect to the issue of including disclosures regarding the expansion of underwriting guidelines in the SEC filings?

A You know, I don't recall getting specific feedback on that.

727:1 There may have been a reaction to this, and they may have even talked to me about it.

I just don't specifically recall it.

Q Exhibit No. 234 under "Operational issues," you list "Loan manufacturing."

Do you see that?

A I do.

Q And it states, "There are many steps in the loan manufacturing processes. To the extent any of these does not perform correctly, we will be exposed to unexpected losses."

On Exhibit No. 200, Page 973, under heading, "H, origination process"--

A I see that.

Q You use the term "loan manufacturing" in Exhibit No. 234.

Are you getting at the same issues that you list under "origination process" in Exhibit No. 200.

A It's very similar.

In Exhibit No. 234, my intent was to think about it in a broader way than just what existed or just what I talked about in Exhibit No.-- on Page 973.

Q And can you explain what you mean by "executions" in Exhibit No. 234?

A So what I meant by "executions" was how the company sold its loans into the secondary or capital markets.

Q Now, how could steps in this area of executions if not performed correctly create unexpected losses?

A An example would be the HSBC situation that we talked about yesterday.

We talked about the post purchase due diligence, and depending on the outcome of that, that could create unexpected losses, so that would be an example.

Q Back to the first sentence in Exhibit No. 234 where you state, "I'm a huge advocate of expanding our disclosures in this area," why were you a huge advocate of expanding disclosures in July of 2006?

A It wouldn't be just in July of 2006.

I think these particular ideas that I'm outlining here-- just about the entire industry were underappreciated, in my opinion.

Q The last sentence in this first paragraph, you state, "In the meantime"-- let me ask you a different question.

After you state that you are a huge advocate, you say, "Including adding information to the Qs ahead of the K."

It seems like there's-- you have some urgency in these disclosures, like you don't want to wait for the K, but add them to the Qs.

Is that correct?

A So this goes back to what I was describing a few

729:1 minutes ago, so in various conversations, as I provided input, on occasion the response would be "That's more appropriate for a K," which was a more expansive document than the Q, and so that's what I was trying to get at there.

As I said, I think some of these factors across the whole industry were underappreciated, which is part of the whole reason my language has the apparent urgency that it does.

It's a more general-- I mean, not so much specifically to the disclosures that we were making but rather my perceived underappreciation of these industries on a widespread basis.

Q Underappreciation of the factors?

A Yeah.

Q If you go back to Exhibit No. 232, which is the-- it starts with a fax cover page from Jie Ling to Ms. Rich.

A I have it.

Q On the second page, Item No. 1, where you state, "Increasing the aggressive products in market"--

A Yes.

Q Is that a similar concept to the credit guidelines concept in Exhibit No. 234?

A It is a similar concept, yes.

Q Still looking at Exhibit No. 234, did anyone directly respond to your question, "In the meantime, can we

730:1 please beef up our disclosures in the following areas?"

A They may have. I don't remember if they did specifically.

I do think that Greg Hendry came by-- the one thing I recall is that he did come by to talk to me about this e-mail and then kind of just more generally what he was drafting.

Q Do you recall anything he said when he came by?

A The only thing I remember him talking about was this thing-- he liked something that Wells had done in one of their disclosures, and so he was showing that to me, and that's really the only specific thing that I can remember from that conversation.

(Recess 1:49 to 1:58 p.m.)

BY MR. WYNN:

Q Back on the record, it's 1:58 p.m., and I want to introduce Exhibit No. 235, and it is the JPM 1070 through JPM 1071, and it is an e-mail from Mr. McMurray to Mr. Hendry.

(SEC Exhibit No. 235 marked for identification.)

Q Mr. McMurray, if you look at the bottom of Exhibit No. 235, there is an e-mail from Greg Hendry to a few individuals, but I don't see your name.

To your knowledge, was this e-mail forwarded to you or did you ever receive the e-mail from Mr. Hendry?

731:1 A Well, I'm not sure. However, let's just take a look at the very top of this page.

You can see that he sent it to Christian Ingerslev, and we have talked about Christian before, and so I may have been on there or maybe Christian provided it to me. I'm not sure.

He does talk in his e-mail about discussions with Christian and with me.

Do you see that?

Q Yes, I do.

A I am not sure whether I was originally on this e-mail or not.

Do you see the little lotus notes symbol on the top? It appears to be different than the one I would ordinarily use.

It does appear to be from me, and as I read through it, this looks like something that I would say, but-- anyway, I'm not sure whether I was on the original e-mail or not.

Q And from the second page of Exhibit No. 235, it appears that Mr. Hendry and others are working on the Countrywide 10-Q for the second quarter of 2006.

A Let's see, it looks like they're drafting something.

Let's see what he says.

He says, "For an MD&A overview and banking segment

732:1 disclosure," so I'm not sure exactly-- I mean, it could be for a 10-Q. I'm not sure.

Q The reason I said "10-Q" is because on the second page, under the "Banking" segment, he talks about banking operations having increased our investment and pay options during the quarter ending June 30th, 2006.

A I see.

Q In your e-mail at the top of Exhibit No. 235, you are giving a couple of comments on the section of an SEC filing that he forwarded to Ms. McCallion and others.

Is that right?

A I am commenting on these two paragraphs he sent me, and I agree that it appears to be for a SEC filing, but I can't be 100 percent sure of that.

That's the way it appears.

Q Can you explain your comment on the FICO scores?

A Let me take a read here.

If you look at the heading that Greg has, it's entitled, "Loan production."

However, the FICO scores that he is referring to has to do with the portfolio, which is inside the bank.

The reason that I thought that was potentially confusing is-- go back up to my e-mail.

Do you see where I say the section called "Loan production," in quotes, seems to contain statistics for the

733:1 bank portfolio?

In the body of this paragraph, they're talking about FICOs for the bank portfolio, but the heading of the paragraph says, "Loan production," which to my reading would be more expansive than just what was in the portfolio because as we talked about a couple of times before, the bank portfolio just included a subset of what Countrywide originated, so that's one of the points I was trying to make here.

