

## **BRIEFING MEMORANDUM FOR UNDER SECRETARY MILLER**

**Event:** Meetings with Freddie Mac and Fannie Mae Management Teams  
**Date/Loc:** Freddie Mac – August 9, 2012 at 11:00 AM, DIP Room  
Fannie Mae – August 9, 2012 at 2:00 PM, DIP Room  
**Press:** Closed  
**From:** Timothy Bowler, Deputy Assistant Secretary for Capital Markets

Attached below are several key questions and areas for discussion we believe you should raise during your meetings with the Fannie Mae and Freddie Mac management teams tomorrow. Both Enterprises also plan to provide you with a status update on their financial position, including the most recent earnings results as well as human capital conditions at the GSEs.

### **KEY QUESTIONS/TOPICS TO DISCUSS**

#### **DISCUSS AT BOTH MEETINGS**

##### **Earnings**

- We should receive an update on the GSEs' near and long-term financial forecasts, including additional forecasted PSPA draws in Q3 and Q4, expectations for future capital reserve takings or reserve releases, and potential increases in the delinquency rates on the GSEs' post-2008 books of business. We would also like to know how quickly they forecast releasing credit reserves and when they expect their reserve balances to stabilize.
- We would like the management teams to explain how each Enterprise utilizes derivatives to hedge their books of business and which holdings are the most volatile.
- We would like to know approximately how much of the reduction in credit losses this past quarter arose from the recent rise in home prices verses other factors. Do they foresee additional credit loss reductions in the third and fourth quarters?
- Both Enterprises recently decreased their debt issuance in the market (Debt outstanding at Fannie decreased 11% YTD; Freddie decreased 13% YTD). We would like to know what feedback they have received from market participants on this change.
- From the first to the second quarter, the overall single-family serious delinquency rates at both Enterprises declined. We would like to know whether they anticipate continued declines in this figure in the third and fourth quarters.

##### **Management and sale of non-performing loans**

- Treasury is supportive of reducing risk on the GSEs' balance sheets and finding ways to transfer servicing of NPLs from poorer performing servicers to special servicers as well as potentially executing outright sales. We would like to know what hurdles they see as that may prevent this effort from moving forward.

### **Single securitization platform & single security effort**

- We would like a general update on how discussions are proceeding with FHFA and how Treasury can help to move the single securitization platform initiative forward.

### **DISCUSS WITH FREDDIE MAC ONLY**

#### **Credit risk syndication**

- FHFA is preparing directives to the GSEs regarding a data release and transaction that will likely take place in Q4. Freddie expressed concern this initiative will not be profitable in the near term and may cost taxpayers money. They also expressed concern with releasing loan level information to the market.
- Treasury fully supports FHFA's credit risk syndication efforts and the release of adequate loan level information. We believe releasing this information is not only helpful for GSE risk syndication, but also for helping restart the private securitization markets. We also believe credit risk syndication efforts should be programmatic and not a single one-off transaction (Freddie Mac would like to start with one and may not commit to more).
- We would like to see whether Freddie would be able to move forward with an August announcement of the program initiative and loan level data release so that a pilot transaction can be completed in Q4.

#### **REO-to-rental financing**

- FHFA recently denied Freddie Mac's request to develop a debt guarantee pilot program to support scattered-site single family rental investment and long-term management. We would like to know how they plan to respond to FHFA's decision.

#### **Human capital concerns**

- We would like to know what the plans are for staff retention, new hiring and the progress of rebuilding the broader team at Freddie Mac.
- Freddie also recently announced a series of structural/personnel changes to their various lines of business. We would like to know how they believe this will improve efficiencies at the Enterprise and if Treasury should be aware of any further management changes that may occur in the near future.

### **DISCUSS WITH FANNIE MAE ONLY**

#### **Earnings**

- The number of loan modifications and repayment plans/forbearances at Fannie decreased substantially this past quarter. We would like to know the main reason for this decline.

#### **Future REO-to-rental efforts**

- We would like to get an update on Fannie Mae's plans for additional bulk REO sales.

## **FREDDIE MAC MEETING PARTICIPANTS**

*Donald Layton* - chief executive officer

*Ross Jay Kari* - chief financial officer

*Jerry Weiss* - executive vice president and chief administrative officer

*Edward Golding* - senior vice president of the models, mission & research division

*Devajyoti Ghose* - senior vice president of investments & capital markets division

*Paul Mullings* - senior vice president and interim head of single-family business, operations, and information technology

## **FREDDIE MAC BIOGRAPHIES**

**Donald Layton** is **chief executive officer** of Freddie Mac. Layton has over 35 years of experience in financial services and as a corporate leader. He worked for nearly 30 years at JPMorgan Chase and its predecessors, starting as a trainee and rising to vice chairman and member of the three-person Office of the Chairman, retiring in 2004. More recently, from 2007 to 2009 he served as chairman and then CEO of E\*TRADE Financial, which he shepherded through the financial crisis. Layton received simultaneous Bachelor and Master of Science degrees in economics from the Massachusetts Institute of Technology and a Master of Business Administration from Harvard Business School.

