

FAIRHOLME FUNDS, INC.

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FAIRHOLME FUNDS, INC.

Miami, FL April 13, 2016

DE-DESIGNATION OF GSE DOCUMENTS

On Monday, Judge Margaret Sweeney in the U.S. Court of Federal Claims unsealed seven documents (obtained through discovery in Fairholme Funds, Inc., et. al. v. United States, Case No. 13-465C) that shed light on the unlawful actions of the Federal Housing Finance Agency ("FHFA") and the United States Treasury ("Treasury") in expropriating the assets of Fannie Mae and Freddie Mac. Collectively, these documents provide clear and convincing evidence that FHFA and Treasury brazenly violated the law when they decided to seize all of the capital from Fannie and Freddie.

Bruce R. Berkowitz, Founder and Chief Investment Officer of Fairholme Capital Management, stated: "The release of these seven documents is just the tip of the iceberg. The American people deserve to see the tens of thousands of documents hidden for no good reason by the defendants. We expect to see them – and as these documents demonstrate, they will prove our case."

Mutual fund investing involves risk including the possible loss of principal.

The Funds' investment objectives, risks, charges, and expenses should be considered carefully before investing. The <u>prospectus</u> contains this and other important information about the Funds, and it may be obtained by calling Shareholder Services at 1-866-202-2263 or visiting our website <u>nnw.fairholmefunds.com</u>. Read it carefully before investing.

Fairholme Distributors, LLC (4/16)

EXHIBIT C

1 IN THE UNITED STATES COURT OF FEDERAL CLAIMS NO. 13-465 C (FILED FEBRUARY 26, 2014) -----x FAIRHOLME FUNDS, INC., ET AL VS. RCFC 12(b); RCFC 12(b)(6); RCFC 56(d)THE UNITED STATES -----x PROTECTED INFORMATION ONLY TO BE DISCLOSED IN ACCORDANCE WITH PROTECTIVE ORDER ORAL DEPOSITION OF MS. SUSAN MCFARLAND HOUSTON, TEXAS JULY 15TH, 2015 10:01 A.M. Reported By: SAMANTHA DOWNING, CSR JOB NO. 39652

	38		40
1	at the risk-free rate of debt, but then they would layer	1	that crazy or volatile. In other words, you could kind
2	on top of that some risk premium for credit risk?	2	of almost trendline out the correlations that existed in
3	MR. LAUFGRABEN: Objection; form,	3	the recent past to continue to exist on a go-forward
4	foundation.	4	basis.
5	A. I would say my experience not just at	5	Q. (BY MR. THOMPSON) Now, if you're we're
6	Fannie but over the course of career with financial	6	looking at the cost of funding for Fannie Mae, is one of
7	services, that's a normal construct for providers of	7	the variables is it true to say that all other things
8	funds, to to come up with a price point	8	being equal, if Fannie had more capital, it would pay
9	Q. (BY MR. THOMPSON) Yes.	9	less in funding than if it had less capital?
10	A that they would be willing to provide those	10	MR. LAUFGRABEN: Objection; calls for
11	funds.	11	speculation, calls for an expert opinion.
12	Q. Yeah. And I am trying to figure out how they	12	A. Capital exists for unexpected losses. Your
13	would come up with that price point.	13	expected losses should be reserved for and already
14	They would look at interest rate risk,	14	reflected in your financials.
15	among others things, right?	15	If someone is building up a price point,
16	MR. LAUFGRABEN: Objection.	16	taking a risk-free rate and then building onto something
17	A. I can't sit here and tell you what each entity	17	for risks, one would then assess what the capacity that
18	specifically did.	18	the entity has to absorb those risks. Capital could be
19	But I think if you look academically at,	19	one place a company could absorb some of those risks.
20	you know, the buildup of rates, you're looking at a	20	So it would not it would make sense to
21	risk-free rate and then building something on for risk.	21	me that entities would look at capital levels in
22	And then you can make your list of what risks you think	22	consideration, as one factor in determining a company's
23	you need to build into the price and how much price you	23	capacity to absorb risks, and that could influence their
24	think you need to build for each of those types of	24	pricing.
25	risks.	25	Q. (BY MR. THOMPSON) Okay. And in trying to
	39		41
1	But, you know, on an individual	1	operate Fannie's financials on a sound basis, do you
2	entity-be-entity basis, you would have to ask them how	2	think it was desirable for Fannie to have capital?
3	they built their rate structure.	3	MR. LAUFGRABEN: Objection; calls for
4	Q. (BY MR. THOMPSON) And that's fair enough.	4	speculation.
5	I was trying to get inside Fannie's head,	5	A. I believe that if you're going to operate the
6	when they're doing projections into the future and	6	enterprise ongoing that it should have capacity to
7	trying to think about, "What is our funding expense	7	absorb risks, and unexpected losses and capital is the
8	going to be?"	8	most would be the my preferred form of risk
9	Did you-all try to build that expense in	9	absorption. Because really, quite you know, to me,
10	the same way where you made an estimate of, "Here's what		Fannie had two places: Either you build capital inside
11	we think the risk-free rates will be, and here's what we	11	the enterprise, and/or you continue to rely on the
12	think our funding sources will require as a risk of	12	U.S. Government as the full backstop for the
13	premium"?	13	enterprise
14	MR. LAUFGRABEN: Object to the form of	14	Q. (BY MR. THOMPSON) Was there
15 16	the question.	15	A to step in.
	MR. BARTOLOMUCCI: Objection; form.	16	Q. Was there any discussion about going to the
17	A. We there's a lot of history that exists, and	17	private market once Fannie had returned to profitability
18	so there was a lot of the more the funding	18	in 2012 and raising capital there?
19 20	markets, by the time I was there, were performing fairly effectively with one exception. When the debt ceiling	19	MR. LAUFGRABEN: Object to the form of the question
		20	the question.
21	debates occurred, and there were challenges with the	21	A. There was no discussions about, you know,
22 23	debt ceilings, we saw some interesting things go on	22	raising capital in the marketplace at Fannie Mae in the
23 24	within the debt markets for short periods of time around	23	time that I was there, you know, like the theoretical
	those debates.	24	potential to do that in time, yes. But there was no
25	Outside of that, it the pricing wasn't	25	discussions of, "Gee. We're starting to make money.

11 (Pages 38 to 41)

	42		44
1	Should we go and do a stock offering?"	1	December 2010. You weren't there.
2	No.	2	A. Correct.
3	Q. Okay. And do you know why there weren't such	3	Q. But when you did arrive in the middle of 2011,
4	discussions?	4	did you see any manifestations of the administration's
5	A. I think two reasons in my opinion. This is	5	commitment to ensure existing common equity holders
6	strictly my opinion.	6	would not have access to any positive earnings from
7	One, it was probably premature. I think	7	Fannie?
8	Fannie, in the would need to have returned to you	8	MR. LAUFGRABEN: Object to the form of
9	know, they would have had to have more periods of	9	the question; lack of foundation.
10	profitability before the marketplace would probably have	10	A. The only example that I that comes to mind
11	entertained before we could expect a stock offering	11	of note is the Third Amendment.
12	to be successful.	12	Q. (BY MR. THOMPSON) Yeah.
13	Two, we didn't legally have the ability	13	And what was your reaction when you
14	to do that on our own. That would have to be the	14	learned you learned of a Third Amendment a couple of
15	Treasury, and FHFA would have had to have agreed to	15	days beforehand; is that right?
16	that.	16	A. Correct.
17	Q. Yes.	17	Q. All right. And what was your reaction to it?
18	A. And it was pretty clear to me at that point in	18	MR. LAUFGRABEN: Objection; vague.
19	time that that was not going to be something they would	19	Q. (BY MR. THOMPSON) Did you think it was the
20	have been receptive to.	20	effective nationalization of the companies?
21	Q. Understood.	21	MR. LAUFGRABEN: Objection; form.
22	Okay. So, Ms. McFarland, I am going to	22	MR. BARTOLOMUCCI: Objection; form.
23	be showing you some documents today, and you're free to	23	A. No, I didn't view it as nationalizing. It
24	sort of flip through them. But I will be generally	24	borders on that; I can see.
25	directing your attention to a specific passage.	25	But I had, shortly before that, had
	43		45
1	In this first one, I would like to have	1	a meeting with Treasury whereby we reviewed our
2	the court reporter mark as McFarland 1, and it has a	2	forecasts. I had expressed a view that I believed we
3	Bates number of Treasury 0201.	3	were now in a sustainable profitability, that we would
4	(McFarland Exhibit No. 1 was marked.)	4	be able to deliver sustainable profits over time. I
5	MR. LAUFGRABEN: We object to this	5	even mentioned the possibility that it could get to a
6	document from December 20th, 2010. It's well before the	6	point in the not-so-distant future where the factors
7	beginning of the discovery time period set forth in the	7	might exist whereby the allowance on the
8	Court's order.	8	deferred tax asset would be released. We were not there
9	MR. THOMPSON: Yes. And I understand	9	yet, but, you know, you could see positive things
10	that, and I am going to be asking questions about the	10	occurring.
11	time period that is within the Government's	11	So when the amendment went into place,
12	understanding of the Discovery Order.	12	part of my reaction was they did that in response to my
13	Q. (BY MR. THOMPSON) But I would this is, as	13	communication of our forecasts and the implication of
14	Counsel quite rightly notes, a memo from	14	those forecasts, that it was probably a desire not to
15	December 20, 2010. It's from a Jeffrey Goldstein. The	15	allow capital to build up within the enterprises and not
16	subject is, "Periodic Commitment Fee for GSE Preferred	16	to allow the enterprises to recapitalize themselves.
17	Stock Purchase Agreements."	17	Q. (BY MR. THOMPSON) And with whom at Treasury do
18	Ms. McFarland, I would like to direct	18	you have this meeting?
1		19	A. So the which meeting?
19	your attention to the second page. And under the	1-2	
19 20	your attention to the second page. And under the heading, "Reasons to Set the PCF," there's a bullet	20	Q. The one you just referenced where
			Q. The one you just referenced whereA. Where I had the discussion about the forecasts?
20	heading, "Reasons to Set the PCF," there's a bullet	20	
20 21	heading, "Reasons to Set the PCF," there's a bullet point that says, "Makes clear the administration's	20 21	A. Where I had the discussion about the forecasts?
20 21 22	heading, "Reasons to Set the PCF," there's a bullet point that says, "Makes clear the administration's commitment to ensure existing common equity holders will	20 21 22	A. Where I had the discussion about the forecasts?Q. Yes.

12 (Pages 42 to 45)

	46		48
1	you know, our updated forecast.	1	there were at least five or six Treasury officials at
2	And that meeting I don't remember	2	this meeting?
3	every specific person in the meeting. I was there;	3	A. Probably, yes.
4	Tim Mayopoulos, who was the CEO of Fannie Mae was there;	4	Q. Okay. And did the meeting take place at
5	Dave Benson I think would have been there. He he was	5	Treasury?
6	the Treasurer of Fannie Mae at the time. That would	6	A. Yes, it did.
7	have been normal for him to be in attendance. Mary	7	Q. And was this within less than a month before
8	Miller, the Secretary of the Treasury, was there.	8	the net worth sweep?
9	Tim	9	A. I believe it was the week before.
10	Q. Bowler?	10	Q. Okay.
11	A. Thank you.	11	A. It was very it was within the week or two.
12	I believe he was there. He was normally	12	It was very close to.
13	at those meetings.	13	Q. Would it surprise you to know that there's an
14	I believe there was a gentleman and I	14	e-mail from Tim Bowler where he's saying, "We need to
15	can't remember his name who used to work at Fannie	15	make a renewed push on the net worth sweep"?
16	that was now at Treasury that was, like, a	16	MR. LAUFGRABEN: Objection; form, lack of
17	Financial Analyst. I think he was there because they	17	foundation.
18	knew part of the topic we wanted to talk about was these	18	MR. BARTOLOMUCCI: Objection.
19	projections.	19	A. I don't have knowledge of that e-mail.
20	And then there were probably other	20	Q. (BY MR. THOMPSON) Okay. And was this
21	members of excuse me FHFA, the U.S. Treasury, and	21	meeting I am sorry if I asked this.
22	Fannie Mae to talk about some other topics that were	22	Was it at Treasury?
23	going to be covered in that meeting. Because normally	23	A. Yes.
24	we reviewed financials, but they were you know, there	24	Q. And would this how would this have been set
25	may be one, two, or three other topics that would be	25	up?
	47		49
1	discussed.	1	A. Normally Dave Benson was our primary sort of
2	And both Fannie and Treasury would then	2	liaison between the company and Treasury. And these
3	make sure they had the the personnel around the table	3	meetings were generally scheduled the day you know,
4	to facilitate those conversations. I don't remember in	4	because they were we had the regular kind of
5	this particular meeting what those topics were and who	5	quarterly meetings, and there might be some other
6	those individuals were.	6	meetings of; you know, specific topics that would occur
7	Q. Do you remember Jeff Foster being at the	7	in between those other meetings.
8	meeting?	8	I don't know I can't recollect
9	A. He could have been.	9	exactly, you know, whether we would initiate setting it
10	MR. LAUFGRABEN: Objection.	10	up, or Treasury would initiate setting it up. I don't
11	A. He could have been. I can't confirm yes or	11	know how the logistics all worked out.
12	not.	12	Q. And when you were making your presentation, did
13	Q. (BY MR. THOMPSON) Yes.	13	you have a PowerPoint that you were using?
14	A. It wouldn't surprise me if he was. That would	14	A. A few pages, yes, from a PowerPoint.
15	have been reasonable.	15	MR. THOMPSON: Okay. I don't believe,
16	Q. And Mario Ugoletti; was he at the meeting?	16	Mr. Bartolomucci and I apologize if I am wrong about
17	Do you know?	17	this, but I don't believe we have that PowerPoint
18	A. No, I don't remember Mario being there, you	18	presentation.
19	know, again, because I don't have perfect recollection	19	So I would ask if you would be kind
20	of all the attendees.	20	enough to go back and talk to your client and see if
21	If you said, "Here's this document.	21	they did produce it? And if they didn't produce it,
22	Mario was there," I would say, "Okay. He was there."	22	whether they have it, because it's our view that it's
23	I don't remember him being there, but he	23	highly material to these depositions?
24	could have been there.	24	MR. BARTOLOMUCCI: Request noted.
25	Q. Okay. And so would it be fair to say that	25	MR. THOMPSON: Likewise, I would make the

13 (Pages 46 to 49)

DAVID FELDMAN WORLDWIDE, INC. 450 Seventh Avenue - Ste 500, New York, NY 10123 1.800.642.1099

 some request to the Government, that to the extent the Government has a copy of this document, I don't believe albeit not quite as formal, we had a process. My team would meet with me to review the forecasts, they would tris to ene that I have seen. T would just request if you could ask your client, Treasury, whether free have the document, asserted, which I can't imagine since Fannie was there. Will you take hat back to your client? MR, THOMPSON: Thank you. I appreciate davisement. G. (BY MR, THOMPSON: Thank you. I appreciate internal - so you had a 'DoverPoint presentation you used at the meeting. G. (BY MR, THOMPSON) Okay. And did you have: internal - so you had a 'DoverPoint presentation that, a variety of metocast. Sin ergs of the forecast. Sin ergs of the forecast in the sec. (BY MR, THOMPSON) Okay. And did you have: internal - so you had a 'DoverPoint presentation you used at the meeting. Did you have also have any internal documentation that vas provided to you in preparation of that lock at o boot of the forecast. So - and that a yater of the standard process in greaping A as well as approve the forecast. So - and that you chank, there's a lot of documentation that a stare arise of meeting? Q. Okay. A. Well, in the normal course of preparing our A. Well, in the normal course of preparing our actual stand process for preparing our A. Well, in the normal course of preparing our A. Well, in the normal course of preparing our A. Well, in the normal course of preparing our A. Well, in the normal course of preparing our A. Well, in the normal cou		50		52
2 absci not quite as formal, we had a process. My team 3 it's been produced to us. Again, I apologize if I am 3 would meet with me to review the forecasts, they would 5 it's not one that have seen. 3 would just request if you could ask 4 7 your client, Treasury, whether they have the document, 7 We could look at a lot of different 8 whether it's been produced, whether privilege has been 8 things. We could look at a sensitivity analyses, 10 Will you take that back to your client? 10 things like that, a variety of mechanisms form to get 11 MR. THOMPSON: Thank you. 1 appreciate 10 of what our most current perspectives were on 12 A. Well, in the sense that I was reviewing actual 10 of what our most current perspectives were on 13 Did you have also have any internal 16 discussions with Treasury. I don't recollect 14 think. 12 Q. Okay. 12 A. Well, in the sense that I was reviewing actual 13 15 Q. Okay. 14 utimately sign of on the financials and sign of on 24 You know, itawas the PowerPoint <td< td=""><td>1</td><td></td><td>1</td><td></td></td<>	1		1	
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14books, reviewing the results, and preparing the 10-Qs.14A. No one on my team was present. In other words,15And so the information contained in the15nobody from the Finance Team was present at the meeting16PowerPoint from the actual results are ultimately pulled16other than me.17from they're basically summarizations, very17Q. Okay.18high-level summarizations of results that come from that18A. I I don't recollect there wasn't as19standard process that exists to, you know, approve our19far as I know, there was no official note-taking.20actuals.20That doesn't mean that people at the21So it wasn't like I needed a separate21table might be taking or jotting down personal notes.22briefing book for that. I already had that information22Q. Okay. And I just was wanted to know if you23available to me in the normal course of my job and23had a recollection as to whether typically one24responsibilities to, you know, close the books, and sign24participant from Fannie would try to take notes down as				
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 available to me in the normal course of my job and responsibilities to, you know, close the books, and sign had a recollection as to whether typically one participant from Fannie would try to take notes down as 	21	So it wasn't like I needed a separate	21	table might be taking or jotting down personal notes.
responsibilities to, you know, close the books, and sign 24 participant from Fannie would try to take notes down as	22	briefing book for that. I already had that information	22	Q. Okay. And I just was wanted to know if you
I , , , , , , , , , , , , , , , , , , ,	23	available to me in the normal course of my job and	23	had a recollection as to whether typically one
25off on the results and file our Q.25to what was said.	24	responsibilities to, you know, close the books, and sign	24	participant from Fannie would try to take notes down as
	25	off on the results and file our Q.	25	to what was said.

14 (Pages 50 to 53)

	54		56
1	A. Not that I was aware of, no.	1	that takes place in that cycle.
2	Q. Okay. Was anyone from FHFA at this meeting?	2	Q. Just so the record is clear, when you say,
3	A. I don't recollect. I don't remember.	3	"prior to that," what period would that have been?
4	Q. Okay. And you said there was an Analyst who	4	A. Well, it would have been probably I would
5	had been at FHFA and	5	suspect it was something that occurred in July would
6	A. No, had been at Fannie	6	be my because of the timing.
7	Q. Sorry.	7	You know, you're closing the books for
8	A and had gone to work for the U.S. Treasury.	8	the second quarter. We're prepping for the upcoming
9	O. Mr. Goldstein?	9	Board meetings, getting the forecasts done, letting the
10	A. Yes. Thank you.	10	team know when the results are coming out for the
11	Q. Okay.	11	quarter, all of those kinds of conversations that would
12	A. Thank you. Yes.	12	happen internal at Fannie Mae before we would ever have
13	Q. Allen Goldstein?	13	that conversation with Treasury.
14	A. I said that if you refresh my memory on the	14	Q. Okay. And I am sorry I interrupted you.
15	name, I could confirm it.	15	You described these
16	Yes, it was Allen.	16	A. And then with the we also provide so we
17	Q. And he was there at the meeting?	17	cannot file our Q unless DeMarco gave us permission to
18	A. I believe he was at the meeting.	18	file the Q.
19	Q. Okay. Very good.	19	So drafts of our filings were also
20	Did you ever have any similar type of	20	provided to FHFA first. They had the opportunity to
21	conversation with anyone at the FHFA about the	21	provide feedback, and then we could incorporate that
22	deferred tax asset prior to the Third Amendment?	22	feedback and then got approval for the final filings.
23	A. Yes.	23	We also had a press release that would go
24	Q. Okay. And tell me about that meeting.	24	along with when we filed a Q, we would go out with a
25	A. Well	25	press release. There is where you might see a little
	55		57
1	MR. LAUFGRABEN: Object to the form of	1	more color.
2	the question; vague.	2	There would normally be a quote for the
3	A. I don't so just as we you know, we had a	3	CEO like Tim and a quote from me, and we would also kind
4	formal quarterly sit-down with Treasury. We had more	4	of preclear that press release with FHFA before issuing
5	regular interactions with individuals at FHFA. So one	5	the press release.
6	either Jeff Spohn and/or Brad Martin would attend our	6	As far as I believe during 2012, I
7	Executive Committee meetings.	7	began to signal there began to be some public
8	And so generally anything I was going to	8	communication as to our view that things were starting
9	say at Treasury, I was already telling the	9	to look good and starting to head in a positive
10	Executive Committee, and Brad or Jeff would have been	10	direction.
11	present at those meetings.	11	I would have to refresh my memory through
12	And as such, my reviews of actuals and	12	documents as to the timing of what I said and when. But
13	forecasts and even the the raising of the	13	I know through the course of early 2012 and then
14	potential that that allowance might be reversed in the	14	throughout that summer, the messaging was getting a bit
15	not-so-distant future I would have mentioned at an	15	more and more positive that we were sending out. And
16	C C	16 17	certainly FHFA was aware of our communications, our
17	have been present to hear that.		external communications in that regard.
18 19	Q. (BY MR. THOMPSON) And just to be clear on that that would have been within a month of the	18 19	As far as the deferred tax asset, I I don't recollect that we had some big formal meeting to
20	that, that would have been within a month of the Third Amendment?	20	break the news to them, okay? I believe that it was
20	A. It would have been prior to that	21	just something that we talked about in the normal course
<u> </u>	-	22	of keeping them informed about kind of what we're
22	O Ves	ت م م	or keeping them informed about Kind of what we re
22 23	Q. Yes. A because it's all part of the discussions we	23	seeing.
23	A because it's all part of the discussions we	23 24	seeing. And also, Jeff Spohn and/or Brad Martin
		23 24 25	seeing. And also, Jeff Spohn and/or Brad Martin would attend our Board meetings, so they would also

15 (Pages 54 to 57)

	58		60
1	hear that the same comments I was making to Treasury, I	1	50-billion-dollar range and probably sometime mid 2013
2	was making to the Board.	2	at that time when I met with them late July, early
3	Q. Okay. In the same timetable?	3	August 2012.
4	A. I don't remember exactly when the Board	4	But I said we had not done a real
5	meetings were within that window, but it would have been	5	in-depth analysis, so I was just kind of giving her kind
6	Board meetings shortly before that that I would have	6	of my off-the-cuff perspective in the moment.
7	reviewed this very same information.	7	Q. And FHFA was on notice that you had sent this
8	Q. Okay. And when you say that you would have had	8	message to Treasury?
9	dialogue with people at FHFA about the deferred tax	9	A. Yes.
10	assets, with who would you have had the dialogue?	10	MR. LAUFGRABEN: Object to the form of
11	Would that have been Mario Ugoletti?	11	the question.
12	MR. LAUFGRABEN: Object to the form of	12	A. Yes.
13	the question; vagueness as to time period.	13	Q. (BY MR. THOMPSON) And they were on notice of
14	A. Yeah.	14	that fact before the Third Amendment; is that right?
15	So early on, it's probably through the	15	MR. LAUFGRABEN: Same objection.
16	Chief Accountant's office of the FHFA, because it is a	16	A. Yes.
17	technical accounting matter.	17	Q. (BY MR. THOMPSON) Okay. Now, if we look
18	Q. And do you happen to recall	18	for let's look at some of these Board minutes, and
19	A. I can pick him out of a lineup.	19	we've actually we've been going well, that's fine.
20	Q. Okay. We'll show you some names later on.	20	Does do you need a break, or
20	A. I tell you, I ask me a number, I can	21	A. I am fine right now.
22	robably give it to you. People's names	22	-
22		23	Q. Okay. A. I am fine right now. If I need water, then I
23 24	It would have started there. Eventually	24	will need a break.
24 25	there were conversations with Director DeMarco and key	25	
20	direct reports of his, but that the those the	25	Q. Okay. Very good.
	59		61
1	DeMarco conversations occurred when we were actually in	1	Okay. So we're going to have the
2	the serious mode of potentially we were looking	2	court reporter mark as McFarland 2 a document that bears
3	we did a full analysis at the end of the second quarter;	3	the Bates number FM3153 through 3159.
4	no release. We did a full analysis at the end of the	4	(McFarland Exhibit No. 2 was marked.)
5	third quarter; no release.	5	Q. (BY MR. THOMPSON) And if we look, these are
б	When we were doing the analysis for the	6	minutes of the meeting of the Board of Directors from
7	fourth quarter of 2012, we started to get to a point	7	August 22, 2011. And if we look at the last sentence of
8	where we were tipping towards release, and that's when I	8	the second paragraph, it indicates Jeff Spohn from the
9	began to have conversations with more senior folks at	9	Federal Housing Finance Agency also participated.
10	FHFA on it. But they were already aware of the	10	Is this a piece of what you were saying
11	statement that I made to Treasury. I mean, in general,	11	earlier, that typically there was an FHFA member at your
12	I put it on people's radar screens that it's something	12	Board meetings?
13	that could happen in the not-so-distant future.	13	A. Yes.
14	I will say that I believe Mary Miller	14	Q. Okay. And if we turn to page 4 of this
		15	document, there's a heading that says, "Bank of America
15	asked me in this meeting about how large would it be and		
16	did I have any idea of when.	16	Countrywide and Bank of New York Mellon Proposed
16 17	did I have any idea of when. Q. Yeah.	16 17	Settlement."
16 17 18	did I have any idea of when.Q. Yeah.A. And I believe my response was around	16 17 18	Settlement." Do you see that?
16 17 18 19	 did I have any idea of when. Q. Yeah. A. And I believe my response was around 50 billion, but that could be larger or smaller 	16 17 18 19	Settlement." Do you see that? A. Yes.
16 17 18 19 20	 did I have any idea of when. Q. Yeah. A. And I believe my response was around 50 billion, but that could be larger or smaller depending upon when. The further out in time it is, the 	16 17 18 19 20	Settlement." Do you see that? A. Yes. Q. And do you recall that Fannie Mae had initiated
16 17 18 19 20 21	 did I have any idea of when. Q. Yeah. A. And I believe my response was around 50 billion, but that could be larger or smaller depending upon when. The further out in time it is, the smaller it probably would be. It is part of the 	16 17 18 19 20 21	Settlement." Do you see that? A. Yes. Q. And do you recall that Fannie Mae had initiated a series of litigations against major financial
16 17 18 19 20 21 22	 did I have any idea of when. Q. Yeah. A. And I believe my response was around 50 billion, but that could be larger or smaller depending upon when. The further out in time it is, the smaller it probably would be. It is part of the evidence that it might be good. 	16 17 18 19 20 21 22	Settlement." Do you see that? A. Yes. Q. And do you recall that Fannie Mae had initiated a series of litigations against major financial institutions?
16 17 18 19 20 21 22 23	 did I have any idea of when. Q. Yeah. A. And I believe my response was around 50 billion, but that could be larger or smaller depending upon when. The further out in time it is, the smaller it probably would be. It is part of the evidence that it might be good. So the further out in time that it would 	16 17 18 19 20 21 22 23	Settlement." Do you see that? A. Yes. Q. And do you recall that Fannie Mae had initiated a series of litigations against major financial institutions? A. Yes.
16 17 18 19 20 21 22	 did I have any idea of when. Q. Yeah. A. And I believe my response was around 50 billion, but that could be larger or smaller depending upon when. The further out in time it is, the smaller it probably would be. It is part of the evidence that it might be good. 	16 17 18 19 20 21 22	Settlement." Do you see that? A. Yes. Q. And do you recall that Fannie Mae had initiated a series of litigations against major financial institutions?

