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### FCIC memo of staff interview with Thomas Lund, Fannie Mae

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**Author/Creator**

Thomas Lund, Michael N. Levy, Elizabeth Martin, Chris Seefer, Thomas H. Stanton, Matthew Cooper, Al Crego, and Carl McCarden

## MEMORANDUM FOR THE RECORD

Event: Meeting with Tom Lund, former EVP of Fannie Mae Single Family Business

Type of Event: Group meeting

Date of Event: March 4, 2010 at 2:00 PM

Team Leader: Chris Seefer

Location: Bingham McCutchen LLP, 2020 K Street, NW, Washington, DC 20006

Participants - Non-Commission:

- Tom Lund, former EVP of Fannie Mae Single Family Business
- Michael N. Levy, Attorney, Bingham McCutchen
- Elizabeth Martin, Attorney, Bingham McCutchen

Participants - Commission:

- Chris Seefer
- Tom Stanton
- Matt Cooper
- Al Crego
- Carl McCarden

Date of MFR: March 4, 2010

**This is a paraphrasing of the interview dialogue and is not a transcript and should not be quoted except where clearly indicated as such.**

Summary of the Interview or Submission:

### MEETING OPENING –

#### Mr. Lund's Employment History

- Chris Seefer asked Mr. Lund to walk through his time at Fannie Mae chronologically.
- Prior to joining Fannie Mae, Mr. Lund worked for GE Capital.
- Mr. Lund joined Fannie Mae in January 1995 and worked in the Dallas regional office. He spent 5 years in Dallas managing customer relationships, primarily mortgage originators.

- In 2000, Mr. Lund left the Dallas office to work in the Investor Channel group of Fannie Mae in Washington, D.C. The Investor Channel was responsible for managing the bulk loan acquisition process, and helping to build Fannie Mae’s capabilities to buy “seasoned loans.”
- “Seasoned loans” are defined as loans that are held on banks’ or other originators’ books for two to three years and then sold to investors. Since these loans have an established two or three year payment history, Fannie Mae and the market considers them less risky. The due diligence process for these loans was quick, usually a day according to Mr. Lund. Prior to 2000, Fannie Mae had primarily only purchased new issues but saw a market opportunity with decreased risk by purchasing seasoned loans.
- In 2003, Mr. Lund was promoted to Single Family Chief Acquisition Officer. The Single Family Chief Acquisition Officer is responsible for driving the firm’s loan acquisition strategy.

### **Housing Goals**

- In his role as Chief Acquisition Officer, Mr. Lund had increased interaction with regulators from OFHEO and HUD. He stated that he felt pressure to meet HUD housing goals. The housing goals were raised in 2000 and again, substantially, in 2004, and Fannie Mae received pressure from the administration to expand its business beyond the traditional 15- and 30-year fixed-rate mortgages that were previously the core of the Company’s business.
- Mr. Lund outlined several business practices that Fannie Mae began in 2004 to respond to increasing governmental pressure to meet housing goals. Housing goals were raised by 4% across the various categories in 2004. He stated, “We did a lot of things ex-housing goals that we wouldn’t have done otherwise.” Some examples of these practices include:
  - “DU bump” – borrowers were given a bump if they met certain housing goal requirements (e.g., low income borrowers). For example, a loan is sent through Fannie Mae’s desktop underwriter and assigned a risk level of 3 which is higher than Fannie Mae’s risk level of 2. If the borrower met a housing goal, then the risk level would be “bumped” up to 2, and the loan would be priced as such by Fannie Mae.
  - Reduced equity requirements for homebuyers.
  - Fannie Mae bought bulk loans that contained housing goal loans.
- Mr. Lund said that he was extremely concerned about the impact of some of these new initiatives and the risk associated with expanding into riskier, nontraditional mortgage products to meet housing goals. He said that he was in constant communication with HUD about housing goals, but the goals were still raised.
- Chris Seefer asked Mr. Lund who was his HUD contact and when did they speak about housing goals. In response, Mr. Lund said that he was in frequent communication with Commissioner Montgomery and that he had a meeting with him in October 2006 or 2007 to discuss housing goals.
- Mr. Lund wanted to have the housing goals declared “unfeasible” since the only way Fannie Mae could meet the goals was to access the nontraditional mortgage market and expand into riskier products since these borrowers were not going through traditional channels.

