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**Countrywide Financial Corp.**

**Valuation Analysis Prepared at the Request of Counsel**

**CAPSTONE VALUATION SERVICES, LLC**

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## **I. Summary and Conclusions**

Capstone Valuation Services, LLC (“Capstone”) was retained by The Bank of New York Mellon (“BNYM” or the “Trustee”), the trustee to Countrywide Financial Sponsored Trusts (the “Trusts”). We have been asked to opine on the maximum economic value that BNYM could recover from Countrywide Financial Corporation (“the Company”, “Countrywide” or “CFC”) on behalf of the Trusts assuming a hypothetical judgment (the “Judgment”) against the Company for certain claims (the “Claims”). We have been asked to prepare our opinion as of March 31, 2011 (the “Valuation Date”).

In performing the procedures and analysis contained in this report, we have accepted certain assumptions regarding legal findings for which we express no opinion as they are outside the scope of our engagement. We prepared our analysis with access to the information contained in Exhibit A, as well as information gathered from our discussions with certain senior members of CFC management without independent verification. Our opinion is valid only as of the Valuation Date.

In estimating the economic value available to satisfy the Judgment, we have estimated the value of CFC’s assets in conformance with the *fair market value* (“FMV”) standard. FMV is defined in IRS Revenue Ruling 59-60 as the price at which the property would change hands between a willing buyer and a willing seller when the former is not under any compulsion to buy and the latter is not under any compulsion to sell, both parties having reasonable knowledge of relevant facts. Based on the analysis performed by Capstone, as described below, it is our opinion that value of the assets of CFC would enable a maximum recovery of no more than \$4.8 billion as of the Valuation Date, excluding any liquidation costs required to convert all loans, leases, and other assets to cash.

## II. Countrywide's Description and History

Countrywide Financial Corporation is a holding company which was engaged in mortgage lending and other real estate finance-related businesses, including mortgage banking, mortgage warehouse lending, dealing in securities and insurance underwriting through its subsidiaries since 1969.

On July 1, 2008, Countrywide merged into a wholly-owned subsidiary of Bank of America Corporation ("BAC").<sup>1</sup> Under the terms of the agreement, the shareholders of Countrywide received .1822 of a share of BAC stock in exchange for each share of Countrywide. The January 11, 2008 announced deal value of \$4.15 billion<sup>2</sup> dropped to \$2.52 billion by July 1, 2008 due to a decline in the market value of BAC's common equity between announcement and closing. Immediately following the closing, BAC purchased two pools of mortgage loans for approximately \$9.4 billion in cash and promissory notes. These transactions closed on July 1, 2008 and July 3, 2008 in the amounts of \$6.9 billion and \$2.5 billion respectively.

On July 2, 2008, Countrywide Home Loans, Inc. ("CHL"), a subsidiary of CFC, sold its membership interests in Countrywide GP, LLC and Countrywide LP, LLC in exchange for a \$19.7 billion promissory note to NB Holdings, a subsidiary of BAC. CFC also sold a pool of residential mortgages to BAC for slightly less than \$10 billion. In addition, there was a transaction in which certain commercial mortgage loans were also sold to BAC for an amount of less than \$250 million.

On November 7, 2008 BAC acquired CFC's equity in Effinity Financial Corporation, its subsidiaries, as well as dozens of other direct and indirect subsidiaries of CFC for promissory notes of \$3.6 billion and assumption of \$16.6 billion of Countrywide public debt which was subsequently retired. In addition, CHL sold to BAC a pool of residential mortgage loans, real property, technology platform, servicing rights and other items for a \$1.76 billion promissory note after certain purchase price adjustments.

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<sup>1</sup> Bank of America Corporation Form 8-K filed 7/1/2008.

<sup>2</sup> Capital IQ.

### III. Key Assumptions and Premise of Recovery

We have been asked to opine on the maximum economic value that BNYM could recover from CFC on behalf of the Trusts assuming a hypothetical Judgment against the Company for the Claims. We have based our analysis on the following assumptions regarding legal findings for which we express no opinion:

- There is no basis on which a court could pierce the corporate veil of CFC relating to its acquisition (the “Acquisition”) by and subsequent transactions (the “Subsequent Transactions”) with BAC.
- CFC and its subsidiaries were solvent and received reasonably equivalent value for any transfers made or obligations incurred at the time of the Acquisition and Subsequent Transactions.

