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January 27, 2011

57799.00012

VIA E-MAIL

Ms. Sarah Knaus
FINANCIAL CRISIS INQUIRY COMMISSION
Suite 800
1717 Pennsylvania Avenue, NW
Washington, DC 20006-4614

Re: FCIC Staff Memo of Interview of Daniel Mudd

Dear Ms. Knaus:

This letter responds to your email of Jan. 26, 2011, requesting our views as Mr. Mudd's counsel concerning the possible release of the 26-page FCIC's Staff Memorandum of the Interview of Daniel Mudd on March 26, 2010 ("Interview Memo"). Your message notes that "general objections will not be helpful." Notwithstanding that remark, we do have objections to the release of the Interview Memo which are set forth below. In addition, we set forth below a multitude of corrections that should be noted before the Interview Memo is provided publicly.

Overall Reaction

As a general matter, the Interview Memo is replete with statements identified as quotes with quotation marks. The putative quotes are not taken from a transcript prepared during the interview by a court reporter. Under these circumstances, there is a strong likelihood that human error affected the accuracy of the Interview Memo. Moreover, more than ten months have passed since the interview, so it is not possible for anyone to adequately review at this late date the accuracy of the quoted language. We believe that presenting these statements as quotations creates the impression of complete accuracy when, in fact, due to the passage of time, we cannot assure the accuracy of the statements with certainty. Indeed, our view on this point coincides with the introductory sentence to the Interview Memo, which states, "This is a paraphrasing of the interview dialogue and is not a transcript and should not be quoted as such." (emphasis original). Thus, in our view, quotation marks should not be used to represent paraphrased statements.

The Interview Memo also does not attempt to quote the specific questions that led to the responses from Mr. Mudd. Thus, the complete context of Mr. Mudd's statements is not presented in the Interview Memo. In prior correspondence with the Staff, we have noted our concern with the problem of taking the statements attributed to Mr. Mudd out of

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context. In addition, at times, lengthy quotes attributed to Mr. Mudd in the Interview Memo are actually combinations of Mr. Mudd's responses to a series of questions. For all of these reasons, we do not think that it is advisable for any of the statements to be presented as verbatim quotations and the Interview Memo should be modified to remove all quotation marks regarding any statement by Mr. Mudd.

At a minimum, any public release of the Interview Memo should be accompanied by a public release of this letter in a readily available manner and clearly identified as related to the Interview Memo to ensure that our concerns with this method of proceeding are made public.

With regard to business confidential information in the Interview Memo, Fannie Mae is the entity whose business confidences may be reflected in the Interview Memo. We assume you have consulted with Fannie Mae for its views on your proposed release of the Interview Memo.

Specific Corrections

In an effort to clarify some of the information in the Interview Memo, here is a listing of specific corrections that, at a minimum, should be made. This list is not an exhaustive catalog of every error we identified.

On page 1, 2nd full paragraph, line 24, remove "summers" and insert "a summer"

On page 1, 2nd full paragraph, line 27, remove "in the defense and finance ministries" and insert "half the year at a financial services company and half the year in the Defense Ministry."

On page 2, line 1, remove "first as a Vice President, and later as General Manager of the Company's international equity group" insert "where he worked in mergers and acquisitions. He also spent time working in the International Equipment Group and was the Managing Director of the European Transportation Group. He became CEO of GE Capital-Asia Pacific"

On page 2, 1st full paragraph, line 5, remove "and eligibility requirements"

On page 2, 2nd full paragraph, line 16, remove "his group" and insert "Fannie Mae"

On page 2, 3rd full paragraph lines 29-30, remove "on participating in [those product lines]" and insert "and more process"

On page 3, 3rd full paragraph, line 15, after "some loans" insert "in measured amounts"

On page 3, 3rd full paragraph, line 17, after "product" insert "as a pilot"

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On page 3, 3rd full paragraph, line 17, after “to” insert “some”

On page 3, 3rd full paragraph, line 17, after “lender customers” insert “and build it out over time”

On page 3rd full paragraph, line 26, remove “is with these” and insert “was moving towards”

On page 4, 1st carryover paragraph, line 3, remove “, or sell”

On page 4, 3rd full paragraph, line 18, remove “Choices” and insert “Crossroads”

On page 4, 3rd full paragraph, line 24, after “was that” insert “[Citi saw]”

On page 5, 1st full paragraph, line 5 remove “more lax underwriting standards” and insert “less documentation”

On page 5, 1st full paragraph, line 5 remove “, ’ he said. ‘The way I think about is, it’s” and insert “was”

