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**ORIGINAL FILED**  
Los Angeles Superior Court

OCT 20 2008  
John A. Clarke, Clerk  
By Sahak Guladzhyan, Deputy

**SUPERIOR COURT OF THE STATE OF CALIFORNIA  
FOR THE COUNTY OF LOS ANGELES  
NORTHWEST DISTRICT**

THE PEOPLE OF THE STATE OF CALIFORNIA,  
  
Plaintiff,  
  
v.  
  
COUNTRYWIDE FINANCIAL CORPORATION, a Delaware corporation;  
COUNTRYWIDE HOME LOANS, INC., a New York corporation; and FULL SPECTRUM LENDING, INC., a California corporation,  
  
Defendants.

**LC083076**  
Case No.  
  
**STIPULATED JUDGMENT AND INJUNCTION**  
  
**RECEIVED**  
OCT 14 2008  
L.A.S.C. - Northwest East

It appearing to this Court that Plaintiff, the People of the State of California, by and through Edmund G. Brown Jr., Attorney General, and Defendants Countrywide Financial Corporation, Countrywide Home Loans, Inc., and Full Spectrum Lending, Inc. have resolved the matters in controversy between them and have consented to the terms of this judgment without the taking of evidence, and good cause having been shown, the Court hereby enters this

1 Stipulated Judgment and Injunction.

2 IT IS HEREBY ORDERED, ADJUDGED AND DECREED THAT:

3 1. This Court has jurisdiction of the subject matter hereof and the parties hereto.

4 2. Venue is proper in this Court.

5 3. For purposes of this Stipulated Judgment and Injunction:

6 A. "*Affiliate*" means, with respect to any company, any company that  
7 controls, is under common control with, or is controlled by such company.

8 B. "*Affordability Equation*" has the meaning given to such term in Section  
9 6.3.4.

10 C. "*Alt-A Residential Mortgage Loans*" means CFC Residential Mortgage  
11 Loans that are (a) not owned by a GSE; (b) not Subprime; (c) not a Pay Option ARM; (d)  
12 less than \$400,000 in original principal amount, and (e) including documentation or other  
13 characteristics that make such loans not Federal Eligible.

14 D. "*Annual Increase*" means, with respect to any stated rate of interest, an  
15 annual increase in the stated rate of interest such that the aggregate scheduled payments of  
16 principal (if applicable) and interest in any year does not increase by more than 7.5% of  
17 the aggregate scheduled payments of principal and interest in the preceding year, subject  
18 to any stated interest rate cap.

19 E. "*ARMs*" means adjustable rate first-lien residential mortgage loans.

20 F. "*BAC*" means Bank of America Corporation.

21 G. "*Borrower*" means, with respect to any owner-occupied CFC Residential  
22 Mortgage Loan, the obligor(s) on such loan. No covenant or commitment herein is  
23 intended to require a CFC Servicer to deal with more than one obligor on behalf of any  
24 Borrower with respect thereto.

25 H. "*CFC*" means Countrywide Financial Corporation.

26 I. "*CFC-Originated*" means, with respect to any residential mortgage loan,  
27 that such residential mortgage loan is a first-lien residential mortgage that was originated  
28 on a retail basis directly or indirectly by CFC or its subsidiaries or through brokers in their

1 wholesale lending channels. “**CFC-Originated**” residential mortgage loans do not  
2 include CFC Purchased Loans.

3 J. “**CFC Purchased Loans**” means any first-lien residential mortgage loan  
4 originated by unaffiliated third parties and directly or indirectly purchased by CFC or its  
5 subsidiaries through their correspondent lending channels or otherwise, *provided* that such  
6 loan is serviced by a CFC Servicer. “**CFC Purchased Loans**” do not include CFC-  
7 Originated residential mortgage loans.

8 K. “**CFC Residential Mortgage Loans**” means any (a) CFC-Originated first-  
9 lien residential mortgage loans, or (b) CFC Purchased Loans, so long as, in each case,  
10 such loans are serviced by a CFC Servicer.

11 L. “**CFC Servicer**” means CFC or any Affiliate of CFC that services CFC  
12 Residential Mortgage Loans.

13 M. “**CLTV**” means, with respect to a first-lien residential mortgage loan as of  
14 the time underwritten, the ratio of the sum of the unpaid principal balance of such  
15 mortgage loan *plus* the unpaid principal balance on any second-lien mortgage to the  
16 Market Value of the residential property that secures such mortgages.

17 N. “**Commencement Date**” means October 6, 2008.

18 O. “**Countrywide Defendants**” means Countrywide Financial Corporation,  
19 Countrywide Home Loans, Inc., and Full Spectrum Lending, Inc.

20 P. “**Delinquent Borrower**” means, with respect to any Borrower, that the  
21 related CFC Residential Mortgage Loan (a) is Seriously Delinquent on or before the  
22 Termination Date, or (b) is subject to an imminent reset or Recast and, in the reasonable  
23 view of the CFC Servicer, as a result of such reset or Recast is reasonably likely to  
24 become Seriously Delinquent on or before the Termination Date.

25 Q. “**Eligible Borrower**” has the meaning given to such term in Section 6.3.1.

26 R. “**Fannie Mae**” means Federal National Mortgage Association.  
27  
28

1           S.     “*Fannie Rate*” means, as of any date, the Fannie Mae 30-year fixed rate  
2     60-day delivery required net yield as of such date or if such rate is for any reason not  
3     available, a comparable rate published by another nationally recognized source.

4           T.     “*Federal Eligible*” means, with respect to any first-lien residential  
5     mortgage loan that, at the time of origination, (a) such loan is or was eligible for sale to, or  
6     guaranty or insurance by, a federal agency, GSE or comparable federally-sponsored entity  
7     similar to a GSE, under then applicable guidelines of such agency, GSE or entity, or (b)  
8     such loan was made in connection with a program intended to qualify for credit under the  
9     Community Reinvestment Act of 1977.

10          U.     “*Foreclosure Avoidance Budget*” has the meaning given to such term in  
11     Section 6.3.4(a).

12          V.     “*Foreclosure Relief Program*” means the program under which certain  
13     Borrowers will be offered payments, as set forth in Section 6.5.

