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Memo: re Interview with Mike Quinn, Fannie Mae

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MEMORANDUM FOR THE RECORD

Event: Interview of Mike Quinn, Fannie Mae

Type of Event: Phone interview

Date of Event: April 6, 2010 8:00-9:00 A.M.

Team Leader: Chris Seefer

Location: FCIC Large Conference Room

Participants - Non-Commission:

- Mike Quinn
- Jeff Kilduff, O'Melveny & Meyers
- Amy Carpenter-Holmes, Bingham
- Elizabeth Martin, Bingham

Participants - Commission: Chris Seefer, Sarah Knaus

MFR Prepared by: Sarah Knaus

Date of MFR: September 25, 2010

Summary of the Interview or Submission:

This MFR is a paraphrasing of the dialogue and should not be quoted as a transcript.

Seefer: We're interested in finding more about affordable housing goals. Tell me what the company did in terms of setting out a plan to meet the goals, how they tracked it, what the goals were.

Quinn: Our economists make a forecast at the beginning of the year for what the market originations should be. It depends on interest rate forecasts. They estimate how big the mortgage market will be (say \$2 trillion) and Fannie's market share (say 40%). Based on the expected interest rates, they find the rate of people who will be refinancing. This is important because refinancing is diluted on a goals scoring basis. They add in the multifamily business, which is important because loans on apartment buildings count as the number of the units. 95-97% of units would meet the task. There was a housing goals group that said assuming each set scores like this or like last year's, where would we be on housing goals? This starts at the beginning of the year. A lender sends a lot of information including property address and income of the borrower. This would be put into a census track, which would compare how each loan counts toward the goals. This would report monthly on where we stood for goals year-to-date. Because interest rates could change dramatically and change our numbers, you would track the numbers and wait until the end of the second quarter to see where things were falling out. In years

where it would be close, the company would have different ways to get goals rich business: including getting more multifamily loans, goals rich PLS, or special deals with certain banks that have big portfolios of CRA loans or other loans that meet the goals.

Seefer: At the beginning of the year when you make the various estimates, is this reduced into some type of written report?

Quinn: As I recall, people would take the forecasted numbers and come up with an estimated schedule of where we would be during the year.

Seefer: I'd like to get these reports for several years, if available. Who heads the housing goals group and who's generally in it?

Quinn: I did from 2004-2007. It is composed of several people who are tracking the numbers and talking to the businesses to track projections. If items come in and they don't know how to score them, the group would prepare something and go to HUD to inquire about scoring. The team was monitoring data based on projections and giving reports to management.

Seefer: Is the group responsible for the outlook report?

Quinn: I think so, that would make sense. As I recall it was when I headed it.

Seefer: Is it responsible for preparing monthly tracking reports?

Quinn: Yes. It goes into a big computer that spits it out. My guys take the data that is spit out and analyze it.

Seefer: Who in senior management get the reports?

Quinn: When I was doing it, we had a group that consisted of the EVPs, Dan Mudd, and the Board. Rob Levin had weekly alignment meetings where all of the businesses got together. One of the issues always discussed were the housing goals and where we stand year-to-date.

Seefer: There wasn't a housing committee correct?

Quinn: Right, the Housing and Finance Committee was a committee of the board. This was where the housing goals were presented.

Exhibit: Board presentation, Management Report to the Board of Directors, 1/18/2008 Business Update: Housing Goals.

Seefer: I've seen this and other similar PowerPoint presentations. What would we look at to see what the company did if it wasn't on track, like in 2003, or when they are not doing as much multifamily as they thought? We're interested in the types of or securities that the company purchased specifically to meet goals and what types of activities the company took to meet the goals.

Quinn: I can walk you through the things that we did. Obviously, the multifamily book was important, as were PLS. Our flagship product was “My Community Mortgage,” which was set up with housing goals and specific deals in mind. The economics didn’t meet our economic returns.

Tom Stanton: To be clear, we’re interested in the extent to which you thought Alt-A and low-doc could meet housing goals purposes.

Quinn: I do not think that Alt-A would fulfill housing goals. MCM was set up to meet housing goals. It was developed as a standard product that lenders could use to generate high-LTV loans. When we did deals that counted for housing goals, but we were not comfortable with the credit, we would usually do it with recourse by sending the credit risk back to the lenders.

Seefer: Did the type of loans that the company purchased or guaranteed change over time as the goals increased? Did you have to start expanding the box?

Quinn: No. Usually what we did was more pricing. We would lower the price to get product we may not have gotten because we priced it too high. It’s called the DU-bump. When a loan came into the underwriting system, it was approved as a 1, 2, 3, or 4. We’d buy approved loans that were 1-3, but would charge set prices. If we wanted a loan for housing goals, we’d bump it into the next bucket for pricing. We did this for a couple of years. We never took a four and bump it into three. We’d take a three and bump it into a 2. The pricing is the g-fee.

Seefer: If you know or can find out, did the company in response to the affordable housing goals from late 2003-2004, increase its purchase of private label subprime mortgage-backed securities? Whether it’s agency MBS backed by subprime loans or PLS?

Quinn: I do not know. We disclose in our 10-K a lot of detail about the PLS that we’ve purchased in each year and how much was subprime and how much was Alt-A. That was standard disclosure for a number of years. As to what percentage of the market, I don’t know.

Kilduff: OFHEO’s annual report has it in there too at 102-A.

Seefer: In the 2003-2004 timeframe, did the company start ratcheting up on the subprime PLS or subprime nontraditional mortgage product that it swapped and guaranteed as MBS?

Quinn: In terms of the single family business, we didn’t’ really do subprime. We disclosed that we did about \$8 billion in 2007-2008. I don’t recall us having reached out to do subprime lending. We couldn’t really meet the market at that time. The reports would say exactly how much of each we purchased.