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U.S. Residential Mortgage Servicer Report

# Countrywide Home Loans, Inc.

## Ratings

Primary Servicer

| | |
|---|---|
| Prime | RPS1 |
| Alt-A | RPS1 |
| Subprime | RPS1 |
| HE/HELOC | RPS1 |
| Master Servicer | RMS1– |
| Special Servicer | RSS1 |

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## Servicer Update

This report is an update of the ratings and opinions of Fitch Ratings based on a recent review of the servicer's operations. The report also focuses on changes to the servicer's operations and performance, as well as current and future initiatives. For information on prior evaluations, see Fitch's servicer report, "Countrywide Home Loans, Inc.," dated Jan. 26, 2006, available on Fitch's Web site at www.fitchratings.com.

## Summary

Fitch Ratings affirmed Countrywide Home Loans, Inc.'s (CHL) 'RPS1' residential primary servicer ratings for prime, Alt-A, subprime, and home equity/home equity line of credit (HE/HELOC) products, and its special servicer rating of 'RSS1'. In addition, Fitch upgraded CHL's master servicer rating to 'RMS1–' from 'RMS2+'. The primary servicer ratings are based on the company's seasoned, experienced management team, strong default management experience, intensive risk management practices, and upgraded technology. The special servicer rating is based on the company's ability to effectively manage and liquidate nonperforming residential mortgage loans and real estate owned (REO) assets. The master servicer rating upgrade is based on CHL's proven ability to oversee the servicing activities of its primary and special servicers, enhancements to its proprietary master servicing system and expanded servicing capabilities. In addition, the ratings also reflect CHL's solid financial strength (rated 'A' by Fitch).

CHL has eight servicing facilities located in Simi Valley and Lancaster, Calif.; Plano, Fort Worth, and Richardson, Texas; Tempe, Ariz.; and Mumbai and Hyderabad, India. The company continues to pursue its servicing strategy of utilizing its own integrated residential mortgage related businesses to perform traditional vendor services in an effort to gain operating efficiencies and improve quality control and foreclosure timelines. Over the past year, CHL enhanced its technology platform with the implementation of an internal disaster recovery solution. In addition, CHL further developed its proprietary master servicing system to include new product types. As of Feb. 28, 2006, CHL's servicing portfolio consisted of more than 7.5 million loans totaling $1.13 trillion, an increase from 6.6 million loans totaling $914 billion as of April 30, 2005.

Fitch has reviewed the company's servicing operations and believes CHL has the appropriate staff, default procedures, and controls in place to manage its growth initiatives while maintaining performance. Fitch will continue to closely monitor the company's effective management of its business expansion plans and any impact it may have on its multiple servicing locations.

## Strengths

- Highly experienced management team.
- Strong company experience and performance.
- Solid financial condition.

## Concern

- High customer service call hold times.

## Company and Management Experience

CHL operates as the main subsidiary of Countrywide Financial Corporation (CFC), which was founded in 1969. Through its family of companies, CHL provides mortgage banking and diversified financial services nationwide. CHL's integrated family of residential mortgage related businesses include a tax servicing company, a property preservation and inspection company, a business process outsourcing (BPO) and title transfer company, an insurance company and three internal lockboxes. CHL continues with its strategy to perform traditional vendor services internally in an effort to gain operating efficiencies, improve quality control, and manage foreclosure timelines. Most of the technology that the company uses to service its mortgage portfolio was developed internally. Mortgage banking businesses include loan production and loan servicing principally through CHL, which originates, purchases, securitizes, sells, and services prime and nonprime mortgage loans. Also included in CHL's mortgage banking segment is the LandSafe, Inc. group of companies, which provides loan closing services. Diversified financial services encompass banking, capital markets, insurance, and global operations, largely through the activities of Countrywide Bank, N.A., a bank offering depository and home loan products; Countrywide Capital Markets, a mortgage-related investment banker; Balboa Insurance Group, Inc., whose companies are national providers of property, life, and casualty insurance; Balboa Reinsurance, a captive mortgage reinsurance company; and Global Home Loans Ltd., a UK mortgage banking joint venture in which CHL holds a majority interest.

### Residential Loan Servicer Ratings

Fitch's operational risk group provides ratings for primary (RPS), master (RMS) and special servicers (RSS). These ratings provide investors and other market participants with a quantitative and clear indication of a servicer's performance and capabilities, which are evaluated using a standardized methodology. The residential servicer rating scale is summarized below.

### Residential Servicer Rating Scale

| Rating | Definition |
|---|---|
| 1/1– | Fully Acceptable (With Overall Superior Performance) |
| 2+/2/2– | Fully Acceptable (With Noted Strengths) |
| 3+/3/3– | Fully Acceptable |
| 4 | Qualified Acceptability |
| 5 | Unacceptable (Without Additional Structural Features) |

Fitch's servicer ratings are used internally to augment the residential securitization model when assigning levels and credit enhancements. For more information on the review and rating process for servicers, see Fitch criteria report, "Rating U.S. Residential Mortgage Servicers," dated Nov. 29, 2006, available on Fitch's Web site at www.fitchratings.com.

As of Feb. 28, 2006, CHL's servicing portfolio consisted of more than 7.5 million loans totaling $1.13 trillion, an increase from 6.6 million loans totaling $914 billion as of April 30, 2005. The primary servicing portfolio included $785 billion prime, $44 billion Alt-A, $121 billion subprime, and $47 billion of HELOC loans. The master servicing portfolio consisted of more than 86,000 loans totaling $11.9 billion and the special servicing portfolio consisted of more than 32,000 loans totaling $2.1 billion.

CHL has eight servicing facilities located in Simi Valley and Lancaster, Calif.; Plano, Fort Worth, and Richardson, Texas; Tempe, Ariz.; and Mumbai and Hyderabad, India. CHL's senior executive management averages 21 years of industry experience, including 13 years with the company, while group managers and functional managers average more than 17 and 12 years of industry experience, respectively.

Over the past year, CHL enhanced its technology platform with the implementation of an internal disaster recovery solution between its main data center in Simi Valley and alternate sites in Plano and Fort Worth. In addition, CHL further developed its proprietary master servicing system to include new product types. The company also implemented NICE call and screen recording software in its customer service department, which will be used for monitoring and training purposes. Fitch believes CHL has the appropriate staff, default procedures, and controls in place to manage its growth initiatives while maintaining performance.