On page 5, 1st full paragraph, line 7, remove “do you get for it, and how do you deal with the risk” and insert “is it earning, what is being done to mitigate the risk”

On page 5, 1st full paragraph, lines 7-10, remove “As we went more broadly [into NTM products], the fees were higher because the loss line would be higher, so we had to charge a higher G fee, and then above and beyond the charter mission, we would purchase incremental mortgage insurance to cover uncertainty and risk” and insert “When looking at a product that is new to the business, you start with the portfolio, then loans, then you identify seller-servicers; then as you go more broadly, the fees were higher due to the recognition that the loss line would be higher; so you charge higher gfees, then purchase mortgage insurance to cover the uncertainty risk”

On page 5, 2nd full paragraph, line 17, after “charged fee” insert “There is a model fee, charged fee, and actual fee. For example, for a price, product, and volume, you get a fee of 20, but three years later, you would have seen the actual product and volume delivered, and it could produce a fee that is slightly different.”

On page 5, 3rd full paragraph, line 18, remove “Mudd” insert “Seefer”

On page 5, 3rd full paragraph, line 19, remove “, and so” and insert “. Mr. Mudd responded that”

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On page 6, 3rd full paragraph, line 19, after “say that the” insert “quality of the”

On page 6, 5th full paragraph, line 30, remove “And there was danger to profitability” and insert “Mr. Seefer asked if it was profitable. Mr. Mudd said, yes, ”

On page 7, line 3, remove “– i.e. Fannie Mae – ”

On page 7, 1st full paragraph, line 15, remove “So” insert “Mr. Mudd agreed generally to Chris’ statement that”

On page 7, 1st full paragraph, line 16, remove the end quote symbol after “customers.”

On page 8, 4th full paragraph, line 30, before “NTM” remove “riskier,”

On page 8, 4th full paragraph, lines 31-32, remove “some [riskier products]” and insert “some [NTM products]”

On page 8, 4th full paragraph, line 33, remove “contrary” and insert “contributory”

On page 9, 1st full paragraph, line 3, after “money.” remove “He” and insert “Chris asked if goals was a reason why Fannie Mae purchased NTM products. Mr. Mudd”

On page 10, before the 1st paragraph, insert “Chris asked in addition whether there was also concern about the accuracy of the model fee anyway. Mr. Mudd said if there was uncertainty about pricing correctly, Fannie Mae would not have priced it at all. The issue was that there was less certainty than in other areas.”

On page 10, 4th full paragraph, line 26, remove “Mr. Mudd said, ‘I think the best I can say at this point is that there was a huge amount of uncertainty about if the model fee was at the right level or not.’” and insert “Mr. Mudd responded that the concern was that the model fee might be too low, plus one way to correct for the uncertainty factor was to buy [mortgage insurance], so that was one of the factors.”

On page 10, 6th paragraph, line 34, remove “with OFHEO” and insert “with Fannie Mae”

On page 11, 5th full paragraph, line 29 after “schizophrenic” insert “quality to the”

On page 11, 5th full paragraph, line 32 after “melt down” insert “and”

On page 12, 1st carryover paragraph, line 3, change “borrows” to “borrowers”

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On page 12, 1st full paragraph, line 11, after “a package of loans” insert “in which there would be 5%”

On page 12, 2nd full paragraph, line 15, remove “could” and insert “had the infrastructure to”

On page 12, 2nd full paragraph, lines 16-19, remove “The areas were being developed. Part of what the plan called for was to develop incremental strategies we would need to implement that [overall] strategy. Mr. Mudd clarified that the project he just described was the Risk Transformation Facility, which never got off the ground.” and insert “Mr. Mudd said it was being developed in some areas. In areas where it was already developed, it was appropriate to take the risk. Part of the plan in the document called for building and developing it in other areas. Mr. Seefer asked if this tied into the risk transformation facility. Mr. Mudd said it did.”

On page 12, 2nd full paragraph, line 21, after “capabilities.” insert “There were some areas where the capability was developed and was expressed principally through [mortgage insurance].”

On page 12, 3rd full paragraph, lines 26-27, remove “to allow [Fannie] to take more risk” and insert “, willing to absorb this kind of risk for a reasonable price.”

On page 12, 4th full paragraph, line 33 after “he said.” insert “Fannie Mae began to increase price, reduce eligibility, and apply adverse market fees to accomplish this.”

