

MULTISTATE SETTLEMENT TERM SHEET

(10/6/08 Final Multistate Version)

Countrywide Financial Corporation (“CFC”) offers the following settlement proposal in an effort to resolve the States’ interests in the mortgage origination and servicing activities of CFC and its subsidiaries, including all outstanding investigations related to those lending activities.

I. FORMALIZATION OF PUBLIC COMMITMENTS MADE IN CONNECTION WITH BAC’S PURCHASE OF COUNTRYWIDE FINANCIAL CORPORATION IN JULY 2008.

A. *Change of Product Lines and Business Practices.*

1. CFC no longer offers “subprime” or “high cost” mortgage products, and for a mutually agreed period shall not offer such products. At the request of a State, CFC will exclude all or part of this commitment.
2. CFC no longer offers nontraditional forward mortgages that may result in negative amortization, such as payment option ARMs, and for a mutually agreed period shall refrain from offering such mortgages.
3. CFC has significantly curtailed the offering of “low documentation” or “no documentation” loans and, for a mutually agreed period, will only underwrite “low documentation” or “no documentation” loans that are:
 - (a) eligible for sale to or guaranty by a federal agency, GSE or comparable federally-sponsored entity similar to a GSE; or
 - (b) underwritten subject to verification of the salaried portion of a borrower's income (if any) and with respect to residential mortgage loans secured by owner-occupied properties, after the extension of credit, there would be either (i) a maximum CLTV of 75% and minimum 700 FICO or (ii) a maximum 80% CLTV and minimum 720 FICO; or
 - (c) streamlined documentation loans involving waivers of some documentation on the basis of risk assessments made by automated underwriting systems.
4. For a mutually agreed period, CFC shall limit broker compensation to four percent (4%) of the amount borrowed.

B. *Enhanced Home Retention Practices.*

1. CFC shall be responsible for maintaining, for the duration of this agreement, robust processes for early identification and contact with borrowers who are having, or may have, trouble making their mortgage payments. Under these processes, when contact is made with delinquent borrowers, conducting an

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individualized evaluation of the borrowers' economic circumstances to determine if alternatives to foreclosure are available, and consistent with the directions of the investors, if applicable. CFC shall be responsible for maintaining, for the duration of this agreement, the current practice of offering delinquent borrowers who desire to remain in their homes and who can afford to make reasonable mortgage payments loan modifications or other workout solutions, subject to applicable investor guidance and approvals. CFC's reports to the State under this agreement shall include information on the numbers and types of workouts concluded on loans secured by owner-occupied property in the State.

2. CFC shall be responsible for continuing, for the duration of this agreement, the current practice of regularly monitoring the delinquency characteristics of the entire portfolio of CFC loans serviced by CFC's affiliates, inclusive of "Alt-A" loans, loans with interest-only features, and other loans to prime borrowers, to identify high-delinquency segments that may be appropriate for streamlined or non-streamlined loan modification campaigns. CFC shall be responsible for providing reports to participating States on the delinquency characteristics of such loans, as provided herein. With respect to "Alt-A" loans in particular, CFC acknowledges that the States have expressed concerns about future delinquency, and agrees to provide the States a notification whenever the rate at which owner-occupied "Alt-A" borrowers originated, nationwide, are 30 days or more delinquent in their payments exceeds 150% of the delinquency rate for comparably-aged FHA-insured loans serviced by CFC or its affiliates. If such notice is required, CFC agrees to confer with the States concerning "Alt-A" delinquency trends, including whether delinquencies are isolated in certain segments of the "Alt-A" portfolio (e.g., loans with interest-only features, loans originated at high CLTV), and concerning the possible deployment of streamlined foreclosure avoidance solutions for such borrowers. For purposes of this provision, "Alt-A" loans shall be defined as first-mortgage loans not in GSE securitizations (other than subprime loans or pay option ARMs) that were originated on or before December 31, 2007 in an amount of \$400,000 or less with documentation or other characteristics making them ineligible for sale to GSEs.

3. A minimum of 3900 personnel are employed in home retention operations to assist borrowers with loan modifications and other foreclosure avoidance measures. CFC shall cause this this staffing level to be maintained through July 1, 2009.