- Mr. Lund continued his argument that increased housing goals were harmful to consumers and Fannie Mae because there was an implicit risk layering present in the market. He stated that there should be communication either from Dan Mudd or Bill Senhauser discussing the infeasibility of housing goals. He also suggested that the staff speak to Ken Bacon and Ben [ ? ], both former Fannie Mae employees who were involved with the housing goal discussion.
- Mr. Lund stated that, in retrospect, Fannie Mae mispriced the risk of expanding into riskier products to meet housing goals. Mr. Lund said that no one expected a 40% decline in home prices which led to underestimating the potential losses from meeting housing goals.
- Mr. Seefer asked Mr. Lund if there are documents that show Fannie Mae's struggle to meet housing goals. Mr. Lund answered that the Company tracked housing goals monthly and there should be monthly reports.
- Mr. Lund further explained that Fannie Mae found it increasingly difficult to meet its housing goals since many of the housing target demographics were purchasing subprime loans and other risky products that did not meet Fannie Mae guidelines. Mr. Lund stated that minority communities were disproportionately targeted by subprime lenders. For example, there were non-traditional family structures (predominately Hispanic) where you had more than one family living together with sound but undocumented cash flow. Fannie Mae was completely missing these markets by not participating or purchasing Alt-A, subprime, and other nontraditional mortgage products.
- Mr. Seefer asked Mr. Lund if there was a difference between housing goals and minority lending targets. . Mr. Lund explained that housing goals were set by Congress and minority lending targets were set by Fannie Mae.
- Mr. Lund stated that meeting affordable housing goals was the hardest part of his job. He had great angst since more of the borrowers who met affordable housing criteria were increasingly moving into bad products (e.g., option ARMs and low or no down payment loans), that led to risk layering.
- Mr. Lund stated that he was in constant communication with Stephen Corona at OFHEO about the feasibility of affordable housing goals, and he said that they spoke on a monthly basis. Mr. Lund wanted Mr. Corona to go to HUD with him in 2006 to discuss goal feasibility. Inter-agency guidance was released in September 2006. Note: John Kerr is Steve's Corona's boss.
- Mr. Stanton pointed out that the June 2005 and 2007 strategic review presentations only mention housing goals on a few slides of very large presentation so he asked Mr. Lund to explain how important or how much focus was given to meeting housing goals. Mr. Lund responded that Fannie Mae had to cross-subsidize products "all day long." Mr. Lund explained that the 15-year, fixed-rate mortgage was the most profitable product, and if the GAP reports were examined, it was obvious that the Company used its profits on the 15-year, fixed-rate product to subsidize the rest of its product offering.
- Mr. Seefer again asked Mr. Lund about the decision to move into riskier products after June 2005. Mr. Seefer asked Mr. Lund to clarify-were affordable housing goals the primary factor for Fannie Mae to move into riskier products? Mr. Lund responded that no, affordable housing goals were a factor but not the primary factor. Mr. Lund said that the market share goals set in early

2006 were also a driver of the expansion of risk, and the Company had to expand its products to meet these goals.

### **State of the Mortgage Market - Summer 2005**

- Mr. Lund wanted to provide a backdrop of the economic environment leading up to the June 2005 strategic review. Mr. Lund explained that we (the U.S.) were in a boom market that started in the 1990s. Americans were wealthier due to economic expansion, equity prices and home price appreciation. From the late 1990s to 2005 there were approximately 3.8 trillion dollars of mortgage originations primarily driven by refinancings. He stated that he first became worried about the explosion of the housing market in the mid 2000s due to the fact that roughly 35% of all home purchases were second or vacation homes which indicated widespread home speculation. Around the same time, Wall Street began to build capacity to originate and securitize loans and sell MBS. Wall Street firms did this in an effort to “feed the beast”- foreign and domestic investors with capital who were hungry for MBS. Mr. Lund stated that mortgage insurers were being cut out due to the fact that many of the new mortgages were 80%/10%/10%.
- Mr. Lund stated that the GSEs were also losing market share due to competition from Wall Street firms and consumers’ increased utilization of risky mortgage products that did not meet the GSE’s credit standards. At their peak, Fannie Mae and Freddie Mac issues comprised 60% of the mortgage securitization market, but by 2004, their combined market share had fallen to 30%.
- Mr. Lund explained that Wall Street continued to issue increasing amounts of mortgage-backed securities and to purchase risky loans from originators. Mr. Lund argued that ratings agencies should have stepped in and correctly assessed the risk associated with underlying loans that comprised the MBS, but the ratings agencies failed to provide proper guidance to investors.
- Fannie Mae was performing well despite the lowering of its risk standards because of home price appreciation. Home price appreciation mitigated any credit risk, not just at Fannie Mae but across the industry.
- Mr. Lund gave a speech in May 2005 to a mortgage industry group where he argued that the proliferation of nontraditional mortgage products had created risk layering. Lund said that he hoped that his speech would grab the attention of regulators, and he also hoped the regulators would step in and regulate the mortgage origination market to not only protect consumers but also to help Fannie Mae regain market share. Mr. Lund stated that Fannie Mae could not compete with the risk-adjusted price levels set by Wall Street firms.
- Lund explained that the GSEs received increasing pressure from the Bush administration for not fulfilling their mission. The Bush administration argued that the rise of subprime lending demonstrated that private capital will fund housing growth and that there was no need for the GSEs.
- Other critics argued that there had been a “secular change” in the US housing market driven by immigration and economic expansion. These critics argued that consumers needed innovative products beyond the traditional 15- and 30-year fixed mortgages that were eligible to be purchased by the GSEs and that the GSEs were missing the market. Lund said that he disagreed