### Rating Criteria: Primary Versus Special

Fitch Ratings' special servicer and primary servicer ratings for certain products such as subprime are based on a review of the same basic servicing functions. For example, servicers of subprime product are expected to demonstrate similar skills as special servicers in default management and loss mitigation, given the large number of defaulted loans they encounter. However, these servicing functions are weighted differently in determining the ratings for subprime servicers and special servicers. While early collections and loss mitigation are important in both types of servicing, suprime primary ratings will be weighted higher. For special servicers, later stage default, foreclosure, REO and claims areas will be weighted higher. In addition, a greater emphasis is placed on financial condition/stability for subprime servicers due to potential advancing needs.

However, Fitch will continue to closely monitor the company's effective management of its business expansion plans and any impact on its multiple servicing locations.

### Primary Servicing Portfolio

| | As of 12/31/04 | | As of 12/31/05 | | As of 2/28/06 | |
|---|---|---|---|---|---|---|
| | Amount ($000) | No. of Loans | Amount ($000) | No. of Loans | Amount ($000) | No. of Loans |
| **By Investor Group** | | | | | | |
| Ginnie Mae | 36,679,689 | 355,409 | 36,628,291 | 350,627 | 37,221,229 | 353,731 |
| Fannie Mae | 418,608,531 | 3,021,536 | 450,487,221 | 3,149,857 | 455,111,746 | 3,170,243 |
| Freddie Mac | 32,382,915 | 265,651 | 67,827,796 | 458,358 | 73,826,726 | 487,564 |
| Private RMBS Securitizations | 26,805,917 | 363,033 | 16,311,826 | 223,122 | 15,607,896 | 213,469 |
| Owned Portfolio (Not Included Above) | 308,682,459 | 2,092,646 | 510,991,599 | 3,049,265 | 531,184,380 | 3,140,334 |
| Third-Party Servicing | 12,055,042 | 97,380 | 24,654,104 | 196,484 | 22,686,638 | 184,603 |
| Total Portfolio | 835,214,553 | 6,195,655 | 1,106,900,838 | 7,427,713 | 1,135,638,615 | 7,549,944 |
| **By Product Type** | | | | | | |
| FHA | 38,233,936 | 388,436 | 36,175,039 | 366,773 | 36,194,751 | 365,555 |
| VA | 12,692,612 | 112,806 | 12,739,474 | 110,160 | 12,876,585 | 110,157 |
| VA Vendee | 2,822,397 | 42,719 | 2,119,101 | 33,593 | 2,045,152 | 32,611 |
| Conforming Conventional | 443,620,802 | 3,139,348 | 593,121,800 | 3,709,411 | 608,323,606 | 3,766,538 |
| Prime (Nonconforming — Jumbo) | 131,783,065 | 390,819 | 169,171,772 | 514,550 | 177,367,536 | 540,118 |
| Alt-A | 37,029,727 | 259,795 | 42,668,967 | 281,132 | 44,580,047 | 288,993 |
| Subprime | 89,209,995 | 599,275 | 122,342,607 | 775,641 | 122,010,424 | 776,594 |
| HELOC | 37,451,142 | 908,922 | 46,929,247 | 1,089,999 | 47,261,021 | 1,092,241 |
| Other* | 42,370,878 | 353,535 | 81,632,831 | 546,454 | 84,979,492 | 577,137 |
| Total Portfolio | 835,214,553 | 6,195,655 | 1,106,900,838 | 7,427,713 | 1,135,638,615 | 7,549,944 |
| **By Loan Type** | | | | | | |
| Fixed Rate | 554,782,248 | 4,159,124 | 666,336,320 | 4,727,059 | 684,758,060 | 4,828,535 |
| ARMs | 242,981,163 | 1,127,609 | 393,635,320 | 1,610,655 | 403,619,534 | 1,629,168 |
| HELOCs | 37,451,142 | 908,922 | 46,929,247 | 1,089,999 | 47,261,021 | 1,092,241 |
| Total Portfolio | 835,214,553 | 6,195,655 | 1,106,900,838 | 7,427,713 | 1,135,638,615 | 7,549,944 |

*Other includes subserviced loans (excluding VA Vendee), Countrywide Bank A Paper conventional, closed-end seconds and other conventional seconds, OTC, and distressed loans. RMBS – Residential mortgage-backed securities. FHA – Federal Housing Administration. VA – Department of Veteran's Affairs. HELOC – Home equity line of credit. ARMs – Adjustable rate mortgages. Note: Numbers may not add due to rounding. Source: Data provided by servicer.

## ■ Financial Condition

On Feb. 23, 2006, Fitch affirmed the long term issuer default ratings of 'A' for CFC. The Rating Outlook is Stable, reflecting CFC's leadership in the U.S. mortgage banking industry, solid financial performance over numerous interest rate cycles, and increased funding diversity afforded by growth in the bank.

As expected, the normalizing mortgage market adversely affected CFC's mortgage banking segment, while banking and capital markets posted comparatively strong results year over year. The company reported net income of $648 million in the third quarter 2006 compared with $722 million in the second quarter of 2006. All areas in the mortgage banking segment experienced declines in pretax earnings sequentially and when compared to the nine months ended 2005. The unexpected decline in mortgage rates during the quarter resulted in a $173 million impairment (net of hedging) of mortgage servicing rights and retained interests. Although overall gain on sale margins improved modestly compared to 2005, competitive pressure lowered price execution for all products. In response to challenging market conditions, management initiated an expense reduction program that should generate an annual cost savings in excess of $500 million.

Positively, CFC's non-mortgage banking segment delivered strong results in the third quarter of 2006. In particular, the banking segment's earning assets grew by $14.8 billion, while the net interest margin (NIM) improved 25 basis points (bps) compared to the third quarter of 2005 as a result of the reduced effect of teaser deposit rates.

Total deposits increased to $56 billion. The banking segment contributed $371 million in pretax earnings during the quarter, which represented 57% of CFC's consolidated earnings. Although margins remain compressed, the bank's NIM appears to have stabilized despite the relatively flat yield curve.