In order to reach our conclusion, Capstone has analyzed the amount which the Trustee could expect to recover from CFC given a hypothetical Judgment and the subsequent orderly liquidation of CFC’s assets. Capstone has not analyzed the probability of a positive outcome for the Trustee in litigating the Claims or attempted to quantify the amount of any potential Judgment. We have assumed that as a result of any Judgment, the Trustee would recover value from CFC as a general unsecured creditor. To quantify the potential recovery, we have assumed that there would be an orderly liquidation of CFC’s assets following the hypothetical Judgment and that the Judgment would be sufficient to cause the Trustee to become 99.9% of the total unsecured creditors of CFC.

The calculations contained in this report have been prepared to estimate the Trustee’s recovery as an unsecured creditor in the hypothetical orderly liquidation based on the current FMV of CFC’s assets.

To quantify the maximum economic value available to the Trustee, the value of CFC’s assets has not been reduced for readily foreseeable expenses and losses that would be incurred through the hypothetical orderly liquidation of CFC. Such adjustments include, but are not limited to, legal fees incurred by CFC in defending itself from these claims, run rate expenses for managing its obligations related to discontinued operations,

and losses from loans which are forced to be repurchased under other repurchase agreements. The net effect of excluding these expenses and losses most likely overstates the value of CFC's assets at the hypothetical orderly liquidation and, as such, quantifies the maximum potential recovery for the Trustee.

#### **IV. Approaches to Value**

Traditionally a valuation is performed by considering three established valuation approaches: (i) market approach, (ii) income approach, and (iii) asset approach.

##### **Market Approach**

###### **Guideline Company Method**

The Guideline Company method utilizes market multiples derived from the market price of stocks of similar publicly-traded companies. The multiples are reviewed and analyzed for possible adjustment, and then applied to the operating results of the subject company to determine an indication of value for the subject company.

###### **Comparable Transaction Method**

The Comparable Transaction method, also known as the merger and acquisition method, estimates the value of the subject company based on multiples paid for a controlling interest in similar businesses, both public and private. Market sales are an indicator of the market value since it is assumed that market transactions are conducted between willing buyers and willing sellers at an arm's length transaction. These multiples are reviewed and analyzed for possible adjustment, and then applied to the operating results of the subject company to determine an indicated value of the subject company.

##### **Income Approach**

The Income Approach provides an indication of net present value based upon the anticipated future income streams associated with the target business or grouping of assets, considering the remaining life of the business or assets, the average annual rate of return anticipated, and market rates of return. The projected income streams are

discounted along with a terminal value at an appropriate risk rate to express an opinion of the present value of the future benefits of ownership.

### **Asset Approach**

The Asset Approach is a general way of determining a value indication of a business, business ownership interest, or security using one or more methods based on the value of the assets net of liabilities.

### **Selection of Valuation Approach**

Applying the Market Approach to CFC as a consolidated entity does not provide meaningful indications of value because CFC has negative earnings and minimal operating revenues. As of the Valuation Date CFC does not originate, securitize, or service real estate loans, and therefore is not a comparable investment to any of the publicly traded financial services firms that would be used to develop market multiples. Capstone is not aware of any plans for CFC to restart these operations in any capacity or to participate in any activities beyond the contractual obligations related to discontinued operations. Similarly, applying the Income Approach to CFC is not possible due to a lack of cash flow projections. Because CFC has no operations that by themselves are economically viable on a go-forward basis, the value of CFC's assets is best reflected in the FMV of the financial and real assets it owns. Therefore, Capstone utilized the Adjusted Balance Sheet method for determining the total value of CFC's assets.

## **V. Valuation of CFC's Assets – Adjusted Balance Sheet Method**

The Adjusted Balance Sheet method adjusts the book value of all assets (including off-balance-sheet, intangible and contingent items) to their FMV. For purposes of this analysis we have assumed that the value of CFC's assets as stated on the March 31, 2011 balance sheet are reasonable approximations of their FMV as of the Valuation Date. As of the Valuation Date, CFC lacked any operations except for managing its obligations under certain servicing agreements which remained at CFC and certain repurchase agreements for assets sold prior to the Acquisition. CFC management has indicated that

there are no intangible assets (including contractual rights, trademarks and trade names, technical knowhow, technology, patents, copyrights, assembled workforce, or customer lists) with any value material to this analysis as of the Valuation Date.

