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IN THE CIRCUIT COURT OF THE STATE OF OREGON

FOR THE COUNTY OF MULTNOMAH

THE STATE OF OREGON, by and through the OREGON STATE TREASURER on behalf of the INDUSTRIAL ACCIDENT FUND, Plaintiff, v. COUNTRYWIDE FINANCIAL CORPORATION, Defendant.	Case No. **COMPLAINT** 1101-01142 CLAIMS NOT SUBJECT TO MANDATORY ARBITRATION AMOUNT CLAIMED: Principal Amount $1,152,694.50 JURY TRIAL DEMANDED

Plaintiff the State of Oregon, by and through the Oregon State Treasurer on behalf of the Industrial Accident Fund ("Plaintiff" or "IAF"), alleges as follows:

JURISDICTION AND VENUE

1.

The Court has subject matter jurisdiction over the action under Article VII, section 9 of the Oregon Constitution.

2.

This Court has personal jurisdiction over Defendant Countrywide Financial Corporation ("Countrywide") under ORCP 4 A.

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3.

The claims alleged in this complaint are not subject to removal from state court. Private rights of action under sections 11 and 12 of the Securities Act of 1933 may be brought in state court and are not removable. 15 USC § 77v(a).

PARTIES

4.

Plaintiff IAF is a statutorily created trust fund held by the Oregon State Treasurer. Pursuant to Oregon law, all moneys received by the State Accident Insurance Fund Corporation (SAIF) for workers' compensation purposes are paid to the Oregon State Treasurer and become part of SAIF's IAF. The Oregon State Treasurer, in his capacity as the investment officer for the Oregon Investment Council, oversees the investment of moneys held in IAF. Pursuant to his delegated investment authority, the Oregon State Treasurer, on behalf of IAF, selected and controlled managers who purchased and sold Countrywide bonds for IAF during the relevant time frame. As a result, IAF suffered damages of $1,152,694.50 or in an amount to be proven at trial.

5.

Defendant Countrywide was a Delaware corporation that maintained its principal executive offices in Calabasas, California. Countrywide was founded in 1969 and, during the relevant period, engaged in mortgage lending and other finance-related businesses. Countrywide merged with Bank of America ("BoA") on July 1, 2008, and is now a wholly owned subsidiary of BoA. Angelo Mozilo ("Mozilo") was Countrywide's Chairman and CEO from 1969 until 2008. David Sambol ("Sambol") was Countrywide's President and COO from 2006 until 2008, and an executive officer of the company from at least 2004. Eric Sieracki ("Sieracki") was Countrywide's CFO from 2005 until 2008.

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NATURE OF THE ACTION

6.

This is a securities lawsuit against Countrywide. This action asserts claims under Sections 11 and 12 of the Securities Act of 1933 arising out of Plaintiff's purchase of Countrywide bonds.

7.

The Countrywide bonds purchased by IAF were issued pursuant to registration statements filed by Countrywide with the Securities Exchange Commission ("SEC"). In addition, Countrywide offered and sold the bonds by means of prospectuses, which Countrywide also filed with the SEC. These registration statements and prospectuses incorporated by reference various other documents filed by Countrywide with the SEC.

8.

Countrywide's public filings, which were incorporated by reference in the registration statements and prospectuses related to the bonds purchased by IAF, contained numerous untrue statement of material facts and omitted to state material facts required to be stated therein or necessary to make the statements therein not misleading. From 2003 through at least the end of 2007, Countrywide, in its public filings, held itself out to the investing public as primarily a maker of prime quality mortgage loans that were different from the riskier loans and lending practices used by market competitors. However, Countrywide and its executives hid from the investing public that, in order to increase its market share and sustain revenue growth, Countrywide actually was engaged in an unprecedented expansion of its underwriting guidelines that allowed it to write a higher volume of riskier loans, which in turn created an ever-increasing credit risk to the company and its investors. At the same time, and as described below, Countrywide made numerous untrue statements of material fact in reporting its financial results and omitted to state material facts necessary to make its reported financial results not misleading, in violation of Generally Accepted Accounting Principles ("GAAP"). As a result of

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1 Countrywide's illegal conduct, IAF was damaged in an amount to be determined at trial, which
2 amount presently is believed to be not less than $1,152,694.50.

3 **BONDS PURCHASED BY IAF**

4 9.

5 On or about May 1, 2007, IAF purchased 1805 units, each of which represented $1,000 in
6 face value, of bonds or notes known as Countrywide 6.25% Subordinated Notes Due May 15,
7 2016 and bearing CUSIP Number 222372AJ33 (the "6.25% Notes"). On or about May 3, 2007,
8 IAF purchased an additional 2035 units of the 6.25% Notes. The 6.25% Notes purchased by IAF
9 were traceable to the 6.25% Subordinated Notes Registration Statement.

10 10.

11 On or about June 4, 2007, IAF purchased 1200 units of bonds or notes known as Series B
12 Medium-Term Notes bearing CUSIP Number 22238HGQ7 (the "Series B Notes"). Countrywide
13 offered the Series B Notes for sale on or about June 4, 2007. The Series B Notes purchased by
14 IAF were either issued pursuant to or traceable to the Series B Medium-Term Notes Registration
15 Statement.

16 11.

17 Both the Series B Medium-Term Notes Registration Statement and the 6.25%
18 Subordinated Notes Registration Statement include the same Form S-3ASR shelf registration
19 statement (and base prospectus) dated February 9, 2006. Both Series B Notes and the 6.25%
20 Notes were offered pursuant to this same shelf registration statement.

21 12.

22 Both the Series B Medium-Term Notes Registration Statement and the 6.25%
23 Subordinated Notes Registration Statement, as well as the Series B Medium-Term Notes
24 Prospectus, expressly incorporated by reference Countrywide's Form 10-K for the year ended
25 December 31, 2004, and its first, second, and third quarter Forms 10-Q for 2005. In addition,
26 both registration statements expressly incorporated by reference subsequent filings that

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1 Countrywide made with the SEC under Sections 13(a), 13(c), 14 and 15(d) of the Securities
2 Exchange Act of 1934.

3 13.

4 Prior to the offering for sale of the 6.25% Notes, Countrywide filed with the SEC its
5 Form 10-K for the year ended December 31, 2005, and its first quarter Form 10-Q for 2006.
6 These filings therefore were incorporated by reference in the 6.25% Subordinated Notes
7 Registration Statement.

8 14.

9 Prior to the offering for sale of the Series B Notes, Countrywide filed with the SEC its
10 Form 10-K for the years ended December 31, 2005, and December 31, 2006, its first, second,
11 and third quarter Forms 10-Q for 2006, and its first quarter Form 10-Q for 2007. These filings
12 therefore were incorporated by reference in the Series B Medium-Term Notes Registration
13 Statement and the Series B Medium-Term Notes Prospectus.

14 **COUNTRYWIDE'S BUSINESS PRACTICES, LAX UNDERWRITING, AND RISKY PRODUCTS**
15

16 15.

17 During the relevant time period, Countrywide was among the nation's largest mortgage
18 lenders. On information and belief, by 2005, Countrywide was the largest mortgage lender in the
19 U.S. That year, for example, Countrywide originated over $490 billion in mortgage loans.

20 16.