Nonperforming assets at the bank were 44 bps during the third quarter of 2006, compared with 32 bps in the second quarter of 2006 and up from 11 bps reported in the third quarter of 2005. The increase in delinquencies reflects the seasoning of the bank's loan portfolio. The allowance for loan losses was $180 million at the third quarter 2006, compared to $107 million at Sept. 30, 2005. Although the bulk of the assets have been performing well, Fitch believes that holding alternative mortgages (e.g., option adjustable-rate mortgages (ARMs), interest-only, etc.) on-balance sheet will create an additional element of credit risk. As stated previously, Fitch expects credit losses associated with these products to be higher than those experienced with traditional mortgages, especially given the fact that borrowers have used the negative amortization feature in option ARMs with greater frequency. Accumulated negative amortization rose to $471 million during the quarter from $301 million in the second quarter of 2006 and from $25 million during the third quarter of 2005. Fitch will continue to examine the performance of these assets as they season. Additionally, Fitch will also continue to monitor the amount of deferred accrued interest on negative amortization loans booked at the bank.

As of the end of the second quarter, CFC retained its position as the largest residential mortgage loan originator and servicer. CFC's current ratings reflect the company's leadership in the U.S. mortgage banking industry, solid financial performance over numerous interest rate cycles, and increased funding diversity provided by growth in the bank. These are offset by concerns over the sustainability of current earnings as the mortgage market normalizes, as well as greater exposure to alternative mortgage products, aggressive growth objectives and rising leverage.

## ■ Staffing and Training

As of Feb. 28, 2006, CHL's Loan Administration division consisted of more than 6,700 full-time equivalent (FTE) staff, with 2.2% temporary or contract employees. The Master Servicing division had 20 FTEs, with 10% temporary or contract employees. The senior management of CHL's loan administration operations is strong and stable with well-established reporting lines and good coordination. A senior vice president and vice president, averaging more than 14 years of experience, head the master servicing department. Turnover for the primary and special servicing operations increased moderately to 26.1% from 22.4% but increased significantly to 45% from 0% for the master servicing operation during the current review period. Most of the master servicing employees that left took other positions within CHL. The master servicing operation was able to effectively hire and train 10 new employees during the period of Fitch's review to replace those that left. On average, primary and special servicing employees handle 1,084 loans per FTE, and master servicing employees handle 4,334 accounts per FTE.

CHL's Training and Performance Consulting department provides skills, competency and knowledge training through classroom instruction, small group workshops, computer-based training (CBT), Web-based training (WBT), multimedia programs, and lunchtime specials. Training units within the functional departments provide job specific training through small group sessions and on-the-job training. The Training and Performance Consulting department assists in the continuous development of frontline employees with more than 80 different course offerings. CHL also offers a comprehensive leadership curriculum. CHL's online training center tracks all employee training courses and performance on course exams. Training averages 172 hours for new hires and more than 28 hours for existing staff. Fitch believes CHL's training programs are adequate, given the size of the organization and the experience level of its staff, and will support the company's growth initiatives. However, Fitch prefers that existing staff receive a minimum of 40 hours of training annually.

## ■ Procedures and Controls

CHL has fully documented policies and procedures for all departments housed on the company Intranet and available at all employee workstations. Policies and procedures are updated quarterly, or as needed. Senior management and the internal audit department approve changes to all policies and procedures, which are communicated to employees via e-mail. CHL's Internal Audit department uses a risk-based auditing approach and leverages the Enterprise Risk Assessment Group's risk management framework to develop its annual audit program for the primary, special and master servicing operations. Internal audit plans are maintained in the Countrywide Operational Risk Assessment Database, which also tracks risk levels for each of the business units. High-risk areas are audited annually, medium-risk areas are audited every two years and low-risk areas are audited every three years. CHL also performs annual audits of all third-party vendors. Internal Audit follows up quarterly on any open items and within nine months to determine if corrective action to address findings has been completed.

CHL's Loan Administration Compliance department provides support to the Loan Administration department in the implementation of procedures to ensure compliance with laws and regulations, as well as the company's internal compliance policies. CHL's Legal Risk Management department provides support to Loan Administration in identifying areas and processes that present legal risk, including assisting in legal investigations and ensuring implementation of remediation. CHL's quality assurance group partners with senior management and department heads in identifying opportunities to ensure the adequacy and effectiveness of risk management and internal processes.

Fitch's review confirmed that CHL has the appropriate procedures and internal controls in place, allowing the company to minimize internal control risks and monitor servicing performance and quality.

## ■ Servicing/Loan Administration

CHL has eight servicing facilities located in Simi Valley and Lancaster, Calif.; Plano, Fort Worth, and Richardson, Texas; Tempe, Ariz.; and Mumbai and Hyderabad, India. Loan administration functions at CHL include new loan boarding, cashiering/loan accounting, investor reporting, customer service, escrow administration, investor asset management, and document management. All functional areas operate at or above industry standards, and Fitch's review of CHL's loan administration areas confirmed that CHL has extensive controls in place and is effectively performing loan administration functions within compliance guidelines and accepted industry practices. Notable changes are described below.

### Customer Service

CHL's customer service department handled more than 2.2 million phone calls per month during Fitch's current review. The company's sophisticated call center technology includes Smart Call Routing, which directs incoming calls to automated call handling applications based on recent loan activity, Automated Call Handling, which provides access to information at all times for interactive voice response unit (IVR) and Web inquiries, a speech recognition IVR, a self-service customer Web site, specific screens designed to allow customer service representatives (CSRs) streamlined access to loan information, and HomeBase, which automatically logs most call information based on screens that the CSRs navigate. The HomeBase screen consolidates general loan information, houses call logging and follow up tracking, provides one touch navigation to other screens, and provides complete summarization of loan transactions and activity, including letters, previous calls, and disbursements. During the current review period, CHL's IVR handled 44% of incoming customer service calls without involving a CSR. Hold times for incoming customer service calls averaged 116 seconds, an increase from 103 seconds last year, and the call abandonment rate averaged 5.9%, an increase from 5.43% last year. Although higher than industry averages, CHL noted substantial decreases in hold times during March and April, with hold time averaging 60 seconds and 48 seconds respectively.

Since Fitch's prior review, CHL implemented NICE call and screen recording software, which is being used for monitoring and training purposes. Quality coordinators monitor CSRs 12 times per month for quality assurance purposes. Management indicated that sales training is provided as part of the new hire training program for CSRs, who are required to meet a monthly quota of funded loans. A product prompt screen assists in identifying leads and provides scripting to CSRs.

