

AMERICAN ARBITRATION ASSOCIATION

MORTGAGE GUARANTY INSURANCE
CORPORATION,

Claimant,

v.

COUNTRYWIDE HOME LOANS, INC., and BAC HOME
LOANS SERVICING, LP (formerly Countrywide Home
Loans Servicing, LP),

Respondents.

MORTGAGE GUARANTY INSURANCE CORPORATION'S DEMAND FOR ARBITRATION

Pursuant to the arbitration clause in the Mortgage Guaranty Master Policy between the parties, Mortgage Guaranty Insurance Corporation (MGIC) asserts this Demand for arbitration against Countrywide Home Loans and its affiliate BAC Home Loans Servicing (collectively, Countrywide).

1. Countrywide is a mortgage lender. MGIC insures mortgage lenders against borrower defaults. This Demand concerns MGIC's contractual right to rescind or otherwise deny insurance coverage, including its right to rescind or deny approximately 1,400 Countrywide claims under the parties' Mortgage Guaranty Master Policy, also called "the Flow Policy" (attached as Exhibit A).¹

Nature of the Dispute

2. By 2005, Countrywide had become the largest mortgage lender in the United States, originating nearly half-a-trillion dollars annually in mortgage loans. Countrywide had

¹ MGIC entered into separate Mortgage Guaranty Master Policies with many Countrywide branch locations. As a result, there are hundreds of separate Mortgage Guaranty Master Policies between the parties. Because, with the exception of certain state-specific endorsements, these Mortgage Guaranty Master Policies are identical, MGIC collectively refers to the policies as the "Flow Policy."

historically sold a substantial proportion of its loan portfolio on the secondary market to Government Sponsored Entities (GSEs) such as Fannie Mae and Freddie Mac. GSEs generally only purchase relatively low-risk loans. Accordingly, for many years most of Countrywide's loans had been such relatively low-risk loans. Countrywide regularly assured the public that its proprietary and exacting underwriting criteria were consistently generating high-quality mortgages.

3. Countrywide's assurances about the quality of its underwriting were false. In a relentless drive to increase revenues and market share during the housing boom, Countrywide embarked on a reckless strategy to attract new, subprime and other high-risk business. Contrary to its public representations, Countrywide grossly relaxed its underwriting guidelines to the point that Countrywide itself internally labeled them "among the most aggressive in the industry." And Countrywide failed to abide by even its own relaxed guidelines. Countrywide and its agents engaged in widespread reckless underwriting, often deliberately ignoring, concealing, or misrepresenting borrower credit-risk characteristics. In many cases, Countrywide and its agents knowingly participated in or facilitated borrower fraud.

4. In about 2005, Countrywide implemented a so-called "supermarket" or "matching strategy" that committed the company to offer *any borrower* a loan on *any terms* provided by at least one competitor. For example, to match the subprime competition, Countrywide lent to borrowers with poor credit histories and originated an enormous volume of loans with higher (and therefore riskier) debt-to-income (DTI) and loan-to-value (LTV) ratios than it had in the past. Countrywide began making a large number of "stated-income" loans – for which Countrywide did not verify the borrower's reported income by looking at pay stubs, W-2 forms, income tax returns or any other records. Instead, Countrywide simply took stated-income borrowers at their word. Under the supermarket strategy, Countrywide won the race to the bottom, underwriting the riskiest loans by every relevant measure of borrower risk.

5. In about 2005, Countrywide also adopted a "no-brokering" policy that forbade Countrywide loan officers from referring mortgage applicants to other mortgage lenders.

Previously, Countrywide loan officers could broker a loan to a competitor in exchange for a commission. The purpose and effect of Countrywide's switch to a no-brokering policy, when combined with the change in underwriting standards, was to encourage Countrywide loan officers to systematically ignore risk in order to attract and retain business.

6. Countrywide's reckless underwriting and market-share-at-any-cost strategy led it to knowingly or negligently originate thousands of loans tainted by flagrant borrower, broker, appraiser and other fraud. For example, by about 2006 Countrywide's internal risk assessors knew that in a substantial number of its stated-income loans – fully a third – borrowers overstated income by more than 50%. Countrywide also knew that many appraisers were overstating property values to drive originations by making loans appear less risky. Countrywide knew it was underwriting many loans that materially understated DTI and LTV ratios. Countrywide deliberately disregarded these and other signs of fraud in order to increase its market share.

7. As a result of its reckless underwriting practices, starting in about 2006 Countrywide's loan portfolio rapidly deteriorated, and defaults and foreclosures on its loans soared. The company failed to survive on its own. In 2008, Countrywide avoided insolvency by agreeing to be acquired by Bank of America.

8. During the housing boom, Countrywide significantly increased the volume of loans it submitted to MGIC for insurance coverage. MGIC has provided private mortgage insurance for over 50 years. Mortgage insurance covers certain losses from borrower defaults on residential mortgage loans. By enabling lenders to spread default risk, mortgage insurance frees up lender capital and facilitates a less volatile residential lending market.

9. MGIC agreed to provide mortgage insurance for certain Countrywide loans under the terms of the Flow Policy. As discussed below, under certain circumstances the Flow Policy permits MGIC to rescind or deny insurance of ineligible loans, loans involving material misrepresentations, or loans tainted by fraud in origination.

