Exhibit 6

to

Affidavit of Daniel M. Reilly in Support of Joint Memorandum of Law in Opposition to Proposed Settlement

EXHIBIT 11

From: Internal Audit Department
Sent: Tue, 01 Mar 2005 00:26:13 GMT
To: Brian Hale
CC: Mike Smittle; John Hurt; Kim C Reed; Stan Ellis; Stanis P Thomas; John Hewitt; Craig M Miller; Domenico Tallerico; Greg Petts; Irene Briones; Kent Sorey; Paul Abate; Shayne Zundel; Tom Shimada; A Michael Smith; Julie Scammahorn; Celeste D Burton; Edward Olmos; Michele Galletly; Richard Soto; Holland Smith; Anil Kothavale; Gene Soda; James Hecht; Glen Cooper
Subject: Consumer Markets Division (CMD) Retail Customer Sales and Fulfillment (Audit Rating: Needs Improvement)

Good Afternoon -

Attached is a copy of the report issued today on the above referenced audit.
Thank you.

DEPOSITION EXHIBIT
1176
Plf's Ex No.
PENGAD 800-631-6989

Countrywide®

Internal Audit Department

Review

Of

Consumer Markets Division (CMD) Retail Customer Sales and Fulfillment

February 28, 2005

To: **Brian Hale, Managing Director (MD)- National Production**

Distribution:	Angelo Mozilo	Sandy Samuels	Glen Cooper
	Stan Kurland	Russ Smith	James Hecht
	Dave Sambol	Dan Hanson	Mark Fisher
	Keith McLaughlin	Mary Jane Seebach	Gene Soda
	Joe Anderson	Walter Smiechewicz	Anil Kothavale
	Marshall Gates	Rick Wentz	Holland Smith
	Anne McCallion	Julie Scammahorn	
Audit Team:	Domenico Tallerico	Stan Ellis	Adam Stacy
	John Hewitt	Kim Reed	Mike Smittle
	Stanis Thomas	John Hurt	

CAPT: CMD Retail Customer Sales and Fulfillment
CORAD: CMD Retail Customer Sales, Fulfillment

Internal Audit **Executive Summary** Date: February 28, 2005	Consumer Markets Division (CMD) Retail Customer Sales and Fulfillment Managing Director: Brian Hale Responsible Manager: James Hecht	
Audit Rating: Needs Improvement	Last Audited: December 22, 2003	Previous Rating: Monitor/3
Findings: High: 0 Considerable: 1 Moderate: 1 Marginal: 2	CORAD Name: CMD Retail Customer Sales, Fulfillment	

Business Unit Description

The Internal Audit department performed a review of the Consumer Markets Division (CMD) Retail Customer Sales and Fulfillment department (CMD Retail), which is led by Brian Hale, Managing Director (MD), who reports to Joe Anderson, Senior Managing Director (SMD) CMD. This department consists of 10,288 production and operational distributed branch employees with the responsibility for originating loans to consumers through direct contact with the customer and referrals from realtors and builders. CMD Retail operates from 1,098 locations in 49 states, including the District of Columbia. In 2004, CMD Retail funded approximately $97.8 billion in loans and generated approximately $3.5 billion in revenue with total average revenues per loan of $4,456.

Findings/Management Action Plans

Risk Rating: Considerable Risk ***Target Date: April 30, 2005***

A preventive control over credit risk and fraud was not operating effectively. Thirty-eight of 50 (76 percent) QVDQs were not completed and signed by approved underwriters for the sections related to the detection of fraud, of which two of 50 (four percent) had fraud indicators identified with no evidence of resolution documented on the QVDQs. Also, three of 50 (six percent) QVDQs reviewed were not completed and/or signed by an authorized staff member for the sections related to quality documentation.

Management Action Plan: *CMD Retail will implement policies and procedures that strengthen controls over credit risk and fraud such as fraud prevention protocol, fraud training, and establishment of a Credit Risk department. Also, as of January 1, 2005, incentive compensation plans allow CMD to re-coup losses on fraudulent loans for which fraud mitigation policies, including QVDQs, were not followed.*

Risk Rating: Moderate Risk ***Target Date: April 30, 2005***

For twenty-six of 50 (52 percent) loans, branches did not place orders through LandSafe for appraisal services, and no documentation was included in the loan file authorizing use of a non-LandSafe appraiser.

