

MEMORANDUM FOR THE RECORD

Event: Interview with Mike Schloessmann, former Managing Director at Countrywide

Type of Event: Telephonic interview

Date of Event: Wednesday, May 27, 2010; 1:15 p.m.

Team Leader: Tom Krebs

Location: FCIC Headquarters, 1717 Pennsylvania Ave NW, Washington, DC

Participants - Non-Commission:

- Mike Schloessmann, Bank of America, formerly with Countrywide
- Reginald Brown, Wilmer Hale
- Paul Winke, Wilmer Hale
- Charlotte Blott, Bank of America
- Greg Reinhart, Bank of America

Participants - Commission:

- Tom Krebs
- Sarah Knaus

MFR Prepared by: Sarah Knaus

Date of MFR: May 27, 2010

Summary of the Interview or Submission:

Tom Krebs began the interview by introducing himself and the Financial Crisis Inquiry Commission. His request to tape the interview was rejected by the interviewee's counsel, Reginald Brown, on the grounds of no pre-notification about the recording.

Krebs: Please give me your background.

Schloessmann: I graduated with a BS in 1987, and then graduated with a JD from University California Hastings College of Law in 1990. I began full-time employment in 1990 with Milbank, Tweed, Haley, and McCoy. I left in 1993 to join Countrywide Home Loans, where I remained for the ensuing 15 years before the Bank of America acquisition. I've been at the Bank since that time.

Krebs: What were your positions at Countrywide?

Schloessmann: I started out in the secondary marketing area, and was responsible for the home loan securitization activity of the mortgage company. In 1995, I joined the broker-dealer unit Countrywide Corporate Securities. I built and ran our transaction management team, including a securitization group responsible for most aspects of Countrywide's securitization business.

Krebs: Did you obtain any securities licensing?

Schloessmann: I did, and still have my Series 7, 63, and 24 licenses.

Krebs: And presumably there's a Central Registration Depository on you?

Schloessmann: There was, but I don't know where my licenses stand after CSC was shuttered. I think the license expires in 2 years if it is not register with a broker-dealer.

Krebs: You said that you were involved in the secondary marketing area?

Schloessmann: Every mortgage bank has a secondary marketing team, who are charged with the disposition of the originations of the mortgage company. Countrywide was a mortgage bank going back to 2003. Countrywide sold virtually all the loans it originated through the secondary market department via Fannie, Freddie, Ginnie Mae, Wall Street intermediaries and others.

Krebs: Were the Wall Street intermediaries underwriters of the securities?

Schloessmann: That's correct.

Krebs: What firms were you involved with in underwriting the securities of CW?

Schloessmann: We began issuing our own securities when I joined in 1993, which were underwritten by Wall Street firms including: Solomon Bros, Lehman, Bear, UBS, Credit Suisse, First Bachman, and Payne Weber. CW also acted as an underwriter later on.

Krebs: At what particular point did Countrywide Securities Corporation (CSC) begin to market the securities issued by Countrywide?

Schloessmann: I believe it began in 1996, when we acted as a co-manager to a Street-lead underwriter. Countrywide began with underwriting HELOC loans and progressively over time as we developed our own distribution and other expertise, we began to lead underwrite securities either as a co- or sole lead manager. My best estimate is somewhere around 2000-2001 give or take a year.

Krebs: Following the 2000-2001 period, what percentage of the transactions at Countrywide were done with Wall Street firms as opposed to exclusively by Countrywide?

Schloessmann: One way to look at it is that there were different types of transactions. We ultimately became the lead underwriter on Countrywide's ABS transactions, which were

composed of subprime and HELOC securitizations. MBS transactions, composed of fixed jumbo-collateral and adjustable rate mortgages, were typically auctioned off to the Street and we were therefore a distinct minority underwriter in those cases. Wall Street underwrote the majority of our MBS and CWALT shelves. We had 4 shelves: CWMBS, CWALT, CWHEQ, and CWABS.

Krebs: What were the distinctions in the shelves?

Schloessmann: Typically, they were set up to differentiate product types. CWMBS was the first shelf set up in 1993 and was the only shelf for the next few years. At first we only securitized core jumbo products. CWALT was next set up to issue fixed and adjustable rate ALT-A products. The CWABS shelf was used to securitize subprime and home equity collateral. We subsequently set up CWHEQ to issue commercial paper.

Krebs: I understand that you may have been proffered here because you are knowledgeable about the dealings with the credit rating agencies?

Schloessmann: General speaking, yes.

Krebs: At CW you had the title of Product Head Workout Strategies?

Schloessmann: No, that's my current title. My title at CW Securities and Capital Markets was Managing Director, Transaction Management.