**Ross Jay Kari** was named **chief financial officer** of Freddie Mac in September 2009. In this position, he is responsible for the company's financial controls, accounting, investor relations, financial planning and reporting, tax, capital oversight, and compliance with the requirements of Sarbanes-Oxley. Additionally, he oversees the Investment and Capital Markets division and management of Freddie Mac's mortgage investment activities. Kari is a member of the company's management committee and reports directly to Chief Executive Officer Don Layton. Previously, Kari served as chief financial officer of Fifth Third Bancorp in Cincinnati, Ohio. From 2002 to 2006, Kari served as executive vice president and chief operating officer for another housing government-sponsored enterprise, the Federal Home Loan Bank of San Francisco. Kari spent a large portion of his career at Wells Fargo from 1983 to 2001, during which time he rose from senior financial analyst to executive vice president and chief financial officer. Kari received a Bachelor of Science degree in Mathematics and earned his MBA in Finance, both from the University of Oregon.

**Jerry Weiss** was named **executive vice president and chief administrative officer** in July 2010. Weiss manages the services and operations of Freddie Mac's Strategy; External Relations, including Government and Industry Relations, Public Relations and Corporate Marketing, Corporate Relations and Housing Outreach, and Internal Communications; Human Resources; and Models, Mission and Research organizations. Weiss has overall responsibility for managing the company's regulatory affairs and strategies and he serves as the company's senior executive liaison to the Federal Housing Finance Agency and the U.S. Department of the Treasury. Prior to Freddie Mac, Weiss was most recently first vice president and Global Head of Compliance at Merrill Lynch Investment Managers (MLIM) from 1990 to 2003. From 1982 to 1990, Weiss was

with a national law practice in Washington, D.C., where he specialized in securities regulation, investment management, and corporate finance matters. Weiss graduated Phi Beta Kappa from the State University of New York at Binghamton with a B.A. in political science and earned his law degree from The George Washington University.

**Edward Golding** was named **senior vice president of the Models, Mission & Research Division** in September 2010. In this role, Golding is responsible for developing and implementing mortgage models that support business decisions, risk management and the financial statements. He also oversees the Office of the Chief Economist and the Mission and Strategy Division. Prior to that, in February 2007, Golding was named senior vice president of Equity Investor Relations, and later expanded to include Debt Investor Relations. In that position, Golding was responsible for communications of financial results to investors and Wall Street analysts. Golding joined Freddie Mac in 1989 as senior economist and has held various senior roles dealing with capital management, corporate strategy and economic analysis. Golding holds a Ph.D. in economics from Princeton University and an A.B. in Applied mathematics from Harvard College.

**Devajyoti (Doc) Ghose** is the **senior vice president of Freddie Mac's Investments & Capital Markets division** and the company's Treasurer. In this position, he is responsible for managing all of Freddie Mac's mortgage investment activities for the mortgage-related investments portfolio as well as the company's short- and long-term debt issuance. Previously, Ghose served in various senior positions at Freddie Mac in which he was responsible for managing the company's debt portfolio and the non-mortgage investments portfolio; maintaining the company's liquidity position; evaluating the risks and returns of Freddie Mac's guarantee fee business; developing hedging strategies for Freddie Mac's investment portfolio; and developing valuation models for various fixed income securities including mortgage-related products, debentures and interest-rate derivatives. Ghose holds a Ph.D. in econometrics from the University of California San Diego, a Masters degree in Economics from the Delhi School of Economics and a Bachelor's degree in Economics from St. Stephens College, Delhi.

**Paul Mullings** is **senior vice president and interim head of Single-Family Business, Operations, and Information Technology** at Freddie Mac. In this capacity, Mullings has broad responsibilities over the Single-Family line of business, including the administration, relationship and performance management of Freddie Mac Seller/Servicers; performance of Freddie Mac's guarantee book of business; and all sourcing, servicing and business operations. In addition, he is responsible for enterprise technology and the management of this vital corporate asset for all of Freddie Mac through support, project management and technological services. Mullings joined Freddie Mac in 2005 from JP Morgan Chase where he was senior vice president, manager Mortgage Finance, and Fair Lending executive at Chase Home Finance. Mullings is a Graduate of The Institute of Accounting Staff, London, England.

## **FANNIE MAE MEETING PARTICIPANTS**

*Timothy Mayopoulos* – president and chief executive officer

*Terry Edwards* – executive vice president - credit portfolio management

*David Benson* – executive vice president - capital markets

*Susan McFarland* – executive vice president and chief financial officer

## **FANNIE MAE BIOGRAPHIES**

**Timothy Mayopoulos** is Fannie Mae's **President and Chief Executive Officer**, and a member of the company's Board of Directors. As President and CEO, Mr. Mayopoulos is focused on ensuring that the company continues to manage its legacy issues effectively, while driving the company's contributions to creating a better housing finance system for the future. Under his leadership, Fannie Mae will continue to play an essential role in funding the market, assisting troubled homeowners, strengthening communities and repaying taxpayers' investment in the company.