21 Historically, Countrywide's core business was writing traditional, first-lien home loans to
22 individuals with strong credit. Such loans, considered "prime" and "conforming," are generally
23 safer for lenders because, among other things, those loans conform to underwriting guidelines set
24 by Government Sponsored Entities ("GSEs") such as Fannie Mae and Freddie Mac.
25 ///
26 ///

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1 17.

2 Conforming loans are saleable to GSEs, and GSEs regularly purchase such loans from
3 issuers and help provide liquidity to the market. Among other things, GSE guidelines set
4 maximum loan amounts, loan-to-value and debt-to-income ratio limits, and require rigorous
5 documentation from potential borrowers. Conversely, nonconforming loans do not conform to
6 GSE guidelines because, among other reasons, they are too large, have loan-to-value or debt-to-
7 income ratios that are too high, or are approved with little to no documentation from the
8 borrower. Between 2001 and 2003, over 50% of Countrywide's loans were considered prime
9 conforming originations.

10 18.

11 Beginning in 2003, Countrywide began moving away from that model and aggressively
12 set out to capture a wider market share by offering riskier loan programs similar to those offered
13 by other lenders. During that time, the overall percentage of Countrywide's prime conforming
14 loans dropped dramatically, while at the same time Countrywide began writing a higher
15 percentage of much riskier loans, including non-conforming loans, home equity loans, and
16 subprime loans. Indeed, by 2006, only 31.9% of Countrywide's originations were conforming,
17 while nearly 54% were either non-conforming or subprime.

18 19.

19 A substantial portion of Countrywide's pre-tax earnings during the time period between
20 2003 and 2007 came from origination of home loans through its Mortgage Banking division. To
21 support those operations, Countrywide held some mortgage-related assets on its balance sheets,
22 and also securitized and/or sold mortgages and mortgage-related rights and obligations to third
23 parties in the secondary mortgage market.

24 20.

25 Countrywide typically maintained retained interests in its securitized loans, which
26 allowed it to receive interest payments from the loan pools. While those interests were lucrative

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for Countrywide in the short term, they increased the long-term risks to the business because the retained interests would take the first losses if any mortgage pool underperformed, giving the securitization investors limited default protection.

21.

Beginning in 2003, Countrywide began its effort to capture a larger piece of the market by implementing a strategy away from writing traditional fixed-rate mortgages to borrowers with prime credit scores, and towards issuing a range of nontraditional, higher risk loans designed to allow borrowers to borrow more money than would have been previously approved. Countrywide used a number of products and strategies to implement that plan.

"Matching" Strategy and "No-Brokering" Policy:

22.

At least as early as 2003, Countrywide began implementing a "matching strategy" which committed the company to offering any product and/or underwriting guideline available from at least one competitor, including subprime lenders. When Countrywide did not offer a certain product offered by a competitor, Countrywide's production division used the matching strategy to add the product. For example, if Countrywide's minimum FICO score for a certain product was 600, but a competitor's minimum score for the same product was 560, Countrywide's production division would "match" by reducing the minimum FICO score at Countrywide to 560 for that product. A significant byproduct of the matching strategy was that Countrywide entered into a "race to the bottom" in that, in order to match products and underwriting standards offered by competitors, Countrywide had to continuously lower its own underwriting standards.

23.

Countrywide intensified the matching strategy through a "no-brokering" policy, which precluded Countrywide's loan officers from referring loan applicants to other brokers or institutions. The no-brokering policy provided incentives to Countrywide's retail sales force to find ways for Countrywide to underwrite loans, regardless of whether the loan satisfied the

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rigorous underwriting guidelines Countrywide repeatedly touted to investors.

24.

Although Countrywide's executives knew that the company's lax underwriting guidelines and matching strategy created a substantial increase in risk of defaults and delinquencies, Countrywide's periodic filings concealed those facts from investors.

"Exception" Loans:

25.

During the same time period, Countrywide began underwriting certain loan products via an automated underwriting system. While the system was designed to apply Countrywide's already loosening underwriting standards, it would not reject loans outright that did not meet those guidelines. Instead, the system would refer such loans to a loan officer who could approve an exception from the requirement or refer the application to a more senior underwriter. Typically, to be granted the exception the underwriter would need to show certain compensating variables that offset the risks that warranted the original referral out of the automated system. By way of its "exceptions" protocol, Countrywide was able to frequently grant those requested exceptions, even though it often justified approving the loans using compensating variables (such as FICO or loan to value) that had already been used in the initial automated review.

26.

These "exception loans" allowed the company to increase the volume of its originations because they allowed the company to approve loans that would have otherwise fallen below even its own reduced guidelines. These loans also generated significant accompanying revenue for Countrywide, while allowing the company to charge high-risk borrowers extra points and fees. These loans were often quickly sold to the secondary markets 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.

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27.

As with the company's matching strategy, Countrywide's executives knew that the company's exceptions protocol created a substantial increase in risk of defaults and delinquencies. Still, Countrywide did not reveal this strategy to investors in its periodic filings.

Pay-Option ARM Loans:

28.

In or about 2004 Countrywide began originating Pay-Option ARM loans. Those loans quickly became one of the company's featured products. In the second quarter of 2004, only 3% of Countrywide's loan production was Pay-Option ARMs, but by the second quarter of 2005 21% of the loans Countrywide wrote were Pay-Option ARMs.

29.

Pay-Option ARMs allowed borrowers to choose between four payment options: (1) a minimum payment which was insufficient to cover accruing interest; (2) an interest-only payment; (3) a fully amortizing payment with a 30 year payoff; and (4) a fully amortizing payment with a shorter year pay-off. If the borrower chose the minimum payment option, accruing interest would be added to the loan's principal balance, a phenomenon known as negative amortization. During the relevant time period, Countrywide executives knew that an increasing number of Pay-Option borrowers opted for this payment option.

30.

Pay-Option loans typically allowed for negative amortization until the principal balance reached a particular percentage (typically 115%) of the original loan balance. At that time, the payment would reset to the amount necessary to repay principal and interest in the term remaining on the loan. After the reset, the borrower's monthly payment would often increase dramatically, leading to "payment shock" among many borrowers. And, even if the borrower never reached the 115% threshold, Pay-Option loans typically reset after five years to a fully amortizing payment, which also dramatically increased the monthly payment.

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1 31.

2 Pay-Option ARMs carried a far greater risk of borrower default, among other reasons,
3 because of the inability to keep up with monthly payments that increased due to negative
4 amortization and payment resets. While that product is inherently more risky than other loan
5 products, Countrywide's originations of Pay-Option ARMs was particularly egregious in that,
6 despite its public assurances to the contrary, it sacrificed its own underwriting standards in order
7 to issue more loans. That is, Countrywide regularly originated Pay-Option loans for borrowers
8 who were more likely to default, such as those with low FICO scores and/or with little
9 meaningful verification of borrower income or assessment of the borrower's ability to repay.

10 32.

11 Pay-Option ARMs also posed substantial risks to Countrywide's financial position
12 because Countrywide retained a significant portion of its Pay-Option loans for investment by
13 Countrywide Bank rather than selling them in the secondary markets.

14 33.

15 In its relevant public filings, Countrywide materially mischaracterized, or did not fully
16 disclose, the nature of its loan originations or its lax underwriting standards and lending
17 practices. Countrywide also did not disclose that the company's loan portfolio—including the
18 company's held for investment portfolio, and the loans that were sold or securitized—was
19 largely underwritten through lax standards, or by way of exceptions, in order to increase the
20 volume of loans written, and created ever-increasing credit risks for the company.