Krebs: Where in your four shelves would the real estate MBS fall?

Schloessmann: Well, residential MBS could encompass all four of those shelves. RMBS as used in the context I'm accustomed to really describes the mortgage loan securitization market in its entirety. I do view all of those as subsets of RMBS (subprime, HELOC, etc.)

Krebs: I presume you're not doing any RMBS now?

Schloessmann: No. Other than re-securitizations, there has only been one new deal, done by Citi a few weeks back, since August 2007.

Krebs: How many RMBS transactions or deals were done by CW in a year?

Schloessmann: That information we could get greater certainty, but the volume peaked in 2006. I would say over the course of the year we were doing in excess of 100 RMBS transactions. About 10 a month.

Krebs: How were those transactions structured? Did it depend on the shelf?

Schloessmann: Really, the type of shelf was set up as a function as the type of collateral. We structured the deals to achieve best execution and optimal pricing based on structuring. You'd

structure them based on the goal of execution and what buyers were looking for. You would take a transaction or a pool of assets and attempt to structure them accordingly. It's highly variable based on the asset type. The market evolved.

Krebs: To what extent did the co-manager or the lead underwriter affect the structure of the transaction?

Schloessmann: It's dependent on asset type. When we sold off the MBS bond, the lead manager would have almost complete discretion to structure the bonds anyway they saw fit within certain the parameters and protocols put in place. In the case of the syndicated underwriting, Countrywide was working for a flat underwriting fee and were doing all of the structuring work. Ultimately the mortgage company would chose the structure based on what work we had done.

Krebs: Presumably the structures included tranches of risk and asset valuations?

Schloessmann: Correct.

Krebs: How are those tranches established?

Schloessmann: As I alluded to, you're trying to sell bonds with best execution. Implicit in that is an understanding of what bonds people want to buy, the attributes of these bond and their prices. This is overly simplistic, but the considerations were the depth of market, liquidity, and price bond holders willing to pay. You end up trying to solve for best execution, which would lead to the bond structure that was ultimately chosen.

Krebs: How were the underwriters selected?

Schloessmann: Well, the CWABS and CWHEQ deals began in 2001 with CW as virtually the sole underwriter. Co-writers may get a 5-10% allocation of the deal, and would be brought in as a second market maker to add liquidity as well as keeping the Wall Street firms interested in our programs. On CWABS, the mortgage company would auction off collateral for the senior bonds as Wall Street saw fit.

Krebs: You dealt with the rating agencies in connection with the ratings on transactions sold by the brokerage firm?

Schloessmann: To an extent. My group, Transaction Management, was charged with managing the transaction soup to nuts. There were others involved as well, including a trading team, sales people, and the structuring group who were the quants that modeled deals all throughout the day. They were the primary interface with the rating agencies in getting structures that were rated by the agencies.

Krebs: Is it fair to say that CW had the models that would be employed by the rating agencies?

Schloessmann: Right. Each of them has their own proprietary model. S&P had levels, but I can't remember Moody's. We were able to run collateral through the models they made available. It was never a substitute for the agencies' modeling of the deal and subsequent issuing of the rating. Models were made available to securitizers for ease of transactions with a litany of tapes. They essentially allowed the Street to do a lot of the leg work themselves.

Krebs: Is it fair to say that those models allowed you to anticipate the type of rating?

Schloessmann: In general, yes. Although I would say that I was not by any means well versed in the model itself, I didn't do the model runs.

Krebs: When you submitted a transaction to a rating agency, did you have some indication of what the rating should be?

Schloessmann: You would have an indication just by virtue of looking at the characteristics of the collateral. We had ample recent data points of where collateral was rated, because we did so many deals. However, I'm not sure if the models allowed us to run loss coverage levels, because of the complexity and structure. In the CWMBS-type structures, the rating agencies employed a simple subordinate type of structure. I'm not sure to what extent the models were useful to us on the ABS side. It seems to me that we would typically have to send a tape in to get loss coverage levels, but I could be wrong. I'm not sure if the rating agencies' models allowed us to anticipate the rating. We did have significant data points, so we could anticipate where levels could likely be. We always had the last month to look at.

Krebs: Can you walk me through a typical submission to Moody's for a rating? When you were at CW did you employ any former Moody's employees?

Schloessmann: I do not recall specifically anybody. They would have likely ended up in our structuring group. I don't know, but some of our structurers may have a rating agency background, I just can't say for certain.

Brown: We're getting you data from Merrill and BofA today.

Krebs: Would folks who were recently doing models or on analytical teams be able to give you a little bit of information of where the rating ought to come out?

