BOARD OF GOVERNORS OF THE FEDERAL RESERVE SYSTEM

DIVISION OF MONETARY AFFAIRS

Date: August 14, 2007

To: Board of Governors

From: Staff[1]

Subject: Background on Countrywide Financial Corporation

— For Information Only —

This memorandum provides a summary of information about Countrywide Financial Corporation based on the company's SEC filings, public announcements, and supervisory information. The firm's latest quarterly report described the likely negative impact on the earnings and financial condition of the firm of recent market developments. Discussions with Countrywide and it supervisor, the Office of Thrift Supervision (OTS), confirmed such concerns. In particular, Countrywide has noted that its access to short-term funding sources is considerably impaired. Based on information provided by the firm, it seems possible that Countrywide will have to either draw on bank lines or extend at least a portion of its asset-backed commercial paper (ABCP) as soon as Wednesday, August 15. If the company pursues either of these two alternatives, there could be a significant reaction in broader financial markets.

The company is heavily reliant on an originate-to-distribute business model, and, given current market conditions, the firm is unable to securitize or sell any of its non-conforming mortgages. While these pressures are not unique to Countrywide, its monoline profile, the large share of its originations that are through a nondepository

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institution mortgage business, its heavy reliance on secondary markets for funding, and its increased loan losses have exposed the company to significant risks.

The company's second quarter financial statements indicated no significant weaknesses. Most of the mortgages on the company's books are termed prime by the institution. In addition, both Moody's and S&P recently confirmed Countrywide's A3 and A debt ratings, respectively, and its stable outlook. However, the company has since clearly signaled that further deterioration is likely with respect to third quarter financial performance, and recent market developments, as well as some limited communications with Federal Reserve staff, suggest rapidly changing conditions.

Countrywide's short-term funding strategy relies heavily on commercial paper (CP) and, especially, on ABCP. In current market conditions, the viability of that strategy is questionable. In addition, the company has seen a deterioration in its loan performance this year, and investors may be concerned that the company's lending standards were too lax at the end of the housing boom, potentially leading to substantial unexpected loan losses going forward. The company has a considerable volume of mortgage-backed securities on its books. Those securities are generally not agency-backed, but rather are mostly backed by loans originated by Countrywide itself. The ability of the company to use those securities as collateral in RP transaction is consequently uncertain in the current market environment. The company may thus find it very difficult to obtain funding on normal terms and may not have time to make changes to its operations. As a result, it could face severe liquidity pressures. Those liquidity pressures conceivably could lead eventually to possible insolvency.

The remainder of this memo is organized as follows. We first provide a brief description of the Countrywide's corporate structure and the position of its subsidiaries within the industry. We then briefly look at the company's most recent balance sheet and income statement and provide some more detailed information on Countrywide Bank FSB—the depository subsidiary. We then give an overview of the company's funding strategy and we conclude by discussing some risks to that strategy.

Staff currently expects to provide one or more additional memos discussing the policy issues that the Board may need to address in the current situation.

Corporate Structure

Countrywide Financial Corporation became a thrift holding company on March 12, 2007, by converting its only depository institution—the former Countrywide Bank National Association—to a federal savings bank—Countrywide Bank FSB. Prior to the conversion, Countrywide was a financial holding company supervised by the Federal Reserve System. Management indicated that the reason for the charter conversion was to reduce regulatory burden. The change reduced the number of banking regulators supervising the organization, significantly decreased regulatory filing requirements, provided the company federal preemption protection from certain state laws, and eliminated consolidated capital requirements at the parent level. The company also expressed its displeasure with the Federal Reserve's supervisory limit on mortgage servicing assets, which were growing rapidly.

Over the course of the Federal Reserve's supervision of Countrywide Financial Corporation, staff raised a number of key issues. These included capital planning and allocation given the company's rapid growth, as well as the wholesale nature of the company's funding. The Federal Reserve also raised issues of controls and risk management regarding collateral valuation and asset securitization.[2]

Currently, Countrywide Financial Corporation has four main business segments: mortgage banking, banking, capital markets, and insurance. The mortgage banking segment is the largest, and includes the operations of Countrywide Home Loans as well as the mortgage banking activities of Countrywide Bank FSB. The banking segment includes the remaining operations of Countrywide Bank. The capital markets segment includes the operations of Countrywide Securities Corporation, a primary dealer, Countrywide Asset Management Corp., and a number of other capital market-related subsidiaries. In addition, Countrywide provides life, property and casualty, and mortgage insurance services. Generally, a majority of Countrywide's profits have come from its

[2] Before Countrywide converted to a thrift holding company, the Federal Reserve rated the financial holding company RFI/C (D) 222/2 (2) and the OCC rated the national bank 212222/2. Our colleagues at the Federal Reserve Bank of San Francisco met with officials from the OTS prior to the company's

mortgage banking operations. Below we provide some more detail on the four main business segments.

Mortgage Banking

As of June 30, 2007, Countrywide Financial Corporation was the largest single mortgage lender and servicer in the United States. Most mortgage business is conducted through Countrywide's Mortgage Banking segment, which originates residential mortgage loans through a variety of channels on a national scale; conforming mortgages are sold to the GSEs, while non-conforming mortgages are generally sold in the secondary mortgage market. The segment typically retains the rights to service the loans it produces. It also provides various loan closing services, such as escrow and appraisals. The loans are originated by Countrywide Home Loans (through the retail, wholesale lending, and correspondent lending channels) and funded with securitizations, whole loan sales, bank-arranged secured revolving credit arrangements, and commercial paper.