16 (Pages 58 to 61)

	62		64
1	What does this have to do with the	1	side, while we didn't build in settlement projections as
2	Discovery Order?	2	settlement projections, we did have assumptions about
3	MR. THOMPSON: Profitability. They made	3	how much we should expect to receive.
4	tens of billions of dollars off of this.	4	It's not in the normal course, a loan
5	MR. LAUFGRABEN: A couple of questions.	5	would go bad. We would assess the defects. If we
6	Q. (BY MR. THOMPSON) So at and do you recall	6	thought we had a valid claim against the institution
7	what the gist of the lawsuit was?	7	that originated the loan, we could build some assumption
8	Was it that you had bought product and	8	in for recovery from that institution for those defects.
9	covenants were false?	9	So in our normal projection of net loan losses, we would
10	MR. LAUFGRABEN: Object to the form of	10	include some amount of recovery from various
11	the question.	11	institutions for them curing the defects.
12	A. Yes. Well, that we had bought product that had	12	When we got into significant
13	not complied with the requirements.	13	contention let's use the Bank of America Countrywide
14	The general model that existed in	14	as an example we tried to be very conservative. Not
15	originations at the time was to detect and correct after	15	that we didn't think we had a legitimate claim to a lot
16	the fact, versus inspect and reject prior to taking it	16	larger number, but we knew that Bank of America was
17	on. So it was determined that a significant percent of	17	heavily disputing our requests and how much we had been
18	the the loans that we received that had been	18	asking for them to make us good, you know, to cure the
19	originated through some of these now, there were	19	defects. So we tried to be very, very conservative as
20	different lawsuits. So there's investment securities,	20	to how much we thought we would actually collect from
21	and there is loan guarantee activity.	21	Bank of America.
22	So the lawsuits and the loan guarantees	22	And so then as the actual agreements were
23	was premised basically on the fact that we had found a	23	reached, it was a matter of comparing that which we had
24	significant defects in a significant number of loans.	24	already incorporated into our assumption set versus how
25	And that per the requirements, they were to make us	25	much we actually got from them.
	63		65
1	whole on that. That was sort of the operating model.	1	Q. Okay. Very helpful. Thank you.
2	And that were large sums of money owed to us to resolve	2	A. Okay.
3	all those loans in accordance with the	3	Q. And we can put this document to the side.
4	Loan Origination Agreements that existed. So that's on	4	A. Okay.
5	the loan origination side.	5	Q. Now, the periodic commitment fee.
6	There were also lawsuits that existed	6	Do you recall there being any discussion
7	related to the investment securities and whether or not	7	while you were at Fannie Mae about the amount of the
8	the institutions involved had fully and appropriately	8	periodic commitment fee?
9	disclosed information about securities to the buyers of	9	MR. LAUFGRABEN: Objection as to time
10	those securities as required, and that the lawsuits	10	period.
11	contend that they had not. And as a result, they owed	11	Q. (BY MR. THOMPSON) As I said, at the
12	damages to the buyers and owners of those securities,	12	beginning the assumption is that I am asking
13	Fannie Mae being one of those.	13	about
14	Q. (BY MR. THOMPSON) Did your team, when it was		A. The main discussions were the that they were
15	building projections of future profitability, include a	15	continuing to waive our need to pay the commitment fee.
16	line item for expected values of settlements that might	16	Q. Okay. Was the commitment fee regarded by
17	or verdicts that might be realized?	17	yourself as akin not the commitment fee, but the
18	A. Not as a general practice.	18	commitment itself as akin to a line of credit?
19	We would only build those in if in the	19	MR. LAUFGRABEN: Objection; vague.
20	event it was all but certain and agreed to. Otherwise,	20	A. Yeah.
21	we there now, I want to pause here, because	21	I mean, obviously the
22	there's two ways one can address some of these issues.	22	Preferred Stock Purchase Agreement provides for
23	So on the investment securities side, we	23	funding access to funding if in the event certain
24 25	didn't build anything in for being you know, getting	24	conditions exist. One could say that's not dissimilar
25	some kind of a settlement. On the loan origination	25	to some forms you can call it a line of credit, or

17 (Pages 62 to 65)

	66		68
1	you can call it an LC, a letter of credit, because it's	1	on the books.
2	a little bit more you draw if in the event certain	2	And when you had this combined result, it
3	conditions exist, whereas a line of credit is open-ended	3	made it at times difficult to ensure that you were we
4	as to where one can draw and pay down and whatnot on it.	4	were getting the desired results from the new
5	So you yeah. The commitment fee would	5	book of business. So could we kind of separate the
6	probably be very similar to fees that you would see	6	results into two pieces, that of the bad back book,
7	structured into those types of instruments.	7	which is the bad bank, and that of the new book, that
8	Q. And are those types of fees generally	8	being the good bank, in such a way that it it would
9	calculated as a percentage of the outstanding	9	better enable us to understand the unique results of
10	commitment?	10	each of the each part of the portfolio.
11	MR. LAUFGRABEN: Objection; lack of	11	Q. And have you heard of the term, "vintages"?
12	foundation, calls for speculation, calls for	12	A. Yes.
13	expert testimony.	13	Q. And is this a metaphor similar to wine, that
14	A. I would say it for letters of credit and	14	the originations and investments made in a particular
15	lines of credit in the normal ordinary course of banks'	15	year could be good or bad?
16	dealings with customers, since I have a lot of banking	16	A. Yes.
17	experience, that would be a customary structure	17	Q. Okay. And were the vintages of 2009 and '10
18	Q. (BY MR. THOMPSON) Okay.	18	and '11 and '12 good vintages for Fannie Mae?
19	A Yes.	19	A. Yes. They were certainly much better vintages
20	Q. All right. Did anyone at FHFA or Treasury tell	20	than the vintages of 2002, '3, '4, '5, '6, '7.
21	you that the periodic commitment fee would be	21	Q. Yes.
22	incalculably large if they didn't waive it?	22	And as time went on, the good vintages
23	A. No.	23	became a bigger part of Fannie's future, and the bad
24	MR. LAUFGRABEN: Objection.	24	vintages became diminished; is that right?
25	Q. (BY MR. THOMPSON) Okay. I am going to have	25	MR. LAUFGRABEN: Objection to the form of
	67		69
			05
1	our next one will be McFarland 3. It has a Bates number	1	the question.
1 2	our next one will be McFarland 3. It has a Bates number of FM3070 through 3074.	1 2	
			the question.
2	of FM3070 through 3074.	2	the question. A. Yes.
2 3	of FM3070 through 3074. (McFarland Exhibit No. 3 was marked.)	2 3	the question. A. Yes. So two things began to happen: The
2 3 4	of FM3070 through 3074. (McFarland Exhibit No. 3 was marked.) Q. (BY MR. THOMPSON) So these are	2 3 4	the question. A. Yes. So two things began to happen: The percentage of the overall book, you know, the the
2 3 4 5	of FM3070 through 3074. (McFarland Exhibit No. 3 was marked.) Q. (BY MR. THOMPSON) So these are minutes of the meeting of the Board of Directors of	2 3 4 5	the question. A. Yes. So two things began to happen: The percentage of the overall book, you know, the the older vintages, comprised less of the total portfolio
2 3 4 5 6	of FM3070 through 3074. (McFarland Exhibit No. 3 was marked.) Q. (BY MR. THOMPSON) So these are minutes of the meeting of the Board of Directors of Fannie dated October 20, 2011. If you look at the third	2 3 4 5 6	the question. A. Yes. So two things began to happen: The percentage of the overall book, you know, the the older vintages, comprised less of the total portfolio vis-à-vis the new vintages, and the performances of the
2 3 4 5 6 7	of FM3070 through 3074. (McFarland Exhibit No. 3 was marked.) Q. (BY MR. THOMPSON) So these are minutes of the meeting of the Board of Directors of Fannie dated October 20, 2011. If you look at the third full paragraph on the first page, we can see you're present, as well as Jeff Spohn of the FHFA. A. Uh-huh.	2 3 4 5 6 7	the question. A. Yes. So two things began to happen: The percentage of the overall book, you know, the the older vintages, comprised less of the total portfolio vis-à-vis the new vintages, and the performances of the new vintages improved. The, for instance, the 2011 vintage had better performance than 2009 vintage.
2 3 4 5 6 7 8 9 10	of FM3070 through 3074. (McFarland Exhibit No. 3 was marked.) Q. (BY MR. THOMPSON) So these are minutes of the meeting of the Board of Directors of Fannie dated October 20, 2011. If you look at the third full paragraph on the first page, we can see you're present, as well as Jeff Spohn of the FHFA. A. Uh-huh. Q. And if we turn to the second page, the first	2 3 4 5 6 7 8 9 10	the question. A. Yes. So two things began to happen: The percentage of the overall book, you know, the the older vintages, comprised less of the total portfolio vis-à-vis the new vintages, and the performances of the new vintages improved. The, for instance, the 2011 vintage had
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18 (Pages 66 to 69)

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	70		72
1	little numbers in the bottom right-hand corner 72478.	1	Do you recall anyone at FHFA ever
2	It's the 13th	2	criticizing any of the projections of
3	A. 78?	3	future profitability that Fannie was making in
4	Q. Yes, 78.	4	2011 and 2012 up through the time of the
5	A. Okay.	5	net worth sweep?
6	Q. And it shows projections of total net income.	6	MR. LAUFGRABEN: Object to the form of
7	And if we look at 2020 out through 2026, it in this	7	the question.
8	document, Fannie's projecting profits of about	8	A. I my recollection is there wasn't criticism.
9	10 billion a year; is that right?	9	There were questions. There were
10	A. Yes	10	cautions. In other words, you know, let's not forget
11	MR. LAUFGRABEN: Objection.	11	that, you know, this that a lot of bad things have
12	A this document says that.	12	happened, right?
13	Q. (BY MR. THOMPSON) Okay. And do you believe as	13	And, you know, with some history in mind,
14	of October 2011 that that was a reasonable	14	when the declines were occurring, the degradations were
15	long-term projection of profitability for Fannie?	15	occurring, the company was having a hard time keeping up
16	A. Yes.	16	with the face of the degradations. As a result, the
17	I do, though, appreciate, having been in	17	forecasts that the company had been producing prior to
18	this business for a long time, that the further out in	18	my arrival and I am basing this on what I have been
19	time you go, the more those projections are subject to a	19	told, so I don't know if it's relevant here or not
20	lot of factors that have yet to occur that would not	20	that the actual outcomes tended to be a little bit worse
21	have been, you know, explicitly incorporated into those	21	than what the company had been projecting.
22	projections.	22	But when I got there, we focused very
23	So they are reasonable placeholders based	23	heavily on trying to continue to improve the quality of
24	on trending out what you know today or could reasonably	24	the forecasts. And I think if you look at the actual
25	expect based on what you know today. But as you get	25	results vis-a-vis a lot of the forecasts we were
	71		73
1	further out in time, a lot of stuff can happen; with	1	producing, you would see the results and forecasts being
2	that as a caveat.	2	more in alignment. In fact, it improved over time.
3	Q. Okay. Now, did anyone at FHFA well, first	3	Having had experience at other companies,
4	of all, would FHFA have been aware of these projections?	4	that's not unusual that it's hard to catch up with
5	MR. LAUFGRABEN: Object to the form of	5	trends, whether that's negative trends or positive
б	the question; calls for speculation.	6	trends.
7	A. I need to refresh my memory as to where this	7	So if some things are going bad,
8	document was it's this looks like a document that	8	sometimes it's hard to catch up to how bad. And, you
9	would have been covered in the Executive Committee	9	know but on the flip side, when things start to turn
10	and/or the Board, but I can't you know, I need I	10	good, sometimes it's hard to catch up with how fast and
11	don't know if that was the case or not, because there's	11	the magnitude of the tailwinds and how much things are
12	no nomenclature on this document to indicate one way or	12	going to improve and how fast. So that's not a unique
13	the other.	13	thing to Fannie Mae.
14	If it had been, then clearly members of	14	I just remember there being some general
15	FHFA would have been present in those meetings.	15	discussions about, you know, are we you know, let's
16	Q. (BY MR. THOMPSON) And if we look at this, is	16	not forget that there have been times in the past where
17	it fair to say that you at this time, October 2011,	17	the forecasts didn't reflect all the badness that
18	really thought that 2013 and then maybe going into 2014	18	ultimately happened, right?
19	was going to be a turning point for Fannie's	19	Q. (BY MR. THOMPSON) Uh-huh.
20	profitability?	20	A. And it was more in that general conversation,
21	A. The projections that existed at that time based	21	but not a what I would call an outright criticism of,
22	on this document show that profitability starts to show	22	"You're wrong. That can't be right."
23	up in 2013. I mean, that's what this particular	23	There wasn't any of that kind of
24	forecast indicated.	24	Q. Okay. And were you aware that Grant Thornton
25	Q. Yes.	25	was doing its own projections of the future

19 (Pages 70 to 73)

1 of foundation. This is also beyond the scope of the 1 It could be, but it didn't necessar	156
	rily need to be. So I
2 Discovery Order. 2 wasn't, you know, kind of trying	•
3 A. I mean, you know, I don't remember exactly, you 3 It seemed odd to me th	•
4 know, did somebody say this or that or whatever. I 4 wanted to do was wipe out the s	•
5 don't remember the specific comments, but I remember the 5 didn't do that in inception of the	• •
6 general gist of conversation was in that kind of vein. 6 the first place, because they left	-
7 Q. (BY MR. THOMPSON) And was there a sense of 7 occur in the marketplace.	
8 this is a problem if we can't generate capital and 8 So but time passes.	Different people
9 retain capital? 9 and minds may think differently	
10 MR. LAUFGRABEN: Object to the form of 10 know, I wasn't assuming one wa	
11 the question. 11 were trying to wipe out the shar	
12 How is this related to any of the topics 12 Q. Well, you said earlier th	
13 in the Discovery Order? 13 there was surprise and not surprise	· · · ·
14MR. THOMPSON: Well, it relates to the14Was the not surprise	-
15 profitability, was it a problem in the term of 15 sneaking suspicion that the Ge	
16 probability. 16 let anyone else participate in t	
	Same objection as we
18 witness not to answer this. 18 specified before.	Sume objection as we
19MR. THOMPSON: She is not your witness.19We would instruct the	witness not to
20MR. BARTOLOMUCCI: Do you know what the20answer this question. It's far begins	
21 question on the table is? 21 Discovery Order, and Counsel h	
22 A. So why we've had a little bit of back and forth 22 topics in the Discovery Order.	as not fied it to any
r	CI: Do you want to restate
Q. (BY MR. THOMPSON) So was there a sense that 24 the question?	ci. Do you want to restate
25 this was going to be a problem for Fannie going forward 25 MR. THOMPSON: State	Ire
155	157
1 that it was not able to retain capital? 1 Q. (BY MR. THOMPSON)	
2 MR. LAUFGRABEN: Same objection. 2 have the sense that the Govern	•
3 We're instructing the witness not to 3 to allow the private sharehold	
4 answer, this is so far beyond the scope of the discovery 4 future profits when you were a	it Fannie?
5 order. 5 Do you think that was	
6 A. There were discussions about the pros and cons. 6 possibilities that might ultimat	
7 In other words, what about it is good for Fannie, what 7 MR. LAUFGRABEN:	
	Renew our objections and
8 about it may not be so good for Fannie, okay? 8 our instruction to the witness no	•
-	t to answer.
8 about it may not be so good for Fannie, okay? 8 our instruction to the witness no	t to answer.
8 about it may not be so good for Fannie, okay? 8 our instruction to the witness not 9 Q. Okay. 9 Counsel still has not tie 10 A. Sos, you know, one of the things, you know, 10 Discovery Order.	t to answer.
8 about it may not be so good for Fannie, okay? 8 our instruction to the witness not 9 Q. Okay. 9 Counsel still has not tie 10 A. Sos, you know, one of the things, you know, 10 Discovery Order.	t to answer. ed this to the CI: David, do you really
8about it may not be so good for Fannie, okay?8our instruction to the witness no9Q. Okay.9Counsel still has not tie10A. Sos, you know, one of the things, you know,10Discovery Order.11that is to the good is it did resolve this iterative11MR. BARTOLOMUCO	t to answer. ed this to the CI: David, do you really e sense of what the
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40 (Pages 154 to 157)

DAVID FELDMAN WORLDWIDE, INC. 450 Seventh Avenue - Ste 500, New York, NY 10123 1.800.642.1099

	158		160
1	was thinking or wanted. I am not trying to represent	1	2523 through 2525.
2	anything from them. I may represent my perspective on	2	(McFarland Exhibit No. 20 was marked.)
3	what they may have been thinking.	3	Q. (BY MR. THOMPSON) Now, this is a letter from
4	I just sat down with them to the	4	you to Ed DeMarco dated August 6th, 2012; is that right?
5	Treasury and said, "We think we're sustaining	5	A. Yes.
6	profitable."	6	Q. And you're reporting that there's a surplus
7	The numbers were decent-sized. I also	7	amount, thus there's no need for a draw; is that right?
8	put on the radar that there was a possibility of a	8	A. Yes.
9	deferred tax allowance release that could be sitting in	9	MR. LAUFGRABEN: Object to the form of
10	the not-so-distant future.	10	the question.
11	So the fact that this happened shortly	11	Q. (BY MR. THOMPSON) If we look at the last page
12	thereafter so the time the time connection there	12	of the document, there's a lists of assets and
13	was part of why that was part of why I wasn't	13	liabilities. I just want to make sure I understand.
14	surprised. Okay. I just told them that.	14	The Government's commitment was not
15	So then the question is why would they be	15	listed as an asset on the Balance Sheet of the company;
16	concerned of us making money and creating capital inside		is that correct?
$10 \\ 17$	the enterprise. I think in my own opinion, a lot of	17	A. Yes.
18	a lot of people got wiped out, and the Government had to	18	
10 19		19	Q. Okay. So this next one is going to be McFarland 21. It has a Bates number of Fannie Mae 2482.
20	step in on a lot of fronts during the financial crisis.	20	(McFarland Exhibit No. 21 was marked.)
20	I think politically it seemed a little it would seem to me that there would be individuals bothered that some	21	Q. (BY MR. THOMPSON) So this is an e-mail from
21		22	Q. (BT MR. THOMPSON) So this is an e-main from Nicola Fraser dated August 7th, 2012 to you and
22	individuals might profit from the Government's support	23	Mr. Benson and Mr. Mayopoulos and others. The subject
23 24	of the enterprises, okay?	23	
	So, you know, it wouldn't would it	24	is, "Draft Treasury Meeting Discussion Materials,
25	be how would it play out if somebody made big bucks	2.5	Treasury Slides 8, 9, 12 Version 9."
	159		
			161
1	because off the backs of the taxpayers? I am kind	1	Does this relate to the meeting that you
2	of how some people could connect dots that the	2	Does this relate to the meeting that you described earlier that took place at Treasury on the eve
2 3	of how some people could connect dots that the Government stepped in, put a bunch of money into the	2 3	Does this relate to the meeting that you described earlier that took place at Treasury on the eve of the net worth sweep where you spoke to Ms. Miller
2 3 4	of how some people could connect dots that the Government stepped in, put a bunch of money into the GSEs using taxpayers' funds, and now Daddy Big Bucks	2 3 4	Does this relate to the meeting that you described earlier that took place at Treasury on the eve of the net worth sweep where you spoke to Ms. Miller about deferred tax assets and other things?
2 3 4 5	of how some people could connect dots that the Government stepped in, put a bunch of money into the GSEs using taxpayers' funds, and now Daddy Big Bucks over here is making a big profit off of Fannie Mae	2 3 4 5	Does this relate to the meeting that you described earlier that took place at Treasury on the eve of the net worth sweep where you spoke to Ms. Miller about deferred tax assets and other things? MR. LAUFGRABEN: Object to the form of
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1	162		164
	So from time to time, presentations,	1	Q. Yes. I understand.
2	whether that's you know, Treasury or Board or	2	A. They kept things fairly close to the vest, if
3	whatever, it looks like this has some updates. Normally	3	you will.
4	those updates are minor corrections. Maybe it's	4	Q. Yes.
5	spellings or you know, I can't tell you what got	5	A. So this was not untypical of that.
6	changed, but clearly we met with them on August 9th.	6	But they asked a few questions.
7	So the version I would have used would	7	Sometimes from the questions they ask, you can kind of
8	have been the version that existed on August 9th, not	8	get a sense of what's on their mind.
9	the updated version as of August 15th. I am not aware	9	That is where, you know, Mary did ask me
10	of substantive changes made the document. In all	10	when I brought up the deferred tax asset allowance
11	material respects, probably the information here is the	11	valuation, you know, she asked me that question as an
12	same material that I reviewed with Treasury.	12	example. But
13	Q. Okay.	13	Q. Okay. That's helpful.
14	MR. THOMPSON: And I guess, Chris, if	14	Let me ask you a question: Does it
15	you-all could look and see if you have the August 9th	15	follow from the fact that well, strike that.
16	version, that would be great, you know? We would	16	Am I right in thinking that Fannie Mae
17	certainly appreciate it.	17	did reserve some of its loan loss provisions?
18	MR. BARTOLOMUCCI: Got it.	18	MR. LAUFGRABEN: Object to the form of
19	Q. (BY MR. THOMPSON) Okay. So and you walked	19	the question.
20	them through each of these slides	20	A. Fannie Mae's loan loss reserve declined
21	MR. LAUFGRABEN: Object to the form of	21	Q. (BY MR. THOMPSON) Okay.
22	the question.	22	A over time.
23	Q. (BY MR. THOMPSON) the Treasury officials	23	Q. Okay.
24	who were present?	24	A. And so in you know, so if you think of that
25	A. I walked Treasury through the financial slides.	25	as a loan loss reserve reversal, then yes.
	163		165
1	Q. The financial slides, okay.	1	Q. Okay. And does it mean that, with the benefit
2	A. Correct.	2	of hindsight, Fannie was over-reserved at one point?
3	Q. Including the projections of future	3	MR. LAUFGRABEN: Object to the form of
	profitability?		with Effert Statistics, object to the form of
4	1	4	the question; calls for speculation.
4 5	A. Yes.	4 5	-
			the question; calls for speculation.
5	A. Yes.	5	the question; calls for speculation. Just please put a time frame on it.
5 6	A. Yes. MR. LAUFGRABEN: Objection.	5 6	the question; calls for speculation.Just please put a time frame on it.A. Let me answer this in the theoretical
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	166		168
1	So reversing reserves may just be the	1	Judgment is required in setting allowance
2	fact that you've worked through the problems, and you no	2	loan loss.
3	longer need to carry the reserve because you actually	3	Q. (BY MR. THOMPSON) Okay. Where are the areas
4	realize the charge-off.	4	where judgment needs to be brought into bear?
5	The third bucket can be because	5	Future home prices is one, right?
б	assumptions have changed, that you have seen you	6	MR. LAUFGRABEN: Objection; vague, calls
7	assumed a certain home price, so your severity was going	7	for speculation.
8	to be a certain level. Now home prices are improving,	8	A. As we discussed previously, there were a number
9	so what you're likely to get it could be the other	9	of different home-price projections out there.
10	way. Let's say it was improving.	10	Q. (BY MR. THOMPSON) Yeah.
11	Then you would say, "Okay. I expect to	11	A. So you use judgment as to which home price
12	get more for the collateral than I previously expected."	12	projections you're going to use as your base-case
13	That's not a correction of an error.	13	calculation.
14	That's not meaning I was over-reserved in the prior	14	You can see periods of time so when
15	period.	15	you look back at your history, you can try to
16	The reserves were based on what home	16	extrapolate off the historical performance what you
17	prices were in the prior period. Now that I see that	17	might expect in the future for loans in the same stage
18	home prices are going to be better, I am updating the	18	of delinquency. So you could say that historically
19	reserves to reflect those updated assumptions.	19	loans that are 90 days delinquent, X percent of them
20	Q. Okay. Do you recall for Fannie whether all	20	don't pay.
21	three of those factors were in place, or just some of	21	However, what you would probably see, if
22	them	22	you looked back over history, what that percentage
23	MR. LAUFGRABEN: Object to the form of	23	looked like 12 months ago might look different than
24	the question.	24	6 months ago which may look different than 3 months ago.
25	Q. (BY MR. THOMPSON) in the reduction of the	25	There's judgment involved in how you should consume
	167		169
1	loan loss provisions?	1	historical information into your assumptions set and
2	MR. LAUFGRABEN: Same objection with	2	calculations of where you think you need to set your
3	respect to the time period.	3	reserves today.
4	A. For the time period I believe we started	4	We talked earlier about the fact that we
5	reducing reserves sometime in 2012, so let's I will	5	had made requests of a myriad of financial institutions
6	answer it in the context of declines in allowance during	6	to make good on their warrant obligations for defects in
7	2012 from, say, where it ended in 2011. So let me just	7	loans that they presented to us, and we had to make
8	box it in.	8	assumptions to the collectability of those demands and
9	There was nothing that caused those	9	requests on other financial institutions.
10	declines that we deemed to be a correction of an error,	10	So those are just examples of things that
11	because, quite frankly, if it was a correction of an	11	are included in the loan loss reserve calculations that
12	error, and it was material, we would need to restate our	12	requires some degree of management judgment.
13	prior financials. We have that responsibility from an	13	Q. Okay. Do you also have to make some management
14	accounting perspective to do so.	14	judgment about future macroeconomic conditions like the
15	All of the materials chance in the	15	employment rate and that sort of thing?
16	allowance were driven by the burnoff of the bad stuff	16	MR. LAUFGRABEN: Objection; vague.
17	and improving assumptions and applying those improving	17	A. You can make assumptions around unemployment
18	assumptions to what we thought we now needed to have in	18	and its effect on expected performance. And, you know,
19	the reserves.	19	you need to have an analytical basis for how you're
20	Q. (BY MR. THOMPSON) Is there some judgment that	20	consuming those assumptions.
21	you as CFO and your team had to exercise as you were	21	But that can be a factor that can be used
22	trying to set the right level of loan loss provisions?	22	and considered in setting your allowances.
23	MR. LAUFGRABEN: Objection; form of the	23	Q. (BY MR. THOMPSON) Okay. This one is going to
24	of the question.	24	be McFarland 23. It has a Bates number of Fannie Mae
25	A. Yes.	25	3595 through 3602.