and that he felt the market would eventually revert back to the traditional, safer forms of lending, the 15- and 30-year fixed mortgage.

- Lund believed that consumers did not fully understand the loans that were taking out. He hoped that the regulators and the press would begin to expose the inherent risk associated with these complex mortgage products.

### **June 2005 Strategic Review**

- Tom Stanton asked Mr. Lund if he was involved in the production of the June 27, 2005 strategic review document that was provided to FCIC staff by the Congressional Oversight Committee. Mr. Lund replied that the June 2005 strategic review was his first major presentation in his new role as EVP of the Single Family Business.
- Mr. Seefer asked Mr. Lund who was responsible for creating the 2005 strategic review presentation. Mr. Lund answered that Marianne Sullivan, Todd Hempstead, Zach Oppenheimer, Tracy Amos, and Pam Johnson may have helped in preparing the presentation materials.
- Mr. Lund stated that the market was taking on more and more risk, including LTV values of 90%, etc., but he wanted to draw a box around Fannie Mae and its credit standards during the June 2005 presentation.
- Mr. Seefer asked Mr. Lund if the working group all shared his views to which Mr. Lund responded that his style was to pool ideas together and come up with a consensus opinion. Mr. Lund stated that there was a 30 day process during which time the above-mentioned team debated the strategic review. Mr. Lund said that the team arrived at the decision that Fannie Mae should not ramp up efforts to purchase or guarantee riskier loans because the Company could not compete on price and risk tolerance.
- Mr. Lund said that he presented all of the options, including lowering credit standards, to senior management, but he recommended that Fannie Mae stay the course and not expand into riskier products to “meet the market.” Fannie Mae’s senior management faced increased pressure from investors, government, and originators to loosen credit standards and purchase riskier loans. Despite this pressure, senior management voted to stay the course in June 2005 and not to meet the market. However, the vote was not unanimous.

### **Countrywide and Other Customer Relationships**

- Mr. Stanton asked Mr. Lund if he knew of any special arrangement between the former CEO of Countrywide, Angelo Mozillo, and former Fannie Mae CEO, Dan Mudd. Mr. Lund responded that Countrywide was no different than any other customer. He further explained that all of Fannie Mae’s customers were saying “that either you buy our riskier loans or you don’t.” There was some indication that Fannie Mae’s reluctance to purchase riskier products could have affected the amount of prime loans that originators made available to them, but Mr. Lund said that this was offset by the Company’s execution advantages in the prime market.

- Mr. Lund explained that at one point Countrywide was sending 50% of its loans to Wall Street and was receiving better prices from Wall Street firms on their riskier loans. Ratings agencies were adding credit enhancement, and new, inexperienced investors were buying these MBS as fast as they could be issued.
- Mr. Seefer asked Mr. Lund if the 2005 meeting between Mozillo and Mudd reported in *The New York Times* occurred. Mr. Lund responded that he didn't know but that all of the originators were telling Fannie Mae that you have to make a decision where you want to be (nontraditional/riskier mortgage products or not). Mr. Lund stated that all originators wanted Fannie Mae to take a look at their broader product offering. Mr. Lund said that Fannie Mae had begun to purchase some Alt-A loans in early 2000 but that it was not high risk Alt-A.
- Mr. Seefer asked Mr. Lund if Hempstead or Jimenez put pressure on him or senior management to purchase riskier products from Countrywide in their capacity as Countrywide's relationship managers. Mr. Lund stated that he did not recall any specific conversations with either Jimenez or Hempstead, but all of Fannie Mae's customers were putting pressure on the Company to purchase their riskier mortgage products.
- Mr. Lund used Washington Mutual as an example of a customer who pressed Fannie Mae hard to purchase riskier loans. Historically, Fannie Mae had purchased approximately 100% of Washington Mutual's loans. However, Washington Mutual began issuing a large volume of option ARMs, and Mr. Lund decided that this business was too risky and walked away from the relationship with Washington Mutual. He stated that if you look at Fannie Mae's acquisition of Washington Mutual loans, there is a decrease to almost zero due to the increased risk profile of loans originated by Washington Mutual.