C. Compliance. Understanding the circumstances and behaviors of lenders and brokers that may have contributed, in part, to the current mortgage crises, CFC recognizes its responsibility to ensure the very highest degree of ethical conduct on the part of CFC's agents and employees. CFC shall ensure that (i) to the extent it resumes subprime lending, it will design and implement an effective compliance management

program to provide reasonable assurance as to the identification and control of consumer protection hazards associated with such subprime lending activities, and (ii) to the extent of its own lending activities (if any), it will create appropriate consumer safeguards to avoid unfair or deceptive activities or practices arising in connection with its interaction with brokers and other third parties.

II. LOAN MODIFICATIONS FOR SERIOUSLY DELINQUENT BORROWERS IN CERTAIN MORTGAGE PRODUCTS.

CFC shall be responsible for attempting to qualify borrowers in certain mortgage products who meet the eligibility criteria set forth below for affordable loan modifications.

A. *Eligible Borrowers.* Potentially eligible borrowers are those who have a Qualifying Mortgage on an owner-occupied 1-4 unit residential property that was originated before December 31, 2007, was within CFC's servicing portfolio on June 30, 2008, and is within CFC or an affiliate's servicing portfolio at the time a loan modification is effected.

B. *Qualifying Mortgages.* The following mortgages shall be Qualifying Mortgages, and borrowers with such mortgages shall be eligible to be considered for loan modification offers when they meet the indicated delinquency profiles. Borrowers who received loan modifications or other workouts from CFC, whether or not pursuant to this agreement, shall be eligible to be considered for new loan modification offers under this agreement if they otherwise meet eligibility criteria. LTV computations under this provision shall be based on recent valuation information, as follows: a full appraisal that is no more than 180 days old; a broker price opinion that is no more than 120 days old; or an electronic appraisal (automated valuation model ("AVM")) that is no more than 90 days old. CFC shall ensure that the values in any AVM system used to generate electronic appraisals are regularly updated and periodically audited to ensure maximum accuracy.

1. *Subprime 2, 3, 5, 7 and 10 Hybrid ARMs.* A subprime 2, 3, 5, 7 and 10 hybrid ARM shall be a Qualifying Mortgage when the borrower meets any one of the following delinquency profiles:

(a) The borrower is seriously delinquent¹ and the borrower's current LTV is 75% or above;

¹ "Seriously delinquent" means 60 or more days delinquent.

(b) The borrower is current² on his or her mortgage payments, but is reasonably likely to become seriously delinquent as a consequence of a rate reset, and the borrower's LTV at the time he or she is considered for a modification is 75% or above; or

(c) The borrower becomes seriously delinquent at any time before June 30, 2012, and the borrower's LTV at the time he or she is considered for a loan modification is 75% or above.

2. *Pay Option ARMs.* A pay option ARM shall be a Qualifying Mortgage when the borrower meets any one of the following delinquency profiles:

(a) The borrower is seriously delinquent and the borrower's current LTV is 75% or above;

(b) The borrower is current on his or her mortgage payments, but is reasonably likely to become seriously delinquent as a result of a rate increase or contractual payment recast based on negative amortization triggers, and the borrower's LTV at the time he or she is considered for a loan modification is 75% or above; or

(c) The borrower becomes seriously delinquent at any time before June 30, 2012, and the borrower's LTV at the time he or she is considered for a loan modification is 75% or above.

3. *Subprime First Mortgage Loans (Other than Hybrid 2, 3, 5, 7 and 10 ARMs).* A subprime first mortgage loan shall be a Qualifying Mortgage if the borrower meets any one of the following delinquency profiles:

(a) The borrower is seriously delinquent and the borrower's current LTV is 75% or above; or

(b) The borrower becomes seriously delinquent at any time before June 30, 2012, and the borrower's LTV at the time he or she is considered for a loan modification is 75% or above.

C. *Loan Modifications to Be Considered.* Each Eligible Borrower in a Qualifying Mortgage shall be considered for a range of affordable loan modification options, subject, as applicable, to approval of the investor who owns the borrower's loan.³ Loan modification options for each category of Qualified Mortgages are as follows:

² For this purpose, "current" includes 30 days delinquent but fewer than 60 days delinquent.