10. As Countrywide's loan defaults soared in recent years, so have its claims for

insurance to MGIC. Because of Countrywide's reckless underwriting, a substantial proportion of its insurance applications are ineligible for coverage and contained materially false and grossly misleading statements or omissions about significant risks of borrower default. MGIC has therefore denied or rescinded coverage of a higher percentage of Countrywide loans as compared to other lenders. Countrywide has disputed all or virtually all of MGIC's claim denials and rescissions.

11. Now that the misrepresented and undisclosed risks of Countrywide's reckless practices have materialized, Countrywide seeks to shift the substantial losses caused by its recklessness to MGIC. But the Flow Policy the parties agreed to does not hold MGIC liable for Countrywide's irresponsible and fraudulent business practices. In accordance with the Policy, MGIC is entitled to rescind or otherwise deny coverage of the disputed claims.

The Parties

12. Claimant MGIC is a Wisconsin corporation with its principal place of business in Milwaukee, Wisconsin.

13. Respondent Countrywide Home Loans, Inc. is a New York corporation with its principal place of business in Calabasas, California. Respondent BAC Home Loans Servicing, LP (formerly Countrywide Homes Loan Servicing, LP) is a limited partnership organized under the laws of Texas with its principal place of business in Plano, Texas.

The Arbitration Clause

14. This Demand is governed by the Flow Policy's arbitration clause, which states:

Unless prohibited by applicable law, all controversies, disputes or other assertions of liability or rights arising out of or relating to this Policy, including the breach, interpretation or construction thereof, shall be settled by arbitration. Notwithstanding the foregoing, [MGIC] or [Countrywide] both retain the right to seek a declaratory judgment from a court of competent jurisdiction on matters of interpretation of the Policy. Such arbitration shall be conducted in accordance with the Title Insurance Arbitration Rules of the American Arbitration Association in effect on the date the demand for arbitration is made, or if such Rules are not then in effect, such other Rules of the American Arbitration Association as [MGIC] may designate as its replacement.

Ex. A. § 7.6(a).

15. The arbitration clause further provides:

The arbitrator(s) shall be neutral person(s) selected from the American Arbitration Association's National Panel of Arbitrators familiar with the mortgage lending or mortgage guaranty insurance business. Any proposed arbitrator may be disqualified during the selection process, at the option of either party, if they are, or during the previous two (2) years have been, an employee, officer or director of any mortgage guaranty insurer, or of any entity engaged in the origination, purchase, sale or servicing of mortgage loans or mortgage-backed securities.

Id.

16. MGIC's contested right to rescind or otherwise deny insurance coverage of the Countrywide claims that are the subject of this Demand presents a dispute "arising out of or relating to" the Flow Policy. Because the American Arbitration Association's Title Insurance Arbitration Rules are not in effect, MGIC designates the American Arbitration Association's Commercial Arbitration Rules. Arbitration of this dispute is therefore proper by one or more neutral arbitrators from the American Arbitration Association's National Panel of Arbitrators familiar with the mortgage lending or mortgage guaranty insurance market.

The MGIC-Countrywide Flow Policy

17. Countrywide sought mortgage insurance from MGIC to cover a substantial percentage of the individual loans Countrywide made. Countrywide and MGIC entered into the Flow Policy, which governed the individual Countrywide loans at issue in this Demand. Under the Flow Policy, Countrywide submitted to MGIC an application for insurance describing each particular loan Countrywide wanted to insure. If, based on facts regarding the loan submitted by Countrywide, the loan appeared to meet agreed upon "eligibility criteria," MGIC would issue a certificate of insurance for the loan. Eligibility criteria, which included, among other things, "maximum loan-to-value ratios and original principal amounts, coverage limitations, underwriting requirements and payment status," exist to screen loans that MGIC is unwilling to insure due to their elevated risk characteristics. Ex. A. § 1.27.

18. Countrywide submitted multiple loan programs to MGIC with proposed eligibility criteria for various types of loans. After negotiations between the parties regarding the eligibility

criteria, MGIC approved certain Countrywide loan programs (often with agreed-upon modifications) and corresponding eligibility criteria. MGIC thereby established the eligibility criteria for Countrywide loans.

Loan Misrepresentation Provisions

19. Given the way in which home mortgage loans are made, Countrywide knew MGIC would have no contact with Countrywide's borrowers, the properties that served as collateral for their loans, or the loan officers who originated the loans, and MGIC did not. As Countrywide knew would be the case, MGIC had to rely on Countrywide to collect and relay accurate, complete, and truthful information in each application for mortgage insurance, and to reasonably underwrite each loan, and MGIC did. MGIC also relied on Countrywide to monitor its employees and broker network to ensure the integrity of the information being collected and relayed to MGIC. Through the Flow Policy, Countrywide represented that all of the statements contained in an application for insurance, "whether by it, the Borrower, or any other Person, have been made and presented for and on behalf of" Countrywide, and were true and complete in all material respects. *Id.* §§ 2.2(a), (b).

