JAN 2 6 2011

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 and the OREGON PUBLIC EMPLOYEE RETIREMENT BOARD on behalf of the OREGON PUBLIC EMPLOYEE RETIREMENT FUND, Plaintiff, v. COUNTRYWIDE FINANCIAL CORPORATION, Defendant.	Case No. 1101-01141 **COMPLAINT** CLAIMS NOT SUBJECT TO MANDATORY ARBITRATION AMOUNT CLAIMED: Principal Amount $12,976,659 JURY TRIAL DEMANDED

Plaintiff the State of Oregon, by and through the Oregon State Treasurer and the Oregon Public Employee Retirement Board on behalf of the Oregon Public Employee Retirement Fund ("Plaintiff" or "OPERF"), 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.

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1 2.

2 This Court has personal jurisdiction over the defendant under ORCP 4 A and J.

3 3.

4 The claims alleged in this complaint are not subject to removal from state court under the
5 Securities Litigation Uniform Standards Act, 15 USC §77p(d)(2)(A)-(B). That statute
6 specifically preserves state-court claims brought, as here, by states and state pension plans. The
7 claims are also not subject to removal under diversity jurisdiction principles because "[t]here is
8 no question that a state is not a 'citizen' for purposes of the diversity jurisdiction." *Moor v.*
9 *County of Alameda*, 411 US 693, 717 (1973); *and see State of Oregon et al v. Merck & Co., Inc.*
10 *et al*, CV 05-1463-PK, Jan 6, 2006, Findings and Recommendation; *State of Oregon et al v.*
11 *American International Group, Inc.*, CV 08-6110-HO, Aug 20, 2008, Order. Additionally,
12 private rights of action under sections 11 and 12 of the Securities Act of 1933 may be brought in
13 state court and are not removable. 15 USC § 77v(a).

14 **PARTIES**

15 4.

16 Plaintiff OPERF maintains and provides retirement benefits for hundreds of thousands of
17 public employees and their beneficiaries. These benefits are maintained and provided through
18 the Oregon Public Employee Retirement System ("OPERS"). The Oregon Public Employee
19 Retirement Board ("OPERB") is the governing authority of OPERS and the Trustee of OPERF.
20 Public employer and employee retirement contributions are placed into OPERF. OPERB,
21 through the State Treasurer and the Oregon Investment Council oversees the investments of
22 those contributions in various investments in OPERF. OPERF purchased and sold shares in
23 Countrywide stock and bonds throughout the relevant time frame and suffered damages of nearly
24 $11.5 million on its common stock and $1.5 million on its bonds or an amount to be proven at
25 trial.

26

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5.

Defendant Countrywide Financial Corporation ("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 common stock was traded on the New York Stock Exchange at all material times relevant to this complaint. Countrywide merged with Bank of America ("BoA") on July 1, 2008, and is now a wholly owned subsidiary of BoA. On July 1, 2008, Countrywide's stock was deregistered and delisted from the NYSE. 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.

NATURE OF THE ACTION

6.

This is a securities lawsuit against Countrywide, arising out of Plaintiff's purchase of Countrywide bonds and common stock between 2004 and March 2008. This action asserts claims under ORS 59.137; ORS 59.115; Sections 11 and 12 of the Securities Act of 1933; and California Corporations Code sections 25500, 25501 and 25504.

7.

As relevant to this lawsuit, OPERF purchased Countrywide common stock beginning in April 2004 at prices as high as $44.53.

8.

In addition, and as relevant to this lawsuit, OPERF purchased Countrywide bonds beginning in March 2004, including bonds purchases in Countrywide offerings.

9.

The prices of those securities were improperly inflated by Countrywide's false statements

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regarding its business practices and financial strength, and its failure to reveal the truth about its business practices and financial strength to the investing public.

10.

Throughout that time period, Countrywide, in public filings and through public statements and omissions by high ranking executives, 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 Countrywide's illegal conduct, OPERF was damaged in an amount to be determined at trial, which amount is not less than $11,416,891.96 relating to its common stock purchases, and $1,559,767.70 relating to its bond purchases.

COUNTRYWIDE'S BUSINESS PRACTICES, LAX UNDERWRITING, AND RISKY PRODUCTS

11.

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

12.

Historically, Countrywide's core business was writing traditional, first-lien home loans to individuals with strong credit. Such loans, considered "prime" and "conforming," are generally

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1 safer for lenders because, among other things, those loans conform to underwriting guidelines set
2 by Government Sponsored Entities ("GSEs") such as Fannie Mae and Freddie Mac.

3 13.

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

12 14.

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

20 15.

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

26

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1 16.

2 Countrywide typically retained interests in its securitized loans, which allowed it to 3 receive interest payments from the loan pools. While those interests were lucrative for 4 Countrywide in the short term, they increased the long-term risks to the business because the 5 retained interests would take the first losses if any mortgage pool underperformed, giving the 6 securitization investors limited default protection.

7 17.

8 Beginning in 2003, Countrywide began its effort to capture a larger piece of the market 9 by implementing a strategy away from writing traditional fixed-rate mortgages to borrowers with 10 prime credit scores, and towards issuing a range of nontraditional, higher risk loans designed to 11 allow borrowers to borrow more money than would have been previously approved. 12 Countrywide used a number of products and strategies to implement that plan.

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

14 18.

15 At least as early as 2003, Countrywide began implementing a "matching strategy" which 16 committed the company to offering any product and/or underwriting guideline available from at 17 least one competitor, including subprime lenders. When Countrywide did not offer a certain 18 product offered by a competitor, Countrywide's production division used the matching strategy 19 to add the product. For example, if Countrywide's minimum FICO score for a certain product 20 was 600, but a competitor's minimum score for the same product was 560, Countrywide's 21 production division would "match" by reducing the minimum FICO score at Countrywide to 560 22 for that product. A significant byproduct of the matching strategy was that Countrywide entered 23 into a "race to the bottom" in that, in order to match products and underwriting standards offered 24 by competitors, Countrywide had to continuously lower its own underwriting standards.

25 19.

26 Countrywide intensified the matching strategy through a "no-brokering" policy, which

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1 precluded Countrywide's loan officers from referring loan applicants to other brokers or
2 institutions. The no-brokering policy provided incentives to Countrywide's retail sales force to
3 find ways for Countrywide to underwrite loans, regardless of whether the loan satisfied the
4 rigorous underwriting guidelines Countrywide repeatedly touted to investors.

5 20.

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

9 *"Exception" Loans*:

10 21.

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

21 22.

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

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1 the loans or the magnitude of "exceptions" from the underwriting standards that would need to
2 be granted in order to fund the loans.

3 23.

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

7 *Pay-Option ARM Loans*:

8 24.

9 In or about 2004 Countrywide began originating Pay-Option ARM loans. Those loans
10 quickly became one of the company's featured products. In the second quarter of 2004, only 3%
11 of Countrywide's loan production was Pay-Option ARMs, but by the second quarter of 2005
12 21% of the loans Countrywide wrote were Pay-Option ARMs.

13 25.

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

21 26.

22 Pay-Option loans typically allowed for negative amortization until the principal balance
23 reached a particular percentage (typically 115%) of the original loan balance. At that time, the
24 payment would reset to the amount necessary to repay principal and interest in the term
25 remaining on the loan. After the reset, the borrower's monthly payment would often increase
26 dramatically, leading to "payment shock" among many borrowers. And, even if the borrower

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1 never reached the 115% threshold, Pay-Option loans typically reset after five years to a fully
2 amortizing payment, which also dramatically increased the monthly payment.

3 27.

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

12 28.

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

16 29.

17 Between 2003 and until at least late 2007, Countrywide materially mischaracterized, or
18 did not fully disclose, the nature of its loan originations or its lax underwriting standards and
19 lending practices. Countrywide also did not disclose that the company's loan portfolio—
20 including the company's held-for-investment portfolio, and the loans that were sold or
21 securitized—was largely underwritten through lax standards, or by way of exceptions, in order to
22 increase the volume of loans written, and created ever-increasing credit risks for the company.

23 **COUNTRYWIDE'S MATERIALLY FALSE AND MISLEADING STATEMENTS AND OMISSIONS**
24

25 30.

26 From 2003 through 2007, Countrywide expanded its market share by loosening

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1 underwriting standards, writing riskier loan products, and exposing its loan portfolio to ever-
2 increasing risk. However, in public filings and through public statements and omissions by high
3 ranking executives, Countrywide held itself out to the investing public as primarily a maker of
4 prime quality mortgage loans that were different from the riskier loans and lending practices
5 used by market competitors.

6 31.

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

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

17 32.

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

22 33.

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

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1 wider range of loans as "prime" and to report to the investing public a lower number of subprime
2 originations.

3 34.

4 In 2003 through 2007, Countrywide's Forms 10-K filed with the SEC provided statistics
5 about its originations and reported the percentage of loans in various categories, such as "prime
6 conforming" (i.e., prime plus conforming to GSE standards), "prime nonconforming" and
7 "nonprime" (subprime). That information was misleading because Countrywide's descriptions
8 of "prime non-conforming" and "nonprime" loans were insufficient to inform investors what
9 types of loans the company included in those categories.

10 35.

11 For example, on March 12, 2004, Countrywide filed its 2003 Form 10-K with the SEC,
12 including this statement regarding the quality of its originations:

13 > The majority of our loan production consists of Prime Mortgage Loans. Prime Mortgage Loans include conventional mortgage
14 > loans, Federal Housing Administration-insured mortgage loans and Veterans Administration-guaranteed mortgage loans. The majority
15 > of the conventional loans qualify for inclusion in guaranteed mortgage securities backed by Fannie Mae or Freddie Mac. Some
16 > of the conventional loans we produce either have an original loan amount in excess of the current $333,700 Fannie Mae and Freddie
17 > Mac loan limit or otherwise do not meet Fannie Mae or Freddie Mac guidelines.