21 **COUNTRYWIDE'S MATERIALLY FALSE AND MISLEADING STATEMENTS AND OMISSIONS**

22

23 34.

24 From 2003 through 2007, Countrywide expanded its market share by loosening
25 underwriting standards, writing riskier loan products, and exposing its loan portfolio to ever-
26 increasing risk. However, in public filings and through public statements and omissions by high

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1 ranking executives, Countrywide held itself out to the investing public as primarily a maker of
2 prime quality mortgage loans that were different from the riskier loans and lending practices
3 used by market competitors.

4 35.

5 Countrywide's senior executives also knew that the company's widening underwriting
6 guidelines created increased credit risks to the company because the company's held for
7 investment portfolio included loans that were underwritten based on reduced documentation,
8 with loan to value ratios above 95%, and with subprime FICO scores. Despite that knowledge,
9 Countrywide materially misrepresented those facts and/or failed to disclose that information to
10 investors in the company's public filings and statements. Instead, statements by the company
11 and its senior executives during those years were intended to mislead investors about the
12 increasingly aggressive underwriting at Countrywide and the financial consequences of those
13 looser guidelines.

14 *Misleading Statements and Omissions Regarding Underwriting Standards and Quality of Products*:

15 36.

16 During the relevant period, Countrywide repeatedly reported in its public disclosures
17 regarding the types and strengths of the loans it originated, the rigorous underwriting standards it
18 applied, and the strengths of those loans that it held for investment, sold in the secondary markets
19 and/or securitized.

20 37.

21 Among the important distinctions Countrywide drew in its annual reports is the
22 classification of a loan or securitization as "prime" or "subprime." However, Countrywide's
23 internal standards differed materially from the standards used by government agencies and from
24 those accepted in the industry. Countrywide's own internal standards allowed it to characterize a
25 wider range of loans as "prime" and to report to the investing public a lower number of subprime
26 originations.

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38.

Countrywide's Forms 10-K for 2004, 2005, and 2006 provided statistics about its originations and reported the percentage of loans in various categories, such as "prime conforming" (i.e., prime plus conforming to GSE standards), "prime nonconforming," and "nonprime" (subprime). That information was misleading because Countrywide's descriptions of "prime non-conforming" and "nonprime" loans were insufficient to inform investors what types of loans the company included in those categories.

39.

For example, Countrywide's 2004, 2005, and 2006 Forms 10-K each include this statement regarding the quality of its originations:

> The majority of our loan production consists of Prime Mortgage Loans. Prime Mortgage Loans include conventional mortgage loans, loans insured by the Federal Housing Administration ("FHA") and loans guaranteed by the Veterans Administration ("VA"). A significant portion of the conventional loans we produce qualify for inclusion in guaranteed mortgage securities backed by Fannie Mae or Freddie Mac ("conforming loans"). Some of the conventional loans we produce either have an original loan amount in excess of the Fannie Mae and Freddie Mac loan limit for single-family loans . . . or otherwise do not meet Fannie Mae or Freddie Mac guidelines.

40.

Nothing in those descriptions informed investors that Countrywide's "prime" and "prime non-conforming" category included loan products with increasing amounts of credit risk. For example:

- While regulators used a FICO score of 660 or below as an indicator of a subprime loan, Countrywide did not consider any FICO score to be too low to be categorized within "prime."
- Countrywide's definition of "prime" did not inform investors that "prime non-conforming" included so-called "Alt-A" loan products which carried high amounts of credit risk because they: (1) were written with reduced or no documentation; (2) were written based on the borrower's stated income alone; and/or (3) carried loan to value or combined loan to value ratios of 95% and higher.

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- Likewise, Countrywide's definition of "prime" did not disclose that its "Pay-Option ARM loans" product, including reduced documentation Pay-Option ARM loans, were included in the "prime" category despite carrying similar high credit risks. In 2005 and 2006, Countrywide's Pay-Option ARMs ranged between 17% and 21% of its total loan originations, but the majority of those loans were not "prime conforming loans" saleable to the GSEs.

41.

Significantly, Countrywide's public filings did not define "nonprime" in any way and failed to disclose that loans within subprime carried layers of risk beyond the poor credit history of the borrowers, such as: (1) subprime 80/20 loans; (2) reduced or no documentation loans; (3) stated income loans; (4) loans with loan to value or combined loan to value ratios of 95% and higher; and (5) loans made to borrowers with recent bankruptcies and late mortgage payments. Countrywide's statements in the Form 10-Ks were deceptive in that they did not reveal to investors the types of risk factors its "prime" loans carried, or the extent of risks associated with its "subprime" products.

42.

By increasing its origination of non-conforming and subprime loans between 2003 and 2007, Countrywide was able to originate a higher volume of loans and increase its market share, even as the residential real estate market declined in the United States. While Countrywide boasted its increased market share to investors, company executives did not disclose that the increase came at the expense of prudent underwriting guidelines.

43.

In addition to Countrywide's misrepresentations and omissions regarding the quality of its loan portfolio, the company also made public misrepresentations and omissions about its overall underwriting strategies. Countrywide senior executives falsely reassured investors regarding the strength of its underwriting standards and loan portfolio. For example, Countrywide's Forms 10-K for 2005 and 2006 stated that Countrywide "manage[d] credit risk through credit policy, underwriting, quality control and surveillance activities" and touted the

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company's " proprietary underwriting systems . . . that improve the consistency of underwriting standards, assess collateral adequacy and help to prevent fraud."

Countrywide's Misleading Statements and Omissions Regarding its Business Model:

44.

Countrywide depended on the sale of its mortgages into the secondary market as an important source of revenue and liquidity. The increasingly poor quality of Countrywide's loans between 2003 and 2007 exposed the company to greater credit risk by way of the mortgage-related assets on its balance sheet (that had an increasingly high likelihood of default) and the likelihood that its risky loans would prevent the continued profitable sale of those loans into the secondary mortgage market and therefore impair Countrywide's liquidity. However, rather than disclosing those increasing risks, Countrywide's executives comforted investors by touting Countrywide's loan quality and financial strength.

45.

Each year, Countrywide reported to investors the value of its portfolio of loans held for investment. For example, in its 2004 Form 10-K, Countrywide reported $34.6 billion of prime mortgage and prime home equity loans held for investment. In its 2005 Form 10-K, Countrywide reported $64.8 billion of prime mortgage and prime home equity loans held for investment. Those statements were misleading at best in that they did not reveal that Countrywide's internal characterization of "prime" was inconsistent with government and industry standards, and was created to allow it to characterize a broader range of riskier loans as "prime."

46.

Countrywide emphasized the strength of its credit policy in its 2005 Form 10-K, in which it described its credit policy as a tightly controlled and supervised process designed to produce loans that "are salable in the secondary mortgage market" through rigorous underwriting and post-loan auditing. Countrywide made a similar statement in its 2006 Form 10-K.

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47.

Indeed, Countrywide repeatedly touted the strength of its financial position throughout the relevant time period. In its 2004 Form 10-K, Countrywide stated: "We ensure our ongoing access to the secondary mortgage market by consistently producing quality mortgages . . . we have a major focus on ensuring the quality of our mortgage loan production and we make significant investments in personnel and technology in this regard."

