

**UNITED STATES DISTRICT COURT
FOR THE DISTRICT OF COLUMBIA**

FAIRHOLME FUNDS, INC., *et al.*,

Plaintiffs,

v.

FEDERAL HOUSING FINANCE
AGENCY, *et al.*,

Defendants.

Civil No. 13-1053 (RCL)

In re Fannie Mae/Freddie Mac Senior
Preferred Stock Purchase Agreement Class
Action Litigations

Miscellaneous No. 13-1288 (RCL)

This document relates to:
ALL CASES

**JOINT SUBMISSION OF DEPOSITION DESIGNATIONS
AS PLAYED DURING TRIAL**

The parties hereby submit the transcripts of the testimony presented to the jury by deposition videos at trial. The transcripts attached are the following:

1. Mukarram Attari, Ph.D (Exhibit A)
2. David Benson (Exhibit B)
3. Joseph Cacciapalle (Exhibit C)
4. Donald Layton (Exhibit D)
5. James Lockhart (Exhibit E)
6. Timothy Mayopoulos (Exhibit F)
7. Mario Ugoletti (Exhibit G)
8. Naa Awaa Tagoe (Exhibit H)

Dated: October 30, 2022

Respectfully submitted,

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Exhibit A

Attari Clip_221025_0905

Designation List Report



Attari, Mukarram

2022-02-14

[Our Designations](#)

00:03:39

TOTAL RUN TIME

00:03:39



Documents linked to video:

PX375



Attari_01 - Attari Clip_221025_0905

DESIGNATION	SOURCE	DURATION	ID
233:19 - 236:11	Attari, Mukarram 2022-02-14	00:02:50	Attari_01.1
 PX375.1	<p>233:19 (Deposition Exhibit 21 was marked 233:20 for identification.) 233:21 MS. VARMA: Is this Exhibit 21? 233:22 MR. BARNES: Yes. I'm sorry, Asim. 234:01 Yes, it's Exhibit 21. 234:02 MS. VARMA: Okay. 234:03 BY MR. BARNES: 234:04 Q. When was the last time you saw this 234:05 document? 234:06 A. Relatively recently. 234:07 Q. And how did you consider this 234:08 document when formulating your opinions in this 234:09 case? 234:10 A. It was a piece of analysis that we 234:11 had done early on in this case. 234:12 Q. Okay. And I think the document 234:13 makes reference to an underlying statistical 234:14 regression. 234:15 Does that sound familiar to you? 234:16 A. Probably. I am just looking for 234:17 where because --</p>		
 PX375.14	<p>234:18 Q. Yeah. I'm sorry. I don't have the 234:19 exact slide number. I think it's on Page 13. 234:20 The title there is: "Dates With Significant 234:21 Excess Returns." 234:22 A. Yes. 235:01 Q. And I think this is -- this looks 235:02 like it was a statistical analysis of excess 235:03 returns associated with Fannie and Freddie 235:04 common and junior preferred stock; is that 235:05 right? 235:06 A. Yes. 235:07 Q. And in preparing your opinions in 235:08 this case, did you consult the underlying 235:09 regression model that is being referred to 235:10 here? 235:11 A. Not really, no. I mean, when you 235:12 say in preparing my opinions in this case, at 235:13 some point over the last two years or whenever,</p>		

Attari_01 - Attari Clip_221025_0905

DESIGNATION	SOURCE	DURATION	ID
	235:14 this -- this is what -- yeah. So at some point		
	235:15 between when this was done and now, I probably		
	235:16 looked at the statistical model --		
	235:17 Q. Okay --		
	235:18 A. -- or knew about the statistical		
	235:19 model.		
	235:20 Q. And when we are talking about the		
	235:21 statistical model, I -- I assume -- tell me if		
	235:22 I've got this wrong -- what we are talking		
	236:01 about is some kind of Excel spreadsheet; is		
	236:02 that correct?		
	236:03 A. It would depend on who ran it. It		
	236:04 would be -- I -- I would not have looked at the		
	236:05 actual model itself. I would have looked at		
	236:06 the results from the model, a description of		
	236:07 the model.		
	236:08 Q. Okay. It would have been something		
	236:09 other than just this -- this Slide 13, though;		
	236:10 is that right?		
	236:11 A. Probably, yes.		
237:11 - 238:08	Attari, Mukarram 2022-02-14	00:00:50	Attari_01.2
 PX375.1	237:11 Q. Okay. And to the extent you know,		
	237:12 can you specifically identify the people who		
	237:13 were involved in preparing this document we are		
	237:14 looking at now.		
	237:15 A. It -- it would be members of the CRA		
	237:16 team. I don't know who specifically worked on		
	237:17 this.		
	237:18 Q. Okay. Okay. And who was the --		
	237:19 A. Sorry. Can I -- can you ask that		
	237:20 question again just so I make sure I answer it.		
	237:21 Q. Sure. Of course. So I am asking		
	237:22 for the specific names of the people who helped		
	238:01 prepare this document we are looking at.		
	238:02 A. One of those people would be me --		
	238:03 Q. Okay.		
	238:04 A. -- and then other members of the		
	238:05 team.		
	238:06 Q. Other than -- other than you, you		
	238:07 don't know; is that right?		

Attari_01 - Attari Clip_221025_0905

DESIGNATION	SOURCE	DURATION	ID
	238:08 A. Sitting here, I don't know.		

Our Designations 00:03:39

TOTAL RUN TIME 00:03:39



Documents linked to video:

PX375

Exhibit B

Benson

Designation List Report



Benson, David

2013-11-07

[Our Designations](#)

[00:17:22](#)

TOTAL RUN TIME

00:17:22



Documents linked to video:

PX216

PX370




BD03 - Benson

DESIGNATION	SOURCE	DURATION	ID
12:05 - 12:07	Benson, David 2020-02-28	00:00:05	BD03.1
12:05	Q. And, Mr. Benson, would you just state your		
12:06	name for the record?		
12:07	A. David Benson.		
13:17 - 14:13	Benson, David 2020-02-28	00:00:56	BD03.2
13:17	Q. Okay. And, Mr. Benson, did I see		
13:18	correctly, you have a degree from Harvard Medical		
13:19	School?		
13:20	A. Yes.		
13:21	Q. I have a lot of questions about that, but		
13:22	none of them are relevant to the case, so I guess		
14:01	what I would like to do is start by asking you to		
14:02	kind of walk me through, basically, from the time you		
14:03	graduated from Harvard Medical School up to when you		
14:04	went to Fannie Mae. Can you just kind of give me a		
14:05	thumbnail sketch of your education and professional		
14:06	career?		
14:07	A. Sure. Graduated Harvard Medical School.		
14:08	The following year, I was a medical intern. And from		
14:09	there, I went to Stanford Business School and		
14:10	received an MBA. From there, I went to Merrill		
14:11	Lynch, where I was -- had a 14-year career there,		
14:12	through 2002. And then I came to Fannie Mae in 2002,		
14:13	where I've been since that time.		
15:08 - 16:02	Benson, David 2020-02-28	00:01:10	BD03.3
15:08	Q. And how did you end up taking the job at		
15:09	Fannie Mae? Sort of what transpired that got you to		
15:10	make that move?		
15:11	A. I was contacted when the firm was looking		
15:12	for an assistant treasurer, somebody who had deep --		
15:13	deep experience in the various products that Fannie		
15:14	Mae used to manage its liability profile, its risk		
15:15	management process. And so I was contacted, and then		
15:16	I showed an interest, and we went from there.		
15:17	Q. And why were you interested? What made		
15:18	you want to work at Fannie Mae?		
15:19	A. The firm was one of the, if not the		
15:20	largest participants in the fixed income market in		
15:21	many of the markets that I knew -- you know, knew		
15:22	well. And so I knew of their involvement from the		

BD03 - Benson

DESIGNATION	SOURCE	DURATION	ID
	16:01 other side of the equation, from the sell side. And 16:02 as -- you know, I knew them as a very, you know,		
16:03 - 17:02	Benson, David 2020-02-28	00:01:14	BD03.4
	16:03 important part of the marketplace. And it was very 16:04 attractive to me to sort of, you know, be able to 16:05 kind of look at things from that perspective, and to 16:06 come in with that level of import, you know, and try 16:07 to make a difference. 16:08 Q. And can you now give me sort of the same 16:09 type of thumbnail sketch of the different positions 16:10 you've had at Fannie Mae up to present? 16:11 A. Sure. So I came in as the assistant 16:12 treasurer. I was promoted to treasurer a few years 16:13 after that. And then within a couple of years, I was 16:14 promoted to executive vice president of capital 16:15 markets. And I also served as treasurer during, you 16:16 know, part of that time. 16:17 As the executive vice president of capital 16:18 markets, I think over a period of about five years, I 16:19 took on additional roles, you know, that came into 16:20 that, including strategy and some other things. But 16:21 the primary role was to run our balance sheet. And 16:22 then I became the CFO, and was CFO for about five 17:01 years. And then about two years ago, or a year and a 17:02 half ago, I became president.		
46:14 - 46:18	Benson, David 2020-02-28	00:00:03	BD03.5
	46:14 Q. Okay. I'm going to show you a document, 46:15 if I could.  PX370.1 46:16 A. Okay. 46:17 (Benson Exhibit No. 1 was 46:18 marked for identification.)		
47:04 - 47:11	Benson, David 2020-02-28	00:00:22	BD03.6
	47:04 if you would, I would appreciate it if you would turn  PX370.3 47:05 to -- I think it's page 68, which is the third page 47:06 in the handout here. 47:07 A. Okay. 47:08 Q. And what I would like you to do is read 47:09 the bottom paragraph on that page that starts, "Our  PX370.3.1 47:10 competitors for the acquisition." Do you see that? 47:11 A. Okay. Okay.		

BD03 - Benson

DESIGNATION	SOURCE	DURATION	ID
47:12 - 48:02	Benson, David 2020-02-28	00:00:30	BD03.7
 PX370.3.2	<p>47:12 Q. And there is a sentence in the middle of</p> <p>47:13 this paragraph that you probably noticed. It says,</p> <p>47:14 "Currently, our primary competitors for the issuance</p> <p>47:15 of single-family mortgage-related securities are</p> <p>47:16 Freddie Mac and Ginnie Mae, as many private market</p> <p>47:17 competitors dramatically reduced or ceased their</p> <p>47:18 activities in the single-family secondary mortgage</p> <p>47:19 market following the 2008 housing crisis." Do you</p> <p>47:20 see that?</p> <p>47:21 A. Yes.</p> <p>47:22 Q. And is this talking about, I guess, sort</p> <p>48:01 of the declined of so-called private label</p> <p>48:02 securitizations?</p>		
48:04 - 48:10	Benson, David 2020-02-28	00:00:17	BD03.8
	<p>48:04 THE WITNESS: Yes.</p> <p>48:05 BY MR. BARNES:</p> <p>48:06 Q. And can you kind of explain why Fannie's</p> <p>48:07 private market competitors dramatically reduced or</p> <p>48:08 ceased their activities in the single family</p> <p>48:09 secondary mortgage market following the 2008 housing</p> <p>48:10 crisis?</p>		
48:13 - 49:03	Benson, David 2020-02-28	00:00:38	BD03.9
	<p>48:13 THE WITNESS: There wasn't sufficient</p> <p>48:14 investor demand for the securities that they were</p> <p>48:15 issuing.</p> <p>48:16 BY MR. BARNES:</p> <p>48:17 Q. And you're talking about 2008 now, when</p> <p>48:18 you say there wasn't sufficient investor demand?</p> <p>48:19 A. I would argue that's certainly the case</p> <p>48:20 then, and since.</p> <p>48:21 Q. It's the case today as well, is that</p> <p>48:22 right?</p> <p>49:01 A. Yes.</p> <p>49:02 Q. And why the decline in investor demand</p> <p>49:03 during and after the financial crisis?</p>		
49:06 - 50:03	Benson, David 2020-02-28	00:01:33	BD03.10
	<p>49:06 THE WITNESS: There's lots of reasons.</p> <p>49:07 BY MR. BARNES:</p>		

BD03 - Benson

DESIGNATION	SOURCE	DURATION	ID
49:08	Q. Can you tell me what they are?		
49:09	A. Well, one is, investors took enormous		
49:10	losses in securities of this type, so that's one		
49:11	reason. The complexity of the marketplace, of the		
49:12	security structures themselves, the lack of		
49:13	standardization, the lack of understanding of how		
49:14	investor -- how the investors' rights would be		
49:15	protected, and adverse conditions that would affect		
49:16	the -- you know, the status of the loans that are in		
49:17	the securitizations.		
49:18	The lack of appropriate compensation being		
49:19	provided to the investors in the offerings		
49:20	themselves. So inadequate returns, from their		
49:21	perspective, given the risks that they're being asked		
49:22	to bear. Propensity -- propensity for liquidity		
50:01	concerns, other factors that can include regulatory		
50:02	treatment for various instruments. I mean, there is		
50:03	an assortment of reasons.		
50:18 - 50:20	Benson, David 2020-02-28	00:00:11	BD03.11
50:18	Q. Well, can you compare Fannie		
50:19	mortgage-backed securities to private label		
50:20	securitizations on this kind of dynamic or dimension?		
50:22 - 51:15	Benson, David 2020-02-28	00:00:40	BD03.12
50:22	THE WITNESS: Look, in general, from the		
51:01	crisis period, those who owned Fannie Mae		
51:02	mortgage-backed securities, and held them, ended up		
51:03	receiving all of the payments that they would have		
51:04	expected to make contractually under that, whereas		
51:05	those who owned private label securities, which were		
51:06	really very, very differently structured, often found		
51:07	themselves not receiving, you know, full payment of		
51:08	what they would have expected.		
51:09	BY MR. BARNES:		
51:10	Q. And I think you also mentioned the lack of		
51:11	standardization among private label securities. Do I		
51:12	have that right?		
51:13	A. Uh-huh.		
51:14	Q. And is that also a problem for Fannie		
51:15	Mae's mortgage-backed securities?		
51:17 - 51:21	Benson, David 2020-02-28	00:00:07	BD03.13

BD03 - Benson

DESIGNATION	SOURCE	DURATION	ID
	51:17 THE WITNESS: It's not a problem.		BD03.13
	51:18 BY MR. BARNES:		
	51:19 Q. And why not?		
	51:20 A. Because for the most part, our securities		
	51:21 are very standard.		
51:22 - 52:04	Benson, David 2020-02-28	00:00:13	BD03.14
	51:22 Q. And if I'm running JP Morgan or Bank of		
	52:01 America, and I want to issue mortgage-backed		
	52:02 securities, are there any obstacles I would face, if		
	52:03 I wanted to have the same level of standardization		
	52:04 that Fannie Mae has?		
52:07 - 52:07	Benson, David 2020-02-28	00:00:01	BD03.15
	52:07 THE WITNESS: I don't believe so.		
52:09 - 52:17	Benson, David 2020-02-28	00:00:29	BD03.16
 PX370.4	52:09 Q. Turn, if you would, to the next page in		
	52:10 this document. It's page 69 of Fannie's 2019 10-K.		
	52:11 A. Uh-huh.		
 PX370.4.1	52:12 Q. And there is a pie chart. Actually, there		
	52:13 are two pie charts on this page, but the top one is		
	52:14 the one I would like to ask you about. I found it		
	52:15 really helpful. I guess, first of all, does this		
	52:16 accurately reflect the market share in the single		
	52:17 family mortgage market --		
53:04 - 53:15	Benson, David 2020-02-28	00:00:40	BD03.17
	53:04 Q. So does this pie chart accurately reflect		
	53:05 the approximate market share of single family		
	53:06 mortgages in the United States?		
	53:07 A. The mortgage acquisition market share.		
	53:08 Q. Yeah. And private label securities are		
	53:09 about 3 percent, is that right?		
	53:10 A. That is correct. That is what this pie		
	53:11 chart says, correct.		
	53:12 Q. Okay. And does that sound about right to		
	53:13 you, in terms of how much market share private label		
	53:14 securities have now?		
 Clear	53:15 A. In 2019, yes.		
79:11 - 79:15	Benson, David 2020-02-28	00:00:10	BD03.23
	79:11 Q. Okay. And are you familiar with the		
	79:12 preferred stock purchase agreements that FHFA and		

BD03 - Benson

DESIGNATION	SOURCE	DURATION	ID
	79:13 Treasury signed at the beginning of Fannie Mae's		
	79:14 conservatorship?		
	79:15 A. Yes.		
79:16 - 80:15	Benson, David 2020-02-28	00:00:50	BD03.24
	79:16 Q. Are you familiar with a provision of the		
	79:17 original preferred stock purchase agreement that		
	79:18 calls for Fannie to, I think, gradually over time,		
	79:19 reduce the size of its retained mortgage portfolio?		
	79:20 A. Yes.		
	79:21 Q. Do you happen to recall the rate at which		
	79:22 Fannie was required to reduce the size of its		
	80:01 retained mortgage portfolio?		
	80:02 A. Yes.		
	80:03 Q. And what was the rate?		
	80:04 A. Initially, 10 percent per year.		
	80:05 Q. Okay, and you say initially. Did that		
	80:06 rate change?		
	80:07 A. Yes.		
	80:08 Q. When did it change?		
	80:09 A. 2012.		
	80:10 Q. And it changed as part of the third		
	80:11 amendment to the preferred stock purchase agreements,		
	80:12 does that sound right?		
	80:13 A. The amendment of the summer of 2012, if		
	80:14 that's what you call the third amendment, that's the		
	80:15 amount that -- it increased to 15 percent per year.		
81:01 - 81:13	Benson, David 2020-02-28	00:00:44	BD03.25
	81:01 Q. Sure. As Fannie is reducing the size of		
	81:02 its retained mortgage portfolio, what effect, if any,		
	81:03 would you expect that to have on the net revenues		
	81:04 that Fannie is bringing in?		
	81:05 A. Net revenues, it would go down.		
	81:06 Q. Okay. And what effect -- what would be		
	81:07 the marginal effect on net revenues or the change in		
	81:08 net revenue in moving from a 10 percent rate of		
	81:09 reduction to a 15 percent rate of reduction?		
	81:10 A. More.		
	81:11 Q. You would expect it to go down faster, is		
	81:12 that correct?		
	81:13 A. Faster, correct.		

BD03 - Benson

DESIGNATION	SOURCE	DURATION	ID
100:10 - 100:12	Benson, David 2020-02-28 100:10 Q. Before Fannie was put into 100:11 conservatorship, if Fannie had needed to raise new 100:12 equity, do you think it could have done it?	00:00:11	BD03.38
100:15 - 100:16	Benson, David 2020-02-28 100:15 Q. In August of 2008? 100:16 A. No.	00:00:02	BD03.26
100:21 - 101:02	Benson, David 2020-02-28 100:21 Q. Fannie Mae's board of directors consented 100:22 to conservatorship. Do I have that right? 101:01 A. Yes. 101:02 Q. Do you know why?	00:00:06	BD03.28
101:05 - 101:11	Benson, David 2020-02-28 101:05 THE WITNESS: They had a deliberative 101:06 process of determining what they felt, in executing 101:07 their responsibilities as the board of directors of 101:08 Fannie Mae, given their responsibility to, you know, 101:09 the company and shareholders, that it was in that -- 101:10 in those -- in the best interest to accept that 101:11 determination versus not doing so.	00:00:22	BD03.29
103:04 - 103:10	Benson, David 2020-02-28 103:04 Q. And do you recall any discussion of what 103:05 the implications would be for shareholders? 103:06 A. I remember the conclusion, which was that 103:07 to not to accede to this request would be potentially 103:08 worse. And the judgment was, is that this was, 103:09 although two bad options, if you want to call it 103:10 that, it was the best option in front of them.	00:00:27	BD03.30
173:07 - 173:10	Benson, David 2020-02-28 173:07 Q. Mr. Benson, have you seen this document 173:08 before? It's Bates stamped FNM-Fairholme-0039749. 173:09 A. Yes, I have. 173:10 Q. When was the last time you saw it?	00:00:12	BD03.31
 PX216.1			
173:12 - 173:17	Benson, David 2020-02-28 173:12 THE WITNESS: I saw this in preparation 173:13 for this deposition. 173:14 BY MR. BARNES: 173:15 Q. And did you have a role in preparing this	00:00:10	BD03.32

BD03 - Benson

DESIGNATION	SOURCE	DURATION	ID
	173:16 document?		
	173:17 A. Yes.		
175:16 - 175:18	Benson, David 2020-02-28	00:00:10	BD03.39
	175:16 Q. And to what extent, if any, did you think		
	175:17 the GSEs making combined dividend payments in excess		
	175:18 of Treasury's investment was a significant event?		
175:20 - 176:21	Benson, David 2020-02-28	00:01:17	BD03.33
	175:20 THE WITNESS: It was a -- I would consider		
	175:21 this to have been in the category of a marketing		
	175:22 issue of representing the benefits that the		
	176:01 government had received versus the commitment or the		
	176:02 actual amounts that they had had to put in. So using		
	176:03 this as sort of a marketing spin on trying to put		
	176:04 success on that wrapper.		
	176:05 BY MR. BARNES:		
	176:06 Q. And who was the target of the marketing?		
	176:07 A. Well, this was a presentation to the board		
	176:08 of directors, and offering to them ideas of how one		
	176:09 might position, from a marketing standpoint, the		
	176:10 potential -- basically, the potential, you know,		
	176:11 success factors of how the GSEs could be looked at,		
	176:12 at some point in the future, potentially.		
	176:13 Q. Looked at in the future by whom?		
	176:14 A. The public.		
 PX216.15	176:15 Q. And if you look at the next page, slide		
	176:16 14, it looks like there are some more detailed		
	176:17 financial projections for Fannie and Freddie both.		
	176:18 Do I have that right?		
	176:19 A. Correct.		
	176:20 Q. And why was Fannie preparing financial		
	176:21 projections for Freddie Mac?		
177:01 - 177:08	Benson, David 2020-02-28	00:00:23	BD03.34
	177:01 THE WITNESS: Well, this is not -- this		
	177:02 wouldn't have been information -- this would come		
	177:03 from public information, so it would be information		
	177:04 that -- we didn't have Freddie's internal. So this		
	177:05 would have been our attempt to be able to frame, in		
	177:06 the same way that we would do for yourselves, to do		
	177:07 the best we could to try to estimate what their		
	177:08 position might be. And that's what that is.		

BD03 - Benson

DESIGNATION	SOURCE	DURATION	ID
177:22 - 178:02	Benson, David 2020-02-28	00:00:08	BD03.35
 PX216.15	177:22 Q. Do these projections reflect Fannie's best 178:01 and most honest assessment of how it expected to 178:02 perform in the future at the time?		
178:04 - 179:07	Benson, David 2020-02-28	00:01:20	BD03.36
	178:04 THE WITNESS: This was intended as a 178:05 strategic thought piece, as opposed to an audited 178:06 financial statement. So these would be, you know, 178:07 estimates using information that came from our 178:08 finance group with a lens on the various assumptions 178:09 also that were -- I believe some of those assumptions 178:10 were listed in a previous page -- to really 178:11 illustrate what could be -- assuming that those 178:12 assumptions were reasonable. Of course, the 178:13 actuality of events going forward were going to be 178:14 highly sensitive to many of those assumptions and 178:15 whether they were correct or not. 178:16 You've asked if it was the best estimate. 178:17 It wasn't -- the purpose of this wasn't necessarily 178:18 to go through the kind of rigor that one would 178:19 typically go through, in terms of the way we would do 178:20 our official forecast. This was more of a -- call it 178:21 an unofficial, long-term forecast, which by the way 178:22 is not usual for us to do a 10-year forecast. That's 179:01 outside the bounds of what we would typically do for 179:02 our own purposes. Typically, that's more of a 179:03 five-year forecast that we do. 179:04 So, again, it was -- it was a reasonable 179:05 estimate in the context of what we were trying to 179:06 demonstrate for the purposes of this particular 179:07 session.		
 Clear			
191:20 - 192:08	Benson, David 2020-02-28	00:00:30	BD03.37
	191:20 Q. Do you recall any discussion within Fannie 191:21 Mae before August 16th, 2012, around whether Fannie 191:22 would have taxable income in the future? 192:01 A. I don't. 192:02 Q. Do you recall any discussions within 192:03 Fannie Mae about whether it would be necessary to 192:04 reverse the valuation allowance on the deferred tax 192:05 assets?		

BD03 - Benson

DESIGNATION	SOURCE	DURATION	ID
	192:06 A. By when? At what time?		
	192:07 Q. Before August 16th, 2012.		
	192:08 A. I don't.		
203:17 - 203:20	Benson, David 2020-02-28	00:00:12	BD03.18
	203:17 Q. Did the Treasury Department take on any		
	203:18 additional risk when it entered into the August		
	203:19 amendment to the -- the August 2012 amendment to the		
	203:20 preferred stock purchase agreements?		
203:22 - 203:22	Benson, David 2020-02-28	00:00:03	BD03.19
	203:22 THE WITNESS: I don't believe so.		
204:14 - 204:17	Benson, David 2020-02-28	00:00:07	BD03.20
	204:14 Q. When did Fannie's senior management first		
	204:15 learn of the August 2012 amendment to the preferred		
	204:16 stock purchase agreement?		
	204:17 A. I don't recall.		
205:09 - 205:14	Benson, David 2020-02-28	00:00:10	BD03.21
	205:09 Q. Do you recall when you first learned of		
	205:10 the change to the preferred stock purchase agreements		
	205:11 that was made in August?		
	205:12 A. I don't.		
	205:13 Q. Do you remember if you were surprised by		
	205:14 it?		
205:16 - 206:05	Benson, David 2020-02-28	00:00:41	BD03.22
	205:16 THE WITNESS: I do.		
	205:17 BY MR. BARNES:		
	205:18 Q. Were you surprised?		
	205:19 A. Yes, I was.		
	205:20 Q. What surprised you about it?		
	205:21 A. The -- I mean, all -- you know, all of the		
	205:22 terms were surprising, just meaning they hadn't --		
	206:01 had not -- in many of its terms, had not really		
	206:02 occurred to me as a possibility, or would happen, or		
	206:03 any of that, meaning they were just -- they were		
	206:04 surprising. We were like, oh, that's interesting.		
	206:05 Not expected. Just, oh, okay.		

Our Designations

00:17:22

TOTAL RUN TIME**00:17:22**



Documents linked to video:

PX216

PX370

Exhibit C

Cacciapalle, Joseph 20221017_1105

Designation List Report



Cacciapalle, Joseph

2021-01-28

[Our Designations](#)

[00:11:09](#)

TOTAL RUN TIME

00:11:09



Documents linked to video:

PX346



CJ_01 - Cacciapalle, Joseph 20221017_1105

DESIGNATION	SOURCE	DURATION	ID
5:04 - 5:11	Cacciapalle, Joseph 2021-01-28	00:00:35	CJ_01.1
5:04	THE VIDEOGRAPHER: Good morning. We're going		
5:05	on the record at 9:30 a.m. on January 28, 2021. This		
5:06	is media unit one of the remote recorded deposition of		
5:07	Mr. Joseph Cacciapalle in the matter of in re Fannie		
5:08	Mae, Freddie Mac Senior Preferred Stock Purchase		
5:09	Agreement, Class Action Litigation, filed in the		
5:10	United States District Court, District of Columbia,		
5:11	Case No. 13-MC-1288 RCO.		
9:04 - 9:07	Cacciapalle, Joseph 2021-01-28	00:00:11	CJ_01.2
9:04	Q. Please state your full name and address for		
9:05	the record.		
9:06	A. Joseph Cacciapalle. 100 Glenbrook Road,		
9:07	Freehold Township, New Jersey.		
9:08 - 9:16	Cacciapalle, Joseph 2021-01-28	00:00:34	CJ_01.3
9:08	Q. Mr. Cacciapalle, give me a background of your		
9:09	education after high school, please.		
9:10	A. I attended Lawrence Tech for one year, and		
9:11	after that I started working for Merrill Lynch. And I		
9:12	went to night school, Allen Park Junior College for a		
9:13	while. Years later I came to New York, and I went to		
9:14	Pace University, a couple of courses through Merrill		
9:15	Lynch. All together I may have two years' worth of		
9:16	college credits.		
10:13 - 11:20	Cacciapalle, Joseph 2021-01-28	00:02:17	CJ_01.4
10:13	Q. Walk me through your professional career		
10:14	please, again, after high school, what jobs you've		
10:15	had.		
10:16	A. Let's see. After high school I probably -- I		
10:17	worked in a couple of supermarkets, stock boy or		
10:18	something like that. I went to work for Merrill Lynch		
10:19	in 1961. I stayed there for about five years. I got		
10:20	accepted into a training program. I came to New York.		
10:21	I think it was '66. I was dropped out of the program		
10:22	to be assigned immediately to Grand Rapids, Michigan.		
11:01	I spent a couple years in Grand Rapids.		
11:02	I left there in, I think, 1968. Transferred		
11:03	to New York to assist in a training department. I		
11:04	spent a couple years working in training. Then I		

CJ_01 - Cacciapalle, Joseph 20221017_1105

DESIGNATION	SOURCE	DURATION	ID
	11:05 transferred over. I had the -- we had a group called		
	11:06 the operations service handlers. Basically they went		
	11:07 around to all the offices and audited them to see --		
	11:08 to make sure they were doing things properly.		
	11:09 After that, I was assigned to Rockefeller		
	11:10 Center office. I was in Rockefeller Center for about		
	11:11 five years. After that I think I worked on a couple		
	11:12 projects in the home office. One was -- Merrill Lynch		
	11:13 was considering -- they were toying with the idea of		
	11:14 maybe having a discount brokerage firm, and I was		
	11:15 involved with helping to create that. It never went		
	11:16 anywhere. It was started, but it never went anywhere.		
	11:17 I believe after that I went to -- I think I		
	11:18 transferred to the marketing division. And basically		
	11:19 that's where I wound up for the rest of my career with		
	11:20 getting involved with operational matters.		
12:01 - 12:08	Cacciapalle, Joseph 2021-01-28	00:00:24	CJ_01.5
	12:01 Q. Okay. Thank you, sir. Did you spend your		
	12:02 entire career at Merrill Lynch?		
	12:03 A. Yes.		
	12:04 Q. When did you leave Merrill Lynch?		
	12:05 A. I can't remember. I think it was October of		
	12:06 2000. They were downsizing and moving people to		
	12:07 different parts of the country. I was one of the		
	12:08 people that was downsized.		
12:18 - 13:02	Cacciapalle, Joseph 2021-01-28	00:00:25	CJ_01.6
	12:18 Q. Okay. Let me just go back and make sure I		
	12:19 follow this. So in 1961 you started at Merrill Lynch.		
	12:20 What type of job was that?		
	12:21 A. Well, probably the lowest thing you could		
	12:22 become. I was a runner. In the old days you had		
	13:01 ticker tapes. I took care of the ticker tape.		
	13:02 Duplication. Take care of -- stuff like that.		
31:03 - 31:14	Cacciapalle, Joseph 2021-01-28	00:00:50	CJ_01.7
	31:03 Q. Describe for me, just generally, your		
	31:04 investment activities and broadly. I know you --		
	31:05 obviously you bought some Fannie Mae and Freddie Mac		
	31:06 securities, but more broadly, what are your investment		
	31:07 activities?		
	31:08 A. I'm not a trader. I tend to buy something.		