Countrywide's total residential mortgage originations of $245 billion in the first half of 2007 accounted for 17 percent of all mortgage originations in this period. Rounding out the top five originators were Wells Fargo & Company (11 percent), CitiMortgage Inc. (8 percent), Chase Home Finance (8 percent), and Bank of America (7 percent).[3]

Countrywide issued $41 billion in prime jumbo and Alt A RMBS in the first half of 2007, making it the largest issuer in this category, accounting for 13 percent of the total. The next largest issuers were Washington Mutual (11 percent), JPMorgan Chase (7 percent), Lehman Brothers (7 percent) and Wells Fargo (6 percent).

Countrywide was also the largest issuer of subprime RMBS in the first half of this year, with $14.3 billion issued. The next largest were Morgan Stanley (8 percent), Merrill Lynch (7 percent), Citigroup (7 percent), and Option One (7 percent).[4]

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conversion to discuss the above supervisory issues and to share our supervisory planning documents and examination reports. Governor Bies also met with principals from the OTS to reinforce our concerns.

[3] Source: Inside Mortgage Finance.

[4] Source: Inside MBS & ABS.

The segment services the loans it originates and also purchases servicing rights from other originators. As of June 30, 2007, Countrywide had servicing rights on about $1.4 trillion residential mortgages; making it the largest mortgage servicer in the United States with a market share of 13.6 percent. Wells Fargo came a close second, with 13.5 percent of the market; Citigroup has 7.5 percent, Chase Home Finance 7.0 percent and Washington Mutual 6.0 percent.

Countrywide's servicing portfolio is dominated by conventional prime mortgages, which account for about 80 percent of loans serviced. The portfolio is fairly well diversified geographically, with 28 percent of loans in California, 8 percent in Florida, and 4 percent in Texas. According to the company's annual report, the overall serious delinquency rate on Countrywide's portfolio as of the end of 2006 was 1.7 percent, which is close to the average for the U.S. mortgage universe.

Banking

The Banking segment, which operates through Countrywide Bank FSB, uses deposits, escrow funds, and Federal Home Loan Bank advances to finance the purchase of mortgage loans for investment purposes, primarily loans that are originated for sale by the Mortgage Banking segment. As of June 30, 2007, Countrywide Bank FSB had a deposit base of about $60 billion; as such, it did not rank within the top twenty banks and thrifts by deposits.[5] Federal Home Loan Bank advances totaled about $29 billion.

The segment, through Countrywide Warehouse Lending (a non-depository lending company) also provides short-term secured financing to mortgage lenders. In particular, the segment provides committed and uncommitted lines of credit to mortgage bankers to finance their mortgage loan inventories. Most of these mortgage bankers sell loans to Countrywide Home Loans (the Mortgage Banking segment). All of these advances are secured by mortgage loans that are reported to have a market value in excess of the balance of the advances. As of June 30, the portfolio of warehouse advances totaled $2.5 billion, and the average loan balance was $19.9 million.

[5] Source: American Banker Online.

Capital Markets

The Capital Markets segment primarily operates as a registered securities broker-dealer (which is also a primary dealer of U.S. Treasury securities), a residential mortgage loan manager, and a commercial mortgage loan originator.

An important area of operation of the segment is the conduit business. Conduit activities include the purchase, warehousing, and ultimate disposition of residential mortgage loans on behalf of Countrywide Home Loans. The conduits manage both prime and nonprime loans and sell them either through securitizations or loan sales.

The segment also underwrites private-label MBS securities for both Countrywide Home Loans and third parties. Underwriting activities encompass the assumption of the market risk associated with the issuance of new private-label MBS, either directly or through other dealers.

Securities trading activities include the trading of debt securities in the secondary market after the original issuance of the security and, to a much lesser extent, trading of derivative financial instruments. The vast majority of securities traded are mortgage-related fixed-income securities, such as agency MBS and RMBS issued by Countrywide Home Loans and other institutions. As part of its primary dealer activities, the segment also trades Treasury securities; however, this does not appear to be a primary area of focus for the company.

The Capital Markets segment also originates and sells commercial mortgage loans. In the first six months of 2007, the segment originated about $5 billion of commercial real estate loans. Countrywide does not appear to be a significant presence in the commercial mortgage market, issuing only $206 million in CMBS in 2006, placing it outside of the top 20 issuers for that year.[6]

[6] Source: CMAlert.

Insurance

Countrywide's insurance segment offers property and casualty, life, and disability insurance as an underwriter and as an insurance agent. It also provides warranty products and services, insurance tracking services, and an array of commercial insurance products. In addition, the segment offers reinsurance coverage to primary mortgage insurers. The business activities are managed through two business units: Balboa Insurance Group and Balboa Reinsurance Company.

Balance Sheet

Countrywide Financial Corporation had consolidated assets of nearly $217 billion at the end of the second quarter of 2007 (Appendix A).

A bit more than half of the company's assets (about $108 billion) were mortgage loans, including $74 billion held for investment and $34 billion held for sale. A substantial majority of these mortgage loans were rated prime by the company (Appendix B). Approximately $28 billion of the mortgage exposure consists of home equity loans, of which $5 billion was considered nonprime. As of year-end 2006, of the $72 billion of mortgage loans held for investment, about $33 billion were pay-option ARMs, $14.5 billion were hybrid ARMs, $12.6 billion were loans under home equity lines of credit (HELOCS), $7.4 billion were fixed-rate second mortgages, and $3.3 billion were fixed-rate first mortgages. The balance of about $1.2 billion was termed "other ARMs." The largest of these portfolios—pay-option ARMs—had an average FICO score of 717 and an average loan-to-value ratio of 75 percent.