48.

Similarly, in its 2005 Form 10-K, Countrywide stated: "We ensure our ongoing access to the secondary mortgage market by consistently producing quality mortgages . . . . We make significant investments in personnel and technology to ensure the quality of our mortgage loan production." A virtually identical representation appears in Countrywide's 2006 Form 10-K.

49.

When it made those statements, Countrywide omitted to disclose its widening underwriting guidelines and the prevalence of exceptions to those guidelines. Those statements were false, because Countrywide was originating increasing percentages of poor quality loans that did not comply with Countrywide's underwriting guidelines.

Countrywide's Misleading Statements and Omissions Regarding Pay-Option ARMs:

50.

Countrywide publicly characterized Pay-Option loans as a safe product subject to rigorous underwriting by Countrywide.

51.

For instance, in its 2005 Form 10-K, Countrywide stated that the "pay-option loan portfolio" had a "relatively high initial loan quality," and that the average FICO score for Pay-Option ARMs held for investment as of December 31, 2005, was 720. In its 2006 Form 10-K, the company stated that the average original FICO score for those loans as of December 31, 2006, was 718 and told investors that it had "prudently underwritten" Pay-Option ARMs.

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COUNTRYWIDE'S STATEMENTS WERE MATERIALLY FALSE OR MISLEADING, OR OMITTED INFORMATION MATERIAL TO INVESTORS

52.

The statements and omissions set out in paragraphs 34 through 51 above were materially false and misleading in that, at the same time Countrywide made those statements and omissions, its senior officers pushed the company towards looser underwriting standards and riskier loan products, in order to capture more market share, despite knowing that doing so substantially increased the risk of borrower delinquency and/or default. Countrywide's public statements regarding its rigorous credit policy, underwriting, and quality control were also false because defendants knew that a significant portion of Countrywide's loans were being made as exceptions to Countrywide's already extremely broad underwriting guidelines.

53.

Indeed, Countrywide's executives received repeated warnings from inside the company against those practices. At the same time, Countrywide's increasingly relaxed underwriting guidelines materially increased the company's credit risk from 2003 through 2007, and that increased risk was misstated and not fully disclosed to investors.

54.

For example, at least as early as September 2004, Countrywide's Risk Management warned senior officers that several features of Countrywide's guidelines (e.g, high loan to value programs, ARM loans, interest only loans, reduced documentation loans, and loans with layered risk factors) significantly increased Countrywide's credit risk. Countrywide knew that it was taking on more risk as a direct result of the lower credit quality of the loans it was originating. By September 2004, Countrywide was aware of the following trends:

- 66% of Countrywide's production was conforming in July 2003, but conforming originations had fallen to 35% by July 2004;
- 21% of Countrywide's production was nonconforming in July 2003, but non-conforming originations had risen to 40% by July 2004; and

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- 2% of Countrywide's July 2003 production was subprime, but subprime originations had risen to 10% by July 2004.

55.

The credit risks described in the September 2004 warning worsened from September 2004 to August 2007. During that time period, Risk Management had continuous discussions with Countrywide's loan production division about the credit concerns identified in the September 2004 warning. In fact, Risk Management conducted studies to identify the relationship among certain credit variables and their effect upon the probability that a loan would go into delinquency or default. One finding of those studies was that the less documentation associated with a loan, the higher the probability of default. Nevertheless, Countrywide continued to expand its underwriting guidelines, and to liberally make exceptions to those guidelines, through the end of 2006. These facts were never disclosed to investors.

56.

Countrywide's credit risk committee also received detailed presentations highlighting Countrywide's increased credit risk. For example, at an April 6, 2005, meeting the committee learned that (1) Countrywide's non-conforming loans originated in May 2002 were twice as likely to default as loans originated in January 2000; (2) the risk of home equity lines of credit defaulting had doubled, mainly due to reduced documentation supporting approval of those loans; and (3) Countrywide was now a leader in the subprime market in four of six categories, whereas in December 2004 Countrywide had only been a leader in two of six categories.

57.

Countrywide executives also knew that the company's Pay-Option ARM loans created significant risks to the company. For example, at a June 28, 2005, meeting, Risk Management reported to the committee evidence of borrowers misrepresenting their income and occupation on reduced documentation loan applications, and the increasing credit risks associated with Pay-Option ARM loans (for example, negative amortization, payment shock, and the necessity of

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1 raising the initial interest rate to reduce the speed of negative amortization on the loans).

2 58.

3 That same month, Sambol and Countrywide's Chief Risk Officer, John McMurray,
4 engaged in a lengthy email exchange regarding the impact of Countrywide's underwriting
5 guideline expansion. In that exchange, McMurray warned Sambol that "as a consequence of
6 [Countrywide's] strategy to have the widest product line in the industry, we are clearly out on the
7 'frontier' in many areas." McMurray went on to note that the frontier had "high expected default
8 rates and losses."

9 59.

10 And, as early as June 2006, Mozilo and Sambol knew that a significant percentage of
11 borrowers who were taking out stated income loans were engaged in mortgage fraud. On June 1,
12 2006, Mozilo advised Sambol in an email that he had become aware that the Pay-Option ARM
13 portfolio was largely underwritten on a reduced documentation basis and that there was evidence
14 that borrowers regularly lied about income in the application process. On June 2, 2006, Sambol
15 received an email report showing that 50% of the stated income loans audited by Countrywide
16 showed a variance in income from the borrowers' IRS filings of greater than 10%. Of those,
17 69% had an income variance of greater than 50%. These material facts were never disclosed to
18 investors.

19 60.

20 The seriousness of Risk Management's warnings to senior executives about the
21 expansion of the company's underwriting guidelines and the consequences of Countrywide's
22 failure to heed such warnings are highlighted by the company's experience with "80/20"
23 subprime loans. An 80/20 subprime loan allows borrowers with subprime FICO scores to
24 simultaneously take out two loans to purchase a home: a first lien loan (typically 80% of the
25 purchase price), and a second lien loan (typically 20% of the purchase price). The borrower
26 thereby finances 100% of the purchase of the home and has no initial equity in the home.

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61.

Mozilo repeatedly noted the risks, and the wisdom, of offering 80/20 subprime loans. Mozilo became concerned about the loans at least as early as the first quarter of 2006, when HSBC, a purchaser of Countrywide's 80/20 loans, began to contractually force Countrywide to "buy back" certain 80/20 loans that HSBC argued were defective. In a March 28, 2006, email, Mozilo directed other executives to implement corrective measures to "avoid the errors of both judgment and protocol that have led to the issues that we face today caused by the buybacks mandated by HSBC." Mozilo further stated that the 80/20 subprime product is "the most dangerous product in existence and there can be nothing more toxic and therefore requires that no deviation from guidelines be permitted irrespective of the circumstances."

62.

In an April 17, 2006, email to Sambol concerning subprime 80/20 loans, Mozilo fumed: "In all my years in the business I have never seen a more toxic prduct [sic]. It's not only subordinated to the first, but the first is subprime. In addition, the FICOs are below 600, below 500 and some below 400[.] With real estate values coming down . . . [,] the product will become increasingly worse. There bas [sic] to be major changes in this program, including substantial increases in the minimum FICO."

63.