Q To your knowledge, as of June 30, 2006, was the average FICO score for pay options originated by Countrywide but not held at the bank lower than 721?

A I am not going to have a specific recollection, but what I can tell you is that the portfolio approach for the bank was to try to pick a group of loans that had better credit quality characteristics than the population as a whole.

In other words, the loans that were-- the credit quality of the loans that were kept by the bank were better than the credit quality of the loans that were not kept by the bank and sold into the market.

Q Okay. And you also recommend eliminating the "very high initial loan quality" phrase.

A I do.

Q Why did you have that recommendation?

A As I mentioned before, from my personal perspective, I don't like those superlatives, and I'm not sure that I would put those on any portfolio that I've seen there or anywhere else.

Q You state that you might be able to argue "better than average" but "very high quality" would be a stretch.

Why would it be a stretch to describe those loans as being very high quality?

A So if we just look at the FICO for a moment, so 721 FICO is better than average, and you could even argue that it is significantly better than average.

I would be more comfortable describing it that way.

If you wanted to say "very high quality," why wouldn't that be an 800 FICO, as an example?

It would be very unusual to have a whole portfolio with that high of FICO, but just from my own comfort level, I was suggesting this rather than what they had drafted.

Q The second paragraph, you say that "I would not say that we only originate pay option loans to borrowers who can qualify the loans fully amortizing payment based on fully indexed interest rates"-- what was your reason for that recommendation?

A I think my recommendation is more precise, so there are instances where you might have a loan originated that-- do you see where he has the word "only"?

735:1 Q Mm-hm.

A Let's suppose, and from time to time we would find instances of this, where a borrower either inadvertently or deliberately misstated something on their application, so that occurred from time to time, and so the word "only" to me is-- I just don't prefer it.

I like the way I-- I like my recommendation better, as a personal preference, obviously, but I think mine is a more accurate way of describing the situation.

Q I am going to show you Exhibit No. 236, which is an e-mail from Laurie Milleman sent on August 4th, 2006 to Carlos Garcia and others.

This is CFC 2007A473713 through 714.

(SEC Exhibit No. 236 marked for identification.)

A Do you want me to read the whole thing or just the loan production section?

Q That's right, just the--

A Okay.

It looks like they incorporated some of my suggestions.

Q If you look at the last two sentences, the one starting with "Furthermore," it appears-- do you recall you and Mr. Bartlett recommending this language having to do with reduced documentation standards?

736:1 A I don't recall that specifically.
However, I'm not sure that anybody else on this e-mail chain-- it's likely that one of us could have recommended that.
Q Is it possible that you or Mr. Bartlett recommended language having to do with documentation in the first quarter of 2006 but were unsuccessful getting that into the 10-Q for the first quarter?
A It's possible, but again, as far as a specific recollection of-- typically there are lots of meetings and discussions and e-mails on this process.
Q The second to the last sentence states, "Furthermore, substantially all of the pay option loans we originate are underwritten based on reduced documentation standards whereby the loan applicant's income is not fully documented."
Do you recall if you made any recommendation or whether anyone made any recommendation that that sentence be followed with the sentence describing the import of reduced documentation being that all else constant, you could expect higher default rates?
A I want to distinguish this.
As a more general matter, that was a theme that I constantly was on, this whole idea about documentation and the importance of it, so that was a general theme that I had.

737:1 With respect to a specific point in time or a specific part of one of these processes, I don't have an exact recollection of that.

Q I'll mark as Exhibit No. 237 a copy of Countrywide's 10-Q for the quarter ending June 30th, 2006.

(SEC Exhibit No. 237 marked for identification.)

A Do you want me to be on Page 37?

Q Yes, if you could turn to Page 37 of Exhibit No. 237.

It looks like the language regarding reduced documentation we saw in Exhibit No. 236 has made it into Exhibit No. 237, which is the Q for the second quarter of 2006?

A I see that.

Q Is that right?

A It does appear to be in there because it talks in the second paragraph that starts, "Furthermore, substantially all of the pay option loans we originate"--

Q Okay. To your knowledge, why is the information regarding FICO scores included in the paragraph on Page 37 of Exhibit No. 237 having to do with pay option loans?

A Let me take a look here.

Again, I think as we talked about a few moments ago, that they are including the FICO scores just to give the

738:1 reader a sense of-- and a FICO is a very common measurement of borrower creditworthiness, so it's just to try to give the reader a sense of what the average FICO was for that-- in this case, the pay option investment portfolio.

Q You said to give the reader a sense of what the average FICO score was?

A Yes.

Q And to your knowledge, was that for the purpose of communicating to investors something about the loan quality of these loans?

A Well, FICO is a credit attribute, an important credit attribute, that is used in assessing loan quality.

Q I am going to mark as Exhibit No. 238 an October 17th, 2006 e-mail from Mr. McMurray to Jie Ling.

Exhibit No. 238 is Bates No. JPM 1065 through JPM 1066.

(SEC Exhibit No. 238 marked for identification.)

A Did you want to direct me to a specific portion?

Q Yeah.

First of all, can you identify what Exhibit No. 238 is?

A 238 appears to be an e-mail I put together to Jie Ling, who was in corporate accounting, and it further appears to be answers to one-- the form that she sent around.

739:1

Q And from the subject, it appears that the company is in the process of putting together its 10-Q for the third quarter of 2006?

A It does appear that way, if you look in the subject line.

Q So for the first question, which is, "How has your business changed specifically," you state, "Conditions and trends I previously discussed with you, e.g. see my e-mails dated 7/16/06 to you, as an example, remain intact. The environment for credit risk continuing to worsen. Examples include weakening home prices and lower prepayment rates. I strongly encourage you to review materials and minutes from committee meetings, including ALCO, CCRC, and CERC."

With respect to your reference to e-mails dated July 17th, 2006, to your knowledge are you talking about the e-mail that's Exhibit No. 234?

A Let me go back and take a look.