## ■ Servicing/Defaulted Loans

CHL effectively manages defaulted mortgages by actively soliciting workout programs and opportunities to return loans to performing status. The company has a large and diversified staff of more than 1,930 FTEs in its default departments across all sites. Since Fitch's last review, CHL established cross-divisional teams to co-sponsor inter-related projects and leverage synergies between departments. Fitch's review confirmed that CHL has solid policies, procedures, controls and information technology (IT) in place to support the default management of the company's primary, special, and master servicing operations.

## Primary Servicing Portfolio Delinquency Statistics

| | As of 12/31/04 | | | | As of 12/31/05 | | | | As of 2/28/06 | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | Amount ($000) | % of Amount | No. of Loans | % of Loans | Amount ($000) | % of Amount | No. of Loans | % of Loans | Amount ($000) | % of Amount | No. of Loans | % of Loans |
| **Entire Portfolio** | | | | | | | | | | | | |
| 30 Days | 18,568,646 | 2.22 | 152,133 | 2.46 | 26,203,265 | 2.37 | 193,376 | 2.60 | 26,317,031 | 2.32 | 183,992 | 2.44 |
| 60 Days | 5,096,963 | 0.61 | 45,359 | 0.73 | 8,016,642 | 0.72 | 63,842 | 0.86 | 7,222,077 | 0.64 | 54,993 | 0.73 |
| 90 Days or More | 3,404,126 | 0.41 | 34,260 | 0.55 | 7,038,335 | 0.64 | 64,175 | 0.86 | 7,673,201 | 0.68 | 67,112 | 0.89 |
| Bankruptcy | 4,039,172 | 0.48 | 46,799 | 0.76 | 4,972,770 | 0.45 | 52,728 | 0.71 | 4,398,689 | 0.39 | 46,861 | 0.62 |
| Foreclosure | 3,413,271 | 0.41 | 30,233 | 0.49 | 4,544,180 | 0.41 | 35,726 | 0.48 | 5,119,999 | 0.45 | 37,701 | 0.5 |
| Subtotal | 34,522,178 | 4.13 | 308,784 | 4.98 | 50,775,191 | 4.59 | 409,847 | 5.52 | 50,730,997 | 4.47 | 390,659 | 5.17 |
| REO | 956,558 | 0.11 | 25,202 | 0.41 | 1,395,244 | 0.13 | 20,835 | 0.28 | 1,606,968 | 0.14 | 23,136 | 0.31 |
| Total Delinquency | 35,478,737 | 4.25 | 333,986 | 5.39 | 52,170,435 | 4.71 | 430,682 | 5.80 | 52,337,965 | 4.61 | 413,795 | 5.48 |
| Total Portfolio | 835,214,553 | | 6,195,655 | | 1,106,900,838 | | 7,427,713 | | 1,135,638,615 | | 7,549,944 | |
| **Prime Portfolio** | | | | | | | | | | | | |
| 30 Days | 11,598,210 | 1.68 | 94,302 | 2.08 | 15,088,058 | 1.70 | 109,280 | 2.08 | 15,734,815 | 1.73 | 106,966 | 2.00 |
| 60 Days | 2,890,829 | 0.41 | 26,099 | 0.57 | 4,025,365 | 0.45 | 32,936 | 0.62 | 3,605,178 | 0.39 | 27,976 | 0.52 |
| 90 Days or More | 2,268,618 | 0.33 | 20,385 | 0.45 | 3,886,266 | 0.43 | 33,243 | 0.63 | 4,142,958 | 0.45 | 33,752 | 0.63 |
| Bankruptcy | 2,542,849 | 0.35 | 27,190 | 0.57 | 2,995,228 | 0.32 | 29,830 | 0.54 | 2,624,237 | 0.27 | 26,393 | 0.47 |
| Foreclosure | 1,700,021 | 0.24 | 15,519 | 0.32 | 1,910,890 | 0.21 | 15,918 | 0.28 | 2,071,601 | 0.22 | 16,551 | 0.29 |
| Subtotal | 21,000,527 | 3.00 | 183,495 | 3.98 | 27,905,807 | 3.11 | 221,207 | 4.17 | 28,178,790 | 3.06 | 211,638 | 3.91 |
| REO | 613,467 | 0.09 | 6,282 | 0.14 | 682,808 | 0.07 | 7,085 | 0.13 | 738,711 | 0.08 | 7,579 | 0.14 |
| Total Delinquency | 21,613,994 | 3.08 | 189,777 | 4.12 | 28,588,614 | 3.19 | 228,292 | 4.30 | 28,917,501 | 3.14 | 219,217 | 4.04 |
| Total Prime | 666,182,538 | | 4,333,923 | | 855,996,153 | | 5,015,619 | | 881,387,678 | | 5,103,972 | |
| **Alt-A Portfolio** | | | | | | | | | | | | |
| 30 Days | 939,359 | 2.47 | 7,178 | 2.61 | 1,120,800 | 2.59 | 8,266 | 2.84 | 1,134,959 | 2.51 | 8,173 | 2.72 |
| 60 Days | 265,554 | 0.69 | 2,071 | 0.73 | 317,111 | 0.73 | 2,525 | 0.85 | 314,972 | 0.69 | 2,363 | 0.77 |
| 90 Days or More | 207,685 | 0.53 | 1,622 | 0.54 | 344,982 | 0.79 | 2,897 | 0.95 | 367,672 | 0.80 | 2,965 | 0.94 |
| Bankruptcy | 238,122 | 0.52 | 2,390 | 0.64 | 277,977 | 0.56 | 2,713 | 0.75 | 232,887 | 0.45 | 2,317 | 0.61 |
| Foreclosure | 259,578 | 0.59 | 2,221 | 0.58 | 261,523 | 0.55 | 2,150 | 0.60 | 272,904 | 0.56 | 2,228 | 0.63 |
| Subtotal | 1,910,298 | 4.80 | 15,482 | 5.09 | 2,322,393 | 5.21 | 18,551 | 5.99 | 2,323,396 | 5.01 | 18,046 | 5.68 |
| REO | 92,385 | 0.25 | 792 | 0.32 | 96,924 | 0.23 | 873 | 0.32 | 103,176 | 0.23 | 942 | 0.33 |
| Total Delinquency | 2,002,683 | 5.06 | 16,274 | 5.41 | 2,419,317 | 5.44 | 19,424 | 6.31 | 2,426,572 | 5.24 | 18,988 | 6.01 |
| Total Alt-A | 37,029,727 | | 259,795 | | 42,668,967 | | 281,132 | | 44,580,047 | | 288,993 | |
| **Subprime Portfolio** | | | | | | | | | | | | |
| 30 Days | 5,625,599 | 6.31 | 41,060 | 6.85 | 9,246,726 | 7.56 | 63,058 | 8.13 | 8,612,694 | 7.06 | 56,933 | 7.33 |
| 60 Days | 1,775,797 | 1.99 | 13,410 | 2.24 | 3,450,181 | 2.82 | 23,794 | 3.07 | 3,090,528 | 2.53 | 20,743 | 2.67 |
| 90 Days or More | 693,153 | 0.78 | 5,909 | 0.99 | 2,542,900 | 2.08 | 20,023 | 2.58 | 2,846,447 | 2.33 | 21,628 | 2.78 |
| Bankruptcy | 818,543 | 0.92 | 8,983 | 1.50 | 1,378,301 | 1.13 | 12,821 | 1.65 | 1,235,590 | 1.01 | 11,465 | 1.48 |
| Foreclosure | 1,330,987 | 1.49 | 10,369 | 1.73 | 2,316,036 | 1.89 | 15,778 | 2.03 | 2,714,656 | 2.22 | 17,832 | 2.30 |
| Subtotal | 10,244,079 | 11.48 | 79,731 | 13.30 | 18,934,144 | 15.48 | 135,474 | 17.47 | 18,499,915 | 15.16 | 128,601 | 16.56 |
| REO | 239,852 | 0.27 | 2,550 | 0.43 | 608,640 | 0.50 | 5,403 | 0.70 | 763,363 | 0.63 | 6,493 | 0.84 |
| Total Delinquency | 10,483,932 | 11.75 | 82,281 | 13.73 | 19,542,784 | 15.97 | 140,877 | 18.16 | 19,263,277 | 15.79 | 135,094 | 17.40 |
| Total Subprime | 89,209,995 | | 599,275 | | 122,342,607 | | 775,641 | | 122,010,424 | | 776,594 | |
| **HE/HELOC Portfolio** | | | | | | | | | | | | |
| 30 Days | 139,484 | 0.37 | 3,226 | 0.35 | 371,438 | 0.79 | 7,505 | 0.69 | 365,072 | 0.77 | 7,062 | 0.65 |
| 60 Days | 39,284 | 0.10 | 992 | 0.11 | 117,826 | 0.25 | 2,483 | 0.23 | 125,484 | 0.27 | 2,270 | 0.21 |
| 90 Days or More | 67,075 | 0.18 | 1,881 | 0.21 | 208,308 | 0.44 | 4,983 | 0.46 | 269,541 | 0.57 | 5,814 | 0.53 |
| Bankruptcy | 58,109 | 0.16 | 2,158 | 0.24 | 112,184 | 0.24 | 3,449 | 0.32 | 100,280 | 0.21 | 3,001 | 0.27 |
| Foreclosure | 13,633 | 0.04 | 315 | 0.03 | 44,671 | 0.10 | 657 | 0.06 | 43,439 | 0.09 | 610 | 0.06 |
| Subtotal | 317,585 | 0.85 | 8,572 | 0.94 | 854,427 | 1.82 | 19,077 | 1.75 | 903,816 | 1.91 | 18,757 | 1.72 |
| REO | 5,695 | 0.02 | 164 | 0.02 | 12,508 | 0.03 | 295 | 0.03 | 15,964 | 0.03 | 335 | 0.03 |
| Total Delinquency | 323,280 | 0.86 | 8,736 | 0.96 | 866,935 | 1.85 | 19,372 | 1.78 | 919,780 | 1.95 | 19,092 | 1.75 |
| Total HE/HELOC | 37,451,142 | | 908,922 | | 46,929,247 | | 1,089,999 | | 47,261,021 | | 1,092,241 | |