20. If Countrywide submitted an application for insurance that contained materially false or misleading information, the Flow Policy allowed MGIC "to cancel or rescind coverage" "retroactively to commencement of coverage." *Id.* § 2.3. MGIC agreed not to contest coverage due to certain misrepresentations (excluding misrepresentations associated with appraisals) if Countrywide or its agents could satisfy the condition that they did not knowingly make or knowingly participate in the misrepresentation. *Id.* § 2.4.

21. The Flow Policy excluded from coverage any claim where Countrywide's negligence was material to the acceptance of the risk, materially contributed to the loan default, or increased the loss. *Id.* § 4.4(b).

Loan Eligibility Criteria Provisions

22. Under the Flow Policy, Countrywide represented that each loan for which it applied for insurance complied "with the Eligibility Criteria in effect at the time the Application"

was submitted to MGIC. *Id.* § 2.2(c).

23. Loans that did not meet MGIC's eligibility criteria were excluded from coverage under the Flow Policy: "This Policy will not apply to, extend to or cover" "[a]ny Loan that did not meet the Eligibility Criteria in effect at the time the related Application was submitted to [MGIC.]" *Id.* §4.11.

Countrywide's Submission of Thousands of Claims for Fraudulent and Ineligible Loans

24. Due to its reckless underwriting and its facilitation of rampant borrower, broker, appraiser and other fraud, Countrywide loans defaulted at a disproportionately higher rate than those of other mortgage lenders. In recent years, Countrywide loans have defaulted at more than 150% the rate associated with other lenders MGIC insured. MGIC's claims investigations have revealed that Countrywide submitted thousands of applications for insurance that were ineligible for coverage or were riddled with materially false information.

25. Based on the evidence it obtained during its investigations, MGIC has exercised its right to rescind or deny coverage of approximately 1,400 Countrywide claims at issue to date in this Demand. The Countrywide claims that MGIC currently believes to be in dispute are listed in Exhibit B.

Countrywide's Lawsuit

26. On December 17, 2009, Countrywide filed a lawsuit in California Superior Court contesting MGIC's right to rescind or otherwise deny coverage of disputed claims, and purportedly seeking a declaratory judgment. On January 19, 2010, MGIC removed the action to the United States District Court for the Northern District of California under 28 U.S.C. § 1441, and Countrywide has moved to remand the case to state court. On February 25, 2010, MGIC will respond to Countrywide's complaint by filing a motion to stay the lawsuit pending arbitration.

Representative Claims in Dispute

*MGIC Certificate No. 23755967*²

27. MGIC incorporates by reference paragraphs 1 through 26.

28. This claim arises out of [redacted]'s purchase of a \$600,000 home in San Jose, California. According to the borrower's application provided by Countrywide to MGIC, [redacted] worked as an account executive for GNG Investments in Santa Clara, California, and earned \$13,494.03 per month. The Countrywide insurance application file reported that [redacted] put 5% (\$30,000) down and that Countrywide, acting through loan officer [redacted], provided a \$570,000 mortgage loan to [redacted]. Countrywide's file also reported that [redacted] intended to use the home as her primary residence, and that she owned a \$45,000 liquid bank account at Wells Fargo. Based on her reported salary and the monthly debt service, [redacted]'s loan carried a DTI ratio of 37.91%. Based on the representations in Countrywide's insurance application, MGIC agreed to insure the loan under the Flow Policy and issued Countrywide a certificate of insurance.

29. [Redacted] defaulted on her Countrywide mortgage loan and Countrywide submitted a claim to MGIC for insurance coverage.

30. After receiving Countrywide's insurance claim, MGIC investigated the claim and uncovered the following facts. First, contrary to Countrywide's insurance application, [redacted] was never an account executive at GNG Investments. There is no such enterprise operating in Santa Clara or anywhere else in California. Nor did she earn \$13,494 per month, as Countrywide represented. Instead, [redacted] earned \$3,901.58 per month as a janitor for Santa Clara Valley Medical Center.

31. MGIC also learned that, contrary to the representations in Countrywide's insurance application, [redacted] never had a bank account at Wells Fargo, let alone one worth

² When MGIC insures a loan it issues a Certificate to the lender which contains a Certificate number assigned by MGIC to identify the loan in MGIC's records. To protect privacy interests, MGIC has redacted the names of individual borrowers and loan officers associated with each loan described in this exhibit.

\$45,000. Nor did she put a \$30,000 down payment—or a down payment of any amount—on her house. And instead of using the house as a primary residence, [redacted] intended to purchase the property as an investment.

32. [Redacted] reported that she disclosed her true employment, her actual income, her intention to use the property for investment purposes, and the state of her personal finances to the actual loan officer, [redacted]. [Redacted] has never met or heard of [redacted], the loan officer identified on Countrywide's insurance application for this loan.

33. Based on [redacted]'s true income, her loan carried a DTI ratio of 134.05%, far in excess of the 37.91% reported to MGIC. Such a ratio implies that even if [redacted] devoted 100% of her pre-tax income to her mortgage payment she still could not meet her monthly debt service.