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	186		188
1	MR. LAUFGRABEN: Object to the form of	1	It was merely that the the profits,
2	the question.	2	under the structure prior to the Third Amendment, would
3	Within what time period?	3	create some capital accumulation, and that capital
4	MR. THOMPSON: The same time period we've	4	accumulation could, you know, be there for providing the
5	been talking about.	5	starting of capital available for whatever the
6	A. 2008?	6	resolution of housing finance might be.
7	Q. (BY MR. THOMPSON) And 2011, '12.	7	It could be there to help take future
8	A. I am not aware of swapping of loans that	8	negative events; you know, those kinds of things, but
9	occurred at my time at Fannie.	9	not there was no specific conversations about
10	Q. Okay.	10	deploying capital in various ways, no.
11	A. Okay.	11	Q. I think that answers my question, but I will
12	MR. THOMPSON: Well, we are ending	12	ask it again.
13	getting very close to the end of my questions.	13	Was there any discussion that you were
14	And so what I would request is maybe we	14	aware of, of deploying that capital to try to pay back
15	could take a short break, and I can confer with my	15	the Government for the money that it had borrowed?
16	colleagues. We may have some questions of their own,	16	MR. LAUFGRABEN: Objection; calls for a
17	but there's light at the end of the tunnel. Let's take	17	legal conclusion.
18	a five-minute break.	18	A. In the context that there would be capital
19	THE REPORTER: It's 3:48.	19	available that at some point the existing construct, the
20	(Recess from 3:48 p.m. to 4:18 p.m.)	20	Preferred Stock Purchase Agreement and the
21	THE REPORTER: It's 4:18.	21	conservatorship, there's a hope and maybe an optimistic
22	MR. THOMPSON: So the Fairholme	22	belief that that couldn't continue in perpetuity. And
23	plaintiffs do not have any more questions at this time,	23	so all of the claims of the Government against Fannie
24	but thank you very much. We appreciate you taking the	24	needed to be resolved, and that to the extent that
25	time today and we owe you a check and we will get that	25	Fannie was profitable and that might create capacity
	187		189
1	to your counsel next week for you know, it's a	1	from which to, you know, make available for whatever
2	witness fee. I think it's \$120, so don't spend it all	2	those resolutions might be.
3	in one place.	3	But there wasn't any specific
4	THE WITNESS: I can retire now.	4	conversation on specific structures from which to try to
5	MR. THOMPSON: Thank you very much.	5	make that happen in the near term.
6	EXAMINATION	6	Q. (BY MR. ZAGAR) Was there any discussion that
7	BY MR. ZAGAR:	7	you were aware of of just getting the excess capital to
8	Q. Good afternoon, Ms. McFarland. My name is Eric	8	Treasury voluntarily?
9	Zagar. I represent the class action plaintiffs, and I	9	MR. LAUFGRABEN: Object to the form of
10	have a few questions.	10	the question.
11	All of my questions will pertain to the	11	A. I think it's important to bear in mind that the
12	time period from when you started at Fannie Mae in 2011	12	profitable was recent, so the actual, you know,
13	until the Third Amendment in August of 2012.	13	profitable quarters started in early 2012; that the
14	A. Okay.	14	improvement in our forecasts, you know, all kind of came
15	Q. We talked a lot today about projections that	15	about, you know, in that positive way in the last, say,
16	Fannie Mae would be profitable and able to accumulate	16	six-month period. And so we were consuming a lot of
17	capital.	17	new-and-improved information, and then the Third
18	My question is, did you give any thought	18	Amendment went in place.
19	to how Fannie Mae could use that capital that it was	19	So really, in some ways, I would contend
20	projected to accumulate?	20	there really wasn't sufficient enough time for us to
21	MR. LAUFGRABEN: Objection; form.	21	really sort of contemplate. If the Third Amendment had
22	A. Not we didn't have conversations about, oh,	22	not been put in place, it's theoretical we might we have
23	if we had this much capital, then we could go out and	23	begun to explore a myriad of options possibly.
24	expand our business in this way or, you know, any of	24	But the way that the timing of everything
25	those types of things.	25	played out, the Third Amendment was put in place, you

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	190		192
1	know, so quickly, if you will, after the news started to	1	said I would love to be able to use a little pen and
2	turn good, we never delved in in a deep way into some of	2	paper to calculate that.
3	those options and alternatives.	3	But, you know, I kind of come from a
4	Q. (BY MR. ZAGAR) The net worth sweep giving all	4	traditional bank environment. So when I assess and look
5	the profits to Treasury, that was not your idea,	5	at the activities, you know, I thought of it in the
6	correct?	6	context of what how would you evaluate the capital
7	A. It was not my idea.	7	requirements if you you constructed it more similar
8	MR. LAUFGRABEN: Object to the form of	8	to how capital requirements are set for banks.
9	the question.	9	Having said that, some of the back of the
10	Q. (BY MR. ZAGAR) Do you think it is likely that	10	envelope we were doing wasn't based on the Balance Sheet
11	you would have come up with that idea on your own?	11	that existed in 2012, because the presumption is that
12	MR. LAUFGRABEN: Objection; form, calls	12	certain things would change over time. So the held
13	for speculation. It's outside the scope.	13	portfolio, which I think was a little under a
14	A. No, I don't believe that I would have proposed	14	billion dollars, then I can't remember the exact
15	something quite like that.	15	number would diminish over time, the guaranteed
16	MR. ZAGAR: That's all I have. Thank	16	assets that were consolidated onto the Balance Sheet.
17	you.	17	So I can't remember how we kind of worked
18	EXAMINATION	18	through all of those different numbers. That's why I am
19	BY MR. LAUFGRABEN:	19	hesitant to just throw, you know, an off-the-cuff
20	Q. Good afternoon, Ms. McFarland. As I mentioned	20	enumeration of it.
21	earlier, my name is Eric Laufgraben, and I represent the	21	Q. Now, were any of the forecasts that you
22	United States in this action.	22	presented to to Treasury prior to the execution of
23	I think you testified earlier that one	23	the Third Amendment now, it's true that none of them
24	source of recapitalization would be retained earnings.	24	took into account the potential for a payment of
25	In your view, what amount of capital, if	25	periodic committee fees; is that correct?
	191		193
1	any, would Fannie Mae need to be deemed adequately	1	A. That's correct.
2	capitalized?	2	Q. Okay. And the Treasury commitment, did that
3	A. You know, we did do some what I call	3	serve as a means to absorb losses like capital?
4	back-of-the-envelope work on that, and, you know, I I	4	A. It could be used if I remember, it was
5	would have to I don't remember the exact numbers.	5	structured I think in a way that that could be used in
6	I think you would probably be looking at	6	addition to or instead of up to the amount that was
7	something in the high single-digit percent of assets,	7	available.
8	you know? You know, something in the	8	Q. And I will come back to it, but with respect to
9	7-to-8-percent-of-asset range, and I could work the math	9	the I think it's the August 9th, 2012 meeting that
10	backwards and come up with a what that means in	10	you attended with Treasury, I think you mentioned that
11	dollars.	11	you advised Mary Miller of the possibility and the
12	It would certainly be at a level higher	12	Treasury team of the possibility of releasing the
13	than what Fannie would require to have in capital	13	DTA valuation allowance.
14	pre-conservatorship.	14	Is that correct?
15	Q. Do you know how much that would be based on the	15	A. Correct.
16	level of assets held in 2012?	16	Q. Okay. Now and I think you you said that
17	A. On-Balance-Sheet assets of course, we	17	you had some belief that there was some sort of that
18 19	haven't done any kind of risk because it's a little more	18 19	Treasury was influenced by that by that disclosure
20	complex than that simple math. I think the on-Balance-Sheet assets of	20	that you said that you made during that meeting when it decided to execute the Third Amendment.
20	Fannie on a GAAP basis were a little over 3 trillion, if	20	A. The timing of the Third Amendment was
22	I remember correctly. What would that be, 24 is that	22	coincidental. It was closely followed closely after
23	24 billion? Do I have the zeros right?	23	those conversations.
24			
	But well, but you would do it on	24	O. Okav.
25	But well, but you would do it on really have to look at okay. Let me that's why I	24 25	Q. Okay.A. And so it was possible that the information we

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	194		196
1	provided in that meeting may have had some influence on	1	As I stated earlier, I did not include
2	the going forward with the Third Amendment when it	2	any of that in the numbers or in writing, but I did
3	happened.	3	articulate that potential to the members that were
4	Q. But to be clear, no one from you don't know	4	present there from Treasury.
5	either way; is that correct?	5	Q. Okay.
6	A. That's correct.	6	A. And Mary asked me some follow-up questions
7	Q. And no one from Treasury ever indicated that as	7	about that.
8	much to you?	8	Q. Now, I guess the day before the Treasury
9	A. They never mentioned the Third Amendment until	9	meeting was, you know, I guess, August 8th, 2012.
10	they told us they were doing it.	10	Do you recall being interviewed by media
11	Q. Right.	11	outlets following Fannie Mae's release of the 10-Q for
12		12	
13	And no one from Treasury ever indicated		the second quarter of 2012 on or around
	that the Third Amendment was somehow connected in any	13	August 8th, 2012?
14	way to your disclosure to Mary Miller or to Treasury	14	A. If August 8th was the date we released the
15	during the August 9th meeting?	15	10-Q, then I would have done media interviews on
16	A. Yeah; no one at Treasury ever said that.	16	August 8th. That would have been normal.
17	Q. And no one from FHFA ever said that, either,	17	I don't recollect the date we filed the
18	did they?	18	Q.
19	A. No.	19	MR. LAUFGRABEN: May I have this marked
20	Q. And turning back to that meeting, we saw what	20	for identification?
21	was previously marked as McFarland Exhibit No. 24. This	21	(McFarland Exhibit No. 28 was marked.)
22	is an e-mail from David Benson to Tim Bowler dated	22	MR. BARTOLOMUCCI: Do you have any other
23	August 11th, 2012.	23	copies?
24	A. Okay. I remember the document. I can pull it	24	MR. LAUFGRABEN: No.
25	out from this stack here.	25	MR. BARTOLOMUCCI: Don't worry about it.
	195		197
1	Okay. Got it.	1	Q. (BY MR. LAUFGRABEN) Do you recognize what's
2	Q. Okay. Now, this is now, I guess, 2 days after	2	THE REPORTER: 28.
3	you met with Treasury on August 9th?	3	Q. (BY MR. LAUFGRABEN) What's been handed to you
4	A. Based on the date of the e-mail, yes.	4	is what's been marked for identification as
5	Q. Now, none of the models that are reflected	5	McFarland 28. It's a filing for Fannie Mae, the
6	in the attachments here, none of those models	6	Form 10-Q.
7	incorporate the release of the valuation allowance, do	7	And do you recognize this document?
8	they?	8	A. Yes.
9	A. No, but they incorporate the utilization of the	9	Q. Okay. And is this the is this the 10-Q for
10	deferred tax asset over time.	10	Fannie Mae for the second quarter of 2012?
11	It got back that conversation on the	11	A. Yes.
12	assumption from a tax perspective, but, no, not a you	12	Q. Okay. And was this released on or around
13	know, a release in a near future period, no.	13	August 7th, 2012?
14	O. Okay. And what was previously marked for	14	A. I would have to look here. I should be able
15	identification as McFarland 22 this is the one that	15	to.
16	says on the cover, "Fannie Mae Update Treasury Meeting	16	It's dated August 8th, 2012.
17	August 9th, 2012" it says it's updated on	17	Q. Thank you for clarifying.
18	August 9th, 2012 It says it's updated on August 15th, 2012.	18	Is this the 10-Q that was released on or
10 19	A. Correct.	19	around August 8th, 2012?
20		20	A. Yes.
	Q. Now, is it also correct for the models in these		
21	attachments that none of those models, you know, reflect	21	Q. Okay. And just for the record, on the page
22	a you know, any sort of, you know, definitive release	22	that's marked for identification as Treasury 4079 at the
23	of a valuation allowance at any particular point in	23	very end
24	time; is that correct?	24	A. 4079; let me get to that.
25	A. That's correct.	25	Okay. Yes, my certification.

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EXHIBIT D

IN THE UNITED STATES COURT OF FEDERAL CLAIMS 1 2 Х FAIRHOLME FUNDS, INC, et al., : 3 4 Plaintiffs, : 5 : Case No. 13-465C v. 6 THE UNITED STATES, : 7 Defendant. : 8 Х 9 Washington, D.C. 10 Friday, May 15, 2015 11 CONFIDENTIAL - PROTECTED INFORMATION TO BE DISCLOSED ONLY IN ACCORDANCE WITH PROTECTIVE ORDER 12 13 Videotaped Deposition of MARIO UGOLETTI, a witness herein, called for examination by counsel for 14 Plaintiffs in the above-entitled matter, pursuant to 15 16 notice, the witness being duly sworn by AMANDA BLOMSTROM, a Notary Public in and for the District of 17 18 Columbia, taken at the offices of Cooper & Kirk, 19 1523 New Hampshire Avenue NW, Washington, D.C., at 9:34 a.m., Friday, May 15, 2015, and the proceedings 20 21 being taken down by Stenotype by AMANDA BLOMSTROM, 22 CRR/RMR/CLR/CSR, and transcribed under her direction.

May 15, 2015 Washington, D.C.

	Page 166		Page 168
1	first three-quarters of 2012, did you also assume	1	those options were. So it was not a there was not
2	that FHFA was under a mandate to ensure the companies	2	a plan for them that I that I saw. So consistency
3	were operated in a sound and solvent manner?	3	with a plan, no.
4	A. That's another one of conservatorship,	4	MR. THOMPSON: Ms. Hosford, I'm happy to
5	yes.	5	keep going, but we've kind of got into a natural
6	Q. And what does that mean to you?	6	break point in my questioning. So I don't know if
7	A. Well, a sound manner means that companies,	7	you want to take lunch now or
8	as I talked about some of the examples earlier, that	8	MS. HOSFORD: Well, we had talked about
9	they are operating their businesses under a	9	12:45, but if Mr. Ugoletti is fine with lunch now,
10	traditional supervisory regime. Examiners go out	10	then I am fine with lunch now.
11	there and look at, you know, their processes.	11	THE WITNESS: I'm a little hungry.
12	There's a whole host of issues that a regular	12	MR. THOMPSON: Okay. So we're off the
13	examiner would look at and make sure that they're	13	record.
14	doing things in a sound manner.	14	THE VIDEOGRAPHER: We're off the record.
15	Q. Okay. And what about capital levels, how	15	The time on the video is 12:30 p.m.
16	did that relate to soundness?	16	(Recess taken.)
17	MS. HOSFORD: Objection; lack of	17	THE VIDEOGRAPHER: We're back on the
18	foundation.	18	record. The time on the video is 1:34 p.m.
19	THE WITNESS: Well, the capital levels,	19	BY MR. THOMPSON:
20	the solvency aspect of that regulation was suspended	20	Q. Now, sir, welcome back.
21	shortly after the enterprises were or around when	21	A. Thank you.
22	they were put into conservatorship.	22	Q. And wanted to do, to do a little bit of
	Page 167		Page 169
1	BY MR. THOMPSON:	1	cleanup before we got to some new topics.
2	Q. But does capital have to do with soundness	2	With respect to the periodic commitment
3	as well?	3	fee, do you know if anyone at FHFA ever tried to
4	A. Well, it does. But there was no capital,	4	calculate what the value of it would be?
5	so it was suspended.	5	A. No.
6	Q. When you were thinking about the future	6	Q. Okay. And do you know if anyone at
7	profitability of Fannie and Freddie in the first	7	Treasury ever tried to calculate the value of it?
8	three-quarters of 2012, did you assume that the	8	MS. HOSFORD: Objection; calls for
8 9	three-quarters of 2012, did you assume that the companies were going to be operated consistent with	8 9	
			MS. HOSFORD: Objection; calls for
9	companies were going to be operated consistent with	9	MS. HOSFORD: Objection; calls for speculation during a particular time period.
9 10	companies were going to be operated consistent with the consistent with the Administration's plans for	9 10	MS. HOSFORD: Objection; calls for speculation during a particular time period. THE WITNESS: Not that I'm aware of.
9 10 11	companies were going to be operated consistent with the consistent with the Administration's plans for them?	9 10 11	MS. HOSFORD: Objection; calls for speculation during a particular time period. THE WITNESS: Not that I'm aware of. BY MR. THOMPSON:
9 10 11 12	companies were going to be operated consistent with the consistent with the Administration's plans for them? MS. HOSFORD: Objection; lack of	9 10 11 12	MS. HOSFORD: Objection; calls for speculation during a particular time period. THE WITNESS: Not that I'm aware of. BY MR. THOMPSON: Q. Okay. What is the basis for your
9 10 11 12 13	companies were going to be operated consistent with the consistent with the Administration's plans for them? MS. HOSFORD: Objection; lack of foundation.	9 10 11 12 13	MS. HOSFORD: Objection; calls for speculation during a particular time period. THE WITNESS: Not that I'm aware of. BY MR. THOMPSON: Q. Okay. What is the basis for your statement that it would be incalculably large if no
9 10 11 12 13 14	companies were going to be operated consistent with the consistent with the Administration's plans for them? MS. HOSFORD: Objection; lack of foundation. THE WITNESS: You know, I I don't know	9 10 11 12 13 14	MS. HOSFORD: Objection; calls for speculation during a particular time period. THE WITNESS: Not that I'm aware of. BY MR. THOMPSON: Q. Okay. What is the basis for your statement that it would be incalculably large if no one calculated it?
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9 10 11 12 13 14 15 16	companies were going to be operated consistent with the consistent with the Administration's plans for them? MS. HOSFORD: Objection; lack of foundation. THE WITNESS: You know, I I don't know what the Administration's plans exactly were for them. I mean, the Administration had three years to	9 10 11 12 13 14 15 16	MS. HOSFORD: Objection; calls for speculation during a particular time period. THE WITNESS: Not that I'm aware of. BY MR. THOMPSON: Q. Okay. What is the basis for your statement that it would be incalculably large if no one calculated it? A. Right, I think I went through a fair amount of that at, at the last round, but, I mean, my
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9 10 11 12 13 14 15 16 17 18	companies were going to be operated consistent with the consistent with the Administration's plans for them? MS. HOSFORD: Objection; lack of foundation. THE WITNESS: You know, I I don't know what the Administration's plans exactly were for them. I mean, the Administration had three years to come up with a plan for them. And, in my view, I think, in Acting	9 10 11 12 13 14 15 16 17 18	MS. HOSFORD: Objection; calls for speculation during a particular time period. THE WITNESS: Not that I'm aware of. BY MR. THOMPSON: Q. Okay. What is the basis for your statement that it would be incalculably large if no one calculated it? A. Right, I think I went through a fair amount of that at, at the last round, but, I mean, my basis for that is it is to fully compensate Treasury for the value of the guarantee they are providing and a market value. And I do not think that there was
9 10 11 12 13 14 15 16 17 18 19	companies were going to be operated consistent with the consistent with the Administration's plans for them? MS. HOSFORD: Objection; lack of foundation. THE WITNESS: You know, I I don't know what the Administration's plans exactly were for them. I mean, the Administration had three years to come up with a plan for them. And, in my view, I think, in Acting Director DeMarco's view, that plan needed to be a	9 10 11 12 13 14 15 16 17 18 19	MS. HOSFORD: Objection; calls for speculation during a particular time period. THE WITNESS: Not that I'm aware of. BY MR. THOMPSON: Q. Okay. What is the basis for your statement that it would be incalculably large if no one calculated it? A. Right, I think I went through a fair amount of that at, at the last round, but, I mean, my basis for that is it is to fully compensate Treasury for the value of the guarantee they are providing and
9 10 11 12 13 14 15 16 17 18 19 20	companies were going to be operated consistent with the consistent with the Administration's plans for them? MS. HOSFORD: Objection; lack of foundation. THE WITNESS: You know, I I don't know what the Administration's plans exactly were for them. I mean, the Administration had three years to come up with a plan for them. And, in my view, I think, in Acting Director DeMarco's view, that plan needed to be a legislative solution. I didn't see any legislative	9 10 11 12 13 14 15 16 17 18 19 20	MS. HOSFORD: Objection; calls for speculation during a particular time period. THE WITNESS: Not that I'm aware of. BY MR. THOMPSON: Q. Okay. What is the basis for your statement that it would be incalculably large if no one calculated it? A. Right, I think I went through a fair amount of that at, at the last round, but, I mean, my basis for that is it is to fully compensate Treasury for the value of the guarantee they are providing and a market value. And I do not think that there was any market value you could have put on, given their

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1	difficult on that. Doubling it to 200 billion and	1	companies.
2	then taking on an unlimited commitment, I just don't,	2	Q. And I'm sorry if you've answered this
3	I don't see a market value that corresponds to that,	3	A. Yeah.
4	that anybody would even come up with a price that	4	Q and I'm too dense to pick up on it, but
5	anybody would be willing to put that amount of	5	just to be clear on the record, are you in August
6	capital at risk in those situations.	6	of 2012, prior to the Net Worth Sweep, were you
7	Q. Did you discuss your view that it was an	7	thinking along these lines? Were you thinking, You
8	incalculably large fee or would have been with anyone	8	know, that periodic commitment fee is incalculably
9	at Treasury?	9	large?
10	A. Not that I recall.	10	MS. HOSFORD: Objection; vague question.
11	Q. Anyone at FHFA?	11	THE WITNESS: I I think that that's
12	A. Not that I recall. The issue did not	12	how you get from waiving waiving the periodic
13	wasn't coming up.	13	commitment fee if there's two different forms of
14	Q. Yeah. And did you	14	compensation, periodic commitment fee that could be
15	A. Nobody was looking to calculate it, so	15	set could be set at what it was set in the third
16	Q. Okay. And at the time of the Net Worth	16	amendment at or the Net Worth Sweep. I mean, so
17	Sweep, I'm not talking about afterwards but I'm	17	BY MR. THOMPSON:
18	A. Yeah.	18	Q. But was that, in fact, how you were
19	Q talking about at the time, had you	19	looking at it? I understand you're saying, you know,
20	given any thought to what the value of the periodic	20	you could look at it that way; but I'm saying, in
21	commitment fee would be? I mean, I understand now	21	fact, did you look you have these thoughts in
22	you're saying you think it would be incalculably	22	August of 2012?
22	you're saying you tinik it would be incalculably	22	
	Page 171		Page 173
1	large, but I'm saying back in August 2012 were you	1	A. Well
2	thinking about the size of the commitment fee?	2	MS. HOSFORD: Objection; ask asked and
3	A. Well, I don't recall any of those	3	answered.
4	discussions, but I, I think that I mean, you may	4	THE WITNESS: I can't I can't sit
5	there was a trade-off made in the third amendment,	5	here and say what I was thinking in August of 2012.
6	right? The third amendment traded off a waiver, the	6	That's, like, a long time ago, in August of 2012.
7	periodic commitment fee for the Net Worth Sweep	7	But I don't think the view that I am that I've
8	Q. Yep.	8	just stated about how you would think about the
9	A right?	9	periodic commitment fee wasn't something I came up
10	Going back, I mean, the compensation that	10	with after August of 2012.
11	Treasury got prior to the third amendment we	11	BY MR. THOMPSON:
12	talked about this before was liquidation	12	Q. When did you come up with it?
13	preference, 10 percent dividend, periodic commitment	13	A. I don't know, but, I mean, it was
14	fee, warrants. After the third amendment, they got	14	something that was embedded in the whole sort of
	Net Worth Sweep, warrants were still out there, and	15	nature of the PSPAs and the substantial financial
15	-	16	commitment that Treasury made.
15 16	their liquidation preference was still in place		
16	their liquidation preference was still in place. So I don't know if anybody shared that		O. Now, let me ask you I also want to make
16 17	So I don't know if anybody shared that	17	Q. Now, let me ask you I also want to make
16 17 18	So I don't know if anybody shared that particular view, but, to me, that, the swapping out	17 18	sure the record is crystal clear on another thing
16 17 18 19	So I don't know if anybody shared that particular view, but, to me, that, the swapping out of those things, indicates that it was an	17 18 19	sure the record is crystal clear on another thing that we did discuss
16 17 18 19 20	So I don't know if anybody shared that particular view, but, to me, that, the swapping out of those things, indicates that it was an incalculably large amount; and the only way that you	17 18 19 20	sure the record is crystal clear on another thing that we did discuss A. Um-hmm.
16 17 18 19	So I don't know if anybody shared that particular view, but, to me, that, the swapping out of those things, indicates that it was an	17 18 19	sure the record is crystal clear on another thing that we did discuss