On page 13, 4th full paragraph, line 22, after “map of” remove “the” and after “US” remove “with” and insert “home price”

On page 14, 1st carryover paragraph, line 4, remove “moral”

On page 14, 2nd full paragraph, line 17, after “Mr. Mudd” remove “said that” and insert “agreed with Chris that it was”

On page 14, 2nd full paragraph, lines 19-20, after “goals” remove “and because the NTM market provided a way for the Company to make money” and insert “Chris stated that Fannie Mae also wanted to make money as well. Mr. Mudd said yes.”

On page 14, 2nd full paragraph, line 28 after “and then” insert “, if prudent,”

On page 15, 1st full paragraph, line 5, after “classification” insert “[for whole loans]”

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On page 15, 1st full paragraph, line 5, after “disclose” remove “the originators” and insert “subprime or Alt-A based on who the originator is or how the originator classified it”

On page 15, 1st full paragraph, line 7, after “mortgages” and insert “so investors could decide for themselves”

On page 15, 4th full paragraph, line 33, remove “reply” and insert “rely”

On page 16, 1st full paragraph, line 4, remove “tension” insert “attention”

On page 16, 3rd full paragraph, line 13, after “Fannie Mae’s own” insert “models”

On page 16, 4th full paragraph, line 22, remove “giving” and insert “given”

On page 16, 5th paragraph, line 37, remove “particularly during the validation process” and insert “and management went through the same process of validations and checking”

On page 17, 3rd full paragraph, line 23, remove “...and you saw the share snap back.”

On page 17, 5th full paragraph, line 35, remove “making” and insert “make”

On page 18, 2nd full paragraph, line 14, after “we” insert “probably” and after “ahead of it” remove “again”

On page 18, 5th full paragraph, line 37, remove “securities book” and insert “private label securities book owned by Fannie Mae”

On page 18, 5th full paragraph, line 37, remove “market” and insert “PLS market performance, where Fannie Mae’s securities performed twice as well.”

On page 18, 5th full paragraph, lines 37-38, remove “and it’s not that bad... on an absolute basis, maybe that doesn’t matter, though”

On page 19, 1st full paragraph, line 6, remove “surplus” and insert “surcharge”

On page 19, 3rd paragraph, line 20, remove “should be at the minimum” and insert “requirements should move back down”

On page 19, 4th paragraph, line 26, remove “put through” and insert “pass the difference along in the form of”

On page 19, 5th paragraph, line 28, after “jumbo and” insert “non-jumbo”

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On page 19, 6th paragraph, line 33, after “the mortgage market” insert “similarly to other institutions”

On page 20, 1st carryover paragraph, line 1, after “Making the regulator part of” insert “Treasury or”

On page 20, 1st carryover paragraph, line 2, after “as stark as] ” remove “do nothing or”

On page 20, 1st carryover paragraph, line 3, after “capital” remove the punctuation and “insert “or”

On page 20, 4th paragraph, line 19, after “Mr. Mudd” remove “the” insert “a” and after “chart” insert “generated by the FCIC”

On page 20, 4th paragraph, line 22, remove “different scenarios” insert “a variety of procedures, made sure that they understood the pricing and other variables as it attempted to assign the right amount of capital.”

On page 20, 5th paragraph, line 29, after “job” insert “as CEO”

On page 20, Footnote 1, after “accuracy” remove the period and insert “, noting, as an example, that the columns did not actually add up.”

On page 21, 1st carryover paragraph, line 2, remove “restatement” and insert “intention to restate”

On page 21, 1st carryover paragraph, line 5, remove “81” and insert “80 some odd”

On page 21, 1st carryover paragraph, line 7, after “30%” insert “requirement”

On page 21, 1st carryover paragraph, line 15, remove “human” and insert “hue and”

On page 21, 1st full paragraph, line 23, after “onus was on” insert “all of”

On page 21, 3rd full paragraph, line 32, remove “what Mr. Lockhart’s view was of the negotiations.” insert “Mr. Mudd what he perceived Mr. Lockhart’s view to be.”

On page 21, 3rd full paragraph, line 33, remove “cap surplus” insert “capital surcharge”

On page 21, 4th full paragraph, line 35, remove “Mr. Steel’s position was” and insert “Mr. Mudd’s perception of what Steel’s position was”

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On page 22, 2nd full paragraph, line 8, after “email” insert “(which Mr. Mudd was not a recipient of)”

On page 22, 3rd full paragraph, line 15, after “process” remove “;” and insert “. If there was a cheaper loan that the borrower could access in the same originating institution, the originator would have to refer the borrower to that.” and capitalize the “W” in the words “we” that follows

On page 22, 4th full paragraph, line 21, remove “initial” and insert “internal”

On page 22, 4th full paragraph, line 21, remove “simple” and insert “sole”

On page 22, 6th full paragraph, line 27, remove “Tom asked if Mr. Mudd knew if Countrywide charged Fannie Mae higher prices for its product, and” and insert “Tom said that Fannie Mae had its box of criteria and that Countrywide would send packages of loans within that box but they would all be towards the bottom, and asked if that surprised Mr. Mudd.”