14          W.     “*Freddie Mac*” means Federal Home Loan Mortgage Corporation.

15          X.     “*GSE*” means a government-sponsored enterprise such as Fannie Mae or  
16     Freddie Mac.

17          Y.     “*Interest Rate Floor*” means, with respect to modification of a Qualifying  
18     Mortgage hereunder, (a) a rate of 3.5% per annum if the modification results in an  
19     interest-only payment; or (b) a rate of 2.5% per annum if the modification results in a fully  
20     amortizing payment.

21          Z.     “*LTV*” means, with respect to a first-lien residential mortgage loan as of  
22     the time reviewed for eligibility for modification, the ratio of the unpaid principal balance  
23     of such mortgage loan to the Market Value of the residential property that secures such  
24     mortgage.

25          AA.    “*Market Value*” means, with respect to any residential mortgage loan, the  
26     value of the residential property that secures such mortgage loan as determined by a  
27     lender or servicer in reliance on an appraisal (whether based on a appraisal report prepared  
28     not more than 180 days before the date of determination, broker price opinion prepared

1 not more than 120 days before the date of determination or automated valuation model  
2 prepared not more than 90 days before the date of determination).

3 BB. "*Pay Option ARMs*" means ARMs that, during an initial period (and  
4 subject to Recast), permit the borrower to choose among two or more payment options,  
5 including an interest-only payment and a minimum (or limited) payment.

6 CC. "*Qualifying Mortgage*" has the meaning given to such term in Section  
7 6.3.2.

8 DD. "*Recast*" means, in the case of a Pay Option ARM, a contractual payment  
9 recast based on a negative amortization trigger.

10 EE. "*Relocation Assistance payment*" has the meaning given to such term in  
11 Section 6.4.1.

12 FF. "*Seriously Delinquent*" means, with respect to any residential mortgage  
13 loan, that payments of interest or principal are 60 or more days delinquent.

14 GG. "*Seriously Delinquent Borrower*" means, with respect to any Borrower  
15 that, on or before the Termination Date, the related CFC Residential Mortgage Loan is  
16 Seriously Delinquent.

17 HH. "*Subprime 2, 3, 5, 7 and 10 Hybrid ARMs*" means Subprime Mortgage  
18 Loans that are 2, 3, 5, 7 and 10 Hybrid ARMs.

19 II. "*Subprime Mortgage Loans*" means first-lien residential mortgage loans  
20 that (a) combine higher risk features (such as low or no documentation, low equity,  
21 adjustable interest rates, prepayment penalties, cash-out financing) with higher risk  
22 borrower profiles (lower FICO scores, recent bankruptcies/foreclosures, major derogatory  
23 credit), resulting in a loan that could not reasonably be underwritten and approved as a  
24 "prime" loan. An existing CFC Residential Mortgage Loan would be a "*Subprime*  
25 *Mortgage Loan*" if it is identified as such in connection with a securitization in which it is  
26 part of the pool of securitized assets or, in the case of a CFC Residential Mortgage Loan  
27 that is not included in a securitization, was classified as being "subprime" on the systems  
28

1 of CFC and its subsidiaries on June 30, 2008. "*Subprime Mortgage Loans*" do not  
2 include first-lien residential mortgage loans that are Federal Eligible.

3 JJ. "*Termination Date*" means June 30, 2012.

4 4. On July 1, 2008, Bank of America Corporation announced that it had completed its  
5 purchase of Countrywide Financial Corporation, including Countrywide Home Loans. In  
6 connection with the acquisition, Bank of America announced that the Countrywide Defendants  
7 would suspend offering Subprime, higher-cost or nontraditional mortgages that may result in  
8 negative amortization, including Pay Option ARMs. In addition, Bank of America also stated  
9 that it would place restrictions on offering "low documentation" and "no documentation"  
10 mortgage loans and set limits on mortgage broker compensation.

11 5. All relief under Paragraphs 6 through 12 of this Judgment is ordered pursuant to  
12 the Court's powers, including the Court's powers under sections 17203 and 17535 of the  
13 California Business and Professions Code.

14 6. *Agreements of the Parties.*

15 6.1 ***CFC SOLE OBLIGOR ON ALL OBLIGATIONS IN THIS SECTION 6 OF***  
16 ***THIS STIPULATED JUDGMENT AND INJUNCTION.***

17 6.1.1 *Responsibility of CFC.* Until the Termination Date (or such earlier date as  
18 is specified herein), CFC is responsible to the other parties hereto for performance of all  
19 of the undertakings in Section 6 of this Stipulated Judgment and Injunction, including the  
20 changes to the residential mortgage lending practices described in Section 6.2, the loan  
21 modification programs described in Section 6.3, the Relocation Assistance payments  
22 described in Section 6.4, the Foreclosure Relief Program described in Section 6.5 and the  
23 reporting obligations described in Section 6.6.

24 6.1.2 *Absence of Defenses.* It is not a condition to the performance of the  
25 obligations of CFC hereunder that it does not directly or indirectly engage in the business  
26 of originating residential mortgage loans or in the business of servicing residential  
27 mortgage loans. CFC is responsible for the conduct of CFC Affiliates and CFC Servicers  
28 as specified hereunder whether or not it controls such CFC Affiliates or CFC Servicers

1 and the absence of such control shall not be a defense to or otherwise excuse CFC's  
2 failure to perform hereunder.

3 6.1.3 *Remedies for Failure of CFC to Cause Performance.* If there is a  
4 material failure to perform the obligations under the loan modification programs described  
5 in Section 6.3, the Relocation Assistance payments described in Section 6.4, the  
6 Foreclosure Relief Program described in Section 6.5 or the reporting obligations described  
7 in Section 6.6 and such failure is not promptly cured after notice by the Office of the  
8 Attorney General of the State of California, then the Office of the Attorney General may  
9 terminate Section 6 of this Stipulated Judgment and Injunction and is no longer bound by  
10 the release set forth in Section 10 of this Stipulated Judgment and Injunction.