³ CFC represents that it currently has, or reasonably expects to obtain, discretion to pursue the foreclosure avoidance measures outlined in this agreement for the substantial majority of Qualifying Mortgages. Where CFC

1. *Subprime Hybrid 2, 3, 5, 7, and 10 ARMs.* Eligible Borrowers shall be considered for the following loan modifications:

(a) To the extent the HOPE for Homeowners Program is operational, an FHA refinance under the HOPE for Homeowners Program under the underwriting criteria applicable to that program; or

(b) For Eligible Borrowers that were current on their payment of interest and principal before the first rate reset and became seriously delinquent as a result of the reset, an unsolicited restoration of the introductory rate on the borrower's mortgage for five years, without the need for execution of new loan documentation or for an evaluation of the borrower's current income (communications to borrowers informing them of this modification shall invite borrowers to contact servicing personnel if they do not believe they will be able to afford the restored payment in order to be considered for more extensive relief under (c) or (d) below); or

(c) A streamlined, fully-amortizing loan modification within the limits of the Affordability Equation through implementation of the following: (i) a reduction of the interest rate on the mortgage to the introductory rate or lower (subject to an interest-rate floor of 3.5%); and (ii) an automatic conversion, after five years, to a fixed rate mortgage for the remainder of the loan term at the higher of the Fannie Mae 30-year fixed rate 60-day delivery required net yield or the rate the borrower enjoyed immediately prior to the fifth anniversary of the loan modification. If the prime rate option applies and would not be affordable for the borrower at the end of the five-year period, based on his or her income at that time, the borrower will be considered for a one-time temporary (two-year) extension of reduced-rate financing, and the conversion to a fixed rate will occur at the end of that two-year extension period; or

(d) A streamlined loan modification within the limits of the Affordability Equation through implementation of the following: (i) introduction of a ten-year interest only period; and (ii) a reduction of the interest rate on the mortgage (subject to an interest-rate floor of 3.5%), with fixed step-rate interest adjustments such that the borrower's interest payment increases by no more than 7.5% each year, and subject to a lifetime interest-rate cap of the introductory rate.

2. *Pay Option ARMs.* Eligible Borrowers shall be considered for the following loan modifications:

does not enjoy discretion to pursue these foreclosure avoidance measures, CFC will use its best effort to seek appropriate authorization from investors.

(a) An FHA refinance under the HOPE for Homeowners Program, under the underwriting criteria applicable to that program; or

(b) A streamlined, fully-amortizing loan modification within the limits of the Affordability Equation through implementation of the following: (i) elimination of the negative amortization feature of the loan; (ii) a writedown of the principal balance for borrowers who are single property owners and currently have no equity in their homes to as low as 95% of the current value of their properties; and (iii) a reduction of the interest rate on the mortgage (subject to an interest-rate floor of 2.5%), with fixed step-rate interest adjustments such that the borrower's principal and interest payment increases by no more than 7.5% each year, and subject to a lifetime interest-rate cap of 7%.

(c) A streamlined loan modification within the limits of the Affordability Equation through implementation of the following: (i) elimination of the negative amortization feature of the loan; (ii) a writedown of the principal balance for borrowers who are single property owners and currently have no equity in their homes to as low as 95% of the current value of their properties; (iii) introduction of a ten-year interest only period; and (iv) a reduction of the interest rate on the mortgage (subject to an interest-rate floor of 3.5%), with fixed step-rate interest adjustments such that the borrower's interest payment increases by no more than 7.5% each year, and subject to a lifetime interest-rate cap of 7%.

3. *Subprime Loans (Other than Hybrid 2, 3, 5, 7, and 10 ARMs).* Eligible Borrowers shall be considered for the following loan modifications:

(a) An FHA refinance under the HOPE for Homeowners Program, under the underwriting criteria applicable to that program; or

(b) A streamlined, fully-amortizing loan modification within the limits of the Affordability Equation through implementation of a reduction of the interest rate on the mortgage (subject to an interest-rate floor of 2.5%), with fixed step-rate interest adjustments such that the borrower's principal and interest payment increases by no more than 7.5% each year, and subject to a lifetime interest-rate cap of (A) 2% below the fixed interest rate, in the case of fixed-rate loans, and (B) 2% below the highest contractual rate that would have been payable based on the applicable interest rate index as of the date immediately before the loan modification, in the case of an ARM.