Schloessmann: I think my general sense is that they'd possess some of the expertise needed to structure securities.

Krebs: Walk me through a typical submission to Moody's.

Schloessmann: I'll focus on the asset-backed world, because CWMBS was a less iterative process because the mortgage companies would have contacted the agencies themselves. We would at a minimum send a loan-level tape in a format dictated by a rating agency, containing

from 40-60% of the benchmark collateral. We send them a tape, they run their models, and come back with loss coverage levels. In general, we would use these as a basis to structuring the remaining portion of the deal, while keeping in mind best execution and investor demand. We'd have a structure in mind, and the agency loss coverage levels would tell us the size of the bond we could sell. We'd get the loss coverage numbers back, structure a deal, then go to market, and circle the trade. We'd send the final collateral (100% unless the deal was pre-funded) to the rating agencies. They would run it again, committee it, and come back with definitive ratings you could rely on.

Krebs: Did they ever come back for comments or seek your input on a proposed rating following the submission of final collateral?

Schloessmann: Generally speaking, there was very little in the way of surprises. What we had done was take their rating based on a statistical pool, 60%, and look at the characteristics of the pool submitted and knew that the pool had to be substantially the same. The ratings wouldn't change because we circled the bond. For all intensive purposes, once you've priced your deal, buyers and sellers thought you were done. As a seller, you wouldn't hedge the risk anymore because you have a buyer lined up. I don't think that nuance is particularly important.

Krebs: I'm trying to find out at what point in time the rating was done.

Schloessmann: At the time you get pricing it's pretty much done.

Krebs: I want to focus on the initial rating from Moody's that was sent back to you.

Schloessmann: I do think that's the point in time that's more relevant than the final pool. When we got the prelim ratings, we'd send it to all of the rating agencies.

Krebs: Would these have been rated by S&P, Moody's and Fitch?

Schloessmann: Not in a single transaction. The standard in the market was senior bonds carry a few ratings, while subordinates carry one or two depending on the transaction type. You'd send out a tape to all three and DBRS later in the game.

Krebs: You talked about the loan level tape?

Schloessmann: That is a tape of every loan, it line itemizes each loan at whatever attributes were dictated by the rating agencies, whatever loans you wanted the rating agencies to rate.

Krebs: Rating agencies said they didn't do due diligence, but is this due diligence?

Schloessmann: It's an electronic submission, a data file, which they had on everything they did, that would identify loans and the loan attributes. They fed these into the model. They did not conduct a physical review of the application file.

Krebs: Who did that for you at CW?

Schloessmann: In the course of securitizations, the lead underwriter would perform an underwriting or re-underwriting of a statistically meaningful assessment of loans. They would look at the data integrity piece, compliance, RESPA, and a credit review to ensure loans were underwritten properly. That was our Section 11 due diligence defense.

Krebs: Who did this when CW was the lead underwriter?

Schloessmann: We hired a third party like Clayton, Waterson Prime, or MDMC. Very few firms had the staff to conduct these review internally.

Krebs: As I understand it, when you submitted 40-60% of the loans in a proposed structure, did you have a notion of what the ratings should be?

Schloessmann: Yes, because we were doing deals all the time we didn't have to look far to find data points. For a pool of collateral with certain weighted average attributes, loans are defined by their attributes. To the extent that the loans we were originating, we'd expect the loss levels to come in around what we saw in the previous deal.

Krebs: Who were you dealing with at Moody's?

Schloessmann: We were dealing with the analysts managing the transactions. Rather than do ratings levels, which was outside my group, we ran all of the logistical elements and loan document review to ensure we had as smooth a closing as possible.

Krebs: Did you work with Michael Kanef or David Ticher at Moody's?

Schloessmann: The first name doesn't ring a bell. The second does, but to be honest, over the 15-17 years I met with the rating agencies on their annual due diligence trip. I don't remember having a meeting with either one of those.

Krebs: Was it ever suggested to you that the more transactions a rating agency did with Countrywide and the more familiar the agency became with the firm's methods of operations, the better they would be at predicting its ratings and servicers?

Schloessmann: Not that I can recall. It doesn't surprise me, as there's an element of self-interest there, but clearly we thought we benefitted from being a credit worthy company with robust servicing and other processes throughout the company. There was an overlay of processes. You were in the highest rating category for servicer ratings, but to your point, I don't recall that.

Krebs: I was trying to focus on the qualitative factor. Did the fact that the rating agency dealt with you as an established servicer for years factor into the ratings process?

Schloessmann: That sounds right. That's to the qualitative portion. It was always made known to us that they were looking at the originator because the originator makes reps and warranties, but that there would be a credit of a number of basis points if you were a higher rated servicer or no credit for a lower rated servicer.

