

Countrywide Financial Corporation

Residential Mortgage Lending

Government Lending and Subprime Market:

What's the Right Balance?

May 2007





Overview

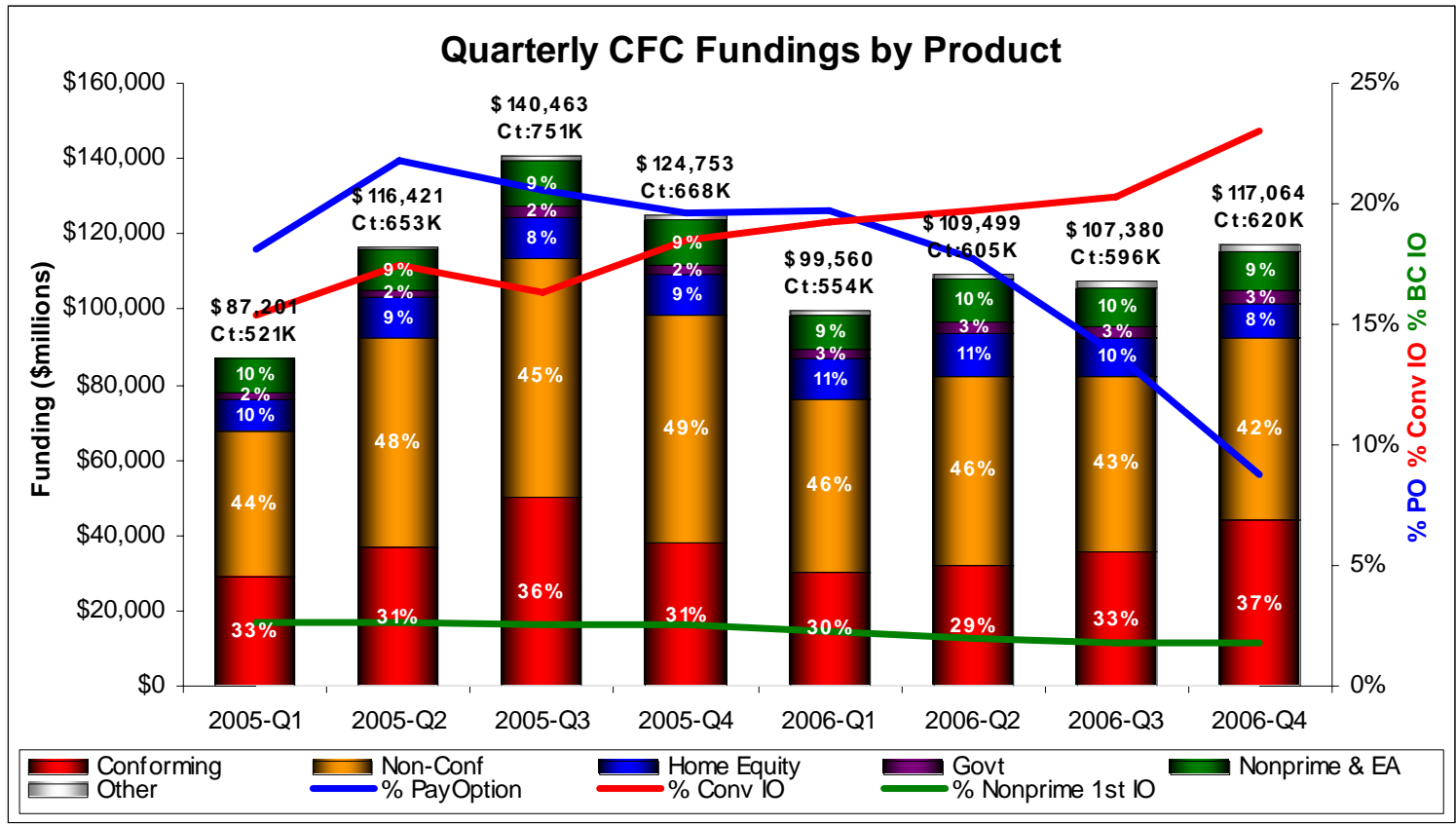
- **Market Overview**
- **Subprime Expansion**
- **Loan Performance**
- **Subprime Contraction**
- **Operational Differences**
- **Lender Benefits When Using FHA**
- **Borrower Benefits When Using FHA**



Strategic Production Overview - Total Fundings

➤ Q406

- #1 Overall Originator
- #1 in each distribution channel





How Did We Get Here?

