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Testimony before the

Financial Crisis Inquiry Commission

Hearing on The Financial Crisis

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Chairman Angelides, Vice Chairman Thomas, my name is Kyle Bass, Managing Partner of Hayman Advisors, L.P. and I would like to thank you and the members of the Committee for the opportunity to share my views with you today as you consider the causes of the recent crisis as well as certain changes that must take place to avoid or minimize future crisis. I believe that I have somewhat of a unique perspective with regard to this crisis as my firm and I were fortunate enough to have seen parts of it coming. Hayman is a global asset management firm that managed several billion dollars of subprime and alt-a mortgage positions during the crisis, and we remain an active participant in the marketplace today. While I realize that the primary objective of the hearing today is to provide baseline information

on the current state of the financial crisis and to discuss the roles that four specific banks or investment banks (Goldman Sachs, Morgan Stanley, Bank of America, and JP Morgan) played in the crisis; in my opinion, no single bank or group of large institutions single-handedly caused the crisis. While I will address each participant's structure and problems independently later in my testimony, the problems with the participants' and the regulatory structure needs to be considered more holistically in order to prevent future systemic breakdowns and taxpayer harm. While there are many factors that led to the crisis, I will address what I believe to be the key factors that contributed to the enormity of the crisis.

The OTC Derivatives marketplace, with the nearly infinite leverage it afforded and continues to afford the dealer community, must be changed. AIG, Bear Stearns and Lehman would not have been able to take on as much leverage as they did, had they been required to post initial collateral on day one for the risk positions they assumed. Asset management firms, including Hayman, have always been required to post initial collateral and maintenance collateral for virtually every derivatives trade. However, in AIG's case, they did not have to post collateral even after the positions moved against them (the so-called "variance margin"). The dealer community, as well as other supposed AAA-rated counterparties, were (and some still are) able to transact with one another without sending collateral for the risks they are taking. The so-called "initial margin" was, and still is, only charged to counterparties that are deemed to be "of lesser credit quality". Imagine if you were a 28 year-old mathematics superstar at AIG Financial Products Group and you were compensated at the end of each year based upon the profitability of your trading book, which was ultimately based upon risks you were able to take without initially posting any money. How much risk would you take? The unfortunate answer turned out to be many multiples the underlying equity of many of the firms in question. In AIG's case, the risks taken in the company's derivatives book were more than 20X the firm's shareholder's equity. For a comprehensive look at leverage ratios of selected companies at the end of fiscal year 2007, please refer to Exhibit 1 included below. The US taxpayer is still paying huge bonuses to the members of AIG's Financial Products Group because they have convinced the overseers that they possess some unique skill set necessary to unwind these complex positions. In reality, there are hundreds of out-of-work derivatives traders that would happily take that job for $100,000 a year instead of the many millions paid to these supposed "experts".

Solving a Large Part of the OTC Derivative Problem

In the listed markets for equity options and futures options, you do not hear about these markets causing systemic problems, and there is a well-reasoned answer for this – there is a required collateral deposit for taking risk that is applied to all participants (regardless of their credit rating). The requirement is mandated and supervised by FINRA (Financial Industry Regulatory Authority). Again, if participants had to post initial collateral in order to take risk, the derivatives marketplace would not have mutated into the monster it is today. I believe this market would be half the size it is today if participants were forced to follow this one simple rule.

In order to help reduce systemic problems brought about by derivatives, Congress and regulators need to implement a new system that has three key aspects:

1. Homogenous minimum collateral requirements – all participants in the Derivatives marketplace should be required to post capital based upon a formulaic determination of risk by the appropriate regulatory body. This would prevent firms from establishing systemically risky derivatives positions by attaching a marginal cost to the establishment of each new position, thus preventing the recurrence of an AIG-type scenario where hundreds of billions of dollars in risk is assumed with no cost. To put the current situation into context, in 2000, the FDIC Banking Review (Volum13, No. 2) estimated the entire cost of the Savings & Loan Crisis to the US taxpayer to be $124 billion. By comparison, AIG alone has been given $183 billion in taxpayer funds.
2. Centralized clearing and mandatory price reporting of all standardized (non-bespoke) CDS, FX, and interest rate derivatives (according to DTCC, roughly 90% of all CDS contracts are standardized and could easily be cleared in this manner).
3. Centralized Data Repository for all cleared and non-cleared derivatives trades, allowing the appropriate regulator to monitor exposures by dealer and counterparty to monitor systemic risk.