Holdings of securities and other financial instruments accounted for an additional $49 billion of assets. These securities and instruments were virtually all mortgage-related, and only a fairly small fraction was government- or agency-guaranteed. Nearly $3 billion were retained interests in securitizations, and the value of these retained interests has declined over the past two quarters.

Mortgage servicing rights accounted for another $20 billion of Countrywide's assets at the end of the second quarter. The remaining assets include cash, reverse RPs, and other assets.

On the liability side of the consolidated balance sheet, Countrywide had deposits of about $60 billion, RPs of $46 billion, and $78 billion of notes payable. The latter category included $29 billion of Federal Home Loan Bank advances, $22 billion of medium-term notes, $13 billion of commercial paper (more than half of which was asset-backed), and about $6 billion of other short-term financing (bank loans and the like) (Appendix C).

Countrywide had more than $14 billion in equity capital at the end of the second quarter. In addition, the company had issued about $4.0 billion of convertible debentures and $3.2 billion of subordinated and junior subordinated debt.

Recent Results

Profits in the second quarter of 2007 were $485 million, down from $722 million in the year-earlier period. The decline was more than accounted for by an increase of about $230 million in provisions for loan losses, particularly on home equity loans extended to prime borrowers, and an increase of about $320 million in impairments to retained interests.

For the six months ending June 30, 2007, Countrywide reported about $5 billion of revenue: $2.6 billion from mortgage banking, $1.1 billion from banking, $773 million from insurance and global operations, and $451 million from capital markets activities. Slightly over half of the company's revenues were derived from gain on sale of loans and securities.

Depository Institution Subsidiary

Countrywide Bank FSB, the insured depository institution subsidiary of Countrywide Financial Corp., had assets at the end of the first quarter of $100 billion – a bit less than half the assets of the consolidated company (Appendix D). The bulk of its assets – more than $76 billion – were mortgage loans.[7] Of these, about $13 billion were revolving credits, about $51 billion were first-lien non-revolving mortgage loans, and

[7] About $56 billion of these loans had been pledged to back actual and anticipated Federal Home Loan advances.

about $12 billion were second-lien non-revolving mortgage loans. The majority of the bank's assets were pay-option ARMS, hybrid ARMS, and HELOCS. Up until recently, the Federal Reserve and OCC had imposed limits on the quality and type of assets the bank could purchase from Countrywide Home Loans to ensure that only prime-quality assets were put into the insured depository. At the end of the second quarter, the fraction of Countrywide Bank's loans that were "noncurrent"—that is, 90 days past due or not accruing—appears to have been somewhat above the average for all OTS supervised thrifts (Appendix E). However, Countrywide reported no loans more than 90 days past due, which is unusual, so its figures may be affected by shifts of loans within the company or other changes.

In addition, Countrywide Bank held mortgage-backed securities totaling roughly $18 billion. About $16 billion of these securities were in the "other" category—that is, they were not pass-through securities and they were not collateralized by mortgage-backed securities issued or guaranteed by FNMA, FHLMC, or GNMA. Some of these securities may be difficult to value in the current market environment, (for example, if they include CDOs backed by subprime MBS).

The bank's main liabilities were Federal Home Loan Bank advances (about $29 billion) and deposits (about $60 billion). Accounts with deposits in excess of $100,000 (excluding IRAs) totaled about $47 billion. About $30 billion of the bank's deposits comprised money market accounts. The deposits included about $9 billion of brokered deposits and $10 billion of other large time deposits. The bank estimates that a total of $25 billion was uninsured (Appendix F).[8] Although information on the maturity structure of the time deposits is not available, it seems possible that there could be a rapid and substantial deposit outflow in the event significant concern arose regarding the bank's health.

Countrywide Bank had about $8 billion of tier 1 capital at the end of the first quarter. Its tier 1 risk-based capital ratio was 12.9 percent, and its total risk-based capital ratio was 13.7 percent. Its leverage ratio was 8.0 percent.

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[8] About $17 billion of the Bank's deposits are borrower and investor custodial accounts related to mortgage servicing activities that Countrywide has placed on deposit at Countrywide Bank.

Funding

Countrywide filed form 8-K with the SEC on August 6 to disclose its short-term funding sources and net available liquidity as of June 30. That information is summarized below. However, given current market conditions, it is very likely that the company has less liquidity available now than it did at the end of the second quarter. More timely information on the firm's liquidity is presented further below.

Countrywide Financial Corp. (the holding company) had an unsecured commercial paper program allowing the issuance of up to $11.4 billion, of commercial paper. About $5.5 billion of this capacity remained available as of June 30. The program is used to raise funds to finance loan acquisition and warehouse lending and is backed by unsecured credit agreements with a group of commercial banks.

Countrywide Home Loans' short-term funding relied exclusively on ABCP as of June 30; both extendible and non-extendible programs were in place. The non-extendible ABCP programs were backed by credit lines provided by banks and had a capacity of $15.4 billion, of which $11.6 billion was available. The extendible ABCP programs had liquidity support from third parties and had a capacity of $34.7 billion, of which $26 billion remained available. The business also had $33.3 billion of loans and MBS that it could use in RP transactions, but it characterized the reliability of this funding source as "medium/low."