18

19 36.

20 Countrywide made a virtually identical statement about the quality of its originations,
21 including a definition of "prime" loans, in each of its 2004, 2005, 2006, and 2007 Forms 10-K:

22 > The majority of our loan production consists of Prime Mortgage Loans. Prime Mortgage Loans include conventional mortgage
23 > loans, loans insured by the Federal Housing Administration ("FHA") and loans guaranteed by the Veterans Administration
24 > ("VA"). A significant portion of the conventional loans we produce qualify for inclusion in guaranteed mortgage securities
25 > backed by Fannie Mae or Freddie Mac ("conforming loans"). Some of the conventional loans we produce either have an original
26 > loan amount in excess of the Fannie Mae and Freddie Mac loan

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1 limit for single-family loans . . . or otherwise do not meet Fannie Mae or Freddie Mac guidelines.

2

3 37.

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

7 - 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
8 within "prime."

9 - 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
10 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
11 or combined loan to value ratios of 95% and higher.

12 - Likewise, Countrywide's definition of "prime" did not disclose that its "Pay-Option ARM loans" product, including reduced documentation Pay-Option ARM loans, were
13 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
14 total loan originations, but the majority of those loans were not "prime conforming loans" saleable to the GSEs.

15

16 38.

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

25 39.

26 By increasing its origination of non-conforming and subprime loans between 2003 and

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1 2007, Countrywide was able to originate a higher volume of loans and increase its market share,
2 even as the residential real estate market declined in the United States. While Countrywide
3 boasted its increased market share to investors, company executives did not disclose that the
4 increase came at the expense of prudent underwriting guidelines. During that same time,
5 Countrywide's share price rose from $25.28 on December 31, 2003 to $42.45 on December 29,
6 2006.

7 40.

8 In addition to Countrywide's misrepresentations and omissions regarding the quality of
9 its loan portfolio, the company also made public misrepresentations and omissions about its
10 overall underwriting strategies. In company earnings calls and in public statements between
11 2003 and 2007, senior Countrywide executives falsely reassured investors regarding the strength
12 of its underwriting standards and loan portfolio. For example:

13 (a) In Countrywide's 2003 Form 10-K, the company described its credit policy as tightly
14 controlled and its "loan origination standards and procedures" as "designed to
15 produce high quality loans."

16 (b) In an April 21, 2004, earnings conference call, Mozilo addressed concern about
17 subprime loans by representing that the company understood the subprime business
18 better than its competitors: "I think using what our competitors do as a barometer will
19 put you down the wrong path. We are a very different focused company that
20 understands this [subprime] product very well, how to originate it, how to manage it,
21 how to underwrite, how to service it. And so we look at – the short answer to your
22 question is – we look at this sub-prime business as a – one that has to be carefully
23 manage[d] . . . ."

24 (c) At a March 15, 2005, conference, Mozilo discussed the company's goal of a 30%
25 market share adding "that under no circumstances will Countrywide ever sacrifice
26 sound lending and margins for the sake of getting to that 30 percent."

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1 (d) In an April 26, 2005, earnings call, Sieracki stated, in response to a question about
2 whether the company had changed its underwriting practices: "We don't see any
3 change in our protocol relative to the quality of loans that we're originating."
4 (e) At a June 2, 2005, conference, Mozilo reassured investors that higher credit
5 requirements were applied to Countrywide's higher risk products: "We acknowledge
6 that some of the products offered today carry higher credit risks than traditional GSE
7 30-year fixed-rate loans. However, it is important [to] note that Countrywide
8 mitigates these risks or addresses them in part by utilizing different underwriting
9 criteria than that is used for traditional fixed-rate product, such as the requirement for
10 higher credit scores."
11 (f) In a July 26, 2005, earnings call, Mozilo claimed that he was "not aware of any
12 change of substance in [Countrywide's] underwriting policies" and that Countrywide
13 had not "taken any steps to reduce the quality of its underwriting regimen."
14 (g) On January 31, 2006, Mozilo stated in an earnings call that "it is important to note
15 that [Countrywide's] loan quality remains extremely high."
16 (h) At a September 13, 2006, forum, Sambol downplayed Countrywide's participation in
17 originating subprime loans by falsely stating that Countrywide had been "on the
18 sidelines" of the risky subprime market.
19 (i) In a January 30, 2007, earnings conference call, Mozilo distinguished Countrywide
20 from other lenders by stating "we backed away from the subprime area because of our
21 concern over credit quality."
22 (j) On March 13, 2007, in an interview on CNBC, Mozilo said that it would be a
23 "mistake" to compare Countrywide to single line subprime lenders. Mozilo also said
24 that the subprime market disruption in early 2007 would "be great for Countrywide at
25 the end of the day because all of the irrational competitors will be gone."
26 (k) At an April 26, 2007, conference, a Countrywide executive claimed that the company

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1 was "essentially a prime mortgage originator," and asserted that it originated only "a
2 small amount of subprime" loans.

3 (l) Countrywide's Forms 10-K for 2005, 2006, and 2007 stated that Countrywide
4 "manage[d] credit risk through credit policy, underwriting, quality control and
5 surveillance activities" and touted the company's " proprietary underwriting systems
6 . . . that improve the consistency of underwriting standards, assess collateral adequacy
7 and help to prevent fraud."

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

9 41.

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

18 42.

19 Each year, Countrywide reported to investors the value of its portfolio of loans held for
20 investment. For example, in its 2003 Form 10-K, Countrywide reported $22 billion of prime
21 mortgage and prime home equity loans held for investment. In its 2004 Form 10-K,
22 Countrywide reported $34.6 billion of prime mortgage and prime home equity loans held for
23 investment. In its 2005 Form 10-K, Countrywide reported $64.8 billion of prime mortgage and
24 prime home equity loans held for investment. Those statements were misleading at best in that
25 they did not reveal that Countrywide's internal characterization of "prime" was inconsistent with
26 government and industry standards, and was created to allow it to characterize a broader range of

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1 riskier loans as "prime."

2 43.

3 Further, on a July 22, 2004, conference call to discuss the company's second quarter 4 2004 results, Mozilo discussed Countrywide's provision for loan loss reserves. Mozilo noted 5 that the company's reserves were adequate based upon its high credit quality loans: "First of all, 6 in terms of loan losses it was far below what you would expect to experience in this type of a 7 bank .... [However,] we have focused on FICOs well above the 700. The average in the 8 portfolio is around 740 .... [T]he quality of that portfolio and the type of loans that are in there, 9 which are mortgage loans, assets that we understand very well and know how to service, that we 10 can expect the performance that we're seeing today to continue at a very high level."

11 44.

12 Mozilo repeated that sentiment at a June 2, 2005, conference where he touted the quality 13 of loans held for investment: "Credit quality of the portfolio remains outstanding with a weighted 14 average FICO score that exceeded 730 and a weighted average CLTV loan to value of 80%."

15 45.

16 Countrywide emphasized the strength of its credit policy in its 2005 Form 10-K, in which 17 it described its credit policy as a tightly controlled and supervised process designed to produce 18 loans that "are salable in the secondary mortgage market" through rigorous underwriting and 19 post-loan auditing. Countrywide made a similar statement in its 2006 Form 10-K.

20 46.

21 Indeed, Countrywide repeatedly touted the strength of its financial position throughout 22 the relevant time period. In its 2003 and 2004 Forms 10-K Countrywide stated: "We ensure our 23 ongoing access to the secondary mortgage market by consistently producing quality mortgages 24 ... we have a major focus on ensuring the quality of our mortgage loan production and we make 25 significant investments in personnel and technology in this regard."

26

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47.

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.

48.

In its 2007 Form 10-K, Countrywide made a similar statement: "Our strategy to ensure our ongoing access to the secondary mortgage market is to consistently produce quality mortgages . . . . We make significant investments in personnel and technology to ensure the quality of our mortgage loan production."

49.

When it made those statements in its 2003 through 2007 public reports, 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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52.

Countrywide also falsely maintained that it issued its Pay-Option ARMs primarily to borrowers with the highest credit quality and relatively strong FICO scores. For example, during conference calls held in April and July 2005, Countrywide executives represented to the market that Pay Option ARMs are "all high FICO," and that this "product has a FICO score exceeding 700" and that "the people that Countrywide is accepting under this program . . . are of much higher quality . . . that [sic] you may be seeing . . . for some other lender."

53.

On April 21, 2004, Mozilo stated in an earnings conference call that the company's ARM product "is a great product, a prime product for the bank, as long as it fits within the regulatory bounds that are set for the bank."

54.

At a May 24, 2005, investor day presentation, Sambol falsely reassured analysts that Countrywide addressed the higher credit risk associated with adjustable rate mortgage programs by requiring different underwriting criteria such as "higher credit scores or lower loan to value ratios."

55.

During the July 26, 2005, earnings conference call, Mozilo again touted the high quality of Countrywide's underwriting of its Pay-Option ARM loans: "That product has a FICO score exceeding 700. You don't see the lower end of the economic spectrum with an unsophisticated people [sic] with that kind of FICO score. So the people that Countrywide is accepting under this program, generally speaking, are of much higher quality and they are not of the ilk that you may be seeing someplace else in the country or for some other lender."

56.

In that same call, Countrywide executives also responded to a question about whether the origination of Pay-Option ARM loans required a loosening of underwriting standards. In

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1 response, Mozilo answered that: "I am not aware of any change of substance in underwriting
2 policies . . . . I'm not aware of any loosening of underwriting standards that creates a less of a
3 quality of loan than we did in the past."

4 57.

5 On April 27, 2006, Mozilo stated in an earnings call that Countrywide's "pay option loan
6 quality remains extremely high" and that Countrywide's "origination activities [were] such that
7 the consumer is underwritten at the fully adjusted rate of the mortgage and is capable of making
8 a higher payment. Should that be required when they reach their reset period . . . ."