So I believe this is the e-mail that I'm referring to because if you look at Exhibit No. 234, it is addressed to Greg Hendry and to Jie Ling.

Q Okay. And Exhibit No. 238, you say, "See my e-mails."

Are there other e-mails you sent to Ms. Ling on July 17th, 2006?

A There may have been.

I am a poor typist, so it may have been just a typo.

Kind of the more general matter, if we could go to the very top of the e-mail on 238, a frustration I would have with them was there could be conversations with members of corporate accounting, in meetings and other conversations, where we would talk about these things.

Then she would send me this form to fill out from scratch, and that's after a number of conversations, other communications that had occurred over the course of the quarter, and so given all the other stuff I had to do, it was frustrating to have her send something starting from scratch.

That's part of what I was getting at.

Q Did you have a number of conversations with Ms. Ling and/or Mr. Hendry about issues concerning credit disclosure or were they present in meetings where those topics were discussed?

A They were present-- not Jie Ling, but Greg, as an example, would be present in meetings where those were discussed.

In addition to that, he would specifically ask for input.

However, if he had been present in a meeting where that had been discussed, I am hoping since he's drafting this stuff, that he's paying attention and taking in all of the

741:1 material.

Q Okay. You state, "I strongly encourage you to review materials and minutes from committee meetings, including ALCO, corporate credit risk committee, and corporate enterprise risk committee"?

A It's either Countrywide or corporate, and I can't remember which, executive risk committee.

Q For what purpose are you encouraging Ms. Ling to review materials from those meetings?

A Simply because a lot of-- there are issues discussed in those meetings that are germane to the questions that she's asking.

Q Is it accurate to say there are issues discussed in those meetings that relate to the question of the company's disclosures concerning credit risk?

A Not exactly.

Let's look at her first question, and it says, "How has your business changed," and she says, "Specifically," and you see the form that she sends out, a little, tiny box.

"How has your business changed" cannot fit in a little, tiny box.

They could attend any of those meetings they wanted, and we had other special meetings with them.

I am saying that rather than trying to fit things into a little, tiny box, consider all of the materials that

742:1 have been provided previously for a very general question like "How has your business changed?"

Q Item No. 3 states, "Please describe any changes in loan quality and impact on the allowance for loan losses; e.g., any deterioration, change in underwriting guidelines, et cetera."

You answer this question by stating, "As I have communicated to you previously, underwriting guidelines have widened dramatically over the past five years or so. Loan quality has deteriorated as a consequence of this guideline widening. The transition from extremely favorable conditions which has prevailed over the past several years to a more difficult environment will also adversely affect loan quality and loan performance.

"The allowance is addressed in a dedicated meeting between corporate credit and corporate accounting."

Just with respect to that last sentence about the allowance being addressed in a dedicated meeting between corporate credit and corporate accounting, can you describe that meeting and identify when it took place?

A Sure.

This meeting took place at least once every quarter, and it would include, at a minimum, Anne McCallion, Laurie Milleman, Rod Williams, myself, Ted Beck, and Greg Hendry typically came, Richard Pohl typically came, so

743:1 Richard and Greg are from corporate accounting.

There was another gentleman from corporate accounting that often came, and I'll try to remember his name in a minute.

When Keith was still at the company, Keith McLaughlin, he would attend.

In any case, we would review the allowance recommendation, not just for the held-for-investment portfolio but just generally credit related matters, so that would take place, as I said, at least once per quarter.

While Greg was sitting in the meeting, there's a lot more that could be gleaned from that than the little box she sent me.

Q In any of the meetings where the allowance for loan losses were discussed, did you raise the issue of guidelines having expanded rapidly and the consequences of that?

A Yes, but, and this is an important point, when the allowance was calculated, it looked at the individual loan attributes.

Here is the way the two are connected: As guidelines widened, the loan attributes would get worse, and it is those loan attributes that would drive the allowance recommendation.

I want to distinguish between a couple of things.

She's asking about changes in underwriting

744:1 guidelines.

That, by itself, is not going to directly affect the probability of default or a need for additional allowance.

What will affect that is with those wider guidelines, the loan attributes will become more liberal, and it is those individual loan attributes on each loan that are driving things.

Q Now, loan attributes have direct bearing on loan quality; is that correct?

A Loan attributes are an indicator of loan quality, so the analogy I would use is if one of us went to the doctor, they could take our blood pressure, measure our cholesterol, they could measure or body fat, they could do a blood workup, so all of those would be attributes of human health, and to the extent they were one way or another, that they would suggest good health or poor health.

Loan attributes work the same way, so it's not an absolute certainty that just because a loan has bad attributes that it's going to default. It simply means that the probability is elevated.

Q In the context of addressing a loan loss reserve and the probability of a default, do you know what the time horizon was that you considered when making that determination of setting the reserve?

745

A So my-- what I recall-- Countrywide, if the loan was less than 90 days past due, the horizon was one year. If the loan was 90 or more days past due, it was a lifetime expectation for that sub population of loans.

Q Say that one more time, the last part.

A The way it worked is there were two sub populations of loans, so on the last part, and we sometimes refer to this as the specific reserve, so if the loan were 90 days or more past due at the time that the evaluation were done, which would have typically been quarter end, then-- actually, it might have been one month before quarter end, and then an estimate made to get to quarter end, and I can't remember that exactly, but at the measurement period, the loans that were 90 days or more past due, it was a lifetime default expectation for sizing that particular portion of the reserve.

Q When you say "lifetime," there was no year limitation, you weren't looking--

A Yeah, there was not the one-year horizon that applied to the first sub population of loans.

Q To your knowledge, in response to this e-mail, Exhibit No. 238, did anyone contact you or have any conversation with you regarding the issue of somehow disclosing the fact that underwriting guidelines had widened dramatically over the past couple of years?

A This particular point was one that I had made over and over, and I think we've seen it in other e-mails I've written to a variety of folks, so I don't know whether someone talked to me about it in the context of this specific e-mail.

Certainly I had conversations with people, but it could have been in the context of one of the other e-mails or me just bringing it up with them verbally.

