



REVIEW OF THE TERMS AND CONDITIONS OF CERTAIN RESIDENTIAL MORTGAGE LOANS

July 22, 2008

Contents

Executive Summary.....	1
Scope and Objectives.....	1
Background	1
Conclusion.....	2
Report Detail	4
CrossCheck Compliance Background and Qualifications	4
Mortgage Lending Market in 2003.....	4
Detailed Evaluation of the Borrower's Loan Files.....	6
Analysis and Comparison of Rates and Fees from Mortgage Lenders.....	9
Review of Published Reports and Studies	11
Appendix I: Comparison of Rates and Points by Lender	14
Appendix II: CrossCheck Loan Review Summary	19
Appendix III: Professional Profiles	21
Michael M. Forester.....	21
Todd Krell	23
James A. Jorgensen.....	24

Executive Summary

Scope and Objectives

At the request of Perkins Coie LLP ("Perkins Coie"), CrossCheck Compliance LLC ("CrossCheck") conducted an independent professional review of the terms and conditions of certain residential mortgage loans obtained by Senator Christopher J. Dodd and Jackie Clegg Dodd to determine whether the interest rates and fees charged on the loans under review were in line with normal lending practices and consistent with the rates and charges offered by lenders at the time the loans were originated. Our review specifically included:

- An assessment of the mortgage lending market for the period of May through July 2003, with a particular focus on rates, fees (including "discount fees"), and services.
- Detailed evaluation of the original underwriting loan files to determine the qualifications of the borrowers and adherence to general underwriting standards.
- Collection and research of market rates, fees, and service offerings from media publications and mortgage lenders during the time period under review.
- Historical perspective of the mortgage lending environment from professional industry experience and review of publications and studies from the time period in which the loans were originated.

Background

This review focused on two loans made to Senator Christopher J. Dodd and Jackie Clegg Dodd ("Borrowers"). The issue under review is whether the rates and fees granted to the Borrowers demonstrate any special treatment (i.e., rates and fees that were not available to similar borrowers). The two loans reviewed were refinance transactions with loan amounts of \$506,000 and \$275,042 that closed in June and July of 2003, respectively.

The \$506,000 loan, which closed on June 10, 2003, was a cash-out refinance of a Washington, DC townhouse with a loan-to-value ratio of 64%. The note granted on this loan was a 30-year adjustable with the first five years at a fixed rate of 4.25%. The HUD statement for this transaction revealed settlement charges (excluding prepaid interest and taxes) paid of \$2,286.30 (0.45% of the loan amount). The \$275,042 loan, which closed on July 3, 2003, was a streamline refinance of a single family residence located in East Haddam, Connecticut, with a loan-to-value ratio of 55%. The note granted on this loan was a 30-year adjustable note with the first ten years at a fixed rate of 4.5%. The HUD statement for this transaction revealed settlement charges paid of \$2,020.25 (0.73% of the loan amount).

Conclusion

As outlined in more detail in the attached report, based on the market data we analyzed, we find that the terms and conditions that the Borrowers received for the two loans were consistent with those that any borrower, who possessed similar credit, income, asset, and equity positions, would have received during the highly active refinance market that existed during the first half of 2003.

1. The Borrowers were highly qualified in every aspect of mortgage lending.

In our review of the loan files, we found the Borrowers to be extremely well qualified. Specifically, the Borrowers' credit scores were "Excellent" and asset reserves were more than adequate to meet underwriting guidelines. Additionally, the Borrowers were existing customers of Countrywide Home Loans, Inc. ("Lender") with perfect payment history, coupled with virtually no debt and stable employment history. With these credentials, the Borrowers qualified for the most competitive rate available in the market. In addition, with such credentials and given the extremely competitive market at the time, it was common in the industry to not charge origination fees and "discount" points to attract and retain good customers.

2. The interest rates paid by the Borrowers were available to the general public.

The 2003 mortgage market, during the time in which the two loans were originated, featured interest rates near 45-year lows, with rates bottoming in June 2003. This environment of low interest rates resulted in unprecedented levels of refinance activity, which stimulated fierce competition regarding all areas of mortgage lending.