(c) A streamlined loan modification within the limits of the Affordability Equation through implementation of the following: (i) introduction of a ten-year interest only period; and (ii) a reduction of the interest rate on the

mortgage (subject to an interest-rate floor of 3.5%), with fixed step-rate interest adjustments such that the borrower's interest payment increases by no more than 7.5% each year, and subject to a lifetime interest-rate cap of (A) 2% below the fixed interest rate, in the case of fixed-rate loans, and (B) 2% below the highest contractual rate that would have been payable based on the applicable interest rate index as of the date immediately before the loan modification, in the case of an ARM.

D. Affordability Equation. Eligible Borrowers in Qualifying Mortgages shall be considered for loan modifications according to the following Affordability Equation:

1. *Foreclosure Avoidance Budget.* Except for Eligible Borrowers that receive a streamlined reduction of their interest rates pursuant to Section III.C.1.b, for each Eligible Borrower in a Qualifying Mortgage, a Foreclosure Avoidance Budget shall be determined based on the difference between (a) the likelihood and severity of the investor's projected loss in a foreclosure sale and (b) the likelihood and severity of the investor's projected loss in the event the borrower were to receive a loan modification and later experience a foreclosure sale.

2. *Affordability Criteria.* To the extent the borrower's Foreclosure Avoidance Budget permits, Eligible Borrowers for whom taxes and insurance are escrowed shall be offered a loan modification that produces a first-year payment of principal (if applicable), interest, taxes and insurance equating to 34% of the borrower's income, or as close to 34% of the borrower's income as the Foreclosure Avoidance Budget permits without exceeding 42% of the borrower's income. To the extent the borrower's Foreclosure Avoidance Budget permits, Eligible Borrowers for whom taxes and insurance are not escrowed shall be offered a loan modification that produces a first-year payment of principal (if applicable) and interest equating to 25% of the borrower's income, or as close to 25% of the borrower's income as the Foreclosure Avoidance Budget permits without exceeding 34% of the borrower's income.

3. *Borrowers Who Cannot Afford a Loan Modification.* There shall be no obligation to secure loan modification offers under this Agreement for Eligible Borrowers who cannot be qualified under the Affordability Equation. Such borrowers may be eligible for a Relocation Assistance payment and/or a payment under the Foreclosure Relief Payment program.

E. Outreach to Borrowers at Risk of Delinquency. Subprime or pay option ARM borrowers whose loans were originated on or before December 31, 2007, and whose payments are scheduled to change as a result of an interest-rate reset, recast, or expiration of an interest-only term shall be advised prior to the payment change to contact servicing personnel if they believe they will not be able to afford their new payments. In the event that borrowers respond to this solicitation, they shall be considered for loan modifications under the eligibility criteria in this agreement.

F. Second or Junior Liens. CFC shall implement the loan modification program contemplated by this agreement without regard to the presence of second or junior liens on mortgaged properties. CFC does not expect that the presence of second or junior liens will impede Eligible Borrowers from receiving a loan modification offer under this agreement or from remaining in their homes. Nevertheless, while the scope of the loan modification program in this agreement is limited to certain first mortgages, CFC recognizes that many borrowers have second mortgages and that the existence of such junior liens may reduce the incentive of the borrower to remain in the home and may impair the borrower's ability to refinance. CFC states that efforts are underway to develop best practices with respect to addressing such second mortgages and will periodically report to the States on its progress.

G. Restrictions on Initiation or Advancement of Foreclosure Process for Eligible Borrowers. The foreclosure process for all Eligible Borrowers in Qualified Mortgages shall not be initiated or advanced for the period necessary to determine the borrowers' interest in retaining ownership and ability to afford the revised economic terms, as well as the investor's willingness to accept a loan modification.

H. Concessions Related to Loan Modification.

1. *Commitment to Waive Late/Delinquency Fees.* Any late/delinquency fees associated with the delinquency that led to the Eligible Borrower's default shall be waived.