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45 (Pages 174 to 177)

1 2	commitment that could be diminished	1	
2		1	under oath that the periodic commitment fee was
	A. Yep.	2	incalculably large in your view, right?
3	Q and we're thinking about alternatives,	3	A. Um-hmm.
4	I want to make sure the record is clear as to what	4	Q. And was that a phrase that you came up
5	alternatives were considered to deal with that	5	with or a lawyer came up with?
6	situation. One is the Net Worth Sweep	6	MS. HOSFORD: Objection. Instruct you not
7	A. Yep.	7	to answer to the extent that it involves discussions
8	Q correct?	8	with Counsel about obtaining legal advice.
9	Okay. A second that you described was,	9	BY MR. THOMPSON:
10	well, having a Net Worth Sweep but having it kick in	10	Q. So did did you come up
11	at, you know, a particular dollar level, whether it's	11	A. Wait, wait. I don't understand. I was
12	a hundred billion or something like that, correct?	12	instructed not to answer, right? Or
13	A. That's correct.	13	Q. So let me let me
14	Q. Okay. Were there any other alternatives	14	A. You're
15	that were discussed either internal at FHFA or at	15	Q try to ask the question
16	Treasury?	16	A. I want I want to understand the
17	A. Not that I'm aware of.	17	process.
18	Q. Okay. Was the PIK, the option of letting	18	Q. Sure.
19	the companies do a payment in kind to preserve the	19	A. When she says not to answer, I don't I
20	funding commitment, discussed?	20	don't answer; and you're trying to do another
21	MS. HOSFORD: Objection; vague.	21	question on this.
22	Considered by, discussed by whom? What	22	Q. Well, you can answer, but in any event
	Page 175		Page 177
1	PIK are you talking about?	1	MS. HOSFORD: No. I instructed you not to
2	BY MR. THOMPSON:	2	answer.
3	Q. Do you want me to repeat the question?	3	THE WITNESS: I've been instructed not to
4	A. Yeah, that would be good.	4	answer.
5	Q. Yeah, yeah.	5	BY MR. THOMPSON:
6	Was the option of preserving the funding	6	Q. Okay. But but just, let me was that
7	commitment	7	a phrase that you came up with, with wholly apart
8	A. Yeah.	8	from what the lawyers told you to say, was that a
9	Q by having the companies pay a	9	phrase you came up with?
10	12 percent payment-in-kind dividend, was that	10	Now, if you can't answer, you can't
11	something that was discussed at FHFA, you know, in	11	answer.
12	the leadup to the Net Worth Sweep?	12	MS. HOSFORD: Objection; calls for
13	A. Not that I recall and for the reasons that	13	attorney-client privileged discussions.
14	we talked about. I mean, one of them was the basic	14	I instruct you not to answer.
15	10 percent versus 12 percent, that it just that	15	BY MR. THOMPSON:
16	had been unless there was some economic aspect	16	Q. So I don't want to know anything about
17	that would make that an economic transaction, it	17	what the lawyers told you, okay? But did you
18	wasn't even part of the discussion.	18	independently come up with that?
19	So that's that's one that I would point	19	MS. HOSFORD: You may answer.
20	to at FHFA. So it really wasn't it just never was	20	THE WITNESS: I may answer?
	on the table.	21	I had another word that was similar.
21			

	Page 302		Page 304
1	that particular meeting was about.	1	BY MR. THOMPSON:
2	BY MR. THOMPSON:	2	Q. Okay. What was their reaction when they
3	Q. Okay. Now, you did not raise the topic of	3	told all of their income would be swept to the
4	the Net Worth Sweep with the companies until just a	4	federal government?
5	couple of days before August 17th; is that right?	5	MS. HOSFORD: Objection; misstates the
6	MS. HOSFORD: Objection; assumes facts not	6	facts.
7	in evidence.	7	THE WITNESS: I don't, I don't recall a
8	THE WITNESS: I do not recall ra I did	8	specific reaction that I could sit here and say
9	not raise the topic with them. I'm not sure when	9	BY MR. THOMPSON:
10	Acting Director I can't, on this time line, I	10	O. Well, a
11	can't recall when Acting Director DeMarco actually	11	A this, this CEO said that, that CEO said
12	and I'm pretty sure he called both companies and	12	that, I don't recall, I don't recall a specific one.
13	talked them through it. They did get a copy of what	13	Q. Do you have a recollection of the general
14	became close what became the final version to	14	reaction?
15	review. But that's, that's in terms of the time	15	A. Well, I think their general reaction was
15	line, that's as far as I can remember.	16	A. wen, i think their general reaction was they probably were not too happy about it.
10 17	BY MR. THOMPSON:	17	Q. Why not?
18	Q. But they weren't involved in the	18	- ·
19	negotiations over the Net Worth Sweep, were they?	19	A. Well, in many camps within Fannie Mae and Freddie Mac, I mean, I think there were people, they,
20		20	they certainly never liked the Treasury Department
20	 A. No. They weren't involved in negotiations over the PSPAs or any of the amendments to the PSPAs, 	20	saying that they were going to be wound down. They
21	or this amendment to the PSPA.	22	didn't want to be wound down, right. You don't want
22	of this anendment to the 151 A.	22	diant want to be wound down, right. Tou don't want
	Page 303		Page 305
1	Q. But this amendment to the PSPA was driven	1	to be wound down. You want to be Fannie Mae and
2	by a perceived problem, right?	2	Freddie Mac.
3	MS. HOSFORD: Objection; assumes facts not	3	So to the extent that they perceived this
4	in evidence.	4	as further somehow taking that possibility away, they
5	BY MR. THOMPSON:	5	might not have been very happy about it.
6	Q. A problem that their funding commitment	6	Q. And it did make it more remote that they
7	might be exhausted, right?	7	would be rehabilitated because they'd never be able
8	A. Right, and you've showed me enough of	8	to build their capital under the Net Worth Sweep; is
9	their views on what they thought the base case looked	9	that right?
10	like, so why what so I understand what their	10	MS. HOSFORD: Objection; misstates the
11	views were.	11	testimony.
12	Q. Okay. But my question is: Why not talk	12	THE WITNESS: Well, again, I will go back
13	to them and see if they have thoughts on whether	13	to, back to 2008 and say that if they, if they
14	there are different alternatives to solve this	14	weren't, if they weren't put into conservatorship
15	problem?	15	with the PSPAs, the employees would be working for
16	A. Just not an issue that we would talk to	16	our firms right now, so
	the companies about.	17	BY MR. THOMPSON:
17			
17 18	Q. You didn't value their opinion?	18	Q. I, I understand that, but
	Q. You didn't value their opinion?MS. HOSFORD: Objection; argumentative.	18 19	A. Yeah.
18	MS. HOSFORD: Objection; argumentative. THE WITNESS: We valued their opinion and,		A. Yeah.Q if we put ourselves and we compare
18 19	MS. HOSFORD: Objection; argumentative. THE WITNESS: We valued their opinion and, their opinion and understand what their opinion is, I	19	A. Yeah.Q if we put ourselves and we compareFannie Mae and Freddie Mac on August 16th, the day
18 19 20	MS. HOSFORD: Objection; argumentative. THE WITNESS: We valued their opinion and,	19 20	A. Yeah.Q if we put ourselves and we compare

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		-	
	Page 306		Page 308
1	after the Net Worth Sweep, it was less likely they	1	Q. And was that an objective that FHFA
2	were going to be rehabilitated because they weren't	2	shared?
3	going to be able to rebuild capital; isn't that	3	A. FHFA also believed, and I think Director
4	right?	4	DeMarco said this many times, the, the strategic
5	A. I don't generally believe that because the	5	plan, the second strategic plan was the next chapter
6	solution to this whole issue all along, in my view,	6	in a story that needs an ending, right. The ending
7	needed to be a legislative solution. So if the	7	was for Congress to pass legislation. The ending was
8	Congress of the United States says, you know, this is	8	not for Fannie and Freddie Mac to emerge from
9	all that's happened, this is all the draws, this is	9	conservatorship.
10	all the dividends, this is everything that happened,	10	Q. And did the Net Worth Sweep further that
11	and we think Fannie Mae and Freddie Mac should be	11	goal?
12	rehabilitated under this structure, and this is the	12	MS. HOSFORD: Objection; calls for
13	housing system that we want for the next 30 years,	13	speculation.
14	you have a good chance to do that.	14	THE WITNESS: I'll speculate. And, and
15	Q. Well, but, wait a minute, when you when	15	the speculation I will give you is the answer I gave
16	the, when the Net Worth Sweep was entered into, you	16	you not that long ago which was, emerging from
17	knew that because the companies were going to have	17	conservatorship under the structure of the PSPAs is
18	the capital taken out of them, that when Congress	18	going to be very difficult, right. And we can
19	eventually turned to this situation, they're going to	19	recall, and we can go through that whole process
20	be looking at two companies with no capital?	20	again where, if they were going to emerge from
21	MS. HOSFORD: Objection. Can you tell me	21	conservatorship, they would have to go out and raise
22	where in the Court's order this type of questioning	22	private equity of a hundred and 87.5 billion total
	Page 307		Page 309
1	Page 307 is authorized. It seems beyond the scope of the	1	Page 309 and whatever the two were split up, 116 and 75.
1 2	2	1 2	-
	is authorized. It seems beyond the scope of the Court's order. I'm going to direct him not to answer unless you can find		and whatever the two were split up, 116 and 75. Raise private equity. Pay off the liquidation preference. Raise enough private equity to be able
2	is authorized. It seems beyond the scope of the Court's order. I'm going to direct him not to answer	2	and whatever the two were split up, 116 and 75. Raise private equity. Pay off the liquidation preference. Raise enough private equity to be able to dilute the 79,9 warrants from Treasury and raise
2 3	is authorized. It seems beyond the scope of the Court's order. I'm going to direct him not to answer unless you can find MR. THOMPSON: Let me MS. HOSFORD: you can persuade me.	2 3	and whatever the two were split up, 116 and 75. Raise private equity. Pay off the liquidation preference. Raise enough private equity to be able to dilute the 79,9 warrants from Treasury and raise enough private equity to do all that and become a
2 3 4 5 6	is authorized. It seems beyond the scope of the Court's order. I'm going to direct him not to answer unless you can find MR. THOMPSON: Let me MS. HOSFORD: you can persuade me. MR. THOMPSON: Let me try to tie this to	2 3 4	and whatever the two were split up, 116 and 75. Raise private equity. Pay off the liquidation preference. Raise enough private equity to be able to dilute the 79,9 warrants from Treasury and raise enough private equity to do all that and become a well-capitalized institution under regulatory
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2 3 4 5 6 7 8 9	is authorized. It seems beyond the scope of the Court's order. I'm going to direct him not to answer unless you can find MR. THOMPSON: Let me MS. HOSFORD: you can persuade me. MR. THOMPSON: Let me try to tie this to the Court's order. BY MR. THOMPSON: Q. Do you know whether Treasury wanted to	2 3 4 5 6 7 8 9	and whatever the two were split up, 116 and 75. Raise private equity. Pay off the liquidation preference. Raise enough private equity to be able to dilute the 79,9 warrants from Treasury and raise enough private equity to do all that and become a well-capitalized institution under regulatory standards that, by the way, had changed fundamentally from when HERA was passed, because I would think in any corner of the world, if they were going to be in
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2 3 4 5 6 7 8 9 10 11 12 13 14 15 16 17 18 19	 is authorized. It seems beyond the scope of the Court's order. I'm going to direct him not to answer unless you can find MR. THOMPSON: Let me MS. HOSFORD: you can persuade me. MR. THOMPSON: Let me try to tie this to the Court's order. BY MR. THOMPSON: Q. Do you know whether Treasury wanted to ensure that these companies did not reemerge well capitalized in the form that they had had before 2008? MS. HOSFORD: Objection; calls for speculation. THE WITNESS: Well, I'll speculate on that. I think Treasury had been pretty clear that they I mean, they were pretty clear all along from a legislative perspective that they wanted to see a new housing 	2 3 4 5 6 7 8 9 10 11 12 13 14 15 16 17 18 19	and whatever the two were split up, 116 and 75. Raise private equity. Pay off the liquidation preference. Raise enough private equity to be able to dilute the 79,9 warrants from Treasury and raise enough private equity to do all that and become a well-capitalized institution under regulatory standards that, by the way, had changed fundamentally from when HERA was passed, because I would think in any corner of the world, if they were going to be in any corner of the United States, if there was going to be companies these this large, they were likely going to be systemically important financial institutions under Dodd-Frank and they were going to have to hold capital well in excess of anything that HERA or at least that pre-HERA envisioned, well in excess in anything of that. So the, the amount would have been huge. And the PSPAs also have a provision that, given that, they don't go away. If you exit

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79 (Pages 310 to 313)

	Page 310		Page 312
1	was a provision in there that even if, even if they	1	Finance, you could get it from CNN, you can get it
2	did all those things I talked about, and FHFA finally	2	from Bloomberg. So your colleague requested a URL,
3	put the stamp of approval on them and said, By God,	3	there is no URL for Bloomberg, it's a proprietary
4	you did it, you've made the capital, you raised all	4	service, so what we're instead giving you is the
5	that money, and even if we had the SIFI standard, you	5	information.
6	would meet it, and the Federal Reserve won't have to	6	MS. HOSFORD: All right.
7	supervise you, Treasury still has to approve them	7	MR. THOMPSON: We're trying to be helpful.
8	coming out of conservatorship because it's still the	8	If it's not helpful, I apologize, and you can
9	financial backing of the PSPAs goes with them.	9	disregard it.
10	So did the third amendment change any of	10	MS. HOSFORD: But I don't understand, I
11	that stuff? No. Very little.	11	mean, there's different dates, different data, how
12	MR. THOMPSON: Now, Ugoletti 29 has a	12	there seems to be no relationship between this and
13	Bates number of FHFA 103596.	13	this except
14	(Exhibit No. 29 marked.)	14	MR. THOMPSON: Other than it's the same
15	MS. HOSFORD: Mr. Thompson, would it be	15	stocks, and the one that you have in your right hand
16	okay if we took a, like a three-minute break?	16	is inclusive of all the information in your left
17	MR. THOMPSON: Sure.	17	hand.
18	THE VIDEOGRAPHER: This concludes Disk	18	MS. HOSFORD: So but why did you not
19	No. 3 in the video deposition of Mario Ugoletti. The	19	why did you not give us a URL for this one?
20	time on the video is 4:44 p.m. We are off the	20	MR. THOMPSON: It doesn't exist.
21	record.	21	MS. HOSFORD: Well, how
22	(Recess taken.)	22	MR. THOMPSON: It's not available on the
	Page 311		Page 313
1	THE VIDEOGRAPHER: This begins Disk No. 4	1	Internet. You have to pay Bloomberg, and so I can't
2	in the video deposition of Mario Ugoletti. The time	2	give you a URL for it.
3	on the video is 4:53 p.m. We are on the record.	3	MS. HOSFORD: Oh, so you're trying to
4	MS. HOSFORD: Counsel, a question: What	4	MR. THOMPSON: I'm trying to be helpful.
5	is this document that you've handed us?	5	Your colleague said, We'd like something we could
6	MR. THOMPSON: Oh, yeah. So your	6	verify. So I tried to give you something that was
7	colleague had requested something that was verifiable	7	verifiable.
8	with a URL. The prior screenshot we gave you, I	8	MS. HOSFORD: So you're trying to give me
9	believe, was from Bloomberg, and that's not	9	something that, that
10	there's no URL, you have to be a subscriber; so we	10	MR. THOMPSON: Verifies the information
11	wanted to give you something that had an Internet	11	that we provided to the witness in a way
12	source for the same information. We've given you a	12	MS. HOSFORD: Or this has some of the same
13	CNN.com, we could also give you a Google Finance if	13	information. It's not verifying this.
14	you want.	14	MR. THOMPSON: It has all of the same
15	MS. HOSFORD: But how does this document	15	information. And if it's not helpful, I apologize.
16	relate to this document?	16	We weren't obligated to do this. We did it in a.
17	MR. THOMPSON: It's the same information.	17	Spirit to try to be helpful.
18	MS. HOSFORD: How did this document get	18	Was it helpful to you, Mr. Dintzer?
19	created then? Is this a screenshot from the same	19	MR. DINTZER: No, actually, it wasn't.
20	site as this?	20	But, I mean, I you hand you handed something to
21	MR. THOMPSON: It's, it's it's stock	21	the witness, and you represent it's whatever
22	price information, so you could get it from Google	22	actually, it doesn't even represent, you said it
1		1	

May	15,	2015
Washing	ton,	D.C.

81 (Pages 318 to 321)

	Page 318		Page 320
1	THE WITNESS: No, not not to my	1	mean, we've talked about this numerous times. These
2	knowledge it had anything to do with that. I mean,	2	were projections based on various various sources;
3	my my take from this is, you know, we had done, as	3	in this case, Moody's opinion on house prices. And
4	we went through earlier today, a lot of back and	4	if Moody's was, even in the base case, if if
5	forth with negotiation on Treasury on these potential	5	markets performed better than that, they were likely
6	third PSPA amendments back in June.	6	to have an outperformance.
7	And the Treasury Department has a whole	7	Q. Okay.
8	process that they need to go through to try to get	8	A. So, I mean, that's
9	something that they're ready to complete. So, I	9	Q. Now, Treasury had experience with
10	mean, I just had taken it that, you know, they're	10	writing
11	working their process and, you know, when they get	11	A. Are you done with this?
12	something that's they think they're ready to go,	12	Q. Yes, sir.
13	they'll let us know.	13	had experience with writing up deferred
14	BY MR. THOMPSON:	14	tax assets insofar as earlier in 2012, were you aware
15	Q. And, I'm sorry, so so why were they	15	that Treasury had written back up AIG's deferred tax
16	why was there a renewed push?	16	assets?
17	MS. HOSFORD: Objection; asked and	17	MS. HOSFORD: Objection; lack of
18	answered.	18	foundation, also not within the scope of the Court's
19	THE WITNESS: Yeah, I I mean, I I	19	discovery order.
20	took this to be that you know, we had done a lot	20	MR. THOMPSON: The deferred tax assets
20	of work on this on June. We had worked on the	21	absolutely are, and I'm entitled to ask him if he
22	language in June. And, you know, the Treasury	22	knew whether Treasury had written up AIG's.
22	language in june. And, you know, the Treasury	22	Kiew witcher Treasury had written up Aro's.
	Page 319		Page 321
1	Department, to get a document all the way through to	1	MS. HOSFORD: Objection; speculative, and
2	the Secretary and to get all their other ducks lined	2	it has nothing to do with this case.
3	up in a row, it takes some time. So I figured it's	3	You may answer.
4	somewhere over there and and they're working the	4	THE WITNESS: No.
5	process.	5	BY MR. THOMPSON:
6	MR. THOMPSON: Okay. This next one is	6	Q. Okay. FHFA reviewed Fannie and Freddie's
7	going to be Ugoletti 30. It has a Bates number of	7	10-Ks and 10-Qs; is that right?
8	FHFA 102247.	8	A. That is correct.
9	(Exhibit No. 30 marked.)	9	Q. Okay.
10	BY MR. THOMPSON:	10	This next one is going to be Ugoletti 31.
11	Q. So the top email is from Ms. Tagoe to you	11	It has a Bates number of FHFA 3584 through 3738.
12	and to others, August 9th, 2012. And at the bottom	12	(Exhibit No. 31 marked.)
13	is an email from a reporter with the American Banker.	13	BY MR. THOMPSON:
14	And this reporter, Mr. Horwitz, says in the second	14	Q. We have this is the 10-Q we have
15	sentence of his email "It looks like the GSEs are	15	produced select pages. If you or DOJ wants the full
16	vastly outperforming even the most optimistic outcome	16	400 pages, we can print it out.
17	listed."	17	MS. HOSFORD: I'm just going to object
18	Was that true; were they "vastly	18	that this is not going to represent the full
			document; and to the extent that Mr. Ugoletti
19	outperforming even the most optimistic outcome	19	document, and to the extent that wir. Ogoletti
	outperforming even the most optimistic outcome listed"?	19 20	attempts to interpret any information in this
19	listed"? A. I'm not going to parse adjectives here in		
19 20	listed"?	20	attempts to interpret any information in this

82 (Pages 322 to 325)

	Page 322		Page 324
1	Q. Now, sir, if we look at this document and	1	don't know what the what the rationale was.
2	you turn to page it's hard to read, but	2	BY MR. THOMPSON:
3	A. That's why I have my glasses.	3	Q. Now, if they had positive inc they had
4	Q 3737, "Deferred Taxes Asset, Net," it	4	positive income in the second quarter of 2012;
5	says "Our valuation allowance decreased by	5	Freddie did, right?
6	\$989 million to \$34.7 billion during the six months	6	MS. HOSFORD: Objection; assumes facts not
7	ended June 30, 2012 primarily due to a decrease in	7	in evidence.
8	deferred tax assets. After consideration of the"	8	THE WITNESS: Yeah, they had positive
9	value "allowance, we had a net deferred tax asset of	9	income, but the general rules, as I understand them,
10	\$3.1 billion, primarily representing the tax effect	10	on reversing a valuation allowance of a deferred tax
11	of unrealized losses on our available-for-sale	11	asset require that sometime in the future you've
12	securities. We continue to be in a tax loss	12	accumulated enough income that you can do a reversal.
13	carryforward position."	13	So whether this was for some portion of
14	This reflects the fact that the companies	14	that or whether this was from from some other
15	were, in fact, decreasing their valuation allowance	15	aspect of that account, all it says is, We reversed
16	right on the eve of the Net Worth Sweep; isn't that	16	this. It doesn't say why, it doesn't say what
17	right?	17	portion of it it was, or anything else about it. So
18	MS. HOSFORD: Objection; lack of	18	I don't know why they did it there.
19	foundation, assumes facts not in evidence.	19	BY MR. THOMPSON:
20	THE WITNESS: I'm not the accounting	20	Q. Now, do you know that the Audit Committee
21	expert here on on how how the deferred tax	21	of Fannie and Freddie every quarter were looking at
22	asset is how the valuation allowance is	22	the deferred tax assets in assessing whether it
			C C
	Page 323		Page 325
1	constructed, but there may be, in my recollection,	1	needed to be the valuation allowance needed to be
2	that there are some portions of it that have	2	reversed
3	different rules than other portions of it, but my	3	A. I'm generally aware of that, yes.
4	under my recollection was that when you make a	4	Q. Okay.
5	determination, it is closer to an all-or-nothing	5	And the next document is going to be
6	determination for certain portions of it, for the	6	Ugoletti 32.
7	large portion of it. But that's I'm not an	7	MS. HOSFORD: Thank you.
8	accounting expert.	8	(Exhibit No. 32 marked.)
9	BY MR. THOMPSON:	9	BY MR. THOMPSON:
10	Q. But FHFA would have been aware that the	10	Q. This says "Grant Thornton Questions for
11	valuation allowance was, in fact, being reduced by	11	Fannie Mae Forecasting Group." It's got a Bates
12	989 million?	12	number of FHFA 95951, so it was produced to us out of
13	A. Yeah, but	13	the FHFA's own files. It's dated July 26, 2012.
14	MS. HOSFORD: Objection; lack of	14	"Fannie Mae Forecasting Group," do you
15	foundation, calls for speculation.	15	know what that was?
16	THE WITNESS: Right, and it doesn't say	16	MS. HOSFORD: Objection; lack of
17	why it was being reduced there. I I don't know	17	foundation.
18	what portion of the rules in the deferred tax asset	18	THE WITNESS: Well, again, I think I
_		19	described this process earlier, right, that, you
19	world that portion of the valuation allowance was	1	
	world that portion of the valuation allowance was being decreased by.	20	know, Grant Thornton we went through a Grant
19	-		
19 20	being decreased by.	20	know, Grant Thornton we went through a Grant