Less than a week earlier, in an April 13, 2006, email, Mozilo told Sambol and Sieracki tbat there were numerous issues to address regarding the 100% subprime second business in light of losses associated with the HSBC buyback. One issue Mozilo identified was that the loans had been originated "through our channels with disregard for process [and] compliance with guidelines." Indeed, Mozilo had "personally observed a serious lack of compliance within our origination system as it relates to documentation and generally a deterioration [sic] in the quality of loans originated versus the pricing of those loan [sic]." Mozilo noted that, "[i]n my conversations with Sambol he calls the 100% sub prime seconds as the 'milk' of the business.

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1 Frankly, I consider that product line to be the poison of ours."

2 64.

3 In a December 7, 2006, memorandum to the board of directors and all Countrywide

4 managing directors, Mozilo made the following observations:

5
- Countrywide had expanded its subprime underwriting guidelines by lowering minimum FICOs, raising maximum loan size and LTV, and making interest only,
6 stated income, and piggyback second loans available to subprime borrowers;

7
- Countrywide expected that subprime loans originated in 2006 would be the worst performing on record, driven by wider underwriting guidelines and the worsening
8 economic environment;

9
- The percentage of 60 and 90 day delinquencies among loans originated in 2006 (8.11% and 4.03% respectively), exceeded the percentages from each of the previous
10 six years, and the company expected these percentages to rise; and

11
- 62% of Countrywide's subprime originations in the second quarter of 2006 had a loan to value ratio of 100%.

12

13 65.

14 In the April 17 2006 email, Mozilo wrote that no premium, no matter how high, could

15 justify underwriting a loan for a borrower with a FICO score below 600. Yet Countrywide failed

16 to disclose to investors the serious deficiencies in its underwriting of these "toxic" loans.

17 66.

18 Countrywide's statements about the quality of its Pay-Option loan portfolio during the

19 relevant time period were also false and Countrywide knew that it was not "prudently

20 underwriting" its Pay-Option ARM loans.

21 67.

22 The company's representations about average borrower FICO scores cited in its Forms

23 10-K were at best misleading because Countrywide was regularly funding Pay Option ARMs to

24 borrowers with FICO scores as low as 620 and sometimes lower. Countrywide's representations

25 regarding the "average" FICO score were misleading to investors because they omitted any

26 reference to the applicable FICO score standard in the industry, which were higher than those

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1 Countrywide used when it characterized these loans as "prudently underwritten," subject to
2 "sound underwriting," and of "high initial loan quality." That information was necessary in
3 order to properly assess risks and would have been material to investors given Countrywide's
4 routine practice of providing a substantial number of Pay Option ARMs to subprime borrowers,
5 many with limited or no documentation requirements.

6 68.

7 Countrywide executives also received repeated warnings about the "matching" strategy.
8 For instance, in a June 24, 2005, email to Sambol, McMurray addressed the matching strategy
9 and explained that "because the matching process includes comparisons to a variety of lenders,
10 our [guidelines] will be a composite of the outer boundaries across multiple lenders" and that
11 because comparisons are only made to competitor guidelines where they are more aggressive and
12 not used where they are less aggressive, Countrywide's "composite guides [sic] are likely among
13 the most aggressive in the industry."

14 69.

15 On November 2, 2006, McMurray sent an email to Countrywide's chief investment
16 officer, stating that the matching strategy had caused Countrywide to cede its underwriting
17 standards to the most aggressive lenders in the market. In the email, McMurray asked: "Do we
18 want to effectively cede our policy and is this approach 'saleable' from a risk perspective to
19 those constituents who may worry about our risk profile?"

20 70.

21 On February 11, 2007, McMurray wrote to Sambol that loans were being written based
22 upon the matching strategy alone, and expressed concern that the strategy would cause
23 Countrywide's guidelines to be a composite of the riskiest offerings the market. McMurray
24 warned, "I doubt this approach would play well with regulators, investors, rating agencies etc. To
25 some, this approach might seem like we've simply ceded our risk standards and balance sheet to
26 whoever has the most liberal guidelines."

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1 71.

2 Countrywide executives also received notice that its risky loan products might not
3 continue to be saleable into the secondary market, yet this material risk was not disclosed in
4 Countrywide's periodic filings.

5 72.

6 For example, in a September 2006 email to Sambol, Mozilo warned that he believed that
7 the Pay-Option loan was "mispriced" in the secondary market and that the pricing spread could
8 disappear quickly if there were a negative event in the market. On February 2, 2007, Risk
9 Management warned Sambol that guideline expansions could disrupt the secondary market for
10 subprime mortgage backed securities ("MBS"). Later in that quarter, the MBS market for
11 subprime loans experienced a disruption that forced Countrywide to write down loans that it had
12 previously intended to sell into that market. Then, in August 2007, the entire market for MBS
13 experienced a severe disruption, which effectively crippled the ability of Countrywide, as well as
14 other mortgage lenders, to sell non-GSE securitizations into the secondary markets and
15 contributed to Countrywide's liquidity problems.

16 73.

17 Countrywide executives also had warning and were aware of significant lapses in
18 Countrywide's underwriting processes as regards the "exceptions" process. On May 22, 2005,
19 McMurray warned Sambol that in light of the volume of loans made on an exception basis "we
20 will see higher default rates." McMurray explained that "exceptions are generally done at terms
21 more aggressive than our guidelines," and continued that "[g]iven the expansion in guidelines
22 and the growing likelihood that the real estate market will cool, this seems like an appropriate
23 juncture to revisit our approach to exceptions." McMurray also warned that increased defaults
24 would cause repurchase and indemnification requests to rise and the performance of
25 Countrywide-issued MBS to deteriorate.

26

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74.

The poor quality of the loans originated through the exception process became increasingly obvious within the company in 2007. On March 12, 2007, Risk Management reported that nearly 12% of the loans reviewed by Countrywide in an internal quality control process were rated "severely unsatisfactory" or "high risk" as a result of debt-to-income, loan to value, or FICO scores outside of Countrywide's already wide underwriting guidelines.

75.

A December 13, 2007, company memo noted that:

> Countrywide had reviewed limited samples of first-and second-trust-deed mortgages originated by Countrywide Bank during the fourth quarter of 2006 and the first quarter of 2007 in order to get a sense of the quality of file documentation and underwriting practices, and to assess compliance with internal policies and procedures. The review resulted in . . . the finding that borrower repayment capacity was not adequately assessed by the bank during the underwriting process for home equity loans. More specifically, debt-to-income (DTI) ratios did not consider the impact of principal [negative] amortization or an increase in interest.

76.

These material deficiencies in Countrywide's underwriting were never disclosed to investors in Countrywide's public filings or public statements between 2003 through 2007. Further, registration statements filed by Countrywide incident to its public bond offerings expressly incorporated by reference many of Countrywide's public filings, including the Forms 10-K and 10-Q, and therefore also contained materially false or misleading statements and omissions.

COUNTRYWIDE MISSTATED ITS FINANCIAL STATEMENTS IN VIOLATION OF GAAP

77.

From 2004 through 2006, Countrywide made numerous untrue statements of material fact in reporting its financial results and omitted to state material facts necessary to make its reported

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financial results not misleading. Specifically, Countrywide violated Generally Accepted Accounting Principles ("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 of loss contingencies from its breaches of representations and warranties ("R&Ws") in connection with loan securitizations.

78.