34. A DTI ratio of 134.05% far exceeds the maximum DTI ratio established by MGIC's eligibility criteria, and this loan was therefore ineligible for MGIC insurance coverage. Countrywide's insurance application to MGIC contains numerous material misrepresentations about [redacted]'s employment, income, personal finances, and intentions for the property. The loan officer who originated [redacted]'s mortgage loan facilitated and knowingly participated in the misrepresentations. Countrywide knew of the misrepresentations or would have known of them had it not engaged in reckless, unreasonable underwriting practices.

35. Pursuant to the Flow Policy, including §§ 2.2, 2.3, 2.4, 4.4 and 4.11, MGIC is entitled to deny or rescind coverage of this claim.

MGIC Certificate No. 25639575

36. MGIC incorporates by reference paragraphs 1 through 26.

37. This claim arises out of [redacted] purchase of a \$360,000 home in Chicago, Illinois. According to the borrower's application provided by Countrywide to MGIC, [redacted] was an employee at the Paulen Auto Body Shop and earned \$6,833 per month. The Countrywide insurance application file reported that Countrywide, acting through loan officer [redacted], provided a \$339,000 mortgage loan to [redacted]. Countrywide's file also reported that

[redacted] intended to use the home as her primary residence. Based on her reported salary and the monthly debt service, [redacted]'s loan carried a DTI ratio of 39%. Based on the representations in Countrywide's insurance application, MGIC agreed to insure the loan under the Flow Policy and issued Countrywide a certificate of insurance.

38. [Redacted] defaulted on her Countrywide mortgage loan and Countrywide submitted a claim to MGIC for insurance coverage.

39. After receiving Countrywide's insurance claim, MGIC investigated the claim and uncovered the following facts. First, contrary to Countrywide's insurance application, [redacted] was never employed by the Paulen Auto Body Shop. Nor did she earn \$6,833 per month, as Countrywide represented. [Redacted] was a part-time housekeeper who earned \$200 to \$300 per week, or approximately \$1,300 per month.

40. MGIC also learned that, contrary to the representations in Countrywide's insurance application, [redacted] did not purchase the property as her primary residence. [Redacted] posed as a front buyer to help her sister, [redacted], and brother-in-law, [redacted], acquire the home. A few months after closing, [redacted] returned to her home in Poland because she was unable to find steady work in Chicago.

41. [Redacted] reported to MGIC that she disclosed her true employment, her actual income, and her intention to help her family purchase the property to the loan officer [redacted]. [Redacted] told [redacted] that she could pose as a front buyer, obtain mortgage financing for her sister and brother-in-law, and avoid personal responsibility for the loan. [Redacted] advised [redacted] that she would need to produce proof of employment and income to complete the loan transaction. When [redacted] informed [redacted] that she was a friend of [redacted], the son of the owner of the Paulen Auto Body Shop, [redacted] helped her prepare a document for Mr. [redacted] to sign that falsely stated her employment and monthly income. [Redacted] signed [redacted]'s document under the fictitious name [redacted].

42. [Redacted] also reported that she was not present at closing, and [redacted] permitted her brother-in-law [redacted] to sign her name on the closing documents. She believes

responsibility for the mortgage lies with Mr. and Mrs. [redacted] and has never made a mortgage payment.

43. Based on [redacted]'s actual income, her loan carried a DTI ratio of 205.47%, far in excess of the 39% reported to MGIC.

44. Countrywide's insurance application to MGIC contains numerous material misrepresentations about [redacted]'s employment, income, and intentions for the property. The loan officer who originated [redacted]'s mortgage loan facilitated and knowingly participated in the misrepresentations. Countrywide knew of the misrepresentations or would have known of them had it not engaged in reckless, unreasonable underwriting practices.

45. Pursuant to the Flow Policy, including §§ 2.2, 2.3, 2.4, and 4.4, MGIC is entitled to deny or rescind coverage of this claim.

MGIC Certificate No. 25797915

46. MGIC incorporates by reference paragraphs 1 through 26.

47. This claim arises out of [redacted]'s purchase of a \$350,000 home in Livingston, California. According to the borrower's application provided by Countrywide to MGIC, [redacted] worked as a dairy foreman at Jose Silveira Dairy and earned \$10,500 per month. The Countrywide insurance application file reported that Countrywide, acting through loan officer [redacted], provided a \$350,000 mortgage loan to [redacted]. Countrywide's file also reported that [redacted] intended to use the home as his primary residence. Based on his reported monthly income and debt service, [redacted]'s loan carried a DTI ratio of 43.26%. Based on the representations in Countrywide's insurance application, MGIC agreed to insure the loan under the Flow Policy and issued a certificate of insurance.

48. [Redacted] defaulted on his Countrywide mortgage loan and Countrywide submitted a claim to MGIC for insurance coverage.

49. After receiving Countrywide's insurance claim, MGIC investigated the claim and uncovered the following facts. First, contrary to Countrywide's insurance application, [redacted] was not a dairy foreman and did not earn \$10,500 per month. Instead, [redacted] was employed

as a milker for Jose Silveira Dairy and earned \$1,100 per month.

50. MGIC also learned that, contrary to the representations in Countrywide's insurance application, [redacted] did not intend to purchase the home as his primary residence. He instead intended to help his son acquire the property.