### **2006 Corporate Goals-Fannie Mae Expansion Into Alt-A / Subprime**

- Mr. Seefer asked Mr. Lund to walk him through Fannie Mae's decision to enter the market for nontraditional mortgage products after previously voting to stay the course at the June 27, 2005 strategy meeting. Mr. Seefer pointed out that if you examine Fannie Mae's loan purchases it is clear that purchases of Alt-A and subprime loans increased in 2006 and 2007. Mr. Lund stated that he was given corporate goals at the beginning of 2006 to increase Fannie Mae's market share which led to the move into Alt-A and subprime.
- Mr. Lund was not sure if there is a specific document that expressly stated the corporate goals, but he said that the 2006 corporate goals came from the Board through senior management. The corporate goals were released in January or February 2006 and called for Fannie Mae to expand its market share, with a goal of obtaining 35% of the market.
- Mr. Stanton asked Mr. Lund if anyone inside Fannie Mae raised concerns that MBS that were rated AAA were not deserving of the rating. Mr. Lund said that he does not recall any of those discussions, but as he stated previously, rising housing prices masked a lot of credit problems /risk.
- Mr. Stanton asked Mr. Lund if he remembered a presentation from Citigroup investment bankers, "Project Phineas," that dealt with Fannie Mae's overall strategy and suggested that Fannie Mae enter the subprime market. Mr. Lund responded that he couldn't recall Project Phineas exactly



but acknowledged that Fannie Mae had received strategic advice from third parties after the restatement. Mr. Lund stated that there were certain core competencies possessed by Fannie Mae including the purchase and securitization of 15- and 30-year, fixed-rate mortgages, Fannie Mae's relationships with originators and the Company's ability to provide originators with easy execution. Fannie Mae saw these relationships and their execution capabilities as a competitive advantage. The company hired third party investment bankers and consultants to assist Fannie Mae in establishing a presence and building infrastructure for its expansion into nontraditional mortgage products. Third parties were also consulted to weigh in on if they believed that the norm of the market had change, and if so, should Fannie Mae change.

- Mr. Lund stated that they only ways to achieve the 2006 market share goals were to get more aggressive in acquiring Alt-A loans. Fannie Mae established an Alt-A transformation strategy which was put in place to acquire certain Alt-A loans through the flow channel. . Prior to the creation of this strategy , Fannie Mae participated in Alt-A by acquiring bulk loan pools that contained Alt-A loans.
- Mr. Seefer asked if there was any documentation of the Alt-A transformation and the changing of underwriting guidelines. Mr. Lund said he is not aware of any documents but that there should be documentation of the expansion of risk. Mr. Lund said that the staff should speak to Marianne Sullivan about the Alt A transformation strategy.
- Mr. Lund explained that Fannie Mae gradually entered the Alt A market. Pricing levels were still unfavorable, and he felt that Fannie Mae was not being compensated enough to participate in the Alt A market.
- Mr. Lund said that the liquidity scare of November 2006 shook the market and presented an opportunity for Fannie Mae to expand into Alt-A / subprime. Mr. Lund stated that many market participants were hurt and did not have funding capability. Spreads widened to a point where he felt that Fannie Mae was being properly compensated for the risk of acquiring riskier loans. Fannie Mae stepped up its purchases of Alt-A and other higher risk loans as competitors went away. Lund said that Fannie Mae was able to set price and had the ability to charge what they wanted to charge for risk in the market due to the lack of competition.
- Mr. Lund suggested that we look at GAP reports from 2006 to see Fannie Mae's view that risk was mispriced prior to the liquidity crisis of November 2006. Mr. Lund stated that he remembered seeing GAP reports that showed that Wall Street banks were charging less than what Fannie Mae's internal models showed was breakeven. Mr. Lund stated that spreads were better in November 2006 and Fannie entered the riskier mortgage products market as they were able to set price and be properly compensated for risk.
- Mr. Lund suggested that the staff speak to Mark Winer who was responsible for producing the GAP reports which were used to show what Fannie Mae should be charging (primarily in the guarantee business). There was at least at 25 bps "Gap" between the market rate and the breakeven rate suggested by Fannie Mae internal models.
- Mr. Seefer asked Mr. Lund how he felt about the expansion into Alt-A and other risky loan products even after senior management had voted to stay the course in June 2005. Mr. Lund responded that he was seen as the "boy who cried wolf" and that he was one of the most conservative employees at Fannie Mae on the issue of loosening Fannie Mae's credit guidelines.