11 6.2 *SERVICER PRACTICES.*

12 Until the Termination Date, CFC shall be responsible for the implementation of the  
13 following by CFC Affiliates with respect to CFC Residential Mortgage Loans with respect to  
14 Borrowers in the State of California:

15 6.2.1 *Enhanced Home Retention Practices.*

16 (a) CFC Servicers will maintain robust processes for early  
17 identification and contact with Borrowers who are having, or may have, trouble  
18 making their payments on CFC Residential Mortgage Loans. Under these  
19 processes, when contact is made with Delinquent Borrowers, an individualized  
20 evaluation of the Borrowers' economic circumstances will be made to determine if  
21 alternatives to foreclosure are available, and consistent with the directions of the  
22 investors, if applicable.

23 (b) ~~CFC Servicers will maintain the current practice of offering~~  
24 Delinquent Borrowers who desire to remain in their homes and who can afford to  
25 make reasonable mortgage payments loan modifications or other workout  
26 solutions, subject to applicable investor guidance and approvals.

1 (c) CFC's reports to the State under this agreement will include  
2 information on the numbers and types of workouts concluded on loans secured by  
3 owner-occupied properties in the State of California.

4 (d) CFC Servicers will continue the current practice of regularly  
5 monitoring the delinquency characteristics of the entire portfolio of CFC  
6 Residential Mortgage Loans, including Alt-A Residential Mortgage Loans, loans  
7 with interest-only features, and other loans to prime borrowers, to identify high-  
8 delinquency segments that may be appropriate for loan modification campaigns.  
9 CFC shall be responsible for providing reports to the Office of the Attorney  
10 General of the State of California on the delinquency characteristics of such loans,  
11 as provided herein.

12 (e) With respect to Alt-A Residential Mortgage Loans, CFC  
13 acknowledges that Office of the Attorney General of the State of California has  
14 expressed concerns about future delinquencies, and agrees to provide the Office of  
15 the Attorney General a notification whenever the nationwide rate at which  
16 Borrowers on Alt-A Residential Mortgage Loans are 30 days or more delinquent  
17 in their payments exceeds 150% of the delinquency rate for comparably-aged  
18 FHA-insured loans serviced by CFC Servicers. If such notice is required, CFC  
19 agrees to confer with the Office of the Attorney General concerning Alt-A  
20 Residential Mortgage Loans delinquency trends, including whether delinquencies  
21 are isolated in certain segments of the Alt-A Residential Mortgage Loans portfolio  
22 (e.g., loans with interest-only features, loans originated at high CLTV), and  
23 concerning the possible deployment of streamlined foreclosure avoidance  
24 solutions for such Borrowers.

25 (f) Through July 1, 2009, a minimum of 3900 personnel shall be  
26 employed to assist Borrowers with loan modifications and other foreclosure  
27 avoidance measures.  
28



1           6.2.2 **Compliance.** Understanding the circumstances and behaviors of lenders  
2 and brokers that may have contributed, in part, to the current mortgage crises, CFC  
3 recognizes its responsibility to ensure the very highest degree of ethical conduct on the  
4 part of CFC's agents and employees. CFC shall ensure that (a) to the extent it resumes  
5 subprime lending, it will design and implement an effective compliance management  
6 program to provide reasonable assurance as to the identification and control of consumer  
7 protection hazards associated with such subprime lending activities, and (b) to the extent  
8 of its own lending activities (if any), it will create appropriate consumer safeguards to  
9 avoid unfair or deceptive activities or practices arising in connection with its interaction  
10 with brokers and other third parties.

11           6.3    **LOAN MODIFICATIONS FOR SERIOUSLY DELINQUENT BORROWERS**  
12                    **IN CERTAIN MORTGAGE PRODUCTS.**

13           Until the Termination Date, CFC shall be responsible for ensuring that CFC Servicers do  
14 the following:

15           6.3.1 **Eligible Borrowers.** An "**Eligible Borrower**" is a Borrower who has a  
16 Qualifying Mortgage with a first payment date on or before December 31, 2007, that (a) is  
17 secured by an owner-occupied 1-4 unit residential property, (b) is serviced by a CFC  
18 Servicer, and (c) in the event that it is determined that a condition described in Section  
19 6.3.10 has occurred, the applicable CFC Servicer has determined that such Borrower is in  
20 financial distress. Eligible Borrowers are potentially eligible for loan modification relief  
21 under this Section 6.3. A Borrower who does not occupy the 1-4 unit residential property  
22 that secures the Qualifying Mortgage is not an "**Eligible Borrower**."

23           ~~6.3.2 **Qualifying Mortgages.** The following CFC Residential Mortgage Loans~~  
24 are "**Qualifying Mortgages**" if the Borrower is an Eligible Borrower and the Borrower  
25 meets one of the specified delinquency profiles:

26                   (a)    **Subprime 2, 3, 5, 7 and 10 Hybrid ARMs.** A Subprime 2, 3, 5, 7  
27 and 10 Hybrid ARM shall be a Qualifying Mortgage if the Eligible Borrower  
28

1 meets any one of the following delinquency profiles at the time considered for loan  
2 modification:

3 (1) The Eligible Borrower is a Seriously Delinquent Borrower  
4 and the LTV is 75% or more; or

5 (2) The Eligible Borrower is a Delinquent Borrower and the  
6 LTV is 75% or more.

7 (b) *Pay Option ARMs*. A Pay Option ARM shall be a Qualifying  
8 Mortgage if the Eligible Borrower meets any one of the following delinquency  
9 profiles at the time considered for loan modification:

10 (1) The Eligible Borrower is Seriously Delinquent and the LTV  
11 is 75% or more; or

12 (2) The Eligible Borrower is a Delinquent Borrower and the  
13 LTV is 75% or more.

14 (c) *Subprime First Mortgage Loans (Other than Hybrid 2, 3, 5, 7 and*  
15 *10 ARMs)*. A Subprime CFC Residential Mortgage Loan shall be a Qualifying  
16 Mortgage if the Eligible Borrower is a Seriously Delinquent Borrower and the  
17 LTV is 75% or more.