51. [Redacted] reported that he disclosed his true employment, his actual income, and his intention to help [redacted] purchase the property to loan officer [redacted]. [Redacted] falsely informed [redacted] that [redacted] could help his son buy the home without bearing responsibility for the monthly mortgage payments. [Redacted] described the transaction to [redacted] as "lending your son your credit." [Redacted], who cannot read English, signed the closing documents where [redacted] told him to. [Redacted] knew that [redacted] never intended to live at the property or to make any mortgage payments.

52. Based on [redacted]'s actual income, his loan carried a DTI ratio of 403.40%, nearly 10 times higher than the DTI ratio represented in Countrywide's insurance application.

53. Countrywide's insurance application to MGIC contains numerous material misrepresentations about [redacted]'s employment, income, and intentions for the property. The loan officer who originated [redacted]'s mortgage loan facilitated and knowingly participated in the misrepresentations. Countrywide knew of the misrepresentations or would have known of them had it not engaged in reckless, unreasonable underwriting practices.

54. Pursuant to the Flow Policy, including §§ 2.2, 2.3, 2.4, and 4.4, MGIC is entitled to deny or rescind coverage of this claim.

MGIC Certificate No. 23789635

55. MGIC incorporates by reference paragraphs 1 through 26.

56. This claim arises out of [redacted]'s refinancing of her home in Ceres, California. According to the borrower's application provided by Countrywide to MGIC, [redacted] worked as a sales executive for Bay Area Sales and Marketing, and earned \$8,700 per month. The Countrywide insurance application file reported that Countrywide, acting through loan officer [redacted], provided a \$398,050 mortgage loan to [redacted] to refinance her home.

Countrywide's file also reported that [redacted] intended to use the home as her primary residence and did not have any other mortgages or loans in her name. Based on her reported salary and the monthly debt service, [redacted]'s loan carried a DTI ratio of 35.17%. Based on the representations in Countrywide's insurance application, MGIC agreed to insure the loan under the Flow Policy and issued a certificate of insurance.

57. [Redacted] defaulted on her Countrywide mortgage loan and Countrywide submitted a claim to MGIC for insurance coverage.

58. After receiving Countrywide's insurance claim, MGIC investigated the claim and uncovered the following facts. First, contrary to Countrywide's insurance application, [redacted] never worked as a sales executive for Bay Area Sales and Marketing. There is no such enterprise. Nor did she earn \$8,700 per month, as Countrywide represented. Instead, [redacted] had been unemployed since 1989. Her husband, who was not named on the Countrywide mortgage loan, was the sole provider in [redacted]'s household.

59. MGIC also learned that, contrary to the representations in Countrywide's insurance application, [redacted] did not intend to use the home as her primary residence. She instead intended to rent the property to her daughter. In addition, [redacted] had two undisclosed mortgages on a property that was not mentioned in Countrywide's insurance application. These undisclosed mortgage loans raised [redacted]'s monthly debt-service obligations from \$2,300 to \$5,811.56.

60. [Redacted] reported that she disclosed her unemployment status, her lack of income, and her intention to rent the property to [redacted].

61. Without any income of her own, [redacted]'s DTI ratio was infinitely high.

62. Because she had no income, [redacted]'s DTI ratio exceeded the maximum DTI ratio established by MGIC's eligibility criteria, and this loan was therefore ineligible for MGIC insurance coverage. Countrywide's insurance application to MGIC contains numerous material misrepresentations about [redacted]'s employment, income, and intentions for the property. The loan officer who originated [redacted]'s mortgage loan facilitated and knowingly participated in

the misrepresentations. Countrywide knew of the misrepresentations or would have known of them had it not engaged in reckless, unreasonable underwriting practices.

63. Pursuant to the Flow Policy, including §§ 2.2, 2.3, 2.4, 4.4 and 4.11, MGIC is entitled to deny or rescind coverage of this claim.

MGIC Certificate No. 25616578

64. MGIC incorporates by reference paragraphs 1 through 26.

65. This claim arises out of [redacted]'s purchase of a \$395,000 home in Atlanta, Georgia. The Countrywide insurance application file reported that [redacted] put 10% (\$39,500) down and that Countrywide provided a \$355,500 mortgage loan to him. Countrywide's file also reported that, as of August 28, 2007, the appraised value of the property was \$395,500. Based on the appraised value and a 10% down payment, [redacted]'s loan carried a LTV ratio of 90%. Based on the representations in Countrywide's insurance application, MGIC agreed to insure the loan under the Flow Policy and issued a certificate of insurance.

66. [Redacted] defaulted on his Countrywide loan and Countrywide submitted a claim to MGIC for insurance coverage.

67. After receiving Countrywide's insurance claim, MGIC investigated the claim and uncovered the following facts. Contrary to Countrywide's insurance application, [redacted]'s home was not worth \$395,500 as of August 28, 2007. [Redacted]'s home had sold three times in the year prior to the effective date of Countrywide's appraisal: on October 3, 2006 for \$199,750; on February 6, 2007, for \$127,500; and on March 23, 2007, five months before the represented appraisal, for \$200,000. Countrywide's appraisal did not note any significant improvements to the property, and there is no reasonable basis for the five-month, 98% appreciation implied by Countrywide's \$395,000 appraisal. A retroactive appraisal based on comparable sales in the vicinity of [redacted]'s property showed that the fair market value of the real estate as of August 28, 2007, was \$277,000.