REO – Real estate owned. Notes: Numbers may not add due to rounding. Data reflects the Mortgage Bankers Association's method of delinquency reporting. Source: Data provided by servicer.

### Collections/Loss Mitigation

CHL's collections department is structured into early stage, late stage, and junior lien units and staffed with 1,012 FTEs, 227 FTEs, and 95 FTEs, respectively. The early stage collections unit handles loans up to 60 days delinquent, and the late stage collections unit handles loans that are 60 days or more past due. The department manager has 17 years of industry experience and 10 years of company tenure. CHL's collections strategy includes the active solicitation of workout candidates to return loans to a performing status as well as partnering with borrowers to keep them in their homes. Through Unified Collections, the company consolidated resources to collect payments from borrowers that have both a first lien and a HELOC or closed end second lien serviced by CHL, performing collection activity for both loans simultaneously. The company uses Freddie Mac's Early Indicator or Fannie Mae's Risk Profiler behavior scoring models to identify borrower risk and determine calling strategies. In addition, CHL developed additional scoring models that incorporate Fair Isaac & Co. (FICO) scores, payment history, value trends and approximately 70 additional risk variables to identify more precise calling campaigns. Collection efforts are transferred to the Loss Prevention department at day 61 where collection calls continue up to the 90th day of delinquency. Foreclosure referral occurs at approximately day 90, depending on the loan product. The foreclosure review committee (FRC) reviews accounts referred to foreclosure between day 80 and day 90. Over the past 12 months, CHL's abandonment rate for incoming collections calls was 3.4%, and hold times averaged 53 seconds, consistent with industry averages. Further, CHL indicated that 83% of calls were made by the autodialer and its right party contact rate was more than 30%.

Over the past 12 months, CHL had more than 138,000 loss mitigation cases, significantly higher than the 93,000 at Fitch's prior visit. The company has an experienced loss mitigation staff averaging four years of industry experience and three years of company tenure. CHL uses a variety of techniques to assist in the negotiation of workout solutions including Risk Profiler and an internal proprietary workout risk assessment system. For subprime loans, the unit uses a proprietary FICO scoring model. However, the FICO model is being replaced with a risk-based scoring model developed in conjunction with CHL's capital markets division and is expected to better delineate borrower default risk.