Countrywide Bank FSB indicated that it could count on $40.7 billion of FHLB advances (of which $11.9 billion was available), on $17.4 billion of AAA securities available for use in RP transactions (almost entirely available, although the valuation of such securities is currently uncertain), and on $6 billion of federal funds. Overall, the bank had $64.2 billion in total short-term funding capacity, of which $34.3 billion was available as of June 30. In addition, the Bank has pledged collateral at the Federal Reserve Bank of Richmond that would allow it to borrow up to $3.7 billion from the discount window.[9]

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[9] The Bank posted $4.2 billion in 1-4 family mortgage loans, which carry a margin of 85 percent, and $49 million in agency MBS, which have margins between 93 percent and 99 percent.

Countrywide Securities (the broker-dealer) had $124.7 billion in secured financing agreements under which its borrowing would be backed by agency and private-label MBS and ABS; $81.3 billion was available as of June 30.

Partly based on these figures, Moody's and S&P reaffirmed their ratings of A3 and A, respectively, as well as the company's stable outlook. In its August 2 report, Moody's cited the company's liquidity position as part of the reason for its decision. In particular, Moody's noted that "liquidity provided by a growing deposit base at Countrywide Bank and access to Federal Home Loan Bank advances should help the company weather current reduced liquidity in the US mortgage market."

Funding Risks

Adding up all the liquidity sources listed above results in a total short-term funding capacity for Countrywide of $283.6 billion, of which $190.3 billion remained available at the end of the second quarter. Subtracting $3.8 billion in long-term debt coming due within six months still gives $186.5 billion in available short-term financing for the company. However, since the main source of the company's difficulties appears to be Countrywide Home Loans, and since regulatory constraints restrict the ability of the savings bank to fund the assets of its uninsured affiliates, perhaps a better measure of short-term funding availability is the sum of funds available to the holding company and to Countrywide Home Loans, which was $74.7 billion (out of a total capacity of $94.7 billion) on June 30.

While these figures are high, the actual availability of ABCP funding in the current environment appears uncertain. The stated total funding availability via ABCP programs was $37.6 billion, of which $26 billion was in extendible programs. However, Countrywide is having serious difficulty rolling over its existing paper and is unlikely to be able to increase its outstandings. If we disregard ABCP programs, total short-term funding availability would drop to $152.7 billion at the company level and to $37.1 billion for the mortgage banking business. Further assuming—as the company itself states—that the likelihood that the market will accept the loans and RMBS in its portfolio as collateral in RP transactions is moderate at best would suggest that one should subtract

$31.6 billion (or at least a significant fraction of that amount) from the available short-term financing to both the holding company and Countrywide Home Loans. Considering that, as of June 30, it was already committed to fund $42.6 billion of new mortgage loans, it is thus easy to see how Countrywide may face severe liquidity problems in the current environment.

As noted, of immediate concern is the company's difficulty in rolling over existing CP and ABCP. As of Wednesday, August 8 (the last day for which our weekly data are available), the parent had $288 million in unsecured CP that was due on Monday, August 13, and $526 million that will mature the rest of this week. In addition, Countrywide Home Loans had at least $320 million in extendible ABCP due on Monday, August 13; $925 million maturing on Tuesday, August 14; and $1.1 billion due on Wednesday, August 15.[10] Most or all of this paper carries some form of liquidity protection, such as committed bank lines of credit and extendibility.

Should it transpire that banks have to backstop Countrywide's paper or that Countrywide has to extend its ABCP, investors would surely be deterred from purchasing new Countrywide paper, voiding or drastically reducing the stated capacity of existing programs. In conversations with the OTS, we learned that these concerns are apparently making Countrywide extremely reluctant to resort to those liquidity support measures even though its liquidity situation is serious. Instead, the company first asked whether the Federal Reserve could accept non-agency MBS as collateral for its open market RPs and whether the Federal Reserve could lend to the parent company. The staff informed Countrywide, through the OTS, that the Federal Reserve does not have statutory authority to accept non-agency RMBS as collateral. The staff similarly informed Countrywide, both directly and through OTS, that substantial statutory requirements would have to be met before the Board could authorize lending to the holding company or mortgage subsidiary; that the Federal Reserve had not lent to a nonbank in many decades; and that such lending in the current circumstances seemed highly improbable.

[10] Moreover, Countrywide Home Loans has two more ABCP programs—possibly multi seller programs—for which we do not have data. It is very likely that those programs also have balances that will come due this week. As of June 30, the programs had a total capacity of $15.4 billion, $11.6 billion of which was undrawn.

In a separate conversation with the OTS, we learned that Countrywide made three further proposals regarding assistance with its funding. In order of the company's preferences, these were: A waiver of Section 23A of the Federal Reserve Act so that Countrywide Bank FSB could provide credit to Countrywide Home Loan in the form of a thirty-day RP secured by mortgage loans and mortgage backed securities; consent on the part of the OTS to the payment of a dividend by the Bank to the holding company, in return for which the holding company would transfer some mortgage assets to the Bank; and consent by the OTS to an increase in the fees paid by the Bank to Countrywide Home Loans. The OTS was apparently not comfortable with the second and third possibilities. It was more willing to consider the first possibility, conditional on appropriate valuation of the assets, but felt that Countrywide should first exhaust its existing funding options. In addition, OTS, Federal Reserve, and FDIC staff agreed that Countrywide would need to provide considerably more information about its funding situation and details about the proposed transactions in order for the Board, in conjunction with the OTS and the FDIC, to seriously consider a waiver.

