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[Additional counsel on signature page]

UNITED STATES DISTRICT COURT
CENTRAL DISTRICT OF CALIFORNIA
WESTERN DIVISION

IN RE COUNTRYWIDE FINANCIAL CORPORATION SECURITIES LITIGATION This Document Applies to: All Actions	Lead Case No. CV 07-05295 MRP (MANx) **SECOND CONSOLIDATED AMENDED CLASS ACTION COMPLAINT FOR VIOLATIONS OF THE FEDERAL SECURITIES LAWS** [Exhibits filed under separate cover] Jury Trial Demanded

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GLOSSARY

6.25% Notes 326
6.25% Subordinated Floating Rate Notes due May 15, 2016.

AAG 97
AICPA Audit and Accounting Guide. Provides industry-specific guidance to preparers of financial statements and their auditors, specifically for high risk areas of material misstatement.

AAG Chapter 5 101
Audit Considerations and Certain Financial Reporting Matters. Provides guidance on general financial reporting and auditing considerations, including: knowledge of the business, industry risk factors, internal controls, analytical procedures, and fraud risk considerations.

AAG Chapter 7 197
Investments in Debt and Equity Securities. Provides guidance on accounting and auditing issues associated with investments including MBS, RIs, and MSRs.

AAG Chapter 8 114
Loans. Provides guidance on accounting and auditing issues that arise from loans made by financial institutions, including the lending process and related internal controls.

AAG Chapter 9 104
Credit Losses. Provides guidance on accounting and auditing issues that arise in estimating the ALL including assessing credit losses inherent in the loan portfolio.

AAG Chapter 10 118
Transfers of Loans and Mortgage Banking Activities. Provides guidance on accounting and auditing related issues that arise in connection with sales and securitizations of loans, including for MSRs and RIs.

AAM 97
AICPA Audit and Accounting Manual. The AAM includes the ARAs (defined below).

AICPA 190
American Institute of Certified Public Accountants.

ALCO 156
Asset/Liability Committee; comprised of several of the Company's senior financial executives who determined the valuation of retained interests.

ALL 95
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King, Gwendolyn Stewart 17
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Kurland, Stanford L. 13
President and COO of Countrywide from before the Class Period until September 7, 2006; joined Countrywide in 1979, became COO in 1988. President in January 2004, served in a number of other executive positions at the Company including Executive Managing Director from 2000 to 2003, Senior Managing Director from 1989 to 2000, from 2003 through 2005 CEO and a director of CHL, and Chairman of CHL during 2006.

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LIBOR 129
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MBS 23
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McLaughlin, Thomas K. 17
Countrywide's Executive Managing Director and Chief Financial Officer from 2004 until his resignation effective April 1, 2005.

Melone, Martin R. 17
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Mozilo, Angelo R. 11
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Net Lifetime Credit Losses 120
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Mozilo, Sambol, Sieracki and Kurland.

QSPE..118
Qualifying Special Purpose Entity.

SOX 12
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ABN AMRO Incorporated, A.G. Edwards & Sons, Inc., Banc of America Securities LLC, Barclays Capital Inc., BNP Paribas Securities Corp., BNY Capital Markets, Inc., Citigroup Global Markets Inc., Countrywide Securities Corporation, Deutsche Bank Securities Inc., Goldman, Sachs & Co., Greenwich Capital Markets, Inc., HSBC Securities (USA) Inc., J.P. Morgan Securities Inc., Merrill, Lynch, Pierce, Fenner & Smith Incorporated, Morgan Stanley & Co. Incorporated, RBC Dain Rauscher Inc., RBC Dominion Securities Inc., Scotia Capital Inc., TD Securities Inc., UBS Securities LLC, and Wachovia Capital Markets, LLC.

Valuation Allowance 127
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VLF 168
A Countrywide proprietary database called Virtual Loan File.

VOE 61
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Weighted-Average Life 120
Reference to the time period over which the economic benefit of an asset is expected to be received, if any.

WLD 54
Wholesale Lending Division; Countrywide's loan origination and loan purchasing division.

Court-appointed Lead Plaintiff Thomas P. DiNapoli, Comptroller of the State of New York, as Administrative Head of the New York State and Local Retirement Systems and as Trustee of the New York State Common Retirement Fund ("NYSCRF"), Court-appointed Lead Plaintiffs New York City Employees' Retirement System, New York City Police Pension Fund, New York City Fire Department Pension Fund, New York City Board of Education Retirement System, and Teachers' Retirement System of the City of New York (collectively, the "New York City Pension Funds" and, together with NYSCRF, the "New York Funds"), and Plaintiffs Barry Brahn and Shelley B. Katzeff (together with the "New York Funds," "Plaintiffs"), individually and on behalf of a class of similarly situated persons and entities, by their undersigned counsel, for their Second Consolidated Amended Class Action Complaint for Violations of the Federal Securities Laws asserting claims against Countrywide Financial Corporation ("Countrywide" or the "Company") and the other Defendants named herein, allege the following upon personal knowledge as to themselves and their own acts, and upon information and belief as to all other matters.[1]

Plaintiffs' information and belief as to allegations concerning matters other than themselves and their own acts is based upon, among other things, (i) review and analysis of documents filed publicly by Countrywide and certain affiliates thereof with the Securities and Exchange Commission (the "SEC"); (ii) review and analysis of press releases, news articles, and other public statements issued by or concerning Countrywide and other Defendants named herein; (iii) review and analysis of research reports issued by financial analysts concerning Countrywide's securities and business; (iv) discussions with consulting experts; (v) other publicly available information and data concerning Countrywide and its

[1] A glossary of certain defined terms in this Complaint and terms that are specific to Countrywide's business and the mortgage banking industry appears after the table of contents.

securities, including information concerning investigations of Countrywide being pursued by, among others, the Federal Bureau of Investigation ("the FBI"), the SEC, the United States Trustee, the United States Congress, and the California, Florida, Illinois and North Carolina Attorneys General; (vi) an investigation conducted by and through Lead Plaintiffs' attorneys, which included interviews of numerous former Countrywide executives and employees and review and analysis of certain nonpublic documents concerning Countrywide's business; (vii) review and analysis of news articles, media reports and other publications concerning the mortgage banking and lending industries; and (viii) review and analysis of certain pleadings filed in other pending litigations naming Countrywide or certain subsidiaries or affiliates as a defendant or nominal defendant. Plaintiffs believe that substantial additional evidentiary support for the allegations herein exists and will continue to be revealed after Plaintiffs have a reasonable opportunity for discovery.

I. NATURE AND SUMMARY OF THE ACTION

1. Plaintiffs bring this federal securities class action on behalf of themselves and all similarly situated persons and entities that, between March 12, 2004 and March 7, 2008, inclusive (the "Class Period"), purchased or otherwise acquired the publicly traded common stock or other equity securities, debt securities, or call options of or guaranteed by Countrywide, or sold Countrywide put options, either in the open market or pursuant or traceable to a registration statement, and were damaged thereby (the "Class").

2. Countrywide has long been among the nation's largest mortgage lenders, and became, to use its own tagline, "America's #1 Home Loan Lender" during the Class Period. The Company's singular effort to overtake its competitors and capture a dominant share of the nation's residential loan market, however, was the impetus for one of the largest corporate frauds in recent years,

one that led *The New York Times* to suggest that Countrywide may be "Enron's Second Coming."

3. In or about mid-2003, as described by a former high-ranking executive, Countrywide embarked on a "culture change" that, during the Class Period, involved a dramatic shift away from making traditional, fixed-rate mortgages toward offering an array of new and far riskier loan products such as pay-option adjustable-rate mortgages ("Pay Option ARMs"), which encouraged borrowers to make "minimum" payments of a fraction of the interest due, resulting in ballooning principal balances many borrowers could not repay; and home equity lines of credit ("HELOCs"), which were second-lien mortgages that faced substantial increased risk of becoming worthless in a default. These loans were not only risky by their terms, but were increasingly made to borrowers with poor credit and were made on a "stated document" or "low documentation" basis, meaning that the borrowers were not required (or even asked) to submit proof of income or assets.

4. All the while, Countrywide's senior management, including Angelo R. Mozilo ("Mozilo"), the Company's co-founder, Chairman and CEO, falsely assured the market that the Company's policies and procedures for underwriting loans—in essence, determining whether the borrower was likely to pay in full and on time—were tightly controlled and supervised and "designed to produce high quality loans." During the Class Period, Countrywide repeatedly represented that its loan origination and underwriting practices were careful and "disciplined," and also repeatedly described its practices as far superior to those of competing lenders. The consistent and essential message to the public was that Countrywide, with Mozilo and his team at the helm, was "a very different focused company" and that other lenders were fly-by-night outfits that did not know the mortgage business and should be avoided by investors.

5. During this time, however, and contrary to these public assurances, Countrywide was steadily loosening its underwriting standards to sweep in borrowers with poor credit, and was significantly deviating from these weakening standards in order to generate huge volumes of loans and quickly sell them off to the secondary mortgage market, the Company's chief source of financing. Senior management, particularly David Sambol ("Sambol"), who ran the Company's loan production machine as President and COO of Countrywide Home Loans, Inc., sent a clear message to loan origination and underwriting employees that issuing loans was far more important than determining whether or not the loans should be made because of borrower creditworthiness. Careful underwriting essentially went by the boards in favor of cavalier loan origination and booking earnings. "Exception loans"—loans that did not satisfy even the Company's weakened underwriting criteria—were routinely approved every day in high volume through a computer system called the Exception Processing System ("EPS"), but only after the Company charged these high risk borrowers extra points and fees. An internal document described a principal objective of EPS as "[a]pprov[ing] virtually every borrower and loan profile with pricing add on when necessary."

6. Further, to conceal its greatly increased production of subprime loans, Countrywide employed an internal, undisclosed definition of prime versus subprime, and thus, in its public reports, classified loans as "prime" that clearly were subprime. Additionally, while the Company repeatedly represented that its Pay Option ARMs, which carried an especially high degree of risk, went only to the most sophisticated and creditworthy borrowers, many of these loans were made to borrowers with very weak credit. In fact, it was revealed late in the Class Period, when the truth began to emerge, that the vast majority of Pay Option ARMs were made on a "low doc" or "no doc" basis. In sum, Countrywide sacrificed loan ***quality*** for loan ***quantity*** in order to pump up loan production,

charge extra fees and higher interest rates, and boost its revenues. At the same time, as a result of its sacrifice of loan quality, the risk of borrower defaults consistently increased during the Class Period, yet Countrywide never disclosed this increased risk to the Class.

7. Despite all of these risky lending practices, Countrywide's management failed, in violation of generally accepted accounting principles ("GAAP"), to set aside sufficient reserves for the massive loan losses that would inevitably occur. As the level of risk in Countrywide's loan portfolio drastically increased, the Company kept the level of loan loss reserves relatively constant or even allowed it to decrease, knowing that to increase loan loss reserves would have a direct, dollar-for-dollar impact on the amount of earnings the Company could report in its financial statements. In addition to the failure to increase loan loss reserves, Countrywide also reported inflated earnings, in violation of GAAP, by overvaluing its "retained interests" and mortgage servicing rights from loans securitized and sold to the secondary market, and by failing to properly reserve for representations and warranties it made to purchasers of such securitized loans.

8. KPMG LLP ("KPMG") negligently or recklessly failed to comply with generally accepted auditing standards ("GAAS") in auditing Countrywide's financial statements for its fiscal years 2004 through 2006, and thus participated in conveying materially false and misleading statements to the investing public. As described more fully below, the Underwriter Defendants (defined below) are responsible by statute for materially false and misleading statements included in registration statements and prospectuses for offerings of Countrywide debt and preferred securities during the Class Period.

9. Countrywide's risky scheme to artificially inflate earnings in the short term initially resulted in remarkable growth for the Company, with a seemingly booming business, a dominant market share, and a stock price that, after trading under $20 for most of 2003, traded in the mid-$30s early in the Class

Period and climbed to a high of $45 by early 2007. However, this growth has been wiped out by a devastating collapse, with the stock price losing ***87%*** of its value between July 2007 and March 2008, from approximately $34 to $4 per share, as a result of a series of revelations of the truth concerning Countrywide. The collapse in Countrywide's stock price from its Class Period high represents a loss of market capitalization exceeding $25 billion.

10. These revelations included disclosures on July 24, 2007, in connection with disappointing second quarter results, that delinquency rates in the Company's loan portfolios had jumped sharply, that its allowances for loan losses were inadequate, and that the Company wrote down, by $388 million, the value of retained interests on securitizations of HELOCs. The Company also revealed, in remarks during its quarterly conference call, that it had been classifying loans as "prime" that the industry would have viewed as subprime, and that the Company had "recalibrated" its proprietary underwriting system and made numerous changes to its underwriting guidelines and processes. In response, one analyst stated that Countrywide "made serious miscalculations (and possibly misrepresentations) about the quality of [its] loans" and observed that its supposedly prime loans were "performing roughly in line with [a competing lender's] subprime deals."

11. Numerous additional partially corrective disclosures relating to Countrywide's lending practices and financial reporting (including an enormous and unprecedented $1.2 billion loss for the third quarter of 2007) followed, culminating on March 8, 2008 with the stunning news that the FBI is investigating Countrywide for securities fraud. According to *The Wall Street Journal*, the inquiry involves "whether senior officials made misrepresentations about the Company's financial position and the quality of its mortgage loans in securities filings."

12. As the truth about Countrywide began to emerge in and after July 2007, Countrywide lost its ability to sell debt securities and accordingly suffered a serious cash crisis. Countrywide systematically burned through its backup sources of liquidity, including pulling down its entire $11.5 billion credit facility, all the while misleading investors as to the true depth of its liquidity problems. By the Fall of 2007, the prospect of bankruptcy loomed.

13. Countrywide's swift and stunning collapse—and the massive losses that unsuspecting investors have suffered as a result—were not caused by ordinary, or even extraordinary, market forces or business cycles. Rather, as a former Countrywide risk management executive explained, the Company's downfall was largely caused by "lax underwriting guidelines" and its rapidly increasing origination of inherently risky loans to borrowers with poor credit. Notably, in September 2007, after the truth about Countrywide's fraud began to emerge, Secretary of the Treasury Henry M. Paulson told a group of mortgage industry executives: "Unlike periods of financial turbulence I've witnessed over many years, this turbulence wasn't precipitated by problems in the real economy. ***This came about as a result of some bad lending practices.***"[2]

14. Countrywide, its credibility shattered and its stock price crippled, was acquired on July 1, 2008 by Bank of America Corporation, a former competitor, for the bargain-basement price of $4 billion in stock. This sales price represented only 23% of the Company's $17.3 billion market capitalization at the beginning of the Class Period.

15. Defendants Mozilo and Sambol, and Stanford L. Kurland, Countrywide's former President and COO, who were principally responsible for the Company's "culture change" and concerted foray into leveraged and high-risk lending practices, became enormously—almost indescribably—rich from insider

[2] Throughout this Complaint, emphasis is added unless otherwise stated.

sales of Countrywide stock at artificially inflated prices, together reaping more than ***$735 million***. The amount and timing of these stock sales present compelling evidence against these Defendants, and the SEC has commenced an inquiry into Mozilo's sales based in part on his frequent, and "fortuitous," amendments of his Rule 10b5-1 trading plans. Moreover, these stock sales occurred, and Mozilo's sales accelerated, just as the Company initiated the first of two billion-dollar stock repurchase programs. These buyback programs supported Countrywide's stock price, securing massive profits for Mozilo's personal sales, while the Company, and through it, the Class, suffered massive losses on the shares it repurchased.

II. JURISDICTION AND VENUE

16. The claims asserted herein arise under Sections 11, 12(a)(2) and 15 of the Securities Act of 1933 (the "Securities Act"), 15 U.S.C. §§ 77k, 77*l* and 77*o*, Sections 10(b), 20(a) and 20A of the Securities Exchange Act of 1934 (the "Exchange Act"), 15 U.S.C. §§ 78j(b), 78t(a) and 78t-1, and Rule 10b-5 promulgated thereunder by the SEC, 17 C.F.R. § 240.10b-5.

17. This Court has jurisdiction over the subject matter of this action pursuant to Section 22 of the Securities Act, 15 U.S.C. § 77v, Section 27 of the Exchange Act, 15 U.S.C. § 78aa, and 28 U.S.C. §§ 1331 and 1337(a).

18. Venue is proper in this District pursuant to Section 22 of the Securities Act, Section 27 of the Exchange Act, and 28 U.S.C. § 1391(b), (c) and (d). Many of the acts and omissions charged herein, including the preparation and dissemination to the public of materially false and misleading information, occurred in substantial part in the Central District of California. Countrywide maintains its corporate headquarters and principal executive offices in this District and did so throughout the Class Period.

19. In connection with the acts and conduct alleged herein, Defendants, directly or indirectly, used the means and instrumentalities of interstate commerce, including but not limited to the United States mails, interstate telephone communications, and the facilities of national securities exchanges and markets.

III. THE PARTIES

A. Plaintiffs

20. On November 28, 2007, this Court appointed Thomas P. DiNapoli, Comptroller of the State of New York, as Administrative Head of the New York State and Local Retirement Systems and as Trustee of the New York State Common Retirement Fund ("NYSCRF"), to serve as a Lead Plaintiff in this consolidated securities class action pursuant to the Private Securities Litigation Reform Act of 1995 (the "PSLRA"). As established by Article 9 of the New York Retirement and Social Security Law, NYSCRF holds and invests the assets of the New York State and Local Employees' Retirement System and the New York State and Local Police and Fire Retirement System, and provides pension, death and disability benefits for state and local government employees and employees of certain other participating employers. NYSCRF is the third-largest public pension fund in the nation, with assets under management exceeding $154 billion as of March 31, 2007 and serves more than one million active and retired members and their beneficiaries. Thomas P. DiNapoli, Comptroller of the State of New York, is the sole trustee of NYSCRF. As set forth in the amended certification annexed hereto as Exhibit A, Lead Plaintiff NYSCRF purchased Countrywide common stock on the open market during the Class Period and suffered damages as a result of the misconduct alleged herein.

21. On November 28, 2007, this Court also appointed the New York City Pension Funds, comprised of the actuarial pension systems of the New York

City Employees' Retirement System ("NYCERS"), the New York City Police Pension Fund, the New York City Fire Department Pension Fund, the New York City Board of Education Retirement System, and the Teachers' Retirement System of the City of New York (collectively, the "New York City Pension Funds"), to serve as Lead Plaintiffs in this consolidated securities class action pursuant to the PSLRA. The New York City Pension Funds provide pension benefits to employees of the City of New York, including full-time uniformed employees of the New York City Police and Fire Departments and the pedagogical staff and non-pedagogical employees of the Board of Education. NYCERS provides benefits to all New York City employees who are not eligible to participate in separate Police Department, Fire Department, Board of Education or Teachers pension funds. Pursuant to Title 13 of the Administrative Code of the City of New York, the Boards of Trustees of the New York City Pension Funds have delegated to the Comptroller of the City of New York investment responsibility for management of the pension funds' assets. Collectively, the New York City Pension Funds have assets under management exceeding $110 billion and serve more than 370,000 active members and 262,000 retirees and beneficiaries. As set forth in the amended certifications annexed collectively hereto as Exhibit B, Lead Plaintiffs New York City Pension Funds purchased Countrywide common stock on the open market during the Class Period and purchased or acquired other publicly traded securities of Countrywide pursuant or traceable to the Countrywide Registration Statements complained of below, and were damaged thereby as a result of the misconduct alleged herein.

22. Plaintiff Barry Brahn ("Brahn"), as set forth in the amended certification annexed hereto as Exhibit C, acquired 7% Capital Securities issued by Countrywide Capital V ("CCV"), a Delaware Statutory Trust created by Countrywide, pursuant or traceable to the Registration Statement for such securities and was damaged as a result of the misconduct alleged herein.

23. Plaintiff Shelley B. Katzeff ("Katzeff"), as set forth in the certification annexed hereto as Exhibit D, acquired 7% Capital Securities issued by CCV pursuant or traceable to the Registration Statement for such securities and was damaged as a result of the misconduct alleged herein.

B. Countrywide Defendants

1. Countrywide and CCV

24. Defendant Countrywide Financial Corporation ("Countrywide" or the "Company") is a corporation organized and existing under the laws of the State of Delaware, with its principal executive offices located at 4500 Park Granada, Calabasas, California 91302. Countrywide was founded in March 1969 and engages in mortgage lending and other finance-related businesses, including mortgage banking, retail banking and mortgage warehouse lending, securities dealing, insurance underwriting and international mortgage loan processing and servicing. Countrywide common stock has traded actively on the New York Stock Exchange (the "NYSE") since October 1985.

25. Defendant Countrywide Capital V ("CCV") is a Delaware Statutory Trust and wholly owned subsidiary of Countrywide, created by Countrywide solely for the purpose of issuing preferred securities. Countrywide guarantees all of CCV's offerings.

2. The Officer Defendants

26. Defendant Angelo R. Mozilo ("Mozilo") is a co-founder of Countrywide and has been Chairman of the Board of Directors since March 1999 and Chief Executive Officer ("CEO") since February 1998. He has been a member of the Board since 1969. Mozilo was also President of the Company from March 2000 through December 2003 and has served in other executive capacities since the Company's formation in 1969. Mozilo signed the Company's materially false and misleading Form 10-K Annual Reports for 2003 through 2006 filed with the SEC and accompanying certifications made pursuant to the

Sarbanes-Oxley Act of 2002 ("SOX"); SOX certifications accompanying the Company's Form 10-Q Quarterly Reports filed with the SEC between the first quarter of 2004 and the third quarter of 2007; and the Company's Registration Statements dated April 7, 2004, February 9, 2006, October 27, 2006, and November 15, 2007.

27. Defendant David Sambol ("Sambol") joined Countrywide in 1985 and became the Company's President and Chief Operating Officer ("COO") in September 2006. Sambol served from 2004 to 2006 as Executive Managing Director for Business Segment Operations, heading all revenue-generating operations of the Company, as well as the corporate operational and support units comprised of Administration, Marketing and Corporate Communications, and Enterprise Operations and Technology. Sambol has served as Chairman and CEO of the Company's principal operating subsidiary, Countrywide Home Loans, Inc. ("CHL") since 2007, and from 2004 through 2006 Sambol was President and COO of CHL. According to his executive profile on Countrywide's website, Sambol "lead[s] all operations of the Company" and has "oversight responsibility" for CHL, as well as Countrywide Bank, Countrywide Insurance Group, Countrywide Capital Markets and the Company's Global Operations. Sambol was also a Managing Director from July 1994 to 2003, and has served as Senior Managing Director and Chief of Production for the Company's loan sector. Sambol became a director of Countrywide in September 2007. Sambol signed the Company's materially false and misleading Form 10-Q Quarterly Reports filed with the SEC on November 7, 2006, May 9, 2007, August 9, 2007, and November 9, 2007; and Registration Statements dated February 9, 2006, October 27, 2006, and November 15, 2007.

28. Defendant Eric P. Sieracki ("Sieracki") has served as the Company's Executive Managing Director and Chief Financial Officer ("CFO") and as CFO of Countrywide Bank since April 2005, and is a member of the Executive

Strategy Committee. Sieracki was and is responsible for oversight of Countrywide's major financial departments, including corporate accounting, treasury, financial planning, strategic planning and taxation. He also served as the Company's senior manager in the areas of investor relations, corporate development, and equity capital activities. Sieracki joined the Company in 1988 as Senior Vice President of Countrywide Asset Management Corporation and has held a number of executive positions. In 1989, he was promoted to Executive Vice President of Corporate Finance, in charge of finance and accounting responsibilities for Countrywide and its subsidiaries. He also served as Senior Vice President and CFO of Countrywide Mortgage Investments, Inc., a publicly traded affiliate of the Company. Defendant Sieracki became a Managing Director in 1996, a Senior Managing Director in 2002, and Executive Managing Director in 2005. Sieracki signed the Company's Form 10-K Annual Reports for 2005 and 2006 filed with the SEC and accompanying SOX certifications; Form 10-Q Quarterly Reports between the first quarter of 2005 and the third quarter of 2007 and accompanying SOX certifications; Form 10-Q/A Amended Quarterly Reports for the first three quarters of 2004; and Registration Statements dated February 9, 2006, October 27, 2006, and November 15, 2007.

29. Defendant Stanford L. Kurland ("Kurland") was President and COO of Countrywide from before the Class Period until he ceased working for the Company on September 7, 2006. Kurland joined Countrywide in 1979, and became COO in 1988 and President in January 2004. Kurland has served in a number of other executive positions at the Company, including Executive Managing Director from 2000 to 2003 and Senior Managing Director from 1989 to 2000. From 2003 through 2005, Kurland was CEO and a director of CHL, and during 2006 also served as Chairman of CHL. Kurland signed the Company's Form 10-K Annual Reports filed with the SEC for 2003, 2004 and 2005; Form 10-Q Quarterly Reports filed with the SEC between the first quarter of 2004 and

the second quarter of 2006; Form 10-Q/A Amended Quarterly Reports for the first three quarters of 2004; Form 8-K Current Reports filed with the SEC on April 21, 2004 and July 26, 2004; and Registration Statements dated April 7, 2004 and February 9, 2006.

30. Defendants Mozilo, Sambol, Sieracki and Kurland are referred to herein collectively as the "Officer Defendants." Each of these Defendants, by virtue of their high-level positions with Countrywide, directly participated in the management of the Company, was directly involved in the day-to-day operations of the Company at the highest levels and was privy to confidential proprietary information concerning the Company and its business, operations, growth, financial statements, and financial condition during his tenure with the Company, as alleged herein. As set forth below, the materially misstated information conveyed in the Company's SEC filings, press releases, and other public statements was the result of the collective actions of these individuals. Each of these individuals, during his tenure with the Company, was involved in drafting, producing, reviewing and/or disseminating the statements at issue in this case, approved or ratified these statements, or was aware or recklessly disregarded that these statements were being issued regarding the Company. Accordingly, it is appropriate to treat the Officer Defendants as a group for pleading purposes.

31. As officers and directors of a publicly held company whose common stock and other securities were, and are, registered with the SEC pursuant to the Exchange Act, and whose common stock was, and is, traded on the NYSE, and governed by the federal securities laws, the Officer Defendants each had a duty to disseminate prompt, accurate, and truthful information with respect to the Company's business, operations, financial statements and internal controls, and to correct any previously issued statements that had become materially misleading or untrue, so that the market prices of the Company's publicly traded securities

would be based on accurate information. The Officer Defendants each violated these requirements and obligations during the Class Period.

32. The Officer Defendants, because of their positions of control and authority as senior executive officers and/or directors of Countrywide, were able to and did control the content of the SEC filings, press releases and other public statements issued by Countrywide during the Class Period. Each of these individuals was provided with copies of the statements at issue in this action before they were issued to the public and had the ability to prevent their issuance or cause them to be corrected. Accordingly, each of these individuals is responsible for the accuracy of the public statements detailed herein.

33. The Officer Defendants, because of their positions of control and authority as senior executive officers and/or directors of Countrywide, had access to the adverse undisclosed information about Countrywide's business, operations, financial statements and internal controls through access to internal corporate documents, conversations with other corporate officers and employees, attendance at management and Board of Directors meetings and committees thereof and via reports and other information provided to them in connection therewith, and knew or recklessly disregarded that these adverse undisclosed facts rendered the positive representations made by or about Countrywide materially false and misleading.

3. Additional Individual Defendants

34. Defendant Kathleen Brown ("Brown") was a member of Countrywide's Board of Directors from March 2005 until March 29, 2007. Brown signed the Company's Registration Statements filed with the SEC dated February 9, 2006 and October 27, 2006.

35. Defendant Henry G. Cisneros ("Cisneros") was a member of Countrywide's Board of Directors from 2001 until October 24, 2007. Cisneros

signed the Company's Registration Statements filed with the SEC dated April 7, 2004, February 9, 2006 and October 27, 2006.

36. Defendant Jeffrey M. Cunningham ("Cunningham") has been a member of Countrywide's Board of Directors since 1998. Cunningham signed the Company's Registration Statements filed with the SEC dated April 7, 2004, February 9, 2006, October 27, 2006, and November 15, 2007.

37. Defendant Robert J. Donato ("Donato") has been a member of Countrywide's Board of Directors since 1993. Donato signed the Company's Registration Statements filed with the SEC dated April 7, 2004, February 9, 2006, October 27, 2006, and November 15, 2007.

38. Defendant Michael E. Dougherty ("Dougherty") was a member of Countrywide's Board of Directors from 1998 until March 28, 2007. Dougherty signed the Company's Registration Statements filed with the SEC dated April 7, 2004, February 9, 2006 and October 27, 2006.

39. Defendant Ben M. Enis ("Enis") was a member of Countrywide's Board of Directors from 1984 until June 2006. Enis signed the Company's Registration Statements filed with the SEC dated April 7, 2004, February 9, 2006 and October 27, 2006.

40. Defendant Carlos M. Garcia ("Garcia") is Countrywide's Executive Managing Director for Banking and Insurance and has been a member of CHL's Board of Directors throughout the Class Period. Garcia signed the Company's Registration Statements filed with the SEC dated April 7, 2004, February 9, 2006 and October 27, 2006.

41. Defendant Andrew Gissinger III ("Gissinger") has been a member of CHL's Board of Directors throughout the Class Period and a Senior Managing Director and Chief Production Officer of CHL since 2006. Gissinger signed the Company's Registration Statements filed with the SEC dated October 27, 2006 and November 15, 2007.

42. Defendant Edwin Heller ("Heller") was a member of Countrywide's Board of Directors from 1993 until June 2006. Heller signed the Company's Registration Statements filed with the SEC dated April 7, 2004 and February 9, 2006.

43. Defendant Gwendolyn Stewart King ("King") was a member of Countrywide's Board of Directors from 2001 until November 15, 2004. King signed the Company's Registration Statement filed with the SEC dated April 7, 2004.

44. Defendant Thomas K. McLaughlin ("McLaughlin") was Countrywide's Executive Managing Director and Chief Financial Officer from 2004 until his resignation effective April 1, 2005. McLaughlin signed the Company's Registration Statement dated April 7, 2004.

45. Defendant Martin R. Melone ("Melone") has been a member of Countrywide's Board of Directors since 2003. Melone signed the Company's Registration Statements filed with the SEC dated April 7, 2004, February 9, 2006, October 27, 2006, and November 15, 2007.

46. Defendant Robert T. Parry ("Parry") has been a member of Countrywide's Board of Directors since 2004. Parry signed the Company's Registration Statements filed with the SEC dated February 9, 2006, October 27, 2006, and November 15, 2007.

47. Defendant Oscar P. Robertson ("Robertson") has been a member of Countrywide's Board of Directors since 2000. Robertson signed the Company's Registration Statements filed with the SEC dated April 7, 2004, February 9, 2006, October 27, 2006, and November 15, 2007.

48. Defendant Keith P. Russell ("Russell") has been a member of Countrywide's Board of Directors since 2003. Russell signed the Company's Registration Statements filed with the SEC dated April 7, 2004, February 9, 2006, October 27, 2006, and November 15, 2007.

49. Defendant Harley W. Snyder ("Snyder") has been a member of Countrywide's Board of Directors since 1991. Snyder signed the Company's Registration Statements filed with the SEC dated April 7, 2004, February 9, 2006, October 27, 2006, and November 15, 2007.

50. Defendants Mozilo, Sambol, Sieracki, Kurland, Brown, Cisneros, Cunningham, Donato, Dougherty, Enis, Garcia, Gissinger, Heller, King, McLaughlin, Melone, Parry, Robertson, Russell, and Snyder are collectively referred to herein as the "Individual Defendants."

C. Underwriter Defendants

51. Defendant ABN AMRO Incorporated ("ABN AMRO") is an investment bank and acted as an underwriter with respect to Countrywide's offering of Series B Medium-Term Notes. ABN AMRO's U.S. headquarters are located at 55 East 52nd Street, New York, New York 10055.

52. Defendant A.G. Edwards & Sons, Inc. ("A.G. Edwards") is an investment bank and acted as an underwriter with respect to CCV's offering of 7% Capital Securities. A.G. Edwards' headquarters are located at 1 North Jefferson Avenue, St. Louis, Missouri 63103.

53. Defendant Banc of America Securities LLC ("Banc of America Securities") is an investment bank and acted as an underwriter with respect to Countrywide's offerings of Series A Medium-Term Notes, Series B Medium-Term Notes, and 6.25% Subordinated Floating Rate Notes Due May 15, 2016 ("6.25% Notes"), and with respect to CCV's offering of 7% Capital Securities. Banc of America Securities' headquarters are located at 9 West 57th Street, New York, New York 10019.

54. Defendant Barclays Capital Inc. ("Barclays Capital") is an investment bank and acted as an underwriter with respect to Countrywide's offerings of Series A Medium-Term Notes, Series B Medium-Term Notes, and 6.25% Notes, and with respect to CCV's offering of 7% Capital Securities.

Barclays Capital's U.S. headquarters are located at 200 Park Avenue, New York, New York 10166.

55. Defendant BNP Paribas Securities Corp. ("BNP Paribas") is an investment bank and acted as an underwriter with respect to Countrywide's offering of Series B Medium-Term Notes. BNP Paribas' U.S. headquarters are located at 999 Bishop Street, Honolulu, Hawaii 96813.

56. Defendant BNY Capital Markets, Inc. ("BNY Capital") is an investment bank and acted as an underwriter with respect to Countrywide's offering of Series B Medium-Term Notes. BNY Capital's headquarters are located at 44 Wall Street, New York, New York 10005.

57. Defendant Citigroup Global Markets Inc. ("Citigroup Global Markets") is an investment bank and acted as an underwriter with respect to Countrywide's offerings of Series A Medium-Term Notes and Series B Medium-Term Notes, and with respect to CCV's offering of 7% Capital Securities. Citigroup Global Markets' headquarters are located at 399 Park Avenue, New York, New York 10043.

58. Defendant Countrywide Securities Corporation ("Countrywide Securities"), a wholly owned subsidiary of Countrywide, is a registered broker-dealer primarily known for trading mortgage bonds. Countrywide Securities acted as an underwriter with respect to Countrywide's offerings of Series A Medium-Term Notes, Series B Medium-Term Notes, and 6.25% Notes, and with respect to CCV's offering of 7% Capital Securities. Countrywide Securities' headquarters are located at 4500 Park Granada, Calabasas, California 91302.

59. Defendant Deutsche Bank Securities Inc. ("Deutsche Bank") is an investment bank and acted as an underwriter with respect to Countrywide's offerings of Series A Medium-Term Notes, Series B Medium-Term Notes, and 6.25% Notes, and with respect to CCV's offering of 7% Capital Securities.

Deutsche Bank's U.S. headquarters are located at One Fawcett Place, Greenwich, Connecticut 06830.

60. Defendant Goldman, Sachs & Co. ("Goldman Sachs") is an investment bank and acted as an underwriter with respect to Countrywide's offering of Series B Medium-Term Notes, and with respect to CCV's offering of 7% Capital Securities. Goldman Sachs' headquarters are located at 85 Broad Street, New York, New York 10004.

61. Defendant Greenwich Capital Markets, Inc. ("Greenwich Capital") is an investment bank and acted as an underwriter with respect to Countrywide's offerings of Series A Medium-Term Notes and Series B Medium-Term Notes. Greenwich Capital's headquarters are located at 600 Steamboat Road, Greenwich, Connecticut 06830.

62. Defendant HSBC Securities (USA) Inc. ("HSBC") is an investment bank and acted as an underwriter with respect to Countrywide's offerings of Series A Medium-Term Notes, Series B Medium-Term Notes, and 6.25% Notes, and with respect to CCV's offering of 7% Capital Securities. HSBC's U.S. headquarters are located at 2700 Sanders Road, Prospect Heights, Illinois 60070.

63. Defendant J.P. Morgan Securities Inc. ("J.P. Morgan Securities") is an investment bank and acted as an underwriter with respect to Countrywide's offerings of Series A Medium-Term Notes, Series B Medium-Term Notes, and 6.25% Notes, and with respect to CCV's offering of 7% Capital Securities. J.P. Morgan Securities' headquarters are located at 270 Park Avenue, New York, New York 10017.

64. Defendant Merrill, Lynch, Pierce, Fenner & Smith Incorporated ("Merrill Lynch") is an investment bank and acted as an underwriter with respect to Countrywide's offering of Series B Medium-Term Notes and CCV's offering of 7% Capital Securities. Merrill Lynch's headquarters are located at 4 World Financial Center, New York, New York 10080.

65. Defendant Morgan Stanley & Co. Incorporated ("Morgan Stanley") is an investment bank and acted as an underwriter with respect to Countrywide's offerings of Series A Medium-Term Notes and Series B Medium-Term Notes, and with respect to CCV's offering of 7% Capital Securities. Morgan Stanley's headquarters are located at 1595 Broadway, New York, New York 10036.

66. Defendant RBC Dain Rauscher Inc. ("RBC Dain Rauscher") is an investment bank and acted as an underwriter with respect to CCV's offering of 7% Capital Securities. RBC Dain Rauscher's U.S. headquarters are located at 60 South 6th Street, Minneapolis, Minnesota 55402.

67. Defendant RBC Dominion Securities Inc. ("RBC Dominion") is an investment bank and acted as an underwriter with respect to Countrywide's offerings of Series A Medium-Term Notes and Series B Medium-Term Notes. RBC Dominion's U.S. headquarters are located at 1211 Avenue of the Americas, New York, New York 10036.

68. Defendant Scotia Capital Inc. ("Scotia Capital") is an investment bank and acted as an underwriter with respect to Countrywide's offering of Series B Medium-Term Notes. Scotia Capital's U.S. headquarters are located at One Liberty Plaza, New York, New York 10006.

69. Defendant TD Securities Inc. ("TD Securities") is an investment bank and acted as an underwriter with respect to Countrywide's offering of Series B Medium-Term Notes. TD Securities' U.S. headquarters are located at 31 West 52nd Street, New York, New York 10019.

70. Defendant UBS Securities LLC ("UBS Securities") is an investment bank and acted as an underwriter with respect to Countrywide's offering of Series B Medium-Term Notes and CCV's offering of 7% Capital Securities. UBS Securities' U.S. headquarters are located at 1285 Avenue of the Americas, New York, New York 10019.

71. Defendant Wachovia Capital Markets, LLC ("Wachovia Capital") is an investment bank and acted as an underwriter with respect to Countrywide's offerings of Series A Medium-Term Notes, Series B Medium-Term Notes, and 6.25% Notes, and with respect to CCV's offering of 7% Capital Securities. Wachovia Capital's headquarters are located at One Wachovia Center, Charlotte, North Carolina 28288.

72. The Defendants named in this Section III.C are referred to collectively herein as the "Underwriter Defendants."

D. Non-Party Underwriter

73. Lehman Brothers Inc. ("Lehman Brothers") is an investment bank and acted as an underwriter with respect to Countrywide's offerings of Series A Medium-Term Notes and Series B Medium-Term Notes, and with respect to CCV's offering of 7% Capital Securities. Lehman Brothers' headquarters are located at 745 Seventh Avenue, New York, New York 10019. Lehman Brothers is not named as a Defendant in this Second Amended Complaint due to the petition for bankruptcy protection under Section 11 of the Bankruptcy Code filed by Lehman Brothers Holdings Inc. on September 15, 2008, and the Order Commencing Liquidation entered on September 19, 2008 in *Securities Investor Protection Corp. v. Lehman Brothers Inc.*, No. 08 Civ. 8119 (GEL) (S.D.N.Y.). But for this bankruptcy petition and Order Commencing Litigation, Lehman Brothers would continue to be a named Defendant in this action.

E. KPMG

74. Defendant KPMG LLP ("KPMG") has served as Countrywide's outside auditor since January 5, 2004. KPMG provided audit, audit-related, tax and other services to Countrywide during the Class Period, which included the issuance of unqualified opinions on the Company's financial statements for the years ended December 31, 2004, 2005 and 2006 and management's assessments of internal controls for the years ended December 31, 2005 and 2006. KPMG

consented to the incorporation by reference of its unqualified opinions on the Company's financial statements and management's assessment of internal controls for the years ended December 31, 2006, 2005 and/or 2004 in Countrywide's Prospectus Supplement dated September 27, 2005, Registration Statement dated February 9, 2006, Prospectus Supplement dated May 11, 2006, Amended Registration Statement dated October 27, 2006, and Registration Statement dated November 15, 2007. KPMG maintains its national headquarters at 345 Park Avenue, New York, New York 10154.

IV. FACTUAL BACKGROUND AND SUBSTANTIVE ALLEGATIONS

A. Countrywide and its Interrelated Businesses

75. Countrywide, which bills itself as "America's #1 Home Loan Lender," is the largest mortgage lender and home loan servicer in the United States. During 2006, Countrywide originated or serviced approximately 17% of all residential mortgages nationwide.

76. Countrywide manages its business through five business segments: (1) Mortgage Banking, which originates, purchases, sells and services non-commercial mortgage loans nationwide; (2) Banking, in which Countrywide Bank, N.A., a federally chartered banking institution, takes deposits and invests in mortgage loans and home equity lines of credit ("HELOCs"), principally those originating from the Mortgage Banking segment but also through mortgages issued by third parties; (3) Capital Markets, which operated an institutional broker-dealer that primarily specializes in trading and underwriting mortgage-backed securities ("MBS"); (4) Insurance, which provides property, casualty, life and disability insurance as well as reinsurance coverage to primary mortgage insurers; and (5) Global Operations, which licenses proprietary software to

mortgage lenders in the United Kingdom and performs certain overseas administrative and loan servicing functions.

77. The Mortgage Banking, Banking and Capital Markets business segments provided a full 93% of the Company's pre-tax earnings for 2006, with 48% coming from Mortgage Banking, 32% from Banking, and 13% from Capital Markets. The operations of these three divisions are interrelated, with the loan origination process feeding the rest of the business. The Company originates home loans in the Mortgage Banking division, retains a portion of those loans on the Company's balance sheet as investments, mostly in the Banking division, and, during the Class Period, securitized and sold off the remainder of the mortgages or mortgage-related rights and obligations to third parties through the Capital Markets division.

78. During most of the Class Period, until the truth about Defendants' misconduct began to emerge, nearly all of the mortgage loans Countrywide originated were sold into the secondary market, primarily in the form of securities backed by pools of mortgages and, to a far lesser extent, as whole loans. Countrywide also performed the ongoing servicing functions related to most of the residential mortgage loans it originated. Loans held for investment by the Banking division appeared as assets on the Company's balance sheet.

79. During the Class Period, Countrywide had significant financing needs in order to run its operations. According to Countrywide's Form 10-K filings, the Company's short-term financing needs arose primarily from warehousing of mortgage loans pending sale to the secondary market, trading activities of its broker-dealer, and providing mortgage warehouse credit to others. Long-term financing needs arose primarily from investments in mortgage loans, investments in mortgage-servicing rights and interests that the Company retains when it securitizes mortgage loans, and financial instruments acquired to manage interest rate risk. The Company met its financing needs primarily through

unsecured commercial paper and medium-term notes, asset-backed commercial paper, revolving lines of credit, short-term repurchase agreements, deposit-gathering, advances from Federal Home Loan Banks, unsecured subordinated debt and junior subordinated debt, and retained earnings. The debt securities referred to below and issued by Countrywide during the Class Period provided much of the Company's financing needs during the Class Period.

80. Countrywide relied substantially on the secondary mortgage market as a source of long-term capital to support its mortgage banking operations. The Company's strategy, according to Form 10-K reports filed during the Class Period, was to ensure "***ongoing access*** to the secondary mortgage market by ***consistently producing quality mortgages*** and servicing those mortgages at levels that meet or exceed secondary market mortgage standards." The Company claimed that it made significant investments in personnel and technology to ensure the quality of its mortgage loan production.

81. The credit quality of the mortgage loans Countrywide originated was of paramount importance to investors purchasing Countrywide's securitized loans on the secondary mortgage market. Thus, the Company's ability to securitize and sell its mortgage loans (and maintain its principal source of liquidity) was heavily dependent upon the financial community's belief that the Company maintained appropriate controls commensurate with sound and disciplined loan underwriting procedures designed to produce "quality mortgages." Moreover, Countrywide made representations and warranties to purchasers of its securitized mortgage loans concerning their quality and the underwriting standards that were followed in originating them. If such a purchaser determined that Countrywide breached its representations and warranties, or if a borrower defaulted early in the term of the loan, the purchaser could require Countrywide to repurchase the mortgage loans.

B. Countrywide Shifts Away From Traditional Mortgages Toward Producing Nontraditional, and Far Riskier, Loan Products

1. In an Effort to Achieve "Market Dominance," Mozilo and Sambol Spearhead a Dramatic "Culture Change" Starting in or About May 2003

82. Until 2003, Countrywide primarily made traditional first-lien home loans to individuals with strong credit. Such "conforming" loans are generally safer for lenders, and are regularly sold to Fannie Mae and Freddie Mac, the government-sponsored entities ("GSEs") that provide liquidity to the home mortgage market.[3]

83. According to Confidential Witness 1 ("CW1"), in or about May 2003, a significant "culture change" began at the Company. CW1, who worked at Countrywide during the Class Period until early 2006, was a high-ranking executive in Company headquarters who worked, on a day-to-day basis with Defendants Mozilo, Sambol, Kurland and Sieracki.[4] CW1 had senior-level responsibilities with respect to, among other things, the Company's secondary marketing operations and the pricing and risk of loans held for investment and for sale.

84. According to CW1, in May 2003, conflicts began to materialize among members of the Company's Executive Committee—which included the six or seven most senior executives of the Company, including all of the Officer Defendants—as to the best strategy to grow Countrywide's business. Around this

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[3] A "conforming" loan is one which conforms to GSE guidelines, which include maximum loan amounts, debt-to-income ratio limits, and documentation requirements. "Nonconforming" loans are all loans that do not conform to GSE guidelines, because they are too large, have debt-to-income ratios that are too high, or do not satisfy GSE documentation requirements.

[4] In an effort to protect the identities of knowledgeable witnesses who have come forward on a confidential basis, Plaintiffs have not pleaded all available information concerning job titles, locations, and starting and ending dates of employment when providing such information would be tantamount to revealing the witness' identity. Plaintiffs will provide such information to the Court *in camera* if the Court so requests.

time, according to CW1, Sambol became particularly close to Mozilo and emerged as a major force within the Company, and took complete charge of loan production in 2004. The conflicts regarding how to grow the business were resolved as Sambol succeeded in imposing a new Company-wide "mandate" that CW1 described as ***"more loans, more loans, more loans"*** across the board.

85. The result, according to CW1, was a "culture change" that included a movement by Countrywide to originate more nonconforming loans, which are generally riskier and, because they cannot be sold to GSEs, must be marketed to private investors. By increasing the origination of nonconforming loans, Countrywide was able to originate many more loans each year and, because nonconforming loans were riskier than conforming loans, Countrywide was able to charge borrowers higher fees when extending such loans. In 2002, approximately 25% of the total loans originated by Countrywide were nonconforming. In 2004, nearly 40% of loan originations were nonconforming, and by 2006 this figure was 45.2%.

86. The "culture change" also involved a major shift in strategic direction away from extending traditional fixed-rate mortgages to borrowers with "prime" credit scores, toward issuing a wide range of nontraditional, higher-risk loans designed to allow borrowers, often those with blemished credit, to borrow more money than would be available under the Company's pre-2003 business model. Employees who underwrote loans were paid in part based on the volume of loans they approved. Mortgage brokers and other employees were paid based on the volume of loans they originated and, because of the higher origination fees charged with respect to such loans, were paid more when originating these nontraditional loan products than when they originated standard loans. Countrywide's employees and independent mortgage brokers, accordingly, targeted more and more borrowers who were less able to afford the loan payments they were required to make, and many had no realistic ability to pay off the loans.

87. According to CW1, the enhanced focus on nontraditional loans like subprime and low documentation loans ultimately increased Countrywide's risk of loss to unacceptable levels. CW1 further reported that Sambol took a contrary position, maintaining that by originating and procuring large volumes of loans, regardless of their relative risk, any losses incurred by the riskier loans would be covered by the profits generated on other loans. Sambol's flawed strategy, which was adopted by the Company and endorsed by the other Officer Defendants, was nothing more than a variation on a classic Ponzi scheme, whereby profits on loans higher on the pyramid are used to prop up a large volume of high-risk loans lower on the pyramid, with the goal of constantly attracting more borrowers, and especially high-risk borrowers whom Countrywide could charge higher fees.

88. As part of the "culture change" in 2003, when Countrywide's market share was about 13%, Mozilo announced a goal for Countrywide to capture an enormous, and unprecedented, ***30%*** of the national residential loan market. During a conference call with analysts on July 22, 2003, Mozilo stated that his goal for the Company was "to ***dominate*** the purchase market and to get our overall market share to the ultimate 30% by 2006, 2007[.]" Mozilo reiterated during a January 27, 2004 conference call that "[o]ur goal is ***market dominance***, and we are talking 30% origination market share by 2008 to support our macro hedge strategy." When challenged about the ramifications such massive growth might have on loan quality, Mozilo assured the market: "Going for 30% mortgage share here is ***totally unrelated to quality of loans we go after. . . .*** There will be ***no compromise in that*** as we grow market share. Nor is there a necessity to do that." In fact, as reported in *The Wall Street Journal* in February 2008, Mozilo dismissed suggestions at that time that such a push for growth might be risky: "I'm fairly confident that we're not going to do anything stupid. We have a history of not doing anything stupid."

89. According to CW1, Mozilo's plan to capture 30% of the mortgage market was put into action, in a Company-wide mandate, by Sambol. In 2003, CW1 believed it would be difficult to achieve this goal in such a "fragmented market," that the goal was unrealistic and would result in "very low profit," and that there was no real reason to pursue it given that Countrywide was already a huge player in the industry. But, under the direction of Mozilo and Sambol, the Company embarked on an effort to shift its focus away from fixed-rate loans to nontraditional and more lucrative loan products, and to put its loan production machine into overdrive. As a central part of this effort, undisclosed to the Class, Countrywide loosened and abandoned its purportedly sound loan underwriting standards that had been designed to produce "high quality loans," in order to sweep in borrowers who previously would not have qualified for a loan.

2. Countrywide's Nontraditional and Risky Loan Products

90. Countrywide's nontraditional loan products included adjustable rate mortgages, or "ARMs," which typically provided a low "teaser" interest rate for a predetermined introductory time period, ranging between 2 and 10 years. A significant portion of the ARMs the Company issued were called "2/28 loans," meaning that the teaser rate would last for only 2 years before "resetting" to higher rates, tied to whatever criteria was set forth in the loan documentation, for the next 28 years. "Resetting" after the teaser period usually resulted in a significant increase in the borrower's monthly payments. ARMs are inherently riskier loans and will generally result in higher delinquency rates than fixed-rate loans unless the lender is careful to sell these loans only to those borrowers whose financial condition and credit history demonstrate that they are likely to be able to pay the higher principal and interest payments when the rates "reset."

91. "Pay Option ARMs" gave the borrower the "option" to pay down loan principal, to make the monthly interest payment, or to make a "minimum"

payment that in fact was less than the monthly interest which would normally be paid in an "interest only" loan. Thus, if the borrower made only the "minimum" required payment, which was insufficient to pay accruing monthly interest, the difference between that minimum required payment and the normal monthly interest would be added to the remaining principal balance. As a result, each month the principal mortgage balance would grow. As in the case of a gangland loan shark, the borrower would owe Countrywide more and more money. And, as in the case of the victim of a loan shark, as the debt to Countrywide increased, the monthly interest charges would grow with the new mortgage balance. Accordingly, while a standard mortgage amortizes as principal is paid down, and an "interest only" mortgage is non-amortizing, Pay Option ARMs were subject to "negative amortization," meaning that the principal balance actually increased. Countrywide booked this negative amortization as deferred interest earnings on its income statement, reporting non-cash income created solely from a borrower's failure to pay full interest.

92. As Countrywide's management was aware, Pay Option ARMs were fraught with significant risk because the option to make minimum payments would, more often than not, be driven by necessity (the inability of the borrower to even pay down interest as it accrued) which, coupled with increases to the loan balance, exacerbated the risk of default. Only if these loans were made to highly creditworthy borrowers (who presumably would have no need to make such minimal payments and incur negative amortization), or by assuming that real estate values would simply increase indefinitely, could the Company reasonably have expected that the deferred interest would ultimately be repaid.

93. Countrywide's Pay Option ARMs came with negative amortization "caps," which limited the amount of missed interest that could be rolled into the principal balance. Because a borrower who hit the cap (typically set at 110-125% of the original loan amount) was subject to a reset interest rate coupled with

required principal paydown, the likelihood of default on a negatively amortizing loan also increased materially as these caps were reached.

94. During the Class Period, as alleged below, the Company represented that borrowers receiving Pay Option ARMs were relatively wealthy and sophisticated, minimizing the risk of default and loss. However, Countrywide has now conceded that the Company extended Pay Option ARMs during the Class Period that were far too risky because the borrowers did not fit the descriptions the Company had previously given. According to the Company, and as reported in *The Los Angeles Times* on December 28, 2007, 89% of the Pay Option ARMs Countrywide issued during 2006 (amounting to $64 billion), and 83% of the Pay Option ARMs it issued during 2005 (amounting to $74 billion), would no longer pass muster under the Company's "new," more conservative lending practices adopted in 2007. However, these more conservative practices were hardly "new." They were nothing more than the traditional underwriting policies the Company abandoned during the Class Period in its aggressive push to pump up its earnings and stock price by selling massive amounts of loans with little consideration given to the borrowers' ability to pay.

95. <u>"Stated income"</u> or <u>"no doc"</u> loans were based on a borrower's bare representations about his or her ability to repay, with little or no documentation to substantiate those representations. In these loans, the lender typically agreed not to inquire behind the borrower's represented income or assets, or simply loaned the money without making such an inquiry. Low-documentation mortgages were originally designed for professionals and business owners with high credit scores, who preferred not to disclose their confidential financial information every time they applied for a mortgage. These loans generally required the highest level credit scores and low loan-to-value ratios. Countrywide, however, routinely extended these loans to borrowers with weak credit, and knew that such "low doc" or "no doc" loans, particularly when coupled with nontraditional products

like ARMs, were highly likely to contain misinformation from the borrower, such as overstated incomes, that would result in increased defaults. Because borrowers would be told that there would be no inquiry into the veracity of their representations in loan applications, Company employees referred to these products as ***"liar loans."***

96. <u>"Interest-only"</u> mortgages allowed the borrower to pay only the interest accruing on the loan each month for a predetermined time period. The loan's principal balance remained constant. At the end of the initial time period, borrowers were required to pay interest plus principal, with the interest adjusting depending on whether the loan was an ARM or had a fixed rate.

97. <u>Home Equity Lines of Credit</u> ("HELOCs") were second mortgage loans secured only by the difference between the value of the home and the amount due on a first mortgage. HELOCs sat in the "first loss" position, meaning that if there is a default and foreclosure, the HELOC lender receives proceeds from the sale of the underlying property only after the first lien holder is paid in full. As noted by *The Wall Street Journal* in December 2007, HELOCs are "high-risk" loans that are "potentially worthless in a default because the first-lien holder gets first dibs on the home." Thus, even a relatively modest decline in home prices can have a devastating effect on the collateral securing HELOCs, resulting in the entire amount of the HELOC becoming unsecured.

98. Countrywide management knew that if home prices declined, the value of the collateral purportedly supporting the Company's HELOCs would disappear before the first-lien holder's collateral—leaving Countrywide with nothing to support its loans. The risk of issuing HELOCs was even greater when the first mortgage loan was granted with 100% financing. In such situations, even if there was no decline in real estate values, there was still no collateral backing the HELOC. The entire collateral, *i.e.* the mortgaged property, was tied up for the benefit of the first lien holder. Because Countrywide's position in HELOCs was

subservient to the first lien holder, Countrywide management knew that in selling these loans it was required to focus carefully on the creditworthiness of the borrower and have in place enhanced and careful underwriting policies to ensure that only the most creditworthy were offered this loan product.

99. An internal 2005 marketing document from Countrywide's Full Spectrum Lending division ("FSL"), obtained by Lead Plaintiffs in the course of their investigation and titled "Your FULL SERVICE LENDING Partners," lists the Company's "General Subprime Lending Programs":

- 100% Financing
- 80/20 Programs
- Stated Income Programs
- 2/28 and 3/27 [ARMs]

100. "100% Financing" refers to loans that borrowers could obtain without making a down payment, *i.e.* loans equal to the full purchase price of the home. "80/20 Programs" were also no-money-down loans, and sidestepped the need for borrowers to purchase private mortgage insurance (which was usually required when the loan was for more than 80% of the home price). The home buyer took out *two* loans, one for 80% of the purchase price, and a second, "piggyback" loan for the remaining 20% of the purchase price.[5] Indeed, the same document boasts that "FSL does NOT require Private Mortgage Insurance (PMI) on any loan – ever!" These loan programs, particularly when combined with the nontraditional types of loans Countrywide was offering, and, most significantly, the undisclosed material deterioration of loan origination and underwriting

[5] A borrower who takes out a "piggyback" loan essentially borrows the down payment in addition to the mortgage. Piggyback loans only have a second lien on the house, and therefore lenders are less likely to obtain any recovery upon a foreclosure than on a first lien loan. Moreover, such borrowers are more likely to default because they have not put down any of their own money.

standards detailed below, carried a high degree of risk to the Company and the Class.

3. Countrywide's Significant Increases in Nontraditional Loan Originations Vastly Increase the Company's Credit Risk and Liquidity Exposure

101. Beginning in 2003, Countrywide substantially increased its origination of nontraditional and subprime loans. The chart below illustrates how Countrywide's origination of HELOCs, subprime mortgages (using the Company's internal definition of that term) and ARMs increased in absolute numbers and also as a percentage of the Company's total mortgage origination before and during the Class Period:

Mortgage Loan Production
Years Ended December 31
($ in millions)

	2002	2003	2004	2005	2006	2007
Total mortgage loans originated	$251,901	$434,864	$363,364	$499,301	$468,172	$415,634
Nonprime mortgage loans	$9,421	$19,827	$39,441	$44,637	$40,596	$16,993
Nonprime mortgage loans as % of total loans	3.74%	4.56%	10.85%	8.94%	8.67%	4.09%
ARM loans	N/A	N/A	$189,931	$261,577	$212,085	N/A
ARMs as % of total loans	14%	21%	52.27%	52.39%	45.30%	27%
Pay Option ARMs as % of total loans	N/A	N/A	6%	19%	14%	N/A
HELOCs	$11,650	$18,103	$30,893	$44,850	$47,876	$34,399
HELOCs as % of total loans	4.62%	4.16%	8.50%	8.98%	10.23%	8.28%

102. These figures substantially understated the risk to the Company and the Class resulting from, among other things, Countrywide's loosened and deteriorating loan origination and underwriting standards and the explosion of "exceptions" permitted to even those standards. Further, Countrywide concealed

the fact that it was classifying many loans as "prime" that failed to meet the requisite industry definitions for that term.

103. Countrywide began offering Pay Option ARMs in 2003 and quickly became a leader in what *The Wall Street Journal* called a "profitable and growing part of the mortgage market." According to an October 27, 2007 article describing another example of undisclosed enhanced risk, the Company secretly encouraged employees to sell Pay Option ARMs and sold them to borrowers who did not fully understand their terms:

> In one California branch office, employees could win prizes, such as a trip to Hawaii, for selling the most option ARMs, says Cindy Lau, who worked for the company for more than six years. Only a small portion of borrowers "understood the loan and knew what they were getting themselves into," Ms. Lau adds.

104. Pay Option ARMs, according to a November 2007 article in *The New York Times*, "were especially lucrative. Internal company documents from March [2007] show that Countrywide made gross profit margins of more than 4 percent on such loans, compared with 2 percent margins earned on loans backed by the Federal Housing Administration." However, by providing a material number of such loans to those with inappropriate credit histories and/or financial histories, the Company, undisclosed to the Class, exposed its securities to a significant risk of loss.

105. By 2005, Countrywide had originated approximately $93 billion of Pay Option ARMs. According to an analysis conducted by UBS AG for *The Wall Street Journal*, published on October 24, 2007, the Company rapidly increased its production of Pay Option ARMs by "giving these loans to riskier and riskier borrowers." Indeed, an internal Countrywide sales document indicated that Pay Option ARMs would benefit "[a]nyone who wants the lowest possible payment!"

106. Moreover, despite the risky nature of Pay Option ARMs, Countrywide increased its production of these loans by offering them to persons who could not or would not document their income or assets. By issuing these loans without analyzing the creditworthiness of borrowers, Countrywide increased its risk and that of Class members. Pay Option ARMs are high-risk loans on their own. Lending without checking on the creditworthiness of a borrower is a high-risk activity. The combination of granting a high-risk loan to a borrower whose creditworthiness is unknown is deadly to a lender. The investing public was kept in the dark about this risk. According to *The Wall Street Journal*'s October 2007 analysis of Countrywide's lending practices, 78% of the Pay Option ARMs originated by Countrywide in 2004 "were 'low-doc' mortgages in which the borrower didn't fully document income or assets." By the end of 2006, according to the Company's Form 10-Q report filed on November 9, 2007, ***81%*** of the Pay Option ARMs that the Company was holding for investment were loans with low or no income documentation.

107. Countrywide also increased its origination of Pay Option ARMs by allowing borrowers to obtain them without making substantial down payments. According to the UBS survey reported in *The Wall Street Journal*:

> Countrywide also allowed borrowers to put down as little as 5% of a home's price and offered "piggyback mortgages," which allow borrowers to finance more than 80% of a home's value without paying for private mortgage insurance. By 2006, nearly 29% of the option ARMs originated by Countrywide and packaged into mortgage securities had a combined loan-to-value of 90% or more, up from just 15% in 2004, according to UBS.

108. At the same time Countrywide was increasing its origination of risky loans, it was also increasing the amount of Pay Option ARMs held by the Company for investment. As of December 31, 2006, Pay Option ARMs

represented 46% of the Company's mortgage loans held for investment. The amount of Pay Option ARMs held for investment grew rapidly from approximately $4.7 billion in 2004, to more than $26 billion in 2005, to more than $32.7 billion in 2006.

109. In addition to originating more risky loans, Countrywide exposed itself and the Class to even greater risk in connection with these "nontraditional" loans by keeping a retained interest in its securitized loans. Countrywide typically maintained retained interests in the mortgage pools it securitized for non-prime mortgages and HELOCs. Retained interest holders receive interest payments from the securitized loan pools after all required regular interest has been paid to other investors in the higher priority securities tranches. This was done as a form of credit enhancement, because Countrywide's retained interests would take the first losses if any mortgage pool underperformed, giving the securitization investors limited default protection.

110. Countrywide's explosive origination of nontraditional loans during the Class Period was highly lucrative for the Company in the short term but, as Defendants knew or should have known, vastly increased the long-term risk to the Company's business. To whatever extent investors deemed those risks tolerable, they were kept in the dark about facts and practices that vastly increased even those risks. That is, at the same time Countrywide loosened and abandoned its loan origination and underwriting standards, sacrificing loan ***quality*** for loan ***quantity*** (and its associated higher earnings and higher stock price), it falsely assured investors and analysts that the Company's underwriting policies and procedures, particularly in subprime loans, were sound and indeed superior to those of competing lenders.

4. Countrywide's Securitized Loans Reveal Consistent, High-Volume Lending to Borrowers With Blemished Credit

111. Countrywide, as alleged above, relied heavily on the secondary mortgage market during the Class Period to operate its mortgage lending business. Countrywide generally sold about 95% of its mortgage loans on the secondary market in the form of mortgage-backed securities.

112. Countrywide securitized and sold its loans to the secondary market during the Class Period through its affiliates CWALT, Inc. (Pay Option ARMs), CWMBS, Inc. (fixed-rate and ARM loans), CWABS, Inc. (subprime loans), and CWHEQ, Inc. (HELOCs). These entities acquired loans originated by Countrywide pursuant to pooling and servicing agreements, and then issued securities backed by those loans, with Countrywide acting as the "sponsor" of the offerings. During the Class Period, CWALT, CWMBS, CWABS, and CWHEQ and their affiliates disseminated more than 1,000 prospectus supplements for offerings of mortgage-backed securities.

113. Each of these prospectus supplements made various disclosures with respect to the overall credit quality of the pools of mortgage loans underlying the securities issued in that particular offering, including the ranges of "FICO" scores of the borrowers for the loans. The Fair Isaac Credit Organization, or "FICO," score is a standard and indeed the most widely accepted measure of the creditworthiness of a borrower, and was used by Countrywide throughout the Class Period. FICO scores range from 300-850, with the U.S. median approximately 720.

114. Lead Plaintiffs, with the assistance of a qualified professional services firm, have reviewed the 1,000-plus prospectus supplements issued by CWALT, CWMBS, CWABS, and CWHEQ and calculated the aggregate distribution of FICO scores for all Countrywide mortgage loan securitizations

during the Class Period. The methodology for this analysis and calculation is explained in Exhibit E hereto.

115. As alleged in greater detail in Section IV.D below, the FICO score is a key determinant of whether a given borrower will be classified as "prime" or "subprime," and there is a strong presumption in the mortgage lending industry that a FICO score of 660 divides prime and subprime borrowers. Lead Plaintiffs' analysis reveals that Countrywide consistently made loans to borrowers with FICO scores below 660, and even below 620, *i.e.*, subprime loans, in proportions and amounts far greater than those suggested by the Company's top executives, and contrary to Countrywide's public assurances that it was a conservative and cautious lender in subprime and in general.

116. On September 13, 2006, for example, Countrywide hosted an investor conference during which Mozilo emphasized the Company's minor position in subprime, stating that subprime loans are "only 9% of our production today." During the same conference, Sambol claimed that "[o]ur profile in the subprime market has been one where we have, for the most part, been on the sidelines." One year earlier, during a September 13, 2005 conference call with analysts, Mozilo, referring to securitized loans, stated that "all loans originated and sold" were "primarily prime quality."

117. As shown below, Lead Plaintiffs' analysis of Countrywide's loan securitizations reveals otherwise. As early as the first quarter of 2004, 58% of the total dollar balance outstanding on Countrywide's securitized loans were on loans made to borrowers with FICO scores below 660, and more than 37% were on loans to borrowers with FICO scores below 620. During the same quarter, nearly 37% of all securitized loans were made to borrowers with FICO scores below 660, and more than 20% were made to borrowers with FICO scores below 620:

% of Total Loans Securitized By Quarter

	Range of FICO Credit Scores		
Quarter	**Less than 620**	**620-660**	**Less than 660**
2004Q1	20.62%	15.92%	36.74%
2004Q2	27.61%	17.51%	45.40%
2004Q3	11.52%	14.44%	26.17%
2004Q4	16.84%	15.53%	32.64%
2005Q1	14.11%	14.37%	28.72%
2005Q2	24.64%	16.40%	41.69%
2005Q3	10.56%	12.58%	23.30%
2005Q4	23.91%	19.05%	43.31%
2006Q1	15.32%	17.40%	32.88%
2006Q2	3.86%	16.57%	20.59%
2006Q3	18.12%	21.59%	39.97%
2006Q4	15.96%	18.12%	34.37%
2007Q1	12.13%	14.43%	27.13%
2007Q2	22.19%	16.75%	39.32%
2007Q3	12.39%	9.60%	24.83%
2007Q4	16.24%	13.36%	31.04%
2008Q1	1.02%	12.61%	13.71%

% of Dollar Balance Outstanding ($) By Quarter

	Range of FICO Credit Scores		
Quarter	**Less than 620**	**620-660**	**Less than 660**
2004Q1	37.15%	20.52%	58.07%
2004Q2	28.38%	16.41%	45.07%
2004Q3	17.62%	14.52%	32.45%
2004Q4	20.12%	16.71%	37.16%
2005Q1	15.30%	14.34%	29.89%
2005Q2	22.66%	16.60%	39.77%
2005Q3	14.58%	14.18%	28.95%
2005Q4	22.51%	19.64%	42.41%
2006Q1	15.83%	17.41%	33.39%
2006Q2	3.33%	14.23%	17.75%
2006Q3	19.63%	19.65%	39.55%
2006Q4	19.70%	16.61%	36.86%
2007Q1	15.72%	14.07%	31.22%
2007Q2	22.40%	14.09%	37.37%
2007Q3	8.51%	8.62%	20.87%
2007Q4	10.43%	10.76%	23.19%
2008Q1	0.70%	12.07%	12.81%

118. By the third quarter of 2005, close in time to Mozilo's representation that all securitized loans were "primarily prime quality," nearly 29% of total balances outstanding were on loans made to borrowers with FICOs below 660, and 14% were on loans to borrowers with FICOs below 620. The proportions of total loans to borrowers with these low FICO scores are approximately 23% and 10%, respectively.

119. And by the third quarter of 2006, near the time of the September 13, 2006 investor conference, loans to borrowers with FICOs below 660 comprised more than 39%, and loans to borrowers with FICOs below 620 comprised more than 19%, of Countrywide's total loan balances outstanding. Nearly 40% of all securitized loans at this point had been made to borrowers with FICOs below 660, and 18% were below 620.

120. The aggregated data above and in the tables below for each year from 2004 through 2007 and the first quarter of 2008, and for the Class Period, reveal that Countrywide's loan originations, contrary to Mozilo's and Sambol's statements, were heavily weighted toward low-FICO, subprime borrowers as early as the first quarter of 2004 and until Countrywide was forced to drastically tighten its lending standards and largely cease subprime lending in early 2008.

Totals by Year

		Range of FICO Credit Scores		
		Less than 620	**620-660**	**Less than 660**
2004	% of Loans Securitized (of 1,416,160 Total)	16.57%	15.38%	32.18%
2004	% of Dollar Balance Outstanding (of $166,347,006,186 Total)	22.87%	16.40%	39.59%
2005	% of Loans Securitized (of 1,338,523 Total)	17.55%	15.52%	33.38%
2005	% of Dollar Balance Outstanding (of $221,156,962,042 Total)	18.90%	16.53%	35.72%

		Range of FICO Credit Scores		
		Less than 620	620-660	Less than 660
2006	% of Loans Securitized (of 888,277 Total)	14.26%	18.57%	33.06%
	% of Dollar Balance Outstanding (of $140,510,239,905 Total)	15.38%	17.10%	32.77%
2007	% of Loans Securitized (of 629,166 Total)	15.68%	14.30%	30.93%
	% of Dollar Balance Outstanding (of $123,082,577,560 Total)	15.09%	12.31%	29.27%
1Q08	% of Loans Securitized (of 16,523 Total)	1.02%	12.61%	13.71%
	% of Dollar Balance Outstanding (of $7,324,809,979 Total)	0.70%	12.07%	12.81%

Total for the Class Period

	Range of FICO Credit Scores		
	Less than 620	620-660	Less than 660
% of Loans Securitized (of 4,289,717 Total)	16.22%	15.92%	32.50%
% of Dollar Balance Outstanding (of $658,625,946,379 Total)	18.25%	15.79%	34.62%

C. Countrywide, Contrary to its Assurances of Strong and Superior Underwriting Standards, Loosens and Abandons Them in Order to Boost Loan Volume and Earnings

1. Countrywide, and Mozilo in Particular, Regularly Hyped the Company's Underwriting Standards

121. Countrywide consistently assured investors during the Class Period that the Company managed mortgage credit risk through rigorous standards for origination, underwriting, and ongoing surveillance of outstanding loans. Countrywide also represented in SEC filings that the Company had a credit policy that established standards for the determination of acceptable credit risks. Countrywide portrayed its underwriting process as tightly controlled and

supervised, and ***"designed to produce high quality loans"*** through careful pre-loan screening and post-loan auditing, appraisal and underwriting reviews.

122. In particular, Countrywide's Form 10-K annual reports touted the Company's "proprietary underwriting systems in our loan origination process that improve the consistency of underwriting standards, assess collateral adequacy and help to prevent fraud, while at the same time increasing productivity." In these public filings, the Company also described an "extensive post-funding quality control process" involving "comprehensive loan audits that consist of a re-verification of loan documentation, an in-depth underwriting and appraisal review, and if necessary, a fraud investigation." This post-funding quality control process further involved a "pre- and post-funding proprietary loan performance evaluation system" that "identifies fraud and poor performance of individuals and business entities associated with the origination of our loans." According to Countrywide, "[t]he combination of this system and our audit results allows us to evaluate and measure adherence to prescribed underwriting guidelines with laws and regulations."

123. While Countrywide was rapidly developing its portfolio of HELOCs, Pay Option ARMs and other high-risk loans, Mozilo repeatedly emphasized Countrywide's purportedly superior underwriting skills to the market. When asked, for example, about the inherent risks of originating alternative mortgage products (like subprime loans) during an April 21, 2004 conference call, Mozilo responded:

> Sub-prime cannot be looked at generically. There is very, very good solid subprime business and there is this frothy business that you [refer] to. . . . [Y]ou can get so deep into this marginal credit that you can have serious problems where you are taking 400 FICOs with no documentation; that is dangerous stuff. ***So [I] think it is very important that you understand the disciplines that the Company***

> ***had, particularly that Countrywide has, which are very strong disciplines in the origination of sub-prime loans. And maintaining that discipline is critically important to us. . . . [W]hen you look at sub-prime, you have to look at it in various tranches, and we are at the high end of that tranche.***

124. During the same conference call, an analyst asked whether management was "comfortable" that subprime lending was a "long-term, profitable business" given a number of large lenders' recent exits from the industry. Mozilo responded:

> [W]e have successfully managed this product for years. ***And so I think using what our competitors do as a barometer will put you down the wrong path. We are a very different focused company that understands this product very well, how to originate it, how to manage it, how to underwrite, how to service it.*** And so we look at . . . this sub-prime business as . . . one that has to be carefully manage[d], but one that has a tremendous opportunity for us long into the future, certainly through the balance of this decade and beyond.

125. Similarly, Mozilo compared Countrywide with the rest of the industry during a March 15, 2005 conference call, stating:

> . . . I'm deeply concerned about credit quality in the overall industry. I think that the amount of capacity that's been developed for subprime is much greater than the quality of subprime loans available. ***And so they're pushing further down – as I observe it, they're pushing further down the credit chain into the 500 FICOs and below 550, 540, 530.*** And as you get down to those levels, ***it becomes very problematic and I don't think there's any amount of money you can charge upfront to cover your losses on those type of loans***.

> So I'm deeply concerned about everybody going into subprime. As I have said very often, there's an old Yiddish expression that says when everybody goes to the same side of the boat, the boat tends to tip over. And we are—a lot of people are going to the same side of the boat. ***So we've had to remain very disciplined in our subprime efforts. . . .***
>
> So I have to separate it. The overall industry I am troubled; Countrywide I'm not, because we have remained very disciplined in our origination of subprime loans.

126. During the same call, Mozilo was asked how confident he was that his goal of attaining a 30% market share was achievable. Mozilo reaffirmed that "our objective is to dominate our industry" but assured the market: ***"I will say this to you, that under no circumstances will Countrywide ever sacrifice sound lending and margins for the sake of getting to that 30 percent market share."***

127. Moreover, during a conference call on July 26, 2005, Mozilo and Kurland were asked to comment on a *Wall Street Journal* article apparently reporting that Countrywide and other lenders were loosening underwriting standards. Mozilo stated: ***"I'm not aware of any loosening of underwriting standards that creates a less of a quality loan than we did in the past."***

128. To further convince investors that Countrywide's concerted shift toward riskier mortgage products would remain a relatively safe proposition, the Company stated publicly that it minimized credit risk by selling most of the loans it originated ***"and by retaining high credit quality mortgages in our loan portfolio."***

129. Each of these statements was diametrically opposed to what was actually happening within the Company at the time. For example, as Mozilo and the Officer Defendants were well aware, Countrywide had in fact abandoned any "discipline" in the Company's "subprime efforts" and was "pushing further down

the credit chain." Thus, contrary to Mozilo's ringing assurance, Countrywide was indeed "sacrific[ing] sound lending and margins for the sake of getting to that 30 percent market share." Further, Mozilo and the Officer Defendants, contrary to Mozilo's statements, were indeed "fully aware" of the Company's "loosening of underwriting standards" that created dramatically lesser quality loans than in the past.

2. In an Effort to Meet Mozilo's 30% Market Share Goal, Countrywide Loosens its Underwriting Standards to Sweep in Unqualified Borrowers

130. While Countrywide repeatedly hyped its strong underwriting standards during the Class Period, the Company, driven by Mozilo's goal of capturing 30% of the mortgage market, was progressively loosening them. This undisclosed effort, which was part of the "culture change" described by CW1, was a critical element of the Company's concerted foray away from traditional lending to much riskier but more lucrative products, with the goal—also undisclosed to the public but no secret within the Company—to generate huge volumes of loans (and accompanying revenue) and sell them off to the secondary markets as quickly as possible, regardless of the credit quality of the loans or the magnitude of "exceptions" from the underwriting standards that would need to be granted in order to fund the loans.

131. An internal e-mail obtained by Lead Plaintiffs in the course of their investigation discusses new guidelines then adopted by Countrywide's Correspondent Lending Division ("CLD") for the origination of subprime loans. The core business of CLD was to purchase subprime loans from independent, outside mortgage brokers who originated the loans. The e-mail, dated December 4, 2003, was sent by David Farrell ("Farrell"), CLD's Senior Vice President, to "SubprimeSales@Countrywide" and "SubPrimeDept@Countrywide" regarding the "Exception philosophy under the New Guidelines."

132. "Exceptions" or "exception loans" are loans whose criteria fall outside the Company's underwriting standards but are approved nonetheless. The December 4, 2003 e-mail purports to reiterate the Company's philosophy with respect to allowing such "exceptions," and explains that the "recently released new guidelines were designed to incorporate a wider range of credit scores for each grade so that the need for such exceptions would be eliminated." The new guidelines also include, or were meant to accommodate, "increased loan amount limits." Farrell explains in the e-mail that "the bottom line is that we expanded our guidelines in order to allow more loans to be approved without requiring an exception approval." The rationale in adopting these new loosened guidelines, in other words, which was never disclosed to the market, was to capture a population of borrowers with weak credit who previously would not have qualified for a loan.

133. Confidential Witness 2 ("CW2") worked in CLD as a supervising underwriter during the Class Period until mid-2005. CW2 oversaw between six and ten underwriters who underwrote subprime loans. CW2 also supervised CLD's underwriting operations in several states. Because CLD underwriters could consult with any of the CLD underwriting supervisors, including CW2, and brokers doing business with CLD similarly could approach CLD underwriting managers irrespective of where the broker was located, CW2 became familiar with CLD's underwriting practices with respect to all other regions of the country in addition to CW2's region.

(a) The Underwriting Matrices Reveal a Steady Loosening of Loan Origination Standards

134. Unbeknownst to the Class, underwriting guidelines at CLD were progressively loosened throughout CW2's tenure. A review of the CLD Underwriting Matrices for 2003 through 2006, which Lead Plaintiffs obtained in the course of their investigation and which, according to CW2, were the key

documents CLD underwriters and managers relied upon in performing their duties, reveals that underwriting standards were steadily loosened during the Class Period.

135. For example, the level of documentation the Company required to obtain a subprime mortgage was reduced considerably between February and December 2003. The February 27, 2003 subprime underwriting matrix included three loan documentation programs: full, simple and stated. The December 22, 2003 subprime underwriting matrix includes only two such programs: full and stated. The requirements for "Stated Doc" mortgages were also relaxed. As of February 27, 2003, the Stated Doc program specified that "verification [of income] may be requested on a case-by-case basis." As of December 22, 2003, Stated Doc "income must be reasonable for the borrower's professional [sic] and level of experience." The statement that income verification could be requested was removed. In addition, the February 27, 2003 underwriting matrix specified that under Stated Doc, the "AA and A- risk grades with LTVs greater than 75% require verification of a minimum 2 year continuous employment (salaries must be in the same industry)." The December 22, 2003 underwriting guidelines do not require verification of employment.

136. As of February 27, 2003, the Underwriting Matrix for first lien subprime loans showed a minimum FICO score of 580 for a borrower with an AA risk grade where the loan-to-value ratio was no greater than 85%. Such a borrower could get a loan for as much as $500,000. As of December 22, 2003, the minimum FICO score for a $500,000 loan had been lowered to 540, and borrowers with 500 FICO scores could borrow $400,000. This was true for both full doc and stated doc loans.

137. Further, as of December 6, 2003, the mortgage credit history required for a borrower with a AA risk grade under the subprime loan program was "1 x 30 late payment in the last 12 months; no rolling 30s allowed." In other

words, the prospective borrower could be 30 days late on one mortgage payment during the last twelve months, but could not have "rolling" delinquencies. As of December 22, 2003, this condition was changed to "Rolling–6x30=1," meaning that the borrower could have up to six months of rolling 30-day delinquencies and still qualify for the loan.

138. According to the CLD Underwriting Matrix for subprime first mortgages dated December 22, 2003, a "Stated Doc, Self-Employed" borrower (meaning a borrower who is self-employed and does not provide any documentation supporting income or assets) with a FICO score of 620 could obtain a mortgage with a 70 percent combined loan-to-value ("CLTV") ratio[6] in an amount up to $400,000, even if the borrower had had a Chapter 7 or 13 bankruptcy, provided that the bankruptcy had been discharged at least two years before the loan application. The description of documentation programs confirms that for "Stated" loan applicants, both salaried and self-employed, ***"[i]ncome on 1003 application is not generally verified,"*** with the subjective caveat that the stated income is "reasonable for the borrower's professional [sic] and level of experience."