Bank Leverage

A fundamental tenet of the US banking system is leverage. Using current regulatory guidelines, banks are deemed "well capitalized" with 6% Tier 1 capital and "adequately capitalized" with 4% Tier 1 capital based upon risk- weighted assets (as an aside, the concept of risk-weighted assets should also be reviewed). This in-turn means a well-capitalized bank is levered 16X to its Tier 1 capital (much more to its tangible common equity) and an adequately capitalized bank is 25X levered to its Tier 1 capital. How many prudent individuals or institutions can possibly manage a portfolio of assets that is 25X levered? Again, unfortunately, the answer has turned out to be not many. Of the 170 banks that have failed during this crisis, the average loss to the FDIC is well over 25% of assets, or more importantly 6 times their minimum levels of regulatory equity. Depository institutions like Citibank were able to parlay their deposits into large levered bets in the derivatives marketplace. In fact, at fiscal year-end 2007, Citigroup was 68.4X levered to its tangible common equity, including off-balance sheet exposures. According to the following table, real leverage at the institutions in question got completely out of hand:

Exhibit 1: On- and Off-Balance-Sheet Leverage of Major US Financial Institutions

	All as of Fiscal year-end 2007 (Nov 31, 2007 or Dec 31, 2007)									
	Lehman	Bear	Wachovia	Wamu	Goldman	BofA	MS	JP Morgan	Wells Fargo	Citi
Gross Leverage to Tangible Equity	**37.6x**	**35.6x**	**18.0x**	**15.3x**	**26.2x**	**21.2x**	**36.3x**	**17.5x**	**16.9x**	**32.2x**
Gross Leverage to Tangible Common Equity	**40.0x**	**36.8x**	**23.3x**	**18.8x**	**32.4x**	**28.8x**	**40.1x**	**21.1x**	**17.0x**	**35.0x**
Off-Balance Sheet Exposures										
Tangible Common Equity/Total Assets + Commitments (1)	1.9%	2.6%	3.6%	3.9%	2.7%	1.8%	2.3%	2.3%	4.1%	1.5%
Gross Leverage to Tangible Common Equity	**52.3x**	**38.1x**	**27.7x**	**25.8x**	**36.8x**	**54.3x**	**44.3x**	**44.4x**	**24.2x**	**68.4x**
Level 3 Assets/Tangible Common Equity	225.2%	262.0%	N/A	N/A	199.8%	52.8%	222.2%	58.1%	67.2%	213.4%

(1) Commitments Include contingent loans that may be, as of fiscal year-end 2007, fully, partially or not committed.

Source: SNL Financial and 10-Ks.

Clearly, the composition of these assets is important as well, but I am simply trying to illustrate how levered these companies were at the start of the financial crisis. While AIG's derivative book was only 20X levered to book equity, $64 billion of those derivatives were related to subprime credit securities, the majority of which were ultimately worth zero (against $95B of total equity as of Dec 2007).

In some cases, the excessive leverage cost the underlying company many years of lost earnings and in other cases, it cost them everything. Some companies fared much better than others and have actually shown a profit over the past two years. Those profits may have been a direct result of taxpayer infusions and government guarantees of debt, facilitating the pumping of cheap money into failing

enterprises to allow them to attempt to earn their way out of losses resulting from bad assets on the books. Below, we have compiled a table for years of lost earnings due to the credit crisis:

Exhibit 2: Cumulative Net Income and Loss of Financial Institutions Since Q3 2007