Management Action Plan: *CMD Retail management agrees with the finding. Branches will be required to order appraisals through LandSafe or request approval for the use of an appraiser not listed on the preferred panel of appraisers. This will be monitored through weekly exception reporting.*

Internal Audit discussed the findings and recommendations with James Hecht, Executive Vice President (EVP), and Holland Smith, Vice President (VP) – CMD Risk Management. The detailed findings, recommendations and management action plans are included in the following pages.

Overview

CMD Retail consists of a nationwide network of branches and Regional Operating Centers (ROCs). The branches and ROCs are divided into five divisions, which are led by Divisional EVPs. Divisions are segmented into regions, which are led by Regional Vice Presidents (RVPs). RVPs are responsible for managing, supporting and coordinating branch and ROC development and training to meet and exceed CMD's tactical and strategic business objectives.

Branches typically include sales and fulfillment (underwriting, processing and closing) operations. External Home Loan Consultants (EHLCs) are CMD Retail's sales force located in branches. EHLCs work directly with realtors, builders and other sources to identify potential borrowers. CMD Consumer Direct (B2C) is the telemarketing arm of CMD which provides loan applications to branches for fulfillment processes. ROCs do not have EHLCs but perform processing and funding activities for branch and B2C loan originations.

Objectives and Scope

The specific objectives of the audit were to assess the completeness of CMD Retail's risk matrix in the Countrywide Operational Risk Assessment Database (CORAD), and to:

- Determine if all risks have been identified and documented;
- Determine if the identified risks have been properly rated;
- Determine if the control structure is sufficient to mitigate the risks; and
- Determine if the control structure is operating as designed.

The primary objective of the audit was to evaluate CMD Retail's internal controls, business processes, systems and procedures. The scope of the audit included a review of CMD Retail's functions for the period of January 2004 through November 2004. Detailed scope information is as follows:

- Toured ten branch facilities to determine whether the facility, equipment and customer files were adequately secured to prevent unauthorized use;
- Evaluated procedures for the disposal of confidential information at ten branches to determine whether branch employees were complying with the Countrywide Financial Corporation (CFC) document shredding policy and to verify whether policies and procedures limit unauthorized access to non-public confidential customer information as required by Gramm Leach Bliley;
- Reviewed and assessed the adequacy of cash controls at ten branches;
- Verified the existence of 20 fixed assets (as listed in accounting records) at each of ten branches and assessed the processes branch management used to monitor and track assets at the branches;
- Reviewed and assessed the procedures to monitor the movement of laptops;

- Interviewed ten Branch Managers (BM) and ten Branch Operations Managers (BOM) to ensure branch management:
    - Complied with CFC's policy for disciplinary action and/or termination of sales employees for non-compliance with federal regulations;
    - Effectively communicated regulatory updates/changes to branch employees; and
    - Used Status Mart to manage the operations of the fulfillment process;
- Interviewed ten BMs and ten BOMs to ensure the branch communicated the policy for break-ins and emergencies to branch employees;
- Interviewed 20 EHLCs (two at each of ten branches) to ensure each had a basic understanding of loan programs, pricing policies and responsibilities regarding maximization of profit margins;
- Interviewed ten BMs, ten BOMs and 20 EHLCs to ensure each employee had a basic understanding of the significant federal regulations and complied with mandatory federal regulations during sales and operational activities;
- Determined that required regulatory signs/notifications at ten branches were properly posted to comply with federal and state regulations;
- Examined 50 QVDQs for "Countrywide Loan Underwriting Expert System (CLUES) Refer" loans to verify approved underwriters reviewed CLUES potential fraud red flags and documented resolution on the QVDQ per policies and procedures;
- Reviewed 50 loan files to determine if the branches used approved appraisers or had documented approval for any deviations; and
- Interviewed the EVP National Sales and minutes from monthly management meetings and assessed the adequacy of management oversight.

The following areas were not included in the scope of the audit:

- Funded loan file compliance with Real Estate Settlement Procedures Act (RESPA), Truth in Lending Act (TILA), Fair Credit Reporting Act, Flood Disaster Protection Act (FDPA), Homeowners Protection Act (HOPEA), Home Mortgage Disclosure Act (HMDA), Equal Credit Opportunity Act (ECOA) and Fair Lending laws were reviewed in the cross-divisional, stand-alone audits of these regulations (reports issued within September – October 2004 except for HMDA, ECOA, and Fair Lending audits scheduled to be issued February 2005); and
- CMD branch lcensing was reviewed in the Licensing Operations audit issued on October 27, 2004.