139. One year later, according to the CLD Underwriting Matrix for subprime first mortgages dated December 20, 2004, standards were lowered. The same "Stated Doc, Self-Employed" borrower could get a loan of up to $500,000. Such a borrower with a FICO score as low as 500 could borrow $400,000.

140. The next year, standards were substantially lowered again. According to the CLD Underwriting Matrix for subprime first mortgages dated December 19, 2005, the same "Stated Doc, Self-Employed" borrower could get a

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[6] This means that the loan could be as much as 70% of the value of the property. The higher the maximum CLTV of the mortgage, the lower the borrower's down-payment and the less borrower equity in the home. A 70% maximum CLTV implies a down-payment of 30% of the price of the property. Generally, the higher the CLTV, the riskier the loan to Countrywide.

loan of up to $650,000, even if he or she had had a Chapter 7 or 13 bankruptcy that had been discharged only ***one day*** (rather than two years) before the loan application. Such a borrower with a FICO score as low as 520 could borrow $500,000.

141. Only three months later, according to the CLD Underwriting Matrix for subprime first mortgages dated March 21, 2006, the same "Stated Doc, Self-Employed" borrower could get a loan of up to ***$1,000,000***, even if he or she had discharged a bankruptcy only one day before the loan application. Such a borrower with a FICO score as low as 500, the lowest FICO score on the matrix, could borrow as much as $700,000.

142. The Underwriting Matrices reflect that standards for "Full Doc" subprime borrowers (where the borrower provides proof of income and 12-months of bank statements) and "Stated W-2" subprime borrowers (where the borrower provides a W-2 form showing wages but no other proof of assets) were relaxed in the same or comparable fashion.

143. Countrywide's Underwriting Matrices also designated internal risk grades between AA+ and C- for both "Full Doc" and "Stated Doc" subprime borrowers. Prior to 2005, in order for a subprime first mortgage borrower to be classified as a B risk grade, 18 months had to have elapsed since the discharge or dismissal of a personal bankruptcy. As of 2005, this requirement was relaxed so that the same borrower could qualify for a B risk grade only one day after bankruptcy discharge and 12 months after dismissal of the bankruptcy proceeding. By shortening the waiting period in this fashion, Countrywide enabled itself to make loans to borrowers who had not yet demonstrated creditworthiness.

144. Countrywide was also willing to grant increasingly larger loans to low-quality borrowers. Under the CLD Underwriting Matrices, as of November 19, 2003 and January 26, 2004, the maximum loan amount for Stated Doc

subprime borrowers internally rated AA+, with a minimum FICO of 680 and 95% CLTV, was $400,000. The maximum loan was increased to $500,000 as of December 20, 2004 and $700,000 as of March 21, 2006. For borrowers with a C- (lowest) risk grade, for example, a minimum FICO of 500 (the lowest), and a CLTV of 70%, the Company would lend a maximum of $300,000 until March 21, 2006, when this maximum amount was increased to $500,000. For an AA rated subprime borrower with a minimum FICO of 500 and a CLTV of 65%, the maximum loan amount that could be borrowed was $400,000 until it was raised to $700,000 as of March 21, 2006. A B- risk grade borrower with a minimum FICO of 500 and an LTV of 80% could only borrow $400,000 between 2003 and 2005, but could borrow up to $550,000 as of March 21, 2006. These increases in maximum loan amounts occurred at many risk grades during the Class Period, exposing Countrywide to increasingly greater risk in its loan portfolio.

145. Subprime underwriting standards also weakened with respect to increased CLTV limitations between 2004 and 2006. For example, in the A- risk grade, the maximum CLTV for borrowers with a minimum 540 FICO was 85% as of January 26, 2004, with a maximum loan amount of $500,000. As of December 20, 2004, the CLTV for these borrowers was increased to 95%, and as of March 21, 2006, the maximum loan amount was increased to $600,000. Borrowers rated AA+ with a minimum FICO of 540 had a maximum CLTV of 85% until December 20, 2004, when it was increased to 90%.

146. Borrowers rated AA+ with a minimum FICO of 640 were consistently able to borrow up to 100% CLTV. Prior to 2005, however, these loans were limited in amount to $500,000 and carried conditions that further limited first-time home buyers to a maximum "payment shock"—the difference in monthly housing costs in the new home versus the previous home—of 100%. As of December 19, 2005, these conditions were eliminated and the maximum

loan size was increased to $575,000. As of March 21, 2006, the maximum loan size for such borrowers was increased further to $650,000.

147. Countrywide's special underwriting standards for jumbo subprime mortgages (those exceeding $500,000) were also loosened over time. As of December 2004, under the CLD Underwriting Matrices, a Full Doc subprime borrower could not obtain a $1 million first mortgage unless the borrower was (1) rated AA+ with a FICO score above 580 and had a maximum CLTV of 65%, or (2) rated AA with a FICO score greater than 600 and had a maximum CLTV of 65%.

148. In 2006, these conditions were relaxed so that a Full Doc subprime borrower could obtain a $1 million first mortgage with no cash-out restrictions if the borrower was: (1) rated AA+ with a minimum FICO of 600 and had a maximum CLTV of 75% (compared to 65%), or (2) rated AA with a minimum FICO of 600 and had a maximum CLTV of 70% (compared to 65%). Thus, Countrywide was willing to make riskier, higher CLTV jumbo loans to less creditworthy subprime borrowers in 2006 as compared to 2004.

149. Further, in 2004 the Underwriting Matrices for jumbo mortgages to subprime borrowers provided that CLTV, even for borrowers rated AA+, could never exceed 95%. By March 2006, however, Countrywide was making jumbo subprime first mortgage loans with 100% CLTV to AA+ rated borrowers with FICO scores above 640.

150. The Company's underwriting guidelines for its B risk grade deteriorated during the Class Period for subprime second mortgages. The B risk grade was relaxed in 2005 to apply to borrowers with bankruptcy dismissals within one year, as opposed to 18 months, and immediately following bankruptcy discharges. Moreover, as of December 20, 2004, a maximum 75% CLTV was permitted for B risk grade borrowers with minimum FICO scores of 560 for

subprime second mortgages on family residences. As of December 19, 2005, this maximum CLTV increased to 80%.

151. According to CW2, the Company's loosening of its Underwriting Matrices and guidelines was necessary in order for CLD to achieve its goal of *doubling* the aggregate volume of loans it purchased each year. For 2002, CLD had a stated goal of purchasing at least $2 billion in loans. To CW2's best recollection, CLD exceeded that goal. For 2003, CLD's goal was to purchase at least $4 billion in loans. To CW2's best recollection, CLD purchased more than $5 billion in loans in 2003. For 2004, CLD's goal was to purchase at least $8 billion in loans. To CW2's best recollection, CLD purchased more than $9 billion in loans that year. For 2005, CLD's goal was to purchase at least $16 billion in loans.

152. Indeed, according to CW2, it would have been impossible for CLD to grow its business in the way Countrywide headquarters wanted had Countrywide continued to use the Underwriting Matrices and guidelines in place in 2003. The loosening of the Underwriting Matrices and guidelines dramatically increased CLD's ability to purchase more loans and meet its aggressive internal goals. However, it also dramatically increased the riskiness of the loans CLD was purchasing. According to CW2, the underwriting guidelines overall were "very loose and lax" and designed to help CLD make loans. CW2 reported that even though the CLD underwriting goal doubled each year, the size of CLD underwriting staff increased only minimally, making it difficult to adhere to any standards or guidelines. In fact, CW2 confirmed that the guidelines themselves were not strictly adhered to. As Farrell, who wrote the December 4, 2003 e-mail, used to say according to CW2, "they are guidelines, not Gospel."

153. Moreover, these CLD Underwriting Matrices, according to CW2 (and CW4 and CW5 as alleged below), were not written or developed by CLD employees. Rather, all CLD Underwriting Matrices were written by a central

office at the Countrywide corporate level. This central office wrote the Underwriting Matrices and guidelines not just for CLD, but for all Countrywide divisions that originated and purchased loans. CLD made loans to borrowers that were originated by mortgage brokers and other intermediaries. Based on CW2's experience with the Company, CW2 believes that as the CLD Underwriting Matrices and guidelines were loosened, those used in Countrywide's other loan origination and loan purchasing divisions—including the Full Spectrum Lending Division ("FSL"), the Wholesale Lending Division ("WLD"), and the Consumer Markets Division ("CMD")—were loosened in the same fashion.

(b) Other Former Employees Company-Wide Witnessed the Loosening of Underwriting Standards

154. Confidential Witness 3 ("CW3") was a corporate-level Senior Vice President involved in financial reporting and analysis during most of the Class Period until 2007. CW3 was part of a group in Company headquarters that was responsible for developing new loan products, tracking profitability and performance, creating productivity models, and troubleshooting any problems. According to CW3, the initiative to create new and innovative loan products "came from high-up," and specifically David Sambol. CW3's group was expected to create "new, exotic products" that were similar to those that Countrywide's competitors were offering. CW3 characterized Countrywide as "fast followers." CW3's group engaged in a form of corporate espionage. Specifically, the group would "receive intelligence" from an insider at Bank of America, which included Bank of America's "exact guidelines" for an "exact new product," which would then be introduced by Countrywide. Each new product was reviewed personally by Sambol and required his approval in order to be marketed. CW3 met regularly with Sambol regarding new product offerings.

155. CW3 recalled a change in loan products as lending standards gradually became more lax beginning as early as 2003. CW3 described

Countrywide's newer products as "worthless," referring in particular to "no income, no asset" loans that led to "easy money" for the Company but allowed borrowers to simply state their income and assets without submitting any proof. According to CW3, it was generally known at Countrywide that "there was a lot of lying going on" by borrowers with respect to such loans. CW3 also noted that FICO scores became less important, with potential borrowers able to obtain a mortgage with very low FICO scores (in the 500s), and that many of the loans being issued by Countrywide had a 100% loan-to-value ratio, which were very risky.

156. Confidential Witness 4 ("CW4") was a Product Analyst in Countrywide's corporate-level Risk Management division during the Class Period until the fall of 2007. As a Product Analyst in Company headquarters, CW4 assisted with distributing the Company's loan program guidelines, and was specifically responsible for Company-wide distribution of management's adjustments to FICO credit scores for all Countrywide products. CW4 also proofread the underwriting guidelines and matrices. CW4 attended weekly Fannie Mae and Freddie Mac meetings with Countrywide Senior Vice Presidents and Executive Vice Presidents in attendance, where Countrywide representatives would "request or negotiate guideline changes to keep up with another company." Management negotiated for variances requested by branches in the field, which sought to amend the underwriting guidelines to get "other loans through."

157. According to CW4, Countrywide had "little spies" informing the Company of competitors' practices, which Countrywide rapidly copied; if other lenders were "being lenient and making money, we had to do it too." Employees often referred to Countrywide as "swift followers," such that if other lenders lowered their FICO score requirements for particular types of loans, Countrywide would always follow suit.

158. CW4 further characterized the weakening underwriting standards at Countrywide as "a feeding frenzy." According to CW4, during the Class Period Countrywide kept relaxing the guidelines and dropping the minimum FICO scores borrowers needed to qualify for loans. Requests were uniformly made to loosen guidelines and never to tighten them.

159. Confidential Witness 5 ("CW5") was a Technical Writer in the Company's Calabasas headquarters from before the Class Period until late 2004 and during 2005 and 2006. CW5 typed weekly revisions to Countrywide's corporate credit policies and guidelines, and revised the "online documentation" according to new guidelines CW5 was given. Edits included updating loan-to-value ratios and FICO credit scores for all loans. CW5 explained that Countrywide's underwriting guidelines were accessible using Lotus Notes computer software, and that anybody in corporate headquarters, including upper management, could access the software. Employees who traveled could also access the guidelines through a corresponding web application. No later than 2005, CW5 became aware through the editing of guideline revisions and interaction with other employees that guidelines had been loosened to allow riskier lending. By October 2005, risky lending was "definitely accelerated."

160. Confidential Witness 6 ("CW6") was a subprime underwriter in a California loan origination branch during the Class Period through the fall of 2007. CW6 exclusively handled subprime loans and typically received applications for "stated income, no-document" loans made by "self-employed" individuals. CW6 recalled becoming aware in 2005 that Countrywide was loosening underwriting guidelines to allow additional and riskier borrowers to satisfy loan criteria. According to CW6, beginning at least in 2005, the underwriting matrices were frequently updated to lower minimum FICO score requirements. According to CW6, lending restrictions were never tightened until

2007 when New Century, a Countrywide competitor and a large subprime lender itself, filed for bankruptcy.

161. Confidential Witness 7 ("CW7") is a former independent mortgage broker and Senior Loan Officer with Family First Mortgage Corp. in Florida. CW7 regularly ran loans through the Tampa, Florida office of Countrywide's Wholesale Lending Division ("WLD"). While at Family First Mortgage, CW7 had occasion to originate loans that were funded not only by Countrywide, but also other lenders including Fremont, New Century, and Citibank. According to CW7, Countrywide's lending standards were the loosest in the entire industry. CW7 recalled that although many mortgage lenders began to tighten credit and appraisal standards in or about 2005, Countrywide's standards remained lax and the Company "let things slide."

3. Countrywide Ignores and Abandons its Underwriting Standards to Pump Up Loan Volume and Boost Earnings

(a) Countrywide Had a Company-Wide Practice of Originating and Funding Loans Without Regard to Loan Quality

162. According to CW2, management turned CLD into a sweatshop where underwriters were under constant pressure to approve increasing quantities of loans without regard to quality. Loans were routinely approved for borrowers who, even based on Countrywide's loosened underwriting standards, did not actually qualify for the loan. According to CW2, the general rule at Countrywide was that loan applications were not to be scrutinized and underwriters were not to exercise professional judgment. Rather, loans were to be approved automatically unless there was a "blatant" problem on the face of the loan application. In fact, in contrast to loans that were approved, all loans that a CLD underwriter denied were automatically given to an underwriting manager for further review. According to CW2, no loan, regardless of whether it was within the underwriter's threshold authority (often $350,000 for a junior underwriter and $450,000 or

$500,000 for a senior underwriter), could be denied without a second signature from an underwriting manager.

163. The culture of CLD, according to CW2, was that you could make any loan work, and "if you don't make loans, you don't have a job." CW2 would make this statement, in words or substance, to subordinates and this principle was reinforced by Countrywide management, including CW2's immediate supervisor (the First Vice President and second-in-charge to Farrell), at meetings of CLD managers that CW2 attended. The mantra was: "We gotta get more loans." "Close more loans." "Find the good in the loans." "We need to make the loans work."

164. According to CW2, CLD underwriters and underwriting managers were required to create a "paper trail" in loan files to support their loan approvals. They were fully aware that in many cases—for example, in connection with SISA, or Stated Income/Stated Asset, loans—borrowers were making false statements about their income and assets. Nevertheless, CLD underwriters had to "paper the file" and "build a case" that a loan was appropriate. CW2 was told that underwriters had to create this paper trail because Countrywide needed to be able to sell its loans on the secondary market. To do so, the loan files had to include sufficient documentation regarding borrower creditworthiness and loan quality.

165. According to CW2, in order to create a paper trail, CW2 and colleagues would look for documentation, such as printouts from a website called salary.com, to support the borrower's claims about his or her stated income. The salary.com website did not provide specific salary information for any particular borrower. Rather, this website purported to provide a range of salaries for particular job titles based upon the borrower's zip code. Countrywide underwriters used salary.com to obtain this information because they knew the borrower file had to have some type of documentation to support or substantiate

the borrower's income in order for the loan to be sold on the secondary market. This was done in many cases in which CLD underwriters knew that the borrower's income could not reasonably be what was represented on the loan application.

166. Indeed, according to CW2, if a borrower applying for a SISA loan provided a bank name, address and account number, it was the practice in CLD that bank balances would not be verified. CLD underwriters would simply accept whatever bank balance the borrower put on the application. According to CW2, all CLD underwriters knew that many of these bank balances were inflated. For this reason, CW2 and other underwriters would call SISA loans "***liar loans***."

167. According to CW2, CLD underwriters had powerful incentives to approve loans regardless of their quality. Underwriters were paid a monthly bonus, and, because they received relatively low salaries, depended on these bonuses to make ends meet. Bonuses were based on the volume of the underwriter's loan production, and calculated using a points system. Points were assigned to each loan depending on a variety of factors including the type of loan that was underwritten. The more points the underwriter accumulated, the larger the bonus. If an underwriter denied a loan, he or she received a lower number of points toward his or her monthly bonus than if the underwriter approved the loan. Indeed, according to a February 2008 article in *The Wall Street Journal*, Countrywide was so focused on growing loan origination that in at least one building, oversized replicas of monthly bonus checks were hung above employees' cubicles so everyone could see which employees were most successful in originating new mortgages.

168. Confidential Witness 8 ("CW8") worked for Countrywide through the Class Period until after the Summer of 2007. CW8 initially was involved in overseeing loan origination as an employee with FSL. As an FSL manager, CW8 was required to be familiar with Countrywide corporate policies and procedures,

and to travel to FSL offices across the nation. To carry out these responsibilities, CW8 was required to have an in-depth knowledge not only of FSL's business and operations, but also the other Countrywide divisions and units engaged in loan origination.

169. According to CW8, between mid-2004 and mid-2007 a substantial percentage of all loans originated by Countrywide were low-doc or no-doc loans, offered as both prime and subprime programs. Underwriting practices for such loans were exceptionally weak.

170. According to CW8, the prime no-doc loan program was called "No Income, No Assets," or "NINA." Borrowers did not provide any meaningful documentation to support NINA loan applications. Meaningful underwriting, therefore, was virtually impossible to perform. "Fast & Easy" was a prime low-doc loan program and an extremely important Company product during CW8's tenure. Like NINA borrowers, Fast & Easy borrowers did not have to provide any significant documentation to support their loan applications, and meaningful underwriting, *i.e.* a real assessment of the borrower's capacity to pay, was virtually impossible to perform.

171. CW8 related that the two basic subprime no-doc loan programs were "Stated Self-Employed" and "Stated Wage Earner." Subprime borrowers who applied through the Stated Self-Employed program were not required to provide any supporting income or asset documentation and were not subject to any meaningful underwriting. The Stated Wage Earner program was designed for wage earners who received W-2 income but who also earned additional income "off the books." Borrowers were required to provide W-2s to verify their on-the-books income, but were not required to provide any documents to verify their additional income. Meaningful underwriting, according to CW8, was therefore impossible with respect to the "off the books" component of Stated Wage Earner loan applications.

172. According to CW8, loan origination standards and procedures were not designed to produce high quality loans. Rather, the rule at Countrywide, as stated in its Sales Training Facilitator Guide, was that ***"we always look for ways to make the loan rather than turn it down."*** Countrywide's loan origination standards and procedures, according to CW8, were focused on enabling the Company to generate revenue growth and capture an increased share of the mortgage loan market.

173. An internal FSL presentation from 2005 obtained by Lead Plaintiffs in the course of their investigation, titled "Your FULL SERVICE LENDING Partners," notes that "Subprime lenders sell payment, not rate" and lists the following "Full Spectrum Lending Success Stories" that highlight the extremely risky loans Countrywide routinely made to borrowers with the weakest credit:

- Borrower with a 530 FICO claimed three reporting collections had been paid in full. FSLD AE [account executive] collected proof of payment and submitted documents to LandSafe credit [Countrywide's in-house appraisal firm]. FICO was adjusted to a 587, and borrower was qualified for 100% LTV.
- Borrower with a 608 FICO was qualified for 100% LTV, using qualifying income from a non-occupying co-borrower with a 570 FICO!!!
- Borrower with a 515 FICO was qualified for 95% LTV, using offer letter and VOE [verification of employment] to qualify income from brand new job.
- Borrower whose application was received on October 28 closed in 7 days on November 4!!!

- Borrower with a 535 FICO was qualified for 100%, no PMI [private mortgage insurance] (ever!), waiving $800 in collection payoffs.
- Borrowers with 521 & 526 FICO were qualified for 100% LTV on cash out refinances.

174. Confidential Witness 9 ("CW9") was a loan underwriter in the Consumer Markets Division ("CMD"), sometimes referred to as the "retail division," from before the Class Period until the summer of 2007. CW9's West Coast branch was the "top grossing" branch in the nation, closing more than $2 billion in loans during its highest-producing year. CW9's branch only originated "prime loans," and CMD's loan programs included "no doc," or "NINA," reduced doc, SISA, and "Fast & Easy." Most loans originated in CW9's branch were "hybrid" ARM loans such as 3/1 or 5/1 ARMs, as to which the respective interest rate was fixed for three or five years and resets annually thereafter. Most other loans issued in CW9's branch were Pay Option ARMs and second-lien HELOCs. Additionally, according to CW9, "80/20" loans, which provided 100% financing, were actively pushed by the Company. According to CW9, senior management insisted that 100% financing be "marketed like crazy."

175. According to CW9, CMD's loan programs were "very consumer friendly" and information on loan applications was "basically stated." Every Countrywide loan, however, according to CW9, gave the lender the right to verify the income stated on the application, and it could be checked with the Internal Revenue Service (the "IRS"). In fact, as reported in an April 6, 2008 article in *The New York Times* called "A Road Not Taken By Lenders," at least 90% of borrowers, including stated income borrowers, were required to provide IRS Form 4506T with the application, authorizing the lender to verify income information with the IRS. According to the article, before 2006 it took one business day to receive a response from the IRS, and in 2006 the IRS set up an

automated system, reducing the response time considerably. However, according to this article, income was verified with the IRS on only 3-5% of all loans funded in 2006. Just as Countrywide had a practice, as described by CW2, of not verifying a "stated" bank balance, the Company turned a blind eye to "stated" incomes despite its ability to determine easily whether that information was accurate.

176. According to Brian Koss, who spent four years as a regional Senior Vice President at Countrywide where he ran 54 branches in New England and upstate New York, Countrywide became a victim of "public company panic." According to Mr. Koss, management was "reacting to each quarter's earnings and making short term decisions. They approached making loans like making widgets, focusing on cost to produce and not risk or compliance." According to Mr. Koss, consistent with CW8, "[p]rograms like "Fast and Easy" where the income and assets were stated, not verified, were open to abuse and misuse. ***The fiduciary responsibility of making sure whether the loan should truly be done was not as important as getting the deal done.*** As long as people had jobs and values were on the rise, life was good."

(b) The Exception Processing System

177. Confidential Witness 10 ("CW10") was a loan officer in a CMD branch from before the Class Period until the Summer of 2007, and was one of the top sales representatives of "A paper" loans, which were prime loans.

178. CW10 stated that Countrywide Bank was an "investor" in many of the Company's loans, and that many of these were "risky" ARM loans and HELOCs originated in CW10's branch. Certain of these loans were $1 million, $2 million, and $3 million second-lien "stated income" HELOCs, which CW10 labeled "atrocious" and many of which are presently being recalled by Countrywide. According to CW10, exceptions got "out of hand" and accelerated

quickly in 2004 and 2005, leading to the creation of more "flexible," or loosened guidelines.

179. In fact, according to CW10 and other witnesses, Countrywide had an internal, proprietary computer system that was used to identify and route highly risky loans out of the regular loan approval process and to the Company's central "corporate underwriting" offices (called "Structured Loan Desks") in Plano, Texas or Pasadena, California for evaluation. The software was called the Exception Processing System, or EPS. The Exception Processing System was not used to reject loans that were outside the Company's underwriting guidelines. Rather, CW10 and other loan officers used EPS to obtain approval authority from "corporate" to *close* and *fund* such loans. CW10 explained that the EPS software had entry tabs by which loan officers could enter a customer's FICO score, loan amount, property value used as collateral, and a description of the client's situation. According to CW10, "highly risky loans" were entered into EPS, hence the need for higher-up approvals outside of the normal approval process. The "corporate underwriters" at the Structured Loan Desks, headed by Eugene Soda, responded to all requests for exceptions made through EPS. CW10 stated 15% to 20% of the loans generated each day in CW10's office were run through EPS, and very few were rejected.

180. A presentation document titled "Countrywide CMD Structured Loan Desk," filed publicly in *United States v. Partow*, No. 06-CR-00104 HRH (D. Alaska), a criminal proceeding against a former Countrywide loan officer, summarizes the "objectives" of the Exception Processing System:

Objectives

- ***Approve virtually every borrower and loan profile with pricing add on when necessary.***
- Identify alternative program to meet borrower needs.

- Leverage FSLI [Full Spectrum Lending] for all subprime opportunities.
- Not intended to match any competitor's price.

Objectives (cont.)

- ***Process and price exceptions on standard products for high risk borrowers.***
- Process exceptions for:

– Credit Scores

– LTV and loan amounts

– Cash out amounts

– Property types

181. As an example of an exception loan, CW10 referred to a "stated income" loan for more than $300,000 involving a high-rise condominium being used as an investment property. The borrower's FICO score was 618, lower than the minimum 640 FICO prescribed in the guidelines, and the loan had a 75% loan-to-value ratio. CW10 considered this loan to be risky given the low FICO score, stated income, and fact that the property was a high-rise condominium (which, CW10, explained, are difficult to sell if repossessed) and was being used for investment purposes. For most loans at Countrywide, 620 was the general demarcation line between prime and subprime loans.[7] CW10 viewed the loan as a "borderline Alt-A/subprime" loan, which ordinarily would have been referred to FSL. CW10, however, ran the loan data through EPS to see what would happen, and it was approved and closed "fast."

[7] As further alleged in Section IV.D below, although Countrywide, unbeknownst to the Class, used a FICO score of 620 as a demarcation line between prime and subprime loans, the mortgage banking industry generally considered that line of demarcation to be 660.

182. Confidential Witness 11 ("CW11") was a senior officer in Business Re-Engineering, working in the Corporate Accounting department at Company headquarters, during the Class Period. CW11 reported to David Collette, the Executive Vice President of Strategic Planning, who reported to Laurie Milleman, the Chief Accounting Officer. CW11 was responsible for managing internal business systems between Corporate Accounting and IT. Sambol asked CW11 to create the Exception Processing System in 2004. According to CW11, EPS is a web-based system that interfaces among all of Countrywide's proprietary computer systems, and was used by Company management in order to approve loans that "violated the rules" or to overrule parameters set by Countrywide's loan origination system. EPS gave management the opportunity to approve loans that, on their surface, should be rejected. In particular, according to CW11, EPS permitted management to override low credit scores and in turn add "additional pricing" or discount points. EPS, in other words, allowed central underwriting to review loans that violated the Company's underwriting standards to evaluate whether such loans should require higher pricing or other terms in view of those violations. According to CW10, as alleged above, such loans were approved and funded as a matter of routine.

183. CW9 described EPS as a "unique system" that referred loans that fell outside Countrywide's underwriting guidelines to SLD. According to CW9, if anything on a loan application fell outside the underwriting standards, the loans would go to SLD for exception processing. According to CW9, approximately ***80%*** of the loans that went through CW9's branch went to SLD, which was "very liberal" in approving loans. In CW9's view, "that's why CFC has issues today." SLD approved loans with low FICO scores (500 range with compensation factors) and loans with "580 FICO scores and 75/80% LTV ratios." Such loans, according to CW9, would be approved by SLD as "prime loans."

184. According to CW9, SLD approved exceptions to loans based on what could be sold to the secondary markets, and if SLD approved the exception loan, the branch manager's hands would be tied and the loan was approved except in the rarest of cases. In sum, loans that did not meet the underwriting guidelines went to SLD via the EPS, and if SLD didn't approve the loans, they were referred to FSL. In other words, loan applications that should never have been approved were constantly kicked further up the corporate ladder until they reached a level where they would be approved by those driven solely by corporate profits and greed.

185. Confidential Witness 12 ("CW12") was employed by Countrywide for approximately fifteen years and held various Assistant Vice President-level positions in underwriting, compliance, and risk management during the Class Period. Among other assignments, CW12 was an underwriter with SLD during a portion of the Class Period. According to CW12, SLD had about 40 employees in Plano; about 20 employees in Pasadena, California, and about 20 employees in Chandler, Arizona.

186. According to CW12, Countrywide granted more and more exceptions over time to borrowers who would not otherwise qualify for loans. Although mortgage lenders generally had some process for approving loans that fell outside underwriting guidelines, according to CW12, EPS was ***"unique"*** in its "electronic" nature and its having been designed to electronically capture and manage the "sheer volume of loans" being excepted at Countrywide on a daily basis. According to CW12, the final, "non-beta" version of the system was rolled out in late 2004 or early 2005, and during 2006 the Company processed approximately 15,000-20,000 loans a month through EPS. CW12 learned from supervisors in SLD that the number of loans going through SLD was increasing greatly from year to year. According to CW12, loans processed under EPS were

"very lucrative" because the Company was receiving "higher fees" on such loans, which were "higher risk loans."

187. In joining SLD, CW12 believed at first that the role of someone in CW12's position was to help mitigate risk by "not making every loan" and seeing where the "line was to be drawn." However, the directives from Senior Vice President Kathy Tinsley, CW12's immediate supervisor, and Eugene Soda, the Executive Vice President who headed SLD, were to "do every loan."

188. CW12 described Tinsley and Soda as major driving forces of risky lending. According to CW12, these managers were "bonus-driven" and wanted to please management by "making every deal" they could. Tinsley and Soda even made an internal video featuring themselves in which they explained to the sales force that SLD would approve almost every loan presented to it.

189. CW12 described the use of a "T graph" listing the positive aspects of a loan on one side and the negative aspects on the other. CW12 recalled showing Tinsley and Lynette Thomas a "T graph" with 12 reasons why Countrywide should not fund a particular loan and one reason why the loan might be an acceptable risk. According to CW12, all Tinsley and Thomas cared about was who the loan officer was and "how much are we going to make on the loan," and would consistently override CW12's concerns and approve the loan. According to CW12, Tinsley wanted to know who the loan officer was because she often charged the borrower fewer "points" when approving a loan originated by a loan officer she liked as compared to one she didn't like. According to CW12, Tinsley and Thomas expected CW12 to "keep quiet" regarding the nature of such risky loans, so as not to jeopardize their stated policy to have SLD's decline rate stay below 1%. CW12 could "count on one finger" the number of such risky loans CW12 was permitted to reject.

190. CW12 further recalled that a "Multi-Million Dollar," or MMD, group within the SLD handled jumbo loans which exceeded $1 million. CW12

recalled that this group, with Tinsley's encouragement and approval, approved such jumbo loans under the "Fast & Easy" program. According to CW12, the more loans Tinsley could push through, the larger her bonus would be, so she was always pushing for more.

191. CW12 reflected that "the things they [SLD] did with multi-million dollar loans is just frightening." For example, while CW12 was in training, a borrower applied for a jumbo loan for his primary residence. According to CW12, however, this "primary" residence was the borrower's fourth residence, and Countrywide had previously funded the loans on the borrower's other three homes. When CW12 pointed this out to a supervisor, CW12 was told: "We only consider the information presented on this particular loan. We don't try to investigate." CW12 was reprimanded later that day.

192. CW12 described a second proprietary computer system, or "pricing engine," called Price Any Loan, or PAL. With PAL, only selective information from a loan application was inputted in order to ensure that ***"no loan was out of the question."*** The existence of PAL confirmed that the purpose of the SLD was, as stated by CW12, to find a way to make every loan possible.

193. According to CW12, the difference between PAL and EPS was that EPS kept track of the number and type of exceptions and generated a multitude of reports regarding exception loans. PAL was used to "price" exception loans, based on their "risk" and Countrywide Bank's ability to "sell that risk" to the secondary market. According to CW12, the detailed information on pricing and loan exceptions contained in PAL was available to employees in Secondary Marketing and senior executives such as Sambol.

194. Based on CW12's experience within SLD and many years as a Countrywide employee, CW12 also explained that CLD did not use EPS itself but rather a "slightly different variation," one that was part of CLD's "GEMS" computer system. According to CW12, CLD purchased as much as 50 million

dollars worth of loans per day from such subprime lenders as Aegis, New Century, DIH Homebuilders, American Home, Silver States and Quicken, many of which are now defunct owing to the poor quality of loans they issued. CLD only audited between 1% and 10% of these bulk purchases of loans. According to underwriters CW12 knew in CLD, if an audit revealed that loans were not meeting Countrywide's underwriting guidelines, the guidelines would be "tweaked" midstream in order to get the package to conform by processing the loans as exceptions through the GEMS exceptions module. According to CW12, Countrywide would find a way to "fit the loan in somewhere" in order to purchase the package.

195. CW3 also referenced the Exception Processing System and commented that ***"so long as we could sell it, we'd do it,"*** and that every loan "has a price."

196. An internal October 2005 "Branch Presentation" obtained by Lead Plaintiffs in the course of their investigation, titled "The Underwriting Process" used by "Central Services-UW" (central underwriting) to train FSL branch managers, confirms the widespread use of EPS and the prevalence of exceptions in approved loans. Branch managers were trained to use a computer-generated grid called the "DLO Matrix," which assisted loan officers in "Developing Loan Options" for customers. Dividing borrowers in three main groups, one with credit scores of 620 or above, another with scores between 500 and 619, and a third with scores below 500, the DLO Matrix yields three basic decisions on potential borrowers: "ACCEPT/APPROVE"; "REFER"; and "REFER (Next Steps)." For borrowers with scores of 500 or above for whom the specific "REFER" decision is "Loan is outside of SubPrime Core guidelines," the DLO Matrix did not reject the loan. Rather, the "REFER (Next Steps)" field directed the loan officer to submit that loan for ***"Manual underwriting or exception***

consideration." According to CW8, this meant that such loans were to be submitted to SLD for exception approval.

197. The same Branch Presentation indicates that for each month between March and August 2005, between 15% and 19% of all subprime loans originated or purchased by FSL were exception loans; between 30% and 40% of all subprime loans purchased by FSL from CMD were exception loans; and between 17% and 23% of all subprime loans purchased by FSL from divisions other than CMD were exception loans.

(c) Countrywide's Inflated Appraisals and Other Fraudulent Loan Origination Practices

198. According to Mark Zachary, a former Regional Vice President of Countrywide's joint venture with KB Home, Countrywide Mortgage Ventures, LLC, the Company blatantly ignored its underwriting policies and procedures. In September 2006, Mr. Zachary informed Countrywide executives that there was a problem with appraisals performed on KB Home properties being purchased with Countrywide's loans. According to Mr. Zachary, Countrywide executives knew that appraisers were strongly encouraged to inflate appraisal values by as much as 6% to allow homeowners to "roll up" all closing costs. According to Mr. Zachary, this practice resulted in borrowers being "duped" as to the values of their homes. This also made loans more risky because when values were falsely increased, loan-to-value ratios calculated with these phony numbers were necessarily incorrect.

199. Mr. Zachary also believed this practice misled investors who later purchased these loans through securitizations because these investors were not made aware that the actual home values were less than the inflated appraised values. According to Mr. Zachary, the inflated appraised values put buyers "upside down" on their homes immediately after purchasing them; that is, the borrowers immediately owed more than their homes were worth. Thus, the

buyers were set up to be more susceptible to defaulting on their loans. This practice also put Countrywide at risk because it was unaware of the true value of the assets on which the Company was loaning money.

200. Mr. Zachary brought his concerns to executives of the Countrywide/KB Homes joint venture, as well as Countrywide executives in Houston, the Company's Employee Relations Department and the Company's Senior Risk Management Executives.

201. According to Mr. Zachary, the Company performed an audit investigating these matters in January 2007, and the findings of the audit corroborated his story. According to Mr. Zachary, the findings of this audit were brought to the attention of Countrywide executives.

202. According to Mr. Zachary, the Company also regularly approved no-doc loans, even to applicants who had been refused loans under the Company's full-documentation loan program. In such instances, according to Mr. Zachary, the Company's loan officers would "assist" applicants in switching to no-doc loans. Mr. Zachary brought this information to the attention of Countrywide Employee Relations and Risk Management officials in 2006 and early 2007.

203. Further, according to Capitol West Appraisals, LLC ("Capitol West"), a company that has provided real estate appraisals to mortgage brokers and lenders since 2005, and is a "review appraiser" for Wells Fargo, Washington Mutual and other lenders, Countrywide engaged in a pattern and practice of pressuring real estate appraisers to artificially increase appraisal values for properties underlying mortgages Countrywide originated and/or underwrote. Capitol West stated that Countrywide loan officers sought to pressure Capitol West to increase appraisal values for three separate loan transactions. When Capitol West refused to vary the appraisal values from what it independently determined was appropriate, Countrywide retaliated in a manner that, according to Capitol West, is consistent with its course of conduct with respect to all

independent appraisers, one designed to undermine that independence and cause appraisers to act in conformity with Countrywide's improper scheme to inflate real estate values.

204. In particular, according to Capitol West, from at least 2004, and likely before, and continuing through at least the end of the Class Period, Countrywide maintained a database titled the "Field Review List" containing the names of appraisers whose reports Countrywide would not accept unless the mortgage broker also submitted a report from a second appraiser. Capitol West was placed on the Field Review List after refusing to buckle under to pressure to inflate real estate values. The practical effect of being placed on the Field Review List was to be blacklisted as no mortgage broker would hire an appraiser appearing on the Field Review List to appraise real estate for which Countrywide would be the lender because neither the broker nor the borrower would pay to have two appraisals done. Instead, the broker would simply retain another appraiser who was not on the Field Review List.

205. According to Capitol West, Countrywide created certain procedures to further enforce its blacklisting of uncooperative appraisers. Specifically, if a mortgage broker were to hire an appraiser that happened to be on the Field Review List, Countrywide's computer systems automatically flagged the underlying property for a "field review" of the appraisal by LandSafe, Inc., a wholly owned subsidiary of Countrywide. LandSafe would then issue another appraisal for the subject property that, without exception, would be designed to "shoot holes" in the appraisal performed by the blacklisted appraiser such that the mortgage transaction could not close based on that appraisal. Indeed, in every instance, LandSafe would find defects in the appraisal from the blacklisted appraiser, even if another, non-blacklisted appraiser arrived at the same value for the underlying property and the said non-blacklisted appraiser's appraisal was

accepted. According to Capitol West, this exact set of facts happened with respect to an appraisal it submitted after it was placed on the Field Review List.

206. Because Countrywide was one of the nation's largest mortgage lenders, a substantial portion of any mortgage broker's loans may have been submitted to Countrywide. Because a broker could not rule out that Countrywide would be the ultimate lender, and because mortgage brokers knew from the blacklist that a field review would be required if a blacklisted appraiser were chosen, with the likely result that a mortgage would not be issued with that appraisal, and, in any event, its mortgage applicant would have to incur the cost of retaining another appraiser, such a broker had a strong incentive to refrain from using a blacklisted appraiser. By these means, Countrywide systematically enlisted appraisers in its scheme to inflate appraisals.

207. CW8 also observed several instances where Countrywide's underwriting policies were ignored with the approval of supervisors. In early 2004—around the time Mozilo publicly touted the Company's "very strong disciplines in the origination of sub-prime loans"—CW8 discovered that a very productive loan officer in Massachusetts, Nick Markopoulos, was engaged in cutting and pasting documents from the internet to create a fraudulent verification of employment in support of a loan application. CW8 referred the situation to Countrywide's Human Resources Department but no investigation was started. Markopoulos then left the Company of his own accord, but was rehired by Countrywide about a year later as a branch manager. CW8 contacted the supervising Regional Vice President and objected to Markopoulos's rehiring, citing his prior participation in fraud. The Regional Vice President overruled CW8's objection, citing Markopoulos's high level of productivity.

208. Confidential Witness 13 ("CW13") was a senior officer in New Customer Acquisition in Company headquarters during the Class Period. CW13 oversaw television, radio and print advertisements for the entire Company, but

formally worked in the FSL division. According to CW13, the "edict" regarding subprime mortgages at Countrywide was to "sell as much subprime as possible." CW13 corroborates CW8's account concerning Nick Markopoulos. According to CW13, it was known to senior management that Markopoulos, a Divisional Executive Vice President, and other branch-level managers committed "a lot of fraud" in originating loans but were kept on at the Company because they were "good producers."

209. CW8 additionally recalled a situation where multiple mortgage loans were being originated to support the conversion of a series of apartment units from rentals to condominiums. CW8 and others suspected that these loans were being originated in connection with sham "loan flipping" transactions involving CMD employees. Loan flipping is a scam whereby a lender convinces the borrower to refinance multiple times, charging higher points, fees, and after interest rates upon each refinancing. Flipping ultimately leaves the borrower with a little more cash and a lot more debt; the debt service quickly overwhelms any benefit bought by the short-term cash. According to CW8, the issue was raised with Gregory A. Lumsden, President of the FSL division and Senior Managing Director for loan origination. CW8 vividly recalled Mr. Lumsden's "short and sweet" response: ***"Fund the loans."***

210. CW12 recalled a "predatory" loan refinancing in which a broker was paid approximately $50,000 in fees, ultimately stripping all of the borrower's equity in exchange for a "lower monthly payment." According to CW12, the borrower was a "woman in her 70s from New York" who was barely able to make the payments on her existing loan. The broker submitted a "conflict of interest loan" for approval and refinancing, pulling out close to $60,000 representing the total equity in the home, with $50,000 to the broker and the remaining cash going to the borrower. According to CW12, the borrower obtained a lower monthly payment only because the loan was an ARM, the

interest rate of which would eventually reset higher. However, the borrower, like many uneducated borrowers, did not understand this important detail. CW12 believed that this loan was "not a responsible loan" and that the broker's fees (which consisted of "front-end" and "back-end" fees in "discount points," appraisal fees, title insurance fees, credit report fees, points for using an "alternative" loan program, a "commission," and a "yield spread premium" on the pricing "differential") to be more like "robbery."

211. After CW12 made a lot of "noise" complaining about this broker, CW12's manager finally declined one of that broker's loans. According to CW12, their Managing Director then called the manager, "really chewed [him] out" and told him that all such loans were to be approved going forward.

212. Like Mark Zachary, CW8 also observed serious problems related to Countrywide's system of obtaining appraisals on properties. According to CW8, Countrywide's appraisal system, referenced in the Company's Form 10-K filings during the Class Period as careful and detailed and providing an assurance of collateral quality, was a sham.

213. According to CW8, until at least mid-2005, loan officers at all of Countrywide's origination divisions were permitted to hire appraisers of their own choosing. They were permitted to discard appraisals that did not support loan transactions, and substitute more favorable appraisals by replacement appraisers when necessary to obtain a more favorable loan to value ratio so that the loan would "qualify" for approval. Loan officers were also able to lobby appraisers to assign particular values to a property in order to support the closing of the loans.

214. Thus, Countrywide loosened and abandoned its supposedly sound underwriting policies and procedures in order to pump up loan volume and boost earnings, creating a significant long-term risk for investors. In contrast to the Company's public hyping of its underwriting standards, quantity, not quality, was

what mattered in loan origination because Countrywide made its money through the rapid bundling and re-selling of loans on the secondary market. Any incentive the Company may have had to ensure that borrowers could repay the loans was outweighed by the incentive to bundle and sell as many loans as possible; accordingly, almost anyone could get a loan from Countrywide, even if he or she had very little ability to pay it back.

215. Countrywide's "culture change" from traditional lending to a "pump and dump" operation was further fueled by a compensation structure, devised and approved by management, that was closely linked to loan volume and not tied to the quality of loans originated. According to a former sales representative quoted in *The New York Times* on the August 26, 2007, "[t]he whole commission structure in both prime and subprime was designed to reward salespeople for pushing whatever programs Countrywide made the most money on in the secondary market."

(d) Countrywide Belatedly Begins to Tighten Up its Lax Lending Standards

216. Only in March 2007, after the secondary mortgage market began to dry up, did Countrywide eliminate "piggyback" loans that allowed borrowers to purchase a home with no money down. According to *Reuters*, an internal e-mail advised loan officers: "Please get in any deals over 95 LTV (loan-to-value) today! . . . Countrywide BC [subprime] will no longer be offering any 100 LTV products as of Monday, March 12."

217. Further, according to published reports, Countrywide waited until February 23, 2007 to stop originating no-doc loans with more than 95% LTV.

218. On July 24, 2007, the Company revealed for the first time that in actuality its underwriting guidelines had been inadequate throughout the Class Period, stating that the Company had "made many changes" to its "underwriting guidelines and processes, in order to improve the quality and secondary market

execution of our production." The Company also disclosed that its proprietary underwriting system needed to be "recalibrated."

219. In mid-August 2007, after the price of Countrywide stock had dropped precipitously, the Company announced that it would make further significant changes to its underwriting operations by largely limiting itself to mortgages that could be bought by government-sponsored agencies Freddie Mac and Fannie Mae. These changes, however, came far too late for Plaintiffs and the Class, who suffered massive losses on purchases of the Company's securities. Additional revelations would cripple the Company's stock price even further.

D. Countrywide Reported Minimal Origination of Subprime Loans By Classifying Subprime Loans as "Prime"

220. During the Class Period, Countrywide made regular public disclosures distinguishing between its "prime" and "subprime" (sometimes referred to as "nonprime") loan originations and securitizations. As alleged in detail below, the Company periodically reported its volumes of prime and subprime mortgage loans produced and sold, the volumes of prime and subprime loans held for investment, and the value of the Company's credit-sensitive retained (or "residual") interests in securitized prime and subprime loans.

221. These statements classifying and distinguishing between "prime" and "subprime" loans were false and misleading because Countrywide, during the Class Period, employed a private, internal standard to distinguish between "prime" and "subprime" loans that, as the Officer Defendants knew, differed materially from the standard used by government agencies and generally accepted in the mortgage banking industry. Thus, while Countrywide repeatedly assured the market that it adhered to a conservative approach to loan origination and underwriting that set it apart from other, inferior mortgage lenders known to be heavily engaged in subprime lending, Countrywide actually conducted the same risky type of business but hid that fact from the Class by operating under a private

benchmark for classifying loans as "prime" that was substantially below the benchmark accepted in the industry and understood by investors and analysts.

222. The most widely accepted measure of the creditworthiness of a borrower used in the mortgage and consumer lending industry, and which Countrywide used and relied upon heavily throughout the Class Period, is the borrower's Fair Isaac Credit Organization ("FICO") credit score. Fair Isaac describes the FICO score, which ranges from 300 to 850, as "the standard measure of US consumer credit risk" and "the recognized industry standard in consumer credit risk assessment." FICO scores are developed from a variety of data in a prospective borrower's credit reports, including payment history, amounts owed to creditors, length of credit history, new credit sources, and the types of credit used. Generally, the higher the FICO score, the better the borrower's credit and the lower the risk of default.

223. According to Fair Isaac, the U.S. median FICO score is in the 720 range. Approximately 27% of the U.S. population has a FICO score between 750 and 799, 15% has a score below 600, and 27% has a score below 650.

224. The FICO score is a key determinant of whether a given borrower will be classified as "prime" or "subprime." During the Class Period, Fitch Ratings termed FICO scores the "best single indicator" of mortgage default risk. Countrywide itself described FICO scores in its 2006 Form 10-K as "[a] commonly used measure of consumer creditworthiness" used "to assess a prospective borrower's credit history and the impact of the prospect's current borrowing arrangements on their ability to repay a loan."

225. There is a strong presumption in the mortgage lending industry that a FICO score of 660 divides prime and subprime borrowers. The principal definition of "subprime" is found in the *Expanded Guidance for Subprime Lending Programs*, issued jointly on January 31, 2001 by the U.S. Office of the Comptroller of the Currency, the Board of Governors of the Federal Reserve

System, the Federal Deposit Insurance Corporation, and the Office of Thrift Supervision ("OTS"). The *Expanded Guidance* was sent by the Deputy Director of OTS to Defendant Mozilo and other banking CEOs on or about February 2, 2001, and Countrywide management was required to be familiar with it. The guidance advises financial institutions that the elevated levels of credit and other risks arising from subprime lending tend to require heightened risk management and additional capital reserves. As explained in the *Expanded Guidance*, "[t]he term 'subprime' refers to the credit characteristics of individual borrowers. Subprime borrowers typically have weakened credit histories that include payment delinquencies, and possibly more severe problems such as charge-offs, judgments and bankruptcies. They may also display reduced repayment capacity as measured by credit scores, debt-to-income ratios, or other criteria that may encompass borrowers with incomplete credit histories."

226. OTS's February 2001 transmittal letter advises that the *Expanded Guidance* was intended to provide, among other things, "a more specific definition of the term subprime." Among the credit risk characteristics listed in the *Expanded Guidance* that label a borrower as "subprime" is a "[r]elatively high default probability as evidenced by, for example, a credit bureau risk score (FICO) of 660 or below (depending on the product/collateral), or other bureau or proprietary scores with an equivalent default probability likelihood[.]"

227. Standard & Poor's, one of the principal securities rating agencies, similarly states: "Standard & Poor's considers subprime borrowers to have a FICO credit score of 659 or below." Conversely, "Standard & Poor's considers prime borrowers to have a FICO credit score of 660 or above."

228. Freddie Mac, one of the government sponsored entities that purchased loans from Countrywide during the Class Period, stated in its February 2003 public guidelines that "FICO scores objectively evaluate all the information in the Borrower's repository credit file at the time the FICO score was created.

Freddie Mac has identified a strong correlation between Mortgage performance and FICO scores." For loans on single-family properties, Freddie Mac views a borrower with a FICO score above 660 as "likely to have an acceptable credit reputation." Further, FICO scores between 620 and 660 "should be viewed as an indication that the Borrower's willingness to repay and ability to manage obligations as agreed are uncertain." A FICO score below 620, according to Freddie Mac, "should be viewed as a strong indication" that the borrower's credit profile is "not acceptable."

229. According to CW8, however, during the Class Period, Countrywide had a company-wide practice of classifying loans to borrowers with FICO scores lower than 660, and indeed ***as low as 500***, as "prime."

230. In particular, according to CW8, loans to borrowers with FICO scores of 620 or higher were consistently classified by the Company as "prime" loans in its internal reporting systems. This is corroborated by CW10, according to whom Countrywide generally viewed "subprime" borrowers as those with a FICO score below 620 (and, in any event, there were always "exceptions" to this rule which were submitted to "corporate underwriting"). Similarly, according to CW9, "620" was the demarcation line between prime and subprime loans at Countrywide, and there were "definitely" many prime loans originated in CMD with FICO scores of 620, 630 and 640. CW9 saw prime loans with FICO scores in the 500 range that went through EPS. Overall, according to CW8, a substantial percentage of the loans claimed by Countrywide to be "prime" loans in its public disclosures during the Class Period were loans to borrowers with FICO scores between 500 and 659.

231. The October 2005 "DLO Matrix," referenced above, supports these witness accounts. The DLO Matrix divides borrowers into three main categories based on credit scores: "620 or greater," "500 to 619," and "Less than 500." No distinction is drawn at the 660 (or 659) FICO level. Within the "620 or greater"

FICO band, borrowers are further categorized based on whether they are first time home buyers or otherwise have a history of making existing mortgage payments on time. For such borrowers, their starting product group is "Prime-Conforming" or "Prime-Non-Conforming" depending on the loan amount. If the borrower falls within the guidelines in the automated underwriting system, the loan is approved as "Prime-Conforming" or "Prime-Non-Conforming." If the automatic underwriting system rejects the conforming loan, the DLO Matrix instructs the loan officer to "re-commit" under the prime non-conforming program and re-run the underwriting system. If the underwriting system rejects the non-conforming (large) loan as outside the non-conforming guidelines, the loan officer must "[r]eview loan with Prime Underwriting Support Desk for exception consideration." According to CW8, if SLD then signed off on the exception, the loan would be treated as prime. CW9 also recalled that exception loans approved by SLD, including loans in the 500 FICO range, would be approved as "prime loans."

232. For borrowers with FICO scores of 620 or better who were regularly 30-days late on mortgage payments, the Starting Product Group for a conforming-size loan was "SubPrime—Expanded Approval (EA) Levels," which was then treated as "Prime-Conforming" if the automated underwriting system approves the loan. Non-conforming loans were initially labeled subprime, but loans outside the subprime guidelines were referred for "Manual Underwriting or exception consideration."

233. Under the DLO Matrix, for borrowers in the 500-619 FICO band who were first-time home buyers or who had never been 60 days late making a mortgage payment, a conforming-size loan similarly qualified as "Prime-Conforming" if the automated underwriting system approved the loan. Other loans in this FICO band would be submitted for "Manual underwriting or exception consideration."

234. Another internal document indicates that Countrywide classified as "prime" numerous loans made to borrowers with FICO scores below 660, and indeed below 620. Countrywide held top-level monthly "Business Review" meetings at its Calabasas headquarters, during which the Company's and each mortgage lending segment's performance and results were discussed and evaluated in detail. Each division supplied detailed documents in advance of the meeting. The FSL binder for the February 2007 "Business Review" meeting in Calabasas included a "Prime Pricing Comparison" for January 2007 that compared "prime" loans by FSL that were "Non-NCA" (*i.e.*, not to new customers) with refinancing transactions within CMD. Among the "prime" loans by FSL, listed by loan program group, were 2,004 fixed-rate loans with an average FICO score of 648; 16 interest-only ARM loans with an average FICO of 643; 11 3/1 ARM loans with an average FICO of 634; 12 7/1 ARM loans with an average FICO of 627; 94 5/1 ARM loans with an average FICO of 614; and 11 5/1 ARM loans with an average FICO of 612. These 2,148 loans constitute approximately 23% of the 9,458 "prime" loans produced by FSL (Non-NCA) in January 2007.

235. Further, the Business Review binder's January 2007 "Prime Production Profile" for FSL (Non-NCA) listed 1,794 first mortgages in the 620-659 FICO band (average FICO 639); 720 first mortgages in the 580-619 FICO band (average FICO 602); and 78 first mortgages in the "Less than 580" FICO band (average FICO 556). The "Prime Production Profile" also listed 820 second mortgages in the 620-659 FICO band (average FICO 640); and two second mortgages with loans to borrowers below 620 (average FICO 606). These 3,414 loans constitute 36% of the 9,458 "prime" loans produced by FSL (Non-NCA) in January 2007. "Prime" CMD refinancings in January 2007 included 2,038 first lien mortgages in the 620-659 FICO band (average FICO 642); 381 first lien mortgages in the 580-619 FICO band (average FICO 604); and 138 first

mortgages in the less than 580 FICO band (average FICO 548), constituting approximately 15% of the total 17,483 CMD refinance loans that month.

236. Finally, the "Prime Production Profile" for FSL-NCA (*i.e.*, new customers) listed 298 first mortgages in the 620-659 FICO band (average FICO 640), 68 first mortgages in the 580-619 FICO band (average FICO 605), and six first mortgages with FICO scores below 580 (average FICO 562). The same "Prime Production Profile" also listed 169 second mortgages in the 620-659 FICO band (average FICO 640). These 541 loans constitute more than 23% of the 2,293 "prime" loans produced by FSL-NCA in January 2007.

237. This data was drawn from a "Monthly Revenue Book" prepared each month by FSL's Pricing and Secondary Marketing Department and sent to corporate headquarters. According to CW8, the Monthly Revenue Books were prepared under a group headed by David Swain, FSL's Executive Vice President for Products and Pricing, and sent directly to David Sambol's office for his review.

238. The FSL Monthly Revenue Book for May 2007, which Lead Plaintiffs obtained in the course of their investigation, similarly shows that Countrywide routinely extended "prime" loans to low-FICO borrowers. The May 2007 "Prime Production Profile" for FSL "Non-NCA" loans lists 2,419 first mortgages in the 620-659 FICO band (average FICO 639), 986 first mortgages in the 580-619 FICO band (average FICO 602), and 112 first mortgages in the less than 580 FICO band (average FICO 552). This "Prime Production Profile" also lists 1,071 second mortgages in the 620-659 FICO band (average FICO 639), one second mortgage with a FICO of 617, and one second mortgage with a FICO of 579. These 4,590 loans constitute more than 33% of the 13,859 "prime" loans produced by FSL Non-NCA in May 2007. "Prime" CMD refinancings in May 2007 included 2,128 first lien mortgages in the 620-659 FICO band (average FICO 641), 506 first lien mortgages in the 580-619 FICO band (average FICO

604), and 178 first lien mortgages in the less than 580 FICO band (average FICO 550), constituting 15% of the total 18,294 CMD refinance loans that month.

239. Countrywide's internal classification of subprime loans as "prime" was undisclosed during the Class Period. Countrywide routinely referred to "prime" loans in SEC filings and other public statements without clarifying that its unique definition of "prime" was inconsistent with the public's and industry's understanding of that term, thereby rendering those statements misleading. Countrywide's unique, internal standard remained concealed until the Company's July 24, 2007 conference call discussing its catastrophic second quarter 2007 results. During the call, John McMurray, the Company's Chief Risk Officer stated in his opening presentation that "[a] prime FICO loan—***a prime loan with FICOs in the low 500s*** is going to be over 30 times more likely to be seriously delinquent than a prime loan with an 800 FICO, holding all other variables constant." Later during the call, in response to a question about delinquencies among the Company's "prime mortgages," McMurray stated: "There is a belief by many that prime FICOs stop at 620. ***That is not the case.*** There are affordability programs and Fannie Mae, expanded approval, as an example, ***that go far below 620, yet those are considered prime."***

240. Based on this explanation and other statements made during the conference call, an analyst from HSBC Securities stated that "[w]e do believe in some color given by management, ***that the definition of 'prime' (or Alt-A for that matter) was loosened in the recent boom.*** Management referred to certain affordability programs where FICO scores ***went 'far below' 620 (which already is well below the bank regulator's definition of subprime, which has a 660 cutoff)."*** The same analyst noted that "management acknowledged that the higher combined loan to value (CLTV) and reduced documentation higher CLTV products—classic speculator products—are accounting for a disproportionate share of credit costs."

241. This analyst was plainly observing for the first time that Countrywide categorized as "prime" borrowers who should have been categorized as subprime, while lowering income documentation standards below prudent levels and increasing loan-to-value ratios above prudent levels.

242. Similarly, a July 27, 2007 analyst report by Stifel, Nicolaus & Co. ("Stifel") discussing the disappointing second quarter results questioned the analyst's own "sanguine views" on the Company's credit exposure, stating:

> . . . given the magnitude of the credit problems in the bank, we think ***mgmt made serious miscalculations (and possibly misrepresentations) about the quality of the loans*** added to the bank. In the analysis we present later in this note, we find that ***CFC's home equity securitizations are performing roughly inline with LEND's*** [a competing subprime lender's] ***subprime deals***. We also find that underwriting standards deteriorated through 2006 and have only improved slightly in 2007.

243. With respect to Countrywide's underwriting criteria for HELOCs, the Stifel report confirmed that the Company's underwriting standards declined from no later than 2005 through late 2006, with only minimal improvement in 2007.

244. The Stifel report further examined the gravity of Countrywide's loose lending practices and expanded definition of "prime" by disclosing that almost 20% of Countrywide's prime HELOCs in the first two quarters of 2007 were given to ***subprime borrowers with FICO scores of less than 660***. Moreover, almost 23% of the prime HELOCs in those quarters had a CLTV ***greater than 100%***. In the analyst's view, "the increasing share of sub-660 FICO, 100%+ CLTV, and second home/non-owner occupied loans [was] ***disturbing***." The Stifel report also noted that in the first half of 2007, ***78%*** of Countrywide's HELOCs were reduced documentation loans.

E. Countrywide Misled the Class About the Creditworthiness of Pay Option ARM Borrowers

245. During the Class Period, Countrywide falsely maintained that its Pay Option ARMs were prudently underwritten and that borrowers holding these loans were of the highest credit quality and had relatively strong FICO scores. During conference calls held in April and July 2005, Kurland represented to the market that Pay Option ARMs are "all high FICO," and Mozilo declared that this "product has a FICO score exceeding 700" and is limited to borrowers "of much higher quality."

246. According to CW8, at the time these statements were made, Countrywide routinely funded Pay Option ARMs to thousands of borrowers with FICO scores as low as 620 and sometimes lower, and this was communicated to Kurland and Mozilo (and other executives) in multiple internal reports detailing the Company's Pay Option ARMs. An internal Countrywide document obtained by Lead Plaintiffs in the course of their investigation, titled "PayOption ARM 101: 'Learning the Basics'" and dated April 2005, indicates that Pay Option ARMs were often funded to borrowers with credit scores as low as 620.

247. Further, according to CW8, not only were Pay Option ARMs routinely made to borrowers with credit scores as low as 620 (or lower), but these loans also were often underwritten through "low doc" programs that did not involve any meaningful verification of income or assessment of the borrower's capacity to repay the loan. "PayOption ARM 101" indicates, in fact, that these loans were offered through reduced documentation and SISA applications.

248. Countrywide sought to reassure the market as to the safety of the Pay Option ARMs held for investment in the Company's portfolio by disclosing the average original FICO scores of the borrowers holding such loans. The Company's 2005 Form 10-K stated that the "pay-option loan portfolio" had a "relatively high initial loan quality," and that the average original FICO score for

Pay Option ARMs held for investment as of December 31, 2005 and 2004 was 720 and 730, respectively. In its 2006 Form 10-K, Countrywide dropped its claim that Pay Option ARMs had "relatively high initial loan quality," but stated that the average original FICO score for such loans as of December 31, 2006 was 718.

249. Countrywide's statement in its 2005 Form 10-K that Pay Option ARMs had a "relatively high initial loan quality" was false, and the "averages" in the 2005 and 2006 Form 10-Ks were at best misleading, because Countrywide was regularly funding Pay Option ARMs to borrowers with FICO scores as low as 620 and sometimes lower. Borrowers with FICO scores below 660 were considered subprime by the financial community, including banking regulators and mortgage industry participants, and securities analysts. Countrywide's representations of the "average" FICO score were misleading to a reasonable investor because they omitted any reference to the applicable FICO score bands, or at least the top and bottom of the range of FICO scores, which was necessary in order to properly assess risk. Such information would have been material and indeed critical to the Class given Countrywide's routine practice of providing a substantial number of Pay Option ARMs to subprime borrowers, many on a low-doc or no-doc basis.

F. Countrywide Engaged in Widespread Predatory Lending Practices, Generating Short-Term Profit at Long-Term, Undisclosed Risk to the Class

250. A further example of Countrywide's conscious abandonment of its underwriting standards is its widespread use of deceptive lending practices during the Class Period. These practices garnered Countrywide huge fees from borrowers who were extended loans they could not repay, resulting in the risk of increased defaults and foreclosures to the detriment of the Company and the Class.

251. Predatory lending is a practice whereby a lender deceptively convinces a borrower to agree to unfair and abusive loan terms, including interest rates and fees that are unreasonably high.

252. Countrywide and its management knew from the start of the Class Period that the Company operated within specific statutory and regulatory parameters that limited the interest rates and other fees Countrywide was permitted to charge borrowers and the types of sales practices the Company could employ. Countrywide consistently assured investors during the Class Period that it was in compliance with these laws and regulations. Countrywide's Form 10-Ks for 2003 and 2004 stated, for example:

> Currently, there are a number of proposed and recently enacted federal, state and local laws and regulations addressing responsible banking practices with respect to borrowers with blemished credit. In general, these laws and regulations will impose new loan disclosure requirements, restrict or prohibit certain loan terms, fees and charges such as prepayment penalties and will increase penalties for non-compliance. Due to our lending practices, we do not believe that the existence of, or compliance with, these laws and regulations will have a material adverse impact on our business.

253. On February 4, 2003, Defendant Mozilo gave a lecture at Harvard University's Joint Center for Housing Studies which included the following remarks:

> These [predatory lending] laws were allegedly enacted to protect borrowers from lenders who abuse the unsophisticated, low-income, elderly and minority communities by charging high interest rates and fees and fraudulently imposing unfair terms. ***These lenders deserve unwavering scrutiny and, when found guilty, an unforgiving punishment.***

254. Despite Countrywide's assurances and Mozilo's pointed remarks, Countrywide did not comply with applicable regulatory and statutory restrictions on predatory lending. These abusive activities by the Company, while increasing Countrywide's revenues in the short-term, posed a significantly increased risk to investors from borrower defaults that was not disclosed to the public. Simply put, as Countrywide harmed borrowers, Countrywide put itself and therefore the Class at increased risk, and ultimately harmed the Class.

255. On August 26, 2007, *The New York Times* ran a major exposé titled *Inside the Countrywide Lending Spree*, revealing that Countrywide, as a matter of company practice, regularly steered borrowers to risky loan programs with unfavorable terms in order to generate maximum profits for the Company:

> On its way to becoming the nation's largest mortgage lender, the Countrywide Financial Corporation encouraged its sales force to court customers over the telephone with a seductive pitch that seldom varied. "I want to be sure you are getting the best loan possible," the sales representatives would say.
>
> But providing "the best loan possible" to customers wasn't always the bank's main goal, say some former employees. Instead, potential borrowers were often led to high-cost and sometimes unfavorable loans that resulted in richer commissions for Countrywide's smooth-talking sales force, outsize fees to company affiliates providing services on the loans, and a roaring stock price that made Countrywide executives among the highest paid in America.
>
> ***Countrywide's entire operation, from its computer system to its incentive pay structure and financing arrangements, is intended to wring maximum profits out of the mortgage lending boom no matter***

> ***what it costs borrowers,*** according to interviews with former employees and brokers who worked in different units of the company and internal documents they provided. One document, for instance, shows that until last September ***the computer system in the company's subprime unit excluded borrower's cash reserves,*** which had the effect of steering them away from lower-cost loans to those that were more expensive to homeowners and more profitable to Countrywide.

256. A borrower who has more assets generally poses less risk to a lender, and will typically get a better interest rate and/or few up-front fees or points on a loan as a result. However, as indicated above, Countrywide's software prevented the input of borrowers' cash reserves so that loan officers would have to pitch higher-cost loans to borrowers.

257. Further, according to the *Times* exposé, "documents from the subprime unit also show that Countrywide was willing to underwrite loans ***that left little disposable income for borrowers' food, clothing and other living expenses."*** For example, one Countrywide manual stated that a borrower with a family of four could obtain a loan even if the monthly mortgage payment left the family with only $1,000 to live on for the month. A single borrower could obtain a loan whose payment left him or her only $550 for food, clothing or other expenses for the month. This was corroborated by the CLD Underwriting Matrices obtained by Lead Plaintiffs.

258. Countrywide also encouraged brokers to add prepayment penalty terms to loans. A broker's sales commission would be increased by 1% if he or she added a three-year prepayment penalty to a loan. Additionally, if a broker convinced a borrower to take out a HELOC in addition to a mortgage loan—which was commonplace in the Company's sales of so-called 80/20 loans—the broker received an extra 0.25% commission.

259. Brokers who induced borrowers to take out subprime loans were even rewarded in some instances by prizes such as all-expense-paid trips to Las Vegas. Similarly, as reported in October 2007 by *The Wall Street Journal*, employees in at least one California branch received prizes, including trips to Hawaii, for selling the most Pay Option ARMs.

260. Further, Countrywide's subprime unit also avoided offering borrowers Federal Housing Administration ("FHA") loans, which were backed by the U.S. government and carried less risk to borrowers. FHA loans tended to be well-suited to low-income or first time buyers, but were not offered because they did not generate the high fees generated by non-government-backed loans.

261. Countrywide's prioritizing of fees and commissions over borrower creditworthiness resulted in massive delinquencies in subprime loans. As reported in the Company's Form 10-Q for the second quarter of 2007, 20.15% of Countrywide's subprime loans were delinquent as of June 30, 2007, sharply up from 14.41% the prior year. Moreover, as noted in the *Times* exposé, nearly 10% of subprime mortgages were delinquent by 90 days or more, compared with only 5.35% the prior year. At the end of 2006, according to Countrywide's 2006 Form 10-K, delinquencies for Countrywide's subprime loans had increased to 19.03%, more than 25% higher than the prior year's rate (15.20%) and more than 68% higher than the delinquency rate in 2004 (11.29%). As of the end of 2007, fully 27.29% of Countrywide's subprime mortgage loans were delinquent, and 5.54% were pending foreclosure.

262. Further, delinquencies on Pay Option ARMs, publicly touted as a "prime" program as alleged above, increased significantly during the Class Period. As of the end of 2004, 0.1% of the Company's Pay Option ARM loans were delinquent. By the end of 2007, 5.36% of all Pay Option ARM loans were delinquent.

263. A complaint filed in this Court against Countrywide on December 21, 2007 illustrates the Company's predatory lending practices with respect to Pay Option ARMs. As alleged in that complaint, Edward Marini lives in Little Egg Harbor Township, New Jersey. In or around February 2005, Mr. Marini entered into a subprime loan with another lender that was soon sold to Countrywide. Within a few months, Countrywide contacted Mr. Marini by telephone and convinced him to refinance his mortgage with Countrywide Home Loans in the form of a Pay Option ARM on his primary residence. At the time of the loan, Countrywide did not disclose to Mr. Marini that his monthly payments would increase soon after taking out the loan, or that if he made the "minimum payment" the principal amount of the loan would actually increase each month.

264. Since this refinancing, the amount of principal Mr. Marini owes has increased by approximately $17,000. Mr. Marini has also received a "Significant Payment Increase Alert" letter from Countrywide dated August 6, 2007, indicating that the minimum payment on his mortgage will soon increase to more than double what he is currently paying, based on negative amortization. Mr. Marini anticipates that, as a result, he will need to file for bankruptcy, because he cannot make his monthly payments and has been unable to refinance his loan with Countrywide.

265. Similarly, on July 25, 2007, Audrey Sweet of Maple Heights, Ohio, testified before Congress that Countrywide approved a mortgage that she and her husband could not afford. When she and her husband "were finally told the amount of the monthly mortgage payment, [they] were shocked!" Although they expressed concern about the amount of the mortgage, they "were told not to worry about it, as long as [they] paid the mortgage on time for a year [they] would be able to refinance to a better rate." Additionally, she testified that loan documents were falsified. In this regard, Ms. Sweet stated that in subsequently reviewing her loan application, she:

> discovered several things [she] had apparently overlooked until then. The first was that my gross monthly income was recorded as $726 dollars more than it actually was. Secondly, I have two sets of loan documents, one that was created 10 days before we closed and one that was created the day of closing. The closing day documents list my assets as $9400.00 in my Charter One Bank account. I have never had $9400 in the bank. Indeed, coming up on payday, I am fortunate to have $94 left! The final item I noticed was that the tax amount listed on the appraisal report was $1981.34, which comes to about $165.00 a month but Countrywide listed $100.00 a month as the tax amount.

266. Because Ms. Sweet and her husband could not afford their mortgage payments, they face default and foreclosure. Countrywide's increased risk of not being able to collect on the Sweets' mortgage puts the Class at increased risk.

267. The Company's predatory lending practices are presently the subject of an investigation by a panel of the United States Senate. During an August 29, 2007 press conference reported in *The Wall Street Journal*, the panel's chairman, Senator Charles Schumer, stated:

> Countrywide's most lucrative brokers are those that make bad loans that are ***largely designed to fail the borrower***. . . . The company's brokers can earn an extra 1 percent of the loan value in commission by adding a three-year prepayment penalty to loans.

268. The Attorneys General of California, Florida and Illinois have all also launched investigations of Countrywide for deceptive business practices relating to its mortgage lending.

269. Simply put, Countrywide's whole business was designed with the goal of originating loans and selling them to the secondary markets as quickly as possible, regardless of the quality of the loans, the suitability of the products for

the borrower, or the number and magnitude of exceptions to Countrywide's supposedly sound underwriting standards. But, Countrywide's ability to sell these loans quickly depended upon convincing investors in the secondary market that the loans being sold were of high quality. Among other things, this required Countrywide to make various representations and warranties to the secondary market, giving secondary market participants recourse if the representations and warranties proved to be untrue. These facts and the risks associated with them were not disclosed to investors, and Plaintiffs and the Class were damaged as a result.

G. Countrywide's Financial Statements Were Materially Misstated in Violation of GAAP

1. Background

270. Generally Accepted Accounting Principles ("GAAP") constitutes those standards recognized by the accounting profession as the conventions, rules and procedures necessary to define accepted accounting practices at a particular time. The SEC has the statutory authority for the promulgation of GAAP for public companies and has delegated that authority to the Financial Accounting Standards Board (the "FASB"). SEC Regulation S-X, 17 C.F.R. § 210.4-01(a)(1), provides that financial statements filed with the SEC that are not presented in conformity with GAAP will be presumed to be misleading, despite footnotes or other disclosures.

271. Countrywide, in reporting its financial results during the Class Period, made numerous untrue statements of material fact and omitted to state material facts necessary to make its reported financial results not misleading. Countrywide violated GAAP in connection with its allowances for loan losses ("ALL") on loans held for investment ("LHI"), valuation of retained interests ("RIs"), valuation of mortgage servicing rights ("MSRs"), and accruals for

breaches of representations and warranties ("R&Ws") in connection with loan securitizations.

272. Two related terms—delinquency and nonaccrual—were important concepts that Countrywide was required to consider in preparing its financial statements in accordance with GAAP. Delinquent loans and nonaccrual loans aid management in determining whether a loan default is probable. Countrywide's regulatory filings reported delinquencies beginning when a loan was past due for at least 30 days. Countrywide also reported in its regulatory filings that it characterized nonaccrual loans as those delinquent for at least 90 days. Once a loan was placed in nonaccrual status, Countrywide recorded interest income as payments were collected, as opposed to when the payments became due. In many cases, a borrower that is considered to be in default will have its mortgage foreclosed. Therefore, for Countrywide, the number and trend of delinquencies and nonaccrual loans should have been key metrics to use in determining default rates for loans, and, as explained below, for the determination of ALL, valuation of MSRs, accruals for breaches in R&Ws, and valuation of RIs.

273. Statement of Financial Accounting Standards No. 5, *Accounting for Contingencies* ("SFAS 5") was issued in March 1975 by the FASB. The principles described in SFAS 5 set forth the standards of financial accounting and reporting for loss contingencies. SFAS 5 sets forth the standards Countrywide was required to adhere to in order to properly account for reserves for ALL and breaches in R&Ws.

274. Statement of Financial Accounting Standards No. 140, *Accounting for Transfers and Servicing of Financial Assets and Extinguishment of Liabilities*, ("SFAS 140") was issued in September 2000 by the FASB, and later amended by Statement of Financial Accounting Standards No. 156, *Accounting for Servicing of Financial Assets* ("SFAS 156"). The principles described in SFAS 140 set forth "the standards for accounting for securitizations and other transfers of

financial assets and collateral." In particular, SFAS 140 sets forth the standards to properly assess the fair value for RIs and MSRs. Both RIs and MSRs are components of the revenue line item gain-on-sale. SFAS 140, ¶ 11.

275. The AICPA issues industry-specific Audit & Accounting Guides ("AAG") to provide guidance in preparing financial statements in accordance with GAAP. The AAG for Depository and Lending Institutions was applicable to Countrywide and interpreted GAAP pronouncements on the proper methods to assess fair value for RIs and MSRs and accrue liabilities for ALL and R&Ws.

276. The AICPA also issues Audit Risk Alerts ("ARA"). The ARAs are particularized by industry, including for financial institutions such as Countrywide. The ARAs are used by industry participants, such as Countrywide and its auditor, KPMG, to address areas of concern and identify the significant business risks that may result in the material misstatement of the financial statements. As evidence of their broad application, each year, representatives of each industry participate in the development of the ARAs. The 2007 ARA states in its inside cover, in fact, that Lawrence R. Gee, Countrywide's "Technical Accountant" since 2006, made "essential contributions" to the development of the ARA for lending institutions. It was also typical practice for the audit quality departments of major accounting firms such as KPMG to integrate the ARAs into firm memoranda for purposes of disseminating that information to applicable clients and firm professionals. The ARAs are included in the AICPA's annual Audit and Accounting Manual ("AAM").

2. Risk Factors

277. Set forth below are the risk factors set forth in the Class Period ARAs relating to lending institutions.

(a) Risk Factors in 2004

278. The 2004 ARA stated that financial institutions that emphasized subprime lending were beginning to show credit quality weakness. AAM

8050.07. An assumption of credit risk is relevant to management's assumption in estimating ALL and R&Ws, and is also relevant for valuing RIs and MSRs. SFAS 5, SAB 102, SFAS 140, AAG Chs. 9 & 10.

279. The ARA also warned that "[h]ome equity lending has tapered off and delinquencies are increasing. The federal banking agencies noted that possibly half of U.S. family mortgages may be subprime, and delinquencies on subprime loans continue to rise." AAM 8050.33.

(b) Risk Factors in 2005

280. The 2005 ARA elaborated on the 2004 ARA and focused on several significant risks confronting lending institutions. The first area of emphasis was the valuation of mortgage-backed securities ("MBS") and related assets such as MSRs and RIs derived from ARMs (adjustable-rate mortgages). The 2005 ARA noted that the combination of continued interest rate increases and a market that was "flooded" with MBSs "may be impairing these assets." AAM 8050.10. In other words, as the MBS (secondary loan) market became flooded, there was less demand and more supply of MBSs. This created a liquidity risk because there was an increasing risk that a seller would not be able to find a buyer for such securities at a desirable price. Thus, the flooding of the relevant market and resultant increased risk of illiquidity should have been incorporated in Countrywide's valuation models and related accounting estimates.

281. The 2005 ARA cautioned that when the valuation of MBSs or MSRs represents a material component of an entity's financial statements, as they did on Countrywide's financial statements, that entity must have a robust methodology in place to evaluate all of the critical variables in the pricing model. AAM 8050.11. This caution was augmented by a rising fear among analysts that a reversal in credit quality could occur if interest rates continued to rise. That is, under those conditions, payments would become more difficult for borrowers who would ultimately experience problems refinancing their mortgages if their

ARM loans reset at higher interest rates. AAM 8050.17. These risks were particularly attributable to borrowers who "met only the threshold debt service coverage ratios." AAM 8050.19. In other words, as higher interest rates took effect, ARM borrowers who had low FICO scores, high debt-to-income ratios, or high loan-to-value ratios would present significantly greater risk to mortgage lenders. As a result, Countrywide should have adjusted its assumptions to include these increased risks from such loans.

282. The 2005 ARA also cited to the findings of the Office of the Comptroller of the Currency ("OCC"), which warned that financial institutions with significant holdings of financial instruments such as MBSs "need to focus on the economic value of their equity." For Countrywide, this would have included RIs. AAM 8050.14.

283. Another important risk factor articulated in the 2005 ARA was "The Housing Bubble's Overstated Collateral Values." This section of the ARA noted the following issues that were increasingly present at Countrywide (AAM 8050.22):

> [I]t is possible that financial institutions may have extended credit to customers based upon inflated collateral values, perhaps subjecting themselves to additional credit risk. In particular, many consumers took out jumbo residential mortgages which may have been collateralized by inflated property values. Customers holding adjustable rate mortgages may not be able to make payments if interest rates rise significantly. Upon foreclosure, these financial institutions may not be able to liquidate underlying assets without absorbing significant losses and may be stuck with the asset if the economy lessens housing demand in the marketplace.

284. Due at least in part to the continued rise in interest rates, this risk directly impacted Countrywide. SEC Staff Accounting Bulletin No. 102, *Selected*

Loan Loss Allowance Methodology and Documentation Issues ("SAB 102"), notes that "[i]t is critical that loan loss allowance methodologies incorporate management's current judgments about the credit quality of the loan portfolio through a disciplined and consistently applied process. . . . A registrant's loan loss allowance methodology generally should . . . [c]onsider the particular risks inherent in different kinds of lending . . . [and] ***[c]onsider current collateral values***." As a result, Countrywide's increasing exposure to ARMs, in combination with its borrowers' exhibiting a growing tendency to make less than full payments on "pay option" loans with decreased collateral values, constituted a risk to Countrywide that the ALL would be under-reserved.

(c) Risk Factors in 2006

285. The 2006 ARA focused on many of the same significant risks that confronted mortgage lenders in 2005. Such relevant risk areas included the increase in originations of risky loan products, such as ARMs and Pay Option ARMs, which posed particular risks for entities that had not "developed appropriate risk management policies (such as avoidance of negative amortization)." AAM 8050.35. The 2006 ARA raised the specific concern that the value of these products were often predicated on an assumption that home prices would continue to rise, which it observed was an assumption unlikely to be sustainable: "[S]ome of these [ARM] products assume a continued rise in home prices that may not continue." AAM 8050.35. As a result, Countrywide should have ensured that it was reflecting the increased credit risk of such products in its valuation model and assumptions used to prepare the financial statements.

286. The 2006 ARA noted increased concerns regarding home equity lending and related mortgages in terms of the easing of underwriting standards. AAM 8050.36. In particular, the ARA continued to emphasize that if an institution elected to change its underwriting standards to issue riskier loans, the

effect of such riskier loans must be considered in evaluating the ALL. AAM 8050.36.

(d) Risk Factors in 2007

287. During 2007, the AAG listed fraud risk factors applicable to mortgage lenders. Each of these factors should have been considered by management in assessing whether the Company's reserves and fair value assumptions were appropriate (AAG Chs. 9 and 10). These risk factors included (AAG Ch. 5, Ex. 5-1):

(a) Significant volatility in financial markets where the institution is exposed to loss of revenue,

(b) Deteriorating economic conditions (for example, real estate prices) within industries or geographic regions in which the institution has significant credit concentrations, and

(c) Decline in asset quality due to borrowers affected by recessionary declines.