CJ_01 - Cacciapalle, Joseph 20221017_1105

DESIGNATION	SOURCE	DURATION	ID
	31:09 I'm a holder. I'm not in and out on stocks or bonds		
	31:10 or anything like that. When I bought the Freddie and		
	31:11 Fannie, I believe what made me look at them was I had		
	31:12 some bonds maturing and I wanted to replace them with		
	31:13 something that was -- that was paying dividends or		
	31:14 interest.		
31:15 - 31:16	Cacciapalle, Joseph 2021-01-28	00:00:08	CJ_01.8
	31:15 Q. Do you work with a broker?		
	31:16 A. I did at -- yes, I do. I do, yes.		
34:03 - 34:11	Cacciapalle, Joseph 2021-01-28	00:00:44	CJ_01.9
	34:03 Q. What are the sources that you rely upon		
	34:04 generally when making a decision about an investment?		
	34:05 A. I might get an idea just by something in a		
	34:06 newspaper or something on television. I tend to use		
	34:07 Morningstar a lot because most of my investments are		
	34:08 going to be in mutual funds. I have a few stocks, but		
	34:09 like I said, I don't necessarily go looking for stuff.		
	34:10 I maybe see something and I do a little checking in		
	34:11 and then I decide not to or I will, I will or I won't.		
38:20 - 39:09	Cacciapalle, Joseph 2021-01-28	00:00:58	CJ_01.10
 PX346.1	38:20 Q. Mr. Cacciapalle, can you just, for		
	38:21 the record, identify what this document is?		
	38:22 A. These are copies of my trade confirmation		
	39:01 when I purchased the preferred shares.		
	39:02 Q. And just to confirm, these represent your		
	39:03 only trades, purchases or sales or anything in		
	39:04 securities issued by Fannie Mae and Freddie Mac?		
	39:05 A. Yes.		
	39:06 Q. Okay. Let's walk through each of these		
	39:07 transactions, please. We'll start on the first page.		
	39:08 Can you tell me -- am I right, this is a purchase of a		
	39:09 Fannie Mae preferred securities[?]		
39:11 - 39:13	Cacciapalle, Joseph 2021-01-28	00:00:05	CJ_01.24
 PX346.1.2	39:11 A. Yes.		
	39:12 Q. Series S?		
	39:13 A. Right.		
48:08 - 48:11	Cacciapalle, Joseph 2021-01-28	00:00:14	CJ_01.11
 PX346.2	48:08 Q. Let's turn to the next page of the		
	48:09 exhibit, the page Bates stamped 002. It looks like,		

CJ_01 - Cacciapalle, Joseph 20221017_1105

DESIGNATION	SOURCE	DURATION	ID
	48:10 am I right, this is a purchase of Freddie Mac		
 PX346.2.1	48:11 securities preferred stock?		
48:12 - 48:12	Cacciapalle, Joseph 2021-01-28	00:00:01	CJ_01.12
	48:12 A. Yeah. Okay.		
48:19 - 49:02	Cacciapalle, Joseph 2021-01-28	00:00:08	CJ_01.13
	48:19 Q. Okay. Was this the first time you had		
	48:20 purchased preferred stock?		
	48:21 A. Yes.		
	48:22 Q. And have you since purchased any preferred		
	49:01 stock?		
	49:02 A. No.		
50:03 - 50:03	Cacciapalle, Joseph 2021-01-28	00:00:02	CJ_01.14
 PX346.3	50:03 Q. The next page is a purchase		
50:04 - 50:05	Cacciapalle, Joseph 2021-01-28	00:00:07	CJ_01.15
 PX346.3.2	50:04 of Fannie Mae preferred stock?		
	50:05 A. Right.		
44:10 - 44:14	Cacciapalle, Joseph 2021-01-28	00:00:16	CJ_01.16
 Clear	44:10 Q. Okay. Did you read up on the conservator and		
	44:11 what the conservator's practices were intended to be		
	44:12 and the appointment of the conservator and the like?		
	44:13 Did you read up on that at the time?		
	44:14 A. I don't think so, no.		
53:20 - 54:05	Cacciapalle, Joseph 2021-01-28	00:00:30	CJ_01.17
	53:20 Q. And what was your reaction to the		
	53:21 conservator?		
	53:22 A. Well, I just -- it sounded like it was		
	54:01 probably a necessary thing to do, if for no other		
	54:02 reason than to keep the public and keep the nation,		
	54:03 keep everybody kind of, you know, mellow them down a		
	54:04 little bit. I don't think probably in the beginning I		
	54:05 had any problem with it.		
54:21 - 55:05	Cacciapalle, Joseph 2021-01-28	00:00:26	CJ_01.18
	54:21 Do you recall, in September 2008 when the		
	54:22 conservator was appointed, making any efforts to		
	55:01 understand how the conservator intended to operate the		
	55:02 enterprises going forward?		
	55:03 A. No. I didn't really go very deep into it. I		
	55:04 just understood that the conservator was basically		

CJ_01 - Cacciapalle, Joseph 20221017_1105

DESIGNATION	SOURCE	DURATION	ID
	55:05 going to take charge of management.		
58:15 - 58:17	Cacciapalle, Joseph 2021-01-28	00:00:10	CJ_01.19
	58:15 Q. Did you make a point of reading press		
	58:16 coverage of the conservatorships?		
	58:17 A. Not really, no.		
47:05 - 47:11	Cacciapalle, Joseph 2021-01-28	00:00:34	CJ_01.20
	47:05 Q. Do you know anything about the terms		
	47:06 governing Treasury's purchase of preferred stock in		
	47:07 the enterprises?		
	47:08 A. They gave them the money. They gave them		
	47:09 stock. I believe -- as they needed more money, the		
	47:10 Treasury was going to give it to them to keep them		
	47:11 solvent. That's about it.		
47:12 - 48:07	Cacciapalle, Joseph 2021-01-28	00:01:03	CJ_01.21
	47:12 Q. Okay. How did you develop that		
	47:13 understanding?		
	47:14 A. Probably from some of the material Kessler		
	47:15 sent me, but that was -- at the time -- that's about		
	47:16 it. I really don't recall how I got into them, you		
	47:17 know, studying all this. I didn't get into a lot of		
	47:18 detail about this stuff.		
	47:19 Q. Okay. And so is it fair to say that much of		
	47:20 what you learned was either after the lawsuit was		
	47:21 filed or in contemplation of joining the lawsuit; is		
	47:22 that right?		
	48:01 A. Yes.		
	48:02 Q. And before the lawsuit you were not following		
	48:03 closely what was happening with the enterprises or its		
	48:04 financial arrangements with Treasury; is that correct?		
	48:05 A. No. I wasn't following up on the detail. I		
	48:06 was just trying to find somebody who understood that		
	48:07 there was a problem.		
58:19 - 58:22	Cacciapalle, Joseph 2021-01-28	00:00:14	CJ_01.22
	58:19 You did not read the		
	58:20 preferred -- Senior Preferred Stock Agreement between		
	58:21 Treasury and FHFA and the enterprises; correct?		
	58:22 A. No, I never did. No.		
92:11 - 92:14	Cacciapalle, Joseph 2021-01-28	00:00:14	CJ_01.23
	92:11 Q. Mr. Cacciapalle, do you believe that you have		

CJ_01 - Cacciapalle, Joseph 20221017_1105

DESIGNATION	SOURCE	DURATION	ID
92:12	been harmed by the third amendment to the Senior		
92:13	Preferred Stock Purchase Agreement?		
92:14	A. Yes, I do.		

Our Designations	00:11:09
TOTAL RUN TIME	00:11:09


 Documents linked to video:
PX346

Exhibit D

Donald Layton Designations

Designation List Report



Layton, Donald

2021-01-07

[Our Designations](#)

00:49:40

TOTAL RUN TIME

00:49:40



DL1 - Donald Layton Designations

DESIGNATION	SOURCE	DURATION	ID
11:17 - 13:01	Layton, Donald 2021-01-07	00:01:36	DL1.1
11:17	Q. And let me start just by		
11:18	asking you to describe a little bit of		
11:19	your professional background leading up		
11:20	to the time that you joined Freddie Mac.		
11:21	A. At the time I joined Freddie		
11:22	Mac, I had been in banking and finance		
12:01	for a long time. The bulk of my career		
12:02	was almost 30 years at the bank, the		
12:03	banks that became J.P. Morgan Chase		
12:04	through all the mergers.		
12:05	I then retired for a while. I		
12:06	then went back to work as chairman and		
12:07	then CEO of E*Trade for several years.		
12:08	Retired from that at the end of 2009 and		
12:09	was doing board work when I then became		
12:10	CEO of Freddie Mac.		
12:11	Q. And what were the circumstances		
12:12	under which you became the CEO? Did		
12:13	someone approach you about the job or did		
12:14	you apply for it? How did it happen?		
12:15	A. I was already friendly with the		
12:16	person who is the non-executive chair of		
12:17	the board who originally approached me in		
12:18	the traditional recruiting style. Asked		
12:19	me if I knew anyone who might be		
12:20	interested in the job. And then later		
12:21	came to me and said would I be interested		
12:22	in the job, but then handed me over to an		
13:01	executive search firm hired by the board.		
33:19 - 38:21	Layton, Donald 2021-01-07	00:05:11	DL1.2
33:19	Q. Let me ask you a few other kind		
33:20	of general questions about Freddie Mac's		
33:21	business model, if I could.		
33:22	A. Sure.		
34:01	Q. One feature of what Freddie		
34:02	does is it maintains this retained		
34:03	mortgage portfolio, do I have that right?		
34:04	A. Well, it's usually called		
34:05	retained portfolio, retained investment		

DL1 - Donald Layton Designations

DESIGNATION	SOURCE	DURATION	ID
34:06	portfolio, but I know what you mean, yes.		
34:07	Q. And what is that, the retained		
34:08	investment portfolio?		
34:09	A. On the balance sheet of Freddie		
34:10	Mac, on the asset side, the vast majority		
34:11	of the assets are mortgages, are the		
34:12	ownership of mortgage loans which are		
34:13	then securitized through pass through		
34:14	MBS. However, there is a small portion,		
34:15	small when I got there, not necessarily		
34:16	historically, of just assets owned and		
34:17	funded by via unsecured debt. And most		
34:18	of those are in the category called the		
34:19	retained investment portfolio, which is,		
34:20	in fact, the investment in		
34:21	mortgage-related assets as opposed to		
34:22	non-mortgage-related assets. It was		
35:01	historically a mostly discretionary		
35:02	additional investment activity.		
35:03	MS. RODRIGUEZ: Brian, can we		
35:04	take down the document?		
35:05	MR. BARNES: Sure. That would		
35:06	be fine.		
35:07	MS. RODRIGUEZ: Okay. Thanks.		
35:08	Q. And how did the size of the		
35:09	retained mortgage portfolio or investment		
35:10	portfolio change over time?		
35:11	A. The PSPA at its origin back in		
35:12	the rescue of the company, or putting the		
35:13	company in conservatorship and the PSPA		
35:14	being put in, had a clause requiring the		
35:15	shrinkage of the retained investment		
35:16	portfolio over time.		
35:17	Q. And did the rate at which		
35:18	Freddie was required to reduce the size		
35:19	of its portfolio change?		
35:20	A. Yes, it changed -- to my		
35:21	recollection, the only time it changed is		
35:22	the Third Amendment, it was slightly		
36:01	speeded up, although it was much smaller		
36:02	at the time.		

DL1 - Donald Layton Designations

DESIGNATION	SOURCE	DURATION	ID
36:03	Q. And did that change have any		
36:04	practical effect on the rate at which		
36:05	Freddie was reducing the size of its		
36:06	portfolio?		
36:07	A. Well, obviously the limit was		
36:08	decreasing faster, but the numbers were		
36:09	not that large at that point. I want to		
36:10	distinguish in your question, the		
36:11	requirements were in percentage terms as		
36:12	opposed to dollar terms. So by the time		
36:13	2012 and '13 -- '13 and '14 were around,		
36:14	it was a smaller denominator applied to		
36:15	it.		
36:16	Q. And you mentioned that the		
36:17	portfolio historically was used for some		
36:18	discretionary investment activities.		
36:19	A. Uh-huh.		
36:20	Q. Is it also used in connection		
36:21	with Freddie's business guaranteeing the		
36:22	mortgages that it securitizes?		
37:01	A. Yes, there is the amount of the		
37:02	retained investment portfolio which is		
37:03	directly related and needed to do its		
37:04	guarantee business.		
37:05	Q. And can you give me a rough		
37:06	sense for the magnitude of that part of		
37:07	the portfolio?		
37:08	A. Actually, that can vary quite a		
37:09	bit cyclically, since one of the		
37:10	components would be mortgages purchased		
37:11	out of MBS securities upon default, which		
37:12	is the most common alternative of what		
37:13	happens when there is default. And that		
37:14	would go through retained portfolio.		
37:15	That is obviously cyclical with the		
37:16	economy and quality of mortgages, so it		
37:17	can go up and down a lot.		
37:18	I will note that the PSPA left		
37:19	a \$250 billion minimum at the time for it		
37:20	to accommodate all of those kinds of		
37:21	things.		

DL1 - Donald Layton Designations

DESIGNATION	SOURCE	DURATION	ID
	37:22 Q. As a practical matter, would it		
	38:01 be feasible to reduce that portfolio		
	38:02 beyond that \$250 billion minimum?		
	38:03 A. The answer is yes, especially		
	38:04 at certain points in the cycle. And the		
	38:05 FHFA as conservator at some point later		
	38:06 did actually give us direction to have a		
	38:07 lower limit than required by the PSPA.		
	38:08 Q. Do you recall what that lower		
	38:09 limit was?		
	38:10 A. I think it was 225 -- I believe		
	38:11 it was 225 billion to start with. It may		
	38:12 have been lowered again afterwards, I		
	38:13 don't recall.		
	38:14 Q. Got it. So if someone said,		
	38:15 well, I want Freddie to have zero in its		
	38:16 retained investment portfolio, that		
	38:17 wouldn't be feasible, would it? You		
	38:18 would have to have at least some --		
	38:19 A. You cannot do the guarantee		
	38:20 business as it was currently constituted		
	38:21 to zero.		
38:22 - 42:15	Layton, Donald 2021-01-07	00:04:00	DL1.3
	38:22 Q. I wanted to ask you also about		
	39:01 the guarantee business. Can you just, I		
	39:02 guess, explain what you mean by that?		
	39:03 A. The phrase "guarantee business"		
	39:04 is a shorthand for the core function of		
	39:05 the company in terms of its role in the		
	39:06 housing finance markets. I am going to		
	39:07 refer to the single-family business to		
	39:08 appoint the complexity of the smaller		
	39:09 multifamily, which doesn't operate in the		
	39:10 exact same way.		
	39:11 The core function is to		
	39:12 purchase mortgage loans from primary		
	39:13 market lenders and then issue		
	39:14 mortgage-backed securities against pools,		
	39:15 meaning an aggregation of many individual		
	39:16 loans that are structured on what are		

DL1 - Donald Layton Designations

DESIGNATION	SOURCE	DURATION	ID
39:17	called pass-throughs. That is the		
39:18	principal and interest and payments or,		
39:19	repayments upon, say, sale of a home, all		
39:20	of the cash flows that came from the		
39:21	mortgage to the servicer, that was sent		
39:22	from the servicer to us. And we would		
40:01	then put those in, package these properly		
40:02	to which mortgage-backed security they		
40:03	were related and send the monies on to		
40:04	the mortgage-backed security investors		
40:05	minus a guarantee fee, which we kept for		
40:06	our account.		
40:07	And because the core premise of		
40:08	the business model was that those		
40:09	investors only wished to take interest		
40:10	rate risk, not credit risk, that we would		
40:11	guarantee the credit at all aspects of		
40:12	credit that might impact them so that		
40:13	they can see a virtually no credit risk		
40:14	instrument, which is what they wanted and		
40:15	which is necessary for the operation of		
40:16	the market, since the interest rate risk		
40:17	is quite complex, and that's what		
40:18	investors are investing in.		
40:19	For this business model to		
40:20	work, the guarantee by the GSE or Freddie		
40:21	Mac in this case, has to be perceived as		
40:22	not having any material counterparty		
41:01	risk, that is the credit quality of		
41:02	Freddie Mac might be in question.		
41:03	Because then our guarantee would not,		
41:04	would leave credit risk on Freddie Mac		
41:05	with the investor. And so the business		
41:06	models always had directly or indirectly		
41:07	Government support to that guarantee.		
41:08	Q. And you mentioned a guarantee		
41:09	fee. Is that the principal way in which		
41:10	Freddie is compensated for the		
41:11	securitization process you just		
41:12	described?		
41:13	A. Yes.		

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DESIGNATION	SOURCE	DURATION	ID
41:14	Q. And how did the guarantee fees		
41:15	that Freddie charges change over time		
41:16	during your tenure as CEO at Freddie?		
41:17	A. The guarantee fee during my		
41:18	time was mainly controlled by the FHFA,		
41:19	which had certain policies under Ed		
41:20	DeMarco as acting director and different		
41:21	policies under Mel Watt as director after		
41:22	him. So the fees were ordered to be		
42:01	increased.		
42:02	I want to stop and say I will		
42:03	talk about the fees just like they are		
42:04	the same for everyone, but they're not.		
42:05	Within a total and an average level,		
42:06	there is risk adjustment for the quality		
42:07	of the loans being purchased, for		
42:08	example. And much of that risk		
42:09	adjustment is also controlled by the		
42:10	FHFA. Although we had some modest room		
42:11	in terms of competitiveness for certain		
42:12	lenders and such.		
42:13	So it's largely controlled by		
42:14	the FHFA with a little bit of variation		
42:15	under the control of the Freddie Mac.		
49:04 - 50:15	Layton, Donald 2021-01-07	00:01:32	DL1.4
49:04	Q. And I think I've seen somewhere		
49:05	you wrote about, maybe a mote around the		
49:06	business models of Fannie and Freddie,		
49:07	does that sound familiar?		
49:08	A. Yes, that's a different topic		
49:09	than what we were just talking about,		
49:10	however.		
49:11	Q. And tell me about the mote.		
49:12	A. There is confusion I find on		
49:13	many people's parts, either intentional		
49:14	or otherwise, that Fannie and Freddie are		
49:15	just normal securitizers participating in		
49:16	the market as if they had no Government		
49:17	advantages. That is not true. They are		
49:18	stockholder-owned companies with charters		

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DESIGNATION	SOURCE	DURATION	ID
	49:19 from Congress giving them a public		
	49:20 mission, giving them advantages and		
	49:21 giving them restrictions. Therefore,		
	49:22 they are economically advantaged versus		
	50:01 normal private market competitors.		
	50:02 That was the public policy to		
	50:03 help the broad middle class get better		
	50:04 access to the classic 30-year fixed rate		
	50:05 mortgage, which is not something that is		
	50:06 automatic. And that provided a mote		
	50:07 against the private sector, which had no		
	50:08 similar Government type support.		
	50:09 I will note that the Government		
	50:10 support to Fannie and Freddie is		
	50:11 therefore greater than the more		
	50:12 traditional private sector competitors.		
	50:13 It is however less Government support		
	50:14 than given to FHA and the VA in their		
	50:15 mortgage activities.		
50:16 - 51:02	Layton, Donald 2021-01-07	00:00:26	DL1.5
	50:16 Q. And so does the mote have any		
	50:17 effect on the ability of competitors to		
	50:18 mortgage securitization business?		
	50:19 A. Yes.		
	50:20 Q. Was it realistic for		
	50:21 Mr. DeMarco to think that by increasing		
	50:22 guarantee fees, he could induce		
	51:01 competitors to come into the mortgage		
	51:02 securitization business?		
51:05 - 51:19	Layton, Donald 2021-01-07	00:00:34	DL1.6
	51:05 A. I think the history since		
	51:06 indicates he was.		
	51:07 Q. He was being realistic?		
	51:08 A. He was being unrealistic. The		
	51:09 history is he was being unrealistic.		
	51:10 Q. Got it.		
	51:11 A. That is definitely 20/20		
	51:12 hindsight on my part in saying that. But		
	51:13 it is shown that it was not realistic.		
	51:14 Q. But the features of the mote		

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DESIGNATION	SOURCE	DURATION	ID
	51:15 that you just talked about, those were 51:16 publicly known facts in 2012, isn't that 51:17 right? 51:18 A. Those have been publicly known 51:19 facts for decades.		
56:16 - 56:20	Layton, Donald 2021-01-07	00:00:16	DL1.7
	56:16 Q. And to what extent, if any, in 56:17 carrying out these goals did you expect 56:18 that executing on them would reduce the 56:19 long-term comprehensive income of Freddie 56:20 Mac?		
57:01 - 57:06	Layton, Donald 2021-01-07	00:00:21	DL1.8
	57:01 A. Reducing the long-term 57:02 comprehensive income of Freddie Mac would 57:03 clearly happen via risk sharing 57:04 transactions, the third item. That is 57:05 the only one that would clearly lead to 57:06 that impact.		
93:11 - 93:14	Layton, Donald 2021-01-07	00:00:07	DL1.9
	93:11 Q. Did you regard the periodic 93:12 commitment fee as potentially a large sum 93:13 that Freddie would be required to pay 93:14 Treasury?		
93:17 - 94:01	Layton, Donald 2021-01-07	00:00:18	DL1.10
	93:17 A. During conservatorship I 93:18 regarded it as nonexistent. It had never 93:19 been charged. No one ever talked about 93:20 it. No one ever talked about a level. 93:21 For a possible future state after 93:22 conservatorship would end, yes, that 94:01 could be a significant number.		
102:12 - 102:14	Layton, Donald 2021-01-07	00:00:08	DL1.11
	102:12 Q. Got it. Okay. I am going to 102:13 introduce another exhibit, if I could. 102:14 Give me just a moment.		
102:15 - 106:15	Layton, Donald 2021-01-07	00:03:54	DL1.12
	102:15 MR. BARNES: So this will be 102:16 Exhibit 7. It's also 102:17 FHFA_DDC_0327450.		

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DESIGNATION	SOURCE	DURATION	ID
102:18	Q.	And as always, you're welcome	
102:19		to look at any part of this document that	
102:20		you'd like. I'm really interested in the	
102:21		first page.	
102:22		(Exhibit 7, Document Bates	
103:01		stamped FHFA_DDC_0327450, was so	
103:02		marked for identification, as of this	
103:03		date.)	
103:04	A.	I have never seen this document	
103:05		before.	
103:06	Q.	Okay. And what it at least	
103:07		purports to be is a summary of some	
103:08		meetings that Mr. DeMarco had, and in	
103:09		particular I guess the date on the	
103:10		document is July 18th, 2012. And the	
103:11		second set of bullets, it says at the top	
103:12		"Ed recapped his meeting with Don Layton	
103:13		earlier in the day."	
103:14	A.	Excuse me. Can you give me a	
103:15		date for this document?	
103:16	Q.	Yeah, I'm sorry, July 18, 2012.	
103:17	A.	Okay.	
103:18	Q.	And I guess I will start by	
103:19		just asking, how frequently were you	
103:20		meeting with Mr. DeMarco in the summer of	
103:21		2012?	
103:22	A.	Actually, through Ed's entire	
104:01		tenure, I met with him generally once a	
104:02		week.	
104:03	Q.	Got it. And what kinds of	
104:04		things would you discuss with him during	
104:05		those weekly meetings?	
104:06	A.	Everything about Freddie Mac.	
104:07		As conservator, he had a view over the	
104:08		entire company.	
104:09	Q.	Got it. And one of the	
104:10		bullets, I guess it's the fourth bullet	
104:11		down in this kind of middle section, it	
104:12		says "He," and I think that's referring	
104:13		to you.	
104:14	A.	Right.	

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DESIGNATION	SOURCE	DURATION	ID
104:15	Q. "Believes they are seeing real		
104:16	evidence of a house price turnaround."		
104:17	Do you see that?		
104:18	A. Yup.		
104:19	Q. Were you seeing, in July of		
104:20	2012, real evidence of a house price		
104:21	turnaround?		
104:22	A. Yes.		
105:01	Q. And what was that evidence?		
105:02	A. There are several national		
105:03	indexes of house prices, one of which is		
105:04	actually constructed by Freddie Mac		
105:05	itself. And they all bottomed -- some		
105:06	are urban areas only, some are a broader.		
105:07	Freddie Mac index, for example, only does		
105:08	transactions -- is related to		
105:09	transactions that Freddie does, which of		
105:10	course does not include very large		
105:11	houses, very expensive houses. And all		
105:12	of these showed bottoming out somewhere		
105:13	between the middle of 2011 and into early		
105:14	2012, which means by the time you see the		
105:15	data, it is in this kind of time frame of		
105:16	this comment, and it seemed to be		
105:17	starting. It's nothing more than		
105:18	extrapolating the available data, which		
105:19	we would see.		
105:20	Q. And what were the implications		
105:21	for Freddie's comprehensive income going		
105:22	forward of a significant turnaround in		
106:01	house prices?		
106:02	A. I don't see the word		
106:03	"significant," so that's you adding.		
106:04	Q. What were the implications for		
106:05	Freddie's comprehensive income for a		
106:06	house price turnaround?		
106:07	A. The biggest implication is that		
106:08	future provisions for loan losses would		
106:09	go down or turn negative possibly.		
106:10	Q. And how would that affect		
106:11	Freddie's overall comprehensive income?		

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DESIGNATION	SOURCE	DURATION	ID
	106:12 A. It would feed directly into 106:13 pre-tax income and then you would have 106:14 the after-tax impact on comprehensive 106:15 income.		
106:17 - 106:22	Layton, Donald 2021-01-07	00:00:16	DL1.13
	106:17 MR. BARNES: I am going to 106:18 introduce another document if I could. 106:19 (Exhibit 8, Document Bates 106:20 stamped FHLMC_00002301, was so marked 106:21 for identification, as of this 106:22 date.)		
107:01 - 107:04	Layton, Donald 2021-01-07	00:00:16	DL1.14
	107:01 MR. BARNES: So this will be 107:02 Exhibit 8, it's also FHLMC_00002301. 107:03 Q. Mr. Layton, have you seen this 107:04 document before?		
107:14 - 109:01	Layton, Donald 2021-01-07	00:02:10	DL1.15
	107:14 Q. Welcome back, Mr. Layton. If 107:15 we could, we will pull up Exhibit 8 again 107:16 for you, and is this an e-mail that you 107:17 received in the usual course of your 107:18 business? 107:19 A. It appears so. 107:20 Q. Okay. And I am going to show 107:21 you a document that was attached to this 107:22 e-mail, if I could. It should be in the 108:01 system as Exhibit 9. It's also 108:02 FHLMC_00002331. 108:03 (Exhibit 9, Document Bates 108:04 stamped FHLMC_00002331, was so marked 108:05 for identification, as of this date.) 108:06 MR. BARNES: And the title of 108:07 this document is 2012-2015 Corporate 108:08 Forecast/Senior Preferred Stock 108:09 Purchase Agreement - 3Q Update. 108:10 Q. Mr. Layton, have you seen this 108:11 document before? 108:12 A. Possibly. I don't specifically 108:13 recall it. 108:14 Q. And if we could, let's flip to		

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DESIGNATION	SOURCE	DURATION	ID
	108:15 the second page. There we go. And it		
	108:16 looks like this is a set of financial		
	108:17 forecasts for Freddie Mac. Does that		
	108:18 appear to be correct?		
	108:19 A. This appears to be a financial		
	108:20 forecast using what is referred to here		
	108:21 as a 2012 base case.		
	108:22 Q. Okay. Yeah. And that's		
	109:01 something I wanted to ask you about		
109:02 - 109:09	Layton, Donald 2021-01-07	00:00:21	DL1.16
	109:02 actually. In some of the documents I		
	109:03 saw, it seemed like sometimes there would		
	109:04 be different cases for projections. A		
	109:05 base case. A stress case. A better		
	109:06 case. A worst case. Was it Freddie's		
	109:07 general practice to sort of prepare		
	109:08 projections for different possible		
	109:09 futures?		
109:10 - 109:10	Layton, Donald 2021-01-07	00:00:01	DL1.17
	109:10 A. Well, since --		
109:13 - 112:06	Layton, Donald 2021-01-07	00:02:51	DL1.18
	109:13 A. Since the future is		
	109:14 fundamentally unknowable, any document		
	109:15 doing forecasts has to make reference to		
	109:16 either assumptions they are based on,		
	109:17 which could be judged, or different		
	109:18 versions to show different outcomes.		
	109:19 Obviously you can't predict the future		
	109:20 with certainty.		
	109:21 Q. Right. And what did Freddie		
	109:22 generally use its financial projections		
	110:01 for?		
	110:02 A. Certain kinds of planning in		
	110:03 the company. I mean it's such a generic		
	110:04 comment, I'm not sure how to answer that.		
	110:05 Q. So making decisions for the		
	110:06 company generally?		
	110:07 A. Yes.		
	110:08 Q. And can you walk me through		
	110:09 sort of the process that Freddie used to		

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DESIGNATION	SOURCE	DURATION	ID
110:10	prepare financial projections?		
110:11	A. It was the responsibility of		
110:12	the finance department to do. They would		
110:13	get input from the economics area and the		
110:14	businesses as to -- and public data, like		
110:15	the house price forecasts I referred to		
110:16	earlier, which is all public data, to		
110:17	work up various scenarios. And would ask		
110:18	the business finance people what things		
110:19	would look like in their businesses under		
110:20	those scenarios. And would put the		
110:21	numbers together and everyone understood		
110:22	it was an approximation and it would not		
111:01	be given more credence than that.		
111:02	Q. And what do you mean by it		
111:03	would not be given more credence than		
111:04	that?		
111:05	A. It's projecting the future.		
111:06	You can't be -- point numbers always have		
111:07	a standard deviation around them.		
111:08	Q. Yeah, and something I always		
111:09	wondered about is I've looked at these		
111:10	and other projections. The tendency		
111:11	seems to be to come up with a point		
111:12	number rather than a range. And I guess		
111:13	I wonder why that is so.		
111:14	A. It's understood by the reader		
111:15	that it's a range.		
111:16	Q. Yeah. And do you recall how		
111:17	far out into the future Freddie would		
111:18	typically do financial projections?		
111:19	A. I think for different purposes,		
111:20	they do different lengths. The longest I		
111:21	remember for some purposes much later		
111:22	than 2012 probably would have been three		
112:01	to five years, maybe. Again, all the		
112:02	readers would understand the further out		
112:03	you get, the more uncertain it is.		
112:04	Q. And was it more typical for a		
112:05	projection to go maybe three years out		
112:06	and stop?		