The loss mitigation unit continues to maintain contact with the borrower, and for conventional loans, beginning at day 90, continual marketing efforts include calls, brochures, and videos. The breach letter discusses workout options and a foreclosure option letter is sent at foreclosure referral. For subprime loans, a foreclosure option letter is sent at day 45. Late stage collectors attempt to negotiate workout arrangements including short-term repayment plans, preforeclosure reinstatements and modifications. All repayment plans and loan modifications are arranged and monitored by the group in accordance with investor and insurer guidelines and requirements. All CHL chargeoffs, short payoffs, and deeds-in-lieu are reviewed and approved by the department manager, vice president and senior vice president. CHL recently implemented automatic credit report downloads into loss mitigation packages.

**Bankruptcy and Foreclosure**

As of Feb. 28, 2006, CHL's bankruptcy unit managed more than 47,000 bankruptcy cases, of which 23% were Chapter 7 and 76% were Chapter 13. Approximately 64% of the bankruptcies were performing under the terms of the notes, and 56% were performing under bankruptcy plans. A seasoned manager, averaging more than 15 years industry experience, directs the bankruptcy staff, which handles more than 470 cases per FTE. The company has extensive automation that provides proficient processes, document flows, and on-line connectivity to attorneys, bankruptcy courts and trustees, increasing productivity and performance tracking. Additional systems applications provide support for processing proofs of claim, motions for relief, releases and cash management.

Outside counsel files proofs of claim at the time of plan review. Loans are then moved to the compliance/legal area for active monitoring and tracking. The compliance/legal staff monitors all contractually current chapter 7 and 13 cases for payment default, dismissal or discharge and refers delinquent cases to the attorney for legal action. Additionally, the unit monitors case resolution throughout the legal process for motion for relief filings, court hearings, and final disposition. Since Fitch's prior review, CHL reorganized the bankruptcy area to separate case management from trustee cash payment receipt, adding further controls over the area.

CHL's foreclosure inventory increased to more than 75,000 accounts from 61,000 accounts as of Fitch's prior review. CHL's foreclosure department is responsible for the timely resolution of severely delinquent loans up to and including conveyance of title. With a focus toward quality servicing, the collective goal is to minimize corporate and investor loss exposure. CHL continues to perform within Fannie Mae and Freddie Mac foreclosure timeline standards. The unit uses the FOCUS workflow management system to track state specific timelines and the Default Processing system to monitor foreclosures, automated attorney referrals and automated bidding instructions. The BookLoss Tracking system and the Business Partner Web site are used to facilitate communication between the company and attorneys/trustees. Prior to foreclosure sale, BPOs and/or appraisals are ordered on conventional loans to establish property value for automated bidding instructions that have been established according to investor/insurer guidelines.

**Primary Servicing Resolution of Loans 60 or More Days Delinquent at Dec. 31, 2004**
(As of Feb. 28, 2006)

| | Amount ($000) | % of Amount | No. of Loans | % of Loans |
|---|---|---|---|---|
| Reinstated — Current | 1,663,235 | 18.56 | 16,681 | 13.14 |
| Under a Payment Plan (Forbearance) | 1,447,133 | 16.15 | 14,939 | 11.77 |
| 30 Days Delinquent | 728,390 | 8.13 | 7,425 | 5.85 |
| 60 Days Delinquent | 405,020 | 4.52 | 4,096 | 3.23 |
| 90+ Days Delinquent | 559,762 | 6.25 | 6,735 | 5.31 |
| Modification | 968,500 | 10.81 | 11,969 | 9.43 |
| In Bankruptcy | 1,574,348 | 17.57 | 18,683 | 14.72 |
| In Foreclosure | 795,689 | 8.88 | 7,437 | 5.86 |
| Full Payoff | 2,266 | 0.03 | 24,048 | 18.94 |
| Short Sale | 17,938 | 0.20 | 454 | 0.36 |
| Loan Sale (Conveyed) | 36,123 | 0.40 | 1,319 | 1.04 |
| Third Party Sale at Foreclosure | 25,952 | 0.29 | 949 | 0.75 |
| In REO (Foreclosure) | 553,841 | 6.18 | 6,118 | 4.82 |
| Liquidated REO | 168,861 | 1.88 | 4,790 | 3.77 |
| Other (MI Acquired, Title Settlement, Walk) | 12,111 | 0.14 | 1,307 | 1.03 |
| Total | 8,959,170 | 100.00 | 126,950 | 100.00 |

REO – Real estate owned. MI – Mortgage insurance. Note: Numbers may not add due to rounding. Source: Data provided by servicer.

**REO**

As of Feb. 28, 2006, CHL's REO inventory totaled 3,350 properties, an increase from 2,300 at Fitch's prior review. CHL's REO department is responsible for the eviction process, cash for keys, marketing strategy, sales, and the escrow closing processes. Upon REO acquisition, asset managers establish marketing plans, coordinate marketing efforts, ensure repairs are completed, and attempt to obtain maximum value within a minimum hold time in an effort to minimize losses. A network of brokers is used to market REO properties nationwide. A team of regional property managers conducts field visits to REO properties and monitors the performance of brokers and the effectiveness of marketing strategies. If the inspection shows the property to be occupied, the eviction process is started and brokers contact the occupants to determine the move out date or negotiate cash for keys. Once the property is vacated, an appraisal and an interior BPO with pictures and repair bids are ordered. A team of licensed review appraisers reconciles values if there are significant differences between the appraisal and BPO. Based on the valuations received, the asset manager uses a state and county matrix to determine the initial list price. Properties are listed in the local multiple listing service. Brokers update the status of their marketing efforts every 30–45 days and their BPOs every 60–90 days. List price reductions may begin after 30 days on the market, and must adhere to the state and county matrix. Offers that fall within the scope of the approved sales plan are accepted. Offers that fall outside of the approved sales plan must go through a tiered management approval process to counteroffer. Once an offer or counteroffer has been accepted, the file moves to the Escrow department to coordinate the closing.

CHL's integrated family of residential mortgage related businesses include Countrywide Field Services Corp. (which provides valuation, property inspection and preservation services), LandSafe Title and Escrow, and LandSafe Appraisal Services, Inc. Management indicated that the company was looking into nontraditional REO sales methods, including Internet auctions, realty bid, and bulk sales.