3. Countrywide Inflated Earnings By Taking Inadequate Allowances for Loan Losses

288. According to its Form 10-K reports, Countrywide classified loans as held for investment when management intended to hold the loans for the foreseeable future or to maturity. Countrywide represented that loans held for investment were stated on its balance sheet at amortized cost, which included the loans' unpaid principal balance, reduced by a valuation allowance for credit losses inherent in the portfolio.

289. With respect to the Company's portfolio of loans held for investment, GAAP required the Company to establish a reserve for potential credit losses related to borrowers who were expected to default on their obligations to make monthly mortgage payments. Countrywide referred to this reserve as the allowance for loan losses, or "ALL."

290. Countrywide's ALL was a critical metric for investors because it indicated the expected level of loss the Company was reasonably likely to incur on loans held for investment on its balance sheet. Further, Countrywide's reported ALL was directly linked to net income, which also was a critical metric for investors. To increase its ALL, Countrywide would have to take additional provisions for loan losses. Under GAAP, taking a provision for loan losses reduces pre-tax earnings on a dollar-for-dollar basis.

291. With respect to the relevant GAAP requirements, SFAS 5 provides in paragraph 8:

> An estimated loss from a loss contingency . . . shall be accrued by a charge to income if *both* of the following conditions are met:
>
> a. Information available prior to issuance of the financial statements indicates that it is probable that an asset had been impaired or a liability had been incurred at the date of the financial statements. It is implicit in this condition that it must be probable that one or more future events will occur confirming the fact of the loss.
>
> b. The amount of loss can be reasonably estimated.

[Emphasis in original.]

292. The SEC also provided explicit guidance on the proper accounting for loan losses that Countrywide should have followed, but did not. SAB 102 states in pertinent part: ***"It is critical that loan loss allowance methodologies incorporate management's current judgments about the credit quality of the loan portfolio through a disciplined and consistently applied process. . . .*** A registrant's loan loss allowance methodology generally should . . . [c]onsider all known relevant internal and external factors that may affect loan collectibility . . . [and] [b]e based on current and reliable data[.]"

293. SAB 102 also provides: "Factors that should be considered in developing loss measurements include . . . ***[l]evels of and trends in delinquencies and impaired loans . . . [and] [e]ffects of any changes in risk selection and underwriting standards***, and other changes in lending policies, procedures, and practices . . . ." The SEC further stated in SAB 102 that "[f]or many entities engaged in lending activities, ***the allowance and provision for loan losses are significant elements of the financial statements***. Therefore, the staff believes ***it is appropriate for an entity's management to review, on a periodic basis, its methodology for determining its allowance for loan losses***."

294. Countrywide claimed it was determining ALL consistent with SAB 102. It stated that the ALL was evaluated "on a periodic basis by management" and any adjustments were purportedly reflected in the Company's earnings. For example, Countrywide stated in its 2006 Form 10-K that "we continually assess the credit quality of our portfolios for loans held for investment to identify and provide for losses incurred." This Form 10-K also stated that "[o]ur allowance estimation process benefits from the extensive history and experience we have developed in our mortgage loan servicing activities," and that while "this process is subject to risks and uncertainties":

> ***[W]e address this risk by actively monitoring the delinquency and default experience of our homogenous pools by considering current economic and market conditions.*** Based on our assessments of current conditions, we make appropriate adjustments to our historically developed assumptions when necessary to adjust historical factors to account for present conditions. ***Our senior management is actively involved in the review and approval of our allowance for loan losses.***

295. "Senior management" included the highest-ranking officers of the Company. According to CW1, ALL was ultimately set by a Financial

Asset/Liability Committee whose members included Defendants Mozilo, Kurland (replaced by Sambol when Kurland left the Company) and Sieracki, and Jeffrey K. Speakes, the Company's Chief Economist.

296. The AAG also provided specific guidance on estimating ALL. Chapter 9 stated that management should generally consider historical rates of default when evaluating ALL reserves but "[c]hanges in facts, circumstances or institution's procedures may cause ***factors different from those considered in the past to become significant*** to the estimate of the allowance at the balance sheet date." AAG Ch. 9, "Credit Losses."

297. As is evidenced in Countrywide's Form 10-K filings, the Company generally established the ALL based on historical default rates and loss percentages for similar loans originated by the Company. As a result, Countrywide failed to include in its estimated rate of default significant increases in risky loan products and loosened underwriting standards.

298. The AAG also provided guidance on when loans could be considered impaired. In particular, Chapter 9 states that under SFAS 5 "a loan would be impaired at origination . . . if a faulty credit granting decision has been made or loan credit review procedures are inadequate or overly aggressive, in which case, the ***loss should be recognized at the date of the loan origination***."

299. As alleged in detail in Sections IV.B and IV.C above, Countrywide's credit-granting decisions were made without regard to borrower credit quality and minimal due diligence, if any, was performed on the loans. GAAP, including SFAS 5 and SAB 102, as emphasized in AAG Ch. 9, these practices required Countrywide to adjust historical trends and increase ALL for each year based on both the increased probability of impairment and actual impairment at origination. The Company did not do so, in violation of SFAS 5 and SAB 102, which specifically ties loan underwriting standards and changes in risk to the setting of

loan loss reserves. Rather, the Company kept ALL relatively constant during the Class Period before management finally began to institute some changes in 2007.

300. The comparison of ALL as a percent of LHI measures portfolio credit risk coverage. If loan products are increasing in risk, the ALL as a percent of LHI should increase as well. A review of the Company's ALL demonstrates that during the Class Period—when the Company's exposure to and volume of non-traditional, riskier loans were increasing dramatically—ALL increased steadily in dollar amount but remained relatively constant (and in fact *decreased* from 1Q05 to 3Q06) as a percentage of the Company's portfolio of LHI. Indeed, LHI increased from only 10% of Countrywide's total assets in 2002 to 27%, 31%, and 40% in 2003, 2004, and 2005, respectively. Thus, while Countrywide assumed increasing amounts of credit risk as the Class Period progressed, it also was unable to securitize many of the loans carrying that risk, holding them instead on its financial statements but failing to appropriately account for that risk in its ALL. The following table illustrates these trends:

Quarter	LHI ($000s)	ALL ($000s)	ALL as % of LHI
4Q02	$6,112,475	$42,049	**0.69%**
4Q03	$26,446,504	$78,449	**0.30%**
1Q04	$30,033,754	$93,054	**0.31%**
2Q04	$34,001,291	$105,839	**0.31%**
3Q04	$35,035,980	$107,765	**0.31%**
4Q04	$39,785,132	$125,046	**0.31%**
1Q05	$47,833,388	$134,916	**0.28%**
2Q05	$62,684,289	$155,962	**0.25%**
3Q05	$67,960,558	$184,784	**0.27%**
4Q05	$70,260,353	$189,201	**0.27%**
1Q06	$74,279,882	$172,271	**0.23%**
2Q06	$79,991,180	$183,581	**0.23%**
3Q06	$81,004,695	$207,987	**0.26%**
4Q06	$78,346,811	$261,054	**0.33%**
1Q07	$75,551,461	$374,367	0.50%
2Q07	$74,569,443	$512,094	0.69%
3Q07	$84,778,139	$1,219,963	1.44%
4Q07	$100,400,204	$1,843,688	1.84%

301. Beginning in 2003, Countrywide systematically increased its origination of nontraditional and nonprime loans. In accordance with the AAG (Ch. 9), the AAMs (8050.07, 8050.33) and SAB 102, estimates for ALL should have included "effects of any changes in risk selections and underwriting standards."

302. For example, in 2003, Countrywide produced approximately $20 billion in nonprime loans (based on the concealed, internal definition of "prime" that it employed), which was 4.6% of the total mortgage loans produced. In 2004, Countrywide increased its production of nonprime loans to more than $39 billion, which was 10.9% of total mortgage loans produced. Thus, production of nonprime loans increased almost 99% during 2004 alone, illustrating that Countrywide was assuming more credit risk. Also during 2004, Countrywide

increased the dollar value of ARM loans that it produced by 108%, and increased HELOC loans by 70.7%. By 2004, it was clear that Countrywide was incurring substantially more risk, even as the Company wrote fewer mortgages. According to the 2004 ARA, federal banking agencies noted that possibly half of U.S. family mortgages were subprime, and that delinquencies on subprime mortgages continued to rise. AAM 8050.33.

303. The table below depicts the increase in nonprime and nontraditional mortgage loans at Countrywide:

($ millions of loans originated)	**2003**	**% of 2003**	**2004**	**% of 2004**	**% Change**
Total Mortgages	$ 434,864		$ 363,364		(16.4)%
Nonprime Mortgages	$ 19,827	4.6%	$ 39,441	10.9%	98.9%
ARMs	$ 91,321	21%	$ 189,931	52.3%	108.0%
Pay Option ARMs	n/a		$ 21,802	6%	n/a
HELOCs	$ 18,103	4.2%	$ 30,893	8.5%	70.7%

304. The data in the table in paragraph 303 above should have created a presumption within management that the changing mix of Countrywide's loans held for investment warranted increasingly conservative accounting estimates. But Countrywide did not properly account for the increased production of nonprime and nontraditional loans in 2004. This is evidenced by the fact that, among other indicators, the ALL as a percent of LHI stayed constant from 0.30% to 0.31% as noted in paragraph 300 above. This static reserve reflected Countrywide's failure to properly adjust its historical rate of default in light of the increased risk it was facing. Indeed, as alleged above as to Countrywide's pervasive improper lending practices, loans to borrowers with high loan-to-value ratios, high debt-to-income ratios, and low FICO scores (which included approximately $173,071,802 of loans to borrowers with FICO scores of 500 and

below that were securitized during 2004), and which were based on decreased due diligence leading to increased risk of false appraisals and other frauds in loan applications, were impaired at origination as contemplated in AAG Ch. 9. As a result, the key assumption, historical default rate, that Countrywide used to calculate its ALL, was flawed, and the reported net aggregate value of the Company's LHIs was overstated.

305. This trend continued throughout the Class Period. For example, in 2005, Countrywide originated $45 billion in nonprime loans,[8] which comprised 8.9% of total mortgage loans produced. Countrywide's production of nonprime loans increased 13.2% during 2005 as compared to 2004, reflecting Countrywide's continued assumption of increased credit risk. Notably, during 2005, Countrywide increased originations of Pay Option ARM loans by 335%. Originations of ARMs increased 37.7% and HELOC originations increased 45.2%. The increase in nonprime and nontraditional mortgages is depicted in the table below:

($ millions of loans originated)	**2004**	**% of 2004**	**2005**	**% of 2005**	**% Change**
Total Mortgage	$ 363,364		$ 499,301		37.4%
Nonprime Mortgage	$ 39,441	10.9%	$ 44,637	8.9%	13.2%
ARMs	$ 189,931	52.3%	$ 261,577	52.3%	37.7%
Pay Option ARMs	$ 21,802	6%	$ 94,867	19%	335.1%
HELOCs	$ 30,893	8.5%	$ 44,850	9.0%	45.2%

Such loans were subject to the same pervasive improper practices that infected all levels of the Company's loan origination and underwriting functions. Loans that

[8] Again, using Countrywide's improper definition of "prime" versus "nonprime."

were made to borrowers with high loan-to-value ratios, high debt-to-income ratios, and low FICO scores (which included approximately $236,733,720 of loans made to borrowers with a FICO score of 500 and below that were securitized during 2005), and were based on decreased due diligence leading to increased risk of false appraisals, were impaired at origination as contemplated by AAG Ch. 9.

306. The table in paragraph 300 above once again illustrates Countrywide's failure to properly account for increased risk in accordance with SAB 102 during 2005, as the ALL as a percent of LHI inexplicably ***decreased*** from 0.31% to 0.27%. This shows, again, Countrywide's failure to adjust its historical rate of default to include the known increased risk from nontraditional loan products, nonprime loans and faulty credit-granting decisions resulting from its changed business practices and model. Countrywide's historical "default rate" was an incorrect measure for use in calculating ALL, especially given that a material number of loans were impaired at origination. As a result, Countrywide's financial statements failed to comply with GAAP.

307. In 2006, Countrywide once again understated its ALL. As illustrated in the table below, in 2006 Countrywide produced approximately $41 billion in nonprime loans, which was 8.7% of total mortgage loans produced.[9] Although there was a decrease in mortgage loans produced by Countrywide in 2006, resulting in a concomitant decrease in nonprime and nontraditional mortgage loans, the origination of such loans as a percentage of the total dollar value of mortgage loans originated during 2006 remained strong and continued to be a central focus of Countrywide's business. Thus, as shown below, 45.3% of the

[9] Again, utilizing Countrywide's improper definition of "prime" and "nonprime."

total dollar value of mortgage loans produced during 2006 were ARM loans, 14% were Pay Option ARMs, 10.2% were HELOCs, and 8.7% were nonprime loans.

($ millions of loans originated)	**2005**	**% of 2005**	**2006**	**% of 2006**	**% Change**
Total Mortgage	$ 499,301		$ 468,172		(6.2)%
Nonprime Mortgage	$ 44,637	8.9%	$ 40,596	8.7%	(9.1)%
ARMs	$ 261,577	52.3%	$ 212,085	45.3%	(18.9)%
Pay Option ARMs	$ 94,867	19%	$ 65,544	14%	(30.9)%
HELOCs	$ 44,850	9.0%	$ 47,876	10.2%	6.8%

The implication for Countrywide's financial statements of continued production of these high-risk loans was that its current and preexisting exposure to these investments warranted higher reserve rates and more conservative assumptions underlying associated accounting estimates and fair value measurements. AAG Chs. 9 and 10. Such loans were subject to the same pervasive improper practices that infected all levels of the Company's loan origination and underwriting functions. Loans that were made to borrowers with high loan-to-value ratios, high debt-to-income ratios, and low FICO scores (which included approximately $109,531,508 of loans made to borrowers with FICO scores of 500 and below that were securitized during 2006), and were based on decreased due diligence leading to increased risk of false appraisals, were impaired at origination as contemplated by AAG Ch. 9.

308. Once again, as illustrated in the table in paragraph 300 above, Countrywide failed to properly accrue ALL due to the increased risk assumed by the Company in 2006. The 2006 ALL as a percentage of LHI, in fact, stayed essentially flat as compared to 2005, at a rate of 0.33%. This lack of change once again illustrates Countrywide's failure to adjust its historical rate of default to

include the Company's increased risk, not just from 2006, but also from 2003 to 2006.

309. Countrywide also failed to adjust its ALL based upon the increased risk caused by material underlying qualitative considerations. SAB 99, "Materiality," notes that qualitative materiality involves, among other considerations, "the surrounding circumstances that inform an investor's evaluation of financial statement entries." Countrywide's financial statements were materially false and misleading because the Company improperly characterized a substantial number of its subprime loans as prime loans. This misrepresentation further demonstrates that the static levels of Countrywide's ALL clearly failed to accommodate increasing nonprime risk.

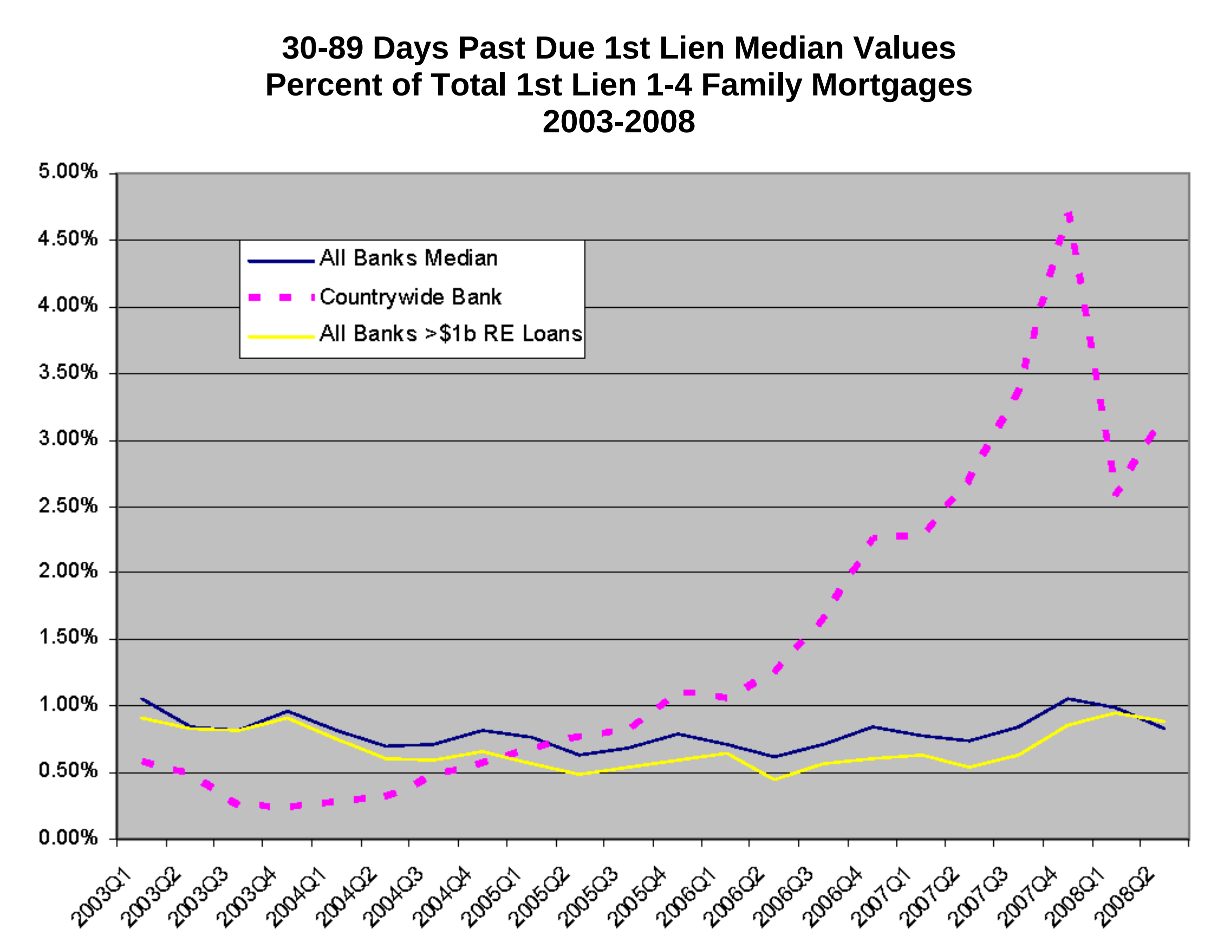
310. As set forth in Section IV.B.4 above, an analysis of aggregate FICO scores associated with securitized loans show a substantial discrepancy between the percentage of loans Countrywide claimed were nonprime and its actual lending practices. Given that Countrywide's concealed flexible definition of "prime" was applied without distinction to whether loans were securitized and sold or held in the LHI portfolio, there is a strong inference that there was a lower percentage of prime loans in the LHI portfolio as well.

311. In order to properly account for risk when estimating ALL, Countrywide had to utilize estimates based on a correct determination of which loans were prime and which were nonprime. Wrongly minimizing the percentage of nonprime loans would have materially worsened the understatement of ALL. For example, at the end of 2006, Nonprime Mortgages had a delinquency rate of 19.03%, whereas Conventional Mortgages had a delinquency rate of 2.76%. Accordingly, the Nonprime Mortgages that were improperly classified as Prime or Conventional Mortgages would be under-reserved as of the balance sheet date.

312. Other evidence of Countrywide's underaccrual for its ALL involved Countrywide's loans that were 30-89 days past due. An important component of

data that was reported by Countrywide was the information on its call reports for 30-89 Days Past Due on first mortgages. A call report is a quarterly financial report that banks must file with bank regulators, collected by the Federal Financial Institutions Examination Council ("FFIEC"). Any rise in loans that were 30-89 days overdue provided an early warning signal to Countrywide of both rising credit risks and the inaccuracy of its ALL assumptions. Data concerning loans 30-89 days past due are important because they provide a signal to the financial institution of the volume of loans that is likely to enter non-accrual status and ultimately default, and accordingly provide an important indicator of probability of impairment in the determination of ALL.

313. As illustrated in the chart below, Countrywide experienced a significant increasing trend of delinquencies as early as the second quarter of 2004, one that continued throughout 2005. For example, the call reports indicate that for the second quarter of 2004, loans that were 30 to 89 days past due represented approximately 0.25% of the median value of mortgages. By the end of 2005, however, this rate had quadrupled to 1.00%.



314. This chart compares Countrywide's reported data with data relative to the industry as a whole, and for banks having more than $1 billion of real estate loans. The chart demonstrates that while delinquencies of 30 to 89 days remained relatively constant for both the industry as a whole and those large banks between the first quarter of 2003 and the fourth quarter of 2005, Countrywide's delinquencies grew.

315. This growth trend, which began in the first quarter of 2004, should have resulted in modifications to Countrywide's historical loss assumptions. By the second quarter of 2005, when Countrywide's delinquency rate for 30-89 day loans surpassed the banking industry median for such loans, there should have been no doubt that the application of historical assumptions would have resulted in inadequate provisions to ALL. Throughout the remainder of 2005 and through

the second quarter of 2006, the industry remained steady with rates between of 0.63% and 0.71%, while the rate of Countrywide loans that were 30-89 days past due shot up from 0.77% to 1.25%. Again, this evolution of the delinquency trend provided a clear signal that Countrywide's ALL should have been increasing as a percentage of total loans held for investment.

316. In accordance with the ARA described in paragraph 285 above, increases in originations of risky loans, particularly ARMs and Pay Option ARMs, posed particular risks for lenders that had not "developed appropriate risk management policies (such as avoidance of negative amortization)." Accordingly, Countrywide's ALL should have been increased to reflect such increased credit risk. AAM 8050.35. As shown in the table below, delinquencies in Pay Option ARMs and HELOCs, the loans that presented the greatest risk of default, increased substantially during the Class Period:

	2003	2004	2005	2006	2007	2Q07	3Q07
90 day+ delinquent Pay Option ARMs as % of all Pay Option ARMs	N/A	0.1%	0.22%	0.63%	1.02%	1.84%	3.17%
Delinquent HELOCs as % of all loans serviced	0.73%	0.79%	1.57%	2.93%	2.96%	3.70%	4.62%

317. During the Class Period, many borrowers only made the minimum payments on Pay Option ARMs, meaning that they were not even paying then currently due interest. Thus, during the Class Period, Countrywide recorded massive amounts of negative amortization from Pay Option ARMs as deferred revenue. While booking this deferred revenue presented a current impression that the Company's results were becoming better, in fact, the accumulated negative amortization signaled that these loans were ticking time-bombs of delinquencies and defaults, as mentioned in AAG Ch. 8, "Loans," and in paragraph 285 above. As soon as borrowers reached the specified, pre-set negative amortization caps, which forced them to start repaying the loan, not only would such borrowers be

delinquent, but their loans would also have experienced meaningful deterioration in the applicable loan-to-value ratios, given that unpaid interest, according to the terms of the mortgages, was added to principal. That deterioration would have also decreased the borrower's motivation to make further payments. 2005 AAM 8050.17.

318. As shown in the table below, the amount of accumulated negative amortization on Countrywide's Pay Option ARMs held for investment grew dramatically during the Class Period. During 2005, accumulated negative amortization ballooned by more than 250,000%, and grew another 775% during 2006 and another 86% during 2007. Despite the increasing risk from accumulating negative amortization, ALL remained relatively flat as a percentage of LHI until the third quarter of 2007:

	2004	**2005**	**2006**	**2007**[10]
Accumulated negative amortization from original loan balance, in $ millions	0.029	74.7	654	1,216
Current period negative amortization	0.029	74.7	579.2	562
Annual Growth Rate	N/A	257,652%	775%	86%
ALL as % of LHI	0.31%	0.27%	0.33%	1.84%

319. On July 24, 2007, Countrywide's volume-driven, exception-ridden underwriting standards and lending practices manifested themselves in a sharp but belated increase in loan loss provisions of $293 million for the second quarter of 2007. Approximately 62% of this increase was derived from an increase in loan loss provisions of HELOCs of $181 million.

[10] For 1Q07, 2Q07, and 3Q07, Countrywide's accumulative negative amortization from its original loan balance was $815.8 million; $942 million; and $1,068 million, respectively. During the same quarters, ALL as a percentage of LHI was 0.50%, 0.69%, and 1.44% respectively.

320. The July 24, 2007 increase in loan loss provisions was insufficient to cover the deterioration in the Company's loans held for investment. The Company's third quarter 2007 results, announced on October 27, 2007, included a further massive provision for loan losses of $934 million, more than triple any provision previously recorded by the Company. Nearly 24% of the Company's subprime loans were delinquent, up from 20.15% in the second quarter of 2007 and 16.93% in the third quarter of 2006. As stated in the Company's press release, the increase in loan loss provisions was "primarily relate[d] to additional reserves provided for the Company's junior lien home equity [HELOCs] and pay option loans in the Banking Operations HFI [held for investment] portfolio."

321. This $934 million provision represented 43%, 37%, and 35% of Countrywide's net earnings for 2004, 2005 and 2006, respectively, and was the single largest contributor to the Company's $1.2 billion loss for the third quarter of 2007.

322. Because provisions for loan losses have a dollar-for-dollar impact on pre-tax income under GAAP, Countrywide's materially understated ALL caused its pre-tax income to be materially overstated by approximately $349 million cumulatively for the years 2004-2006 and the first half of 2007.

323. In sum, Countrywide did not take into consideration the following risk factors when estimating its ALL:

(a) The percent of loans that Countrywide held for investment increased year over year, demonstrating that Countrywide's loans were growing riskier and the secondary market was growing less willing to purchase the loans;

(b) The reported amount of nonprime loans increased through 2005 and remained a central focus of Countrywide's loan production;

(c) The actual amount of nonprime loans produced by Countrywide was much higher than the reported amount of nonprime loans through the Class Period;

(d) The nonaccrual ARM delinquencies continued to rise at a significant rate during the Class Period;

(e) Delinquent HELOCs increased during the Class Period;

(f) Countrywide's delinquent loans that were 30-89 days past due increased substantially during the Class Period;

(g) Countrywide's delinquent loans that were 30-89 days past due were increasing at a rapid pace and surpassed the median value for all banks loans that were 30-89 days overdue in the mortgage industry; and

(h) Countrywide's underwriting practices deteriorated during the Class Period.

324. Accordingly, during the Class Period, Countrywide's ALL was materially understated in violation of GAAP. The Company's ALL failed to sufficiently take into account the adverse performance of Countrywide's loans due to the deteriorating underwriting standards for those loans. Rather than increase the Company's ALL in a manner sufficient to account for these adverse factors, Countrywide misleadingly reduced and thus materially understated ALL.

4. Countrywide Inflated Earnings By Overvaluing its Retained Interests from Securitizations

325. As a result of the Company's increased credit risk and failure to adhere to its own underwriting guidelines, Countrywide overstated the fair value of its RIs from securitizations. Accordingly, Countrywide also falsely and materially inflated its assets, stockholders' equity, gain-on-sale, revenues and net income.

326. According to its Form 10-K reports, Countrywide "sells substantially all of the mortgage loans it produces in the secondary mortgage market, primarily

in the form of securities." Countrywide transferred mortgage loans to a qualifying special purpose entity ("QSPE") which then converted those assets into cash. The QSPE combined mortgage loans into one large pool, divided the pool of mortgage loans into smaller pieces (known as tiers or tranches) based upon default risk or other loan specific characteristics, and then sold the smaller pieces of the pool to the secondary market. This process is known as securitization.

327. As the issuer of many securitizations, Countrywide generally maintained the riskiest tranches (the one in the first loss position) on its books as RIs, also known as residual securities. RIs provided Countrywide with an opportunity to receive additional cash flows over the life of the loans if specific loan performance criteria were met.

328. Countrywide's valuation of RI from securitizations was a critical metric for investors because it indicated the financial health of the Company. This is because the valuation of RI was directly linked to gain-on-sale and, ultimately, net income. During the Class Period, as alleged herein, Countrywide did not properly value RI from securitizations in accordance with SFAS 140 and SFAS 115, *Accounting for Certain Investments in Debt and Equity Securities*, violating GAAP and inflating its reported net income.

329. Countrywide's values for RI were materially overstated because of its deteriorating underwriting standards. SFAS 140, paragraph 59 notes: "If the retained interests are subordinated to more senior interests held by others, that subordination may concentrate into the retained interests most of the risks inherent in the transferred assets and shall be taken into consideration in estimating the fair value of the retained interests." AAG Ch. 10, "Transfers of Loans and Mortgage Banking Activities"; 2005 AAM 8050.14.

330. Management stated in the Company's Form 10-K filings that it "estimate[s] fair value [of RI] through the use of discounted cash flow models."

The Company further said that "[t]he key assumptions used in the valuation of [our] RI [in the cash flow model] include mortgage prepayment speeds, discount rates, and . . . the net lifetime credit losses." Moreover, Countrywide "develop[s] cash flow, prepayment and net lifetime credit loss assumptions based on ***the historical performance of the loans underlying our retained interests*** . . . ."

331. As described below, the values of the Company's RI were based in large part upon the quality of the underlying loans. Given that a substantial portion of the underlying loans in the securitizations beginning in 2003 were not originated in accordance with the Company's underwriting standards, there was an increased risk that those loans would not perform in accordance with their terms and, consequently, the securitizations would not perform as expected. Because the RIs were the riskiest tranches of the securitizations, the failure to comply with Countrywide's underwriting standards significantly impacted the value of RI. Thus, to properly value RI, Countrywide was required to adjust assumptions that had been based upon the historical rate of default (i.e., net lifetime credit losses) to include the increased credit risk of the underlying loans included in its securitizations.

332. Once RI was initially recorded, Countrywide was required to determine the fair value of RI in each subsequent quarter.[11] Paragraphs 68-70 of SFAS 140 provided guidance on how to determine the fair value of RI:

> Valuation techniques for measuring financial assets and liabilities and servicing assets and liabilities shall be consistent with the objective of measuring fair value. ***Those techniques shall incorporate assumptions that market participants would use in their estimates of***

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[11] According to Countrywide's SEC filings, the Company referred to decreases in fair value of RI as "impairments," and increases in fair value of RI as "recoveries."

> ***values, future revenues, and future expenses, including assumptions about interest rates, default, prepayment, and volatility.***
>
> * * *
>
> Estimates of expected future cash flows, if used to estimate fair value, shall be based on ***reasonable and supportable assumptions and projections. <u>All available evidence</u> shall be considered in developing estimates of expected future cash flows.***

SFAS 140, ¶¶ 68-70.

333. A key assumption Countrywide used to assess the fair value of RI was the "default rate," the concept of which is encompassed in "net lifetime credit loss" as referenced in Company Form 10-Ks. Net lifetime credit loss is determined by estimating when and how many loans will default and multiplying that amount by the percentage of the loan balance that will be uncollectible. Default rate is the speed at which the underlying mortgage loans become delinquent or default.

334. A second important assumption used to estimate the fair value of RI is "weighted average life." This assumption refers to the period of time during which the benefit of RI is expected to be received; in other words, the length of time that Countrywide will get paid on its RI, if any. This is influenced by prepayment rates and credit risk. SFAS 140, ¶ 17. Countrywide's shift toward nonprime and nontraditional lending beginning in 2003 should have decreased the weighted average life of RI, instead of allowing weighted average life to remain constant or increase. This is because the "life" of a loan ends when the borrower defaults, resulting in a lower weighted average life. As Countrywide increased the number of loans it made to less creditworthy borrowers under loosened underwriting standards and weak (if any) due diligence, defaults would be expected to increase and the weighted average life of such loans would be expected to decrease.

335. The table below illustrates that Countrywide did not sufficiently adjust its historical default assumptions to encompass the new riskier loans that the Company was producing at a rapid pace; and nor did they include the increased credit risk from Countrywide's loosened underwriting practices. Countrywide failed to take these steps even though financial institutions with significant holdings of financial instruments like MBSs "need[ed] to focus on the economic value of their equity," which, for Countrywide, would have included RI. 2005 AAM 8050.14. The Company failed to appropriately include in its assumptions for both weighted average life and net credit losses the likelihood that there had been, and would continue to be, an increase in defaults.

	Year ending December 31				
	2003	**2004**	**2005**	**2006**	**2007**
Nonprime Loans Originated ($ millions)	$19,827	$39,441	$44,637	$40,596	$16,993
Total Delinquencies[12]	3.91%	3.83%	4.61%	5.02%	6.96%
Nonprime Delinquencies	12.46%	11.29%	15.20%	19.03%	27.29%
Prime Home Equity Delinquencies	0.73%	0.79%	1.57%	2.93%	5.92%
Weighted Average Life	2.0	2.5	2.4	2.8	6.4
Net Lifetime Credit Losses	1.9%	2.0%	1.7%	2.6%	10.9%
Weighted Average Prepayment Speed	30.6%	34.8%	38.3%	32.2%	21.0%
Fair Value of Retained Interests ($000s)	$1,355,535	$1,908,504	$2,675,461	$3,040,575	$2,450,397

336. For example, at the end of 2003, Countrywide assumed that the net lifetime credit losses on RI was 1.9%. But despite the increasing originations of nonprime loans, reported net lifetime credit losses for 2004 was only 2.0%.

[12] Expressed as a percentage of the total number of loans serviced, excluding subserviced loans and loans purchased at a discount due to collection status.

Moreover, the fair value of RI was significantly increased by the assumption that the weighted-average life rose from 2.0 years to 2.5 years. Accordingly, the fair value of Countrywide's RI was overstated at least beginning in 2004 because the changes in credit risk strategy and loosened underwriting practices were not appropriately included in the assumptions for weighted average life and net lifetime credit losses that were used to value RI.

337. In 2005, Countrywide again modified one of the key assumptions involved in its pricing model and, as a result, increased the fair value of RI. Specifically, whereas Countrywide's net lifetime credit losses in 2004 were assumed to be 2.0%, this rate was ***lowered*** in 2005 ***by 15%***, to 1.7%. A lower rate of net lifetime credit losses should occur where delinquencies are decreasing and fewer borrowers will ultimately default on their mortgages. However, as shown in the table above, delinquencies increased markedly in 2005. In fact, the net lifetime credit loss rate that Countrywide claimed in 2005 was even lower than the rate that Countrywide reported in 2003, and so did not reflect the full impact of Countrywide's decision to increase its origination of high-risk mortgages.

338. In addition, Countrywide's assumptions regarding weighted average life in 2005 were overly aggressive. In consideration of the increased risk of default driven by Countrywide's new strategy, it would have been unreasonable to have presumed that the weighted average life of RI in 2005 would have been greater than in 2003. Yet, Countrywide assumed that weighted average life would, indeed, increase.

339. While Countrywide did increase its expectation of lifetime credit loss from 1.7% in 2005 to 2.6% in 2006, this increase still did not reasonably capture total credit-related losses expected as of that time due to the continuing increase in riskier loans. This rate instead continued to be based upon Countrywide's historical performance, one that reflected less risky loans. Additionally, Countrywide inappropriately offset the negative fair value impact of

higher estimated credit losses by simultaneously extending its assumed weighted average life of the RI. While weighted average life generally increases as interest rates rise (as they did in 2006), that presumption was unlikely to be realized by Countrywide's loans as its borrowers were increasingly unlikely to meet their interest-rate adjusted obligations. In other words, as higher interest rates took effect, ARM borrowers who had low FICO scores, high debt-to-income ratios, or high loan-to-value ratios would present significantly greater risk because this environment was a perfect storm leading to increased probabilities of default, particularly given that housing prices were decreasing since late 2005 (2005 AAM 8050.22) and negative amortization on Pay Option ARMs was increasing since 2004 (2005 AAM 8050.19, 2006 AAM 8050.35-38). And, given the subordinated position of many of Countrywide's RI, even a minor uptick in defaults was likely to have a significant impact on its losses. That is, if a borrower of a loan that was held for investment with either negative amortization or diminished collateral value had defaulted, Countrywide would record a loss to LHI in the amount of the difference between the loan carrying value and the collateral value.[13] However, such a default would have a much more drastic impact on Countrywide's RI, because the difference between the loan carrying value and the collateral value would first be apportioned to Countrywide's RI, until the loss allocation to RI was exhausted.

340. The impact of Countrywide's improper accounting was evidenced by Countrywide's recorded write-downs to RI of $2.4 billion during 2007. Despite those write-downs, the reported fair value of Countrywide's RI remained at $2.5 billion as of the conclusion of 2007. Countrywide's RI should have suffered significantly greater impairment. Countrywide, however, distorted its results by

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[13] Loan carrying value is the net dollar value at which an asset is carried on a firm's balance sheet. For example, a loan that was originated at $500,000 but that has been paid down $100,000 has a book value of $400,000.

reducing management's fair value assumption for prepayment speed to 21.0% in December 2007 from 32.2% in December 2006, and more than doubling the weighted average life assumption to 6.4 years in December 2007 from 2.8 years in December 2006. These misleading fair value inputs prevented Countrywide from reporting significantly greater impairment charges related to its RI, which were clearly warranted at that time.

341. Countrywide's continued valuation of RI at $2.5 billion by increasing the weighted average life to 6.4 years was unsupportable. With rising defaults (i.e., net credit losses increased to 10.9%), Countrywide should have decreased the weighted average life assumption rather than aggressively increase it, because it was highly unlikely that if the underlying loans were defaulting, the average life of a loan would grow. It was not logical that Countrywide would benefit from RI for a period exceeding 6 years in 2007, when that period had been less than 3 years in 2006. Moreover, interest rates were falling at the end of 2007 (the prime rate had declined from 8.25% as of December 2006 to 7.33% as of December 2007), which suggested an accelerating rate of prepayment and a shorter weighted average life for the RI. In its 2007 Form 10-K, however, Countrywide ***reported the very opposite*** as to the effect of declining interest rates on prepayment speeds for MSRs. Countrywide stated that "[w]e recorded a decrease in the fair value of the MSRs in 2007 of $1,085.4 million, primarily as a result of decreasing mortgage rates during the last half of the year which ***increased expected future prepayment speeds*** of our agency servicing portfolio." As illustrated in the table in paragraph 335 above, Countrywide decreased the future prepayment speed for RI, and by doing so evaded recording greater impairment charges related to RI in 2007.

342. The increased amount of nonprime, low-FICO loans that were included in Countrywide's securitizations also shows that RI was overstated during the Class Period (see tables in Section IV.B.4 above). The wide

discrepancy between (i) the high number of nonprime, low-FICO loans as a percentage of securitized loans, and (ii) the falsely lower number of nonprime loans reported as a percentage of total loan originations, further illustrates that Countrywide was not properly considering the amount of increased risk in its assumptions when valuing RI during the Class Period.

343. CW1 also provided evidence of the overstatement of RI. According to CW1, in a substantial number of instances during his tenure with the Company, RI should have been valued at zero because the underlying mortgages in the securitizations would likely default within 18 months. CW1 further stated that the difference in value between the underlying mortgage loans rate and the guaranteed coupon rate should have been zero because Countrywide's significantly loosened origination and underwriting standards should have required the Company to estimate far more delinquencies and defaults, thereby materially reducing the return on the pooled mortgage loans. According to CW1, by reporting the RI at inflated values, Countrywide also manipulated its gain-on-sale income. Thus, in a hypothetical example provided by CW1, if the Company valued RI at 2.5%, its gain-on-sale with all other factors consistent would be 1.5%. However, if the Company had properly valued RI at, for example, a lower rate of 1.0% (rather than the value of zero that CW1 believed proper in many instances), then gain-on-sale would be zero.

344. Countrywide's massive write-down in 2007 corroborates CW1's averment that RI should have been valued at or close to zero due to the poor quality of the underlying loans, many of which should have been considered impaired at origination.

345. The statements set forth in paragraphs 340-341 concerning the write-down of Countrywide's RI during the Class Period were materially false and misleading when made because the Company's valuation model and key assumptions ignored: (i) the Company's change in lending practices beginning in

2003 to offer non-traditional, high-risk loans; (ii) the Company's significant increasing production of subprime loans; (iii) the Company's continued exceptions from its underwriting guidelines; and (iv) the drastic increase in loan delinquencies and defaults. Under legitimate risk assumptions, Countrywide's intentional lowering of lending standards and the resulting increased delinquencies would have resulted in proportionally reduced valuations of RI throughout the Class Period. As a result, the fair market value of Countrywide's RI was materially overstated in each of the years from 2004 through the first half of 2007, as Countrywide failed to employ fair value assumptions to RI to reflect the increased risk from the underlying loans it originated in violation of SFAS 140 and SFAS 115.

5. Countrywide Inflated Earnings By Overvaluing its Mortgage Servicing Rights

346. As a result of its loosened underwriting standards and its failure to adhere to even those standards, Countrywide overstated the fair value of its MSRs throughout the Class Period. Accordingly, the Officer Defendants also falsely and materially inflated Countrywide's assets, gain-on-sale and reported net income.

347. Countrywide typically retained the right to service mortgage loans after it sells them in the secondary market. To a lesser extent, Countrywide also purchased similar servicing rights from other loan originators and recorded them at fair value at the time of their purchase.

348. According to Countrywide's Form 10-K filings during the Class Period, the Company described its MSRs as follows:

> The value we assign to servicing rights is referred to as mortgage servicing rights . . . . Our MSRs arise from contractual agreements between us and investors (or their agents) in MBS [mortgage backed securities] and mortgage loans.

349. The valuation of Countrywide's MSRs was a critical metric for investors because it indicated the financial health of the Company, given that the valuation of MSRs was directly linked to gain-on-sale and, ultimately, net income. However, during the Class Period, Countrywide did not properly assign an appropriate fair value when it initially recorded MSRs, nor did it do so when it subsequently valued MSRs in accordance with SFAS 140 and SFAS 156. This practice was in violation of GAAP and also caused Countrywide to improperly inflate its reported gain-on-sale and net income.

350. Until January 1, 2006, Countrywide's valuation of MSRs was governed by SFAS 140. According to Countrywide's Form 10-K filings, MSRs were initially recorded at fair value and then "were carried at the lower of amortized cost or estimated fair value. . . . The adjusted cost basis value of the MSR was then assessed for impairment. If MSRs were impaired, the impairment was recognized in current period earnings and the carrying value of the MSRs was adjusted through a valuation allowance." A valuation allowance serves a purpose similar to ALL relative to LHI. The valuation allowance account reduces the value of MSRs (*i.e.*, amortized cost) when impaired.

351. Countrywide maintained a pricing model to estimate the fair value of its MSRs. According to Countrywide's 2005 Form 10-K, in periods prior to 2006, this pricing model was used to gauge the adequacy of the valuation allowance: "Our MSR valuation process combines the use of a sophisticated discounted cash flow model . . . The cash flow assumptions and prepayment assumptions used in our discounted cash flow model are based on our empirical data drawn from the historical performance of our MSRs, which we believe are consistent with assumptions used by market participants valuing similar MSRs."

352. Statement of Financial Accounting Standards No. 156, *Accounting for Servicing of Financial Assets* ("SFAS 156"), amended SFAS 140 as of January 1, 2006 and provided reporting entities a choice of methods to use when

valuing MSRs. Countrywide elected to follow SFAS 156 as of January 1, 2006, and chose to record MSRs at fair value (as opposed to amortized cost) in subsequent quarters. In accordance with this election, the Company identified MSRs relating to all existing residential mortgage loans as a class of servicing rights and elected to apply fair value accounting to these MSRs. SFAS 156 changed the accounting for, and reporting of, the recognition and measurement of separately recognized servicing assets and liabilities. Like SFAS 140, SFAS 156 requires MSRs to be initially recorded at fair value. However, SFAS 156 allows MSRs to be ***carried on the books at fair value in subsequent periods*** (without the need to subsequently value them at amortized cost).

353. In 2006 and thereafter, the fair values that Countrywide assigned its MSRs were determined by a discounted cash flow model. According to Countrywide's third quarter 2007 Form 10-Q, "[t]he discounted cash flow models incorporate cash flow and prepayment projections based on data drawn from the ***historical performance of the loans underlying the Company's MSRs*** . . . in determining the assets' fair value."[14]

354. Moreover, Countrywide's 2007 Form 10-K stated that any calculated change in the fair value of its MSRs was based upon two primary components—a reduction in fair value due to the realization of expected cash flows, and a change in fair value resulting from changes in interest rates and other market factors, otherwise referred to as a change in fair value due to management's assumptions. The fair value of the Company's MSRs decreased when the Company received principal and interest payments from borrowers on any of the underlying loans because the receipt of such payments (which include servicing fees) reduces the

[14] Prepayment projections or prepayment speed relates to the rate of payment of debt obligations prior to the respective due dates on those instruments based upon changes in interest rates, given that borrowers tend to refinance their loans when interest rates fall.

total amount receivable for the life of the loan. Changes in management's assumptions could either increase or decrease the fair value of the Company's MSRs.

355. As noted above, management stated in Countrywide's Form 10-Ks that it used "discounted cash flow models that incorporate cash flow and prepayment projections based on data drawn from the historical performance of the loans underlying the Company's MSRs" to determine changes in fair value due to management's assumptions. The Company further stated that "[t]he key assumptions used in the valuation of MSRs [in the cash flow model] include mortgage prepayment speeds, the discount rate (projected London Inter Bank Offering Rate ("LIBOR") plus option-adjusted spread)" and the weighted average life of the loans.

356. Throughout the Class Period, the default rate should have been a critical assumption to Countrywide's assessment of fair value for its MSRs. Default rate is not mentioned, however, in the list of such assumptions disclosed in the Company's Form 10-Ks, and there is no explanation for the omission. The table below demonstrates that as Countrywide's underwriting guidelines continued to loosen over the Class Period, delinquencies and pending foreclosures from loan defaults rose significantly. Notwithstanding this fact, Countrywide's assumptions underlying its assessment of fair value for its MSRs continued to increase in 2006 and 2007 when the Company reported MSRs at fair value pursuant to SFAS 156:

Year ending December 31			
	2005	**2006**	**2007**
Total Delinquencies[15]	4.61%	5.02%	6.96%
Nonprime[15]	15.20%	19.03%	27.29%
Prime Home Equity[15]	1.57%	2.93%	5.92%
Prepayment Speed	22.8%	21.0%	17.9%
Weighted Average Life	5.6	5.8	6.4
Fair Value of MSRs ($000s)	$12,720,755	$16,172,064	$18,958,180

357. By failing to appropriately use the default rate as a key assumption in the valuation of MSRs, the Company did not properly value its MSRs when initially recorded or when subsequently valued at the end of each quarter, and the Company's net income was accordingly overstated. Even if Countrywide did somehow consider default rates as an assumption in its cash flow models, despite its failure to list them as assumptions in its Form 10-Ks, the values of Countrywide's MSRs were still overstated because the Company failed to adjust its assumptions of default rate to reflect the dramatic loosening in the Company's lending practices. As higher interest rates took effect, ARM borrowers that had low FICO scores, high debt-to-income ratios or high loan-to-value ratios present significantly greater risk. AAM 8050.19. Consequently, Countrywide materially overstated the fair value estimates for its MSR throughout the Class Period.

358. For instance, as Countrywide increased originations of mortgages overall, and also increased the percentage of mortgages granted to less creditworthy borrowers using loosened underwriting standards and without prudent due diligence, the gross value of Countrywide's MSRs as reported rose from $8.1 billion as of December 31, 2003 to $9.8 billion as of December 31,

[15] Expressed as a percentage of the total number of loans serviced, excluding subserviced loans and loans purchased at a discount due to collection status.

2004. Yet, despite the consequent significant increase in the gross value and risk of these assets, Countrywide actually decreased its valuation allowance for impairment of MSRs from $1.2 billion to $1.1 billion. Thus, although the gross value of MSRs increased by 22% in 2004, the related valuation allowance decreased by more than 9%. This movement in the valuation allowance was illogical in light of the increased credit risk associated with loosening underwriting standards and failures to exercise prudent due diligence, as well as the effect of that risk on the value of MSRs. If credit risk increased, management's valuation allowance account should have also increased, thus providing a negative effect on the value of net MSRs. Instead, the valuation allowance *decreased* during 2004, thus conveniently—and misleadingly—providing a positive effect on the value of net MSRs. The table below summarizes these changes:

	2003	**2004**	**Increase/(Decrease)**
MSRs, gross	$8,065,174	$9,820,511	22%
Valuation Allowance	(1,201,549)	(1,090,582)	(9)%
MSRs, net (as reported)	$6,863,625	$8,729,929	27%
Valuation Allowance as a % of Gross MSRs	14.9%	11.1%	(26)%

359. GAAP prescribes that MSRs should be continually evaluated to determine whether their valuation should change, including whether or not costs expected to be incurred cause MSRs to become a servicing liability rather than an asset. SFAS 140, ¶ 62. If the costs of servicing poor quality loans increase (due to, for example, the costs of sending delinquency notices, hiring collection agents, etc.) to a high enough level, they will offset the expected income to be derived from those MSRs. Thus, when loans became troubled (for example, as loans became 30 to 89 days delinquent), Countrywide should have anticipated those incrementally higher costs and factored them into the valuation of MSRs.

Instead, while making riskier loans upon which it retained MSRs, Countrywide inappropriately maintained its historical approach to establishing the value of these assets.

360. The reported gross balance of MSRs rose again from $9.8 billion as of December 31, 2004 to $13.0 billion as of December 31, 2005. Yet, despite the continued significant increase in credit risk assumed by Countrywide during that year, the valuation allowance for impairment of MSRs actually decreased from $1.1 billion to only $0.4 billion. Thus, although gross MSRs increased 33% in 2005, the related valuation allowance decreased over 60%. It was illogical that the valuation allowance would drop in relative terms from 11% to only 3% of gross MSRs given known exposure to increased default risk due to the loosening in underwriting standards and failures to exercise prudent due diligence, and the effect of that risk on the value of MSRs. In particular, it is unlikely that the net reported value of MSRs accounted for the increase in expected operating costs to service these loans. The table below summarizes these changes:

	2004	2005	Increase/(Decrease)
MSR, gross	$9,820,511	$13,031,359	33%
Valuation Allowance	(1,090,582)	(420,520)	(61)%
MSR, net (as reported)	$8,729,929	$12,610,839	44%
Valuation Allowance as a % of Gross MSR	11.1%	3.2%	(71)%

361. As noted above, in 2006, Countrywide adopted SFAS 156 and began to report its MSRs at purported "fair value." Accordingly, the reported MSRs were now exclusively dependent upon the fair value assumptions employed by management. During 2006, despite the significant increase in the level of credit risk that by then had been accumulated by Countrywide, the Company's reported balance of MSRs reflected a $432 million increase in fair value solely derived from modified assumptions applied in its pricing model relating to SFAS 156.

However, as illustrated in the table below, there were no significant modified assumptions that would warrant such an increase in fair value. While 2006 represented the first year that Countrywide reported its MSRs at fair value, the Company had provided disclosure about the inputs to its model used to assess the fair value of its MSRs (*i.e.*, weighted average life and prepayment rates) since at least 2002. The table below indicates that from 2002 to 2006, Countrywide did not significantly modify the fair value assumptions used in its model. The Company thus failed to incorporate the increased credit risk of its lending strategies implemented in 2003 and the steady loosening of underwriting standards and due diligence practices thereafter, or failed to do so appropriately. At a minimum, to address the rising risk of default, Countrywide should have decreased the weighted average life of its MSRs, instead of increasing it from 5.6 to 5.8 between 2005 and 2006:

	2002	**2003**	**2004**	**2005**	**2006**
Weighted Average Life	5.6	6.0	6.1	5.6	5.8
Prepayment Speed	21.7%	20.8%	22.0%	22.8%	21.0%
Option-Adjusted Spread	3.6%	4.3%	6.0%	6.4%	6.2%

362. These credit risk factors had implications beyond simply the revenue element of the MSRs. Countrywide's pricing models also failed to appropriately consider the probable increase in operating costs (i.e., costs to restructure mortgages in default and costs to collect late payments) that were inherent in the MSRs generated in 2003 and thereafter. As these increases in operating costs became more likely over time, they should have caused changes to the pricing model-based fair value assumptions, or, in the alternative, introduction of new factors, that resulted in lower proportionate MSRs fair values than in prior periods.

363. Countrywide first wrote-down the fair value of its MSRs in its third quarter 2007 Form 10-Q. In that quarter, Countrywide recorded a reduction of $1.1 billion in the fair value of the MSRs due solely to a change in model assumptions. Nevertheless, there does not appear to have been any meaningful change to the key fair value assumptions in the model disclosed by Countrywide to explain this change, strongly indicating an understanding that its model was inadequate but a refusal to acknowledge its prior improper valuations. In fact, the increased weighted average life and the decreased prepayment speed both implied that the modified fair value assumptions would have resulted in an increase to the reported value of its MSRs as of September 30, 2007, rather than the decrease which was reported. The table below compares the key assumptions to determining fair value disclosed by Countrywide's 3Q07 Form 10-Q with the key assumptions used at the end of 2006, as disclosed in its 2006 Form 10-K:

	12/31/06	**9/30/07**
Fair Value of MSRs	$16.2B	$20.1B
Weighted Average Life (in years)	5.8	6.4
Annual Prepayment Speed	21.0%	18.1%
Option-Adjusted Spread	6.2%	6.1%

364. As illustrated above, there was no significant change in management's key assumptions to warrant such a massive write-down of Countrywide's MSRs. Nonetheless, Countrywide continued to write down its MSRs in the fourth quarter of 2007 as reported in its 2007 Form 10-K. These facts lead to the inference that Countrywide's assumptions used to value its MSRs were incorrect and that some other undisclosed assumption such as default risk or increasing servicing costs had been introduced, which resulted in the write-down. This hidden introduction of "new" assumptions, ones that Countrywide did not seem to consider with respect to prior valuations, provides evidence that there

was a failure to appropriately value its MSRs during the Class Period to reflect the true credit risk of the underlying loans that Countrywide serviced.

365. Additional evidence of management's hidden assumptions arises from the Company's own SEC filings. Countrywide disclosed in its 2007 Form 10-K that "[w]e recorded a decrease in the fair value of the MSRs in 2007 of $1,085.4 million, primarily as a result of decreasing mortgage rates during the last half of the year which ***increased expected future prepayment speeds*** of our agency servicing portfolio." However, as mentioned in the RI section above, the weighted average prepayment speed for both MSRs and RIs decreased in the Company's disclosed fair value assumptions as of December 31, 2007. Countrywide does provide some disclosure that the market deterioration moderated the impact of prepayments, but there is no disclosure reconciling these conflicting conclusions.

366. Consequently, the Company's valuation of its MSRs during the Class Period was materially overstated because its cash flow model ignored: (i) the Company's change in lending practices beginning in 2003 to offer non-traditional, high-risk loans; (ii) the Company's significant increasing production of subprime loans; (iii) the Company's continued exceptions from its underwriting guidelines; (iv) the drastic increase in loan delinquencies and defaults; and (v) the increased expected costs associated with servicing delinquent loans. Under proper risk assumptions, the "change in culture" and resulting increased delinquencies would have resulted in proportionally reduced valuations of its MSRs throughout the Class Period. Rather than decrease the Company's MSRs in a manner sufficient to account for these adverse facts and circumstances, Countrywide used its MSRs to inflate earnings during the Class Period.

6. Countrywide Inflated Earnings By Failing to Properly Reserve for Representations and Warranties

367. As a result of its failure to adhere to its own underwriting standards, Countrywide did not properly accrue liabilities for breaches of representations and warranties throughout the Class Period. Accordingly, Countrywide and the Officer Defendants also materially understated Countrywide's liabilities and overstated its gain-on-sale revenues, and net income.

368. During the Class Period, Countrywide made representations and warranties in connection with the sale of its mortgage loans to the secondary market through securitizations. The accrual of loss contingencies for representations and warranties is based upon the rate of expected future claims from investors resulting from breaches of the Company's corporate guarantees and mortgage loan representations and warranties. Countrywide's representations and warranties with respect to the mortgage loans it sold included guarantees concerning the loans' compliance with applicable loan criteria, such as loan to value ratio limits, level of origination documentation required, credit scores, debt to income ratios, delinquency rates, the Company's written underwriting policies, and compliance with applicable laws.

369. According to Countrywide's regulatory filings, the Company retained credit risk for all representations and warranties offered in a securitization. Countrywide defined "credit risk" in its 2007 10-K as follows: "credit risk . . . is the risk that a borrower ***will not repay*** the [underlying] loans' balance as agreed and the risk that the proceeds from liquidation of the collateral securing the loan will not be adequate to repay the loan's balance."

370. "Credit loss" is a loss that arises from the retention of credit risk. If Countrywide breached its corporate guarantees and mortgage loan representations and warranties to secondary market purchasers, it would be required to either repurchase the underlying mortgage loan with the identified defects or

compensate the purchaser. In such cases, the Company would bear subsequent credit losses on the mortgage loans.

371. Countrywide understated its loss accrual for R&Ws because it ignored the high risk and poor quality of its underlying loans and its deteriorated underwriting practices. Consequently, the Officer Defendants violated GAAP. Specifically, SFAS No. 5, Accounting for Contingencies, required that Countrywide record a reserve for a future loss associated with a breach of its representations and warranties that was probable and estimable:

> An estimated loss from a loss contingency . . . shall be accrued by a charge to income if both of the following conditions are met: (a.) Information available prior to issuance of the financial statements indicates that it is ***probable*** [future event or events are likely to occur] that . . . a liability had been incurred at the date of the financial statements. . . . [and] (b.) [t]he amount of loss can be ***reasonably estimated***.

372. Further, SFAS 140 and Emerging Issues Task Force No. 92-2, *Measuring Loss Accruals by Transferors for Transfers of Receivables with Recourse* ("EITF 92-2"), states that the reserve should be estimated based upon certain factors, including the Company's historical repurchase experience, industry repurchase experience, ***expected future volume of repurchases, and expected value of underlying collateral***.

373. SFAS 140 and EITF 92-2 required the reserve to be estimated and recorded as a liability on Countrywide's balance sheet in the period in which the loans were sold, with a corresponding reduction of Countrywide's gain-on-sale in its income statement. Specifically, SFAS 140 provides:

> Upon completion of a transfer of assets that satisfies the conditions to be accounted for as a sale (paragraph 9), the transferor (seller) shall (paragraph 11):

a. Derecognize all assets sold[;]

b. Recognize all assets obtained and ***liabilities incurred*** in consideration as proceeds of the sale, including cash, put or call options held or written (for example, guarantee or ***recourse obligations***), forward commitments . . . swaps . . . and servicing liabilities, if applicable[;]

c. ***Initially measure at fair value*** assets obtained and ***liabilities incurred in a sale*** or, if it is not practicable to estimate the fair value of an asset or a liability, apply alternative measures[; and]

d. Recognize in earnings any gain or loss on the sale.

[Certain emphasis in original.]

374. According to CW8, Countrywide's representations and warranties were false and misleading because the Company loosened its underwriting guidelines during the Class Period and repeatedly included loans in the loan pools that did not conform to the stated description of such loan pools. Additionally, CW8 noted that the numerous exceptions to Countrywide's underwriting guidelines constituted breaches of representations and warranties in and of themselves.

375. Consistent with CW8's statements above, according to MBIA Insurance Company ("MBIA"), a monoline insurer for Countrywide's securitizations, Countrywide's loan files were incomplete. The files were missing appraisals, were not originated in accordance with the Company's underwriting standards, and borrower information was not verified by the Company. MBIA is one of the nation's oldest and largest monoline insurers, and provides financial guarantee insurance and other forms of credit protection, generally on financial obligations sold in the secondary market. MBIA states that Countrywide induced it to provide billions of dollars of credit enhancements during 2005 through 2007

in the form of guarantees on particular classes of residential mortgage backed securities ("RMBS"). In doing so, Countrywide falsely represented to MBIA that it had originated the underlying mortgages in strict compliance with its underwriting standards and guidelines. MBIA states that it has already paid out more than $459 million on its guarantees and is exposed to claims in excess of several hundred million dollars more. MBIA further states that after reviewing Countrywide's loan files, its loan applications lacked key documentation, such as verification of borrower assets or income; included invalid or incomplete appraisals; demonstrated fraud by borrowers on the face of applications; and reflected that any of the borrower income, FICO score, or debt or DTI (debt-to-income) or consolidated loan-to-value ("CLTV") information it was able to obtain failed to meet stated Countrywide guidelines (without any permissible exception).

376. Similarly, Amalgamated Bank ("Amalgamated") has stated that it purchased four portfolios of HELOCs from Countrywide between 2006 and 2007. Amalgamated is a New York State chartered bank that was founded in 1923. Amalgamated has been providing trust, investment advisory, custodial and benefit remittance services for public sector employee benefit plans since 1973. Amalgamated states that in selling the portfolios, Countrywide represented that all of the loans in the portfolios had been originated in accordance with Countrywide's underwriting guidelines, which included specific FICO scores, loan-to-value ratios, debt-to-income ratios and due diligence performed on such loans. Amalgamated states that it discovered deficiencies in the portfolios barely six months after purchasing them. For example, Amalgamated states that the loans in the portfolios were not originated and underwritten in accordance with Countrywide's lending policies. There was no due diligence performed on the underlying loans. Borrowers' FICO scores were less than what was required by Countrywide's underwriting guidelines for such loans. CLTV ratios and debt-to-

income ratios exceeded agreed-upon limits. Property appraisals were missing from the files. One loan file, according to Amalgamated, revealed that a borrower claimed "to be a 13 year dental hygienist earning $26,200 per month (or $314,000 per year), when the borrower's employer estimated annual sales for the entire dental business was only $220,000."

377. Further, CW12 confirmed that the loans Countrywide sold to the secondary market were extremely high risk loans. CW12 stated further that the Company would purchase as much as $50 million dollars of loans per day from very risky lenders, such as New Century, American Home Loans and Quicken Loans, but only audit between 1% and 10% of these loans on a spot-check basis. According to CW12, if, during one of these audits, the loans were not meeting Countrywide's already loosened guidelines, those guidelines would be "tweaked" so that loans would conform. Countrywide would then sell pools of these loans to investors through securitizations.

378. The Company's 2006 Form 10-K represented that Countrywide attempted to limit the risk of incurring losses from breaches of representations and warranties by structuring its operations to ensure consistent production of quality mortgages and servicing those mortgages at levels that met or exceeded secondary mortgage market standards.

379. According to CW8, this representation was false and misleading when made because Countrywide did not attempt to limit its "risk of incurring . . . losses," or even "structure operations to ensure consistent production of quality mortgages." Rather, Countrywide exposed itself to material losses as a result of its breaches of representations and warranties.

380. The table below compares securitizations and the provision of new R&W reserves in 2005 to those in 2004:

($ in millions)	2004	2005	% Change
Estimated Total Securitizations	$166,347	$221,157	33%
Provisions for New R&W	$85.4	$66.4	(22)%
New R&W as % of Total Securitizations	0.05%	0.03%	(41)%
Prime Home Equity and Nonprime Securitizations	$57,800	$61,400	6%
R&W as % of Home Equity and Nonprime	0.15%	0.11%	(27)%

381. In 2004, Countrywide was originating high risk mortgages to the weakest borrowers. For example, Countrywide securitized approximately $166 billion of loans during 2004, of which 40% were to borrowers with FICO scores of 660 or below, as mentioned in paragraph 120 above. In addition, as alleged above, Countrywide further increased its risk exposure by loosening its underwriting criteria and failing to follow prudent due diligence practices. Therefore, Countrywide should have increased its accruals for R&Ws further than it did to account for such heightened risk.

382. In 2005, Countrywide again failed to adequately provide sufficient R&W reserves. This can be seen by comparing R&W reserves with securitizations of HELOCs and nonprime loans. Countrywide's Form 10-Ks represented that only securitizations of HELOCs and nonprime loans were subject to recourse, meaning, for example, that Countrywide would be required to repurchase a loan if the borrower defaulted within a certain time after the securitization, regardless of whether there was a breach of its R&Ws. Countrywide increased securitizations of those types of loans from $57.8 billion to $61.4 billion in 2004 and 2005, respectively, a growth rate of 6%. However, in 2005, Countrywide actually decreased its provisions for new R&W reserves by 22% from approximately $85 million in 2004 to $66 million in 2005. This year-over-year change in 2005 represented an inexplicable 27% drop in new R&W provisions as a percentage of relevant securitizations.

383. The 22% decrease in new R&W provisions is also indefensible when one compares 2004 to 2005 securitizations. The dollar value of loans securitized in 2005, as shown in the securitization prospectuses referred to in paragraph 120 above, were approximately $221 billion, approximately 33% greater than the value of loans securitized during 2004, as shown in the same prospectuses. In other words, as a percentage of total loans securitized in 2005, Countrywide recorded new reserves in the ratio of approximately 0.03% of new loans securitized versus the 2004 reserve rate of 0.05% of loans securitized; a decrease of approximately 41%. In consideration of the increasing credit risk associated with the 2005 loans securitized, including the risk related to loans originated through the EPS system, it was illogical that the rate of new R&W provisions in 2005 would have been reduced by nearly 41% as compared to 2004.

384. Moreover, in 2006, the Company assumed more risky loans and the delinquency rate on the loans that the Company held for investment was skyrocketing. Given that Countrywide used the same underwriting criteria for loans held for investment as it did for loans it planned to sell or securitize, and Countrywide represented that it placed loans of higher quality in its LHI portfolio, the Company should have acknowledged the probability that the loans the Company sold to the secondary market would experience at least the same rate of delinquencies. While Countrywide increased its R&W reserve for 2006, that increase was insufficient in view of the Company's continued origination and securitization of substantial numbers of loans to less creditworthy borrowers with loosened underwriting guidelines and lax or non-existent due diligence.

385. Under proper risk assumptions, Countrywide's loosened lending standards and the resulting increased delinquencies would have resulted in proportionally increased reserves for breaches of representations and warranties throughout the Class Period.

386. It was not until the third quarter of 2007 that Countrywide was forced to admit that the amount of its reserves for R&W had been wrong. At that time, the Company increased its allowance for representations and warranties by a shocking $291.5 million, or 611% from the $41.0 million reported twelve months earlier in the third quarter of 2006. Notably, the Company reported that $177.3 million or 60% of this increased allowance related to prime loans and $67.1 million related to the nonprime loans, demonstrating the true extent of the Company's exposure to losses in its purported "prime" loan portfolio as a result of (a) its improper lending practices, and (b) its improper internal definition of "prime."

387. Countrywide's reserves for R&W were materially understated and in violation of GAAP during the Class Period for at least the following reasons: (i) the Company changed its lending practices beginning in 2003 to offer non-traditional, high risk loans to all borrowers, even those incapable of repaying the loans; (ii) the increased origination of high-risk loans to unqualified borrowers with little to no supporting documentation; (iii) the Company's continued origination of loans through exceptions from its underwriting guidelines; and (iv) the increased probability that borrowers would default.

388. As a result of these factors, Countrywide's liability for its breaches in R&W was materially understated throughout the Class Period, which, in turn, overstated its net income. The accrual of loss contingencies from the Company's breach of its representations and warranties was a critical metric for investors because it indicated the financial health of the Company, given that the loss accrual was based upon the quality and performance of the underlying loans. During the Class Period, Countrywide did not properly accrue loss contingencies that were probable and estimable in accordance with SFAS 5, SFAS 140 and EITF 92-2.

389. Thus, GAAP was violated and the Company understated its liabilities and overstated its reported net income.

7. Countrywide's Internal Controls Over Financial Reporting Were Ineffective

390. The Officer Defendants concealed the deterioration of Countrywide's internal controls during the Class Period by falsely representing in the Company's management's report on "internal control over financial reporting" that such controls were effective.[16] The lack of effective internal controls enabled the Company to lower its underwriting standards to such a point that it issued inherently risky loans, such as Pay Option ARMs, 100% financing loans, and SISA and NINA loans to non-creditworthy borrowers, notwithstanding representations by the Officer Defendants that they carefully managed those risks. Such lending practices caused the default rate of Countrywide's loans to increase at an accelerated pace throughout the Class Period. Additionally, the ineffectiveness of Countrywide's internal controls allowed the Officer Defendants to inappropriately classify sub-prime loans as prime loans (because, among other

[16] SEC Release No. 33-8238 defines the term "internal control over financial reporting" as follows:

> The term internal control over financial reporting is defined as a process designed by, or under the supervision of, the company's principal executive and principal financial officers, or persona performing similar functions, and effected by the company's board of directors, management, and other personnel, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles and includes those policies and procedures that:
>
> 1. Pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company;
> 2. Provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company, and;
> 3. Provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use or disposition of the company's assets that could have a material affect on the financial statements.

things, the benchmark FICO score they used for prime loans was lower than mortgage industry standards and the Company's exception processing system further reduced standards), further masking the failing financial health of the Company.

391. As a result of Countrywide's failure to maintain effective internal control over its financial reporting, the Officer Defendants were also able to manipulate the timing of when they recorded reserves for contingent liabilities and write-down the fair value of the Company's servicing and other securitization-related assets. Countrywide's poor internal controls allowed the Officer Defendants to materially misstate the financial statements during the Class Period.

392. Countrywide's 2007 Form 10-K filing asserts management's responsibility over internal controls:

> Management is responsible for establishing and maintaining ***adequate internal control over financial reporting for the Company***. . . . In making its assessment of internal control over financial reporting, management [claimed to] use[ ] the criteria established in 'Internal Control-Integrated Framework' issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO).

393. COSO defines "internal controls" in Ch. 1 of its Framework as follows:

> Internal control is a process, effected by an entity's board of directors, management and other personnel, designed to provide ***reasonable assurance*** regarding the achievement of objectives in the following categories: (i) Effectiveness and efficiency of operations; (ii) ***Reliability of financial reporting***; (iii) Compliance with applicable laws and regulations.

394. Moreover, COSO emphasizes the importance of a strong control environment, which sets a positive "tone at the top" and then flows down through the Company. The COSO Framework Executive Summary identifies the pervasive influence that the control environment has on the Company, as follows:

> The control environment sets the tone of an organization, influencing the control consciousness of its people. It is the ***foundation for all other components of internal control***, providing discipline and structure. Control environment factors include the integrity, ethical values and competence of the entity's people; management's philosophy and operating style; the way management assigns authority and responsibility, and organizes and develops its people; and the attention and direction provided by the board of directors.

395. In addition, the COSO Framework, Ch. 2, establishes that management's philosophy and operating style directly affects the manner in which the company is managed, the amount of risk that the company accepts and ultimately the success of the company. Chapter 2 of the COSO Framework states:

> Management's philosophy and operating style affect the way the enterprise is managed, including the ***kinds of business risks accepted***. … Other elements of management's philosophy and operating style include attitudes toward financial reporting, conservative or aggressive selection from available alternative accounting principles, ***conscientiousness and conservatism with which accounting estimates are developed***, and attitudes toward data processing and accounting functions and personnel. . . . ***The impact of an ineffective control environment could be far reaching, possibly resulting in a financial loss, a tarnished public image or a business failure***.

396. Specifically, Chapter 8 of the COSO Framework establishes the Chief Executive Officer's responsibility over internal control. Chapter 8 states as follows:

> [The chief executive] has ultimate ownership responsibility for the internal control system. One of the most important aspects of carrying out this responsibility is to ensure the existence of a ***positive control environment***. More than any other individual or function, the chief executive sets the "tone at the top" that affects control environment factors and other components of internal control.

397. Section 404 of the Sarbanes-Oxley Act of 2002 ("the Sarbanes-Oxley Act") requires management to assess the effectiveness of the internal control structure and the financial reporting for procedures. Management is responsible for performing this assessment in the context of a top-down risk assessment,[17] which requires management to base both the scope of its assessment and the evidence gathered on risk. Management's conclusion, as a result of that assessment, about whether the Company's internal control is effective must be included in the Company's annual report.

398. Further, SEC Release No. 33-8238 requires management to report publicly all material weaknesses[18] in the Company's internal controls.

399. Beginning in 2002, the Officer Defendants were required under Rule 302 of the Sarbanes-Oxley Act to provide assurances relating to the Company's "internal control over financial reporting." Rule 302 states as follows:

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[17] The top-down risk assessment approach describes the sequential thought process in identifying risks and controls based upon the tone at the top. The tone at the top is created by management through maintaining a culture of honesty and high ethical standards; and establishing appropriate controls to prevent, deter, and detect fraud.

[18] "A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the annual or interim financial statements will not be prevented or detected." PCAOB Auditing Standards No. 2, ¶ 10.

> [E]ach annual report . . . [should] contain an internal control report, which shall: (1) state the responsibility of management for ***establishing and maintaining an adequate internal control structure and procedures for financial reporting***; and (2) contain an assessment, as of the end of the most recent fiscal year of the issuer, ***of the effectiveness of the internal control structure*** and procedures of the issuer for financial reporting.

400. As explained above and in the Company's regulatory filings, the Officer Defendants represented to the marketplace that their assessment of internal controls over financial reporting was based upon the framework established by COSO. Also, the Officer Defendants represented in the Company's Form 10-K filings that "management concluded that the Company's internal control over financial reporting ***was effective as of" the years ended December 31, 2004,***[19] ***December 31, 2005, and December 31, 2006***. These statements were false because Countrywide concealed its lax underwriting standards and increased approval of exception loans. As a result, management's reports on internal control over financial reporting, required by Rule 302 of the Sarbanes-Oxley Act, were materially false and misleading because Countrywide's internal controls were ineffective. The Officer Defendants' statements were false and misleading because Countrywide's internal controls were significantly deficient and ineffective to prevent or detect errors or misstatements in its operations, underwriting practices or financial reporting.

401. Consequently, the Company's purported control environment failed to provide assurance that the financial statements issued during the Class Period

[19] In the Company's 2004 Form 10-K, management noted a material weakness regarding recognizing gains on sale of mortgage backed securities with embedded derivatives. Importantly, management did not recognize a material weakness with regard to its lax underwriting practices over the Class Period.

were reliable or in compliance with applicable laws. Rather, the Officer Defendants focused on increasing loan volume origination without regard to the quality of such loans in an effort to reach the aggressive 30% market share goal. The control environment shaped by the Officer Defendants resulted in ineffective controls with respect to the Company's financial reporting process and allowed the Officer Defendants to materially misstate the Company's financial statements. As a result, the Officer Defendants manipulated the timing of when the Company recorded reserves for contingent liabilities and when it wrote down the fair value of its servicing and other securitization-related assets in violation of GAAP.

402. The material weaknesses in Countrywide's internal controls arose from, among other things, the Officer Defendants' tone at the top, a tone that condoned lax underwriting practices and resulted in material misstatements in the Company's financial reporting. It was not until 2007 that the Company's lax lending practices were revealed to the market place because, at that time, the Company was forced to record billions of dollars of losses from its increased delinquencies and defaulting loans.

403. Management's assessment of internal control over financial reporting was a critical metric for investors because it provided assurance that the Company's financial statements were reliable and in compliance with applicable laws. However, during the Class Period, as alleged herein, Countrywide did not properly assess its internal controls over financial reporting, thus it violated the "Internal Control-Integrated Framework" issued by COSO and various other requirements found in the SEC regulations and SOX Act.

H. Defendants Materially Misrepresented Countrywide's Access to Liquidity And the Value of the Company's Excess Capital

404. Access to liquidity—in plain English, access to cash to fund the loans it was issuing, was vital to Countrywide. Without liquidity, the Company's core business would necessarily fail. Similarly, in general terms, capital,

otherwise known as stockholders' equity, was the amount of financial resources Countrywide had available to continue its operations over time. Both liquidity and capital are essential to the survival of a company.

1. Countrywide Misrepresented its Access to Liquidity

405. Historically, Countrywide needed access to a staggering amount of cash each month. In 2006, for example, Countrywide originated approximately $468 billion in loans—or roughly $39 billion per month. To fund those loans, Countrywide required the equivalent amount of cash. It also required additional cash to fund its other, incidental operations.

406. Further, Countrywide's "change of culture" to issue higher risk loans to higher risk borrowers posed a profound threat to the Company's sources of liquidity. By corroding the quality of the loans that formed the heart of Countrywide's business, and consequently causing the Company's financial statements to misrepresent multiple aspects of its business and finances—including, but not limited to, its loan loss reserves and the assets on its balance sheet—Defendants' misconduct created a ticking time bomb that was poised to destroy Countrywide's reputation and creditworthiness, and thus its ability to obtain the liquidity it needed, whether by selling debt instruments, selling mortgages that it originated, borrowing, or otherwise.

407. On July 24, 2007, the financial community began to learn that the loans Countrywide was selling through securitizations and otherwise, as well as the loans Countrywide held in its portfolio, were not as valuable as had been represented because they were higher risk loans made to higher risk borrowers than Defendants represented. Moreover, those poor quality loans began to default at an alarming and accelerating rate that forced Countrywide to begin to take very large write-downs.

408. The financial community further began to learn that these misrepresentations were a consequence of Countrywide's misrepresenting itself

as being different and unique as compared to other residential mortgage lenders. In short, the financial community learned it could not trust Countrywide. Consequently, Countrywide's sources of liquidity dried up. Countrywide lost its ability to sell debt securities—a key method by which it traditionally had obtained liquidity—because few investors had faith in the integrity of its business or financial statements, or the quality of the securities it sold, and thus few would purchase those securities. As Countrywide ran through its backup sources of liquidity—including an $11.5 billion credit facility, which it tapped in full on August 16, 2007, and its ability to borrow from the Federal Home Loan Bank of Atlanta, which Countrywide had come close to exhausting by November 26, 2007—Countrywide faced the prospect of bankruptcy. See ¶¶ 990-993 below.

2. The Company's Capital Was Overstated During the Class Period

409. Defendants' misconduct also materially eroded the amount of financial resources Countrywide had available to continue its operations over time. As a result of the Company's failure to properly record adequate allowances for loan losses, liabilities for breaches in representations and warranties, and failure to properly assess the fair value for its retained interests and MSRs, its net income was overstated. See Section IV.G. Since net income positively affects retained earnings, a component of stockholders' equity, the company's stockholders' equity was overstated as well.

410. Capital is synonymous to a company's stockholders' equity. A Company's stockholders' equity is derived from two main sources. The first and original source is the money that was originally invested in the company, along with any additional investments made thereafter (invested capital). The second comes from income and earnings from operations that a company is able to accumulate over time (retained earnings). Stockholders' equity equals total assets less total liabilities. Therefore, if a company's assets are overstated and its

liabilities remain constant, its stockholders' equity will be overstated. Similarly, if a company's liabilities are understated and assets remain constant, its stockholders' equity will be overstated.

411. As alleged in Section IV.G above, the Company's assets were materially overstated and its liabilities were materially understated during the Class Period, both of which resulted in a material overstatement of Countrywide's capital. As a result, all of Countrywide's statements relating to adequate or excess capital were false and misleading.

412. Defendants' false statements regarding Countrywide's excess capital are further evidenced from the sudden changes in Countrywide's statements relating to its capital during the summer of 2007. At the June 5, 2007 investor conference, the Company reported that it had between $2.8 and $5.4 billion in excess capital. Shortly thereafter, on August 23, 2007, Bank of America announced a $2 billion investment in Countrywide. In return for its investment, Bank of America received very favorable terms, including obtaining non-voting convertible Countrywide preferred securities yielding 7.25% annually and convertible to common stock at $18 per share.

413. However, not even five months later, on October 26, 2007, at the third quarter earning conference call, Countrywide represented that its excess capital had fallen to a range of between $1.1 and $4.7 billion, despite the Bank of America cash infusion of $2.0 billion. Countrywide's capital decreased swiftly and severely from the massive write-downs that the Company was forced to take as a result of its failure to properly reserve for losses and its failure to properly value its assets. These steps were required to be taken because of Countrywide's previously undisclosed policy of taking on an exponentially greater amount of risk.

414. Specifically, due to the Company's inability to sell some of its loan portfolio, and escalating credit losses, Countrywide was forced to take a $3

billion write-down in the third quarter of 2007. The very next quarter, Countrywide took another $2.2 billion in write-downs for the same reasons stated herein and in Section IV.G. Thus, in the second half of 2007 alone, Countrywide took $5.2 billion in write-downs, which would have virtually wiped out Countrywide's purported excess capital at the end of the second quarter of 2007, before the Bank of America cash infusion.[20]

415. The process by which the revelation of Defendants' misconduct caused Countrywide to lose access to liquidity and deplete its capital also helped to doom the Company's ability to survive independently. Thus, on January 11, 2008, Bank of America announced that it was purchasing Countrywide for only approximately $4 billion—representing approximately 26% of Countrywide's most recently reported book value of approximately $15.3 billion, as set forth in Countrywide's quarterly report for the third quarter of 2007.

416. Bank of America's decision to purchase Countrywide for only approximately 26% of Countrywide's book value following the completion of comprehensive due diligence corroborates the fact that Countrywide's stockholders' equity was inflated, the Company was in financial distress, and Countrywide's statements regarding excess capital—directly relating to the Company's ability to maintain a stable basis for long-term financing of its operations—were false and misleading.

