**Angelo Mozilo/Managing Directors/CF/CCI**

05/19/2006 07:45:27 AM

To: Dave Sambol/Managing Directors/CF/CCI@COUNTRYWIDE
cc: Kevin Bartlett/Managing Directors/CF/CCI@Countrywide;Eric Sieracki/Managing Directors/CF/CCI@COUNTRYWIDE
bcc:
Subject: Re: Reducing Risk, Reducing Costs

This market is unbelievable with rates coming down sharply today. Irrespective of the volitiliy I believe that the payoptions continue to present a longer term problem unless rates are reduced dramatically from this level and there are no indications, absent another terrorist attack, that this will happen. Your continued feedback to me would be most helpful.

Dave Sambol/Managing Directors/CF/CCI
05/18/2006 08:39 PM

To: Angelo Mozilo/Managing Directors/CF/CCI@COUNTRYWIDE
cc:
bcc:
Subject: Re: Reducing Risk, Reducing Costs

I'll keep you informed of steps taken.

**From:** Angelo Mozilo
**Sent:** 05/18/2006 08:29 PM
**To:** Dave Sambol; Kevin Bartlett; Eric Sieracki
**Cc:** Stan Kurland
**Subject:** Reducing Risk, Reducing Costs

As we are all aware Stan has begun a major undertaking to assure that we reduce midline expenses as rapidly as possible and to be reduced at least in concert with expected revenue reductions from our production divisions.

In addition, per our conversations of this week, I want you to examine our risk profile as it relates to the assets of the balance sheets of both CFC and the Bank. Although all asset should be reviewed including exposure on our residuals and excess servicing we must pay special attention to helocs and pay options. With interest rates continuing to rise unabated helocs will become increasingly toxic in that mortgagors will be and are facing substantially higher payments then when the loan was originated. We should attempt to efficiently off loan this product even if it means a much slower growth for the Bank. From many perspective this might be an opportune time to take a breather and slow down the Bank. As for pay options the Bank faces potential unexpected losses because higher rates will cause these loans to reset much earlier than anticipated and as result causing mortgagors to default due to the substantial increase in their payments:

Per some of the suggestions offered during our meeting we should take every step possible to reduce balance sheet risk by:

1. Taking steps to encourage pay option mortgagors to refinance into IO's.
2. Where deemed appropriate the Bank should forgive the prepayment penalty if it appears obvious that the borrower will potentially default upon reset.
3. Through our payment coupon we should alert all payoption borrowers what could happen upon reset.

Obviously there is much more that we can do to manage risk much more carefully during this period of uncertainty both as to the rate environment and untested behavior of payoptions. Work closely with Carlos and Stan on the execution of the strategies that we pursue.

The combination of effectively managing our expenses finessing off potential risks should keep us in good shape until the storm clears.

By the way we must continue to grow our sales force and all other businesses that keep the top line increasing particularly in the origination channels.

Keep me apprised of actions that you take or any other suggestions that you might have.