Microsoft Outlook

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Sent: Monday, March 26, 2007 6:01 PM
To: [redacted]
Cc: Cohen, Steven
Subject: follow up.....

Glad we had the opportunity to meet last week. I will send you some
more organized thoughts within the next day or so about how to go at this, but I think there is an opportunity to obtain relief and a good public policy outcome on several fronts:

--Increased disclosure of loan risk to borrowers

--Disclosure of the nature of mortgage broker-borrower relationship

--Loss mitigation and foreclosure prevention through investor-servicer instruments

-- Increased disclosure of mortgage pool risk to investors/shareholders (at both lender and investor level)

With regards to the latter, there are conflicts of interest that should
concern shareholders. When, for example, Lehman or Bear Stears act as
a broker-dealer for debt instruments of mortgage securities which were originated through their own subprime mortgage units, isn't that a
conflict. Was the disclosure to investors adequate and accurate?
(This also raises the rating agency involvement). How about the
research side?

Similar issue with the lenders and what they knew about the risk profile of their loans....see the story below about insider sales......sure sign of
trouble.

I will give you some more focused thoughts and backup info soon.....please feel free to shoot any questions at me....hg

Follow the Money
Countrywide Leads Insider Selling Spree
By Brett Arends
<http://apps.thestreet.com/cms/email/tscEmailStory.do?storyId=10345737&a
uthorId=1106992&storyUrl=/funds/followmoney/10345737.html>
Mutual Funds Columnist
3/21/2007 11:01 AM EDT
URL: http://www.thestreet.com/funds/followmoney/10345737.html
<http://www.thestreet.com/funds/followmoney/10345737.html>

When the subprime mortgage collapse gathered speed two weeks ago, Eric Sieracki at Countrywide Financial (CFC) sought to calm his investors' nerves.

"This is the pain phase of a healthy cycle," the CFO said at an investment conference in San Francisco. "We've been through these kinds of cycles before and we've seen another day. ... We're a top-conditioned athlete."

Doubtless that's why his fellow executives and directors are throwing stock overboard on a heroic scale.

Insiders at Countrywide, the nation's largest mortgage lender, have sold $314 million worth of shares in the company just since August. That's according to regulatory filings tracked by Interactive Data Corporation.
The sales include a staggering $94.5 million by chief executive Angelo Mozilo, and $17.5 million by mortgage division chief David Sambol.

Naturally insiders are perfectly entitled to sell shares, and in the case of Countrywide Financial, the stock price has, at least, held up -- sort of. It's only fallen a fifth from its peak to $35.22.

But it hardly makes you feel confident.

It should be added that this is not something new. Insiders were also dumping stock heavily through 2004 and 2005. As they often have to exercise options before selling the stock, what they have pocketed will be less than $314 million.

What's interesting is that the insiders at Countrywide are not alone.

I've already pointed out
<http://www.thestreet.com/funds/followmoney/10345737.html> that the group at New Century Financial (NEWC) cashed out $103 million, even though the shares themselves seem to be going the way of all flesh. They were last seen changing hands over the counter for $1.69.

New Century, same old story.

What I hadn't realized is just how profitable the mortgage business can be -- when you get out at the right time.

Shares in the sector all took off in early 2003, just as the housing bubble was entering its final, euphoric phase. By a strange coincidence, that is exactly when insiders began shoveling the stock.

Take the folks at Pasadena, Calif.-based IndyMac Bancorp (NDE) , the country's second-largest stand-alone mortgage company.

Last week, the company huffily said subprime loans made up less than 3% of its business, although it also admitted missed payments on its loan book were likely to rise this year. What isn't in doubt: Between early 2003 and last spring the stock climbed from just $20 all the way up to a peak to $50 and change.

And that was great news for the people running the company, who were able to cash out a remarkable $76.6 million worth of stock when the going was good.

The average price they got: $35.64.

Today? Um.... $28.86.

The purchasers have lost $14.6 million ... so far.

Then there are the directors and executives at Accredited Home Lenders Holding (LEND) . You may have heard about the company recently. It's in a cash crisis thanks to spiking mortgage defaults. It just sold $2.7 billion worth of mortgages at a big discount to face value to shore up reserves. It's so desperate, in fact, that it just paid through the nose to some private-equity sharks for an emergency $200 million advance.
Interest rate: 13% a year. How's that for a subprime loan?

No wonder the stock price, which touched $60 as recently as last year, has just collapsed to a mere $10.77.

But the insiders were able to cash out $29 million when the going was good, at an average price of $36.95.

Or, to put it another way, the investors who bought those shares have already lost $21 million of their investment.

At Santa Monica, Calif.-based Fremont General (FMT) , insiders sold shares between early 2004 and last summer for $17.2 million.

That may not seem like much, in the grand scheme of things. But it seems pretty big compared to the $8.1 million those same shares are worth today. The stock, $23 early last year, is down to just $8.78.

And congratulations to the folks running NovaStar Financial (NFI) in Kansas City, Mo. Hard to believe the stock once soared above $60. Today it's less than a tenth that, at $5.84.

You already know the drill. Insiders sold $15.8 million worth of shares at an average price of $38.25. Those same shares are now worth just $2.4 million. That's some loss. Naturally, the insiders didn't always walk away with all the money. In some cases they exercised options -- albeit often at low prices -- on the shares before selling them.

Politicians on Capitol Hill are planning to hold hearings into the subprime market meltdown. If they want to do something useful, they might invite some of the executives at the companies above to turn up, then ask them some tough questions.