417. The overstatement of stockholders' equity from the Company's failure to properly assess its allowance for loan losses, liabilities for breaches of its representations and warranties and improper valuation of its retained interests and MSRs, was a critical metric for investors because it indicated the financial

[20] In comparison, in 2006, Countrywide took $800 million in write-downs, while in 2007, write-downs equaled $6.5 billion.

health of the Company and its ability to continue its operations independently over time.

418. As detailed in Section IX below, Countrywide continued to try to reassure the investing public about the soundness of its access to liquidity and adequate capital through ongoing false and misleading statements, even as the truth gradually came to light. This caused, among other things, Countrywide's credibility to plummet, its creditworthiness to decline, its access to liquidity to be steadily choked off, and its overstated capital to be reduced by inevitable write-downs, far below what Countrywide represented to the marketplace.

V. ADDITIONAL ALLEGATIONS SUPPORTING THE OFFICER DEFENDANTS' SCIENTER

419. At all relevant times, Defendants Mozilo, Sambol, Sieracki, and Kurland acted with scienter in making materially false and misleading statements during the Class Period. Each of these Officer Defendants had actual knowledge that the statements made by him were false and misleading, or acted with deliberately reckless disregard for the truth or falsity of those statements. Each of the Officer Defendants' intent to deceive, or deliberately reckless disregard for the truth, is demonstrated by substantial direct and circumstantial facts and evidence supporting a strong inference of scienter.

A. Mortgage Banking Was Countrywide's "Core Business," and the Officer Defendants Closely Monitored the Company's Lending Practices and Credit Risk Exposure

420. During the Class Period, Countrywide consistently described its Mortgage Banking segment, which originated, purchased and serviced residential mortgage loans, as its "core business." For the years 2004 through 2007, Mortgage Banking generated 65%, 59%, 48%, and 50% of the Company's pre-tax earnings, respectively. The Mortgage Banking, Banking, and Capital Markets

segments, taken collectively, consistently generated more than 90% of the Company's pre-tax earnings during the Class Period.

421. The Officer Defendants were "hands-on," detail-oriented, and deeply involved in the daily management of all aspects of Countrywide's core operations, including the Company's policies, procedures and standards for underwriting loans and the assessment and management of credit risk. Notably, as alleged below, Mozilo "participate[d] every day in loan originations [him]self." The Officer Defendants were the executive officers directly responsible for these core operations, including Countrywide's lending practices and credit risk management.

422. Overall, Countrywide's day-to-day management was overseen by an Executive Strategy Committee whose members, according to CW1, included all of the Officer Defendants as well as the Company's Chief Risk Officer, Chief Economist, Chief Legal Officer, and head of the Banking segment (Countrywide Bank), all of whom were executive officers of the Company.

423. As stated in Form 10-K filings, management also maintained a Credit Committee during the Class Period, "comprised of our Chief Risk Officer and other senior executives," which "ha[d] primary responsibility for setting strategies to achieve our credit risk goals and objectives." According to CW1, Defendants Mozilo, Kurland (replaced by Sambol after Kurland left the Company), and Sieracki, as well as the Chief Risk Officer and Chief Economist, sat on the Credit Committee during the Class Period.

424. The Credit Committee was mandated under its charter to "review, assess and monitor the Company's policies and activities" with respect to "(1) credit risk management activities, including the credit risk management strategies, policies, controls, systems and methodology of the Company and its subsidiaries; (2) methodology of loan loss reserves and adequacy of loan loss reserve levels; and (3) actual and projected credit losses in all of the Company's activities and

across all of its portfolios." With respect to loan loss reserves in particular, Countrywide made clear in its Form 10-K reports that ***"[o]ur senior management is actively involved in the review and approval of our allowance for loan losses."***

425. Countrywide also maintained an Asset/Liability Committee ("ALCO") during the Class Period that was comprised of "several of [the Company's] senior financial executives" including the Chief Risk Officer and co-chaired by Defendant Sieracki. ALCO, according to the Company's 10-K reports, "ultimately" determined the Company's valuation of retained interests and MSRs. These filings made clear that ***"[s]enior financial management exercises extensive and active oversight"*** of valuation of retained interests and MSRs.

426. As explained during a September 13, 2006 conference call, ALCO maintained two subcommittees: the Pipeline and Portfolio Risk Management Subcommittee and the Earnings Forecasting Subcommittee. The Pipeline and Portfolio Risk Management Subcommittee met "daily" and made "day-to-day, tactical hedging decisions" concerning credit risk. The Earnings Forecasting Subcommittee met weekly to examine the Company's financial forecasts for the current quarter, future quarters and entire fiscal year. By updating forecasts weekly, as stated during the conference call, the Subcommittee would "get a sense of how production is performing, how the total company is going to perform in different environments."

427. With respect to liquidity, as stated in the Company's Form 10-K, executive management reviewed the Company's compliance with liquidity requirements on a monthly basis beginning in 2006: "To ensure compliance with the LMP [Liquidity Management Plan], CHL, CSC and Countrywide Bank are required to maintain adequate contingent liquidity regardless of conditions and to diversify funding sources. Each business unit has detailed metrics which are

appropriate to its business line. The metrics are compared with actual performance positions and ***reported to executive management monthly***."

428. Further, Countrywide maintained a Board-level Finance Committee and Audit and Ethics Committee that reported directly to the Board of Directors. Mozilo has been Chairman of the Board throughout the Class Period, and Sambol joined the Board in 2007. These Defendants, accordingly, were aware of these committees' activities and findings that were presented to the Board, as were The Officer Defendants who were asked to attend Board meetings.

429. The Finance Committee, according to its charter, was charged with reviewing, assessing and monitoring the Company's activities with respect to a number of finance and market risk-related matters, including liquidity, capital adequacy, and reserves; projected levels of short- and long-term borrowing and credit line requirements; the charter, policies and activities of ALCO; policies and strategy relating to MSRs and retained interests; and the Company's mortgage loan sales and securitizations and secondary marketing objectives. The Finance Committee was also charged with reviewing matters related to equity (stock) purchases, "taking into account the quantity and quality of consolidated assets, earnings, potential earnings, availability of retained earnings, projected growth rates, [and] liquidity and capital requirements[.]" The Finance Committee met frequently during the Class Period, and ten times during 2006 in particular.

430. The Audit and Ethics Committee was charged with assisting the Board in overseeing the integrity of the Company's financial statements and the financial and other information reporting processes of the Company, the Company's internal audit function and the performance thereof, the Company's system of internal controls, and the Company's Code of Business Ethics. More specifically, the Audit and Ethics Committee was required under its charter to, among other things, "discuss with management the Company's major financial risk exposures and the steps management has taken to monitor and control such

exposures and liabilities, including the Company's risk management policies," and to discuss "the systems management utilizes to assess, monitor and control such exposures through the enterprise, including the Company's risk assessment policies." The Audit and Ethics Committee met frequently during the Class Period, and 14 times during 2006 in particular.

431. Owing to these standing Board Committees' regular and ongoing activities, Defendants Mozilo and Sambol, at a minimum, were made aware of developing issues involving the Company's liquidity, reserves, internal controls, risk management and risk assessment policies as they arose during the Class Period.

B. The Officer Defendants Were Aware of, or Recklessly Disregarded, the Company's Relaxation and Abandonment of its Loan Underwriting Standards

432. During the Class Period, the Officer Defendants publicly described Countrywide's loan underwriting in SEC filings and during conference calls as tightly controlled and supervised, and "designed to produce high quality loans." Moreover, Mozilo and the other Officer Defendants repeatedly described the Company's underwriting practices, particularly its "strong disciplines in the origination of sub-prime loans," as markedly superior to those of competing lenders. Countrywide's consistent and essential message to investors and analysts, as Mozilo stated early in the Class Period, was that the Company is "a very different focused company that understands this product very well, how to originate it, how to manage it, how to underwrite, how to service it," and that other lenders are fly-by-night outfits that don't know the mortgage business and are best avoided.

433. Mozilo held himself out as a unique type of CEO. He claimed he was personally involved "every day" in loan originations and, as such, kept close tabs on credit quality. When asked during the Company's July 26, 2005

conference call with analysts whether "credit quality in the nonprime mortgage sector" was stable or worsening, Mozilo confidently replied:

> I think it's stable. . . . ***I do participate every day in originations myself, and it keeps me apprised of what's happening.*** I think that that situation has stabilized. ***I don't see any deterioration in the quality of those loans being originated.***

434. Consistent with his purported hands-on approach, Mozilo was similarly well-aware of the Company's underwriting policies and procedures and changes made in them. When asked during the same conference call whether Countrywide was loosening underwriting standards, Mozilo said "I'm not aware of any change of substance in underwriting policies" and, focusing on Pay Option ARMs and interest-only loans, stated that "I'm not aware of any loosening of underwriting standards that creates less of a quality loan than we did in the past." In response to a follow-up question, Mozilo added: "We don't view that we have taken ***any steps*** to reduce the quality of our underwriting regimen ***at all***."

435. However, at and prior to this point in time, Countrywide—in a headlong quest to meet Mozilo's goal of 30% market share—was steadily loosening and abandoning its underwriting guidelines in order to capture less creditworthy borrowers and was ramping up production of what one former employee described as "new, exotic" products that led to "easy money" for the Company but carried a high degree of risk. As alleged herein, the Officer Defendants were intentionally misstating the facts, or acting in a deliberately reckless manner in making their repeated public statements regarding purportedly strong and superior underwriting practices, in view of what was actually happening at the Company, which, at the very least, provided no basis for and in fact contradicted their repeated statements.

436. According to CW1, the Company increased origination of risky loans in an effort to meet Mozilo's demand to achieve 30% market share, and also

to keep up with perceived competition by other lenders. Countrywide's near-collapse was not caused simply by market forces. Rather, according to CW1, "lax underwriting guidelines" and increasing origination of subprime loans with reduced documentation, lower credit scores and higher loan-to-value ratios were key contributors to the Company's downfall.

437. According to CW1, based on CW1's regular, day-to-day discussions with them, all Company executives, and Mozilo and Sambol in particular, were aware of the declining credit quality of loans being originated. According to CW1, this decline in loan quality occurred contemporaneously with the Company's widening of its loan origination guidelines, which began in 2003.

438. According to a *Wall Street Journal* article published on February 23, 2008, in late 2003, there was a meeting at Countrywide's headquarters of dozens of executives. At that meeting, tensions between Sambol and the Company's risk managers "boiled over." According to the article—which directly criticized Sambol for his role in spearheading Countrywide's "lunge for growth" in the subprime area—the Company's Chief Investment Officer, who was responsible for pricing loans to be sold on the secondary mortgage market and managing risk, ***"uttered a loud profanity and walked out of the meeting to protest what we saw as imprudent lending."***

439. According to the article, however, Sambol, brushed aside warnings from risk-control managers that underwriting standards were too lax, stating that being too cautious would turn Countrywide into a ***"nice, little boutique."*** Sambol pushed a policy of offering nearly the entire range of mortgage products available in the market, including 100% financing, 80/20 loans, and low-doc and no-doc loans to borrowers with weak credit. Confidential Witness 14 ("CW14"), who served as a high-level risk management officer with Countrywide Bank in Company headquarters during the Class Period, confirmed the accuracy of this report. Indeed, no later than 2005, CW14, together with the Company's Chief

Risk Officer and Chief Credit Officer, all repeatedly warned Sambol about aggressive production, and the dangers of lax underwriting standards and placing risky loans on the Company's balance sheet. According to CW14, however, the three of them ultimately were "in the wilderness alone" and were put under enormous pressure to "go with production," *i.e.* to accede to Sambol's plan to keep production in overdrive. "Production and market share," according to CW14, were Countrywide's "front and center" objectives.

440. CW1 personally observed Sambol, on a regular basis, put pressure on employees to price risky loans in a way that would not take into account the extent of the risk the loans presented and, accordingly, would overstate the value of the loans on the Company's books. CW1 also observed Sambol pressuring employees to widen underwriting guidelines that would have the effect of enabling increased production of risky loans. According to CW1, Sambol had trouble balancing Countrywide's corporate mandate with his own "personal ambitions" and could not be controlled.

441. During 2004 and 2005, CW1 repeatedly told Kurland and others that ***"this isn't going to last forever."*** By this, CW1 meant that the mortgage market was saturated and that the bubble would eventually burst, with severe consequences for Countrywide given the significant undisclosed risk the Company was taking on.

442. Regarding the "tone at the top" of the Company, CW1 stated, referring to Mozilo, Kurland and Sambol, that ***"when you have three executives with 31% of the options, it kind of speaks for itself."*** According to CW1, these Defendants sought to ride out the problems in the mortgage industry as long as they could profit from them.

443. Countrywide's senior executives took a keen interest in, and were aware of, how the Company's underwriting guidelines compared with those of competing lenders. Countrywide held monthly "Business Review" meetings at its

Calabasas headquarters, run by Sambol and other top executives, during which the operations and performance of each Company division was evaluated and discussed in great detail. According to CW8, binders of documents were circulated prior to each Business Review that included highly detailed reports for all Countrywide divisions concerning all aspects of the division's business and lending activity, including loan production, loan classifications (such as prime and subprime), and revenue and expenses. The binders contained a wealth of information in the aggregate and broken down to an almost molecular degree of detail.

444. According to CW8, each division forwarded its respective report to Countrywide headquarters in Calabasas and the information was collected and compiled within Sambol's office. High-ranking Countrywide officials, including Sambol, studied these monthly reports in detail.

445. CW8 personally attended portions of two Business Review meetings at which Sambol and other officials questioned managers about sections of the monthly reports their divisions submitted. During CW8's employment with Countrywide, CW8 regularly spoke with other senior officials about these Business Review meetings. These officials described how Sambol and other executives questioned them aggressively and in great detail regarding specific aspects of the monthly reports they submitted.

446. The binder circulated for a Business Review concerning the FSL division, which Lead Plaintiffs obtained in the course of their investigation, includes a "Non-Prime Competitor Comparison Matrix" which closely compares Countrywide's underwriting standards for subprime loans, including "80/20 Combo," 100% loan-to-value, and interest-only loans, and at various documentation levels, with the guidelines of subprime lenders New Century Financial, Fremont, Option One Mortgage, First Franklin Financial, Ameriquest/Argent, WMC Mortgage, and Decision One. This Comparison

Matrix, which could not have been compiled without some degree of "industrial espionage" into competitors' practices, was updated every month and e-mailed to the entire FSL sales force.

447. The FSL binder also shows, as alleged in detail in Section IV.D above, that Countrywide consistently categorized as "prime" hundreds of loans to borrowers with FICO scores below 660. Moreover, the FSL binder contradicts Mozilo's statement that Pay Option ARMs "ha[ve] a FICO score exceeding 700" and were limited to borrowers "of much higher quality." In January 2007 alone, the FSL division made Pay Option ARM loans to at least 57 borrowers. The average FICO score of all of these borrowers was below 700.

448. Sambol, with the support of the other Officer Defendants, who had access to the same information, clearly knew about—and endorsed—Countrywide's rampant deviations from its underwriting policies and procedures. Sambol directed the creation in 2004 of Countrywide's proprietary Exception Processing System to *approve* and fund "highly risky loans" (after tacking on additional fees) that violated the Company's ever-loosening underwriting guidelines. As noted above, CMD's EPS, in particular, was intended to "approve virtually every borrower and loan profile with pricing add on when necessary."

449. According to CW12, the push toward risky lending ultimately came from "high-up," and specifically from David Sambol. According to CW12, "things went south" when Sambol became more powerful within the Company in 2003. "Late in 2003," according to CW12, risky lending through exceptions became "more and more profitable," and the Company started making "wild crazy loans" and "any exception was allowed." Sambol, according to CW12, was "completely for sales all the time," and had a philosophy that sales—that is, originating loans and selling them to the secondary mortgage market—ruled the Company. Indeed, Sambol's mantra, according to CW12, was that "Countrywide will make every loan possible." Consistent with this practice, account executives

(loan officers) were told, "don't take no from underwriting, don't take no from your branch manager, escalate as high as you have to. If it has to go to Sambol, just get the deal done."

450. According to CW10, exceptions to loan guidelines were set forth in "Executive Summary Reports" and monthly "Production Reports" at the branch, area, and regional levels. The Production Reports identified how many loans were closed and funded, the types of loans originated, and exceptions to loan guidelines. The Production Reports were distributed to and discussed monthly among Sambol (whom CW10 described as a "big numbers guy") and department managers, and sometimes with Branch and Area Managers by means of conference calls. Eugene Soda, the "head of underwriting," was aware of exception rates and regularly presented them at these meetings.

451. According to CW12, there were an "endless" number of reports "pulled" from EPS on all topics on a "daily, weekly, and monthly" basis. EPS was so detailed, according to CW12, that it was often "drilled down" to report on the amount of loans with "100% LTV" ratios, the debt-to-value ratios or, separately, on the loan processing "turn-times" (i.e., how long it took to close and fund loans) for some or all regions of the Company.

452. CW12's job description included furnishing "Exceptions Reporting" to department supervisors, who in turn provided such reports to executives in Secondary Marketing. Exceptions reporting was also made available to other executives, including Mozilo and Sambol. CW12 saw both Mozilo's and Sambol's names on the distribution lists for Exceptions Reporting, and CW12's supervisors informed CW12 that Sambol would regularly give them specific instructions based upon information in the exception reports he reviewed. The decisions coming down from Calabasas regarding "exception risk" (such as "no more stated exception deals above a certain LTV") made clear to CW12 that

high-level executives were examining the data contained in exception reports and making adjustments to the types of exceptions that would be allowed.

453. Moreover, CW12 recalled that Kathy Tinsley, an EPS supervisor, told CW12 and other underwriters that her supervisor, Jess Lederman, had been told by Sambol at one point that he was unhappy (based on his review of EPS statistics) with loan production, which at the time was not meeting goals he had set. Therefore, underwriting guidelines would need to be loosened, certain loan programs would need to be pushed, and, he instructed, the Company would take more risk on certain loans.

454. According to CW12, exception reports were 30-40 pages long and contained a multitude of data, including the "up-charge" (the amount of money Countrywide stood to earn on each loan) and other different data and metrics.

455. CW12 also described a report called "AMPS" that reported and summarized all of the exception loans approved company-wide through all of Countrywide's business channels. "AMPS" showed all of the overrides to Countrywide's underwriting guidelines made on exception loans. These reports, according to CW12, went out in special brown envelopes to preserve confidentiality, and were circulated to all Countrywide executives and managers of the First Vice President rank and higher.

456. Additionally, according to CW12, increases in the rate of exceptions were closely tracked and documented in "Trend Analysis" reports, which were provided to David Sambol and other senior executives. According to CW12, Trend Analysis reports were "interofficed" in special confidential red and white envelopes and kept in locked drawers. As a result of receiving these reports, Sambol and senior executives were aware of the massive statistical increases in the volume of exceptions being granted as well as other key business trends for the Company. According to CW12, Trend Analysis reports showed "where loans were headed," that is, whether various categories of loans were trending toward

being paid on time, or default. Overall, according to CW12, Countrywide was "very good about reporting" and having loan-by-loan and aggregate information available to be "dissected in whatever format" needed by senior executives.

457. From discussions held with SLD supervisors during 2004, CW12 also learned that Sambol received "executive level reporting" from SLD when Sambol attended the meetings of Countrywide's committee on "CORAD," which was an acronym for Countrywide Organizational Risk Assessment Database. According to CW12, CORAD meetings were held at least once a month in Calabasas or Plano to assess the Company's ongoing exposure to risk, and were attended by 30 to 40 employees from all divisions of Secondary Marketing. CW12 attended many CORAD meetings and recalled that Sambol attended as well.

458. Essential and detailed data on exceptions generated from EPS was included in the materials circulated among senior executives at the monthly Business Reviews. The binders for these meetings contained extensive data on Price Exceptions, or "PEs." "Price Exceptions" was one of six topics in FSL's revenue report for the February 2007 Business Review meeting. This report included a spreadsheet titled "Concession Trend Summary – BC 1sts." BC 1sts are essentially subprime first mortgages. The "Concession Trend" chart provides, for each month between January 2006 and January 2007, for the entire division, various division branches and by region, the number of exception loans; the total and average loan amounts; the WAC, or weighted average coupon of the mortgages as pooled for securitization; the points added on, and the added revenue. In May 2006, for example, more than 7,000 FSL loans, totaling more than $1.4 billion, contained price exceptions; Countrywide's revenue per loan was more than $10,000.

459. No later than early 2006, Mozilo and the Officer Defendants knew that real estate values were poised to decline as interest rates increased. In an

interview with CNBC's Maria Bartiromo in late February or early March 2006, Mozilo stated that housing prices would decline significantly in the next 12 to 18 months:

> ***I would expect a general decline of 5% to 10% throughout the country, some areas 20%. And in areas where you have had heavy speculation, you could have 30%.*** We will see . . . sellers back off from the prices they have been demanding. A year or a year and a half from now, you will have seen a slow deterioration of home values and ***a substantial deterioration in those areas where there has been speculative excess***.

460. Several months later, during the Company's Fixed Income Investor and Creditor conference on September 13, 2006, Mozilo boasted that a looming drop in home prices and an increase in mortgage interest rates would usher in a period of remarkable prosperity for Countrywide. In fact, Mozilo downplayed the effect of rising rates, saying that "I have over 53 years of experience navigating through all kinds of scenarios and this is nothing compared to 25% prime and 17.5% mortgage rates and 10% unemployment." Mozilo assured investors and analysts that Countrywide's ***"comprehensive methodologies . . . that include proprietary technology and surveillance systems"*** would successfully manage any issues caused by the "proliferation of non-traditional mortgage products" and potentially increased delinquencies. Mozilo insisted that "[t]his is when we shine," and even claimed that "10 years from now . . . most of the players today will be gone, except for Countrywide."

461. According to CW8, Countrywide had many proprietary systems in place to ensure that its most senior executives had continuous knowledge of all aspects of Countrywide's loan origination operations and finances. Indeed, according to CW10, Countrywide had "great" internal computer and information

systems, "the best in the industry," which allowed management to see "everything" at "the touch of a button."

462. A centralized, Internet-based system called "Turquoise" or "TQ-Web" provided detailed, virtually real-time data and information regarding every individual loan originated by Countrywide. According to CW8, and a document titled "Overview of Production Reporting" obtained by Lead Plaintiffs in the course of their investigation, which includes multiple screen-shots of Turquoise, this system reported an "extraordinary range" of data by division, region and branch, including the loan program type and amount, document type, FICO score range, interest rates, fees imposed and collected, total revenue, and associated "drilldown reports" that could be sorted and filtered in innumerable ways. According to CW8, Turquoise included current and historical data going back years, and all senior officials and executives had open access to Turquoise. In fact, according to CW8, the Company's most senior executives, including Sambol, regularly used Turquoise. During CW8's tenure with the Company, CW8 participated in a number of meetings with senior officials who, during these meetings, made comments and asked questions that they only could have formulated after reviewing data gathered from the Turquoise system.

463. According to CW8, and the Overview of Production Reporting document, an additional Internet-based database called "Status Mart" provided detailed information concerning Countrywide's loan production pipeline, tracking by division, region and branch, the total pipeline, new loan applications, pending and approved applications, and loan fundings. The Overview of Production Reporting includes several screen-shots of Status Mart from July 2005. Status Mart reports provided details on each loan, including loan-to-value ratios, risk grades, and document types (e.g., full, reduced, or stated).

464. According to CW8, Countrywide also maintained a proprietary database during the Class Period called Virtual Loan File, or VLF, which includes

an electronic image of virtually all application documents for Countrywide loans. Accordingly, executives accessing VLF could review Countrywide's loan applications, including reduced documentation, low-doc and no-doc loans, at any time.

465. On October 4, 2006, federal banking regulators jointly released extensive guidance regarding nontraditional loans titled the *Interagency Guidance on Nontraditional Mortgage Product Risks*. Countrywide provided detailed written comments to the regulators on the proposed guidance on March 27, 2006, and the Office of Thrift Supervision sent a copy of the *Interagency Guidance* and supplemental information (which all The Officer Defendants were required to be familiar with in any event) to Mozilo as CEO on October 10, 2006.

466. The *Interagency Guidance*, among other things, specifically criticized the sale of low-doc or "stated-income" Pay Option ARMs and other nontraditional mortgage loans. The *Interagency Guidance* observed that a lender that does not extensively inquire into the ability of borrowers to repay these loans is more likely to grant them to borrowers who will default.

467. Moreover, as reported by *The Wall Street Journal* in February 2008, internal Company documents show that as of mid-2006, as a result of Countrywide's loose lending practices, defaults of subprime loans were starting to run far higher than the rate projected by the Company's computer model. Countrywide used highly sophisticated computer models to project delinquencies and other critical measures of loan performance. Subprime loan production did not slow, however, and when risk analysts brought the rising defaults to Sambol's attention, he brushed aside their concerns.

468. At this point in time, the proportion of nontraditional loans in Countrywide's loan portfolio, and those based on reduced documentation, had been steadily increasing together with delinquencies. CW14, in fact, recalled that towards the end of 2006 the Company began to see loans go bad, and that

subprime delinquencies accelerated beginning in 2007, as house prices fell from their peak in the middle of 2006. CW9 recalled receiving a report from "corporate" in late 2006 or early 2007 that listed nonperforming loans. Many of these defaults were, in CW9's estimation, caused by ARMs resetting to higher interest rates and dropping home values.

469. Indeed, notwithstanding Mozilo's statement at the July 24, 2007 conference call that "nobody saw this coming," the storm that was gathering in mid to late 2006 was discussed at the highest levels of the Company. CW13 attended about a dozen of the Company's monthly Business Review meetings that the Officer Defendants routinely attended. CW13 recalled that starting in late 2006, there were discussions in these meetings about the emerging mortgage crisis and its effects on Countrywide's business. Although CW13 noted that the "mortgage meltdown" did not severely impact Countrywide until the second quarter of 2007, "it was on their radars from the beginning," and there were "definitely issues in the industry that everyone at Countrywide had their eyes on" before the summer of 2007. The Officer Defendants, however, took no significant steps to tighten or improve the Company's underwriting standards before the bottom fell out. According to CW4, who assisted with preparing and distributing the underwriting guidelines, before July 2007, requests from management were uniformly made to loosen the guidelines and never to tighten them, ***"no way."***

470. It was in July 2007, in fact, that Countrywide's Chief Credit Officer candidly acknowledged that the Company should never have extended no-documentation loans, and particularly not to subprime borrowers: "***The takeaway is . . . documentation matters***. The less documentation, the higher the serious delinquency, all else equal." He also acknowledged that the Company's high "concentration of piggyback financing that we did" during the Class Period had a

devastating effect, because ***"leverage at origination matters. More leverage means more serious delinquencies."***

C. The Officer Defendants Were Aware of, or Recklessly Disregarded, the Company's Violations of GAAP and Reporting of False Financial Statements

471. The Officer Defendants repeatedly signed the Company's filings with the SEC that described, correctly, the controlling GAAP requirements for setting allowance for loan losses, valuing and accounting for retained interests and mortgage servicing rights in securitized loans, and setting an appropriate reserve for representations and warranties made to the secondary market. Countrywide's SEC filings stated that the Company had established accounting policies that governed the application of GAAP in the preparation of its financial statements and labeled its accounting policies involving, among other areas, allowance for loan losses and valuation and accounting for mortgage servicing rights and other retained interests as "Critical Accounting Policies." At the same time, the Officer Defendants repeatedly failed to follow these GAAP requirements and the Company's own Critical Accounting Policies. Each of these Defendants has substantial educational, financial and industry experience, including the application of these specific GAAP requirements.

472. Countrywide's "senior management," as alleged above, was "actively involved in the review and approval" of the Company's allowances for loan losses, and, according to CW1, the loan loss allowances were set by a committee of top executives, including Mozilo, Kurland, Sambol, and Sieracki. These Defendants knew that delinquencies in Pay Option ARMs and HELOCs, the loans that presented the greatest risk of default, and accumulated negative amortization from unpaid debt on Pay Option ARMs, were all increasing substantially during the Class Period. Moreover, in 2006, Mozilo specifically ordered the Company to look into why negative amortization was growing so quickly. Mozilo told investors in September 2006 that he was "shocked" to find

that so many people were making the minimum payment. When Mozilo called borrowers to ask why, he learned that he "was talking to a group . . . that had never seen in their adult life real-estate values go down."

473. The Officer Defendants knew at this point, however, that real-estate values were poised to go down as interest rates increased. As alleged above, Mozilo stated in an interview on CNBC in late February or early March 2006 that housing prices would decline significantly in the next 12 to 18 months.

474. Despite the Officer Defendants' belief that home prices would decline in the near term, their knowledge that a decline in housing prices and an increase in interest rates could substantially and detrimentally impact the Company's loan portfolio (which, in fact, was made clear in the Company's SEC filings), and their knowledge that the Company's loan underwriting standards had been loosened and abandoned, the Officer Defendants did not increase the Company's allowance for loan losses to a sufficient level.

475. Moreover, as noted above, the federal banking regulators issued the extensive *Interagency Guidance* in October 2006. This was just after Mozilo learned, at the latest, that Pay Option ARM borrowers were making the minimum payments allowed and negative amortization was skyrocketing. The guidance expressed serious concerns about the increased use of reduced-documentation Pay Option ARMs and other nontraditional loans, and urged lenders to take a hard look at the sufficiency of their loan loss reserves, observing that a lender that does not extensively inquire into borrowers' ability to repay is more likely to provide them to borrowers who cannot keep up with the interest payments. Again, despite this knowledge, the Officer Defendants took no steps to substantially increase Countrywide's allowance for loan losses, tighten or improve loan underwriting standards, or otherwise position the Company to avoid this identified (and obviously serious) pitfall.

476. The Officer Defendants similarly failed, despite this knowledge, to properly ascertain the reasonableness of the assumptions underlying the Company's valuations of retained interests and mortgage servicing rights, or to increase the Company's reserve for representations and warranties made to the secondary market. Among large-capitalization financial companies, Countrywide has historically been one of the most aggressive in its use of gain-on-sale accounting for loan securitizations. Because the gain-on-sale method front-loads both earnings and cash flows into the current period, relies on assumptions that are relatively easy to manipulate, shifts liabilities off the balance sheet and is relatively opaque, it is particularly subject to materially misleading earnings management. Further, the amount of gain-on-sale revenue recorded has a direct relationship with the valuation of retained interests, which formed the "piece" of the loan securitizations that Countrywide kept on its books.

477. During the Class Period, the Officer Defendants were on notice that the Company's internal controls regarding the proper accounting for gain-on-sale revenue and the valuation of retained interests from loan securitizations were at risk of having significant deficiencies. In its 2004 Form 10-K, Countrywide admitted that its accounting for gain-on-sale revenue had been incorrect in 2003 and 2004 by recognizing certain revenue too early, and acknowledged that the Company's internal controls over financial reporting had material weaknesses as of the end of 2004. Accordingly, Countrywide restated its financial results for the second and third quarters of 2003 and the first three quarters of 2004, reversing the gain-on-sale income recorded and eliminating the retained interests taken at the time of the securitizations.

478. The sworn certifications made by Defendants Mozilo, Sieracki, and Kurland during the Class Period pursuant to the Sarbanes-Oxley Act of 2002, as set forth below, also support a strong inference of scienter. These Defendants repeatedly signed certifications attesting to the Company's compliance with

GAAP and the adequacy of Countrywide's internal controls, and reaffirming that they had designed sufficient disclosure controls and procedures to ensure that "material information" concerning the Company was made known to them. The facts set forth herein, as well as Countrywide's admissions on and after July 24, 2007, reveal the falsity of these repeated certifications. The undisclosed facts concerning Countrywide's deteriorating underwriting standards and increasingly risky lending practices constituted "material information," the disclosure of which would have affected, and did affect, the fair presentation of Countrywide's financial statements in compliance with GAAP and which was contrary to certain disclosures in Countrywide's annual and quarterly reports. These Defendants acted intentionally or in a deliberately reckless manner in repeatedly issuing sworn certifications attesting to the Company's compliance with GAAP, when Countrywide's financial results were not presented in accordance with GAAP, and as to the adequacy of Countrywide's internal controls, when the Company suffered from material weaknesses in its internal controls.

D. Insider Stock Sales By Mozilo and Other Officer Defendants During the Class Period Were Highly Unusual and Suspicious

479. The Class Period sales of Countrywide stock by Defendants Mozilo, Sambol and Kurland were highly unusual, and therefore suspicious, as measured by (1) the amount and percentage of shares sold, (2) comparison with the Officer Defendants' own prior trading history and that of other insiders, and (3) the timing of the sales. Such sales therefore provide strong evidence of scienter.

480. To evaluate the Officer Defendants' selling activity, Plaintiffs used publicly available trading data required to be reported to the SEC on Form 4. Plaintiffs analyzed the trading by insiders that occurred during the Class Period and during the equal-length period immediately preceding the Class Period, beginning March 16, 2000 and ending March 11, 2004 (the "Control Period"). The Countrywide Form 4s filed during the Class Period and Control Period are

hereby incorporated herein by reference, and the transactions reported therein are set forth in Exhibit G, annexed hereto.

481. The following methodologies were used to analyze the Officer Defendants' sales:

(a) First, Plaintiffs calculated total sales by each of the Officer Defendants, together with the cash proceeds from such sales, during the Control and Class Periods. All share calculations were made on a split-adjusted basis, *i.e.*, transactions preceding stock splits were multiplied by the split ratio to render them economically equivalent to post-split transactions.

(b) To calculate the amounts and percentages of shares sold, Plaintiffs then calculated holdings at the end of the Class Period by referencing Countrywide's 2007 annual proxy statement on Schedule 14A, which sets forth shares owned and stock options exercisable by the Officer Defendants as of April 4, 2007. Such data were then adjusted to the Class Period end date using the purchase and sale data set forth in the Countrywide Form 4s. "Holdings" were deemed to include both shares held and stock options that were vested but not yet exercised. Class Period sales were then calculated as a percentage of total shares available for sale during the Class Period, *i.e.*, the sum of Class Period sales plus end-of-Class-Period holdings.

(c) To compare Class Period sales with prior trading history, Plaintiffs compared sales by the Officer Defendants during the Class Period with their sales during the Control Period. Plaintiffs also compared the Officer Defendants' sales across the Control and Class Periods with those of lower-level (non-Defendant) reporting persons.

(d) Plaintiffs then determined whether the Officer Defendants' sales of Countrywide stock during the Class Period generated abnormal (above-normal) profits. Abnormal profits were evaluated using an event study methodology called the "market-adjusted method," which computes cumulative shareholder returns not explained by market factors. Under this approach, if an insider buys a share of stock which then increases in price from $100 to $120 (20%), and the benchmark index increases from 1000 to 1010 (1%) during the same period, then the abnormal profit would be 19%. Under the same analysis, if a company's stock price declines subsequent to a sale by a greater amount than the relevant benchmark index, then the sale enabled the insider to generate an abnormal profit by avoiding the decline. For example, if an insider sells a share of stock which then declines from $100 to $80 (20%) while the relevant benchmark decreases from 1000 to 990 (1%), then the abnormal profit would again be 19%. This methodology has been used extensively in the academic literature studying the profitability of insider trading. Abnormal profits were calculated using a 250 trading day period following the day of trade, measured against a value-weighted index of NYSE, AMEX and NASDAQ stocks for 2000-2008.

(e) After calculating abnormal profits for the Officer Defendants' Class Period sales, Plaintiffs then calculated the probability that such abnormal profits resulted from random chance. This probability was calculated by computing the trade-dollar-weighted residuals from the market-adjusted model for the 250 trading days before and 250 trading days after the day of trade, and averaging these residuals across event days for each insider. This data was then used to compute a "t-statistic" (a statistical tool) to infer the probability that the observed cumulative abnormal profits were due to random chance.

482. By each analysis, the Officer Defendants' Class Period sales were extremely large and highly unusual.

1. The Amount and Percentage of Shares Sold During the Class Period Was Extraordinary

483. As reflected in the following table, the amount and percentage of shares sold during the Class Period by Defendants Mozilo, Kurland and Sambol were extraordinarily large:

	Class Period Sales (Dollars)	Class Period Sales (Shares)	Holdings at End of Class Period	Sales as % of Total Shares Available for Sale
Angelo R. Mozilo	$478,348,129	13,397,335	5,307,817	71.6%
Stanford L. Kurland	$192,460,034	5,375,163	443,168	92.4%
David Sambol	$64,725,623	1,683,600	2,501,705	40.2%
Eric P. Sieracki	$0	0	572,521	0.0%
TOTAL	$735,533,786	20,456,098	8,825,211	69.9%

484. Thus, Mozilo's sales—totaling nearly a half-billion dollars—represented almost 75% of the total shares he had available for sale during the Class Period.

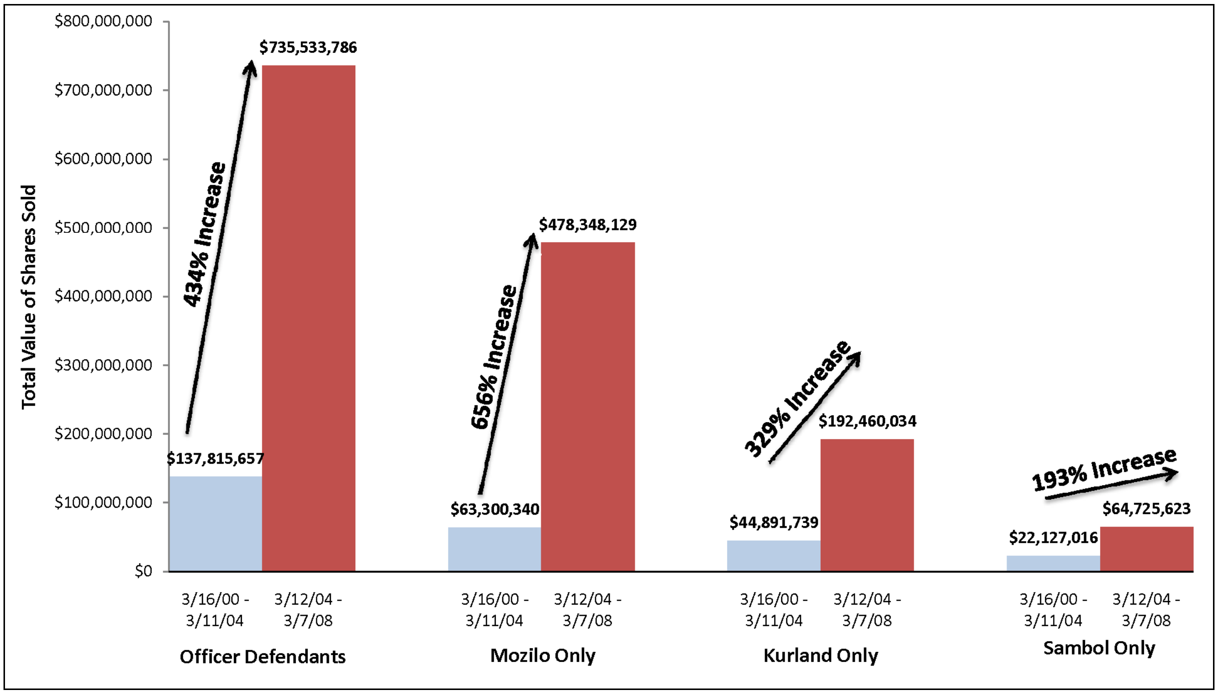
485. Kurland's sales totaled nearly $200 million and represented more than 90% of his total holdings.

486. Sambol sold close to half of his total holdings, for proceeds of more than $64 million.

2. Stock Sales Increased Tremendously During the Class Period

487. In addition to being massive in absolute and percentage terms, sales by Mozilo, Kurland and Sambol during the Class Period were extraordinary when compared to their own prior selling activity, and when compared to the selling activity of other, less well-placed and knowledgeable insiders.

488. A comparison of the sales by the Officer Defendants as a group, and by Mozilo, Kurland and Sambol individually, during the Control and Class Periods are set forth in the following chart:



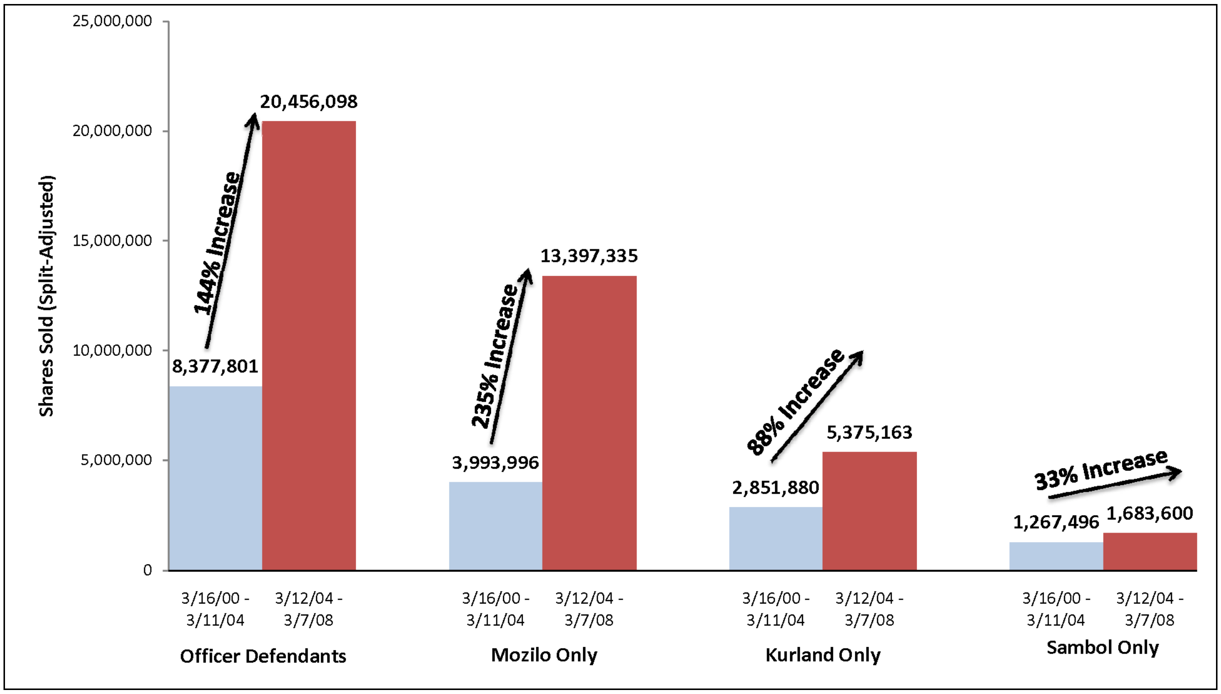
489. As set forth in this chart, the Officer Defendants' sales as a group increased more than 400% during the Class Period, from approximately $138 million during the Control Period to more than $735 million during the Class Period.

490. Mozilo's individual sales increased even more sharply. During the Control Period, he sold shares worth approximately $63 million. During the Class Period, his sales increased 656%, to more than $478 million.

491. Kurland's individual sales also increased sharply. During the Control Period, he sold shares worth nearly $45 million. His sales during the Class Period more than quadrupled, to more than $192 million.

492. Sambol's sales also increased substantially, nearly tripling from $22 million to almost $65 million.

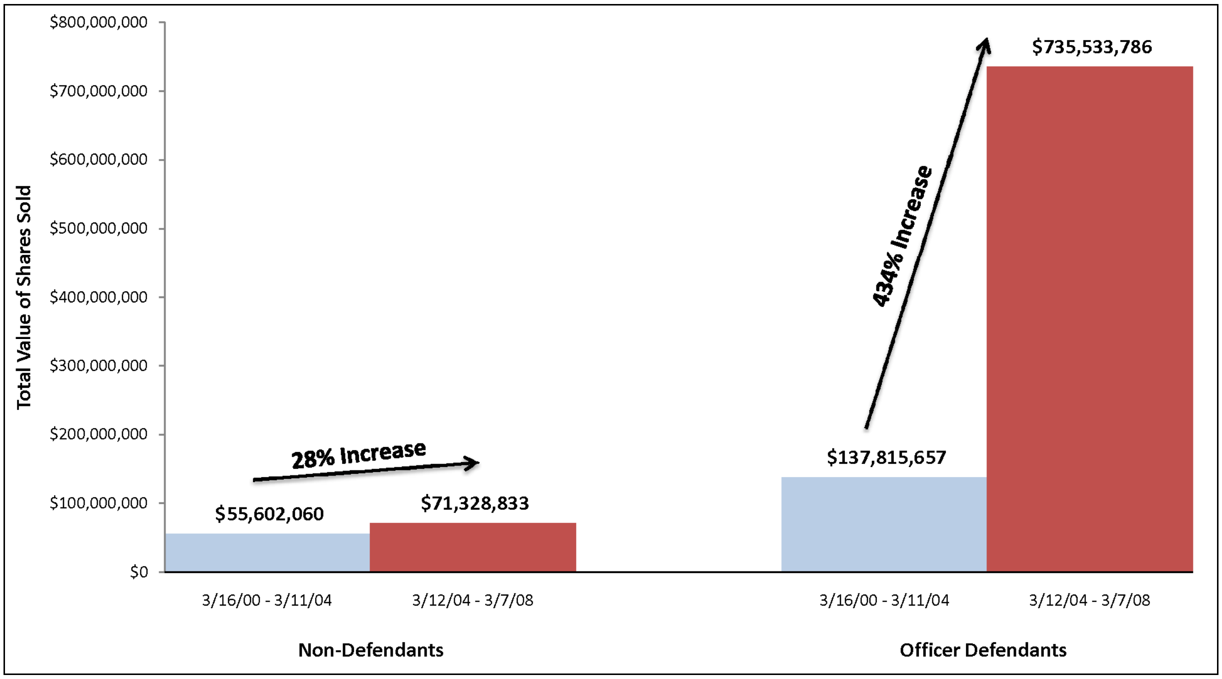
493. The contrast between the Officer Defendants' sales during the Control Period and the Class Period is also striking when measured in shares, rather than dollars, as set forth in the following chart:



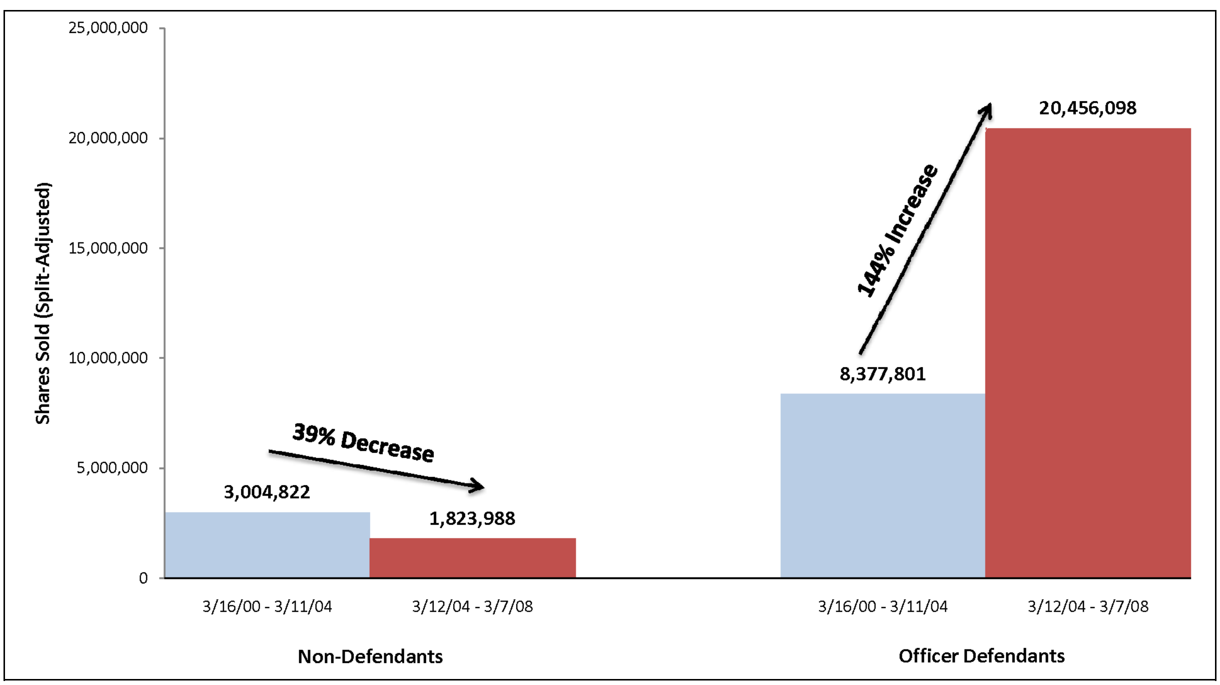
494. By this measure, the Officer Defendants collectively increased their sales by 144%. Mozilo more then tripled his sales, from nearly four million to nearly 13.4 million. Kurland nearly doubled his sales, and Sambol's sales also increased significantly.

495. The increase in the Officer Defendants' selling is even more striking when compared to the sales pattern of more junior Countrywide employees, who lacked the Officer Defendants' knowledge of the Company's true finances and operational condition. As a group, non-Defendants sold shares worth $71.3 million during the Class Period, an increase of only 28% over the Control Period.[21] By contrast, as noted above, the Officer Defendants increased their selling more than five-fold, to more than $735 million:

[21] Sales by David Loeb, a senior insider who left the Company in early 2000, are excluded. If his sales are included, the contrast between Control Period and Class Period sales is even greater.



496. The contrast between the Officer Defendants and more junior insiders is equally acute when calculated on the basis of the number of shares sold. While the Officer Defendants' sales increased 144%, non-Defendants' sales, collectively, actually *decreased by more than a third*:



3. Officer Defendants Generated Enormous Abnormal Profits on their Sales of Countrywide Stock

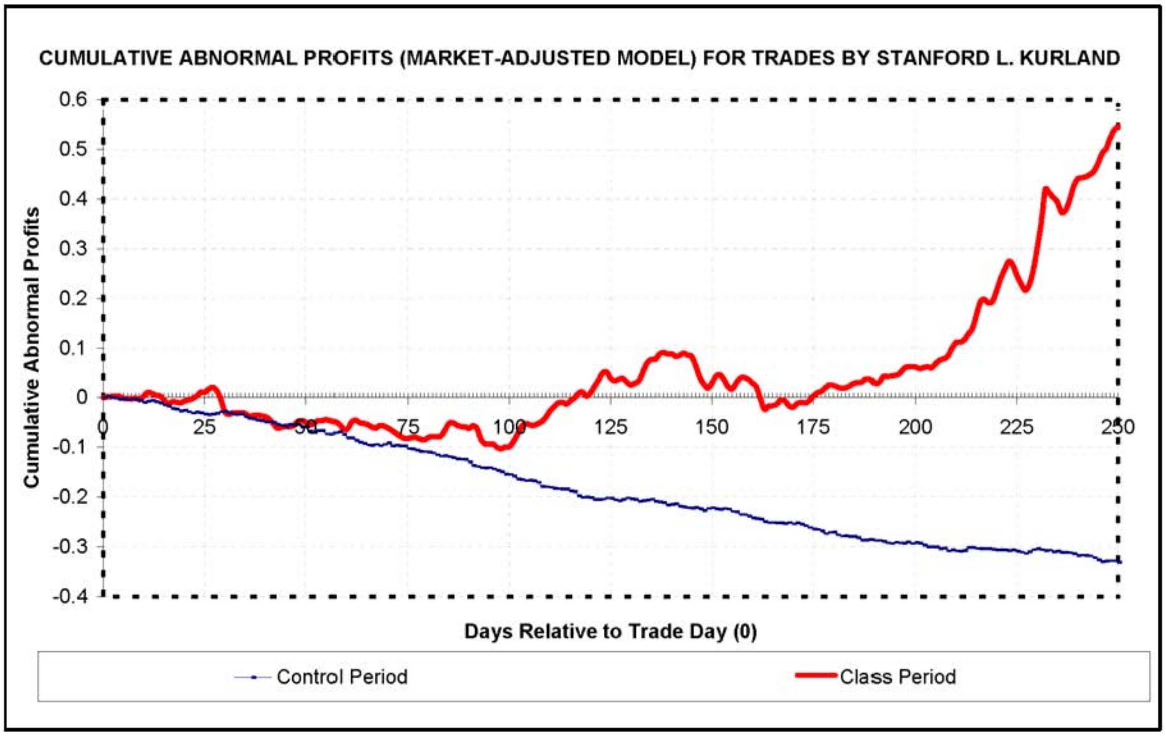
497. Using the methodology described above, Mozilo, Kurland, and Sambol each generated extremely large abnormal profits on their transactions in Countrywide stock during the Class Period, as reflected in the following chart:

	Average One-Year Abnormal Profits on Class Period Trades	Probability that Abnormal Profits Resulted from Random Chance
Angelo R. Mozilo	60.5%	<0.01%
Stanford L. Kurland	54.5%	0.01%
David Sambol	35.0%	<0.01%
CUMULATIVE	58.25%	<0.01%

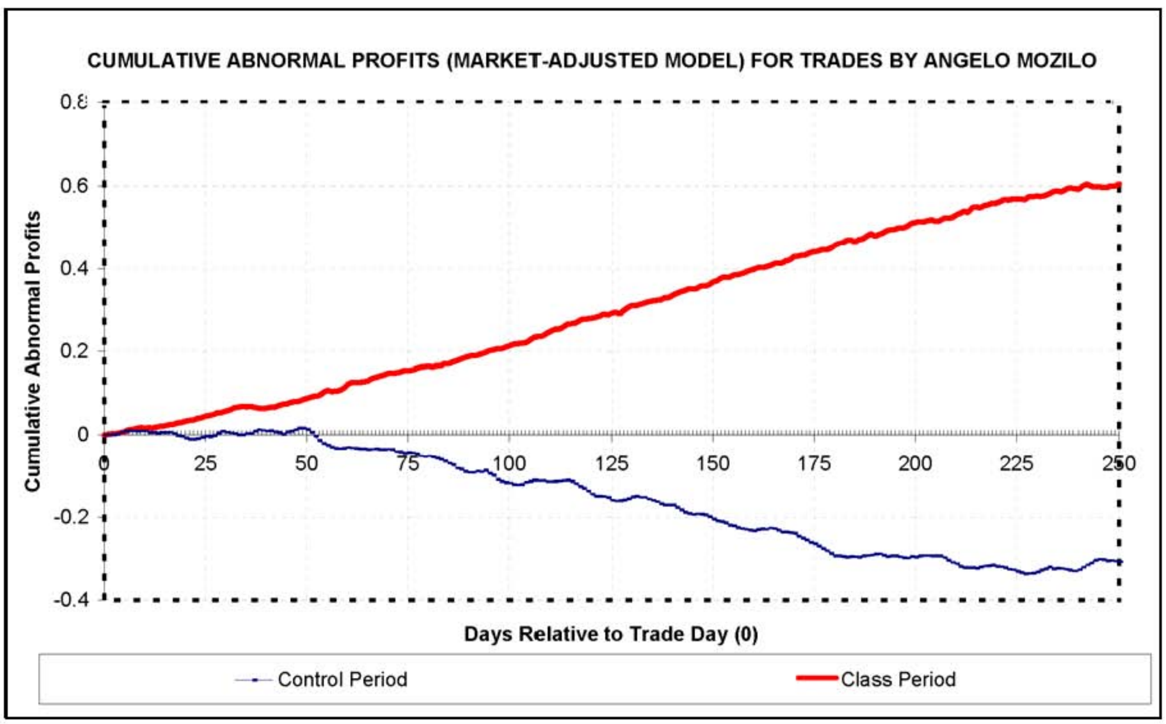
498. As reflected in this chart, based on the timing of their Class Period trades, Mozilo generated average annual returns that exceeded the benchmark index by more than 60%, Kurland's profits exceeded the benchmark by more than 54%, and Sambol's trades delivered abnormal annual profits of 35%.

499. The possibility that these abnormal profits resulted from random chance is extremely remote: as indicated in the table above, Plaintiffs calculated the probability of these profits occurring randomly at less than one hundredth of one percent, and the results are therefore strongly statistically significant.

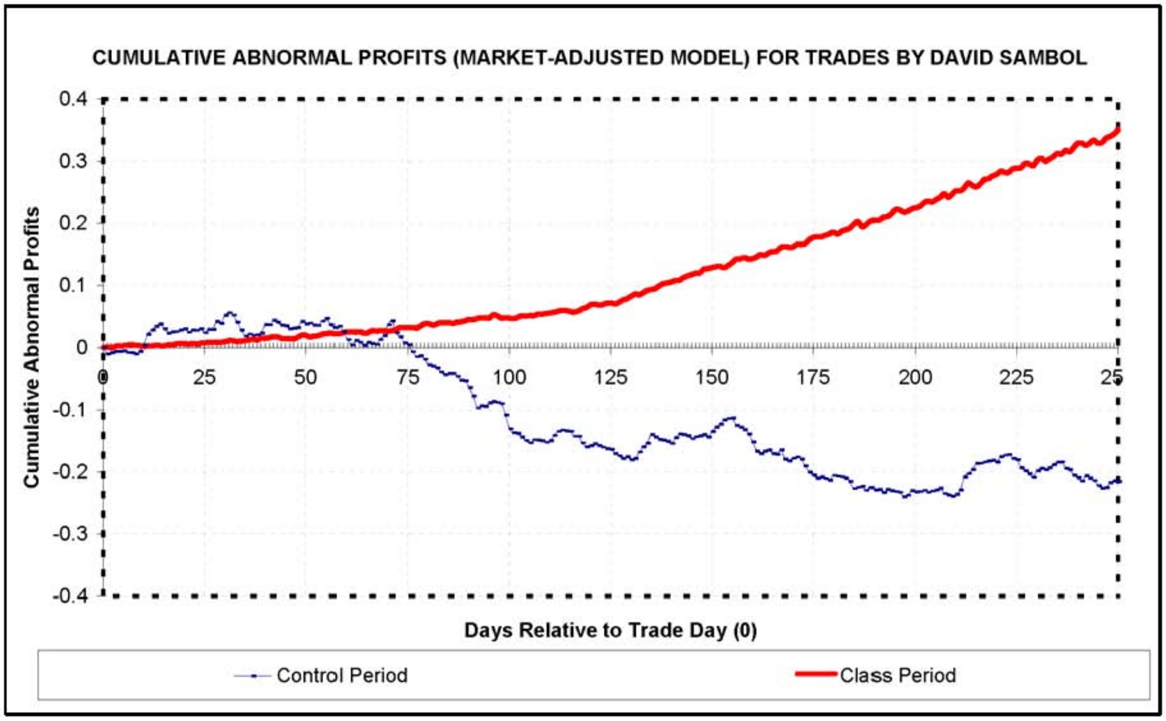
500. The timing and extent of the abnormal profits—and the contrast between Control Period and Class Period trades—are also reflected graphically in the charts set forth below. These charts compare trades for the Control and Class Periods for each of Mozilo, Kurland and Sambol, and depict cumulative abnormal profit (or loss) on all trades occurring during each period, calculated daily for one to 250 days following the day of trade. As reflected in the charts below, trades during the Control Period reflect negative abnormal profits (abnormal losses) for most periods in the 250 trading days following the day of trade. By contrast, trades during the Class Period immediately generated abnormal profits, demonstrating them to be extraordinarily well-timed.



CUMULATIVE ABNORMAL PROFITS (MARKET-ADJUSTED MODEL) FOR TRADES BY STANFORD L. KURLAND
Cumulative Abnormal Profits
0.6
0.5
0.4
0.3
0.2
0.1
0
-0.1
-0.2
-0.3
-0.4
0
25
50
75
100
125
150
175
200
225
250
Days Relative to Trade Day (0)
Control Period
Class Period



CUMULATIVE ABNORMAL PROFITS (MARKET-ADJUSTED MODEL) FOR TRADES BY ANGELO MOZILO
Cumulative Abnormal Profits
0.8
0.6
0.4
0.2
0
-0.2
-0.4
0
25
50
75
100
125
150
175
200
225
250
Days Relative to Trade Day (0)
Control Period
Class Period



4. Mozilo's Repeated and Highly Unusual Modifications of His 10b5-1 Trading Plans—Now Under Investigation By the SEC—Further Demonstrate the Suspicious Nature of His Selling

501. Mozilo's repeated modifications to trading plans established pursuant to SEC Rule 10b5-1 during the latter part of the Class Period further demonstrate the suspicious nature of his sales during the Class Period. These sales are now the subject of an SEC investigation.

502. In 2000, the SEC adopted Rule 10b5-1, 17 C.F.R. § 240.10b5-1, which provides that a person will be deemed to have traded "on the basis of" material, nonpublic information if the person engaging in the transaction was "aware of" that information at the time of the trade. Previously, courts had split on whether simple possession of material, nonpublic information at the time of the trade was a sufficient basis for imposing liability, and some courts had held that liability attached to a trade only if the insider "used" inside information in making the trade. *See* Selective Disclosure and Insider Trading, 65 Fed. Reg. 51,716, at 51,727 (Aug. 24, 2000).

503. To provide a safe harbor under the "aware of" standard, the SEC created an affirmative defense to insider trading claims for trades made pursuant to a binding agreement or plan ("10b5-1 Plans"). *See id.* at 51,727-28.

504. Pursuant to SEC Rule 10b5-1(c), a 10b5-1 Plan is a defense to insider trading liability only if it is entered into by an insider "before becoming aware" of inside information, and was established "in good faith and not as part of a plan or scheme to evade the prohibitions" against insider trading.

505. Because of this, insiders are counseled to "design a trading plan with the intention that it will not be modified or amended frequently, since changes to the plan will raise issues as to a person's good faith." Thomson West, *Corporate Counsel's Guide to Insider Trading and Reporting* § 12:26 (2006).

506. Mozilo, however, repeatedly modified his 10b5-1 Plans during the latter part of the Class Period. Mozilo initially established a 10b5-1 Plan early in the Class Period, on April 26, 2004, which provided for sale of 210,000 shares (on a split-adjusted basis) each month. On October 27, 2006, Mozilo adopted a new 10b5-1 Plan that provided for him to increase his sales by 67% to 350,000 shares a month – 140,000 more than authorized under the earlier plan.

507. Less than seven weeks later, on December 12, 2006, Mozilo implemented a new 10b5-1 Plan that increased his sales by 115,000 shares per month, or nearly one-third, to 465,000 shares per month.

508. Less than eight weeks later, on February 2, 2007, Mozilo modified his 10b5-1 Plans for the third time in less than four months, again increasing his sales by 115,000 shares per month, to 580,000 shares per month.

509. Commenting on Mozilo's 10b5-1 Plans, experts interviewed by *The Los Angeles Times* noted the highly suspicious nature of the plan changes in an article dated September 29, 2007. As reported in *The Los Angeles Times*, one securities attorney commented, "***This raises a slew of red flags. . . .*** Anytime you have revisions or modified plans . . . it is extremely suspicious." A financial

planner commented, "There are circumstances where the plans could be amended, but you better have a good reason because it's defeating the basis of the rule . . . . ***If a guy is changing his plan around, I would think that would send up a red flag. I wouldn't allow my clients to do it."*** Another attorney whose practice involves executive compensation also observed to *The Los Angeles Times* that "the more that you modify or add to your plan over a short period of time, the more risk that someone will call it into question."

510. Adding to the "red flags" raised by the 10b5-1 Plan changes, Mozilo's stated reasons for the changes are demonstrably false, inconsistent, and incoherent.

511. In the September 29, 2007 *Los Angeles Times* article cited above, Mozilo stated through Countrywide's Chief Legal Officer, Sandy Samuels, that the 10b5-1 plan revision on February 2, 2007 was "made in response to the new terms of Mozilo's employment agreement, struck Dec. 22."

512. Samuels' statement, made on behalf of Mozilo, was obviously false. As set forth in the Company's own SEC filings, the terms of Mozilo's new employment agreement (the "2006 Employment Agreement") were established no later than October 20, 2006 – *before* Mozilo entered into the first of his three 10b5-1 Plan changes. *See* Form 8-K, filed October 23, 2006. The 2006 Employment Agreement therefore provided no basis for the December 2006 or February 2007 changes and the resulting increase from monthly sales of 350,000 shares to 580,000 shares.

513. In Countrywide's third quarter 2007 earnings call, held on October 26, 2007 (approximately a month after the *Los Angeles Times* article), Mozilo changed his story. Referring to the 2006 Employment Agreement, he stated, "[t]hat new contract, and my decision to defer retirement, in turn . . . led to my adopting new trading plans in 2006."

514. This revised explanation, however, also does not stand up to scrutiny. On the earnings call, Mozilo explained that he accelerated selling in 2004 "[i]n view of my expected retirement in 2006" and that "[c]learly it would not have been in the best interests of anyone, the shareholders or mine, to be in the position of having to unload all or a substantial portion of my holdings into the market at the same time of my retirement." This stated reason for increasing sales is fundamentally inconsistent with Mozilo's actions in late 2006 and early 2007.

515. First, by delaying his retirement and continuing to receive substantial current cash income, Mozilo extended the time period available to liquidate his holdings before retirement, *reducing* the size of the monthly sales needed to achieve that objective.

516. Second, the additional equity grants Mozilo was to receive under the 2006 Employment Agreement in no way justify the increase in sales authorized under the October 2006, December 2006, and February 2007 10b5-1 Plans.

517. In addition to paying cash compensation of up to $12.9 million each year, the 2006 Employment Agreement provided for equity-based compensation of $10 million annually, plus another $10 million "[i]n exchange for Mr. Mozilo agreeing to extend his term as the Company's Chief Executive Officer beyond December 31, 2006." Under the terms of the 2006 Employment Agreement, these grants, totaling $40 million, were to vest over five years.

518. At an assumed share price of $40 (the level at which Countrywide shares traded between December 2006 and February 2007), all of the equity grants under 2006 Employment Agreement would have thus provided Mozilo 1,000,000 new shares vesting over five years—an average rate of 16,666 new shares per month.

519. Thus, far from justifying an increase from 210,000 shares per month in 2004 to 580,000 shares per month in early 2007, the additional equity grants in

the 2006 Employment Agreement warranted an increase, if any, of less than *one-twentieth* that amount.

520. Mozilo also misrepresented the circumstances of his Class Period sales in other public statements. During Countrywide's earnings call on July 24, 2007 for the second quarter of 2007, Mozilo responded sharply to a question about his stock sales, asserting that they were made pursuant to a 10b5-1 Plan established "well over a year ago." In fact, the 10b5-1 Plans pursuant to which Mozilo was then selling his holdings were entered into just five, seven and nine months prior to the earnings call.

521. Later on the same call, Mozilo returned to the question about his insider sales and asserted:

> [T]he shares that I have, actual stock that I have, I have retained for 39 1/2 years, not sold a share of the initial stock that I got when David and I started this company – and I got that I purchased. ***And the only thing that's being sold in 10b5-1 are options with expiration dates.***

522. This assertion was false. Countrywide's 2007 annual proxy statement on Schedule 14A reflects outright ownership by Mozilo of 1,021,546 shares as of April 4, 2007. His holdings a year earlier, on April 5, 2006, as set forth in Countrywide's 2006 annual proxy statement on Schedule 14A, were 1,286,617 shares – *26% higher*.

523. In light of Mozilo's false, inconsistent, and incoherent explanations of his sharply increased selling activity during the Class Period, it is unsurprising that the SEC has commenced an investigation of his sales, as reported by both *The New York Times* and *The Wall Street Journal* on October 18, 2007. According to *The Wall Street Journal*, "[a]t least one area of the inquiry, [people familiar with the matter] say, involves stock sales by [Mozilo] through prearranged executive sales plans."

5. The Increase in Stock Sales at the Same Time as Countrywide Initiated Major Stock Buybacks Further Demonstrates Their Suspicious Nature

524. The Officer Defendants' high rate of selling during the Class Period is particularly suspicious because it occurred just as Countrywide initiated its first-ever stock repurchase program.

525. Countrywide's first stock buyback (the "First Buyback") – for up to $2.5 billion in Countrywide stock – was announced on October 24, 2006. As the Daily News of Los Angeles noted in reporting on the First Buyback, "[c]ompanies typically buy back stock when they think it is undervalued." Gregory J. Wilcox, *Housing Slowdown Costs Jobs*, Daily News of L.A., Oct. 25, 2006. However, insiders usually sell their personal stock when they believe it is overvalued.

526. Mozilo made the first of his three 2006-07 10b5-1 Trading Plan changes just three days later, on October 27, 2006. Mozilo then made two subsequent changes to his 10b5-1 Trading Plans while the First Buyback was occurring.

527. Stock buybacks are widely recognized as boosting a company's share price, and the First Buyback was seen as having this effect for Countrywide. As reported in the *National Mortgage News* on October 30, 2006, "[a]nalysts at [Friedman Billings Ramsey] said Countrywide's share buyback will help to support the stock."

528. On May 16, 2007, Countrywide announced a second buyback (the "Second Buyback") of approximately $1 billion in stock. Mozilo's sales under his 10b5-1 Trading Plans were continuing during this period at the pace of 580,000 shares per month.

529. Thus, at exactly the time Mozilo was sharply increasing his personal sales of Countrywide stock, he was causing the Company to engage in its first-ever repurchases of its own stock. The immediate consequence of the buybacks

was to support the Company's share price, and the ultimate effect was to secure large profits on Mozilo's own sales during this period, while the Company, and through it, the Class, suffered massive losses on the shares it repurchased.

VI. KPMG ACTED WITH DELIBERATE RECKLESSNESS, OR, IN THE ALTERNATIVE, WITH NEGLIGENCE, IN CONDUCTING ITS AUDITS OF COUNTRYWIDE'S FINANCIAL STATEMENTS AND FAILED TO CONDUCT THOSE AUDITS IN ACCORDANCE WITH GAAS

530. KPMG violated Generally Accepted Auditing Standards ("GAAS") and acted with deliberate recklessness, or, in the alternative, with negligence, in conducting its audits of Countrywide's financial statements and issuing unqualified, "clean" audit opinions thereon. Countrywide's audited financial statements for 2004, 2005 and 2006, as alleged in Section IV.G above, violated GAAP because they misrepresented and failed to disclose that the Company had improperly assessed fair value for its RI and MSRs, had improperly accrued for its breaches in R&W, and had materially understated its ALL. Through its audits, KPMG readily should have uncovered evidence of the Company's failures to comply with GAAP. KPMG's failure to do so constituted an extreme departure from accepted and binding standards of care as defined by GAAS, or, in the alternative, negligence. Absent deliberate recklessness or, alternatively, negligence, KPMG could not have issued Countrywide clean audit opinions.

531. KPMG, in particular, was required to be familiar with the many risk factors that faced Countrywide and other lenders in the proper presentation of their financial statements. Risk factors identify areas of an audit that have an increased level of risk, and may present areas of the audit that require additional testing. The auditor should especially be attuned to these areas of increased risk when performing its duties in accordance with GAAS. During the Class Period, KPMG failed to appropriately consider or simply ignored relevant risk factors,

including those related to deficiencies in the Company's internal controls, in auditing Countrywide's financial statements.

532. "Red flags" are fraud risk factors that indicate a high risk of material misstatement. Red flags come to the attention of the auditor through its testing required under GAAS, and place a reasonable auditor on notice that the audited company could potentially be engaged in wrongdoing. During the Class Period, various red flags were apparent to KPMG, but, as alleged in detail below, KPMG either failed to properly inquire further into such red flags or ignored them outright. Either way, KPMG violated GAAS and allowed the Company to materially overstate its earnings for the fiscal years 2004, 2005, and 2006 in violation of GAAP.

A. The Standards of GAAS and the AICPA Audit & Accounting Guide

533. The Public Company Accounting Oversight Board ("PCAOB"), established by the Sarbanes-Oxley Act of 2002, is responsible for the development of auditing and related professional practice standards that must be followed by registered public accounting firms. On April 16, 2003, the PCAOB adopted as its interim standards GAAS as described by the AICPA Auditing Standards Board's SAS No. 95, *Generally Accepted Auditing Standards*, and related interpretations in existence on that date. Accordingly, an auditor's reference to "the standards of the Public Company Accounting Oversight Board (United States)" includes a reference to GAAS in existence as of April 16, 2003. For clarity, all references to GAAS herein include the standards of the PCAOB.

534. GAAS is comprised of ten basic standards that establish the quality of an auditor's performance and the overall objectives to be achieved in a financial statement audit. Auditors are required to follow these standards in each and every audit they conduct. GAAS also includes Statements on Auditing Standards ("SAS") issued by the Auditing Standards Board of the American

Institute of Certified Public Accountants ("AICPA"), which are codified in *AICPA Professional Standards* under the prefix "AU."

535. The GAAS standards fall into three basic categories: General Standards, Fieldwork Standards, and Reporting Standards. The General Standards provide guidance to the auditor on the exercise of due professional care in the performance of the audit. The Standards of Fieldwork provide guidance on audit planning, proper evaluation of internal control, and the collection of evidential matter in order to be able to form a reasonable basis for the auditor's opinion regarding the financial statements under audit. The Standards of Reporting provide guidance to the auditor on the content of the audit report and the auditor's responsibility contained therein. AU 150.02.

536. The AICPA Audit & Accounting Guide ("AAG") for lending institutions is designed to provide guidance for independent accountants primarily on the application of the standards of fieldwork. Specifically, it provides guidance on the risk assessment process and the design of audit procedures, as well as general audit considerations for deposit and lending institutions like Countrywide. The AAG is approved by both the Financial Accounting Standards Board ("FASB"), which promulgates SFASs, as well as the Auditing Standards Board ("ASB"), which issues SASs.

537. The AICPA, as noted above, also issues Audit Risk Alerts ("ARA"). The ARAs are particularized by industry, including for financial institutions such as Countrywide. The ARAs provide auditors with an overview of recent economic, industry, regulatory, and professional development and, in particular, those that may affect audit engagements. These ARAs should have focused the KPMG audit team on those specific aspects of Countrywide's financial statements where an increased level of risk of material misstatement was present and additional considerations were warranted.

B. KPMG Failed to Perform Procedures in Accordance With GAAS And Ignored Numerous Red Flags That Indicated a High Risk of Material Misstatement

1. Pertinent GAAS Requirements

538. KPMG was required to plan, conduct, and report on the results of its audit of Countrywide in accordance with GAAS. In doing so, it was required to comply with auditing standards that provided principles for audit quality and the objectives to be achieved in an audit. KPMG knew that investors, when making an investment decision, would rely on its opinions as an independent auditor with respect to the Company's financial statements and on its assessment of the effectiveness of the Company's internal controls.

539. For purposes of its audits of Countrywide for 2004, 2005 and 2006, KPMG had a professional obligation in accordance with GAAS to perform the following procedures, among others, to:

(a) Understand Countrywide's business (AU 311, "Planning and Supervision"), which included the following:

(i) AU 311 required KPMG to adequately plan the work and properly supervise its assistants. In accordance with AU 311, KPMG was required to perform specific audit procedures to obtain an understanding of Countrywide and its environment, including internal controls, and to be able to assess the risks of material misstatement in the financial statements (AU 311.06-09).

(ii) GAAS required KPMG's understanding of Countrywide's business to be developed through (1) its experience with Countrywide and its industry, (2) inquiries with Countrywide personnel, and (3) review of AICPA AAGs and other materials such as ARAs (AU 311.07-08). GAAS further required KPMG's planning to assess the extent to which Countrywide employed computer processing in its accounting processes. Specifically, KPMG was obligated to understand the organizational structure of the computer processing activities and the availability of data underlying the computer systems (AU 311.09). Ultimately, the KPMG auditors should have had specific knowledge as to Countrywide's risk management strategies, organizational structure, product lines and services, strategies for lending and investing, and other characteristics (AAG Ch. 5).

(b) Test the internal control processes through which transactions were originated through to their inclusion in the financial statements (AU 319, "Consideration of Internal Control in a Financial Statement Audit"). This testing would include the following:

(i) Developing knowledge about Countrywide's accounting systems as they related to the pricing models supporting the accounting estimates used to determine ALL and R&W, as well as the fair value inputs for MSR and RI (AU 319, AAG Chs. 5, 9 and 10).

(ii) Considering the operating effectiveness of controls for loans, including: "inspect[ion of] loan documents to determine whether the institutions lending policies [were] being followed" (AAG Ch. 8).

(c) Perform analytical procedures, in accordance with AU 329, "Analytical Procedures," to substantiate that the financial information produced by the Company's information systems was free of material misstatement. KPMG should have performed analytical review procedures to identify risks of material misstatement and applied particular scrutiny to the accounts that were vulnerable as a result of Countrywide's acceptance of increasing credit risk (AU 329.06). Such analytical procedures should have included, in conjunction with its internal control testing pursuant to

AU 319, obtaining a sufficient understanding of the Company's valuation models related to the ALL, MSR, and RI. KPMG should have ensured that the assumptions applied in Countrywide's valuation models were, among other considerations, based upon (a) all known relevant internal and external factors that might have affected collectibility, (b) current and reliable data, and (c) consistent inputs.

(d) Apply auditing procedures to those accounts with a high risk of misstatement such as the accounting estimates related to ALL and R&W, as well as the fair value measurements reflected in MSR and RI (GAAS including AU 328, "Auditing Fair Value Measurements and Disclosures," and AU 342, "Auditing Accounting Estimates"). These procedures should have included:

(i) In accordance with AU 328, "Auditing Fair Value Measurements and Disclosures," assessing whether Countrywide's assumptions were reasonable and reflected market-based information (AAG Ch. 9).

(ii) In accordance with AU 342, "Auditing Accounting Estimates," assessing the Company's calculations of ALL and R&W, GAAS required concentration on "key factors and assumptions that [we]re (a) significant to the accounting estimate, (b) sensitive to variations, (c) deviations from historical patterns, [and] (d) subjective and susceptible to misstatement and bias" (AU 342.09). With regard to MSR and RI, GAAS required KPMG to evaluate "(a) whether management's assumptions are reasonable and reflect . . . market information . . . , (b) the fair value measurement was determined using an appropriate model . . . , [and] (c) management used relevant information that was reasonably available at the time" (AU 328.26).

(iii) Obtaining competent evidence supporting the existence, value, and rights to collateral (AU 328.25, AAG Ch. 9, in a subsection titled "Management's Methodology").

(iv) Performing tests to establish the reliability of management's representations. (AU 333, "Management Representations," ¶ 2, AU 319.95).

(e) Increasing the nature, timing, and extent of auditing procedures applied when a high risk of fraud or error was present (AU 316, "Consideration of Fraud in a Financial Statement Audit"; AAG Ch. 5, including Exhibit 5-1).

540. GAAS sets forth factors that present a higher degree of risk of material misstatement, and of which auditors such as KPMG are required to be aware. For example, GAAS states that there is a presumption that improper revenue recognition is a fraud risk (i.e., gain-on-sale recognition)[22] (AU 316.41). GAAS specifies that there is a high degree of risk related to the estimation of the fair value of investments (i.e., proper valuation of MSRs and RIs) (AU 316.39), and reiterates that there is always a risk of management overriding internal controls (AU 316.08, 42, and 57-65). That risk would apply, for example, to Countrywide's establishment of EPS to approve loans that would not have been approved under the Company's written underwriting policies, as alleged in Section IV.C.3.b above.

541. Further, at every step of its audits, KPMG was required to exercise professional skepticism. GAAS requires that an auditor exercise professional skepticism (AU 230, "Due Professional Care in the Performance of Work") when

[22] As explained in Section IV.G above, misstatements of ALL, MSRs, RI, and R&W impact the correct accounting for "gain-on-sale" revenue and revenue recognition generally.

performing its audits. Professional skepticism is an attitude that includes a questioning mind and a critical assessment of the evidence (AU 230.07).

2. Audit Risk Factors in 2004

542. Contemporary GAAS pronouncements highlighted the relaxation of credit standards and deviations from policy as fraud risk factors (AAG Ex. 5-1). The ARA for 2004 also cautioned auditors that competition to increase loan origination volume had contributed to the softening of credit criteria, which increased credit risk (AAM 8050.12). In conjunction with AU 316, "Consideration of Fraud in a Financial Statement Audit," the AAG also provided KPMG with specific environmental factors that were likely to increase the potential for fraud in a mortgage lender, which included the following (AAG Ch. 5):

(i) Relaxation of credit standards,

(ii) Excessive extension of credit standards with approved deviation from policy,

(iii) Excessive concentration of lending (particularly new lending),

(iv) Excessive lending in new products, and

(v) Frequent or unusual exceptions to credit policy.

3. Audit of Countrywide's 2004 Financial Statements

543. During its audit of Countrywide in 2004, had KPMG in fact complied with the GAAS provisions set forth above, KPMG would have uncovered various red flags that should have prompted the auditors to either test further or require management to adjust the Company's financial statements so they would be presented free of material misstatements.

544. In 2004, compliance with AU 311 (noted in paragraph 539(a) above) would have led KPMG to learn that Countrywide had publicly announced and

implemented a very aggressive firm-wide goal of capturing 30% residential mortgage market share by 2008. This stated objective not only increased the degree of credit risk that Countrywide was likely to assume as a whole, but it also increased the risk that Countrywide would compromise its lending standards in the face of increased competition to reach this position (AAM 8050.12).