## ■ Master Servicing

As of Feb. 28, 2006, CHL's master servicing division managed a portfolio of more than 86,000 loans totaling almost $12 billion with 37 different servicers. In addition to reporting and remitting on the portfolio into securitizations and private investors, the master servicing division also manages CHL's warehouse inventory. The master servicing division leverages CHL's existing primary and special servicing systems, including the investor accounting/reporting system, the investor accounting wire and check request system, the gain/loss review system and the foreclosure/BookLoss review system, and also relies on the expertise of CHL's other servicing areas, including foreclosures, loss mitigation, partial release, REO marketing and the legal department. Since Fitch's prior review, CHL introduced HELOC and subprime loans into its master servicing portfolio.

**Master Servicing Statistics**

(As of Feb. 28, 2006)

| | |
|---|---|
| Number of MBS transactions as Master Servicer | 201 |
| Total MBS Loans Master Serviced ($000) | 11,618,893 |
| Number of MBS Loans Master Serviced | 83,097 |
| Non-MBS Loans Master Serviced ($000) | 371,072 |
| Number of Non-MBS Loans Master Serviced | 3,590 |
| Total Master Serviced Loans ($000) | 11,989,964 |
| Total Number of Master Serviced Loans | 86,687 |
| Number of Primary Servicers | 37 |
| Number of Investor Remittances* | 191 |

*Annual monthly average. MBS – Mortgage-backed securities. Source: Data provided by servicer.

Management indicated a main focus for the Master Servicing division is to expand its operations in Texas to ensure sufficient resources to manage portfolio growth and handle increased product diversity. The master servicing division also continues to strengthen servicer due diligence and servicer review functions as well as further integrate CHL's proprietary SAAMS system to directly interface with other areas within the organization, especially Capital Markets, Secondary Marketing, Corporate Accounting and Investor Accounting. The company's Texas operations will include all department functions and allow the Master Servicing division to maintain a high level of service as well as support the business continuity objectives of the department. Management will continue to focus on growing, developing, and training the employees at both sites to increase employee skills and department depth.

The department receives monthly reporting from the servicers by e-mail, spreadsheets, magnetic tape or other available media for both accounting and default reporting. The department performs the monthly balancing and reconciliation with the servicers on an exception basis. All exceptions are then researched and resolved with the servicers. In addition to the monthly accounting process, the master servicing unit reviews the default reports, approves loss mitigation activities and foreclosures when required, processes document release requests, reviews claim reimbursements and reviews all master servicing agreements.

CHL Master Servicing functions include loan accounting and cash management, investor reporting and servicer oversight. Fitch's review confirmed that CHL has the necessary controls in place and is performing master servicing processes and procedures in compliance with its guidelines and accepted industry practices. Notable changes are described below.

**Investor Accounting**

Master Servicing is responsible for ensuring that servicers comply with the reporting, remitting and reconciling requirements in the servicing agreements. After processing and finalizing monthly balances with the servicers, Master Servicing generates the monthly remittances and reports to investors. Master Servicing also reconciles the clearing accounts to ensure receipt of correct funds from each servicer and accurate distribution to investors. Management requires approvals for remittances according to an authorization matrix established with the Treasury department and reviews and approves monthly cutoff reports.

The Master Servicing department uses SAAMS, CHL's internally developed master servicing system, for loans, investor and servicer accounting, remittances, reporting and tracking. Once the monthly servicer accounting process has been completed, the data from all the servicers' files are compiled and checked for balancing and calculation errors. Comparisons to the previous month's data are performed to ensure the correct loan counts and balances are forwarded correctly. Management indicated that no remittances or reports were late or had material discrepancies in the past 12 months.

Master Servicing utilizes the company's Investor Accounting systems to submit consolidated reporting for transactions that have loans serviced by CHL and loans serviced by others (LSBO). This provides Master Servicing with the flexibility of generating monthly reports utilizing all of CHL's existing reporting capabilities via hard copy and/or electronic files and transmissions. The Master Servicing unit maintains an investor level listing of reporting deadlines. All investor reporting reconciliations are performed at loan level with the same controls and balancing requirements executed by the Investor Accounting division, ensuring balance flow and accuracy of calculations with exception-based processing.

## Master Servicing Portfolio

| | As of 12/31/04 | | As of 12/31/05 | | As of 2/28/06 | |
|---|---|---|---|---|---|---|
| | Amount ($000) | No. of Loans | Amount ($000) | No. of Loans | Amount ($000) | No. of Loans |
| **By Investor Group** | | | | | | |
| Private RMBS Securitizations | 7,818,701 | 55,773 | 11,673,657 | 82,629 | 11,618,893 | 83,097 |
| Owned Portfolio (Not Included Above) | 384,699 | 2,235 | 458,093 | 2,939 | 371,072 | 3,590 |
| Total Portfolio | 8,203,400 | 58,008 | 12,131,750 | 85,568 | 11,989,964 | 86,687 |
| **By Product Type** | | | | | | |
| FHA | 2,841,940 | 34,546 | 3,401,304 | 41,535 | 3,579,489 | 43,879 |
| VA | 659,937 | 7,976 | 688,917 | 8,458 | 709,841 | 8,743 |
| Prime (Nonconforming — Jumbo) | 4,245,850 | 12,820 | 4,091,422 | 10,913 | 3,977,691 | 10,611 |
| Alt A | 455,673 | 2,666 | 1,275,173 | 5,034 | 1,255,195 | 4,950 |
| Subprime | — | — | 2,337,631 | 12,137 | 2,139,913 | 11,243 |
| HELOCs | — | — | 233,275 | 5,936 | 209,372 | 5,481 |
| Other — Government Rural Housing Program | — | — | 104,029 | 1,555 | 118,463 | 1,780 |
| Total Portfolio | 8,203,400 | 58,008 | 12,131,750 | 85,568 | 11,989,964 | 86,687 |
| **By Loan Type** | | | | | | |
| Fixed Rate | 6,362,787 | 51,061 | 7,199,397 | 60,810 | 7,337,703 | 63,285 |
| ARMs | 1,840,613 | 6,947 | 4,699,079 | 18,822 | 4,442,889 | 17,921 |
| HELOCs | — | — | 233,275 | 5,936 | 209,372 | 5,481 |
| Total Portfolio | 8,203,400 | 58,008 | 12,131,750 | 85,568 | 11,989,964 | 86,687 |

RMBS – Residential mortgage-backed securities. FHA – Federal Housing Administration. VA – Department of Veterans Affairs. HELOCs – Home equity lines of credit. Note: Numbers may not add due to rounding. Source: Data provided by servicer.