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DESIGNATION	SOURCE	DURATION	ID
112:09 - 113:01	Layton, Donald 2021-01-07 112:09 A. I don't remember if it was more 112:10 typical. Anything past three years would 112:11 be highly unusual for a specific purpose 112:12 only. 112:13 Q. Got it. And the longer five 112:14 year projection you mentioned, do you 112:15 happen to recall what that was prepared 112:16 for? 112:17 A. I think that was much later 112:18 when some scenarios would be running 112:19 about what the company would need for 112:20 capital when it would be coming out of 112:21 conservatorship, since the time frame for 112:22 raising capital was very extended given 113:01 the amounts involved.	00:00:42	DL1.19
113:02 - 113:14	Layton, Donald 2021-01-07 113:02 Q. And if we could, let's 113:03 flip to the next page. I'm sorry, one 113:04 more page after that. Okay. And I 113:05 wonder if you could help me just 113:06 interpret this page of the document. 113:07 There is a base/better case. There is a 113:08 worst case. There is a stress case. 113:09 What is the rationale for modeling all of 113:10 those different scenarios? 113:11 A. Just as I said, the future is 113:12 unknowable. You want to plan. What you 113:13 might do in various scenarios, you have 113:14 to run the scenarios.	00:00:46	DL1.20
113:15 - 114:03	Layton, Donald 2021-01-07 113:15 Q. And what would be the 113:16 relationship between a base case and a 113:17 worst case or a better case? 113:18 A. Finance used the judgment for a 113:19 modest up, a modest down and a big down. 113:20 It's not more -- it's judgemental and 113:21 it's not quantitative beyond that. 113:22 Q. Got it. And the base case, is 114:01 that going to be, I guess sort of the	00:00:36	DL1.21

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DESIGNATION	SOURCE	DURATION	ID
	114:02 median outcome that you're modeling or 114:03 expecting?		
114:06 - 114:14	Layton, Donald 2021-01-07	00:00:18	DL1.22
	114:06 A. The theory is your base case 114:07 should be the one where the odds are 114:08 50 percent it would be worse than that, 114:09 50 percent it might be better than that. 114:10 But that is putting quantitiveness on 114:11 top of people's judgment past the point 114:12 where it makes sense. So it's just a 114:13 judgment call. What seems like a 114:14 reasonable future.		
117:17 - 118:02	Layton, Donald 2021-01-07	00:00:17	DL1.23
	117:17 Q. You're more concerned with the 117:18 downside than the median or upside? 117:19 A. Yes. You're concerned about 117:20 all of it, but the one that causes the 117:21 most problems is clearly the downside. 117:22 Q. And why is that? 118:01 A. Because that can threaten the 118:02 viability of a big company.		
146:08 - 147:01	Layton, Donald 2021-01-07	00:00:39	DL1.24
	146:08 Q. Let me ask the same 146:09 question I asked a moment ago with 146:10 respect to FHFA, this time with respect 146:11 to Treasury. Before August 15th, 2012, 146:12 did anyone at Treasury ever tell you that 146:13 Treasury was committed to ensuring that 146:14 Freddie's shareholders other than 146:15 Treasury would not receive a return on 146:16 their investments? 146:17 A. I don't ever remember anyone 146:18 saying whether they were committed. I do 146:19 recall them saying their expectation was 146:20 that the company's fundamental 146:21 profitability would be inadequate to ever 146:22 repay back even the \$72 billion 147:01 outstanding under the senior preferred.		
147:02 - 147:05	Layton, Donald 2021-01-07	00:00:04	DL1.25

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DESIGNATION	SOURCE	DURATION	ID
	147:02 Q. They were wrong about that, 147:03 weren't they? 147:04 A. They turned out to be wrong, 147:05 yes.		DL1.25
147:06 - 148:15	Layton, Donald 2021-01-07	00:01:40	DL1.26
	147:06 Q. Did you share that expectation 147:07 in August of 2012? 147:08 A. In reality it included so many 147:09 assumptions of the future, I don't think 147:10 you could really calculate it. I believe 147:11 the Treasury's assumption was colored by 147:12 the overall policy of the Obama 147:13 Administration with respect to the GSEs, 147:14 which was to have a wind-down. And in a 147:15 wind-down scenario, I can easily see the 147:16 numbers working out where you would not 147:17 repay the 70. However, the wind-down 147:18 scenario was a policy never actually 147:19 fully acted upon or ever completed. And 147:20 in fact never happened. 147:21 Q. When the Obama Administration 147:22 talked about a wind-down, what did you 148:01 understand them to mean? 148:02 A. A wind-down was somewhere 148:03 between the full runoff, putting the 148:04 companies into runoff at some point when 148:05 a replacement for them had somehow been 148:06 developed, which was to be left to 148:07 Congress to develop. And in that rundown 148:08 of the assets and liabilities with no new 148:09 business, it is possible some of the 148:10 assets and liabilities might have been 148:11 transferred to a conceptual new kind of 148:12 provider of credit to the mortgage 148:13 system. But it was all very hypothetical 148:14 and vague and general. And as I said, it 148:15 never actually got done.		
149:08 - 149:18	Layton, Donald 2021-01-07	00:00:40	DL1.27
	149:08 How did you first learn about 149:09 the Third Amendment?		

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DESIGNATION	SOURCE	DURATION	ID
	149:10 A. Well, one possible answer, 149:11 depending on what you mean about learned 149:12 about, is when I walked into a room at 149:13 Treasury when we were given the amendment 149:14 and told about it, along with some other 149:15 things, in a big meeting down there. So 149:16 that's the first time I learned that 149:17 there was an actual Third Amendment 149:18 existing or being worked on.		
149:19 - 150:19	Layton, Donald 2021-01-07	00:01:11	DL1.28
	149:19 Q. And it sounded like 149:20 depending on what I meant by learn about, 149:21 there might be a different answer; is 149:22 that right? 150:01 A. Well, I had known from earlier 150:02 in the summer there was an issue to be 150:03 addressed that was concerning to the 150:04 markets, which was extremely important to 150:05 resolve. And that issue is that the 150:06 PSPA -- the amount of the PSPA available 150:07 to the Freddie Mac in the summer of 2012 150:08 was unlimited. And by its terms was 150:09 going limited near year-end by a formula. 150:10 And that because of the expectation of 150:11 earnings of the company was that it would 150:12 from time to time, and maybe in a 150:13 downturn a lot have draws that it would 150:14 "use up the limited amount leaving too 150:15 small amounts to maintain the market's 150:16 confidence that the Government was behind 150:17 our credit quality guarantee of the MBS." 150:18 Q. How did that concern manifest 150:19 itself?		
150:22 - 153:19	Layton, Donald 2021-01-07	00:02:36	DL1.29
	150:22 A. Yeah, I'm not sure -- can you 151:01 ask that -- 151:02 Q. How did you know that was a 151:03 concern of the markets? 151:04 A. Relatively soon into my tenure 151:05 which started in late May of 2012, so I		

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DESIGNATION	SOURCE	DURATION	ID
151:06	am estimating sometime in June, I was		
151:07	asked to join an existing meeting with		
151:08	one of the -- that was going on with a		
151:09	delegation from one of the major mortgage		
151:10	securities dealers where that was why		
151:11	they were coming to tell us about their		
151:12	seeing this problem. And that this was		
151:13	highly concerning to them, because it		
151:14	could lead to a real financeability		
151:15	issue, as well as losses to them,		
151:16	obviously.		
151:17	Q. Which mortgage securities		
151:18	dealer are you referring to?		
151:19	A. Credit Suisse.		
151:20	Q. Do you remember who was at that		
151:21	meeting?		
151:22	A. It's too long ago to remember		
152:01	names. I don't deal with people		
152:02	normally, so the answer is I don't		
152:03	remember the names anymore.		
152:04	Q. Okay. Do you remember if		
152:05	anyone from FHFA was there?		
152:06	A. No. I was told at the time		
152:07	they were talking to us about their		
152:08	concern and making the rounds in		
152:09	Washington telling all of the interested		
152:10	parties. So I am under the impression		
152:11	they visited with Fannie Mae and FHFA and		
152:12	Treasury. They left me with that		
152:13	impression.		
152:14	Q. Got it. And do you remember if		
152:15	anyone else from Freddie Mac was in the		
152:16	meeting?		
152:17	A. Well, yes. This meeting was		
152:18	not with me. I was not supposed to be		
152:19	there originally. I was asked to join		
152:20	the person who asked me to join who from		
152:21	the meeting was the individual who was		
152:22	then head of the markets area of the		
153:01	Freddie Mac, his last name is Ghose,		
153:02	G-h-o-s-e.		

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DESIGNATION	SOURCE	DURATION	ID
	153:03 Q. Got it. And was it just you		
	153:04 and Mr. Ghose for Freddie or there might		
	153:05 have been others, do you recall?		
	153:06 A. It might have been others, but		
	153:07 I don't remember.		
	153:08 Q. Got it. And was anyone from		
	153:09 Fannie Mae there?		
	153:10 A. No, this is a single company		
	153:11 meeting.		
	153:12 Q. Got it. And did you ever, in		
	153:13 the lead-up to mid-August 2012 and the		
	153:14 Third Amendment, did you have any other		
	153:15 meetings with market participants where		
	153:16 market participants expressed this		
	153:17 concern or is that the only one?		
	153:18 A. That's the only one that I		
	153:19 recall at this time.		
154:04 - 156:13	Layton, Donald 2021-01-07	00:02:43	DL1.30
	154:04 (Exhibit 11, Document Bates		
	154:05 stamped FHFA 00107324, was so marked		
	154:06 for identification, as of this date.)		
	154:07 Q. Let's look at another		
	154:08 document, if we could. And this is		
	154:09 Exhibit 11. It's also FHFA 00107324.		
	154:10 And if you would, again, you're welcome		
	154:11 to read any part of this you would like.		
	154:12 The date on this document is August 15,		
	154:13 2012. And what this document purports to		
	154:14 be is a summary of an internal FHFA		
	154:15 meeting, and if you would, just read the		
	154:16 first set of bullet points.		
	154:17 MS. RODRIGUEZ: And is there a		
	154:18 date on it?		
	154:19 MR. BARNES: Yeah, in the upper		
	154:20 right, it says August 15, 2012.		
	154:21 MS. RODRIGUEZ: Okay.		
	154:22 A. Can you remind me the date of		
	155:01 the issuance -- the date of the meeting		
	155:02 at Treasury with the PSPA that I		
	155:03 referenced?		

DL1 - Donald Layton Designations

DESIGNATION	SOURCE	DURATION	ID
	155:04 Q. You know, I am not certain. I		
	155:05 think it may have been August 15 or		
	155:06 August 14.		
	155:07 A. Okay. I think it was -- oh, it		
	155:08 would have been the 15th.		
	155:09 Q. Okay.		
	155:10 A. Okay. And so this document is		
	155:11 dated the 15th?		
	155:12 Q. That's correct.		
	155:13 A. So this document is referencing		
	155:14 the meetings that occurred earlier that		
	155:15 day?		
	155:16 Q. That's kind of the question I		
	155:17 have for you, I guess. But that's my		
	155:18 supposition.		
	155:19 A. Just give me a second to read		
	155:20 it.		
	155:21 (Witness reviews document.)		
	155:22 A. Okay, I've read it. What would		
	156:01 you like to ask?		
	156:02 Q. Okay. As an initial matter, is		
	156:03 this set of points consistent with your		
	156:04 recollection of the meeting you		
	156:05 referenced a moment ago with Treasury?		
	156:06 A. It makes a few comments about		
	156:07 Enterprises, referring to us and Fannie		
	156:08 Mae. I mean what do you want to ask me?		
	156:09 Whether it's an accurate representation?		
	156:10 Q. Yeah. I guess first I want to		
	156:11 ask, is this a summary of a meeting in		
	156:12 which you learned about the net worth		
	156:13 sweep?		
156:16 - 160:16	Layton, Donald 2021-01-07	00:04:18	DL1.31
	156:16 A. Okay. It is partially.		
	156:17 Certain items in here are not related		
	156:18 directly to what happened at the meeting.		
	156:19 Q. Okay. And who attended that		
	156:20 meeting?		
	156:21 A. Oh, for Freddie Mac, it was		
	156:22 myself, the CFO Ross Kari, and our chief		

DL1 - Donald Layton Designations

DESIGNATION	SOURCE	DURATION	ID
157:01	administrative officer, who also acted as		
157:02	liaison with the Government, Jerry Weiss.		
157:03	My counterpart Tim Mayopoulos from Fannie		
157:04	was there with his CFO, and probably a		
157:05	third person I don't remember. Ed		
157:06	DeMarco was there and some other people		
157:07	from FHFA. I don't remember who exactly		
157:08	was with him. And Treasury had, it was		
157:09	considered a very important meeting, so		
157:10	Treasury actually had Tim Geithner there		
157:11	and Mary Miller and others who had worked		
157:12	with or for Mary.		
157:13	Q. Can you tell me what you		
157:14	remember Mr. Geithner saying at the		
157:15	meeting?		
157:16	A. Tim's role, the nature of that		
157:17	role was he introduced the meeting and		
157:18	basically said nice words to us about		
157:19	what a good job the companies were doing		
157:20	and such. And then turned it over to		
157:21	others for the substance.		
157:22	Q. And who from Treasury was		
158:01	providing the substance, do you recall?		
158:02	A. I don't think it was Mary. I		
158:03	think it was one of her people, but I		
158:04	don't recall exactly.		
158:05	Q. Do you remember what the		
158:06	substance was that was said?		
158:07	A. Yes. They handed out this		
158:08	document, which was the Third Amendment		
158:09	ready to be signed. Please note it was		
158:10	made clear to us we were being informed		
158:11	of this document. Our opinion of it was		
158:12	not asked or wanted. And it would be		
158:13	signed for Freddie Mac by the conservator		
158:14	Ed DeMarco on behalf of the FHFA. So we		
158:15	were told what was happening.		
158:16	Q. How did they make clear that		
158:17	they didn't want your opinion?		
158:18	A. They told us this is -- we		
158:19	decided and this is what we are telling		

DL1 - Donald Layton Designations

DESIGNATION	SOURCE	DURATION	ID
158:20	you is happening. I will also reference		
158:21	comments that I made earlier in this		
158:22	deposition that capital matters had		
159:01	consistently from the very beginning not		
159:02	been delegated back down to management.		
159:03	Q. Do you recall if Mr. DeMarco		
159:04	said anything at the meeting?		
159:05	A. It's too long ago, I don't		
159:06	recall specifically.		
159:07	Q. The first bullet point we have		
159:08	here says "Overall the discussions on the		
159:09	PSPA amendments went fine. Enterprises		
159:10	were provided a copy. The focus was on		
159:11	the dividends."		
159:12	Do you remember anyone, either		
159:13	yourself or from Freddie or Fannie,		
159:14	asking questions about the dividends		
159:15	during this meeting?		
159:16	A. The recollection of the meeting		
159:17	was that the conversation was mainly		
159:18	about the reserve left in the net worth		
159:19	sweep of the \$3 billion declining to zero		
159:20	seeming to be questionable to us and		
159:21	Fannie.		
159:22	Q. Why was it questionable?		
160:01	A. It seemed to be so little, that		
160:02	normal quarterly volatility was making it		
160:03	more likely than not that there would be		
160:04	draws from time to time.		
160:05	Q. And the next sentence here, it		
160:06	says "No real pushback was seen."		
160:07	Do you see that?		
160:08	A. I do.		
160:09	Q. Is that consistent with your		
160:10	recollection that Fannie and Freddie		
160:11	didn't push back on the Third Amendment?		
160:12	A. The etiquette at the meeting		
160:13	again was we were told this was being		
160:14	done. We weren't asked for my opinion		
160:15	much. So no, we did not violate that and		
160:16	do a pushback.		

DL1 - Donald Layton Designations

DESIGNATION	SOURCE	DURATION	ID
189:03 - 190:21	Layton, Donald 2021-01-07	00:01:47	DL1.32
189:03	Q. Welcome back, Mr. Layton. Just		
189:04	very briefly, we had a conversation a		
189:05	little earlier about Credit Suisse and		
189:06	some expressions of concern that they had		
189:07	about the dividend arrangement that		
189:08	preceded the Third Amendment. Do you		
189:09	recall that?		
189:10	A. Yes, I do.		
189:11	Q. And as I understand it, the		
189:12	substance of the concern was that Freddie		
189:13	might, over the course of the years, be		
189:14	put in a position where it needed to draw		
189:15	on Treasury's funding commitment to		
189:16	finance dividends to Treasury. Do I have		
189:17	that right?		
189:18	A. Yes.		
189:19	Q. And I think you mentioned early		
189:20	on in the deposition that you didn't have		
189:21	any involvement in and weren't consulted		
189:22	about FHFA's decisions with regard to		
190:01	whether or not to declare dividends on		
190:02	Treasury's senior preferred stock. Did I		
190:03	catch that right?		
190:04	A. Correct. Because of the lack		
190:05	of the delegation about capital matters		
190:06	to the board of management, we acted just		
190:07	as execution agents for FHFA and anything		
190:08	related to the capital. So they		
190:09	literally gave us an order to pay the		
190:10	quarterly dividend, the 10 percent coupon		
190:11	when the time was due. It was		
190:12	administrative, but that was the paper		
190:13	plug.		
190:14	Q. Right. And if FHFA had adopted		
190:15	a policy that it would just not direct		
190:16	Freddie to declare dividends in quarters		
190:17	when doing so would cause Freddie to make		
190:18	a draw on Treasury's funding commitment,		
190:19	would that have addressed the Credit		

DL1 - Donald Layton Designations

DESIGNATION	SOURCE	DURATION	ID
	190:20 Suisse concern that you were referring to 190:21 earlier?		
191:02 - 192:21	Layton, Donald 2021-01-07	00:01:57	DL1.33
	191:02 A. Say that again? Ask that 191:03 again? I didn't follow the logic. 191:04 Q. Sure. So if in quarters when 191:05 Freddie was in a position where it would 191:06 need to make a draw in order to pay the 191:07 10 percent dividend, if FHFA during those 191:08 quarters had just declined to direct 191:09 Freddie to declare dividends on Treasury 191:10 stock, would that have addressed the 191:11 Credit Suisse concern? 191:12 A. Only in the most narrow sense, 191:13 because not paying the 10 percent would 191:14 be a violation of the PSPA, and that 191:15 would have caused a real stir. 191:16 Q. Okay. And what is your basis 191:17 for saying that it would have been a 191:18 violation of the PSPA? 191:19 A. As far as I knew we were 191:20 obligated to pay the 10 percent coupon 191:21 and FHFA telling us nothing, to do 191:22 nothing looks like on the surface to be a 192:01 violation of the agreement. And Treasury 192:02 would be, you know, concerned it would 192:03 leak out. The market would wonder what's 192:04 going on. This is not a confidence 192:05 building path to be on. 192:06 Q. Do you know whether the PSPA, 192:07 as it existed prior to the Third 192:08 Amendment, permitted Freddie or FHFA to 192:09 add to the liquidation preference on 192:10 Treasury's senior preferred stock in lieu 192:11 of paying cash dividends? 192:12 A. I actually don't remember 192:13 learning of that until it became brought 192:14 up later after the Third Amendment as 192:15 part of the lawsuits. So if I knew it, 192:16 it never impacted my thought process,		

DL1 - Donald Layton Designations

DESIGNATION	SOURCE	DURATION	ID
	192:17 because I didn't pay attention to it.		
	192:18 However, just to tie you up in		
	192:19 your question, we still would have been		
	192:20 told to issue paperwork to do the		
	192:21 preference.		
193:11 - 193:15	Layton, Donald 2021-01-07	00:00:13	DL1.34
	193:11 Q. Okay. And if you had issued		
	193:12 the paperwork to do the preference in		
	193:13 that manner, would the concern that was		
	193:14 expressed to you by Credit Suisse have		
	193:15 still been a concern?		
193:18 - 195:14	Layton, Donald 2021-01-07	00:01:36	DL1.35
	193:18 A. I don't know what Credit		
	193:19 Suisse's thought process would have been,		
	193:20 but it would have been a switch about the		
	193:21 concern of the unused running down to a		
	193:22 concern about the preference continually		
	194:01 increasing, which would be unusual in its		
	194:02 own right.		
	194:03 Q. Credit Suisse was expressing		
	194:04 this concern from the perspective of		
	194:05 mortgage-backed securities holders and		
	194:06 bondholders; is that right?		
	194:07 A. Yes, liability holders. Not		
	194:08 equity holders.		
	194:09 Q. And so liability holders, they		
	194:10 are senior in the capital stack to		
	194:11 Treasury senior preferred stock, is that		
	194:12 right?		
	194:13 A. That is correct. That's the		
	194:14 whole purpose.		
	194:15 Q. And so why would an investor		
	194:16 who is a senior in the capital stack to		
	194:17 Treasury be concerned about a growing		
	194:18 Treasury preference on senior preferred		
	194:19 stock?		
	194:20 A. Only because it's so unusual,		
	194:21 it raises concerns.		
	194:22 Q. What concerns?		
	195:01 A. It makes the company look		

DL1 - Donald Layton Designations

DESIGNATION	SOURCE	DURATION	ID
	195:02 unsustainable because you can't		
	195:03 constantly have this growing senior		
	195:04 preference. At some point it just		
	195:05 doesn't make any sense. So it would be		
	195:06 more symptomatic of it's a short-term		
	195:07 solution, it can't last for the long		
	195:08 term.		
	195:09 Q. I guess as the liquidation		
	195:10 preference ballooned, at some point one		
	195:11 would say that any investors that were		
	195:12 junior to Treasury in the capital stack		
	195:13 had been effectively wiped out; is that		
	195:14 right?		
195:17 - 195:20	Layton, Donald 2021-01-07	00:00:06	DL1.36
	195:17 A. If the senior preferred keeps		
	195:18 going up and up, there is less left for		
	195:19 people below them in the stack, that is		
	195:20 correct.		
223:04 - 225:13	Layton, Donald 2021-01-07	00:02:28	DL1.37
	223:04 Q. At any point during your tenure		
	223:05 at Freddie Mac -- well, let me take a		
	223:06 step back. One of the features of the		
	223:07 preferred stock purchase amendment, the		
	223:08 PSPA, that carried through all of the		
	223:09 amendments was that Freddie Mac was not		
	223:10 allowed to pay back the principal without		
	223:11 the Treasury's consent; is that right?		
	223:12 A. Right.		
	223:13 Q. At any point during your tenure		
	223:14 at Freddie, did you ever discuss with		
	223:15 anyone at FHFA or Treasury the		
	223:16 possibility or the concept of we now have		
	223:17 enough money to start paying this back.		
	223:18 We would like to do that. Any discussion		
	223:19 along those lines?		
	223:20 A. I don't remember specific		
	223:21 discussions, but generally it was made		
	223:22 clear to us they did not want any		
	224:01 payback.		
	224:02 Q. How is that made clear to you?		

DL1 - Donald Layton Designations

DESIGNATION	SOURCE	DURATION	ID
224:03	A. Just general conversations over		
224:04	time. I don't have any specific		
224:05	recollection.		
224:06	Q. Do you have any understanding		
224:07	of why they were not interested in being		
224:08	paid back?		
224:09	A. Yes, I do.		
224:10	Q. What is that understanding?		
224:11	A. I'll say to the Government,		
224:12	this is an unknown combination of White		
224:13	House Treasury and FHFA, the Government.		
224:14	When they put the companies into		
224:15	conservatorship, they regarded the		
224:16	business models under the Congressional		
224:17	charters as fundamentally flawed in		
224:18	several ways as have been revealed in the		
224:19	financial crisis. And therefore, they		
224:20	did not want the companies somehow to		
224:21	earn their way to be released to go back		
224:22	to that flawed model under the		
225:01	Congressional charge.		
225:02	So they wanted a release, if a		
225:03	release was ever to occur, to only happen		
225:04	after there had been fixes in the system,		
225:05	and that means their permission. So they		
225:06	did not want this ever to go back to the		
225:07	old days kind of result. That's my		
225:08	understanding.		
225:09	Q. And your understanding in that		
225:10	regard was that was a policy decision,		
225:11	not necessarily a financial decision, in		
225:12	terms of -- a corporate financial		
225:13	decision, I mean?		
225:16 - 225:18	Layton, Donald 2021-01-07	00:00:07	DL1.38
225:16	A. My understanding is, yes, that		
225:17	the financial structure of the PSPA came		
225:18	from that fundamental policy decision.		
228:12 - 229:03	Layton, Donald 2021-01-07	00:00:38	DL1.39
228:12	Q. Whether earnings were strong or		
228:13	weak or somewhere in between, the		

DL1 - Donald Layton Designations

DESIGNATION	SOURCE	DURATION	ID
228:14	principal, whatever it was, would remain		
228:15	outstanding and unable to be paid back		
228:16	unless Treasury gave the okay, correct?		
228:17	A. Well, yeah, that change in the		
228:18	legal agreement, they could not be paid		
228:19	back, that's true.		
228:20	Q. So whether the amount		
228:21	outstanding was 200 billion, 250, 300, or		
228:22	151, whatever the number is, it could		
229:01	only be paid back when Treasury said it		
229:02	could be?		
229:03	A. That's true.		

Our Designations	00:49:40
TOTAL RUN TIME	00:49:40

Exhibit E

221018_2101 Lockhart, James

Designation List Report



Lockhart, James

2021-01-13

[Our Designations](#)

[00:36:18](#)

TOTAL RUN TIME

00:36:18



Documents linked to video:

PX2B

PX2C



LJ_01 - 221018_2101 Lockhart, James

DESIGNATION	SOURCE	DURATION	ID
10:16 - 10:18	Lockhart, James 2021-01-13	00:00:07	LJ_01.1
10:16	Can you just go ahead and state your name for		
10:17	the record, please, your full name.		
10:18	A. James Bicknell Lockhart III.		
26:03 - 27:21	Lockhart, James 2021-01-13	00:02:34	LJ_01.2
26:03	Can you just give me a brief overview of your		
26:04	employment history, starting from when you graduated		
26:05	and any post-secondary school. I really mean just an		
26:06	overview.		
26:07	A. I went to Yale. Worked for a bank for a year		
26:08	in the credit department, and then spent three years		
26:09	in the Navy as a supply officer on a nuclear		
26:10	submarine. Then Harvard Business School. Gulf Oil		
26:11	for about nine years, where I ended up as an assistant		
26:12	treasurer. Treasurer of Alexander & Alexander		
26:13	thereafter, which was the second largest broker and		
26:14	risk manager in the world.		
26:15	After that, I went to run the Pension Benefit		
26:16	Guarantee Corporation for George -- H.W. Bush, No. 41.		
26:17	After he was defeated, I went to Smith Barney and was		
26:18	a managing director in their insurance investment		
26:19	banking practice, then for a year was senior		
26:20	vice-president of finance of a reinsurance company,		
26:21	National Re, then started a risk management firm,		
26:22	advising financial institutions on credit interest		
27:01	rate and operational risk, enterprise risk.		
27:02	And then I got the call to go back in		
27:03	government, and for about four years I was the No. 2		
27:04	chief operating officer Social Security, deputy		
27:05	commissioner. And after that I was asked to join		
27:06	OFHEO in April or May of '06, and was confirmed, I		
27:07	think, in June or so. But I was there starting in		
27:08	April.		
27:09	And then when HERA was passed end of July		
27:10	'08, I became the executive director of FHFA, which		
27:11	continued to be the regulator of Fannie and Freddie,		
27:12	but also, I was a regulator of federal loan home		
27:13	banks.		
27:14	And after that I stayed there through August		
27:15	of '09, then joined a private equity firm -- WL Ross		

LJ_01 - 221018_2101 Lockhart, James

DESIGNATION	SOURCE	DURATION	ID
	27:16 is a private equity firm -- as a vice chairman and ran 27:17 their financial services practice. We invested in a 27:18 whole series of banks in the U.S. and Europe, and 27:19 probably five different mortgage companies in the 27:20 U.S., most single family and multi-family and 27:21 advisory. And I retired a couple years ago.		
27:22 - 28:14	Lockhart, James 2021-01-13	00:00:41	LJ_01.3
	27:22 Q. Thank you. That was very helpful. I'm 28:01 seeing reference to the fact that you are a senior 28:02 fellow at something called the Bipartisan Policy 28:03 Center. 28:04 A. Yes. 28:05 Q. Can you describe what that is? 28:06 A. Yeah, that's correct. The Bipartisan Policy 28:07 Center was started by former ex-Senate majority 28:08 leaders, two Republicans, two Democrats. And their 28:09 mission is to bring Republicans and Democrats together 28:10 to come up with solutions to problems. 28:11 I co-chaired a communication there with 28:12 ex-senator Conrad on retirement security and personal 28:13 savings, and that report came out about three or four 28:14 years ago.		
29:06 - 29:18	Lockhart, James 2021-01-13	00:00:46	LJ_01.4
	29:06 Q. What was your degree in at Yale? 29:07 A. American studies. 29:08 Q. Do you have any degrees or professional 29:09 certifications that you believe were particularly 29:10 relevant to your work at OFHEO and FHFA? 29:11 A. Well, certainly Harvard Business School. 29:12 Most of my courses were in finance. I'm also a fellow 29:13 of the corporate treasurer's organization in the UK, 29:14 but now it's worldwide. 29:15 Q. And what was your degree from Harvard 29:16 Business School? 29:17 A. They -- just the master's of business 29:18 administration. They don't have specific majors.		
29:19 - 30:16	Lockhart, James 2021-01-13	00:01:20	LJ_01.5
	29:19 Q. Can you describe briefly how it came 29:20 about that you were asked to go to OFHEO? 29:21 A. Yes. I was leading President Bush's,		

LJ_01 - 221018_2101 Lockhart, James

DESIGNATION	SOURCE	DURATION	ID
	29:22 No. 43's, social security reform efforts at the agency 30:01 and had done that for several years. It became 30:02 apparent by the end of '05 that it was not going to go 30:03 anywhere, and it was time for me to go back to 30:04 civilian life. 30:05 What they asked me, given the issues at 30:06 Fannie and Freddie, was to take over as the director 30:07 there. They probably asked me six months before I 30:08 made the decision to do it. And in that time, 30:09 actually spent a lot of time just reading up and 30:10 understanding some of the issues at Fannie and 30:11 Freddie. 30:12 And I was really parachuted in. I had 30:13 already been Senate confirmed. So it was easy to move 30:14 me in. And the first order of business was the 30:15 examination report on the accounting standards at 30:16 Fannie Mae and doing a settlement with them.		
35:08 - 35:12	Lockhart, James 2021-01-13	00:00:14	LJ_01.6
	35:08 Q. And I think you said that OFHEO, and I assume 35:09 after HERA, FHFA, a big part of the mission was to be 35:10 the safety and soundness regulator for the GSEs; 35:11 correct? 35:12 A. Yes.		
35:13 - 35:22	Lockhart, James 2021-01-13	00:00:42	LJ_01.7
	35:13 Q. And what does safety and soundness entail 35:14 with respect to those companies? What was your 35:15 understanding of what that meant, to be the safety and 35:16 soundness regulator? 35:17 A. Safety and soundness meant that they had a 35:18 strong balance sheet, that they were able to manage 35:19 their credit, interest rates, operational risk, that 35:20 they had good governance management and boards. And 35:21 as I said, strong balance sheet, liquidity, that they 35:22 were a strong financial institution.		
36:01 - 36:06	Lockhart, James 2021-01-13	00:00:21	LJ_01.8
	36:01 Q. And what role, if any, does capital play in 36:02 the assessment of the institutions safety and 36:03 soundness. 36:04 A. Capital is very important for any financial 36:05 institution and was very important for Fannie and		

LJ_01 - 221018_2101 Lockhart, James

DESIGNATION	SOURCE	DURATION	ID
36:07 - 37:18	<p>36:06 Freddie. The problem was that the legislation that</p> <p>Lockhart, James 2021-01-13</p> <p>36:07 set up OFHEO originally had a very low capital</p> <p>36:08 requirement, and Freddie, much lower than any other</p> <p>36:09 financial institution.</p> <p>36:10 At the end they probably, even though they</p> <p>36:11 were "adequately capitalized," had only about</p> <p>36:12 1 percent capital against their loans and</p> <p>36:13 mortgage-backed securities.</p> <p>36:14 They also specified in the original</p> <p>36:15 legislation some risk capital rules. There was a</p> <p>36:16 leverage rule. As I said, it was probably less than</p> <p>36:17 1 percent, and by now, most banks are more like</p> <p>36:18 10 percent. But they also had a risk-based rule, and</p> <p>36:19 the risk-based rule, again was specified by law and</p> <p>36:20 not very strong.</p> <p>36:21 So one of our big problems and one of the big</p> <p>36:22 things we were fighting from Day 1 is to allow the</p> <p>37:01 agency, OFHEO and then FHFA, once HERA was passed and</p> <p>37:02 it did give us that capability, to set new leverage</p> <p>37:03 rules and risk-based capital rules.</p> <p>37:04 Q. During the course of that answer, I think in</p> <p>37:05 one of your previous answers you said something along</p> <p>37:06 the lines "at the end," and I think in that answer you</p> <p>37:07 said at the end, even though they were adequately</p> <p>37:08 capitalized, there was still issues there, and I'm</p> <p>37:09 paraphrasing that.</p> <p>37:10 But just to be clear, when you say, "at the</p> <p>37:11 end," are you referring to when they were taken into</p> <p>37:12 conservatorship?</p> <p>37:13 A. Well, I would say really in the last year or</p> <p>37:14 two, actually, that they -- again, they were</p> <p>37:15 adequately capitalized according to the law, which I</p> <p>37:16 said many times, but they were not adequately</p> <p>37:17 capitalized compared to any other financial</p> <p>37:18 institution.</p>	00:01:48	LJ_01.9
37:19 - 37:21	<p>Lockhart, James 2021-01-13</p> <p>37:19 Q. Can an institution be considered safe and</p> <p>37:20 sound without having adequate capital?</p> <p>37:21 A. Not in my mind. And, you know, I was an</p>	00:00:09	LJ_01.10

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DESIGNATION	SOURCE	DURATION	ID
37:22 - 38:02	Lockhart, James 2021-01-13	00:00:11	LJ_01.11
37:22	investor in lots of banks. Many of them were actually		
38:01	pretty troubled, and we had to recapitalize them, or		
38:02	they would have been taken over by the FDIC.		
38:03 - 39:12	Lockhart, James 2021-01-13	00:01:50	LJ_01.12
38:03	Q. So focusing again on the safety and soundness		
38:04	part of the agency's mission, and leaving aside for		
38:05	the moment anything regarding conservatorship, was the		
38:06	safety and soundness mission of the agency essentially		
38:07	the same, in your view, both before and after the		
38:08	enactment of HERA?		
38:09	A. Well, after the enactment of HERA, we had a		
38:10	lot more power because we had gotten the legislation		
38:11	we wanted. The problem was the legislation came much		
38:12	too late. We didn't have a chance to implement all		
38:13	the new capital rules, the new regulations and		
38:14	everything that was required to get them to be safe		
38:15	and sound.		
38:16	Q. Yeah. And I understand that your powers		
38:17	changed, but I guess I was getting at a more basic		
38:18	point, which is that the basic objective of the		
38:19	regulator, as far as safety and soundness, would you		
38:20	consider it to be more or less the same before and		
38:21	after the enactment of HERA?		
38:22	A. The objective was the same. The tools were		
39:01	different, and obviously, the market changed pretty		
39:02	dramatically in both '07 and '08.		
39:03	Q. Right. You said, "the tools were different."		
39:04	Can you give me a sense for how the tools changed?		
39:05	A. Well, HERA allowed us to set the leverage		
39:06	ratio and develop a risk-based capital model, which is		
39:07	important. As I mentioned before, we had mission		
39:08	capability as well as safety and soundness. And part		
39:09	of the problem was that the two were in conflict over		
39:10	the years, and then there was other different, smaller		
39:11	things that we could do to help strengthen the two		
39:12	companies.		
60:16 - 61:13	Lockhart, James 2021-01-13	00:01:29	LJ_01.13
60:16	Q. What was your understanding of the		
60:17	difference between conservatorship and receivership?		