Appendix A

COUNTRYWIDE FINANCIAL CORPORATION AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEETS

	June 30, 2007 (Unaudited)	December 31, 2006 (Audited)
	(in thousands, except share data)	
ASSETS		
Cash	$ 1,154,032	$ 1,407,000
Mortgage loans held for sale	34,090,154	31,272,630
Trading securities owned, at fair value	19,271,559	20,036,668
Trading securities pledged as collateral, at fair value	3,521,522	1,465,517
Securities purchased under agreements to resell, securities borrowed and federal funds sold	26,385,089	27,269,897
Loans held for investment, net of allowance for loan losses of $512,904 and $261,054, respectively	74,056,539	78,085,757
Investments in other financial instruments, at fair value	26,601,298	12,769,451
Mortgage servicing rights, at fair value	20,087,368	16,172,064
Premises and equipment, net	1,644,141	1,625,456
Other assets	10,010,058	9,841,790
Total assets	$ 216,821,760	$ 199,946,230
LIABILITIES		
Deposit liabilities	$ 60,292,841	$ 55,578,682
Securities sold under agreements to repurchase and federal funds purchased	46,186,848	42,113,501
Trading securities sold, not yet purchased, at fair value	4,145,425	3,325,249
Notes payable	77,669,067	71,487,584
Accounts payable and accrued liabilities	8,914,175	8,187,605
Income taxes payable	5,227,509	4,935,763
Total liabilities	202,435,865	185,628,384
Commitments and contingencies	—	—
SHAREHOLDERS' EQUITY		
Preferred stock—authorized, 1,500,000 shares of $0.05 par value; none issued and outstanding	—	—
Common stock—authorized, 1,000,000,000 shares of $0.05 par value; issued, 574,655,984 shares and 585,466,719 shares at June 30, 2007 and December 31, 2006, respectively; outstanding, 574,218,312 shares and 585,182,298 shares at June 30, 2007 and December 31, 2006, respectively	28,733	29,273
Additional paid-in capital	1,612,901	2,154,438
Accumulated other comprehensive loss	(136,228)	(17,556)
Retained earnings	12,880,489	12,151,691
Total shareholders' equity	14,385,895	14,317,846
Total liabilities and shareholders' equity	$ 216,821,760	$ 199,946,230

Appendix B

Mortgage Loans Held for Sale

Mortgage loans held for sale include the following:

	June 30, 2007	December 31, 2006
	(in thousands)	
Prime	$ 23,117,955	$ 22,494,274
Prime home equity	5,050,134	1,813,947
Nonprime	3,838,506	4,917,895
Commercial real estate	2,277,855	1,930,100
Deferred premiums, discounts, fees and costs, net	(194,296)	116,414
	$ 34,090,154	$ 31,272,630

At June 30, 2007, the Company had pledged $8.3 billion and $2.6 billion in mortgage loans held for sale to secure asset-backed commercial paper and a secured revolving line of credit, respectively.

At December 31, 2006, the Company had pledged $7.9 billion and $0.6 billion in mortgage loans held for sale to secure asset-backed commercial paper and a secured revolving line of credit, respectively.

Loans held for investment include the following:

	June 30, 2007	December 31, 2006
	(in thousands)	
Mortgage loans:		
Banking Operations:		
Prime	$ 44,571,952	$ 51,634,926
Prime home equity	22,676,588	20,163,337
Nonprime	13,188	—
	67,261,728	71,798,263
Mortgage Banking:		
Prime	772,651	252,731
Prime home equity	168,116	57,518
Nonprime	1,238,836	115,054
	2,179,603	425,303
Commercial real estate	242,954	72,413
Total mortgage loans	69,684,285	72,295,979
Warehouse lending advances secured by mortgage loans	2,457,571	3,185,248
Defaulted FHA-insured and VA-guaranteed loans repurchased from securities	1,670,714	1,761,170
	73,812,570	77,242,397
Premium and discounts, and deferred loan origination fees and costs, net	756,873	1,104,414
Allowance for loan losses	(512,904)	(261,054)
Loans held for investment, net	$ 74,056,539	$ 78,085,757

During the six months ended June 30, 2007, the Company transferred prime, prime home equity and nonprime mortgage loans with an unpaid principal balance of $0.2 billion, $0.7 billion and $1.0 billion, respectively, and a carrying value after recognition of impairment upon transfer of the loans of $0.2 billion,

$0.6 billion and $0.8 billion, respectively, from mortgage loans held for sale to loans held for investment, as the Company decided to hold those loans for the foreseeable future.

Mortgage loans totaling $56.6 billion and $57.5 billion were pledged to secure Federal Home Loan Bank ("FHLB") advances and to enable additional borrowings from the FHLB at June 30, 2007 and December 31, 2006, respectively.

Mortgage loans held for investment totaling $4.6 billion and $2.9 billion were pledged to secure an unused borrowing facility with the Federal Reserve Bank ("FRB") at June 30, 2007 and December 31, 2006, respectively.

As of June 30, 2007 and December 31, 2006, the Company had accepted mortgage loan collateral of $2.6 billion and $3.5 billion, respectively, that it had the contractual ability to re-pledge. The collateral secures warehouse lending advances. Of this collateral, $1.1 billion and $1.6 billion, respectively, has been re-pledged to secure borrowings under a secured revolving line of credit as of June 30, 2007 and December 31, 2006.