545. The AAG, in combination with AU 311, also required KPMG to review the Company's securitization prospectuses noted in Section IV.B.4 above. KPMG's objective in doing so would have been to obtain the necessary "[u]nderstanding [of] the risks associated with a particular tranche of a MBS [mortgage backed security] . . . [which] often requires an understanding of the security structure, as documented in the offering document and related literature." AAG Ch. 7. KPMG would have been required to review a sampling of the more than 200 securitization prospectuses that were filed with the SEC during 2004. Had KPMG reviewed such a sample, KPMG would have learned that the aggregate dollar value of loans with FICO scores of 660 and below was approximately 40% of the total dollar value of loans securitized during 2004, as discussed in Section IV.B.4 above. Similarly, KPMG would have learned that the aggregate dollar value of loans with FICO scores of 620 and below was approximately 23% of the total dollar value of loans securitized during 2004.

546. KPMG would also have seen that Countrywide's 2004 Form 10-K represented that only 11% of the loans it originated in 2004 were nonprime. The discrepancy between the Company's reported percentage of nonprime loans originated (11%) and the actual number of nonprime loans included in Countrywide's prospectuses (approximately 40%) was a glaring red flag that required further inquiry, especially because Countrywide represented that it securitized and sold substantially all of the mortgage loans it produced. This red flag required KPMG to perform additional analytical and substantive testing on the Company's loan quality and risk level, which is described in detail below.

Accordingly, KPMG should have addressed this discrepancy with management, and if it did not receive an appropriate response, should have considered modifying its opinion (AU 550, "Other Information in Documents Containing Audited Financial Statements").

547. In accordance with AU 319 (noted in paragraph 539(b) above), KPMG's testing of Countrywide's internal controls should have included a review of Countrywide's underwriting guidelines, such as those set forth in its underwriting matrices, and the trending of underwriting practices as shown in those matrices. KPMG should have also tested the operating effectiveness of internal controls over financial information; in other words, whether management was approving and granting loans in accordance with its written underwriting standards. These routine tests would have enabled KPMG to understand the procedures by which transactions were processed, if the transactions were being processed in accordance with the Company's policies, and if there was any change from the prior year. This analysis would have alerted KPMG to another red flag, that Countrywide was systematically loosening its underwriting practices, as described in Section IV.C.2.a, beginning at the end of 2003 and continuing throughout 2004, and that Company was granting loans to borrowers who did not qualify even under the Company's loosened underwriting standards. Specifically, AAG Ch. 5 observes that "[e]xcessive extension of credit standards" is a fraud risk factor.

548. Testing of Countrywide's internal controls, in accordance with AU 319 and AU 316, also required a detailed testing of the Company's loan files. For example, KPMG should have tested whether Countrywide's loans were being approved in accordance with the Company's written lending policies, whether credit investigations were being performed, whether credit limits were adhered to, whether Countrywide's procedure for capturing all required loan documentation was functioning, and whether the information recorded in Countrywide's data

processing system and used for management reporting was being tested by personnel independent of the preparer and was accurate.

549. Had KPMG properly reviewed Countrywide's loan files, KPMG would have discovered that Countrywide routinely originated high-risk loans to borrowers with the weakest credit. Additionally, KPMG would have discovered that Countrywide was not performing appropriate levels of due diligence on such loans. Through its testing of Countrywide's loan files, KPMG would have learned that Countrywide classified loans that were subprime loans as "prime" loans. KPMG also would have seen that loans were being granted without verification of borrower income, employment or net worth, and that loans were being granted with appraisals and other important documents missing from the loan files. These facts should have raised a red flag for KPMG in conjunction with the ARA described in paragraph 542 above, given that they revealed a pattern of management's override of its own internal controls, which, as noted above, was a pervasive fraud risk (AU 316.08, AU 319.22). Moreover, the failure to appropriately document these loans should have raised serious concerns about whether borrowers could re-pay their loans and whether the value of the underlying collateral was sufficient (AU 328; AAG Ch. 9).

550. In conducting analytical testing to determine whether Countrywide was aggressively originating high-risk loans and, if so, whether the additional risks of those loans were appropriately reflected in its financial statements, KPMG, pursuant to 2004 AAM 8050.12 and AU 329, should have examined the percentage of each loan type produced in comparison to the total loans produced. This determination should have been made with respect to the number of each type of loan produced compared to the total number of loans produced, as well as the total dollar amount of each type of loan produced compared to the total dollar amount of loans produced. These ratios measure the composition of the loan portfolio, lending strategy and corresponding level of risk (AAG Ch. 5).

551. To perform these analytical procedures, KPMG should have used data similar to that presented in the table in paragraph 303 above. Through its observations, KPMG would then have determined that: (a) approximately 50% of loans originated by Countrywide in 2004 were nonconforming loans, up from approximately 36% in 2003; (b) Nonprime Mortgage Loans increased approximately 99%; (c) ARM loan origination increased approximately 108%; and (d) HELOC origination increased approximately 71%. These statistics presented a major red flag that indicated that Countrywide had become a very high risk lender.

552. In response to this red flag, in accordance with AU 316 and 2004 AAM 8050.12, KPMG should then have undertaken further procedures to understand Countrywide's methods of classifying its loan portfolio (prime versus nonprime loans) and to verify that Countrywide applied and disclosed these methods appropriately and consistently. Had KPMG properly performed such procedures, KPMG would have determined that Countrywide was classifying a substantial number of loans with FICO scores below 660, below 620, and, indeed, sometimes as low as 500, as prime loans. This presented yet another glaring red flag.

553. Based on all of the risk factors highlighted above in paragraphs 278-279 and 542, and in combination with the red flags mentioned in paragraphs 544-551, KPMG should have approached its audit of Countrywide with increased professional skepticism (AU 230). In particular, KPMG should have expanded its audit testing of Countrywide's accounts that had a high risk of misstatement, such as those requiring fair value measurements in accordance with AU 328, "Auditing Fair Value Measurements and Disclosures," and AU 342, "Auditing Accounting Estimates," to ensure that the increased risk of defaults that could have been identified were adequately incorporated into Countrywide's accounting estimates. KPMG should have conducted procedures such as those described below, to

ensure that Countrywide's accounts for ALL and R&W reflected an appropriately increased accrual rate commensurate with the increased credit risk referred to above, and that, for the same reason, the valuations of MSRs and RI had been adjusted by means of sufficiently decreased fair value assumptions.

554. Also, as part of KPMG's procedures in accordance with AU 329 and AU 342, KPMG should have compared ALL with the total value of loans held for investment to measure portfolio credit risk coverage. Had KPMG properly performed this testing, it would have discovered that Countrywide's ALL as a percentage of loans held for investment stayed flat from 0.30% to 0.31%, despite the fact that the Company was rapidly producing higher risk loans. In this regard, KPMG failed to exercise an appropriate degree of skepticism by failing to challenge the assumptions employed by management in its accounting estimate (AU 230, 316 and 342.09).

555. Further, GAAS states that, with respect to accounting estimates, "methods that rely solely on mathematical calculations, such as a percentage of total loans based on historical experience . . . generally fail to contain the essential elements because they do not involve a detailed analysis of an institution's particular transactions or consider the current economic environment." AAG Ch. 9. Similarly, GAAS requires accounting estimates to include "effects of any changes in lending policies and procedures" and that management should avoid "old, incomplete, or inconsistent data to assess operating performance or financial capacity." AAG Ch. 9. These provisions of GAAS are entirely consistent with applicable GAAP such as SAB 102, mentioned in paragraph 284 above. Specifically, KPMG should have tested management's key assumptions for calculating ALL. Had KPMG performed such a test, KPMG would have determined that Countrywide was using an unreliable model for calculating ALL based upon historical results, one that failed to account for the changes Countrywide had implemented as to its lending practices.

556. Had KPMG properly assessed the red flags above in paragraphs 544-551, KPMG would have determined that Countrywide was in fact originating loans based on faulty credit granting decisions and that the Company's lack of loan credit review procedures were widespread. Therefore, many of its loans should have been considered impaired at origination pursuant to AAG Ch. 9 (see paragraph 298 above) and, as a result, ALL was materially understated (see Section IV.G.3 above).

557. KPMG showed a similar failure to exercise professional skepticism related to Countrywide's reported valuation of MSR and RI. The historical rate of default was a key assumption Countrywide used to calculate MSR and RI. Had KPMG properly assessed Countrywide's accounting estimates, it would have made a determination that management did not adjust the historical rate to factor in the increased risk that the company was assuming through its aggressive production of nonconforming loans, loosening underwriting practices, and increased credit risk.

558. GAAS, including AU 328 and AU 342, required KPMG to compare the value of Countrywide's MSRs from year to year to identify changes in the assumptions underlying fair value determinations. KPMG would have determined that the value of MSRs increased by 22% from 2003 to 2004. A valuation allowance is established to track and account for the impairment risk related to MSRs, and as such is recorded as an offset to the gross balance of MSRs (SFAS 140). Yet, despite this significant increase in the balance of MSRs, Countrywide *decreased* its valuation allowance for impairment of MSRs from approximately 15% of MSRs in 2003 to only 11% in 2004. The decrease in the valuation allowance was illogical and presented yet another red flag because as a lender assumes more credit risk, its valuation allowance for impairment has a negative effect on MSR, not a positive effect. In the absence of evidence that Countrywide's loan portfolio was becoming less risky rather than more risky, AU

316, 326 and 329 required KPMG to seek evidence to determine why Countrywide was decreasing its valuation allowance and thereby increasing the value of its MSRs. AU 329.02 ("A basic premise underlying the application of analytical procedures is that plausible relationships among data may reasonably be expected to exist and continue in the absence of known conditions to the contrary."). Moreover, KPMG knew that the value of MSRs as a servicing asset was established by the excess of expected revenue over expected costs. But, Countrywide failed to appropriately incorporate an expectation of the higher expected costs associated with the MSRs it generated, beginning in 2003 and thereafter (see Section IV.G.5 above). Additionally, Countrywide was using an old model to calculate the fair value of its MSRs, which focused in historical trends, as illustrated in Section IV.G.5 above. In this regard, KPMG failed to appropriately consider GAAS, which stated that "historical information may not be representative of future conditions . . . if management intends to engage in new activities or circumstances change" (AU 328.37).

559. Pursuant to AU 328, KPMG was also required to assess management's key assumptions used to value its RI. For example, KPMG should have reviewed management's assumptions used to calculate Countrywide's net lifetime credit losses. Despite the increasing origination of nonprime loans, the assumption for net lifetime credit losses in 2003 was 1.9% and was only raised to 2.0% in 2004, as alleged in Section IV.G.4 above. The fair value of RI was increased from 2003 to 2004 because the assumption was made that the weighted-average life of securitized loans increased from 2.0 years to 2.5 years. However, when credit risk increases, net lifetime credit losses are expected to increase accordingly and the weighted average life of the underlying loans is expected to decrease. This red flag should have prompted KPMG to inquire further into management's assumptions or perform its own testing of RI. In doing so, KPMG would have determined that Countrywide's RI was overstated because changes in

the Company's credit risk strategy and loosened underwriting practices were not appropriately included in the assumptions for weighted average life and net lifetime credit losses that were used to value RI.

560. If, in 2004, the procedures set forth above had been properly performed, KPMG would have determined that a "clean" audit opinion on Countrywide's financial statements would have been false and misleading. Thus, KPMG acted with deliberate recklessness, or, in the alternative, with negligence, in conducting its 2004 audit of Countrywide's financial statements and failed to conduct its audit in accordance with GAAS.

4. Audit Risk Factors in 2005

561. The risk factors present in 2004 were equally relevant for 2005. Additionally, the AAG (Chs. 5, 8 and 9) and the ARA highlighted the following risk factors, present at Countrywide, which KPMG should have considered:

(a) Aggressive measures undertaken to increase market share in non-prime markets,

(b) Inadequate documentation supporting loan origination decisions,

(c) Inappropriate classification of non-prime transactions as prime transactions,

(d) Unusual or inadequate review of the valuation of underlying collateral and associated appraisals,

(e) Increasing interest rates (AAM 8050.10), and

(f) "Housing bubble effects." This was a caution that the calculation of risk should include consideration of the possibility that the "housing bubble" would burst. AAM 8050.22. For Countrywide, the appropriate considerations would have been the potential effects of such a housing bubble burst on valuations of its LHI, MSRs, and RIs, as well as the proper reserves for breaches of R&W.

5. Audit of Countrywide's 2005 Financial Statements

562. In 2005, KPMG would have seen the same red flags that were apparent in 2004, and would have been required, in the face of those red flags, to perform the same procedures it was required to perform in 2004.

563. In addition, as in 2004, in accordance with AU 311, KPMG should have reviewed the Company's securitization prospectuses for 2005. Because Countrywide offered more than 200 securitization prospectuses during 2005, KPMG would have been required to review a sample of those prospectuses. Had KPMG properly performed such tests, KPMG would have found, among other things, that the aggregate dollar value of loans with FICO scores of 660 and below was approximately 36% of the total dollar value of loans securitized during 2005, as alleged in Section IV.B.4 above. Similarly, KPMG would have learned that the aggregate dollar value of loans with FICO scores of 620 and below was approximately 19% of the total dollar value of loans securitized in 2005.

564. KPMG would have also been aware that management had represented to investors in the 2005 Form 10-K that only 9% of loans originated were nonprime. The discrepancy between the higher amount of subprime loans included in Countrywide's prospectuses (36%) and the amount of nonprime loans that the Defendants disclosed in its Form 10-K (9%) was, as in 2004, a glaring red flag that required substantial further inquiry from KPMG. These results should have alerted KPMG to perform additional analytical and substantive testing on the Company's loan quality and risk level.

565. As in 2004, KPMG's review of Countrywide's underwriting matrices pursuant to AU 319 would have alerted KPMG to another red flag, that loosening of underwriting guidelines continued in 2005, so that even less creditworthy borrowers were obtaining loans.

566. AU 319 and AAG Ch. 5, referenced in paragraphs 539(b) and 561 above, required KPMG to test the adequacy of internal controls, and the operating effectiveness of internal controls over financial information. KPMG should have had continuing discussions with management and IT personnel to determine the types of IT systems used at Countrywide in 2005 (AU 319.59). Accordingly, KPMG should have been aware of the implementation of EPS in 2005.

567. Being aware of EPS, KPMG should have performed audit procedures to test the types of transactions processed by EPS because those transactions had a greater risk of misstatement (AU 319.30).[23] GAAS recognizes that risks related to the processing and recording of financial data increase when "new or revamped information systems" are introduced (AU 319.38). Additionally, KPMG's procedures to test EPS should have included the assessment of how EPS differed from Countrywide's routine loan processing system.

568. The existence of EPS by itself should have been a signal to KPMG of the continued rising risk of fraud at Countrywide. Specifically, the AAG observed that "frequent or unusual exceptions to credit policy" is a fraud risk factor. AAG Ch. 5. Here, the very name of the system "Exception Processing System" explicitly coincided with the fraud risk factors highlighted by GAAS.

569. In accordance with AU 319 and AU 316, and the red flags in paragraphs 563-566 above, KPMG was required to inquire further with Countrywide's employees and expand the nature, timing and extent of its testing on EPS. KPMG should have determined that EPS had been set up by management to override the Company's underwriting standards rather than

[23] AU 319.30 ("As an entity's operations and systems become more complex and sophisticated, it becomes more likely that the auditor would need to increase his or her understanding of the internal control components to obtain the understanding necessary to design tests of controls, when applicable, and substantive tests.").

adhere to them. An effective control environment includes a well-defined lending approval and review system that includes ***established credit limits***, as well as limits and controls over the types of loans made (AAG Ch. 8). Moreover, applicable GAAS instructs that "[e]ffective internal control over financial reporting . . . should provide reasonable assurance that errors or fraud in management's financial statement assertions about the loan portfolio – ***including those due to the failure to execute lending transactions in accordance with management's written lending policies – are prevented or detected***." AAG Ch. 8.

570. KPMG should have also discovered that the transactions authorized by EPS created a high degree of risk of material misstatement because numerous loans were granted to borrowers that did not qualify under Countrywide's already loosened written underwriting standards. AU 312, "Audit Risk and Materiality in Conducting an Audit," ¶ 16 ("The auditor's understanding of internal control may heighten or mitigate the auditor's concern about the risk of misstatement."). Moreover, the implementation of this system demonstrated the Officer Defendants' commitment to achieving financial objectives at any cost and without regard to preexisting internal controls.

571. In 2005, KPMG's detailed testing of the Company's loan files would have provided evidence similar to the evidence that would have been found in 2004. In addition, such testing would have provided evidence that Countrywide was issuing increasing numbers of Pay Option ARMs to less creditworthy borrowers, without proper documentation of income or assets or adequate appraisals.

572. Through its detailed loan testing in accordance with AU 319, KPMG also should have determined whether appraisals were included in Countrywide's files and were supportive of a reasonable collateral value. This analysis should have been conducted on an ongoing basis (AU 328). Specifically, "an inspection

of loan documentation should include tests of the adequacy of both the current value of collateral in relation to the outstanding loan balance and, if needed, insurance coverage on the loan collateral." AAG Ch. 8. This red flag should have alerted KPMG that Countrywide might be exposed to increased credit risk and as a result, the financial statements were at a high risk of material misstatement.

573. In testing the composition of the loan portfolio in 2005, KPMG would have encountered evidence similar to that presented in the table in paragraph 305 above, which compared loans originated in 2004 to 2005. In making this comparison, the auditors would have determined that approximately 56% of loans originated by Countrywide in 2005 were nonconforming loans, up from 50% in 2004. This was a red flag to KPMG that Countrywide was increasing its rate of origination of high-risk loans at a rapid pace. Also, KPMG would have detected that origination of Pay Option ARMs had increased at the alarming rate of 335% over the prior year. This was also a red flag.

574. In response to these red flags, and in accordance with AU 316 and 2004 AAM 8050.12, KPMG should have once again reviewed methods of classifying its loan portfolio (prime versus nonprime loans) and to verify that Countrywide applied and disclosed these methods appropriately and consistently. Had KPMG properly performed such procedures, it would have determined that Countrywide was classifying a substantial number of loans with FICO scores below 660, below 620 and indeed sometimes as low as 500 as prime loans.

575. As a result of the red flags listed above, KPMG was required to perform additional testing of its loans to determine if delinquencies were rising in high risk loans. AU 316, 326, 329; AAG Chs. 5 and 9. For example, KPMG would have seen, as the chart below illustrates, that delinquencies at Countrywide were increasing at a rapid pace. In particular, HELOC delinquencies nearly doubled in 2005, and nonprime delinquencies rose substantially to 15.20%:

	2004	2005	% Change
Total Delinquencies	3.83%	4.61%	20.4%
Nonprime Loan Delinquencies	11.29%	15.20%	34.6%
HELOC Delinquencies	0.79%	1.57%	98.7

576. KPMG was required to perform additional testing to determine the reasons for increasing delinquencies, including whether the rise in delinquencies was a function of external economic conditions or whether the nature of Countrywide's lending policies were also implicated. GAAS observes that it is useful for the auditor to review publicly available information in an institution's FFIEC call reports because financial and lending institutions disclose detailed data on loans. AAG Ch. 5. As set forth in paragraph 312 above, Countrywide's call reports provided details on the number of loans that were 30-89 days overdue. As set forth in paragraph 313 above, by the end of 2005 this rate had quadrupled.

577. As in 2004, the risk factors highlighted above, in conjunction with the red flags that should have become apparent, required KPMG to approach its audit of Countrywide with increased skepticism. Accordingly, KPMG should have performed tests similar to those it should have performed in 2004. Among other things, KPMG would have learned that Countrywide's ALL as a percentage of loans held for investment continued to decrease from 0.31% in 2004 to 0.27% in 2005, as illustrated in paragraph 300 above. KPMG should have deemed illogical the decrease in the reserve rate applied in 2005 as compared to 2004, especially because KPMG, had it properly conducted the various testing set forth above, would have been aware of the increased credit risks.

578. By the end of 2005, the prime rate of interest increased to 7.15% from 5.15% at the end of 2004. This external economic factor posed a risk that KPMG should have considered as to the difficulty that borrowers would face in refinancing their ARM loans, which would raise the potential for increasing the

rate of default, thus affecting the accounting estimates necessarily underlying Countrywide's ALL and R&W and its valuation of MSRs and RI.

579. Despite the significant increase in credit risk assumed by Countrywide, the valuation allowance for impairment of Countrywide's MSR *dropped* from 11% to only 3% of gross MSR. KPMG should have determined that the valuation allowance was inadequate in light of the rising credit risk and that the Officer Defendants failed to incorporate expected increasing operating costs to service these loans (AU 230, 316, 328, and 342; and AAG Chs. 9 and 10).

580. With respect to the valuation of RIs, by performing tests such as it had been required to perform in 2004, KPMG would have learned that the net lifetime credit losses rate dropped 15%, from 2.0% in 2004 to 1.7% in 2005. Once again, this was a red flag to KPMG that management's assumptions were incorrect because as delinquencies and credit risk increased, net credit losses should have also increased accordingly.

581. In addition to the above, KPMG should have also examined Countrywide's weighted average life assumption. Had KPMG done so, KPMG would have determined that Countrywide continued to maintain a highly aggressive position with respect to the expected weighted average life of the RIs that it had initially raised in 2004. KPMG should have determined that, in consideration of the expected rise in defaults driven by Countrywide's new strategy, it would have been unreasonable to presume that the weighted average life of RI of 2.4 years in 2005 would have been greater than the weighted average life of RI of 2.0 years in 2003 when there was substantially less credit risk. As such, KPMG failed to adhere to applicable GAAS, including AU 230, 316 and 328, and AAG Chs. 5 and 10.

582. In view of Countrywide's marketing strategy, one that significantly increased credit risk, AU 342 required KPMG to test the adequacy of

Countrywide's reserves for breaches in R&W. KPMG would have determined through its testing of management's key assumptions in 2005 that even though Countrywide substantially increased the nature and extent of the credit risk associated with the loans it originated, it did not appropriately increase its accruals for breaches in R&Ws. Among other things, KPMG should have analyzed R&W reserves as a percentage of subprime loan and HELOC securitizations. KPMG should have been aware that Countrywide's Form 10-Ks disclosed that only those categories of securitizations were subject to recourse as set forth in paragraph 382 above. Countrywide increased securitizations of Prime Home Equity and Nonprime loans from $57.8 billion in 2004 to $61.4 billion in 2005, a growth rate of 6%. However, in 2005, Countrywide actually decreased its provisions for new R&W by 22%, from $85 million in 2004 to $66 million in 2005. This year-over-year change in 2005 represented an inexplicable 27% drop in new R&W provisions as a percentage of relevant securitizations. This should have been a red flag to KPMG to further inquire into management's assumptions for accruing reserves for breaches in R&W.

583. If, in 2005, KPMG had properly performed the procedures set forth above, KPMG would have determined that a "clean opinion" on Countrywide's financial statements would have been false and misleading. Thus, KPMG acted with deliberate recklessness, or, in the alternative, with negligence, in conducting its 2005 audit of Countrywide's financial statements and failed to conduct its audit in accordance with GAAS.

6. Audit Risk Factors in 2006

584. In 2006, all of the risk factors that were present in 2004 and 2005 were equally relevant. In 2006, the risk of the "Housing bubble effects" was noted in AAM 8050.37.

585. In 2006, KPMG should have been aware of the same fraud risk factors and risks of material misstatements that were relevant in 2004 and 2005,

as set forth in paragraphs 278-284, 542 and 561 above. AAG Ex. 5-1, Chs. 8 and 9. However, because there was a substantial increase in the production of Pay Option ARMs (an increase of 335%) and HELOCs (an increase of 45%) in 2005, KPMG should have been aware as well of a risk factor that was raised in the 2006 AAG. This AAG stated that a risk of material misstatement can arise from "[s]ignificant concentrations of loan products with terms that give rise to credit risk, ***such as negative amortization loans***, loans with high loan-to-value ratios, ***multiple loans on the same collateral*** that when combined result in a high loan-to-value ratio, and interest-only loans." AAG Ch. 8.

7. Audit of Countrywide's 2006 Financial Statements

586. In 2006, KPMG should have seen the same red flags as were present in 2005, and would have been required, in the face of those red flags, to perform the same procedures it was required to perform in 2005.

587. In addition, in accordance with AU 311 and AAG Ch. 7, KPMG should have reviewed the Company's loan securitization prospectuses for 2006. Because Countrywide offered more than 170 securitizations in 2006, KPMG would have been required to review a sampling of the prospectuses from those securitizations. Had KPMG properly reviewed that sample, KPMG would have learned that the aggregate dollar value of loans with FICO scores of 660 and below was 33% of the total dollar value of the loans securitized as alleged in Section IV.B.4 above. Similarly, KPMG would have learned that the aggregate dollar value of loans with FICO scores of 620 and below was 15% of the total dollar value of loans securitized during 2006. These results reflected Countrywide's continued origination of substantial numbers of loans to less creditworthy borrowers.

588. KPMG would have also been aware that management had publicly represented in the 2006 Form 10-K that only 8.7% of loans originated were

nonprime in nature. The discrepancy between the higher amount of subprime loans included in Countrywide's securitization prospectuses (33%) and the amount of nonprime loans that the Defendants disclosed in its Form 10-K (8.7%) was again, as in 2005 and 2004, a glaring red flag that necessitated further inquiry from KPMG. These results should have alerted KPMG to perform additional analytical and substantive testing on the Company's loan quality and risk level.

589. As in 2004 and 2005, KPMG's review of Countrywide's underwriting matrices pursuant to AU 319 would have alerted KPMG to another red flag, that Countrywide's loosening of underwriting guidelines continued in 2006 so that even less creditworthy borrowers were obtaining loans.

590. In accordance with AU 319 and AU 316, KPMG should have tested the Company's loan files. This testing would have further corroborated, among many other facts, that Countrywide was continuing to issue Pay Option ARMs and other higher risk loan products to less creditworthy borrowers without proper documentation of income or assets, as negative amortization amounts were growing. In accordance with AAG Ch. 9 and AAM 8050.17, and after reviewing Countrywide's loan files, KPMG should have found that Countrywide's loans were once again not being approved in accordance with its underwriting practices and that evidence supporting collateral such as appraisals was inadequate, as illustrated in Section IV.C.3.c above.

591. In performing its 2006 analytical review procedures, KPMG again should have examined the volume of loans produced by type as a percentage of all loans produced to measure the composition of the loan portfolio relative to the lending strategy (AAG Ch. 5). In doing so, KPMG would have learned that approximately 54% of loans originated by Countrywide in 2006 were nonconforming loans. This was a continued red flag to KPMG that Countrywide was aggressively originating high-risk loans (AU 328 and 342; AAG Chs. 9 and 10).

592. Accumulated negative amortization on Pay Option ARMs grew nearly eight-fold during 2006, from $74.7 million in 2005 to $654 million in 2006. This 775% increase was a glaring red flag which provided further evidence of the increasingly poor quality of such loans and an increase in the risk of material misstatement in Countrywide's financial statements. AAG Ch. 5 specifically observed that a risk of material misstatement can arise from "negative amortization loans."

593. Based upon the continued increase in the origination of Pay Option ARMs and 2006 AAM 8050.35 (see paragraph 285 above), KPMG should have determined whether Countrywide had developed an appropriate risk management policy to avoid negative amortization.

594. In accordance with the red flags listed above and AU 329, KPMG was required to perform additional testing of Countrywide's loans to determine if delinquency rates on such risky loans were increasing. The table below shows the accelerating delinquency rates in 2006. Given the sheer volume of Countrywide's loan portfolio, even small increases in the delinquency rates indicated significant absolute dollar value changes in the amounts at risk:

	2005	**2006**	**% Change**
Total Delinquencies	4.61%	5.02%	8.9%
Nonprime Loan delinquencies	15.20%	19.03%	25.2%
HELOC delinquencies	1.57%	2.93%	86.6%
Pay Option ARMs delinquent 90 days or more	0.10%	0.63%	530%

595. These rapidly increasing delinquency rates should have prompted KPMG to perform additional testing. KPMG should have reviewed the loans in 2006 that were considered 30-89 days overdue because these loans were about to become non-accruing. As shown by the chart in paragraph 313 above, the volume of loans that were 30-89 days past due rose sharply during 2006. Specifically, the delinquency rate of loans that were 30-89 day loans past due in

each quarter rose significantly, and by the end of 2006, the delinquency rate for these loans now exceeded 2%, which was more than double the rate at the end of 2005. Moreover, the percentage of Countrywide's loans that were 30-89 days past due demonstrated a clear divergence from the trends of other industry participants, as illustrated in paragraph 315 above. These facts strongly indicate that the strategy of targeting less creditworthy borrowers with high-risk mortgage products and loosened underwriting practices all played a critical role in destabilizing the credit quality of the Company's loan portfolio.

596. As in 2005, the risk factors highlighted above in conjunction with the red flags required KPMG to approach its audit of Countrywide with increased skepticism in the same manner as it was required to do so in 2005 and 2004. KPMG should thus have performed tests similar to those it should have performed in 2005. Among other things, KPMG would then have learned that Countrywide's ALL as a percentage of loans held for investment stayed essentially flat as compared to 2005, at a rate of 0.33%, as illustrated in paragraph 300 above. This static reserve rate was one of a multitude of fraud risks exhibited by Countrywide throughout the years 2004, 2005 and 2006. AAG Ch. 5, Ex. 5-1 ("Rapid growth or unusual profitability, especially compared to that of other peer financial institutions; for example unusually large growth in the loan portfolio without a commensurate increase in the size of the [ALL].").

597. Similarly, KPMG failed to exercise professional skepticism in evaluating MSRs. Despite the significant increase in the level of credit risk that by then had been accumulated by Countrywide, the Company's reported balance of MSRs reflected a $432 million increase in fair value solely derived from modified assumptions applied in its pricing model relating to SFAS 156. However, as illustrated in the table in paragraph 363 above, Countrywide did not significantly modify the fair value assumptions used in its model, which is corroborative of the fact that the Company failed to incorporate the increased

credit risk of its lending strategies in its value determinations (including those used in evaluating the expected costs of servicing those loans) or failed to do so appropriately. As a result, KPMG failed to exercise professional skepticism when auditing management's assumptions to calculate the fair value of its MSRs.

598. In addition to these failures, KPMG failed to exercise professional skepticism when evaluating management's assumptions for purposes of its fair value measurements related to RI. While Countrywide did increase its expectation of net lifetime credit loss from 1.7% in 2005 to 2.6% in 2006, this increase did not reasonably capture total credit-related losses expected as of that time due to the continuing increase in riskier loans, given that this rate continued to be based upon the historical performance of Countrywide's loans. KPMG should have been aware that management was using an incorrect assumption to calculate its RI, because the historical performance of Countrywide's loans was not a reliable indicator of future performance. Indeed, as alleged above, KPMG knew that in 2006 many relevant delinquency trends indicated that credit risk was increasing and Countrywide was unlikely to be able to avoid significant credit losses, particularly on the most subordinated of equity interests in its securitizations.

599. Moreover, KPMG should have examined Countrywide's weighted average life assumption. Had KPMG done so, KPMG would have determined that Countrywide continued to maintain a highly aggressive position with respect to the expected weighted average life of the RI. KPMG should have determined, in consideration of the expected rise in defaults driven by Countrywide's new strategy, that it would have been unreasonable to have presumed that the weighted average life of RI of 2.8 years in 2006 would have been greater than the weighted average life of RI of 2.4 years in 2005. As such, KPMG failed to adhere to applicable GAAS, including AU 230, 316 and 328, and AAG Chs. 5 and 10.

600. In combination with KPMG's knowledge that the Company had embarked on a marketing strategy that significantly increased credit risk, KPMG should have concluded that Countrywide's liability for R&W continued to increase commensurately. In accordance with AU 342, KPMG was required to test management's assumptions used to reserve for breaches in R&W. Default rate is an important assumption. Had KPMG properly tested management's assumptions, KPMG would have determined that in 2006, the Company had assumed more risky loans and the delinquency rate on such loans was skyrocketing, as illustrated in paragraph 313 above. KPMG should have concluded, based upon this red flag, that while Countrywide increased its R&W reserve for 2006, that increase was insufficient in view of the Company's continued origination and securitization of substantial numbers of loans to less creditworthy borrowers with loosened underwriting guidelines, lax or non-existent due diligence and rising delinquencies in such high risk loans.

601. If, in 2006, KPMG had properly performed the procedures set forth above, KPMG would have determined that a "clean opinion" on Countrywide's financial statements would have been false and misleading. Thus, KPMG acted with deliberate recklessness, or, in the alternative, with negligence, in conducting its 2006 audit of Countrywide's financial statements and failed to conduct its audit in accordance with GAAS.

VII. ADDITIONAL FACTS REGARDING THE FAILURE OF THE UNDERWRITER DEFENDANTS TO CONDUCT ADEQUATE DUE DILIGENCE

602. In connection with the registration process and initial sale of the debt and preferred securities alleged in Section VIII.F below, the Underwriter Defendants were obligated to perform reasonable investigations into Countrywide's business and operations to ensure that the statements in the subject registration statements and prospectuses were not materially false and misleading.

In the process of conducting their "due diligence" investigations, the Underwriter Defendants should have exercised a high degree of care and sought to independently verify the Company's representations. This demanding standard governed all of the representations contained in the subject registration statements, including those accounting-related representations in the unaudited interim financial statements incorporated in the registration statements.

603. The Underwriter Defendants did not properly conduct their due diligence reviews, and did not properly disclose risk, despite having full access to Countrywide's records (unlike the public investors in Countrywide securities), and thus falsely and misleadingly presented the subject registration statements and the sale of the subject debt and preferred securities offered to the Plaintiffs and the public.

604. As to the portions of the registration statements involving accounting-related representations in the audited financial statements incorporated therein, the Underwriter Defendants were generally entitled to rely on KPMG's certifications. Such reliance, however, was governed by a standard of reasonableness required of a prudent person, in the respective positions of the Underwriter Defendants, in the management of that person's own property. The mere existence of an audit does not excuse the failure to investigate information obtained in conducting due diligence that would prompt a reasonably prudent underwriter to question the accuracy of the audited financial statements.

605. In performing their due diligence procedures and investigations, the Underwriter Defendants ignored the following "red flags" that required further investigation of the audited financial statements:

(a) Starting in 2003, Countrywide's public announcement that it had implemented a very aggressive firm-wide goal of obtaining 30% market share by 2006-2007 (and the 2004 announced revision of that goal end date to 2008), given that there was a risk that the means designed to achieve that goal would include deterioration of underwriting standards, with implications as to the accuracy of loan loss reserves, MSRs, retained interests, representations and warranties, and the effectiveness of internal controls;

(b) Confirmation of the substantial deterioration of loan origination and underwriting standards as reflected in the underwriting matrices, beginning in 2004;

(c) The substantial number of subprime loans included in securitizations, beginning in 2004, as reflected in the aggregate mean FICO score bands contained in the securitization prospectuses, which the Underwriter Defendants would otherwise be obligated to review, and which a majority of the Underwriter Defendants necessarily reviewed because they acted as underwriters during 2005 and 2006 for certain of Countrywide's Class Period offerings of mortgage-backed securities; in particular, Banc of America Securities, Barclays Capital, Citigroup Global Markets, Countrywide Securities (which underwrote nearly all of the Company's loan securitizations), Deutsche Bank, Greenwich Capital, HSBC, J.P. Morgan Securities, and Morgan Stanley underwrote certain securitizations during 2005 and also acted as underwriters for Countrywide's Series A Medium-Term Notes offered in 2005; these nine Underwriter Defendants, together with BNP Paribas, Goldman Sachs, Merrill Lynch, and UBS Securities, underwrote certain securitizations during 2006 and also acted as underwriters for the Series B Medium-Term Notes (including the 6.25% Notes) offered in 2006; Citigroup Global Markets, J.P. Morgan, Merrill Lynch, UBS Securities, Countrywide Securities, Banc of America Securities; Barclays Capital, Deutsche Bank, Goldman Sachs, and HSBC underwrote certain securitizations during 2006 and also acted as underwriters for the 7% Capital Securities offered in

2006; such review of the securitization prospectuses would have alerted these Underwriter Defendants as to both the materially increased substantial risk that the Company was taking on and its inappropriate classification of high-risk loans as "prime" (a classification that did not vary depending on where the loans were placed by the Company), which also called into question, among other things, the quality of loans held for investment, and therefore the accuracy of the loan loss reserves, as well as the quality of the securitized loans and the financial valuations associated therewith;

(d) The sample loan documentation that the Underwriter Defendants would be required to inspect, which would have revealed that Countrywide was both originating loans to very high-risk borrowers and not performing appropriate levels of due diligence on such loans;

(e) An examination in each year until the end of 2005 of Countrywide's loan composition, which would have shown, beginning in 2003, yearly increases in Nonprime Mortgage Loans, ARMs, and HELOCs (and Pay Option ARMs beginning no later than 2004) by very substantial percentages, revealing (along with other items listed here) that the level of risk that characterized that portfolio was changing by such material amounts that the use of historical information in calculating financial reporting valuations was inappropriate;

(f) An examination of Countrywide's allowance for loan loss reserves as a percentage of loans held for investment, which would have shown it to be fairly static across the Class Period until 2007, during a time when the Company was rapidly producing higher risk loans;

(g) An examination of Countrywide's collateral appraisal procedures, which would have raised serious questions as to their adequacy, including, at least until mid-2005, permitting loan officers at all of Countrywide's origination divisions to hire appraisers of their own choosing, to discard appraisals that did not support loan transactions and to substitute more favorable appraisals by replacement appraisers, thereby raising questions as to the value of collateral used to calculate the adequacy of loan loss reserves, as well as the use of a database, the Field Review List, to blacklist appraisers who did not comply with Countrywide's requests to inflate appraisal values (including failing to engage in due diligence communications with appraisers appearing on the Field Review List);

(h) An examination of the amount of loans that were 90 days or more delinquent, which would have shown that they began to sharply increase as early as 2005, including very substantial increases in defaults of HELOCs and Pay Option ARMs, and that there were, during the equivalent period, increases in loans 30-89 days delinquent that far exceeded the increases reported by all other mortgage lenders, which should also have raised questions as to the static ratio of allowance for loan losses as a percentage of loans held for investment;

(i) An examination of Countrywide's internal controls, which would have led to the discovery of its Exception Processing System, begun in 2005 and used to identify and route highly risky loans out of the regular loan approval process so that they could be approved, notwithstanding the fact that they failed to meet Countrywide's already deteriorating loan origination and underwriting standards, which should have raised questions as to the accuracy of all valuation financial reporting items; and

(j) An examination of Countrywide's accumulated negative amortization on Pay Option ARMs, which would have shown that it grew dramatically from 2004 to 2005, another red flag indicating the increasingly poor quality and extremely high risk of such loans and the need to question the assumptions used in calculating financial reporting valuations.

VIII. DEFENDANTS' MATERIALLY FALSE AND MISLEADING STATEMENTS

A. The Company's False Statements Regarding 2003

606. The Class Period begins on March 12, 2004. That day, Countrywide filed its Annual Report for 2003 with the SEC on Form 10-K (the "2003 Form 10-K"). The report was signed by Defendants Mozilo, Kurland, McLaughlin, Cisneros, Cunningham, Donato, Dougherty, Enis, Heller, King, Melone, Russell, Robertson, and Snyder.

607. The 2003 Form 10-K reported consolidated loan production by loan type. Specifically, prime first mortgage loans equaled $396,934,000,000, prime home equity loans equaled $18,103,000,000, and subprime mortgage loans equaled $19,827,000,000. Subprime mortgages produced equaled 4.6% of the total dollar amount of loans produced at year end.

608. The Company also reported Mortgage Banking loan production by loan type. Mortgage Banking prime home equity loans produced equaled $12,268,000,000, and Mortgage Banking subprime loans produced equaled $15,525,000,000 at year end. Prime home equity loans and subprime loans produced equaled 7.0% of the total Mortgage Banking loans originated at year end.

609. Furthermore, the Company reported that prime and prime home equity loans held for investment equaled $22.0 billion at year end.

610. In a section of the 2003 Form 10-K titled "Secondary Mortgage Market," the Company stated that "[w]e ensure our ongoing access to the secondary mortgage market by ***consistently producing quality mortgages***. . . As

described elsewhere in this document, we have a ***major focus on ensuring the quality of our mortgage loan production . . . .***"

611. In a section of the 2003 Form 10-K titled "Mortgage Credit Risk," the Company described its Credit Policy, portraying it as a tightly controlled and supervised process "designed to produce high quality loans" through a rigorous pre-loan screening procedure and post-loan auditing and appraisal and underwriting reviews:

> Mortgage Credit Risk
>
> Overview
>
> In our mortgage lending activities, ***we manage our credit risk by producing high quality loans*** . . . .
>
> * * *
>
> Loan Quality
>
> Our Credit Policy establishes standards for the determination of acceptable credit risks. Those standards encompass borrower and collateral quality, underwriting guidelines, and loan origination standards and procedures.
>
> Borrower quality includes consideration of the borrower's credit and capacity to pay. We assess credit and capacity to pay through . . . manual or automated underwriting of additional credit characteristics.
>
> * * *
>
> ***Our loan origination standards and procedures are designed to produce high quality loans.*** These standards and procedures encompass underwriter qualifications and authority levels, appraisal review requirements, fraud prevention, funds disbursement controls, training of our employees and on-going review of their work . . . . In addition, we employ proprietary underwriting systems in our loan

> origination process that improve the consistency of underwriting standards, assess collateral adequacy, and help to prevent fraud, while at the same time increasing productivity.
>
> In addition to our pre-funding controls and procedures, we employ an extensive post funding quality control process. Our quality control department, under the direction of the Chief Credit Officer, is responsible for completing comprehensive loan audits that consist of a re-verification of loan documentation, an in depth underwriting and appraisal review, and if necessary, a fraud investigation.

612. Further assuring investors of the veracity of the information contained in the 2003 Form 10-K, the report included SOX certifications signed by Defendants Mozilo and McLaughlin, representing that the "report does not contain any untrue statement of a material fact."

613. During the Class Period, Defendants Mozilo, McLaughlin and Sieracki signed multiple SOX certifications annexed to Countrywide's Form 10-Ks and Form 10-Qs filed with the SEC during the Class Period and attesting to the accuracy of Countrywide's financial statements and the adequacy of the Company's internal controls. These SOX certifications were substantially identical. Representative SOX certifications signed by these Defendants and filed during the Class Period are annexed hereto collectively as Exhibit F.

614. The statements referenced above in the 2003 Form 10-K were materially false and misleading when made. As set forth in greater detail above, management's statements relating to the volume of loans produced, the amount of revenues from the sale of prime loans, and the value of prime loans held for investment were false and misleading because Countrywide misclassified subprime loans as prime loans. See Section IV.D above. Countrywide's statements that it "consistently produce[d] quality mortgages" and that its "loan

origination standards and procedures are designed to produce high quality loans" were false and misleading because Countrywide loosened its underwriting guidelines over the Class Period to increase loan volume without regard to loan quality, and also for the reasons set forth in Section IV.C above. Moreover, the SOX certifications signed by Defendants Mozilo and McLaughlin were false and misleading because the 2003 Form 10-K contained untrue statements of material fact or omits to state material facts necessary to make the statements made not misleading. See Section IV.C and D.

615. Analysts reacted positively to the materially false and misleading statements made in the 2003 Form 10-K. For example, on March 26, 2004, Lehman Brothers issued a report in which it reiterated an overweight rating for Countrywide. "Despite the unlikel[i]hood of any net MSR recovery during the quarter, we expect CFC to earn MORE, which again demonstrates the resiliency of its business model. We reiterate our 1-Overweight rating."

616. On March 26, 2004, Piper Jaffray reiterated its "[o]utperform rating and [stated that they] are raising . . . [the] target price to $135 from $134. . . . We believe CFC is fundamentally well positioned to deliver double-digit long-term earnings growth."

B. The Company's False Statements Regarding 2004 Results

1. First Quarter 2004 Form 8-K

617. On April 21, 2004, Countrywide filed a Form 8-K, signed by Defendant Kurland, attaching a press release that announced the Company's financial results for the first quarter of 2004. In the press release, Countrywide reported gain-on-sale of loans and securities in the amount of $1,358,667,000 for the quarter.

618. The Company's reported gain-on-sale of loans and securities in the April 21, 2004 press release was materially false and misleading when made

because the Company overstated the fair value of its retained interests and MSRs, and also for the same reasons set forth in Sections IV.G.4 and IV.G.5 above.

2. First Quarter 2004 Conference Call

619. On a conference call held later that day to discuss the Company's first quarter 2004 financial results (the "April 21, 2004 Conference Call"), an analyst from Basswood Partners asked Defendant Mozilo if he could explain the functionalities of an adjustable rate mortgage ("ARM"). Mozilo responded that an ARM product "***is a great product, a prime product for the bank***, as long as it fits within the regulatory bounds that are set for the bank."

620. On the same conference call, Defendant Mozilo addressed an analyst's concern about the Company's subprime loans by representing that the Company understood the subprime business better than its competitors:

> I think using what our competitors do as a barometer will put you down the wrong path. ***We are a very different focused company that understands this [subprime] product very well, how to originate it, how to manage it, how to underwrite, how to service it. And so we look at -- the short answer to your question is -- we look at this sub-prime business as a -- one that has to be carefully manage[d] . . . .***

621. On the April 21, 2004 Conference Call, Mozilo also responded to an analyst's question regarding the potential risks from originating non-traditional, riskier loans, such as subprime loans. Mozilo stated that Countrywide had taken a more disciplined approach than its competitors, it was not involved in the "frothy business" that others engaged in, and was properly monitoring subprime risks:

> There is very, very good solid sub-prime business and there is this frothy business that you relate to. And you have to -- when you're doing your analysis, what is the average FICO score of these. Because you can get so deep into this marginal credit that you can have serious problems where you are taking 400 FICOs with no

> documentation; that is dangerous st[u]ff. ***So [I] think it is very important that you understand the disciplines that the Company had, particularly that Countrywide has, which are very strong disciplines in the origination of sub-prime loans. And maintaining that discipline is critically important to us. . . . [W]hen you look at sub-prime, you have to look at it in various tranches, and we are at the high end of that tranche.***

622. Later on the same call, an analyst asked if subprime mortgages would ever be held for investment on Countrywide's books. Defendant Kurland responded that Countrywide did not plan to ever hold subprime mortgages as an investment on its books. Specifically, Kurland stated that: "***[w]e don't intend to maintain as an investment sub-prime mortgages on our balance sheet. . . .*** [T]here is no intention at all to ha[ve] a permanent investment in a pool of sub-prime loans."

623. The statements made by Defendants Mozilo and Kurland on the April 21, 2004 Conference Call were materially false and misleading when made. Specifically, Defendant Mozilo's statement that ARM loans were "prime product[s]" was false and misleading for the same reasons set forth in Section IV.B above. Furthermore, Mozilo's statements "that the Company had . . . very strong disciplines in the origination of sub-prime loans"; "we are a very different company that understands this [subprime] product"; and Countrywide's subprime originations were "at the high end" of the subprime tranche; were false and misleading because Countrywide loosened and abandoned its underwriting practices to increase loan volume without regard to loan quality. See Section IV.C. Further, Mozilo knew that the Company's underwriting policies treated as prime many loans that should have been classified as subprime, by mortgage industry standards. See Section IV.D. Moreover, Defendant Kurland's statement that "[w]e don't intend to maintain as an investment subprime mortgages on our

balance sheet" was misleading because Countrywide assumed subprime risk both on and off its balance sheet since a large part of its asset residuals were derived from subprime loans. Countrywide also maintained off-balance sheet subprime risk through its representations and warranties of subprime loans. See Section IV.B.

624. Several analysts raised their recommendations and earnings estimates for Countrywide as a result of these misrepresentations:

- Raymond James reported on April 22, 2004 that, "[w]e continue to rate the shares Strong Buy based on their modest valuation. . . ."
- Piper Jaffray reported on April 22, 2004 that, "[w]e reiterate our Outperform rating and are raising our price target to $96 from $90." In addition, analysts describe Countrywide as a company that produces "loans [that] are primarily prime credit quality first-lien mortgage loans secured by single-family residences."

3. First Quarter 2004 Form 10-Q

625. On May 7, 2004, Countrywide filed its quarterly report on Form 10-Q for the first quarter of 2004, ended March 31, 2004, signed by Defendants Kurland and McLaughlin. The Company reported revenue for the quarter of $2,214,903,000 and diluted earnings per share of $2.22.

626. In the first quarter 2004 Form 10-Q, the Company stated that its impairment of the fair value of its retained interests equaled $93,415,000.

627. In the "Off-Balance Sheet Arrangements and Guarantees" section of its first quarter 2004 Form 10-Q, Countrywide described the representations and warranties exposure associated with the securitization of its loans as follows: "[m]anagement does not believe that any of its off-balance sheet arrangements have or are reasonably likely to have a current or future material effect on our

financial condition, changes in financial condition, revenues or expenses, results of operations, liquidity, capital expenditures or capital resources."

628. In a section of the Form 10-Q titled "Mortgage Servicing Rights," the Company reported that the fair value of its MSRs for the first quarter of 2004 was $6,406,491,000.

629. The Company reported allowance for loan losses of $93,054,000 at the end of the first quarter of 2004.

630. In the first quarter 2004 Form 10-Q, the Company reported the volume of Mortgage Banking prime home equity and subprime loans produced (which was included in Countrywide's total volume of loans produced). Specifically, Mortgage Banking prime home equity loans produced during the quarter equaled $3,729,000,000. Mortgage Banking subprime loans produced during the quarter equaled $6,048,000,000, and was 8.9% of total Mortgage Banking loan production for the quarter.

631. In the Form 10-Q, Defendants Kurland and McLaughlin described the Company's management of credit risk in the following terms: "[w]e manage mortgage credit risk principally by . . . ***only retaining high credit quality mortgages in our loan portfolio.***"

632. Also, in the section entitled "Controls and Procedures," Countrywide described the adequacy of its internal controls: "There has been no change in our internal control over financial reporting during the quarter ended March 31, 2004 that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting."

633. Further assuring investors of the veracity of the information contained in the Form 10-Q, the report included SOX certifications signed by Defendants Mozilo and McLaughlin, representing that the "report does not contain any untrue statement of a material fact" and "the financial statements, and

other financial information included in this report, fairly present in all material respects the financial condition" of Countrywide.

634. The statements referenced above in Countrywide's first quarter 2004 Form 10-Q were materially false and misleading when made. As set forth in greater detail above, the Company's reported values for its revenue and diluted earning per share were false because the Company's allowance for loan losses and accruals for representations and warranties were understated, and its assessments of fair values for retained interests and MSRs were overstated. See Section IV.G above. Statements related to loan loss reserves, retained interests, MSRs and liabilities related to representations and warranties were false and misleading for the same reasons set forth in Section IV.G above. Also, management's statements regarding the quality and volume of prime home equity and subprime loans originated during the quarter were false and misleading because Countrywide misclassified subprime loans as prime loans. See Section IV.D above. Moreover, management's representation that Countrywide "only retain[ed] high credit quality mortgages in our loan portfolio" was false because Countrywide loosened its underwriting guidelines to increase loan volume without regard to loan quality. See Sections IV.B and IV.C. Defendants Kurland and McLaughlin's statements relating to internal controls were false and misleading for the same reasons set forth in Section IV.G.7. Moreover, the SOX certifications signed by Defendants Mozilo and McLaughlin were false and misleading because the financial statements issued during the Class Period were materially misstated and violated GAAP. See Section IV.G above.

4. Second Quarter 2004 Form 8-K

635. On July 26, 2004, Countrywide filed a Form 8-K signed by Defendant Kurland, attaching a press release that announced the Company's financial results for the second quarter of 2004. In the press release, Defendants Mozilo noted that these results were achieved in a tough environment and that

Countrywide's impressive performance demonstrated its ability to "prudently manage risk."

636. In this Form 8-K, Countrywide reported gain-on-sale of loans and securities in the amount of $1,277,331,000 for the quarter.

637. The statements made by Defendants Mozilo and Kurland in the July 22, 2004 press release were false and misleading. Defendant Mozilo's statements regarding management's ability to "prudently manage risk" were false and misleading for the same reasons set forth in Sections IV.B and IV.C. Moreover, the Company's reported value for gain-on-sale of loans and securities was false and misleading because the Company overstated the fair value of its retained interests and MSRs. See Sections IV.G.4 and IV.G.5.

5. Second Quarter 2004 Conference Call

638. On a conference call held later that day to discuss the Company's second quarter 2004 results (the "July 22, 2004 Conference Call"), Defendant Mozilo answered a question from an analyst at Lehman Brothers regarding Countrywide's provision for loan loss reserves. Mozilo responded with certainty that the Company's reserves were adequate based upon its high credit quality loans:

> First of all in terms of loan losses, loan losses were far below what you would expect to experience in a--this type of a bank . . .[however] ***we have focused on FICOs well above the 700. The average in the portfolio is around 740. . . . [T]he quality of that portfolio and the type of loans that are in there***, which are mortgage loans, assets that we understand very well and know how to service, that--***that we can expect the performance that we're seeing today to continue at a very high level.***

639. On the July 22, 2004 Conference Call, Defendant Mozilo discussed the type of controls that Countrywide had in place at its bank and described them as "very significant" and "extraordinary compliance and controls in place:"

> There's ***very significant controls in place . . .*** this is a very deep area of the [Fed's] concern as it is ours, so we ***have extraordinary compliance and controls in place there.***

640. Defendant Mozilo's statements made during the July 22, 2004 Conference Call were materially false and misleading when made. Specifically, Mozilo's statement that the company's loan loss reserves were adequate because the Company's portfolio purportedly contained high credit quality loans was false and misleading because Defendants failed to account for the increased risk of its mortgage loans. See Sections IV.G.3 and IV.B.2. Additionally, Mozilo's statements touting Countrywide's very significant and extraordinary compliance and internal controls were false and misleading because Countrywide substantially deviated from its underwriting guidelines. See Section IV.G.7.

641. These materially false and misleading statements by Countrywide and the Officer Defendants prompted positive reactions from analysts:

- Raymond James reported on July 23, 2004 that "[w]e continue to rate the shares Strong Buy based on their modest valuation. . . ."
- Piper Jaffray reported on July 23, 2004 that "we continue to recommend that investors purchase shares of Countrywide, which we view as the strongest player in the country's largest consumer market."

6. Second Quarter 2004 Form 10-Q

642. On August 6, 2004, Countrywide filed its quarterly report on Form 10-Q for the second quarter of 2004, ended June 30, 2004, signed by Defendants

Kurland and McLaughlin. The Company reported revenues for the quarter of $2,333,104,000 and diluted earnings per share of $2.24.

643. The Company stated in the Form 10-Q that the impairment of the fair value of its retained interests equaled $178,424,000.

644. In the "Off-Balance Sheet Arrangements and Guarantees" section of the second quarter 2004 Form 10-Q, Countrywide described the representations and warranties exposure associated with the securitization of its loans as follows: "Management does not believe that any of its off-balance sheet arrangements have had or are reasonably likely to have a current or future material effect on our financial condition, changes in financial condition, revenues or expenses, results of operations, liquidity, capital expenditures or capital resources."

645. In a section titled "Mortgage Servicing Rights," the Company reported that the estimated fair value of the MSRs as of June 30, 2004 was $9,200,000,000.

646. The Company reported allowance for loan losses of $105,839,000 as of the end of the second quarter of 2004. Net charge-offs equaled $13,138,000.

647. In the second quarter 2004 Form 10-Q, the Company reported the volume of Mortgage Banking prime home equity and subprime loans produced (which was included in Countrywide's total volume of loans produced). Specifically, Mortgage Banking prime home equity loans originated during the quarter equaled $5,239,000,000. Mortgage Banking subprime loans originated during the quarter equaled $8,132,000,000, and was 9.2% of total Mortgage Banking loan production.

648. Countrywide reported consolidated prime mortgage loans, prime home equity loans and subprime loans held for investment in the amount of $14,015,330,000, $14,818,056,000, and $137,679,000, respectively. Subprime mortgages equaled less than 1% of total mortgage loans held for investment.

649. In the Form 10-Q, the Company described its management of credit risk in the following terms: "[w]e manage mortgage credit risk . . . ***by only retaining high credit quality mortgages in our loan portfolio.***"

650. The Company concluded that there was no change in its internal controls that would affect its financial reporting: "There has been no change in our internal control over financial reporting during the quarter ended June 30, 2004 that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting."

651. Further assuring investors of the veracity of the information contained in the Form 10-Q, the report included SOX certifications signed by Defendants Mozilo and McLaughlin, representing that the "report does not contain any untrue statement of a material fact" and "the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition" of Countrywide.

652. The statements referenced above in Countrywide's second quarter 2004 Form 10-Q were materially false and misleading when made. As set forth in greater detail, the Company's reported revenue and diluted earnings per share were false and misleading because the Company's allowance for loan losses and accruals for representations and warranties were understated, and its assessments of fair values for retained interests and MSRs were overstated. See Section IV.G above. Statements related to loan loss reserves, retained interests, MSRs and liabilities related to representations and warranties were false and misleading for the same reasons set forth in Section IV.G above. Also, the statements in the Form 10-Q regarding the volume of prime home equity and subprime loans originated during the quarter and the quality of loans held for investment were false and misleading because Countrywide misclassified subprime loans as prime loans, and also for the reasons set forth in Section IV.D above. Moreover, the representation that Countrywide "only retain[ed] high credit quality mortgages in

our loan portfolio" was false because Countrywide loosened its underwriting guidelines to increase the volume of loans produced without regard to loan quality. See Sections IV.B and IV.C above. The statements in the Form 10-Q relating to internal controls were false and misleading for the same reasons set forth in Section IV.G.7. Moreover, the SOX certifications signed by Defendants Mozilo and McLaughlin were false and misleading for the same reasons stated in Section IV.G above.

7. Third Quarter 2004 Form 8-K

653. On October 20, 2004, Countrywide filed a Form 8-K, signed by Laura Milleman, Managing Director and Chief Accounting Officer, which attached a press release that announced the Company's financial results for the third quarter of 2004, ended September 30, 2004. In the press release, Defendant Mozilo again highlighted Countrywide's ability to deliver strong results in a tough environment in which interest rates rose by 50 basis points:

> Countrywide's financial results for the quarter -- highlighted by diluted earnings per share of $0.94 -- once again ***demonstrate the strength and resilience of our business model.***

654. In the Form 8-K, Countrywide reported gain-on-sale of loans and securities in the amount of $1,188,812,000 for the quarter.

655. These statements contained in the October 20, 2004 Form 8-K and press release were materially false and misleading when made. Specifically, Defendant Mozilo's statement that the third quarter financial results "demonstrate the strength and resilience of our business model" was false and misleading because Countrywide loosened its underwriting policies and substantially increased its exception processing. See Sections IV.C and IV.G. The Company's reported gain-on-sale of $1,188,812,000 was false and misleading because the Company overstated its assessment of fair value for its retained interests and

MSRs, and also for the same reasons set forth in Sections IV.G.4 and IV.G.5 above.

8. Third Quarter 2004 Conference Call

656. On a conference call held later that same day to discuss the third quarter financial results ("October 20, 2004 Conference Call") in which Defendants Mozilo and Kurland participated, the Company's senior management discussed the third quarter 2004 financial results and fourth quarter 2004 financial outlook. Mozilo touted the high quality loans held in Countrywide's Bank portfolio: "The bank ***continues to focus on portfolio quality as the average FICO is now . . . 732 and the weighted average LTV stands at 80%.***"

657. On the conference call, Jaime Weiss, an analyst with the Bank of Montreal, asked Mozilo to comment on "insider tradings" of Countrywide's stock. Mozilo responded that all of his sales were performed in conformity with a 10b5-1 trading plan:

> My decision has been that ***since I'm 65-years-old to exercise and [sell] on a schedule, irrespective of the market, stock up or down [in accordance with a 10b5-1 plan].*** So, I would attach no meaning to it whatsoever, those in the past that attached a meaning to it, is a big loser. . . . The sell by myself, I think I can speak for Stan, is one of a personal nature and has nothing to do with the Company.

658. Defendant Mozilo's statements on the October 20, 2004 Conference Call were materially false and misleading when made. Specifically, his statement regarding the Company's purported high credit quality loans with an average "FICO [of] . . . 732, and . . . [a] weighted average of LTV . . . at 80%" was false and misleading for the same reasons set forth in Sections IV.B and IV.C. Mozilo's statement that he traded his shares of Countrywide stock "irrespective of the market, stock up or down" was false and misleading for the same reasons set forth in Section V.D discussing his insider sales of Countrywide stock.

659. Analysts, nonetheless, reacted positively to Defendant Mozilo's materially false and misleading statements above. For example, on October 21, 2004, Credit Suisse First Boston issued a report that reiterated its "Outperform" rating. ABN AMRO analysts reiterated on October 21, 2004 their "Overweight" rating with good credit quality. In fact, the analysts rated CFC, SLM Corp. and CIT Group Inc. an "A" for credit quality, with Countrywide ranking first. Moreover, ABN AMRO pointed out that Countrywide originated more loans during the quarter than any of the top three mortgage originators. Specifically, Countrywide's mortgage production volume was $92 billion, Wells Fargo Home Mortgage was $68 billion, and Washington Mutual was $61 billion for the quarter.

660. Further, several other analysts either raised or maintained their stellar recommendations and earnings estimates for Countrywide as a result of Defendants' false and misleading misrepresentations:

- Prudential Equity Group LLC maintained an "Overweight" rating for Countrywide's stock.
- Dresdner Kleinwort Wasserstein Research reported on October 21, 2004 that "Countrywide display[ed] solid credit and interest rate risk management due to its business model. This is largely illustrated in the low credit-risk and high liquidity of its loan production."
- Raymond James issued a report on October 21, 2004 that "[w]e are increasing our 2005 estimate, though, to $4.00. We believe the downside in the stock Wednesday was understandable but overdone, and we rate shares Strong Buy."

9. Third Quarter 2004 Form 10-Q

661. On November 8, 2004, Countrywide filed its quarterly report on Form 10-Q for the third quarter of 2004, ended September 30, 2004, signed by Defendants Kurland and McLaughlin. The Company reported revenues of $2,245,607,000 and diluted earnings per share of $0.94 for the quarter.

662. The Company reported in the Form 10-Q that the recovery of the fair value of its retained interests equaled $162,000.

663. In the "Off-Balance Sheet Arrangements and Guarantees" section of the Form 10-Q, Countrywide described its representations and warranties exposure associated with the securitization of its loans as follows: "[w]e do not believe that any of our off-balance sheet arrangements have had or are reasonably likely to have a current or future material effect on our financial condition, changes in financial condition, revenues or expenses, results of operations, liquidity, capital expenditures or capital resources."

664. In a section of the Form 10-Q titled "Mortgage Servicing Rights," the Company reported that the fair value of the MSRs as of September 30, 2004 was $8,200,000,000.

665. The Company reported allowance for loan losses of $107,765,000 as of the end of the quarter, having increased its provision for loan losses by $48,888,000 and taken net charge-offs of $19,572,000 during the quarter.

666. In the Form 10-Q, the Company reported the volume of Mortgage Banking prime home equity and subprime loans produced (which was included in Countrywide's total volume of loans produced). Specifically, Mortgage Banking prime home equity loans originated during the quarter purportedly equaled $6,421,000,000. Mortgage Banking subprime loans produced during the quarter equaled $9,591,000,000, and was 12.45% of total Mortgage Banking loans originated during the quarter.

667. Further, Countrywide's portfolio of mortgage loans held for investment as of September 30, 2004 consisted of prime mortgages, prime home equity loans and subprime loans, and were reported in the Form 10-Q to amount to $18,821,053,000, $11,113,845,000 and $124,768,000, respectively. Subprime mortgage loans equaled less than 1% of total mortgage loans held for investment.

668. The Company described its management of credit risk in the following terms: "[w]e manage mortgage credit risk principally . . . by ***only retaining high credit quality mortgages in our loan portfolio***."

669. The Company also reported in its third quarter 2004 Form 10-Q that management's review of the Company's disclosure controls and internal controls was "effective:" "There has been no change in our internal control over financial reporting during the quarter ended September 30, 2004 that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting."

670. Further assuring investors of the veracity of the information contained in the Form 10-Q, the report included SOX certifications signed by Defendants Mozilo and McLaughlin, representing that the "report does not contain any untrue statement of a material fact" and "the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition" of Countrywide.

671. The statements contained in the third quarter 2004 Form 10-Q above were materially false and misleading when made. As set forth in greater detail above, the Company's reported values for its revenue and diluted earnings per share were false because the Company's allowance for loan losses and accruals for representations and warranties were understated, and its assessments of fair values for retained interests and MSRs were overstated. See Section IV.G above. Statements related to loan loss reserves, retained interests, MSRs and liabilities related to representations and warranties were false and misleading for the same

reasons set forth in Section IV.G above. Also, the statements regarding the quality and volume of prime home equity and subprime loans originated during the quarter and the quality of loans held for investment were false because the Company misclassified subprime loans as prime loans, and also for the reasons set forth in Section IV.D above. Moreover, the representation that Countrywide "only retain[ed] high credit quality mortgages in our loan portfolio" was false because Countrywide loosened its underwriting guidelines to increase loan volume without regard to loan quality. See Section IV.C above. The statements relating to internal controls were false and misleading for the same reasons set forth in Section IV.G.7. Moreover, the SOX certifications signed by Defendants Mozilo and McLaughlin were false and misleading for the same reasons stated in Section IV.G above.

10. Year End 2004 Form 8-K

672. On February 2, 2005, Countrywide filed a Form 8-K, signed by Laura Milleman, attaching a press release announcing the Company's financial results for the fourth quarter and year ended December 31, 2004. In the press release, Countrywide reported gain-on-sale of loans and securities in the amount of $1,243,964,000 for the fourth quarter of 2004.

673. The Company's reported gain-on-sale was materially false and misleading when made because the Company fraudulently overstated its retained interests and MSRs, and also for the same reasons set forth in Sections IV.G.4 and IV.G.5 above.

11. Year End 2004 Conference Call

674. On the conference call held the same day (the "February 2, 2005 Conference Call"), in which Defendants Mozilo, Kurland and McLaughlin participated, the Company's senior management discussed the fourth quarter and year end 2004 financial results and first quarter 2005 outlook. Defendant Kurland

responded to a question from a Piper Jaffray analyst by emphasizing that Countrywide's strategy had not changed to take on more risk:

> Stan Kurland: ***Our strategy is pretty much the same*** as we have been operating it for. . . .
>
> Bob Napoli - Piper Jaffray – Analyst: The answer is no. There has been no real change to take more risk[?]
>
> Stan Kurland - Countrywide Financial Corporation – President and Chief Operating Officer: ***No, no, no.***

675. On the same conference call, Defendant McLaughlin responded to a question from a Sanford Bernstein analyst and broke out the "volume of subprime loans actually sold" in comparison to the volume of mortgages sold. McLaughlin stated, "[i]n terms of the volume of sales in the fourth quarter, there was 67 billion in prime mortgages sold, roughly 9.4 billion of subprime mortgages sold, and between HELOC and fixed rates, looks like about 7.1 billion was sold."

676. Defendants Kurland's and McLaughlin's statements on the February 2, 2005 Conference Call were materially false and misleading when made. Defendants Kurland's statement that there was no change to Countrywide's strategy to take on more risk was false and misleading because Countrywide loosened its underwriting guidelines to increase loan volume without regard to loan quality. See Sections IV.B and IV.C. Defendant McLaughlin's statement that there "was 67 billion in prime mortgages sold" was false and misleading because Countrywide misclassified its subprime loans as prime loans, and also for the same reasons set forth in Section IV.D.

677. Analysts reacted positively to these materially false and misleading statements. For example, on February 2, 2005, Piper Jaffray analysts issued a

report that reiterated its "Outperform" rating and top pick for 2005 in mortgage finance. An analyst stated:

> [Even though] CFC's stock declined 5.5% following its 4Q04 earnings miss, which was caused by an unexpected net hedging loss. . . . [W]e believe CFC's . . . management ***uses consistent low risk strategies.*** We feel the fundamental strength to the quarter was very strong as CFC exceeded our expectations on production income, bank income and capital markets, and the company continued to gain market share.

678. Further, several other analysts either raised or maintained their stellar recommendations and earnings estimates for Countrywide as a result of Defendants' fraudulent misrepresentations:

- Morgan Stanley reported on February 2, 2005 that they "[r]emain Overweight [on Countrywide] with a new price target of $44[.]"
- Bernstein Research reported on February 3, 2005 that, "[w]hile reported EPS were far below expectations, the shortfall was due to volatility of its servicing hedge, ***rather than any serious operating weakness***, such as weakness in loan pricing, or a swollen G&A ratio . . . "We rate CFC outperform."
- Merrill Lynch reported on February 3, 2005 that "[w]e remain comfortable with CFC's credit profile . . . and reiterate our Overweight investment recommendation and mid-A credit assessment."

12. 2004 Form 10-K

679. On March 15, 2005, Countrywide filed its Annual Report for 2004 with the SEC on Form 10-K (the "2004 Form 10-K"). The report was signed by

Defendants Mozilo, Kurland, McLaughlin, Cisneros, Cunningham, Donato, Dougherty, Enis, Heller, Melone, Parry, Russell, Robertson and Snyder. In it, the Company reported revenues for 2004 of $8,566,627,000 and diluted earnings per share of $3.63.

680. The Company reported in its 2004 Form 10-K, in a section entitled "Valuation of MSRs and Other Retained Interests," that the fair value of the retained interests on the Company's balance sheet as of December 31, 2004 was $1,908,504,000. In addition, the reported impairment of retained interests as of year end 2004 equaled $368,295,000.

681. In the "Off-Balance Sheet Arrangements and Guarantees" section, Countrywide described the representations and warranties exposure associated with the securitization of its loans as follows: "[w]e do not believe that any of our off-balance sheet arrangements have had or are reasonably likely to have a current or future material effect on our financial condition, changes in financial condition, revenues or expenses, results of operations, liquidity, capital expenditures or capital resources."

682. In a section of the 2004 Form 10-K titled "Securitization," the Company also stated the liabilities associated with the risk of representations and warranties "total[ed] $139.9 million."

683. In a section titled "Securitizations," the Company reported that the fair value of its MSRs as of December 31, 2004 was $8,882,917,000, in comparison to December 31, 2003, when fair value of MSRs was reported as $6,909,167,000.

684. The Company reported allowance for loan losses of $125,046,000 as of the end of 2004, having increased its provision for loan losses by $71,775,000 during the year. The Company also claimed net charge-offs of $25,178,000.

685. The Company also reported in its 2004 Form 10-K the volume of loans it originated at year end: prime mortgage loans equaled $292,672,000,000,

prime home equity loans equaled $30,893,000,000, and nonprime mortgage loans equaled $39,441,000,000.

686. In the 2004 Form 10-K, the Company reported the volume of Mortgage Banking prime home equity and subprime loans produced during the year (which was included in Countrywide's total volume of Mortgage Banking Loans produced). Specifically, Mortgage Banking prime home equity loans originated during the year equaled $23,351,000,000. Mortgage Banking nonprime mortgage loans originated during the year equaled $33,481,000,000, and was 10.5% of total Mortgage Banking loans originated for the year end.

687. Countrywide also reported that prime mortgage loans held for investment equaled $22,587,246,000, prime home equity loans held for investment equaled $11,435,792,000, and nonprime loans held for investment equaled $171,592,000, or less than 1% of the total value of prime loans held for investment.

688. The 2004 Form 10-K stated that "[t]he majority of our loan production consists of Prime Mortgage Loans." Specifically, the Company highlighted the quality mortgages that it securitizes and sells to the secondary market:

> We ensure our ongoing access to the secondary mortgage market by ***consistently producing quality mortgages*** . . . . As described elsewhere in this document, ***we have a major focus on ensuring the quality of our mortgage loan production*** . . . .

689. In a section of the Form 10-K titled "Mortgage Credit Risk," the Company described its Credit Policy, portraying it as a tightly controlled and supervised process "designed to produce high quality loans" through a rigorous pre-loan screening procedure and post-loan auditing and appraisal and underwriting reviews:

Loan Quality

Our Credit Policy establishes standards for the determination of acceptable credit risks. Those standards encompass borrower and collateral quality, underwriting guidelines and loan origination standards and procedures.

Borrower quality includes consideration of the borrower's credit and capacity to pay. We assess credit and capacity to pay through . . . manual or automated underwriting of additional credit characteristics.

* * *

Our loan origination standards and procedures are designed to produce high quality loans. These standards and procedures encompass underwriter qualifications and authority levels, appraisal review requirements, fraud prevention, funds disbursement controls, training of our employees and ongoing review of their work. . . . In addition, we employ proprietary underwriting systems in our loan origination process that improve the consistency of underwriting standards, assess collateral adequacy and help to prevent fraud, while at the same time increasing productivity.

In addition to our pre-funding controls and procedures, we employ an extensive post-funding quality control process. Our Quality Control Department, under the direction of the Chief Credit Officer, is responsible for completing comprehensive loan audits that consist of a re-verification of loan documentation, an in-depth underwriting and appraisal review, and if necessary, a fraud investigation.

690. KPMG issued an audit report on management's assessment of the Company's internal control over financial reporting, in accordance with the

standards of the Public Company Accounting Oversight Board. In a report dated March 11, 2005, KPMG stated:

> . . . [T]he consolidated financial statements referred to above present fairly, in all material respects, the financial position of Countrywide Financial Corporation and subsidiaries as of December 31, 2004, and the results of their operations and their cash flows for the year ended December 31, 2004, in conformity with U.S. generally accepted accounting principles. Also in our opinion, the related financial statement schedules, when considered in relation to the basic consolidated financial statements taken as a whole, present fairly, in all material respects, the information set forth therein.

691. Further assuring investors of the veracity of the information contained in the Form 10-K, the report included SOX certifications signed by Defendants Mozilo and McLaughlin, representing that the "report does not contain any untrue statement of a material fact" and "the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition" of Countrywide and that the Company employed internal disclosure controls and procedures that detect "[a]ll significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting" and "[a]ny fraud, whether or not material, that involves management."

692. The statements referenced above in Countrywide's 2004 Form 10-K were materially false and misleading when made. As set forth in greater detail above, the Company's reported revenue and diluted earnings per share were false and misleading because the Company's allowance for loan losses and accruals for representations and warranties were understated, and its assessments of fair values for retained interests and MSRs were overstated. See Section IV.G above. Statements related to loan loss reserves, retained interests, MSRs and liabilities

related to representations and warranties were false and misleading for the same reasons set forth in Section IV.G above. Furthermore, statements relating to the volume of prime and nonprime loans originated and the value of prime loans held for investment were false and misleading because Countrywide misclassified its subprime loans as prime loans and also for the same reasons set forth in Section IV.D above. Moreover, Countrywide's statements that it "consistently produce[d] quality mortgages" and that its "loan origination standards and procedures are designed to produce high quality loans" were false and misleading because Countrywide loosened its underwriting guidelines to increase loan volumes without regard to loan quality. See Section IV.C above. KPMG's unqualified audit opinion was false and misleading for the same reasons stated in Sections IV.G.7 and VI above. Moreover, the SOX certifications signed by Defendants Mozilo and McLaughlin were false and misleading for the same reasons stated in Section IV.G above.

C. The Company's False Statements Regarding 2005 Results

1. March 15, 2005 Piper Jaffray Conference

693. On March 15, 2005, Defendant Mozilo spoke at a financial conference sponsored by Piper Jaffray (the "March 15, 2005 Conference"). On the issue of the credit quality of Countrywide's loans, Mozilo made a statement emphasizing his concern about credit quality in the mortgage industry, generally, but then falsely distinguished Countrywide from the many lenders whose credit practices were beginning to make analysts and investors uneasy:

> The general statement is that I'm deeply concerned about credit quality in the overall industry. I think that the amount of capacity that's been developed for subprime is much greater than the quality of subprime loans available. ***And so they're pushing further down -- as I observe it, they're pushing further down the credit chain into the 500 FICOs and below 550, 540, 530. And as you get down to those***

> ***levels, it becomes very problematic and I don't think there's any amount of money you can charge upfront to cover your losses on those type of loans.***
>
> ***So I'm deeply concerned about everybody going into subprime. . . .***
>
> ***So we've had to remain very disciplined in our subprime efforts. And that's why you don't see massive growth for Countrywide on subprime. We're trying to stay within a category of subprime loans that we know how to manage and manage effectively.***
>
> So I have to separate it. ***The overall industry I am troubled; Countrywide I'm not, because we have remained very disciplined in our origination of subprime loans.***

694. Also, during the March 15, 2005 Conference, Mozilo touted the Company's performance results for 2004 and 2005 as having been accomplished with minimal risk: "Countrywide Bank has grown substantially since its acquisition in May of 2001, leveraging off synergies with the production and servicing sectors to generate assets and liabilities at a very low-cost, ***while producing competitive financial returns at a minimal risk***."

695. Moreover, during the March 15, 2005 Conference, Mozilo responded to an analyst's question regarding the 30% market growth goal that was set by management to be achieved by 2008. Mozilo highlighted that this goal was realistic and Countrywide would not sacrifice its "sound lending" practices to achieve it:

> Your question is 30 percent, is that realistic, the 30 percent goal that we set for ourselves 2008? . . . Is it achievable? ***Absolutely. . . .***

> But I will say this to you, ***that under no circumstances will Countrywide ever sacrifice sound lending and margins for the sake of getting to that 30 percent market share.***

696. Further, Mozilo again emphasized the Company's management of its subprime business, stating that management was very "concerned about the loan-to-value ratio" because those type of loans would be affected first if there is a downturn in the economy and, therefore, the Company must manage them properly:

> ***Obviously, when you're dealing in subprime, you have got to be concerned about the loan-to-value ratio because that's the bottom end of the strata and in the event of a bump in the economy or a burp in the economy, they are affected first. . . .*** Subprime is a business we have been in for over 10 years. We have been through various cycles in those 10 years, and ***I think we have got it properly managed and surrounded.***

697. Defendant Mozilo's statements made at the March 15, 2005 Conference above were materially false and misleading when made. Specifically, Mozilo's statement that "we've had to remain very disciplined in our subprime efforts[,] [a]nd that's why you don't see massive growth for Countrywide on subprime" was false and misleading because Countrywide misclassified its subprime loans as prime loans. See Section IV.D. Also, Mozilo's statements criticizing the Company's peers for "pushing further down . . . the credit chain into the 500 FICOs and below 550, 540, 530" to originate loans, but claiming that Countrywide's practices were different, more conservative and relatively safe as opposed to high risk, were also misleading because Countrywide loosened its underwriting practices to increase its loan volume without regard to loan quality. See Section IV.C above. Moreover, Mozilo's statement that Countrywide was "generat[ing] assets and liabilities at a very low-cost, while producing

competitive financial returns at a minimal risk" was false and misleading for the same reasons set forth in Section IV.C above. Mozilo's statement that "under no circumstances will Countrywide ever sacrifice sound lending and margins for the sake of getting to that 30 percent market share," was also false and misleading because Countrywide loosened and abandoned its underwriting guidelines to boost loan volumes to reach the 30% market share goal. See Sections IV.B and IV.C. Last, Mozilo's statement regarding the prudent management of Countrywide's subprime loan-to-value ratio was false and misleading for the same reasons set forth in Sections IV.B and IV.C above.

2. First Quarter 2004 Amended Form 10-Q/A

698. On April 25, 2005, Countrywide filed an amended quarterly report on Form 10-Q/A for the first fiscal quarter of 2004, ended March 31, 2004, signed by Defendants Kurland and Sieracki. In the Form 10-Q/A, the Company restated reported revenue for the quarter to $1,973,626,000 compared to $2,214,903,000 as previously reported. Diluted earnings per share for the quarter ended March 31, 2004 were restated to $1.75 from $2.22. Gain-on-sale revenues were restated to $1,117,390,000 from $1,358,667,000.

699. These restated results in the Form 10-Q/A above were materially false and misleading when made. As set forth in greater detail above, the Company's reported revenue and diluted earnings per share were false and misleading because the Company's allowance for loan losses and accruals for representations and warranties were understated. The Company's reported gain-on-sale was false and misleading because the Company overstated its assessment of fair value for its retained interests and MSRs, and also for the same reasons set forth in Section IV.G above.

3. First Quarter 2005 Form 8-K

700. On April 26, 2005, Countrywide filed a Form 8-K, signed by Laura Milleman, attaching a press release that announced the Company's financial

results for the first quarter of 2005, ended March 31, 2005. In the press release, Countrywide reported gain-on-sale of loans and securities in the amount of $1,361,788,000 for the quarter.

701. The Company's reported value for its gain-on-sale of loans and securities was materially false and misleading when made because the Company fraudulently overstated the fair value of its retained interests and MSRs, and also for the same reasons set forth in Sections IV.G.4 and IV.G.5 above.