Findings, Recommendations, Management Action Plans

Internal Audit has classified the following as a **Considerable Risk** finding:

1. **A preventive control over credit risk and fraud was not operating effectively. Thirty-eight of 50 (76 percent) QVDQs were not completed and signed by approved underwriters for the sections related to the detection of fraud, of which two of 50 (four percent) had fraud indicators identified with no evidence of resolution documented on the QVDQs. Also, three of 50 (six percent) QVDQs reviewed were not completed and/or signed by an authorized staff member for the sections related to quality documentation.**

   Many forms of fraud have become prevalent in the lending industry. CMD is committed to preventing fraud by consistently identifying and preventing fraudulent loans from closing through use of certified (or approved) underwriters, CLUES and Frauditor (system to identify fraud indicators), the QVDQ, and Corporate QC focus audits of QVDQs. Across all product lines, approximately 30 percent of CMD loan originations result in a "CLUES Refer" decision that requires review by an approved underwriter.

   Sections I and II of the QVDQ were developed to detect various forms of fraud before the loan closes and CFC suffers a loss. The QVDQ is mandatory for all originated loans, and specific sections of the QVDQ address the detection of land property flips and identity theft. CMD Policies and Procedures require the sections related to land property flips and identity theft be completed by an approved underwriter for "CLUES Refer" loan decisions. Fifty CLUES refer loans were reviewed with the following results:

   - Thirty-eight of 50 (76 percent) did not contain evidence that an approved underwriter reviewed and completed both sections I and II of the QVDQ. Thirty-two were signed by a loan specialist, two were signed by an underwriter not approved for that loan type, one was signed by an approved underwriter on section II but a loan specialist on section I and three were unsigned.
   - One of 50 (two percent) had potential land flip and identity theft indicators but no evidence of an approved underwriter's review and related resolution of the fraud indicators. Section I was signed by an unapproved underwriter and section II was signed by a loan specialist. The resolution of the fraud indicators was not documented on the QVDQ. Further review of the loan file in its entirety did provide documentation to indicate it was not a land flip.
   - One of 50 (two percent) had a potential identity theft indicator and was signed by an approved underwriter. However, resolution of the identity theft indicator was not documented on the QVDQ.

   Sections III – IV of the QVDQ are used to detect questionable or poor quality documentation and must be completed and signed by authorized operations staff members to accept responsibility for the accuracy of the information.

   - Three of 50 (six percent) QVDQ sections III and IV were incomplete and/or were not signed by authorized staff.

Risk Rating

The risk is rated **Considerable Risk** as the QVDQ is the primary control used to ensure potential fraud indicators are assessed by a qualified underwriter and issues are either resolved or the loan is not funded. By allowing loans with red flags to be funded without evidence of an approved underwriter's review, undesirable loans may result in financial and/or legal ramifications to CFC as well as to investors purchasing these loans.

Recommendation #1

CMD management should effectively manage credit risk and identify/address fraud indicators. One means to accomplish this is continual monitoring of loan files to ensure approved underwriters are reviewing potential fraud red flags identified in CLUES and documenting resolution on the QVDQ. Another alternative is implementation of an automated control with system hard stop to enable management to better monitor and enforce proper review and resolution of fraud indicators. This alternative could take the place of the manual QVDQ.

Management Action Plan

CMD Retail management recognizes that the QVDQ is a significant credit risk fraud control but does not find it to be the final determination for control of credit fraud risk. CMD has several existing credit risk fraud controls and are developing others including a QVDQ effectiveness evaluation. Below are the existing credit risk fraud controls and CMD Retail management's future control plans.

- CMD Admin messaging: On November 17, 2004, Brian Hale and Russ Smith sent to all CMD management and employees a message concerning the importance of fraud prevention, what tools to use and how to properly report any violations or suspicious activity of possible fraud.
- CMD Management Fraud Training: December 22, 2004 and December 29, 2004, CMD conducted fraud training involving all District SVPs (DSVP), Regional First Vice Presidents (RFVP) and Regional Operating Managers (ROM) regarding QVDQ and property landflips.
- Monthly Executive Management Fraud Meetings: On a monthly basis CMD Executive management conducts a meeting with Fraud Prevention and Investigation (FPI) senior management to review cases, discuss procedures and issues for continuous assessment and required efforts and training in the area of fraud risk and prevention
- Loan Level Controls: Appraisals are ordered on every loan as required, and as an important control around appraiser quality, CMD's policy is that LandSafe Appraisal services be utilized 100% of the time (currently at approximately 90% utilization) when ordering appraisals. Credit reports are ordered on every loan, title insurance is obtained on every loan as required, policy requires that CLUES refer decision loans have underwriter sign-off or Loan Specialist sign off and validation of information if CLUES approval decision, CLUES and Frauditor are run on every loan and QVDQ preparation and follow up.
- Employee Controls: CMD Underwriters are certified through a test case submission process through CMD Underwriting Support.
- Effective January 1, 2005, language was added to all CMD compensation plans that discussed fraud and the importance of following fraud mitigation policies