Q Second page of Exhibit No. 238, under the heading No. 8, "Any other information you would like to add," you state, "We prepare many reports and presentations in connection with market and credit risk. I want to make sure you are aware of these materials and encourage you to incorporate information into the filings whenever and wherever appropriate."

First of all, what materials were you referencing?

A For example, in ALCO, which was the asset liability committee, Anne and Eric both attended that, and other people from corporate accounting could attend that, so there are a lot of materials there that they might have for use.

In the corporate credit risk committee, there were representatives from corporate accounting that attended that, and there could be materials there that would have been appropriate.

What I was encouraging her to do is there was a lot

747:1 of other good information that was being produced and not to rely simply on people filling out the little boxes in her form.

Q I am going to mark a new exhibit, Exhibit No. 239, JPM 126 through 172, and it's a Countrywide Financial-- the first page reads, "Countrywide Financial corporate credit risk committee, March 21st, 2005."

(SEC Exhibit No. 239 marked for identification.)

Q Can you identify what Exhibit No. 239 is?

A So 239 is probably a draft of a corporate credit risk committee package.

The reason I say "draft" is this appears to be one of the documents that I supplied, so the typical process on this would be that Rod Williams' group and oftentimes with Christian Ingerslev, Frank Aguilera, Michael Burak, lots of other folks would assemble the package, and then they would show it to me as a draft before we brought it into the committee meeting.

Oftentimes I would take these home and mark potential changes for everyone's consideration before we finalized it.

Q Is Exhibit No. 239 the type of material that you were referencing in-- under Item No. 8 in Exhibit No. 238?

A It is one example, yes.

748:1

Q We talked in early July about something called a wall of worries.

A We did.

Q To your knowledge, is that included in Exhibit No. 239?

A I don't think that it is, but let-- the best example I can think of for the wall of worries, at least of stuff I still had in my possession, is there was a book similar to this that I gave to you that was for the Countrywide board of directors credit risk committee meeting, and that would have been in late 2006, early 2007 maybe.

I think that had a better version of my wall of worries.

Let me look through here.

I don't see the wall of worries here.

I don't see it.

There are some kinds of things that had I done that concept at the time, I would have included, but I don't see that particular document.

Q Do you know if anyone in the area of financial reporting attended meetings to the board level credit risk committee?

A The board level one? Not on a regular-- I don't think they did on a regular basis, although Greg Hendry might have attended a meeting or two.

749:1 I don't think Keith wanted a bunch of spectators in the room.

Q Okay. Keith Russell--

A I don't think Keith Russell wanted a bunch of spectators in the room.

Q I'll mark as Exhibit No. 240 a copy of a document entitled, "Countrywide Financial board of directors credit risk committee, February 13, 2007."

This document is Bates No. JPM 19 through JPM 125.

(SEC Exhibit No. 240 marked for identification.)

A This appears to be one that I gave you as well, so this was probably a draft, and it may have been close to a final.

Again, so Rod Williams or others would have helped-- would have done the bulk of the work in assembling the package, and then they would have provided it to me to look at before we actually finalized and then turned it over to the group that produced materials for the board.

Q I think it's on Page 42, but can you go to the page that might include the wall of worries?

A Yes, this is the wall of worries.

Q Can you explain what that is, the wall of worries?

A So in early 2007-- remember this morning we had talked about the risk vision and we had looked at some e-mails that I had sent to Dave and to Kevin, and so the other thing that we were working on at that time-- so look at the risk vision and then also looking at the company's structure, especially for risk management, so that would have been for the areas I had and it would have been for the other areas that Kevin had to see whether that was the optimal structure, whether the right things were reporting to me-- not just to me but to other areas of Kevin's organization.

In the-- we each had to prepare a presentation to give to Kevin and to Dave, and so in my presentation I included a wall of worries, and after I put that wall of worries together, I also decided to share it with the board credit risk committee.

Q I see.

Just backing up a little bit, when did you first create the wall of worries?

A I first created the wall of worries early in 2007 as I was-- in discussions with Kevin mostly, and then also Dave, they wanted to re-look at the way we were structured with respect to risk management, so it would have been all of Kevin's areas, and also with respect to investment management.

They wanted proposals on how the organizational structure might look and then just how we would-- you know, the various processes and approaches that we would use.

751:1 As part of my response to that, I wanted to put together just a one-page document that would encapsulate all of the things that I was worried about at a particular time.

My idea was to keep this up to date, and as some things became less worrisome, they could drop off, and as new worries came, we could add to it.

It was like the Wailing Wall in Jerusalem, and we could go to it and see what we were happy about.

That was the idea.

Q When you say "worries," you mean worries from a credit perspective?

A From a risk perspective.

A lot of them would be credit related, but I tried to be more expansive than just credit related.

Q Do you know if anyone in financial reporting, so Milleman or any of those guys in financial reporting, ever saw a version of your wall of worries?

A I'm not sure whether they did or not.

I know-- I talked about it with Dave and Kevin, and I talked about it with Keith Russell because-- they were less excited about it than I was.

Q What do you mean by that?

A It just seemed like a lot to worry about, just a lot to keep track of, which is why I liked it. It was just one page.

752:1 Q Exhibit No. 241 is going to be a document entitled, "Serious delinquency survival analysis." It is JPM 1 through JPM 18.

(SEC Exhibit No. 241 marked for identification.)

A Did you want me to look at a specific page here?

Q No. I just wanted to know if you knew what that document was.

A This appears to be a presentation that I gave at the ASF.

Q Okay. From looking at it, can you tell what year you would have given that?

A I think it was January of 2006, early 2006, I think.

Q Exhibit No. 242 is entitled, "Sub-prime business and credit summary," dated April 26th, 2007, John McMurray, chief risk officer, and it is Bates No. CFC 2007A361268 through CFC 2007A361332.

(SEC Exhibit No. 242 marked for identification.)

A So this appears to be a couple versions-- this appears to be a couple versions of a working draft.

Can I show you?