18 6.3.3 *Loan Modifications to Be Considered*. Each Eligible Borrower shall be  
19 considered for a range of affordable loan modification options with respect to his or her  
20 Qualifying Mortgage. The loan modification options will include those described below  
21 and existing modification options currently undertaken by CFC, and are subject, as  
22 applicable, to approval of the investor who owns the Qualifying Mortgage consistent with  
23 the Affordability Equation, as set forth in Section 6.3.4. Loan modification options for  
24 each category of Qualifying Mortgages are as follows:

25 (a) *Subprime Hybrid 2, 3, 5, 7 and 10 ARMs*. Qualifying Mortgages  
26 that are Subprime Hybrid 2, 3, 5, 7 and 10 ARMs will be eligible for loan  
27 modifications as follows:  
28

1                   (1) To the extent the HOPE for Homeowners Program is  
2 available, an FHA refinancing under the HOPE for Homeowners Program  
3 under the underwriting criteria applicable to that program.

4                   (2) For Eligible Borrowers who are Delinquent Borrowers, an  
5 unsolicited (subject to Section 6.3.10) restoration of the introductory rate  
6 for five years, without new loan documentation or an evaluation of the  
7 Eligible Borrower's current income. Communications to Eligible  
8 Borrowers informing them of this modification will invite Eligible  
9 Borrowers to contact the applicable CFC Servicer if they do not believe  
10 they will be able to afford the introductory rate in order to be considered  
11 for more extensive relief under Section 6.3.3(a)(3).

12                   (3) A streamlined, fully-amortizing loan modification subject to  
13 the Affordability Equation consisting of:

14                   (a) until the fifth anniversary of the loan modification, a  
15 reduction of the interest rate to the (1) introductory rate or (2) lower  
16 (but not less than 3.5%); and

17                   (b) on the fifth anniversary of the loan modification, an  
18 automatic conversion to a fixed rate mortgage for the remainder of  
19 the loan term at the higher of (1) the Fannie Rate and (2) the  
20 introductory rate. If the Fannie Rate option applies and would not  
21 be affordable to the Eligible Borrower based on his or her income at  
22 the time of conversion, the Eligible Borrower will be considered for  
23 a single two year period of reduced-rate financing (in which case  
24 the conversion to a fixed rate mortgage will occur at the end of the  
25 seventh year).

26                   (4) A streamlined loan modification subject to the Affordability  
27 Equation consisting of:  
28

1 (a) modification of the Qualifying Mortgage to include a  
2 ten-year interest-only period;

3 (b) reduction of the interest rate to a rate no lower than  
4 the Interest Rate Floor, with an Annual Increase subject to an  
5 interest-rate cap as provided below in Section 6.3.3(a)(4)(c); and

6 (c) an interest-rate cap for the remaining, fully-  
7 amortizing term of the Qualifying Mortgage at an annual interest  
8 rate equal to the introductory rate.

9 (b) **Pay Option ARMs.** Qualifying Mortgages that are Pay Option  
10 ARMs are eligible for the following loan modifications:

11 (1) To the extent the HOPE for Homeowners Program is  
12 available, an FHA refinancing under the HOPE for Homeowners Program  
13 under the underwriting criteria applicable to that program; or

14 (2) A streamlined loan modification subject to the Affordability  
15 Equation consisting of:

16 (a) elimination of the negative amortization feature;

17 (b) optional introduction of a ten-year interest-only  
18 period on the loan;

19 (c) reduction of the interest rate to a rate no lower than  
20 the Interest Rate Floor, with an Annual Increase subject to an  
21 interest rate cap of 7%; and

22 (d) if the Eligible Borrower owns only one residential  
23 property and the LTV is 95% or higher, a write down of the  
24 principal balance of the Qualifying Mortgage (but any write down  
25 of principal would not be in an amount greater than necessary to  
26 achieve an LTV of 95%).

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(c) **Subprime Loans (Other than Hybrid 2, 3, 5, 7 and 10 ARMs).**  
Qualifying Mortgages that are Subprime Loans (Other than Hybrid 2, 3, 5, 7 and 10 ARMs) are eligible for the following loan modifications:

(1) To the extent the HOPE for Homeowners Program is available, an FHA refinancing under the HOPE for Homeowners Program under the underwriting criteria applicable to that program; or

(2) A streamlined loan modification within the limits of the Affordability Equation consisting of:

(a) optional introduction of a ten-year interest-only period on the loan;

(b) reduction of the interest rate on the mortgage to a rate no lower than the Interest Rate Floor, with an Annual Increase subject to an interest rate cap as provided below in Section 6.3.3(c)(2)(c); and

(c) an interest-rate cap for the remaining term of the Qualifying Mortgage at an annual interest rate equal to (i) the fixed interest rate *less* 200 basis points, in the case of fixed-rate loans, and (ii) the remainder of the sum of the contractual index amount *plus* spread immediately before the first loan modification, *minus* 200 basis points, in the case of an ARM.

6.3.4 **Affordability Equation.** Qualifying Mortgages will be considered for loan modifications in accordance with the following Affordability Equation, which establishes a Foreclosure Avoidance Budget that is a cap on the cost of the loan modification.

(a) **Foreclosure Avoidance Budget.** Except for Eligible Borrowers who receive a streamlined reduction of their interest rates pursuant to Section 6.3.3(a)(2), a Foreclosure Avoidance Budget will be prepared with respect to the Eligible Borrower and the Qualifying Mortgage. The "**Foreclosure Avoidance Budget**" at any time is the difference between (i) the likelihood and severity of the

1 projected loss in a foreclosure sale and (ii) the likelihood and severity of the  
2 projected loss in the event that there was a loan modification with respect to the  
3 Qualifying Mortgage and a later foreclosure sale. For purposes of determining the  
4 Foreclosure Avoidance Budget for a Qualifying Mortgage, the LTV will be based  
5 on the Market Value.