Industry Guideline Expansion – 2005/2006

➤ **Subprime**

- Subprime monolines, looking for market share, expanded product menus
- Include layered risk elements unavailable in Prime, but not necessarily with traditional Subprime credit profiles.
- Primarily focused on purchase loans. Example:
 - Prime 100% Low Documentation required 700 minimum FICO,
 - Subprime added 100% Low Doc to their menus and focused on 620-699 FICOs
- These Subprime lenders expanded credit details and product types further to allow greater flexibilities for FTHBs without verification of rental histories, allowed open collection accounts, and offered Interest Only amortization programs.

➤ **Prime**

- About the same time, Alt A oriented Wall St. Conduits, also looking for market share, saw the same menu opportunity and lowered FICO requirements similarly for 100% financing, also with a purchase focus.
- These conduits also added additional flexibilities to 100% financing with NINA, SISA and No Ratio doc types, and loan amounts up to \$1 million, Second Homes and Investment Properties, and included Interest Only and PayOption amortization programs.



Subprime Expansion – Product Offering

- Consistent with the Subprime Industry, CFC expanded its product offering.

	2001	vs.	2006
Purpose	P, RT, CO		P, RT, CO
Maximum Loan	\$400,000		\$1,000,000 *
Maximum LTV	90%		100%
Stated Doc	Self Employed		SE and Wage Earner
Interest Only	Not Offered		Offered - Min 560 Fico
100% Piggyback	Not Offered		Offered - Min 580 Fico

* Max loan amounts \$2,000,000 for Platinum AAA program (See Appendix)

- The expanded product offering added risk to CFC product mix.

	Q4-2001	vs.	Q3-2006
Purchase	19%		32%
>\$400K	0%		18%
>90% LTV	2%		6%
Stated Doc	13%		36%
Interest Only	0%		22%
100% CLTV	0%		22%



Subprime Expansion – Product Offering

- Subprime Industry pursued the FTHB purchase business by providing a menu of product options not offered by FHA.

	Subprime	FHA
Maximum Loan Amount	\$1,000,000	\$363,000
Maximum LTV/CLTV	100%	97%
Doc Type	Full and Stated	Full Doc Only
Interest Only	Offered	N/A

- Compared to typical FHA offering, “would-be” FHA borrowers appear to select from this expanded Subprime offering.

Loan Balance	CFC - Subprime		CFC - FHA
	≤ \$363,000	> \$363,000	FHA
% to Purchase	87%	13%	70%
Product Options - % Loan Balance Volume			
>97% LTV/CLTV	64%	45%	36%
Non Full Doc	44%	57%	2% ⁽¹⁾
Non Fixed Rate	85%	82%	1%
Interest Only	31%	44%	N/A