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DESIGNATION	SOURCE	DURATION	ID
60:18	A. Receivership set up an LL -- whatever that		
60:19	means. It set up a separate company that the good		
60:20	assets would be transferred into, and conservatorship		
60:21	was keeping the companies in place, but with the		
60:22	conservator, the agency, myself in particular, having		
61:01	the powers of the board and the management of the		
61:02	companies to conserve their assets.		
61:03	Q. Okay. And so would it be fair to say that		
61:04	conservatorship and receivership had different		
61:05	objectives, different purposes?		
61:06	A. Yes.		
61:07	Q. And how would you describe that difference?		
61:08	A. Well, the receivership was much more		
61:09	draconian. It effectively had the impact of moving		
61:10	the assets to another vehicle and -- that would be		
61:11	capitalized. While conservatorship was an attempt to		
61:12	work through their issues and -- over time and		
61:13	potentially keep the companies in place.		
61:14 - 62:04	Lockhart, James 2021-01-13	00:00:37	LJ_01.14
61:14	Q. So that suggests that receivership and		
61:15	conservatorship had different sort of end results in		
61:16	mind; correct?		
61:17	A. End results and different market		
61:18	implications, which was one of the reasons we were		
61:19	having a big debate about receivership and		
61:20	conservatorship.		
61:21	Q. What do you mean by "market implications"?		
61:22	A. I think receivership would have panicked the		
62:01	market pretty dramatically. The market was already		
62:02	very thin at that point, and I'm talking about the		
62:03	mortgage market in particular, but also the overall		
62:04	market.		
62:05 - 62:19	Lockhart, James 2021-01-13	00:00:56	LJ_01.15
62:05	Q. Was receivership more of a liquidation type		
62:06	of vehicle for the companies?		
62:07	A. Well, it was closer to liquidation but not		
62:08	liquidation itself. In theory, they could have still		
62:09	written some business, I guess. I can't remember the		
62:10	details of the receivership So I can't speculate. At		
62:11	the time we looked at it, but because it was rejected,		

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DESIGNATION	SOURCE	DURATION	ID
	62:12 I haven't really re-looked at it since then.		
	62:13 Q. When you say, "at the time" you looked at it,		
	62:14 do you mean at around this time in '08 you were		
	62:15 looking at receivership?		
	62:16 A. I would say it was in August, mid-August on		
	62:17 really, probably. So later than this. It was again,		
	62:18 after HERA was passed because -- which was on July 30.		
	62:19 We couldn't look at receivership until we had HERA.		
63:06 - 64:01	Lockhart, James 2021-01-13	00:01:03	LJ_01.16
	63:06 Q. How would you describe the agency powers in		
	63:07 the conservatorship?		
	63:08 A. As we said in an announcement, we put them in		
	63:09 a conservatorship, that the agency and the director of		
	63:10 the agency as conservator had all the powers of -- to		
	63:11 run effectively if the board wanted to. They didn't		
	63:12 even have to have board. We decided to keep the board		
	63:13 and the management so it was under the control of the		
	63:14 agency.		
	63:15 Q. Were these differences that we've been		
	63:16 talking about between receiverships and		
	63:17 conservatorships, do you have an understanding of		
	63:18 whether those differences were understood by the		
	63:19 companies themselves, by Fannie's and Freddie's		
	63:20 management and the boards?		
	63:21 A. They had very good lawyers in both companies,		
	63:22 internal and external. So I'm sure that they looked		
	64:01 at it, yes.		
64:14 - 64:19	Lockhart, James 2021-01-13	00:00:20	LJ_01.17
	64:14 What was your understanding of how the		
	64:15 conservator role differed from your role as regulator?		
	64:16 The safety and soundness regulator.		
	64:17 A. It was different. We actually set up a		
	64:18 separate group to be the conservator, if you will, and		
	64:19 we kept the regulator and the examination teams in		
64:20 - 65:01	Lockhart, James 2021-01-13	00:00:21	LJ_01.18
	64:20 place as well. And the conservator's job was to		
	64:21 ensure that they kept supporting their mission and		
	64:22 that they were safe and sound and that they conserved		
	65:01 assets as well.		

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DESIGNATION	SOURCE	DURATION	ID
65:02 - 65:09	Lockhart, James 2021-01-13	00:00:22	LJ_01.19
65:02	Q. It sounds like there's at least some overlap		
65:03	between the roles because you talked about the		
65:04	conservator's job was to make sure the institutions		
65:05	were kept safe and sound, which obviously, is		
65:06	something that's relevant to the regulator's role as		
65:07	the safety and soundness regulator. So those concepts		
65:08	are similar; is that correct?		
65:09	A. That's correct, yes.		
65:10 - 65:15	Lockhart, James 2021-01-13	00:00:31	LJ_01.20
65:10	Q. And when you say the conservator's job is in		
65:11	part to conserve assets, what do you mean by that?		
65:12	A. Well, I meant that over the long term, the		
65:13	idea was that we wanted to work to provide that they		
65:14	could grow their assets, or at least not dissipate		
65:15	their assets dramatically over that period.		
65:16 - 65:22	Lockhart, James 2021-01-13	00:00:21	LJ_01.21
65:16	Obviously, as when we did put them in		
65:17	conservatorship, the market was quite a bit different		
65:18	than even in July where we're talking about here. But		
65:19	certainly it became much worse after September, after		
65:20	the Lehman bankruptcy, the next week after		
65:21	conservatorship and all the other actions that were		
65:22	taken.		
66:01 - 66:09	Lockhart, James 2021-01-13	00:00:36	LJ_01.22
66:01	Q. Was one of the objectives, at least, of		
66:02	conservatorship, as you understood it, was to try to		
66:03	restore the companies to financial health?		
66:04	A. The objective was to definitely restore the		
66:05	companies, and therefore, the mortgage market, because		
66:06	they worked the mortgage market at that point to		
66:07	financial health. You could not restore them to		
66:08	financial health without restoring the mortgage		
66:09	market.		
90:21 - 91:13	Lockhart, James 2021-01-13	00:00:56	LJ_01.23
90:21	Q. And I'm going to show you that Q&A in		
90:22	a little bit, but, you know, you referred to it a		
91:01	couple times already. I just want to make sure I		
91:02	understand. What was the purpose of that? Why did		

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DESIGNATION	SOURCE	DURATION	ID
	91:03 you feel you needed to prepare that type of Q&A?		
	91:04 A. Well, Fannie was the biggest financial		
	91:05 institution in the country at that point. Freddie was		
	91:06 probably the third largest. They were such a major		
	91:07 part of the financial markets, and as I said before,		
	91:08 the mortgage markets that we needed to be as clear as		
	91:09 we could about what was happening and why it was		
	91:10 happening, and more importantly, that Treasury was		
	91:11 backing them with the preferred, and therefore, Fannie		
	91:12 and Freddie would survive despite their major		
	91:13 problems.		
93:01 - 93:12	Lockhart, James 2021-01-13	00:00:54	LJ_01.24
	93:01 Q. In your book, in describing the meeting with		
	93:02 Fannie, you say that Fannie's counsel, Ms. Wilkinson,		
	93:03 as part of her push-back, said the conservatorship		
	93:04 would destroy the investor proposition and was a move		
	93:05 to nationalization. If you'd like, I can show you		
	93:06 that. It's on Page 66 but --		
	93:07 A. Yes, I see that.		
	93:08 Q. What was your reaction to that statement, if		
	93:09 you have one?		
	93:10 A. Well, first of all, nationalization was the		
	93:11 last thing we wanted out of Fannie and Freddie. That		
	93:12 was not the goal at all. It was to -- you know, keep		
93:13 - 94:12	Lockhart, James 2021-01-13	00:01:19	LJ_01.25
	93:13 them outside the government.		
	93:14 And the investor proposition, certainly it		
	93:15 was possible and certainly that the common would be		
	93:16 wiped out entirely, and certainly, there was a		
	93:17 possibility that a major portion of the preferred		
	93:18 depending on how big the hole was and how much the		
	93:19 Treasury had to advance in the senior preferred.		
	93:20 Q. And just so I'm clear on what you thought was		
	93:21 the last thing that you wanted to do, what, in your		
	93:22 view, would nationalization entail and how would that		
	94:01 be different from either a conservatorship or a		
	94:02 receivership?		
	94:03 A. Nationalization would be that Fannie and		
	94:04 Freddie became government agencies, that their		
	94:05 liabilities and assets would be on the balance sheet		

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DESIGNATION	SOURCE	DURATION	ID
	94:06 of the United States, and they would be controlled 94:07 by a -- they would be a government agency or 94:08 whoever -- they'd become civil servants, and they'd go 94:09 through the whole process, just like, you know, the 94:10 Government National Mortgage association or the 94:11 Federal Housing Agency. So that's what 94:12 "nationalization" means to me.		
96:17 - 96:19	Lockhart, James 2021-01-13	00:00:23	LJ_01.26
 PX2B.1	96:17 Q. Exhibit 8 is a document with the Bates 96:18 FHFA-DDC-0090764. It's a September 7, 2008 statement 96:19 from FHFA director, James B. Lockhart.		
96:20 - 96:22	Lockhart, James 2021-01-13	00:00:07	LJ_01.27
	96:20 I assume this is one of the documents you 96:21 reviewed in preparing for this deposition? 96:22 A. That's correct.		
97:01 - 97:06	Lockhart, James 2021-01-13	00:00:09	LJ_01.28
	97:01 Q. I assume, as well, that you were heavily 97:02 involved in the drafting of this statement; is that 97:03 correct? 97:04 A. That is correct. 97:05 Q. Why don't you turn to Page 5 of the document. 97:06 A. Okay.		
97:07 - 97:11	Lockhart, James 2021-01-13	00:00:21	LJ_01.29
 PX2B.5.2	97:07 Q. At the bottom of Page 5 there's a description 97:08 of "Conservatorship," where you say, "That is a 97:09 statutory process designed to stabilize a troubled 97:10 institution with the objective of returning the 97:11 entities to normal business operations."		
97:12 - 97:20	Lockhart, James 2021-01-13	00:00:39	LJ_01.30
	97:12 What was your understanding of what "normal 97:13 business operations" would be for Fannie and Freddie? 97:14 A. That was difficult because they were not 97:15 normal businesses. They were GSEs and they had a 97:16 government charter, and so part of the view was did 97:17 that mean returning them back to just the way they 97:18 were, or would there be some changes. I think many of 97:19 us thought that there would have to be some 97:20 Congressional action.		
97:21 - 98:03	Lockhart, James 2021-01-13	00:00:18	LJ_01.31

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DESIGNATION	SOURCE	DURATION	ID
	97:21 But "normal business operations" meant that		LJ_01.31
	97:22 they had the capital. They had the systems. They had		
	98:01 the risk management and the ability to serve their		
	98:02 mission of providing stability, liquidity, and		
	98:03 affordability to the mortgage market.		
98:04 - 98:08	Lockhart, James 2021-01-13	00:00:17	LJ_01.32
	98:04 Q. And I take it from that response that		
	98:05 normal business operations would mean, at least in		
	98:06 part, safe and sound business operations?		
	98:07 A. Yes. That's the risk management, the capital		
	98:08 and other things I mentioned.		
98:09 - 98:12	Lockhart, James 2021-01-13	00:00:13	LJ_01.33
 Clear	98:09 Q. So can a company with no capital -- can		
	98:10 financial institutions with no capital be considered		
	98:11 to be normal business operation?		
	98:12 A. No.		
98:18 - 98:22	Lockhart, James 2021-01-13	00:00:16	LJ_01.34
	98:18 THE WITNESS: In fact, a company with no		
	98:19 capital shouldn't be operating. Obviously, Fannie and		
	98:20 Freddie had no capital, but they did have preferred		
	98:21 stock that effectively kept them above negative net		
	98:22 worth.		
99:07 - 99:14	Lockhart, James 2021-01-13	00:00:28	LJ_01.35
	99:07 Q. I think I know the answer to this		
	99:08 based on our earlier discussion, but at this time,		
	99:09 September 20, '08, did you have an expectation about		
	99:10 how long it would be before the companies could be		
	99:11 returned to normal business operations?		
	99:12 A. No, I didn't. There was too many other		
	99:13 things going on in the financial markets at that point		
	99:14 to have an idea of what it would take.		
99:15 - 100:21	Lockhart, James 2021-01-13	00:01:52	LJ_01.36
	99:15 Q. Turn to Page 10 of this document. Let me		
	99:16 know when you're there.		
 PX2B.9.1	99:17 A. I'm on Page 10. That's the final page?		
	99:18 Q. Yes. Yes, it is. Actually, at the very top,		
	99:19 it's the continuation of the paragraph that begins at		
	99:20 the bottom of Page 9 where you're talking about FHFA		
	99:21 continued to work on new regulations, including		

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DESIGNATION	SOURCE	DURATION	ID
	99:22 minimum capital standards. You then say, "It is		
	100:01 critical to complete these regulations so that any new		
	100:02 investor will understand the investment proposition."		
	100:03 What were you referring to there with		
	100:04 reference to "any new investor"?		
	100:05 A. To return to normal operations, they would		
	100:06 have to have capital, and the only way they could get		
	100:07 new capital is from new investors. So that's what I		
	100:08 was referring to, that anybody that was going to		
	100:09 invest in them would want to know what the capital		
	100:10 requirements were, what the other -- as I mentioned,		
	100:11 the other issues, what their regulations were, what		
	100:12 their risk management practices were.		
	100:13 So that's what I was referring to, that they		
	100:14 would need to raise more capital to get out of		
	100:15 conservatorship.		
	100:16 Q. And just so I understand it, the companies		
	100:17 could also build capital through earnings; right?		
	100:18 A. Well, at that point I didn't think they were		
	100:19 going to have earnings to build capital.		
	100:20 Q. I'm just talking as a general proposition,		
	100:21 that that's a way to build capital.		
100:22 - 101:09	Lockhart, James 2021-01-13	00:00:38	LJ_01.37
	100:22 A. Yes. But they also had to repay the		
	101:01 preferred before they could rebuild capital, and that		
	101:02 was -- it turned out to be a very big number.		
	101:03 Q. Okay. Well, through earnings, they could		
	101:04 build capital on their balance sheet, whether or not		
	101:05 they used it to pay Treasury; correct?		
	101:06 A. Yeah. In fact, they did have that		
	101:07 capability. They didn't have the ability to repay		
	101:08 Treasury, but yes, they did have the ability, if they		
	101:09 became profitable. But at that point there was no		
101:10 - 102:10	Lockhart, James 2021-01-13	00:01:10	LJ_01.38
	101:10 sign they would be profitable in the near future.		
	101:11 Q. When you said they didn't have the ability to		
	101:12 repay -- to pay Treasury, you mean to pay down the		
	101:13 stock, to redeem the stock? Is that what you're		
	101:14 talking about when you said, "They didn't have the		
	101:15 ability" to pay Treasury?		

 Clear

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DESIGNATION	SOURCE	DURATION	ID
	101:16 A. Yeah. Liquidation preference of stock, 101:17 preferred stock.		
	101:18 Q. Returning to the sentence, is it fair to say 101:19 that, you know, at least in your mind, the objective 101:20 was to get these companies to a point where there 101:21 could be new investment in them?		
	101:22 A. Over the long term, yes, whether -- I always 102:01 thought -- and I'll put this right on the table. I 102:02 always thought that the only way they could figure it 102:03 out was with Congressional action. There had to be 102:04 some action on Congress about the future structure of 102:05 Fannie and Freddie because their hybrid structure did 102:06 not work and failed. 102:07 And so it was not only getting new investors, 102:08 but it was also Congressional action, and I thought 102:09 the Congressional action probably had to happen before 102:10 they could get new investors.		
102:19 - 102:21	Lockhart, James 2021-01-13	00:00:14	LJ_01.39
 PX2C.1	102:19 Q. Exhibit 9 is a document marked 102:20 FHFA-DDC-0017202. It's an FHFA "FACT SHEET, 102:21 "QUESTIONS AND ANSWERS ON CONSERVATORSHIP"		
102:22 - 103:02	Lockhart, James 2021-01-13	00:00:05	LJ_01.40
	102:22 I assume this is a document you reviewed in 103:01 preparing for this deposition? 103:02 A. That's correct.		
103:06 - 104:01	Lockhart, James 2021-01-13	00:00:58	LJ_01.41
	103:06 Q. Who prepared this document, if you recall? 103:07 A. I do not recall. Frankly, I do not recall 103:08 actually spending much time reviewing it either. 103:09 There was a lot of things going on at the time. It 103:10 was probably an internal document between our lawyers. 103:11 Maybe there was Treasury. I wouldn't be surprised if 103:12 there was Treasury input as well, but I don't remember 103:13 spending a lot of time on it myself. 103:14 Q. When you say, "It was probably an internal 103:15 document," do you mean it was never released? 103:16 A. No. I meant that it was developed internally 103:17 by our lawyers and our public affairs people, and I 103:18 would not be surprised if it was shared with Treasury 103:19 because it was part of our joint press conference that		

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DESIGNATION	SOURCE	DURATION	ID
	103:20 Secretary Paulson and I gave on the 7th.		
	103:21 Q. Okay. But it was designed, at least in part,		
	103:22 for public consumption?		
	104:01 A. Yes.		
104:02 - 104:15	Lockhart, James 2021-01-13	00:00:45	LJ_01.42
 PX2C.1.3	104:02 Q. And on the first page there is discussion		
	104:03 about what is conservatorship, and the answer talks		
	104:04 about a "legal process in which a person or entity is		
	104:05 appointed to establish control and oversight of a		
	104:06 Company to put it in a sound and solvent condition."		
	104:07 Is that another way of saying safe and sound,		
	104:08 basically?		
	104:09 A. Yes.		
	104:10 Q. And presumably "solvent" implies some type of		
	104:11 positive net worth; correct?		
	104:12 A. Well, more than some sort of. A significant		
	104:13 positive net worth, especially if you're writing -- at		
	104:14 that point I think they had \$5-1/2 trillion worth of		
	104:15 mortgages that they were splitting.		
104:16 - 105:07	Lockhart, James 2021-01-13	00:00:47	LJ_01.43
 PX2C.1.4	104:16 Q. The second page of the		
	104:17 document there's the first answer, which the question		
	104:18 is actually on Page 1, which is "What are the goals of		
	104:19 this conservatorship?"		
	104:20 Part of the answer is, "The goals of the		
	104:21 conservatorship are to help restore confidence in the		
	104:22 Company, enhance its capacity to fulfill its mission,		
	105:01 and mitigate systemic risk that has contributed		
	105:02 directly to the instability in the current market."		
	105:03 When you're talking about helping to restore		
	105:04 confidence, whose confidence are you talking about?		
	105:05 The market confidence?		
	105:06 A. Yeah. The buyers of their debt and		
	105:07 mortgage-backed securities in particular.		
106:20 - 107:06	Lockhart, James 2021-01-13	00:00:36	LJ_01.44
 PX2C.3.1	106:20 Q. And later on on that page, there's a		
	106:21 discussion on whether the conservator could determine		
	106:22 to liquidate the company. Again, is that -- why was		
	107:01 that Q&A included in this document? Was that a		
	107:02 question that was coming up?		

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DESIGNATION	SOURCE	DURATION	ID
	107:03 A. It must have been. I don't remember it 107:04 actually coming up, but I'm sure our people were 107:05 getting that question and that's why it is written 107:06 that way.		
107:07 - 107:08	Lockhart, James 2021-01-13	00:00:05	LJ_01.45
	107:07 Let me just add one thing. Maybe I 107:08 shouldn't, but I will. The whole point of the		
107:09 - 107:15	Lockhart, James 2021-01-13	00:00:26	LJ_01.46
	107:09 conservatorship was to have people continue to buy 107:10 their securities, and we wanted to make sure that 107:11 people didn't think that we were going to be 107:12 liquidating this company. They had 30-year 107:13 mortgage-backed securities out there, and the whole 107:14 point of the conservatorship was to keep the 107:15 marketplace going for their securities.		
107:16 - 107:19	Lockhart, James 2021-01-13	00:00:12	LJ_01.47
 PX2C.3.2	107:16 Q. Going back to the previous Q&A, the one about 107:17 the stock, you say, "Stockholders will continue to 107:18 retain all rights in the stocks financial worth; as 107:19 such worth is determined by the market."		
139:03 - 140:06	Lockhart, James 2021-01-13	00:01:46	LJ_01.48
 Clear	139:03 Q. If you recall, we talked about the dividend 139:04 and if there was a provision for a cash dividend or if 139:05 the dividend wasn't paid in cash, there would be an 139:06 addition to the liquidation preference at a rate of 139:07 12 percent. Do you recall that discussion? 139:08 A. Yes. 139:09 Q. Subsequent to the execution of the PSPAs, did 139:10 you or anyone else at FHFA engage in any analysis of 139:11 under what circumstances the dividends would be paid 139:12 in cash versus in addition to the liquidation 139:13 preference? 139:14 A. An analysis of whether they could pay in cash 139:15 or not -- 139:16 Q. Well -- I'm sorry. Go ahead. 139:17 A. I don't remember seeing an analysis of that, 139:18 actually. 139:19 Q. Did you or anyone else at FHFA consider 139:20 whether it made sense to pay the dividends in cash or		

LJ_01 - 221018_2101 Lockhart, James

DESIGNATION	SOURCE	DURATION	ID
	139:21 using the 12 percent liquidation preference option?		
	139:22 A. I think people felt that it was cheaper to		
	140:01 pay at 10 percent than 12 percent. That's about all I		
	140:02 remember.		
	140:03 Q. When you say, "people thought" that, what are		
	140:04 you referring to?		
	140:05 A. Just the math. That's all I'm referring to		
	140:06 because 10 is cheaper than 12.		
154:09 - 154:13	Lockhart, James 2021-01-13	00:00:16	LJ_01.49
	154:09 We've talked about the		
	154:10 original PSPA agreements. Do you recall that the		
	154:11 PSPAs were amended twice in 2009?		
	154:12 A. Yeah. Once was when I was there and once		
	154:13 after I left.		
154:14 - 155:09	Lockhart, James 2021-01-13	00:01:07	LJ_01.50
	154:14 Q. What was your involvement in the		
	154:15 first amendment, the one that happened while you were		
	154:16 there?		
	154:17 A. I was significantly involved in that		
	154:18 amendment. In particular, Freddie was coming up with		
	154:19 projections that showed very large losses, and, in		
	154:20 fact, losses beyond the 100 million in some of their		
	154:21 forecasts and under more stressed scenarios, and they		
	154:22 were actually talking to their outside accountants of		
	155:01 having to -- saying they had going concern issues,		
	155:02 which would have been very detrimental to the mortgage		
	155:03 market.		
	155:04 We worked with Freddie through the numbers.		
	155:05 We had meetings with Treasury about it. We also		
	155:06 talked to Fannie about their numbers, and in the end,		
	155:07 we did push to increase, and that was the key. And		
	155:08 the change increased from 100 million to 200 million		
	155:09 on each of the senior preferreds.		
219:09 - 219:19	Lockhart, James 2021-01-13	00:00:42	LJ_01.51
	219:09 When FHFA became conservator of Fannie and		
	219:10 Freddie, did it suspend dividends on the companies'		
	219:11 junior preferred stock?		
	219:12 A. Yes.		
	219:13 Q. And why was that done?		
	219:14 A. To ensure that there was no leakage to		

LJ_01 - 221018_2101 Lockhart, James

DESIGNATION	SOURCE	DURATION	ID
	219:15 anybody but the senior preferred.		
	219:16 Q. What do you mean "leakage"?		
	219:17 A. That there was no dividends being paid to		
	219:18 anybody junior than to the senior preferred. That's a		
	219:19 common thing that happens.		
219:20 - 220:09	Lockhart, James 2021-01-13	00:00:41	LJ_01.52
	219:20 Q. Okay. I just want to make sure I understand		
	219:21 because it almost sounded a little bit circular		
	219:22 because I asked you why you suspended the dividends,		
	220:01 and your answer was, essentially, "Because I didn't		
	220:02 want to pay dividends to the junior preferred," and I		
	220:03 guess I want to understand why.		
	220:04 A. Again, the senior preferreds come first in		
	220:05 the waterfall. And so they were the ones that were		
	220:06 getting the dividends. The junior preferreds'		
	220:07 dividends were suspended because these companies were		
	220:08 effectively insolvent, and dividends would not be paid		
	220:09 out of an insolvent company.		
220:10 - 220:15	Lockhart, James 2021-01-13	00:00:19	LJ_01.53
	220:10 Q. Was there ever a determination about whether		
	220:11 dividends would be reinstated if the company became		
	220:12 solvent?		
	220:13 A. I don't remember that discussion. But,		
	220:14 again, I left in August of '09, and they were still		
	220:15 taking draws from Treasury.		

Our Designations 00:36:18

TOTAL RUN TIME 00:36:18



Documents linked to video:

PX2B

PX2C

Exhibit F

Mayopoulos

Designation List Report



Mayopoulos, Timothy

2020-03-10

[Our Designations](#)

[00:27:12](#)

TOTAL RUN TIME

00:27:12



Documents linked to video:

PX167

PX239



PX308



MT03 - Mayopoulos

DESIGNATION	SOURCE	DURATION	ID
60:04 - 60:11	Mayopoulos, Timothy 2020-03-10	00:00:15	MT03.1
60:04	Q. Okay. Well, I wanted to ask you a few		
60:05	questions about Fannie Mae's deferred tax assets if		
60:06	I could.		
60:07	A. Sure.		
60:08	Q. I guess, as a threshold matter, are you		
60:09	familiar with deferred tax assets? Do you know what		
60:10	they are?		
60:11	A. Yes.		
61:16 - 63:07	Mayopoulos, Timothy 2020-03-10	00:01:37	MT03.2
61:16	Q. Okay. And are you familiar with the --		
61:17	the valuation allowance that Fannie Mae took on its		
61:18	deferred tax assets?		
61:19	A. Yes.		
61:20	Q. And if I have it right, I think Fannie		
61:21	did that back in 2008. Does that sound correct?		
61:22	A. Yes.		
62:01	Q. And, again, you were not at Fannie in		
62:02	2008, so am I correct that you wouldn't have been		
62:03	involved in that decision to take the valuation		
62:04	allowance?		
62:05	A. Correct.		
62:06	Q. And to the extent you recall, do you		
62:07	remember sort of broadly what criteria the		
62:08	accountants would consider when deciding whether a		
62:09	valuation allowance was necessary on a deferred tax		
62:10	asset?		
62:11	A. I used to be much more conversant about		
62:12	this than I am today, but I think the gist of it is		
62:13	that if -- if as a company you're not likely to		
62:14	generate profits on which you would pay taxes,		
62:15	you're required to take a valuation allowance,		
62:16	essentially a reserve against your deferred tax		
62:17	assets, to such point where -- where the		
62:18	circumstances change and it's expected that the		
62:19	company will likely be able to use those tax assets		
62:20	going forward.		
62:21	Q. And do you recall discussions at Fannie		
62:22	Mae in 2012 and 2013 around whether it was necessary		
63:01	to reverse the valuation allowance on Fannie's		

MT03 - Mayopoulos

DESIGNATION	SOURCE	DURATION	ID
	63:02 deferred tax assets?		
	63:03 A. Yes.		
	63:04 Q. Do you remember whether those		
	63:05 conversations were kind of brought to your attention		
	63:06 or you were looped in on them before August of 2012?		
	63:07 A. I don't remember.		
83:04 - 83:04	Mayopoulos, Timothy 2020-03-10	00:00:02	MT03.3
 PX167.2	83:04 Q. And this will be Exhibit 7.		
83:16 - 84:11	Mayopoulos, Timothy 2020-03-10	00:01:14	MT03.4
	83:16 And I ask you, sir, if you've seen these		
	83:17 documents before.		
	83:18 A. I have.		
	83:19 Q. When was the last time you saw them?		
	83:20 A. I think I saw them yesterday.		
	83:21 Q. And do you recall the circumstances of --		
	83:22 of sort of what prompted the drafting of this		
	84:01 letter?		
	84:02 A. I don't have a detailed recollection, but		
	84:03 I do recall that the board of directors had		
	84:04 expressed desire to communicate with Director		
	84:05 DeMarco in writing about steps that might be taken		
	84:06 to publicize the progress that Fannie Mae had made		
	84:07 and to help market and policymakers understand the		
	84:08 current state of the company.		
	84:09 Q. And would this have been a common way for		
	84:10 the board to communicate with Director DeMarco, or		
	84:11 was this a little unusual?		
84:13 - 85:11	Mayopoulos, Timothy 2020-03-10	00:01:01	MT03.5
 Clear	84:13 If your question is did the		
	84:14 board write many letters to Director DeMarco, it		
	84:15 wrote some, but it didn't write many.		
	84:16 --		
	84:17 Q. Okay. And what were the circumstances		
	84:18 under which the board would opt to write a letter to		
	84:19 the director of FHFA?		
	84:20 A. I believe it was in those circumstances		
	84:21 where it had things it wanted to convey that were		
	84:22 longer than, you know, a short conversation, and		
	85:01 typically involved things that the board -- the		
	85:02 board felt strongly about.		