9 58.

10 Just a month later, on May 31, 2006, Mozilo presented at a conference at which he
11 addressed investors and analysts and responded to scrutiny of Pay-Option loans. Among other
12 things, Mozilo commented that "Countrywide views the product as a sound investment for our
13 Bank and a sound financial management tool for consumers." Mozilo also noted that the
14 "performance profile of this product is well-understood because of its 20-year history, which
15 includes 'stress tests' in difficult environments" and that "Pay-Option loans represent the best
16 whole loan type available for portfolio investment from an overall risk and return perspective."
17 As he had before, Mozilo again stressed that Countrywide "actively manages credit risk through
18 prudent program guidelines . . . and sound underwriting."

19 59.

20 At a September 13, 2006, forum, Mozilo described Countrywide as a "role model to
21 others in terms of responsible lending" and noted that to "help protect our bond holder
22 customers, we engage in prudent underwriting guidelines" with respect to Pay-Option loans.

23 **COUNTRYWIDE'S STATEMENTS WERE MATERIALLY FALSE OR MISLEADING, OR OMITTED INFORMATION MATERIAL TO INVESTORS**
24

25 60.

26 The statements and omissions set out in paragraphs 30 through 59 above were materially

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

8 61.

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

13 62.

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

20
- 66% of Countrywide's production was conforming in July 2003, but conforming originations had fallen to 35% by July 2004;

21
22
- 21% of Countrywide's production was nonconforming in July 2003, but non-conforming originations had risen to 40% by July 2004; and

23
- 2% of Countrywide's July 2003 production was subprime, but subprime originations had risen to 10% by July 2004.

24
25 63.

26 The credit risks described in the September 2004 warning worsened from September

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1 2004 to August 2007. During that time period, Risk Management had continuous discussions
2 with Countrywide's loan production division about the credit concerns identified in the
3 September 2004 warning. In fact, Risk Management conducted studies to identify the
4 relationship among certain credit variables and their effect upon the probability that a loan would
5 go into delinquency or default. One finding of those studies was that the less documentation
6 associated with a loan, the higher the probability of default. Nevertheless, Countrywide
7 continued to expand its underwriting guidelines, and to liberally make exceptions to those
8 guidelines, through the end of 2006. These facts were never disclosed to investors.

9 64.

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

17 65.

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

24 66.

25 That same month, Sambol and Countrywide's Chief Risk Officer, John McMurray,
26 engaged in a lengthy email exchange regarding the impact of Countrywide's underwriting

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1 guideline expansion. In that exchange, McMurray warned Sambol that "as a consequence of
2 [Countrywide's] strategy to have the widest product line in the industry, we are clearly out on the
3 'frontier' in many areas." McMurray went on to note that the frontier had "high expected default
4 rates and losses."

5 67.

6 And, as early as June 2006, Mozilo and Sambol knew that a significant percentage of
7 borrowers who were taking out stated income loans were engaged in mortgage fraud. On June 1,
8 2006, Mozilo advised Sambol in an email that he had become aware that the Pay-Option ARM
9 portfolio was largely underwritten on a reduced documentation basis and that there was evidence
10 that borrowers regularly lied about income in the application process. On June 2, 2006, Sambol
11 received an email report showing that 50% of the stated income loans audited by Countrywide
12 showed a variance in income from the borrowers' IRS filings of greater than 10%. Of those,
13 69% had an income variance of greater than 50%. These material facts were never disclosed to
14 investors.

15 68.

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

23 69.

24 Mozilo repeatedly noted the risks, and the wisdom, of offering 80/20 subprime loans.
25 Mozilo became concerned about the loans at least as early as the first quarter of 2006, when
26 HSBC, a purchaser of Countrywide's 80/20 loans, began to contractually force Countrywide to

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1 "buy back" certain 80/20 loans that HSBC argued were defective. In a March 28, 2006, email,
2 Mozilo directed other executives to implement corrective measures to "avoid the errors of both
3 judgment and protocol that have led to the issues that we face today caused by the buybacks
4 mandated by HSBC." Mozilo further stated that the 80/20 subprime product is "the most
5 dangerous product in existence and there can be nothing more toxic and therefore requires that
6 no deviation from guidelines be permitted irrespective of the circumstances."

7 70.

8 In an April 17, 2006, email to Sambol concerning subprime 80/20 loans, Mozilo fumed:
9 "In all my years in the business I have never seen a more toxic prduct [sic]. It's not only
10 subordinated to the first, but the first is subprime. In addition, the FICOs are below 600, below
11 500 and some below 400[.] With real estate values coming down . . . [,] the product will become
12 increasingly worse. There has [sic] to be major changes in this program, including substantial
13 increases in the minimum FICO."

14 71.

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

24 72.

25 In a December 7, 2006, memorandum to the board of directors and all Countrywide
26 managing directors, Mozilo made the following observations:

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- Countrywide had expanded its subprime underwriting guidelines by lowering minimum FICOs, raising maximum loan size and LTV, and making interest only, stated income, and piggyback second loans available to subprime borrowers;
- Countrywide expected that subprime loans originated in 2006 would be the worst performing on record, driven by wider underwriting guidelines and the worsening economic environment;
- 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 six years, and the company expected these percentages to rise; and
- 62% of Countrywide's subprime originations in the second quarter of 2006 had a loan to value ratio of 100%.

73.

In the April 17, 2006 email, Mozilo wrote that no premium, no matter how high, could justify underwriting a loan for a borrower with a FICO score below 600. Yet Countrywide failed to disclose to investors the serious deficiencies in its underwriting of these "toxic" loans.

74.

Countrywide's statements about the quality of its Pay-Option loan portfolio during the relevant time period were also false and Countrywide knew that it was not "prudently underwriting" its Pay-Option ARM loans.

75.

The company's representations about average borrower FICO scores cited in its Forms 10-K were at best misleading because Countrywide was regularly funding Pay Option ARMs to borrowers with FICO scores as low as 620 and sometimes lower. Countrywide's representations regarding the "average" FICO score were misleading to investors because they omitted any reference to the applicable FICO score standard in the industry, which were higher than those Countrywide used when it characterized these loans as "prudently underwritten," subject to "sound underwriting," and of "high initial loan quality." That information was necessary in order to properly assess risks and would have been material to investors given Countrywide's routine practice of providing a substantial number of Pay Option ARMs to subprime borrowers,

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1 many with limited or no documentation requirements.

2 76.

3 Similarly, Mozilo's April 27, 2006, comments about the high loan quality of
4 Countrywide's Pay-Option ARMSs were admittedly false because just weeks earlier, on April 4,
5 2006, Mozilo commented that the vast majority of Pay-Option borrowers opted to make the
6 lower payments and "it appears that it is just a matter of time that we will be faced with much
7 higher resets and therefore much higher delinquencies."

8 77.

9 Mozilo's statements at the May 31, 2006, conference regarding Pay-Option loans also
10 were false. Just weeks earlier, on May 19, 2006, Mozilo wrote to Sambol and Sieracki that Pay-
11 Option loans would continue to present a long-term problem "unless rates are reduced
12 dramatically from this level and there are no indications, absent another terrorist attack, that this
13 will happen." Further, on June 1, 2006, Mozilo acknowledged in an email to Sambol that he
14 knew that the Pay-Option portfolio was largely underwritten on a reduced documentation basis,
15 and that he believed there was evidence that borrowers were lying about their income in the
16 application process. Mozilo then concluded that borrowers would reach the 115% negative
17 amortization cap sooner than expected and suffer payment shock because of the substantially
18 higher payments upon reset, particularly those with FICO scores below 700 who "are going to
19 experience a payment shock which is going to be difficult if not impossible for them to manage."
20 Strikingly, Mozilo also noted then that Countrywide could "know or can reliably predict what's
21 going to happen in the next couple of years" and encouraged the company to act quickly to
22 address those issues.

23 78.

24 Mozilo's statements at the September 13, 2006, forum were false when made because:

25 • By July 10, 2006, Mozilo knew that, from September 2005 through June 2006, the percentage of Pay-Option borrowers choosing to make the minimum payment had
26

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nearly doubled, from 37% to 71%, and Mozilo and Countrywide measured the strength of the Pay-Option portfolio in part by that metric;

- In response to an August 16, 2006, e-mail regarding anticipated problems with the Pay-Option portfolio, Mozilo responded that rising interest rates would cause the loans to reset much faster than borrowers expected and create payment shock. Mozilo also noted that refinancing those loans before reset would be difficult in light of decreasing home values and rising interest rates; and

- On September 26, 2006, Mozilo wrote to Sambol and Sieracki that "[w]e have no way, with any reasonable certainty, to assess the real risk of holding [Pay-Option] loans on our balance sheet . . . . The bottom line is that we are flying blind on how these loans will perform in a stressed environment of higher unemployment, reduced values and slowing home sales."

79.

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

80.

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

81.

On February 11, 2007, McMurray wrote to Sambol that loans were being written based upon the matching strategy alone, and expressed concern that the strategy would cause Countrywide's guidelines to be a composite of the riskiest offerings the market. McMurray

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1 warned, "I doubt this approach would play well with regulators, investors, rating agencies etc.
2 To some, this approach might seem like we've simply ceded our risk standards and balance sheet
3 to whoever has the most liberal guidelines."

4 82.

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

8 83.

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

19 84.

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

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1 would cause repurchase and indemnification requests to rise and the performance of
2 Countrywide-issued MBS to deteriorate.

3 85.

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

9 86.

10 A December 13, 2007, company memo noted that:

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

17 87.

18 These material deficiencies in Countrywide's underwriting were never disclosed to
19 investors in Countrywide's public filings or public statements between 2003 through 2007.
20 Further, registration statements filed by Countrywide incident to its public bond offerings
21 expressly incorporated by reference many of Countrywide's public filings, including the Forms
22 10-K and 10-Q, and therefore also contained materially false or misleading statements and
23 omissions.

