

From: Mudd, Daniel H <daniel_h_mudd@fanniema.com>
Sent: Tuesday, July 17, 2007 6:57 AM
To: Dallavecchia, Enrico <enrico_dallavecchia@fanniema.com>
Subject: RE: Budget 2008 and strategic investments

My experience is that email is not a very good venue for conversation, venting, or negotiating. If you feel you have been dealt with in bad faith, address it man to man, unless you really want me to be the one to carry messages for you to your peers--- and they are peers. If you feel the process is not working, you know my door, telephone and house are open to you. I am not aware that you have sought to do so on this topic.

If there is any data in the company, you as a senior person, who is supposed to be able to see the top risks and goals of the company, are not privy to, let me know, you will have it---- to make decisions, but not to negotiate for your group or against any other. And of course, you may say anything you believe to be true, at any time, to anyone on the Board or anywhere else. And I believe it is innacuate for you to suggest anyone expressed a view that there are enough resources for anyone to do everything necessary for the plan. Resources are tight. Everyone has cuts.

Please come and see me today face to face.

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-----Original Message-----

From: Dallavecchia, Enrico
Sent: Monday, July 16, 2007 10:15 PM
To: Mudd, Daniel H
Subject: Budget 2008 and strategic investments

Dan, see the email below to Mike.

In a nutshell, I am very upset as I had to stand at the Board meeting today and hear that we have the will and the money to change our culture and support taking more credit risk. This is not evidenced in the proposal to cut my budget in 2008 by 16pct (sixteen) after in 2007 with reorganizations and consolidation I cut headcount by 25pct (and budget probably over 20pct).

My main concerns are:

1. I am given a number from Steve without any consultation with me or my people on what we did this year and what we need next year (independent from the new strategic plan). I wasn't treated like this even when I was three level downs from the CEO.
2. I have no visibility on the rest of the company, on the trends in the last 3 years (CRO is about 33mm additional budgets, who else is spending the other 470mm from three years ago when revenues have been growing single digit, and in some business they have been down for the past 3 yrs). if I am a member of the management team I should have a say (not only visibility, which I also don't ave) on how and where we cut, otherwise it is a travesty that I work for you, I may as well work for Rob or Mike.
3. It was inappropriate what was said today to the Board as if I had all the necessary means and budget to act on the strategic plan. I do not even think that with what I was given for 2008 is adequate for the current risk, considering how far we already are from adequate market practices. I had no part in some Board members asking questions on having the means to execute, but I cannot let the impression stand, as my credibility and reputation with them will be at stake.
4. I am more than anything very upset because I thought I had joined a team and I realize I am in the usual place where people smile and act nicely but they keep running the company as they always did. I can only infer malice from some of your directs when we come from the control history we have as a company, and when they are fully aware that CRO is in full build up mode, that I took leadership not only in cutting expenses for CRO but for the whole risk discipline this year, and that I have been saying that we are not even close to have proper control processes for credit, market and operational risk. I get a 16pct budget cut. Do I look so stupid? And if they didn't act with malice, I would propose that maybe they don't get how you run budget custs.

please tell your directs (Mike, and Rob) to spare me the story about 'this is only the first cut, it is a proposal, tell us what you need by all means'. I went through many cost cutting and I did many too, I have been in some of the most politicized companies in banking, I did cutthroat merger, tell them to spare me the story, they already lost much of my respect, they don't want to lose all of it.

For the two of us we need a heart to heart conversation when we meet on Thursday. I am sure you have not seen these figures or approved them and that you would never hand me a budget cut, even minimal, without sitting down with me and discussing what I think is necessary to run CRO and risk ingeneral for the company.

In the meantime I ask that you make sure we stay way clear from the comments made today about having the budget and the will to execute this strategic plan, because the last think I want is to be forced to say that I disagree and embarass you in front of the Board.

Enrico Dallavecchia
202-752-6804

-----Original Message-----

From: Dallavecchia, Enrico
Sent: Monday, July 16, 2007 09:33 PM Eastern Standard Time
To: Williams, Michael (COO)
Subject: RE:

Mike, I got no say and no input in building of the budget I was given. And I can only assume tha those that built it were knowledgeable of the build up state of CRO and of the fact that last year CRO took a 25pct headcount reduction, when the company average 10pct (and I am not even counting Andy Leonard reductions or those done in Single Family, all work that we took to increase efficiency).

Doing the budget for nxt year off my forecast and with a 16pct further reduction in budget is at best being ill informed or maybe I sdue to malice. I find it offesive to my intelligence and that of my staff

The company has one of the weakest control processes I ever witness in my career. We have barely started to work on it, we took significant costs out of the company while during our job and we still get a 16pct reduction this year?

This tells me that people don't care about the function or they don't get it. I sat tight today at the Board meeting when representations were made after some Board members asked about the funding of the new strategy that we have it. This is inconsistent with the cuts I did last year and the cuts I am asked to make. And we have not even address taking more credit risk.

I can't let the Board think that CRO is showered with money, not with what we spent this year and certainly not with what I have got as budget for next year. This is even before we consider what needs to be done to take more credit risk. What do you think it is going to be, adding 3 people in CRO and run up a fee billions of revenues?

This company really doesn't get it, we are not even current and we are already back to the old days of scraping on controls and people can can set up proper controls to reduce expenses.

And giving me a number to ask for pushback it is treating me liike a child or a second class citizen.

I cannot convey in writing my disappointment on this whole situation, I expected better from this company. This is a very sad day.

Enrico Dallavecchia
202-752-6804

-----Original Message-----

From: Williams, Michael (COO)
Sent: Monday, July 16, 2007 09:01 PM Eastern Standard Time

To: Dallavecchia, Enrico
Subject:

Enrico:

You should assume that the team built the budget targets off of your current forecast. Given the importance of the CRO function, we would expect you to push back and tell us where you need to be next year. The team, absent your inputs, is (or can) only make assumptions about what makes sense to you given your current rate of spend. Steve (and the team) shared your concerns with me and I have said that I would expect we will need to up the number but Enrico should opine.

Separately, this does not include any "initiative" money that you need for 2008.

Mike

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