such as the QVDQ, including a feature in the new BM plan that gives CMD the ability to re-coup losses for a fraudulent loan in which the proper fraud mitigation policies (including QVDQ) were not followed. Also, weekly Corporate Quality Control (QC) focus audits of QVDQs will continue to be performed and reported to CMD Retail management in order to monitor the impact of this policy.

- QC audits of loan files and exception reporting is provided for CMD Retail management follow up.

CMD Retail management believes that cumulatively these controls provide important protection over credit fraud risk. And in addition to the above, CMD plans to add the following additional protections:

- In March 2005 CMD will have a standardized fraud prevention protocol whereby CMD Retail management and FPI have detail procedures for quickly responding to potential fraud cases. CMD Retail management will be trained to that protocol by April 30, 2005.
- In March 2005 CMD will initiate a mandatory web-based Quick Hit Training on fraud awareness and prevention for all branch management and operations staff. In addition, CMD and FPI are developing more in-depth fraud training to be offered to CMD personnel.
- By June 1, 2005 CMD believes it will have a fully functioning new Credit Risk department responsible for building a program that will operate in conjunction with Corporate QC. Corporate QC will complete an increased audit on each branch based on credit quality criteria reporting. CMD Credit Risk management staff has been hired and staffing is now being completed. This department will work in conjunction with Corporate QC, who will conduct the audits. With the results from QC, CMD's Credit Risk department will conduct further research as necessary into the particular branch and/or different high risk programs. From these results, CMD Credit Risk will build appropriate training, readjust guidelines and take actions necessary for the prevention of fraud.
- Finally, CMD Retail management is working with Enterprise Risk Assessment (ERA) and Credit Risk Management (CRM) to evaluate the overall effectiveness of the QVDQ in order to improve it or to develop alternative processes for fraud prevention.

Internal Audit has classified the following as a **Moderate Risk** finding:

2. **For twenty-six of 50 (52 percent) loans, branches did not place orders through LandSafe for appraisal services, and no documentation was included in the loan file authorizing use of a non-Landsafe appraiser.**
   CMD requires 100 percent appraisal orders be placed through Landsafe for all non-VA appraisal orders (all loans by January 1, 2005). LandSafe Appraisal performs quality control audits on its approved appraisers to ensure quality standards are met. By requiring the branches to use LandSafe appraisers, CMD is assured that appraisals are performed to the highest standards and within CMD requirements. Fifty-two percent of the loans reviewed had an appraisal by a non-LandSafe approved appraiser and did not contain documentation of approval for the exceptions.

Risk Rating

The risk is rated **Moderate Risk** because the use of an appraiser outside of LandSafe's quality control process does not ensure loans are supported by an accurate and high quality appraisal. Poor quality appraisals may misstate the collateral used as security for the loan. However, CLUES utilizes Countrywide's Automated Property Evaluation System (CAPES) to report on the property value and comparable properties which somewhat mitigates the risk of not ordering appraisals through LandSafe.

Recommendation #2

CMD management should monitor branch usage of non-LandSafe approved appraisers and hold branches accountable for non-compliance. If exceptions are granted, this should be properly documented in the loan file.

Management Action Plan

James Hecht agrees with the finding. CMD is not at 100 percent usage of LandSafe and this is an important issue. CMD has implemented weekly exception reporting and is working with LandSafe to establish a preferred panel of appraisers for each branch in CMD. Under the new procedures, the branch will have to select an appraiser from this preferred group or request an exception to use an appraiser that is not on the preferred panel. However, the goal is to route all appraisers and appraisals through LandSafe for QC purposes. This will be implemented by April 30, 2005.