Countrywide's ALL, its valuation of its RIs and MSRs, and its loss accrual for R&Ws all were critical metrics for investors. Countrywide's reported 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. In addition, the company's reported ALL was directly linked to its net income, which also was a critical metric for investors. Countrywide's valuations of its RIs and its MSRs and its loss accrual for R&Ws were critical metrics for investors because they reflected the company's financial health. Specifically, Countrywide's valuations of its RIs and its MSRs were directly tied to the company's reported gain-on-sale and, ultimately, its net income. Countrywide's accrual of loss contingencies from its breaches of R&Ws was reported as a liability and therefore directly affected that Company's reported gain-on-sale and, ultimately, its net income.

Allowances for Loan Losses on Loans Held for Investment:

79.

GAAP required the company to establish a reserve—which Countrywide referred to as the allowance for loan losses, or "ALL"—for potential credit losses related to borrowers who were expected to default on their obligations to make monthly mortgage payments.

80.

In its public filings, including for example its 2006 Form 10-K, Countrywide asserted that it determined ALL consistent with GAAP.

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81.

As described in paragraphs 15 through 33 above, from 2004 through 2006, Countrywide loosened underwriting standards and significantly increased the type and volume of risky loan products that it originated. GAAP required Countrywide to adjust historical trends to reflect these practices and to increase ALL based on both the increased probability of impairment and actual impairment at origination. Countrywide's Form 10-K filings, however, show that the company generally continued to rely on historical default rates and loss percentages for similar loans originated by the company to establish its ALL.

82.

From 2004 through 2006, Countrywide—in violation of GAAP—failed to consider the following risk factors when estimating its ALL:

(a) Countrywide's percentage of LHI increased year over year, indicating that Countrywide's loans were growing riskier and that the secondary market was less willing to purchase the loans;

(b) Countrywide reported that the amount of nonprime loans it produced increased through 2005. Nonprime loans remained a central focus of Countrywide's loan production;

(c) Countrywide actually produced a much higher amount of nonprime loans than the amount it reported; and

(d) Countrywide's underwriting practices deteriorated.

83.

As a result, from 2004 through 2006, Countrywide materially understated its ALL in violation of GAAP.

Valuation of Retained Interests:

84.

In its Form 10-K reports, Countrywide stated that it "sells substantially all of the

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1 mortgage loans it produces in the secondary mortgage market, primarily in the form of
2 securities." Countrywide accomplished this by transferring mortgage loans that it originated to a
3 qualifying special purpose entity ("QSPE"). The QSPE then converted those assets into cash and
4 combined the mortgage loans into one large pool. The pool was divided into smaller pieces
5 (known as tiers or tranches). The QSPE sold these tranches to the secondary market. This
6 process is known as securitization.

7 85.

8 When it issued securitizations, Countrywide generally maintained the riskiest tranches
9 (the tranches that would take the first loss position) on its books as RIs, also known as residual
10 securities.

11 86.

12 From 2004 through 2006, a significant percentage of the underlying loans in the
13 securitizations that Countrywide issued were not originated in accordance with the company's
14 underwriting standards. As a result, the risk that those loans would not perform in accordance
15 with their terms, and, consequently, that the securitizations would not perform as expected,
16 increased. This significantly impacted the value of Countrywide's RIs, which would take the
17 first losses if the securitizations did not perform as expected.

18 87.

19 In its Form 10-K filings, Countrywide stated that it developed the key assumptions used
20 to value its RIs "based on the historical performance of the loans underlying" its RIs.

21 88.

22 Under GAAP, however, Countrywide was required to adjust its assumptions to reflect the
23 increased credit risk of the underlying loans included in its securitizations.

24 89.

25 In violation of GAAP, Countrywide did not adequately adjust its assumptions to account
26 for the new riskier loans that the company included in its securitizations and did not account for

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the increased credit risk from Countrywide's loosened underwriting practices.

90.

In addition, Countrywide distorted the fair value of its RIs by reducing its fair value assumption for prepayment speed and by more than doubling the weighted average life assumption. These misleading assumptions allowed Countrywide to avoid reporting significantly greater impairment charges related to its RIs. Specifically, in its 2007 Form 10-K, despite the fact that it recorded write-downs to RIs of $2.4 billion during 2007, Countrywide reported that the fair value of its RIs remained $2.5 billion as of the end of 2007.

91.

Moreover, Countrywide'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 delinquencies and defaults experienced by loans that Countrywide originated and included in its securitizations.

92.

As a result of its faulty assumptions and valuation model, Countrywide's regulatory filings falsely and materially overstated the fair value of its RIs in violation of GAAP. Because Countrywide overstated the fair value of its RIs, its regulatory filings also falsely and materially inflated its assets, stockholders' equity, gain-on-sale, revenues and net income.

Valuation of Mortgage Servicing Rights:

93.

When it sold loans that it originated to the secondary market through its securitizations, Countrywide typically retained the right to service the underlying mortgage loans. In addition, although to a lesser extent, Countrywide purchased mortgage servicing rights from other loan originators. Countrywide recorded these MSRs at their fair value at the time of purchase. The

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1 Company used a pricing model to estimate the fair value of its MSRs.

2 94.

3 In its 2005 Form 10-K, Countrywide stated that the pricing model it used to estimate the
4 fair value of its MSRs included "the use of a sophisticated discounted cash flow model," which
5 relied on cash flow assumptions and prepayment assumptions "based on [the company's]
6 empirical data drawn from the historical performance of [its] MSRs." Similarly, in its 2006
7 Form 10-K, Countrywide stated that this pricing model included "the use of a discounted cash
8 flow model," which relied on cash flow assumptions and prepayment assumptions that
9 "encompass the historical performance of [the company's] MSRs."

10 95.

11 Countrywide's public filings do not mention that the company included the default rate
12 among the assumptions it used in valuing its MSRs. While the default rate should have been a
13 critical assumption, Countrywide never explained this omission.

14 96.

15 From 2004 through 2006, as Countrywide continued to loosen its underwriting
16 guidelines, delinquencies and pending foreclosures from loan defaults rose significantly.
17 Nonetheless, in 2006, Countrywide's estimate of the fair value of its MSRs increased.

18 97.

19 Countrywide's apparent failure to include the default rate as a key assumption in valuing
20 its MSRs violated GAAP and caused the company to falsely and materially overstate the fair
21 value its MSRs when it initially recorded them and when it subsequently valued them at the end
22 of each quarter. As a result, Countrywide's net income also was overstated. Even if—despite
23 failing to mention in its Form 10-Ks that it included the default rate as an assumption in valuing
24 its MSRs—Countrywide did consider default rates in its cash flow models, the company failed to
25 adjust its default rate assumptions to reflect the dramatic loosening in the company's lending
26 practices. Thus, Countrywide still falsely and materially overstated the fair value of its MSRs in

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violation of GAAP.

98.

Because Countrywide falsely and materially overstated the fair value of its MSRs, its regulatory filings also falsely and materially inflated the company's assets, gain-on-sale and reported net income.

Accruals for Breaches of Representations and Warranties in Connection with Loan Securitizations:

99.

When Countrywide sold the mortgage loans that it produced in the secondary market, it made representations and warranties to the investors who purchased the securitized loans, including 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.

100.