CrossCheck reviewed mortgage interest rates published by numerous lenders during the relevant time period. This market data shows that lenders were offering jumbo 5/1 ARMs and conforming 10/1 ARMs at interest rates consistent with the rates the Borrowers received on the two loans. For example, during the week ending May 24th when a rate of 4.25% was locked in for the Washington, DC property, published rates for this loan product ranged from 4.0% to 4.875% without any discount points required to obtain these rates. During the week of the closing of this loan, rates were below 4.0% without discount points—at least .25% less than the rate obtained by the Borrowers. As another example, through June 2003, interest rates on 10/1 ARMs ranged from 4.125% to 5.125%. After a comprehensive review of advertised rates, government interest rate surveys, published articles, and loan file documents for the period May through July 2003, we have concluded that the interest rates that the Borrowers received were available to the general public without paying any "discount points" to buy down the rate, and therefore there is no evidence of the Borrowers receiving below market pricing as a result of special treatment.

3. The fees and charges paid by the Borrowers were higher than the national average.

We considered additional market data concerning mortgage loan fees, including monthly press releases from the Federal Housing Finance Board, which stated that the average amount of initial fees and charges paid by borrowers for residential mortgage loans for May, June, July of 2003 were .35%, .37% and .33% of the loan amount, respectively.

These averages are based on monthly surveys of major mortgage lenders. The Borrowers' initial fees and charges (0.45% for the Washington, DC loan, and 0.73% for the Connecticut home) were in excess of these national averages. This further supports our conclusion that the Borrowers did not receive below market fees on their loans.

Report Detail

CrossCheck Compliance Background and Qualifications

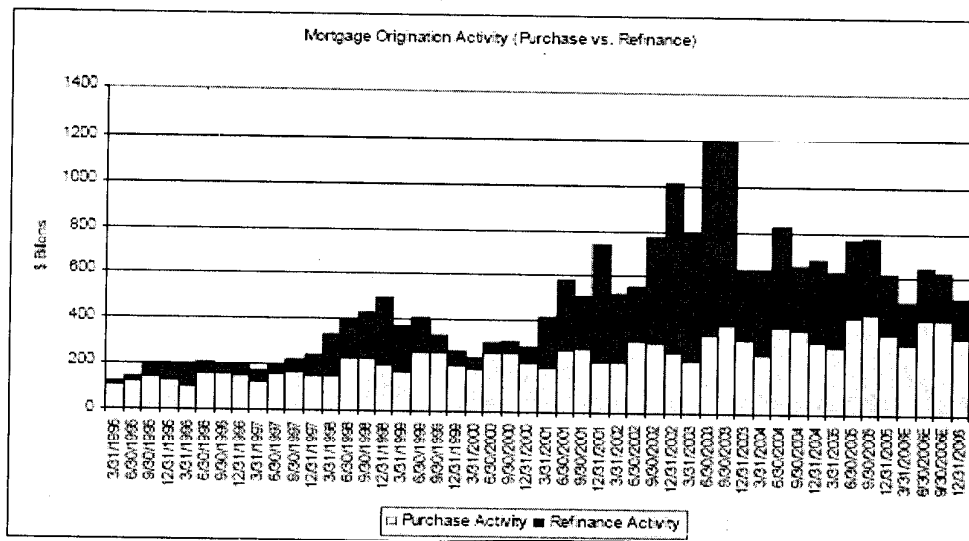
CrossCheck Compliance, headquartered in Chicago's financial district, is a professional services firm providing due diligence and regulatory compliance services to the banking and mortgage industry. Our executive team has over 75 years of combined financial services, mortgage lending and risk management experience. CrossCheck's standards and methodologies surpass the typical mortgage loan due diligence protocol. CrossCheck employees are proven senior level professionals, who have developed their expertise from their years of experience in building and maintaining billions of dollars in first and second mortgage portfolios.

Our comprehensive due diligence approach and experienced professionals make CrossCheck a trusted name in mortgage-related forensic investigations. We provide expert assistance to litigation support practices through operational risk assessment, loan-level credit risk analysis, expert testimony, and loan-level investigation, including review of due diligence previously performed as it may relate to areas such as a portfolio purchase, securitization, and fair lending.