Appendix C

Selected Financing Arrangements of Countrywide Financial Corporation
June 30, 2007

Securities Sold Under Agreements to Repurchase and Federal Funds Purchased

	June 30, 2007	December 31, 2006
	(in thousands)	
Securities sold under agreements to repurchase	$ 45,351,848	$ 42,113,501
Federal funds purchased	835,000	—
	$ 46,186,848	$ 42,113,501

The Company routinely enters into short-term financing arrangements to sell securities under agreements to repurchase ("repurchase agreements"). The repurchase agreements are collateralized by mortgage loans and securities. All securities underlying repurchase agreements are held in safekeeping by broker-dealers or banks. All agreements are to repurchase the same or substantially identical securities.

At June 30, 2007, repurchase agreements were secured by $19.4 billion of trading securities, $41.9 billion of securities purchased under agreements to resell and securities borrowed, $0.1 billion in investments in other financial instruments and $0.8 billion of other assets. At June 30, 2007, $21.1 billion of the pledged securities purchased under agreements to resell and securities borrowed related to amounts offset against securities sold under agreements to repurchase pursuant to master netting agreements.

At December 31, 2006, repurchase agreements were secured by $19.5 billion of trading securities, $52.1 billion of securities purchased under agreements to resell and securities borrowed, $0.1 billion in investments in other financial instruments and $1.2 billion of other assets. At December 31, 2006, $30.0 billion of the pledged securities purchased under agreements to resell and securities borrowed related to amounts offset against securities sold under agreements to repurchase pursuant to master netting agreements.

Notes Payable

	June 30, 2007	December 31, 2006
	(in thousands)	
Asset-backed commercial paper	$ 7,613,080	$ 7,721,278
Unsecured commercial paper	5,857,146	6,717,794
Secured revolving lines of credit	3,577,960	2,174,171
Secured overnight bank loans	—	105,049
Asset-backed secured financings	2,133,510	241,211
Unsecured bank loans	—	130,000
Federal Home Loan Bank advances	28,825,000	28,150,000
Medium-term notes:		
Floating-rate	12,999,692	13,155,231
Fixed-rate	9,412,381	9,783,881
	22,412,073	22,939,112
Convertible debentures	4,000,000	—
Junior subordinated debentures	2,215,278	2,232,334
Subordinated debt	990,886	1,027,797
Other	44,134	48,838
	$ 77,669,067	$ 71,487,584

Asset-Backed Commercial Paper

The Company has formed two special purpose entities to finance certain of its mortgage loans held for sale using commercial paper. These entities issue commercial paper in the form of short-term secured liquidity notes ("SLNs") with initial maturities of up to 180 days. The SLNs bear interest at prevailing money market rates approximating LIBOR. The SLN programs' capacities, based on aggregate commitments from underlying credit enhancers, totaled $30.7 billion at June 30, 2007.

For the six months ended June 30, 2007, the average borrowings under these facilities totaled $17.0 billion and the weighted-average interest rate of the SLNs was 5.35%. At June 30, 2007, the weighted-average interest rate of the SLNs was 5.39% and the Company had pledged $8.3 billion in mortgage loans held for sale to secure the SLNs.

For the six months ended June 30, 2006, the average borrowings under these facilities totaled $20.3 billion and the weighted-average interest rate of the SLNs was 4.82%. At June 30, 2006, the weighted-average interest rate of the SLNs was 5.21% and the Company had pledged $7.7 billion in mortgage loan inventory to secure the SLNs.

Unsecured Commercial Paper and Backup Credit Facilities

As of June 30, 2007, the Company had unsecured credit agreements (revolving credit facilities) with a group of commercial banks permitting the Company to borrow a maximum total amount of $11.4 billion. The primary purpose of these credit facilities is to provide liquidity support for the Company's commercial paper program.

For the six months ended June 30, 2007, the average commercial paper outstanding under these facilities totaled $8.1 billion and the weighted-average interest rate was 5.35%. At June 30, 2007, the weighted-average interest rate was 5.41%.

For the six months ended June 30, 2006, the average commercial paper outstanding under these facilities totaled $7.0 billion and the weighted-average interest rate was 4.86%. At June 30, 2006, the weighted-average interest rate was 5.32%.

Secured Revolving Lines of Credit

The Company has formed a special purpose entity to finance inventory with funding provided by a group of bank-sponsored conduits that are financed through the issuance of asset-backed commercial paper. The entity incurs interest based on prevailing money market rates approximating the cost of asset-backed commercial paper. At June 30, 2007, the entity had aggregate commitments from the bank-sponsored conduits totaling $10.4 billion and had $0.5 billion of outstanding borrowings, secured by $0.5 billion of mortgage loans held for sale. For the six months ended June 30, 2007, the average borrowings under this facility totaled $0.7 billion and the weighted-average interest rate was 5.34%. At June 30, 2007, the weighted-average interest rate was 5.35%.

For the six months ended June 30, 2006, the average borrowings under this facility totaled $1.6 billion and the weighted-average interest rate was 4.61%. At June 30, 2006, the weighted-average interest rate was 5.13%.

The Company entered into a $4.0 billion master trust facility in June 2006, to finance Countrywide Warehouse Lending ("CWL") receivables backed by mortgage loans. A multi-asset conduit finance company funds the purchase of notes backed by CWL receivables which are financed by issuing extendable maturity asset-backed commercial paper. The borrowings under this facility at June 30, 2007, totaled $1.0 billion, and the Company had pledged $1.1 billion in loans held for investment to secure this facility. For the six months ended June 30, 2007, the average borrowings under this facility totaled $1.1 billion and the weighted-average interest rate was 5.38%. At June 30, 2007, the weighted-average interest rate was 5.39%.