Internal Audit has classified the following as **Marginal Risk** findings:

3. **Security controls for branch server equipment were not operating effectively or not established.**

The following was noted in a sample of ten branches:

- Server equipment was not located in a separate locked room in eight of ten branches;
- Servers were not locked to the rack or a cabinet at all ten branches;
- Server screen-saver password protection was not enabled at eight of ten branches;
- Fire suppression systems were not installed in three of ten branches; and
- Auditors requesting access to confidential information or server equipment were not challenged for identification (such as a CFC employee badge) at all ten branches.

Risk Rating

This finding is rated **Marginal Risk** because theft of or damage to computer equipment could occur or confidential customer information could be accessed by unauthorized persons. The risk of unauthorized access to the servers is mitigated as theft or direct access to the physical server was observed to be difficult given the self-contained physical area of the branch locations and the alarm systems activated after business hours. The risk of data loss or corruption is partially mitigated by the existence of corporate-level backup databases that can aid in reestablishing and restoring servers and data in the event of branch server failure.

Recommendation #3

Management should:

- Ensure branch servers are located in separate locked rooms, if feasible, or secure branch server equipment to racks or cabinets;

- Implement screen-saver passwords on the branch servers;
- Install fire suppression systems; and
- Implement procedures to challenge visitors requesting access to branch server equipment or other areas of the branch.

Management Action Plan
James Hecht agrees with the finding. Management is working with CMD Technology, Corporate Information Technology (IT) and facilities to develop a plan and procedures to resolve the security concerns in this area. More research is required to determine if these items are currently covered in existing procedures or if new procedures need to be developed and implemented. Plan and procedures will be completed by April 30, 2005.

4. **Three CMD Retail operational risks and related information were not identified within CORAD.**

ERA implemented CORAD during first quarter 2003. Each business unit is required to complete a CORAD risk assessment to identify and track risks and controls and manage the business environment related to the operations. The following risks and related information (e.g., risk rating, risk probability, risk direction and controls) were not identified in CMD Retail's CORAD risk assessment:

- Operational – Custody of Assets: Company assets (cash, laptops, furniture, fixtures and equipment) may not be adequately safeguarded.
- Operational – Regulatory/Compliance/Legal: Funds may be disbursed for loans that do not have a valid/legal security interest.
- Operational – Regulatory/Compliance/Legal: Loans may not be processed, underwritten and closed within governmental and private loan program guidelines and/or CMD Policies and Procedures.

Risk Rating
This finding is rated **Marginal Risk** because, although not documented, controls to mitigate risks are in place. However, certain unidentified risks were verbally reported to management during the 2003 CMD Retail Audit, which were not implemented.

Recommendation #4
The identified risks should be added to CORAD to appropriately reflect CMD Retail's risk exposure and current operating environment.

Management Action Plan
James Hecht agrees with the finding. Management has reviewed the CORAD risk matrix and made additions as of December 21, 2004.

II. Income may not have decreased below the income used to qualify

III. If line-of-work or location changes, it may impact the approval and/or result in a decline

I. Seller is responsible for communicating all of the above requirements to the borrower

J. Seller must obtain a new in-file credit report prior to final construction disbursement

K. Seller re-verifies via telephone, and documents accordingly, borrower and co-borrower employment prior to final closing

L. Attached and detached SFRs and PUDs, low and high-rise condos allowed

All other Countrywide guidelines and standard pricing will apply. TAMI (Tax Advantage Mortgage Insurance) and delegated Private Mortgage Insurance (PMI) underwriting are not eligible on loans delivered under these concessions or on any loan that is outside of our published guidelines. This letter supersedes any previous accommodation letters issued in the past. Please include a copy of this concession letter with each file submitted to CHL. All borrowers must meet minimum credit score requirements for all concessions listed above. Exceptions to the concessions listed above will not be considered. Unless specifically authorized above, combining of concessions is prohibited. Where the Correspondent Lending Seller's Guide and the terms above are inconsistent, the supplemental terms above will apply. This concession may be cancelled at any time; however, Countrywide typically provides a written notice 15 days prior to the effective date.

Thank you for allowing Countrywide Home Loans to serve your needs. We look forward to developing a strong, mutually beneficial relationship.

If you have any questions or require additional information, please contact the CLD Product Variance group by phone at (818) 251-7499 or by email at CLD_Product_Variances@Countrywide.com.

Sincerely,

Kim M. Bajaj
First Vice President
Product Management
Correspondent Lending Division