### **CFC March 31, 2011 Balance Sheet**

CFC's balance sheet as of March 31, 2011 consisted of the following line items:<sup>3</sup>

#### Assets

1. Cash and Cash Equivalents
2. Securities
  - Securities are classified as available for sale and are marked at fair value.
3. Loans and Leases
  - This account consists of repurchased loans, loans owned by consolidated home equity loan securitization trusts, and certain other loans. Repurchased loans are classified as loans held for investment and are carried at cost (the fair value at repurchase) less any allowance included in the allowance for loans and leases. CFC consolidated certain home equity loan securitization trusts, in which it had a controlling financial interest as a Variable Interest Entity ("VIE"). Loans in the VIE are marked at historical cost adjusted for FFIEC charge-offs. In Bank of America Home Loan Servicing ("BAC HLS") role as the servicer, BAC HLS has the authority to manage the loans held in the trusts. In addition, the Company may have a financial interest that could potentially be significant to the trusts through retaining interests in senior or subordinate securities or the trusts' residual interest, providing a guarantee to the trusts, or funding to the trusts during a rapid amortization event. For these reasons, the Corporation is the primary beneficiary of and consolidates these trusts for accounting purposes.
4. Allowance for Loans and Leases
5. Premises and Equipment, net

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<sup>3</sup> Support for line item detail for all assets and liabilities are sourced from Countrywide Financial Corporation Selected Consolidated Financial Information (Unaudited) March 31, 2011.



6. Loans Held-for-Sale (“LHFS”)

- The Company holds LHFS at fair value in accordance with ASC 820 Fair Value Measurements and Disclosures (formerly SFAS 157). Portions of the LHFS portfolio secure certain liabilities also held on the balance sheet.

7. Loans Eligible for Repurchase

- Government insured loans that were sold by CHL but meet certain delinquency thresholds are eligible for repurchase by either the originator or servicer of the loans. ASC 860, Transfers and Servicing, requires that loans that meet this criteria be reflected on the balance sheet of the seller of the loans when the seller of the loans, or its affiliates, has the right but not the obligation to repurchase the loan. If the servicer exercises its option to repurchase the delinquent loans, the current servicer, BAC HLS, will execute the repurchase and reflect the loans on its books.

8. Mortgage Servicing Rights

- Mortgage servicing rights represent owned servicing rights on a number of HELOC securitizations. The owners of the securities have taken overt action to prohibit CHL from selling the related servicing rights. CHL has mortgage serving rights valued at a loss of \$26 million in consumer home equity as of March 31, 2011. BAC HLS subservices these loans on behalf of CHL.

9. Intercompany Receivables

- The intercompany receivables primarily reflect capital infusions which have not yet been settled in cash.

10. Other Assets

Liabilities

1. Long Term Debt – VIE

- CFC consolidated certain home equity loan securitization trusts, in which it had a controlling financial interest as a VIE. The outstanding debt of the securitization trusts exceeds the asset value due to FFIEC charge-offs taken against the HELOCs.

2. Debt- FAS 140

- CHL elected to account for certain debt classified under SFAS 140, which are asset-backed secured financings, under the fair value option. Election of the fair value option allows CFC to reduce the accounting volatility that would otherwise result by accounting for the asset-backed secured financings at historical cost and the corresponding mortgage LHFS securing these financings at fair value.

3. Short Term Borrowings

- This account offsets the loans eligible for CHS's repurchase asset account. This liability is equivalent to the asset balance and represents the cost that the company would incur if it did repurchase the loans.

4. Representations and Warranties

- During 2010, BAC agreed to assume the full cost of certain representation and warranty liability associated with certain government sponsored entity portfolios originated by CFC. As of March 31, 2011, substantially all of this provision is associated with the exposure to monoline insurers.

5. Taxes Payable

- As of March 31, 2011, CFC showed a negative account balance for Taxes Payable. We understand that CFC is generating tax losses, which will result in a reduction of BAC's future tax liability. BAC is contractually obligated to reimburse CFC for BAC's tax savings as a result of CFC's losses.

6. Intercompany Payables

7. Accrued Expenses and Other Liabilities

- Consists mainly of legal, insurance and other reserves.

**Adjustments to March 31, 2011 Balance Sheet**

Based on the above, we made the following adjustments to CFC's March 31, 2011 balance sheet, as displayed on Exhibit B:

- Based on discussions with CFC management, we deconsolidated the assets and liabilities of the HELOC VIE and increased book value of equity by \$430 million.