Appendix D

Balance sheet of Countrywide Bank, FSB
June 30, 2007

ASSETS		Lines	*(Report in Thousands of Dollars)*
Cash, Deposits, and Investment Securities:	**Total**	**SC11**	**2,213,994**
Cash and Non-Interest-Earning Deposits		SC110	189,550
Interest-Earning Deposits in FHLBs		SC112	73,854
Other Interest-Earning Deposits		SC118	161
Federal Funds Sold and Securities Purchased Under Agreements to Resell		SC125	1,950,000
U.S. Government, Agency, and Sponsored Enterprise Securities		SC130	0
Equity Securities Subject to FASB Statement No. 115		SC140	0
State and Municipal Obligations		SC180	0
Securities Backed by Nonmortgage Loans		SC182	0
Other Investment Securities		SC185	0
Accrued Interest Receivable		SC191	429
Mortgage-Backed Securities:	**Total**	**SC22**	**18,418,131**
Pass-Through:			
Insured or Guaranteed by an Agency or Sponsored Enterprise of the U.S.		SC210	1,279,623
Other Pass-Through		SC215	0
Other Mortgage-Backed Securities (Excluding Bonds):			
Issued or Guaranteed by FNMA, FHLMC, or GNMA		SC217	1,287,482
Collateralized by Mortgage-Backed Securities Issued or Guaranteed by FNMA, FHLMC, or GNMA		SC219	0
Other		SC222	15,760,974
Accrued Interest Receivable		SC228	90,052
General Valuation Allowances		SC229	0
Mortgage Loans:	**Total**	**SC26**	**76,255,145**
Construction Loans on:			
1-4 Dwelling Units		SC230	128,130
Multifamily (5 or More) Dwelling Units		SC235	0
Nonresidential Property		SC240	0
Permanent Mortgages on:			
1-4 Dwelling Units:			
Revolving, Open-End Loans		SC251	12,563,612
All Other:			
Secured by First Liens		SC254	51,100,458

Secured by Junior Liens		SC255	12,448,085
Multifamily (5 or More) Dwelling Units		SC256	0
Nonresidential Property (Except Land)		SC260	450
Land		SC265	55,619
Accrued Interest Receivable		SC272	404,617
Advances for Taxes and Insurance		SC275	0
Allowance for Loan and Lease Losses		SC283	445,826
Nonmortgage Loans:	**Total**	**SC31**	**92,683**
Commercial Loans:	**Total**	**SC32**	**92,475**
Secured		SC300	47,208
Unsecured		SC303	45,267
Lease Receivables		SC306	0
Consumer Loans:	**Total**	**SC35**	**5**
Loans on Deposits		SC310	0
Home Improvement Loans (Not secured by real estate)		SC316	0
Education Loans		SC320	0
Auto Loans		SC323	0
Mobile Home Loans		SC326	0
Credit Cards		SC328	0
Other, Including Lease Receivables		SC330	5
Accrued Interest Receivable		SC348	245
Allowance for Loan and Lease Losses		SC357	42
Repossessed Assets:	**Total**	**SC40**	**137,991**
Real Estate:			
Construction		SC405	0
1-4 Dwelling Units		SC415	137,991
Multifamily (5 or More) Dwelling Units		SC425	0
Nonresidential (Except Land)		SC426	0
Land		SC428	0
U.S. Government-Guaranteed or -Insured Real Estate Owned		SC429	0
Other Repossessed Assets		SC430	0
General Valuation Allowances		SC441	0
Real Estate Held for Investment		**SC45**	**0**
Equity Investments Not Subject to FASB Statement No. 115:	**Total**	**SC51**	**1,407,532**

Federal Home Loan Bank Stock	SC510	1,322,125
Other	SC540	85,407
Office Premises and Equipment	**SC55**	**22,120**
Other Assets: Total	**SC59**	**1,072,921**
Bank-Owned Life Insurance:		
Key Person Life Insurance	SC615	0
Other	SC625	199,593
Intangible Assets:		
Servicing Assets On:		
Mortgage Loans	SC642	20,041
Nonmortgage Loans	SC644	0
Goodwill and Other Intangible Assets	SC660	19,552
Interest-Only Strip Receivables and Certain Other Instruments	SC665	0
Other Assets	SC689	833,735
General Valuation Allowances	SC699	0
Total Assets	**SC60**	**99,620,517**

LIABILITIES		
Deposits and Escrows: Total	**SC71**	**60,540,735**
Deposits	SC710	60,616,542
Escrows	SC712	79
Unamortized Yield Adjustments on Deposits and Escrows	SC715	-75,886
Borrowings: Total	**SC72**	**29,734,518**
Advances from FHLBank	SC720	28,825,000
Federal Funds Purchased and Securities Sold Under Agreements to Repurchase	SC730	909,518
Subordinated Debentures (Including Mandatory Convertible Securities and Limited-Life Preferred Stock)	SC736	0
Mortgage Collateralized Securities Issued:		
CMOs (including REMICs)	SC740	0
Other Borrowings	SC760	0
Other Liabilities: Total	**SC75**	**1,507,504**
Accrued Interest Payable - Deposits	SC763	158,665
Accrued Interest Payable - Other	SC766	85,615
Accrued Taxes	SC776	110,199