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	Page 326		Page 328
1	have to come in and do their valuation assessments of	1	MS. HOSFORD: Objection; lack of
2	Treasury's holding. We went through one of those	2	foundation.
3	documents, so	3	THE WITNESS: Yeah, I wouldn't read it as
4	BY MR. THOMPSON:	4	that. I mean, you you just you just said that,
5	Q. Okay.	5	I mean, they go through this process on a regular
6	A as part of that process, Treasury asked	6	basis on evaluating what to do about the DTA. I
7	FHFA if Grant Thornton can come over and talk to, I	7	think Grant Thornton just wants to know where they're
8	believe it was, FHFA and Fannie Mae to get	8	at in that process and what they're thinking about,
9	information so they can help improve their	9	what what the I mean, this is this is a
10	calculation for Treasury's financial statements.	10	document a lot of these documents are taking
11	So I, I don't I don't I couldn't	11	like if you if you go up to 3.a., "What are the
12	tell you now who is on the Forecasting Group, but	12	components of 'guaranty fee income' and 'fee and
13	that's the general framework. And so it was some	13	other income'?"
14	combination, I would think, of those folks for that	14	So Grant Thornton has a line item on
15	purpose.	15	Fannie Mae's balance sheet, these two line items; and
16	Q. Okay. And if we look at this document on	16	they're trying to figure out, well, what's all in
17	the second page under	17	that line item? You know, so they're just they're
18	A. Let me read the first page first.	18	trying to take what you know, a lot of what Fannie
19	Q. Oh, take your time.	19	Mae has in their published information and in other
20	You tell me when you're ready.	20	materials that they have as to how are they
21	A. Okay.	21	developing things. And so this is an issue, so they
22	Q. All right. By the way, would Ms. Tagoe	22	want to know what the process is and what the
	Page 327		Page 329
1	have been likely to have been a member of the	1	thinking is on it.
2	Forecasting Group?	2	BY MR. THOMPSON:
3	A. Either her or someone on her her staff,	3	Q. And what was the
4	more likely.		
	5	4	A. My my
5	Q. Okay. Do you know who on her staff	4 5	Q. What was the thinking of Fannie Mae on
5 6	Q. Okay. Do you know who on her staff would		
	Q. Okay. Do you know who on her staffwouldA. No, because there's people people have	5	Q. What was the thinking of Fannie Mae on
6 7 8	 Q. Okay. Do you know who on her staff would A. No, because there's people people have moved around and 	5 6 7 8	 Q. What was the thinking of Fannie Mae on MS. HOSFORD: Objection. BY MR. THOMPSON: Q July 26, 2012?
6 7 8 9	 Q. Okay. Do you know who on her staff would A. No, because there's people people have moved around and Q. Okay. 	5 6 7 8 9	 Q. What was the thinking of Fannie Mae on MS. HOSFORD: Objection. BY MR. THOMPSON: Q July 26, 2012? MS. HOSFORD: Lack of foundation, calls
6 7 8 9 10	 Q. Okay. Do you know who on her staff would A. No, because there's people people have moved around and Q. Okay. A some people have left, so I'm not sure 	5 6 7 8 9 10	 Q. What was the thinking of Fannie Mae on MS. HOSFORD: Objection. BY MR. THOMPSON: Q July 26, 2012? MS. HOSFORD: Lack of foundation, calls for speculation.
6 7 8 9 10 11	 Q. Okay. Do you know who on her staff would A. No, because there's people people have moved around and Q. Okay. A some people have left, so I'm not sure who who at this time would have been 	5 6 7 8 9 10 11	 Q. What was the thinking of Fannie Mae on MS. HOSFORD: Objection. BY MR. THOMPSON: Q July 26, 2012? MS. HOSFORD: Lack of foundation, calls for speculation. THE WITNESS: I do not know what Fannie
6 7 8 9 10 11 12	 Q. Okay. Do you know who on her staff would A. No, because there's people people have moved around and Q. Okay. A some people have left, so I'm not sure who who at this time would have been Q. Fair enough. 	5 6 7 8 9 10 11 12	 Q. What was the thinking of Fannie Mae on MS. HOSFORD: Objection. BY MR. THOMPSON: Q July 26, 2012? MS. HOSFORD: Lack of foundation, calls for speculation. THE WITNESS: I do not know what Fannie Mae's thinking was on July 26th. I was not part of
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6 7 8 9 10 11 12 13 14	 Q. Okay. Do you know who on her staff would A. No, because there's people people have moved around and Q. Okay. A some people have left, so I'm not sure who who at this time would have been Q. Fair enough. A would have been that person. Q. Okay. Well, if we look at 4, "Other 	5 6 7 8 9 10 11 12 13 14	 Q. What was the thinking of Fannie Mae on MS. HOSFORD: Objection. BY MR. THOMPSON: Q July 26, 2012? MS. HOSFORD: Lack of foundation, calls for speculation. THE WITNESS: I do not know what Fannie Mae's thinking was on July 26th. I was not part of this meeting. I did not really hear much about this issue until January or early February of the next
6 7 8 9 10 11 12 13 14 15	 Q. Okay. Do you know who on her staff would A. No, because there's people people have moved around and Q. Okay. A some people have left, so I'm not sure who who at this time would have been Q. Fair enough. A would have been that person. Q. Okay. Well, if we look at 4, "Other Items" 	5 6 7 8 9 10 11 12 13 14 15	 Q. What was the thinking of Fannie Mae on MS. HOSFORD: Objection. BY MR. THOMPSON: Q July 26, 2012? MS. HOSFORD: Lack of foundation, calls for speculation. THE WITNESS: I do not know what Fannie Mae's thinking was on July 26th. I was not part of this meeting. I did not really hear much about this issue until January or early February of the next year when the first quarter results were about to
6 7 8 9 10 11 12 13 14 15 16	 Q. Okay. Do you know who on her staff would A. No, because there's people people have moved around and Q. Okay. A some people have left, so I'm not sure who who at this time would have been Q. Fair enough. A would have been that person. Q. Okay. Well, if we look at 4, "Other Items" A. Yes. 	5 6 7 8 9 10 11 12 13 14 15 16	 Q. What was the thinking of Fannie Mae on MS. HOSFORD: Objection. BY MR. THOMPSON: Q July 26, 2012? MS. HOSFORD: Lack of foundation, calls for speculation. THE WITNESS: I do not know what Fannie Mae's thinking was on July 26th. I was not part of this meeting. I did not really hear much about this issue until January or early February of the next year when the first quarter results were about to come out.
6 7 8 9 10 11 12 13 14 15 16 17	 Q. Okay. Do you know who on her staff would A. No, because there's people people have moved around and Q. Okay. A some people have left, so I'm not sure who who at this time would have been Q. Fair enough. A would have been that person. Q. Okay. Well, if we look at 4, "Other Items" A. Yes. Q and we look at b, it says "What are the 	5 6 7 8 9 10 11 12 13 14 15 16 17	 Q. What was the thinking of Fannie Mae on MS. HOSFORD: Objection. BY MR. THOMPSON: Q July 26, 2012? MS. HOSFORD: Lack of foundation, calls for speculation. THE WITNESS: I do not know what Fannie Mae's thinking was on July 26th. I was not part of this meeting. I did not really hear much about this issue until January or early February of the next year when the first quarter results were about to come out. BY MR. THOMPSON:
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	Page 330		Page 332
1	be written back up in 2013, right?	1	BY MR. THOMPSON:
2	MS. HOSFORD: Objection; misstates prior	2	Q. Do you know what Treasury thought about
3	testimony.	3	it?
4	THE WITNESS: I think you'd have to, you'd	4	MS. HOSFORD: Objection; calls for
5	have to go through	5	speculation.
6	BY MR. THOMPSON:	6	THE WITNESS: I do not.
7	Q. Well, let me ask you: Did the	7	BY MR. THOMPSON:
8	conservator, on the eve of the Net Worth Sweep,	8	Q. Okay. Now, you did know that one of the
9	envision that the deferred tax assets would be	9	factors you look at is whether there's a three-year
10	written back up in 2013?	10	cumulative loss, right?
11	A. As I just stated, I did not really think	11	MS. HOSFORD: Objection; mischaracterizes
12	that this was a possibility anytime in the near	12	testimony, assumes facts not in evidence.
13	future. And 2013, the early part of 2013 when this	13	THE WITNESS: I just said, I knew there
14	became an issue, it became an issue because, well,	14	were some tests that related to how much income, I
15	house prices are continuing to go up and we're going	15	can't I don't know if it was a three-year, I mean,
16	to take release more loss reserves, and it looks	16	but there was some test that you had to meet that you
17	like it's more probable than not, which is a very low	17	were going to pass this threshold and that you
18	standard, more probable than not, that we're going to	18	expected to continue to generate net income in the
19	have to release the valuation allowance on the	19	future to be able to use the tax asset. That's the
20	deferred tax asset.	20	condition for revaluing it.
21	So that is when it really came home that	21	BY MR. THOMPSON:
22	this was a possibility.	22	Q. And we looked at the Grant Thornton
	D 221		
	Page 331		Page 333
1	Q. To you?	1	Page 333 September 2011 projections, you recall that, for
1 2		1 2	
	Q. To you?		September 2011 projections, you recall that, for
2	Q. To you?A. To me.	2	September 2011 projections, you recall that, for Freddie?
2 3	Q. To you?A. To me.Q. Okay. But I'm asking: Do you have an	2 3	September 2011 projections, you recall that, for Freddie? A. Yeah.
2 3 4	Q. To you?A. To me.Q. Okay. But I'm asking: Do you have an opinion on whether FHFA, as conservator, knew that	2 3 4	September 2011 projections, you recall that, for Freddie? A. Yeah. Q. I know it was a long time ago. Yeah.
2 3 4 5	Q. To you?A. To me.Q. Okay. But I'm asking: Do you have an opinion on whether FHFA, as conservator, knew that the deferred tax assets might be written back up in	2 3 4 5	September 2011 projections, you recall that, forFreddie?A. Yeah.Q. I know it was a long time ago. Yeah.A. Yeah.
2 3 4 5 6	Q. To you?A. To me.Q. Okay. But I'm asking: Do you have an opinion on whether FHFA, as conservator, knew that the deferred tax assets might be written back up in 2013?	2 3 4 5 6	September 2011 projections, you recall that, forFreddie?A. Yeah.Q. I know it was a long time ago. Yeah.A. Yeah.Q. And it showed projections of roughly
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	Page 334		Page 336
1	A. Because they have to sign their financial	1	Q. Okay. But if they did, they would, right?
2	statements, so the companies have to go through the	2	MS. HOSFORD: Objection; asked and
3	process of evaluating this accounting question on a	3	answered.
4	regular basis, and between the co the companies	4	THE WITNESS: Asked that they're going
5	and their auditors, when they think they are in a	5	to follow what the accounting rules say and they're
6	place where they've hit the thresholds for reversing	6	going to make a judgment based on what they think the
7	a valuation off or putting one on, they are going to	7	accounting rules tell them to do in terms of a
8	follow GAAP because that is what they do.	8	probability more likely than not to use that asset to
9	Q. But did you ha I understand you're	9	write it up.
10	saying that's an accounting issue for the companies.	10	BY MR. THOMPSON:
11	Did you have an opinion on that, as to whether if	11	Q. Now, were you aware that there were market
12	Freddie, for example, made \$5 billion year after	12	commentators after the release of the second quarter
13	year, whether the deferred tax asset would be written	13	profits who were saying that Fed Freddie and
14	back up?	14	Fannie had made a convincing return to profitability?
15	A. It's not	15	MS. HOSFORD: Can you objection. Can
16	MS. HOSFORD: Objection; asked and	16	you please put a time frame of when those statements
17	answered.	17	were made. After the second quarter profits is
18	THE WITNESS: Yeah, I'm not an accountant.	18	insufficient to tell whether it's in the scope of the
19	BY MR. THOMPSON:	19	Court's order.
20	Q. So you didn't have an opinion on that?	20	MR. THOMPSON: Within the next two or
21	A. No, I don't have an accounting opinion on,	21	three days.
22	on the DTA and the finer points of the DTA about when	22	MS. HOSFORD: Within the next two or three
	Page 335		Page 337
1	Page 335 you would actually hit this trigger and what the	1	Page 337 days after what?
1 2	5	1 2	-
	you would actually hit this trigger and what the		days after what?
2	you would actually hit this trigger and what the triggers are. I generally understand what they are,	2	days after what? MR. THOMPSON: The release of the second
2 3	you would actually hit this trigger and what the triggers are. I generally understand what they are, but I don't have the, I'm not an accountant, I don't	2 3	days after what? MR. THOMPSON: The release of the second quarter earnings.
2 3 4	you would actually hit this trigger and what the triggers are. I generally understand what they are, but I don't have the, I'm not an accountant, I don't have the it it's not my profession.	2 3 4	days after what? MR. THOMPSON: The release of the second quarter earnings. MS. HOSFORD: When were the second quarter
2 3 4 5	you would actually hit this trigger and what the triggers are. I generally understand what they are, but I don't have the, I'm not an accountant, I don't have the it it's not my profession. Q. Yeah, and I don't mean to be difficult, I	2 3 4 5	days after what? MR. THOMPSON: The release of the second quarter earnings. MS. HOSFORD: When were the second quarter earnings released?
2 3 4 5 6	you would actually hit this trigger and what the triggers are. I generally understand what they are, but I don't have the, I'm not an accountant, I don't have the it it's not my profession. Q. Yeah, and I don't mean to be difficult, I don't mean to be difficult, but I want to make sure	2 3 4 5 6	days after what? MR. THOMPSON: The release of the second quarter earnings. MS. HOSFORD: When were the second quarter earnings released? MR. THOMPSON: I believe it was the 6th
2 3 4 5 6 7	you would actually hit this trigger and what the triggers are. I generally understand what they are, but I don't have the, I'm not an accountant, I don't have the it it's not my profession. Q. Yeah, and I don't mean to be difficult, I don't mean to be difficult, but I want to make sure the record's complete. Even if you didn't have a	2 3 4 5 6 7	days after what? MR. THOMPSON: The release of the second quarter earnings. MS. HOSFORD: When were the second quarter earnings released? MR. THOMPSON: I believe it was the 6th and 7th; it might have been the 8th and 9th.
2 3 4 5 6 7 8	you would actually hit this trigger and what the triggers are. I generally understand what they are, but I don't have the, I'm not an accountant, I don't have the it it's not my profession. Q. Yeah, and I don't mean to be difficult, I don't mean to be difficult, but I want to make sure the record's complete. Even if you didn't have a precise understanding of every little test to know	2 3 4 5 6 7 8	days after what? MR. THOMPSON: The release of the second quarter earnings. MS. HOSFORD: When were the second quarter earnings released? MR. THOMPSON: I believe it was the 6th and 7th; it might have been the 8th and 9th. MS. HOSFORD: Of August?
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2 3 4 5 6 7 8 9 10 11 12 13 14 15 16 17 18 19 20 21	you would actually hit this trigger and what the triggers are. I generally understand what they are, but I don't have the, I'm not an accountant, I don't have the it it's not my profession. Q. Yeah, and I don't mean to be difficult, I don't mean to be difficult, but I want to make sure the record's complete. Even if you didn't have a precise understanding of every little test to know exactly what quarter it would be written up, did you have a rough sense as to, you know, if they make 5 billion a year, year after year, that yeah, at some point in the next two, three years they're going to write it back up? MS. HOSFORD: Objection; asked and answered, mischaracterizes prior testimony. THE WITNESS: Yeah, and the only thing I would highlight in what you just asked me is, you said "if." BY MR. THOMPSON:	2 3 4 5 6 7 8 9 10 11 12 13 14 15 16 17 18 19 20 21	days after what? MR. THOMPSON: The release of the second quarter earnings. MS. HOSFORD: When were the second quarter earnings released? MR. THOMPSON: I believe it was the 6th and 7th; it might have been the 8th and 9th. MS. HOSFORD: Of August? MR. THOMPSON: Yes. MS. HOSFORD: Thank you. THE WITNESS: No, I wasn't following what the market commentators were saying. It was a good quarter. That's, that's good. We were hap we were happy it was a good quarter, their underwriting had improved, they were starting to earn some income. But because the market commentators said they had a good good quarter and something else is, is a response. That's nice to know. But, I mean, I'm going to MR. THOMPSON: Okay. Let's look at the next one, which will be Ugoletti 32, FHFA
2 3 4 5 6 7 8 9 10 11 12 13 14 15 16 17 18 19 20	you would actually hit this trigger and what the triggers are. I generally understand what they are, but I don't have the, I'm not an accountant, I don't have the it it's not my profession. Q. Yeah, and I don't mean to be difficult, I don't mean to be difficult, but I want to make sure the record's complete. Even if you didn't have a precise understanding of every little test to know exactly what quarter it would be written up, did you have a rough sense as to, you know, if they make 5 billion a year, year after year, that yeah, at some point in the next two, three years they're going to write it back up? MS. HOSFORD: Objection; asked and answered, mischaracterizes prior testimony. THE WITNESS: Yeah, and the only thing I would highlight in what you just asked me is, you said "if." BY MR. THOMPSON: Q. Yeah.	2 3 4 5 6 7 8 9 10 11 12 13 14 15 16 17 18 19 20	days after what? MR. THOMPSON: The release of the second quarter earnings. MS. HOSFORD: When were the second quarter earnings released? MR. THOMPSON: I believe it was the 6th and 7th; it might have been the 8th and 9th. MS. HOSFORD: Of August? MR. THOMPSON: Yes. MS. HOSFORD: Thank you. THE WITNESS: No, I wasn't following what the market commentators were saying. It was a good quarter. That's, that's good. We were hap we were happy it was a good quarter, their underwriting had improved, they were starting to earn some income. But because the market commentators said they had a good good quarter and something else is, is a response. That's nice to know. But, I mean, I'm going to MR. THOMPSON: Okay. Let's look at the

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EXHIBIT E

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Page 1

1 IN THE UNITED STATES COURT OF FEDERAL CLAIMS 2 Х 3 FAIRHOLME FUNDS, INC., et : al., 4 : 5 Plaintiffs, : Case No. 13-465C 6 v. : 7 THE UNITED STATES, : Defendant. 8 Х 9 Washington, D.C. 10 11 Tuesday, July 14, 2015 12 Deposition of JEFFREY ALAN FOSTER, a 13 witness herein, called for examination by counsel for Defendant in the above-entitled matter, pursuant to 14 15 notice, the witness being duly sworn by MARY GRACE 16 CASTLEBERRY, a Notary Public in and for the District 17 of Columbia, taken at the offices of Cooper & Kirk, 18 1523 New Hampshire Avenue, N.W., Washington, D.C., at 19 8:00 a.m., Tuesday, July 14, 2015, and the 20 proceedings being taken down by Stenotype by MARY GRACE CASTLEBERRY, RPR, and transcribed under her 21 22 direction.

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Page 106		Page 108
payment based on positive net worth."	1	capacity would not be sufficient to cover expected
Do you see that?	2	dividend payments.
A. Yes.	3	Q. Now, when did Treasury come up with this
Q. How did that idea come to be part of this	4	idea to restructure the PSPAs to allow for variable
document?	5	dividend payment?
A. That related to the fact that	6	MR. DINTZER: Objection. Vague.
MR. DINTZER: And I'm going to instruct	7	THE WITNESS: Can you be more specific?
the witness that to the extent that your answer would	8	BY MR. PATTERSON:
involve any communications with members of the White	9	Q. When did Treasury first have the idea to
House or the NEC or would involve attorney-client	10	restructure the PSPAs to allow for variable dividend
communications, I'll instruct the witness not to	11	payment based on positive net worth as stated in this
answer. Otherwise, you may answer the question.	12	document?
THE WITNESS: The reason why I believe	13	A. I don't know when Treasury came up with
this was part of the transition plan was that, as	14	that idea. I began discussing it with colleagues in
these steps were initiated, the profitability of	15	2010.
Fannie Mae and Freddie Mac might have been impacted.	16	Q. And with whom did you discuss that?
BY MR. PATTERSON:	17	A. Counsel, Jeffrey Goldstein, Mary Miller,
Q. And had Treasury done any projections to	18	Tim Bowler, others within the department.
test that concern that you just articulated?	19	Q. Do you remember specifically who else
MR. DINTZER: Objection. Vague.	20	within the department?
THE WITNESS: I'm not can you be more	21	A. It went from a small group to a larger
-	22	group over time. So at some point it included the
Page 107		Page 109
BY MR. PATTERSON:	1	broader housing finance reform team.
Q. Yes. You said that this could impact the	2	Q. And was this your idea?
reform did you say that the reform proposal here	3	MR. DINTZER: Objection. Vague and
	4	confusing.
potentially?	5	THE WITNESS: I don't know. Other people
MR. DINTZER: Objection.	6	may have had this idea as well, but I had this idea.
THE WITNESS: Potentially.	7	BY MR. PATTERSON:
BY MR. PATTERSON:	8	Q. And how did you come up with this idea?
Q. And was that concern based on any	9	MR. DINTZER: Objection. Vague.
projections that Treasury did then?	10	Confusing.
MR. DINTZER: Objection. Confusing.	11	THE WITNESS: The original idea generated
THE WITNESS: We knew that there was a	12	from a phone conversation between me and Mario
circularity in the PSPAs that would over time result	13	Ugoletti about the challenges of the circularity of
in reduced funding capacity and would make it more	14	drawing to pay ourselves.
challenging to be able to gradually wind down the	15	BY MR. PATTERSON:
GSEs.	16	Q. And when did that conversation take place?
BY MR. PATTERSON:	17	A. Sometime in 2010.
Q. And how did you know that?	18	Q. And did you discuss the idea of allowing
	19	for a variable dividend payment based on positive net
A. From modeling work that we had done.	1 - 1	
A. From modeling work that we had done.Q. And which modeling work was that?	20	worth with Mario Ugoletti at that point?
	1	
	Do you see that? A. Yes. Q. How did that idea come to be part of this document? A. That related to the fact that MR. DINTZER: And I'm going to instruct the witness that to the extent that your answer would involve any communications with members of the White House or the NEC or would involve attorney-client communications, I'll instruct the witness not to answer. Otherwise, you may answer the question. THE WITNESS: The reason why I believe this was part of the transition plan was that, as these steps were initiated, the profitability of Fannie Mae and Freddie Mac might have been impacted. BY MR. PATTERSON: Q. And had Treasury done any projections to test that concern that you just articulated? MR. DINTZER: Objection. Vague. THE WITNESS: I'm not can you be more specific? Page 107 BY MR. PATTERSON: Q. Yes. You said that this could impact the reform did you say that the reform proposal here could impact Fannie and Freddie's profitability potentially? MR. DINTZER: Objection. THE WITNESS: Potentially. BY MR. PATTERSON: Q. And was that concern based on any projections that Treasury did then? MR. DINTZER: Objection. Confusing. THE WITNESS: We knew that there was a circularity in the PSPAs that would over time result in reduced funding capacity and would make it more challenging to be able to gradually wind down the GSEs.	Do you see that?2A. Yes.3Q. How did that idea come to be part of this document?4A. That related to the fact that6MR. DINTZER: And I'm going to instruct7the witness that to the extent that your answer would involve any communications with members of the White9House or the NEC or would involve attorney-client communications, I'll instruct the witness not to11answer. Otherwise, you may answer the question.12THE WITNESS: The reason why I believe13this was part of the transition plan was that, as14these steps were initiated, the profitability of15Fannie Mae and Freddie Mac might have been impacted.16BY MR. PATTERSON:17Q. And had Treasury done any projections to18test that concern that you just articulated?19MR. DINTZER: Objection. Vague.20THE WITNESS: I'm not can you be more21specific?22Page 107BY MR. PATTERSON:1Q. Yes. You said that this could impact the reform did you say that the reform proposal here could impact Fannie and Freddie's profitability potentially?5MR. DINTZER: Objection.6THE WITNESS: Potentially.7BY MR. PATTERSON:8Q. And was that concern based on any projections that Treasury did then?10MR. DINTZER: Objection.6THE WITNESS: We knew that there was a circularity in the PSPAs that would over time result in reduced funding capacity and would make it more

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29 (Pages 110 to 113)

	Page 110		Page 112
1	that?	1	MR. PATTERSON: And again, we don't agree
2	MR. DINTZER: Objection, Counsel. I've	2	with your instruction, but for purposes of this, I
3	allowed a few questions, but if you could keep your	3	will put a time frame on it. Beginning on June 1st,
4	questions within the time frame allowed by the Court,	4	2011 through August 17th, 2012.
5	please.	5	THE WITNESS: Again, I wouldn't say it was
6	MR. PATTERSON: So your position is that I	6	my idea and no, I don't recall having conversations
7	cannot ask him questions about FHFA's reaction to the	7	outside the Administration.
8	net worth sweep dividend if they're outside the time	8	BY MR. PATTERSON:
9	period?	9	Q. And how about other agencies of the
10	MR. DINTZER: My question to you is, if	10	government outside of Treasury?
11	you could identify how your previous question, the	11	MR. DINTZER: Objection. Vague.
12	one you just asked, fits into the Court's order	12	Incomplete.
13	allowing for specified limited discovery.	13	THE WITNESS: Can you be more specific?
14	MR. PATTERSON: Well, one of the key	14	BY MR. PATTERSON:
15	topics is whether and what extent FHFA was acting as	15	Q. Were there any agencies of the government
16	the United States.	16	outside of Treasury that you had discussions or
17	MR. DINTZER: Right.	17	communications with about the idea to allow for a
18	MR. PATTERSON: And, you know, FHFA's	18	variable dividend payment based on positive net worth
19	response to Treasury's proposal, I think, would fit	19	from June 1st, 2011 through August 17th, 2012?
20	well within that.	20	A. Yes.
21	MR. DINTZER: So if you want to ask about	21	Q. And which agencies were those?
22	that within the time frame, I have no problem with	22	A. The White House. And I don't recall if
	· •		
	Page 111		Page 113
1	Page 111 that.	1	Page 113 there were others.
1 2		1 2	
	that.		there were others.
2	that. MR. PATTERSON: So my question to you is,	2	there were others. Q. With whom at the White House did you have
2 3	that. MR. PATTERSON: So my question to you is, since that conversation took place outside of the	2 3	there were others. Q. With whom at the White House did you have discussions about that topic?
2 3 4	that. MR. PATTERSON: So my question to you is, since that conversation took place outside of the time frame, is it your position that I cannot ask	2 3 4	there were others. Q. With whom at the White House did you have discussions about that topic? MR. DINTZER: Objection. Calls for
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2 3 4 5 6	that. MR. PATTERSON: So my question to you is, since that conversation took place outside of the time frame, is it your position that I cannot ask about that conversation? MR. DINTZER: That would not fit within	2 3 4 5 6	there were others. Q. With whom at the White House did you have discussions about that topic? MR. DINTZER: Objection. Calls for Presidential communication privilege. But you can identify the name.
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30 (Pages 114 to 117)