68. Based on the 10% down payment and the \$277,000 fair value of [redacted]'s property, his loan carried an LTV ratio of 128.34%, or 42.60% higher than represented in

Countrywide's application for mortgage insurance.

69. Countrywide's application for insurance, including its appraisal, materially misrepresents the true value of [redacted]'s property.

70. Pursuant to the Flow Policy, including §§ 2.2, 2.3, 2.4, and 4.4, MGIC is entitled to deny or rescind coverage of this claim.

MGIC Certificate No. 24475116

71. MGIC incorporates by reference paragraphs 1 through 26.

72. This claim arises out of [redacted]'s purchase of a \$187,400 condo in Decatur, Illinois. According to the borrower's application provided by Countrywide to MGIC, [redacted] earned \$3,400 per month. The Countrywide insurance application file reported that Countrywide, acting through loan officer [redacted], provided a \$187,400 mortgage loan to [redacted]. Countrywide's file also reported that [redacted] intended to purchase the property as his primary residence and did not have any other mortgage loans. Countrywide's file further reported that, as of December 13, 2006, the appraised value of the property was \$187,400. Based on the appraised value of the condo and [redacted]'s reported salary and monthly debt service, his loan carried an LTV ratio of 100% and a DTI ratio of 65.94%. Based on the representations in Countrywide's insurance application, MGIC agreed to insure the loan under the Flow Policy and issued a certificate of insurance.

73. [Redacted] defaulted on his Countrywide mortgage loan and Countrywide submitted a claim to MGIC for insurance coverage.

74. After receiving Countrywide's insurance claim, MGIC investigated the claim and uncovered the following facts. First, contrary to Countrywide's insurance application, [redacted] did not intend to occupy the condo as his primary residence. Instead, he was a front buyer for an investment firm called The One Group. Under an arrangement he had with the group's principals, [redacted] purchased real estate in the Chicago area that The One Group converted into rental properties.

75. MGIC also learned that, contrary to the representations in Countrywide's

insurance application, [redacted] had multiple undisclosed mortgages on properties he purchased for The One Group. These undisclosed mortgages raised his total monthly debt payments from \$2,240.99 to \$8,892.28.

76. Contrary to Countrywide's insurance application, [redacted]'s condo was not worth \$187,400 as of December 13, 2006. A retroactive appraisal based on comparable sales in the vicinity of [redacted]'s property showed that the fair market value of the condo as of December 13, 2006, was \$155,000.

77. [Redacted] reported that he disclosed his multiple mortgages and his intention not to reside in the condo to the loan officer [redacted]. [Redacted] himself worked for the principals of The One Group and knowingly facilitated their fraud by forging [redacted]'s signature on loan and closing documents.

78. Based on the actual value of the condo, [redacted]'s mortgage loan, his undisclosed monthly loan obligations, and his total monthly income, [redacted]'s loan carried an LTV ratio of 120.90% and a DTI ratio of 261.57%.

79. Countrywide's application for insurance, including its appraisal, materially misrepresents the true value of [redacted]'s property. Countrywide's insurance application also contains numerous material misrepresentations about [redacted]'s monthly debt obligations and intentions for the property. The loan officer who originated [redacted]'s mortgage loan facilitated and knowingly participated in the misrepresentations. Countrywide knew of the misrepresentations or would have known of them had it not engaged in reckless, unreasonable underwriting practices.

80. Pursuant to the Flow Policy, including §§ 2.2, 2.3, 2.4, and 4.4, MGIC is entitled to deny or rescind coverage of this claim.

MGIC Certificate No. 23576240

81. MGIC incorporates by reference paragraphs 1 through 26.

82. This claim arises out of [redacted]'s purchase of a \$565,000 home in San Bernardino, California. According to the borrower's application provided by Countrywide to

MGIC, [redacted] owned a production company, and, according to tax returns submitted with the application, earned \$17,661 per month. The Countrywide insurance application file reported that [redacted] put 12% (\$70,000) down, as evidenced by a Bank of America cashier's check, and that Countrywide provided a \$495,000 mortgage loan to him. Countrywide's file also reported that [redacted] owned a \$79,458 liquid bank account at Washington Mutual. Based on his reported salary and the monthly debt service, [redacted]'s loan carried a DTI ratio of 16.55%. Based on the representations in Countrywide's insurance application, MGIC agreed to insure the loan under the Flow Policy and issued Countrywide a certificate of insurance.

83. [Redacted] defaulted on his Countrywide mortgage loan and Countrywide submitted a claim to MGIC for insurance coverage.

84. After receiving Countrywide's insurance claim, MGIC investigated the claim and uncovered the following facts. First, contrary to Countrywide's insurance application, there is no evidence that [redacted] owned a production company. Nor did he earn \$17,661 per month, as Countrywide represented. The tax returns Countrywide submitted in its application were fraudulent. [redacted] has no verified income.

85. MGIC also learned that, contrary to the representations in Countrywide's insurance application, [redacted] does not have a bank account at Washington Mutual, let alone one worth \$79,458. Nor did he put a \$70,000 down payment—or a down payment of any amount—on his house.