4. First Quarter 2005 Conference Call

702. Later the same day, Countrywide held a conference call (the "April 26, 2005 Conference Call") in which Defendants Mozilo, Sieracki and Kurland discussed the Company's financial results for the first quarter of 2005. Defendant Sieracki responded to a question from an analyst at NWQ Investment Management regarding changes in underwriting policies at Countrywide:

> Mark Patterson - NWQ Investment Management – Analyst: But has there been any changes in the underwriting metrics with the current origination levels or you're expected origination during 2005? In terms of FICO or combined loan-to-value or debt-to-income or any of those kind of underwriting metrics?
>
> Eric Sieracki - Countrywide Financial Corporation - Chief Financial Officer: I think they will remain . . . consistent with the first quarter and most of what we did in 2004. ***We don't see any change in our protocol relative to the volume [of] loans that we're originating.***

703. Further, during the April 26, 2005 Conference Call, Defendants Kurland and Sieracki both responded to a question from a KBW analyst indicating that Countrywide and its Bank originated only high quality pay option ARMs:

> Fred Cannon - KBW – Analyst: . . . are you originating a lot of the pay options ARMs or [is] the bank portfolio at this point in time?
>
> Eric Sieracki - Countrywide Financial Corporation - Chief Financial Officer: A combination. Most of it is not going into the bank, but we are trying to develop protocol and a process for ***delivering greater levels*** to meet the banks growth need.
>
> Stanford Kurland - Countrywide Financial Corporation - President & Chief Operating Officer: ***These*** [pay option ARMS] ***are all high FICO.***

704. Defendants Kurland's and Sieracki's statements made on the April 26, 2005 Conference Call above were materially false and misleading when made. Specifically, Defendant Kurland's statement that Countrywide's pay-option ARMs were "all high FICO" was false and misleading for the same reasons set forth in Sections IV.B.2 and IV.E above. Additionally, Sieracki's statement that Countrywide's "protocol" or "underwriting metric" relative to the volume of loans originated "will remain . . .consistent" was false and misleading because Countrywide loosened its underwriting guidelines to increase the volume of loans originated without regard to loan quality. See Sections IV.B and IV.C above.

705. Several analysts raised or maintained their stellar recommendations and earnings estimates for Countrywide based upon Countrywide's false and misleading statements. For example, on April 27, 2005, analysts at Piper Jaffray maintained their "Outperform" rating and described Countrywide as a mortgage corporation with loans that "are primarily prime credit quality first-lien mortgage loans secured by single-family residences."

706. In addition, several other analysts raised or maintained their stellar recommendations and earnings estimates for Countrywide as follows:

- Merrill Lynch reported on April 26, 2005 that "[w]e reiterate our Buy rating and our $43.00 12-month Price Objective."
- Deutsche Bank reported on April 26, 2005 that, "[w]e are reiterating our Buy rating and our $43 target price."
- Morgan Stanley reported on April 27, 2005 that we "[r]eiterate Overweight on [s]trong 1Q05 [r]esults."

5. First Quarter 2005 Form 10-Q

707. On May 9, 2005, Countrywide filed its Form 10-Q for the first quarter of 2005, ended March 31, 2005, signed by Defendants Kurland and Sieracki. The Company reported revenues for the quarter of $2,404,885,000 and diluted earnings per share of $1.13.

708. The Company reported in the Form 10-Q that the impairment of the fair value of its retained interests equaled $137,070,000.

709. In the "Off-Balance Sheet Arrangements and Guarantees" section of the Form 10-Q, Countrywide described the representations and warranties exposure associated with the securitization of its loans as follows: "[w]e do not believe that any of our off-balance sheet arrangements have had or are reasonably likely to have a current or future material effect on our financial condition, changes in financial condition, revenues or expenses, results of operations, liquidity, capital expenditures or capital resources."

710. The Company reported in the Form 10-Q that the value of its MSRs equaled $9,746,957,000 for the quarter end.

711. The Company reported in the Form 10-Q that allowance for loan losses as of the end of the first quarter equaled $134,916,000.

712. The Company also reported the volume of Mortgage Banking prime home equity and subprime loans produced (which was included in the total

volume of loans produced). Specifically, Mortgage Banking prime home equity loans originated during the quarter equaled $6,619,000,000. Mortgage Banking nonprime mortgage loans originated during the quarter equaled $8,187,000,000, and was 10.4% of total Mortgage Banking loans originated during the quarter.

713. Countrywide also reported that prime mortgage loans held for investment equaled $28,621,141,000, prime home equity loans held for investment equaled $13,425,446,000, and nonprime loans held for investment equaled $179,293,000.

714. The Company described its management of credit risk in the following terms: "[w]e manage mortgage credit risk principally . . . ***by retaining high credit quality mortgages in our loan portfolio.***"

715. The Company also reported in its first quarter 2005 Form 10-Q management's review of the Company's disclosure controls and internal controls:

> There has been no change in our internal control over financial reporting during the quarter ended March 31, 2005 that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting . . . .

716. Further assuring investors of the veracity of the information contained in the Form 10-Q, the report included SOX certifications signed by Defendants Mozilo and Sieracki, representing that the "report does not contain any untrue statement of a material fact" and "the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition" of Countrywide.

717. These statements contained in the first quarter 2005 Form 10-Q above were materially false and misleading when made. As set forth in greater detail above, the Company's reported values for its revenue and diluted earnings per share were false because the Company's allowance for loan losses and accruals for representations and warranties were understated, and its assessments

of fair values for retained interests and MSRs were overstated. See Section IV.G above. Statements related to loan loss reserves, retained interests, MSRs and liabilities related to representations and warranties were false and misleading for the same reasons set forth in Section IV.G above. Also, the statements regarding the quality of the volume of loans produced and loans held for investment were false and misleading because Countrywide misclassified its subprime loans as prime loans, and also for the reasons set forth in Section IV.D above. Moreover, the representation that Countrywide "only retain[ed] high credit quality mortgages in our loan portfolio" was false and misleading because Countrywide loosened its underwriting guidelines to increase loan volume without regard to loan quality. See Section IV.C. The statements relating to internal controls were false and misleading for the same reasons set forth in Section IV.G.7. Moreover, the SOX certifications signed by Defendants Mozilo and Sieracki were false and misleading for the same reasons stated in Section IV.G above.

6. Second Quarter 2004 Amended Form 10-Q/A

718. On May 17, 2005, Countrywide filed an amended quarterly report on Form 10-Q/A for the second quarter of 2004, ended June 30, 2004, signed by Defendants Kurland and Sieracki. The Company restated reported revenues for the quarter as $2,474,746,000, compared with $2,333,104,000 as was previously reported. Diluted earnings per share for the quarter was restated to $2.52 from $2.24, and gain-on-sale revenue was restated to $1,418,973,000 from $1,277,331,000.

719. These restated results were materially false and misleading when made. As set forth in greater detail above, the Company's reported revenue and diluted earnings per share were false and misleading because the Company's allowance for loan losses and accruals for representations and warranties were understated. The Company's reported gain-on-sale was false and misleading because the Company overstated its assessment of fair value for its retained

interests and MSRs, and also for the same reasons set forth in Sections IV.G and IV.C above.

7. Third Quarter 2004 Amended Form 10-Q/A

720. On May 17, 2005, Countrywide also filed an amended quarterly report on Form 10-Q/A for the third quarter of 2004, ended September 30, 2004, signed by Defendants Kurland and Sieracki. Diluted earnings per share for the quarter was restated to $0.80 from $0.94, and gain-on-sale revenue was restated to $1,017,697,000 from $1,188,812,000. The Company restated reported revenues for the quarter as $2,711,618,000, compared with $2,245,607,000 as was previously reported.

721. These restated results were materially false and misleading when made. As set forth in greater detail above, the Company's reported revenue and diluted earnings per share were false and misleading because the Company's allowance for loan losses and accruals for representations and warranties were understated. The Company's reported gain-on-sale was false and misleading because the Company overstated its assessment of fair value for its retained interests and MSRs, and also for the same reasons set forth in Sections IV.G and IV.C above.

8. May 24, 2005 Countrywide Analyst Meeting

722. On May 24, 2005, Defendants Mozilo, Sambol and Kurland and John McMurray, the Company's Chief Credit Officer, participated in the Countrywide Financial Corporation Analyst Meeting (the "May 24, 2005 Meeting"). At the meeting, McMurray stated, without correction or explanation by Defendants Mozilo, Sambol or Kurland, that the Company originated loans that met its credit standards: "[q]uality control . . . is a series of controls that we have post-closing. So what we are looking for there, is to ensure that the loans that we originate have ***both met our credit standards and we[re] underwritten according to those standards.***"

723. During the May 24, 2005 Meeting, an unidentified Countrywide representative touted that Countrywide's loans held for investment are "first rate mortgages" and "high quality loans" and, accordingly, the Company's allowance for loan losses were adequate:

> Well, you know, first of all the bank is investing in . . . ***prime mortgages, primarily HELOCs and some first rate mortgages*** . . . . So, not much on the interest rate risk side. But again, ***very high quality loans*** that have performed historically and we have you know, default models that provide conservative reserves against that book of business.

724. Likewise, during the May 24, 2005 Meeting, Defendant Sambol remarked that credit risks associated with ARM loans were mitigated:

> These risks [associated with ARM loans] are ***mitigated or addressed in part by the different underwriting criteria*** which are applied to these loans relative to those used for traditional fixed-rate agency product such as maybe higher credit scores or lower loan to value ratios, and also importantly, the paradigm in the mortgage market today and with Countrywide in particular, is that the increased risk is priced for in a very granular way.

725. Further, at the May 24, 2005 Meeting, an unidentified Countrywide representative stated that Countrywide had an efficient control environment that allowed the Company to distinguish itself from its peers by having the lowest cost and most effective governance program:

> And I think it's the hallmark for Countrywide [that] . . . we have ***a culture of concern about our operations*** and the enterprise that produces and [has an] ***efficient . . . control environment*** and we are going to continue to build on that and look at the environment that we are in today as one that we can produce a value of proposition. We

can distinguish ourselves as having the lowest cost and most effective governance program and that's what we are working to.

726. During the May 24, 2005 Meeting, Defendant Sambol remarked that credit risks associated with ARMs were mitigated:

> These risks are mitigated or addressed in part by the different underwriting criteria which are applied to these loans relative to those used for traditional fixed-rate agency product ***such as maybe higher credit scores or lower loan to value ratios . . . .***

727. Countrywide's statements at the May 24, 2005 Meeting above were materially false and misleading when made. Specifically, McMurray's statement that Countrywide "ensure[s] that the loans . . . originate[d] have both met our credit standards and we[re] underwritten according to those standards" was false because Countrywide materially loosened its underwriting standards to increase loan volume without regard to loan quality. See Sections IV.B and IV.C. Moreover, the Countrywide representative's statements relating to "conservative" loan loss reserves were false and misleading for the same reasons set forth in Section IV.G.3 above. Further, in an effort to distinguish Countrywide from its peers in the mortgage industry, the statement made by a Countrywide representative that "we have a culture of concern about our operations and the enterprise that produces and [has an] efficient . . . control environment" was false and misleading because the Officer Defendants' assessment of internal controls over financial reporting was ineffective for the reasons set forth in Section IV.G.7. Moreover, Defendant Sambol's statement that credit risks associated with ARMs were mitigated because underwriting guidelines were tightened was false and misleading for the same reasons set forth in Section IV.B above.

9. June 2, 2005 Sanford Bernstein & Co. Strategic Decisions Conference

728. On June 2, 2005, Defendant Mozilo appeared on behalf of Countrywide at the Sanford Bernstein & Co. Strategic Decisions Conference (the "June 2, 2005 Conference"). At the conference, Mozilo touted the Company's operational results for 2005 and acknowledged that Countrywide had some high-risk mortgage products. Mozilo claimed, however, that Countrywide had elevated credit requirements for these high risk loans:

> We acknowledge that some of the products offered today carry higher credit risks than traditional GSE 30-year fixed-rate loans. However, it is important [to] note that ***Countrywide mitigates these risks or addresses them in part by utilizing different underwriting criteria than that is used for traditional fixed-rate product, such as the requirement for higher credit scores*** . . . .

729. Further, at the same conference, Mozilo once again touted the quality of loans held for investment at Countrywide:

> Credit quality of the portfolio remains outstanding with a weighted average ***FICO score that exceeded 730 and a weighted average CLTV loan to value of 80%.***

730. Also, at the June 2, 2005 Conference, Mozilo revised his aggressive goal of 30% market share origination by 2008 and extended it to 2010. However, once again he told investors that Countrywide's profitability would not suffer as a result of the Company's overly aggressive goal: "Questions always asked by you people -- are you going to sacrifice profitability to gain market share? ***The answer you can see for our plans is absolutely not.***"

731. Moreover, at that same conference, Mozilo responded to a question from an unidentified speaker regarding the extent of the exposure that a mortgage

lender would have should there be a correction in the appreciation of housing prices:

> Angelo Mozilo - Countrywide Financial - Chairman, CEO: And I can tell you -- ***values going down do not force people out of their homes and does not force people into -- never has forced them into delinquency ever. It's the loss of jobs.***

732. Defendant Mozilo's statements made during the June 2, 2005 Conference Call above were materially false and misleading when made. Specifically, Mozilo's statement that "Countrywide mitigates … risks or addresses them in part by utilizing different underwriting criteria [for ARM loans] than that is used for traditional fixed-rate product, such as the requirement for higher credit scores" was false and misleading for the same reasons set forth in Sections IV.B and IV.C above. Mozilo's statement that the "credit quality of the portfolio remains outstanding with a weighted average FICO score that exceeded 703 and a weighted average CLTV loan to value of 80%," was false and misleading for the reasons set forth in Sections IV.B and IV.C. Mozilo's statement that Countrywide's profitability would not suffer as a result of its aggressive goal to reach 30% market share by 2010 was false and misleading because Countrywide loosened its underwriting guidelines to increase loan volume without regard to loan quality. See Sections IV.B and IV.C.

10. Second Quarter 2005 Form 8-K

733. On July 26, 2005, the Company filed a Form 8-K, signed by Laura Milleman, attaching a press release that announced the Company's financial results for the second quarter of 2005, ended June 30, 2005. In the July 26, 2005 press release, Countrywide reported gain-on-sale of loans and securities in the amount of $1,145,409,000 for the quarter.

734. Countrywide's statements contained in the July 26, 2005 Form 8-K and press release above were materially false and misleading when made. The

Company's reported gain-on-sale for loans and securities was false and misleading because Countrywide materially overstated the fair value of its residual interests and MSRs, and also for the same reasons stated in Sections IV.G.4 and IV.G.5.

11. Second Quarter 2005 Conference Call

735. On a conference call held later that day (the "July 26, 2005 Conference Call"), in which Defendants Mozilo, Kurland and Sieracki participated, the Company's senior management discussed the second quarter 2005 financial results and the third quarter 2005 financial outlook. Defendant Kurland commented on the quality of loans with prepayment penalties, such as Pay Option ARMs. Kurland stated, "[o]f loans with prepayment penalties, I think another important point was our pay option portfolio . . . ***it is a very high-quality product.***"

736. Similarly, during the July 26, 2005 Conference Call, Defendant Mozilo echoed Kurland's claims, touting the purported high quality of Countrywide's Pay Option ARMs:

> Ken Posner - Morgan Stanley Dean Witter – Analyst: . . . there's a concern and there's been survey data that has documented that, to some extent, less-educated folks, lower-income folks tend to be more trusting of ARM products without necessarily understanding how they actually work. Are there other controls or structures in place to make sure that people aren't [inappropriately marketing the new products]?
>
> Angelo Mozilo - Countrywide Financial Corp. - Chairman, CEO: . . . That product has a FICO score exceeding 700. You don't see the lower end of the economic spectrum with an unsophisticated people with that kind of FICO score. ***So the people that Countrywide is accepting under this program, generally speaking, are of much***

> ***higher quality and they are not of the ilk that you may be seeing someplace else in the country or for some other lender.***

737. Further, on the same call, Defendants Kurland and Mozilo both responded to a question from a Fox-Pitt Kelton analyst about whether Countrywide's lending practices were loosening given that Countywide was originating hybrid ARMs and Pay Option ARMs:

> Angelo Mozilo - Countrywide Financial Corp. - Chairman, CEO: . . . I am not aware of any change of substance in underwriting policies. . . . ***I'm not aware of any loosening of underwriting standards that creates a less of a quality of loan than we did in the past.*** Stan?
>
> Stanford Kurland - Countrywide Financial Corp. - President, COO: . . . [We] ***have not loosened our standards*** relative to what the bank acquires to the extent that we have standards that reflect and pricing that reflects where we are able to deliver loans into the secondary market.

738. Also, when asked whether Countrywide was loosening its underwriting standards, Defendant Mozilo said, "I'm not ***aware of any change of substance in underwriting policies***." In response to a follow-up question, Mozilo added: "***[w]e don't view that we have taken any steps to reduce the quality of our underwriting regimen at all.***"

739. On the same conference call, Defendant Kurland reiterated the high quality of the pay-option adjustable-rate mortgages, ***"[t]he product itself tends to be highest FICO, very good LTV product . . . ."*** Also, Defendant Sieracki touted the credit quality of the home equity mortgages that Countrywide originates: "The credit quality of our home equities should be emphasized here as well. We are 730 FICO on these home equities, and that's extraordinary throughout the industry."

740. Similarly, Defendants Mozilo and Sieracki stated at the July 26, 2005 Conference Call that the Company retains only high credit quality loans and there had been no deterioration of the quality of loans that were originated at Countrywide:

> Barry Cohen - Glenview Capital – Analyst: . . . [C]an you give us a sense of the credit quality in the nonprime mortgage sector and if you have a view of whether the credit quality is stable or potentially -- not potentially -- or worsening?
>
> Angelo Mozilo - Countrywide Financial Corp. - Chairman, CEO: I think it's stable. . . . I do participate every day in originations myself, and it keeps me apprised of what's happening. I think that that situation has stabilized. ***I don't see any deterioration in the quality of those loans being originated.***
>
> Eric Sieracki - Countrywide Financial Corp. - CFO, Treasurer: I would echo those sentiments. We are running over ***80% premier in A. We operate at the very top end of the nonprime credit spectrum. The FICO scores have remained very steady, just over 600.***

741. The statements by Defendants Kurland, Mozilo and Sieracki during the July 26, 2005 Conference Call were materially false and misleading when made. Specifically, Defendant Kurland's statements that Pay Option ARMs are "a very high-quality product" and "highest FICO, very good LTV product" were false and misleading for the same reasons set forth in Sections IV.E and IV.B above. Defendant Mozilo's statement that "the people that Countrywide is accepting under this program [for Pay Option ARMs] . . . are of much higher quality" was false and misleading for the same reasons stated in Sections IV.E and IV.B above. Defendant Sieracki's statements that Countrywide "operate[s] at

the very top end of the nonprime credit spectrum and that the FICO scores have remained very steady, just over 600" were false and misleading for the same reasons set forth above and in Sections IV.B and IV.C. Mozilo's statement that he was "not aware of any loosening of underwriting standards that creates a less . . . quality . . . loan than we did in the past" was also false and misleading because Mozilo knew or was reckless in not knowing that Countrywide severely loosened its underwriting guidelines to originate high risk, poor quality loans. See Section IV.C. Mozilo's statements that he was "not aware of any change of substance in underwriting policies" and that he did not view that the Company had "taken any steps to reduce the quality of our underwriting regimen at all," and Kurland's statement that "we have not loosened our standards," were all false and misleading for the same reasons set forth above and in Sections IV.B and IV.C.

742. Analysts reacted positively to these materially false and misleading statements. For example, on July 26, 2005, analysts at Deutsche Bank "continue[d] to believe that prospects for CFC are bright over the next 12-18 months. We are reiterating our ***Buy*** rating[s] and $43 target price." Deutsche Bank based its views on the representations of the management that "[t]he company has no intention of keeping subprime production on CFC's balance sheet or holding it at Countrywide Bank."

743. Further, several other analysts either raised or maintained their recommendations and earnings estimates for Countrywide as a result of defendants' fraudulent misrepresentations:

- Piper Jaffray reported on July 27, 2005 that "[w]e are maintaining our 2005 and 2006 EPS estimates at $4.15 and $4.50, respectively." "Reiterate Outperform." Also, the analysts described Countrywide as a mortgage lender with loans that are "primarily prime credit quality first-lien mortgage loans secured by single-family residences."

- Lehman Brothers reiterated its Overweight rating for Countywide on July 27, 2005.
- Merrill Lynch reported on July 27, 2005 "***Overweight*** investment recommendation."

12. Second Quarter 2005 Form 10-Q

744. On August 8, 2005, Countrywide filed its quarterly report on Form 10-Q for the second quarter of 2005, ended June 30, 2005, signed by Defendants Kurland and Sieracki. The Company reported revenues for the quarter of $2,307,943,000 and diluted earnings per share of $0.92.

745. The Company also reported that the impairment of the fair value of its retained interests equaled $97,629,000.

746. In the "Off-Balance Sheet Arrangements and Guarantees" section of the Form 10-Q, Countrywide described the representations and warranties exposure associated with the securitization of its loans as follows: "[w]e do not believe that any of our off-balance sheet arrangements have had or are reasonably likely to have a current or future material effect on our financial condition, changes in financial condition, results of operations, liquidity, capital expenditures or capital resources."

747. In a section titled "Securitizations," the Company reported that the fair value of is MSRs as of June 30, 2005 was $9,367,666,000.

748. The Company reported allowance for loan losses of $155,962,000 as of the end of the quarter, having increased its provision for loan losses by only $36,723,000 during the quarter. Net charge-offs equaled $5,807,000.

749. Countrywide reported consolidated mortgage loans held for investment for the quarter ended June 30, 2005, as follows: prime mortgage loans equaled $40,071,009,000, prime home equity loans equaled $15,890,115,000, and subprime loans equaled $235,838,000 or less than 1% of total mortgage loans held for investment.

750. In the Form 10-Q, the Company also reported the volume of Mortgage Banking nonprime mortgage and prime home equity loans produced (which was included in Countrywide's total volume of Mortgage Banking loans produced). Specifically, Mortgage Banking prime home equity loans originated during the quarter equaled $6,875,000,000. Mortgage Banking nonprime mortgage loans originated during the quarter equaled $9,670,000,000, and was 9.5% of the total Mortgage Banking loans produced for the quarter.

751. The Company described its management of credit risk in the following terms: "[w]e manage mortgage credit risk . . . ***by retaining high credit quality mortgages in our loan portfolio.***"

752. The Company also reported in the Form 10-Q management's review of the Company's disclosure controls and internal controls:

> There has been no change in our internal control over financial reporting during the quarter ended June 30, 2005 that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting. . . .

753. Further assuring investors of the veracity of the information contained in the Form 10-Q, the report included SOX certifications signed by Defendants Mozilo and Sieracki, representing that the "report does not contain any untrue statement of a material fact" and "the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition" of Countrywide.

754. The statements contained in the Form 10-Q above were materially false and misleading when made. As set forth in greater detail above, the Company's reported revenue and diluted earnings per share were false and misleading because the Company's allowance for loan losses and accruals for representations and warranties were understated, and its assessments of fair values for retained interests and MSRs were overstated. See Section IV.G above.

Statements related to loan loss reserves, retained interests, MSRs and liabilities related to representations and warranties were false and misleading for the same reasons set forth in Section IV.G above. Also, the statements regarding the quality of the volume of loans produced and loans held for investment were false and misleading because Countrywide misclassified its subprime loans as prime loans, and also for the reasons set forth in Section IV.D above. Moreover, the representation that Countrywide "only retain[ed] high credit quality mortgages in our loan portfolio" was false and misleading because Countrywide severely loosened its underwriting guidelines during the Class Period to increase loan volume without regard to loan quality. See Section IV.C above. The statements relating to internal controls were false and misleading for the same reasons set forth in Section IV.G.7. Moreover, the SOX certifications signed by Defendants Mozilo and McLaughlin were false and misleading for the same reasons stated in Section IV.G above.

13. September 13, 2005 Lehman Brothers Financial Services Conference

755. Defendant Mozilo participated in a conference call with analysts held at Lehman Brothers Financial Services on September 13, 2005 (the "September 13, 2005 Conference Call"). Mozilo praised the Company's ongoing success and accounted for it by claiming that Countrywide properly managed credit risk:

> [A]ll business activities are managed with ongoing safety and soundness of Countrywide as our primary concern. . . . With all business lines the majority of credit risk is sold or transferred to third parties with exposure primarily limited to three areas -- number one, the bank loan portfolio, while sizable at 56 billion, is ***limited to prime quality residential mortgage loans only*** . . . . ***Conservative***

> ***underwriting standards are evidenced by the quality of the portfolio*. . . .”**
>
> Credit risk is also retained primarily from the securitization of prime home equity and nonprime loans. . . . [T]his exposure . . . adds 1.4 billion [and] accounts for less than 1% of total company assets . . . is only 2% of the total amount of loans that have been originated and securitized by Countrywide and are still outstanding. Last is our exposure to rep[resentations] and warranties and all loans originated and sold ***which are primarily prime quality.***

756. Similarly, during the September 13, 2005 Conference Call, Mozilo again touted the high quality of its loans and the conservative underwriting guidelines at the Company:

> From a risk management perspective ***loan underwriting guidelines are conservative and under constant review . . . In regard to pay option loans and interest only loans, each comprise 27% of the portfolio and have an average FICO score above 700.***

757. Defendant Mozilo's statements on the September 13, 2005 Conference Call were materially false and misleading when made. Specifically, Mozilo's statement that Countrywide's "[c]onservative underwriting standards are evidenced by the quality of the portfolio" was false and misleading because Countrywide classified its subprime loans as prime loans, and also for the reasons set forth in Section IV.D above. Mozilo's statement that Pay Option ARMs have an "average FICO score above 700" was false and misleading for the reasons set forth in Sections IV.E and IV.B.2 above.

14. Third Quarter 2005 Form 8-K

758. On October 27, 2005, Countrywide filed a Form 8-K, signed by Laura Milleman, that attached a press release announcing strong growth in the

Company's financial results for the third quarter of 2005, ended September 30, 2005. In the October 27, 2005 press release, Countrywide reported gain-on-sale of loans and securities $1,284,992,000 for the quarter.

759. The Company's reported value of gain-on-sale of loans and securities was materially false and misleading when made because Countrywide materially overstated the fair value of its retained interests and MSRs, and also for the same reasons set forth in Sections IV.G.4 and IV.G.5 above.

15. Third Quarter 2005 Conference Call

760. During a conference call held later the same day (the "October 27, 2005 Conference Call") in which Defendants Mozilo, Kurland and Sieracki participated, the Company's senior management discussed the third quarter 2005 financial results. Mozilo discussed the "high quality" of Countrywide's Pay Option ARMs which purportedly allowed the Company to serve its customers better:

> Pay option ARMs have recently been portrayed negatively. ***But we view this product as enabling us to better serve qualified customers*** looking for a more efficient and flexible way to manage their obligations. It is also an excellent asset for our portfolio, given our mortgage loan origination, servicing and ***risk management competencies. And the prime quality of our pay option borrowers.***
>
> ***. . . Our pay option portfolios have very high credit quality, characterized by high FICO scores, solid loan-to-value ratios, and a low debt-to-income ratios.***

761. Defendant Mozilo's statements that Pay Option ARMs are "prime quality;" "have very high credit quality characterized by high FICO scores, solid loan-to-value ratios;" and "enabl[e] us to better serve qualified customers" were materially false and misleading when made because Pay Option ARMs were very

risky products that were not used to serve "qualified" customers, but rather high-risk borrowers. See Sections IV.E and IV.B.2.

762. Analysts reacted positively to these materially false and misleading statements. For example, on October 27, 2005, analysts at Piper Jaffray stated in a report that "[w]e could be in for a few more challenging quarters in the mortgage industry, but to us, after the smoke clears, CFC is an obvious winner. CFC's current valuation is near trough valuation levels, setting up an excellent risk/reward opportunity for investors." Piper Jaffray reiterated its "Outperform" rating for Countrywide's stock.

763. Further, several other analysts either raised or maintained their stellar recommendations and earnings estimates for Countrywide as a result of defendants' fraudulent misrepresentations:

- Merrill Lynch analysts reported on October 28, 2005 that they "remain[s] Overweight" on Countrywide's stock.
- Credit Suisse First Boston reported on November 8, 2005 "Outperform" for Countrywide.
- Morgan Stanley reported on October 27, 2005 "Overweight" for Countrywide.

16. Third Quarter 2005 Form 10-Q

764. On November 8, 2005, Countrywide filed its quarterly report on Form 10-Q for the third fiscal quarter of 2005, ended September 30, 2005, signed by Defendants Kurland and Sieracki. The Company reported revenues for the quarter of $2,711,618,000 and diluted earnings per share of $1.03.

765. The Company also reported that the impairment of fair value for its retained interests equaled $61,697,000.

766. In the "Off-Balance Sheet Arrangements and Guarantees" section of the third quarter 2005 Form 10-Q, Countrywide described its representations and warranties exposure associated with the securitization of its loans as follows:

"[w]e do not believe that any of our off-balance sheet arrangements have or are reasonably likely to have a current or future material effect on our financial condition, results of operations, liquidity, capital expenditures or capital resources."

767. In a section titled "Securitizations," the Company reported that the fair value of the MSRs as of September 30, 2005 was $11,428,404,000.

768. The Company reported allowance for loan losses for the nine months ended September 30, 2005 of $184,784,000.

769. Countrywide represented in its third quarter 2005 Form 10-Q that it had "a portfolio of mortgage loans held for investment, consisting primarily of Prime Mortgage and Prime Home Equity Loans, which totaled $62.2 billion at September 30, 2005." Specifically, Countrywide reported prime mortgage and prime home equity loans held for investment that equaled $45,664,924,000 and $15,314,508,000, respectively, and nonprime mortgage loans held for investment were reported at $263,973,000, or less than 1% of total mortgage loans held for investment.

770. In the Form 10-Q, Countrywide also reported the volume of Mortgage Banking nonprime and prime home equity loans produced (which was included in Countrywide's total volume of Mortgage Banking loans produced). Specifically, Mortgage Banking prime home equity loans originated during the quarter equaled $10,344,000,000. Mortgage Banking nonprime loans originated during the quarter equaled $11,399,000,000, and was 8.7% of total Mortgage Banking loans originated during the quarter.

771. Moreover, the Company boasted in the Form 10-Q as to the high quality of its loans: The Company "retain[s] high credit quality mortgages in [its] loan portfolio[ ]" and "[o]ur pay-option loan portfolio has [a] very high initial loan quality, with original average credit rating . . . of 720 and original loan-to-value and combined loan-to-values of 74% and 78%, respectively."

772. The Company also reported in the Form 10-Q management's review of the Company's disclosure controls and internal controls: "There has been no change in our internal control over financial reporting during the quarter ended September 30, 2005 that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting. . . ."

773. Further assuring investors of the veracity of the information contained in the third quarter 2005 Form 10-Q, the report included SOX certifications signed by Defendants Mozilo and Sieracki, representing that the "report does not contain any untrue statement of a material fact" and "the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition" of Countrywide.

774. The statements contained in the third quarter 2005 Form 10-Q above were materially false and misleading when made. Specifically, the Company's reported revenue and diluted earnings per share were false and misleading because the Company's allowance for loan losses and accruals for representations and warranties were understated, and its assessments of fair values for retained interests and MSRs were overstated. See Section IV.G above. Statements related to loan loss reserves, retained interests, MSRs and liabilities related to representations and warranties were false and misleading for the same reasons set forth in Section IV.G above. Also, the statements regarding the quality of the volume of loans produced and loans held for investment were false and misleading because Countrywide misclassified its subprime loans as prime loans, and also for the reasons set forth in Section IV.D above. Moreover, the representations that Countrywide "retain[s] high credit quality mortgages in [its] loan portfolio[]" and "[o]ur pay-option loan portfolio has [a] very high initial loan quality, with original average credit rating . . . of 720" were false and misleading because Countrywide severely loosened its underwriting guidelines to increase loan volume without regard to loan quality. See Sections IV.C and IV.E above.

The statements relating to internal controls were false and misleading for the same reasons set forth in Section IV.G.7. Moreover, the SOX certifications signed by Defendants Mozilo and Sieracki were false and misleading for the same reasons stated in Section IV.G above.

17. Year End 2005 Form 8-K

775. On January 31, 2006, Countrywide filed a Form 8-K, signed by Laura Milleman, attaching a press release that announced the Company's financial results for the fourth quarter and year ended December 31, 2005. Countrywide recorded gain-on-sale of loans and securities of $4,861,780,000 for the year ended December 31, 2005.

776. The Company's reported value for its gain-on-sale was materially false and misleading when made because Countrywide materially overstated the fair value of its retained interests and MSRs, and also for the same reasons stated in Sections IV.G.4 and IV.G.5 above.

18. Year End 2005 Conference Call

777. Defendants Mozilo and Sieracki participated on a conference call held later that same day to discuss the Company's 2005 financial results (the "January 31, 2006 Conference Call"). In that call, Defendant Mozilo emphasized the Company's purported "high quality" assets that continued to generate substantial earnings growth:

> The amount of pay option loans in the Bank's portfolio now stands at 26 billion, up from 22 billion last quarter. . . . It's important to note that our ***loan quality remains extremely high.***

778. Mozilo's statement on the January 31, 2006 Conference Call above was materially false and misleading when made because Countrywide loosened and abandoned its underwriting standards to increase the volume of loans originated without regard to quality. See Sections IV.B and IV.C.

779. Analysts reacted positively to Mozilo's materially false and misleading statements above. For example, on February 1, 2006, analysts at Stifel Nicolaus stated in a report:

> [W]e are reiterating our Buy rating on the shares and $48 target price, which represents 9x our 2007 estimate of $5.30. In addition, we are placing the shares of Countrywide Financial Corp. on the Stifel Nicolaus Select List as our Compelling Idea . . . . we favor CFC at current levels as a ***higher quality, lower risk*** way to play our investment thesis.

780. Further, several other analysts either raised or maintained their stellar recommendations and earnings estimates for Countrywide as a result of defendants' fraudulent misrepresentations:

- AG Edwards reported on February 1, 2006 that "[w]e are maintaining our 2006 EPS estimate of $4.15 and reiterating our Buy rating and $41 price objective."
- On February 3, 2006, Citigroup reported that "[w]e continue to view CFC as a cheap growth company which is well positioned during the current 'inflection period' in mortgage finance." In part, Citigroup decision was based upon Countrywide's representations that "the company has experienced immaterial credit losses over its 35 years in the mortgage banking business."
- Credit Suisse reported on February 8, 2006 that it rated Countrywide as "Outperform."

19. 2005 Form 10-K

781. On March 1, 2006, Countrywide filed its Annual Report for 2005 with the SEC on Form 10-K. The report was signed by Defendants Mozilo, Kurland, Sieracki, Brown, Cisneros, Cunningham, Donato, Dougherty, Enis,

Heller, Melone, Parry, Robertson, Russell and Snyder. In the 2005 Form 10-K, the Company reported revenues of $10,016,708,000 and diluted earnings per share of $4.11.

782. In a section of the 2005 Form 10-K titled "Valuation of MSRs and Other Retained Interests," the Company reported that the fair value of the retained interests on the Company's balance sheet as of December 31, 2005 was $2,675,461,000. Further, the Company reported an impairment in the fair value of its retained interests that equaled $364,506,000.

783. In the "Off-Balance Sheet Arrangements and Guarantees" section of the 2005 Form 10-K, Countrywide described the representations and warranties exposure associated with the securitization of its loans as follows: "[w]e do not believe that any of our off-balance sheet arrangements have or are reasonably likely to have a current or future material effect on our financial condition, changes in financial condition, results of operations, liquidity, capital expenditures or capital resources."

784. In a section titled "Credit Risk Management," the Company also reported that the liabilities associated with the risk of representations and warranties "total[ed] $169.8 million."

785. In a section titled "Securitizations," the Company reported that the fair value of its MSRs as of December 31, 2005 was $12,720,755,000, in comparison to $8,882,917,000 as of December 31, 2004.

786. The Company reported allowance for loan losses of $189,201,000 in its 2005 Form 10-K, having increased its provision for loan losses by $115,685,000 during the year. The Company also had net charge-offs of $25,173,000.

787. Countrywide reported in its 2005 Form 10-K that prime mortgages and prime home equity loans held for investment equaled $48,619,590,000 and $14,991,351,000, respectively, and nonprime mortgage loans held for investment

equaled $255,677,000, or less than 1% of total mortgage loans held for investment.

788. In the 2005 Form 10-K, the Company also reported the volume of Mortgage Banking nonprime and prime home equity loans produced (which was included in the total volume of loans produced). Specifically, Mortgage Banking prime home equity loans originated during the year equaled $33,334,000,000. Mortgage Banking nonprime mortgage loans originating during the year equaled $40,089,000,000, and was 9.3% of the total Mortgage Banking loans originated for the year ended.

789. Moreover, the Company stated the following in the 2005 Form 10-K as to the purported high quality of its loans:

> The majority of our loan production consists of Prime Mortgage loans[;] . . . [o]ur pay-option loan portfolio has a relatively high initial loan quality, with original average FICO scores . . . of 720 and original loan-to-value and combined loan-to-values of 75% and 78%, respectively.

790. In a section of the 2005 Form 10-K titled "Mortgage Credit Risk," the Company described its Credit Policy, portraying it as a tightly controlled and supervised process designed to produce "loans [that] are salable in the secondary mortgage market" through a rigorous pre-loan screening procedure and post-loan auditing and appraisal and underwriting reviews:

> **Loan Quality**
>
> Our credit policy establishes standards for the determination of acceptable credit risks. Those standards encompass borrower and collateral quality, underwriting guidelines and loan origination standards and procedures.

> Borrower quality includes consideration of the borrower's credit and capacity to pay. We assess credit and capacity to pay through . . . manual or automated underwriting. . . . Our underwriting guidelines for non-conforming mortgage loans, Prime Home Equity Loans, and Nonprime Mortgage Loans have been designed so that these loans are salable in the secondary mortgage market. We developed these guidelines to meet the requirements of private investors, rating agencies and third-party credit enhancement providers.
>
> These standards and procedures encompass underwriter qualifications and authority levels, appraisal review requirements, fraud controls, funds disbursement controls, training of our employees and ongoing review of their work. . . . We also employ proprietary underwriting systems in our loan origination process that improve the consistency of underwriting standards, assess collateral adequacy and help to prevent fraud, while at the same time increasing productivity.
>
> We supplement our loan origination standards and procedures with a post-funding quality control process. Our Quality Control Department, under the direction of the Chief Credit Officer, is responsible for completing loan audits that may consist of a re-verification of loan documentation, an underwriting and appraisal review, and if necessary, a fraud investigation.

791. Further, Countrywide represented in its 2005 Form 10-K that it managed its credit risk by retaining high credit quality mortgages: "[w]e manage mortgage credit risk . . . by ***retaining high credit quality mortgages in our loan portfolio.***"

792. KPMG issued an audit report on management's assessment of the Company's internal control over financial reporting, in accordance with the standards of the Public Company Accounting Oversight Board. In a report dated February 27, 2006, KPMG stated:

> We conducted our audit in accordance with the standards of the Public Company Accounting Oversight Board (United States). In our opinion, management's assessment that the Company maintained effective internal control over financial reporting as of December 31, 2005, is fairly stated, in all material respects, based on criteria established in Internal Control—Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). . . . We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the consolidated balance sheets of Countrywide Financial Corporation and subsidiaries as of December 31, 2005 and 2004, and . . . expressed an unqualified opinion on those consolidated financial statements.

793. Further assuring investors of the veracity of the information contained in the Form 10-K, the report included SOX certifications signed by Defendants Mozilo and Sieracki, representing that the "report does not contain any untrue statement of a material fact" and "the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition" of Countrywide and that the Company employed internal disclosure controls and procedures that detect "[a]ll significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting" and "[a]ny fraud, whether or not material, that involves management."

794. The statements referenced above in Countrywide's 2005 Form 10-K were materially false and misleading when made. As set forth in greater detail

above, the Company's reported revenue and diluted earnings per share were false and misleading because the Company's allowance for loan losses and accruals for representations and warranties were understated, and its assessments of fair values for retained interests and MSRs were overstated. See Section IV.G above. Statements related to loan loss reserves, retained interests, MSRs and liabilities related to representations and warranties were false and misleading for the same reasons set forth in Section IV.G above. Further, the statements relating to the volume of prime home equity and nonprime loans produced and the value of prime loans held for investment were false and misleading because Countrywide misclassified subprime loans as prime loans to inflate volumes of prime loans, and for the same reasons set forth in Section IV.D. Moreover, the statements that Countrywide "retain[ed] high credit quality mortgages in our loan portfolio" and that its loan origination standards and procedures were designed to produce "loans [that] are salable in the secondary mortgage market" and "[o]ur pay-option loan portfolio has a relatively high initial loan quality, with original average FICO scores . . . of 720" were false and misleading because Countrywide severely loosened and abandoned its underwriting practices to boost loan volume without regard for loan quality. See Sections IV.C and IV.E above. Defendant KPMG's 2005 unqualified audit opinion report and assessment of management's internal controls was false and misleading for the same reasons stated in Sections IV.G.7 and VI above. Moreover, the SOX certifications signed by Defendants Mozilo and Sieracki were false and misleading for the same reasons stated in Section IV.G above.

20. March 30, 2006 Countrywide Equity Investors Forum

795. On March 30, 2006, Countrywide hosted a Financial Equity Investors Forum (the "March 30, 2006 Conference") in which Defendants Mozilo, Kurland, Sambol, Sieracki, and Garcia participated. Defendant Sambol commented on the Company's culture. He stated that while the Company focuses

on competition offensively, at the same time it was "supplemented by a strong defense" or otherwise strong internal control:

> We're extremely competitive in terms of our desire to win, and we have a particular focus on offense, which at the same time is supplemented by a strong defense as well, meaning that we have an intense and ongoing focus on share growth while at the same time ***maintaining a very strong internal control environment and what we believe is best-of-class governance. . . . [O]ur culture is also characterized by a very high degree of ethics and integrity in everything that we do.***

796. At the March 30, 2006 Conference, Garcia responded to a question from an audience member inquiring whether or not the Company properly reserved for loan losses. Garcia responded that Countrywide properly reserved for loan losses because of the very high quality of the loans that Countrywide originated:

> Unidentified Audience Member: Carlos, can you talk a little bit about your credit expectations and your bank portfolio and also your reserve methodology and how would you answer critics who feel that you're under-reserving in that portfolio, given the amount of pay option ARMs and I[nterest] O[nly] [mortgage loans]?
>
> Carlos Garcia - Countrywide Financial - EMD and Chief of Banking: . . . the pay options that we're originating are very ***high-quality pay options***, both in terms of FICO and LTV, as well as other credit attributes that we look at. . . . Also, our pay option reduction is originated through the Countrywide['s] channels and is a ***beneficiary of strong underwriting*** . . . . So we think we understand the risk very well. . . .

* * *

In terms of our reserves and charge-offs, I would have you look at our charge-off experience and relate it to our reserves. Our reserves are around 18 basis points and our charge-off experience is something like in the neighborhood of two to three basis points. And so there's a multiples of the charge-off experience in the reserve, we have reserved not based on our historical experience, because we've been growing a new book, so we've looked at all of these different scenarios and ***made many conservative assumptions and based our [loan loss] reserves on that.***

797. Defendant Mozilo also spoke during the Conference about his ownership and sales of Countrywide's stock. Mozilo claimed that he sold his Countrywide stock pursuant to a 10b5-1 plan and "had no control over it":

Lisa Riordan – Countrywide Financial - EVP Investor Relations: Great. Some people feel that insider ownership is a little low. Can you comment on this?

Angelo Mozilo – Countrywide Financial - Chairman and CEO: . . . Now, in my case, I own about a quarter of a [billion] [shares]. I don't know what the scope of what you think is wealthy, but I own about 250 some-odd [m]illion, 260 [m]illion, if I can read that right, between the stock and options that I hold and small amount of incentive stock, which I just think has just vested. And the only thing -- I've not sold any shares for years. . . . ***But in recent years I've sold no stock and I have no intention of selling any stock***.

The only thing I've sold are options that are expiring. And I have a group that you've seen, those of you that follow, have seen me sell a

> certain amount of shares every week that's under a [10b5-1 plan] ***so I have no control over it.*** And I think the last exploration is either May or June of this year and I have options in the outer years. So ***I've only sold those that I've been compelled to sell because I really believe in this company***, I believe we're just at the threshold of our greatness.

798. The statements made during the March 30, 2006 Conference above were materially false and misleading when made. Defendant Sambol's statements that the Company had "a very strong internal control environment" and that management had a "very high degree of ethics and integrity" were false and misleading because Countrywide's internal controls over financial reporting were ineffective. See Section IV.G.7. Defendant Garcia's statement that the Company's loan loss reserves were proper because its Bank pay-option ARM loans were "very high-quality pay options both in terms of FICO and LTV" was false for the reasons set forth in Sections IV.G.1 and IV.E above. Defendant Mozilo's statement that he sold his Countrywide stock pursuant to a 10b5-1 plan and "had no control over it" was false for the reasons set forth in Section V above.

799. Analysts reacted positively to Countrywide's materially false and misleading statements. For example, on March 31, 2006, Citigroup analysts reiterated a "Buy" rating for Countrywide's shares based in part on management's false "upbeat assessment of CFC's positioning & growth prospects during the current mortgage downturn [at the investor forum]."

D. The Company's False Statements Regarding 2006 Results

1. First Quarter 2006 Form 8-K

800. On April 27, 2006, Countrywide filed a Form 8-K, signed by Laura Milleman, attaching a press release that announced the Company's financial results for the first quarter of 2006, ended March 31, 2006. The Company

reported a slight decrease in year-over-year earnings. In the press release, Mozilo attributed the decrease to an increasingly challenging environment.

801. Countrywide reported gain-on-sale of loans and securities of $1,361,178,000 for the quarter.

802. Countrywide's statements contained in the April 27, 2006 Form 8-K and press release were false and misleading. Mozilo's statement that the decrease in the Company's earnings was due to a "challenging environment" was false and misleading for the reasons set forth in Sections IV.B and IV.C. Specifically, the Company's reported gain-on-sale was false because the Company materially overstated the fair value of its retained interests and MSRs. See Sections IV.G.4 and IV.G.5.

2. First Quarter 2006 Conference Call

803. On a conference call held later that same day ("April 27, 2006 Conference Call"), in which Defendant Mozilo, Sieracki, Kurland and Garcia participated, the Company's senior management discussed the first quarter 2006 financial results and the financial outlook for the second quarter of 2006. Specifically, Defendant Mozilo emphasized that even with challenges in the mortgage industry, the Company still increased profitability while also increasing its loan loss provision by $44 million:

> For the first quarter of 2006, the Company also experienced a $44 million increase in the consolidated provision for loan losses. ***This increase was primarily a result of growth and seasoning of the investment loan portfolio***.

804. During the April 27, 2006 Conference Call, Mozilo highlighted the purported quality of the Company's Pay Option ARM loans:

> It's important to note that ***our pay option loan quality remains extremely high.*** Original CLTVs and original loan to values are 78%

and 75% respectively. Average FICO scores on the pay option portfolio are over 720.

805. The statements made during the April 27, 2006 Conference Call above were materially false and misleading when made. Specifically, Defendant Mozilo's statement regarding the reasons why Countrywide increased its loan loss provision by $44 million was false and misleading for the reasons set forth in Section IV.G.1 above. Mozilo's statements that Countrywide's "pay option loan quality remains extremely high" and its "[a]verage FICO scores on the pay option portfolio are over 720" were false and misleading for the same reasons set forth in Sections IV.E and IV.B.2 above.

806. Analysts reacted positively to these materially false and misleading statements. For example, on May 1, 2006, Merrill Lynch analysts reiterated a "Buy" rating for Countrywide stock. Their opinion was based in part on Countrywide's credit reserves in the first quarter. Specifically, Merrill Lynch analysts reported that, "CFC provisioned for $63M in credit losses in Q1'06, meaningfully higher than the $24M in Q4'05, though ***credit appears quite strong.***"

807. Further, several other analysts either raised or maintained their stellar recommendations and earnings estimates for Countrywide as a result of Countrywide's misrepresentations:

- AG Edwards reported on April 27, 2006 that "[w]e are raising our 2006 and 2007 EPS estimates by $0.20 each to $4.50 and $4.90, respectively. We remain bullish on CFC. . . ."
- Credit Suisse First Boston rated Countrywide "Outperform" on May 3, 2006.
- Morgan Stanley rated Countrywide as "Overweight" on May 10, 2006.

3. First Quarter 2006 Form 10-Q

808. On May 10, 2006, Countrywide filed its quarterly report on Form 10-Q for the first fiscal quarter of 2006, ended March 31, 2006, signed by Defendants Kurland and Sieracki. The Company reported revenues for the quarter of $2,835,948,000, and diluted earnings per share of $1.10.

809. The Company reported that the impairment of the fair value of its retained interest for the quarter equaled $120,654,000.

810. In the "Off-Balance Sheet Arrangements and Guarantees" section of the Form 10-Q, Countrywide described the representations and warranties exposure associated with the securitization of its loans, as follows: "We do not believe that any of our off-balance sheet arrangements have, or are reasonably likely to have, a current or future material effect on our financial condition, results of operations, liquidity, capital expenditures or capital resources."

811. In a section titled "Credit Risk Management," the Company reported the liabilities associated with the risk of representations and warranties that "totaled $271.9 million at March 31, 2006 . . . ."

812. In a section titled "Securitizations," the Company reported that the fair value of its MSRs was $14,171,804,000 as of March 31, 2006.

813. The Company reported allowance for loan losses of $172,271,000 as of March 31, 2006. The Company also allocated $37,927,000 from the quarter's beginning balance to other assets. Also, net charges-offs equaled $28,494,000.

814. Countrywide also reported loans held for investment, as follows: prime mortgages and prime home equity loans held for investment equaled $53,463,593,000 and $14,963,131,000, respectively. Nonprime mortgage loans held for investment equaled $324,040,000, or less than 1% of total mortgage loans held for investment.

815. In the Form 10-Q, the Company also reported the volume of Mortgage Banking nonprime and prime home equity loans produced (which was

included in the total Mortgage Banking volume of loans produced for the quarter-ended). Mortgage Banking prime home equity loans originated during the quarter equaled $9,528,000,000. Mortgage Banking nonprime mortgage loans originated during the quarter equaled $8,099,000,000, and was 8.7% of the total Mortgage Banking loans originated.

816. Moreover, in the Form 10-Q, the Company touted the high quality of its loans:

> "[W]e have a portfolio of mortgage loans held for investment, consisting ***primarily of Prime Mortgage and Prime Home Equity Loans . . .*** " and "[w]e view [pay option adjustable rate] loans as a profitable product that does not create disproportionate credit risk. Our pay-option loan portfolio has ***very high initial loan quality, with original average FICO scores (a measure of credit rating) of 721 and original loan-to-value and combined loan-to-values of 75% and 78%, respectively.***"

817. With respect to management's review of the Company's disclosure controls and internal controls, it reported: "There has been no change in our internal control over financial reporting during the quarter ended March 31, 2006 that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting."

818. Further assuring investors of the veracity of the information contained in the Form 10-Q, the report included SOX certifications signed by Defendants Mozilo and Sieracki, representing that the "report does not contain any untrue statement of a material fact" and "the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition" of Countrywide.

819. The statements contained in the first quarter 2006 Form 10-Q above were materially false and misleading when made. Specifically, the Company's

reported revenue and diluted earnings per share were false and misleading because the Company's allowance for loan losses and accruals for representations and warranties were understated, and its assessments of fair values for retained interests and MSRs were overstated. See Section IV.G above. Statements related to loan loss reserves, retained interests, MSRs and liabilities related to representations and warranties were false and misleading for the same reasons set forth in Section IV.G above. Also, management's statements regarding the quality of the volume of loans produced and loans held for investment were false and misleading because the Company misclassified subprime loans as prime loans, and also for the reasons set forth in Section IV.D above. Moreover, the representations that Countrywide "view[s] [Pay Option ARM] loans as a profitable product [with] very high initial loan quality" and "portfolio of mortgage loans held for investment, consisting primarily of Prime Mortgage and Prime Home Equity Loans" were false and misleading because Countrywide loosened and abandoned its underwriting guidelines to increase loan volume without regard to loan quality. See Sections IV.E, IV.D and IV.C. The statements relating to internal controls were false and misleading because Countrywide's internal controls over financial reporting were ineffective. See Section IV.G.7. Moreover, the SOX certifications signed by Defendants Mozilo and Sieracki were false and misleading for the same reasons stated in Section IV.G above.

4. May 17, 2006 American Financial Services Association Finance Industry Conference for Fixed Income Investors

820. On May 17, 2006, Countrywide participated in the American Financial Services Association's Finance Industry Conference for Fixed Income Investors ("May 17, 2006 Conference"). At the conference, Vincent Breitenbach, Countrywide's Managing Director of Treasury Finance, discussed the Company's

credit risk management and emphasized that Countrywide limited its credit risk by underwriting loans with "strong FICO scores":

> [W]e do have a very healthy conservative approach to credit. . . . We talked about some of the metrics that we look at while underwriting credit. ***We want strong FICO scores, we want high down payments or low LT[V]s.***

821. At the May 17, 2006 Conference, Breitenbach described the type of borrowers that Countrywide targeted for ARM loans in order to maintain high credit quality:

> In our view the most important risk associated with th[e] [pay-option ARM] product . . . is to ensure that the borrower is not using that optionality just get in the house. . . . The type of customer we're looking for is someone who is a salesperson who may have some variability in their monthly pay, an investment banker who has 11 months of reasonably good pay and then hopefully has one really good month when he gets a bonus. We have a lot of ***fairly rich people*** in there who are looking at this product as an arbitrage opportunity. If you can borrow money against a $2 or $3 million house at 3, 4, 5%, then you can go out and invest in the market at a significantly greater rate. People we use -- ***some rich people at least*** -- will use this as an arbitrage type of a vehicle. So these are the type of customers that we're looking for.

822. At the May 17, 2006 Conference, Breitenbach also stated that Countrywide guarded against having subprime loans in its portfolio at the Bank:

> The way that we guard against not having sub-prime people in our portfolio is a couple of different things. First of all the FICO scores would indicate to us that from a historical perspective, this guy is showing the ability and the propensity to pay on time with ***a 727***

> ***average FICO score.*** And by the way, ***the dispersion around that mean is pretty tight.*** Again, ***we're not trying to fool you*** and we're certainly not going to fool ourselves by putting in a bunch of lower quality borrowers into the portfolio.

823. The statements referenced above during the May 17, 2006 Conference Call were materially false and misleading when made. Importantly, after the call, the Officer Defendants did not issue corrections to any of Breitenbach's statements. Specifically, Breitenbach's statements that the Company has "a very healthy conservative approach to credit" and that the Company "want[s] strong FICO scores" and "low LT[V]s" were false and misleading because Countrywide severely loosened and eventually abandoned its underwriting standards to increase loan volume without regard to loan quality. See Sections IV.B and IV.C. In addition, Breitenbach's statements relating to borrowers who are "fairly rich" and sophisticated for the Company's Pay Option ARMs were misleading for the same reasons set forth in Sections IV.E and IV.B.2 above. Lastly, Breitenbach's statement that Countrywide "guards against not having sub-prime people in our portfolio" at the Bank was false and misleading for the same reasons set forth in Sections IV.C and IV.B above.

5. Second Quarter 2006 Form 8-K

824. On July 25, 2006, Countrywide filed a Form 8-K, signed by Laura Milleman, attaching a press release that announced the Company's financial results for the second quarter of 2006, ended June 30, 2006. In the press release, Countrywide reported gain-on-sale of loans and securities in the amount of $1,527,450,000 for the quarter.

825. The Company's reported gain-on-sale revenue was materially false and misleading when made because the Company overstated its retained interests and MSRs. See Sections IV.G.4 and IV.G.5.

6. Second Quarter 2006 Conference Call

826. There was a conference call held later the same day ("July 25, 2006 Conference Call") in which Defendants Mozilo, Sieracki, Kurland and Garcia participated, during which the Company's senior management discussed the second quarter 2006 financial results. An analyst from Bear Stearns asked Defendant Mozilo about real estate appraisal values and whether Countrywide used internal or external appraisers. In response, Mozilo touted the quality of the Company's appraisers, stating that Countrywide has very high quality internal and external appraisers:

> Well, we have a panel of appraisers, approved appraisers, that work through LandSafe. . . . We do have internal appraisers to review the work of outside appraisers, so the answer to both is yes. ***Again, we'll only use our own approved appraisers, and that panel is screened very carefully from time to time to make sure that we're getting rid of the bad ones and we're only putting in good ones.***

827. Defendant Mozilo's statement that Countrywide "get[s] rid of the bad [appraisers] and we're only putting in good ones" was materially false and misleading when made for the reasons set forth in Section IV.C above.

828. Analysts reacted positively to the Company's materially false and misleading statements. For example, on July 25, 2006, analysts at Citigroup rated Countrywide's stock a "Buy" with "Medium risk."

829. Further, several other analysts either raised or maintained their stellar recommendations and earnings estimates for Countrywide as a result of its misrepresentations:

- Morgan Stanley reported on July 25, 2006 that they "[m]aintain buy rating and $45 price target."

- Stifel Nicolaus reported on July 26, 2006 that "we continue to believe CFC is well positioned to grow through the more challenging mortgage environment ahead."
- On July 26, 2006, Piper Jaffray reported that "[we are] still very comfortable with CFC's credit quality . . . [w]e reiterate our Outperform rating and our $62 target."

7. Second Quarter 2006 Form 10-Q

830. On August 7, 2006, Countrywide filed its quarterly report on Form 10-Q for the second fiscal quarter of 2006, ended June 30, 2006, signed by Defendants Kurland and Sieracki. The Company reported revenues for the quarter of $3,000,216,000 and diluted earnings per share of $1.15.

831. The Company reported that the recovery of fair value for its retained interests equaled $51,498,000.

832. In the "Off-Balance Sheet Arrangements and Guarantees" section of the Form 10-Q, Countrywide described the representations and warranties exposure associated with the securitization of its loans, as follows: "We do not believe that any of our off-balance sheet arrangements have had, or are reasonably likely to have, a current or future material effect on our financial condition, results of operations, liquidity, capital expenditures or capital resources."

833. Countrywide also represented that it assumed risk with its representations and warranties when it underwrote loans to the secondary market. Management stated that: "[t]he liability associated with this risk totaled $307.6 million at June 30, 2006 and $169.8 million at December 31, 2005."

834. In a section titled "Securitizations," the Company reported that the fair value of the MSRs at June 30, 2006 was $15,320,575,000.

835. The Company's reported allowance for loan losses for the six months ended June 30, 2006 of $183,581,000.

836. Countrywide reported mortgages held for investment in the second quarter 2006 Form 10-Q. Prime mortgage loans and prime home equity loans equaled $55,433,612,000 and $19,081,303,000, respectively. Nonprime mortgage loans held for investment equaled $9,290,000, or less than 1% of total mortgage loans held for investment.

837. The volume of Mortgage Banking loans originated for the quarter by mortgage loan type, was reported as follows: prime, prime home equity, and nonprime loans amounted to $82,229,000,000, $10,171,000,000, and $11,235,000,000, respectively.

838. Moreover, the Company made a representation in the Form 10-Q as to the purported high quality of its loans:

> "[W]e have a portfolio of mortgage loans held for investment, ***consisting primarily of Prime Mortgage and Prime Home Equity Loans . . .*** " and "[o]ur pay-option investment loan portfolio borrowers had, at the time the loans were originated, average FICO scores (a measure of borrower creditworthiness) of 721 and original loan-to-value and combined loan-to-values of 75% and 78%, respectively."

839. The Company also reported management's review of the Company's disclosure controls and internal controls: "There has been no change in our internal control over financial reporting during the quarter ended June 30, 2006 that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting."

840. Further assuring investors of the veracity of the information contained in the Form 10-Q, the report included SOX certifications signed by Defendants Mozilo and Sieracki representing that the "report does not contain any untrue statement of a material fact" and "the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition" of Countrywide.

841. The statements contained in the second quarter 2006 Form 10-Q were materially false and misleading when made. Specifically, the Company's reported values for its revenue and diluted earnings per share were false and misleading because the Company's allowance for loan losses and accruals for representations and warranties were understated, and its assessments of fair values for retained interests and MSRs were overstated. See Section IV.G above. Statements related to loan loss reserves, retained interests, MSRs and liabilities related to representations and warranties were false and misleading for the same reasons set forth in Section IV.G above. Also, management's statements regarding the quality of the volume of loans produced and loans held for investment were also false and misleading because Countrywide misclassified its subprime loans as prime loans, and also for the reasons set forth in Section IV.D above. Moreover, the representations that "[o]ur pay-option investment loan portfolio borrowers [had] . . . average FICO scores . . . of 721" and "[our] portfolio of mortgage loans held for investment, consist[ed] primarily of Prime Mortgage and Prime Home Equity Loans" were false and misleading because the Company loosened and abandoned its underwriting practices to increase loan volume without regard to loan quality. See Sections IV.E, IV.B.2, IV.D and IV.C. The statements relating to internal controls were false and misleading because the Company's internal controls over financial reporting were ineffective. See Section IV.G.7. Moreover, the SOX certifications signed by Defendants Mozilo and Sieracki were false and misleading for the same reasons stated in Section IV.G above.

8. September 12, 2006 Equity Investors Forum

842. On September 12, 2006, Countrywide held an Equity Investor Forum (the "September 12, 2006 Conference") in which Defendants Mozilo, Sambol and Sieracki participated. Jim Furash, Countrywide's Senior Managing Director and President of Countrywide Bank, emphasized numerous times during the

conference, without correction or explanation by Mozilo, Sambol or Sieracki, the "high quality" of loans that are held by Countrywide's Bank:

> [W]e have built a very large, fast growing, and very efficient deposit franchise that has enabled Countrywide to invest in a ***top quality mortgage origination***. . . . But essentially our model is investing in ***very low-risk assets today***, and a very low net interest margin.
>
> * * *
>
> ***[I]incredibly strong asset quality at the bank.*** I'd like to emphasize again the large, tangible, high quality balance sheet that we build. . . . ***A very strong portfolio. . . .*** So we're very pleased with the credit decisions that we're making and the returns that we are receiving as a result of those decisions.

843. Furash also discussed the Company's loan loss reserves, touting that the Company "continue[s] to build . . . reserves in anticipation of any potential threats":

> Obviously the bank's total footings and earnings have been growing substantially over the last years, ***but we've been able to match that growth with our growth and our loan loss reserve.*** So even though we are growing our balance sheet very quickly, ***we continue to build our reserves in anticipation of any potential threats that we see in the portfolio. And again I'm very proud of that ability to maintain this loan loss reserve growth while maintaining our earnings productivity*** that I mentioned earlier. Again today our loan loss reserve's about $163 million dollars, 21 basis points on assets and that's up three basis points over the last quarter alone I believe.

844. The statements referenced above during the September 12, 2006 Conference Call were materially false and misleading when made. Specifically, Furash's statement that "Countrywide invests in [ ] top quality mortgage

origination . . . in low risk assets" was false and misleading because Countrywide loosened and abandoned its underwriting guidelines during the Class Period. See Sections IV.B.2 and IV.C. Further, Furash's statement that "we continue to build our [loan loss] reserves in anticipation of any potential threats" was false and misleading for the reasons stated in Section IV.G.3 above.

9. September 13, 2006 Fixed Income Investor Forum

845. On September 13, 2006, Countrywide Financial hosted a Fixed Income Investor Forum ("September 13, 2006 Conference") in which Defendants Mozilo, Sambol and Sieracki participated. At the conference, Mozilo touted the Company's prudent lending practices as an industry role model:

> Not only did we drive efficiency in the marketplace, but as an industry leader ***we served as a role model to others in terms of responsible lending.***
>
> We take seriously the role of a responsible lender for all of our constituencies. . . . ***To help protect our bond holder customers, we engage in prudent underwriting guidelines*** . . . .

846. Mozilo also emphasized Countrywide's minor position in non-prime loans:

> Similarly if the pricing gets tough in a particular product category, we can back off just as we did with non-prime. ***It's only 9% of our production today***, at one point 30%, whereas for monoline non-prime lenders irrational pricing limits their options.

847. At the same conference, an AIG analyst asked Mozilo about a recent *Wall Street Journal* article that compared securitized mortgage-backed security delinquency rates at Countrywide to Washington Mutual ("WaMu"). Mozilo responded by praising Countrywide and its underwriting practices:

> One . . . theory that is held by most debt holders is that we continuously have . . . the contingent liability on anything we shoot to securitize, ***irrespective of the fact that it's clear in the documents that we do not.*** But that we would maintain responsibility and maintain our integrity and reputation is a theory that has not held together and it's not real. ***There's no way that that's going to happen because the most important thing to us is the integrity of our company, the financial integrity.***

848. At the September 13, 2006 Conference, Defendant Sambol responded to a question regarding the growth of prime and subprime mortgage loans at Countrywide by claiming that the Company did not heavily participate in subprime loans:

> ***Our profile in the subprime market has been one where we have, for the most part, been on the sidelines. . . .*** And subprime however, particularly in the third-party channels, the wholesale channel we are in the bottom half of the top 10. And the reason for that is that -- is that that market we view to have been subject to some irrational conduct.
>
> So, we view the pricing to be somewhat irrational. We view what's happened on the credit front to be very liberal. ***And so, we opted not to fully participate, and it's for that reason you haven't seen growth in subprime volume*** as maybe the subprime industry has grown.

849. At the same conference, an audience member asked if Countrywide should consider reducing its capital base because the Company grew so fast, and such high growth rates are likely unsustainable. Defendant Sieracki responded by emphasizing that the growth rate at Countrywide was not synonymous with its

risk appetite and that Countrywide's risk appetite has not changed to assume high risk assets:

> ***We're the last ones to think that we should be aggressive and take high risk, there's no change in our risk appetite here***, we're simply perfecting and refining our capital structure and making sure the excess capital doesn't get out of line. We're talking about equity neutral transactions with hybrid securities, so it's really a matter of refining, perfecting and optimizing our capital structure. . . . ***So I don't want anybody to get the impression that there's been a change in our risk appetite or that we're going to do anything aggressive here.***

850. At the same conference, Furash discussed the adequacy of Countrywide's loan loss reserves:

> Despite the significant asset growth we've been able to outpace that growth in our loan portfolio with the growth in our reserve. So again I want to emphasize that ***we reserve a very conservative amount based on our expected losses***, and we've been able to outpace our asset growth with our growth in our loan loss reserve provision. ***So management and myself feel very comfortable that we are well reserved for all sorts of economic cycles that we can be***.

851. The statements referenced above, made during the September 13, 2006 Conference Call, were materially false and misleading when made. Defendant Mozilo's statements that "we served as a role model to others in terms of responsible lending," and that "we engage in prudent underwriting guidelines," were false and misleading because Countrywide loosened and abandoned its underwriting guidelines during the Class Period. See Sections IV.B and IV.C. Further, Mozilo's statement that subprime loans only consist of "9% of [Countrywide's] production today" was false and misleading for the reasons set

forth in Section IV.C above. Specifically, subprime loans were being classified as prime loans due to a combination of weakening underwriting standards, exception processing of its loans and managerial policies that encourage quantity of loans, not quality. This resulted in a deterioration in the creditworthiness of Countrywide's portfolio over the Class Period and an increase in subprime loans. Defendant Sambol's statement that "[o]ur profile in the subprime market has been one where . . . [we are] on the sidelines" and we "opted not to fully participate . . . in subprime" were false and misleading for the reasons set forth in Section IV.C. Additionally, Defendant Mozilo's statement that the "most important thing to [management] is the [financial] integrity of the company" was false and misleading for the reasons stated herein and set forth in Sections IV.G.7 and IV.C. Defendant Sieracki's statements that there has been no "change in our risk appetite" and "that we're [not] going to do anything aggressive here" were false for the same reasons set forth in Sections IV.B and IV.C above. Likewise, Furash's statement that "we reserve a very conservative amount [for loan losses] based upon our expected loss" was false and misleading because the Company manipulated its earning by taking inadequate allowances for loan losses. See Section IV.G.1.

852. Analysts reacted positively to Countrywide's materially false and misleading statements above. For example, on September 13, 2006, analysts at Credit Suisse rated Countrywide's stock "Outperform." Analysts at Credit Suisse based their opinion upon management's false assurances and concluded that "[c]redit quality remains sound at Countrywide, generally better than management's initial expectations. CLTVs, FICOs and delinquency trends of its $34.2 billion Option ARM portfolio have remained stable over the past three years. Countrywide has been selling subprime residuals to further reduce credit risk."

853. In addition, Fox-Pitt Kelton analysts retained a positive outlook on Countrywide's stock. Fox-Pitt analysts reported on September 13, 2006 that "[w]e [r]emain [p]ositive [o]n CFC [d]espite [t]he [c]hallenging [e]nvironment[.]"

10. Third Quarter 2006 Form 8-K

854. On October 24, 2006, Countrywide filed a Form 8-K, signed by Laura Milleman, attaching a press release which announced the Company's financial results for the third quarter of 2006, ended September 20, 2006. In the press release, Countrywide reported gain-on-sale of loans and securities of $1,166,000,000 for the quarter.

855. The Company's reported gain-on-sale was materially false and misleading when made because Countrywide overstated the fair value for its retained interests and MSRs. See Sections IV.G.4 and IV.G.5 above.

11. Third Quarter 2006 Conference Call

856. Later the same day, Countrywide's senior management held a conference call (the "October 24, 2006 Conference Call") in which Defendants Mozilo, Sambol, Sieracki and Garcia participated and discussed the Company's financial results for the third quarter of 2006 and the fourth quarter and year end outlook. Specifically, Mozilo emphasized that the Company's asset valuation reserves and loan loss reserves were appropriate for the increase in delinquencies that occurred:

> The year-over-year ***increase in delinquencies and foreclosures are primarily the result of portfolio seasoning, product mix, and changing economic and housing market conditions. . . .*** The Company believes its asset valuation reserves credit losses are appropriate for the increases in delinquencies.
>
> * * *
>
> The loan loss provision was $28 million in the third quarter of 2006, a decrease of $45 million in the third quarter of 2005. . . . The

> allowance for loan losses was $180 million at September 30, 2006, as compared to $107 million at September 30, 2005. . . . ***The increase in delinquencies was in line with manager's expectations*** and primarily reflects the seasoning of the bank's loan portfolio.

857. Defendant Mozilo's statements that "the Company's asset valuation reserves [for] credit losses are appropriate" and Mozilo's statement that "the increase in delinquencies was in line with management's expectations" were false and misleading for the reasons set forth in Section IV.G above.

858. Analysts reacted positively to these materially false and misleading statements above. For example, on October 24, 2006, analysts at Piper Jaffray rated Countrywide's stock "Outperform" with low volatility. Their opinion was based, in part, on Countrywide's "credit quality [being] . . . in line with expectations. . . ."

859. Further, several other analysts either raised or maintained their stellar recommendations and earnings estimates for Countrywide as a result of Defendants' fraudulent misrepresentations above:

- Fox-Pitt, Kelton reported on October 24, 2006 that, "[w]e rate CFC at Outperform and expect this company to be one of the best equipped to weather the housing storm of competition, shrinking market and regulatory scrutiny."
- Morgan Stanley rated Countrywide "Overweight" on October 24, 2006.
- Citigroup rated Countrywide as a "Buy" and stated on October 25, 2006 that "[c]redit was fine – in-line w/mgmt exp[ectations] as the portfolio seasons."

12. Third Quarter 2006 Form 10-Q

860. On November 7, 2006, Countrywide filed its quarterly report on Form 10-Q for the third quarter of 2006, ended September 30, 2006, signed by

Defendants Sambol and Sieracki. The Company reported revenues for the quarter of $2,822,495,000, and diluted earnings per share of $1.03.

861. The Company reported in the Form 10-Q that the impairment of its retained interests equaled $141,857,000.

862. In the "Off-Balance Sheet Arrangements and Guarantees" section of the third quarter 2006 Form 10-Q, Countrywide described the representations and warranties exposure associated with the securitization of its loans as follows: "We do not believe that any of our off-balance sheet arrangements have had, or are reasonably likely to have, a current or future material effect on our financial condition, results of operations, liquidity, capital expenditures or capital resources."

863. The Company also reported the amount of credit risk it assumed as a result of its representations and warranties of its mortgage loans: "The liability associated with this risk totaled $303.5 million at September 30, 2006. . . ."

864. In a section of the Form 10-Q titled "Securitizations," the Company reported that the fair value of the MSRs at September 30, 2006 was $15,018,415,000.

865. The Company reported allowance for loan losses of $207,987,000, having increased its provision for loan losses by $37,996,000 during the quarter.

866. Countrywide reported prime mortgage and prime home equity loans held for investment that amounted to $55,486,886,000 and $19,625,354,000, respectively. In addition, nonprime mortgage loans held for investment equaled $25,823,000, or less than 1% of total mortgage loans held for investment.

867. The volume of Mortgage Banking prime, prime home equity and nonprime loans originated during the quarter equaled $87,713,000,000, $9,203,000,000, and $9,336,000,000, respectively.

868. Moreover, the Company represented as to the high quality of its loans, "we have a portfolio of mortgage loans held for investment, consisting

primarily of Prime Mortgage and Prime Home Equity Loans. . . . " and "[o]ur pay-option investment loan portfolio borrowers had, at the time the loans were originated, ***average FICO scores (a measure of borrower creditworthiness) of 721 and original loan-to-value and combined loan-to-values of 75% and 78%, respectively.***"

869. The Company described its management of credit risk in the following terms:

> We manage mortgage credit risk by underwriting our mortgage loan production to secondary market standards and by limiting credit recourse to Countrywide in our loan sales and securitization transactions. ***We also manage credit risk in our investment loan portfolio by retaining high credit quality loans***, through pricing strategies designed to compensate for the risk. . . .

870. The Company also reported management's review of the Company's disclosure controls and internal controls: "There has been no change in our internal control over financial reporting during the quarter ended September 30, 2006 that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting. . . ."

871. Further assuring investors of the veracity of the information contained in the Form 10-Q, the report included SOX certifications signed by Defendants Mozilo and Sieracki, which represented that the "report does not contain any untrue statement of a material fact" and "the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition" of Countrywide.

872. The statements contained in the third quarter 2006 Form 10-Q were materially false and misleading when made. Specifically, the Company's reported revenue and diluted earnings per share were false and misleading because the Company's allowance for loan losses and accruals for representations

and warranties were understated, and its assessments of fair values for retained interests and MSRs were overstated. See Section IV.G above. Statements related to loan loss reserves, retained interests, MSRs and liabilities related to representations and warranties were false and misleading for the same reasons set forth in Section IV.G above. Also, the statements regarding the quality of the volume of loans originated and loans held for investment were false and misleading because Countrywide misclassified subprime loans as prime loans, and also for the reasons set forth in Section IV.D above. Moreover, the representations that "[o]ur pay-option investment loan portfolio [had an] . . . average FICO score[] . . . of 721"; "[the Company's] portfolio of mortgage loans held for investment consist[s] primarily of Prime Mortgage and Prime Home Equity Loans" and "[w]e also manage credit risk in our investment loan portfolio by retaining high credit quality loans" were false and misleading because Countrywide loosened its underwriting standards to increase loan volume without regard to loan quality. See Sections IV.E, IV.B.2, IV.D and IV.C. The statements relating to internal controls were false and misleading because the Company's internal controls over financial reporting were ineffective. See Section IV.G.7. Moreover, the SOX certifications signed by Defendants Mozilo and Sieracki were false and misleading for the same reasons stated in Section IV.G above.

13. Year End 2006 Form 8-K

873. On January 30, 2007, Countrywide filed a Form 8-K, signed by Laura Milleman, attaching a press release that announced "record" earnings for 2006, driven by strong fourth quarter results. Countrywide reported gain-on-sale of loans and securities that equaled $1,419,318,000 for the quarter ended December 31, 2006, and $5,681,847,000 for the year.

874. The Company's reported value for its gain-on-sale was materially false and misleading when made because the Company overstated the fair value of its retained interests and MSRs. See Sections IV.G.4 and IV.G.5 above.

14. Year End 2006 Conference Call

875. Later that same day, Countrywide held a conference call discussing the fourth quarter and year-end 2006 financial and operational results ("January 30, 2007 Conference Call") in which Defendants Mozilo, Sambol, Sieracki and Garcia participated. A Merrill Lynch analyst asked Mozilo why Countrywide was adding so many credit enhancements to the Bank's portfolio. Mozilo responded that the Company was doing its best to expand its loan loss reserves to the "maximum" in one form or another above what GAAP required:

> Ken Bruce - Merrill Lynch – Analyst: Okay. And I noticed you were adding quite a bit of credit enhancement to the bank portfolio. Is that just a reflection of that same cautious approach to what credit is doing today?
>
> Angelo Mozilo - Countrywide Financial Corp. - Chairman, CEO: ***Yes, GAAP has its limitations on that issue and we are doing our best to expand our reserves in one form or another.*** And obviously you have cash reserves and the other is that you discount the assets and the third is that you can get pool insurance or MI insurance on the assets. ***We've I think exercised ourselves to the maximum in that regard and will continue to do so, by the way, throughout 2007***. . . .

876. At the January 30, 2007 Conference Call, Mozilo responded to a question from an analyst at Piper Jaffray regarding current trends in the subprime market by stating that the subprime industry was going to be severely hit because of the decreased quality of borrowers. Nonetheless, Mozilo represented that this

would not have a material impact on Countrywide because the Company had backed away from the subprime area due to its concerns over credit quality:

> You notice that in both the wholesale channel as well as our consumer channel that our volumes were lower on a market share basis. We picked it up on the correspondent. ***And it was because we backed away from the sub prime area because of our concern over credit quality. And I think you're seeing the results of that with those competitors who took that product when we backed away.***
>
> So I think there's a couple -- one is you're seeing two or three a day, there's probably 40 or 50 a day throughout the country going down in one form or another. And I expect that to continue throughout the year. I think that sub prime is going to be severely hit primarily because the sub prime business was a business of you take inferior credit but you'd have, you'd require superior equity. And so people had to make a substantial down payment or if they had marginal credit.
>
> Well, that all disappeared in the last couple of years and you get a 100% loan with marginal credit and that doesn't work and so -- particularly if they have any kind of bumps like we have now in the deterioration of real estate values because people can't get out.

877. The statements referenced above during the January 30, 2007 Conference Call were materially false and misleading when made. Defendant Mozilo's statement that the Company was adding additional insurance to protect against loan default to "exercise[ ] ourselves to the maximum"; and that "GAAP has its limitations . . . [reserving for loan losses] and we are doing our best to expand our reserves in one form or another" above what GAAP requires were

false and misleading for the same reasons set forth in Section IV.G.3 above. Also, Mozilo's statement that Countrywide "backed away from the sub prime area because of our concern over credit quality" was false and misleading because Countrywide was misclassifying subprime loans as prime loans, and also for the reasons set forth in Sections IV.D and IV.C above.

878. Analysts reacted positively to the Company's materially false and misleading statements above. For example, on February 2, 2007, analysts at Citigroup rated Countrywide's shares a "Buy" with "Medium Risk."

879. Further, several other analysts either raised or maintained their stellar recommendations and earnings estimates for Countrywide as a result of the Company's fraudulent misrepresentations:

- On January 31, 2007, Piper Jaffray maintained its "Outperform" rating for Countrywide. Analysts stated that "[c]redit quality, while weakening, is still very respectable. . . ."
- On January 31, 2007, Merrill Lynch reiterated "Buy" for Countrywide stock and raised its price target to $50. "Q4'06 results were generally viewed as a positive by the market . . . and the GOS margins were stronger than expected."
- Rapid Rating reported on January 31, 2007 that Countrywide's credit outlook is positive. "[T]he company is a moderate to low risk and somewhat subject to fluctuations in market conditions, and that its assets are of very good quality."

15. 2006 Form 10-K

880. On March 1, 2007, Countrywide filed its Annual Report for 2006 with the SEC on Form 10-K. The report was signed by Defendants Mozilo, Sieracki, Milleman, Brown, Cisneros, Cunningham, Donato, Dougherty, Melone,

Parry, Russell, Robertson and Snyder. The Company reported revenues of $11,417,128,000, and diluted earnings per share of $4.30 for 2006.

881. In a section titled "Valuation of MSRs and Other Retained Interests," the Company reported that the fair value of the retained interests on its balance sheet as of December 31, 2006 was $3,040,575,000. Further, the Company reported that the impairment in the fair value of its retained interests equaled $73,677,000 for the fourth quarter and $284.7 million for the year.

882. In the "Off-Balance Sheet Arrangements and Guarantees" section of the 2006 Form 10-K, Countrywide described the representations and warranties exposure associated with the securitization of its loans, as follows: "[w]e do not believe that any of our off-balance sheet arrangements have had, or are reasonably likely to have, a current or future material effect on our financial condition, results of operations, liquidity, capital expenditures or capital resources."

883. In a section titled "Credit Risk Management", the Company also reported the liabilities associated with the risk of representation and warranties "total[ed] $390.2 million."

884. Moreover, the 2006 Form 10-K stated that "contractual liability arises only when . . . representations and warranties are breached." Countrywide also stated that it "attempt[s] to limit our risk of incurring these losses by structuring our operations to ***ensure consistent production of quality mortgages*** . . . ."

885. The Company further reported in a section titled "Securitizations," that the fair value of its MSRs as of December 31, 2006 was $16,172,064,000.