6 (b) *Affordability Criteria.*

7 (1) Subject to the Foreclosure Avoidance Budget, if tax and  
8 insurance escrows are maintained with respect to the Qualifying Mortgage,  
9 the Eligible Borrower will be offered a loan modification that produces a  
10 first-year payment of principal (if applicable), interest, taxes and insurance  
11 equating to 34% of the Eligible Borrower's income, or as close to 34% of  
12 the Eligible Borrower's income as the Foreclosure Avoidance Budget  
13 permits without exceeding 42% of the Eligible Borrower's income.

14 (2) Subject to the Foreclosure Avoidance Budget, if tax and  
15 insurance escrows are not maintained with respect to a Qualifying  
16 Mortgage, the Eligible Borrower will be offered a loan modification that  
17 produces a first-year payment of principal (if applicable) and interest  
18 equating to 25% of the Eligible Borrower's income, or as close to 25% of  
19 the Eligible Borrower's income as the Foreclosure Avoidance Budget  
20 permits without exceeding 34% of the Eligible Borrower's income.

21 (c) *Borrowers Who Cannot Afford a Loan Modification.* There is no  
22 obligation to offer loan modifications with respect to Qualifying Mortgages if the  
23 Eligible Borrower cannot be qualified under the Affordability Equation. Such  
24 Eligible Borrowers may be eligible for a Relocation Assistance payment or a  
25 payment under the Foreclosure Relief Program, all as provided in Sections 6.4 and  
26 6.5.

27 6.3.5 *Outreach to Borrowers at Risk of Delinquency.* Borrowers under  
28 Subprime Mortgage Loans or Pay Option ARMs with first-payment due dates between

1 January 1, 2004 and December 31, 2007, whose payments are scheduled to change as a  
2 result of an interest-rate reset, Recast, or expiration of an interest-only term, will be sent a  
3 communication approximately ninety (90) days before the payment change inviting them  
4 to contact their CFC Servicer if they believe they will not be able to afford their new  
5 payments. In the event that a borrower responds to this communication, the borrower will  
6 be considered for loan modifications under the eligibility criteria in Section 6 of this  
7 Stipulated Judgment and Injunction.

8 **6.3.6 Restrictions on Initiation or Advancement of Foreclosure Process for**  
9 **Eligible Borrowers.**

10 (a) The foreclosure process for a Qualifying Mortgage of an Eligible  
11 Borrower will not be initiated or advanced for the period necessary to determine  
12 such Eligible Borrower's interest in retaining ownership and ability to afford the  
13 revised mortgage terms, as well as the investor's willingness to accept a loan  
14 modification.

15 (b) Any such foreclosure process will be initiated or advanced only if:

16 (1) it is determined, based on communication with the Borrower  
17 or based on the Borrower's abandonment of the residential property that  
18 secures the mortgage loan, that the Borrower does not wish to retain  
19 ownership of the residence that secured the mortgage loan;

20 (2) it is or has been determined that the Borrower cannot be  
21 qualified for, or has refused, a loan modification under Section 6 of this  
22 Stipulated Judgment and Injunction within the limits of the Affordability  
23 Equation, as applicable; or

24 (3) despite reasonable efforts, servicing agents have been  
25 unable to make contact with the borrower to determine his or her  
26 preferences with regard to home ownership, or to obtain information  
27 concerning his or her income and ability to afford a mortgage payment  
28 under a modification.

1                   6.3.7 *Miscellaneous Provisions Related to Loan Modification Program.*

2                   (a) *Commitment to Waive Late/Delinquency Fees.* Any  
3 late/delinquency fees associated with overdue loan payments remaining unpaid as  
4 of the date immediately before modification of the Qualifying Mortgage under  
5 Section 6 of this Stipulated Judgment and Injunction will be waived.

6                   (b) *Commitment Not to Charge Loan Modification Fees.* Except to  
7 the extent required in connection with the HOPE for Homeowners Program,  
8 Eligible Borrowers will not be charged loan modification fees in connection with  
9 loan modifications of Qualifying Mortgages hereunder.

10                  (c) *Prepayment Penalty Waivers.* Prepayment penalties will be  
11 waived in connection with any payoff or refinancing (even if refinanced by a  
12 person not Affiliated with CFC) of a Qualifying Mortgage that is a Subprime  
13 Mortgage Loan or Pay Option ARM that (i) had a first payment due date between  
14 January 1, 2004 and December 31, 2007, (ii) was directly or indirectly held by  
15 CFC on June 30, 2008, and (iii) which at the time of the payoff or refinancing is  
16 held by CFC or any Affiliate. Investor owners or their representatives of  
17 Qualifying Mortgages that are Subprime Mortgage Loans or Pay Option ARMs  
18 serviced by a CFC Servicer will be encouraged to waive prepayment penalties in  
19 such circumstances.

20                  (d) *Commitment to Consider Additional Relief for Borrowers*  
21 *Receiving Modifications and Later Becoming Delinquent.* Eligible Borrowers  
22 with respect to Qualifying Mortgages who have earlier received loan modifications  
23 or other workouts, whether or not pursuant to Section 6 of this Stipulated  
24 Judgment and Injunction, will be eligible to be considered for new loan  
25 modification offers under Section 6 of this Stipulated Judgment and Injunction if  
26 they otherwise satisfy the eligibility criteria.

27                  (e) *Representation Concerning Investor Delegation and Approval.*  
28 CFC represents that CFC Servicers currently have, or reasonably expect to obtain,



1 discretion to pursue the foreclosure avoidance measures outlined in Section 6 of  
2 this Stipulated Judgment and Injunction for a substantial majority of Qualifying  
3 Mortgages. If CFC Servicers do not have discretion to pursue these foreclosure  
4 avoidance measures, best efforts will be used to obtain appropriate investor  
5 authorization.

6 **6.3.8 *Commitment to Implement Relief Measures Authorized by Federal***  
7 ***Government.***

8 (a) ***Government Acquisition of Qualifying Mortgages.*** To the extent  
9 the federal government acquires any Qualifying Mortgages and, as the owner of  
10 these mortgages, authorizes loan modifications that offer borrower benefits greater  
11 than those associated with the modifications outlined in Section 6 of this  
12 Stipulated Judgment and Injunction, relief measures will be pursued in modifying  
13 such Qualifying Mortgages to the full extent of such authorization.