86. Because [redacted] has no verified income, his loan carried a DTI ratio of infinity.

87. [Redacted]'s true DTI ratio failed to meet MGIC's eligibility criteria, and this loan was therefore ineligible for MGIC insurance coverage. Countrywide's insurance application to MGIC contains numerous material misrepresentations about [redacted]'s employment, income, and personal finances. Countrywide knew of the misrepresentations or would have known of them if it had not engaged in reckless, unreasonable underwriting practices.

88. Pursuant to the Flow Policy, including §§ 2.2, 2.3, 2.4, 4.4 and 4.11, MGIC is

entitled to deny or rescind coverage of this claim.

MGIC Certificate No. 25610693

89. MGIC incorporates by reference paragraphs 1 through 26.

90. This claim arises out of [redacted]'s purchase of a \$205,000 home in Rancho Cucamo, California. According to the borrower's application provided by Countrywide to MGIC, [redacted] was a field supervisor for Care Net Management Services, and earned \$6,150 per month. The Countrywide insurance application file reported that Countrywide, acting through loan officer [redacted], provided a \$205,000 mortgage loan to [redacted]. Countrywide's file also reported that [redacted] intended to use the home as his primary residence and had no other monthly loan obligations. Based on his reported salary and the monthly debt service, [redacted]'s loan carried a DTI ratio of 33.13%. Based on the representations in Countrywide's insurance application, MGIC agreed to insure the loan under the Flow Policy and issued Countrywide a certificate of insurance.

91. [Redacted] defaulted on his Countrywide mortgage loan and Countrywide submitted a claim to MGIC for insurance coverage.

92. After receiving Countrywide's insurance claim, MGIC investigated the claim and uncovered the following facts. First, contrary to Countrywide's insurance application, [redacted] was never a field supervisor at Care Net Management Services. Nor did he earn \$6,150 per month, as Countrywide represented. Instead, [redacted] was employed at Legg Construction at the time of the application, and earned \$4,160.83 per month.

93. MGIC also learned that, contrary to the representations in Countrywide's insurance application, [redacted] had other debts that raised his monthly debt payments from \$2,037.66 to \$3,618.66. And [redacted] did not intend to occupy the home as his primary residence. Instead, he was a front buyer who purchased the home for the loan officer, Jesse Spinner, who planned to rent out the property.

94. [Redacted] reported that he disclosed his true employment, his actual income, his actual monthly debts, and his intention to use the property for investment purposes to [redacted].

[Redacted] falsely assured [redacted] that posing as a front buyer was a legal means of building [redacted]'s credit.

95. Based on [redacted]'s actual income and his undisclosed monthly debts, his loan carried a DTI ratio of 86.97%, far in excess of the 34.13% reported to MGIC.

96. Countrywide's insurance application to MGIC contains numerous material misrepresentations about [redacted]'s employment, income, personal finances, and intentions for the property. The loan officer who originated [redacted]'s mortgage loan facilitated and knowingly participated in the misrepresentations. Countrywide knew of the misrepresentations or would have known of them had it not engaged in reckless, unreasonable underwriting practices.

97. Pursuant to the Flow Policy, including §§ 2.2, 2.3, 2.4, and 4.4, MGIC is entitled to deny or rescind coverage of this claim.

MGIC Certificate No. 24487467

98. MGIC incorporates by reference paragraphs 1 through 26.

99. This claim arises out of [redacted]'s purchase of a \$115,000 home in Milwaukee, Wisconsin. According to the borrower's application provided by Countrywide to MGIC, [redacted] was a State Farm Agent, and earned \$4,562 per month. The Countrywide insurance application file reported that [redacted] put 5% (\$5,750) down and that Countrywide, acting through a loan officer at Mortgage Solutions of Wauwatosa, provided a \$109,250 mortgage loan to her. Countrywide's file also reported that [redacted] owned a liquid bank account at TCF Bank worth \$21,631.40. Countrywide's file further reported that, as of December 19, 2006, the appraised value of the property was \$115,000. Based on the appraised value of the home and [redacted]'s down payment, reported salary and monthly debt service, her loan carried an LTV ratio of 95% and a DTI ratio of 38.98%. Based on the representations in Countrywide's insurance application, MGIC agreed to insure the loan under the Flow Policy and issued a certificate of insurance.

100. [Redacted] defaulted on her Countrywide mortgage loan and Countrywide

submitted a claim to MGIC for insurance coverage.

101. After receiving Countrywide's insurance claim, MGIC investigated the claim and uncovered the following facts. First, contrary to Countrywide's insurance application, [redacted] was an account representative, not an agent, of a State Farm agency. She did not earn \$4,562 per month, as Countrywide represented. Instead, [redacted] earned \$1,695.08 per month.

102. MGIC also learned that, contrary to the representations in Countrywide's insurance application, [redacted] did not own a \$21,631.40 TCF Bank account. Nor did she put a \$5,750 down payment—or a down payment of any amount—on her house.

103. Contrary to Countrywide's insurance application, [redacted]'s house was not worth \$115,000 as of December 19, 2006. A retroactive appraisal based on comparable sales in the vicinity of [redacted]'s property showed the fair market value for the condo as of December 19, 2006, was \$100,000.

