

## Excerpts of E-Mails From Angelo Mozilo

**Sept. 26, 2006 – following up a meeting with Sambol the previous day about the Pay-Option ARM loan portfolio:**

*We have no way, with any reasonable certainty, to assess the real risk of holding these loans on our balance sheet. The only history we can look to is that of World Savings however their portfolio was fundamentally different than ours in that their focus was equity and our focus is fico. In my judgement [sic], as a long time lender, I would always trade off fico for equity. The bottom line is that we are flying blind on how these loans will perform in a stressed environment of higher unemployment, reduced values and slowing home sales.*

...

*... pay options are currently mispriced in the secondary market, and that spread could disappear quickly if there is an foreseen [sic] headline event such as another lender getting into deep trouble with this product or because of negative investor occurrence [sic].*

...

*“timing is right” ... to ... “sell all newly originated pay options and begin rolling off the bank balance sheet, in an orderly manner, pay options currently in their port[folio].”*

**April 17, 2006 – to Sambol concerning Countrywide’s subprime 80/20 loans:**

*In all my years in the business I have never seen a more toxic product [sic]. It’s not only subordinated to the first, but the first is subprime. In addition, the FICOs are below 600, below 500 and some below 400[.] With real estate values coming down...the product will become increasingly worse. There has [sic] to be major changes in this program, including substantial increases in the minimum FICO. ... Whether you consider the business milk or not, I am prepared to go without milk irrespective of the consequences to our production.*

**April 13, 2006 – to Sambol, Sieracki, and others to address issues relating to the 100 percent subprime second business in light of the losses associated with the HSBC buyback:**

*Loans had been originated ... “through our channels with disregard for process [and] compliance with guidelines.”*

...

He “*personally observed a serious lack of compliance within our origination system as it relates to documentation and generally a deterioration in the quality of loans originated versus the pricing of those loan [sic].*”

...

“*[i]n my conversations with Sambol he calls the 100% sub prime seconds as the ‘milk’ of the business. Frankly, I consider that product line to be the poison of ours.*”

**On March 28, 2006 – to Sambol and others:**

Directed them to implement a series of corrective measures to “*avoid the errors of both judgment and protocol that have led to the issues that we face today caused by the buybacks mandated by HSBC.*” ...

... The 100% loan-to-value subprime product is “*the most dangerous product in existence and there can be nothing more toxic and therefore requires that no deviation from guidelines be permitted irrespective of the circumstances.*”