



June 3, 2010

Via Email & FedEx

Mr. Daniel H. Mudd
c/o James D. Wareham, Esq.
Paul, Hastings, Janofsky & Walker LLP
875 15th Street, N.W.
Washington, DC 20005
jameswareham@paulhastings.com

Phil Angelides
Chairman

Hon. Bill Thomas
Vice Chairman

Re: Financial Crisis Inquiry Commission Hearing on April 9, 2010

Dear Mr. Mudd:

On April 12, 2010, Chairman Angelides and Vice Chairman Thomas sent you a letter thanking you for testifying at the April 9, 2010 hearing and informing you that the staff of the FCIC would be contacting you to follow up on certain areas of your testimony and to submit written questions and requests for information related to your testimony, which are listed below. Please provide your answers and any additional information by June 17, 2010.¹

1. The FHFA's September 6, 2008 memorandum recommended placing the company into conservatorship. Do you agree or disagree with this recommendation and the conclusion of that memorandum that Fannie Mae's executive management team made imprudent decisions that led to the company operating in an unsafe and unsound condition, despite clear signs in the latter half of 2006 and 2007 of growing problems in the economy. If you do not agree, please explain why.
2. Would you agree that having extremely high leverage ratios and the inability to manage the risks was more important to the firm failing than a lack of diversification? Please explain.

¹ The answers you provide to the questions in this letter are a continuation of your testimony and under the same oath you took before testifying on April 9, 2010. Further, please be advised that according to section 1001 of Title 18 of the United States Code, "Whoever, in any matter within the jurisdiction of any department or agency of the United States knowingly and willfully falsifies, conceals or covers up by any trick, scheme, or device a material fact, or makes any false, fictitious or fraudulent statements or representations, or makes or uses any false writing or document knowing the same to contain any false, fictitious or fraudulent statement or entry, shall be fined under this title or imprisoned not more than five years, or both."

Brooksley Born
Commissioner

Byron S. Georgiou
Commissioner

Senator Bob Graham
Commissioner

Keith Hennessey
Commissioner

Douglas Holtz-Eakin
Commissioner

Heather H. Murren, CFA
Commissioner

John W. Thompson
Commissioner

Peter J. Wallison
Commissioner

Wendy Edelberg
Executive Director

3. Please explain all specific actions Fannie Mae took, either directly or through its lobbyists, to influence 1) the funding levels of its regulator; 2) the enactment of stricter capital standards; and 3) the regulator's authority to regulate the size of Fannie Mae's portfolio.
4. How large was Fannie Mae's political action committee during your tenure at the company? How many employees contributed to the PAC? How large were the contributions made to the PAC?
5. Did Fannie make unsecured loans to delinquent borrowers under the Home Saver Advance Program or any other program where the underlying loans, thereafter were, no longer reported as delinquent loans? Did Fannie make those unsecured loans so it would not have to repurchase the underlying loans and record mark-to-market charges? If so, do you think the practice was proper?
6. How influential were HUD's affordable housing guidelines in Fannie Mae's purchase of subprime and Alt-A loans? Were Alt-A loans "goals rich?" Were Alt-A loans net positive for housing goals?
7. Did Fannie Mae's purchase of MBS structured by Wall Street allow Wall Street to increase their volume?
8. Prior to September of 2008, did you ever tell Fannie Mae that its increased purchase and guarantee of risky, non-traditional mortgages was unsafe and unsound? Why or why not? Was there internal discussion within OFHEO/FHFA that the company was operating in an unsafe and unsound manner?

The FCIC appreciates your cooperation in providing the information requested. Please do not hesitate to contact Jeff Smith at (202) 292-1398 or jsmith@fcic.gov if you have any questions or concerns.

Sincerely,



Wendy Edelberg
Executive Director
Financial Crisis Inquiry Commission

Mr. Daniel H. Mudd

June 3, 2010

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cc: Phil Angelides, Chairman, Financial Crisis Inquiry Commission
Bill Thomas, Vice Chairman, Financial Crisis Inquiry Commission

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San Francisco
Shanghai
Tokyo
Washington, DC

(202) 551-1728
jameswareham@paulhastings.com

June 17, 2010

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VIA EMAIL AND U.S. MAIL

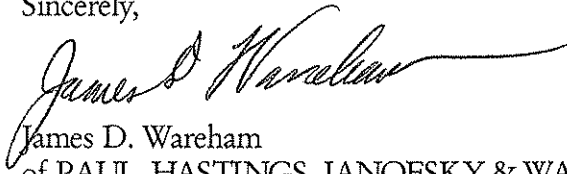
Ms. Wendy Edelberg
Executive Director
Financial Crisis Inquiry Commission
1717 Pennsylvania Avenue, NW, Suite 800
Washington, DC 20006-4614

Re: June 3, 2010 Letter

Dear Ms. Edelberg:

Enclosed please find Mr. Mudd's responses to the questions posed by the FCIC in your June 3, 2010 letter.