According to its regulatory filings, Countrywide retained credit risk—which it defined in its 2006 Form 10-K as "the risk that a borrower will not repay the [underlying] loan's 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"—for all representations and warranties offered in a securitization. If Countrywide breached its corporate guarantees and mortgage loan representations and warranties, it would be required either to repurchase the underlying mortgage loan or to compensate the purchaser. Countrywide then would bear subsequent credit losses on these loans.

101.

GAAP required Countrywide to accrue loss contingencies for its R&Ws based on the expected rate of future claims by investors resulting from the company's breaches of its

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1 corporate guarantees and mortgage loan representations and warranties.

2 102.

3 As described above, from 2004 through 2006, Countrywide: (i) changed its lending
4 practices to offer nontraditional, high risk loans to all borrowers, including borrowers incapable
5 of repaying the loans; (ii) increased its origination of high-risk loans to unqualified borrowers
6 with little to no supporting documentation; (iii) loosened its underwriting criteria; and
7 (iv) continued to originate loans through exceptions that did not even meet the company's
8 loosened underwriting criteria. As a result, the probability that borrowers would default
9 increased.

10 103.

11 Because Countrywide included these new, riskier loans in the securitizations it offered,
12 the risk that Countrywide would breach its corporate guarantees and mortgage loan
13 representations and warranties and be required either to repurchase the underlying mortgage loan
14 or to compensate the purchaser also increased.

15 104.

16 Countrywide should have increased its loss accruals for R&Ws to reflect this heightened
17 risk. Instead, in 2005, Countrywide actually decreased its provisions for new R&W reserves.
18 While Countrywide did increase its R&W reserve for 2006, it did not increase its R&W reserves
19 sufficiently in light of the increasingly poor quality of the loans underlying the securitizations
20 that the company was issuing and the continued deterioration of the company's underwriting
21 practices.

22 105.

23 Because Countrywide ignored the high risk and poor quality of its underlying loans and
24 its deteriorated underwriting practices, the company falsely and materially understated its loss
25 accrual for R&Ws in violation of GAAP. This, in turn, caused Countrywide to understate its
26 liabilities and to overstate its gain-on-sale revenues and net income.

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COUNTRYWIDE'S RISKY BEHAVIOR LED TO ITS COLLAPSE

106.

By 2007, Countrywide's practices, as described above, and increasingly risky loan portfolio caused the company to acknowledge and report only some of its credit problems.

107.

On July 24, 2007, Countrywide began to partially disclose some of the information about its business practices, underwriting standards, and risky loan originations. On that day, the company disclosed for the first time in its earnings release teleconference that its definition of "prime" loans included loans made to borrowers with FICO scores as low as 500, and that 80% of its portfolio of Pay-Option loans held for investment were underwritten based upon reduced documentation. During that call, McMurray described the term "prime" as covering "a very vast spectrum" and referenced prime loans "with FICOs in the low 500s." McMurray also stated that there "is a belief by many that prime FICOs stop at 620 that is not the case."

108.

Also on July 24, 2007, Mozilo continued to make false and misleading public statements and omissions in an effort to temper the impact of the company's disclosures. Among other statements, Mozilo represented to the investing public that the growing mortgage crisis would allow Countrywide to leverage its strong liquidity position because, in his view, "the company [was] well positioned to capitalize on opportunities during this transitional period in the mortgage business," which he believed would "enhance the company's long-term earnings growth prospects." Mozilo also stated that he expected Countrywide to "emerge in a superior competitive position coming out of the current housing down cycle," and Sieracki commented that the company had "adequate diversified and reliable sources of liquidity available . . . and [had] tremendous[] liquidity sources to fund [itself] through this situation," and that the company felt "very, very comfortable about [its] liquidity scenario overall."

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109.

On August 9, 2007, Countrywide reported in its Form 10-Q for the second quarter of 2007 consolidated net earnings of $485 million, a 33% net decrease from the second quarter of 2006. Countrywide attributed the decline to credit-related costs, specifically, a $417.2 million impairment loss on its retained interests, including $388.1 million related to home equity loans, and a $231 million increase in its allowance for loan losses. In the Form 10-Q, Countrywide noted the existence of "unprecedented market conditions" bearing on Countrywide's liquidity, and stated that, while it "believe[d] [it had] adequate funding liquidity, the situation [was] rapidly evolving and the impact on the company [was] unknown."

110.

In addition to its rising credit losses, Countrywide experienced a liquidity crisis in August 2007. Revenues from its capital markets loan sales and securitizations had dropped from $553.5 million in pre-tax earnings in 2006 to $14.9 million in 2007, and Countrywide found itself unable to access the short term credit markets. By August 13, 2007, Merrill Lynch analyst reports indicated that Countrywide's liquidity challenges could lead to bankruptcy and, that week, the major credit rating agencies significantly downgraded Countrywide's securities.

111.

On August 16, 2007, Countrywide announced that it had drawn down its entire $11.5 billion credit facility to supplement its cash position.

112.

On August 23, 2007, Countrywide announced that Bank of America had invested $2 billion in Countrywide in exchange for non-voting preferred securities.

113.

On October 26, 2007, Countrywide reported a quarterly loss of $1.2 billion. The company's November 9, 2007 Form 10-Q disclosed that Countrywide had taken a $1 billion impairment loss on its loans held for sale and mortgage backed securities, and had taken $1.9

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1 billion in credit charges related to its allowance for loan losses and its provision for
2 representations and warranties on loans it had securitized and sold. In its October 2007 earnings
3 call, Mozilo nevertheless assured investors that the company would return to profitability in the
4 fourth quarter of 2007.

5 114.

6 On January 11, 2008, prior to reporting its year-end 2007 results, Countrywide
7 announced that it was being acquired by Bank of America in an all stock transaction with an
8 estimated value of $4 billion.

9 115.

10 On March 29, 2008, Countrywide filed its Form 10-K for the year ended December 31,
11 2007. In that filing, Countrywide disclosed that the contraction of the secondary market for its
12 loans had increased its financing needs because it was required to hold loans for longer periods
13 pending sale and certain loans had become unmarketable and had to be held for investment. In
14 response to those funding needs, Countrywide disclosed that it had: (1) speeded integration of
15 mortgage banking activities into Countrywide Bank to reduce its dependency on the secondary
16 markets; (2) taken a $2 billion infusion from Bank of America in exchange for shares of
17 preferred stock; (3) drawn down an $11.5 billion credit line to maintain liquidity; and (4) revised
18 its product offerings and underwriting guidelines, such that the majority of its loan production
19 was again eligible for sale to the government sponsored entities.

20 116.

21 Countrywide's slow revelations between July 24, 2007, and March 29, 2008, about its
22 business practices, underwriting standards, and risky loan originations, caused the value of
23 Countrywide's bonds to decrease substantially.

24 117.

25 Countrywide's slow revelation of the truth concerning its business practices between July
26 24, 2007, and March 29, 2008, concerned material facts that caused plaintiff to suffer substantial

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1 losses. Each new revelation caused an additional drop in the value of Countrywide's securities
2 and additional losses. Those losses were a direct result of the revelation of the truth about the
3 materially false and misleading statements and omissions alleged above.

4 **FIRST CLAIM FOR RELIEF**

5 **(SECTION 11 OF THE SECURITIES ACT OF 1933 FOR THE SERIES B MEDIUM-TERM NOTES AND THE 6.25% SUBORDINATED NOTES DUE MAY 15, 2016)**
6

7 118.