104. [Redacted] reported that she disclosed her true income and the true state of her personal finances to her loan officer.

105. Based on the fair value of the home and [redacted]'s true income, her loan carried an LTV ratio of 109.2% and a DTI ratio of 115.17%.

106. An LTV ratio of 109.20% and a DTI ratio of 115.17% far exceed the maximum LTV and DTI ratios established by MGIC's eligibility criteria, and this loan was therefore ineligible for MGIC insurance coverage. Countrywide's application for insurance, including its appraisal, materially misrepresents the true value of [redacted]'s property. Countrywide's insurance application also contains numerous material misrepresentations about [redacted]'s income and personal finances. The loan officer who originated [redacted]'s mortgage loan facilitated and knowingly participated in the misrepresentations. Countrywide knew of the misrepresentations or would have known of them had it not engaged in reckless, unreasonable underwriting practices.

107. Pursuant to the Flow Policy, including §§ 2.2, 2.3, 2.4, 4.4 and 4.11, MGIC is entitled to deny or rescind coverage of this claim.

MGIC Certificate No. 24612529

108. MGIC incorporates by reference paragraphs 1 through 26.

109. This claim arises out of [redacted]'s refinancing of her home in Sylvan Lake, Michigan. According to the borrower's application provided by Countrywide to MGIC, [redacted] was an administrative assistant for Oakland County, and earned \$4,800 per month. The Countrywide insurance application file reported that Countrywide, acting through loan officer [redacted], provided a \$231,000 mortgage loan to refinance [redacted]'s home. Based on [redacted]'s reported salary and monthly debt service, her loan carried a DTI ratio of 47.65%. Based on the representations in Countrywide's insurance application, MGIC agreed to insure the loan under the Flow Policy and issued a certificate of insurance.

110. [Redacted] defaulted on her Countrywide mortgage loan and Countrywide submitted a claim to MGIC for insurance coverage.

111. After receiving Countrywide's insurance claim, MGIC investigated the claim and uncovered the following facts. First, contrary to Countrywide's insurance application, [redacted] did not earn \$4,800 per month, as Countrywide represented. Instead, [redacted]'s monthly income was approximately \$2,500.

112. [Redacted] reported that she disclosed her true income to [redacted]. [Redacted] falsely assured [redacted] that she earned enough to qualify for refinancing and assured her that her monthly loan payment would be \$650 per month.

113. Based on [redacted]'s true income and her \$2,287 monthly debt obligation, her loan carried a DTI ratio 91.19%.

114. A DTI ratio of 91.19% far exceeds the maximum DTI ratio established by MGIC's eligibility criteria, and this loan was therefore ineligible for MGIC insurance coverage. Countrywide's application for insurance materially misrepresents [redacted]'s income. The loan officer who originated [redacted]'s mortgage loan facilitated and knowingly participated in the misrepresentations. Countrywide knew of the misrepresentations or would have known of them had it not engaged in reckless, unreasonable underwriting practices.

115. Pursuant to the Flow Policy, including §§ 2.2, 2.3, 2.4, 4.4 and 4.11, MGIC is entitled to deny or rescind coverage of this claim.

Prayer For Relief

MGIC requests that the Arbitrator order that MGIC is entitled to rescind or deny coverage of all disputed claims under the Flow Policy, including without limitation the ten representative claims above and the disputed claims listed in Exhibit B to this Demand, and provide such other relief as the Arbitrator deems appropriate.

DATED: February 24, 2010

BARTLIT BECK HERMAN
PALENCHAR & SCOTT LLP

By _____
Jeffrey A. Hall
Joseph C. Smith, Jr.
Andrew C. Baak
Ashley C. Keller

54 W. HUBBARD, SUITE 300
CHICAGO, IL 60654
Telephone: (312) 494-4400
Facsimile: (312) 494-4440
jeff.hall@bartlit-beck.com
andrew.baak@bartlit-beck.com
ashley.keller@bartlit-beck.com

1899 Wynkoop Street, 8th Floor
Denver, CO 80202
Telephone: (303) 592-3100
Facsimile: (303) 592-3140
joseph.smith@bartlit-beck.com

Attorneys for Claimant

CERTIFICATE OF SERVICE

The undersigned hereby certifies that on the 24th day of February, 2010, the **MORTGAGE GUARANTY INSURANCE CORPORATION'S DEMAND FOR ARBITRATION** was submitted to the American Arbitration Association and was served upon the following counsel for Respondents by electronic mail and by Federal Express:

David M. Halbreich
REED SMITH LLP
355 SOUTH GRAND AVENUE
SUITE 2900
LOS ANGELES, CA 90071
TELEPHONE: (213) 457-8000
FACSIMILE: (213) 457-8080
dhalbreich@reedsmith.com

David E. Weiss
REED SMITH LLP
101 SECOND STREET, SUITE 1800
SAN FRANCISCO, CA 94105-3659
TELEPHONE: (415) 543-8700
FACSIMILE: (415) 391-8269
dweiss@reedsmith.com

Attorneys for Respondents
COUNTRYWIDE HOME LOANS, INC. and
BAC HOME LOANS SERVICING, LP

Anita J. Seggelink