886. The Company reported allowance for loan losses of $261,054,000 as of the end of 2006. The Company also had net charge-offs of $156,841,000. The Company stated that "allowances and provisions for credit losses are adequate pursuant to generally accepted accounting principles."

887. Countrywide also made representations concerning the purported high quality of its portfolio and the purportedly sufficient allowances and provision for loan losses in its 2006 Form 10-K:

> "The increase in [the Company's] . . . allowance for loan losses reflects prevailing real estate market and economic conditions and the seasoning of the Bank's investment loan portfolio. We expect the allowance for loan losses to increase, both in absolute terms and as a percentage of our loan portfolio as our loan portfolio continues to season and as current market conditions develop. However, ***we believe that our investment criteria have provided us with a high quality investment portfolio and that our credit losses should stay within acceptable levels. We also believe our allowances and provisions for credit losses are adequate pursuant to generally accepted accounting principles.***"

888. Countrywide reported prime mortgages and prime home equity loans held for investment in the amounts of $230,139,000 and $56,029,000, respectively. Nonprime mortgage loans held for investment amounted to $55,262,000, or less than 1% of total mortgage loans held for investment.

889. In the 2006 Form 10-K, the Company reported that the volume of Mortgage Banking nonprime, prime home equity and prime loans originated during the year equaled $36,752,000,000, $39,962,000,000, and $344,370,000,000, respectively.

890. Countrywide reported in its 2006 Form 10-K its high credit rating and strategy to continue to produce high quality mortgages to the secondary market:

> Our strategy is to ensure our ongoing access to the secondary mortgage market by ***consistently producing quality mortgages*** and

> servicing those mortgages at levels that meet or exceed secondary mortgage market standards.
>
> Moreover, the Company represented in its 10-K as to the purported high quality of its loans: "[t]he ***majority of our loan production consists of Prime Mortgage loans.***"

891. In a section of the Form 10-K titled "Mortgage Credit Risk," the Company described its Credit Policy, portraying it as a tightly controlled and supervised process with a rigorous pre-loan screening procedure, post-loan auditing, appraisal, and underwriting reviews:

> **Loan Quality**
>
> Our credit policy establishes standards for the determination of acceptable credit risks. Those standards encompass borrower and collateral quality, underwriting guidelines and loan origination standards and procedures.
>
> Borrower quality includes consideration of the borrower's credit and capacity to pay. We assess credit and capacity to pay through . . . manual or automated underwriting. . . . Our underwriting guidelines for non-conforming mortgage loans, Prime Home Equity Loans, and Nonprime Mortgage Loans have been designed so that these loans are salable in the secondary mortgage market. We developed these guidelines to meet the requirements of private investors, rating agencies and third-party credit enhancement providers.
>
> These standards and procedures encompass underwriter qualifications and authority levels, appraisal review requirements, fraud controls, funds disbursement controls, training of our employees and ongoing

> review of their work. . . . We supplement our loan origination standards and procedures with a post-funding quality control process. Our Quality Control Department is responsible for completing loan audits that may consist of a re-verification of loan documentation, an underwriting and appraisal review, and, if necessary, a fraud investigation.

892. KPMG included in the 2006 Form 10-K an audit report on management's assessment of the Company's internal control over financial reporting, in accordance with the standards of the Public Company Accounting Oversight Board. In its report dated February 28, 2007, KPMG stated:

> In our opinion, management's assessment that the Company maintained effective internal control over financial reporting as of December 31, 2006, is fairly stated, in all material respects, based on criteria established in Internal Control—Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). . . . and our report dated February 28, 2007, expressed an unqualified opinion on those consolidated financial statements.

893. Further assuring investors of the veracity of the information contained in the Form 10-K, the report included SOX certifications signed by Defendants Mozilo and Sieracki, representing that the "report does not contain any untrue statement of a material fact" and "the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition" of Countrywide and that the Company employed internal disclosure controls and procedures that detect "[a]ll significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting" and "[a]ny fraud, whether or not material, that involves management."

894. The statements referenced above in Countrywide's 2006 Form 10-K were materially false and misleading when made. As set forth in greater detail above, the Company's reported revenue and diluted earnings per share were false and misleading because the Company's allowance for loan losses and accruals for representations and warranties were understated, and its assessments of fair values for retained interests and MSRs were overstated. See Section IV.G above. Statements related to loan loss reserves, retained interests, MSRs and liabilities related to representations and warranties were false and misleading for the same reasons set forth in Section IV.G above. Furthermore, the statements relating to the volume of prime loans produced and the value of prime loans held for investment were all false and misleading because Countrywide misclassified subprime loans as prime loans, and also for the same reasons stated in Section IV.D above. Moreover, Countrywide's statements that it "consistently produc[ed] quality mortgages" and that its loan origination standards and procedures are designed to produce "loans [that] are salable in the secondary mortgage market" and "[t]he majority of our loan production consists of Prime Mortgage loans" were false and misleading because Countrywide loosened and abandoned its underwriting practices to increase loan volume without regard to loan quality. See Sections IV.C and IV.D above. KPMG's 2006 unqualified audit opinion report and assessment of management's internal controls was false and misleading for the same reasons stated in Sections VI and IV.G.7 above. Moreover, the SOX certifications signed by Defendants Mozilo and Sieracki were false and misleading for the same reasons stated in Section IV.G above.

E. The Company's False Statements Regarding 2007 Results Before the Truth Begins to Emerge

1. March 6, 2007 Raymond James Institutional Investor Conference

895. On March 6, 2007, after some of Countrywide's competitors began having problems because of their lending practices, Defendant Sieracki, speaking

at a Raymond James Institutional Investor Conference, made further false and misleading statements about Countrywide's access to liquidity. Sieracki acknowledged the critical importance of liquidity in his remarks. In particular, he noted that: "Liquidity is a huge issue. Not all of these models [a reference to the business models of various Countrywide competitors in the lending industry] are going to be able to fund themselves and you are going to see some of these companies go out of business."

896. Later during the same conference, Sieracki stated that: "***We're very well positioned at Countrywide due to*** experience in these cycles, expertise, operating controls and ***our liquidity position***. Let's fact it this is a pain phase of a healthy process. ***We're a top conditioned athlete*** and I would suggest that the future present value of this outcome, of this pain felt today is greater than stumbling along at the status quo here."

897. The statements referenced above were materially false and misleading. Specifically, Sieracki's statements that "We're very well positioned at Countrywide due to . . . our liquidity position" and "[w]e're a top conditioned athlete" were false and misleading because Countrywide did not have access to the liquidity. See Sections IV.H.1 and IV.B.

2. March 13, 2007 CNBC Interview and March 22, 2007 "Mad Money" Interview

898. On March 13, 2007, Defendant Mozilo was interviewed by CNBC reporter Maria Bartiromo. Mozilo falsely told the marketplace that the Company's exposure to risky loans was not significant because purportedly only 7% of loans originated by Countrywide were subprime:

> MOZILO: . . . [T]he [loans] . . . that you see exposed [from the subprime market] at the moment would be the New Centuries, the NovaStars, and the Accredited Home Loans, and, those are monoline companies, subprime companies, that did well in the housing boom, in

> the bubble, but once the tide went out, you can see what's happened. ***I think it's a mistake to apply what's happening to them to the more diversified financial services companies such as Countrywide***, Wells Fargo and others. Certainly, a percentage of our business is subprime. ***We had 7 percent of our*** [loan originations in subprime] . . .
>
> BARTIROMO: Seven percent? Angelo, so you've got seven percent of originations coming from the subprime area?
>
> MOZILO: That's correct. And about .2 percent of our assets are in subprime. So I think it's very important that this be kept in perspective. So, for us, what our concern is, Maria, is not so much for Countrywide ***because we'll be fine. In fact, this will be great for Countrywide at the end of the day because all the irrational competitors will be gone.*** So, you have to look over this valley you know to the horizon and it looks very positive for us.

899. On March 22, 2007, Mozilo appeared on the popular CNBC program "Mad Money," hosted by Jim Cramer. Mozilo, once again, was very positive regarding the Company's prospects. He falsely assured investors that Countrywide was essentially a prime lender, and that subprime loans represented only 7-9% of the Company's business. He again differentiated Countrywide from subprime lenders, asserting their business model was fundamentally flawed in a way Countrywide's was not.

900. Thereafter, on August 26, 2007 in an article titled, "Inside the Countrywide Lending Spree," *The New York Times* reported that Mozilo's statements during the CNBC interview on March 13, 2007 were materially false and misleading for the following reasons:

> Countrywide documents show that it, too, was a lax lender. For example, it wasn't until March 16 that Countrywide eliminated so-called piggyback loans from its product list, loans that permitted borrowers to buy a house without putting down any of their own money. And Countrywide waited until Feb. 23 to stop peddling another risky product, loans that were worth more than 95 percent of a home's appraised value and required no documentation of a borrower's income.
>
> [In addition] . . . Countrywide's product list showed that it would lend $500,000 to a borrower rated C-minus, the second-riskiest grade. As long as the loan represented no more than 70 percent of the underlying property's value, Countrywide would lend to a borrower even if the person had a credit score as low as 500.

901. In addition to the reasons set forth in the August 26, 2007 *New York Times* article, Mozilo's statements above that "[w]e had 7 percent of [our business in subprime]" and that "Countrywide was essentially a prime lender" were false and misleading because Countrywide misclassified subprime loans as prime loans, and also for the same reasons set forth in Sections IV.D and IV.C above.

3. First Quarter 2007 Form 8-K

902. On April 26, 2007, Countrywide filed a Form 8-K attaching a press release that announced its financial results for the first quarter of 2007. Countrywide reported gain-on-sale of loans and securities of $1,234,104,000 for the quarter.

903. Countrywide's reported gain-on-sale was materially false and misleading when made because the Company materially overstated its assessment of fair value for its retained interests and MSRs, and also for the reasons stated in Sections IV.G.4 and IV.G.5 above.

4. First Quarter 2007 Conference Call

904. On a conference call held later that day (the "April 26, 2007 Conference Call") in which Defendant Mozilo, Sambol, Sieracki, and Garcia participated, Mozilo touted the Company's growing pipeline of "prime" loans, noting that Countrywide was poised to capitalize on the implosion of irresponsible lenders that had populated the industry in the last five years:

> As a result [of business consolidation], you have less competition and as Dave pointed out, rational competition. So when you have that, one is your margins are going to improve. There is no question that there are many players who have entered the business over the last five years that had to some degree or another irresponsible behavior, conducted themselves irresponsibly, and that impacted everybody, Gresham's Law.[24]

905. Defendant Sambol reiterated that Countrywide's prime business would continue to grow and that Countrywide had gained a competitive advantage in the subprime area now that other lenders had exited that business:

> And as it relates to top-line pricing margins, there was the absence of competitive worsening in pricing. ***So the outlook is very good for our prime business and prime margins.*** As it relates to subprimes, as I mentioned in my presentation, we are now pricing our rate sheets to provide for profitability in each of our channels, where I would tell you that in '06, for much of '06 and part of '05, ***competitive conditions were such that in certain of our segments, we were pricing to breakeven.***

[24] "Observation that 'bad money drives out good.'" http://www.britannica.com/ebc/article-93666139.

906. Moreover, on the same call, Defendant Mozilo emphasized that there was no spillover from the subprime debacle to prime mortgages:

> [T]here has been a lot of talk about contagion or spillover from subprime to Alt-A and so we thought we would comment a little bit on that market and Countrywide's views and exposure to Alt-A. First of all, by way of description, ***Alt-A generally consists of loans to prime credit borrowers unlike subprime . . .*** who don't qualify for traditional prime programs due to a variety of things; reduced documentation most notably and/or other layering of risk factors, maybe higher LTVs and higher loan amounts.
>
> * * *
>
> ***As it relates to Alt-A, the conclusion there is that, at least for Countrywide, there has not been any material impact or spillover into Alt-A or for that matter into our prime business.***

907. During the April 26, 2007 Conference Call, Sambol declared that "***of course, Countrywide has the liquidity and the capital*** and the infrastructure to take advantage of the structural changes that are taking place in this market."

908. The statements referenced above during the April 27, 2006 Conference Call were materially false and misleading when made. Defendant Mozilo's statement that Countrywide would benefit from other mortgage companies' irresponsible conduct was false and misleading. In truth, Countrywide was not different from the companies heavily involved in irresponsible lending. See Sections IV.B and IV.C. Moreover, Defendant Sambol's statement that "the outlook is very good for our prime business and prime margins" was false and misleading because Countrywide classified its subprime loans as prime loans, and also for the same reasons set forth in Section IV.D above. In addition, Defendant Sambol's statement that management was pricing the loans to the secondary market "to breakeven" was false and

misleading for the reasons set forth in Section IV.G.4 above. Further, Defendant Mozilo's statement that "there has not been any material impact or spillover [from the subprime fallout] into Alt-A or . . . prime business" was false and misleading for the same reasons set forth above and in Section IV.D. Sambol's statement that "Countrywide has the liquidity and the capital and the infrastructure to take advantage of the structural changes that are taking place in this market" was false and misleading because Countrywide did not have access to the liquidity and the Company overstated its capital. See Section IV.H.

5. April 26, 2007 AFSA 7th Finance Industry Conference

909. On April 26, 2007, Countrywide participated at the AFSA 7th Finance Industry Conference for International Fixed-Income Investors (the "April 26, 2007 Fixed Income Conference"). At that conference, Jennifer Sandefur, Senior Managing Director and Treasurer, attempted to distinguish Countrywide from its peer mortgage lenders by stating that the Company was not heavily involved in the subprime mortgage industry. Specifically, Sandefur said that Countrywide's portfolio is of "very high quality" and primarily consisted of prime mortgages:

> There's been a significant amount of turmoil in the market recently as a result of the nonprime mortgage sector. We strategically manage that. ***We're essentially a prime mortgage originator.*** We have $400 million in residual investments on our balance sheet. We have a very conservative liquidity profile which insulates us from market events like the subprime origination market events.
>
> * * *
>
> [D]uring the time that we acquired the bank in 2006, we originated over $2 trillion in mortgages in the United States, prime ***and a small amount of subprime*** and we put about ***$73 billion of very prime mortgages on our own balance sheet.***

910. Repetitiously, at the same conference, Sandefur again emphasized Countrywide's high quality mortgages:

> Again, ***over 90% of Countrywide loan origination volume is prime quality. Less than 9% of our production is subprime***. . . . ***The nonprime loans are all held for investment and sold into securitizations with none of those going on our bank's balance sheet.***
>
> * * *
>
> A little bit more about the bank. Again, and the ***high credit quality of that portfolio that we selected. Very low interest rate risk.***

911. At the April 26, 2007 Fixed Income Conference, Sandefur discussed the increased rate of delinquencies in the subprime mortgage industry and the loosened underwriting standards for subprime loans. However, she emphasized that Countrywide was different and better than its competition:

> [M]any of the players that originated . . . [subprime] loans and loosened these standards as they were kind of gasping for breath at the very end of the run in the refi boom, I think lowered a lot of the underwriting standards which caused a lot of these delinquency problems. A lot of these smaller players are exiting the business willingly in many cases and unwillingly in some cases.
>
> ***. . . I'd like to differentiate Countrywide here.*** And from a lot of competitors we've seen come and go in the past, you're talking about a kind of one-trick pony, if you will, some of these subprime lenders who all they did was originate subprime loans, enjoyed the wide margins, they weren't properly capitalized. They weren't properly balanced. They didn't have diversified businesses. They didn't have 38 years of technology. They didn't have the intellectual capital, the

> hedging capabilities, the ability to price. They did one thing. They originated subprime loans.
>
> Versus a Countrywide ***who originates a very small component of subprime loans*** so that they have a full menu of products to offer through the various diversified channels, retail, correspondent, wholesale, through brokers. . . . They underestimated the impact of early payment defaults through the whole loan type of risk transference that they were using ***unlike the Countrywide who uses a securitization, who has a reputation for high quality originations.***

912. At the same conference, Sandefur commented on the adequacy of Countrywide's allowance account for loan losses due to the pristine nature of its portfolio:

> . . . Allowances for loan losses which are really a 12 month perspective look at potential losses, we've booked at $229 million for '06. Actual net charge-offs for the bank portfolio were only $34 million. ***So very conservative allowances for loan losses at very small actual charge offs given the very pristine nature of this portfolio. . . .*** So, again, the point here, ***not subprime. Very, very prime.*** Kind of the opposite of subprime.

913. The statements referenced above and made at the April 26, 2007 Fixed Income Conference were materially false and misleading when made. Moreover, the Officer Defendants did not correct any of Sandefur's statements after the conference call. Specifically, Sandefur's statements that "[w]e're essentially a prime mortgage originator," emphasizing the point with phrases such as "very, very prime," were false and misleading for the same reasons set forth in Section IV.D above. Moreover, Sandefur's statements that "over 90% of Countrywide['s] loan origination volume is prime quality" and "[l]ess than 9% of

our production is subprime" were false and misleading because Countrywide improperly classified subprime mortgage loans as prime loans, and also for the same reasons set forth in Section IV.D above. In an attempt to distinguish Countrywide from its peers, Sandefur's statements that Countrywide "originate[d] a very small component of subprime loans" and "has a reputation for high quality loans" were also materially false and misleading for the same reasons set forth in Section IV.C above. Moreover, Sandefur's statement that Countrywide had "very conservative allowances for loan losses . . . given the very pristine nature of this portfolio" was false and misleading for the reasons set forth above in Section IV.G.3.

914. Analysts continued to be deceived by management's false and misleading statements as set forth above. For example, on April 26, 2007, Citigroup analysts rated Countrywide's shares a "Buy" with "Medium Risk." Citigroup analysts based their opinion in part on Countrywide's senior management's false assurances that after industry consolidation the Company would be well positioned to grow market share and earnings and that Countrywide's "core business" of prime loans was "solid."

915. Further, several other analysts either raised or maintained their stellar recommendations and earnings estimates for Countrywide as a result of the Company's fraudulent misrepresentations:

- On April 27, 2007, Piper Jaffray maintained its "Outperform" rating for Countrywide.
- On April 29, 2007, Morgan Stanley reiterated "Overweight" for Countrywide's stock.
- Rapid Rating reported on April 26, 2007 that Countrywide's credit outlook is positive. "[T]he company is a moderate to low risk and somewhat subject to fluctuations in market conditions, and ***that its assets are of very good quality.***"

6. First Quarter 2007 Form 10-Q

916. On May 9, 2007, Countrywide filed its quarterly report on Form 10-Q for the first quarter of 2007, ended March 31, 2007, signed by Defendant Sambol and Sieracki. The Company reported revenues for the quarter of $2,405,776,000, and diluted earnings per share of $0.72.

917. In the section titled "Impairment of Retained Interests," the Company noted that "we recognized impairment of retained interests of $429.6 million. Impairment charges of $231.0 million were related to nonprime and related residual interests and $135.3 million were related to subordinated interests on prime home equity lines of credit securitizations."

918. In the "Off-Balance Sheet Arrangements and Guarantees" section of the Form 10-Q, Countrywide described the representations and warranties exposure associated with the securitization of its loans as follows: "We do not believe that any of our off-balance sheet arrangements have had, or are reasonably likely to have, a current or future material effect on our financial condition, results of operations, liquidity, capital expenditures or capital resources."

919. The Company described its management of credit risk in the following terms: "We attempt to limit our risk of incurring . . . [representation and warranty] losses by structuring our operations to ***ensure consistent production of quality mortgages*** . . . ."

920. In a section titled "Credit Risk Management," the Company also reported that the liabilities associated with the risk of representation and warranties ". . . total[ed] $365,300,000."

921. In a section titled "Securitizations," the Company reported that the fair value of its MSRs at March 31, 2007 was $17,441,860,000.

922. The Company reported allowance for loan losses of $374,367,000, having increased its provision for loan losses by $151,962,000 during the quarter. The Company also had net charge-offs of $38,649,000.

923. Countrywide reported in its first quarter 2007 Form 10-Q that prime mortgage and prime home equity loans held for investment equaled $68,908,462,000, and nonprime mortgage loans held for investment equaled $1,144,184,000.

924. The volume of Mortgage Banking nonprime, prime home equity and prime loans produced during the quarter equaled $7,500,000,000, $9,234,000,000 and $93,833,000,000, respectively.

925. With respect to Countrywide's liquidity and capital resources, the Form 10-Q stated that:

> . . . nonprime loans and related securities became much less liquid. However, such assets represent ***only a small portion*** of our total assets. The substantial majority of our assets continue to experience ample liquidity in the marketplace. ***As such, we do not expect the reduction in liquidity for nonprime loans to have a significant adverse effect on our ability to effectively meet our financing requirements.***
>
> * * *
>
> . . . We establish reliable sources of liquidity sized to meet a range of potential future funding requirements. We currently have $94.4 billion in available sources of short-term liquidity, which represents a decrease of $2.0 billion from December 31, 2006. ***We believe we have adequate financing capacity to meet our currently foreseeable needs.***

926. The Company also reported in the Form 10-Q management's review of the Company's disclosure controls and internal controls: "There has been no

change in our internal control over financial reporting during the quarter ended March 31, 2007 that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting."

927. Further assuring investors of the veracity of the information contained in the Form 10-Q, the report included SOX certifications signed by Defendants Mozilo and Sieracki, representing that the "report does not contain any untrue statement of a material fact" and "the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition" of Countrywide.

928. The statements contained in the first quarter 2007 Form 10-Q above were materially false and misleading when made. Specifically, the Company's reported values for its revenue and diluted earning per share were false and misleading because the Company's allowance for loan losses and accruals for representations and warranties were understated, and its assessments of fair values for retained interests and MSRs were overstated. See Section IV.G above. The statements related to loan loss reserves, retained interests, MSRs and liabilities related to representations and warranties were false and misleading for the same reasons stated in Section IV.G above. Also, the statements regarding the quality of the volume of loans produced and loans held for investment were false and misleading because Countrywide improperly classified subprime loans as prime loans, and also for the reasons set forth in Section IV.D above. Moreover, the representation that we "ensure consistent production of quality mortgages" was false and misleading because Countrywide loosened and abandoned its underwriting guidelines when originating loans. See Section IV.C. Moreover, Countrywide's statements regarding liquidity were false and misleading for the same reasons stated in Section IV.H.1 above. The statements relating to internal controls were false and misleading because the Company's internal controls over financial reporting were ineffective. See Section IV.G.7.

Moreover, the SOX certifications signed by Defendants Mozilo and Sieracki were false and misleading for the same reasons stated in Section IV.G above.

F. False and Misleading Registration Statements and Prospectuses for Countrywide's Offerings of Debt and Preferred Securities

1. Series A Medium-Term Notes

929. On or about February 7, 2005, Countrywide commenced a public offering of approximately $8.627 billion of Series A Medium-Term Notes to be offered on a continuous basis. Net proceeds from this offering to Countrywide, after deducting expenses, exceeded $8 billion.

930. The Series A Medium-Term Notes were offered and sold pursuant to a shelf registration statement on Form S-3 and prospectus, dated April 7, 2004 and April 21, 2004, signed by Mozilo, Kurland, McLaughlin, Cisneros, Cunningham, Donato, Dougherty, Enis, Garcia, Heller, King, Melone, Robertson, Russell, and Snyder; a prospectus supplement dated February 7, 2005; a prospectus supplement dated December 14, 2005 (increasing the size of the offering from $8 billion to $8.627 billion); a series of pricing supplements numbered 1-18 and 20-24 dated between March 16, 2005 and February 1, 2006; and a Free Writing Prospectus dated December 14, 2005 (collectively, the "Series A Medium-Term Notes Prospectus"), all of which Countrywide filed with the SEC (collectively, the "Series A Medium-Term Notes Registration Statement").

931. The Series A Medium-Term Notes Registration Statement expressly incorporated by reference Countrywide's Form 10-K Annual Report for the year ended December 31, 2003.

932. Defendants Banc of America Securities, Barclays Capital, Citigroup Global Markets, Countrywide Securities, Deutsche Bank, Greenwich Capital, HSBC, J.P. Morgan Securities, Morgan Stanley, RBC Dominion, and Wachovia Capital acted as underwriters with respect to the offering of Series A Medium-Term Notes.

933. As alleged in detail above, Countrywide's Form 10-K for the year ended December 31, 2003 was materially false and misleading. Accordingly, the Series A Medium-Term Notes Registration Statement and the Form 10-K incorporated therein by reference, pursuant to which Lead Plaintiffs New York City Pension Funds and other members of the Class were induced to purchase Series A Medium-Term Notes, contained untrue statements of material fact and omitted to state material facts required to be stated therein or necessary to make the statements contained therein not misleading.

2. Series B Medium-Term Notes

934. On or about February 13, 2006, Countrywide commenced a public offering of Series B Medium-Term Notes to be offered on a continuous basis. Net proceeds from this offering to Countrywide, after deducting offering expenses, were approximately $10,700,000,000.

935. The Series B Medium-Term Notes were offered and sold pursuant to a shelf registration statement on Form S-3ASR and prospectus dated February 9, 2006, signed by Defendants Mozilo, Sambol, Kurland, Sieracki, Brown, Cisneros, Cunningham, Donato, Dougherty, Enis, Garcia, Heller, Melone, Parry, Robertson, Russell and Snyder; a prospectus supplement dated February 13, 2006; and 153 successive pricing supplements and Free Writing Prospectuses dated between February 22, 2006 and August 6, 2007 (collectively, the "Series B Medium-Term Notes Prospectus"), all of which Countrywide filed with the SEC (collectively, the "Series B Medium-Term Notes Registration Statement").

936. The Series B Medium-Term Notes Registration Statement expressly incorporated by reference documents filed by Countrywide with the SEC, including its Annual Report on Form 10-K for the year ended December 31, 2004; Quarterly Reports on Form 10-Q for the quarters ended March 31, 2005, June 30, 2005 and September 30, 2005; and Current Reports on Form 8-K dated September 30, 2005 and October 27, 2005. The Series B Registration Statement

also expressly incorporated by reference Countrywide's consolidated financial statements as audited by KPMG.

937. Defendants ABN AMRO, Banc of America Securities, Barclays Capital, BNP Paribas, BNY Capital, Citigroup Global Markets, Countrywide Securities, Deutsche Bank, Goldman Sachs, Greenwich Capital, HSBC, J.P. Morgan Securities, Merrill Lynch, Morgan Stanley, RBC Dominion, Scotia Capital, TD Securities, UBS Securities, and Wachovia Capital acted as underwriters with respect to the offering of Series B Medium-Term Notes.

938. KPMG consented to being named in the Series B Medium-Term Notes Registration Statement as a party that certified the Company's financial statements ended December 31, 2004.

939. As alleged in detail above, Countrywide's Form 10-K for the year ended December 31, 2004, Countrywide's consolidated financial statements for the year ended December 31, 2004, and other SEC filings noted above as incorporated by reference in the Series B Medium-Term Notes Registration Statement were materially false and misleading. Accordingly, the Series B Medium-Term Notes Registration Statement and documents incorporated therein by reference, pursuant to which Lead Plaintiffs New York City Pension Funds and other members of the Class were induced to purchase Series B Medium-Term Notes, contained untrue statements of material fact and omitted to state material facts required therein to be stated or necessary to make the statements contained therein not misleading.

3. 6.25% Subordinated Notes Due May 15, 2016

940. On or about May 11, 2006, Countrywide publicly issued $1,000,000,000 of 6.25% Subordinated Notes Due May 15, 2016 ("6.25% Notes"). Net proceeds to the Company from the offering of 6.25% Notes, after deducting offering expenses, were approximately $992,790,000.

941. The 6.25% Notes were offered and sold pursuant to the shelf registration statement on Form S-3ASR and prospectus dated February 9, 2006, signed by Defendants Mozilo, Sambol, Sieracki, Kurland, Brown, Cisneros, Cunningham, Donato, Dougherty, Enis, Garcia, Heller, Melone, Parry, Robertson, Russell and Snyder; a prospectus supplement dated May 11, 2006; and a Free Writing Prospectus dated May 11, 2006 (collectively, the "6.25% Notes Prospectus"); all of which Countrywide filed with the SEC (collectively, the "6.25% Notes Registration Statement").

942. The 6.25% Notes Registration Statement expressly incorporated by reference the documents filed by Countrywide with the SEC, including its Annual Report on Form 10-K for the year ended December 31, 2004; Quarterly Reports on Form 10-Q for the quarters ended March 31, 2005, June 30, 2005 and September 30, 2005; and Current Reports on Form 8-K dated September 30, 2005 and October 27, 2005. The 6.25% Notes Registration Statement also expressly incorporated by reference Countrywide's consolidated financial statements as audited by KPMG for the years 2004 and 2005.

943. Defendants Banc of America Securities and J.P. Morgan Securities (as Joint Book-Running Managers), Countrywide Securities (as Joint Lead Manager), and Barclays Capital, Deutsche Bank, HSBC, and Wachovia Capital (as Co-Managers) acted as underwriters with respect to the offering of 6.25% Notes.

944. KPMG consented to being named in the 6.25% Notes Registration Statement as a party that certified the Company's financial statements for the years ended December 31, 2004 and 2005 and management's assessment of the effectiveness of internal controls for the years ended December 31, 2004 and 2005.

945. As alleged in detail above, Countrywide's Form 10-K for the year ended December 31, 2004, Countrywide's consolidated financial statements for

the years ended December 31, 2004 and 2005, and other SEC filings noted above as incorporated by reference in the 6.25% Notes Registration Statement were materially false and misleading. Accordingly, the 6.25% Notes Registration Statement and documents incorporated therein by reference, pursuant to which Lead Plaintiffs New York City Pension Funds and other members of the Class were induced to purchase 6.25% Notes, contained untrue statements of material fact and omitted to state material facts required therein to be stated or necessary to make the statements contained therein not misleading.

4. 7% Capital Securities

946. On or about November 3, 2006, CCV commenced a public offering of 52,000,000 7% Capital Securities at $25 per share, with a total value of $1.3 billion.

947. The 7% Capital Securities were offered and sold pursuant to a Post-Effective Amendment, dated October 27, 2006, to the registration statement on Form S-3 dated February 9, 2006, signed by Defendants Mozilo, Sambol, Sieracki, Brown, Cisneros, Cunningham, Donato, Dougherty, Garcia, Gissinger, Melone, Parry, Robertson, Russell, and Snyder; and a prospectus supplement dated November 1, 2006 (collectively, the "7% Capital Securities Prospectus"); all filed by Countrywide and CCV with the SEC (collectively, the "7% Capital Securities Registration Statement").

948. The 7% Capital Securities Registration Statement expressly incorporated by reference documents filed by Countrywide with the SEC, including its Annual Report on Form 10-K for the year ended December 31, 2005; Quarterly Reports on Form 10-Q for the quarters ended March 31, 2006 and June 30, 2006; and Current Report on Form 8-K filed October 24, 2006. The 7% Capital Securities Registration Statement also expressly incorporated by reference Countrywide's consolidated financial statements for the years 2004 and 2005 as audited by KPMG.

949. Defendants Citigroup Global Markets, J.P. Morgan Securities, Merrill Lynch, Morgan Stanley, UBS Securities, and Wachovia Capital (as Joint Book-Runners); Countrywide Securities (as Senior Co-Manager); A.G. Edwards, Banc of America Securities, and RBC Dain Rauscher (as Co-Managers); and Barclays Capital, Deutsche Bank, Goldman Sachs, and HSBC (as Junior Co-Managers) acted as underwriters with respect to the offering of 7% Capital Securities.

950. KPMG consented to being named in the 7% Capital Securities Registration Statement as a party that certified the Company's financial statements for the years ended December 31, 2004 and 2005 and management's assessment of the effectiveness of internal controls for the year ended December 31, 2005.

951. As alleged in detail above, Countrywide's Form 10-K for the year ended December 31, 2005, Countrywide's consolidated financial statements for the years ended December 31, 2004 and 2005, and other SEC filings noted above as incorporated by reference in the 7% Capital Securities Registration Statement were materially false and misleading. Accordingly, the 7% Capital Securities Registration Statement and documents incorporated therein by reference, pursuant to which Plaintiffs Brahn and Katzeff and other members of the Class were induced to purchase 7% Capital Securities, contained untrue statements of material fact and omitted to state material facts required therein to be stated or necessary to make the statements contained therein not misleading.

IX. INVESTORS BEGIN TO LEARN THE TRUTH ABOUT COUNTRYWIDE, CAUSING ITS SECURITIES TO PLUMMET IN VALUE, BUT THE COMPANY CONTINUES TO LULL THE INVESTING PUBLIC WITH ADDITIONAL FALSE AND MISLEADING STATEMENTS

952. No later than July 24, 2007, Countrywide and various individual defendants finally began to partially reveal the truth about matters concerning

which Countrywide, individual defendants, Underwriter Defendants and KPMG previously had made materially false and misleading statements. Those matters included Countrywide's lending practices, underwriting standards, financial reporting and accounting practices, lack of financial stability, lack of access to liquidity, and lack of business ethics and integrity. Additional public revelations of the truth concerning these and other matters critical to Countrywide's business were issued by government agencies, including the FBI, the SEC, various United States Trustees, and a series of state Attorneys General; the business media; and participants in the financial markets, including analysts and rating agencies.

953. These revelations related to matters highly material to buyers of Countrywide's publicly traded securities. Between July 24, 2007 and March 10, 2008, the revelation of the truth concerning such material facts caused Plaintiffs and the Class to suffer substantial losses. Each new revelation caused an additional drop in the value of Countrywide's securities and additional losses to Class members. Those losses were a direct result of the revelation of the truth about the materially false and misleading statements alleged herein and were dramatically larger, to a statistically significant degree, than any losses Class members would have sustained due to ordinary market forces.

954. **Partial Corrective Disclosures and Continued Misrepresentations on July 24, 2007**. On July 24, 2007, Countrywide filed a Form 8-K and issued a press release announcing its financial results for the second quarter of 2007. Countrywide's quarterly release surprised the market with a series of revelations that partially corrected Defendants' earlier false and misleading statements, and that caused a sharp decline in Countrywide's stock price. However, Countrywide and certain Individual Defendants, notably Mozilo, dampened the effect of Countrywide's July 24, 2007 partial corrective disclosures by making additional fraudulent statements that day in an effort to bolster the

Company's stock price and blunt the impact of the corrective disclosures on the market.

955. Important revelations in Countrywide's second quarter release included the disclosure that delinquency rates had jumped sharply in a series of loan categories. Countrywide disclosed, for example, that for subprime loans serviced by the Company, the delinquency rate in the second quarter had more than doubled to an extraordinary 23.71%, from just 9.45% as of March 31, 2007 (the end of the previous quarter). Similarly, Countrywide disclosed that for prime home equity loans (HELOCs) serviced by the Company, the delinquency rate had also more than doubled in the second quarter to 4.56%, from 2.15% as of March 31, 2007.

956. This report also included dramatic new charges and loan loss provisions, an additional revelation that the quality of Countrywide's loans, especially its prime loans, was weaker than had previously been represented. The report disclosed, for example, that Countrywide had reserved $293 million for loan losses, compared to just $61.9 million in comparable loan loss reserves the prior year. Countrywide attributed $181 million of the increased loan loss reserve to HELOCs in the Company's held-for-investment portfolio. In addition, Countrywide wrote down the value of "residual securities collateralized by prime home equity loans" by $388 million. These "residual securities" were retained by Countrywide after other securities relating to the prime home equity loans at issue were sold. As a result of these charges and adjustments, Countrywide reported reduced second quarter earnings of 81 cents per share, down from $1.15 per share one year earlier.

957. In addition to affording the market some indication concerning the poor quality of the loans originated by Countrywide, the Company's lax underwriting standards, its inadequate loan loss reserves, and the inflated values at which it carried loan-based assets on its balance sheet, in a related disclosure

during a conference call that day, July 24, 2007, Countrywide suggested for the first time that it had classified loans to borrowers with FICO scores as low as 500 as "prime" – far below the industry norm of requiring a borrower to have a minimum FICO score of 660 in order for a loan to the borrower to be classified as "prime."

958. In particular, during the conference call, Chief Risk Officer John McMurray claimed that the term "prime" is one that "covers a very vast spectrum," and referred to "a prime loan with FICOs in the low 500s," thereby disclosing that, contrary to industry norms, Countrywide might classify such a loan as a prime loan for purposes of its SEC filings and other financial reporting.

959. Later in the same conference call, McMurray declared that, "[t]here is a belief by many that prime FICOs stop at 620. That is not the case." This second, more explicit, remark by McMurray is striking because it demonstrates that senior Countrywide officials – including McMurray, the Company's Chief Risk Officer – were fully aware that it is a common understanding in the lending industry that loans to borrowers with FICO scores below a certain threshold cannot be classified as "prime" loans. Nevertheless, Countrywide chose to secretly classify loans made to borrowers with dramatically lower FICO scores as "prime" without disclosing to the investing public that it was the Company's practice to do so.

960. In addition, with respect to Countrywide's origination and underwriting standards, and its internal controls, the following was disclosed at the July 24, 2007 conference call:

(a) As of the end of the second quarter of 2007, 80% of Countrywide's pay-option ARM loans, which Defendants persisted during the Class Period in referring to as a "prime" product offered mainly to high net worth borrowers, were actually low documentation loans (as Piper Jaffray reported on July 25); as McMurray noted at the same conference,

"documentation matters. The less documentation, the higher the serious delinquency, all else equal";

(b) Many of the charge-offs and delinquencies "stem from the higher concentration of piggyback financing that we did and that we have in the port[folio]. . ." (according to McMurray); as McMurray also stated at the conference, ***"leverage at origination matters. More leverage means more serious delinquencies";*** and

(c) Countrywide ***"made many changes to [its] product offerings, pricing, underwriting guidelines and processes in order to improve the quality and secondary market execution of our production"*** (according to Chief Investment Officer Kevin Bartlett), notwithstanding repeated statements during the Class Period as to the conservative and careful manner in which the Company handled these matters, in contrast to its competitors, and McMurray said the Company's automated underwriting system needed to be ***"recalibrated."***

961. Countrywide's second quarter 2007 results served as a partial corrective disclosure with respect to (a) the stringency of Countrywide's loan origination and underwriting standards; (b) the accuracy of Countrywide's financial reporting, especially the accuracy of defendants' representations concerning Countrywide's loan loss reserves and concerning the value of loan-related assets reflected on Countrywide's balance sheet, such as loans held-for-investment and retained residual assets; and (c) Countrywide's practice of classifying loans made to borrowers with FICO scores ranging down to the low 500s as "prime." Indeed, as alleged in detail in Section IV.D above, one analyst concluded from this conference call that Countrywide management ***"made serious miscalculations (and possibly misrepresentations) about the quality of the loans added to the bank."***

962. Countrywide's stock price declined on July 24, 2007 by approximately 10.5%, from $34.06 to $30.50, on volume of 51,249,500 shares, as compared to volume of 12,730,800 shares the prior trading day. This loss, which was caused by the July 24, 2007 partial corrective disclosure, was materially larger, to a statistically significant extent, than any losses Class members would have sustained as a result of ordinary market forces. Countrywide's other securities also experienced material and statistically significant drops in their trading prices as a result of the July 24, 2007 partial disclosures, including the trading price of the CCV 7% Capital Security, which fell by 3.84%.

963. Nonetheless, these losses were tempered by additional misrepresentations made by Defendants the same day. On the July 24, 2007 conference call, in which Defendants Mozilo, Sambol, Sieracki and Garcia participated, Mozilo stated that the growing mortgage crisis would allow Countrywide to leverage its strong liquidity position. Mozilo stated in his prepared remarks:

> [W]e believe that the Company is well positioned to capitalize on opportunities during this transitional period in the mortgage business, which we believe will enhance the Company's long-term earnings growth prospects. We expect to leverage the strength of Countrywide's capital liquidity positions . . . to emerge ***in a superior competitive position*** coming out of the current housing downcycle.

964. Similarly, on the July 24, 2007 conference call, Mozilo again commented on Countrywide's strong liquidity position. Specifically, Mozilo stated that Countrywide had excess capital in terms of equity and plenty of sources to get through its current situation:

> [W]e're certainly not going to have any issues funding the Company. . . . we have adequate diversified and reliable sources of liquidity available . . . we still have plenty of liquidity cushion. . . .

> So, we have abundant excess capital in terms of equity and we have tremendous[ ] liquidity sources to fund ourselves through this situation. And we feel very, very comfortable about our liquidity scenario overall.

965. Also on the July 24, 2007 Conference Call, Mozilo responded sharply to a question about his stock sales, asserting that they were made pursuant to a 10b5-1 Plan established "well over a year ago." Later on the same call, Mozilo returned to the question about his Countrywide stock sales and asserted:

> [T]he shares that I have, actual stock I have, I have retained for 39 and a half years. Not sold a share of the initial stock that I got when David and I started this Company – that I got, that I purchased. The only thing that is being sold under the 10b5-1 are options with expiration dates.

966. The statements referenced above during the July 24, 2007 conference call were materially false and misleading when made. Specifically, Mozilo's reassuring statements that: "we have abundant excess capital in terms of equity"; "[we] have tremendous liquidity sources to fund ourselves through this situation"; and "[w]e believe we have adequate funding liquidity to accommodate these marketplace changes"; were false and misleading for the same reasons set forth in Section IV.H. Moreover, Mozilo's statements regarding his stock sales were false for the same reasons set forth in Section V.D.

967. **Misrepresentations on August 2, 2007.** On August 2, 2007, Countrywide and Defendant Sieracki, Countrywide's Chief Financial Officer, made a series of additional fraudulent statements in a further effort to deceive the investing public about Countrywide's liquidity and its net worth. A Countrywide press release that day entitled "Countrywide Comments on Its Strong Funding Liquidity and Financial Condition" asserted that:

> "Countrywide has longstanding and time-tested funding liquidity contingency planning," said Eric P. Sieracki, Chief Financial Officer. "These planning protocols were designed to encompass a wide variety of conditions, including recent secondary market volatility. Our liquidity planning proved highly effective earlier during 2007 when market concerns first arose about subprime lending, and remains so today. We place major emphasis on the adequacy, reliability and diversity of our funding sources. . . ."
>
> Sieracki continued, "Our mortgage company has significant short-term funding liquidity cushions and is supplemented by the ample liquidity sources of our bank."

This statement was false and misleading for the reasons alleged in Section IV.H.

968. In addition, the August 2 press release contained a false and misleading statement about Countrywide's net worth. Specifically, quoting Sieracki, the press release stated that "Countrywide's financial condition remains strong, as evidenced by over $14 billion of net worth . . . ." However, this "$14 billion" net worth figure was materially inflated. See Section IV.H above.

969. **Corrective Disclosures and Continued Misrepresentations on August 9, 2007.** After the stock market closed on August 9, 2007, Countrywide filed with the SEC the Company's Form 10-Q quarterly report for the quarter ended June 30, 2007. The Form 10-Q surprised the investing public by noting the existence of "unprecedented market conditions" bearing on Countrywide's liquidity, and by further noting that "[w]hile we believe we have adequate funding liquidity, the situation is rapidly evolving and the impact on the Company is unknown." These statements were a partial corrective disclosure with respect to Countrywide's boasts – made as recently as one week earlier in the Company's August 2, 2007 press release – about the Company's supposedly "highly

effective" liquidity planning and about the "reliability" of its sources of liquidity. The Company also stated that its impairment of the fair value of its retained interests equaled $268,117,000.

970. As a result of this partial corrective disclosure, Countrywide common stock declined on August 10, 2007 by approximately 2.8%, from $28.66 to $27.86 on a volume of 48,657,500 shares, as compared to a volume of 24,502,100 shares the prior trading day. This loss, which was caused by the August 9, 2007 partial corrective disclosure, was dramatically larger, to a statistically significant extent, than any losses Class members would have sustained as a result of ordinary market forces.

971. Nonetheless, these losses were tempered by additional misrepresentations by Defendants made on the same day. In the "Off-Balance Sheet Arrangements and Guarantees" section of the second quarter 2007 Form 10-Q, which was signed by Defendants Sambol and Sieracki, Countrywide described the representations and warranties exposure associated with the securitization of its loans as follows: "We do not believe that any of our off-balance sheet arrangements have had, or are reasonably likely to have, a current or future material effect on our financial condition, results of operations, liquidity, capital expenditures or capital resources."

972. In a section titled "Financial Statements," the Company reported that the fair value of its MSRs for the quarter was $20,087,368,000.

973. The Company also reported an allowance for loan losses of $512,904,000 as of the end of the quarter, having increased its provision for loan losses by $292,924,000 during the quarter, with net charge-offs of $154,387,000.

974. The Company also claimed, again, in the Form 10-Q that it had adequate funding liquidity to accommodate marketplace changes:

> ***We believe we have adequate funding liquidity to accommodate these marketplace changes in the near term . . .*** We also believe that

> the challenges facing the industry should ultimately benefit Countrywide as the mortgage lending industry continues to consolidate.

975. Also, in the section titled "Controls and Procedures," Countrywide described the adequacy of its internal controls:

> There has been no change in our internal control over financial reporting during the quarter ended June 30, 2007 that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

976. Further assuring investors of the veracity of the information contained in the Form 10-Q, the report included a SOX certification signed by Defendants Mozilo and Sieracki representing that the "report does not contain any untrue statement of a material fact" and "the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition" of Countrywide.

977. The statements referenced above from Countrywide's second quarter 2007 Form 10-Q were materially false and misleading when made. As set forth in greater detail above, the Company's values for its revenue and diluted earnings per share were false because the Company's allowance for loan losses and accruals for representations and warranties were understated, and its assessment of fair value for retained interests and MSRs were overstated. See Section IV.G above. Statements related to loan loss reserves, retained interests, MSRs and liabilities related to representations and warranties were false and misleading for the same reasons set forth in Section IV.G above. Countrywide's statement that "[w]e believe we have adequate funding liquidity to accommodate these marketplace changes in the near term" was false and misleading for the same reasons set forth in Section IV.H above. The statements relating to internal controls were false and misleading for the same reasons set forth in Section

IV.G.7. Moreover, the SOX certifications signed by Defendants Mozilo and Sieracki were false and misleading for the same reasons stated in Section IV.G above.

978. Analysts and investors continued to rely on Defendant's false statements set forth above. For example, on July 25, 2007, Piper Jaffray analysts rated Countrywide's shares as "Outperform" and "believe[d] CFC has ample liquidity to work through the housing/mortgage recession."

979. Further, several other analysts either raised or maintained their stellar recommendations and earnings estimates for Countrywide as a result of Defendants' lulling misrepresentations. For example, on August 2, 2007, Morgan Stanley maintained an "Overweight" rating on Countrywide stock. Analysts reported "[w]ith capital markets volatility raising questions about the liquidity of securitization markets, the key issue in the short term for Countrywide is liquidity. ***We don't see any near-term liquidity challenges for the company . . .***"

980. **<u>Corrective Disclosure on August 13, 2007</u>.** On August 13, 2007, Merrill Lynch issued an analyst report that indicated that, because of liquidity problems, "it is possible for CFC to go bankrupt." In particular, under the heading "Liquidity[,] the most pressing concern . . .," the Merrill Lynch report stated:

> The market is concerned that CFC could have difficulty with its credit facilities, which are critical to it operating in the near-term. CFC currently has about $185B in available credit facilities, though the concern is that these facilities could be terminated or the terms changed meaningfully, thus impacting CFC's ability to operate normally. ***We cannot understate the importance of liquidity for a specialty finance company like CFC.*** If enough financial pressure is placed on CFC or if the market loses confidence in its ability to function properly then the model can break, leading to an effective

insolvency. If liquidations occur in a weak market, ***then it is possible for CFC to go bankrupt.***

981. The Merrill Lynch report served as a partial corrective disclosure with regard to a number of Defendants' false and misleading statements. Among other matters, the report partially corrected Defendants' false statements that Countrywide was financially sound; that Countrywide was well-positioned to weather the downturn in the housing market; that Countrywide was poised to grow during the downturn and to capture marketshare from weaker competitors; and that Countrywide had secure access to ample sources of liquidity.

982. As a result of the disclosures contained in the Merrill Lynch report, Countrywide common stock declined on August 13 by approximately 4.5%, on high volume exceeding 29 million shares. This loss, which was caused by the August 13 partial corrective disclosure, was dramatically larger, to a statistically significant extent, than any losses Class members would have sustained as a result of ordinary market forces.

983. **Corrective Disclosure on August 14, 2007.** On August 14, 2007, before the market opened, Countrywide issued a press release and filed a Form 8-K releasing its monthly operational data for July 2007. In this report, Countrywide disclosed that by the end of July 2007, its rate of delinquency as a percentage of unpaid principal balance had increased by approximately 35% to 4.89%, compared to a 3.61% rate as of July 31, 2006. Countrywide also disclosed that, similarly, by the end of July 2007, its rate of pending foreclosures as a percentage of unpaid principal balance had more than doubled to 1.04%, compared to 0.46% as of July 31, 2006.

984. An August 15, 2007, *Los Angeles Times* article about the July operating report commented: "[i]n a grim report that helped send mortgage stocks reeling, No. 1 home lender Countrywide Financial Corp. said Tuesday that foreclosures and delinquencies jumped in July to the highest levels in more than

five years." The article also noted that "Countrywide didn't file detailed monthly reports before 2002."

985. Countrywide's August 14, 2007 disclosure of unexpectedly high rates of delinquencies and foreclosures partially corrected Countrywide's prior misrepresentations about the quality of its loan origination and underwriting standards and served as a partial corrective disclosure with respect to aspects of Countrywide's financial reporting, including Countrywide's loan loss reserves and its reported assets. It was also a partial corrective disclosure with regard to Countrywide's prior misstatements that Countrywide's business was sound; that Countrywide was well-positioned to withstand the downturn in the housing market; and that Countrywide was poised to capture market share from weaker competitors.

986. Countrywide's stock closed down on August 14, 2007 by approximately 8.1%, from $26.61 to $24.46, on high volume of almost 36 million shares. This loss, which was caused by the August 14 partial corrective disclosure, was dramatically larger, to a statistically significant extent, than any losses Class members would have sustained as a result of ordinary market forces.

987. **Corrective Disclosure on August 15, 2007**. On August 15, 2007, Merrill Lynch surprised the markets by following up on its August 13, 2007 analyst report expressing liquidity concerns about Countrywide with a further research report that downgraded Countrywide from "buy" to "sell" based on even more serious perceived liquidity problems. An August 17, 2007 *Wall Street Journal* article summarized the impact of the August 15 Merrill Lynch analyst report on Countrywide's stock:

> When Merrill Lynch & Co. analyst Kenneth Bruce put a surprise "sell" rating on Countrywide Financial Corp. this week, the stock fell 13%. Many on Wall Street clearly felt he knew what he was talking about: He used to work at the troubled mortgage lender.

> Mr. Bruce, 40, follows mortgage companies in Merrill's San Francisco office. But for 13 years before his arrival on Wall Street, he worked in the mortgage business in different capacities. One of them was a two-year stint working for Countrywide's home-loans division in Pasadena, California. His boss there was David Sambol, who is now the firm's president and heir apparent to its embattled chief executive, Angelo Mozilo.
>
> Mr. Bruce's Wednesday report, entitled "Liquidity is the Achilles Heel" came just two days after he had reiterated his longstanding "buy" rating on the company. Pointing out that "funding markets are deteriorating quickly," he suggested that Countrywide may even face bankruptcy. "Our view has changed, materially," he wrote on the first page of the report.

988. The August 15, 2007 Merrill Lynch analyst report further partially corrected Defendants' false statements that Countrywide was financially sound; that Countrywide was well-positioned to weather the downturn in the housing market; that Countrywide was poised to grow during the downturn and to capture marketshare from weaker competitors; and that Countrywide had secure access to ample sources of liquidity.

989. As a consequence of those partial corrective disclosures, Countrywide common stock fell by approximately 13% that day, from $24.46 to $21.29, on volume of 118,552,500 shares, as compared to volume of 35,846,800 shares the prior trading day. This loss, which was caused by the August 15 partial corrective disclosure, was dramatically larger, to a statistically significant extent, than any losses Class members would have sustained as a result of ordinary market forces.

990. **<u>Corrective Disclosures on August 16, 2007</u>.** Two significant events that occurred on Thursday, August 16, 2007, served as partial corrective disclosures.

991. First, Countrywide announced that it drew its ***entire $11.5 billion*** credit facility to "supplement" its cash position. The credit facility that Countrywide drew on, in its entirety, was perceived by the market to be in the nature of a emergency fund to be used only as a last resort, or a close to last resort, source of liquidity. Second, and as a result, all three major credit rating agencies – Standard & Poor's, Moody's Investors Service, and Fitch Ratings – issued downgrades with regard to Countrywide securities. Moody's sharply downgraded Countrywide and CHL's senior debt rating to Baa3 from A3, just one notch above junk grade. Fitch sharply downgraded Countrywide's long-term issuer default rating two notches to BBB+ from A, just two notches above junk grade, and also downgraded Countrywide's CCIV and CCV preferred securities to BBB- from A-. S&P downgraded Countrywide to A- from A.

992. Countrywide's decision to access its $11.5 billion credit facility and the rating agency downgrades both constituted partial corrective disclosures to the investing public concerning a series of prior false and misleading statements by defendants, including with respect to: the soundness and stability of Countrywide's business and finances; Countrywide's ability to weather the downturn in the housing market; Countrywide's ability to thrive and gain market share from weaker competitors during the housing market downturn; Countrywide's access to liquidity; and the poor inherent quality of the loan portfolio that formed the core of Countrywide's business.

993. Countrywide's stock declined by approximately 11% on August 16, 2007, from $21.29 to $18.95, on extraordinary volume of 201,476,900 shares. This loss, which was caused by the August 16 partial corrective disclosure, was dramatically larger, to a statistically significant extent, than any losses Class

members would have sustained as a result of ordinary market forces. Countrywide's other securities also experienced material and statistically significant drops in their trading prices as a result of the August 16, 2007 partial disclosures, including the trading price of the 6.25% Subordinated Notes due May 15, 2016, which fell by 10.53%; the trading price of the 3-Year Floating Rate Notes Due 2008, which fell by 17.6%; the trading price of the 6% Notes due November 2035, which fell by 13.01%; and the trading price of the 2-Year Floating Rate Notes Due December 2007, which fell by 7.18%.

994. **Positive News and Misrepresentations on August 23, 2007.** On August 23, 2007, before the stock market opened, the media reported that Bank of America had announced a $2 billion investment in Countrywide. In return for its investment, Bank of America received a non-voting convertible Countrywide preferred security yielding 7.25% annually and convertible to common stock at $18 per share. On January 11, 2008, as further discussed below, Bank of America announced that it was acquiring Countrywide for a total of $4 billion. Largely in response to the $2 billion Bank of America preferred security purchase announced that day, as well as the misrepresentations by Defendant Mozilo alleged below concerning the transaction and other material matters, Countrywide's stock price rose approximately 1% on August 23, 2007.

995. In an August 23, 2007 article in *The Wall Street Journal*, Defendant Mozilo was quoted saying that "Countrywide would have survived without help from Bank of America . . . ."

996. The same day, August 23, 2007, Mozilo was again interviewed on CNBC by Maria Bartiromo. During the interview, Mozilo falsely assured the market place that the Company was not at risk of suffering a bankruptcy:

> Well, first of all let me comment [on a] couple things. One is the, just the irresponsible behavior on part of that analyst from Merrill Lynch to, yell fire in a very crowded theater in [an] environment where you

> had panic already setting in the overall markets unrelated to Countrywide. Was ***totally irresponsible and baseless. . . .*** Has no basis whatsoever.
>
> * * *
>
> ***. . . I can tell you there is no more chance for bankruptcy today for Countrywide than it was six months ago***, two years ago, when the stock was $45 a share. [We] are a very solid company.

997. Moreover, Mozilo stated during the CNBC interview that his stock sales were out of his hands and in line with investors' interests:

> The upcoming sales are driven by rules within the 10b5-1 plan that were established long ago, and should in no way be viewed as any indication of my future outlook for Countrywide. . . . As one of Countrywide's largest individual shareholders, ***my interests are firmly aligned with those of our other investors.***

998. Also on August 23, 2007, Mozilo was interviewed by Neil Cavuto of Fox News. Mozilo responded to a question regarding Countrywide's lending practices:

> We're lending the money. It would be foolhardy for us to lend money to someone, A, by duping them, and, secondly, to think that we wouldn't be paid back. ***We never make a loan where we think that we're creating a situation where we couldn't be paid back. We try to underwrite these loans prudently.***

999. Defendant Mozilo's statements referenced above were materially false and misleading when made. Specifically, Mozilo's reassuring statements that "Countrywide would have survived without help from Bank of America" and that the Company had "no more chance for bankruptcy today . . . than it was six months ago" were false and misleading for the reasons set forth in Section IV.H above. Additionally, Mozilo's statement that his "interest[s] are firmly aligned

with those of our other investors" was false and misleading for the reasons set forth above in Section V.D.5.

1000. Analysts still maintained their faith in the Company in reliance on management's false and misleading statements. For example, on August 23, 2007, analysts at Piper Jaffray rated Countrywide's shares "Outperform." Several other analysts also raised or maintained their stellar recommendations and earnings estimates for Countrywide as a result of Countrywide's fraudulent misrepresentations:

- On August 23, 2007, Citigroup rated Countrywide's stock a "Buy." Analysts stated that the Bank of America $2 billion infusion "should enable CFC to continue to play a leadership role during the U.S. mortgage market's return of normalcy."
- On August 23, 2007, Credit Suisse rated Countrywide's shares "Outperform."

1001. **Corrective Disclosure on August 24, 2007.** On August 24, 2007, Fitch Ratings downgraded Countrywide Home Loans, Inc.'s servicer ratings with respect to a series of loan categories and placed the ratings on "Rating Watch Evolving" status – a signal that the ratings could be cut again. In its press release announcing the downgrades, Fitch noted "the continued pressure on CHL's liquidity position and financial flexibility" as well as "delinquency" challenges.

1002. Fitch's downgrade constituted an additional partial corrective disclosure concerning prior false and misleading statements by defendants with respect to Countrywide's access to liquidity, Countrywide's lax loan origination and underwriting standards, the soundness and stability of Countrywide's business and finances, Countrywide's ability to weather the downturn in the housing market, and Countrywide's ability to thrive and gain marketshare from weaker competitors during the housing market downturn.

1003. Countrywide's stock declined by approximately 4.6% on August 24, 2007, from $22.02 to $21.00, on high volume of 66,189,400 shares. This loss, which was caused by the August 24 partial corrective disclosure, was dramatically larger, to a statistically significant extent, than any losses Class members would have sustained as a result of ordinary market forces.

1004. **<u>Corrective Disclosure on August 27, 2007</u>.** On August 27, 2007, Lehman Brothers issued a report that lowered earnings projections for Countrywide based in large part on the analysts' assessment that Countrywide would have to mark down to market (i.e. mark down to their actual, and now reduced, market value) the value of "non-conforming" loans that Countrywide reflected on its balance sheet. The Lehman Brothers report was an additional indication to the investing public that Countrywide's financial statements and related SEC filings included false and misleading information, including with respect to the inflated asset values for loans incorporated into Countrywide's balance sheet that should have been significantly marked down to their true worth in the marketplace pursuant to GAAP. The Lehman Brothers report was a further partial disclosure that Countrywide's claims that it was a well-managed lender that had adhered to conservative underwriting and loan origination standards were false.

1005. Countrywide's stock price fell on August 27, 2007 by 4.8%, from $21.00 to $20.00, on high volume of 46,671,300 shares. This loss, which was caused by the August 27 partial corrective disclosure, was dramatically larger, to a statistically significant extent, than any losses Class members would have sustained as a result of ordinary market forces.

1006. **<u>Corrective Disclosure on September 10, 2007</u>.** After the market closed on Friday, September 7, 2007, Countrywide announced a plan to lay off between "10,000 to 12,000 [employees] over the next three months representing up to 20 percent of its current workforce." This announcement of massive layoffs constituted a further partial correction of multiple prior false statements by Countrywide officials, including statements that Countrywide was well positioned to weather the credit crisis, that its financial condition was sound, and that Countrywide would strengthen its position within the lending industry during the crisis by capturing market share from weaker competitors.

1007. The market reacted to Countrywide's announcement on Monday, September 10, 2007 – the next business day. Countrywide's stock fell 5.5% on September 10, from $18.21 to $17.21, on high volume. This loss, which was caused by the September 7 partial corrective disclosure, was dramatically larger, to a statistically significant extent, than any losses Class members would have sustained as a result of ordinary market forces.

1008. **Corrective Disclosure on October 24, 2007.** Before the markets opened on Wednesday, October 24, 2007, *The Wall Street Journal* published a major article that constituted a further partial revelation to the investing public of the truth regarding Countrywide's loan origination and underwriting practices.

1009. The October 24 *Journal* story revealed a series of important pieces of information to the investing public, much of which related to Countrywide's Pay Option ARMs.

1010. The *Journal*'s October 24 story began by explaining that:

> Subprime mortgages aren't the only challenge facing Countrywide Financial Corp., the nation's biggest home-mortgage lender. Some loans classified as prime when they were originated are now going bad at a rapid pace.

The *Journal* further revealed:

> An analysis prepared for *The Wall Street Journal* by UBS AG shows that 3.55% of option ARMs originated by Countrywide in 2006 and packaged into securities sold to investors are at least 60 days past due. That compares with an average option-ARM delinquency rate of

2.56% for the industry as a whole and is the highest of six companies analyzed by UBS.

1011. The *Journal* also noted that:

"Among option ARMs held in its own portfolio, 5.7% were at least 30 days past due as of June 30, the measure Countrywide uses. That's up from 1.6% a year earlier. Countrywide held $27.8 billion of option ARMs as of June 30, accounting for about 41% of the loans held as investments by its savings bank. An additional $122 billion have been packaged into securities sold to investors, according to UBS.

1012. The *Journal* declared that "the deteriorating performance of option ARMs is evidence that lax underwriting that led to problems in subprime loans is showing up in the prime market, where defaults typically are minimal." In addition, the *Journal* quoted UBS analyst Shumin Li, who stated that "at Countrywide 'they were giving these loans to riskier and riskier borrowers.'"

1013. This article partially corrected prior material false and misleading statements, including Countrywide's and Mozilo's repeated representations that Countrywide maintained conservative loan origination and underwriting standards, that Countrywide was well-positioned to endure the housing industry downturn, and that Countrywide would thrive during the downturn by capturing marketshare from weaker competitors.

1014. On October 24, Countrywide's stock price fell by 8.1%, from $15.05 to $13.83 on volume of 66,182,900 shares, as compared to 29,945,200 shares the prior trading day. This loss, which was caused by the October 24 partial corrective disclosure, was dramatically larger, to a statistically significant extent, than any losses Class members would have sustained as a result of ordinary market forces. Countrywide's other securities also experienced material and statistically significant drops in their trading prices as a result of the October 24, 2007 partial disclosures, including the trading price of the CCV 7% Capital

Securities (preferred stock), which fell by 9.05%; the trading price of the Countrywide Capital IV 6.75% Capital Securities (preferred stock), which fell by 10.82%; the trading price of the 6% Notes due April 2035, which fell by 9.53%; and the trading price of the 6.3% Notes due April 2036, which fell by 9.44%.

1015. **Corrective Disclosure and Continued Misrepresentations on October 26, 2007.** On October 26, 2007, before the stock market opened, Countrywide issued a press release and filed a Form 8-K reporting its financial results for the third quarter of 2007, including an enormous quarterly loss of $1.2 billion, or $2.85 per share, ***the Company's first quarterly loss in 25 years.*** Among other disclosures related to the third quarter were a $1 billion write-down of the Company's loans and mortgage-backed securities; an increase in loan loss provisions to $934 million, compared to $293 million in the prior quarter and $38 million in the third quarter of 2006; and an increase in the provisions for representations and warranties to $291 million, compared to $79 million in the prior quarter and $41 million in the third quarter of 2006.

1016. Countrywide and various individual defendants – led by Defendant Mozilo – managed, however, to temporarily swamp the poor performance that Countrywide reported on October 26 with a series of false statements, in both the press release and during an earnings conference call that day, that reassured the investing public and sent Countrywide's stock price up that day by an extraordinary 32.4% to close at $17.30.

1017. These statements included the following:

(a) Defendant Mozilo's statement in the press release that "during the period [the third quarter] we . . . laid the foundation for a return to profitability in the fourth quarter," and in the earnings call that "we expect to return to profitability in the fourth quarter and we anticipate that 2008 will also be profitable;" Similarly, the press release quoted Defendant

Sambol as saying that "[w]e . . . anticipate that the Company will be profitable in the fourth quarter and in 2008";

(b) Defendant Mozilo's denial in the earnings call that he had engaged in insider trading. Mozilo declared that "I would like to state ***categorically*** that at ***no*** time did I make ***any*** trading decisions based on any material non-public information and I fully complied with all . . . applicable securities laws in connection with my trading plans";

(c) Defendant Sambol's statement in the earnings call that "we see long-term prospects for . . . Countrywide to remain very attractive. The company has sufficient capital, liquidity and financing capacity for its operating needs and its growth needs. And coming through this environment, CFC continues to possess all of its key historical competitive advantages . . . "; Mozilo's similar statement in the press release that "[t]he Company has sufficient capital, liquidity and financing capacity for its operating needs and its growth needs"; and Sieracki's similar statement during the earnings call that "[w]e now have ample and growing funding liquidity. . . . The mortgage company has adequate liquidity to fund all debt maturities through 2008, without raising any new debt. . . . So you can see the liquidity situation is very strong at Countrywide at September 30, 2007"; and

(d) The statements by Sambol on the earnings call that seconded the views of an analyst who touted the Company's loan loss reserve methodology, claiming that it is better than its peers:

> But one other aspect of our reserves that is worth mentioning is we have a reserve methodology, at least we have had to date . . . that we think is somewhat conservative relative to what most of our peers do. And what we do it is where maybe some of our peers book in their reserve what

> they believe to be one year's worth of forward charge-offs, maybe five quarters in the case I think as we have looked at the landscape, the most conservative guide, we have a reserve methodology that books more than five quarters of expected losses. And it is because what we do is we book kind of a reserve for the lifetime losses on loans that are delinquent today, 90+ delinquent, as well as the lifetime expected losses on loans that will go delinquent within the next 12 months.

1018. Defendants Mozilo's and Sambol's statements referenced above were materially false and misleading when made. Specifically, the reassuring statements made by Mozilo and Sambol that, for example, "we expect to return to profitability in the fourth quarter" and "[t]he Company has sufficient capital, liquidity and financing capacity," and the similar statements by Mozilo, Sambol and Sieracki that "[t]he Company's liquidity is stable and improving" and "[w]e now have ample and growing funding liquidity" were false and misleading for the reasons set forth in Section IV.H above. Also, Mozilo's denial of insider trading was false for the reasons detailed in Section V.D above. Further, Sambol's statements that Countrywide "ha[s] a reserve methodology that books more than five quarters of expected losses" and "is somewhat conservative relative to what most of our peers do" were false and misleading. See Section IV.G.3 above.

1019. Several analysts either raised or maintained their stellar recommendations for Countrywide in reliance on Defendants' fraudulent misrepresentations:

- On October 26, 2007, Morgan Stanley analysts rated Countrywide's stock as "Equal-weight" and stated that "[w]e feel substantially more confident in the company's liquidity."

- On October 29, 2007, Credit Suisse analysts rated Countrywide's stock as "Outperform" and stated that "we do believe that its credit and reserve position is solid and will likely prove conservative relative to many market participants."
- On October 29, 2007, Fox-Pitt Kelton analysts rated Countrywide's stock "Outperform" and stated "we are optimistic that Q3 represents a trough for the company."

1020. **<u>Corrective Disclosure on October 30, 2007</u>.** Before the markets opened on Tuesday, October 30, *The Wall Street Journal* published a further article that partially corrected prior material false and misleading statements by defendants.

1021. Most notably, the *Journal* reported that "some analysts warn that [Countrywide] . . . hasn't gone far enough in marking down the value of mortgage securities it holds." The *Journal* noted that in addition to "question[ing] whether Countrywide has gone far enough in marking down assets," two specific analysts that it cited – Frederick Cannon of Keefe, Bruyette & Woods, and Paul J. Miller Jr. of Friedman, Billings, Ramsey & Co. – also questioned whether Countrywide had adequately "provid[ed] for future loan losses." The *Journal* article represented a further partial corrective disclosure with regard to the veracity of Countrywide's accounting, in particular with respect to the value of the assets that Countrywide reported based on mortgages that it held, and with respect to Countrywide's loan loss reserves.

1022. The *Journal* also asserted that Countrywide "may have trouble delivering on" what the *Journal* termed its "profit vow" the prior Friday, October 26 – that it would return to profitability in the fourth quarter of 2007 and through 2008 – thereby partially correcting Countrywide's and Mozilo's false October 26 profit representations.

1023. The *Journal*'s October 30 article also partially corrected prior false statements by Countrywide about its access to liquidity, its institutional stability, and its ability to thrive during the housing downturn. The *Journal* noted in that regard that "lenders like Countrywide can no longer fund themselves with short-term borrowings in the capital markets, such as by issuing commercial paper." Quoting analyst Cannon, the *Journal* further noted, among other matters, that "Countrywide has yet to show that it can 'earn above its cost of capital,'" and that it appeared that Countrywide "can raise funds 'only at very high prices.'"

1024. Countrywide's stock declined on October 30 by approximately 5.3%, from $16.83 to $15.94, on high volume. This loss, which was caused by the October 30 partial corrective disclosure, was dramatically larger, to a statistically significant extent, than any losses Class members would have sustained as a result of ordinary market forces.

1025. **Corrective Disclosure on November 7, 2007.** On November 7, 2007, Gradient Analytics, Inc. ("Gradient"), an independent equity research firm, issued a 27-page report detailing six techniques "for misstating the earnings and net assets at firms that are heavily invested in mortgages and related securities." The Gradient report analyzed five major U.S. mortgage businesses, including Countrywide. The report concluded, *inter alia*, that Countrywide "appears to be at risk from virtually all of the mortgage accounting games highlighted in this report." The Gradient report then elaborated at some length about dubious features of Countrywide's financial reporting.

1026. For example, Gradient indicated that:

– "[W]e expect to see more losses reported down the road" from write-downs of "CFC's retained interests."

– "Gradient believes that the company's MSRs [mortgage servicing rights] may be materially overstated."

- "CFC's loans held for investment – and particularly its Option ARMs – may be subject to a high risk of misstatement at the present time."
- "[W]e would expect negative amortization to be a significant problem."
- "[T]here may be a substantially larger impairment that has been avoided by [Countrywide] changing the classification of . . . loans to the held for investment category."

1027. Countrywide's stock declined on November 7, 2007 by approximately 9.3%, from $15.02 to $13.63, on high volume. This loss, which was caused by the November 7 partial corrective disclosure, was dramatically larger, to a statistically significant extent, than any losses Class members would have sustained as a result of ordinary market forces. Countrywide's other securities also experienced material and statistically significant drops in their trading prices as a result of the November 7, 2007 partial disclosures, including the trading price of the 7% Capital preferred stock, which fell by 4.02%; and the trading price of the 6.75% Capital IV preferred stock, which fell by 5.41%.

1028. **Misrepresentations on November 9, 2007.** On November 9, 2007, Countrywide filed its Form 10-Q report for the third quarter of 2007, ended September 30, 2007. In the Form 10-Q, which Defendants Sambol and Sieracki signed, Countrywide once again stated that during the industry downturn, "[w]e also believe that many opportunities will present themselves to the Company as a result of the market transition taking place, and that Countrywide is well positioned to capitalize on these opportunities."

1029. In a section titled "Valuation of MSRs and Other Retained Interests," the Company reported that the fair value of the retained interests on its balance sheet as of September 30, 2007 was $2,463,528,000. The impairment taken on the fair value of its retained interests equaled $716,658,000.

1030. In the "Off-Balance Sheet Arrangements and Guarantees" section, Countrywide described the representations and warranties exposure associated with the securitization of its loans as follows: "We do not believe that any of our off-balance sheet arrangements have had, or are reasonably likely to have, a current or future material effect on our financial condition, results of operations, liquidity, capital expenditures or capital resources."

1031. In a section titled "Credit Risk Management," the Company also stated the liabilities associated with the risk of representation and warranties as "totaling $639,647,000."

1032. In a section titled "Securitizations," the Company reported that the fair value of MSRs as of September 30, 2007 was $20,068,153,000.

1033. Also, in the section entitled "Controls and Procedures," Countrywide described the adequacy of its internal controls:

> There has been no change in our internal control over financial reporting, other than discussed above, during the quarter ended September 30, 2007 that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

1034. Further assuring investors of the veracity of the information contained in the Form 10-Q, the report included a SOX certification signed by Defendants Mozilo and Sieracki, representing that the "report does not contain any untrue statement of a material fact" and "the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition" of Countrywide.

1035. The statements referenced above in the third quarter 2007 Form 10-Q were materially false and misleading when made. Countrywide's statement that it "is well positioned to capitalize on . . . opportunities" was false and misleading for the same reasons set forth in Section IV.H above. The Company's statement in the Form 10-Q relating to the value of its retained interests, MSRs and statements relating to its representations and warranties were false and misleading for the reasons stated in Section IV.G above. The statements relating to internal controls were false and misleading for the same reasons set forth in Section IV.G.5. The SOX certifications signed by Defendants Mozilo and Sieracki were false and misleading for the same reasons stated in Section IV.G above.

1036. **Corrective Disclosure on November 26, 2007.** On November 26, 2007, before the securities markets opened, *The Wall Street Journal* published an article that detailed Countrywide's heavy dependence on the Federal Home Loan Bank of Atlanta ("FHLB") as a source of liquidity that had, since mid-August 2007, been important to allowing Countrywide to remain in business. The article also reported that Countrywide's ability to use the FHLB as a source of liquidity was near an end.

1037. Specifically, the *Journal* reported that:

> "When Countrywide Financial Corp. Chief Executive Angelo Mozilo needs cash to fund home loans these days, he doesn't look to investment banks in New York or London.
>
> He relies mainly on the quasigovernmental Federal Home Loan Bank in Atlanta.
>
> * * *
>
> The Atlanta home loan bank has helped to keep Countrywide in business since mid-August, when investors' fears over default risk shut off mortgage lenders' ability to raise money through commercial paper or other short-term borrowings. Countrywide has replaced that funding mainly by tapping the Atlanta bank, where its borrowings

> totaled $51.1 billion as of Sept. 30, up 77% from three months earlier."

1038. The *Journal* also reported that "the home loan bank . . . limit[s] any member's total advances to 50% of that member's assets." The *Journal* explained that "Countrywide's savings bank had assets of $106 billion at the end of October, which suggests that its advances are near that ceiling."

1039. The FHLB's limitation of member banks to borrowing 50% of their assets necessarily implied that Countrywide was very close to its borrowing ceiling because, as noted, Countrywide's bank "had assets of $106 billion." Fifty percent of $106 billion equals $53 billion. Because, as the *Journal* reported, Countrywide had already borrowed $51.1 billion from the FHLB, by implication it could borrow only about $1.9 billion more without violating the FHLB's 50% of assets borrowing limitation ($53 billion - $51.1 billion = $1.9 billion). $1.9 billion represents only a small fraction of the total liquidity Countrywide had to have access to each month to remain in business.

1040. The *Journal*'s article about Countrywide's dependence on the FHLB as a source of liquidity and of the likely exhaustion of Countrywide's ability to turn to the FHLB was a partial correction of a number of prior false and misleading statements by Defendants. In particular, it corrected recent false statements about Countrywide's institutional stability, its ability to weather the downturn in the housing market, its ability to gain market share from competitors, and its access to liquidity.

1041. Following the publication of the *Journal*'s November 26 article, Countrywide's stock declined by approximately 10.5%, from $9.65 to $8.64, on a volume of 54,940,000 shares, as compared to a volume of 21,627,700 shares on the prior trading day. This loss, which was caused by the November 26 partial corrective disclosure, was dramatically larger, to a statistically significant extent, than any losses Class members would have sustained as a result of ordinary market forces.

1042. **<u>Corrective Disclosures on December 13, 2007</u>.** On December 13, 2007, there were three partial corrective disclosures.

1043. First, before the market opened, Countrywide issued a press release and filed a Form 8-K releasing its November 2007 operational data. In this monthly operating report, Countrywide disclosed a further deterioration in its delinquency and foreclosure rates. Among other matters, for example, Countrywide disclosed that, as of November 30, 2007, its rate of delinquency as a percentage of loans serviced had increased to 6.34%.

1044. Countrywide's December 13 disclosure of continued high rates of delinquencies and foreclosures was a further partial corrective disclosure with regard to Countrywide's false and misleading representations about the quality of its loan origination and underwriting standards. In addition, the report served as a partial corrective disclosure with respect to aspects of Countrywide's financial reporting, including Countrywide's loan loss reserves and its reported assets. The report was also a partial corrective disclosure with regard to Countrywide's false and misleading statements that its business was sound, that Countrywide was well-positioned to withstand the downturn in the housing market, and that Countrywide was poised to capture marketshare from competitors whose condition was weaker.

1045. In addition, a second significant partial corrective disclosure on December 13 was a *New York Times* article that reported that "[t]he Illinois attorney general is investigating the home loan unit of Countrywide Financial as part of the state's expanding inquiry into dubious lending practices that have trapped borrowers in high-cost mortgages they can no longer afford." The *Times* further noted that "Lisa Madigan, the attorney general, has subpoenaed documents from Countrywide relating to its loan origination practices." In addition, among other matters, the *Times* quoted Illinois Attorney General Madigan as saying about "a Chicago mortgage broker" for which Countrywide was the "primary lender" that "[t]his company's conduct is a prime example of unscrupulous mortgage brokers that has led to a foreclosure crisis for many Illinois homeowners."

1046. The *Times* article represented a further disclosure that partially corrected defendants' prior material false and misleading statements regarding, among other matters, Countrywide's loan origination and underwriting practices; the accuracy and integrity of its accounting including, in particular, the adequacy of its loan loss reserves and the valuation of loans that it reflected as assets on its balance sheet; its business ethics; its institutional strength and stability; its ability to thrive during the housing downturn; and its ability to sustain itself as a viable independent business.

1047. A third partial corrective disclosure on December 13, 2007 was an announcement by Fitch Investment Research that it was downgrading 110 classes of residential mortgage backed securities from 28 Countrywide transactions. Fitch's downgrade constituted a further partial corrective disclosure with respect to the quality of Countrywide's loan origination and underwriting standards.

1048. Countrywide's stock declined on December 13, 2007 by approximately 4.3%, from $10.53 to $10.08 on high volume. This loss, which was caused by the December 13 partial corrective disclosures, was dramatically larger, to a statistically significant extent, than any losses Class members would have sustained as a result of ordinary market forces.

1049. **<u>Corrective Disclosure and Continued Misrepresentations on January 8, 2008</u>.** On January 8, 2008, before the markets opened, *The New York Times* published an article that reported that "Countrywide Financial Corporation fabricated documents related to the bankruptcy case of a Pennsylvania homeowner, court records show, raising new questions about the business practices of the giant mortgage lender at the center of the subprime mess." The *Times* noted that the fabricated documents, which it described as "three letters from Countrywide addressed to . . . [a] homeowner," were written in connection with "one of 300 bankruptcy cases in which Countrywide's practices have come under scrutiny in western Pennsylvania." The *Times* quoted U.S. Bankruptcy Judge Thomas P. Agresti, who presides over the case in connection with which the letters were written, as saying that "[t]hese letters are a smoking gun that something is not right in Denmark."

1050. The January 8, 2008 *Times* article served as a partial corrective disclosure with respect to a series of false representations by Countrywide. Those representations included statements about Countrywide's business ethics, and about the competence and accuracy of both Countrywide's management and its information and financial reporting systems.

1051. In response, Countrywide stock plummeted by approximately 28.4% that day, from $7.64 to $5.47, on extraordinary volume of 178,828,900 shares compared to 38,088,800 shares the prior trading day. This loss, which was caused by the January 8 partial corrective disclosure, was dramatically larger, to a statistically significant extent, than any losses Class members would have sustained as a result of ordinary market forces. Countrywide's other securities also experienced material and statistically significant drops in their trading prices as a result of the January 8, 2008 partial disclosures, including the trading price of the 7% Capital V preferred stock, which fell by 22.61%; the trading price of the 6.75% Capital IV preferred stock, which fell by 21.96%; the trading price of the 6.25% Subordinated Notes due May 15, 2016, which fell by 13.74%; the trading price of the 6% Notes due November 2035, which fell by 7.04%; and the trading price of the 6.3% Notes due April 2036, which fell by 6.99%.

1052. Nonetheless, these losses were tempered by additional misrepresentations by Defendants made on the same day. On January 8, 2008, Reuters reported in an article titled "Countrywide Rejects Bankruptcy Rumor" that Countrywide had stated that "[t]here is no substance to the rumor that Countrywide is planning to file for bankruptcy, and we are not aware of any basis for the rumor that any of the major rating agencies are contemplating negative action relative to the company."

1053. The Company's statement alleged in the prior paragraph was false and misleading for the same reasons set forth in Section IV.H above.