Sincerely,



James D. Wareham
of PAUL, HASTINGS, JANOFSKY & WALKER LLP

Enclosure

Daniel H. Mudd's Responses to the Questions Presented in the FCIC's June 3, 2010 Letter

1. The FHFA's September 6, 2008 memorandum recommended placing the company into conservatorship. Do you agree or disagree with this recommendation and the conclusion of that memorandum that Fannie Mae's executive management team made imprudent decisions that led to the company operating in an unsafe and unsound condition, despite clear signs in the latter half of 2006 and 2007 of growing problems in the economy. If you do not agree, please explain why.

I do not recall the FHFA September 6, 2008 memorandum and may not have received this specific document. However, I did disagree with the September 2008 recommendation to place the company into conservatorship.

I disagree with any suggestion that management made imprudent decisions. I also disagree with the assertion that signs in the latter half of 2006 and 2007 were clear. While there were some signs of weakness in the economy, the housing market continued to be strong, and most market participants assumed it would remain solid. Management was monitoring market dynamics and our risk exposures, weighing all available and reliable information, and acting prudently to run Fannie Mae with the information we had at the time. The unprecedented, parabolic upward curve in delinquencies, foreclosures, and credit losses that accompanied the first nationwide home price declines in our nation's history did not take shape until well into 2008. At the suggestion of the Treasury Secretary, I engaged BlackRock to evaluate our analyses, and I understand that, well into the Fall of 2008 (after I had left), BlackRock's estimates were consistent with the company's internal work.

Throughout my tenure as CEO, Fannie Mae management had been working closely with OFHEO/FHFA to facilitate their ongoing examinations and to address and remediate any concerns FHFA may have raised as they were identified. Fannie Mae had been engaged in good faith discussions and transparent operations with FHFA. Throughout my tenure, I met personally with the OFHEO Director monthly, and assigned a full time staff to provide OFHEO with daily, onsite support, and full access to information, individuals, and activities. The OFHEO Director and staff had full access to Fannie Mae facilities, analyses, Board records, and the company previewed public filings with the agency. Among other things, Fannie Mae continually exceeded its capital requirements, and was found to be adequately capitalized until the September 2008 events implied otherwise. I disagreed with FHFA's recommendation for conservatorship in part because the government could not enunciate a clear rationale for the takeover, had no specific plan for running the company in conservatorship, and could not point to any instance where the company had failed to meet a government request.

2. Would you agree that having extremely high leverage ratios and the inability to manage the risks was more important to the firm failing than a lack of diversification? Please explain.

I would not agree that leverage ratios or risk management caused the company's failure. Rather, I believe the problems stemmed from lack of diversification and inconsistent government action. I agree with former Treasury Secretary Paulson's assessment that the primary cause was

the GSE model and the chartering of the company as a mono-line business. Because the company was Congressionally mandated to invest solely in domestic housing, it was unable to diversify to weather the unprecedented 30% national home prices declines. The lack of diversification left the company 100% exposed to the collapse of the housing market.

It is unlikely that more capital and less leverage would have prevented the government's decision to place Fannie Mae into conservatorship. Fannie Mae consistently exceeded the capital level required by statute and the regulator. As a GSE, Fannie Mae was designed to be a private company with a public mission. Fannie Mae had to operate a business to provide a return to investors and attract global capital to support the U.S. housing market.

As I mentioned during the hearing, the following theoretical analysis is instructive: if the maximum historical net income of Fannie Mae (\$6-8 billion), had been employed exclusively to service additional capital, the maximum capital the company could have raised at a AAA level would have been about \$90 billion. This would not have been enough to absorb the losses incurred by the collapsed housing market—the company's only industry. In reality, given market conditions in 2007-2008, it would have been extremely difficult to raise such a high level of theoretical capital; in practice, Fannie Mae had (in contrast to Freddie Mac) raised capital throughout the period, and at the time of my departure had more capital on the books than at any point in the company's history. In hindsight, it would appear that no amount of capital could have been raised by a business operating solely in the housing industry to offset the losses incurred by unprecedented and sustained national housing declines. Thus, the problems come back to the GSE model and the statutory inability to diversify.

3. Please explain all specific actions Fannie Mae took, either directly or through its lobbyists, to influence 1) the funding levels of its regulator; 2) the enactment of stricter capital standards; and 3) the regulator's authority to regulate the size of Fannie Mae's portfolio.

As a Government Sponsored Enterprise, with a public mission, Fannie Mae interacted with Congress, often at the behest of Congress itself. Congress and its members made inquiries to Fannie Mae, and the company would generally prepare and deliver responses through those familiar with government processes, including lobbyists.