24

25

26

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1 **COUNTRYWIDE MISSTATED ITS FINANCIAL STATEMENTS IN VIOLATION OF GAAP**

2

3 88.

4 From 2004 through 2007, Countrywide made numerous untrue statements of material fact
5 in reporting its financial results and omitted to state material facts necessary to make its reported
6 financial results not misleading. Specifically, Countrywide violated Generally Accepted
7 Accounting Principles ("GAAP") in connection with its allowances for loan losses ("ALL") on
8 loans held for investment ("LHI"), valuation of retained interests ("RIs"), valuation of mortgage
9 servicing rights ("MSRs"), and accruals of loss contingencies from its breaches of
10 representations and warranties ("R&Ws") in connection with loan securitizations.

11 89.

12 Countrywide's ALL, its valuation of its RIs and MSRs, and its loss accrual for R&Ws all
13 were critical metrics for investors. Countrywide's reported ALL was a critical metric for
14 investors because it indicated the expected level of loss the company was reasonably likely to
15 incur on loans held for investment on its balance sheet. In addition, the company's reported ALL
16 was directly linked to its net income, which also was a critical metric for investors.
17 Countrywide's valuations of its RIs and its MSRs and its loss accrual for R&Ws were critical
18 metrics for investors because they reflected the company's financial health. Specifically,
19 Countrywide's valuations of its RIs and its MSRs were directly tied to the company's reported
20 gain-on-sale and, ultimately, its net income. Countrywide's accrual of loss contingencies from
21 its breaches of R&Ws was reported as a liability and therefore also directly affected that
22 Company's reported gain-on-sale and its net income.

23 *Allowances for Loan Losses on Loans Held for Investment*:

24 90.

25 GAAP required the company to establish a reserve—which Countrywide referred to as
26 the allowance for loan losses, or "ALL"—for potential credit losses related to borrowers who

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1 were expected to default on their obligations to make monthly mortgage payments.

2 91.

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

5 92.

6 As described in paragraphs 11 through 29 above, from 2004 through 2007, Countrywide
7 loosened underwriting standards and significantly increased the type and volume of risky loan
8 products that it originated. GAAP required Countrywide to adjust historical trends to reflect
9 these practices and to increase ALL based on both the increased probability of impairment and
10 actual impairment at origination. Countrywide's Form 10-K filings, however, show that the
11 company generally continued to rely on historical default rates and loss percentages for similar
12 loans originated by the company to establish its ALL.

13 93.

14 From 2004 through 2007, Countrywide—in violation of GAAP—failed to consider the
15 following risk factors when estimating its ALL:

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

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

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

24 (d) Countrywide's underwriting practices deteriorated.

25 94.

26 As a result, from 2004 through 2007, Countrywide materially understated its ALL in

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violation of GAAP.

Valuation of Retained Interests:

95.

In its Form 10-K reports, Countrywide stated that it "sells substantially all of the mortgage loans it produces in the secondary mortgage market, primarily in the form of securities." Countrywide accomplished this by transferring mortgage loans that it originated to a qualifying special purpose entity ("QSPE"). The QSPE then converted those assets into cash and combined the mortgage loans into one large pool. The pool was divided into smaller pieces (known as tiers or tranches). The QSPE sold these tranches to the secondary market. This process is known as securitization.

96.

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

97.

From 2004 through 2007, a significant percentage of the underlying loans in the securitizations that Countrywide issued were not originated in accordance with the company's underwriting standards. As a result, the risk that those loans would not perform in accordance with their terms, and, consequently, that the securitizations would not perform as expected, increased. This significantly impacted the value of Countrywide's RIs, which would take the first losses if the securitizations did not perform as expected.

98.

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

99.

Under GAAP, however, Countrywide was required to adjust its assumptions to reflect the

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1 increased credit risk of the underlying loans included in its securitizations.

2 100.

3 In violation of GAAP, Countrywide did not adequately adjust its assumptions to account
4 for the new riskier loans that the company included in its securitizations and did not account for
5 the increased credit risk from Countrywide's loosened underwriting practices.

6 101.

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

13 102.

14 Moreover, Countrywide's valuation model and key assumptions ignored: (i) the
15 company's change in lending practices beginning in 2003 to offer non-traditional, high-risk
16 loans; (ii) the company's significant increasing production of subprime loans; (iii) the company's
17 continued exceptions from its underwriting guidelines; and (iv) the drastic increase in
18 delinquencies and defaults experienced by loans that Countrywide originated and included in its
19 securitizations.

20 103.

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

25

26

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1 *Valuation of Mortgage Servicing Rights*:

2 104.

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

8 105.

9 In its 2005 Form 10-K, Countrywide stated that, in periods prior to 2006, the pricing
10 model it used to estimate the fair value of its MSRs included "the use of a sophisticated
11 discounted cash flow model," which relied on cash flow assumptions and prepayment
12 assumptions "based on [the company's] empirical data drawn from the historical performance of
13 [its] MSRs."

14 106.

15 Beginning in 2006 and thereafter, Countrywide estimated the fair value of its MSRs by
16 using a discounted cash flow model that, according to the company's third quarter 2007 Form
17 10-Q, "incorporate[d] cash flow and prepayment projections based on data drawn from the
18 historical performance of the loans underlying the company's MSRs." In addition, Countrywide
19 stated in its 2007 Form 10-K that any calculated change in the fair value of its MSRs was based
20 primarily on two components—namely, a reduction in fair value due to the realization of
21 expected cash flows (which reduced the total amount receivable for the life of the loan), and a
22 change in fair value resulting from changes in interest rates and other market factors.
23 Countrywide referred to the latter component as management's assumptions.

24 107.

25 Countrywide's public filings do not mention that the company included the default rate
26 among the assumptions it used in valuing its MSRs. While the default rate should have been a

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1 critical assumption, Countrywide never explained this omission.

2 108.

3 From 2004 through 2007, as Countrywide continued to loosen its underwriting
4 guidelines, delinquencies and pending foreclosures from loan defaults rose significantly.
5 Nonetheless, in 2006 and 2007, Countrywide's estimate of the fair value of its MSRs increased.

6 109.

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

16 110.

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

20 *Accruals for Breaches of Representations and Warranties in Connection with Loan Securitizations*:
21

22 111.

23 When Countrywide sold the mortgage loans that it produced in the secondary market, it
24 made representations and warranties to the investors who purchased the securitized loans,
25 including guarantees concerning the loans' compliance with applicable loan criteria such as loan
26 to value ratio limits, level of origination documentation required, credit scores, debt to income

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TEL. (503) 934-4400 FAX (503) 373-7067

1 ratios, delinquency rates, the company's written underwriting policies, and compliance with
2 applicable laws.

3 112.

4 According to its regulatory filings, Countrywide retained credit risk—which it defined in
5 its 2007 10-K as "the risk that a borrower will not repay the [underlying] loans' balance as
6 agreed and the risk that the proceeds from liquidation of the collateral securing the loan will not
7 be adequate to repay the loan's balance"—for all representations and warranties offered in a
8 securitization. If Countrywide breached its corporate guarantees and mortgage loan
9 representations and warranties, it would be required either to repurchase the underlying mortgage
10 loan or to compensate the purchaser. Countrywide then would bear subsequent credit losses on
11 these loans.

12 113.

13 GAAP required Countrywide to accrue loss contingencies for its R&Ws based on the
14 expected rate of future claims by investors resulting from the company's breaches of its
15 corporate guarantees and mortgage loan representations and warranties.

16 114.

17 As described above, from 2004 through 2007, Countrywide: (i) changed its lending
18 practices to offer nontraditional, high risk loans to all borrowers, including borrowers incapable
19 of repaying the loans; (ii) increased its origination of high-risk loans to unqualified borrowers
20 with little to no supporting documentation; (iii) loosened its underwriting criteria; and
21 (iv) continued to originate loans through exceptions that did not even meet the company's
22 loosened underwriting criteria. As a result, the probability that borrowers would default
23 increased.

24 115.

25 Because Countrywide included these new, riskier loans in the securitizations it offered,
26 the risk that Countrywide would breach its corporate guarantees and mortgage loan

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TEL. (503) 934-4400 FAX (503) 373-7067

1 representations and warranties and be required either to repurchase the underlying mortgage loan
2 or to compensate the purchaser also increased.

3 116.

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

10 117.

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

15 **COUNTRYWIDE'S RISKY BEHAVIOR LED TO ITS COLLAPSE**

16 118.

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

19 119.

20 On July 24, 2007, Countrywide began to partially disclose some information about its
21 business practices, underwriting standards, and risky loan originations. On that day, the
22 company disclosed for the first time in its earnings release teleconference that its definition of
23 "prime" loans included loans made to borrowers with FICO scores as low as 500, and that 80%
24 of its portfolio of Pay-Option loans held for investment were underwritten based upon reduced
25 documentation. During that call, McMurray described the term "prime" as covering "a very vast
26 spectrum" and referenced prime loans "with FICOs in the low 500s." McMurray also stated that

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1 there "is a belief by many that prime FICOs stop at 620 that is not the case."

2 120.

3 After the July 24, 2007, disclosures, Countrywide's share price dropped from the 4 previous day's close of $34.06 to $30.50, on volume of 51,251,300 shares (as compared to the 5 previous day's trading volume of 12,731,900), a decline of nearly 11%.

6 121.

7 Also on July 24, 2007, Mozilo continued to make false and misleading public statements 8 and omissions in an effort to temper the impact of the company's disclosures. Among other 9 statements, Mozilo represented to the investing public that the growing mortgage crisis would 10 allow Countrywide to leverage its strong liquidity position because, in his view, "the company 11 [was] well positioned to capitalize on opportunities during this transitional period in the 12 mortgage business," which he believed would "enhance the company's long-term earnings 13 growth prospects." Mozilo also stated that he expected Countrywide to "emerge in a superior 14 competitive position coming out of the current housing down cycle," and Sieracki commented 15 that the company had "adequate diversified and reliable sources of liquidity available . . . and 16 [had] tremendous[] liquidity sources to fund [itself] through this situation," and that the company 17 felt "very, very comfortable about [its] liquidity scenario overall."