14 (b) ***Government-Issued Guidelines Relating to Loan Modifications.***  
15 To the extent any federal agency, in connection with its intervention in the  
16 secondary mortgage market or otherwise having jurisdiction, issues guidelines  
17 relating to modifications of delinquent mortgages, Section 6 of this Stipulated  
18 Judgment and Injunction will be implemented in a manner that, to the maximum  
19 extent feasible, produces modifications consistent with such guidelines.

20 **6.3.9 *Timeframe for Loan Modification Process.*** The loan modification  
21 process will be managed to ensure that offers of loan modifications under Section 6 of this  
22 Stipulated Judgment and Injunction (other than unsolicited interest rate reductions) are  
23 made to Eligible Borrowers, on average, no more than 60 days after such Eligible  
24 Borrowers make contact with the applicable CFC Servicer and provide any required  
25 information concerning a possible modification.

26 **6.3.10 *Response to Intentional Nonperformance by Borrowers.*** If CFC detects  
27 material levels of intentional nonperformance by Eligible Borrowers that appears to be  
28 attributable to the introduction of the loan modification program, it reserves the right to

1 require objective prequalification of Eligible Borrowers for loan modifications under the  
2 program by obtaining verification of all sources of income and the application of funds,  
3 and to take other reasonable steps. Such prequalification could result in the elimination of  
4 unsolicited interest rate reductions, inhibit streamlined solutions and could otherwise  
5 significantly slow implementation of the loan modification program.

6 6.3.11 *No Releases with Respect to Loan Modifications.* There will be no  
7 requirement that Eligible Borrowers release claims against CFC or any CFC Affiliate in  
8 connection with loan modifications offered under Section 6 of this Stipulated Judgment  
9 and Injunction.

10 6.3.12 *Number of Loan Modification Offers before March 31, 2009.* On or  
11 before March 31, 2009, loan modifications will be offered by CFC Servicers in  
12 accordance with Section 6 of this Stipulated Judgment and Injunction to not fewer than  
13 50,000 Seriously Delinquent Borrowers on a nationwide basis. The Office of the Attorney  
14 General of the State of California may terminate Section 6 of this Stipulated Judgment and  
15 Injunction and no longer be bound by the release set forth in Section 10 of this Stipulated  
16 Judgment and Injunction if there is a material failure to satisfy this commitment. If the  
17 Office of the Attorney General terminates Section 6, any portion of the Foreclosure Relief  
18 Program allocation that has not been paid to Eligible Borrowers as provided in Section  
19 6.5.2 of this Stipulated Judgment and Injunction will revert to CFC.

20 6.3.13 *Second or Junior Liens.* Loan modifications contemplated in Section 6 of  
21 this Stipulated Judgment and Injunction shall be made without consideration of second or  
22 junior liens on mortgaged properties. CFC does not expect that the presence of second or  
23 junior liens will impede Eligible Borrowers from receiving a loan modification offer  
24 under Section 6 of this Stipulated Judgment and Injunction.

25 6.4 ***RELOCATION ASSISTANCE PROGRAM.***

26 Through the Termination Date, payments will be provided to borrowers who are unable to  
27 retain their homes in accordance with this Section 6.4.

1           6.4.1 *Eligibility.* Borrowers under CFC Residential Mortgage Loans that were  
2 serviced by a CFC Servicer on June 30, 2008 (whether or not they are Qualifying  
3 Mortgages), are currently serviced by a CFC Servicer and are subject to a foreclosure sale  
4 date on or before the Termination Date, will be offered an agreement under which they  
5 can receive a cash payment to assist with the Borrower's transition to a new place of  
6 residence ("*Relocation Assistance payment*") in exchange for voluntarily and  
7 appropriately surrendering the residence that secures the mortgage loan at the time of the  
8 foreclosure sale. Borrowers who are eligible for, or receive, payments under the  
9 Foreclosure Relief Program may also receive a Relocation Assistance payment.

10           6.4.2 *Amount.* The amount of Relocation Assistance payments offered to any  
11 Borrower will be in the discretion of CFC or its delegee according to its or their  
12 assessment of the individual circumstances of the Borrower (e.g., number of dependents  
13 or amount of moving expenses).

14           6.4.3 *Timing of Payments.* Relocation Assistance payments shall be made to a  
15 Borrower no later than fourteen days following the Borrower's voluntary and appropriate  
16 surrender of the residence that secures the mortgage loan.

17           6.4.4 *Payment Projection.* CFC projects that, from October 1, 2008, through  
18 December 31, 2010, Relocation Assistance payments will be made to 35,000 borrowers on  
19 a nationwide basis in a total amount of more than \$70,000,000.

20           6.5    ***FORECLOSURE RELIEF PROGRAM.***

21           Payments shall be made available to borrowers who experienced a foreclosure sale, or  
22 who were 120 days or more delinquent in making mortgage payments soon after their loans were  
23 originated, in accordance with this Section 6.5.

24           6.5.1 *Payment.* California is allocated \$27,950,101.

25           6.5.2 *Individual Allocation.* A Borrower will be eligible for payments under the  
26 Foreclosure Relief Program if the Borrower:

27           (a)    Has a CFC-Originated Residential Mortgage Loan secured by  
28 owner-occupied property;

1 (b) The first payment on the CFC-Originated Residential Mortgage  
2 Loan was due between January 1, 2004 and December 31, 2007;

3 (c) Six or fewer payments were made on the CFC-Originated  
4 Residential Mortgage Loan; and

5 (d) The CFC-Originated Residential Mortgage Loan was foreclosed or  
6 is 120 days or more delinquent as of the Commencement Date.

7 **6.5.3 Expansion of the Foreclosure Relief Program.** The Office of the  
8 Attorney General of the State of California may expand the Foreclosure Relief Program to  
9 cover additional Borrowers or limit the Foreclosure Relief Program to restrict the  
10 participation of Borrowers (provided that at least those borrowers who made three or  
11 fewer payments over the life of the CFC-Originated Residential Mortgage Loan are  
12 covered).