On page 22, 6th full paragraph, line 29, after “found” insert “a way to get”

On page 23, 1st carryover paragraph, line 6, after “discussions.” insert “Chris asked if there were discussions in which Countrywide said that it was Fannie Mae’s largest customer and told Fannie Mae to back off. Mr. Mudd said not that he is aware of.”

On page 23, 2nd full paragraph, line 11, remove “particularly with low-doc loans”

On page 23, 2nd full paragraph, line 19, remove “a large” insert “an”

On page 23, 3rd full paragraph, line 24, remove “from risk management” and insert “across the board”

On page 24, 1st carryover paragraph, line 1 after “coming here” insert “[from JP Morgan]”

On page 24, 1st full paragraph, line 7, after “frustration about the” insert “budget”

On page 24, 1st full paragraph, line 8, after “progress” remove “- we weren’t ‘not even close.’”

On page 24, 2nd full paragraph, line 12, remove “a homeownership” and insert “the affordable home”

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On page 24, 2nd full paragraph, line 19, remove “world” insert “[map of home price appreciation and declines]”

On page 24, 3rd full paragraph, line 27, after “things within” remove “its” and insert “[the government’s]”

On page 24, 3rd full paragraph, line 27, remove “it’s helpful” and insert “it would have been helpful for government”

On page 24, 3rd full paragraph, line 28, after “clear about” insert “expectations for liquidity”

On page 24, 4th full paragraph, line 32, remove “then here are some suggestions that we Fannie Mae have that would be helpful to our ability to operate in the market” and insert “discussing suggestions of ways in which Fannie Mae could be helpful to operating in the market.”

On page 24, 4th full paragraph, line 36 after “September” remove “6” insert “5”

On page 25, 2nd full paragraph, line 6, remove “reverses” and insert “effectively reversed”

On page 25, 2nd full paragraph, line 7, remove “ability to stay above the capital surplus” and insert “capital position”

On page 25, 2nd full paragraph, line 9, remove “,” and insert “.”

On page 25, 3rd full paragraph, line 13, remove “directors, etc.,” and insert “the Director of OFHEO”

On page 25, 3rd full paragraph, line 15, capitalize the “H” in “hill”

On page 25, 3rd full paragraph, line 15, after last remove “cap” and insert “capital”

On page 25, 3rd full paragraph, line 18, remove “of the” and insert “and”

On page 25, 3rd full paragraph, lines 19-20, remove “like first warning: fix it; second warning: fix it; third warning: you’re out of here” and insert “an initial warning with an opportunity to fix the problem, a second warning with a warning letter, and then a third warning to say it’s over.”

On page 25, 3rd full paragraph, line 21, remove “with no warning in between”

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On page 25, 3rd full paragraph, line 24, remove “...” and insert “I would have liked to have been”

On page 25, 3rd full paragraph, line 27, after “capital” insert “in late 2007 and 2008”

On page 25, after 3rd full paragraph, line 28, insert “Chris noted that there had been an August 22, 2008 OFHEO letter stating that Fannie Mae was adequately capitalized, and then an interim letter stating that it was not adequately capitalized. Mr. Mudd stated that all of the events were compressed.”

On page 25, 5th paragraph, line 34, remove “was the Domestic Undersecretary, so...” insert “were deputy undersecretaries of domestic finance and their staffs.”

On page 26, 1st paragraph, line 4, remove “said” and insert “asked the government”

On page 26, 1st paragraph, line 4, after “anymore” add a single end quote mark

On page 26, 1st paragraph, line 6, remove “historically” and insert “ahistoric”

On page 26, 2nd paragraph, line 19, remove “fixed-rate”

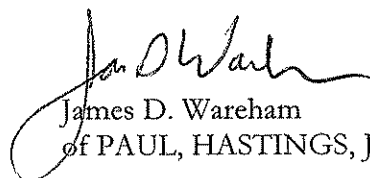
On page 26, 2nd paragraph, line 20, after “that kind of market” insert “[with primarily 20% down, 30 year mortgages]”

On page 26, 2nd paragraph, line 20, remove “unanswerable at the time” and insert “a source of debate”

End of Specific Corrections List.

Thank you for the opportunity to make our views known to the Commission and its Staff.

Sincerely,



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

JDW