18 122.

19 On August 9, 2007, Countrywide reported in its Form 10-Q for the second quarter of 20 2007 consolidated net earnings of $485 million, a 33% net decrease from the second quarter of 21 2006. Countrywide attributed the decline to credit-related costs, specifically, a $417.2 million 22 impairment loss on its retained interests, including $388.1 million related to home equity loans, 23 and a $231 million increase in its allowance for loan losses. In tbe Form 10-Q, Countrywide 24 noted the existence of "unprecedented market conditions" bearing on Countrywide's liquidity, 25 and stated that, while it "believe[d] [it had] adequate funding liquidity, the situation [was] rapidly 26 evolving and the impact on the company [was] unknown."

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1 123.

2 Following those disclosures, Countrywide's stock declined on August 10, 2007, by
3 approximately 2.8%, from $28.66 to $27.86 on a volume of 48,657,500 shares (as compared to
4 the previous day's volume of 24,730,400 shares).

5 124.

6 In addition to its rising credit losses, Countrywide experienced a liquidity crisis in August
7 2007. Revenues from its capital markets loan sales and securitizations had dropped from $553.5
8 million in pre-tax earnings in 2006 to $14.9 million in 2007, and Countrywide found itself
9 unable to access the short term credit markets. By August 13, 2007, Merrill Lynch analyst
10 reports indicated that Countrywide's liquidity challenges could lead to bankruptcy and, that
11 week, the major credit rating agencies significantly downgraded Countrywide's securities.

12 125.

13 On August 16, 2007, Countrywide announced that it had drawn down its entire $11.5
14 billion credit facility to supplement its cash position. Following that announcement,
15 Countrywide's stock declined from $21.29 per share to $18.95, on volume of 201,476,800
16 shares, another approximately 11 % decline.

17 126.

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

20 127.

21 On October 26, 2007, Countrywide reported a quarterly loss of $1.2 billion. The
22 company's November 9, 2007 Form 10-Q disclosed that Countrywide had taken a $1 billion
23 impairment loss on its loans held for sale and mortgage backed securities, and had taken $1.9
24 billion in credit charges related to its allowance for loan losses and its provision for
25 representations and warranties on loans it had securitized and sold. In its October 2007 earnings
26 call, Mozilo nevertheless assured investors that the company would return to profitability in the

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TEL. (503) 934-4400 FAX (503) 373-7067

1 fourth quarter of 2007. That representation caused Countrywide's share price to rise from its
2 previous day's close of $13.07 to $17.30.

3 128.

4 Thereafter, Countrywide's share price continued to fall, driven in part by bankruptcy
5 rumors. By December 31, 2007, Countrywide's shares had fallen to $8.94.

6 129.

7 On January 8, 2008, Countrywide's shares dropped another 28%, from $7.64 to $5.47 on
8 extremely high volume of trading (178,828,800 shares compared to the previous day's volume of
9 38,088,800), again based on rumors that the company intended to file for bankruptcy. On
10 January 11, 2008, prior to reporting its year-end 2007 results, Countrywide announced that it was
11 being acquired by Bank of America in an all stock transaction with an estimated value of $4
12 billion.

13 130.

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

24 131.

25 Countrywide's slow revelations between July 24, 2007, and March 29, 2008, about its
26 business practices, underwriting standards, and risky loan originations, caused the value of

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1 Countrywide's bonds to decrease substantially.

2 132.

3 Countrywide's slow revelation of the truth concerning its business practices between July 4 24, 2007, and March 29, 2008, concerned material facts that caused plaintiff to suffer substantial 5 losses. Each new revelation caused an additional drop in the value of Countrywide's securities 6 and additional losses. Those losses were a direct result of the revelation of the truth about the 7 materially false and misleading statements and omissions alleged above.

8 133.

9 As noted, on July 1, 2008, the NYSE filed a Form 25 to deregister and delist 10 Countrywide's common stock, and on July 22, 2008 the company filed a Form 15 deregistering 11 its common stock under Section 12(g) of the Exchange Act.

12 **RELIANCE/FRAUD ON THE MARKET ALLEGATIONS**

13 134.

14 OPERF is entitled to a presumption of reliance on defendant's material 15 misrepresentations and omissions for the following reasons:

16 *OPERF Relied on Countrywide's Material Misrepresentations and Omissions by Relying on the Integrity of the Efficient New York Stock Exchange Market for Countrywide* 17 *Securities*:

18 135.

19 OPERF retains money managers to purchase and sell securities on its behalf. These 20 money managers have investment portfolio managers and investment analysts who analyze the 21 risks and benefits of purchasing securities based on the then-current price.

22 136.

23 During the relevant time period, Countrywide stock was traded on an efficient securities 24 market. Those shares traded on the New York Stock Exchange where literally billions of shares 25 of stock trade each day. During the period that OPERF purchased Countrywide securities on the 26 NYSE between 2003 and 2007, and before the July 2007 partial disclosure, there were typically

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1 over 5.5 million shares of Countrywide stock exchanged through the NYSE each day.

2 137.

3 Each of the representations and omissions referenced above was made by Countrywide to
4 the market, and were closely followed by analysts from top-brokerage houses and other
5 sophisticated institutional investors that regularly followed Countrywide, reviewed their annual
6 reports, SEC filings, press releases, and public statements. The brokerage firm analysts, in
7 particular, issued research reports on Countrywide and recommendations about purchasing its
8 securities at different prices that the market established, and that were followed by investors
9 whose purchases and sales further impacted the price of the securities. The price of
10 Countrywide's securities during the relevant time period thus reflected the material information
11 that Countrywide disclosed to the market, but was unaffected by the material facts that
12 Countrywide omitted from the market that would have made the statements not misleading.

13 138.

14 OPERF's money managers relied on the integrity and efficiency of the market and trusted
15 that the market price of Countrywide securities accurately reflected the material statements made
16 by Countrywide in its annual reports, 10-K's, 10-Q's, press releases, and public statements,
17 including each and every one of the material statements and omissions referenced above. As a
18 result of those misrepresentations and omissions, the price of Countrywide's securities was
19 artificially inflated throughout 2004 to 2007.

20 139.

21 OPERF's money managers had no reason to know of the facts, described above, that
22 were not disclosed by Countrywide.

23 *Oregon Relied on Countrywide's Material Omissions Because Oregon Would Not Have Purchased Countrywide Securities Had Oregon Been Aware of Countrywide's Risky*
24 *Business Practices*

25 140.

26 As noted above, Countrywide made representations to the market that included omissions

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1 of material fact.

2 141.

3 Had OPERF's money managers been aware that Countrywide was, among other things,
4 mischaracterizing the quality of its loans, substantially relaxing its underwriting standards,
5 creating substantial credit risks, and making false statements of material fact in reporting its
6 financial results in violation of GAAP, OPERF's money managers would not have made the
7 securities purchases that it did at the prices it paid.

8 **COUNTRYWIDE WAS INVOLVED IN MARKET ACTIVITY, AND ITS EXECUTIVES**
IN INSIDER TRADING, DURING THE RELEVANT TIME PERIOD.
9

10 142.

11 Throughout the relevant period Countrywide's senior executives made public statements
12 and omissions aimed at reassuring the investing public about Countrywide's financial strength
13 and the strength of its underwriting standards and loan portfolio. Despite those statements and
14 omissions, and as described above, those senior executives actually had substantial, well-founded
15 concerns about the increasing credit risks the company faced, which ultimately led to its
16 collapse. Consistent with their actual concerns about Countrywide's future, and contrary to their
17 public statements and omissions, both Mozilo and Sambol realized substantial profits on sales of
18 Countrywide stock in 2005, 2006, and 2007 through sales pursuant to various 10b5-1 sales plans.

19 143.

20 Between May 9, 2005, when Countrywide filed its Form 10-Q for the first quarter of
21 2005, and the end of 2007, Mozilo exercised stock options and sold the underlying shares for
22 total proceeds of at least $260 million, and Sambol exercised stock options and sold the
23 underlying shares for total proceeds of at least $40 million.

24 144.

25 Mozilo established four stock sales plans in October, November, and December 2006.
26 As set forth above, Mozilo learned of red flags concerning Countrywide's expanded

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1 underwriting guidelines and concluded that certain of Countrywide's mortgage loans would have
2 a detrimental financial impact on the company. Mozilo also possessed material non-public
3 information regarding the characteristics and performance of Pay-Option ARM loans as well as
4 increasing credit risks associated with that product. None of that information was disclosed to
5 the public prior to the establishment of Mozilo's sales plans.

6 145.

7 In fact, Mozilo gave final approval to create two October 2006 stock sale plans at the
8 same time that he sent an e-mail to Sambol and Sieracki that, as described above, stated among
9 other things that Countrywide was "flying blind on how these loans will perform in a stressed
10 environment of higher unemployment, reduced values and slowing home sales." Further, Mozilo
11 executed a December 2006 Sales Plan five days after he circulated a memorandum, described
12 above, to all managing directors and the board of directors that analyzed subprime mortgages.

13 146.

14 Mozilo's high rate of selling during the Class Period is particularly suspicious because it
15 occurred just as Countrywide initiated its first-ever stock repurchase program. Countrywide
16 announced its first stock buyback of up to $2.5 billion in Countrywide stock on October 24,
17 2006.

18 147.

19 Stock buybacks are widely recognized as boosting a company's share price when a
20 company views its stock as undervalued. Countrywide's first stock buyback was generally
21 viewed as having this effect for Countrywide.