Q I think it might be three copies of the same document.

753:1 A It looked like-- if I go here-- is this the same?

Q Yeah.

A And there may be one other one in there. Do you want me to try to separate it out?

(Discussion off the record.)

Q Mr. McMurray, can you explain what Exhibit No. 242 is?

A 242 appears to be a working draft of a document that was eventually used in the first quarter earnings call.

Q Who had the final draft of Exhibit No. 242 been shared with?

A Well, there's a couple of important points.

On a couple of the early pages, and let me just call out a few, so page-- I am not sure who did this, and it might have been someone else in Kevin's area or maybe someone-- I don't believe this was done by anyone in my area, but this is Page 3.

Q Okay.

A Page 4 I think was worked on by Christian Ingerslev and product leadership.

Q Product management or product leadership?

A Both.

Page 5, I'm not sure-- this was a draft, and then you also notice on the front it says, "Still finalizing numbers with corporate accounting," so I don't know if these

754:1 had yet been finalized with corporate accounting, but product leadership might have put it together or it could have been Michael Burak on Page 5.

On Page 6, this would have been secondary marketing or maybe corporate accounting that put 6 together.

On 7-- I know Kevin, second marketing, is my recollection, worked on Page 7.

On Page 8, that could have been secondary marketing.

When I say "Christian Ingerslev," I would include Frank Aguilera in that and product leadership, so those are the early pages.

In the actual call, when those pages were finalized, Dave Sambol talked about those pages.

Q Okay.

A Starting on Page 10, this is something that Rod Williams, Ted Beck, and I worked on.

Then Greg Hendry, Anne McCallion, Laurie Milleman and others weighed in on it, but we took the first crack at roughing something out.

On Page 12, Rod, Ted, and I would have made an attempt at the first draft of this-- the format rather, and at some point corporate accounting would have came in and verified the numbers.

On 13 and 14, so Rod and I, also working with the

755:1 bank guys, so that would have included like Don White, as an example, would have worked on those two pages.

Again, they would have gone through a process of going through corporate accounting to verify some of these numbers.

15, I think Rod and I worked on that, and then secondary marketing also took a look at this.

16, same thing.

17 and possibly 16, in addition to the group I described for 16, VAN, valuation and analysis, those guys would have provided a lot of this information too.

18, Rod Williams and Ted would have put the initial draft together and then corporate accounting and others would have weighed in on that afterwards.

19, there was a gentleman that worked for Rod Williams named Steven Radu, so he would have helped with this along with Rod, and then myself and others would have weighed in.

This is just a quick-- that's my recollection on this draft as to the various folks that were involved.

Once the draft-- I should also point out that kind of for the entire document, investor relations was probably the key area driving the assembly of it, but as far as some of the content that actually went into the pages, I wanted to go through where those came from.

756

Q Was the head of investor relations Dave Bigelow?

A Yes, it was David Bigelow, and so on this presentation, David, Lisa, Riodan, and Elizabeth Moyer, I recall those three all being involved.

Q Was this the first time that such a document had been put together for an investor call?

A I don't know whether it was the first time it had been put together.

It was the first time that I had worked on something like this.

Q Exhibit No. 243 is an October 23rd, 2006 e-mail from yourself to Greg Hendry and Jie Ling.

It's JPM 1063 through JPM 1064.

(SEC Exhibit No. 243 marked for identification.)

A Okay. I have taken a glance here.

Q This your e-mail to Mr. Hendry. Item No. 1, you state, "The concept of certifying prior to actually seeing the numbers doesn't make a lot of sense."

What did you mean by that?

A On occasion, they would show a copy of a 10-Q and not every single number on there would be finalized, so it just struck me as odd that they would be looking for a certification prior to everything being filled in.

Q Now, were you asked to certify financial results or

757:1 any sections of the 10-Qs having to do with financial results?

A I wasn't.

It still felt weird to see blanks.

Q Item No. 2 you state, "I would still like to see further detail added to the risk sections of the 10-Qs and upcoming 10-K. Perhaps we'll get pushback like we did from the bank last quarter, but I still think it makes sense to pursue.

"More over, I would like to see you take advantage of all the material and information that's already been produced."

Do you recall what further detail you wanted added to the risk section of the 10-Qs?

A When I talk about these materials, I am talking about what I referred to in the e-mail that I forwarded below, so Greg often came to the credit risk committee, and so the ALCO materials and so forth were available to them, so I wanted to make-- I wanted to encourage them to take advantage of those, so that's what I'm getting at in the second part in Question No. 2.

Q With respect to the first part, when you speak of wanting to see further detail added to their risk sections of their 10-Qs and upcoming 10-K, what further details were you speaking of?

758:1 A I don't remember whether I was talking about specific further detail or just further detail, so I don't remember exactly.

There was another exhibit-- if we go back to Exhibit No. 234, as an example, on Exhibit No. 234 I talk about some general themes that I thought was important any time we talked about our business, and so that would probably be the best example.

Q And what prompted you to send this e-mail roughly six days after sending Exhibit No. 234?

A I am not sure what prompted it.

It could have been a discussion that occurred, but today I'm not sure exactly what prompted it.

It could have been a conversation with Ted and Rod Williams. You can see they are copied above.

Q Item No. 3 of Exhibit No. 243, you state, "I would like to see a reconciliation between the numbers we, corporate credit risk, provide to corporate accounting and what ends up being in the 10-Q and 10-K."

What type of numbers did corporate credit risk provide to corporate accounting?

A So on a lot of the activity levels, we would provide that to corporate accounting, and then they would make adjustments as they deem necessary.

What rod and I wanted to see was just how they got

759:1 from what we provided to what they ended up with.

It was just that simple.

I mean, I think that some of it-- as an example, what was actually reflected as a chargeoff versus a foreclosed asset expense would be one example, and if they thought it was more appropriately recorded in one place versus another, that was fine, but Rod and I just simply wanted to understand what was changed from what we had sent over versus what they ended up with.

Q Was that in response to having seen some inconsistencies between numbers you provided and numbers that actually ended up in files?