Mr. Mayopoulos brings more than 25 years of experience to his new leadership post. He joined Fannie Mae in April 2009 as executive vice president, general counsel and corporate secretary and was appointed chief administrative officer in 2010. Since joining the company's executive management team, Mr. Mayopoulos has managed critical functions at the company, including its human capital strategy, communications and marketing, government and industry relations and the legal function. He has also provided leadership and oversight of the company's long-term strategy to drive operating excellence and strategic initiatives to improve the company and housing finance industry.

Prior to joining Fannie Mae, Mr. Mayopoulos was executive vice president and general counsel of Bank of America Corporation. Previously, he served in senior management roles at Deutsche Bank AG, Credit Suisse First Boston and Donaldson, Lufkin & Jenrette, Inc. Earlier in his career, Mayopoulos was in private practice. He is a graduate of Cornell University and the New York University School of Law.

**Terry Edwards** is Fannie Mae's **Executive Vice President - Credit Portfolio Management**. Reporting to the President and Chief Executive Officer, he has responsibility for Fannie Mae's foreclosure prevention and loss mitigation activities for its single-family book of business. In this capacity, Mr. Edwards leads the company's National Servicing Organization, its National Property Disposition Center, and its National Underwriting Center. His duties include executing the Making Home Affordable program, managing our Real Estate Owned (REO) and loss mitigation activities, ensuring collection and preservation of credit enhancements, as well as overseeing and managing our servicing guidelines and policies.

Mr. Edwards is former President and CEO of PHH Corporation, where he served for nearly three decades and in a variety of executive roles, including as President and CEO of PHH Mortgage, one of the nation's top ten mortgage servicers. Mr. Edwards holds a Master's degree from Loyola College and received his undergraduate degree from Iona College.

**David Benson** is Fannie Mae's **Executive Vice President - Capital Markets**. Reporting to the President and Chief Executive Officer, he is responsible for the company's balance sheet management, trading, and securitization activities serving both the single- family and multi-family mortgage markets. Mr. Benson is chairman of the Asset-Liability Committee and is responsible for managing the firm's interest rate, funding, and liquidity risks. He plays a leading role in managing our relationships with the fixed income and mortgage industry including institutional investors, financial institutions, government officials, and regulatory agencies. Previously, Mr. Benson was Senior Vice President and Treasurer responsible for the company's debt issuance, liability management, and liquidity management activities.

Prior to joining Fannie Mae in 2002, Mr. Benson was a managing director within the fixed-income division of Merrill Lynch & Co. For more than 14 years he held leadership positions in risk management, fixed-income and currency trading, debt syndication, and e-commerce based in New York and London.

Mr. Benson has a master of business administration from Stanford Business School, a doctor of medicine from Harvard Medical School, and a bachelor of science in psychobiology, summa cum laude, from the University of California, Los Angeles.

**Susan McFarland** is Fannie Mae's **Executive Vice President and Chief Financial Officer**, reporting to the Chief Executive Officer. She is responsible for financial management across the enterprise, including financial reporting and accounting, and for ensuring the highest standards of financial integrity. Ms. McFarland leads financial planning and analysis including resource allocation, modeling and analytics, the controller's office, strategic analytics & transformation, procurement, and economic and strategic research. She also plays a leading role in managing Fannie Mae's relationships with government and regulatory entities along with other financial services relationships.

Ms. McFarland has more than 25 years of experience in consumer and retail financial services. She joined Fannie Mae in July 2011 bringing with her a strong background in accounting, controls, operating finance, and IT financial systems.

Prior to joining Fannie Mae, Ms. McFarland was with Capital One Financial Corporation since 2002 where she led a 500-person team responsible for accounting, tax, procurement, and planning and helped transform a mono-line credit card company into a diversified financial services corporation. Ms. McFarland also served as Executive Vice President, Finance and Principal Accounting Officer and Executive Vice President and Corporate Controller – Capital

One Financial Corporation; Chief Financial Officer – Capital One Bank; and Chief Financial Officer – Infrastructure Finance.

Before joining Capital One, Ms. McFarland was with Bank One Corporation for more than 15 years serving as CFO for a variety of groups and divisions, including the retail bank. During her tenure at Bank One, she was instrumental in developing and implementing profit and loss statements for 1,800 banking centers including Web-based reporting and information tools. She began her career as a senior auditor at Deloitte & Touche.

Ms. McFarland has a bachelor of business administration in accounting from Texas A&M University and is a graduate of the Stanford University executive program.

**Clearance Sheet**

Event: Meetings with Freddie Mac and Fannie Mae Management

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