Senior management pointed to the profits being made by Wall Street banks that were purchasing riskier loans and to low default rates bolstered by rising home prices. Mr. Lund started to believe that maybe he was wrong and overly cautious and that the market had in fact changed. “I can’t be the only guy,” said Lund. Fannie Mae tried to expand into riskier loans conservatively.

- Mr. Seefer asked if there were some Fannie Mae employees who continued to express concern about the Company’s increasing risk profile. Mr. Lund responded that he and some others were still conservative but that it was difficult since there weren’t any initial losses associated with the riskier loan products since home price appreciation was wiping out any problems. Mr. Lund explained that spreads had gotten better (in late 2006), Fannie Mae was building capabilities to manage the riskier loans, and they were able to meet their charter goals of providing liquidity and affordable housing by expanding into the riskier loans.
- Mr. Seefer asked Mr. Lund about his relationship with the Chief Risk Officers (CRO) and if he recalled any objection from former CRO Dallavecchia about Fannie Mae’s decision to enter riskier products. Mr. Lund said that he wasn’t aware of any differing opinions and that he couldn’t recall a time when Dallavecchia disagreed with him

#### **2006 - 2007- Continued Expansion Into Risky Products ,” Smooth Sailing”**

- Mr. Seefer asked Mr. Lund when Fannie Mae began to notice losses from the riskier products or that something was wrong-late 2006. 2007? Mr. Lund stated that 2006 and 2007 were “smooth sailing.”
- Mr. Lund said that, if anything, Fannie Mae continued to expand its purchases of riskier loans as pricing improved after an August 2007 liquidity shock. The repricing of risk caused by the liquidity shock and the dropping out of competitors gave Fannie Mae more comfort that the relationship between risk and price was correct.
- Mr. Lund continued his description of Fannie Mae’s situation in the summer of 2007. Mr. Lund stated that factors continued to move in Fannie Mae’s favor, less competition, losses were low, delinquencies were low, easier to meet housing goals as they purchased more risky loans.
- Mr. Lund stated that Fannie Mae felt it was great at managing risk, and Fannie Mae was not guaranteeing any subprime loans before Fannie Mae launched a program to see if they could “do subprime better than everyone else.” Lund said that the program was halted in spring 2008 because he saw warning signs and didn’t like the program.
- Mr. Lund said that part of the reason that Fannie Mae didn’t see problems in 2006 and 2007 is that it takes the effects of housing prices and defaults 18 to 24 months to be fully realized. Mr. Lund continued, “we hadn’t seen a national home price decline since the Great Depression, there were problem states or areas but nothing nationwide.”
- Mr. Seefer asked Mr. Lund if he could recall what the major topics of emphasis were during the June 2006 and June 2007 strategic meetings. Mr. Lund stated that in June 2006 there was a push for the Company to develop the capabilities to meet the market (expand into riskier products). The June 2007 was also focused on building up capabilities to expand into riskier products since standard 30-year, fixed-rate mortgage volume was declining.

## **2008- First Sign of Problems and Conservatorship**

- Mr. Seefer asked Mr. Lund when was the “uh-oh” moment in spring 2008. Mr. Lund responded that he wasn’t exactly sure but delinquencies began to rise in June and July 2008. He said that they received some questions about it during the Company’s capital raise during that time period, but Fannie Mae was still able to raise capital.
- Mr. Lund stated that after Bear’s collapse and later, Lehman, Fannie Mae was being asked by both the government and customers to provide liquidity to the market which led to the March 19, 2008 press release by the regulators stating that Fannie Mae was no longer under consent and free to put more capital into the market.
- Mr. Seefer questioned Mr. Lund about the March 19, 2008 OFHEO press release. Mr. Seefer asked Mr. Lund to explain what it meant to have lower capital requirements but be asked to raise capital. Mr. Lund responded that Fannie Mae had been required to hold 30% extra by OFHEO and had satisfied that requirement. Mr. Lund stated that the government encouraged them to provide liquidity to the market by purchasing / guaranteeing loans to unfreeze the market.
- Mr. Lund said that the Company first started to see delinquencies rise in the summer of 2008, but no one was sure to what to attribute the rise in delinquencies.
- Mr. Seefer asked Mr. Lund if he could recall the June 2008 strategic meeting. Mr. Lund responded that he could not and that maybe it was due to the fact that Fannie Mae was on a road show to raise capital. Mr. Lund could not remember if there are any power point presentations from the capital raise.
- Mr. Seefer again asked Mr. Lund what was the “uh-oh” moment before conservatorship. Mr. Lund answered that “we were surprised by the conservatorship.” Mr. Lund stated that they saw delinquencies rise, and Fannie Mae employees were trying to gauge the depth of the problems, no one predicted 30 to 40% home price declines and 10% unemployment.