A We knew they were making adjustments to make sure the financial statements were stated in accordance with GAAP, but we were just desiring to know what those adjustments were.

Q Were you ever afforded the opportunity to see what the adjustments were?

A I do think that Richard Pohl provided information back to Rod Williams and Ted Beck, so I do think they ultimately did that.

Q Exhibit No. 244 is a January 25th, 2007 fax from Jie Ling to Ms. Rich.

This document is Bates No. JPM 1115 through JPM 1125.

(SEC Exhibit No. 244 marked for identification.)

A Actually, I think it's from Ms. Rich to Jie Ling, rather than the other way around.

Q That's right, 244 is from Ms. Rich to Jie Ling.

Who is Ms. Rich?

A She was an administrative assistant that helped me as well as others.

Did you want to direct me to a specific portion?

Q Yeah, the second page of Exhibit No. 244.

It appears that the company is in the process of putting together its SEC form 10-K for the year ending December 31st, 2006.

A I see that.

Q Is that correct?

A It appears so.

Q In the first box-- can you read what's in the first box?

First of all, is that your handwriting?

A It is.

"I am incorporating discussions, presentations, and e-mails. In particular, please see my e-mail to Eric Sieracki, dated January 2nd, 2007."

Q Do you recall what discussions, presentations, and e-mails you were talking about?

761:1 A Presentations would have included ALCO, corporate credit risk committee, and so forth, so all the things that we have talked about already.

The discussions would have included the quarterly meeting with Anne McCallion and Laurie Milleman and their staff and my team, so that would be an example of a discussion.

Discussions that I had with Greg Hendry would also be included in that, so it's the type of things that we talked about before that was germane to the question of "How has your business changed?"

Q Item No. 2, could you read that?

A "Virtually all environmental factors have increased risk."

Q How about No. 3?

A "As noted in other communications, guidelines have widened, making loans riskier."

Q Can you read Item No. 7, please, on the page ending in 117?

A "I am not aware of any fraud which has not already been disclosed through the prescribed channels."

Q Do you know what channels you were referencing?

A So those would have included-- so in the course of ordinary business, there were mortgage frauds uncovered, so people misstating their income or pursuing other frauds like

762:1 that, and so those would be identified and then reported up.
In some cases, a SAR would be filed.
Q Lastly, would you mind reading the handwritten notations under Item No. 8-- the notations that are handwritten under Item No. 8 on the next page?
A So it says, in handwriting, "Again, please reference the relevant discussions, meetings, presentations, and e-mails on this topic."
Q Are you referring the recipients on this fax to those discussions, meetings, e-mails because they bear upon the issue of what should be in this 10-K?
A I didn't want Jie Ling to think that-- there were a lot of things that were discussed and shared with the corporate accounting team over the course of the quarter. I wanted them to consider all of those things not just what might be filled out in these little boxes.
Q Exhibit No. 245 is going to be a January 2nd, 2007 e-mail from Mr. McMurray to Mr. Sieracki and others.
(SEC Exhibit No. 245 marked for identification.)
A Did you want me to go to a specific section?
Q Just the first e-mail from yourself to Mrs. Ling.
A All right.
Q Where you state, "Following is an outline I put together for Eric. He also shared with Dave Sambol. That

763:1 should provide much of what you're looking for in your MD&A.

"Please take a look and let me know where you want additional details."

To your recollection, did Mrs. Ling send you any type of correspondence seeking information related to the company's-- the MD&A section of the company's 2006 10-K filing?

A I'm not sure that she did. I may have sent this to her in an unsolicited manner.

However, you have seen some of those forms that she sent me every quarter, and so I think I was getting more towards that form that she sent every quarter.

Q If you look back at Exhibit No. 244, in that first box under No. 1, the second sentence, which is handwritten, and I believe it states, "In particular, please see my e-mail to Eric Sieracki, dated 1/2/07."

A I see that.

Q Is that e-mail the e-mail that's reflected in Exhibit No. 245?

A I suspect that it is because I would not typically be e-mailing Eric that often, so it's likely the only e-mail I sent him that day or even around that time.

Q Why did you send Mr. Sieracki this e-mail?

A We had had a conversation that day, and he asked, "In your opinion, do you think delinquencies are going to

764:1 increase or decrease in the future?"

This e-mail is my answer to what I thought.

Then he said, "How do you think that would affect our results?"

This is just my thoughts to that question that he posed.

Q Now, to your recollection, was your discussion with Mr. Sieracki in the context of putting together the SEC filings?

A Actually, I don't think it was.

I think it was just a more general discussion on what-- we were debating whether we thought delinquencies would increase or not increase in the future.

I thought they would increase, and then we also had a discussion that if they did increase, how would that affect our results.

It was-- my recollection is it was a more general conversation.

Q The subject of your e-mail to Mr. Sieracki is "Impact of rising delinquencies on financial results"?

A Yes.

Q What does that term mean to you, "financial results"?

A Just the economics of the business.

Q Have you ever heard the phrase "P&L" before?

765:1

A Profit and loss.

Q So is there a difference between those two in your mind, financial results and P&L?

A In my mind there is.

Financial results to me would be more encompassing than just the profit and loss.

Q How would you have had an occasion to share your e-mail to Mr. Sieracki to Mr. Sambol?

A So Eric asked the question, and then after I sent this e-mail to Eric, he told me that he had shared it with Dave.

Q So you didn't share the e-mail with Mr. Sambol?

A No, because Eric-- it was a conversation with the people that you see in the e-mail there-- on my e-mail, I should say, so Eric and Tom, and I think Kevin and Rod might have been there as well, and so Eric was the one who shared it with Dave.

Q Are you aware of any other documents put together by Countrywide that reported the company's financial results, other than SEC filings?

A Am I?

Q Yes.

A Gosh-- well, as an example, there were results that were given to the Federal Reserve and the OCC, so those would be two examples that I can think of.

766:1 The Federal Reserve even had-- on the balance sheet, they had a different way that they wanted it that differed from the way that you guys wanted it, and so that would be an example.