Accounts Payable	SC780	298,442
Deferred Income Taxes	SC790	0
Other Liabilities and Deferred Income	SC796	854,583

Total Liabilities	**SC70**	**91,782,757**
Minority Interest	**SC800**	**0**

EQUITY CAPITAL			
Perpetual Preferred Stock:			
Cumulative		SC812	0
Noncumulative		SC814	0
Common Stock:			
Par Value		SC820	200
Paid in Excess of Par		SC830	5,031,496
Accumulated Other Comprehensive Income:	**Total**	**SC86**	**-154,220**
Unrealized Gains (Losses) on Available-for-Sale Securities		SC860	-154,220
Gains (Losses) on Cash Flow Hedges		SC865	0
Other		SC870	0
Retained Earnings		SC880	2,960,284
Other Components of Equity Capital		SC891	0
Total Equity Capital		**SC80**	7,837,760
Total Liabilities, Minority Interest, and Equity Capital		**SC90**	99,620,517

Appendix E

Asset Quality of Countrywide Bank, FSB
June 30, 2007

	PAST DUE AND STILL ACCRUING		NONACCRUAL
	30 - 89 DAYS	90 DAYS OR MORE	
	(Report in Thousands of Dollars)		
Mortgage Loans:			
Construction	0	0	0
Permanent, Secured by:			
1-4 Dwelling Units:			
Revolving, Open-End Loans	203,961	0	153,299
All Other:			
Secured by First Liens	1,375,831	0	664,631
Secured by Junior Liens	137,125	0	49,649
Multifamily (5 or More) Dwelling Units	0	0	0
Nonresidential Property (Except Land)	0	0	0
Land	0	0	0
Nonmortgage Loans:			
Commercial Loans	0	0	0
Consumer Loans	0	0	0
Total	**1,716,917**	**0**	**867,579**

Appendix F

Deposits of Countrywide Bank, FSB
June 30, 2007

		Lines	*(Report in Thousands of Dollars)*
Deposit Data:			
Total Broker-Originated Deposits:			
Fully Insured		DI100	7,124,292
Other		DI110	1,730,000
Deposits (Excluding Retirement Accounts) with Balances:			
$100,000 or Less		DI120	12,235,051
Greater than $100,000		DI130	46,876,338
Number of Deposit Accounts (Excluding Retirement Accounts) with Balances:			
$100,000 or Less	Actual Number	DI150	387,720
Greater than $100,000	Actual Number	DI160	81,547
Retirement Deposits with Balances:			
$250,000 or Less		DI170	1,435,672
Greater than $250,000		DI175	69,560
Number of Retirement Deposit Accounts with Balances:			
$250,000 or Less	Actual Number	DI180	36,660
Greater than $250,000	Actual Number	DI185	199
IRA/Keogh Accounts		DI200	1,505,232
Uninsured Deposits		DI210	24,772,722
Preferred Deposits		DI220	0
Components of Deposits and Escrows:			
Transaction Accounts (Including Demand Deposits)		DI310	2,088,913
Money Market Deposit Accounts		DI320	29,848,681
Passbook Accounts (Including Nondemand Escrows)		DI330	2,326,595
Time Deposits		DI340	26,352,431
Time Deposits of $100,000 or Greater (Excluding Brokered Time Deposits Participated Out by the Broker in Shares of Less Than $100,000 and Brokered Certificates of Deposit Issued in $1,000 Amounts Under a Master Certificate of Deposit)		DI350	10,162,522
IRA/Keogh Accounts of $100,000 or Greater Included in Time Deposits		DI360	593,104
Non-Interest-Bearing Demand Deposits		DI610	2,029,229
Deposit Data for Deposit Insurance Premium Assessments:			
Section I (Optional Revised Format on an Unconsolidated Basis)			

Quarter-End Deposit Totals:		
Total Deposit Liabilities Before Exclusions (Gross) as Defined in Section 3(I) of the FDI Act and FDIC Regulations	DI510	60,958,464
Total Allowable Exclusions (Including Foreign Deposits)	DI520	0
Total Foreign Deposits (Included in Total Allowable Exclusions)	DI530	0
Average Daily Deposit Totals:		
Total Daily Average of Deposit Liabilities Before Exclusions (Gross) as Defined in Section 3(I) of the FDI Act and FDIC Regulations	DI540	61,432,238
Total Daily Average of Allowable Exclusions (Including Foreign Deposits)	DI550	0
Total Daily Average of Foreign Deposits (Included in Total Daily Average of Allowable Exclusions	DI560	0
Section II (If Section I Completed, This Section Not Required)		
Outstanding Checks Drawn Against FHLBanks and Federal Reserve Banks Not Included in SC710	DI620	0
Deposits of Consolidated Subsidiaries:		
Demand Deposits	DI640	0
Time and Savings Deposits	DI650	0
Adjustments to Deposits for Depository Institution Investment Contracts and Deposits in Foreign Offices, Edge and Agreement Subsidiaries, and IBFs (Including Accrued Interest)	DI700	0
Adjustments to Demand Deposits for Reciprocal Demand Balances with Commercial Banks and Other Savings Associations	DI710	0
Other amounts necessary to adjust deposits reported on SC710 (reported in accordance with GAAP) to conform to the definition of deposits in accordance with the Federal Deposit Insurance Act:		
Adjustment to Demand Deposits (including escrows)	DI720	0
Adjustment to Time and Savings Deposits (including escrows)	DI730	0