MT03 - Mayopoulos

DESIGNATION	SOURCE	DURATION	ID
	85:03 Q. Okay. And do you happen to recall if the		
	85:04 substance of this letter is something the board felt		
	85:05 strongly about?		
	85:06 A. I believe it did.		
	85:07 Q. And I'm right, aren't I, in thinking that		
	85:08 typically when the board would -- would have		
	85:09 meetings, there would be someone there from FHFA		
	85:10 present in the room; is that right?		
	85:11 A. Yes.		
86:01 - 86:01	Mayopoulos, Timothy 2020-03-10	00:00:03	MT03.6
	86:01 Q. And this is I guess, Exhibit 8.		
86:04 - 87:15	Mayopoulos, Timothy 2020-03-10	00:02:06	MT03.7
	86:04 This is the		
	86:05 version that I believe went to FHFA, but it was not		
	86:06 sent until September 14th, 2012, and I'm curious.		
	86:07 Do you recall sort of what explains the		
	86:08 length of the process that was involved in preparing		
	86:09 the letter?		
	86:10 A. I don't remember all of the circumstances		
	86:11 that might have contributed to that passage of time.		
	86:12 I think some of it was getting feedback from the		
	86:13 board, which consists of a dozen or so people,		
	86:14 consists of incorporating those comments. It		
	86:15 consists -- I think there were also events that may		
	86:16 have occurred in that period that may have		
	86:17 influenced what the board wanted to put in the		
	86:18 letter, but I don't remember. I can't account for		
	86:19 the six months that it took to -- to finalize the		
	86:20 draft.		
	86:21 Q. Do you recall what any of the events		
	86:22 might have been that would have contributed to the		
	87:01 delay?		
	87:02 A. My recollection is that one of the things		
	87:03 that happened was that -- my recollection is that at		
	87:04 some point FHFA put out some further guidance as to		
	87:05 the strategic plan for -- for the enterprises, and I		
	87:06 think that might have influenced this. But that's		
	87:07 just my vague recollection.		
	87:08 Q. Okay. So you think there was a strategic		
	87:09 plan from FHFA that may have influenced the contents		


MT03 - Mayopoulos

DESIGNATION	SOURCE	DURATION	ID
	87:10 of the letter; is that right?		
	87:11 A. Maybe. I -- I just -- I can't		
	87:12 remember -- I just remember there was something that		
	87:13 was going on with respect to FHFA that influenced		
	87:14 this, and it might have been the strategic plan, but		
	87:15 I don't remember.		
87:16 - 87:18	Mayopoulos, Timothy 2020-03-10	00:00:08	MT03.8
	87:16 Q. Okay. And what would the board have been		
	87:17 trying to accomplish in sending a letter like this		
	87:18 to FHFA?		
87:19 - 89:06	Mayopoulos, Timothy 2020-03-10	00:01:37	MT03.9
 PX308.1.1	87:19 A. I think it's captured here on the first		
	87:20 page of the letter, where the board says that the		
	87:21 board feels a strong obligation to work with FHFA to		
	87:22 inform policymakers, industry participants, and the		
	88:01 public at large about developments of Fannie Mae in		
	88:02 the housing finance market.		
	88:03 I think this was an attempt to encourage		
	88:04 Director DeMarco to share this information with		
	88:05 those constituencies.		
	88:06 Q. And is this -- it's interesting that the		
	88:07 board was encouraging Director DeMarco to share the		
	88:08 information with those constituencies rather than		
	88:09 just sharing it directly itself. What would be the		
	88:10 reason for trying to sort of channel the message		
	88:11 through Mr. DeMarco?		
	88:12 A. Well, the company's communications were		
	88:13 governed by a set of rules that FHFA had put in		
	88:14 place, and I think that the board was respectful of		
	88:15 those rules, and I think the board thought that it		
	88:16 would be useful to work in concert with Director		
	88:17 DeMarco to have this information put out to those		
	88:18 constituencies rather than unilaterally taking those		
	88:19 measures itself.		
	88:20 Q. And do you have any recollection of how		
	88:21 FHFA responded to this letter? Did it implement any		
	88:22 of the suggestions?		
	89:01 A. My recollection is that there were		
	89:02 discussions about this. Director DeMarco		
	89:03 attended -- regularly attended meetings of the board		

MT03 - Mayopoulos

DESIGNATION	SOURCE	DURATION	ID
	89:04 of directors in executive session, and my 89:05 recollection is that there were discussions about 89:06 the content of this letter.		
90:16 - 92:01	Mayopoulos, Timothy 2020-03-10	00:01:29	MT03.10
	90:16 Q. And I think you mentioned one of the 90:17 themes in this letter is -- I don't recall how you 90:18 put it, but sort of Fannie's return to 90:19 profitability. 90:20 Is that a fair characterization? 90:21 A. I think what I characterized it was 90:22 progress had been made at Fannie Mae on a number of 91:01 fronts, yeah. 91:02 Q. Okay. And would Director DeMarco have 91:03 been aware of that progress even before receiving 91:04 this letter in September of 2012? 91:05 A. I'm sure he was. 91:06 Q. Okay. And why are you sure? 91:07 A. The senior representatives of FHFA were 91:08 on site at Fannie Mae every day. They sat in on all 91:09 of our senior management meetings. They sat in all 91:10 of our board meetings. They -- they had complete, 91:11 open access to everything that was happening at 91:12 Fannie Mae, and I'm aware that they gave regular 91:13 reports to Director DeMarco and others at FHFA. 91:14 So I don't think there was anything going 91:15 on at Fannie Mae, progress or otherwise, that they 91:16 weren't aware of. 91:17 Q. Okay. And if you would, take a look at 91:18 page 3 for me, and I'd like you to read the section 91:19 under heading No. 2, "Fannie Mae is Playing a 91:20 Critical Role in Funding the Housing Market and 91:21 Assisting Troubled Homeowners." 91:22 Do you see that section? 92:01 A. I do.		
	 PX308.3		
	 PX308.3.1		
92:02 - 92:12	Mayopoulos, Timothy 2020-03-10	00:00:23	MT03.11
	92:02 Yes, I see that. 92:03 Q. Okay. And -- and there's a sentence. I 92:04 guess it's the last sentence of the second  PX308.3.2 92:05 paragraph. It says, "However, while we support 92:06 thoughtful actions to reduce the presence of the		

MT03 - Mayopoulos

DESIGNATION	SOURCE	DURATION	ID
	92:07 GSEs, we currently see no evidence of sufficient		
	92:08 amounts of private capital waiting on the sidelines		
	92:09 to meet the market need."		
	92:10 Do you -- do you see that sentence?		
	92:11 A. I do.		
	92:12 Q. What is the board saying there?		
92:13 - 93:05	Mayopoulos, Timothy 2020-03-10	00:00:59	MT03.12
	92:13 A. I think what the board is saying is that		
	92:14 while the board is of the view that in a properly		
	92:15 functioning market, Fannie Mae and Freddie Mac would		
	92:16 not have the scale in the market that they did.		
	92:17 They -- I think they are also cautioning Director		
	92:18 DeMarco that from their perspective they didn't		
	92:19 think that other kinds of private capital, such as		
	92:20 banks or private label securitizations or other		
	92:21 sources of private capital were likely to step up		
	92:22 and meet the funding needs of the housing market.		
	93:01 Q. And did you agree with that assessment?		
	93:02 A. Yes.		
	93:03 Q. And looking now -- looking back now with		
	93:04 the benefit of hindsight, would you say that you and		
	93:05 the board were right about that?		
93:06 - 94:01	Mayopoulos, Timothy 2020-03-10	00:01:04	MT03.13
	93:06 A. I believe we were correct about that, and		
	93:07 I believe that -- I believe that both the management		
	93:08 team and the board viewed our role is as providing		
	93:09 our best advice to FHFA. It was clear that we owed		
	93:10 all of our legal duties to FHFA. The board was		
	93:11 appointed at the pleasure of the FHFA, as was the		
	93:12 management team, and we viewed it as our job to		
	93:13 share our observations, perspectives, advice with		
	93:14 FHFA in as constructive and candid a way as we		
	93:15 could; and I believe that FHFA consumed that from us		
	93:16 and from Freddie and, you know, made their decisions		
	93:17 accordingly.		
 PX308.5.4	93:18 Q. And now if you would jump ahead to page		
	93:19 5, and I'll ask you to read the section under		
	93:20 heading No. 4, "Fannie Mae Has Built a Demonstrably		
	93:21 Strong New Book of Business."		
	93:22 Do you see that?		

MT03 - Mayopoulos

DESIGNATION	SOURCE	DURATION	ID
	94:01 A. Yes.		
94:02 - 94:05	Mayopoulos, Timothy 2020-03-10	00:00:08	MT03.14
	94:02 Yes, I've read it.		
	94:03 Q. And what is the board saying in this		
	94:04 section? What is the point they are trying to		
	94:05 convey to FHFA?		
94:07 - 94:22	Mayopoulos, Timothy 2020-03-10	00:00:51	MT03.15
	94:07 A: I think the gist of this is		
	94:08 that while the company had a very challenged book of		
	94:09 business of loans that had been acquired in the		
	94:10 years leading up to the crisis, many of those loans		
	94:11 were either being paid off or otherwise resolved,		
	94:12 and of course every day the company was acquiring		
	94:13 new loans, making new guarantees on loans more		
	94:14 recently originated that had higher credit quality,		
	94:15 and that the mix of the old, more troubled		
	94:16 population of loans and the newer, higher performing		
	94:17 loans, was steadily changing over time.		
	94:18 --		
	94:19 Q. And that's an accurate description of		
	94:20 Fannie's situation as of September 2012; is that		
	94:21 right?		
	94:22 A. Yes.		
95:01 - 95:16	Mayopoulos, Timothy 2020-03-10	00:00:53	MT03.16
	95:01 Q. And sometimes I've heard people talk		
	95:02 about this concept use the word "vintages." Is that		
	95:03 a familiar term to you?		
	95:04 A. Yes.		
	95:05 Q. And can you just sort of explain that as		
	95:06 a concept?		
	95:07 A. So we would categorize different eras of		
	95:08 loans by vintage, typically by a year, and so 2005		
	95:09 would be a vintage and 2006 would be a vintage, and		
	95:10 we often tracked many of our risk management		
	95:11 measures by vintage to show what the delinquency		
	95:12 rate or the loss rate was for 2005 loans versus 2006		
	95:13 loans or 2008 loans versus 2012 loans.		
	95:14 Q. Okay. And what did that sort of vintage		
	95:15 analysis imply about Fannie's profitability going		
	95:16 forward as of September 2012?		


MT03 - Mayopoulos

DESIGNATION	SOURCE	DURATION	ID
95:18 - 96:20	Mayopoulos, Timothy 2020-03-10	00:01:05	MT03.17
	95:18 You know, looking at it		
	95:19 over the long term we expected that as the mix of		
	95:20 older vintages running off and newer vintages		
	95:21 replacing them, that the company would eventually		
	95:22 return to profitability, and I think actually by		
	96:01 this point we were profitable for at least a quarter		
	96:02 or so, that we expected over the long term for that		
	96:03 to be the case.		
	96:04 It didn't mean that we would be		
	96:05 profitable in every financial reporting period, but		
	96:06 over time the company would -- would -- would return		
	96:07 to profitability.		
	96:08 --		
 PX308.1.2	96:09 Q. And this letter, the final version of the		
	96:10 letter, is dated September 2012, but was that		
	96:11 Fannie's expectation in July and August of 2012 as		
	96:12 well?		
	96:13 A. Yes. We -- we -- we expected that to		
	96:14 happen so that we expected that over time we would		
	96:15 get sustained profitability. Again, assuming no		
	96:16 major changes in the macroeconomic environment or		
	96:17 sudden changes in our own business practices.		
	96:18 Q. And Fannie Mae was right about that,		
	96:19 wasn't it?		
	96:20 A. That turned out to be accurate, yes.		
96:21 - 97:04	Mayopoulos, Timothy 2020-03-10	00:00:16	MT03.18
 PX308.6	96:21 Q. All right. So flipping ahead, I'd now		
	96:22 like to ask you to read the balance of page 6.		
	97:01 There's not a new heading when you get to page 7,		
	97:02 but you can stop at the end of page 6, and, you		
	97:03 know, if you need to read more to answer my		
	97:04 questions, that's okay. But --		
97:05 - 97:14	Mayopoulos, Timothy 2020-03-10	00:00:26	MT03.19
 PX308.6.3	97:05 A. Okay. I've read that.		
	97:06 Q. Okay. And there's a reference in the		
	97:07 first paragraph to, quote, A widespread		
	97:08 misperception among many policymakers and taxpayers		
	97:09 that Fannie Mae will continue to experience losses		
	97:10 indefinitely into the future.		




MT03 - Mayopoulos

DESIGNATION	SOURCE	DURATION	ID
	97:11 Do you see that?		
	97:12 A. Yes.		
	97:13 Q. Was FHFA burdened by that misperception		
	97:14 when this letter was sent in September of 2012?		
97:17 - 99:15	Mayopoulos, Timothy 2020-03-10	00:02:28	MT03.20
	97:17 A: I don't know what FHFA		
	97:18 thought, and FHFA was made up of hundreds of people,		
	97:19 if not thousands of people, and so I --		
	97:20 --		
	97:21 Q. Okay. How about Mr. DeMarco?		
	97:22 A. I don't know what Mr. DeMarco thought as		
	98:01 of this moment in time. I don't know. He certainly		
	98:02 had access to this information and lots of other		
	98:03 information that showed that conditions were		
	98:04 improving in the company.		
 PX308.6.4	98:05 Q. Okay. And then -- and I guess the third		
	98:06 paragraph in this section, the paragraph that starts		
	98:07 with the word "Second," the last -- the last		
	98:08 sentence reads, "Taking steps to reduce Fannie Mae's		
	98:09 role in the near term would only hurt troubled		
	98:10 homeowners, destabilize neighborhoods, and increase		
	98:11 taxpayer losses, as there are still nearly 500,000		
	98:12 seriously delinquent loans in our legacy books that		
	98:13 require aggressive actions."		
	98:14 I wanted to ask you to, I guess, kind of		
	98:15 take this sentence clause by clause. What is the		
	98:16 board saying when it says that taking steps to		
	98:17 reduce Fannie Mae's role in the near term would hurt		
	98:18 troubled homeowners?		
	98:19 A. Well, Fannie Mae was devoting		
	98:20 considerable energy to providing assistance to		
	98:21 homeowners who were unable to make their mortgage		
	98:22 payments, either in the form of loan modifications		
	99:01 or refinancings or, in the case where turning over		
	99:02 the home there's really no alternative to it,		
	99:03 facilitating ways of doing that that had less		
	99:04 detrimental impact on -- on the borrower.		
	99:05 So I think what the board is saying here		
	99:06 is that if Fannie Mae were to be quickly wound down,		
	99:07 those kinds of activities would likely be negatively		

MT03 - Mayopoulos

DESIGNATION	SOURCE	DURATION	ID
	99:08 impacted.		
	99:09 Q. And why would they be negatively		
	99:10 impacted?		
	99:11 A. Well, if this were done to both Fannie		
	99:12 and Freddie, there were -- there really weren't any		
	99:13 other obvious players to go and conduct those		
	99:14 activities in the absence of Fannie and Freddie, at		
	99:15 least in the immediate term.		
99:16 - 99:19	Mayopoulos, Timothy 2020-03-10	00:00:12	MT03.21
 PX308.7	99:16 Q. Now, if you would, go ahead and		
	99:17 read the text on page 7 going down to -- there's		
	99:18 kind of a section cut off with three asterisks, but		
	99:19 if you'd read the text before that for me.		
99:20 - 101:10	Mayopoulos, Timothy 2020-03-10	00:01:31	MT03.22
	99:20 A. Okay. I've read that.		
	99:21 Q. And there's reference in the section you		
	99:22 just read to what I've been calling the third		
	100:01 amendment, the August 2012 amendment to the PSPA.		
	100:02 Did you catch that?		
	100:03 A. Yes.		
 PX308.7.2	100:04 Q. And there's a sentence -- I guess it's		
	100:05 the last sentence of the second paragraph on this		
	100:06 page -- that says, "We believe under the new		
	100:07 arrangement, the time period in which the payment of		
	100:08 cumulative dividends will match total draws should		
	100:09 be shorter."		
	100:10 Do you see that?		
	100:11 A. Yes.		
	100:12 Q. And what is the board saying there?		
	100:13 A. It's saying that because of the net worth		
	100:14 sweep that was part of the third amendment, the rate		
	100:15 at which payments will be made to the Treasury will		
	100:16 increase. In other words, instead of it being		
	100:17 defined by a 10 percent amount each quarter to the		
	100:18 extent that the enterprises have profits that exceed		
	100:19 that amount, those will be swept to Treasury and		
	100:20 will cause the amount paid to Treasury in relation		
	100:21 to the amount drawn from Treasury to -- to get		
	100:22 closer to zero more quickly.		
	101:01 Q. And so does this imply that the board		

MT03 - Mayopoulos

DESIGNATION	SOURCE	DURATION	ID
	101:02 expected, in at least some quarters, that Fannie		
	101:03 would report comprehensive income in excess of the		
	101:04 10 percent dividend?		
	101:05 A. I believe that was the expectation, yes.		
	101:06 Q. Did you share that expectation?		
	101:07 A. I thought that was possible.		
	101:08 Q. And that is in fact what happened, isn't		
	101:09 it?		
	101:10 A. It is.		
101:14 - 102:04	Mayopoulos, Timothy 2020-03-10	00:00:45	MT03.23
 PX239.1	101:14 Q. So this will be Exhibit 9, and		
	101:15 what it is, is excerpts from Fannie Mae's second		
	101:16 quarter 2012 10-Q. I didn't print the entire thing		
	101:17 but --		
	101:18 A. The trees thank you.		
	101:19 Q. And what I want to look at is page 12.		
 PX239.13.3	101:20 There's the paragraph that carries over from page 12		
	101:21 to 13. It's got a subheading of "Uncertainty		
	101:22 Regarding Our Future Status and Ability to Pay		
	102:01 Dividends to Treasury."		
	102:02 Do you see that?		
	102:03 A. Yes.		
	102:04 Q. If you could read that for me.		
102:05 - 103:05	Mayopoulos, Timothy 2020-03-10	00:00:58	MT03.24
	102:05 A. Okay. I've read that.		
	102:06 Q. Okay. And there's a sentence in there		
 PX239.13.3	102:07 that says, "Although we may experience		
	102:08 period-to-period volatility in earnings and		
	102:09 comprehensive income, we do not expect to generate		
	102:10 that income or comprehensive income in excess of our		
	102:11 annual dividend obligation to Treasury over the long		
	102:12 term."		
	102:13 Did you see that sentence?		
	102:14 A. Yes.		
	102:15 Q. And is this saying that there might be		
	102:16 some quarters in the future when Fannie doesn't earn		
	102:17 enough to pay the 10 percent dividend? Is that the		
	102:18 thrust of the sentence?		
	102:19 A. That's one of the conclusions, yes.		
	102:20 Q. And is it consistent with what we just		

MT03 - Mayopoulos

DESIGNATION	SOURCE	DURATION	ID
	102:21 saw in the previous document where the board's		
	102:22 saying we expect in other quarters to earn more than		
	103:01 the 10 percent?		
	103:02 A. Yes. I think they're consistent.		
	103:03 Q. Okay. And what was Fannie's expectation		
	103:04 at this time about whether it would earn enough to,		
	103:05 over the long run, pay the 10 percent?		
103:07 - 103:08	Mayopoulos, Timothy 2020-03-10	00:00:02	MT03.25
	103:07 A: When you say at this time,		
 Clear	103:08 you mean as of?		
103:10 - 105:12	Mayopoulos, Timothy 2020-03-10	00:02:33	MT03.26
	103:10 Q. As of the summer of 2012.		
	103:11 A. I think it was unclear whether we would		
	103:12 be able to earn enough money to pay the dividend		
	103:13 every quarter. We certainly knew that our earnings		
	103:14 had a certain amount of volatility to them and that		
	103:15 quarters in which we did not make enough money to		
	103:16 pay the dividend, we'd have to take an additional		
	103:17 draw from Treasury, which would only increase the		
	103:18 amount outstanding, which means that the subsequent		
	103:19 dividends would have to be higher.		
	103:20 So the circularity of that was a concern		
	103:21 to us, and the fact that we -- you know, that we		
	103:22 might make more money in other quarters didn't		
	104:01 necessarily obviate that challenge.		
	104:02 Q. Putting yourself back in the shoes you		
	104:03 were in at the end of June of 2012, would you have		
	104:04 said then it was possible that Fannie would earn		
	104:05 enough over the long run to pay the 10 percent		
	104:06 dividend?		
	104:07 A. I think it was possible. We just		
	104:08 couldn't say with confidence that we'd be able to.		
	104:09 Q. Right. And we can look at the other		
	104:10 pages of this filing if need be, but I think I		
	104:11 noticed that this statement was specifically		
	104:12 identified as what's called a forward-looking		
	104:13 statement.		
	104:14 Does that make sense to you that Fannie		
	104:15 would have identified it as such?		
	104:16 A. Yes.		

MT03 - Mayopoulos

DESIGNATION	SOURCE	DURATION	ID
	104:17 Q. And what are the implications of 104:18 identifying a statement as a forward-looking 104:19 statement in an SEC filing? 104:20 A. Well, as a general matter, it's to 104:21 indicate to the reader that these are judgments that 104:22 are being made by management and that they are 105:01 subject to certain uncertainty and, while it might 105:02 represent the best estimate of management, 105:03 management cannot assure or guarantee the reader 105:04 that that will actually come to be. 105:05 Q. You're basically saying here's what we 105:06 expect. It could be wrong. It could be better. It 105:07 could be worse, but here's what we expect. 105:08 Is that kind of the thrust of it? 105:09 A. The gist of it is we're saying we are 105:10 making a prediction and, you know, accurate 105:11 predictions are difficult to make, especially those 105:12 about the future, to quote Yogi Berra.		
121:04 - 121:10	Mayopoulos, Timothy 2020-03-10	00:00:21	MT03.27
	121:04 Q. Am I right in assuming that when senior 121:05 management would present the board with a set of 121:06 financial projections, that those would sort of 121:07 reflect senior management's best work and their best 121:08 assessment of what was likely to happen, that the 121:09 projections were as good as the senior management 121:10 could make them?		
121:12 - 121:14	Mayopoulos, Timothy 2020-03-10	00:00:08	MT03.28
	121:12 A: I think we endeavored to 121:13 create what we thought were credible, reliable 121:14 reasonable projections.		
121:16 - 121:18	Mayopoulos, Timothy 2020-03-10	00:00:04	MT03.29
	121:16 Q. You wouldn't have given the board 121:17 projections you thought were wrong? 121:18 A. No.		
145:12 - 145:15	Mayopoulos, Timothy 2020-03-10	00:00:12	MT03.30
	145:12 Q. Do you recall how you first learned about 145:13 the third amendment? 145:14 A. I don't recall exactly when or how I 145:15 first learned of the third amendment.		

MT03 - Mayopoulos

DESIGNATION	SOURCE	DURATION	ID
146:09 - 146:14	Mayopoulos, Timothy 2020-03-10 146:09 Q. Okay. Do you remember what your first 146:10 reaction was when you heard about the third 146:11 amendment? 146:12 A. No, I don't remember what my reaction 146:13 was. 146:14 Q. Do you recall whether you were surprised?	00:00:20	MT03.31
146:17 - 146:18	Mayopoulos, Timothy 2020-03-10 146:17 THE WITNESS: I don't remember being 146:18 surprised.	00:00:02	MT03.32
146:20 - 148:12	Mayopoulos, Timothy 2020-03-10 146:20 Q. Was it consistent with what you expected 146:21 would happen? 146:22 A. I don't know that I had any particular 147:01 expectations about what would happen. I was aware 147:02 that there had been discussion about the possibility 147:03 of there being a third amendment to the PSPA. I 147:04 think I understood at least some of the issues that 147:05 people were trying to address by the amendment. In 147:06 my view, there were a number of ways that those 147:07 issues could be addressed, and it seemed that the 147:08 third amendment -- I don't remember the first time I 147:09 heard about the third amendment or exactly what 147:10 context that was, but my recollection is I thought 147:11 that what the third amendment was, was in line with 147:12 what I thought what could be in the range of 147:13 possibilities. 147:14 It's like you were talking about earlier 147:15 about, you know, was the -- is the estimate 147:16 somewhere within the range? The third amendment was 147:17 somewhere in the range of what I thought could 147:18 happen. 147:19 Q. And you referenced a number of ways that 147:20 something could be addressed. I guess, first of 147:21 all, what is the something that you were referring 147:22 to there? 148:01 A. Well, I think it was trying to preserve 148:02 as much of the amount of the Treasury commitment 148:03 under the PSPA as possible and trying to reduce the 148:04 possibility that future draws might -- especially	00:02:02	MT03.33

MT03 - Mayopoulos

DESIGNATION	SOURCE	DURATION	ID
148:05	future draws for dividend payments, might diminish		
148:06	the amount that was available under the PSPA to the		
148:07	enterprises.		
148:08	So that had been a discussion of some		
148:09	concern to people that that was something that -- if		
148:10	there was going to be an amendment to the PSPA, that		
148:11	was something that people were talking about trying		
148:12	to address.		

Our Designations

00:27:12

TOTAL RUN TIME

00:27:12



Documents linked to video:

PX167

PX239

PX308

Exhibit G

Ugoletti, Mario 2015-05-15
Designation List Report

13:1-2

1 MARIO UGOLETTI,
2 having been first duly sworn, testified as follows:

17:10-18:6

10 Q. Okay. Great. Then -- so and what year
11 did you graduate from college?
12 A. 1984.
13 Q. Okay. And then when did you cease being a
14 golf pro?
15 A. Well, after those two years in Ohio, it
16 sounds like a very exciting job and very fun job, but
17 I think when you're actually in the business, you --
18 you realize that you work very long hours, you don't
19 play much golf, and it's not a very -- not that great
20 of a job. And so I kind of got tired of being a golf
21 professional and decided that, well, I think I need
22 to go back to school.
1 Q. Okay.
2 A. And somehow over that time period, I mean,
3 I got interested in economics.
4 Q. Okay.
5 A. And so I decided I wanted to go back to
6 school either for economics or an MBA.

18:19-19:5

19 A. Accepted into Penn State's Master's Degree
20 program in Economics. I did quite well there for a
21 couple years, and they asked me, do you want to get a
22 Ph.D., I'm like, do you want to join the Ph.D.
1 program. I said, Well, if you guys can find some
2 funding, get me in the Ph.D. program, I'll gladly
3 try, so they got -- put me on a stipend, and I ended
4 up getting a Ph.D. from Penn State in 1995 in
5 Economics.

20:13-21

13 Q. Okay. Now, when you got your Ph.D. from
14 Penn State, then you went to work at the Treasury
15 Department --
16 A. I did --
17 Q. -- is that right?
18 A. -- yeah.

19 Q. And what was your job title when you got
20 there?

21 A. Financial economist.

26:18-20

18 [A]nd you stayed at

19 Treasury until 2009; is that right?

20 A. I did.

31:7-33:13

7 Q. Now, at some point, you switched over to

8 being an employee of FHFA; is that right?

9 A. I did, yes.

10 Q. And when was that?

11 A. September of 2009.

12 Q. Okay. Were you a detailee at any point

13 from Treasury to FHFA?

14 A. It was the other way around.

15 Q. Okay.

16 A. So I became a full-time employee at FHFA

17 in September of 2009. Treasury requested that I

18 detail back initially for a six-month period, and

19 then that was extended.

20 Q. Why did Treasury want you back for six

21 months?

22 A. Well, I mean, at the time, so you have a

1 new administration that came in, well, about nine

2 months prior to that, I knew pretty much all the

3 people pretty well: you know, they had Secretary

4 Geithner; Neal Wolin, I worked with Neal Wolin back

5 in the Clinton administration; my direct report

6 Michael Barr, I worked with him back in the Clinton

7 administration; Lee Sachs was there somewhere as a

8 counselor, I worked with him in the Clinton

9 administration. So they all knew me quite well. I

10 think they valued my perspective and what I did, and

11 given that I did have really the historical knowledge

12 of 15, 16 years of Treasury policy and Treasury --

13 what Treasury had been doing on this wide range of

14 issues, including the GS -- especially the GSE, that

15 they felt that it was a -- it would have been

16 difficult to just cut, cut it off immediately, so

17 they, they wanted me to help them out a little more.

18 BY MR. THOMPSON:

19 Q. Okay. And sorry again for being ignorant,

20 I don't know how this works, but you're an FHFA

21 employee starting in September --

22 A. Yeah.

1 Q. -- 2009, but do you go to work at the

2 Treasury Department if you're in --

3 A. I split my time.

4 Q. Okay.

5 A. Because we were actually -- it was much

6 easier then because our office was right on the other

7 side of the White House, so a half a day at Treasury

8 and a half a day at FHFA.

9 Q. Okay. And how long did that last for?

10 A. I said, it was six months, and then it was

11 extended, I think it was extended for another six

12 months, but it might have been shorter than that, I

13 don't recall, but there was another extension.

37:6-9

6 Q. Now, while you were at Treasury, you

7 participated in the creation and imple- --

8 implementation of the PSPAs; is that right?

9 A. Yes.

45:8-15

8 Q. Okay. And who was, on Treasury, who was

9 involved in working on the PSPAs?

10 A. Well, of course, there were various people

11 involved. But I would say on a day-to-day basis, the

12 primary people involved in working on coming up with

13 the substance and then what became the actual PSPA

14 document would have been Dan Jester and Jeremiah

15 Norton and myself.

55:4-56:20

4 Q. Let -- before we get to the others --

5 A. Yeah.

6 Q. -- now, the payment-in-kind feature,

7 though, it would allow the companies to preserve

8 their funding commitment; is that right?

9 In a quarter in which they didn't make

10 enough to pay a cash dividend, if they decided to do

11 a payment in kind rather than a circular draw, they

12 maintained their funding commitment; isn't that

13 right?

14 A. I'm not sure if that's correct.

15 Q. You're not sure if --

16 A. I'm not a re- --

17 Q. -- that's correct?

18 A. -- I'm not a legal expert, but I'm -- I'm
19 not sure if that's correct.

20 Q. Did -- so you don't have an opinion on
21 that?

22 A. Yeah, I'm -- I'm not a legal expert.

1 Q. I'm not asking for a legal opinion. I'm
2 saying, on -- when you were thinking about the third
3 amendment, did you have an opinion as to whether the
4 funding commitment would be unaffected -- -

7 Q. -- by a payment in kind?

10 You may answer.

11 THE WITNESS: Yeah, as I said, I'm not a
12 legal expert on this; and the -- and the primary
13 issue, as I stated earlier, about the payment in kind
14 was the difference in cost. I mean, that -- that's
15 the issue that everybody was thinking about, 10 and
16 12 percent. Right?

17 BY MR. THOMPSON:

18 Q. Yeah.

19 A. Right. So it doesn't make economic sense
20 to pay in kind when you can pay in cash.

58:2-14

2 And on the eve of the third amendment, did
3 you have an understanding as to whether -- if a
4 payment-in-kind dividend had been paid, as to whether
5 that would affect the amount of the funding
6 commitment?

9 You may answer.

10 THE WITNESS: I certainly may have had a
11 thought about that, but it was not a factor that went
12 into the decision, I mean, about whether you would
13 pay in kind or not pay in kind. I mean, that was all
14 based on the -- that was based on the economics.

132:5-12

5 Q. Yes. Do you know whether the Federal
6 Reserve ever was consulted on this topic?

7 A. Again, I had left Treasury by time -- by
8 the time they were potentially thinking about this,
9 because it wasn't to be set until after if I left;
10 but I do not recall any discussions with Treasury or
11 the Federal Reserve on the topic of what to set the
12 periodic commitment fee at.

135:22-138:1

22 Q. Have you ever attempted to calculate any
1 periodic commitment fee in any context?
2 A. I'm not aware of where that calculation
3 would occur.
4 Q. So that's a no, you haven't done that?
8 Q. Any commitment fee. Have you ever
9 attempted to calculate what a com- -- any commitment
10 fee should be in any context?
11 A. I'm not in the business of calculating
12 commitment fees.
13 Q. And have you --
14 A. And I'm not aware of where they exist, so
15 I guess the answer is no.
16 Q. You know, but you say in terms of where
17 they exist. I mean, if you go and you get a line of
18 credit, I mean, aren't there fees that people are
19 charged for getting a line of credit?
20 A. Yeah, I, I agree. I'm --
21 Q. Yeah.
22 A. -- I'm not sure it's the same concept as
1 this, but there's a fee that you get for a line of
2 credit, that's -- that's, that's true.
3 Q. Well, I understand the magnitude of this
4 is bigger.
5 A. Yeah, that's what I'm saying, yeah. Sure,
6 yeah, you, you charge a fee for somebody willing to
7 provide you some amount of credit. Yeah, that's
8 clearly one, yeah.
9 Q. Okay. Have you ever done such a valuation
10 yourself of a commitment fee?
11 A. No.
12 Q. Okay. And have you ever read a valuation
13 of a commitment?
14 A. Not that I recall.
15 Q. Okay. Isn't it true that commitment fees
16 are calculated typically as a percentage of the
17 amount that the borrower is willing to extend?
20 THE WITNESS: Yeah, I can't, I can't
21 speculate. I'm, I'm not the expert on commitment
22 fees, so I can't speculate on how they're typically
1 calculated.