Data: Q3 2006

⁽¹⁾ Streamline Refinance

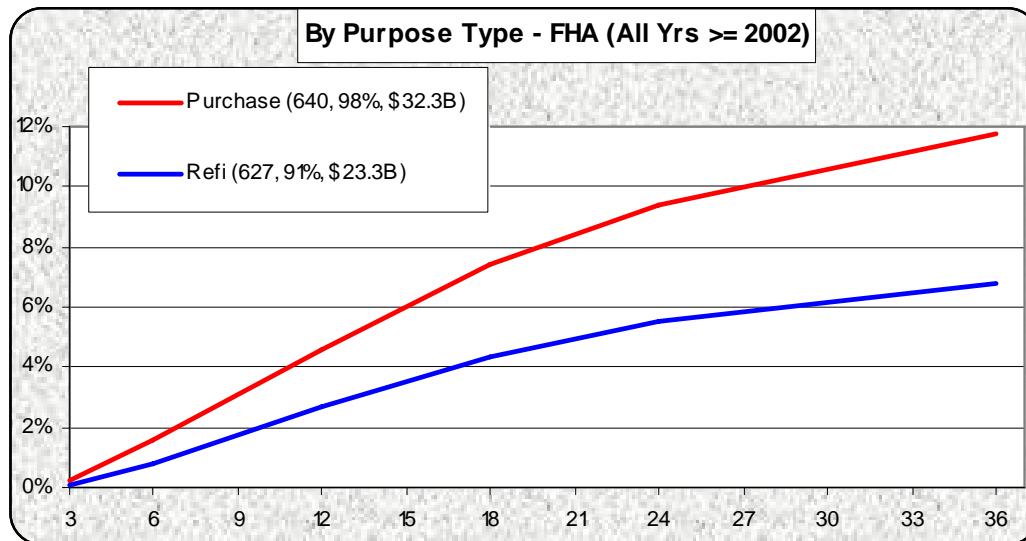
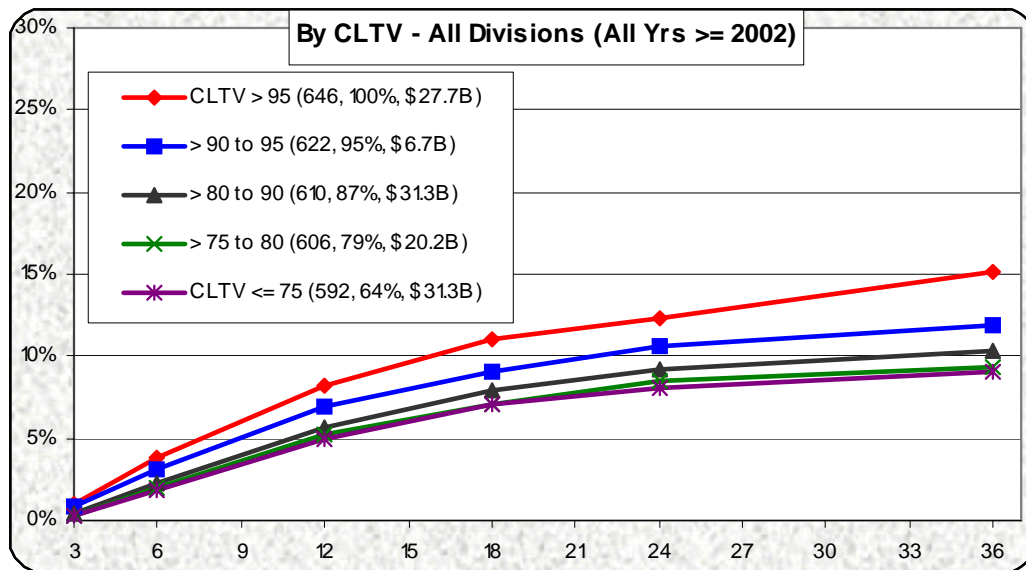


Trends in Performance – 90 Day Ever Del.

➤ >95% Financing:

- Subprime @ Month 6: 3.95%
- FHA Purchase @ Month 6: 1.73%

Data: December 2006





Trends in Performance

- **2006 Vintage performance of Subprime loans has deteriorated meaningfully from previous years.**
- **In addition, 2006 Non-Conforming ARMs, and Prime HELOCs have also experienced worse performance, though not as dramatically.**
- **In both cases, the performance change is primarily due to expanded underwriting guidelines (particularly with 100% financing), combined with a flattening or downturn in home values.**
- **While concern and review are warranted, 2006 should be kept in proper perspective when comparing to other recent vintages.**
 - The past five years have shown extremely strong performance due to strong housing values, declining interest rates, and low unemployment.
 - Clearly, housing values have now turned, though interest rates and unemployment remain relatively low.



Subprime Contraction – Products/Credit

➤ Significant Countrywide changes since January 1, 2007

- Elimination of 100% Piggyback
- Elimination of Stated Doc with >90% LTV/CLTV
- 100% LTV offered with Full Doc, Fixed Rate only
 - Min fico score 640
 - \$400,000 Max Loan
- FTHB requires minimum Fico Score of 560 vs. 500
- Interest Only requires minimum Fico Score of 580 vs 560.