There may have been others, but that's one that came to mind.

Paris, one quick thing to point out, there's about a 23-day time gap between the e-mail I sent to Eric and then the one I sent to Jie Ling.

As I filled out her form, that's just one of the things I recalled and thought would be useful to her, so that's just my recollection there.

Q Exhibit No. 246 is going to be a series of e-mails, the last being an April 10th, 2007 e-mail from you to Erika Joseph, and Exhibit No. 246 appears at JPM 1036 through JPM 1038.

(SEC Exhibit No. 246 marked for identification.)

A Okay. I've taken a glance at this, and I now remember Erika Joseph, I believe, was Jie Ling's boss.

Q Do you know who Erika Joseph's boss might have been?

A It might have been Greg Hendry, and I think that she ultimately reported up to Laurie Milleman who reported to Anne McCallion who reported to Eric Sieracki.

767:1

Q So we turn to the second page, ending in 37.

A I see that page.

Q At the bottom when you send an e-mail to Jie Ling, it looks like you are again responding to one of their questionnaires.

A Yes.

Q Is that right?

A It appears so.

Q It looks like you're working on the 10-Q for the first quarter of 2007.

A From the dates that would be the case probably.

Q On the first page of this Exhibit No. 246, you are talking to Ms. Joseph, and you state, "As an aside, not all of my comments have made it into your previous filings."

Do you have any particular comments in mind?

A I didn't have any particular comments in mind.

One of the things I tried-- I gave them input, including handwritten comments on some of their drafts, and so when I would do the final review, in most cases they would take my input, but they wouldn't reflect it 100 percent of the time, so I just wanted to draw her attention to that.

Q If you look on the last page of this exhibit, Item No. 3, "As noted previously and repeatedly, industry guidelines have widened significantly over the past several years. The industry and CW were originating loans with more

768:1 aggressive credit guidelines than was the case historically. Guidelines have been recently trimmed back, though they are still very aggressive in a historical context. Allowances and valuations are still being finalized."

Do you know if your point about the expansion of underwriting guidelines and the results of guidelines having expanded ever made it into any filings?

A You know, I don't know whether it did or not.

I don't have a specific recollection of that.

On a lot of this, there were some themes-- there were some themes that I was trying to push across the company, and so-- and that would have included with corporate accounting as well, so on this expanding guidelines, it's not specifically in the context with anything they may or may not have disclosed, but rather this was a particular theme that I thought was very important generally.

I didn't want people to ever lose sight of that.

Q I'll have you look at what we have already marked as Exhibit No. 41, of course not the whole thing, but I will just show you a couple of pages.

If you look at Page 100 of Exhibit No. 41, and if you look at the heading, "Credit risk management," and then there's a subheading under "Mortgage credit risk, loan quality"--

A Yes.

769:1

Q Do you see that?

A I see that.

Q Okay. Now, if you can, also just take a look at Exhibit No. 200.

A All right. I found it.

Q If you turn to the page ending in 972, there is also a heading entitled, "Loan quality."

Exhibit No. 200, which you authored in 2004, seems to have a lot more disclosures in the area of the credit risk associated with loan quality than the 2006 10-K does.

My question is: Do you know why that is?

A This will go back to something we talked about earlier.

In Exhibit No. 200, that's an e-mail I put together to answer a question that Keith McLaughlin had put to me regarding whether credit risk was increasing or decreasing.

The inclination I sensed was they didn't think credit risk was increasing.

What I wanted to do was put together as comprehensive of a case as I could that it was increasing.

It reflects my opinion, unfettered by anyone else's input.

It's not exactly the same thing.

The other thing, it's covering a narrow-- a comprehensive answer to a narrowly posed question.

770:1 Q With respect to any of the items that you've listed in the area of credit risk in Exhibit No. 200, had any of them become less of a risk by 2006?

A I would say by and large most of them had not, but I don't know that I would go as far as saying "any."

Q Staying on Page 972 where the heading is "Loan quality" under No. 3, you state that "Loan quality is a significant credit risk factor."

By 2006, was loan quality still a significant credit risk factor?

A Loan quality is always a significant credit risk factor.

Q Under Item A, the loan to value ratios, did that remain a credit risk factor in 2006?

A It did, and if you look here where it talks about underwriting guidelines and then also mortgage scorecard and the underwriting, one of the key things that would be contemplated in the scorecard or the underwriting process would be the combined or just the ordinary loan to value ratio.

Q Item B, under "ARMs," did ARMs remain a credit concern in 2006?

A Again, ARMs would always be a-- the adjustment rate feature that we've talked about is always going to pose an incremental credit risk for the reasons that we've talked about.

The product type would be considered by underwriting as well.

In one of the exhibits, and this may have been a couple of days back, that you showed me, maybe on the first day that we talked, there was a grid, and I don't know if you remember that, but I believe that the product type may have been in that grid, so for both the automated scorecard or the manual scorecard that's referenced on the bottom of Page 100 of Exhibit No. 41, the underwriting would have considered product type too, of which ARM is a key dimension of product type.

Q In answer to my question, which was did the ARM product remain a credit risk concern in 2006, your answer would be--

A An ARM versus a fixed rate is a credit risk issue always, so it would have been in 2006 and every year prior and subsequent.

Q Okay. Going down to Item C, "Interest only," did that remain a credit concern in 2006?

A Interest only is also a product featured, and I even talked about that on Page 972, so that would be one of the other things that an underwriter would consider if the loan was being underwritten manually or would typically be included in the scorecard.