	Page 114		Page 116
1	explain how that relates to the limited scopes of	1	1st, 2011?
2	discovery, I would appreciate it.	2	A. I don't remember when the first
3	MR. PATTERSON: The whole process of how	3	conversation in that time period happened.
4	the net worth sweep idea was conceived, proposed,	4	Q. But just in general, during that time
5	agreed to goes to the purposes and how FHFA was	5	period, what was FHFA's response to the proposal to
6	acting at the time it entered the net worth sweep.	6	change PSPAs to allow for variable dividend payment?
7	MR. DINTZER: So it's your position that	7	MR. DINTZER: Objection. Vague.
8	if somebody from the White House talked him as	8	Confusing.
9	opposed to somebody from some other agency, that that	9	THE WITNESS: I think you would have to
10	affected the relationship between FHFA and Treasury?	10	ask FHFA.
11	MR. PATTERSON: It's our position that the	11	BY MR. PATTERSON:
12	whole process of the consideration and adoption of	12	Q. Did FHFA express any concerns to you about
13	the net worth sweep informs the evaluation of what	13	the proposal to allow for variable dividend payment
14	FHFA was doing when it agreed to it and in what	14	under the PSPAs?
15	capacity was acting.	15	A. Yes. They stated a number of concerns and
16	MR. DINTZER: And it is your understanding	16	questions throughout the conversation and discussion.
17	that the evaluation of how FHFA what it was doing,	17	Q. And what were those concerns?
18	that that was in the scope of the Court's discovery	18	A. Primarily related to mechanics and how
19	order?	19	such a proposal would work. I don't remember the
20	MR. PATTERSON: Within the scope of this	20	specifics.
20	Court's discovery order is whether and to what extent	20	Q. Did FHFA ever propose any alternatives to
22	FHFA was acting as the United States when it entered	22	the proposal to allow variable dividend payment based
	Page 115		Page 117
1	the net worth sweep. So it's our position that the	1	on positive net worth starting June 1st, 2011?
2	process of how the net worth sweep got adopted is	2	A. Our original proposal was to modify the
3			
2	relevant to that question.	3	PCF, which was not ultimately adopted as a variable
3 4	relevant to that question. And so I think I had asked when he had	3 4	PCF, which was not ultimately adopted as a variable payment. And that was not the final structure of the
	-	1	
4	And so I think I had asked when he had	4	payment. And that was not the final structure of the
4 5	And so I think I had asked when he had first had communications with Mr. Parrot and Deese on	4 5	payment. And that was not the final structure of the reform. And there was a back-and-forth conversation
4 5 6	And so I think I had asked when he had first had communications with Mr. Parrot and Deese on this issue. You had instructed not to answer and so	4 5 6	payment. And that was not the final structure of the reform. And there was a back-and-forth conversation between FHFA and Treasury on the appropriate way to
4 5 6 7	And so I think I had asked when he had first had communications with Mr. Parrot and Deese on this issue. You had instructed not to answer and so you're standing by that instruction?	4 5 6 7	payment. And that was not the final structure of the reform. And there was a back-and-forth conversation between FHFA and Treasury on the appropriate way to support the funding capacity and maintain the
4 5 6 7 8	And so I think I had asked when he had first had communications with Mr. Parrot and Deese on this issue. You had instructed not to answer and so you're standing by that instruction? MR. DINTZER: And I'm going to add to it	4 5 6 7 8	payment. And that was not the final structure of the reform. And there was a back-and-forth conversation between FHFA and Treasury on the appropriate way to support the funding capacity and maintain the financial stability of Fannie and Freddie on an
4 5 6 7 8 9	And so I think I had asked when he had first had communications with Mr. Parrot and Deese on this issue. You had instructed not to answer and so you're standing by that instruction? MR. DINTZER: And I'm going to add to it I'm instructing not to answer on the scope as well.	4 5 6 7 8 9	payment. And that was not the final structure of the reform. And there was a back-and-forth conversation between FHFA and Treasury on the appropriate way to support the funding capacity and maintain the financial stability of Fannie and Freddie on an ongoing basis.
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39 (Pages 150 to 153)

	Page 150		Page 152
1	A. I don't recall what modifications, if any,	1	A. I don't think they had the ability to
2	we made.	2	elect. It was if they failed to be able to pay the
3	Q. If we can turn to slide 9, the slide	3	10 percent. In that circumstance, if that failure
4	marked number 9. This slide has the title PSPAs key	4	occurred, the liquidation preference would
5	terms. And do you see the section of this slide	5	automatically increase at an annual rate of 12
6	titled core terms?	6	percent.
7	A. Yes.	7	Q. Now, this document says, "If elected to be
8	Q. There is a row for dividend rate. Do you	8	paid in kind," correct?
9	see that?	9	A. That's what it says.
10	A. Uh-huh.	10	Q. So it's your position this document is
11	Q. And this row says, "Cash, 10 percent. If	11	incorrect?
12	elected to be paid in kind, pick 12 percent."	12	MR. DINTZER: Objection. Vague.
13	What does this mean when it says, "if	13	THE WITNESS: This document was designed
14	elected to be paid in kind"?	14	to be a shorthand summary, not necessarily a
15	MR. DINTZER: Objection. Vague.	15	definitive legal conclusion of the documents, the
16	THE WITNESS: Can you be more specific?	16	legal documents themselves.
17	BY MR. PATTERSON:	17	BY MR. PATTERSON:
18	Q. This says one of the core terms of the	18	Q. So then in your understanding, what is
19	dividend rate, it says, "If elected to be paid in	19	"elected" shorthand for?
20	kind, pick 12 percent:	20	MR. DINTZER: Objection. Confusing.
21	What's your understanding of what that	21	THE WITNESS: I don't necessarily think it
22	means?	22	was shorthand for anything. I think it may have been
	Page 151		Page 153
1	Page 151 A. I think that refers to in the event that	1	Page 153 misstated.
1 2	-	1 2	-
	A. I think that refers to in the event that	1	misstated.
2	A. I think that refers to in the event that the GSEs fail to pay their cash rate, that a	2	misstated. BY MR. PATTERSON:
2 3	A. I think that refers to in the event that the GSEs fail to pay their cash rate, that a paid-in-kind rate would then be put in place at a	2 3	misstated. BY MR. PATTERSON: Q. And did you review this document?
2 3 4	A. I think that refers to in the event that the GSEs fail to pay their cash rate, that a paid-in-kind rate would then be put in place at a higher rate.	2 3 4	misstated. BY MR. PATTERSON: Q. And did you review this document? MR. DINTZER: Objection.
2 3 4 5	A. I think that refers to in the event that the GSEs fail to pay their cash rate, that a paid-in-kind rate would then be put in place at a higher rate.Q. And what is a paid-in-kind rate?	2 3 4 5	 misstated. BY MR. PATTERSON: Q. And did you review this document? MR. DINTZER: Objection. BY MR. PATTERSON: Q. Did you raise any concerns about this
2 3 4 5 6	A. I think that refers to in the event that the GSEs fail to pay their cash rate, that a paid-in-kind rate would then be put in place at a higher rate.Q. And what is a paid-in-kind rate?A. Instead of paying cash, you pay in kind	2 3 4 5 6	misstated. BY MR. PATTERSON: Q. And did you review this document? MR. DINTZER: Objection. BY MR. PATTERSON:
2 3 4 5 6 7	 A. I think that refers to in the event that the GSEs fail to pay their cash rate, that a paid-in-kind rate would then be put in place at a higher rate. Q. And what is a paid-in-kind rate? A. Instead of paying cash, you pay in kind for with other securities. I think that's a 	2 3 4 5 6 7	 misstated. BY MR. PATTERSON: Q. And did you review this document? MR. DINTZER: Objection. BY MR. PATTERSON: Q. Did you raise any concerns about this dividend rate provision being misstated at the time you reviewed it?
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40 (Pages 154 to 157)

	Page 154		Page 156
1	BY MR. PATTERSON:	1	then I instruct you not to answer; to the extent that
2	Q. How would it further reduce the net worth	2	it calls for conversation outside of that, to the
3	outstanding?	3	extent that it's beyond the time period specified, we
4	A. Because it would increase the liquidation	4	have a scope problem. So I just ask counsel if you
5	preference to offset the loss on the balance sheet.	5	could make it a more narrow question.
6	Q. And how would increasing the liquidation	6	BY MR. PATTERSON:
7	preference reduce the net worth outstanding?	7	Q. And again, we don't agree with the scope
8	A. Actually, I'm sorry. That's not right.	8	objection or necessarily the other objections, but
9	It would not impact the net worth, but it would	9	for the purposes of moving along today, we'll say
10	increase the liquidation preference for the preferred	10	from June 1st, 2011 through adoption of the net worth
11	stock.	11	sweep on August 17th, 2012, did you have any
12	Q. We're going to come back to this exhibit,	12	discussions outside of discussions with counsel or
13	but in the meantime, I'll mark another exhibit.	13	the White House about the option that Fannie and
14	(Foster Exhibit No. 23 was	14	Freddie had of accruing dividends at a 12 percent
15	marked for identification.)	15	rate?
16	BY MR. PATTERSON:	16	MR. DINTZER: Is this a question about the
17	Q. You've been handed an exhibit marked	17	document itself or just in general?
18	Foster 23. This is an email from 2008 marked FHFA	18	MR. PATTERSON: In general.
19	00083259. Do you see that?	19	MR. DINTZER: You can set aside the
20	A. Yep.	20	document. And I'm going to object to vague.
21	Q. And on the first page or actually,	21	THE WITNESS: I don't recall having
22	let's turn to the second page of this email. And	22	discussions about having the GSEs accrue at a 12
	Page 155		Page 157
1	there is questions for both GSEs. Do you see that?	1	percent rate.
2	A. Okay.	2	BY MR. PATTERSON:
3	Q. And number 4 says, "Did the GSEs intend to	3	Q. Do you recall having any discussions that
4	pay cash at 10 percent or accrue at 12 percent as a	4	related in any way to the option to have the
5	matter of policy?" Do you see that?	5	dividends be paid in kind that we've discussed, with
6	A. I do.		
		6	all the time period and other caveats that I listed
7		6 7	all the time period and other caveats that I listed in my prior question?
	Q. Now, during the time you were at Treasury,		in my prior question?
7	Q. Now, during the time you were at Treasury, FHFA always paid the dividends in cash; is that	7	in my prior question? MR. DINTZER: Objection. Vague.
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	Page 158		Page 160
1	10 percent and moving to and accruing and paying a	1	mechanics that were more similar to a debt security
2	higher interest rate through a kind of create a	2	than to an equity.
3	liquidation preference or paid in kind and the	3	BY MR. PATTERSON:
4	negative implications that that would signal to the	4	Q. And what were those features?
5	market.	5	A. Fixed interest rate, senior position and
6	Q. And what would those negative implications	6	in many ways more structured like a bond.
7	be?	7	Q. And what was your basis for thinking
8	MR. DINTZER: Objection. Vague.	8	moving to a PIK would be confusing?
9	THE WITNESS: That the government support	9	A. One, the liquidation preference would
10	for Fannie and Freddie was more limited and that an	10	continue to accrete; two, you would be switching from
11	ever-increasing liquidation preference would be	11	the normal rate to effectively something that could
12	confusing to explain.	12	be perceived as a penalty rate.
13	BY MR. PATTERSON:	13	Q. And what about that is confusing?
14	Q. And how would that have the implication of	14	A. So if you have an increasing liquidation
15	Treasury's support being more limited?	15	preference, it would have required additional and
16	MR. DINTZER: Objection. Confusing.	16	more complicated messaging to the market.
17	THE WITNESS: Because if effectively we	17	Q. Why would it have been you've explained
18	were saying because the way that I recall the	18	it here to me in a pretty straightforward way. Why
19	PSPAs were constructed were that the 12 percent only	19	would it have been confusing to the market?
20	took into account if the GSEs failed to pay the 10	20	MR. DINTZER: Objection. Argumentative.
21	percent cash and there was concern that simply	21	THE WITNESS: I think that was my judgment
22	dealing a PIK or instructing the GSEs or having FHFA	22	based off of my experience.
			Jan
	Page 159		Page 161
		1	
1	instruct the GSEs to accrue it or PIK at 12 percent	1	BY MR. PATTERSON:
1 2	instruct the GSEs to accrue it or PIK at 12 percent would be perceived as bad by the markets.	1 2	
	-		BY MR. PATTERSON:
2	would be perceived as bad by the markets.	2	BY MR. PATTERSON: Q. Now, you said you were concerned about the
2 3	would be perceived as bad by the markets. BY MR. PATTERSON:	2 3	BY MR. PATTERSON: Q. Now, you said you were concerned about the circular dividend issue; is that correct?
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July 14, 2015 Washington, D.C.

42 (Pages 162 to 165)

	Page 162		Page 164
1	Q. Are you aware of any other company that	1	MR. PATTERSON: That is my position. Let
2	has drawn on a line of credit to pay dividends?	2	me ask it another way and see if you'll allow him to
3	MR. DINTZER: Objection. Vague.	3	answer.
4	THE WITNESS: Not that I can think of.	4	BY MR. PATTERSON:
5	BY MR. PATTERSON:	5	Q. During the time that the net worth sweep
6	Q. Can you think of any preferred stock	6	proposal was under consideration, were you aware of
7	instruments that have a dividend rate based on the	7	other preferred stock instruments that had a net
8	net worth of a company other than Fannie and	8	worth dividend component based on a company's net
9	Freddie's preferred stock that Treasury owns after	9	worth?
10	the net worth sweep?	10	MR. DINTZER: Objection. Vague.
11	MR. DINTZER: And I'm going to instruct	11	Confusing.
12	the witness not to answer as beyond the scope.	12	THE WITNESS: There are no other companies
13	MR. PATTERSON: And why is that beyond the	13	that were in conservatorship or that the federal
14	scope?	14	government invested in that I knew of that had
15	MR. DINTZER: Actually, if you can go	15	preferred stock variable payments.
16	ahead and explain to me how it's in the scope, that'd	16	BY MR. PATTERSON:
17	be great.	17	Q. How about other private companies outside
18	MR. PATTERSON: This is all in the line of	18	of conservatorship or that Treasury had invested in?
19	considerations that were made in connection with	19	MR. DINTZER: Objection. Vague.
20	adopting the net worth sweep.	20	Confusing.
21	MR. DINTZER: I didn't hear about I'm	21	THE WITNESS: Not that I know of, but none
22	sorry, I didn't mean to interrupt you, Counsel.	22	that were comparable to the investment that Treasury
	Page 163		Page 165
1	Page 163 MR. PATTERSON: As I explained earlier,	1	Page 165 made in Fannie and Freddie.
1 2	MR. PATTERSON: As I explained earlier, our position is that issues related to the	1 2	made in Fannie and Freddie. BY MR. PATTERSON:
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2 3 4 5 6 7 8 9 10 11 12 13 14 15 16 17 18 19	MR. PATTERSON: As I explained earlier, our position is that issues related to the consideration and adoption of the net worth sweep are relevant to the topic of whether FHFA was acting as the United States. MR. DINTZER: Right. And the question was, "Can you think of any preferred stock instruments" now, that would presumably be ever in the history of man "that have a dividend rate based on the net worth of a company?" So you're asking about everything ever. MR. PATTERSON: Yes. MR. DINTZER: And you think that that's within the scope of the Court's order? MR. PATTERSON: I'm just trying to probe into the understanding of how this net worth sweep idea was proposed, what was thought about it. MR. DINTZER: I completely understand. I'm just asking you, is your question, the breadth of	2 3 4 5 6 7 8 9 10 11 12 13 14 15 16 17 18 19	 made in Fannie and Freddie. BY MR. PATTERSON: Q. Now, if you go back to this SEC presentation that we were looking at before, I would like you to turn to slide 17. MR. DINTZER: Which exhibit number are we looking at, MR. PATTERSON: This is 22. BY MR. PATTERSON: This is 22. BY MR. PATTERSON: Q. Now, this slide is titled Freddie Mac base case PSPA forecast. Do you see that? A. Yes. Q. And there is a row in here for remaining PSPA funding capacity, which is above the last gray box there on the page. Do you see that? A. Yes. Q. Now, in fiscal year 2023, this shows Freddie Mac having \$137.1 billion in remaining funding capacity; is that correct?

	Page 166		Page 168
1	fiscal year 2023 a remaining PSPA funding capacity of	1	market would have believed that the funding capacity
2	102.6 billion, correct?	2	would eventually be exhausted, which could have
3	A. That's what it says, yes.	3	accelerated the problem sooner. So there was a risk
4	Q. So in light of these projections, was	4	in the near term.
5	there any risk of Freddie Mac exhausting Treasury's	5	BY MR. PATTERSON:
6	funding commitment at least in the near term?	6	Q. That the funding capacity would be
7	MR. DINTZER: Objection. Calls for an	7	exhausted?
8	expert analysis and vague. You can answer. And	8	A. That the funding capacity could be at
9	calls for speculation.	9	risk.
10	THE WITNESS: Can you ask the question	10	Q. How about whether the funding capacity
11	again?	11	could be exhausted?
12	BY MR. PATTERSON:	12	MR. DINTZER: Objection. Vague.
13	Q. Given these projections	13	Confusing.
14	MR. PATTERSON: Well, actually, read back	14	THE WITNESS: Again, I don't want to
15	the question, please.	15	speculate as to what the risks were as to whether it
16	THE REPORTER: "Question: So in light of	16	could be exhausted or not, but there was a risk from
17	these projections, was there any risk of Freddie Mac	17	this outcome, this forecast.
18	exhausting Treasury's funding commitment at least in	18	BY MR. PATTERSON:
19	the near term?"	19	Q. And please turn to slide 20, which is
20	MR. DINTZER: Same objection.	20	labeled strike that. I'll just keep going here.
21	THE WITNESS: The concern so in the	21	So you said the goal was to
22	outward projection year, the circularity of the	22	MR. DINTZER: I'm sorry, just what page
	Page 167		Page 169
1	dividend continued to remain and the funding capacity	1	are you on?
2	continued to go down over time.	2	MR. PATTERSON: Stay on this page, 18.
3	BY MR. PATTERSON:	3	That's fine. We don't need to move to 20.
		-	
4	() Do you remember what my question was?	4	BY MR PATTERSON
4	Q. Do you remember what my question was?A. Yes	4	BY MR. PATTERSON: O. So you were saving that the risks still
4 5 6	A. Yes.	4 5 6	Q. So you were saying that the risks still
5	A. Yes.Q. Okay. I don't think that answered the	5	Q. So you were saying that the risks still existed that the funding capacity could be exhausted
5 6	A. Yes.Q. Okay. I don't think that answered the question, so I	5 6	Q. So you were saying that the risks still existed that the funding capacity could be exhausted in light of these projections; is that correct?
5 6 7	 A. Yes. Q. Okay. I don't think that answered the question, so I MR. DINTZER: Objection. Argumentative. 	5 6 7	Q. So you were saying that the risks still existed that the funding capacity could be exhausted in light of these projections; is that correct? MR. DINTZER: Objection. Vague.
5 6 7 8	 A. Yes. Q. Okay. I don't think that answered the question, so I MR. DINTZER: Objection. Argumentative. MR. PATTERSON: If you could read back the 	5 6 7 8	 Q. So you were saying that the risks still existed that the funding capacity could be exhausted in light of these projections; is that correct? MR. DINTZER: Objection. Vague. Confusing.
5 6 7 8 9	 A. Yes. Q. Okay. I don't think that answered the question, so I MR. DINTZER: Objection. Argumentative. 	5 6 7 8 9	 Q. So you were saying that the risks still existed that the funding capacity could be exhausted in light of these projections; is that correct? MR. DINTZER: Objection. Vague. Confusing. THE WITNESS: I think I answered the
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58 (Pages 226 to 229)

	Page 226		Page 228
1	MR. DINTZER: Objection.	1	Freddie employees raised in those communications?
2	Mischaracterizes. You're saying other than the	2	A. Not that I specifically recall.
3	conversations that were had either with counsel or	3	Q. Generally, do you recall?
4	that contained advice provided by counsel? Is that	4	A. Inferences to cutting the dividend or
5	what you're asking?	5	changing the dividend structure, but we never would
6	MR. PATTERSON: Yes. I'm asking about	6	engage in those conversations.
7	policy discussions, which I'm assuming would be	7	Q. And were the things that Fannie and
8	separate from discussions of the legal ramifications.	8	Freddie suggested considered by Treasury as it was
9	MR. DINTZER: I just want to make sure I	9	considering altering the dividend structure?
10	understand the context.	10	MR. DINTZER: Objection. Vague. Calls
11	MR. PATTERSON: Yes.	11	for speculation.
12	THE WITNESS: It's hard for me to separate	12	THE WITNESS: I did not that wasn't
13	what was supported by counsel or what was directly	13	those conversations did not contribute to my thinking
14	related to counsel.	14	other than to provide another data point of market
15	MR. DINTZER: Do you want to talk?	15	concern about the unsustainability of the dividend
16	Anything that counsel told you that you consulted	16	structure.
17	with counsel on, anything that conveys what counsel	17	BY MR. PATTERSON:
18	told you.	18	Q. And do you know if they contributed to
19	THE WITNESS: Can I just take two seconds?	19	anyone else's thinking?
20	MR. PATTERSON: Sure.	20	A. You'd have to ask someone else.
21	(Discussion off the record.)	21	Q. And now to get back to the
22	THE WITNESS: I also just want to clarify	22	A. Sorry.
	Page 227		Page 229
1	the question in terms of my answer around if I ever	1	Q. No, that's fine. So there was a question
1 2	the question in terms of my answer around if I ever had conversations with anyone at Fannie Mae or	1 2	pending. I don't know if you want to read it back.
	had conversations with anyone at Fannie Mae or Freddie Mac. Employees from Fannie Mae and Freddie		pending. I don't know if you want to read it back. MR. DINTZER: Could you?
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	Page 230	Page 232
1	THE WITNESS: My perspective was that	1 Confusing.
2	consistent with the Administration policy to wind	2 THE WITNESS: Yes.
3	down Fannie Mae and Freddie Mac gradually over time	3 BY MR. PATTERSON:
4	and not allow them to continue to operate under the	4 Q. And who was that?
5	form of their existing charters, that exiting	5 A. Jim Millstein.
6	conservatorship as private companies would not be	6 Q. And what was his view?
7	appropriate.	7 A. That
8	BY MR. PATTERSON:	8 MR. DINTZER: Objection. Counsel, if you
9	Q. And that was a view shared in Treasury	⁹ can just identify what period of time you're asking
10	generally in light of that policy that you've just	10 about.
11	mentioned; is that correct?	11 BY MR. PATTERSON:
12	MR. DINTZER: Objection. Calls for	12 Q. Well, when did Jim Millstein communicate
13	speculation.	13 this disagreement to you? Or when did you become
14	THE WITNESS: I wouldn't want to speculate	14 aware of this disagreement from Jim Millstein?
15	what others at Treasury felt or believed about that	15 A. Prior to June 1st, 2011.
16	policy. I can only speak to how I interpreted and	16 Q. Do you remember when any more precisely
17	what I believed.	17 than that?
18	BY MR. PATTERSON:	18 A. Sometime in Q1, Q2.
19	Q. Did anyone at Treasury that you know of	10A.Sometime in Q1, Q2.19Q.What was your understanding of
20	disagree with you on this issue?	20 Mr. Millstein's disagreement with you?
20	MR. DINTZER: Same objection.	21 MR. DINTZER: Objection. Vague and
21	THE WITNESS: You would have to ask	
22	THE WITNESS. You would have to ask	22 confusing.
	Page 231	Page 233
	_	
1	someone else at Treasury.	1 THE WITNESS: I wouldn't say it was a
1 2	someone else at Treasury. BY MR. PATTERSON:	1 THE WITNESS: I wouldn't say it was a 2 disagreement with me per se. Jim had a more positive
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1	A. This was a rundown of the folks or the	1	equity shareholders in Fannie and Freddie in
2	people that Treasury would reach out to to provide	2	connection with the PSPA amendment announcement?
3	context for or an in-color explanation around the	3	MR. DINTZER: Objection. Vague.
4	PSPA announcement.	4	Foundation.
5	Q. So then you see on Friday, August 17th at	5	THE WITNESS: When?
6	8:00 a.m., it says, "Press release goes live." So	6	BY MR. PATTERSON:
7	entries before that time would be things that would	7	Q. Either in the time leading up to the net
8	be done before the third amendment was announced	8	worth sweep or shortly thereafter.
9	publicly; is that correct?	9	A. We were contacted by some stakeholders the
10	A. I presume so.	10	day of.
11	Q. And under Thursday, the last entry is	11	Q. And who were those stakeholders?
12	"Outreach to Hill staff, Representatives Frank and	12	A. A number of different market participants
13	Johnson." Do you know if before this time there had	13	reached out to folks at Treasury.
14	been any communications from Treasury to Congress	14	Q. Do you remember who any of those market
15	about switching to a variable dividend under the	15	participants were?
16	PSPAs?	16	A. I remember speaking to a few different
17	A. Not to my knowledge. I don't know.	17	market participants that called me that day.
18	Q. And do you know why it was the staff or	18	Q. Who were they?
19	Representatives Frank and Johnson that were being	19	A. Richard Perry at Perry Capital. I think I
20	informed?	20	spoke to someone from Deutsche Bank and from Goldman
21	MR. DINTZER: Objection. Calls for	21	Sachs. I don't remember who else I spoke to.
22	speculation.	22	Q. And what was the reaction of those market
	Page 235		Page 237
1			
1	THE WITNESS: I can only speculate.	1	participants to the net worth sweep announcement?
2	BY MR. PATTERSON:	2	MR. DINTZER: Objection. Foundation.
2 3	BY MR. PATTERSON: Q. If you had to, what would you say?	2 3	MR. DINTZER: Objection. Foundation. THE WITNESS: As I recall, they were
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July 14, 2015 Washington, D.C.