169:2-10

2 With respect to the periodic commitment
3 fee, do you know if anyone at FHFA ever tried to
4 calculate what the value of it would be?
5 A. No.
6 Q. Okay. And do you know if anyone at
7 Treasury ever tried to calculate the value of it?
10 THE WITNESS: Not that I'm aware of.

170:7-13

7 Q. Did you discuss your view that it was an
8 incalculably large fee or would have been with anyone
9 at Treasury?
10 A. Not that I recall.
11 Q. Anyone at FHFA?
12 A. Not that I recall. The issue did not --
13 wasn't coming up.

175:6-21

6 Was the option of preserving the funding
7 commitment --
8 A. Yeah.
9 Q. -- by having the companies pay a
10 12 percent payment-in-kind dividend, was that
11 something that was discussed at FHFA, you know, in
12 the leadup to the Net Worth Sweep?
13 A. Not that I recall and for the reasons that
14 we talked about. I mean, one of them was the basic
15 10 percent versus 12 percent, that it just -- that
16 had been -- unless there was some economic aspect
17 that would make that an economic transaction, it
18 wasn't even part of the discussion.
19 So that's -- that's one that I would point
20 to at FHFA. So it really wasn't -- it just never was
21 on the table.

235:21-242:20

21 MR. THOMPSON: Our next one is 19?
22 Yes, 19. And it has a Bates number of
1 FHFA 25815.
2 (Exhibit No. 19 marked.)
3 BY MR. THOMPSON:
4 Q. Now, this cover email is from Mary Miller
5 to Ed DeMarco dated January 4, 2012.
6 Who -- what was Ms. Miller's role at
7 Treasury?

10 THE WITNESS: Assistant secretary for
11 Financial Institutions -- no, assistant -- she was an
12 assistant secretary.

13 BY MR. THOMPSON:

14 Q. Did --

15 A. I can't remember -- I can't remember what
16 position -- and she may have been the Under -- she
17 was the Under Secretary for a while, too. So she was
18 somewhere in that mix. I can't remember in 2012
19 where she was.

20 Q. Did Tim Bowler report to her?

21 A. Yes.

22 Q. Okay. And then if we go to the second
1 page, it says "FHFA and Treasury share common goals
2 to promote a strong housing market recovery, reduce
3 government involvement in the housing market over
4 time and to provide the public and financial markets
5 with a clear plan to wind down the GSEs."

6 Was that an accurate statement in the
7 run-up to the Net Worth --

10 Q. -- Sweep?

12 THE WITNESS: Well, I mean, this was
13 before we had issued -- I mean, this is -- this is a
14 Treasury document, I believe. It's coming from Mary
15 Miller.

16 BY MR. THOMPSON:

17 Q. Yes, I'm asking you if it's accurate, at
18 least with respect to FHFA.

19 A. Well, I'd have to -- I'll go through piece
20 by piece.

21 Q. Please.

22 A. All right? "Strong housing market
1 recovery." I mean, it's good for the enterprises;
2 but I don't view FHFA's mission as the housing
3 market. Our mission is to provide liquidity within
4 the housing market, which then can help a strong
5 housing market recovery. But I would never write
6 anywhere in an FHFA document that our mission is to
7 promote -- is to promote the housing market. That's
8 not --

9 Q. Fair enough.

10 A. Maybe that's HUD's mission.

11 Q. Fair enough.

12 A. But I don't think that's in here.

13 "Reduce government involvement in the
14 housing market over time."

15 Those are things that, given the failure
16 of these two companies, that was a potential goal.
17 Everyone had said that private market -- getting more
18 private market capital into the -- into the economy,
19 into the housing market would be good, reducing
20 Government involvement.

21 And what we had happen here was we turned
22 an implicit guarantee into an explicit guarantee, and
1 that was not the design of the GSEs from the start.
2 It wasn't an explicit guarantee. So we were in
3 situation now where we had much -- something that
4 looked more like an explicit guarantee. It wasn't
5 the full faith and credit, but it was very large.

6 Q. Where --

7 A. So that's not that ...

8 Q. But just to be clear, was that one of the
9 goals behind the Net Worth Sweep, was to reduce
10 Government involvement in the housing market over
11 time?

12 A. Well, I don't think that was a stated goal
13 within the third amendment, but I think if you go
14 back to FHFA's strategic plan that was issued in
15 February of 2012, I mean, one of the goals was to
16 contract the enterprises' footprint.

17 Q. Okay.

18 A. And that was a goal, to contract the
19 enterprises' footprint, in light of the fact that the
20 capital commitment was now going to be fixed and we
21 needed to manage that capital commitment. All right?
22 So that, from the safety and soundness
1 perspective of FHFA as a conservator, that is one of
2 the goals and stated in a number of statements that
3 that is one of the goals.

4 Q. All right. And then, continue. "Provide
5 the public and financial markets with a clear plan to
6 wind down the GSEs," was that another goal --

7 A. Well --

8 Q. -- of the FHFA?

9 A. There's a question of what "wind down"
10 means. And does it mean wind down to, what, to zero
11 or wind down to what? All right. So that's a
12 question. I don't think Treasury used that word all
13 the time. I'm not sure they ever defined exactly
14 what it meant.

15 I mean, but clearly in the strategic plan,
16 one of our goals was to contract the operations and

17 to provide a -- to provide a clear plan of what we
18 were doing so that other people, mainly the
19 legislative branch, could figure out what they wanted
20 to do with the nation's housing finance system and to
21 have something there remaining with the GSEs that
22 they could decide what to do with it.

1 So if you're going to say, Is this exactly
2 what FHFA said? I'd probably word it in the way I
3 just worded it, slightly differently; but broadly,
4 probably goals that were shared by both of us.
5 Q. Okay. Now, if we look at Point 2 on this
6 memo, it says "Establish meaningful policies that
7 demonstrate a commitment to winding down the GSEs."
8 Was the Net Worth Sweep one of those
9 policies?

12 THE WITNESS: Well, it's not listed there.

13 BY MR. THOMPSON:

14 Q. Well, this is January. But I'm saying,
15 ultimately, was the Net Worth Sweep a manifestation
16 of the commitment to wind down the GSEs?

17 A. Well, the commitment to contract the
18 operations and to reduce the risk footprints, we
19 talked about this earlier. And so, I mean, if you
20 look at Bullet 2, this -- these are things that we
21 were getting ready to do. All right?

22 The risk-sharing transactions. And, as we
1 talked about earlier, if you're going to do risk-
2 sharing transactions and you're going to increase the
3 amount of risk, all right, that the enterprises have,
4 that's good for the risk side but it's also going to
5 limit their revenue.

6 Q. Um-hmm.

7 A. All right? And if I limited the rev- --
8 if the revenue was going to be limited, if this was
9 going to be ratcheted up, there was going to be less
10 and less revenue to pay the 10 percent dividend.

11 All right, so, I forgot your complete
12 train of thought there, but the idea that this one
13 item here is consistent with the Net Worth Sweep
14 because revenue was going to decline. The same thing
15 with guarantee fees. We talked about that. Yes, it
16 can increase it for a while, but it may decrease
17 revenue.

18 So if you have a declining revenue base --
19 and that was the strategic plan -- the 10 percent
20 dividend was going to be more difficult.

271:15-18

15 Q. Was there ever any discussion about not
16 doing the Net Worth Sweep for Freddie, just doing it
17 for Fannie?
18 A. No.

359:17-361:14

17 Q. Now, you, in 2008, were working on the
18 PSPAs on the Treasury side of the table?
19 A. Um-hmm.
20 Q. And then in 2012 you're on the opposite
21 side of the table, same transaction, it's an
22 amendment, that same -- representing the other party,
1 right?
2 A. Right.
3 Q. Did you go to your ethics officer and say,
4 Look, am I allowed to participate in the same
5 transaction?
6 A. No, nobody ever said that that would have
7 been a necessary issue because I no longer have any
8 affiliation with Treasury, I'm working on an issue
9 for FHFA.
10 Q. But you were working on that issue
11 standing in the shoes of the companies, right?
12 A. As FHFA, as conservator.
16 Q. Did -- did you have an understanding of
17 the conflict-of-interest rules, that if you had
18 rotated out to Fannie or Freddie you couldn't have
19 negotiated against Treasury on the PSPAs, could you
20 have?
1 THE WITNESS: I do not understand that
2 rule completely, but I don't understand what the
3 conflict-of-interest rule would apply between two
4 government agencies.
5 BY MR. THOMPSON:
6 Q. Well, you weren't acting -- were you
7 acting in your capacity as conservator and standing
8 in the shoes of the companies or were you acting in
9 your capacity as a government employee when you
10 negotiated the third amendment?
11 A. I am a government employee that works for
12 FHFA, and this was a transaction that was done as
13 part of a conservatorship. And I do not sign the
14 documents.

Exhibit H

220923_1425 Tago, NaaAwaa

Designation List Report



Its, Fhfa

2020-12-16

[Our Designations](#)

01:24:59

TOTAL RUN TIME

01:24:59



Documents linked to video:

PX122

PX186

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PX209

PX213

PX244

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PX474

PX479



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DESIGNATION	SOURCE	DURATION	ID
14:12 - 14:14	Its, Fhfa 2020-12-16	00:00:06	TN_01.1
	14:12 Q. Would you please state		
	14:13 your full name for the record.		
	14:14 A. Naa Awa Tagoe.		
15:17 - 16:24	Its, Fhfa 2020-12-16	00:01:35	TN_01.2
	15:17 Q. Would you please briefly		
	15:18 describe your educational background.		
	15:19 A. So I have a bachelor's degree in		
	15:20 electrical engineering from Stanford University.		
	15:21 I have an MBA from Stanford		
	15:22 University.		
	15:23 Q. Okay. Any other certificate or		
	15:24 courses of education or training or programs or		
	15:25 anything?		
	16:01 A. Oh, yeah, sure, I have a CFA,		
	16:02 Chartered Financial Analyst.		
	16:03 Q. Anything else?		
	16:04 A. That's it.		
	16:05 Q. Okay. Would you please briefly		
	16:06 describe your employment history, just at a high		
	16:07 level.		
	16:08 A. Sure. I have been at FHFA since 2003,		
	16:09 17 years.		
	16:10 I started there as a manager,		
	16:11 financial analysis in the Office of Capital		
	16:12 Supervision.		
	16:13 I was promoted to associate director		
	16:14 in 2007, associate director of the Office of		
	16:15 Financial Analysis. It was a newly created		
	16:16 office.		
	16:17 And then I was promoted to senior		
	16:18 associate director, in 2011, of a group that was		
	16:19 called the Office of Financial Analysis, Modeling		
	16:20 and Simulations.		
	16:21 I led that group. It's essentially		
	16:22 the same group which was renamed the Office of		
	16:23 Capital Policy in June of this year when I was		
	16:24 promoted to principal associate director.		
17:16 - 18:07	Its, Fhfa 2020-12-16	00:00:57	TN_01.3
	17:16 The promotion in 2011, what was the		

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DESIGNATION	SOURCE	DURATION	ID
	17:17 name of the group that you then led?		
	17:18 A. So that was the Office of Financial		
	17:19 Analysis, Modeling and Simulations.		
	17:20 So I mentioned in 2007 I was promoted		
	17:21 to lead the Office of Financial Analysis.		
	17:22 In 2011, a modeling group was added to		
	17:23 the financial analysis group, a modeling and		
	17:24 simulations group. So it became the Office of		
	17:25 Financial Analysis, Modeling and Simulations.		
	18:01 Q. Can you describe to me your duties in		
	18:02 2010, before that change to the Office of		
	18:03 Financial, Analysis Modeling and Simulation?		
	18:04 A. Yeah, so prior to that from 2007,		
	18:05 actually right around 2006, I led a group I was		
	18:06 responsible primarily for reviewing the		
	18:07 Enterprises' --		
18:12 - 19:20	Its, Fhfa 2020-12-16	00:01:42	TN_01.4
	18:12 A. Okay. So it was a group that was		
	18:13 responsible for analyzing Fannie Mae and Freddie		
	18:14 Mac's earnings and capital.		
	18:15 And so we reviewed their financial		
	18:16 results. We reviewed their, you know, financial		
	18:17 projections, et cetera.		
	18:18 And so that was largely from -- I		
	18:19 would say from 2006-ish through when I got		
	18:20 promoted in 2011.		
	18:21 Q. Okay. And did your job duties and		
	18:22 responsibilities change at all in 2011?		
	18:23 A. They did. I took on another group.		
	18:24 So the size of my group doubled. I		
	18:25 took on a group of economists and modelers who		
	19:01 were responsible for FHFA's credit loss model.		
	19:02 Prior to that, I had a group of		
	19:03 financial analysts who were responsible for		
	19:04 reviewing earnings, but not economists; and then I		
	19:05 took on the economists who were actually modeling,		
	19:06 modeling credit losses.		
	19:07 Q. Other than having additional people		
	19:08 underneath you, did you take on a broader range of		
	19:09 duties and responsibilities?		

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DESIGNATION	SOURCE	DURATION	ID
	19:10 A. So let me think about that -- I mean, 19:11 absolutely. 19:12 So by definition, having the new 19:13 group, so doubling the size of the group, that -- 19:14 the new group had a different -- different role. 19:15 All right? 19:16 So -- so my responsibilities broadened 19:17 from sort of more narrowly reviewing the 19:18 Enterprises' financial results to actually also, 19:19 you know, using that credit loss modeling for a 19:20 number of different activities.		
25:19 - 32:16	Its, Fhfa 2020-12-16	00:07:33	TN_01.5
	25:19 Q. Which is that you didn't have meetings 25:20 with the front-office folks in 2008, 2009? 25:21 A. It was that we met with them -- we had 25:22 a monthly meeting with them to talk about 25:23 financial results generally and risks -- you know, 25:24 risk reports which we produced. 25:25 But we didn't have a specific meeting 26:01 to talk about projections. 26:02 And so, you know, if we would get 26:03 questions every now and then, it would be ad hoc. 26:04 It wasn't that we had sort of a routine set-up 26:05 meeting with them to -- sort of a routine process 26:06 of reviewing projections with them. 26:07 Q. Okay. What about in the time frame 26:08 leading up to the net worth sweep in August 2012; 26:09 did you have meetings with them in that period? 26:10 A. In meetings with -- so we definitely 26:11 had meetings with them monthly, again, during that 26:12 period, to review -- we called it our "book," our 26:13 monthly business review book. 26:14 It had a lot of reports on historical 26:15 financial results and, you know, reports of credit 26:16 risk and market risk metrics and that sort of 26:17 thing. 26:18 When we would discuss projections, it 26:19 would be in the context of -- you know, when we 26:20 put out the projections of the Enterprises' 26:21 financial performance, we would create a draft		

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DESIGNATION	SOURCE	DURATION	ID
26:22	report and we would send that up.		
26:23	We would get some feedback on the		
26:24	report. Usually, it would be marked up.		
26:25	And sometimes we would have a		
27:01	discussion with Mario, in particular, about those		
27:02	reports.		
27:03	So in that context, yes.		
27:04	Q. When you say it would be sent out and		
27:05	marked up, do you mean sent out and marked up by		
27:06	the companies?		
27:07	A. No, no. I mean, we would send it up		
27:08	to the front office.		
27:09	We would send a draft report to the		
27:10	front office; and we would get, you know, a		
27:11	marked-up version back, maybe with questions or		
27:12	comments about -- or edits on the report.		
27:13	Q. Okay. And so in 2012 up until the net		
27:14	worth sweep, you were having those regular		
27:15	interactions with what you referred to as the		
27:16	"front office"?		
27:17	A. I mean, we put our projections of the		
27:18	Enterprises' financial performance -- whenever we		
27:19	would send up a draft report, yep, we would have a		
27:20	discussion or there'd be some interaction back and		
27:21	forth before we finalized the reports.		
27:22	Q. And other than Mr. Ugoletti, who also		
27:23	would be part of those discussions?		
27:24	A. Largely, it was Mario.		
27:25	We didn't tend to interact directly		
28:01	with Ed on these matters.		
28:02	We did have, like I said, a monthly		
28:03	meeting with the director and Mario to go through		
28:04	our risk reports and financial results reports.		
28:05	But in terms of, you know, reviewing		
28:06	the projections document which we ended up		
28:07	releasing, that really was limited to Mario.		
28:08	Q. Okay. And by "Ed," you mean Ed		
28:09	DeMarco?		
28:10	A. Ed DeMarco, yes.		
28:11	Q. Okay. So in 2012, you would have		
28:12	monthly meetings with Mr. DeMarco and		

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DESIGNATION	SOURCE	DURATION	ID
28:13	Mr. Ugoletti.		
28:14	Is that right?		
28:15	A. That's right.		
28:16	Q. And what was the purpose of those		
28:17	meetings?		
28:18	A. So those meetings were really just to		
28:19	keep them abreast of trends in the financial		
28:20	performance and risk exposure of the Enterprises.		
28:21	Those meetings were actually started		
28:22	by Jim Lockhart.		
28:23	You know, when Jim Lockhart created		
28:24	the Office of Financial Analysis back in 2007, Ed		
28:25	DeMarco was his, I guess, deputy.		
29:01	And so Jim Lockhart just -- he really		
29:02	enjoyed looking at the financials and		
29:03	understanding what was going on, you know,		
29:04	somewhat -- as soon as we got the information. So		
29:05	he had us briefing him every month.		
29:06	When he left, Ed continued those		
29:07	meetings.		
29:08	Q. Okay. So were those monthly meetings		
29:09	occurring throughout 2009, 2010, 2011, 2012?		
29:10	A. That's my recollection, yes.		
29:11	Q. Okay. Did they change in any way in		
29:12	2012 versus prior years; do you recall?		
29:13	A. Yeah, at some point we started getting		
29:14	a lot more attendees.		
29:15	So when Jim Lockhart started them,		
29:16	they were smaller. They were primarily for him.		
29:17	Ed DeMarco liked to have other groups		
29:18	attend. He wanted a variety of perspectives on		
29:19	these topics. So he started, you know, pulling in		
29:20	some of his other direct reports.		
29:21	So after a while the meetings got, you		
29:22	know, really large. We had a lot of people		
29:23	attending the meetings. Sometimes, you know, 20,		
29:24	30 people would be in the room.		
29:25	Q. Were there any other senior actors,		
30:01	other than Mr. Ugoletti and Mr. DeMarco?		
30:02	A. Yeah, over time, you know, really, all		
30:03	of the -- whatever they were called -- deputies --		

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DESIGNATION	SOURCE	DURATION	ID
30:04	like, you know, Pat Lawler, who was head of the		
30:05	Office of Policy Analysis and Research, would		
30:06	attend.		
30:07	I think Wanda DeLeo, at some point she		
30:08	was -- before she became head of the Division of		
30:09	Conservatorship, she was pretty senior -- I guess,		
30:10	chief accountant she was at the time.		
30:11	We had -- who else was there? --		
30:12	probably Jeff Spohn, who was at one point the		
30:13	chief examiner for Freddie Mac.		
30:14	I can't remember who the Fannie Mae		
30:15	version -- maybe it was Jon Greenlee. At some		
30:16	point Jon Greenlee was....		
30:17	So a number of those senior people		
30:18	would attend.		
30:19	Q. Okay. And what was the -- again, what		
30:20	was the kind of purpose of the meeting?		
30:21	A. So the purpose was really to keep		
30:22	abreast of what was going on with the financial		
30:23	results and risk exposure. Right?		
30:24	So we would look at the contents of		
30:25	the report. We had many reports on financial		
31:01	results -- so it would be monthly financial		
31:02	results.		
31:03	So you wouldn't have to wait to get,		
31:04	you know, the SEC filings to figure out what		
31:05	the -- oh, you know, the earnings for the quarter,		
31:06	because we were getting monthly earnings reports		
31:07	from the Enterprises.		
31:08	We would look at their credit risk		
31:09	matrix, delinquency rates, default rates,		
31:10	foreclosure, you know, real estate owned, loss		
31:11	severity.		
31:12	So we would look at, you know, just		
31:13	business activity, the level of MBS issued.		
31:14	I mean, we would look at things like		
31:15	counter party risk -- who were the largest lenders		
31:16	or, you know, sellers and servicers to the		
31:17	Enterprises? How was that changing over time?		
31:18	It was just a way to keep abreast --		
31:19	you know, in an hour, get a quick snapshot of what		

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DESIGNATION	SOURCE	DURATION	ID
	31:20 was going on with the Enterprises' financial		
	31:21 performance every month.		
	31:22 Q. And what was the purpose of getting		
	31:23 that understanding?		
	31:24 A. Well, as the regulator, you know --		
	31:25 safety and soundness. Right?		
	32:01 You certainly want to know how they're		
	32:02 doing.		
	32:03 If you see risk increasing in a		
	32:04 particular area, then, you know, it was something		
	32:05 to be aware of.		
	32:06 You know, at times it served to -- you		
	32:07 know, it was a signal to examiners to maybe take a		
	32:08 closer look at a particular -- you know, at a		
	32:09 particular emerging risk.		
	32:10 Sometimes -- Ed DeMarco, in		
	32:11 particular, would use that as a forum to make sure		
	32:12 that -- you know, different parts of the		
	32:13 organization understood what was going on with the		
	32:14 Enterprises and that, if there was any follow-up		
	32:15 needed, that particular division was going to		
	32:16 follow up on that issue.		
33:02 - 33:08	Its, Fhfa 2020-12-16	00:00:13	TN_01.6
	33:02 In any of the meetings that you		
	33:03 described, the monthly meetings, did the issue of		
	33:04 the net worth sweep ever come up?		
	33:05 A. You mean, prior to the enactment of		
	33:06 the net worth sweep?		
	33:07 Q. Yes.		
	33:08 A. No, it did not.		
33:09 - 34:04	Its, Fhfa 2020-12-16	00:00:45	TN_01.7
	33:09 Q. Who led these		
	33:10 meetings?		
	33:11 A. Well, I mean, I think -- I would		
	33:12 introduce the team, and I would -- if there were		
	33:13 particular topics, I would sort of kick off and		
	33:14 give an overview of, you know, the major points we		
	33:15 wanted to make.		
	33:16 And then I would turn it over to the		
	33:17 team. Usually several people would speak. They		


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DESIGNATION	SOURCE	DURATION	ID
	33:18 would present their reports.		
	33:19 But they were -- in that time frame,		
	33:20 you know, they were geared towards Ed. He would		
	33:21 sort of control the meeting. He would ask		
	33:22 questions. He would, you know, sort of direct the		
	33:23 meeting really.		
	33:24 Q. But it's largely a presentation by		
	33:25 your team --		
	34:01 A. That's right.		
	34:02 Q. -- of a snapshot of the companies'		
	34:03 financial situations?		
	34:04 A. That's right.		
34:05 - 34:12	Its, Fhfa 2020-12-16	00:00:33	TN_01.8
	34:05 Q. At any point prior to the net		
	34:06 worth sweep's adoption, did anyone ask you or your		
	34:07 team to perform any kind of financial analysis or		
	34:08 projections to be used in connection with		
	34:09 consideration of the net worth sweep?		
	34:10 A. No, no. I mean, nobody asked us to		
	34:11 produce, you know, projections to be used, you		
	34:12 know, in connection with the net worth sweep.		
34:13 - 34:24	Its, Fhfa 2020-12-16	00:00:33	TN_01.9
	34:13 We did work on the financial		
	34:14 projections that were released publicly of the		
	34:15 Enterprises' financial performance.		
	34:16 Q. Are you referring to the October		
	34:17 reports?		
	34:18 A. Well, there was one we released in		
	34:19 2010 and then in 2011 and then I believe in 2012,		
	34:20 yes.		
	34:21 Q. Okay. And would those be the		
	34:22 projections of the Enterprises' financial		
	34:23 performance?		
	34:24 A. I believe so, yes.		
35:03 - 35:03	Its, Fhfa 2020-12-16	00:00:03	TN_01.10
	35:03 Q. And you can add to that if you want.		
35:04 - 35:21	Its, Fhfa 2020-12-16	00:00:55	TN_01.11
	35:04 But at no time were you or your team		
	35:05 tasked with doing any analysis or gathering any		

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DESIGNATION	SOURCE	DURATION	ID
	35:06 information as part of the consideration of		
	35:07 whether to enter the net worth sweep or the Third		
	35:08 Amendment, generally?		
	35:09 A. So, yeah, I don't recall us being --		
	35:10 we certainly weren't aware of the net worth sweep.		
	35:11 So if we were asked to produce any		
	35:12 information, we were asked to produce information		
	35:13 and we did, but it certainly wasn't in the context		
	35:14 of, to our knowledge, making a decision about the		
	35:15 net worth sweep.		
	35:16 Q. Okay. Did you do anything special or		
	35:17 different in 2012, in the months leading up to the		
	35:18 net worth sweep, than you had done in previous		
	35:19 years in terms of producing projections and		
	35:20 financial analyses?		
	35:21 A. I don't recall that we did, no.		
35:23 - 36:01	Its, Fhfa 2020-12-16	00:00:10	TN_01.12
	35:23 And your team monitored the financial		
	35:24 performance business activity and risk exposure of		
	35:25 the GSEs?		
	36:01 A. Yes.		
36:02 - 37:04	Its, Fhfa 2020-12-16	00:01:41	TN_01.13
	36:02 Q. Let me go ahead and --		
	36:03 well, before we turn to one of the reports, let me		
	36:04 just ask you: Over the course of a year -- and		
	36:05 we'll take the year kind of leading up to and just		
	36:06 after the net worth sweep, so let's say September		
	36:07 of 2011 to September 2012 -- what financial		
	36:08 projections or analyses did FHFA perform or have		
	36:09 performed or rely upon over the course of a year?		
	36:10 A. So I will say that, in looking at the		
	36:11 documents in the binder, I see that FHFA released		
	36:12 projections of the Enterprises' financial results		
	36:13 in -- I believe it was September or October of		
	36:14 2011, you know.		
	36:15 I mean, at this point it's difficult		
	36:16 for me to tell you what we did just based purely		
	36:17 on recall. So, you know, if I see a document,		
	36:18 then I could tell you what we did; but I couldn't		
	36:19 reliably tell you what else we -- you know, what		

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DESIGNATION	SOURCE	DURATION	ID
	36:20 else we did unless I see it.		
	36:21 Q. Understood. We're about to dive into		
	36:22 looking at some of these documents. I'm sure that		
	36:23 will be helpful to you.		
	36:24 But just as you sit here today, can		
	36:25 you think of any other projections during the		
	37:01 course of a year that FHFA would produce or ask		
	37:02 the companies to produce?		
	37:03 A. I don't recall anything beyond those		
	37:04 projections.		
37:05 - 37:08	Its, Fhfa 2020-12-16	00:00:06	TN_01.14
	37:05 Let's		
	37:06 go ahead and look at a document that I've		
 PX122.1	37:07 marked as Exhibit 3, please.		
	37:08 THE WITNESS: Okay.		
37:19 - 39:21	Its, Fhfa 2020-12-16	00:02:53	TN_01.15
 PX122.1.1	37:19 Q. And are these the projections		
	37:20 you were just referring to?		
	37:21 A. Yes.		
	37:22 Q. Okay. So can you just briefly		
	37:23 describe what these projections are and what they		
	37:24 were supposed to accomplish.		
	37:25 A. Sure.		
	38:01 So these were projections which -- let		
	38:02 me see if this is the October 2011....		
	38:03 These were projections which FHFA had		
	38:04 the Enterprises create.		
	38:05 We gave them similar assumptions and		
	38:06 asked them to use their models to project earnings		
	38:07 and capital over a defined forecast horizon.		
	38:08 The goal really of the projections was		
	38:09 to, you know, have comparable assumptions for both		
	38:10 Enterprises, you know, over a range of outcomes, a		
	38:11 range of scenarios.		
	38:12 We had -- you know, prior to putting		
	38:13 out the projections, we had reviewed each		
	38:14 Enterprise's management projections for a number		
	38:15 of years. And management, you know, had -- they		
	38:16 had different assumptions across the Enterprises,		
	38:17 clearly with different management teams.		

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DESIGNATION	SOURCE	DURATION	ID
	38:18 And it made it difficult to compare		
	38:19 the results, because we spent a lot of time		
	38:20 explaining that, you know -- well, this		
	38:21 Enterprise's projections doesn't include this		
	38:22 particular factor or it assumes a different house		
	38:23 price path or a different level of changes in the		
	38:24 values of securities, and that sort of thing.		
	38:25 So we thought it would be helpful to,		
	39:01 you know, give them the same assumptions so that		
	39:02 when we were looking at the results we at least		
	39:03 eliminated that difference.		
	39:04 Q. And what was the broader purpose of		
	39:05 doing a report like this?		
	39:06 A. So -- one purpose was to have, you		
	39:07 know, comparable results.		
	39:08 I mean, the broader purpose, I think,		
	39:09 of making it public was to give the public a sense		
	39:10 of -- you know, the range of possible outcomes.		
	39:11 Because prior to us, you know,		
	39:12 releasing these projections, there were stories in		
	39:13 the press or it could have been, you know, analyst		
	39:14 reports with, you know, very, you know, sort of		
	39:15 different views of what the, you know, possible		
	39:16 range of outcomes could be, and we thought that it		
	39:17 would be helpful to at least have comparable		
	39:18 assumptions and sort of a range of outcomes that		
	39:19 would be helpful to, you know, just provide some		
	39:20 transparency into what was going on at Fannie and		
	39:21 Freddie.		
39:22 - 40:10	Its, Fhfa 2020-12-16	00:00:38	TN_01.16
	39:22 Q. Was it intended to be a prediction of		
	39:23 future performance?		
	39:24 A. It absolutely wasn't.		
	39:25 I think we were clear to say that,		
	40:01 that these were not expected outcomes, that these		
	40:02 were just scenarios that -- you know, FHFA was not		
	40:03 in the business of projecting economic variables,		
	40:04 house prices, interest rates, et cetera.		
	40:05 So we tried to be transparent about,		
	40:06 you know, the scenarios we selected and the		

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DESIGNATION	SOURCE	DURATION	ID
	40:07 process we used to, you know, project the results		
	40:08 and using the Enterprises' models.		
	40:09 And so we -- I think we were pretty		
	40:10 clear that these were not predictions.		
40:11 - 40:21	Its, Fhfa 2020-12-16	00:00:32	TN_01.17
	40:11 Q. Who determined what scenarios to		
	40:12 include?		
	40:13 A. So my team looked at -- we looked at		
	40:14 Fannie's projections, we looked at --		
	40:15 assumptions -- Fannie's assumptions, Freddie's		
	40:16 assumptions, and then, you know, there was a		
	40:17 discussion internally about -- I'm pretty sure it		
	40:18 involved Mario Ugoletti. Maybe he talked to Ed		
	40:19 DeMarco. I don't know.		
	40:20 But, you know, it was sort of a		
	40:21 consensus exercise internally within FHFA.		
40:22 - 42:17	Its, Fhfa 2020-12-16	00:02:38	TN_01.18
	40:22 Q. And do you know who the		
	40:23 ultimate decision maker was in terms of deciding		
	40:24 what scenarios were going to be run in these		
	40:25 reports?		
	41:01 A. I mean, I would say that, you know,		
	41:02 ultimately, because these -- this information was		
	41:03 made public that, you know, the director had to		
	41:04 sign off on the release; and so, you know,		
	41:05 ultimately, if he had an issue with these		
	41:06 scenarios, then, you know, he would have stopped		
	41:07 us.		
	41:08 So I'd have to say, ultimately, the		
	41:09 director approved the scenarios.		
 PX122.1.2	41:10 Q. Do you recall -- in particular, this		
	41:11 Exhibit 3, the 2011 October scenarios -- do you		
	41:12 recall who at FHFA suggested those? Was it		
	41:13 Mr. Ugoletti, yourself, or...?		
	41:14 A. So this October 2011 document, I		
	41:15 think -- I don't know if this is -- well, this is		
	41:16 the update. Right?		
	41:17 So, you know, the first version of		
	41:18 this was in 2010, and we had three scenarios then.		
	41:19 So my recollection is that the		

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DESIGNATION	SOURCE	DURATION	ID
	41:20 scenarios didn't change significantly.		
	41:21 You know, Moody's house price path		
	41:22 was, you know, the key variable; and Moody's at		
	41:23 the time was publishing, I think, seven house		
	41:24 price paths. They called them S1 through S7.		
	41:25 And so the three that we selected in		
	42:01 2010, whatever the numbers were -- you know, S3,		
	42:02 S5, S1, whatever -- we used the same, those same		
	42:03 scenarios the next year.		
	42:04 Moody's may have changed the name of		
	42:05 the scenarios slightly, but they were the same		
	42:06 scenarios from the prior year.		
	42:07 Q. So the scenarios -- is that true		
	42:08 generally for the other assumptions and scenarios		
	42:09 in this document, beyond house pricing, that the		
	42:10 assumptions and scenarios were decided in 2010 and		
	42:11 then just updated in this 2011 document?		
	42:12 A. Yes, that's right.		
	42:13 The key drivers, the key assumptions		
	42:14 were selected in 2010 and then just --		
	42:15 Q. Okay.		
	42:16 A. -- updated them every year afterwards		
	42:17 when we published.		
42:20 - 43:10	Its, Fhfa 2020-12-16	00:00:57	TN_01.19
	42:20 Q. The assumptions and scenarios that		
	42:21 were decided to be used in 2010, do you remember		
	42:22 who within the -- who within FHFA suggested those		
	42:23 scenarios?		
	42:24 A. I don't remember clearly; but what I		
	42:25 will say is -- because my team reviewed the		
	43:01 Enterprises' projections and we were used to		
	43:02 seeing a range of scenarios, if I had to guess --		
	43:03 and again, I'm just, you know, guessing -- that we		
	43:04 probably suggested these scenarios. Right?		
	43:05 Because, in general, the Enterprises		
	43:06 projected a range of scenarios. There was a base		
	43:07 case, a more favorable case, you know, maybe some		
	43:08 more stress cases.		
	43:09 And so this was in line with sort of		
	43:10 the types of scenarios they were looking at.		