### Primary Servicer Oversight

As of Feb. 28, 2006, CHL provided oversight for 37 primary servicers. Master Servicing maintains scorecards in order to track the performance of each servicer it oversees. Performance criteria include an assessment of timeliness and accuracy of accounting and default reports, remittances and claims as well as turnaround times and responsiveness to corrections. In addition, desktop reviews of compliance and financial data are performed annually. On-site due diligence visits are also performed based on specified criteria. At the time of Fitch's review, CHL had completed five out of nine on-site servicer reviews scheduled for 2006, covering approximately 70% of the portfolio. Fitch's review confirmed that CHL has a comprehensive servicer oversight program that includes eligibility and compliance reviews, extensive monthly oversight procedures and periodic on-site visits to ensure that servicers comply with standard industry practices and deal specific requirements.

## Master Servicing Delinquency Statistics

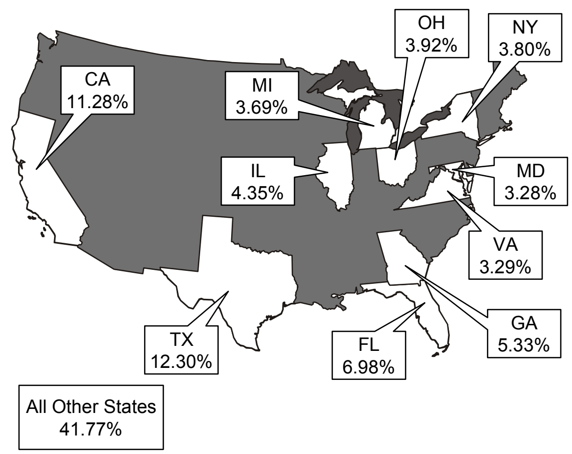
| | As of 12/31/04 | | | | As of 12/31/05 | | | | As of 2/28/06 | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | Amount ($000) | % of Amount | No. of Loans | % of Loans | Amount ($000) | % of Amount | No. of Loans | % of Loans | Amount ($000) | % of Amount | No. of Loans | % of Loans |
| **Private Securities** | | | | | | | | | | | | |
| 30 Days | 789,714 | 10.10 | 9,546 | 17.12 | 445,061 | 3.67 | 5,056 | 5.91 | 390,353 | 3.26 | 4,302 | 4.96 |
| 60 Days | 354,186 | 4.53 | 4,151 | 7.44 | 236,447 | 1.95 | 2,504 | 2.93 | 195,780 | 1.63 | 2,022 | 2.33 |
| 90 Days or More | 442,667 | 5.66 | 5,156 | 9.24 | 454,239 | 3.74 | 4,519 | 5.28 | 458,382 | 3.82 | 4,436 | 5.12 |
| Bankruptcy | 453,408 | 5.80 | 5,197 | 9.32 | 488,820 | 4.03 | 5,894 | 6.89 | 508,881 | 4.24 | 6,209 | 7.16 |
| Foreclosure | 316,245 | 4.04 | 3,151 | 5.65 | 262,084 | 2.16 | 2,887 | 3.37 | 340,279 | 2.84 | 3,675 | 4.24 |
| Subtotal | 2,356,220 | 30.14 | 27,201 | 48.77 | 1,886,652 | 15.55 | 20,860 | 24.38 | 1,893,675 | 15.79 | 20,644 | 23.81 |
| REO | 47,969 | 0.61 | 316 | 0.57 | 29,630 | 0.24 | 205 | 0.24 | 36,301 | 0.30 | 323 | 0.37 |
| Total | 2,404,188 | 30.75 | 27,517 | 49.34 | 1,916,282 | 15.80 | 21,065 | 24.62 | 1,929,976 | 16.10 | 20,967 | 24.19 |
| Total Portfolio | 8,203,400 | | 58,008 | | 12,131,750 | | 85,568 | | 11,989,964 | | 86,687 | |

REO – Real estate owned. Notes: Numbers may not add due to rounding. Data reflects the Mortgage Bankers Association's method of delinquency reporting. Source: Data provided by servicer.

## ■ Technology

CHL has an information technology group that is fully dedicated to the CHL servicing platform. CHL's application strategy is to develop systems in-house or buy commercial packages and then modify them to fit its business processes. Countrywide Servicing Systems Development group develops and maintains the majority of the technology applications used by Loan Administration, including its core servicing system. The department has approximately 450 developers, systems analysts and managers.

**Master Servicing Portfolio —Top 10 States**
(% of Loans, As of Feb. 28, 2006)




Note: Numbers may not add to 100% due to rounding.
Source: Data provided by servicer.

CFC shifted its continuity efforts from an IT-based disaster recovery focus to a governing body, which oversees business continuity planning and IT disaster recovery efforts. The governing body is composed of senior management representatives from each business unit, the Corporate Business Continuity group, and Enterprise Technology. Procedures for performing testing, implementing continuous availability and maintaining resilient infrastructures have been developed to minimize the negative effect on core business processes and support information technology infrastructure. Each individual department has business continuity and IT disaster recovery plans. Business effect analysis is performed annually, plans are reviewed and updated quarterly, and plans and systems are tested at least annually. A high-availability solution has been implemented between the main data center in Simi Valley, Calif., and alternate sites in Plano and Fort Worth, Texas. CHL's last disaster recovery test was performed in June 2006 with minor issues identified. The company plans correction and retesting by the end of the year. However, CHL's India sites have not been tested. Fitch recommends that integrated disaster recovery testing be performed annually and include all sites.

The Master Servicing department uses SAAMS, a comprehensive in-house developed master servicing system that was implemented in the first quarter of 2006. The system incorporates settlements, portfolio management, servicer accounting, default monitoring, claims and status/event tracking.

Master Servicing utilizes the company's Investor Accounting systems to submit consolidated reporting for transactions that have loans serviced by CHL and LSBO. This provides Master Servicing with the flexibility of generating monthly reports utilizing all of CHL's existing reporting capabilities via hard copy and/or electronic files and transmissions.

Disaster recovery testing and business continuity planning for Master Servicing also relies on internal resources. Management indicated that the master servicing operation in Texas will include all master servicing functions to support the disaster recovery/business continuity objectives.