61 (Pages 238 to 241)

	Page 238		Page 240
1	marked for identification.)	1	Treasury on its preferred stock investments in Fannie
2	BY MR. PATTERSON:	2	Mae and Freddie Mac with a quarterly sweep of every
3	Q. I apologize in advance. This is very	3	dollar of profit that each firm earns going forward."
4	small, but you've been handed an exhibit marked	4	Do you see that?
5	Foster 33 and this is a Treasury press release from	5	A. I do.
6	August 17th, 2012. "Treasury Department announces	6	Q. And then it says that feature of the third
7	further steps to expedite wind-down of Fannie Mae and	7	amendment, I'm assuming says this will help achieve
8	Freddie Mac." And if you look toward the bottom of	8	several important objectives, including the objective
9	this, there are some bullets at the very bottom.	9	that we've discussed.
10	Above that it says, "This will achieve several	10	So I guess my question is, how would
11	important objectives including"	11	moving to the net worth sweep dividend advance the
12	MR. DINTZER: And it says, "This will	12	commitment that the GSEs would be wound down and not
13	help."	13	be allowed to return to the market in their prior
14	BY MR. PATTERSON:	14	form?
15	Q. Oh, "This will help achieve," thank you,	15	A. So in order to be able to wind down the
16	"several important objectives, including," and then	16	GSEs in a safe and responsible manner, we needed to
17	the third bullet says, "Acting upon the commitment	17	be able to reduce well, Congress or FHFA would
18	made in the Administration's 2011 white paper that	18	have needed to reduce the size and the footprint of
19	the GSEs will be wound down and will not be allowed	19	the GSEs or Fannie Mae and Freddie Mac's retained
20	to retain profits, rebuild capital, and return to the	20	portfolio and guarantee books. That reduction in
21	market in the prior form."	21	footprint would reduce their ability to generate net
22	How did the net worth sweep help achieve	22	income. Reduce net income generation capacity would
	Page 239		Page 241
1	the objective of ensuring that the GSEs would be	1	reduce its ability to meet any fixed income dividend
2	wound down and would not be allowed to return to the	2	payments under a variety of almost under any
3	market in their prior form?	3	scenario and, as a result, to be able to support the
4	MR. DINTZER: Objection. Foundation.	4	wind-down, a more flexible dividend structure
5	THE WITNESS: The net worth sweep and the	5	supported that.
6	third the third amendment supported the wind-down	6	(Foster Exhibit No. 34 was
7	of Fannie Mae and Freddie Mac to allow the size and	7	marked for identification.)
8	the scope of the portfolios and guarantee book to be	8	BY MR. PATTERSON:
9	shrunk gradually over time, which would lower/reduce	9	Q. You've been handed Foster 34. This is a
10	their ability to generate net income, which would	10	document produced to us by Fannie. It's marked
11	reduce their ability to cover fixed income dividend	11	FM_Fairholme_CFC-00003013 on the first page. And
12	payments and, therefore, the net worth sweep would	12	from the context of this document, it's apparent that
13	have supported the execution of that wind-down	13	it's discussing the net worth sweep.
14	policy.	14	And under Roman numeral (ii)3.B, it says,
15	BY MR. PATTERSON:	15	"Friday Treasury press release emphasized wind down
16	Q. Just so I can make sure I'm clear on this,	16	but changes are positive." And then B says, "Pay
17	under this heading "Full income sweep of all future	17	back money faster."
18	Fannie Mae and Freddie Mac earnings to benefit	18	Did Treasury anticipate, at the time of
19	taxpayers for their investment," do you see that?	19	the net worth sweep, that it would result in Fannie
20	A. I do.	20	and Freddie paying them back faster for the amount
		1	
21	Q. And under that it says, "The agreements	21	that Treasury had invested in those companies?

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	Page 242		Page 244
1		1	
1 2	Confusing. THE WITNESS: I have no idea what this	2	Q. And that conclusion is proven incorrect at least as of today, wouldn't you agree?
3	document is or what this means. So I don't know	3	MR. DINTZER: Objection. Mischaracterizes
4	if I don't know what that means.	4	and calls for speculation. And also, if you could
5	BY MR. PATTERSON:	5	explain how this is within the scope, asking how what
6	Q. Apart from this document, did you	6	happened today is relevant.
7	MR. DINTZER: So are you done with the	7	MR. PATTERSON: I'm just trying to get a
8	document?	8	better understanding of the sources of his
9	MR. PATTERSON: I may return to it, but	9	understanding at the time and then depending on his
10	this question is apart from the document.	10	answer, I may ask some follow-up questions about if
11	BY MR. PATTERSON:	11	he anticipated those possibilities at the time, what
12	Q. Apart from the document, at the time of	12	could contribute to that different result, things of
13	the net worth sweep, did you anticipate that the	13	that nature.
14	sweep would result in Fannie and Freddie increasing	14	MR. DINTZER: So your question is, "And
15	the amount they would pay in dividends to Treasury?	15	your conclusion is proven incorrect at least as of
16	MR. DINTZER: Objection. Vague.	16	today?"
17	THE WITNESS: Did I anticipate that?	17	MR. PATTERSON: Yes.
18	BY MR. PATTERSON:	18	MR. DINTZER: So your understanding of the
19	Q. Yes.	19	scope of the Court's order is that information about
20	A. No.	20	what actually happened in 2014-2015 is within the
21	Q. Do you know whether anyone else at	21	scope of the Court's discovery order; is that
22	Treasury anticipated that?	22	correct?
	Page 243		Page 245
1	Page 243 A. Not to my knowledge.	1	Page 245 MR. PATTERSON: Yes, at least to the
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	Page 250		Page 252
1	marked for identification.)	1	of the mechanics or the difficulties with executing
2	BY MR. PATTERSON:	2	such a position, but my understanding is that it
3	Q. You've been handed an exhibit marked	3	would have required the GSEs to go through either
4	Foster 36. This is an information memorandum for	4	exit conservatorship or go through receivership and
5	Secretary Geithner dated January 4th, 2011, a memo	5	also would have compromised could have constituted
6	from Jeffrey A. Goldstein, and the subject is housing	6	as a compromise of claim.
7	finance reform plan. Is this something that you've	7	BY MR. PATTERSON:
8	seen before?	8	Q. And how would converting the preferred
9	A. Yes.	9	into common have addressed the circular dividend
10	Q. If you turn to page 3, heading number 4	10	issue that you were concerned about?
11	says, "Affirm our current obligations." Do you see	11	A. Again, this was not an option that we
12	that?	12	seriously considered or that we spent it's not an
13	A. Yes.	13	option that we spent significant time considering.
14	Q. And there is a bullet point that says,	14	But my understanding is that if we would have
15	"Ensure \$275 billion of funding capacity available	15	converted the preferred stock into common, that would
16	after 2012 is not used to pay dividends. This may	16	have eliminated or could have eliminated, depending
17	require converting preferred stock into common or	17	on the ultimate structure, the need for fixed
18	cutting or deferring payment of the dividend under	18	dividend payments.
19	legal review."	19	Q. And why would that have been?
20	Now, was the option of converting	20	MR. DINTZER: And again, I'm going to
21	preferred stock into common stock an alternative that	21	instruct you not to answer to the extent that it
22	you considered as a way to modify the dividend	22	involves conversations with counsel.
	Page 251		Page 253
1	Page 251	1	Page 253 THE WITNESS: My understanding was
1 2		1 2	-
	obligation?	1	THE WITNESS: My understanding was informed via conversations with counsel. BY MR. PATTERSON:
2	obligation? MR. DINTZER: Objection. Vague. THE WITNESS: Yes. BY MR. PATTERSON:	2	THE WITNESS: My understanding was informed via conversations with counsel. BY MR. PATTERSON: Q. So your understanding of how converting
2 3	obligation? MR. DINTZER: Objection. Vague. THE WITNESS: Yes.	2 3	THE WITNESS: My understanding was informed via conversations with counsel. BY MR. PATTERSON: Q. So your understanding of how converting the preferred into the common would have addressed
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1 to talk with he witness and make sare I understand the scope of what you're asking and then well come back. 1 this document, it's entitled Chief Financial Officer 2 heads. Report. If says, "In response to questions regarding the deferred tax saset valuation allowance, and the finance in a source consistent generation is, during the time, you of the deferred tax saset valuation allowance, and the related accounting for it." 3 miderstanding, how would have converting the preferred into common have addressed the circular dividend issue?" So my question is, during the time, you know, stating June 13, 2011, leading up to August 17th, 2012, did you consider the possibility that 18th is function. Foundation. 2 MY MR, PATTERSON: So my question is, during the time preferred stock into common would have - might have eliminated the 10 percent dividend requirement on the portion that hab ence converted. So my question is, during up to August 17th, 2012, did you consider the possibility that Fannie of Treddie would at some point release their deferred tax assets valuation allowance?" 3 MY MR, PATTERSON: So what portion of the preferred stock ind requirement would have - might have made the total amount necessary to be paid to Fannie and Freddie or paid to the Treasury on an annual basis lower, and THE WTINESS: I was aware that that was a 2 Page 255 Page 257 1 even a reduced and lowered normalized net incom? 4 MR, DINTZER: Objection.		Page 254		Page 256
2 the scope of what you're asking and then we'll come 2 Report. It says, "In response to questions regarding 3 the deferred tax asset considerations presented in 4 MR. PATTERSON: Okay. I think that should 5 5 fracess.) 6 7 THE KEPORTER: "Question: In your 6 8 understanding, how would have converting the 5 9 preferred into common would have - might have 170, 2012, (dd you consider the possibility that 11 THE WITNESS: Converting a portion of the 170, 2012, (dd you consider the possibility that 12 preferred stock into common would have - might have 170, 2012, (dd you consider the possibility that 13 FIREWORTRE: "Question: During the time 170, 2012, (dd you consider the possibility that famine or 14 confusion: 1718 2012, (dd you consider the possibility that famine or 15 BY MR. PATTERSON: 15 THE WITNESS: Can you repeat the question? 16 O. And how would have been taken, 174 2012, (dd you consider the possibility that famine or 17 dividend issue? 172 2012, (dd you consider the possibility that famine or 17 stasets valuation allowance?	1	-	1	
3 back. 3 the deferred tax asset considerations presented in advance materials, CFO McFarland explained that turning will impact the setimates regarding the amount of the deferred tax asset valuation allowance, and the related accounting for it." 6 (Recess.) 6 of the deferred tax asset considerations presented in advance materials, CFO McFarland explained that turning will impact the setimates regarding the amount of the deferred tax asset valuation allowance, and the related accounting for it." 7 THE REPORTER: "Question: In your 6 of the deferred tax asset valuation allowance, and the related accounting for it." 8 more sets will have the the over deferred set assets valuation allowance? 10 10 the related accounting for it." 7 11 THE REPORTER: "Question: During the time or preferred stock into common would have - might have and the total address the circular dividend issue?" 10 12 eliminated the 10 percent dividend requirement on the preferred stock did requirement would have - might have and the total amount necessary to be paid to Famie and Freddie or paid to the Treasary to be paid to Famie and Freddie or paid to the Treasary on an annual basis lower, and 11 12 Parge 255 Parge 257 14 even tertions of the preferred stock did for the addiress the circular the set addirect or be fixed phyments and freddie or paid to the Treasary consider converting into common? 11 14			1	
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65 (Pages 254 to 257)

66 (Pages 258 to 261)

	Page 258		Page 260
1	Q. And did you discuss with anyone else at	1	Government assumed control in 2008 of Fannie Mae and
2	Treasury from June 1st, 2011 through August 17th,	2	Freddie Mac, two federally chartered institutions
3	2012 the possibility that Fannie and Freddie could at	3	that provide credit guarantees for almost half of the
4	some point release their deferred tax assets	4	outstanding residential mortgages in the
5	valuation allowance?	5	United States, the Congressional Budget Office (CBO)
6	A. That was discussed with I discussed	6	concluded that the institutions had effectively
7	that between myself and Tim Bowler, and I think that	7	become government entities whose operations should be
8	was raised in consideration with Mario Ugoletti at	8	included in the federal budget."
9	one point, but I don't remember when.	9	Now, starting on June 1st, 2011 through
10	Q. And what impact would the release of the	10	the net worth sweep on August 17th, 2012, were you
11	valuation allowance have on Fannie and Freddie's net	11	aware that the CBO had concluded that Fannie and
12	worth did you anticipate at that time?	12	Freddie should be included in the federal budget?
13	A. I didn't anticipate that they would be	13	MR. DINTZER: Objection. Vague.
14	released or that there would be an impact.	14	Confusing.
15	Q. But in the event they were, did you have a	15	THE WITNESS: Had I concluded that?
16	sense for how large the valuation allowances were?	16	BY MR. PATTERSON:
17	MR. DINTZER: Objection. Vague.	17	Q. Were you aware that CBO had concluded
18	Hypothetical.	18	that?
19	THE WITNESS: I was not aware I wasn't	19	A. Yes.
20	an accountant, so I wouldn't I didn't have an	20	Q. And Treasury made a different
21	informed view on what the size would be if they were	21	determination, correct?
22	released.	22	MR. DINTZER: Objection. Vague.
	Page 259		Page 261
1	Page 259 (Foster Exhibit No. 38 was	1	Page 261 THE WITNESS: I think the distinction that
1 2	_	1 2	
	(Foster Exhibit No. 38 was		THE WITNESS: I think the distinction that
2	(Foster Exhibit No. 38 was marked for identification.)	2	THE WITNESS: I think the distinction that Treasury had made was consistent with its accounting
2 3	(Foster Exhibit No. 38 was marked for identification.) BY MR. PATTERSON:	2 3	THE WITNESS: I think the distinction that Treasury had made was consistent with its accounting principles. CBO accounting and OMB accounting are
2 3 4	(Foster Exhibit No. 38 was marked for identification.) BY MR. PATTERSON: Q. You've been handed an exhibit marked	2 3 4	THE WITNESS: I think the distinction that Treasury had made was consistent with its accounting principles. CBO accounting and OMB accounting are different from my understanding.
2 3 4 5	(Foster Exhibit No. 38 was marked for identification.)BY MR. PATTERSON:Q. You've been handed an exhibit markedFoster 38. And this is an email from Adam Chepenik	2 3 4 5	THE WITNESS: I think the distinction that Treasury had made was consistent with its accounting principles. CBO accounting and OMB accounting are different from my understanding. BY MR. PATTERSON:
2 3 4 5 6	(Foster Exhibit No. 38 was marked for identification.)BY MR. PATTERSON:Q. You've been handed an exhibit markedFoster 38. And this is an email from Adam Chepenik to individuals including you on April 13th, 2012.	2 3 4 5 6	THE WITNESS: I think the distinction that Treasury had made was consistent with its accounting principles. CBO accounting and OMB accounting are different from my understanding. BY MR. PATTERSON: Q. And I guess my question was a simpler one
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July 14, 2015 Washington, D.C.

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	Page 262		Page 264
1	BY MR. PATTERSON:	1	speculation.
2	Q. So you don't know whether Fannie and	2	THE WITNESS: I don't recall.
3	Freddie's assets and liabilities were included in the	3	BY MR. PATTERSON:
4	federal budget?	4	Q. Did you have any discussions on that issue
5	A. I don't believe so.	5	with anyone in connection with considering the net
6	Q. You don't believe they were or you don't	6	worth sweep?
7	believe that you know? I'm sorry, I just want to	7	A. I don't recall this being a specific issue
8	make the record clear.	8	that came up as part of the third amendment. There
9	MR. DINTZER: Objection. Foundation.	9	were questions that were asked generally that I
10	THE WITNESS: Again, I'm not a government	10	recall related to the budgetary treatment of Fannie
11	accounting expert, but my understanding was that the	11	and Freddie, but I don't recall being mentioned in
12	assets and liabilities were not included on the	12	connection specifically with the third amendment.
13	balance sheet, but all of the costs and inflows and	13	Q. Were those discussions related in any way
14	outflows of capital were included.	14	to the variable dividend that was being considered?
15	BY MR. PATTERSON:	15	A. Not that I recall.
16	Q. Now, in connection with considering the	16	Q. You can put aside that exhibit. While you
17	net worth sweep, did Treasury consider whether	17	were at Treasury, did you have access to the Treasury
18	adoption of the sweep would require the assets and	18	secure data network?
19	liabilities of Fannie and Freddie to be included in	19	A. No.
20	the federal budget?	20	MR. PATTERSON: Would it be okay if we
21	MR. DINTZER: Objection. Calls for	21	take a break?
22	speculation. And Counsel, if you could explain how	22	MR. DINTZER: Sure.
	D 062		2.005
	Page 263		Page 265
1	that question fits within the scope.	1	(Recess.)
2	MR PATTERSON: Wall whether Fannia and		
	MR. PATTERSON: Well, whether Fannie and	2	BY MR. PATTERSON:
3	Freddie are part of the government of the	3	BY MR. PATTERSON: Q. I just had a few things I wanted to wrap
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4 5	Freddie are part of the government of the United States, to the extent that they're included in the budget of the United States, would affect the	3 4 5	BY MR. PATTERSON:Q. I just had a few things I wanted to wrapup on. First, from June 1st through August 17th,2012, who at Treasury other than yourself was working
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4 5 6 7 8 9 10 11 12 13 14 15 16 17 18 19 20 21	Freddie are part of the government of the United States, to the extent that they're included in the budget of the United States, would affect the capacity in which FHFA and Treasury were acting at the time they entered the third amendment. MR. DINTZER: How? MR. PATTERSON: Well, if the action had the result of Fannie and Freddie being included in the budget of the United States to the same extent as agencies of the federal government, that would indicate that they were acting on behalf of the United States. MR. DINTZER: So what's your question? BY MR. PATTERSON: Q. The question is, in connection with the net worth sweep, did Treasury consider whether entering the net worth sweep would require the assets and liabilities of Fannie and Freddie to be included in the federal budget?	3 4 5 6 7 8 9 10 11 12 13 14 15 16 17 18 19 20 21	 BY MR. PATTERSON: Q. I just had a few things I wanted to wrap up on. First, from June 1st through August 17th, 2012, who at Treasury other than yourself was working on issues relating to the PSPAs? MR. DINTZER: Objection. Calls for speculation. THE WITNESS: There were a number of people that were working on the PSPAs. BY MR. PATTERSON: Q. And who were they? A. To my knowledge, myself, counsel, Tim Bowler, Michael Stegman, Mary Miller and Adam Chepenik, Beth Mlynarczyk. There were many people working on it. Q. And do you know if any of these individuals, did they use email accounts other than their Treasury accounts when working on official Treasury matters? A. I don't know.
4 5 7 8 9 10 11 12 13 14 15 16 17 18 19 20	Freddie are part of the government of the United States, to the extent that they're included in the budget of the United States, would affect the capacity in which FHFA and Treasury were acting at the time they entered the third amendment. MR. DINTZER: How? MR. PATTERSON: Well, if the action had the result of Fannie and Freddie being included in the budget of the United States to the same extent as agencies of the federal government, that would indicate that they were acting on behalf of the United States. MR. DINTZER: So what's your question? BY MR. PATTERSON: Q. The question is, in connection with the net worth sweep, did Treasury consider whether entering the net worth sweep would require the assets and liabilities of Fannie and Freddie to be included	3 4 5 6 7 8 9 10 11 12 13 14 15 16 17 18 19 20	 BY MR. PATTERSON: Q. I just had a few things I wanted to wrap up on. First, from June 1st through August 17th, 2012, who at Treasury other than yourself was working on issues relating to the PSPAs? MR. DINTZER: Objection. Calls for speculation. THE WITNESS: There were a number of people that were working on the PSPAs. BY MR. PATTERSON: Q. And who were they? A. To my knowledge, myself, counsel, Tim Bowler, Michael Stegman, Mary Miller and Adam Chepenik, Beth Mlynarczyk. There were many people working on it. Q. And do you know if any of these individuals, did they use email accounts other than their Treasury accounts when working on official Treasury matters?

EXHIBIT F

Income, A	ssets, and Equity (\$ in mil)		ie 30, 2011		
Year	Net Income (Loss)	Assets	Equity (Shareholder Deficit)	SP Stock	10% of SPS
2003	4,816	803,449	31,487	-	-
2004	2,937	795,284	31,416	-	-
2005	2,113	806,222	25,691	-	-
2006	2,327	804,910	26,914	-	-
2007	(3,094)	794,368	26,905	-	-
2008	(50,119)	850,963	(30,634)	14,800	1,480
2009	(21,553)	841,784	4,372	51,700	5,170
2010	(14,025)	2,261,780	(401)	64,200	6,420
2011	(5,266)	2,147,216	(146)	72,171	7,217
Q1 2012	577	2,114,944	(18)	72,317	7,232

Table 1

IF NI = terralole in come 51 B > 2017 is about when Net Loss Campforms based in our projections and the Reques in the 10k. (per discussion w/Dan Goluly) duternel tax department -> what and their boste - to- two projective levok dile Find out who is responsible - internel or externel General hule Egythe 3 yrs >0 3 yrs of ceens. See profits > upre staat to theile about the the leleasing > the Valuation allow. > when the valuation allow. probably 2013, 2014

EXHIBIT G



August 9, 2012

Treasury Meeting

Fannie Mae Update

Agenda

- Introduction of Fannie Mae Management Team
- Corporate Financial Update
- Status of Key Initiatives
- Discussion



Fannie Mae Corporate Update

differ materially from these forecasts as a result of numerous factors, including the assumptions contained in this The Fannie Mae forecasts included in these materials are forward-looking statements, and actual outcomes may analysis, changes in macro-economic variables, government policy, the housing and credit markets, and actions we take in the future and the success of those actions, as well as those discussed in Fannie Mae's most recent Form 10-Q and Form 10-K filed with the Securities and Exchange Commission.

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(\$'s in billions)										10 bp parto	2 2 2 1 C	0		
				Actual	lai				· ~	L L	For	Forecast ¹		
									<u> </u>				Full	Full Year
	Q3 2011	2011	8	Q4 2011	2	Q1 2012	8	Q2 2012	S	Q3 2012	8	Q4 2012	ž	2012
Net interest income - portfolio and other		3.9		2.7		3.7		3.7		3.5		3.3		14.2
Net interest income - MBS guaranty fee		1.3		1.5		1.5		1.8		1.6		1.7		6.5
Other revenues		0.3		0.4		0.4		0.4		0.3		0.3		1.3
Net revenues.	\$	5.5	\$	4.5	\$	5.6	\$	5.8	\$	5.4	••	5.2	•	22.1
Credit losses		(4.5)		(5.2)		(5.1)		(3.9)		(4.5)		(5.2)		(18.6)
(Build) / reduction in allowance.		(0.0)		(1.3)		2.3		6.6		2.6		(0.5)		11.0
SOP 03-3.		0.5		1.0		0.4		0.4		0.5		0.4		1.7
Credit-related (expenses) / benefit	\$	(4.9)	\$	(5.5)	\$	(2.3)	s	3.1	\$	(1.4)	\$	(5.3)	\$	(5.9)
Other expenses.		(1.2)		(0.7)		(0.8)		(1.4)		(1.1)		(1.1)		(4.3)
(Loss) / earnings before mark-to-market activity	\$	(0.6)	\$	(1.7)	\$	2.4	\$	7.6	\$	3.0	•	(1.1)	••	11.9
Fair value (losses) / gains, net		(4.5)		(0.8)		0.3		(2.4)		0.1		0.1		(1.9)
Accumulated other comprehensive income change		(0.2)		0.5		0.4		0.3		0.1		0.1		0.9
Mark-to-market		(4.7)		(0.3)		0.6		(2.1)		0.2		0.2		(1.0)
Total comprehensive (loss) / income	\$	(5.3)	\$	(1.9)	\$	3.1	\$	5.4	~	3.2	\$	(0.9)	~	10.9
Cumulative infusion received plus new draw	69	111.6	69	116.1	÷	116.1	ы	116.1	69	116.1	÷	116.8	ŝ	116.8
	• • •	(2.5)	\$	(2.6)	\$	(2.8)	\$	(2.9)	\$	(2.9)	\$	(2.9)	ŝ	(11.6)
¹ Forecast periods reflect July 2012 BoD corporate forecast updated for actuals through June 2012	սոր վնո	e 2012								Note Nun	rrbers m	Note Numbers may not foot due to rounding	due to r	ounding.

2012 Quarterly Earnings

FannieMae

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2012 – 2016 Annual Earnings

(\$'s in billions)

Forecast¹

	N	2012		2013		2014	a	2015	7	2016
Net interest income - portfolio and other		14.2		12.5		11.3		10.3		8.9
Net interest income - MBS guaranty fee		6.5		7.0		7.5		8.0		8.6
Other revenues.		1.3		1.0		0.9		0.9		1.0
Net revenues.	ь	22.1	\$	20.5	Ś	19.8	\$	19.3	\$	18.4
Credit losses.		(18.6)		(19.0)		(17.7)		(13.3)		(6.5)
Reduction in allowance.		11.0		7.5		11.0		9.0		7.7
SOP 03-3.		1.7		1.9		1.6		1.1		0.8
Credit-related expenses	୶	(5.9)	୶	(9.6)	\$	(5.1)	\$	(3.2)	\$	(1.0)
Other expenses		(4.3)		(3.9)		(4.1)		(4.2)		(4.1)
Earnings before mark-to-market activity	Ş	11.9	\$	6.9	\$	10.5	⇔	11.9	ŝ	13.4
Fair value (losses) / gains, net		(1.9)		0.5		0.5		0.5		0.4
Accumulated other comprehensive income change		0.9		0.1		0.1		0.1		0.1
Mark-to-market		(1.0)		0.6		0.5		0.5		0.5
Total comprehensive income	୶	10.9	ŝ	7.5	Ś	11.0	ŝ	12.5	s	13.9
Cumulative infusion received, plus new draw	÷	116.8	ŝ	121.2	⇔	122.4	θ	122.4	Ф	122.4
Dividends	⇔	(11.6)	÷	(11.8)	မာ	(12.2)	θ	(12.3)	θ	(12.3)

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Note: Numbers may not foot due to rounding.

¹ Forecast periods reflect July 2012 BoD corporate forecast updated for actuals through June 2012

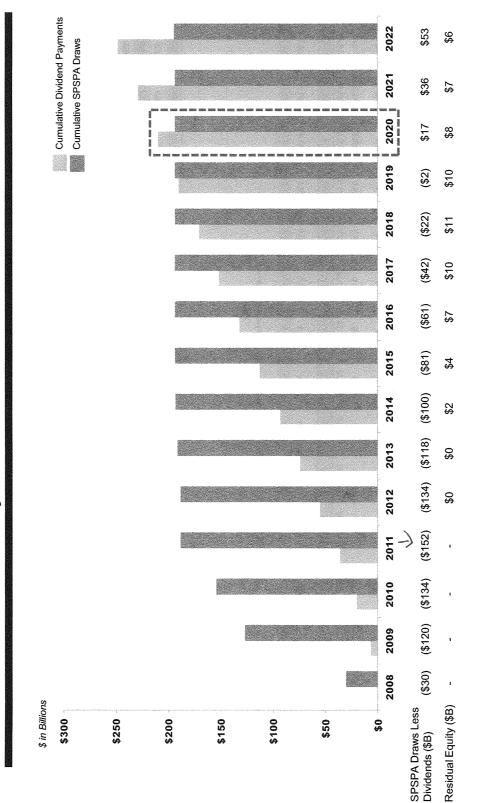
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R Fannie Mae Case-Shiller forecast updates reflect significant variability FNM is able to capture the With more up to date data, most recent trends 15Q1 - Actual 15Q1 Actual 14Q3 14Q3 14Q1 14Q1 Moody's Case-Shiller Home Price Forecast 13Q3 Fannie Mae Home Price Forecast 13Q1 13Q3 13Q1 12Q3 12Q3 10Q1 10Q3 11Q1 11Q3 12Q1 • Applied FNM Seasonality Adjustment 12Q1 1103 1101 10Q3 1001 1001 86 76 88 84 82 80 78 8 88 86 84 82 80 78 76 74 8 74

Fannie Mae vs. Moody's Case-Shiller Home Price Forecasts

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Note: Figures above based on extended earnings forecast for both Fannie Mae and Freddie Mac. Forecast incorporates actual results through May 2012 for Fannie Mae and through 2011 for Freddie Mac.