($ in Millions)	Cumulative Net Income (Loss): 3Q07 -	Years of Historical Cumulative Profits Erased
Fannie Mae	$ (120,459)	> 20.5 years
AIG	$ (103,572)	> 17.5 years
Freddie Mac	$ (67,904)	> 11.5 years
Merrill Lynch*	$ (37,492)	> 11.0 years
Wachovia*	$ (31,608)	> 4.5 years
Washington Mutual*	$ (6,148)	< 2.5 years
Citigroup	$ (29,332)	< 1.5 years
Lehman Brothers*	$ (4,439)	< 1.5 years
Bear Stearns*	$ (567)	< .5 years
Morgan Stanley	$ 391	n/a
Bank of America	$ 14,444	n/a
JP Morgan	$ 20,399	n/a
Wells Fargo	$ 15,641	n/a
Goldman Sachs	$ 16,828	n/a

* These institutions ultimately filed for bankruptcy and/or were acquired in a distressed sale. Cumulative losses reflect total loss up to the point at which each respective institution ceased to report as a standalone entity. Actual losses for these insitutions are likely greater.
Net Income includes unusual charges.
Bear Stearns financials are through 1Q08.
Lehman Brothers financials are through 3Q08.
Wachovia financials are through 3Q08.
Washington Mutual financials are through 2Q08.
Freddie Mac and Fannie Mae financials are only available beginning in 1996 and 1988, respectively.

The Most Levered of Them All - Fannie and Freddie

With $5.5 trillion of outstanding debt and Mortgage Backed Securities Guarantees, the quasi-public or now in-conservatorship Fannie and Freddie have obligations that approach the total amount of government-issued bonds the US currently has outstanding. There are so many things that went wrong or are wrong at these so-called GSEs that I am not sure where to start. First, why were two for-profit companies with boards, shareholders, charitable foundations, and lobbying arms ever given the "implicit" backing of the US Government? The Chinese won't buy them anymore only because our government won't give them the *explicit* backing. The US government cannot give them the explicit backing because the resulting federal debt burden will crash though the Congressionally-mandated debt

ceiling (which was recently raised to accommodate more deficit spending). These organizations have been some of the single largest political contributors in the world over the past decade with $200 million being given to 354 lawmakers in the last 10 years or so. Yes, the United States needs low cost mortgages, but why should organizations created by Congress have to lobby Congress? Fannie and Freddie used the most leverage of any institution that issued mortgages or held mortgage backed bonds. At one point in 2007, Fannie was over 95X levered to its statutory minimum capital with just 18 basis points set aside for losses. That's right, 18 one hundredths of one percent set aside for potential losses. They must not be able to put humpty dumpty back together again. If they are to exist going forward, Fannie and Freddie should be 100% government-owned, and the government should simply issue mortgages to the population of the United States directly since this is essentially what is already happening today, with the added burden of supporting a privately-funded, and arguably insolvent, capital structure.

When Dr. Greenspan traded the dot-com bust for the housing boom in the early-2000's with his extremely accommodative monetary policy, the damage to Fannie and Freddie was well underway, and ultimately resulted in the accounting scandals and balance sheet debacles that were initially identified at those institutions in 2003 (Freddie) and 2004 (Fannie). Following the forced resignation of the senior officers at Fannie resulting from an SEC investigation, concerns over questionable finances and accounting practices were largely subdued, and Congress undertook to enact regulatory changes to rectify current issues and prevent future ones. As you recall, the House Financial Services Committee put forth a proposal in May 2005 to address such problems.

At the time, private competitors and certain White House officials were critical of the proposed reform, claiming that it was not stringent enough, did not address all of the relevant issues, and kept too much power in the hands of these two institutions. I would not be sitting before you over four and a half years later had these critics not been proven correct.

In an attempt to address our current crisis, the Treasury Department entered into agreements in September 2008 with Freddie and Fannie to purchase up to $100 billion of senior preferred stock in each of the two entities and to place the two firms into a conservatorship. The Treasury's own FAQ and associated answer on the deal stated:

"***Why is the preferred stock purchase agreement limited to $100 billion? Is that enough to protect against even the worst downside scenario? What happens if losses exceed $100 billion?***

Treasury deliberately chose a large number to give confidence to the markets."