22 148.

23 However, insiders usually sell their personal stock when they believe it is overvalued.
24 Mozilo made the first of three Trading Plan changes on October 27, 2006, just three days after
25 the company announced the buyback. Mozilo then made two subsequent changes to his 10b5-1
26 Trading Plans while the buyback was occurring.

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1 149.

2 On May 16, 2007, Countrywide announced a second buyback of approximately $1 billion
3 in stock. During that time, Mozilo continued to sell hundreds of thousands of shares each month.

4 150.

5 Thus, at exactly the time that Mozilo increased his personal sales of Countrywide stock,
6 he caused the company to engage in its first ever repurchases of its own stock. The immediate
7 consequence of the buybacks was to support the company's share price, and the ultimate effect
8 was to secure large profits for Mozilo on his own sales during this period, while the company,
9 and investors, suffered massive losses on the repurchased shares.

10 151.

11 Countrywide also engaged in market activities during and following the period in which
12 it made false and misleading statements of material fact and issued statements with material
13 omissions by selling, offering to sell, or soliciting the sale of Countrywide securities, as
14 evidenced at least by the following examples:

15 (a) On or about June 27, 2003, Countrywide filed a Form S-8 with the SEC amending
16 its 2000 Equity Incentive Plan to increase the number of shares of Countrywide's
17 common stock available for issuance upon the exercise of stock options under that
18 stock option plan by registering 6,250,000 shares;

19 (b) On or about August 5, 2003, Countrywide filed a Form S-8 with the SEC
20 amending its Global Stock Plan to increase the number of shares of
21 Countrywide's common stock available for issuance under that plan by registering
22 1,000,000 shares;

23 (c) On or about March 22, 2004, Countrywide publicly issued $9.35 billion of Series
24 L Medium-Term Notes, pursuant to a Form S-3 Registration Statement;

25 (d) On or about August 19, 2004, Countrywide filed a Form S-8 with the SEC
26 amending its 2000 Equity Incentive Plan to increase the number of shares of

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SALEM, OREGON 97301-4096
TEL. (503) 934-4400 FAX (503) 373-7067

1 Countrywide's common stock available for issuance upon the exercise of stock
2 options under that stock option plan by registering 11,000,000 shares;
3 (e) On or about February 7, 2005, Countrywide commenced a public offering of
4 approximately $8.627 billion of Series A Medium-Term Notes, pursuant to a
5 Form S-3 shelf registration statement;
6 (f) On or about February 13, 2006, Countrywide commenced a public offering of
7 approximately $10.7 billion of Series B Medium-Term Notes, pursuant to a Form
8 S-3ASR shelf registration statement;
9 (g) On or about May 11, 2006, Countrywide publicly issued $1 billion of 6.25%
10 Subordinated Notes Due May 15, 2016, pursuant to a Form S-3ASR shelf
11 registration statement;
12 (h) On or about November 3, 2006, Countrywide commenced a public offering of 52
13 million shares of 7% Capital Securities at $25 per share, pursuant to a Form S-3
14 registration statement;
15 (i) On or about May 11, 2007, Countrywide filed a Form S-8 with the SEC
16 registering 3,000,000 shares of Countrywide common stock to be offered or sold
17 pursuant to Countrywide's 401(k) Savings and Investment Plan;
18 (j) On or about March 24, 2008, Countrywide filed a Form S-8 with the SEC
19 registering 8,000,000 shares of Countrywide common stock to be offered or sold
20 pursuant to Countrywide's 401(k) Savings and Investment Plan.
21 (k) Throughout 2003 to 2008 Countrywide sponsored a section 401(k) Savings and
22 Investment Plan and Countrywide directed the purchase of Countrywide common
23 stocks for the plan. Between 2003 and 2007 the number of shares held by the
24 plan increased by over 1.2 million shares.
25
26

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FIRST CLAIM FOR RELIEF

(ORS 59.137)

152.

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

153.

OPERF purchased Countrywide securities, both common stock and notes (bonds), that were sold to OPERF by means of Countrywide's violations of (a) ORS 59.135(1) (through a device, scheme and/or artifice to defraud), (b) ORS 59.135(2) (through untrue statements of material fact and omissions of material fact that were necessary to make the statements made not misleading), and/or (c) ORS 59.135(3) (through acts, practices and/or courses of business that operated as a fraud).

154.

Countrywide's violations of ORS 59.135(1), (2), and (3) caused OPERF actual damages in an amount to be determined at trial, which amount is not less than $11,416,891.96 on the common stock and $1,559,767.70 on the bonds. The value of Countrywide's common stock and bonds were artificially inflated as a direct result of Countrywide's device, scheme and artifice to defraud; its material misrepresentations and omissions of fact; and/or its acts, practices and course of business that operated as a fraud. Prior to the disclosure of Countrywide's material misrepresentations and omissions, its stock traded as high as $45.26. Following partial disclosures regarding the true nature of Countrywide's business practices and disclosure of the material misrepresentations and omissions, the value of Countrywide's stock plummeted to as low as $3.95. Countrywide's bonds also lost value when the truth relating to Countrywide's fraudulent business practices was disclosed.

155.

As alleged above in paragraphs 134 to 141, OPERF (and its money managers) relied on

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Countrywide's fraud, material misrepresentations and omissions, and deceptive business practices through its individual reliance and/or its reliance on an efficient market that set the price for Countrywide's securities on the New York Stock Exchange based on the publically available information known to the market.

156.

OPERF is entitled to an award of its costs and reasonable attorney fees under ORS 59.137(4), including expert witness fees.

157.

OPERF is also entitled to prejudgment interest at the statutory rate of 9% as set forth in ORS 59.137(1) and ORS 82.010 from the dates of its purchases of Countrywide stock and bonds until the entry of judgment.

SECOND CLAIM FOR RELIEF

(ORS 59.115 FOR SERIES B AND L MEDIUM-TERM NOTES BOUGHT DIRECTLY IN THE OFFERING)

158.

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

159.

OPERF purchased Series B and Series L Medium-Term Notes in an offering.

160.

Countrywide was a seller of the Series B and L Medium-Term Notes.

161.

Countrywide also offered and solicited the purchase of the Series B and L Medium-Term Notes.

162.

Countrywide also participated in and materially aided in the sale of the Series B and L

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1 Medium Term Notes.

2 163.

3 To the extent that Countrywide claims it was not a direct seller, it was a control person or
4 acted in a similar status to control persons that controlled any underwriters or agents who sold
5 the Series B and L Medium Term Notes in the offering.

6 164.

7 The Series B Medium-Term Notes Registration Statement expressly incorporated by
8 reference Countrywide's Form 10-K for the year ended December 31, 2004 and its first, second,
9 and third quarter Forms 10-Q for 2005. The Series L Medium Term Notes Registration
10 Statement expressly incorporated by reference both Countrywide's existing and future Form 10-
11 Ks, including but not limited to the 2003 10-K, which was filed on March 12, 2004 prior to
12 OPERF's initial purchases of the Series L Notes, as well as the 2004, 2005, 2006 and 2007 10-
13 Ks as they were issued. Therefore, and for the reasons described above, the registration
14 statements contained untrue statements of material facts. The registration statements also
15 omitted to state other facts required to be stated or necessary to make the statements made not
16 misleading, including Countrywide's widespread violations of Generally Accepted Accounting
17 Principles. The misstated and omitted facts would have been material to a reasonable person
18 reviewing the registration statement.

19 165.

20 The registration statement also omitted to state other facts required to be stated or
21 necessary to make the statements made not misleading, including Countrywide's widespread
22 violations of Generally Accepted Accounting Principles. The misstated and omitted facts would
23 have been material to a reasonable person reviewing the registration statement.

24 166.

25 OPERF was not aware of the false statements of material fact and material omissions in
26 Countrywide Series B and L Medium-Term Registration Statements (and incorporated financial

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statements).

167.

OPERF is entitled to recover the amount paid for the Series B and L Medium-Term Notes plus pre-judgment interest from the date of purchase at the statutory rate of 9% under ORS 59.115(2)(A) and ORS 82.010 less any amounts received for them prior to judgment or damages in an amount to be determined at trial of at least $922,400.45 plus prejudgment interest.

168.

OPERF is also entitled to recover its costs and reasonable attorney fees, including expert witness fees, under ORS 59.115(10).

THIRD CLAIM FOR RELIEF

(CAL. CORP. CODE § 25500 FOR VIOLATIONS OF § 25400)

169.

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

170.

Countrywide is liable to Oregon for damages under Cal. Corp. Code Section 25500 for its willful violations of Cal Corp. Code Section 25400 (d).

171.