 Clear

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DESIGNATION	SOURCE	DURATION	ID
60:05 - 60:07	Its, Fhfa 2020-12-16	00:00:05	TN_01.20
	60:05 Let's go ahead and		
 PX353.1	60:06 take a look at a document marked Exhibit		
	60:07 No. 4, please.		
60:20 - 61:19	Its, Fhfa 2020-12-16	00:01:14	TN_01.21
	60:20 A. Yes; I see the document.		
 PX353.1.1	60:21 Q. Do you recognize this as an email sent		
	60:22 to you and others on or about September 9, 2011		
	60:23 that you would have received in the normal course		
	60:24 of your business?		
	60:25 A. I do.		
 PX353.1.2	61:01 Q. And can you please describe what the		
	61:02 attached document is.		
	61:03 A. So it is Fannie Mae's submission of		
	61:04 the results of the FHFA forecast scenarios.		
	61:05 So we gave them the input assumptions,		
	61:06 and then they used their models to -- they run		
	61:07 those input assumptions in their portfolio through		
	61:08 their models, and they gave us the results.		
	61:09 Q. And you would do this with both		
	61:10 companies -- you would give them the assumptions,		
	61:11 they run it through their models, and they would		
	61:12 give you the results based upon --		
	61:13 A. That's right.		
	61:14 Q. -- assumptions?		
	61:15 A. Yes.		
	61:16 Q. Was there ever any back-and-forth		
	61:17 or -- between FHFA and the companies, other than		
	61:18 just, here's the assumptions, run it -- okay,		
	61:19 here's the data?		
62:02 - 62:11	Its, Fhfa 2020-12-16	00:00:33	TN_01.22
	62:02 A. So once we got the results, we		
	62:03 would -- we would -- you know, they would walk us		
	62:04 through the results and just explain to us, you		
	62:05 know, what was going on in the different -- you		
	62:06 know, in the different scenarios.		
	62:07 Q. Okay. Was there ever any like		
	62:08 disagreement between FHFA and the companies over		
	62:09 assumptions being used?		
	62:10 A. I don't -- I don't recall that. I		




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DESIGNATION	SOURCE	DURATION	ID
 Clear	62:11 don't recall disagreements.		
86:11 - 86:12	Its, Fhfa 2020-12-16	00:00:02	TN_01.23
 PX474.1	86:11 Let's look at 86:12 Exhibit 8, please.		
86:19 - 87:13	Its, Fhfa 2020-12-16	00:00:58	TN_01.101
	86:19 Q. Do you recognize this document?		
	86:20 A. I'm just looking at the cover now, the		
	86:21 oversight board meeting. It looks like it's many		
	86:22 pages. So I'm scrolling through.		
	86:23 Q. Is this one of the -- previously, you		
	86:24 talked about how you would have monthly reports at		
	86:25 the FHFA and, in connection with that, you or your		
	87:01 team would produce a written report.		
	87:02 And so my first question is: Is this		
	87:03 one of those reports?		
	87:04 A. So far -- and I'm only at page 15 --		
	87:05 this looks like a report to the FHF oversight		
	87:06 board.		
	87:07 So this was a quarterly board meeting,		
	87:08 and different divisions would contribute to the		
	87:09 presentations to the board.		
	87:10 So this wouldn't be one of them.		
	87:11 So I was going to scroll all the way		
	87:12 to the end to see if monthly reports were		
	87:13 attached.		
88:03 - 88:10	Its, Fhfa 2020-12-16	00:00:24	TN_01.25
	88:03 Q. This is a presentation to the FHF		
	88:04 oversight board?		
	88:05 A. That's right.		
	88:06 Q. Why was this presentation being made?		
	88:07 A. So FHFA has a quarterly board meeting		
	88:08 and -- you know, to the oversight board -- and as		
	88:09 I mentioned, each division presents sort of		
	88:10 current updates on topics of interest.		
89:05 - 90:08	Its, Fhfa 2020-12-16	00:01:28	TN_01.26
 PX474.15	89:05 Q. And at the top of the page, there's a		
	89:06 paragraph that is an enterprise update, and it		
	89:07 talks about -- it says Ms. -- apologies, is it --		
	89:08 A. "Tagoe."		





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DESIGNATION	SOURCE	DURATION	ID
	89:09 Q. "Tagoe," okay. Different versions.		
	89:10 So....		
	89:11 (Reading:)		
 PX474.15.1	89:12 Ms. Tagoe reviewed the		
	89:13 Enterprises' preliminary financial results		
	89:14 for the fourth quarter of 2011 and the		
	89:15 full year. In the fourth quarter, draws		
	89:16 were reduced compared to the previous		
	89:17 quarter for both Enterprises as		
	89:18 mark-to-market losses moderated.		
	89:19 What does that mean, "mark-to-market		
	89:20 losses moderated"?		
	89:21 A. It means that the Enterprises -- so		
	89:22 mark-to-market losses -- first of all, is these		
	89:23 are generally securities or loans that the		
	89:24 Enterprises have to mark to current value.		
	89:25 And so if they bought a security or a		
	90:01 loan at a particular price and then at the current		
	90:02 period the value declines, then they have to		
	90:03 recognize the difference in value in their income		
	90:04 statements as a loss.		
	90:05 So this is saying that in the fourth		
	90:06 quarter compared to the third quarter, their loss		
	90:07 is moderated as in they were probably lower, lower		
	90:08 losses, lower mark-to-market losses.		
90:20 - 91:21	Its, Fhfa 2020-12-16	00:01:23	TN_01.27
 PX474.15.4	90:20 Q. And then the last sentence		
	90:21 here, it says you:		
	90:22 ...closed with a summary of		
	90:23 the decline in delinquent loan counts at		
	90:24 the Enterprises....		
	90:25 What market factor was leading to a		
	91:01 decline in the delinquent loan count at the		
	91:02 Enterprises?		
	91:03 A. So I have to go back to refresh my		
	91:04 memory. This is 2011.		
	91:05 I believe what was happening there is		
	91:06 that, you know, the -- well, I mean, as a factual		
	91:07 matter, for the delinquent loan counts to go down,		
	91:08 you had more loans, you know, coming out of		




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DESIGNATION	SOURCE	DURATION	ID
	91:09 delinquency than going into delinquency.		
	91:10 So, you know, the post-crisis, you		
	91:11 know, years -- the loans acquired in 2009, '10, et		
	91:12 cetera, were better quality. So we weren't seeing		
	91:13 as many new delinquencies on those loans.		
	91:14 But for the existing delinquent loans,		
	91:15 which were quite substantial at the time, you were		
	91:16 starting to see those loans either go into		
	91:17 foreclosure, so they came out of the delinquent		
	91:18 loan bucket, or they were modified.		
	91:19 So we were seeing, you know, that sort		
	91:20 of resolution of delinquent loans exceeding the		
	91:21 new inflows to delinquency.		
91:22 - 91:23	Its, Fhfa 2020-12-16	00:00:03	TN_01.28
 Clear	91:22 MR. THOMAS: Let me ask you to look at		
	91:23 Exhibit 9, please.		
91:24 - 92:05	Its, Fhfa 2020-12-16	00:00:23	TN_01.29
	91:24 MS. VARMA: I just wanted to clear the		
	91:25 record that in Exhibit 8 there was no		
	92:01 attachment of Tab 3.		
	92:02 MR. THOMAS: Okay. Thank you.		
	92:03 If we do come across one of those		
	92:04 monthly reports, please let me know. Okay?		
	92:05 THE WITNESS: Okay.		
92:12 - 93:25	Its, Fhfa 2020-12-16	00:01:50	TN_01.30
 PX190.1	92:12 Q. Do you recognize this document?		
 PX190.1.1	92:13 A. It looks like minutes of the board		
	92:14 meeting.		
 PX190.3	92:15 Q. And if you go to page 3 of the		
	92:16 document, Bates -674, there's an Enterprise update		
	92:17 and a description.		
 PX190.3.1	92:18 It's a little bit different than the		
	92:19 description we just looked at of your		
	92:20 presentation, at least the words are a little		
	92:21 different.		
	92:22 Does this also appear to be a		
	92:23 description of your presentation at that May 21,		
	92:24 2012 meeting?		
	92:25 A. It looks like it is, yes.		
	93:01 Q. Okay. It says:		

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DESIGNATION	SOURCE	DURATION	ID
 PX190.3.2	93:02 Ms. Tagoe reviewed the 93:03 Enterprises' financial results for the 93:04 first quarter of 2012, which included a 93:05 discussion of factors contributing to 93:06 positive net income at both Enterprises 93:07 during the quarter. 93:08 So in first quarter 2012, the 93:09 Enterprises both had positive net income? 93:10 A. Yeah, it appears from what I just 93:11 said. 93:12 But I just want to make sure, were you 93:13 comparing this paragraph to the document we saw 93:14 just before? 93:15 Q. Yes. 93:16 A. I thought that document was about the 93:17 fourth quarter of 2011 and comparing it to the 93:18 third quarter of 2011. 93:19 And this is talking about the first 93:20 quarter of 2012. 93:21 Q. Well, that's a good point. 93:22 Is this the same meeting being 93:23 referred to in these two exhibits? Is it the FHF 93:24 oversight board meeting? 93:25 A. The Federal Housing Finance was on		
94:01 - 94:24	Its, Fhfa 2020-12-16	00:01:05	TN_01.31
 PX474.3	94:01 May 21st at 3. 94:02 So -- we can go back to the prior 94:03 document -- we can go back to the prior document.		
 PX474.3.1	94:04 Q. I can tell you, the prior document has 94:05 an agenda that says, Federal Housing Finance 94:06 Oversight Board 3 p.m. to 4 p.m. on May 21st. 94:07 A. Okay. But I'm pretty sure what I read 94:08 before on that prior document was about the -- I 94:09 was describing performance in the fourth quarter 94:10 of 2011 compared to the prior quarter. 94:11 Q. You are. 94:12 It says:		
 PX474.15.3	94:13 ...reviewed the Enterprises' 94:14 preliminary financial results for the 94:15 fourth quarter of 2011 and the full year.		

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DESIGNATION	SOURCE	DURATION	ID
	94:16 And this -- this is part of my		
	94:17 confusion as to why the -- this summary seems to		
	94:18 be a little different, and was there -- do you		
	94:19 know if it's referring to the same meeting, the		
	94:20 same presentation?		
	94:21 A. That I don't know.		
 Clear	94:22 Q. Okay. Well, let me just press on		
	94:23 then.		
	94:24 A. Okay.		
94:25 - 95:10	Its, Fhfa 2020-12-16	00:00:36	TN_01.32
 PX190.3.3	94:25 Q. The second sentence says:		
	95:01 She also described trends that		
	95:02 show continued improvement in the		
	95:03 Enterprises' credit quality, and risks to		
	95:04 the Enterprises' credit performance.		
	95:05 So what was driving these trends at		
	95:06 this time in the -- well, it would be referring		
	95:07 back to the first quarter of 2012.		
	95:08 What would be driving those trends?		
	95:09 A. So is there -- I mean, is there more		
	95:10 on this document? No; this is just the minutes.		
95:11 - 95:22	Its, Fhfa 2020-12-16	00:00:36	TN_01.33
	95:11 So as I said before, the post-crisis		
	95:12 book, it was better credit quality. The loans		
	95:13 that were purchased, you know, post crisis were		
	95:14 better quality.		
	95:15 We had gotten to a point in the cycle		
	95:16 where we were starting to see, you know,		
	95:17 resolution of delinquent loans from the crisis.		
	95:18 So the book was starting to turn.		
	95:19 You started to see the post-crisis		
	95:20 book account for a greater proportion of the full		
	95:21 portfolio as the legacy book started to be --		
	95:22 started to be resolved.		
95:23 - 95:25	Its, Fhfa 2020-12-16	00:00:05	TN_01.34
 PX186.1	95:23 MR. THOMAS: Okay. Let me go ahead		
	95:24 and ask you to look at a document marked		
	95:25 Exhibit No. 10.		
96:04 - 97:08	Its, Fhfa 2020-12-16	00:01:27	TN_01.35

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DESIGNATION	SOURCE	DURATION	ID	
PX186.1.1	96:04 Q. Okay. Do you recognize this as an		TN_01.35	
	96:05 email that you would have received and sent on or			
	96:06 around May 10, 2012 in your normal course of your			
	96:07 job?			
	96:08 A. Yes.			
	96:09 Q. Okay. Have you had a chance to review			
	96:10 this email in connection with your deposition?			
	96:11 A. I don't believe so, actually.			
	PX186.1.2	96:12 Q. Okay. At the bottom, there's an email		
		96:13 from Mary Beth Fisher at BNP Paribas.		
96:14 Do you know who she is?				
96:15 A. I don't know who she is, and I				
96:16 actually have seen this document as part of my				
96:17 deposition.				
96:18 Q. Okay.				
96:19 A. That triggered it, yeah.				
PX186.1.3	96:20 Q. Okay. She writes below, in the second			
	96:21 paragraph of her email:			
	96:22 At the current quarterly "burn			
	96:23 rate" of Treasury preferred stock -- that			
	96:24 is, within epsilon of zero -- Fannie and			
	96:25 Freddie's capital backstops of \$125 bn and			
	97:01 \$149 bn, respectively, should last them			
	97:02 quite a while after the unlimited period			
	97:03 expires at the end of this year.			
	97:04 Do you see that?			
	97:05 A. Yeah.			
97:06 Q. Was that consistent with FHFA's				
97:07 projection at this time that there was no risk of				
97:08 having insufficient capital anytime soon?				
97:10 - 97:16	Its, Fhfa 2020-12-16	00:00:19	TN_01.36	
97:10	A. I don't believe that was consistent			
97:11	with a projection.			
97:12	I believe that she was just looking at			
97:13	historical performance, and FHFA's projections			
97:14	were -- those were forward looking.			
97:15	Q. And was historical performance better			
97:16	than FHFA's projections?			
97:21 - 99:08	Its, Fhfa 2020-12-16	00:01:48	TN_01.37	
97:21	A. So FHFA's projections -- we have			

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DESIGNATION	SOURCE	DURATION	ID
	97:22	projection of three scenarios.	
	97:23	And again, my recollection -- we can	
	97:24	look at numbers, but my recollection is that when	
	97:25	we would publish the projections we would note	
	98:01	that the Enterprises' actual financial results had	
	98:02	been -- that they had been better, I guess, than	
	98:03	the projected rendered results.	
	98:04	Q. And by "projections" at this point,	
	98:05	you would be referring to the October 2011 FHFA	
	98:06	projections.	
	98:07	Is that right?	
	98:08	A. That's correct.	
 PX186.1.4	98:09	Q. The next sentence says:	
	98:10	Their capital draws over the	
	98:11	past two years have so far been below even	
	98:12	the most optimistic scenario projections	
	98:13	by the FHFA.	
	98:14	Do you see that?	
	98:15	A. Yes.	
	98:16	Q. Is that true?	
	98:17	A. It probably was, probably was.	
	98:18	I mean, I can sort of compare numbers;	
	98:19	but that's probably about right.	
 PX186.1.5	98:20	Q. Who is Jamie Newell?	
	98:21	A. Jamie Newell is -- he was, you know,	
	98:22	one of the colleagues in -- let's see.	
	98:23	In 2012, I don't know if he was in the	
	98:24	division of conservatorship or division of	
	98:25	Enterprise regulation; but he worked with the	
	99:01	Enterprises' -- he was with FHFA.	
	99:02	He reviewed the Enterprises' retained	
	99:03	portfolios and market risk and liquidity risk. He	
	99:04	also attended a lot of board meetings and things	
	99:05	like that.	
 PX186.1.6	99:06	Q. He writes that this was:	
	99:07	Not news to us....	
	99:08	Was any of this news to you?	
99:11 - 99:25	Its, Fhfa 2020-12-16	00:00:37	TN_01.38
	99:11	A. I mean, if she's talking about, you	
	99:12	know, here are the quarterly and cumulative draws	


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DESIGNATION	SOURCE	DURATION	ID
	99:13 by Fannie and Freddie -- that's factual.		
	99:14 The fact that the caps on the retained		
	99:15 mortgage portfolios, debt, and preferred stock --		
	99:16 that's factual.		
	99:17 You know, burn rate of Treasury		
	99:18 preferred stock -- factual.		
	99:19 Backstops -- factual.		
	99:20 And, you know, the fact that the		
	99:21 capital draws have been below the most optimistic		
	99:22 scenario's projections by FHFA -- that was all		
	99:23 publicly available.		
	99:24 So I think his characterization was		
	99:25 accurate.		
100:01 - 100:03	Its, Fhfa 2020-12-16	00:00:04	TN_01.39
	100:01 Q. So you don't have any reason		
	100:02 to believe anything she wrote is inaccurate.		
	100:03 Right?		
100:05 - 100:22	Its, Fhfa 2020-12-16	00:00:49	TN_01.40
	100:05 A. I mean, I would say that whatever is		
	100:06 factually accurate -- I mean, it was publicly		
	100:07 available.		
	100:08 Her conclusions, though, I would not,		
	100:09 you know, initially agree with.		
	100:10 Q. What do you mean by "her conclusions"?		
	100:11 A. Well, her conclusion that the capital		
	100:12 backstops should last them quite a while was not		
	100:13 necessarily, you know, what we thought at the		
	100:14 time.		
	100:15 I mean, she does qualify that at the		
	100:16 current burn rate, you know.		
	100:17 So if you agreed, if that was your		
	100:18 perspective that the current quarterly burn rate		
	100:19 was the most likely scenario going forward, then		
	100:20 you might agree with her conclusion; but, you		
	100:21 know, that was not necessarily our perspective at		
	100:22 the time.		
100:23 - 101:08	Its, Fhfa 2020-12-16	00:00:29	TN_01.41
	100:23 Q. Had FHFA projected a higher burn rate		
	100:24 as of this time?		
	100:25 A. FHFA's projections of their draws,		

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DESIGNATION	SOURCE	DURATION	ID
	101:01 going back to the, you know, I guess it was the		
	101:02 October '11, you know, projections at that time,		
	101:03 was much higher. It was showing significant		
	101:04 Treasury draws.		
	101:05 Q. But those had not been updated since		
	101:06 October of 2011. Correct?		
	101:07 A. That's correct; but that's what we		
	101:08 had.		
101:09 - 101:11	Its, Fhfa 2020-12-16	00:00:07	TN_01.42
	101:09 Q. And they were based on		
	101:10 assumptions that were set forth in October 2010.		
	101:11 Right?		
101:13 - 101:21	Its, Fhfa 2020-12-16	00:00:32	TN_01.43
	101:13 A. Yeah, so that's -- the October 2011		
	101:14 projections were based on projections that we		
	101:15 provided in 2011, not 2010.		
	101:16 Q. Well, as I understand, your prior		
	101:17 testimony was that the assumptions that you		
	101:18 provided to the companies were assumptions that		
	101:19 were determined and given to the companies in		
	101:20 2010.		
	101:21 Is that not right?		
101:24 - 102:16	Its, Fhfa 2020-12-16	00:00:44	TN_01.44
	101:24 A. That is not right.		
	101:25 So the categories of assumptions -- so		
	102:01 what I was saying was that, in 2010, we made a		
	102:02 determination that we would provide the		
	102:03 Enterprises with assumptions of house prices of		
	102:04 interest rates. Those may be seven or so		
	102:05 assumptions.		
	102:06 So those were the categories of		
	102:07 assumptions, and we used the same -- we provided		
	102:08 those same categories assumptions each year.		
	102:09 We could have given them a longer list		
	102:10 or a shorter list; but once we locked in on that		
	102:11 set of variables, we then updated the variables		
	102:12 every year.		
	102:13 So the house price path we used in		
	102:14 2011 was not the same as the house price path that		
	102:15 was used in 2010. Like, it was updated.		

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DESIGNATION	SOURCE	DURATION	ID
	102:16 Q. Okay. Thank you.		
102:17 - 102:20	Its, Fhfa 2020-12-16	00:00:09	TN_01.45
	102:17 But there are no further updates more		
	102:18 recent than October 2011, of the burn rate.		
	102:19 Correct?		
 Clear	102:20 A. Not at this time; that's right.		
103:07 - 103:12	Its, Fhfa 2020-12-16	00:00:28	TN_01.46
	103:07 Q. Why were the companies' capital draws		
	103:08 over the past two years below even the most		
	103:09 optimistic scenario projections by the FHFA?		
	103:10 In other words, why did the FHFA		
	103:11 projections' prior two years so overestimate what		
	103:12 the companies' capital draws were going to be?		
103:14 - 104:24	Its, Fhfa 2020-12-16	00:02:04	TN_01.47
	103:14 A. I think we listed in our report a		
	103:15 number of factors that were driving those		
	103:16 differences.		
	103:17 You know, keeping in mind like the		
	103:18 context -- right? -- of the way in which those		
	103:19 projections were developed in the first place,		
	103:20 these were the Enterprises' internal models.		
	103:21 Those models were calibrated on historical data.		
	103:22 That historical data showed, you know,		
	103:23 the way certain loans would behave in a certain		
	103:24 market environment.		
	103:25 We then entered the crisis.		
	104:01 Right prior to the crisis, you had a		
	104:02 range of nontraditional products that were issued,		
	104:03 let's say, in 2005 through 2008.		
	104:04 The behavior of those loans was not		
	104:05 adequately captured in the models that was used to		
	104:06 create the projections, so that those loans		
	104:07 actually performed much worse than anybody		
	104:08 expected initially.		
	104:09 So initially, the Enterprises'		
	104:10 forecast underestimated losses.		
	104:11 Over time, they started, you know,		
	104:12 updating their models to reflect this much worse		
	104:13 behavior of these loans.		
	104:14 You also had unprecedented government		


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DESIGNATION	SOURCE	DURATION	ID
	104:15 intervention with things like, you know, 104:16 modification programs, refinance programs. 104:17 And so, you know, the fact that the 104:18 Enterprises' models showed higher losses than was 104:19 ultimately recognized in those periods had, in 104:20 part, to do with models that were not entirely 104:21 synced up with, you know, the loans for which they 104:22 were modeling behavior. 104:23 And also you had, you know, a lot of 104:24 government intervention.		
104:25 - 105:17	Its, Fhfa 2020-12-16	00:01:09	TN_01.48
	104:25 Q. What was causing the overestimation of 105:01 losses in this time period? Was it the companies' 105:02 models or the assumptions given to it by FHFA? 105:03 A. It was a number of items. 105:04 It was.... 105:05 So, you know, as we've disclosed in 105:06 those projections that the -- in particular, high 105:07 LTV loans were not defaulting as fast and as, you 105:08 know, as projected; that loan modifications were 105:09 performing better. 105:10 So that was more of a model type of 105:11 issue, but that's also because of government 105:12 intervention. Right? You had, you know, post 105:13 crisis with the Home Affordable Modification 105:14 Program. 105:15 You had -- you know, borrowers' 105:16 mortgage payments were being reduced by 105:17 30 percent, et cetera.		
105:21 - 107:13	Its, Fhfa 2020-12-16	00:01:59	TN_01.49
	105:21 So pre crisis you had, you know, loan 105:22 modification programs where a lot of borrowers 105:23 would end up defaulting after a loan modification. 105:24 But with the government intervention, 105:25 borrowers started performing a lot better with 106:01 their loan modifications. 106:02 You had high LTV -- you know, high 106:03 loan-to-value loans, which would default, you 106:04 know, pre crisis. 106:05 Again, with a lot of government		

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DESIGNATION	SOURCE	DURATION	ID
	106:06	intervention, those loans would perform.	
	106:07	So those are model issues.	
	106:08	There were some issues that were from	
	106:09	the assumptions, like, you know, we showed that we	
	106:10	assumed a 5-point drop in the value of	
	106:11	private-label securities and commercial	
	106:12	mortgage-backed securities in each of our three	
	106:13	scenarios.	
	106:14	Now, those particular declines in the	
	106:15	value, those happened right at the start of the	
	106:16	forecast horizon; and we did that because we had	
	106:17	seen really -- really significant declines in the	
	106:18	values of PLS and CMBS -- (inaudible) -- and so	
	106:19	what we had was a modest assumption about further	
	106:20	declines.	
	106:21	At some point those securities stopped	
	106:22	declining in value to that extent. So that, you	
	106:23	know, that difference was an assumption difference	
	106:24	versus a model difference.	
	106:25	But, you know, you also had, I	
	107:01	think -- maybe it was foreclosures being pushed	
	107:02	out further beyond the forecast horizon.	
	107:03	So loans that we thought would	
	107:04	foreclose within a certain time frame the	
	107:05	Enterprises would charge off because of, you know,	
	107:06	foreclosure delays in, you know, judicial states,	
	107:07	et cetera.	
	107:08	A lot of loans were just getting sort	
	107:09	of pushed down in the foreclosure process, and the	
	107:10	Enterprises were not recognizing those losses for	
	107:11	extended periods of time.	
	107:12	So we laid all of that out in our	
	107:13	projections documents.	
108:15 - 109:14	Its, Fhfa 2020-12-16		00:01:26 TN_01.50
	108:15	A. I'm just saying that we provided a	
	108:16	range of outcomes and very transparently	
	108:17	identified the scenarios that were tied to those	
	108:18	outcomes.	
	108:19	The fact that the scenario didn't	
	108:20	occur is something that would be really	

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DESIGNATION	SOURCE	DURATION	ID
	108:21 transparent to anybody looking at those results.		
	108:22 Q. So in other words, your projections		
	108:23 were not intended to predict what was going to		
	108:24 happen; and so the fact that what was happening		
	108:25 was much different than your projections is not		
	109:01 something that required you to take any action to		
	109:02 correct the predictions, rather people could just		
	109:03 go look at what the changed market information and		
	109:04 factors are and see why your projections were off.		
	109:05 Is that a fair summary?		
	109:06 A. I think that's a fair summary -- that		
	109:07 we weren't predicting, you know, a particular base		
	109:08 scenario, that we were providing a range of		
	109:09 scenarios and the assumptions used in each		
	109:10 scenario and our best estimates of the results in		
	109:11 each of those scenarios, and that people could --		
	109:12 they could look at the documentation with the		
	109:13 results, and then they could look at what actually		
	109:14 transpired and see those differences.		
110:05 - 110:13	Its, Fhfa 2020-12-16	00:00:28	TN_01.51
	110:05 You're asking me whether we made		
	110:06 efforts to change the projections we had already		
	110:07 released?		
	110:08 Q. Correct.		
	110:09 A. That's correct. We were -- we would		
	110:10 not -- once we put out a projection and we had all		
	110:11 the documentation around that particular release,		
	110:12 we did not sort of try to go back to update the		
	110:13 information that was already outstanding.		
112:06 - 112:06	Its, Fhfa 2020-12-16	00:00:02	TN_01.52
 PX197.1	112:06 Move to Exhibit 12, please.		
112:11 - 114:25	Its, Fhfa 2020-12-16	00:03:19	TN_01.53
	112:11 Q. Do you recognize this, at least the --		
	112:12 some portions of the email chain as an email chain		
	112:13 you received in the normal course of your job on		
	112:14 or around June 11, 2012?		
	112:15 A. So at least -- the first one I see		
	112:16 from Andre to Leslie Deich, and I'm not copied on		
	112:17 that. So --		
	112:18 Q. Right. The next one, you're one of		

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DESIGNATION	SOURCE	DURATION	ID
	112:19	the recipients.	
	112:20	A. Okay.	
	112:21	Q. If it helps.	
 PX197.1.1	112:22	Five lines down and on the right.	
	112:23	A. I see it now.	
	112:24	Q. Is this a document you've had a chance	
	112:25	to review in connection with your deposition?	
	113:01	A. It is not.	
 PX197.1.2	113:02	Q. Okay. Who is Dymah Paige?	
	113:03	A. So Dymah Paige was an analyst, I	
	113:04	guess, in the finance group of Fannie Mae.	
	113:05	She interacted with my team, with my	
	113:06	staff, exchanging reports or walking us through	
	113:07	reports, et cetera.	
	113:08	Q. She writes at the bottom of the page.	
	113:09	She writes:	
 PX197.1.3	113:10	Hello All,	
	113:11	We are writing to follow up on	
	113:12	the consolidated results in the weekly	
	113:13	report issued last Friday, June 8, 2012	
	113:14	(attached). May preliminary close results	
	113:15	are now available and are materially	
	113:16	different from our expectations, as	
 PX197.1.4	113:17	projected in the last corporate forecast,	
	113:18	and presented in the May BoD Financial	
	113:19	Update.	
	113:20	Do you see that?	
	113:21	A. Yeah, I see it now -- May results are	
	113:22	available -- yep.	
 PX197.1.5	113:23	Q. Do you know what she's referring to	
	113:24	when it says "the last corporate forecast"?	
	113:25	A. I believe that she is referring to	
	114:01	Fannie Mae's internal management forecast.	
	114:02	Q. Okay. And is that a monthly forecast,	
	114:03	or...?	
	114:04	A. I don't remember.	
 PX197.1.6	114:05	Q. Okay. She goes on to write:	
	114:06	Preliminary net income for May	
	114:07	is \$2.9B, compared with our latest	
	114:08	forecast of (\$0.1B) loss, primarily driven	
	114:09	by lower than expected credit-related	






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DESIGNATION	SOURCE	DURATION	ID
	114:10 expenses.		
	114:11 Do you see that?		
	114:12 A. Yep.		
	114:13 Q. Do you recall this results becoming --		
	114:14 in May or June of 2012, that time period, Fannie's		
	114:15 results becoming markedly better driven by lower		
	114:16 than expected credit-related expenses?		
	114:17 A. You know, reading this now, I can see		
	114:18 it.		
	114:19 I don't -- I remember at some point,		
	114:20 you know, that there was an inflection point and		
	114:21 things started to change.		
	114:22 It was a little volatile around then,		
	114:23 but I don't remember whether it was May or June		
	114:24 or, frankly, September. But I know in 2012 that		
	114:25 the financial picture started to change.		
 Clear			
115:16 - 116:23	Its, Fhfa 2020-12-16	00:01:50	TN_01.54
	115:16 Q. Did the projections that you performed		
	115:17 in October 2011, did they make any assumptions		
	115:18 with respect to the companies' deferred tax assets		
	115:19 and the valuation allowances that were taken		
	115:20 against those assets?		
	115:21 A. My recollection is they didn't, that		
	115:22 the -- the assumptions page did not talk about		
	115:23 that at all.		
	115:24 Q. Okay. So whatever they were at the		
	115:25 time, they were; and that would be factored in		
	116:01 there. But there would be no projecting of how		
	116:02 they might change in the future?		
	116:03 A. That is my recollection, yes.		
	116:04 Q. Is that also true of the loan loss		
	116:05 reserves?		
	116:06 A. So the loan loss reserves would be		
	116:07 projected to change over time and over the		
	116:08 forecast horizon.		
	116:09 Q. So you would have projected credit		
	116:10 expenses changing. Correct?		
	116:11 A. Yes.		
	116:12 Q. But did the model allow for the		
	116:13 release of any of the companies' loan loss		

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DESIGNATION	SOURCE	DURATION	ID
	116:14 reserves if it were determined that the reserves		
	116:15 were higher than needed?		
	116:16 A. Yeah, the Enterprises' models would		
	116:17 reflect that.		
	116:18 So if....		
	116:19 They would project delinquencies and		
	116:20 credit losses; and if they projected that the		
	116:21 reserves were high, then over the forecast period,		
	116:22 you know, they would, you know, release reserves		
	116:23 over the forecast period.		
121:04 - 121:17	Its, Fhfa 2020-12-16	00:00:42	TN_01.55
	121:04 Q. Did your group at FHFA have any role		
	121:05 with respect to the companies' quarterly financial		
	121:06 statements?		
	121:07 A. We reviewed the SEC filings. We		
	121:08 reviewed the financial statements.		
	121:09 And I believe it was the office of the		
	121:10 chief accountant had a process to -- you know, for		
	121:11 different FHFA offices and divisions to review the		
	121:12 financials, just to see if there were any, you		
	121:13 know, red flags -- if anything seemed to be		
	121:14 misstated or if anything that was, you know,		
	121:15 stated was not consistent with our understanding		
	121:16 of what we had discussed.		
	121:17 And so we played a role in that.		
121:18 - 122:04	Its, Fhfa 2020-12-16	00:00:37	TN_01.56
	121:18 Q. So the FHFA would review drafts of the		
	121:19 companies' quarterly financial results and make		
	121:20 comments or changes, and ultimately approve the		
	121:21 filings before made?		
	121:22 A. So FHFA would make comments, and then		
	121:23 the chief accountant would discuss those comments		
	121:24 with Fannie and Freddie.		
	121:25 I'm not sure, you know, how -- you		
	122:01 know, how all of the comments were resolved.		
	122:02 You know, sometimes the Enterprises		
	122:03 would make changes and sometimes maybe they		
	122:04 wouldn't.		
122:15 - 122:18	Its, Fhfa 2020-12-16	00:00:10	TN_01.57
	122:15 A. It's -- let me just think about that.		