2. *Commitment Not to Charge Loan Modification Fees.* Eligible Borrowers shall not be charged loan modification fees in connection with loan modifications under this Agreement, except to the extent required in connection with FHA HOPE for Homeowners refinances.

3. *Prepayment Penalty Waivers:* For any subprime mortgages and pay option ARMs with first payment due dates between January 1, 2004 and December 31, 2007, which are held for investment by CFC or its affiliates and which remain subject to prepayment penalties, such penalties in connection with any workout or refinance of the mortgage, whether or not the new loan is originated by CFC or any of its affiliates, shall be waived. CFC will encourage investor owners of subprime mortgages and pay option ARMs in its servicing portfolio to waive prepayment penalties in such circumstances as well.

I. Government Acquisition of Qualifying Mortgages. To the extent the federal government acquires any Qualifying Mortgages and, as the owner of these mortgages, authorizes loan modifications that offer borrower benefits greater than those associated with the modifications outlined in this agreement, such relief measures shall be pursued in modifying such Qualifying Mortgages to the full extent of the federal government's authorization.

J. Timeframe for Loan Modification Process. CFC shall manage the loan modification process to ensure that offers of loan modifications under this agreement (other than unsolicited interest rate reductions) are made to Eligible Borrowers, on average, no more than 60 days after such Eligible Borrowers make contact with CFC and provide the required information concerning a possible modification.

K. Response to Intentional Nonperformance by Borrowers. If CFC detects material levels of intentional nonperformance by borrowers that appears to be attributable to the introduction of the loan modification program, it reserves the right to require objective prequalification of borrowers for loan modifications under the program and to take other reasonable steps. Such prequalification could significantly slow implementation of the loan modification program.

L. No Releases with respect to Loan Modifications. CFC shall not solicit or require releases of claims from Eligible Borrowers in connection with loan modifications offered under this agreement.

M. Number of Loan Modification Offers before March 31, 2009. On or before March 31, 2009, CFC will offer loan modifications in accordance with this agreement to not fewer than 50,000 seriously delinquent borrowers. Participating States may terminate the agreement and void their releases if CFC falls materially short of that commitment. Any terminating State must return to CFC any portion of its Early Payment Default allocation that was not paid to borrowers.

III. RELOCATION ASSISTANCE PROGRAM.

A. Eligibility. With respect to any loans⁴ in CFC's servicing portfolio on June 30, 2008, and which continue to be serviced by CFC or its affiliates who face foreclosure on or after the date of this agreement, CFC shall ensure that borrowers who agree to voluntarily and appropriately depart from the mortgaged premises at the time of the foreclosure sale, shall, upon fulfillment of their agreement, be provided a cash payment to assist with their transition to a new residence ("Relocation Assistance" payment). Borrowers who are eligible for, and/or receive, payments under CFC's Foreclosure Relief Payment program may also receive a payment under this program.

B. Amount. CFC projects that, from the date of this agreement through December 31, 2010, Relocation Assistance payments will be made to 35,000 borrowers in a total amount of more than \$70,000,000. Discretion is retained to negotiate the payment amounts with the borrowers according to their individual circumstances (*e.g.*, number of dependents, amount of moving expenses).

C. Timing of Payments. Relocation Assistance payments shall be made to no later than fourteen days following the borrowers' departure from the mortgaged premises.

⁴ The Relocation Assistance program is not limited to borrowers who received Qualifying Mortgages.

IV. FORECLOSURE RELIEF PAYMENTS.

A. *CFC Payment.* CFC shall pay a total of \$150 million on a nationwide basis (or a proportionally reduced amount based on the States participating in this agreement and the number of affected borrowers in those States) under a Foreclosure Relief Payment program to borrowers who have either experienced a foreclosure sale or are 120 days or more delinquent as of the date of this agreement, or for other foreclosure-related relief.

B. *State Allocation.* The \$150 million will be allocated to each State through a pro rata formula based on the number of borrowers with a CFC-originated first lien residential mortgage loan secured by owner occupied property, who have lost their homes through foreclosure, or who are 120 days or more delinquent as of the date of this agreement, whose first payment on the loan was due between January 1, 2004 and December 31, 2007, and who made six or fewer payments over the life of the loan.