These assets are not owned by CFC but are consolidated due to possible liabilities related to their performance.

- Under ASC 860, CFC is required to show certain loans eligible for repurchase on its balance sheet along with an offsetting liability. CFC does not own these assets, nor is the offsetting liability outstanding. As such, we have adjusted the balance sheet to remove the impact of this item under ASC 860.
- Explanation 4 to CFC March 31, 2011 balance sheet indicates FAS 140 debt of \$726 million is marked at fair value, and has a principal balance of \$1.3 billion. Capstone has adjusted the Debt to its principal balance and reduced retained earnings by \$574 million. Capstone has also assumed that the whole amount of \$1.3 billion is secured by the assets of CFC and its subsidiaries.

#### **Adjusted Balance Sheet Indication of Value and Amount Available for Recovery**

The most economically advantageous recovery for unsecured creditors would be through an orderly liquidation of CFC's assets due to the lack of any foreseeable revenues in future years to offset expenses and expected losses. Based on the adjusted book value of CFC's assets plus taxes payable, the FMV of CFC's assets are \$6.1 billion excluding any liquidation costs required to convert all loans, leases, and other assets to cash. From that total value, we have deducted the principal balance of the Pre-petition secured claims in the amount of \$1.3 billion. The residual value of CFC's assets would be \$4.8 billion as shown in Exhibit C. This analysis assumes that secured creditors would be repaid in full by the Company.

#### **VI. Ability to Recover Economic Value**

Based on the assumptions contained in this report, it is our opinion that BNYM, acting on behalf of the Trusts as Trustee, would recover no more than \$4.8 billion through litigating the Claims and collecting any hypothetical Judgment from CFC as of the Valuation Date. This amount reflects the maximum recovery, as it does not take into consideration any litigation costs or other losses accruing to CFC between March 31,

2011 and the date of any future hypothetical recovery. It is likely that the value of CFC's assets decline following the Valuation Date based on the cash burn of the Company in the fiscal year 2010 and the first quarter of 2011.

Respectfully Submitted,

A handwritten signature in black ink, appearing to read "Bruce B. Bingham", with a long horizontal flourish extending to the right.

Bruce B. Bingham, FASA

Executive Director, Capstone Valuation Services, LLC

6 June 2011

**Countrywide Financial Corporation  
Documents Considered**

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Bank of America 8-K Filed January 11, 2008  
Bank of America 8-K Filed April 21, 2008  
Bank of America 8-K Filed May 29, 2008  
Bank of America 8-K Filed July 1, 2008  
Bank of America 8-K Filed July 8, 2008  
Bank of America 8-K Filed July 21, 2008  
Bank of America 8-K Filed October 6, 2008  
Bank of America 8-K Filed November 10, 2008  
Bank of America 8-K Filed November 12, 2008  
Bank of America 8-K Filed March 3, 2009  
Countrywide Financial Corporation 2004 10-K  
Countrywide Financial Corporation 2005 10-K  
Countrywide Financial Corporation 2006 10-K  
Countrywide Financial Corporation 2007 10-K  
Countrywide Financial Corporation 10-Q as of June 30, 2008  
Countrywide Financial Corporation selected consolidated financial information (unaudited) as of December 31, 2010  
Countrywide Financial Corporation selected consolidated financial information (unaudited) as of March 31, 2011  
Countrywide Home Loan selected consolidated financial information (unaudited) as of December 31, 2010  
Countrywide Home Loan selected financial information (unaudited) as of March 31, 2011  
Countrywide Financial Corporation Organization Chart as of March 2008  
BAC/CFC Organization Chart as of July 2008  
BAC/CFC Organization Chart as of October 2008  
BAC/CFC Organization Chart as of January 2011  
Master Mortgage Loan Purchase and Subservicing Agreement between CHL and NB Holdings Corporation dated July 1, 2008  
Purchase and Sale Agreement between CHL & NB Holdings Corporation dated July 2, 2008  
Asset Purchase Agreement (APA) between BAC & CHL dated November 7, 2008  
Stock Purchase Agreement (SPA) between BAC & CFC dated November 7, 2008  
Amendment #1 to the APA between BAC and CHL dated January 5, 2009  
Amendment #1 to the SPA between BAC and CFC dated January 5, 2009  
Supplemental Agreement #1 to APA dated March 6, 2009  
Supplemental Agreement #1 to SPA dated March 6, 2009  
CHL Resolution dated July 1, 2008  
CFC Resolution dated October 3, 2008  
CHL Resolution dated October 14, 2008  
CHL Resolution Approval - Asset Purchase Agreement dated October 14, 2008  
Bank of America 10-Q dated September 30, 2008