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DESIGNATION	SOURCE	DURATION	ID
	122:16 Most likely; but I mean, I could tell 122:17 for sure if I just looked at the loan loss reserve 122:18 number.		
125:14 - 125:17	Its, Fhfa 2020-12-16	00:00:05	TN_01.58
 PX209.1	125:14 Let's take a look 125:15 at an exhibit I marked as Exhibit 14, 125:16 please. 125:17 THE WITNESS: Okay.		
125:22 - 125:25	Its, Fhfa 2020-12-16	00:00:11	TN_01.60
 PX209.1.1	125:22 Q. Do you recognize this as an email that 125:23 you would have sent and received in the normal 125:24 course of your business on or about July 3, 2012? 125:25 A. Yes.		
126:05 - 128:02	Its, Fhfa 2020-12-16	00:02:23	TN_01.61
 PX209.1.2	126:05 Q. This appears to attach another weekly 126:06 forecast. 126:07 Do you see that? 126:08 A. Yes.		
 PX209.1.3	126:09 Q. And under Fannie Mae, under -- who's 126:10 Barry Carroll? 126:11 A. So Barry Carroll was and still is an 126:12 analyst in my group.		
 PX209.1.4	126:13 Q. Under Fannie Mae, it says: 126:14 2Q12 estimated net income 126:15 continues to be driven by a benefit for 126:16 credit losses. The benefit for credit 126:17 losses is primarily attributed to the 126:18 following: 126:19 Reduced severities driven by 126:20 improved REO disposition values, 126:21 Reduced probabilities of 126:22 default in the portfolio due to improved 126:23 home prices, 126:24 And continued improvement in 126:25 the SDQ rate. 127:01 Can you describe what's going on here? 127:02 A. So Fannie Mae is -- in this quarter is 127:03 reducing their loan loss reserve. So it's a 127:04 benefit for credit losses. This will show up as a 127:05 positive number in their income statement.		




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DESIGNATION	SOURCE	DURATION	ID
	127:06 And so they're telling us that REO		
	127:07 disposition values -- so, you know, when they sell		
	127:08 the foreclosed properties, they are not		
	127:09 experiencing -- or that the loss severity, the		
	127:10 amount of losses that they experience when they		
	127:11 sell the foreclosed property is coming down,		
	127:12 assuming by the reduced severity we're seeing.		
	127:13 In the second bullet, that -- it says		
	127:14 improved home prices. So home prices are		
	127:15 increasing. So that's reducing, you know, the		
	127:16 probabilities that loans would default or the		
	127:17 numbers of loans that end up, go into foreclosure.		
	127:18 And then we're seeing continued		
	127:19 improvement and less serious delinquency rate. So		
	127:20 that is, the serious delinquency rate is coming		
	127:21 down, is declining.		
	127:22 Q. And we're going to look at a bunch		
	127:23 more documents in this time period.		
	127:24 But does any of this refresh your		
	127:25 recollection as to the time of the period in 2012		
	128:01 when you saw a real inflection point in the		
	128:02 companies' performance and prospects?		
128:04 - 128:21	Its, Fhfa 2020-12-16	00:00:51	TN_01.62
	128:04 A. I mean, what I would say is that I		
	128:05 think Fannie Mae -- Fannie Mae reported income in		
	128:06 2012, but they didn't have a draw in the first		
	128:07 quarter of 2012.		
	128:08 And, you know, they had been drawing		
	128:09 consistently through 2011 for a number of years.		
	128:10 And then Freddie Mac, my recollection		
	128:11 was that their last draw was, you know, as a		
	128:12 result of financial performance in the first		
	128:13 quarter of '12, and that for the rest of '12 they		
	128:14 didn't have a Treasury draw.		
	128:15 So I remember that; and, you know,		
	128:16 2012 was an inflection before.		
	128:17 I think before when you asked me about		
	128:18 exactly when the loss reserves peaked and when		
	128:19 they were bringing down losses -- I mean, the loss		
	128:20 reserves -- I don't recall the exact quarter, but		

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DESIGNATION	SOURCE	DURATION	ID
 Clear	128:21 I know 2012 was an inflection -- inflection point.		
131:23 - 132:14	Its, Fhfa 2020-12-16	00:01:09	TN_01.63
	131:23 Q. After your October 2011 projections,		
	131:24 did FHFA make or rely upon any projections between		
	131:25 October 2011 and the time of the net worth sweep		
	132:01 in August 2012 that did factor in changing		
	132:02 information about the loan loss reserves and		
	132:03 forecasted credit losses that we're seeing in		
	132:04 these documents in 2012?		
	132:05 A. So, I mean, I think we talked before		
	132:06 about the frequency which FHFA updated		
	132:07 projections.		
	132:08 My recollection was that after the		
	132:09 October 2011 projections, we didn't come out with		
	132:10 projections or produce projections until a year		
	132:11 later, which would have been in October 2012.		
	132:12 So I'm not aware of any projections in		
	132:13 between that would have factored in, nor this		
	132:14 particular assumption.		
133:11 - 133:12	Its, Fhfa 2020-12-16	00:00:04	TN_01.64
 PX196.1	133:11 Q. Okay. I've marked a document as		
	133:12 Exhibit 15,		
133:15 - 133:16	Its, Fhfa 2020-12-16	00:00:07	TN_01.65
	133:15 Q. And do you recognize this document?		
	133:16 A. I have not seen it in prep.		
133:17 - 134:11	Its, Fhfa 2020-12-16	00:01:01	TN_01.66
 PX196.1.1	133:17 Q. Who is Paul Bjarnason?		
	133:18 A. Paul Bjarnason is an accountant who		
	133:19 worked in the -- he worked for the office of the		
	133:20 chief accountant.		
 PX196.1.2	133:21 Q. Okay. In the last sentence of the		
	133:22 second paragraph, he writes:		
	133:23 What with FNM's forecasts		
	133:24 showing an upward price curve beginning		
	133:25 after 2012, we should not be surprised if		
	134:01 FNM begins a roaring recovery, fueled in		
	134:02 large part by drawing down their		
	134:03 \$70 billion ALL and the 03-3 loans.		
	134:04 Do you see that?		





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DESIGNATION	SOURCE	DURATION	ID
	134:05 A. Yes.		
	134:06 Q. What do you understand it to mean by		
	134:07 "showing an upward price curve beginning after		
	134:08 2012"?		
	134:09 A. I'm just going to take my time and		
	134:10 read the whole paragraph, if you don't mind.		
	134:11 Q. Sure.		
134:13 - 134:21	Its, Fhfa 2020-12-16	00:00:30	TN_01.67
	134:13 A. So it looks like he's talking about		
	134:14 Fannie Mae's forecast of home prices, and he's		
	134:15 saying with an upward price curve that Fannie		
	134:16 projects, that house prices will increase.		
	134:17 Q. And did Freddie not use price		
	134:18 forecasts?		
	134:19 A. This is what I'm reading here; and		
	134:20 that's my recollection -- that Freddie's process		
	134:21 did not use forecasts, whereas Fannie's did.		
134:22 - 135:04	Its, Fhfa 2020-12-16	00:00:28	TN_01.68
 PX196.1.3	134:22 Q. This is dated May 29, 2012.		
	134:23 Do you understand the reference to		
	134:24 "ALL" to be the loan loss reserves?		
 PX196.1.4	134:25 A. Yes; allowance for loan losses, yeah.		
	135:01 Q. And he's writing to people that worked		
	135:02 at the FHFA. Right?		
	135:03 A. Yep, Andre Galeano and Duane Creel,		
	135:04 yes -- and Nick Satriano, yep.		
135:05 - 136:09	Its, Fhfa 2020-12-16	00:01:45	TN_01.69
 PX196.1.5	135:05 Q. And when he says "...we should not be		
	135:06 surprised if Fannie Mae begins a roaring		
	135:07 recovery...," would you -- did you share that		
	135:08 sentiment in this time period, that Fannie Mae		
	135:09 was -- might be having a roaring recovery?		
	135:10 Is this the "inflection point" that		
	135:11 you referred to?		
	135:12 A. I would say that the inflection point		
	135:13 is best seen in hindsight.		
	135:14 On May 29, 2012, I'm not even sure if		
	135:15 Fannie had released their first quarter 2012 10-Q.		
	135:16 Fannie had been reporting quarterly losses for		
	135:17 maybe three years through the fourth quarter of		


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DESIGNATION	SOURCE	DURATION	ID
	135:18 2011.		
	135:19 So at that point standing there for		
	135:20 me, it didn't look like a roaring recovery. It		
	135:21 looked like, at best, we were seeing maybe a		
	135:22 moderation; but it wasn't clear if we were going		
	135:23 to go into a double-dip recession scenario or, you		
	135:24 know, if we had hit bottom or if this was a		
	135:25 temporary blip.		
	136:01 So I wouldn't concur with that		
	136:02 assessment.		
	136:03 Q. Well, it turned out to be a roaring		
	136:04 recovery. Right?		
	136:05 A. That is a characterization, one		
	136:06 characterization of it. I mean, they certainly		
	136:07 stopped reporting losses and started reporting		
	136:08 income.		
	136:09 Hindsight is 2020 always, always.		
 Clear			
136:22 - 137:10	Its, Fhfa 2020-12-16	00:01:02	TN_01.70
	136:22 Q. Since Fannie and Freddie's projections		
	136:23 are only yearly and your last -- the most recent		
	136:24 projection prior to the net worth sweep would have		
	136:25 been October 2011, what effort did Fannie -- did		
	137:01 your group, or anyone else at Fannie and Freddie		
	137:02 that you know of, try to inform any decisions		
	137:03 around the net worth sweep based upon the most		
	137:04 recent financial data, analyses, and projection?		
	137:05 A. I wasn't involved in the negotiation		
	137:06 of the net worth sweep.		
	137:07 Whatever material that we provided		
	137:08 routinely, we continued to provide.		
	137:09 I don't recall anybody asking us to do		
	137:10 anything different -- I simply don't recall.		
137:11 - 137:20	Its, Fhfa 2020-12-16	00:00:31	TN_01.71
	137:11 You know, between October 2011 and the		
	137:12 net worth sweep, the actual financial results were		
	137:13 available for the third quarter of 2011 and the		
	137:14 fourth quarter of 2011, maybe even -- maybe in the		
	137:15 first half of 2012.		
	137:16 So, you know, there was -- at least		
	137:17 three more quarters of financial results were		


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DESIGNATION	SOURCE	DURATION	ID
	137:18 available.		
	137:19 I don't know what information was		
	137:20 relied upon for the net worth sweep.		
137:21 - 138:03	Its, Fhfa 2020-12-16	00:00:27	TN_01.72
	137:21 Q. All the current developing trends and		
	137:22 financial information from the companies, that was		
	137:23 available to FHFA. Right?		
	137:24 A. I mean, as you saw, they were		
	137:25 providing us their weekly forecast of the		
	138:01 current -- of the current quarter.		
	138:02 When they had management forecasts,		
	138:03 they provided those to us as well.		
138:14 - 138:14	Its, Fhfa 2020-12-16	00:00:02	TN_01.73
 PX213.1	138:14 Q. It would be Exhibit 16.		
138:18 - 139:04	Its, Fhfa 2020-12-16	00:00:42	TN_01.74
	138:18 Q. Do you recognize this document as a		
	138:19 document you would have received in the normal		
	138:20 course of your job on or about July 13, 2012?		
	138:21 A. I don't remember receiving this		
	138:22 document. I mean, I've seen it in prep, but I		
	138:23 don't remember being copied on it.		
	138:24 Q. That's fair enough.		
	138:25 Would you describe what the document		
	139:01 is.		
	139:02 A. It is meeting minutes of Fannie Mae's		
	139:03 executive management meeting, potentially an		
	139:04 attachment, the agenda -- the meeting materials.		
139:10 - 139:13	Its, Fhfa 2020-12-16	00:00:10	TN_01.75
 PX213.2	139:10 Q. Would you please take a look at		
 PX213.2.1	139:11 the second page of it under "Financial Forecast		
	139:12 Update."		
	139:13 A. Yes.		
139:14 - 139:16	Its, Fhfa 2020-12-16	00:00:05	TN_01.76
	139:14 Q. And I'll just ask you to read that		
	139:15 paragraph if you would.		
	139:16 (Witness reading.)		
139:17 - 139:24	Its, Fhfa 2020-12-16	00:00:21	TN_01.77
	139:17 A. Sure. I read it.		
 PX213.2.2	139:18 Q. About six lines down, it says:		


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DESIGNATION	SOURCE	DURATION	ID
	139:19 Cumulative 2012-2016 income is 139:20 now forecast at \$56.6 billion, 139:21 \$12.3 billion higher than the last 139:22 projection. 139:23 Do you see that? 139:24 A. Yeah.		
139:25 - 140:03	Its, Fhfa 2020-12-16 139:25 Q. Do you know what would be the last 140:01 projection, what that's referring to? 140:02 A. I assume it refers to Fannie Mae's 140:03 last management forecast.	00:00:11	TN_01.78
140:12 - 141:15	Its, Fhfa 2020-12-16  PX213.2.3 140:12 Q. And then he says: 140:13 He noted that the models seem 140:14 to lag or underestimate both downturns and 140:15 upturns. 140:16 Do you see that? 140:17 A. Yes. 140:18 Q. Do the companies' models understate or 140:19 underestimate an upturn? 140:20 A. I mean, what I'd say is my 140:21 understanding of the models -- and again, I wasn't 140:22 that close to them -- but my understanding of the 140:23 models is that they were looking at historical 140:24 data. 140:25 You know, one of the models were 141:01 actually calibrated looking on historical data, 141:02 but also that, in forecasting things like loan 141:03 loss reserves, they were looking to more recent 141:04 trends, like trends over the past year. 141:05 And so in that sense, if things 141:06 were -- if you were at an inflection point and 141:07 things were starting to improve, you were still 141:08 looking back to forecast loan loss reserves. 141:09 Q. Well, do you agree with the -- what's 141:10 noted here, that the companies' model seemed to 141:11 lag or underestimate both downturns and upturns? 141:12 A. I do. That's consistent with my 141:13 general understanding of what was going on, that 141:14 the models would lag because of the way they were	00:01:34	TN_01.79

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DESIGNATION	SOURCE	DURATION	ID
 Clear	141:15 constructed to look backwards.		
142:19 - 143:13	Its, Fhfa 2020-12-16 142:19 Q. Do you know how prices were determined 142:20 for the FHFA's projections? 142:21 A. Home prices? 142:22 Q. Yes. 142:23 A. So for home prices, we were using 142:24 Moody's forecasts and three scenarios for home 142:25 prices. 143:01 Q. Do you know if Fannie used Moody's 143:02 prices? 143:03 A. I know that Fannie had Moody's 143:04 projections. 143:05 Fannie also had a corporate path. 143:06 They had a -- both Enterprises had, 143:07 you know, corporate house price paths. They had 143:08 different house price indices, and they had 143:09 projections, their index. 143:10 But they also looked at other 143:11 forecasts of house prices. There were multiple 143:12 vendors at the time, and they looked at them as 143:13 benchmarks.	00:00:54	TN_01.80
149:20 - 150:16	Its, Fhfa 2020-12-16 149:20 I mean, I think the one item that you 149:21 haven't gotten to is that, notwithstanding the 149:22 inflection point and all of that, the Enterprises 149:23 were disclosing that they didn't expect to be able 149:24 to pay the dividends, and their projections would 149:25 show that in some years they couldn't pay the 150:01 dividends. 150:02 Q. And by "disclosing," you're referring 150:03 to what's contained in their quarterly financial 150:04 reports? 150:05 A. Yes. 150:06 Q. Anything beyond what's in their 150:07 quarterly financial reports that you're referring 150:08 to? 150:09 A. No, what's in their quarterly 150:10 financial reports. 150:11 And I believe that, actually, in some	00:01:03	TN_01.81

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DESIGNATION	SOURCE	DURATION	ID
	150:12 of their own management forecasts -- not the FHFA		
	150:13 versions, but in their own management forecasts,		
	150:14 that in some of those versions even if they were		
	150:15 showing positive income they still were projecting		
	150:16 that they couldn't pay the dividend.		
154:08 - 154:09	Its, Fhfa 2020-12-16	00:00:03	TN_01.82
 PX479.1	154:08 Would you please look at a document		
	154:09 I've marked as Exhibit 18.		
154:16 - 156:13	Its, Fhfa 2020-12-16	00:02:24	TN_01.100
	154:16 Q. Okay. Would you describe what this		
	154:17 document is, please.		
	154:18 A. So this is the document that I was		
	154:19 talking about that we had these monthly reports,		
	154:20 and that we would meet with the front office and		
	154:21 run through these reports every month.		
	154:22 Q. Okay. And the purpose of this report,		
	154:23 again, was to do what?		
	154:24 A. It was to keep the senior executive		
	154:25 team at FHFA up to speed on the financial		
	155:01 performance and risk exposure of Fannie Mae and		
	155:02 Freddie Mac, just to monitor -- we would monitor		
	155:03 them.		
	155:04 And the purpose of the report was to		
	155:05 report on -- you know, on those trends, on trends		
	155:06 in current financial results and risk exposure.		
	155:07 Q. Was this report distributed before the		
	155:08 monthly meetings with senior FHFA personnel, such		
	155:09 as Mr. DeMarco?		
	155:10 A. When you say "before," you mean in		
	155:11 advance of the meeting?		
	155:12 Q. Yes.		
	155:13 A. My recollection was that we took		
	155:14 copies, hard copies of the book to the meetings.		
	155:15 We may have sent them out a day or two		
	155:16 in advance, but not very far in advance.		
	155:17 Q. And when you say the books, do you		
	155:18 mean what we're looking at here in Exhibit 18?		
	155:19 A. Yeah, that's what I'm looking -- yeah,		
	155:20 they were pretty -- I don't know how many pages		
	155:21 this is.		

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DESIGNATION	SOURCE	DURATION	ID
	155:22 But, yeah, they were pretty extensive		
	155:23 documents. So we had them bound, spiral bound		
	155:24 into a book.		
	155:25 Q. And you don't recall whether they were		
	156:01 distributed to senior FHFA personnel before or at		
	156:02 the meeting?		
	156:03 A. I believe they were distributed at the		
	156:04 meeting. That's my recollection, is that we would		
	156:05 print multiple copies and we would take them to		
	156:06 the meeting and distribute them in the meeting.		
	156:07 Q. And at the meeting, would you discuss		
	156:08 the substance of these reports?		
	156:09 A. Yes, we would.		
	156:10 We would -- because at some times, I		
	156:11 would generally give an overview. And then most		
	156:12 months, we walked through at least the highlights		
	156:13 of each report.		
158:02 - 158:05	Its, Fhfa 2020-12-16	00:00:10	TN_01.83
	158:02 Q. So this was based upon a look at		
	158:03 the credit risk as of the date available, as of		
	158:04 April 2012?		
	158:05 A. That's right.		
158:06 - 158:16	Its, Fhfa 2020-12-16	00:00:35	TN_01.84
 PX479.1.1	158:06 Q. It says:		
	158:07 Purchase quality remains high.		
	158:08 What does that mean?		
	158:09 A. It means that the credit quality of		
	158:10 the Enterprises' new credit guarantees was high,		
	158:11 that, you know, generally if we were looking at		
	158:12 credit scores, at origination, or loan-to-value		
	158:13 ratio, or the percentage of sort of nontraditional		
	158:14 products that were guaranteed, that those were --		
	158:15 that all of those metrics would indicate that the		
	158:16 purchase quality was high.		
158:17 - 158:21	Its, Fhfa 2020-12-16	00:00:13	TN_01.85
	158:17 Q. All right. And the purchase quality		
	158:18 was much higher in this time frame than it was in		
	158:19 2009 or 2010.		
	158:20 Is that right?		
	158:21 A. That I don't know.		

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DESIGNATION	SOURCE	DURATION	ID
160:04 - 160:21	Its, Fhfa 2020-12-16	00:00:51	TN_01.86
 PX479.1.2	160:04 Q. So credit-related expenses were 160:05 decreasing in this time period? 160:06 A. They were, yep. 160:07 Q. The next bullet says:		
 PX479.1.3	160:08 Net worth remained positive at 160:09 the end of May for both Enterprises mostly 160:10 driven by net income. 160:11 What does that mean, "mostly driven by 160:12 net income"? 160:13 A. So we had -- it's a combination of 160:14 net -- net income and cumulative other 160:15 comprehensive income to get to net worth -- so 160:16 earnings and then the direct change in accumulated 160:17 other comprehensive income. 160:18 So this distinction was saying that 160:19 most of the increase in net worth came from the 160:20 earnings portion of it, from net income, not from 160:21 the change in the balance sheet line item.		
161:21 - 162:05	Its, Fhfa 2020-12-16	00:00:29	TN_01.87
	161:21 Q. Do you recall any discussion about how 161:22 the -- there was this inflection point and the 161:23 companies were starting to see much better 161:24 performance? 161:25 A. I recall that we discussed this. 162:01 So, you know, what we have written 162:02 here in the financial results that they were 162:03 reporting net income driven by lower 162:04 credit-related expenses, that that's -- that we 162:05 talked about that.		
 Clear			
163:01 - 163:02	Its, Fhfa 2020-12-16	00:00:03	TN_01.88
 PX244.1	163:01 Please take a look 163:02 at a document I've marked as Exhibit 19.		
163:15 - 164:20	Its, Fhfa 2020-12-16	00:01:40	TN_01.89
 PX244.1.1	163:15 Q. So apart from the yellow highlighting, 163:16 do you recognize this as an email chain you were 163:17 involved with on or about August 9, 2012 in the 163:18 normal course of your business? 163:19 A. Yes.		

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DESIGNATION	SOURCE	DURATION	ID
 PX244.1.2	163:20 Q. Okay. Looking down below at the email 163:21 from Jeff Horwitz to Stefanie Johnson, who is 163:22 Stefanie Johnson? 163:23 A. So Stefanie Johnson was the officer in 163:24 our -- officer of Congressional affairs and 163:25 communications. 164:01 She was on the communications team, 164:02 the quest team. 164:03 Q. Okay. She writes -- actually, no,		
 PX244.1.3	164:04 Jeff writes to her. It says: 164:05 I'm looking at the F&F 164:06 financial [sic] results relative to the 164:07 most recent FHFA projections (Oct 2011). 164:08 And just stopping there, that is 164:09 right: As of August 9, 2012, the most recent FHFA 164:10 projections would be October 2011. Correct? 164:11 A. That's correct.		
 PX244.1.4	164:12 Q. Okay. And then he writes: 164:13 It looks like the GSEs are 164:14 vastly outperforming even the most 164:15 optimistic outcome listed. 164:16 Would you agree with that assessment? 164:17 A. I would say "vastly" is subjective. 164:18 I would say, you know, the results 164:19 were generally better than the range of scenarios, 164:20 yes.		
 Clear			
193:19 - 194:25	Its, Fhfa 2020-12-16 193:19 Q. Were mortgage delinquency rates 193:20 improving in 2012? 193:21 A. That is a fact that I could just look 193:22 up. 193:23 I mean, I do this by recall, and I may 193:24 end up in the wrong place. 193:25 Certainly, the overall -- for the 194:01 Enterprises, there are serious delinquency rates. 194:02 So the portion of loans that were -- 194:03 that had missed three or more months of payments 194:04 were starting to come down. 194:05 So, you know, they were seeing -- I 194:06 think I said this before, that some of the very	00:01:32	TN_01.90

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DESIGNATION	SOURCE	DURATION	ID
	194:07 delinquent loans were starting to be resolved and 194:08 then they were seeing less inflows to delinquency. 194:09 Because the portfolio that was written 194:10 after 2008 was, you know, fairly high credit 194:11 quality, so those loans were not going delinquent 194:12 very quickly. 194:13 As a general matter, you wouldn't 194:14 expect loans to -- delinquent -- to default 194:15 significantly in the first three years after you 194:16 originate a mortgage. 194:17 So those high credit quality loans 194:18 that were written after 2008, you weren't seeing a 194:19 lot of loans starting to default. 194:20 And the old book, the legacy book of 194:21 delinquent loans was trying to be resolved through 194:22 foreclosures or loan modifications, et cetera. 194:23 So you were seeing a lot of outflows 194:24 from delinquency; and the outflows outpaced the 194:25 inflows, so the delinquency rates were declining.		
196:02 - 196:08	Its, Fhfa 2020-12-16	00:00:20	TN_01.91
	196:02 Q. And I think we looked at this in some 196:03 of the documents; but the later year vintages -- 196:04 you know, after 2008, 2009 -- were better vintages 196:05 for the companies. 196:06 Is that correct? 196:07 A. Yeah. They were better credit quality 196:08 at acquisition, yes.		
197:25 - 198:09	Its, Fhfa 2020-12-16	00:00:23	TN_01.92
	197:25 Q. The general trend was getting better? 198:01 A. I'd have to look at that. 198:02 It could have been flat. 198:03 My point is that the acquisitions in 198:04 2009 and '10 were better credit quality than '-7 198:05 and '-8. 198:06 I don't know that the acquisitions in 198:07 '11 were better than '10, and that the 198:08 acquisitions in '12 were better than '11. I'm not 198:09 sure about that.		
215:06 - 215:16	Its, Fhfa 2020-12-16	00:00:32	TN_01.94
	215:06 Q. I see. So the October 2011		

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DESIGNATION	SOURCE	DURATION	ID
	215:07 projections, am I right in thinking those were		
	215:08 mostly sort of the work product of the financial		
	215:09 results analysis team working with Fannie and		
	215:10 Freddie not the financial modeling people?		
	215:11 A. Well, there were -- so the projections		
	215:12 that were released publicly --		
	215:13 Q. Yeah, that's what I'm asking about.		
	215:14 That's right.		
	215:15 A. Yeah, those -- yes, those were the		
	215:16 financial analysis team, yes.		
219:02 - 220:05	Its, Fhfa 2020-12-16	00:01:32	TN_01.95
	219:02 Q. And the people -- thinking about the		
	219:03 people who worked on that report and then, more		
	219:04 generally, your subordinates and yourself -- I		
	219:05 mean, are you and your group, are they sort of		
	219:06 the -- I guess, FHFA's best experts when it comes		
	219:07 to financial modeling for Fannie and Freddie?		
	219:08 Is there another group somewhere in		
	219:09 the agency that would also be involved in		
	219:10 modeling, or are you kind of the main person and		
	219:11 team on that?		
	219:12 A. So the examination teams had		
	219:13 modeled -- there were model risk examiners.		
	219:14 And the model risk examiners had, you		
	219:15 know, a much more sort of upfront view of the		
	219:16 Enterprises' models. They actually spent time,		
	219:17 you know, reviewing the models.		
	219:18 My team didn't review the Enterprises'		
	219:19 models.		
	219:20 Again, I'm still talking about the --		
	219:21 my financial analysis team. And they're not		
	219:22 economists. They're not credit modelers.		
	219:23 They were financial analysts, you		
	219:24 know, working with the Enterprises, reviewing		
	219:25 earnings and -- you know, earnings and capital,		
	220:01 reviewing financial statement projections.		
	220:02 The Division of Enterprise Regulation		
	220:03 had actual model examiners whose backgrounds were		
	220:04 more similar to my financial modeling team. They		
	220:05 were more, you know, Ph.D. credit modelers.		

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DESIGNATION	SOURCE	DURATION	ID
243:14 - 244:10	Its, Fhfa 2020-12-16	00:01:08	TN_01.96
243:14	Q. And I sometimes hear people talk about		
243:15	a model's sensitivity to a particular variable.		
243:16	Is that a familiar term to you?		
243:17	A. Yes.		
243:18	Q. And if you would, just sort of walk		
243:19	through the different assumptions that are laid		
243:20	out here and tell me how sensitive FHFA's		
243:21	projections were to each of these assumptions.		
243:22	A. So that would be difficult.		
243:23	What I would say is that the house		
243:24	prices -- the projections were very sensitive to		
243:25	house prices, that, you know, even a 1 percent		
244:01	change in the house price path would have -- you		
244:02	know, the impact on the results would be several		
244:03	billions of dollars one way or the other.		
244:04	For the remaining assumptions, I can't		
244:05	tell you what the impact of -- you know, in terms		
244:06	of a dollar figure, what the impact would be.		
244:07	Q. Those assumptions are a lot less		
244:08	important than the housing-price curve.		
244:09	Is that correct?		
244:10	A. That's correct.		
252:04 - 252:09	Its, Fhfa 2020-12-16	00:00:15	TN_01.97
252:04	And I think you said earlier you		
252:05	weren't consulted about the Third Amendment or the		
252:06	net worth sweep before they were adopted.		
252:07	Is that true?		
252:08	A. That is correct. I was not part of		
252:09	that discussion.		
252:15 - 252:16	Its, Fhfa 2020-12-16	00:00:02	TN_01.98
252:15	And what was your reaction when you		
252:16	heard about it?		
252:18 - 253:03	Its, Fhfa 2020-12-16	00:00:36	TN_01.99
252:18	A. You know, I don't remember my initial		
252:19	reaction.		
252:20	I will say that in the period leading		
252:21	up to that we had been putting out these		
252:22	projections where we were, you know, signaling		
252:23	that in some scenarios the Enterprises -- you		

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DESIGNATION	SOURCE	DURATION	ID
252:24	know, that projected Treasury draws, you know,		
252:25	were in part because of that -- of the dividend.		
253:01	And so, you know, I could understand		
253:02	how the net worth sweep, you know, replacing that		
253:03	dividend rate would address that issue.		

Our Designations01:24:59**TOTAL RUN TIME****01:24:59**

Documents linked to video:

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PX197

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