C. *Individual Allocation.* Each State's allocation shall be based on its share of borrowers meeting the following criteria:

1. The borrower has a CFC-originated first lien residential mortgage loan secured by owner-occupied property;
2. The first payment on the borrower's loan was due between January 1, 2004 and December 31, 2007;
3. The borrower made six or fewer payments over the life of the loan; and
4. The borrower lost his or her home through foreclosure or is 120 days or more delinquent as of the date of this Agreement.

Each participating State shall have the ability to expand the Foreclosure Relief Payment program to cover additional borrowers or to contract the Foreclosure Relief Payment program to limit payments to easily ascertained borrowers. However, in each State the program must cover at least those borrowers who made three or fewer payments over the life of the loan. If the State elects to expand or contract the program, the amount allocated to the State will remain the same. States may reserve as much as 50% of their allocable shares for foreclosure relief/mitigation or related programs other than payments to defaulted borrowers, including purchasing/rehabilitating foreclosed properties.

D. *Unallocated Funds.* Funds allocated to borrowers within a given State who choose not to participate in the Foreclosure Relief Payment program or who cannot be located after commercially reasonable efforts shall be available to such State for re-allocation to borrowers under this program at the State's direction.

E. *Release.* In order to receive payments under this Foreclosure Relief Payment program, borrowers will be required to execute a release of all claims relating in any way to the subject loan. Borrowers offered payments under this Foreclosure Relief Payment program whose loans have not yet been foreclosed shall be afforded at least a three-month period to decide whether to execute the release to permit them to determine whether they wish to raise claims covered by the release in connection with any foreclosure-related proceedings.

V. BANK OF AMERICA FOUNDATION COMMUNITY INVESTMENT ACTIVITIES.

The parties understand that while the Bank of America Foundation is not a party to this agreement, it intends to work actively with non-profits, CDC's, and others in addressing the adverse effects of the current housing crisis, particularly by promoting community redevelopment and facilitating the application of HERA funds to beneficial usage of REO properties. CFC commits to collaborate in good faith with the States to identify ways in which it can support or complement the Foundation's efforts.

VI. REPORTING REQUIREMENTS.

A. *Eligible Borrowers in Qualified Mortgages.*

1. For all Eligible Borrowers in Qualified Mortgages who receive loan modifications under this Agreement, the State shall receive a report with:
 - a. A summary of the modifications, broken out by type, including the redefault rate by modification type.
 - b. If a state requests, a summary report detailing the loan terms before and after the loan modification broken out by borrower
2. For all Eligible Borrowers in Qualified Mortgages who do not receive modifications under this agreement, a summary of the terms of the borrower's loan and the reason for modification denial (*i.e.*, inability to contact borrower, borrower refuses modification offer or cannot be qualified for an affordable modification). Such reporting may be made on a mutually agreeable sample of loans.

B. *Other Loan Modifications.* The State shall receive a mutually agreeable report concerning modifications made to all other CFC-originated first lien residential mortgage loans secured by owner occupied property summarizing the terms of the loans and the loan modifications and/or other workouts.

C. *Reports on Delinquency and Default Rates.* At a State's request, it shall be provided with a report summarizing the delinquency and default rates for mortgages other than Qualifying Mortgages.

D. *Format/Frequency of Reports.* Reports under this provision shall be provided in the same, uniform format to each participating State. Reports shall be provided initially on a quarterly basis, and shall be adjusted in terms of frequency and shall terminate on a mutually agreeable basis.

E. *Compliance Monitor.* CFC will appoint an employee as the Compliance Monitor for this agreement. The Compliance Monitor will be responsible for (i) making reports to the States under this agreement and (ii) receiving and responding to complaints from States or from individual borrowers concerning the operation of the loan modification program.

VII. RELEASE/NO ADMISSION.

A. *Release.* Each participating State shall release CFC/releasees from all claims and liability relating to the CFC's origination and servicing activities that are within the authority of its Attorney General to release, except for (i) any claims the State might have as an investor in CFC securities and (ii) any active claims or investigations specifically identified to CFC by the State.

B. *No Admission.* This agreement shall not constitute an admission of liability or responsibility by CFC, BAC, or anyone else, with respect to CFC's residential mortgage origination and servicing activities, and shall not be cited as such by participating States.