**Countrywide Financial Corporation**  
**Consolidated Balance Sheet**

<i>(\$ in millions)</i>	<b>3/31/2011</b>	<b>Adjustments</b>	<b>Adjusted 3/31/2011</b>
<b>Assets</b>			
Cash and Cash Equivalents	\$ 782	\$ -	\$ 782
Securities	305	-	305
Loans and Leases	4,535	(3,370) (a)	1,165
Allowance for Loans and Leases	(339)	308 (a)	(31)
Loans and Leases, net of Allowance	4,196	(3,062)	1,134
Premises and Equipment, net	10	-	10
Loans Held-for-Sale	803	-	803
Loans Eligible for Repurchase	2,871	(2,871) (b)	-
Mortgage Servicing Rights	(26)	-	(26)
Intercompany Receivables	1,516	-	1,516
Other Assets	216	-	216
<b>Total Assets</b>	<b>\$ 10,673</b>	<b>\$ (5,933)</b>	<b>\$ 4,740</b>
<b>Liabilities</b>			
Short Term Borrowings	\$ 2,871	\$ (2,871) (b)	\$ -
Debt -FAS 140	726	574 (c)	1,300
Representations and Warranties	2,887	-	2,887
Long Term Debt -VIE	3,492	(3,492) (a)	-
Taxes Payable	(1,359)	- (d)	(1,359)
Intercompany Payables	347	-	347
Accrued Expenses and Other Liabilities	2,045	-	2,045
<b>Total Liabilities</b>	<b>\$ 11,009</b>	<b>\$ (5,789)</b>	<b>\$ 5,220</b>
<b>Shareholders' Equity</b>			
Capital	\$ 6,241	\$ -	\$ 6,241
Other Comprehensive Income (Loss)	\$ 20	-	20
Retained Earnings (Deficit)	(6,597)	(144) (e)	(6,741)
<b>Total Shareholders' Equity</b>	<b>\$ (336)</b>	<b>\$ (144)</b>	<b>\$ (480)</b>
<b>Total Liabilities and Shareholders Equity</b>	<b>\$ 10,673</b>	<b>\$ (5,933)</b>	<b>\$ 4,740</b>

(a) Based on discussions with CFC management, Capstone has deconsolidated the assets and liabilities of the HELOC VIE and increased retained earnings by \$430.

(b) Under ASC 860, CFC is required to show certain loans eligible for repurchase on its balance sheet along with an offsetting liability. CFC does not own these assets, nor is the offsetting liability outstanding. As such, we have adjusted the balance sheet to remove the impact of ASC 860.

(c) Explanation 4 to CFC March 31, 2011 balance sheet indicates FAS 140 debt of \$726 million is marked at fair value, and has a principal balance of \$1.3 billion. Capstone has adjusted the debt to its principal balance and reduced retained earnings by \$574 million.

(d) Negative account balance reflects reimbursement by BAC for future tax savings and is treated as an asset for purposes of this analysis.

(e) Adjustment of \$144 million reflects the combined effect on book value of equity of footnotes (a) and (c).

**Countrywide Financial Corporation**  
**Hypothetical Trustee Recovery from Litigating Claims**

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*(\$ in millions)*

FMV of Countrywide Assets at Valuation Date (rounded)	\$ 6,100 (a)
Secured Claims	<u>1,300 (b)</u>
FMV of Assets for Unsecured Creditors	4,800
Trustee Participation as % of Unsecured Class	<u>99.9% (c)</u>
Maximum Recovery to Trustee (rounded)	\$ 4,800 (d)

(a) FMV of CFC assets as of the Valuation Date assumed equal to adjusted book value as shown on March 31, 2011 balance sheet plus taxes payable.

(b) Principal balance of FAS 140 debt assumed to be a secured claim.

(c) Assumes Judgment is sufficient to cause the trustee to participate as 99.9% of unsecured creditors class.

(d) Assumes Judgment recovery is immediate and does not reflect any litigation costs or other losses accruing to CFC in the interim. CFC paid \$720 million in personnel, professional fees, insurance, and other expenses in 2010. Also, this recovery does not reflect the present value of any sums received in the future.