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OTS Letter to Countrywide re Ratings

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Office of Thrift Supervision
Department of the Treasury *West Region*

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September 28, 2007

Board of Directors
Countrywide Bank, FSB
225 West Hillcrest Drive
Thousand Oaks, CA 91360

Dear Board of Directors:

This letter is to advise you that the Office of Thrift Supervision (OTS) is adjusting downward the existing composite rating for Countrywide Bank, FSB, (CWB) from a “2” to a “3,” effective September 28, 2007. Also, although we will continue to reassess all ratings as part of our current target examination, we will be adjusting the Liquidity component rating from a “2” to a “4” as discussed below and the Asset Quality component rating from a “1” to a “2” based on delinquency trends and portfolio characteristics. Financial institutions with a composite rating of “3” exhibit a combination of weaknesses and some degree of supervisory concern in one or more of the component areas. Composite “3” rated institutions are generally characterized as:

- Less capable of withstanding business fluctuations,
- More vulnerable to outside influences than institutions rated a composite "1" or "2", and
- Requiring more than normal supervision.

CWB was last assigned a composite rating of “2” by the Office of the Comptroller of the Currency (OCC) as a result of its March 31, 2006, examination. Individual CAMELS component ratings assigned at that time were 2-1-2-2-2-2. Upon assuming supervisory responsibility for CWB on March 12, 2007, OTS carried forward the OCC ratings and initiated its own ongoing examination of both CWB and the holding company complex.

As a result of the recent severe disruptions in the mortgage market, Countrywide Financial Corp. (CFC) and its mortgage banking subsidiary, Countrywide Home Loans (CHL), experienced a liquidity event of unusual proportions. To enhance CWB’s ability to independently operate and remain in a safe and sound condition, OTS allowed CWB to accelerate its previously approved plan to integrate the loan production platform at CHL into the bank, and to fund and portfolio a greater percentage of new loans meeting the bank’s investment and underwriting guidelines. Our nonobjection to accelerating the previously approved plan superceded the growth limitations contained in my letter dated August 1, 2007, which is hereby rescinded.

Despite funding more new loans through CWB, bank affiliates had to draw upon their lowest layers of back-up liquidity and manage through rating agency downgrades and significant negative media and analyst attention. The combination of liquidity-related events within the Countrywide organization ultimately reduced CWB's financial flexibility. CWB experienced a rating downgrade, loss of fed funds borrowing capacity, and negative press, the latter of which was apparently responsible for a brief deposit run in mid-August. We believe these collective circumstances increased the withdrawal risk of certain concentrations of deposits, including retail uninsured, commercial, escrow, and affiliate (CHL) deposits. The acceleration of the business plan also led to an increased reliance on FHLB advances up towards the institution's current borrowing capacity of 50 percent of assets. Given the preceding, we consider CWB less able to withstand business fluctuations and more vulnerable to additional negative external or affiliate events. We appreciate that the company as a whole, and CWB independently, have been working diligently to rebuild liquidity, enhance the bank's ability to operate independently, and to reassess practices and governance. We believe the bank should continue to focus efforts on a combination of the following: (1) diversify funding sources; (2) reduce the risk associated with the concentrations in deposits; (3) increase liquid assets and/or borrowing capacity, and (4) stay abreast of the enterprise-wide liquidity risk management actions and plans for stress scenarios to ensure that the bank is protected from contagion risk.

We want to acknowledge the Board's commitment to maintain minimum CWB capital ratios of 7.00% Tier 1 (Core) and 12.00% Total Risk-Based, which we consider appropriate based on the bank's current risk profile. We understand that the revised business plan will reflect a reasonable cushion above these minimums.

OTS has a responsibility to ensure that CWB's composite rating reflects our best judgment of its current condition. The decision to change the composite rating to a "3" at this time was made after carefully considering all facts and current circumstances. We are prepared to reassess the rating as liquidity enhancements are firmly in place and the bank's condition improves. We also want to express our appreciation for management's open communication, cooperation, and extraordinary efforts during these difficult times.

Sincerely,

Darrel W. Dochow
Regional Director