## **Former CEO Dan Mudd and Conservatorship**

- Matt Cooper asked Mr. Lund about the culture of Fannie Mae under Mudd, the former CEO. Mr. Lund stated that Mudd was a good man who tried to do the right thing. Mr. Lund stated that Mudd and the Company could not please everyone, “Congress was going to make you meet affordable housing goals.” Mr. Lund further explained that he felt that Fannie Mae had a bad business model, a single-asset class with investors and Congressional influence. Mr. Lund said that all of Fannie’s decisions were made in the light of day. .
- Mr. Cooper asked Mr. Lund if there was an effort to oust Dan Mudd at the end of 2008. Mr. Lund responded that he wasn’t aware of any effort to oust Mudd. Mr. Lund said that the person he reported to, Rob Levin, resigned but remained an advisor to Fannie Mae post conservatorship- so he left on good terms.
- Mr. Lund stated that Fannie Mae struggled to balance between its mission to provide liquidity to the market, the affordable housing demands, and the needs of its shareholders during the tumultuous 2008 market. For example, as delinquencies increased, Fannie Mae could charge

more to guarantee mortgages but the Company did not want to hurt liquidity. Herb Allison agreed with most of their recommendations post-conservatorship.

- Mr. Cooper asked Mr. Lund whether Beth Wilkinson resigned or was fired to which Lund responded that he believed Herb Allison fired her.
- Mr. Seefer asked Mr. Lund if part of the reason for Fannie Mae's expansion was to show the government that all is well with the Company after the restatement, as reported in the press. Mr. Lund answered that no that wasn't a concern, but added that many people at Fannie Mae were committed to the Company's primary mission of increasing homeownership via programs like "My Community Mortgage." Mr. Lund stated that Fannie's charter had two main pillars-liquidity and affordable housing. Additionally, Mr. Lund stated that Fannie Mae's accounting problems and restatement did not influence business decisions.
- Mr. Stanton told Mr. Lund that someone he spoke to said people within Fannie Mae knew that AAA rated, private label securities did not deserve the AAA rating and asked Mr. Lund if that was true. Mr. Lund responded that he was not aware of anyone saying that.

### **Conclusions / Lessons Learned**

- In conclusion, Mr. Seefer asked Mr. Lund to identify what went wrong at Fannie Mae. Mr. Lund answered that there were a number of factors including:
  - 1) Regulatory Failure
  - 2) Pressure of government to expand lending / promote homeownership / housing goals
  - 3) Bad business model – single asset class (real estate)
  - 4) Influx of capital
  - 5) Speculation in housing market
  - 6) 10% unemployment / 40% housing decline
- Mr. Seefer asked Mr. Lund what were the lessons learned from Fannie Mae's difficulties. Mr. Lund responded that there were several mistakes made, but the mistakes were made in an attempt to live up to the Fannie Mae's charter. Mr. Lund said that there was minimal risk seen leading up to the crisis, and "if you told anyone that housing prices would decline by 15% no less 40% ,they wouldn't have believed you." Mr. Lund further explained that the 2004 changes to the housing goals were too severe. 1 out of every 2 borrowers after 2004 had to make below the area median income.
- Tom Stanton asked Mr. Lund to comment on the quality of Fannie Mae's economists. Mr. Lund stated that he felt the economists underpredicted on the upside and underpredicted on the downside. Mr. Lund said "No one in the market got it right- even the Fed Reserve said that this was contained, only in subprime."
- Mr. Seefer asked who else should the FCIC staff question to determine what went wrong at Fannie Mae. Mr. Lund suggested that the staff speak to the former CEO, Dan Mudd, and the Board of Directors.

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