During my tenure as CEO, various housing bills were presented that would have impacted the housing industry and the company's regulator. As I have testified before Congress in the past, I supported the creation of a strong, credible, and well-funded regulator.

Capital standards were addressed by proposed legislation, and Fannie Mae believed the best way to state capital standards was in the legislation itself. Based on my experience at Fannie Mae, the prior regulator was ill-suited to use its discretion to develop and implement capital requirements. OFHEO's initial attempt to develop capital standards took nine years. Fannie Mae believed the stability and transparency of a capital requirement set by statute was the best method.

The size of the portfolio has been a subject of Congressional inquiry from time to time. Fannie Mae had taken the position that the portfolio was an important tool in running the business to fulfill its mission. As I have testified before Congress in the past, the portfolio enhanced Fannie Mae's ability to increase liquidity in the marketplace. The portfolio also helped enhance the return on investment for Fannie Mae's shareholders, which helped Fannie Mae attract global capital for the U.S. housing market. For all of these reasons, Fannie Mae believed the portfolio business was an important component of the business that should not have been unreasonably restricted.

Finally, during my tenure as CEO, Fannie Mae did not lobby against funding increases for OFHEO.

4. How large was Fannie Mae's political action committee during your tenure at the company? How many employees contributed to the PAC? How large were the contributions made to the PAC?

I have not worked for Fannie Mae for almost two years now, and I do not have personal recollection of the requested information nor access to company records. From public records provided by the Federal Election Commission, it appears that 1910 contributions were made to the Federal National Mortgage Association Political Action Committee (Fannie Mae PAC) during the period of the retained FEC records.

5. Did Fannie make unsecured loans to delinquent borrowers under the Home Saver Advance Program or any other program where the underlying loans, thereafter were, no longer reported as delinquent loans? Did Fannie make those unsecured loans so it would not have to repurchase the underlying loans and record mark-to-market charges? If so, do you think the practice was proper?

The Home Saver Advance Program was one of many programs that Fannie Mae put into place to help struggling homeowners. The program is one of many loss mitigation and foreclosure prevention programs. Consistent with my recollections of the program, Fannie Mae's public materials and securities filings explain that the program allows servicers to provide qualified delinquent borrowers, who are able to make future scheduled payments, but not past-due amounts, with a new unsecured loan for the past-due amount to cure the delinquency. For qualified borrowers, this loan cures the delinquency and allows the borrower to resume normal payments on the existing mortgage, and as I recall, was thus suitable for borrowers facing short term financial hardships such as illness or temporary loss of employment. The program was designed to work with eligible homeowners to avoid foreclosure, consistent with market practice and national policy.

6. How influential were HUD's affordable housing guidelines in Fannie Mae's purchase of subprime and Alt-A loans? Were Alt-A loans "goals rich"? Were Alt-A loans net positive for housing goals?

Fannie Mae's mission regulator, HUD, imposed ever-higher housing goals that were very difficult to meet during my tenure as CEO. The HUD goals greatly impacted Fannie Mae's

business, as a great deal of time, resources, energy, and personnel were dedicated to finding ways to meet these goals. HUD increased the goals aggressively over time to the point where they exceeded the 50% mark, requiring Fannie Mae to place greater emphasis on purchasing loans in underserved areas. Fannie Mae had to devote a great deal of resources to running its business to satisfy HUD's goals and subgoals. This became particularly problematic when goal requirements grew to far exceed the proportion of eligible goals originated in the primary market. Subprime mortgages were generally accretive to Fannie Mae's HUD goals and subgoals. While in general, Alt-A loans were not as rich in goals contribution as subprime loans, Alt-A loans did, at times, contribute to some goals and subgoals.

7. Did Fannie Mae's purchase of MBS structured by Wall Street allow Wall Street to increase their volume?

There were many purchasers of Wall Street MBS, including large banks, Wall Street firms, hedge funds, European institutional investors, and Freddie Mac. Had Fannie Mae not purchased Wall Street MBS, other market participants likely would have filled that gap and purchased those products. Before the crisis, the market was very robust, with demand for these products often outpacing supply. Thus, I do not believe Fannie Mae's purchases allowed Wall Street to increase volume. Within this context, Fannie Mae's purchases were consistent with its mission of expanding homeownership.

8. Prior to September of 2008, did you ever tell Fannie Mae that its increased purchase and guarantee of risky, non-traditional mortgages was unsafe and unsound? Why or why not? Was there internal discussion within OFHEO/FHFA that the company was operating in an unsafe and unsound manner?

I never believed that Fannie Mae's purchases of non-traditional mortgages were unsafe and unsound. I never believed that Fannie Mae did not have the capabilities to manage purchases of these types of mortgages. I am not aware of internal discussion within OFHEO/FHFA that the company was operating in an unsafe and unsound manner. I would not have been privy to such discussions at OFHEO/FHFA in any event.