772:1 Q Did that remain a credit concern in 2006?
A It is a product feature which is-- any product feature is going to be a credit risk driver, and so it would have been in 2006 as well as before and after.
Q Okay. If you turn to Page 105 of Exhibit No. 41-- actually, Page 106.
A All right. I'm there.
Q The bottom of Page 106, there's a description of the pay option ARMs in the bank's portfolio.
A I see that.
Q We've seen some of the previous 10-Qs, and there was a disclosure regarding the documentation level associated with most of these loans.
A Yes.
Q I just don't see it in this description, and I wanted to know, was it taken out?
A You know, I don't remember a discussion about it being taken out.
I guess I would be surprised if it were in the Q and then not in the K. That would be a surprise to me, but let's glance here.
MS. PAN: What is the other exhibit that you are referring to? I might have missed it.
MR. WYNN: It's the 10-Q for the quarter ending June 30th--

773:1

THE WITNESS: 237 would be-- let's just take a glance.

That was under "Loan production."

BY MR. WYNN:

Q Yeah--

A I wonder if there's a "Loan production" section in here.

I am just trying to remember where it was in the 10-Q, and then maybe we could find a similar section on 10-K.

Q I think it was under the "Loan production" heading.

A That's what I was recalling.

MS. PAN: The pages of the excerpt that Paris had given us were 37 and 38 from that particular 10-Q.

THE WITNESS: I have to apologize. I am not as familiar with how they did the various sections of these.

BY MR. WYNN:

Q That's okay. I am not asking you to search for it.

Do you know if it's in there--

MR. KNOWLES: I want to make that clarification because technically he could read the whole thing, but I understood you to be saying--

THE WITNESS: I don't recall any specific discussion about it deliberately being taken out, so nothing to that effect.

BY MR. WYNN:

774:1

Q Mr. McMurray, I just want to briefly show you what I'm going to mark as Exhibit No. 247.
This is a copy of the company's 10-Q for the quarter ending September 30th, 2006.
If I could have you refer to Page 40.
(SEC Exhibit No. 247 marked for identification.)
A Did you want me to go to a specific page?
Q Page 40.
A All right.
Q I just wanted to draw your attention to the top of Page 40.
It's a continuation from language starting on Page 39 having to do with pay options held by the bank.
A Yes.
Q On Page 40 they do have language concerning reduced documentation.
About halfway down it states, "Furthermore, substantially all of the pay option loans we originate are underwritten based on reduced documentation standards whereby the loan applicant's income is based on representations provided by the borrower."
With respect to this 10-Q, Mr. McMurray, for the quarter ending September 30th, 2006, do you recall any discussion as to whether or not the language should be added

775:1 to that sentence regarding reduced documentation regarding the effect on default probabilities that reduced documentation had?

A You know, I don't recall a specific discussion that focused in that particular direction.

What I can tell you is what we talked about before, which is, I think, within Countrywide and across the broader industry, it was well understood that reduced documentation loans carried a higher risk of default.

Q With respect to Exhibit No. 200 again, can you identify any of the areas of credit risk concern that you listed in this document that had become less of a concern or alleviated between 2004 and 2006?

A Let's take a look.

Just as a very general matter, I would say that the risks were increasing by 2006 compared to 2004.

Q Okay.

A Just as a reminder, this e-mail I put together back in 2004 was to answer a specific question, so I don't think Keith did it in the context of a disclosure but rather a question that he was asking my opinion on.

Q Understood.

A Like I said, in general, most of them would have increased.

With respect to option ARMs in the bank's

776:1 portfolio, at some point in 2006, there was more pool insurance being used, and that had never been the case before, so that would have reduced risk.

I am not certain one way or the other what the case of this would be, but just the particular types of loans that the bank was picking out of the flow of production might have changed during that time too, and that could have pushed things either way.

I would have to go back and have access to some reports to give you an opinion on that, but by and large I would say generally the risk was increasing rather than decreasing.

Q With respect to Page 973 of Exhibit No. 200, Item I, "Risk layering," do you recall any discussion as to whether or not some disclosures should be made in SEC filings regarding the issue of risk layering?

A I don't recall if there was an explicit conversation where that took place. There very well may have been.

Again, this is another topic that kind of was broadly being discussed in the market, but as far as whether it should be included or excluded, I'm not sure-- at least I don't recall a specific conversation that I can remember.

Q Do you have a recollection of recommending to anyone that the SEC filings include some type of disclosure

777:1 having to do with risk layering?

A I don't remember whether I recommended that or not.

A lot of what I did was more general, and then when I talked to Greg Hendry and others that were putting together the filings, I certainly encouraged them to use all the materials that I had put together, and so that was my general approach with them so they could-- they were more familiar with the requirements obviously, so they could include what they thought was appropriate.

Q We've seen a number of exhibits that reflect your participation in the process of putting together SEC filings for 2006.

Did you also participate in that process for the years 2004 and 2005?

A Well, as I mentioned earlier, it was an evolution, and the way I recollect it working is they solicited my input, so I want to be careful when we're talking about me helping them put together the filings.

They put together the final filings. I certainly wanted to help however I could.

Through time what I remember is consistent with what I told you earlier. When I first got there, I remember Keith doing a lot of the work on his PC, and he may have asked questions, and then through time Laurie and Anne made the process a lot more formal where they very deliberately

778:1 went out and sought people's input, and so I got to participate more and more as they made that process more elaborate.

(Recess 3:41 to 3:56 p.m.)

MR. WYNN: Mr. McMurray, I don't have any further questions at this time.

Do any of Mr. McMurray's counsel wish to ask any clarifying questions or add any additional statements?

MS. PAN: Not at this time.

MR. KNOWLES: Not at this time.

MR. WYNN: Why don't we go off the record at 3:57 p.m. on Wednesday, August 6th, 2008.

(Whereupon, at 3:57 p.m., the examination was adjourned.)

779:1

PROOFREADER'S CERTIFICATE

In the Matter of: COUNTRYWIDE FINANCIAL CORPORATION
Witness: John P. McMurray
File Number: LA-03370-A
Date: Wednesday, August 6, 2008
Location: Seattle, Washington

This is to certify that I, Laurie Andrews (the undersigned), do hereby swear and affirm that the attached proceedings before the U.S. Securities and Exchange Commission were held according to the record and that this is the original, complete, true and accurate transcript that has been compared to the reporting or recording accomplished at the hearing.

___________________________ ___________________________

(Proofreader's Name) (Date)