Between at least June 2003 and March 2008, Countrywide was engaged in market activities in California to the extent that it was a seller and offerer for sale of Countrywide securities, including Countrywide stocks and bonds, during this period. Countrywide's market activities included but were not limited to the following sales of its securities:

(a) On or about June 27, 2003, Countrywide filed a Form S-8 with the SEC amending its 2000 Equity Incentive Plan to increase the number of shares of Countrywide's common stock available for issuance upon the exercise of stock options under that stock option plan by registering 6,250,000 shares;

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TEL. (503) 934-4400 FAX (503) 373-7067

1 (b) On or about August 5, 2003, Countrywide filed a Form S-8 with the SEC
2 amending its Global Stock Plan to increase the number of shares of
3 Countrywide's common stock available for issuance under that plan by registering
4 1,000,000 shares;
5 (c) On or about March 22, 2004, Countrywide publicly issued $9.35 billion of Series
6 L Medium-Term Notes, pursuant to a Form S-3 Registration Statement;
7 (d) On or about August 19, 2004, Countrywide filed a Form S-8 with the SEC
8 amending its 2000 Equity Incentive Plan to increase the number of shares of
9 Countrywide's common stock available for issuance upon the exercise of stock
10 options under that stock option plan by registering 11,000,000 shares;
11 (e) On or about February 7, 2005, Countrywide commenced a public offering of
12 approximately $8.627 billion of Series A Medium-Term Notes, pursuant to a
13 Form S-3 shelf registration statement;
14 (f) On or about February 13, 2006, Countrywide commenced a public offering of
15 approximately $10.7 billion of Series B Medium-Term Notes, pursuant to a Form
16 S-3ASR shelf registration statement;
17 (g) On or about May 11, 2006, Countrywide publicly issued $1 billion of 6.25%
18 Subordinated Notes Due May 15, 2016, pursuant to a Form S-3ASR shelf
19 registration statement;
20 (h) On or about November 3, 2006, Countrywide commenced a public offering of 52
21 million shares of 7% Capital Securities at $25 per share, pursuant to a Form S-3
22 registration statement;
23 (i) On or about May 11, 2007, Countrywide filed a Form S-8 with the SEC
24 registering 3,000,000 shares of Countrywide common stock to be offered or sold
25 pursuant to Countrywide's 401(k) Savings and Investment Plan;
26 (j) On or about March 24, 2008, Countrywide filed a Form S-8 with the SEC

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1 registering 8,000,000 shares of Countrywide common stock to be offered or sold
2 pursuant to Countrywide's 401(k) Savings and Investment Plan.
3 (k) Throughout 2003 to 2008 Countrywide sponsored a section 401(k) Savings and
4 Investment Plan and Countrywide directed the purchase of Countrywide common
5 stocks for the plan. Between 2003 and 2007 the number of shares held by the
6 plan increased by over 1.2 million shares.
7 172.
8 As described throughout this Complaint, at the same time Countrywide was engaged in
9 market activities, Countrywide made material misstatements of fact and representations that
10 contained material omissions of fact in SEC filings and press releases and statements made to the
11 financial markets in California, Oregon and throughout the United States. The statements made
12 were, at the time and in light of the circumstances under which they were made, false and
13 misleading with respect to material facts regarding Countrywide's financial condition and further
14 omitted material facts which were necessary to make the statements made not misleading.
15 173.
16 In making material misstatements of fact and representations with omissions of material
17 fact, Countrywide acted willfully and with knowledge or reasonable grounds to believe that the
18 statements it was making were materially false or contained material omissions. Countrywide
19 had access to material, adverse, non-public information about its financial results and condition
20 that were not disclosed.
21 174.
22 Countrywide acted with the intent of inducing others, such as OPERF, to purchase stock
23 and bonds by issuing false and misleading statements of facts and material omissions of fact.
24 175.
25 OPERF purchased Countywide stock and bonds. As alleged above in paragraphs 134 to
26 141, OPERF (and its money managers) relied on Countrywide's material misrepresentations and

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1 omissions through its individual reliance and/or its reliance on an efficient market that set the
2 price for Countrywide's securities on the New York Stock Exchange based on the publically
3 available information known to the market.

4 176.

5 Countrywide's material misstatements and omissions artificially inflated the prices for
6 the stocks and bonds that OPERF purchased far beyond their real fair market value and caused
7 OPERF damages. When the truth about Countrywide's business practices and material
8 misstatements and omissions began to be partially disclosed, the value of Countrywide's
9 common stock and bonds began to plummet based on the disclosures.

10 177.

11 OPERF suffered damages in an amount to be determined at trial, which amount is not
12 less than $11,416,891.96 on the common stock and $1,559,767.70 on the bonds. OPERF is also
13 entitled to pre-judgment interest at the legal rate.

14 **FOURTH CLAIM FOR RELIEF**

15 **(CAL. CORP. CODE § 25501 FOR VIOLATIONS OF § 25401 FOR THE SERIES B AND L MEDIUM-TERM NOTES BOUGHT DIRECTLY IN THE OFFERING)**
16

17 178.

18 OPERF incorporates and realleges each and every allegation contained in the preceding
19 paragraphs as if fully alleged herein.

20 179.

21 OPERF purchased Series B and Series L Medium-Term Notes in offerings of those notes.

22 180.

23 From its base in California, Countrywide either sold Series B and Series L Medium-Term
24 Notes directly to Oregon and/or was in privity to Oregon through its use of direct underwriters or
25 agents who sold Countrywide's Series B and L Medium-Term Notes to Oregon.
26 ///

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181.

From its base in California, Countrywide also offered and solicited the purchase of the Series B and L Medium Term Notes to Oregon.

182.

As described above, the Series B Medium-Term Notes Registration Statement expressly incorporated by reference Countrywide's Form 10-K for the year ended December 31, 2004, and its first, second, and third quarter Forms 10-Q for 2005. The Series L Medium Term Notes Registration Statement expressly incorporated by reference both Countrywide's existing and future Form 10-Ks, including but not limited to the 2003 10-K, which was filed on March 12, 2004 prior to OPERF's initial purchases of the Series L Notes, as well as the 2004, 2005, 2006 and 2007 10-Ks as they were issued. Therefore, and for the reasons described above, the registration statements contained untrue statements of material facts. The registration statements also omitted to state other facts required to be stated or necessary to make the statements made not misleading, including Countrywide's widespread violations of GAAP. The misstated and omitted facts would have been material to a reasonable person reviewing the registration statement.

183.

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

184.

As alleged above in paragraphs 134 to 141, OPERF (and its money managers) relied on Countrywide's material misrepresentations and omissions through its individual reliance and/or

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1 its reliance on an efficient market that set the price for Countrywide's securities on the New
2 York Stock Exchange based on the publically available information known to the market.

3 185.

4 OPERF is entitled under Section 25501 to return any unsold Series B and L Medium
5 Term notes for its consideration paid and interest at the legal rate less any income received or
6 damages in the amount paid for the Series B and L Medium-Term Notes plus pre-judgment
7 interest at the legal rate from the date of purchase less any amounts received on sale of the notes
8 and any interest received or damages in an amount to be determined at trial of at least
9 $922,400.45 plus prejudgment interest.

10 **FIFTH CLAIM FOR RELIEF**

11 **(CAL. CORP. CODE § 25504 SECONDARY LIABILITY FOR THE SERIES B AND L MEDIUM-TERM NOTES BOUGHT DIRECTLY IN THE OFFERING)**
12

13 186.

14 OPERF incorporates and realleges each and every allegation contained in the preceding
15 paragraphs as if fully alleged herein.

16 187.

17 OPERF purchased Series B and Series L Medium-Term Notes in offerings of those notes.

18 188.

19 To the extent that Countrywide claims it was not a direct seller, it was a control person or
20 acted in a similar status to control persons that controlled any underwriters or agents who sold
21 the Series B and L Medium Term Notes in the offering.

22 189.

23 As described above, the Series B Medium-Term Notes Registration Statement expressly
24 incorporated by reference Countrywide's Form 10-K for the year ended December 31, 2004 and
25 its first, second, and third quarter Forms 10-Q for 2005. The Series L Medium Term Notes
26 Registration Statement expressly incorporated by reference Countrywide's both existing and

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1 future Form 10-Ks, including but not limited to the 2003 10-K, which was filed on March 12,
2 2004 prior to OPERF's initial purchases of the Series L Notes, as well as the 2004, 2005, 2006
3 and 2007 10-Ks as they were issued. Therefore, and for the reasons described above, the
4 registration statements contained untrue statements of material facts. The registration statements
5 also omitted to state other facts required to be stated or necessary to make the statements made
6 not misleading, including Countrywide's widespread violations of GAAP. The misstated and
7 omitted facts would have been material to a reasonable person reviewing the registration
8 statement.

9 190.

10 Countrywide did not make a reasonable and diligent investigation of the statements
11 contained or incorporated by reference in the Series B and L Medium-Term Notes Registration
12 Statements. Countrywide also did not have reasonable grounds for believing the Series B and L
13 Medium-Term Notes Registration Statements did not contain an untrue statement of material fact
14 or omissions of material fact required to be stated or necessary to make the statements made not
15 misleading.

16 191.

17 As alleged above in paragraphs 134 to 141, OPERF (and its money managers) relied on
18 Countrywide's material misrepresentations and omissions through its individual reliance and/or
19 its reliance on an efficient market that set the price for Countrywide's securities on the New
20 York Stock Exchange based on the publically available information known to the market.

21 192.

22 OPERF is entitled to return any unsold Series B and L Medium Term notes for its
23 consideration paid and interest at the legal rate less any income received or damages in the
24 amount paid for the Series B and L Medium-Term Notes plus pre-judgment interest at the legal
25 rate from the date of purchase less any amounts received on sale of the notes and any interest
26 received or damages in an amount to be determined at trial of at least $922,400.45 plus

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1 prejudgment interest.

2 **SIXTH CLAIM FOR RELIEF**

3 **(SECTION 11 OF THE SECURITIES ACT OF 1933**
FOR THE SERIES A MEDIUM TERM NOTES)

4

5 193.

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

8 194.

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

10 195.

11 OPERF was a purchaser of bonds or notes known as the Series A Medium-Term Notes
12 that were either issued pursuant or traceable to the Series A Medium-Term Notes Registration
13 Statement.

14 196.

15 Countrywide was the registrant for the Series A Medium-Term Notes Registration
16 Statement and issued Series A Medium-Term Notes pursuant to that Registration Statement.

17 197.

18 The Series A Medium-Term Notes Registration Statement expressly incorporated by
19 reference Countrywide's Form 10-K for the year ended December 31, 2003, and therefore, as
20 described above, contained untrue statements of material facts, including the material
21 misrepresentations in the false financial statements of Countrywide. The registration statement
22 also omitted to state other facts required to be stated or necessary to make the statements made
23 not misleading, including Countrywide's widespread violations of Generally Accepted
24 Accounting Principles. The misstated and omitted facts would have been material to a
25 reasonable person reviewing the registration statement.

26 ///

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198.