Mortgage Lending Market in 2003

The housing market in 2003 was a booming, record-breaking year in home sales, ownership, and prices. Low interest rates contributed significantly to the thriving housing market that moved home prices and sales levels significantly higher. With mortgage interest rates in the first half of 2003 near 45-year lows, mortgage refinancing increased by an astounding 71 percent from \$1.4 trillion in 2002 to \$2.4 trillion in 2003. This was truly remarkable as refinance activity was very robust in 2002.

With interest rates steadily declining during the first half of 2003, refinancing continued to be very attractive, even for homeowners that may have just refinanced during the prior year. Refinancing was even occurring with homeowners that were reducing their interest rate by as little as a half to one percentage point. This was due to the highly competitive mortgage lending industry, where closing fees and points were being driven significantly lower.



Source: Mortgage Bankers Association

As the result of the highly active refinance market, lenders were aggressively working with their existing customers by offering mortgage rate resets with significantly reduced closing costs to defend against losing their customers to the competition. During these times, it made sense for borrowers to stay with their existing mortgage lender since the volume of paperwork and associated costs with the existing lender would be less than switching to a new lender.

On the other hand, the competing lenders were aggressively marketing to attract new customers with “no closing cost”, “zero points” and no “float down fee” offers. In the *State of the Nation’s Housing* by the Joint Center for Housing Studies of Harvard University (published in 2004 and reporting on the 2003 housing market), it stated “mortgage lenders battle to attract customers during refinance booms. While homeowners once had to figure out for themselves when it was advantageous to refinance, some lenders now alert to the opportunity and encourage them to do so – at a lower cost. This competition has spurred additional refinance activity.”

In 2003, adjustable interest rate loan products, with extended fixed rate periods, such as the 5-year and 10-year ARMs (adjustable rate mortgages), became increasingly popular mortgage products. With the interest rates spread between ARMs and 30-year fixed rate mortgages unusually high, ARMs were the refinancing loan option of choice. During 2003, interest rates were as low as 3.5% on 5/1 jumbo ARMs, and 4.125% on 10/1 conforming ARMs.

Detailed Evaluation of the Borrowers' Loan Files

We examined Countrywide Home Loans, Inc. ("Lender") loan files #32947075 ("Washington, DC loan") and #32947091 ("Connecticut loan") made to the Borrowers. Our findings included:

- The Borrowers were highly qualified in every aspect of mortgage lending;
- The originating, processing, and underwriting of the files was consistent with generally accepted standards;
- The Borrowers being highly qualified and existing customers of the Lender made the Borrowers eligible for industry accepted "flexibility" and market-best terms and conditions in order to retain them as customers;
- The initial fees and charges were in line with, and in some cases slightly higher than, national averages from the time period.

Mortgage lending background - Mortgage underwriting is used to determine the overall risk associated with the borrower under the terms considered for the loan transaction. A mortgage underwriter analyzes three areas when assessing a loan file. These three areas are the borrower's willingness to repay, capacity to repay, and the collateral. An underwriter will determine the borrower's willingness to repay the debt by examining the borrower's credit worthiness. This would consist of reviewing the borrower's credit report and score (typically on a scale of 350 to 850) as well as a 12- to 24-month review of the borrower's housing payment history.

An underwriter will determine the borrower's capacity to repay the debt by examining the borrower's monthly income (calculating ratios when compared to monthly obligations), reserves, and employment stability. Finally, the underwriter will review the value of the collateral by examining one of many valuation methods (from automated tools to full appraisal reports) as determined by the lending guidelines. The loan amount is divided by the collateral's current market value to determine a loan-to-value percentage. Typically, loans with a loan-to-value ratio under 80% are considered low risk. Once the risk is assessed in these three areas, the underwriter can recommend a decision for the mortgage application.

After the mortgage application is approved, the lender decides what interest rate and fees to charge the borrower. Rates and fees can fluctuate dramatically from one borrower to the next depending on the overall risk associated with the loan. A borrower may be required to pay "points," which represent a form of prepaid interest at closing equal to a percentage of the loan amount. For example, if a borrower paid one point on a \$200,000 loan, the charge would be \$2,000. Typically, a lender will use "points" to lower the interest rate offered to the borrower. Borrowers with low risk associated with their files are normally offered the lowest rates and fees available from the lender, and borrowers with higher risk profiles will be offered higher rates and fees.