Brown: He doesn't know this; you would have to ask the rating agencies.

Schloessmann: It's my understanding that the identity of the originator and the servicer on a transaction were part of the ratings process.

Krebs: Was that ever communicated by a person at Moody's?

Schloessmann: I vaguely recall hearing from someone that Countrywide, based on its service level, received X basis points but I can't remember anything more specific.

Krebs: Those are the qualitative factors you mentioned? What benefit did that have?

Schloessmann: I don't know. I vaguely recall having conversations which came up with loans that were serviced by others. I do recall there being a benefit to CW servicing a transaction. I don't remember what that benefit was. I know it was expressed as a benefit relative to somebody who did not have the same standing.

Krebs: Are you aware of any pre-pricing committee meetings at Moody's to discuss whether your estimates of the ratings were okay or alright?

Schloessmann: Pre-pricing meetings is a term I don't know. While we could anticipate what the levels might be, we never marketed a deal where we didn't have preliminary levels back from the rating agencies. It was always our practice of confirming and structuring the deal according.

Krebs: What about a preliminary rating?

Schloessmann: We would submit the loan level tape with 40-60% of the pool, and the rating agency would come back to us with loss coverage levels from which we would put together a preliminary structure. With this, we would go out and market the bonds, circle the bonds, and then proceed with getting all of our ducks in the row to submit the final tape to the rating agencies.

Krebs: At that time did you have any confirmation where ratings would be what you anticipated?

Schloessmann: When we got back loss-coverage levels. When we marketed a deal we had these loss coverage levels, which essentially say that as long as we structured a deal with corresponding levels we would get the same rating as the preliminary. If we got a preliminary rating back that was different than we had expected, we would have a conversation with the agency about the changes from previous ratings. If we wanted lower loss coverage levels, we

would ask how we would have to change the collateral around. Those conversations were not unusual. Most of the deals went the way we expected.

Krebs: Do you know who David Sambol is?

Schloessmann: Yes. Dave Sambol was, up until July 1, the president of Countrywide Financial Corporation and its subsidiaries.

Krebs: Did you select one rating agency over the other and why?

Schloessmann: It could be liquidity and investor appetite for certain agencies. If you have fixed income, and didn't like Fitch or Moody's, or as was often the case if you had CDOs (which we didn't do other than one), you would essentially be stuck with Moody's or S&P. If you sent a tape out to all three and got different levels back and the committee was agnostic to which one was used, it wasn't unusual to take the rating that offered the best coverage.

Krebs: What was your average deal size? I ask because I'm trying to get a handle on how much you may have paid moody's. I have moody's investor services fee requirements. For 2007, it says for each new issue the base rate is....

Schloessmann: I think they priced ABS and MBS transactions differently, but most of the fees we paid the rating agencies were capped out because our deals were large. They were capped around \$600-800 million dollars.

Krebs: You hit the max virtually every time?

Schloessmann: I'm uncomfortable saying every time. The information is out there, that's my sense. I signed off on all of the invoices. I think we capped out the vast majority of the time.

Krebs: For the preliminary rating, you had about 40-60% of the loans in place and were capable of inspection by Moody's in the tape?

Schloessmann: Yes.

Krebs: How did you fill in the remaining 60-40%? What were the factors?

Schloessmann: The whole point of delivering a statistical population as opposed to the entire population had to do with our business. We were originating loans every day, and would have quick turnover. You had a lot of liquidity pressure. Because of the volumes, you'd be topping out at 50% of the market. You'd draw on asset-backed CP issuance. Cash management was key and turning over inventory was important. Because a deal might take a number of weeks, you might be doing 3 subprime deals at once and to get at least one deal out by the end of the month would have to submit a portion of the deal for initial rating.

Krebs: Would the tapes present a range of FICO scores, debt-to-income, and other factors loaded in?

Schloessmann: Not just a range, but the actual loan level.

Krebs: When it came to filling out the 40-60%, would you try to track their average data in terms of FICO, debt to income, etc?

Schloessmann: The issuance off the final rating was contingent on us delivering the actual pool. So, we didn't have a whole lot of surprises because we knew what we had delivered and what the preliminary ratings were based on. It was up to us to allocate the population. We had to take into account the pool initially submitted. We would attempt to fit in the additional loans. In allocating, we knew where we had to be FICO-wise, and LTB-wise. We didn't want to resize bonds and go back to investors to pare down trades. It was the case the vast majority of the time that we would get the final rating at the loss-coverage levels initially communicated to us.

Krebs: Thank you for your time.