OPERF did not know and in the exercise of reasonable care could not have known of the false statements of material fact or omissions of material fact in the Series A Medium-Term Notes when they purchased or acquired the Notes.

199.

OPERF was damaged by its purchase of the Series A Medium Term Notes that were issued pursuant or traceable to the false Series A Medium-Term Notes Registration Statement and were damaged thereby. OPERF is entitled to recover the amount paid for the 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. Alternatively, OPERF is entitled to damages in an amount to be determined at trial of at least $65,800 plus prejudgment interest.

200.

Countrywide, as issuer of the Series A Medium-Term Notes, is strictly liable to OPERF under Section 11 for the material misstatements and omissions contained in the related registration statement.

SEVENTH CLAIM FOR RELIEF

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

201.

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

202.

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

203.

OPERF was a purchaser of bonds or notes known as the Series B Medium Term Notes

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1 that were either issued pursuant or traceable to the Series B Medium-Term Notes Registration
2 Statement. OPERF also was a purchaser of bonds or notes known as the Countrywide 6.25%
3 Notes that were issued pursuant or traceable to the 6.25% Notes Registration Statement. Both
4 the Series B Medium Term Notes Registration Statement and the 6.25% Notes Registration
5 Statement include the same Form S-3ASR shelf registration statement (and base prospectus)
6 dated February 9, 2006. Both types of Notes were offered pursuant to this same shelf
7 registration statement.

8 204.

9 Countrywide was the registrant for the Series B Medium-Term Notes Registration
10 Statement and 6.25% Registration Statement and issued Series B Medium-Term Notes and the
11 6.25% Notes pursuant to their respective registration statement.

12 205.

13 Both the Series B Medium-Term Notes Registration Statement and the 6.25% Notes
14 Registration Statement expressly incorporated by reference Countrywide's Form 10-K for the
15 year ended December 31, 2004 and its first, second, and third quarter Forms 10-Q for 2005.
16 Therefore, and as described above, those registration statements contained untrue statements of
17 material facts, including the material misrepresentations in the false financial statements of
18 Countrywide. The registration statements also omitted to state other facts required to be stated or
19 necessary to make the statements made not misleading, including Countrywide's widespread
20 violations of Generally Accepted Accounting Principles. The misstated and omitted facts would
21 have been material to a reasonable person reviewing the registration statement.

22 206.

23 OPERF did not know and in the exercise of reasonable care could not have known of the
24 false statements of material fact or omissions of material fact in the Series B Medium-Term Note
25 and 6.25% Note Registration Statements when they purchased or acquired the Notes.
26 ///

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207.

OPERF was damaged by its purchase of the Series B Medium Term and 6.25% Notes that were issued pursuant or traceable to their respective false registration statements and were damaged thereby. OPERF is entitled to recover the amount paid for the 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. Alternatively, OPERF is entitled to damages in an amount to be determined at trial of at least $393,555 on the Series B Notes and $662,494 on the 6.25% Notes plus prejudgment interest.

208.

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

EIGHTH CLAIM FOR RELIEF

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

209.

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

210.

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

211.

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

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212.

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

213.

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

214.

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

215.

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

216.

OPERF did not know and in the exercise of reasonable care could not have known of the

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1 untrue statements of material fact or the omissions of material fact contained in the Series B
2 Medium-Term Notes Prospectus when it purchased or acquired the notes.

3 217.

4 OPERF was damaged as a result of its purchase of the Series B Medium Notes that were
5 purchased pursuant to false statements in a prospectus. OPERF is entitled to recover the amount
6 paid for the Notes (with interest thereon) less the amount of any income received or damages in
7 an amount to be determined at trial of at least $721,490.00 plus pre-judgment interest at the legal
8 rate.

9 **NINTH CLAIM FOR RELIEF**

10 **(SECTION 11 OF THE SECURITIES ACT OF 1933 FOR THE SERIES L MEDIUM TERM NOTES)**
11

12 218.

13 OPERF incorporates and realleges each and every allegation contained in the preceding
14 paragraphs as if fully alleged herein.

15 219.

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

17 220.

18 OPERF was a purchaser of bonds or notes known as the Series L Medium-Term Notes
19 that were either issuer pursuant or traceable to the Series L Medium-Term Notes Registration
20 Statement.

21 221.

22 Countrywide was the registrant for the Series L Medium-Term Notes Registration
23 Statement and issued Series L Medium-Term Notes pursuant to that Registration Statement.

24 222.

25 The Series L Medium Term Notes Registration Statement expressly incorporated by
26 reference both Countrywide's existing and future Form 10-Ks, including but not limited to the

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1 2003 10-K, which was filed on March 12, 2004 prior to OPERF's initial purchases of the Series
2 L Notes, as well as the 2004, 2005, 2006 and 2007 10-Ks as they were issued. Therefore, as
3 described above, contained untrue statements of material facts, including the material
4 misrepresentations in the false financial statements of Countrywide. The registration statement
5 also omitted to state other facts required to be stated or necessary to make the statements made
6 not misleading, including Countrywide's widespread violations of Generally Accepted
7 Accounting Principles. The misstated and omitted facts would have been material to a
8 reasonable person reviewing the registration statement.

9 223.

10 OPERF did not know and in the exercise of reasonable care could not have known of the
11 false statements of material fact or omissions of material fact in the Series L Medium-Term
12 Notes when they purchased or acquired the Notes.

13 224.

14 OPERF was damaged by its purchase of the Series L Medium Term Notes that were
15 issued pursuant or traceable to the false Series L Medium-Term Notes Registration Statement
16 and were damaged thereby. OPERF is entitled to recover damages in an amount to be
17 determined at trial of at least $437,875 or the amount paid for the Notes less (a) the value of the
18 Notes at the time of the filing of this lawsuit, or (b) the price received for any sale of the notes
19 before the lawsuit, or (c) the price of the notes disposed after the lawsuit and before the time of
20 the judgment. OPERF is also entitled to pre-judgment interest.

21 225.

22 Countrywide, as issuer of the Series L Medium-Term Notes, is strictly liable to OPERF
23 under Section 11 for the material misstatements and omissions contained in the related
24 registration statement.

25 ///

26 ///

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1 **PRAYER FOR RELIEF**

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

3 A. On the first claim for relief actual damages in an amount to be determined at trial,
4 which amount is not less than $11,416,891.96 relating to common stock and $1,559,767.70
5 relating to bonds; its costs and reasonable attorney fees including expert witness fees under ORS
6 59.137(4); and prejudgment interest at the statutory rate of 9% from the date of purchase;

7 B. On the second claim for relief, damages in an amount to be proved at trial of at
8 least $922,400.45 plus prejudgment interest or the amount paid for the Series B and L Medium
9 Term Notes plus prejudgment interest at the statutory rate of 9% from the date of purchase less
10 any amounts received; its costs and reasonable attorney fees including expert witness fees under
11 ORS 59.115(10.

12 C. On the third claim for relief damages in an amount to be determined at trial,
13 which amount is not less than $11,416,891.96 relating to common stock and $1,559,767.70
14 relating to bonds; and prejudgment interest at the legal rate;

15 D. On the fourth claim for relief, damages in an amount to be determined at trial of at
16 least $922,400.45 plus pre-judgment interest or the right to return any unsold Series B and L
17 Medium Term notes for consideration paid and interest at the legal rate less any income received
18 or damages in the amount paid for the Series B and L Medium-Term Notes plus pre-judgment
19 interest at the legal rate from the date of purchase less any amounts received on sale of the notes
20 and any interest received;

21 E. On the fifth claim for relief, damages in an amount to be determined at trial of at
22 least $922,400.45 plus prejudgment interest or the right to return any unsold Series B and L
23 Medium Term notes for consideration paid and interest at the legal rate less any income received
24 or damages in the amount paid for the Series B and L Medium-Term Notes plus pre-judgment
25 interest at the legal rate from the date of purchase less any amounts received on sale of the notes
26 and any interest received;

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1 F. On the sixth claim for relief, damages in an amount to be determined at trial of at
2 least $65,800 plus prejudgment interest or the amounts paid for the Series A Medium-Term
3 Notes less (a) the value of the Notes at the time of the filing of this lawsuit, or (b) the price
4 received for any sale of the notes before the lawsuit, or (c) the price of the notes disposed after
5 the lawsuit and before the time of the judgment plus pre-judgment interest;
6 G. On the seventh claim for relief, damages in an amount to be proved at trial of at
7 least $1,056,049 plus prejudgment interest or the amounts paid for the Series B Medium Term
8 Notes and 6.25% Subordinated Notes less (a) the value of the Notes at the time of the filing of
9 this lawsuit, or (b) the price received for any sale of the notes before the lawsuit, or (c) the price
10 of the notes disposed after the lawsuit and before the time of the judgment plus pre-judgment
11 interest;
12 H. On the eighth claim for relief, damages in an amount to be proved at trial of at
13 least $721,490.00 plus prejudgment interest or the amounts paid for the Series B Medium Term
14 Notes less any income received for the security plus pre-judgment interest at the legal rate;
15 I. On the ninth claim for relief, damages in an amount to be proved at trial of at least
16 $200,910.45 plus prejudgment interest or the amount paid for the Series L Medium-Term Notes
17 less (a) the value of the Notes at the time of the filing of this lawsuit, or (b) the price received for
18 any sale of the notes before the lawsuit, or (c) the price of the notes disposed after the lawsuit
19 and before the time of the judgment plus pre-judgment interest;
20 J. An award of plaintiff's costs, reasonable attorney fees, and expenses for this
21 litigation; and
22 K. An award of all such other and further relief as may be deemed just and proper
23 under the circumstances.
24 **JURY DEMAND**
25 OPERF hereby demands a trial by jury as to all issues.
26

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1 DATED this 26th day of January, 2011.

2 JOHN R. KROGER
Attorney General

3

4

By ______________________

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26