13 **6.5.4 Communications.** CFC and the Office of the Attorney General of the State  
14 of California shall consult as to the form of any communication sent to Borrowers who are  
15 to receive Foreclosure Relief Program payments.

16 **6.5.5 Unallocated Funds.** Funds allocated to Borrowers in the State of  
17 California who choose not to participate in the Foreclosure Relief Program or who cannot  
18 be located after commercially reasonable efforts shall be available to the Office of the  
19 Attorney General for re-allocation to Borrowers under this program at the direction of the  
20 Office of the Attorney General.

21 **6.5.6 Release.** In order to receive payments under the Foreclosure Relief  
22 Program, Borrowers will be required to execute a release in accordance with Section  
23 6.7.1. Borrowers offered payments under this Foreclosure Relief Program whose loans  
24 have not yet been foreclosed shall be afforded at least a three month period to decide  
25 whether to execute the release to permit them to determine whether they wish to raise  
26 claims covered by the release.

27 **6.6 REPORTING REQUIREMENTS.**

28 **6.6.1 Eligible Borrowers in Qualifying Mortgages.**

1 (a) On a quarterly basis through June 30, 2010, CFC shall report the  
2 following information to the Office of the Attorney General of the State of  
3 California:

4 (1) The names and addresses of Eligible Borrowers in the State  
5 of California in Qualifying Mortgages who received loan modification  
6 offers under Section 6 of this Stipulated Judgment and Injunction, and for  
7 whom loan modifications were concluded;

8 (2) For all loan modifications under Section 6 of this Stipulated  
9 Judgment and Injunction concluded within the reporting period in the State  
10 of California, the original and modified loan terms, and the amounts of  
11 late/delinquency fees waived, loan modification fees waived, and  
12 prepayment penalties waived by CFC pursuant to Section 6 of this  
13 Stipulated Judgment and Injunction;

14 (3) For a sample of Eligible Borrowers in Qualifying Mortgages  
15 for whom CFC was unable to procure a loan modification offer under  
16 Section 6 of this Stipulated Judgment and Injunction during the reporting  
17 period (which sample shall be no less than 5% of all such Eligible  
18 Borrowers), the factors preventing a loan modification offer;

19 (4) The number and total amount of Relocation Assistance  
20 payments made to borrowers in the State of California during the reporting  
21 period;

22 (5) Delinquency data on active loans with first payment due  
23 dates between January 1, 2004, and December 31, 2007, that are secured  
24 by owner occupied residential property in the State of California, broken  
25 down by type of loan; and

26 (6) Aggregated delinquency data on all loans modified under  
27 Section 6 of this Stipulated Judgment and Injunction for Eligible  
28 Borrowers in the State of California.

1 (b) CFC shall provide annual reports to the Office of the Attorney  
2 General of the State of California that include the information specified in Section  
3 6.6.1(a) for the periods July 1, 2010 through June 30, 2011, and July 1, 2011  
4 through June 30, 2012.

5 6.6.2 *Other Loan Modifications.* With the same frequency as specified in  
6 Section 6.6.1, CFC will provide to the Office of the Attorney General of the State of  
7 California a report detailing the numbers and types of modifications concluded on first-  
8 lien residential mortgage loans secured by owner-occupied property in the State of  
9 California (other than Qualifying Mortgages) and the total unpaid principal balance of  
10 such modified loans.

11 6.6.3 *Compliance Monitor.* CFC will appoint an employee as the Compliance  
12 Monitor for this agreement. The Compliance Monitor will be responsible for (a) making  
13 reports to the Office of the Attorney General of the State of California under this  
14 Stipulated Judgment and Injunction and (b) receiving and responding to complaints from  
15 States or from individual borrowers concerning the operation of the loan modification  
16 program.

17 6.7 *RELEASES*

18 6.7.1 *Releases from Borrowers.* Borrowers to whom payments under the  
19 Foreclosure Relief Program are offered shall, as a condition of receiving such payments,  
20 be required to execute and return to CFC a release of claims that includes the following  
21 language:

22 In consideration for the payment we are to receive under the Foreclosure Relief  
23 Program, we release Countrywide Financial Corporation and its affiliates and their  
24 respective directors, officers, employees and agents (except brokers) from all civil  
25 claims, causes of action, any other right to obtain any type of monetary damages  
26 (including punitive damages), expenses, attorneys' and other fees, rescission,  
27 restitution or any other remedies of whatever kind at law or in equity, in contract,  
28 in tort (including, but not limited to, personal injury and emotional distress),

1 arising under any source whatsoever, including any statute, regulation, rule, or  
2 common law, whether in a civil, administrative, arbitral or other judicial or non-  
3 judicial proceeding, whether known or unknown, whether or not alleged,  
4 threatened or asserted by us or by any other person or entity on our behalf,  
5 including any currently pending or future purported or certified class action in  
6 which we are now or may hereafter become a class member, that arise from or are  
7 in any way related to CFC Loan No. \_\_\_\_\_, including, without limitation,  
8 the origination of that loan (and any representations or omissions made during that  
9 origination process), the terms and conditions of that loan, and the servicing or  
10 administration of that loan following its origination.

11 **6.8 Miscellaneous.**

12 **6.8.1 No Third Party Beneficiaries Intended.** Section 6 of this Stipulated  
13 Judgment and Injunction is not intended to confer upon any person any rights or remedies,  
14 including rights as a third party beneficiary. Section 6 of this Stipulated Judgment and  
15 Injunction is not intended to create a private right of action on the part of any person or  
16 entity other than the parties hereto.

17 **6.8.2 Confidentiality.** The Office of the Attorney General of the State of  
18 California agrees that all confidential information disclosed to it by BAC or CFC or any of  
19 their Affiliates shall be kept confidential, except to the extent required by law, regulation  
20 or court order (and in such case, only upon prior written notice to the disclosing party).  
21 The periodic reports to be provided pursuant to Section 6.6 of this Stipulated Judgment  
22 and Injunction shall be considered records of an investigation conducted by the Office of  
23 the Attorney General.