Subprime Expansion and Contraction

	4Q06 ⁽¹⁾	2Q07 Estimate ⁽²⁾
Subprime as a % of total volume:	8%	4% - 6%
Subprime production profile:		
% 100% CLTV	24%	3%
% ARM of 100% CLTV	90%	<2%
% Stated Doc with >90% CLTV	35%	<2%
Average CLTV	85%	<80%
FTHB as a % of total	22%	5%
FTHB as a % of total purchase	60%	<20%

(1) 4Q06 production used to represent business before changes to guidelines

(2) 2Q07 production estimate based on recent application volumes



Operational Differences

- **FHA underwriting standards and practices are very different than Subprime.**
- **Subprime is risk tier (FICO) driven.**
- **FHA requires thorough analysis of income, employment, ratios and property valuation.**
- **Verified loan documentation is critical to limiting lender indemnification risk.**
- **FHA loans are:**
 - Full and Alternative documentation.
 - Only DE underwriters can underwrite the loans. DE underwriters have met the standards set by HUD/FHA. FHA monitors individual underwriters, and the DE designations is transferable across companies.
 - Mortgage Credit Analysis Worksheet (MCAW) – still required...
 - Require a full appraisal (no AVMs, drive-bys, etc), and the DE underwriter is required to review and sign the appraisal. (Subprime requires full appraisal) FHA maintains a list of approved appraisers that must be utilized.
 - FICO not required
 - NTCR allowed with no minimum trade lines.



Lender Benefits from Using FHA

- **High LTV loan program**
- **AUS (TOTAL Scorecard) and manual underwriting options**
- **Expansive underwriting flexibility to match needs of FTHB**
- **Delegated Lender Insurance that streamlines the FHA endorsement process**
- **Retained risk is reduced to Rep and Warrant risk**



Borrower Benefits of Using FHA

- **Low downpayment program with attractive rates**
- **Specifically geared to FTHBs**
- **Mortgage Insurance that is lower cost than other high LTV loan programs**
- **All loans are fully amortizing**
- **Fixed, ARM and Hybrid ARM programs available**
- **All loans are assumable**
- **No loans have a prepayment penalty**
- **Extensive and proven loss mitigation program that supports borrower efforts to maintain homeownership**



Summary

- **Countrywide retrenched with the rest of the Subprime market.**
- **Subprime market is still a niche component of the lending spectrum.**
- **Given the cutbacks in the Subprime market, CFC expects continued growth in FHA volume.**
- **FHA provides lenders with programs that meets the need of FTHBs in all housing markets.**



Q & A



Exhibits



Prime Documentation Types

	Full	Preferred ("Fast&Easy", "SuperStreamline")	Reduced ("SIVA")	SISA	No Ratio ("NIVA")	NINA	Streamlined Conforming	Streamlined Non-Conforming
Income	Salaried: 1 paystub, W-2 SE: most recent 1040	Stated	Stated	Stated	Not Stated	Not Stated	Stated	<= 80 LTV: Stated >80 LTV: Paystub, 1040
Assets	1 month bank statements	Stated	2 months bank statements	Stated	2 months bank statements	Not Stated	Stated	Only if needed to close
Employment	Salaried: VOE or pay- stub SE: 2 pgs 1040	Salaried: Verbal VOE SE: Bus. License or 3 rd party	Salaried: Verbal VOE SE: Bus. License or 3 rd party	Salaried: Verbal VOE SE: Bus. License or 3 rd party	Salaried: Verbal VOE SE: Bus. License or 3 rd party	Not Stated	Stated	<=80 LTV: Verbal VOE if new job since orig loan >80 LTV: Paystub, 1040
4506	SE: Yes	Yes	No	No	No	No	No	>80 LTV: Yes
2006 % of Conforming	66%	33%	N/A	N/A	N/A	N/A	1%	N/A
2006 % of NonConforming	27%	11%	51%	5%	4%	3%	N/A	1%
2006 % of HE	46%	7%	48%	<1%	N/A	N/A	N/A	N/A



FHA Documentation Types

FHA	Full / Alt
Income	Full Doc - 2 years written VOE. Alt Doc - 2 yrs W2s or Tax returns. ("Stated Income" doc not offered)
Assets	Bank Statements covering most recent 3 months. (with TOTAL Scorecard Accept: 2 months)
Employment	Most recent paystub w/ YTD earning and Verbal or Written VOE
4506	Yes w/Tax Returns or Alt Doc



Subprime Products

Product and Credit Standards

➤ Loan Documentation

- Subprime offers a variety of income and asset verification alternatives.