8 IAF incorporates and realleges each and every allegation contained in the preceding
9 paragraphs as if fully alleged herein.

10 119.

11 This claim is brought pursuant to Section 11 of the Securities Act of 1933.

12 120.

13 As alleged above, IAF was a purchaser of the Series B Notes that were either issued
14 pursuant or traceable to the Series B Medium-Term Notes Registration Statement. IAF also was
15 a purchaser of the 6.25% Notes that were issued pursuant or traceable to the 6.25% Subordinated
16 Notes Registration Statement. Both the Series B Medium-Term Notes Registration Statement
17 and the 6.25% Subordinated Notes Registration Statement include the same Form S-3ASR shelf
18 registration statement (and base prospectus) dated February 9, 2006. Both the Series B Notes
19 and the 6.25% Notes were offered pursuant to this same shelf registration statement.

20 121.

21 Countrywide was the registrant for the Series B Medium-Term Notes Registration
22 Statement and 6.25% Subordinated Notes Registration Statement and issued the Series B
23 Medium-Term Notes and the 6.25% Notes pursuant to their respective registration statements.

24 122.

25 Both the Series B Medium-Term Notes Registration Statement and the 6.25%
26 Subordinated Notes Registration Statement expressly incorporated by reference Countrywide's

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1 Form 10-K for the year ended December 31, 2004, and its first, second, and third quarter Forms
2 10-Q for 2005. In addition, both registration statements expressly incorporated by reference
3 certain subsequent filings that Countrywide made with the SEC under Sections 13(a), 13(c), 14
4 and 15(d) of the Securities Exchange Act of 1934. Therefore, and as described above, those
5 registration statements contained untrue statements of material facts, including the material
6 misrepresentations in the false financial statements of Countrywide. The registration statements
7 also omitted to state other facts required to be stated or necessary to make the statements made
8 not misleading, including Countrywide's widespread violations of Generally Accepted
9 Accounting Principles. The misstated and omitted facts would have been material to a
10 reasonable person reviewing the registration statement.

11 123.

12 IAF did not know and in the exercise of reasonable care could not have known of the
13 false statements of material fact or omissions of material fact in the Series B Medium-Term Note
14 Registration Statement and 6.25% Subordinated Note Registration Statement when they
15 purchased or acquired the Notes.

16 124.

17 IAF was damaged by its purchase of the Series B Notes and the 6.25% Notes that were
18 issued pursuant or traceable to their respective false registration statements and were damaged
19 thereby. IAF is entitled to recover the amount paid for the Notes less (a) the value of the Notes
20 at the time of the filing of this lawsuit, or (b) the price received for any sale of the notes before
21 the lawsuit, or (c) the price of the notes disposed after the lawsuit and before the time of the
22 judgment. This amount, which will be determined at trial, is at least $1,152,694.50.

23 125.

24 Countrywide, as issuer of the Series B Notes and the 6.25% Notes, is strictly liable to
25 IAF under Section 11 for the material misstatements and omissions contained in those notes'
26 accompanying registration statements.

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1 **SECOND CLAIM FOR RELIEF**

2

3 **(SECTION 12(a)(2) OF THE SECURITIES ACT OF 1933 FOR THE SERIES B MEDIUM-TERM NOTES)**

4 126.

5 IAF incorporates and realleges each and every allegation contained in the preceding
6 paragraphs as if fully alleged herein.

7 127.

8 This claim is brought pursuant to Section 12(a)(2) of the Securities Act of 1933 against
9 Countrywide for its strict liability and negligence in issuing untrue statements of material fact
10 and statements that contained material omissions in a prospectus.

11 128.

12 IAF purchased or acquired Countrywide Series B Notes issued pursuant to the Series B
13 Medium-Term Notes Prospectus and was damaged thereby.

14 129.

15 Countrywide was an offer, solicitor, and a seller of the Series B Notes to IAF.
16 Countrywide's Series B Medium-Term Notes Registration Statement states that "[f]or the
17 purpose of determining liability under the Securities Act of 1933 to any purchaser in an initial
18 distribution of the securities, each undersigned registrant undertakes that in a primary offering of
19 securities . . . regardless of the underwriting method used to sell the securities to the purchaser
20 . . . the undersigned registrant will be a seller to the purchaser and will be considered to offer or
21 sell such securities to such purchaser."

22 130.

23 Countywide was a signed registrant on the Series B Medium-Term Notes Registration
24 Statement.

25 131.

26 As alleged above, the Series B Medium-Term Notes Prospectus contained untrue

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1 statements of material fact, including the financial statements of Countrywide. The Series B
2 Medium-Term Notes also omitted to state material facts required to be stated therein or
3 necessary to make the statements made not misleading, including Countrywide's widespread
4 violations of GAAP. The facts misstated and omitted would have been material to a reasonable
5 person reviewing the Series B Medium-Term Notes Prospectus.

6 132.

7 Countrywide did not make a reasonable and diligent investigation of the statements
8 contained or incorporated by reference in the Series B Medium-Term Notes Prospectus and did
9 not have reasonable grounds for believing the Series B Medium-Term Notes Prospectus did not
10 contain an untrue statement of material fact or omissions of material fact required to be stated or
11 necessary to make the statements made not misleading.

12 133.

13 IAF did not know and in the exercise of reasonable care could not have known of the
14 untrue statements of material fact or the omissions of material fact contained in the Series B
15 Medium-Term Notes Prospectus when it purchased or acquired the notes.

16 134.

17 IAF was damaged as a result of its purchase of the Series B Medium Notes that were
18 purchased pursuant to false statements in a prospectus. IAF is entitled to recover the amount
19 paid for the Notes (with interest thereon) less the amount of any income received. This amount,
20 which will be determined at trial, is at least $138,720.00.

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PRAYER FOR RELIEF

WHEREFORE, IAF prays for judgment in its favor on all claims, and as follows:

A. On the first claim for relief, damages in an amount to be determined at trial of at least $1,152,694.50 or the amounts paid for the Series B Notes and the 6.25% Notes less (a) the value of the Notes at the time of the filing of this lawsuit, or (b) the price received for any sale of the notes before the lawsuit, or (c) the price of the notes disposed after the lawsuit and before the time of the judgment, plus pre-judgment interest at the legal rate;

B. On the second claim for relief, damages in an amount to be determined at trial of at least $138,720.00 or the amounts paid for the Series B Notes less the amount of any income received or damages in an amount to be determined at trial plus pre-judgment interest at the legal rate;

C. An award of plaintiff's costs, reasonable attorney fees, and expenses for this litigation; and

D. An award of all such other and further relief as may be deemed just and proper under the circumstances.

JURY DEMAND

IAF hereby demands a trial by jury as to all issues.

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1 DATED this 26th day of January, 2011.

2 JOHN R. KROGER
Attorney General

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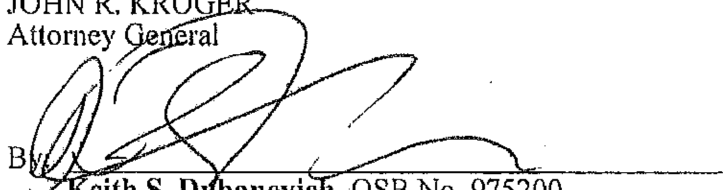
4 

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