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Comprehensive Income 2008-2011 2013 2014 2015 2017 2019 2020 2021 2023	/¢ in Billions)										En sou con not over user user of		
Comprehensive Income 11.6 7.5 11.0 12.5 13.9 13.2 12.2 11.4 10.9 10.5 Preferred Dividend Poyment 19.8 11.6 11.8 12.1 12.2 12.2 12.2 12.2 12.2 12.2 12.3 10.5 Preferred Dividend Poyment 19.8 11.6 11.8 12.1 12.2 12.2 12.2 12.2 12.3 12.3 Residual Equity 0.0 0.0 0.0 0.0 0.2 1.8 2.8 2.7 1.9 0.5 0.0 Cumulative SPA Draws 116.1 (119.0) (121.2) (121.5) (121.5) (121.5) (121.5) (121.5) (121.5) (121.5) (121.5) (121.5) (121.5) (122.6) 10.5 Cumulative SPRA Draws (16.3) (65.9) (55.9) (53.9) (51.1) (121.5) (121.5) (121.5) (121.5) (122.5) (122.6) (122.6) (122.6) (122.6) (122.6) (122.6)	(manual mat)	2008-2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022
Preferred Dividend Payment 13 11.1 12.1 12.2 12.2 12.2 12.2 12.2 12.2 12.3 1	Comprehensive Income		11.6	7.5	11.0	12.5	13.9	13.2	12.2	11.4	10.9	10.5	10.5
Residual Equity 0.0 0.0 0.0 0.0 0.0 0.0 0.1 1.8 2.8 2.7 1.9 0.5 0.0 Cumulative Dividends 19.8 31.4 43.2 55.3 67.6 79.8 92.1 104.3 116.6 128.8 141.1 Cumulative Dividends 19.8 31.4 43.2 55.3 67.6 79.8 92.1 104.3 116.6 128.8 141.1 Cumulative SPSPA Draws (116.1) (119.0) (121.2) (121.5) (121.5) (121.5) (121.5) (121.5) (121.5) (121.5) (121.5) (122.9) Cumulative Dividends Less Draws (96.3) (85.9) (53.9) (41.7) (29.4) (17.2) (121.5) (121.5) (121.5) (122.9) Cumulative Dividends Less Draws (96.3) (85.9) (53.9) (41.7) (29.4) (17.2) (121.5) (122.6) (123.9) Stop Example 240.9 240.9 240.9 240.9 240.9	Preferred Dividend Payment	19.8	11.6	11.8	12.1	12.2	12.2	12.2	12.2	12.2	12.2	12.3	12.5
Cumulative Dividends 19.8 31.4 43.2 55.3 67.6 79.8 92.1 104.3 116.6 128.8 141.1 Cumulative SPSPA Draws (116.1) (116.1) (119.0) (121.2) (121.5) (121.5) (121.5) (121.5) (121.5) (121.5) (121.5) (122.9) Cumulative SPSPA Draws (96.3) (98.47) (75.8) (65.9) (53.9) (41.7) (29.4) (17.2) (121.5) (121.5) (122.9) Cumulative Dividends Less Draws (96.3) (84.7) (75.8) (65.9) (53.9) (41.7) (29.4) (17.2) (121.5) (122.9) SPSPA Funding to Compare Less Draws (96.3) (84.7) (75.8) (65.9) (53.9) (41.7) (29.4) (17.2) (17.2) (12.5) (12.5) (12.5) (12.5) (12.5) (12.5) (12.5) (18.3) (18.3) (18.3) (18.3) 18.3 SPSPA Funding Cap 240.9 240.9 240.9 240.9 240.9	Residual Equity	0.0	0.0	0.0	0.0	0.2	1.8	2.8	2.7	1.9	0.5	0.0	0.0
Cumulative SPSPA Draws (116.1) (119.0) (121.5) (122.9) (123.4)<		19.8	31.4	43.2	55.3	67.6	79.8	92.1	104.3	116.6	128.8	141.1	153.6
Cumulative Dividends Less Draws (96.3) (84.7) (75.8) (65.9) (53.9) (41.7) (29.4) (17.2) (4.9) 7.3 18.3 SPS A Funding Cap 240.9 240.9 240.9 240.9 240.9 240.9 240.9 240.9 240.9 240.9 240.9 240.9 240.9 240.9 240.9 Remaining Funding under SPSPA 124.8 124.8 122.0 119.7 119.5 119.5 119.5 119.5 119.5 119.5 119.5 119.5 119.5 118.1		(116.1)	(116.1)	(0.611)	(121.2)	(121.5)	(121.5)	(121.5)	(121.5)	(121.5)	(121.5)	(122.9)	(124.8)
240.9 240.9 <th< td=""><td>30.00 Jan</td><td>(6:96)</td><td>(84.7)</td><td>(75.8)</td><td>(62:3)</td><td>(53.9)</td><td>(41.7)</td><td>(29.4)</td><td>(17.2)</td><td>(4.9)</td><td>73</td><td>18.3</td><td>28.8</td></th<>	30.00 Jan	(6:96)	(84.7)	(75.8)	(62:3)	(53.9)	(41.7)	(29.4)	(17.2)	(4.9)	73	18.3	28.8
1248 1248 1220 1197 1195 1195 1195 1195 1195 1195 1195	SPSPA Funding Cap	240.9	240.9	240.9	240.9	240.9	240.9	240.9	240.9	240.9	240.9	240.9	240.9
	Remaining Funding under SPSPA	124.8	124.8	122.0	119.7	119.5	119.5	119.5	119.5	119.5	119.5	118.1	116.1

Note: 2012-2016 figures from Fannie Mae July BOD corporate forecast. 2017-2022 figures are based on simplifying assumptions derived from trends observed within the 2012-2016 horizon.

(5 in Billions)												
	2008-2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022
Comprehensive Income		11.6	7.5	8.2	8.6	0.6	8.7	8,3	7.7	7.1	6.7	6.5
Preferred Dividend Payment	16.3	7.4	7.4	7.4	7.4	7.4	7.4	7.4	7.4	7.4	7.4	7.4
Residual Equity	0.0	0.0	0.4	1.7	3.5	5.6	6.9	7.9	8.1	7.9	7.2	6.3
Cumulative Dividends	16.3	23.7	31.1	38.4	45.8	53.2	60.6	68.0	75.4	82.8	90.2	97.6
Cumulative SPSPA Draws	(72.2)	(116.1)	(73.0)	(73.0)	(73.0)	(73.0)	(13.0)	(73.0)	(0.67)	(73.0)	(73.0)	(73.0)
Cumulative Dividends Less Draws	(52:9)	(92.4)	(41.9)	(34.5)	(27.1)	(2.61)	(12.3)	(6:5)	2.5	9.6	17.3	24.7
SPSPA Funding Cap	220.5	221.3	221.3	221.3	221.3	221.3	221.3	221.3	221.3	221.3	221.3	221.3
Remaining Funding under SPSPA	148.3	105.2	148.3	148.3	148.3	148.3	148.3	148.3	148.3	148.3	148.3	148.3

Note: 2012-2022 figures are based on simplifying assumptions derived from Fannie Mae forecast trends and observed relationships between key Fannie Mae and Freddie Mac performance metrics. Reported 2011 results re-aligned as necessary to correspond to Fannie Mae management reporting.

Note: Numbers may not foot due to rounding



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Status of Key Initiatives

Securitization and Pooling & Servicing Agreement

Fannie Mae and Freddie Mac will draft a white paper for public comment. A plan for a securitization platform and model PSA will be completed by both Enterprises incorporating the resulting industry commentary by the end of the year.

REO Sales

Obtained bids for potential REO joint venture deal and presented to Pricing Committee, FHFA and the US Treasury in June. FHFA announced the winning bidders on July 3, 2012. Targeted execution of REO joint transaction in Q3 2012 (dependent upon FHFA approval).

Credit Risk Transfer

Currently projecting to complete first transaction in early 2013.

Non-Performing Loan Sales

Preparing a pilot transaction for the competitive disposition of NPA and announcing transaction to the market by the end of 2012.

Credit Pricing Update

Focused on a 10bps average guaranty fee price increase across both Enterprises.

Rep & Warrant Changes

Selling Rep & Warrant framework, expected to become effective January 1, 2013, eliminates liability after 36 months of timely payments.

HARP 2.0

Significant increase in volume in June and July is attributable to the release of the MBS execution for the greater-than 125 LTV category, resulting in 35K loans delivered in this bucket for June and July, representing 31% of total volume in these months.



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EXHIBIT H

From:	Benson, David C <david_c_benson@fanniemae.com></david_c_benson@fanniemae.com>
Sent:	Saturday, August 11, 2012 12:16 PM
То:	Bowler, Timothy
Subject:	Fw: Corrected data with assumptions
Attachments:	GSE model_Aug 2012.pdf

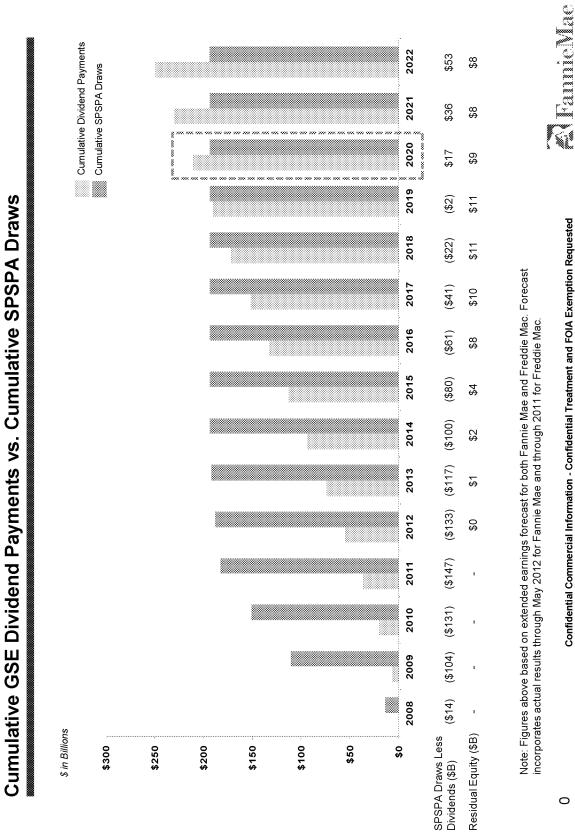
Tim: See attached. I am away on vacation this week. Speak with you when I return. Dave

This e-mail and its attachments are confidential and solely for the intended addressee(s). Do not share or use them without Fannie Mae's approval. If received in error, delete them and contact the sender.

----- Original Message -----From: DAVID BENSON [mailto:bensondavidc@aol.com] Sent: Saturday, August 11, 2012 12:11 PM To: Benson, David C Subject: Corrected data with assumptions

This message was transmitted from Fannie Mae to you in a secure, encrypted manner. If replying to or forwarding this message, it is your responsibility to ensure this message and content is properly protected.

This message was secured by ZixCorp(R).



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Annual Detail of Modeled Cumulative Dividends and SPSPA Draws

(\$ in Billions)												
	2008-2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022
Comprehensive Income		11.6	7.5	11.0	12.5	13.9	13.2	12.2	11.4	10.9	10.5	10.5
 Preferred Dividend Payment	19.8	11.6	11.8	12.1	12.2	12.2	12.2	12.2	12.2	12.2	12.3	12.5
Residual Equity	0.0	0.0	0.0	0.0	0.2	1.8	2.8	2.7	1.9	2.0 2.	0.0	0.0
Cumulative Dividends	19.8	31.4	43.2	55.3	67.6	79.8	92.1	104.3	116.6	128.8	141.1	153.6
Cumulative SPSPA Draws ¹	(111.6)	(116.1)	(119.0)	(121.2)	(121.5)	(121.5)	(121.5)	(121.5)	(121.5)	(121.5)	(122.9)	(124.8)
Cumulative Draws Less Dividends	(8.1.8)	(84.7)	(75.8)	(62:3)	(53.9)	(41.7)	(29.4)	(17.2)	(4.9)	7.3	18.3	28.8
SPSPA Funding Cap ²	240.9	240.9	240.9	240.9	240.9	240.9	240.9	240.9	240.9	240.9	240.9	240.9
Remaining Funding under SPSPA	124.8	124.8	121.9	119.7	119.4	119.4	119.4	119.4	119.4	119.4	118.0	116.1
1 Draw requests related to net deficit occurring in Q4 are included in the following year. Treasury draw requests do not include the initial \$1B liquidation preference of Fannie	t occurring in Q4	are included	in the follow	ing year. Trea	isury draw re	quests do no	t include the i	nitial \$1B liqu	iidation prefer	ence of Fan	nie	

do not include requests reasury draw 1 Draw requests related to net deficit occurring in Q4 are included in the following year. Mae's senior preferred stock, for which Fannie Mae did not receive any cash proceeds.

2 Pursuant to the amended senior preferred stock purchase agreement, cash draws attributable to deficits occurring in 2010-2012 do not count against the \$200B funding cap.

Note: Figures from Fannie Mae July BoD corporate forecast incorporate actual results through May 2012. 2017-2022 figures are based on simplifying assumptions derived from trends observed within the 2012-2016 horizon.

	2008-2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022
Comprehensive Income		6.7	7.8	8.7	9.1	9.6	8.7	8.4	7.7	7.2	6.7	9.9
Preferred Dividend Payment	16.3	7.3	7.3	7.3	7.3	7.3	7.3	7.3	7.3	7.3	7.3	7.3
Residual Equity	0.0	0.0	0.5	2.0	3.8	6.1	7.5	8.6	0.6	6.8	8.3	7.6
Cumulative Dividends	16.3	23.6	30.8	38.1	45.4	52.7	60.0	67.3	74.5	81.8	89.1	96.4
Cumulative SPSPA Draws ¹	(71.2)	(71.8)	(21.8)	(71.8)	(71.8)	(71.8)	(71.8)	(71.8)	(71.8)	(71.8)	(71.8)	(71.8)
Cumulative Draws Less Dividends	(54.9)	(48.3)	(41.0)	(33.7)	(26.4)	(761)	(6:11)	(4.6)	2.7	0.01	17.3	24.6
SPSPA Funding Cap ²	220.6	221.1	221.1	221.1	221.1	221.1	221.1	221.1	221.1	221.1	221.1	221.1
Remaining Funding under SPSPA	149.3	149.3	149.3	149.3	149.3	149.3	149.3	149.3	149.3	149.3	149.3	149.3

2 Pursuant to the amended senior preferred stock purchase agreement, cash draws attributable to deficits occurring in 2010-2012 do not count against the \$200B funding cap.

Note: 2012-2022 figures are based on simplifying assumptions derived from Fannie Mae forecast trends and observed relationships between key Fannie Mae and Freddie Mac performance metrics. These figures incorporate actual results through 2011 only.

Note: Numbers may not foot due to rounding

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Z Fannie Mae

Fannie Mae Annual Detail of Modeled Dividends, Draws, and Key Metrics

(\$ in Billions)									3	*******		
	2008-2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022
Comprehensive Income		11.6	7.5	11.0	12.5	13.9	13.2	12.2	11.4	10.9	10.5	10.5
Preferred Dividend Payment	19.8	11.6	11.8	12.1	12.2	12.2	12.2	12.2	12.2	12.2	12.3	12.5
Residual Equity	0.0	0.0	0.0	0.0	0.2	1.8	2.8	2.7	1.9	0.5 0.5	0.0	0.0
Cumulative Dividends	19.8	31.4	43.2	55.3	67.6	79.8	92.1	104.3	116.6	128.8	141.1	153.6
Cumulative SPSPA Draws ¹	(111.6)	(116.1)	(119.0)	(121.2)	(121.5)	(121.5)	(121.5)	(121.5)	(121.5)	(121.5)	(122.9)	(124.8)
Cumulative Draws Less Dividends	(61.8)	(84.7)	(75.8)	(62:3)	(6:ES)	(41.7)	(29.4)	(17.2)	(4.9)	7.3 8	18.3	28.8
SPSPA Funding Can ²	240.9	240.9	240.9	240.9	240.9	240.9	240.9	240.9	240.9	240.9	240.9	240.9
Remaining Funding under SPSPA	124.8	124.8	121.9	119.7	119.4	119.4	119.4	119.4	119.4	119.4	118.0	116.1
Market Metrice.										****		
SF First-Lien MDO Beginning (\$B)		9,418	9,409	9,511	9,680	9,794	9,983	10,193	10,426	10,681	10,962	11,269
Total Market SF Originations (\$B)		1,306	1,072	1,050	1,166	1,359	1,370	1,470	1,570	1,680	1,842	2,026
Total Market SF Liquidations (\$B)		(1,315)	(696)	(881)	(1,053)	(1,170)	(1,160)	(1,238)	(1,314)	(1,399)	(1,535)	(1,690)
SF First-Lien MDO Ending (\$B)	I	9,409	9,511	9,680	9,794	9,983	10,193	10,426	10,681	10,962	11,269	11,605
Annual MDO Growth Rate		-0.1%	1.1%	1.8%	1.2%	1.9%	2.1%	2.3%	2.5%	2.6%	2.8%	3.0%
Enterprise Metrics:												
SF Acquisition Volume (\$B)		589	433	385	410	462	466	500	534	571	626	689
SF Market Share (Acquisitions/Originati	nations)	45%	40%	37%	35%	34%	34%	34%	34%	34%	34%	34%
Total Mortgage Loans (\$B) ³		2,921	2,845	2,780	2,751	2,753	2,819	2,909	3,019	3,149	3,314	3,516
SF Charge-Fee on New Acquisitions, net	net (bps) ⁴	30	31	32	33	33	35	35	35	35	35	35
SF Effective Guaranty Fee, net (bps) ^{4,5}	4,5	24	25	25	26	27	29	30	31	32	33	35
1 Draw requests related to net deficit occurring in Q4 are included in the following year. Treasury draw requests do not include the initial \$1B liquidation preference of Fannie Mae's senior preferred stock, for which Fannie Mae did not receive any cash proceeds.	t occurring in Q4 a ae did not receive a	re included in ny cash proc	the following eeds.	l year. Treası	ıry draw requ	ests do not in	clude the initi	al \$1B liquida	ttion preferen	ice of Fannie	Mae's senior	
2 Pursuant to the amended senior prefer	referred stock purchase agreement, cash draws attributable to deficits occurring in 2010-2012 do not count against the \$200B funding cap.	hase agreem	ent. cash dra	ws attributab	le to deficits c	occurring in 20	010-2012 do 1	not count aga	inst the \$200)B funding ca	ö.	

2 Pursuant to the amended senior preferred stock purchase agreement, cash draws attributable to deficits occurring in 2010-2012 do not count against the \$200B funding cap.

3 Total Single-family and Multi-family conventional mortgage credit book of business.

4 Net of Temporary Payroll Tax Cut Continuation Act (TCCA) fee of 10bps. TCCA effective as of April 1, 2012.

5 Total guaranty fee income for the year divided by average SF credit book of business.

Note: Figures from Fannie Mae July BoD corporate forecast incorporate actual results through May 2012. 2017-2022 figures are based on simplifying assumptions derived from trends observed within the 2012-2016 horizon.

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(\$ in Billions)									~			
	2008-2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022
Comprehensive Income		6.7	7.8	8.7	9.1	9.6	8.7	8.4	7.7	7.2	6.7	9.9
Preferred Dividend Payment	16.3	7.3	7.3	7.3	7.3	7.3	7.3	7.3	73	7.3	7.3	7.3
Residual Equity	0.0	0.0	0.5	2.0	3.8	6.1	7.5	8.6	0.6	8.8 2	8.3	7.6
Cumulative Dividends	16.3	23.6	30.8	38.1	45.4	52.7	60.0	67.3	74.5	81.8	89.1	96.4
Cumulative SPSPA Draws ¹	(71.2)	(71.8)	(71.8)	(71.8)	(71.8)	(71.8)	(71.8)	(71.8)	(71.8)	(71.8)	(71.8)	(71.8)
Cumulative Draws Less Dividends	(54.9)	(48.3)	(41.0)	(33.7)	(26.4)	(2.61)	(11.9)	(4.6)	2.7	10.0	17.3	24.6
SPSPA Funding Cap ²	220.6	221.1	221.1	221.1	221.1	221.1	221.1	221.1	221.1	221.1	221.1	221.1
Remaining Funding under SPSPA	149.3	149.3	149.3	149.3	149.3	149.3	149.3	149.3	149.3	149.3	149.3	149.3
<u>Market Metrics:</u>												
SF First-Lien MDO Beginning (\$B)		9,418	9,409	9,511	9,680	9,794	9,983	10,193	10,426	10,681	10,962	11,269
Total Market SF Originations (\$B)		1,306	1,072	1,050	1,166	1,359	1,370	1,470	1,570	1,680	1,842	2,026
Total Market SF Liquidations (\$B)		(1,315)	(696)	(881)	(1,053)	(1,170)	(1,160)	(1,238)	(1,314)	(1,399)	(1,535)	(1,690)
SF First-Lien MDO Ending (\$B)		9,409	9,511	9,680	9,794	9,983	10,193	10,426	10,681	10,962	11,269	11,605
Annual MDO Growth Rate		-0.1%	1.1%	1.8%	1.2%	1.9%	2.1%	2.3%	2.5%	2.6%	2.8%	3.0%
Enterprise Metrics:												
SF Acquisition Volume (\$B)		331	232	209	227	259	260	279	298	319	350	385
SF Market Share (Acquisitions/Originations)	nations)	25%	22%	20%	19%	19%	19%	19%	19%	19%	19%	19%
Total Mortgage Loans (\$B) ³		1,781	1,734	1,695	1,677	1,678	1,680	1,701	1,738	1,790	1,865	1,964
SF Effective Guaranty Fee, net $(bps)^{4,5}$	4,5	21	22	23	24	25	27	29	30	31	32	34
1 Draw requests related to net deficit occurring in Q4 are included in the following year. Treasury draw requests do not include the initial \$1B liquidation preference of Freddie Mac's senior preferred stock, for which Freddie Mac did not receive any cash proceeds.	occurring in Q4 are include receive any cash proceeds.	re included in proceeds.	the following	l year. Treasi	ury draw requ	lests do not ir	nclude the ini	tial \$1B liquid	ation preferer	nce of Freddi	e Mac's senio	or pre
2 Pursuant to the amended senior preferred stock purchase acreement, cash draws attributable to deficits occurring in 2010-2012 do not count against the \$200B funding cap.	eferred stock purc	hase agreem	ent, cash dra	ws attributab	le to deficits	occurrina in 2	010-2012 do	not count ad:	ainst the \$200	0B funding ce	u	

Freddie Mac Annual Detail of Modeled Dividends, Draws, and Key Metrics

3 Total Single-family and Multi-family conventional mortgage credit book of business.

4 Freddie Mac does not disclose SF charged fees. As a result, the forecast of guaranty fee income is based on the forecast for Fannie Mae's effective guaranty fees, adjusted for the observed relationship between Freddie Mac and Fannie Mae historically. This is also presented net of the Temporary Payroll Tax Cut Continuation Act (TOCA) fee of 10bps. TCCA effective as of April 1, 2012.

5 Total guaranty fee income for the year divided by average SF credit book of business.

Note: 2012-2022 figures are based on simplifying assumptions derived from Fannie Mae forecast trends and observed relationships between key Fannie Mae and Freddie Mac performance metrics. These figures incorporate actual results through 2011 only.

Note: Numbers may not foot due to rounding.

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EXHIBIT I

From:	Ugoletti, Mario
Sent:	Wednesday, October 15, 2008 10:45 AM
То:	Lingebach, James
Subject:	Re: Valuation of GSE Stock/Warrant/Commitment

Jim, I will back on monday october 20, the afternoon would work, I will still be in south america on friday, mario.

From: Lingebach, James
To: Ugoletti, Mario
Cc: Carfine, Ken; Norton, Jeremiah; Winborne, Serita; Runnels, Al; Geiger, Donald; Wong, Chantale; Foster, Wesley; Legge, David
Sent: Wed Oct 15 10:17:52 2008
Subject: Valuation of GSE Stock/Warrant/Commitment

Mario,

I realize you are out of the office but we have an urgent need to schedule a meeting with you for this Friday, October 17.

We have engaged a contractor, Grant Thornton, to perform the valuation of the GSE preferred stock, common stock warrant, and Treasury's \$200 billion preferred stock commitment in order to properly value these items in the Department's 9/30/08 financial statements. Grant Thornton wants to discuss several aspects of the preferred stock liquidity arrangement, such as whether we expect the GSEs to pay the preferred stock dividends in cash or to just accrue the payments, what the Department's future intent may for the preferred stock and common stock warrant, and other aspects of the agreement. A related question is whether the preferred stock really has any value if it is determined that we have a significant future liability under this commitment.

Please let me know at your earliest convenience what a good time is and we can work out the particulars.

Thanks,

Jim

James R. Lingebach Director, Office of Accounting and Internal Control Office of the Deputy Chief Financial Officer Department of the Treasury (202) 622-0818 james.lingebach@do.treas.gov