	Doc Types - CHL Subprime		
	Full Doc	Alt Doc	Stated Doc
Loan Application	Employment (last two years), Income and Assets are disclosed on the loan application.		
Employment	Verbal Verified of Employment (W2) or Proof Self Employment (SE)		
Income	Disclosed on Application.		
	Verified. <u>Salaried Borrowers:</u> Current Pay Stub plus one of the following: One years 1040s, W2s, written VOE, or <u>Self Employed Borrowers:</u> Prior year 1040 plus recent Qtr P&L	Verified. 12 mos Bank statements with 12 mo P&L for any income from self employment.	Not verified.
Assets	Disclosed on Application. Verified assets for down payment (purchases) and closing costs. Verified assets for Reserves (if Reserves are required)		
Appraisal	Full Appraisal Required on all loans (FNMA form 1004 - interior and exterior)		



Subprime Products

Product and Credit Standards

➤ Subprime Product Eligibility Summary

Loan Type	6mos ARM	Hybrid ARMs		Fixed Rate	
Terms					
Amortization Terms	30 yr	30 yr, 40 yr	30 yr, 40 yr	15,20,30,40 yr	30/15 Balloon
Fixed Period (mos)	6	24 / 36	60	NA	NA
Rate Adj Freq (mos)	6	6	6	NA	NA
Payment Adj Freq (mos)	6	6	6	NA	NA
Index	6 mo libor	6 mo libor	6 mo libor	NA	NA
Initial Cap	1.00%	1.50%	3.00%	NA	NA
Periodic Cap	1.00%	1.50%	1.50%	NA	NA
Life Cap	7.00%	7.00%	7.00%	NA	NA
Qualifying Rate	Note Rate + 1.5%	Note Rate	Note Rate	Note Rate	Note Rate
Qualifying Payment	Fully Amortizing Pmt	Fully Amortizing Pmt	Fully Amortizing Pmt	Fully Amortizing Pmt	Fully Amortizing Pmt
	50%	50%	50%	50%	50%
Qualifying Debt Service	(55% < 80% LTV)	(55% < 80% LTV)	(55% < 80% LTV)	(55% < 80% LTV)	(55% < 80% LTV)
Eligible Doc Types					
Full (W2s - 1040s)	Yes	Yes	Yes	Yes	Yes
Alt (Bank Stmt)	Yes	Yes	Yes	Yes	Yes
Stated Doc (Stated Income)	Yes	Yes	Yes	Yes	Yes
No Ratio	Not Offered	Not Offered	Not Offered	Not Offered	Not Offered
NINA	Not Offered	Not Offered	Not Offered	Not Offered	Not Offered
Eligible Programs					
Standard (Max 95% LTV)	Yes	Yes	Yes	Yes	Yes
High LTV (>95% - 100% LTV)	Yes	Yes	Yes	Yes	Yes
100% Combo (Piggyback)	Yes	Yes	Yes	Yes	Yes
Jumbo Loans > \$500K - \$1MM	Yes	Yes	Yes	Yes	Yes
Credit Comeback	Not Offered	Not Offered	Not Offered	Yes	Yes
Interest Only					
IO Period	Not Offered	60 mos	120 mos	60 mos	Not Offered
Amortization Terms	Not Offered	30 yr	30 yr	30 yr	Not Offered
Qualifying Rate	Not Offered	Note Rate	Note Rate	Note Rate	Not Offered
Qualifying Payment	Not Offered	IO Pymt	IO Pymt	IO Pymt	Not Offered
Max LTV	Not Offered	100%(1)	100%(1)	100%(1)	Not Offered

(1) Minimum 640 Fico Required