24 7. Except to the extent an earlier date is specified or the provisions of Section 6 of  
25 this Stipulated Judgment and Injunction are earlier terminated according to the terms hereof, the  
26 obligations of CFC under Section 6 of this Stipulated Judgment and Injunction shall terminate  
27 on the Termination Date. Provided, however, that no termination of the obligations under  
28 Section 6 of this Stipulated Judgment and Injunction shall modify or terminate the terms of any

1 loan modification entered into pursuant to Section 6.3 of this Stipulated Judgment and  
2 Injunction.

3 8. On entry of this Stipulated Judgment and Injunction, CFC shall pay the sum of  
4 \$1,700,000 to the Office of the Attorney General, to cover the costs of investigating and  
5 prosecuting this matter.

6 9. All documents and notices to be provided to any party under this Judgment are  
7 sufficient if given by nationally recognized overnight courier service or personal delivery to the  
8 named party at the address below:

9  
10 A. If to Defendants:

11 John Beisner  
12 Brian Boyle  
13 O'MELVENY & MYERS LLP  
14 1625 Eye Street, N.W.  
15 Washington, D.C. 20006

16 B. If to the Attorney General:

17 Benjamin G. Diehl  
18 Office of the California Attorney General  
19 300 S. Spring St., Ste. 1702  
20 Los Angeles, CA 90013

21 and

22 Kathrin Sears  
23 Office of the California Attorney General  
24 455 Golden Gate Ave., Ste. 11000  
25 San Francisco, CA 94102

26 Notice is effective when delivered personally or on the business day after it is sent by nationally  
27 recognized courier service for next day delivery. Any party may designate some other person to  
28 receive Reports or notices or change its notice address by giving notice in accordance with this  
paragraph.

29 10. This Stipulated Judgment and Injunction constitutes a full resolution, complete  
30 settlement, and release of all claims as between Plaintiff the People the State of California and  
31 the Countrywide Defendants regarding the business practices identified in the above captioned



1 action for events occurring before the entry of this Stipulated Judgment and Injunction. This  
2 Stipulated Judgment and Injunction does not resolve or release, but instead specifically  
3 preserves, any claims Plaintiff the People of the State of California may have as to Angelo  
4 Mozilo or David Sambol.

5 11. The Countrywide Defendants shall maintain and provide information to and  
6 cooperate fully with the Attorney General in connection with the prosecution of the separate  
7 action, *People of the State of California v. Countrywide Financial Corporation, et al.*, initially  
8 filed in this court and assigned case number LC081846, as to defendants Angelo Mozilo and  
9 David Sambol. This shall include, but is not necessarily limited to, attending depositions, trials  
10 or hearings on 25-days notice, without the necessity of a subpoena or personal service;  
11 providing any documents and other tangible things requested by the Attorney General on 30-  
12 days notice, without the necessity of a subpoena or personal service and without objection; not  
13 objecting to efforts by the Attorney General to obtain documents or other discovery from any  
14 other named defendant to this action or any third party; and protecting, preserving and  
15 maintaining all records and correspondence which are now in or later come into their  
16 possession, custody or control, that were sent to, received from, or in any way relate to Angelo  
17 Mozilo, David Sambol, or any of their representatives.

18 12. Plaintiff and the Countrywide Defendants agree that nothing in this Stipulated  
19 Judgment and Injunction as to such defendants is to be construed as a bar to Plaintiff continuing  
20 its separate action against defendants Angelo Mozilo, David Sambol, and Does 1-100,  
21 inclusive.

22 13. Should any of the Countrywide Defendants resolve matters specifically set forth  
23 in the allegations of the Complaint filed in this action for conduct which occurred before the  
24 entry of this Stipulated Judgment and Injunction in actions brought by Attorneys General of  
25 other states on terms that are different than those contained in this Stipulated Judgment and  
26 Injunction (other than terms offered by CFC but not accepted by the Office of the Attorney  
27 General of the State of California), the Countrywide Defendants will provide a copy of those  
28 terms to the Office of the Attorney General for review. If, after review, the Office of the

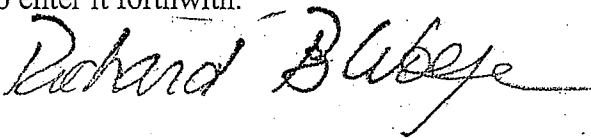
1 Attorney General determines the terms of such resolutions are, taken as a whole, more  
2 favorable than those contained in this Stipulated Judgment and Injunction, then the  
3 Countrywide Defendants shall stipulate that this Stipulated Judgment and Injunction shall be  
4 amended to reflect all of such terms in place of the terms hereof.

5 14. Nothing in this Stipulated Judgment and Injunction shall be construed as  
6 relieving any of the parties subject to this Stipulated Judgment and Injunction of their obligation  
7 to comply, or as prohibiting any of those parties from complying, with all applicable state and  
8 federal laws, regulations or rules, nor shall any of the provisions of this Stipulated Judgment  
9 and Injunction be deemed to be permission to engage in any acts or practices prohibited by such  
10 laws, regulations, or rules.

11 15. This Court shall retain jurisdiction over this matter for the purposes of (a)  
12 enabling the Attorney General to apply, at any time, for enforcement of any provisions of this  
13 Stipulated Judgment and Injunction and for sanctions or other punishment for any violation of  
14 this Stipulated Judgment and Injunction; and (b) enabling any party to this Stipulated Judgment  
15 and Injunction to apply, upon giving 45 days written notice to all other parties, for such further  
16 orders and directions as might be necessary or appropriate either for the construction or  
17 carrying out of this Stipulated Judgment and Injunction or for the modification or termination of  
18 one or more injunctive provisions of this Stipulated Judgment and Injunction.

19 16. This Stipulated Judgment and Injunction shall take effect immediately upon  
20 entry by the clerk, and the clerk is ordered to enter it forthwith.

21  
22 Dated: **OCT 20 2008**

23   
24 \_\_\_\_\_  
25 Hon. \_\_\_\_\_  
26 Judge, California Superior Court  
27 **RICHARD B. WOLFE**  
28 **JUDGE**