1054. **Corrective Disclosure on January 9, 2008**. On January 9, 2008, before the market opened, Countrywide issued a press release and filed a Form 8-K releasing its operational data for December 2007. In this monthly operating report, Countrywide disclosed that by December 31, 2007, its rate of pending foreclosures as a percentage of unpaid principal balance had more than doubled to 1.44%, compared to 0.70% as of December 31, 2006. Similarly, Countrywide also disclosed that by December 31, 2007, its rate of delinquency as a percentage of unpaid principal balance had increased by more than 50% to 7.20%, compared to 4.6% as of December 31, 2006.

1055. As a Reuters article published after the markets closed on January 9 explained, the rates of foreclosures and delinquencies that Countrywide disclosed in its December monthly operating report were "the highest on record, sending its shares tumbling . . . to their lowest in nearly 13 years." As Reuters noted, "[a]nalysts attributed Wednesday's drop to deteriorating credit quality reflected in Countrywide's monthly operating report, and renewed concern the lender might not survive the housing crunch and could seek bankruptcy protection." Reuters quoted Lehman Brothers analyst Bruce Harting's statement that "[t]he extent of the deterioration is a surprise and does not bode well for the fourth-quarter results of companies with mortgage credit exposure that may have to further add to reserves."

1056. Countrywide's January 9 revelation of its unexpectedly high rates of foreclosures and delinquencies was a partial corrective disclosure with respect to a number of defendants' prior false and misleading statements. In particular, it was a further partial corrective disclosure with regard to Countrywide's representations about the quality of its loan origination and underwriting standards. In addition, it served as a partial corrective disclosure with respect to the accuracy of Countrywide's financial reporting, including its loan loss reserves and its reported assets. It was also understood by the market to be a partial corrective disclosure with regard to Countrywide's false statements on October 26, 2007 about the likelihood that Countrywide would return to profitability in the fourth quarter of 2007 and in 2008.

1057. Countrywide's stock closed down on January 9, 2008 by approximately 6.4%, from $5.47 to $5.12, on heavy volume of 164,027,600 shares. This loss, which was caused by the January 9 partial corrective disclosure, was dramatically larger, to a statistically significant extent, than any losses Class members would have sustained as a result of ordinary market forces. Countrywide's other securities also experienced material and statistically significant drops in their trading prices as a result of the January 9, 2008 partial disclosures, including the trading price of the 7% Capital V preferred stock, which fell by 3.9%; the trading price of the 6.75% Capital IV preferred stock, which fell by 6.6%; the trading price of the 6.25% Subordinated Notes Due May 15, 2016, which fell by 9.17%; the trading price of the 3-Year Floating Rate Notes Due 2008, which fell by 4.36%; and the trading price of the 6% Notes due November 2035, which also fell by 4.36%.

1058. **Announcement of Merger Agreement on January 11, 2008**. Before the securities markets opened on Friday, January 11, 2008, "Bank of America Corporation . . . announced a definitive agreement to purchase Countrywide Financial Corp. in an all-stock transaction worth approximately $4 billion." Specifically, Bank of America agreed to offer 0.1822 shares of its stock to Countrywide shareholders for every Countrywide share they held.

1059. The previous day, Thursday, January 10, Countrywide stock had soared in value by approximately 51.4% to close at $7.75 after *The Wall Street Journal* first reported at 2:15 p.m. that Bank of America was "in advanced talks to acquire . . . Countrywide."

1060. After Bank of America disclosed the terms of the purchase on Friday, January 11, however, Countrywide's stock price slumped back down to close at $6.33, giving up the majority of its gain the day before.

1061. The approximately $4 billion that Bank of America announced on January 11 that it was paying for Countrywide represented only about 27% of Countrywide's most recently reported book value of approximately $15.3 billion, which was reported as of September 30, 2007.

1062. Bank of America's decision to purchase Countrywide for only approximately 26% of Countrywide's book value following the completion of comprehensive due diligence represented a partial corrective disclosure with respect to a series of false and misleading statements that had been made by Defendants.

1063. Among other matters, the low purchase price of Countrywide relative to book value represented a disclosure that Countrywide's financial statements continued to falsely overvalue Countrywide's assets (including, in particular, residual securities, loans held for investment, and loans held for sale), and continued to understate Countrywide's loan loss reserves.

1064. A January 11, 2008 report by Wachovia Capital Markets commented:

> The purchase price of roughly $4B is well below the most recently reported equity capital base of $15B. We believe that BAC [Bank of America Corporation] will use the difference (negative goodwill) to

> write down a large percentage of CFC's assets. Candidates include residual securities, the $84B held for investment portfolio (mostly option ARMs and high LTV prime home equity loans) and the $31B held for sale portfolio, which includes a large portfolio of subprime loans.

1065. Countrywide's stock price declined on January 11, 2008 by approximately 18.3%, from $7.75 to $6.33, on heavy volume of 234,155,300 shares. This loss, which was caused by the January 11 partial corrective disclosure, was dramatically larger, to a statistically significant extent, than any losses Class members would have sustained as a result of ordinary market forces.

1066. **Misrepresentation on January 29, 2008.** *Bloomberg* reported on January 29, 2008, in an article titled "Countrywide KB Home Loans Accused of Fraud by Whistleblower," that Mark Zachary, a former regional vice president of a Countrywide Financial Corp. and KB Homes joint venture, claimed he had been fired for rejecting unqualified borrowers and reporting illegal and unethical lending practices to management. Countrywide said in an e-mailed statement that it "has policies and procedures in place that aim to prevent the type of activities Mr. Zachary is alleging." Countrywide's statement was false and misleading for the reasons set forth in Section IV.C.3.

1067. **Corrective Disclosure on February 5, 2008.** On Monday, February 4, 2008, very shortly before the stock market closed, Standard & Poor's Ratings Services placed certain "residential loan, subprime, subordinate-lien, and special servicer rankings" relating to Countrywide Home Loans "on creditwatch with negative implications."

1068. Standard & Poor's explained that "[t]he creditwatch placements reflect increased scrutiny of Countrywide's servicing practices by various federal and state enforcement agencies, including the office of the U.S. Trustee and the office of the Florida Attorney General."

1069. Standard & Poor's February 4, 2008 placement of Countrywide Home Loans on creditwatch with negative implications served as a partial corrective disclosure with respect to a series of false representations by Countrywide. Those representations included statements about Countrywide's business ethics, and about the competence and accuracy of Countrywide's management, and information and financial reporting systems.

1070. As noted above, Standard & Poor's creditwatch action was reported by the media very shortly prior to the close of the stock market on Monday, February 4. The following day, Countrywide's stock declined by approximately 8.6%, from $7.22 to $6.60, on high volume. This loss, which was caused by the February 4 partial corrective disclosure, was dramatically larger, to a statistically significant extent, than any losses Class members would have sustained as a result of ordinary market forces.

1071. **<u>Corrective Disclosure on March 6, 2008</u>.** On March 6, 2008, the *Chicago Sun-Times* reported that "Illinois Attorney General Lisa Madigan issued subpoenas to Countrywide Home Loans Inc. and Wells Fargo Financial Illinois to determine if they unfairly steered African American and Latino borrowers into higher cost or otherwise inappropriate home loans in violation of fair lending and civil rights laws." The Illinois Attorney General was quoted as saying that "[t]he difference in cost between the home loans sold to white borrowers and those sold to African-American and Latino borrowers is alarming." In addition, her office said in a statement that "[i]ncome level does not appear to account for the difference in pricing." Reportedly, "[t]he wealthiest African-American homeowners were still more likely than the poorest white borrowers to get placed in high-cost loans."

1072. Media coverage of the Illinois Attorney General's investigation served as a partial corrective disclosure with regard to a series of defendants' false and misleading statements, including statements denying that Countrywide engaged in predatory lending; statements affirming that Countrywide maintained appropriate loan origination and underwriting standards; and statements regarding Countrywide's ethical standards and the quality of its management.

1073. Countrywide's stock price declined on March 6, 2008 by approximately 8.8%, from $5.70 to $5.20, on volume exceeding 32 million shares. This loss, which was caused by the March 6 partial corrective disclosure, was dramatically larger, to a statistically significant extent, than any losses Class members would have sustained as a result of ordinary market forces.

1074. **Corrective Disclosure on March 8, 2008.** On Saturday, March 8, 2008, *The Wall Street Journal* reported that "[t]he Federal Bureau of Investigation is probing . . . Countrywide Financial Corp. for possible securities fraud." The *Journal* further reported that "***[t]he inquiry involves whether company officials made misrepresentations about the Company's financial position and the quality of its mortgage loans in securities filings***, four people with knowledge of the matter said." The *Journal* also noted that "Countrywide issued more than $100 billion in mortgage-backed securities between 2004 and 2007" and that "[m]ore than two dozen Wall Street firms helped construct those deals, making it possible that some of them will also face law-enforcement scrutiny." The *Journal* also reported that:

> Federal investigators are looking at evidence that may indicate widespread fraud in the origination of Countrywide mortgages, said one person with knowledge of the inquiry. If borne out, that could raise questions about whether company executives knew about the prospect that Countrywide's mortgage securities would suffer many more defaults than predicted in offering documents.
>
> Another potential issue facing the company is whether it has been candid in its accounting for losses. People familiar with the matter

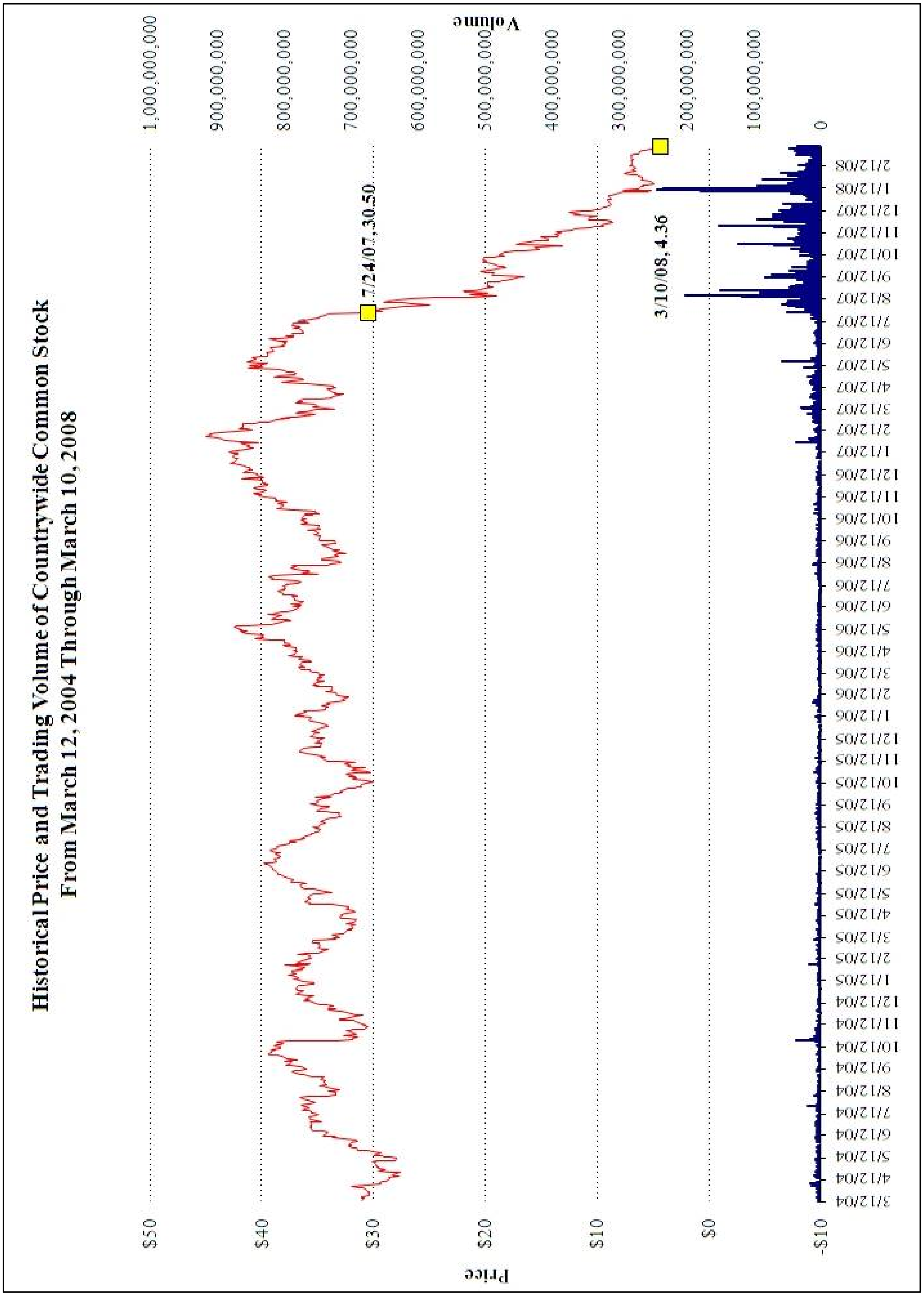
said that Countrywide's losses may be several times greater than it has disclosed.

1075. The *Journal*'s March 8, 2008 story was a further partial corrective disclosure with regard to a series of prior false and misleading statements by defendants. Among other matters, the March 8 *Journal* story constituted a partial corrective disclosure with regard to false and misleading representations made by defendants in Countrywide's financial statements and related SEC filings, including, but not limited to, representations concerning Countrywide's loan loss reserves, earnings, and assets. The story also constituted a partial corrective disclosure with regard to Countrywide's prior false and misleading representations about its business ethics and the quality of its management. In addition, the March 8 *Journal* story partially corrected Defendants' prior false and misleading statements about Countrywide's institutional stability and its ability to weather the housing crisis and to capture market share at the expense of purportedly weaker competitors. The story further partially corrected, among other matters, Defendants' prior false and misleading statements about the quality of Countrywide's loan origination and underwriting standards.

1076. On Monday, March 10, 2008, the first day that the securities markets were open following the publication of the *Journal*'s March 8 story, Countrywide stock declined by approximately 14%, from $5.07 to close at $4.36 — its lowest level since April 1995 — on volume exceeding 35 million shares. This loss, which was caused by the March 8, partial corrective disclosure, was dramatically larger, to a statistically significant extent, than any losses Class members would have sustained as a result of ordinary market forces. Countrywide's other securities also experienced material and statistically significant drops in their trading prices as a result of the March 8, 2008 partial disclosures, including the trading price of the 7% Capital V preferred stock, which fell by 17.56%; and the trading price of the 6.75% Capital IV preferred stock, which fell by 16.98%.

X. LOSS CAUSATION

1077. Throughout the Class Period, the prices of Countrywide common stock, the Countrywide Capital V 7% Capital Securities, Countrywide debt securities listed in Section VIII.F above, and Countrywide call options were artificially inflated (and the price of Countrywide put options were artificially reduced) as a direct result of Defendants' materially false and misleading statements and omissions. When the truth became known, the prices of Countrywide securities declined precipitously as the artificial inflation was removed from the prices of these securities, causing substantial damage to Plaintiffs and members of the Class. The chart below shows the fluctuation of the price of Countrywide common stock during the Class Period:


Historical Price and Trading Volume of Countrywide Common Stock
From March 12, 2004 Through March 10, 2008
Volume
Price
7/24/07, 30.50
3/10/08, 4.36
1,000,000,000
900,000,000
800,000,000
700,000,000
600,000,000
500,000,000
400,000,000
300,000,000
200,000,000
100,000,000
0
$50
$40
$30
$20
$10
$0
-$10

1078. During the Class Period, Countrywide common stock traded as high as $45.03 per share as recently as February 2, 2007, and closed at $34.06 per share just prior to the July 24, 2007 conference call. Over the next five and a half months, as the truth continued to emerge, Countrywide's common stock price plummeted to $5.12 per share on January 9, 2008, just prior to the announcement of the Bank of America merger. While this announcement was viewed as a positive event, causing Countrywide's stock price to partially recover, additional revelations soon came to light causing the stock to fall, from a high (after the announcement) of $7.75 per share, by another 44% to the end of the Class Period, to $4.36 per share.

1079. In all, as a consequence of the revelation of the truth concerning Countrywide during the Class Period, ***Countrywide common stock lost in excess of $25 billion in market capitalization, or more than 90% of its value.***

1080. Specific dates of adverse disclosure, and corresponding declines in the price of Countrywide common and preferred stock, and representative debt securities, are set forth in Section IX above.

1081. Moreover, the adverse consequences of Countrywide's partial disclosures beginning on July 24, 2007 through the end of Class Period, and the adverse impact of those circumstances on the Company's business going forward, were entirely foreseeable to Defendants at all relevant times. Defendants' conduct, as alleged herein, proximately caused foreseeable losses and damages to Plaintiffs and members of the Class.

1082. As set forth above, the Company's failure to maintain effective internal controls, its substantially loosened loan origination and underwriting standards, and its failure to report its 2004-2006 financial statements in accordance with GAAP not only were material, but also triggered foreseeable and grave consequences for the Company. The prices of the Company's securities during the Class Period were based upon its public position that Countrywide was different and unique in its business model as opposed to its competitors. The materially false and misleading statements relating to Countrywide's uniqueness bore a direct impact on the Company's financial reporting and required such reporting to violate GAAP. In turn, the financial reporting that was presented in violation of GAAP conveyed the impression that the Company was more profitable, better capitalized, and would have better access to liquidity than was actually the case. Thus, the precipitous declines in value of the securities purchased by the Class were a direct, foreseeable, and proximate result of the corrective disclosures of the truth with respect to Defendants' materially false and misleading statements.

1083. Similarly, the fact that the Company's end-of-Class Period adverse disclosures triggered governmental investigations into the Company's Class Period statements, reported financial results and insider selling, was an entirely foreseeable consequence of the misconduct complained of herein.

1084. The Company's undisclosed strategy shift from its materially more conservative 2003 underwriting practices, which provides the background for much of the above-referenced misconduct, had been completed substantially before the time of (a) Defendant Kurland's alleged false and misleading statements regarding whether Countrywide had in fact loosened its underwriting standards and (b) his subsequent departure from Countrywide in September 2006. There was no direct intervening or independent cause for any or all of the losses the members of the class suffered from the time of those two events and the time the losses were incurred. As such, Kurland's alleged misconduct was equally a foreseeable cause of those losses, with those losses dependent in part on Kurland's earlier role in actively masquerading the truth with regard to Countrywide's improper practices. Kurland's misconduct related to precisely the zone of risk relating to an investment in Countrywide securities that members of the class had considered remote, in part because of misleading statements such as those that Kurland made, and only began to take seriously when the aforementioned corrective disclosures started in July 2007, causing substantial losses to Class members. The mere passage of time between Kurland's departure from Countrywide and the beginning of the corrective disclosures did not constitute a break in the causal link between his misrepresentations relating to Countrywide's practices and the substantial losses that occurred when the market began to appreciate the truth relating to those practices.

XI. POST-CLASS PERIOD EVENTS

1085. On March 12, 2008, Fitch Ratings further downgraded Countrywide's long-term issuer default rating from BBB+ to BBB-, its lowest investment-grade rating, citing rapidly rising delinquency rates in the Company's home equity loan portfolio.

1086. On March 23, 2008, *Bloomberg News* reported that *Barron's* magazine published its annual list of the thirty best CEOs worldwide, chosen among CEOs who have been on the job for at least three years and have "delivered for shareholders" while building their reputations as executives. After including Defendant Mozilo on last year's list, *Barron's* removed him this year, calling him ***"the biggest embarrassment"*** owing to Countrywide's collapse.

1087. On March 27, 2008, CNN reported that Assured Guaranty Ltd., an insurance company that provided credit enhancement products to Countrywide during the Class Period, was re-examining the Company's lending documents for some of the $2.1 billion in guarantees Assured wrote for Countrywide's securitized HELOCs. This $2.1 billion in mortgage-backed securities "has run into trouble as defaults on the loans rose above expectations in the last few quarters." Assured is investigating whether Countrywide's representations and warranties meet the terms of the loans; if they do not, Assured will require Countrywide to repurchase them or replace them with better loans.

1088. On April 2, 2008, as reported in *The Wall Street Journal*, the United States Bankruptcy Court for the Western District of Pennsylvania authorized an in-depth probe of Countrywide's mortgage processing systems by bankruptcy investigators hunting for evidence that the Company systematically abuses borrowers. The Bankruptcy Court is presiding over 293 cases alleging widespread misconduct involving Countrywide, including claims that the Company imposed improper fees on bankrupt homeowners, refused to cash mortgage payments from court officials, violated court orders while pursuing troubled customers and, in one case, fabricated documents. The Bankruptcy Court gave a green light to an inquiry by the United States Trustee into "the impact of Countrywide's bankruptcy procedures on the integrity of the bankruptcy process," based on a showing by the Trustee that several bankruptcy cases involving Countrywide had "a common thread of potential wrongdoing."

1089. On April 4, 2008, Moody's downgraded Countrywide Bank's financial strength rating to D, or default, from C-, citing Countrywide's severe liquidity woes. A Moody's Vice President stated that these liquidity issues could threaten Countrywide Bank's current ability to continue its "franchise."

XII. CLASS ACTION ALLEGATIONS

1090. Plaintiffs bring this action on their own behalf and as a class action pursuant to Rules 23(a) and (b)(3) of the Federal Rules of Civil Procedure on behalf of a class consisting of all persons and entities which, between March 12, 2004 and March 7, 2008, inclusive (the "Class Period"), purchased or otherwise acquired the publicly traded common stock or other equity securities, debt securities, or call options of or guaranteed by Countrywide, or sold Countrywide put options, either in the open market or pursuant or traceable to a registration statement, and were damaged thereby (the "Class"). Excluded from the Class are the Defendants; the members of the immediate families of the Individual

Defendants; the subsidiaries and affiliates of Defendants; any person who is an officer, director, partner or controlling person of Countrywide (including any of its subsidiaries or affiliates, which include but are not limited to Countrywide Home Loans, Inc., Countrywide Capital V and Countrywide Capital IV) or any other Defendant; any entity in which any Defendant has a controlling interest; and the legal representatives, heirs, successors and assigns of any such excluded person or entity.

1091. The members of the Class are so numerous that joinder of all members is impracticable. As of February 24, 2006, Countrywide had 602,995,163 shares of common stock outstanding and actively trading on the NYSE with the ticker symbol "CFC." Additionally, during the Class Period, Countrywide and CCV issued billions of dollars worth of debt and preferred securities through the Underwriter Defendants. While the exact number of Class members is unknown to Plaintiffs at this time and can only be ascertained through appropriate discovery, Plaintiffs believe that the proposed Class numbers in the thousands and is geographically widely dispersed. Record owners and other members of the Class may be identified from records maintained by Countrywide or its transfer agent and may be notified of the pendency of this action by mail, using a form of notice similar to that customarily used in securities class actions.

1092. Plaintiffs' claims are typical of the claims of the members of the Class. All members of the Class were similarly affected by Defendants' allegedly wrongful conduct in violation of the Securities Act and Exchange Act as complained of herein.

1093. Plaintiffs will fairly and adequately protect the interests of the members of the Class. Plaintiffs have retained counsel competent and experienced in class and securities litigation.

1094. Common questions of law and fact exist as to all members of the Class and predominate over any questions solely affecting individual members of the Class. The questions of law and fact common to the Class include:

(a) whether the federal securities laws were violated by Defendants' acts and omissions as alleged herein;

(b) whether the registration statements and prospectuses for the Company's Offerings contained material misstatements or omitted to state material information;

(c) whether the SEC filings, press releases and other public statements made to the investing public during the Class Period contained material misstatements or omitted to state material information;

(d) whether and to what extent the Company's financial statements were not presented in conformity with GAAP during the Class Period;

(e) whether and to what extent KPMG's audits of the Company's financial statements and management's assessments of internal controls during the Class Period were not conducted in accordance with the standards of the Public Company Accounting Oversight Board;

(f) whether and to what extent the market prices of Countrywide common stock and other publicly traded securities were artificially inflated during the Class Period because of the material misrepresentations and/or omissions complained of herein;

(g) whether, with respect to Plaintiffs' claims for violations of the Securities Act, the Defendants named in those claims can sustain their burden of establishing an affirmative defense pursuant to the applicable statute;

(h) whether, with respect to Plaintiffs' claims for violations of the Exchange Act, the Defendants named in those claims acted with the requisite level of scienter;

(i) whether, with respect to Plaintiffs' claims pursuant to Section 15 of the Securities Act and Section 20(a) of the Exchange Act, the Defendants named in those claims were controlling persons of Countrywide;

(j) whether reliance may be presumed pursuant to the fraud-on-the-market doctrine; and

(k) whether the members of the Class have sustained damages as a result of the conduct complained of herein and, if so, the proper measure of damages.

1095. A class action is superior to all other available methods for the fair and efficient adjudication of this controversy because, among other things, joinder of all members of the Class is impracticable. Furthermore, because the damages suffered by individual Class members may be relatively small, the expense and burden of individual litigation make it impossible for members of the Class to individually redress the wrongs done to them. There will be no difficulty in the management of this action as a class action.

XIII. PRESUMPTION OF RELIANCE

1096. Plaintiffs are entitled to a presumption of reliance under *Affiliated Ute Citizens of Utah v. United States*, 406 U.S. 128 (1972), because the claims asserted herein against Defendants are predicated in part upon omissions of material fact which there was a duty to disclose.

1097. In the alternative, Plaintiffs are entitled to a presumption of reliance on Defendants' material misrepresentations and omissions pursuant to the fraud-on-the-market doctrine because:

(a) Countrywide's common stock was actively traded in an efficient market on the NYSE during the Class Period;

(b) Countrywide's common stock traded at high weekly volumes during the Class Period;

(c) As a regulated issuer, Countrywide filed periodic public reports with the SEC;

(d) During the Class Period, Countrywide was eligible to file, and did file, registration statements with the SEC on Form S-3;

(e) Countrywide regularly communicated with public investors by means of established market communication mechanisms, including through regular dissemination of press releases on the major news wire services and through other wide-ranging public disclosures, such as communications with the financial press, securities analysts and other similar reporting services;

(f) The market reacted promptly to public information disseminated by Countrywide;

(g) Countrywide securities were covered by numerous securities analysts employed by major brokerage firms who wrote reports that were distributed to the sales force and certain customers of their respective firms. Each of these reports was publicly available and entered the public marketplace;

(h) The material misrepresentations and omissions alleged herein would tend to induce a reasonable investor to misjudge the value of Countrywide's securities; and

(i) Without knowledge of the misrepresented or omitted material facts alleged herein, Plaintiffs and other members of the Class purchased Countrywide securities between the time Defendants misrepresented or failed to disclose material facts and the time the true facts were disclosed.

1098. In addition to the foregoing, Plaintiffs are entitled to a presumption of reliance because, as more fully alleged above, Defendants failed to disclose material information regarding Countrywide's business, financial results and business prospects throughout the Class Period.

XIV. INAPPLICABILITY OF STATUTORY SAFE HARBOR

1099. The statutory safe harbor provided for forward-looking statements under certain circumstances does not apply to any of the materially false and misleading statements alleged in this Complaint. The statements alleged to be false and misleading all relate to historical facts or existing conditions and were not identified as forward-looking statements. To the extent any of the false statements alleged herein may be characterized as forward-looking, they were not adequately identified as "forward-looking" statements when made, and were not accompanied by meaningful cautionary statements identifying important factors that could cause actual results to differ materially from those in the purportedly "forward-looking" statements. Alternatively, to the extent that the statutory safe harbor would otherwise apply to any statement pleaded herein, Defendants are liable for those materially false forward-looking statements because, at the time each of those forward-looking statements was made, the speaker knew the statement was false or the statement was authorized or approved by an executive officer of Countrywide who knew that those statements were false.

XV. CLAIMS FOR RELIEF

COUNT I

For Violations of Section 11 of the Securities Act, on Behalf of Purchasers of Series A Medium-Term Notes, Asserted Against Defendants Countrywide, Mozilo, Kurland, McLaughlin, Cisneros, Cunningham, Donato, Dougherty, Enis, Garcia, Heller, King, Melone, Robertson, Russell, and Snyder; and Banc of America Securities, Barclays Capital, Citigroup Global Markets, Countrywide Securities, Deutsche Bank, Greenwich Capital, HSBC, J.P. Morgan Securities, Morgan Stanley, RBC Dominion, and Wachovia Capital

1100. Plaintiffs repeat and reallege each and every allegation above as if fully set forth herein. For purposes of this Count, Plaintiffs assert only strict liability and negligence claims and expressly disclaim any claim of fraud or intentional misconduct.

1101. This Count is brought pursuant to Section 11 of the Securities Act against Defendant Countrywide; Individual Defendants Mozilo, Kurland, McLaughlin, Cisneros, Cunningham, Donato, Dougherty, Enis, Garcia, Heller, King, Melone, Robertson, Russell, and Snyder; and Underwriter Defendants Banc of America Securities, Barclays Capital, Citigroup Global Markets, Countrywide Securities, Deutsche Bank, Greenwich Capital, HSBC, J.P. Morgan Securities, Morgan Stanley, RBC Dominion, and Wachovia Capital.

1102. This claim is brought on behalf of Lead Plaintiff New York City Pension Funds and other members of the Class who, during the Class Period, purchased or otherwise acquired Countrywide Series A Medium-Term Notes issued pursuant or traceable to the Series A Medium-Term Notes Registration Statement.

1103. Countrywide was the registrant for the Series A Medium-Term Notes Registration Statement and issued Series A Medium-Term Notes pursuant to that registration statement.

1104. Defendants Mozilo, McLaughlin, Kurland, Cisneros, Cunningham, Donato, Dougherty, Enis, Garcia, Heller, King, Melone, Robertson, Russell and Snyder each signed the Series A Medium-Term Notes Registration Statement.

1105. At the time the Series A Medium-Term Notes Registration Statement and prospectus supplements were filed, Defendants Mozilo, Cisneros, Cunningham, Donato, Dougherty, Enis, Heller, King, Melone, Robertson, Russell and Snyder were each directors of Countrywide.

1106. Defendants Banc of America Securities, Barclays Capital, Citigroup Global Markets, Countrywide Securities, Deutsche Bank, Greenwich Capital, HSBC, J.P. Morgan Securities, Morgan Stanley, RBC Dominion, and Wachovia Capital acted as underwriters with respect to the offering of Series A Medium-Term Notes.

1107. As set forth above, the Series A Medium-Term Notes Registration Statement contained untrue statements of material fact, including the financial statements of Countrywide. In addition, the Series A Medium-Term Notes Registration Statement omitted to state other facts required to be stated therein or necessary to make the statements therein not misleading, including Countrywide's violations of GAAP. The facts misstated and omitted would have been material to a reasonable person reviewing the Series A Medium-Term Notes Registration Statement.

1108. Countrywide, as issuer of the Series A Medium-Term Notes, is strictly liable for the material misstatements and omissions contained in the Series A Medium-Term Notes Registration Statement.

1109. The other Defendants named in this Count owed to Lead Plaintiff New York City Pension Funds and the Class the duty to make a reasonable and diligent investigation of the statements contained in the Series A Medium-Term Notes Registration Statement, to ensure that the statements contained or incorporated by reference therein were true and that there was no omission to state a material fact required to be stated therein in order to make the statements contained therein not misleading.

1110. These Defendants did not make a reasonable and diligent investigation of the statements contained or incorporated by reference in the Series A Medium-Term Notes Registration Statement, and did not possess reasonable grounds for believing that the Series A Medium-Term Notes Registration Statement did not contain an untrue statement or omit to state a material fact required to be stated therein or necessary to make the statements therein not misleading.

1111. The Underwriter Defendants named in this Count did not conduct a reasonable investigation of the statements contained in and incorporated by reference in the Series A Medium-Term Notes Registration Statement and did not possess reasonable grounds for believing that the statements contained therein were true and not materially misstated. In particular, these Underwriter Defendants did not conduct a reasonable investigation into the accuracy of the statements regarding Countrywide's reported financial performance, internal controls, underwriting standards and lending practices. These Underwriter Defendants could not simply rely on the work of Countrywide's auditors because the investing public relies on the underwriters to obtain and verify relevant information and then make sure that important facts are accurately disclosed. Thus, the Underwriter Defendants must conduct their own, independent and reasonable investigation into the accuracy of the Company's financial statements and assessments of internal controls, and they were negligent in failing to do so sufficiently in connection with the offering.

1112. Similarly, the Individual Defendants named in this Count were negligent in failing to conduct a reasonable investigation of the statements contained in the Series A Medium-Term Notes Registration Statement regarding Countrywide's financial performance, internal controls, underwriting standards and lending practices and did not possess reasonable grounds for believing that the statements contained therein were true and not materially misstated.

1113. Lead Plaintiff New York City Pension Funds and members of the Class purchased Series A Medium-Term Notes issued pursuant or traceable to the Series A Medium-Term Notes Registration Statement and were damaged thereby.

1114. Lead Plaintiff New York City Pension Funds and the Class did not know, nor in the exercise of reasonable diligence could have known, of the untrue statements of material fact or omissions of material facts in the Series A Medium-Term Notes Registration Statement when they purchased or acquired their securities. Less than one year has elapsed between the time they discovered or reasonably could have discovered the facts upon which this Count is based and the time this claim was brought. Less than three years have elapsed between the time that the securities upon which this Count is brought were *bona fide* offered to the public and the time this action was commenced.

1115. By reason of the foregoing, the Defendants named in this Count are liable to Lead Plaintiff New York City Pension Funds and members of the Class for violations of Section 11 of the Securities Act.

COUNT II

For Violations of Section 12(a)(2) of the Securities Act on Behalf of Purchasers of Series A Medium-Term Notes, Asserted Against Defendants Countrywide and J.P. Morgan Securities

1116. Plaintiffs repeat and reallege each and every allegation above as if fully set forth herein. For purposes of this Count, Plaintiffs assert only strict liability and negligence claims and expressly disclaim any claim of fraud or intentional misconduct.

1117. This Count is brought pursuant to Section 12(a)(2) of the Securities Act against Defendant Countrywide and Underwriter Defendant J.P. Morgan Securities.

1118. This claim is brought on behalf of Lead Plaintiff New York City Pension Funds and other members of the Class who, during the Class Period, purchased or otherwise acquired Countrywide Series A Medium-Term Notes issued pursuant to the Series A Medium-Term Notes Prospectus.

1119. Countrywide solicited the purchase of its Series A Medium-Term Notes by the use of means or instruments of transportation or communication in interstate commerce or of the mails and by means of the Series A Medium-Term Notes Prospectus.

1120. Underwriter Defendant J.P. Morgan Securities is a seller within the meaning of the Securities Act because it transferred title to Lead Plaintiff New York City Pension Funds and other purchasers of the Series A Medium-Term Notes. In particular, Underwriter Defendant J.P. Morgan Securities directly sold Series A Medium Term Notes to Lead Plaintiff New York City Pension Funds.

1121. As alleged herein, the Series A Medium-Term Notes Prospectus contained untrue statements of material fact, including the financial statements of Countrywide. In addition, the Series A Medium-Term Notes Prospectus omitted to state material facts required to be stated therein or necessary to make the statements therein not misleading, including Countrywide's violations of GAAP. The facts misstated and omitted would have been material to a reasonable person reviewing the Series A Medium-Term Notes Prospectus.

1122. Countrywide and J.P. Morgan Securities owed to Lead Plaintiff New York City Pension Funds and the Class the duty to make a reasonable and diligent investigation of the statements contained in the Series A Medium-Term Notes Prospectus, to ensure that the statements contained or incorporated by reference therein were true and that there was no omission to state a material fact required to be stated therein in order to make the statements contained therein not misleading.

1123. Countrywide and J.P. Morgan Securities did not make a reasonable and diligent investigation of the statements contained or incorporated by reference in the Series A Medium-Term Notes Prospectus and did not possess reasonable grounds for believing that the Series A Medium-Term Notes Prospectus did not contain an untrue statement of material fact or omit to state a material fact required to be stated therein or necessary to make the statements therein not misleading.

1124. Lead Plaintiff New York City Pension Funds and members of the Class purchased Series A Medium-Term Notes pursuant to the Series A Medium-Term Notes Prospectus and were damaged thereby.

1125. Lead Plaintiff New York City Pension Funds and the Class did not know, nor in the exercise of reasonable diligence could have known, of the untrue statements of material fact or omissions of material facts in the Series A Medium-Term Notes Prospectus when they purchased or acquired the securities. Less than one year has elapsed between the time they discovered or reasonably could have discovered the facts upon which this Count is based and the time this claim was brought. Less than three years have elapsed between the time that the securities upon which this Count is brought were *bona fide* offered to the public and the time this action was commenced.

1126. By reason of the foregoing, Countrywide and J.P. Morgan Securities are liable to Lead Plaintiff New York City Pension Funds and members of the Class for violations of Section 12(a)(2) of the Securities Act. Lead Plaintiff New York City Pension Funds and Class members hereby tender their securities to their respective sellers and seek rescission of their purchases to the extent that they continue to own such securities.

COUNT III

For Violations of Section 15 of the Securities Act on Behalf of Purchasers of Series A Medium-Term Notes, Asserted Against Defendants Mozilo, Kurland, and McLaughlin

1127. Lead Plaintiff New York City Pension Funds repeats and realleges each and every allegation above as if fully set forth herein. For purposes of this Count, Plaintiffs assert only strict liability and negligence claims and expressly disclaim any claim of fraud or intentional misconduct.

1128. This Count is brought pursuant to Section 15 of the Securities Act against Defendants Mozilo, Kurland, and McLaughlin, on behalf of Lead Plaintiff New York City Pension Funds and members of the Class who purchased or acquired Countrywide Series A Medium-Term Notes pursuant or traceable to the Series A Medium-Term Notes Registration Statement or pursuant to the Series A Medium-Term Notes Prospectus.

1129. Countrywide violated Section 11 of the Securities Act by issuing the Series A Medium-Term Notes Registration Statement which contained untrue statements of material fact and omitted to state material facts required to be stated therein or necessary in order to make the statements therein not misleading. The facts misstated and omitted would have been material to a reasonable person reviewing the Series A Medium-Term Notes Registration Statement.

1130. Countrywide violated Section 12(a)(2) of the Securities Act by soliciting the purchase of Series A Medium-Term Notes by means of the Series A Medium-Term Notes Prospectus which contained untrue statements of material fact and omitted to state material facts required to be stated therein or necessary in order to make the statements therein not misleading. The facts misstated and omitted would have been material to a reasonable person reviewing the Series A Medium-Term Notes Prospectus.

1131. Defendants Mozilo, Kurland, and McLaughlin were controlling persons of Countrywide when each of the Series A Medium-Term Notes

Registration Statement and Series A Medium Term Notes Prospectus was filed and became effective, because of their senior executive positions with Countrywide; their direct involvement in the Company's day-to-day operations, including its mortgage banking and lending practices and financial reporting and accounting functions; and their signatures on and participation in the preparation and dissemination of this Registration Statement and Prospectus.

1132. By virtue of the foregoing, Defendants Mozilo, Kurland, and McLaughlin each had the power to influence and control, and did influence and control, directly or indirectly, the decision-making of Countrywide, including the content of its financial statements and this Registration Statement and Prospectus.

1133. Defendants Mozilo, Kurland, and McLaughlin acted negligently and without reasonable care regarding the accuracy of the information contained and incorporated by reference in this Registration Statement and Prospectus and lacked reasonable grounds to believe that such information was accurate and complete in all material respects.

1134. Lead Plaintiff New York City Pension Funds and members of the Class purchased Countrywide Series A Medium-Term Notes pursuant or traceable to the Registration Statement for this offering, or pursuant to the Prospectus for this offering, and were damaged thereby.

1135. Lead Plaintiff New York City Pension Funds and the Class did not know, nor in the exercise of reasonable diligence could have known, of the untrue statements of material fact or omissions of material facts in the Series A Medium-Term Notes Registration Statement and Prospectus when they purchased or acquired the securities.

1136. By reason of the foregoing, Defendants Mozilo, Kurland and McLaughlin are liable to Lead Plaintiff New York City Pension Funds and members of the Class for violations of Section 15 of the Securities Act.

COUNT IV

For Violations of Section 11 of the Securities Act on Behalf of Purchasers of Series B Medium-Term Notes and 6.25% Subordinated Notes Due May 15, 2016, Asserted Against Defendants Countrywide, Mozilo, Sambol, Kurland, Sieracki, Brown, Cisneros, Cunningham, Donato, Dougherty, Enis, Garcia, Heller, Melone, Parry, Robertson, Russell, and Snyder; KPMG; and ABN AMRO, Banc of America Securities, Barclays Capital, BNP Paribas, BNY Capital, Citigroup Global Markets, Countrywide Securities, Deutsche Bank, Goldman Sachs, Greenwich Capital, HSBC, J.P. Morgan Securities, Merrill Lynch, Morgan Stanley, RBC Dominion, Scotia Capital, TD Securities, UBS Securities, and Wachovia Capital

1137. Plaintiffs repeat and reallege each and every allegation above as if fully set forth herein. For purposes of this Count, Plaintiffs assert only strict liability and negligence claims and expressly disclaim any claim of fraud or intentional misconduct.

1138. This Count is brought pursuant to Section 11 of the Securities Act against Defendant Countrywide; Individual Defendants Mozilo, Sambol, Kurland, Sieracki, Brown, Cisneros, Cunningham, Donato, Dougherty, Enis, Garcia, Heller, Melone, Parry, Robertson, Russell, and Snyder; Defendant KPMG; and Underwriter Defendants ABN AMRO, Banc of America Securities, Barclays Capital, BNP Paribas, BNY Capital, Citigroup Global Markets, Countrywide Securities, Deutsche Bank, Goldman Sachs, Greenwich Capital, HSBC, J.P. Morgan Securities, Merrill Lynch, Morgan Stanley, RBC Dominion, Scotia Capital, TD Securities, UBS Securities, and Wachovia Capital.

1139. This claim is brought on behalf of Lead Plaintiff New York City Pension Funds and other members of the Class who, during the Class Period, purchased or otherwise acquired Countrywide Series B Medium-Term Notes issued pursuant or traceable to the Series B Medium-Term Notes Registration Statement, or who purchased or otherwise acquired Countrywide 6.25% Notes pursuant or traceable to the 6.25% Notes Registration Statement. The Series B Medium-Term Notes Registration Statement and the 6.25% Notes Registration Statement include the same Form S-3ASR shelf registration statement (and base prospectus) dated February 9, 2006, and the Series B Medium-Term Notes and 6.25% Notes were offered pursuant to this same shelf registration statement.

1140. Countrywide was the registrant for the Series B Medium-Term Notes Registration Statement and 6.25% Notes Registration Statement, and issued Series B Medium-Term Notes and 6.25% Notes pursuant to those respective registration statements.

1141. Defendants Mozilo, Sambol, Kurland, Sieracki, Brown, Cisneros, Cunningham, Donato, Dougherty, Enis, Garcia, Heller, Melone, Parry, Robertson, Russell, and Snyder each signed the Series B Medium-Term Notes Registration Statement and the 6.25% Notes Registration Statement.

1142. At the time the Series B Medium-Term Notes Registration Statement and 6.25% Notes Registration Statement and their respective prospectus supplements were filed, Defendants Mozilo, Brown, Cisneros, Cunningham, Donato, Dougherty, Enis, Heller, Melone, Parry, Robertson, Russell, and Snyder were each directors of Countrywide.

1143. Defendant KPMG was the auditor for Countrywide during the Class Period and consented to being named in the Series B Medium-Term Notes Registration Statement and the 6.25% Notes Registration Statement as a party that certified the audited financial statements contained or incorporated by reference therein. KPMG's audit report incorrectly stated that its audits were performed in accordance with GAAS and that the Company's financial statements were fairly presented in accordance with GAAP.

1144. Defendants ABN AMRO, Banc of America Securities, Barclays Capital, BNP Paribas, BNY Capital, Citigroup Global Markets, Countrywide Securities, Deutsche Bank, Goldman Sachs, Greenwich Capital, HSBC, J.P. Morgan Securities, Merrill Lynch, Morgan Stanley, RBC Dominion, Scotia Capital, TD Securities, UBS Securities, and Wachovia Capital acted as underwriters with respect to the offering of Series B Medium-Term Notes.

1145. Defendants Banc of America Securities, J.P. Morgan Securities, Countrywide Securities, Barclays Capital, Deutsche Bank, HSBC, and Wachovia Capital acted as underwriters with respect to the offering of 6.25% Notes.

1146. As set forth above, the Series B Medium-Term Notes Registration Statement and the 6.25% Notes Registration Statement contained untrue statements of material fact, including the financial statements of Countrywide. In addition, the Series B Medium-Term Notes Registration Statement and the 6.25% Notes Registration Statement omitted to state other facts required to be stated therein or necessary to make the statements therein not misleading, including Countrywide's violations of GAAP. The facts misstated and omitted would have been material to a reasonable person reviewing the Series B Medium-Term Notes Registration Statement or the 6.25% Notes Registration Statement.

1147. Countrywide, as issuer of the Series B Medium-Term Notes and 6.25% Notes, is strictly liable for the material misstatements and omissions contained in the Series B Medium-Term Notes Registration Statement and the 6.25% Notes Registration Statement.

1148. The other Defendants named in this Count owed to Lead Plaintiff New York City Pension Funds and the Class the duty to make a reasonable and diligent investigation of the statements contained in the Series B Medium-Term Notes Registration Statement and the 6.25% Notes Registration Statement, to ensure that the statements contained or incorporated by reference therein were true and that there was no omission to state a material fact required to be stated therein in order to make the statements contained therein not misleading.

1149. These Defendants did not make a reasonable and diligent investigation of the statements contained or incorporated by reference in the Series B Medium-Term Notes Registration Statement or contained or incorporated by reference in the 6.25% Notes Registration Statement, and did not possess reasonable grounds for believing that the Series B Medium-Term Notes

Registration Statement or the 6.25% Notes Registration Statement did not contain an untrue statement or omit to state a material fact required to be stated therein or necessary to make the statements therein not misleading.

1150. The Underwriter Defendants named in this Count which acted as underwriters with respect to the offering of Series B Medium Term Notes did not conduct a reasonable investigation of the statements contained in and incorporated by reference in the Series B Medium-Term Notes Registration Statement, and did not possess reasonable grounds for believing that the statements contained therein were true and not materially misstated. The Underwriter Defendants named in this Count which acted as underwriters with respect to the offering of 6.25% Notes did not conduct a reasonable investigation of the statements contained in and incorporated by reference in the 6.25% Notes Registration Statement, and did not possess reasonable grounds for believing that the statements contained therein were true and not materially misstated. In particular, these Underwriter Defendants did not conduct a reasonable investigation into the accuracy of the statements regarding Countrywide's reported financial performance, internal controls, underwriting standards and lending practices. These Underwriter Defendants could not simply rely on the work of Countrywide's auditors because the investing public relies on the underwriters to obtain and verify relevant information and then make sure that important facts are accurately disclosed. Thus, the Underwriter Defendants must conduct their own, independent and reasonable investigation into the accuracy of the Company's financial statements and assessments of internal controls, and they were negligent in failing to do so sufficiently in connection with the offering.

1151. Similarly, the Individual Defendants named in this Count were negligent in failing to conduct a reasonable investigation of the statements contained in the Series B Medium-Term Notes Registration Statement and the 6.25% Notes Registration Statement regarding Countrywide's financial performance, internal controls, underwriting standards and lending practices and did not possess reasonable grounds for believing that the statements contained therein were true and not materially misstated.

1152. Defendant KPMG, which consented to the inclusion of its opinions in the Series B Medium-Term Notes Registration Statement and the 6.25% Notes Registration Statement, negligently failed to perform its audits of Countrywide in a reasonable manner and, thus, its audits did not constitute a reasonable investigation of whether the Company's financial statements were presented in compliance with GAAP and whether management's assessment of internal controls was properly and accurately presented.

1153. Lead Plaintiff New York City Pension Funds and members of the Class purchased Series B Medium-Term Notes issued pursuant or traceable to the Series B Medium-Term Notes Registration Statement and were damaged thereby. Members of the Class purchased 6.25% Notes issued pursuant or traceable to the 6.25% Notes Registration Statement and were damaged thereby.

1154. Lead Plaintiff New York City Pension Funds and the Class did not know, nor in the exercise of reasonable diligence could have known, of the untrue statements of material fact or omissions of material facts in the Series B Medium-Term Notes Registration Statement or the 6.25% Notes Registration Statement when they purchased or acquired their respective securities. Less than one year has elapsed between the time they discovered or reasonably could have discovered the facts upon which this Count is based and the time this claim was brought. Less than three years have elapsed between the time that the securities upon which this Count is brought were *bona fide* offered to the public and the time this action was commenced.

1155. By reason of the foregoing, the Defendants named in this Count are liable to Lead Plaintiff New York City Pension Funds and members of the Class for violations of Section 11 of the Securities Act.

COUNT V

For Violations of Section 12(a)(2) on Behalf of Purchasers of Series B Medium-Term Notes, Asserted Against Defendants Countrywide and Goldman Sachs

1156. Plaintiffs repeat and reallege each and every allegation above as if fully set forth herein. For purposes of this Count, Plaintiffs assert only strict liability and negligence claims and expressly disclaim any claim of fraud or intentional misconduct.

1157. This Count is brought pursuant to Section 12(a)(2) of the Securities Act against Defendant Countrywide and Underwriter Defendant Goldman Sachs.

1158. This claim is brought on behalf of Lead Plaintiff New York City Pension Funds and other members of the Class who, during the Class Period, purchased or otherwise acquired Countrywide Series B Medium-Term Notes issued pursuant to the Series B Medium-Term Notes Prospectus.

1159. Countrywide solicited the purchase of its Series B Medium-Term Notes by the use of means or instruments of transportation or communication in interstate commerce or of the mails and by means of the Series B Medium-Term Notes Prospectus. Additionally, the Series B Medium-Term Notes Registration Statement, of which Countrywide is the registrant, states that "[f]or the purpose of determining liability of a registrant under the Securities Act of 1933 to any purchaser in the initial distribution of the securities, each undersigned registrant undertakes that in a primary offering of securities . . . regardless of the underwriting method used to sell the securities to the purchaser . . . the undersigned registrant will be a seller to the purchaser and will be considered to offer or sell such securities to such purchaser."

1160. Underwriter Defendant Goldman Sachs is a seller within the meaning of the Securities Act because it directly transferred title to Lead Plaintiff New York City Pension Funds and other purchasers of the Series B Medium-

Term Notes. In particular, Goldman Sachs directly sold Series B Medium-Term Notes to Lead Plaintiff New York City Pension Funds.

1161. As alleged herein, the Series B Medium-Term Notes Prospectus contained untrue statements of material fact, including the financial statements of Countrywide. In addition, the Series B Medium-Term Notes Prospectus omitted to state material facts required to be stated therein or necessary to make the statements therein not misleading, including Countrywide's violations of GAAP. The facts misstated and omitted would have been material to a reasonable person reviewing the Series B Medium-Term Notes Prospectus.

1162. Countrywide and Goldman Sachs owed to Lead Plaintiff New York City Pension Funds and the Class the duty to make a reasonable and diligent investigation of the statements contained in the Series B Medium-Term Notes Prospectus, to ensure that the statements contained or incorporated by reference therein were true and that there was no omission to state a material fact required to be stated therein in order to make the statements contained therein not misleading.

1163. Countrywide and Goldman Sachs did not make a reasonable and diligent investigation of the statements contained or incorporated by reference in the Series B Medium-Term Notes Prospectus and did not possess reasonable grounds for believing that the Series B Medium-Term Notes Prospectus did not contain an untrue statement of material fact or omit to state a material fact required to be stated therein or necessary to make the statements therein not misleading.

1164. Lead Plaintiff New York City Pension Funds and members of the Class purchased Series B Medium-Term Notes pursuant to the Series B Medium-Term Notes Prospectus and were damaged thereby.

1165. Lead Plaintiff New York City Pension Funds and the Class did not know, nor in the exercise of reasonable diligence could have known, of the untrue statements of material fact or omissions of material facts in the Series B Medium-Term Notes Prospectus when they purchased or acquired the securities. Less than one year has elapsed between the time they discovered or reasonably could have discovered the facts upon which this Count is based and the time this claim was brought. Less than three years have elapsed between the time that the securities upon which this Count is brought were *bona fide* offered to the public and the time this action was commenced.

1166. By reason of the foregoing, Countrywide and Goldman Sachs are liable to Lead Plaintiff New York City Pension Funds and members of the Class for violations of Section 12(a)(2) of the Securities Act. Lead Plaintiff New York City Pension Funds and Class members hereby tender their securities to their respective sellers and seek rescission of their purchases to the extent that they continue to own such securities.

COUNT VI

For Violations of Section 15 of the Securities Act on Behalf of Purchasers of Series B Medium-Term Notes and 6.25% Subordinated Notes Due May 15, 2016, Asserted Against Defendants Mozilo, Sambol, Sieracki, and Kurland

1167. Lead Plaintiff New York City Pension Funds repeats and realleges each and every allegation above as if fully set forth herein. For purposes of this Count, Plaintiffs assert only strict liability and negligence claims and expressly disclaim any claim of fraud or intentional misconduct.

1168. This Count is brought pursuant to Section 15 of the Securities Act against Defendants Mozilo, Sambol, Sieracki, and Kurland, on behalf of Lead Plaintiff New York City Pension Funds and members of the Class who purchased or acquired Countrywide Series B Medium-Term Notes pursuant or traceable to the Series B Medium-Term Notes Registration Statement or pursuant to the Series

B Medium-Term Notes Prospectus, or who purchased or acquired Countrywide 6.25% Notes pursuant or traceable to the 6.25% Notes Registration Statement.

1169. Countrywide violated Section 11 of the Securities Act by issuing the Series B Medium-Term Notes Registration Statement which contained untrue statements of material fact and omitted to state material facts required to be stated therein or necessary in order to make the statements therein not misleading. The facts misstated and omitted would have been material to a reasonable person reviewing the Series B Medium-Term Notes Registration Statement.

1170. Countrywide violated Section 12(a)(2) of the Securities Act by soliciting the purchase of Series B Medium-Term Notes by means of the Series B Medium-Term Notes Prospectus which contained untrue statements of material fact and omitted to state material facts required to be stated therein or necessary in order to make the statements therein not misleading. The facts misstated and omitted would have been material to a reasonable person reviewing the Series B Medium-Term Notes Prospectus.

1171. Defendants Mozilo, Sambol, and Kurland were controlling persons of Countrywide when each of the Series B Medium-Term Notes Registration Statement and Series B Medium Term Notes Prospectus was filed and became effective, because of their senior executive positions with Countrywide; their direct involvement in the Company’s day-to-day operations, including its mortgage banking and lending practices and financial reporting and accounting functions; and their signatures on and participation in the preparation and dissemination of this Registration Statement and Prospectus.

1172. Countrywide violated Section 11 of the Securities Act by issuing the 6.25% Notes Registration Statement which contained untrue statements of material fact and omitted to state material facts required to be stated therein or necessary in order to make the statements therein not misleading. The facts misstated and omitted would have been material to a reasonable person reviewing the 6.25% Notes Registration Statement.

1173. Defendants Mozilo, Sambol, Sieracki, and Kurland were controlling persons of Countrywide when the 6.25% Notes Registration Statement was filed and became effective, because of their senior executive positions with Countrywide; their direct involvement in the Company's day-to-day operations, including its mortgage banking and lending practices and financial reporting and accounting functions; and their signatures on and participation in the preparation and dissemination of each of this Registration Statement and Prospectus.

1174. By virtue of the foregoing, Defendants Mozilo, Sambol, Sieracki, and Kurland each had the power to influence and control, and did influence and control, directly or indirectly, the decision-making of Countrywide, including the content of its financial statements and these Registration Statements and Prospectuses.

1175. Defendants Mozilo, Sambol, Sieracki, and Kurland acted negligently and without reasonable care regarding the accuracy of the information contained and incorporated by reference in these Registration Statements and Prospectuses and lacked reasonable grounds to believe that such information was accurate and complete in all material respects.

1176. Lead Plaintiff New York City Pension Funds and members of the Class purchased Countrywide Series B Medium-Term Notes or 6.25% Notes pursuant or traceable to the Registration Statements for these respective offerings, or pursuant to the Prospectuses for these respective offerings, and were damaged thereby.

1177. Lead Plaintiff New York City Pension Funds and the Class did not know, nor in the exercise of reasonable diligence could have known, of the untrue statements of material fact or omissions of material facts in the Series B Medium-

Term Notes Registration Statement and Prospectus and the 6.25% Notes Registration Statement when they purchased or acquired the securities.

1178. By reason of the foregoing, Defendants Mozilo, Sambol, Sieracki, and Kurland are liable to Lead Plaintiff New York City Pension Funds and members of the Class for violations of Section 15 of the Securities Act.

COUNT VII

For Violations of Section 11 of the Securities Act on Behalf of Purchasers of 7% Capital Securities, Asserted Against Defendants Countrywide and CCV; Mozilo, Kurland, Sambol, Sieracki, Brown, Cisneros, Cunningham, Donato, Dougherty, Garcia, Gissinger, Melone, Parry, Robertson, Russell, and Snyder; KPMG; and Citigroup Global Markets, J.P. Morgan Securities, Merrill Lynch, UBS Securities, Wachovia Capital, Countrywide Securities, A.G. Edwards, Banc of America Securities, RBC Dain Rauscher, Barclays Capital, Deutsche Bank, Goldman Sachs, and HSBC

1179. Plaintiffs repeat and reallege each and every allegation above as if fully set forth herein. For purposes of this Count, Plaintiffs assert only strict liability and negligence claims and expressly disclaim any claim of fraud or intentional misconduct.

1180. This Count is brought pursuant to Section 11 of the Securities Act against Defendants Countrywide and CCV; Individual Defendants Mozilo, Kurland, Sambol, Sieracki, Brown, Cisneros, Cunningham, Donato, Dougherty, Garcia, Gissinger, Melone, Parry, Robertson, Russell, and Snyder; Defendant KPMG; and Underwriter Defendants Citigroup Global Markets, J.P. Morgan Securities, Merrill Lynch, UBS Securities, Wachovia Capital, Countrywide Securities, A.G. Edwards, Banc of America Securities, RBC Dain Rauscher, Barclays Capital, Deutsche Bank, Goldman Sachs, and HSBC.

1181. This claim is brought on behalf of Plaintiffs Barry Brahn and Shelley B. Katzeff and other members of the Class who, during the Class Period, purchased or otherwise acquired CCV 7% Capital Securities pursuant or traceable to the 7% Capital Securities Registration Statement.

1182. Countrywide and CCV were the registrants for the 7% Capital Securities Registration Statement, and CCV issued the 7% Capital Securities pursuant to that registration statement.

1183. Defendants Mozilo, Kurland, Sambol, Sieracki, Brown, Cisneros, Cunningham, Donato, Dougherty, Garcia, Gissinger, Melone, Parry, Robertson, Russell, and Snyder each signed the 7% Capital Securities Registration Statement.

1184. At the time the 7% Capital Securities Registration Statement and prospectus supplement were filed, Defendants Mozilo, Brown, Cisneros, Cunningham, Donato, Dougherty, Melone, Parry, Robertson, Russell, and Snyder were each directors of Countrywide.

1185. Defendant KPMG was the auditor for Countrywide during the Class Period and consented to being named in the 7% Capital Securities Registration Statement as a party that certified audited financial statements contained or incorporated by reference therein. KPMG's audit report incorrectly stated that its audits were performed in accordance with GAAS and that the Company's financial statements were fairly presented in accordance with GAAP.

1186. Defendants Citigroup Global Markets, J.P. Morgan Securities, Merrill Lynch, UBS Securities, Wachovia Capital, Countrywide Securities, A.G. Edwards, Banc of America Securities, RBC Dain Rauscher, Barclays Capital, Deutsche Bank, Goldman Sachs and HSBC acted as underwriters with respect to the offering of 7% Capital Securities.

1187. As set forth above, the 7% Capital Securities Registration Statement contained untrue statements of material fact, including the financial statements of Countrywide. In addition, the 7% Capital Securities Registration Statement omitted to state other facts required to be stated therein or necessary to make the statements therein not misleading, including Countrywide's violations of GAAP.

The facts misstated and omitted would have been material to a reasonable person reviewing the 7% Capital Securities Registration Statement.

1188. CCV, as issuer of the 7% Capital Securities, is strictly liable for the material misstatements and omissions contained in the 7% Capital Securities Registration Statement.

1189. The other Defendants named in this Count owed to Plaintiffs Brahn and Katzeff and the Class the duty to make a reasonable and diligent investigation of the statements contained in the 7% Capital Securities Registration Statement, to ensure that the statements contained or incorporated by reference therein were true and that there was no omission to state a material fact required to be stated therein in order to make the statements contained therein not misleading.

1190. These Defendants did not make a reasonable and diligent investigation of the statements contained or incorporated by reference in the 7% Capital Securities Registration Statement, and did not possess reasonable grounds for believing that the 7% Capital Securities Registration Statement did not contain an untrue statement or omit to state a material fact required to be stated therein or necessary to make the statements therein not misleading.

1191. The Underwriter Defendants named in this Count did not conduct a reasonable investigation of the statements contained in and incorporated by reference in the 7% Capital Securities Registration Statement and did not possess reasonable grounds for believing that the statements contained therein were true and not materially misstated. In particular, these Underwriter Defendants did not conduct a reasonable investigation into the accuracy of the statements regarding Countrywide's reported financial performance, internal controls, underwriting standards and lending practices. These Underwriter Defendants could not simply rely on the work of Countrywide's auditors because the investing public relies on the underwriters to obtain and verify relevant information and then make sure that important facts are accurately disclosed. Thus, the Underwriter Defendants must conduct their own, independent and reasonable investigation into the accuracy of the Company's financial statements and assessments of internal controls, and they were negligent in failing to do so sufficiently in connection with the offering.

1192. Similarly, the Individual Defendants named in this Count were negligent in failing to conduct a reasonable investigation of the statements contained in the 7% Capital Securities Registration Statement regarding Countrywide's financial performance, internal controls, underwriting standards and lending practices and did not possess reasonable grounds for believing that the statements contained therein were true and not materially misstated.

1193. Defendant KPMG, which consented to the inclusion of its opinions in the 7% Capital Securities Registration Statement, negligently failed to perform its audits of Countrywide in a reasonable manner and, thus, its audits did not constitute a reasonable investigation of whether the Company's financial statements were presented in compliance with GAAP and whether management's assessment of internal controls was properly and accurately presented.

1194. Plaintiffs Brahn and Katzeff and members of the Class purchased 7% Capital Securities issued pursuant or traceable to the 7% Capital Securities Registration Statement and were damaged thereby.

1195. Plaintiffs Brahn and Katzeff and the Class did not know, nor in the exercise of reasonable diligence could have known, of the untrue statements of material fact or omissions of material facts in the 7% Capital Securities Registration Statement when they purchased or acquired their securities. Less than one year has elapsed between the time they discovered or reasonably could have discovered the facts upon which this Count is based and the time this claim was brought. Less than three years have elapsed between the time that the securities upon which this Count is brought were *bona fide* offered to the public and the time this action was commenced.

1196. By reason of the foregoing, the Defendants named in this Count are liable to Plaintiffs Brahn and Katzeff and members of the Class for violations of Section 11 of the Securities Act.

COUNT VIII

For Violations of Section 12(a)(2) of the Securities Act on Behalf of Purchasers of 7% Capital Securities, Asserted Against Defendants Countrywide and CCV; and Defendant Citigroup Global Markets

1197. Plaintiffs repeat and reallege each and every allegation above as if fully set forth herein. For purposes of this Count, Plaintiffs assert only strict liability and negligence claims and expressly disclaim any claim of fraud or intentional misconduct.

1198. This Count is brought pursuant to Section 12(a)(2) of the Securities Act against Defendants Countrywide and CCV and Underwriter Defendant Citigroup Global Markets.

1199. This claim is brought on behalf of Plaintiff Shelley B. Katzeff and other members of the Class who, during the Class Period, purchased or otherwise acquired CCV 7% Capital Securities issued pursuant to the 7% Capital Securities Prospectus.

1200. Countrywide and CCV solicited the purchase of its 7% Capital Securities by the use of means or instruments of transportation or communication in interstate commerce or of the mails and by means of the 7% Capital Securities Prospectus. Additionally, the 7% Capital Securities Registration Statement, of which Countrywide and CCV are registrants, states that "[f]or the purpose of determining liability of a registrant under the Securities Act of 1933 to any purchaser in the initial distribution of the securities, each undersigned registrant undertakes that in a primary offering of securities . . . regardless of the underwriting method used to sell the securities to the purchaser . . . the undersigned registrant will be a seller to the purchaser and will be considered to offer or sell such securities to such purchaser."

1201. Underwriter Defendant Citigroup Global Markets is a seller within the meaning of the Securities Act because it directly transferred title to Plaintiff Katzeff and other purchasers of the 7% Capital Securities. In particular, Citigroup Global Markets directly sold 7% Capital Securities to Plaintiff Katzeff.

1202. As alleged herein, the 7% Capital Securities Prospectus contained untrue statements of material fact, including the financial statements of Countrywide. In addition, the 7% Capital Securities Prospectus omitted to state material facts required to be stated therein or necessary to make the statements therein not misleading, including Countrywide's violations of GAAP. The facts misstated and omitted would have been material to a reasonable person reviewing the 7% Capital Securities Prospectus.

1203. Countrywide and Citigroup Global Markets owed to Plaintiff Katzeff and the Class the duty to make a reasonable and diligent investigation of the statements contained in the 7% Capital Securities Prospectus, to ensure that the statements contained or incorporated by reference therein were true and that there was no omission to state a material fact required to be stated therein in order to make the statements contained therein not misleading.

1204. Countrywide and Citigroup Global Markets did not make a reasonable and diligent investigation of the statements contained or incorporated by reference in the 7% Capital Securities Prospectus and did not possess reasonable grounds for believing that the 7% Capital Securities Prospectus did not contain an untrue statement of material fact or omit to state a material fact required to be stated therein or necessary to make the statements therein not misleading.

1205. Plaintiff Katzeff and members of the Class purchased 7% Capital Securities pursuant to the 7% Capital Securities Prospectus and were damaged thereby.

1206. Plaintiff Katzeff and the Class did not know, nor in the exercise of reasonable diligence could have known, of the untrue statements of material fact or omissions of material facts in the 7% Capital Securities Prospectus when she purchased or acquired the securities. Less than one year has elapsed between the time she discovered or reasonably could have discovered the facts upon which this Count is based and the time this claim was brought. Less than three years have elapsed between the time that the securities upon which this Count is brought were *bona fide* offered to the public and the time this action was commenced.

1207. By reason of the foregoing, Countrywide and Citigroup Global Markets are liable to Plaintiff Katzeff and members of the Class for violations of Section 12(a)(2) of the Securities Act. Plaintiff Katzeff and Class members hereby tender their securities to their respective sellers and seek rescission of their purchases to the extent that they continue to own such securities.

COUNT IX

For Violations of Section 15 of the Securities Act on Behalf of Purchasers of 7% Capital Securities, Asserted Against Defendants Mozilo, Sambol, and Sieracki

1208. Plaintiffs repeat and reallege each and every allegation above as if fully set forth herein. For purposes of this Count, Plaintiffs assert only strict liability and negligence claims and expressly disclaim any claim of fraud or intentional misconduct.

1209. This Count is brought pursuant to Section 15 of the Securities Act against Defendants Mozilo, Sambol, and Sieracki on behalf of Plaintiffs Brahn and Katzeff and members of the Class who purchased or acquired CCV 7%

Capital Securities pursuant or traceable to the 7% Capital Securities Registration Statement, or pursuant to the 7% Capital Securities Prospectus.

1210. Countrywide and CCV violated Section 11 of the Securities Act by issuing the 7% Capital Securities Registration Statement which contained untrue statements of material fact and omitted to state material facts required to be stated therein or necessary in order to make the statements therein not misleading. The facts misstated and omitted would have been material to a reasonable person reviewing the 7% Capital Securities Registration Statement.

1211. Countrywide and CCV violated Section 12(a)(2) of the Securities Act by soliciting the purchase of 7% Capital Securities by means of the 7% Capital Securities Prospectus which contained untrue statements of material fact and omitted to state material facts required to be stated therein or necessary in order to make the statements therein not misleading. The facts misstated and omitted would have been material to a reasonable person reviewing the 7% Capital Securities Prospectus.

1212. Defendants Mozilo, Sambol, and Sieracki were controlling persons of Countrywide and CCV when the 7% Capital Securities Registration Statement and 7% Capital Securities Prospectus were filed and became effective, because of their senior executive positions with Countrywide; their direct involvement in the Company's day-to-day operations, including its mortgage banking and lending practices and financial reporting and accounting functions; and their signatures on and participation in the preparation and dissemination of the 7% Capital Securities Registration Statement and 7% Capital Securities Prospectus.

1213. By virtue of the foregoing, Defendants Mozilo, Sambol, and Sieracki each had the power to influence and control, and did influence and control, directly or indirectly, the decision-making of Countrywide and CCV, including the content of Countrywide's financial statements and the 7% Capital Securities Registration Statement and 7% Capital Securities Prospectus.

1214. Defendants Mozilo, Sambol, and Sieracki acted negligently and without reasonable care regarding the accuracy of the information contained and incorporated by reference in the 7% Capital Securities Registration Statement and 7% Capital Securities Prospectus and lacked reasonable grounds to believe that such information was accurate and complete in all material respects.

1215. Plaintiffs Brahn and Katzeff and members of the Class purchased CCV 7% Capital Securities pursuant or traceable to the 7% Capital Securities Registration Statement, or pursuant to the 7% Capital Securities Prospectus, and were damaged thereby.

1216. Plaintiffs Brahn and Katzeff and the Class did not know, nor in the exercise of reasonable diligence could have known, of the untrue statements of material fact or omissions of material facts in the 7% Capital Securities Registration Statement and 7% Capital Securities Prospectus when they purchased or acquired the securities.

1217. By reason of the foregoing, Defendants Mozilo, Sambol, and Sieracki are liable to Plaintiffs Brahn and Katzeff and members of the Class for violations of Section 15 of the Securities Act.

COUNT X

For Violations of Section 10(b) of the Exchange Act and SEC Rule 10b-5 on Behalf of Plaintiffs, Asserted Against Countrywide and the Officer Defendants

1218. Plaintiffs repeat and reallege each and every allegation set forth above as if fully set forth herein.

1219. This Count is asserted pursuant to Section 10(b) of the Exchange Act and Rule 10b-5 promulgated thereunder by the SEC, on behalf of Plaintiffs and members of the Class against Countrywide and the Officer Defendants Mozilo, Sambol, Sieracki, and Kurland.

1220. As alleged herein, throughout the Class Period, these Defendants, individually and in concert, directly and indirectly, by the use of the means or instrumentalities of interstate commerce, the mails and/or the facilities of national securities exchanges, made untrue statements of material fact and/or omitted to state material facts necessary to make their statements not misleading and carried out a plan, scheme and course of conduct, in violation of Section 10(b) of the Exchange Act and Rule 10b-5 promulgated thereunder. These Defendants intended to and did, as alleged herein, (i) deceive the investing public, including Plaintiffs and members of the Class; (ii) artificially inflate and maintain the prices of Countrywide common stock and other publicly traded securities, including but not limited to public debt and preferred securities specifically alleged herein; and (iii) cause Plaintiffs and members of the Class to purchase Countrywide securities at artificially inflated prices.

1221. The Officer Defendants were individually and collectively responsible for making the false and misleading statements and omissions alleged herein and having engaged in a plan, scheme and course of conduct designed to deceive Plaintiffs and members of the Class, by virtue of having prepared, approved, signed and/or disseminated documents which contained untrue statements of material fact and/or omitted facts necessary to make the statements therein not misleading.

1222. As set forth above, Defendants made their false and misleading statements and omissions and engaged in the fraudulent activity described herein knowingly and intentionally, or in such a deliberately reckless manner as to constitute willful deceit and fraud upon Plaintiffs and the other members of the Class who purchased Countrywide common stock and/or other Countrywide public securities, including but not limited to the securities specifically alleged herein, during the Class Period.

1223. In ignorance of the false and misleading nature of these Defendants' statements and omissions, and relying directly or indirectly on those statements or upon the integrity of the market prices for Countrywide common stock and other publicly traded securities, Plaintiffs and other members of the Class purchased Countrywide securities at artificially inflated prices during the Class Period. But for the fraud, Plaintiffs and members of the Class would not have purchased Countrywide securities at artificially inflated prices. As set forth herein, when the true facts were subsequently disclosed, the prices of Countrywide common stock and other publicly traded securities declined precipitously and Plaintiffs and members of the Class were harmed and damaged as a direct and proximate result of their purchases of Countrywide securities at artificially inflated prices and the subsequent decline in the prices of those securities when the truth began to be disclosed.

1224. By virtue of the foregoing, Defendant Countrywide and the Officer Defendants Mozilo, Sambol, Sieracki and Kurland are liable to Plaintiffs and members of the Class for violations of Section 10(b) of the Exchange Act and Rule 10b-5 promulgated thereunder.

COUNT XI

For Violations of Section 20(a) of the Exchange Act, on Behalf of Plaintiffs, Asserted Against the Officer Defendants

1225. Plaintiffs repeat and reallege each of the allegations set forth above as if fully set forth herein.

1226. This Count is asserted pursuant to Section 20(a) of the Exchange Act against the Officer Defendants Mozilo, Sambol, Sieracki, and Kurland, on behalf of Plaintiffs and members of the Class.

1227. As alleged above, Countrywide violated Section 10(b) and Rule 10b-5 promulgated thereunder by making false and misleading statements in connection with the purchase and sale of securities and by participating in a fraudulent scheme and course of business or conduct throughout the Class Period. This fraudulent conduct was undertaken with scienter and the Company is charged with the knowledge and scienter of Defendants Mozilo, Sambol, Sieracki, and Kurland and others who knew of or acted with deliberate reckless disregard of the falsity of the Company's statements and the fraudulent nature of its scheme during the Class Period.

1228. The Officer Defendants were controlling persons of Countrywide during the Class Period, due to their senior executive positions with the Company; their direct involvement in the Company's day-to-day operations, including its mortgage banking and lending practices and financial reporting and accounting functions; and their signatures on and participation in the preparation and dissemination of the Company's public filings.

1229. By virtue of the foregoing, the Officer Defendants each had the power to influence and control, and did influence and control, directly or indirectly, the decision-making of Countrywide, including the content of its financial statements and other public statements.

1230. As set forth above, these Defendants acted knowingly and intentionally, or in such a deliberately reckless manner as to constitute willful fraud and deceit upon Plaintiffs and the other members of the Class who purchased Countrywide securities during the Class Period.

1231. In ignorance of the false and misleading nature of these Defendants' statements and omissions, and relying directly or indirectly on those statements or upon the integrity of the market prices for Countrywide common stock and other publicly traded securities, Plaintiffs and other members of the Class purchased Countrywide securities at artificially inflated prices during the Class Period. But for the fraud, Plaintiffs and members of the Class would not have purchased Countrywide securities at artificially inflated prices. As set forth herein, when the true facts were subsequently disclosed, the prices of Countrywide common stock and other public securities declined precipitously and Plaintiffs and members of the Class were harmed and damaged as a direct and proximate result of their purchases of Countrywide securities at artificially inflated prices and the subsequent decline in the prices of those securities when the truth began to be disclosed.

1232. By reason of the foregoing, the Officer Defendants are liable to Plaintiffs and the members of the Class for violations of Section 20(a) of the Exchange Act.

COUNT XII

For Violations of Section 10(b) of the Exchange Act and SEC Rule 10b-5 on Behalf of Plaintiffs, Asserted Against Defendant KPMG

1233. Plaintiffs repeat and reallege each and every allegation set forth above as if fully set forth herein.

1234. This Count is asserted pursuant to Section 10(b) of the Exchange Act and Rule 10b-5 promulgated thereunder by the SEC, on behalf of Plaintiffs and members of the Class against Defendant KPMG.

1235. As alleged herein, throughout the Class Period, KPMG, directly and indirectly, by the use of the means or instrumentalities of interstate commerce, the mails and/or the facilities of national securities exchanges, made untrue statements of material fact and/or omitted to state material facts necessary to make their statements not misleading and carried out a plan, scheme and course of conduct, in violation of Section 10(b) of the Exchange Act and Rule 10b-5 promulgated thereunder. KPMG intended to and did, as alleged herein, (i) deceive the investing public, including Plaintiffs and members of the Class; (ii) artificially inflate and maintain the prices of Countrywide common stock and other publicly traded securities, including but not limited to public debt and preferred securities specifically alleged herein; and (iii) cause Plaintiffs and members of the Class to purchase Countrywide securities at artificially inflated prices.

1236. KPMG was responsible for issuing its false and misleading audit reports and opinions alleged herein and having engaged in a plan, scheme and course of conduct designed to deceive Plaintiffs and members of the Class, by virtue of having prepared, approved, signed and/or disseminated documents which contained untrue statements of material fact and/or omitted facts necessary to make the statements therein not misleading.

1237. As set forth above, KPMG made its false and misleading statements and omissions and engaged in the fraudulent activity described herein knowingly and intentionally, or in such a deliberately reckless manner as to constitute willful deceit and fraud upon Plaintiffs and the other members of the Class who purchased Countrywide common stock and/or other Countrywide public securities, including but not limited to the securities specifically alleged herein, during the Class Period.

1238. In ignorance of the false and misleading nature of KPMG's statements and omissions, and relying directly or indirectly on those statements or upon the integrity of the market prices for Countrywide common stock and other publicly traded securities, Plaintiffs and other members of the Class purchased Countrywide securities at artificially inflated prices during the Class Period. But for the fraud, Plaintiffs and members of the Class would not have purchased Countrywide securities at artificially inflated prices. As set forth herein, when the true facts were subsequently disclosed, the prices of Countrywide common stock and other publicly traded securities declined precipitously and Plaintiffs and members of the Class were harmed and damaged as a direct and proximate result of their purchases of Countrywide securities at artificially inflated prices and the subsequent decline in the prices of those securities when the truth began to be disclosed.

1239. By virtue of the foregoing, Defendant KPMG is liable to Plaintiffs and members of the Class for violations of Section 10(b) of the Exchange Act and Rule 10b-5 promulgated thereunder.

COUNT XIII

For Violations of Section 20A of the Exchange Act, on Behalf of Lead Plaintiffs, Asserted Against Defendants Mozilo, Sambol and Kurland

1240. Plaintiffs repeat and reallege each of the allegations set forth above as if fully set forth herein.

1241. This Count is asserted pursuant to Section 20A of the Exchange Act against Defendants Mozilo, Sambol, and Kurland, on behalf of Lead Plaintiffs and all members of the Class who purchased Countrywide common stock contemporaneously with any of these Defendants' sales of Countrywide common stock during the Class Period.

1242. Each of these Defendants sold substantial numbers of shares of Countrywide common stock during the Class Period while in possession of material, adverse, nonpublic information. This conduct violated Section 20A of the Exchange Act.

1243. As set forth in the annexed certifications of Lead Plaintiffs and the annexed Exhibit H, Lead Plaintiffs purchased shares of Countrywide common stock on the same day as or close in time to sales of Countrywide common stock made by the Defendants named in this Count while these Defendants were in possession of material, adverse, nonpublic information. These sales and purchases were contemporaneous within the meaning of Section 20A of the Exchange Act.

1244. Numerous other Class members also purchased Countrywide common stock contemporaneously with these Defendants' sales of stock during the Class Period based on material, adverse, nonpublic information.

1245. Accordingly, under Section 20A of the Exchange Act, the Defendants named in this Count are each liable to Lead Plaintiffs and the Class for all profits gained and losses avoided by them as a result of their stock sales.

1246. The Defendants named in this Count are required to account for all such stock sales and to disgorge their profits or ill-gotten gains.

XVI. PRAYER FOR RELIEF

WHEREFORE, Plaintiffs respectfully pray for judgment as follows:

A. Determining that this action is a proper class action maintained under Rules 23(a) and (b)(3) of the Federal Rules of Civil Procedure, certifying Lead Plaintiffs as class representatives, and appointing Labaton Sucharow LLP as class counsel pursuant to Rule 23(g);

B. Declaring and determining that Defendants violated the Securities Act and Exchange Act by reason of the acts and omissions alleged herein;

C. Awarding preliminary and permanent injunctive relief in favor of Plaintiffs and Class against Defendants and their counsel, agents and all persons acting under, in concert with, or for them, including an accounting of and the imposition of a constructive trust and/or an asset freeze on Defendants' insider trading proceeds;

D. Ordering an accounting of Defendants' insider trading proceeds;

E. Disgorgement of Defendants' insider trading proceeds;

F. Restitution of investors' monies of which they were defrauded;

G. Awarding Plaintiffs and the Class compensatory damages against all Defendants, jointly and severally, in an amount to be proven at trial together with prejudgment interest thereon;

H. Awarding Plaintiffs and the Class the right to rescind their Countrywide securities to the extent they continue to hold such securities;

I. Awarding Plaintiffs and the Class their reasonable costs and expenses incurred in this action, including but not limited to attorney's fees and fees and costs incurred by consulting and testifying expert witnesses; and

J. Granting such other and further relief as the Court deems just and proper.

XVII. DEMAND FOR JURY TRIAL

Plaintiffs demand a trial by jury of all issues so triable.

Dated: January 6, 2009

LABATON SUCHAROW LLP

By: ______________________

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