Yet, in February 2009, the Treasury increased its funding commitment to Fannie and Freddie by another $100 billion each to a new total of up to $200 billion per institution. Recently, on December 24, 2009, the Treasury agreed to provide unlimited support for the next three years. At this point, the US taxpayer is on the hook for whatever losses occur to either of these institutions. The most obvious question is: Why are the shareholders and other unsecured creditors continuing to receive a free ride on the taxpayers' nickel? Among, the largest unsecured creditors are the very banks that are testifying here with me today. While Congress and the American people are outraged at the perceived back door bailouts that several institutions received via the AIG rescue and the lack of transparency as to who indirectly got the money and why no haircuts on the remainder of the capital structure were considered, these same questions should be raised in the context of Fannie and Freddie.

If the goal is keeping people in their homes and providing a system where people can indeed get financing to purchase homes, continuing to funnel money through the GSE's to other financial institutions is not the way to do it. We should simply redirect the guarantees to directly help homeowners.

One of the premises of putting these institutions into conservatorship was that over time these entities would shrink their balance sheets. Yet, by year-end 2009, their balance sheets will be collectively larger today than they were at almost any time during the prior 5 years. Congress should consider stopping this ridiculousness and winding these institutions down at the shared expense of their creditors rather than the US taxpayer.

Exhibit 3: Leverage Summary of Fanny Mae and Freddie Mac

	As of 12/31/2007	
($ in thousands)	**Fannie Mae**	**Freddie Mac**
Total Assets + Loan Guarantees	$ 3,039,886,000	$ 2,164,673,000
Leverage to Total Equity	**69.1x**	**81.0x**
Leverage to Core Capital (see below)	**67.0x**	**57.1x**
Leverage to Statutory Minimum Capital (see below)	**95.2x**	**81.7x**
Allowance %	0.18%	0.31%

From Fannie Mae and Freddie Mac filings:

Statutory Minimum Capital Requirement. *The existing ratio-based minimum capital standard ties our capital requirements to the size of our book of business. For purposes of the statutory minimum capital requirement, we are in compliance if our core capital equals or exceeds our statutory minimum capital requirement.* ***Core capital*** *is defined by statute as the sum of the stated value of outstanding common stock (common stock less treasury stock), the stated value of outstanding non-cumulative perpetual preferred stock, paid-in capital and retained earnings, as determined in accordance with GAAP. Our statutory minimum capital requirement is generally equal to the sum of:*

** 2.50% of on-balance sheet assets;*

** 0.45% of the unpaid principal balance of outstanding Fannie Mae MBS held by third parties; and*

** up to 0.45% of other off-balance sheet obligations, which may be adjusted by the Director of FHFA under certain circumstances.*

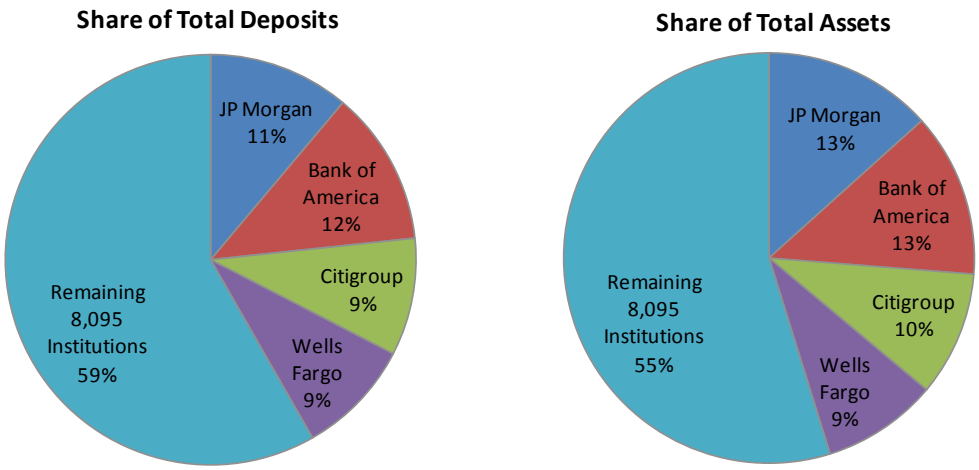
Protecting the Taxpayer from Future Crises and Restoring the US Banking System

I believe there are three important changes that are necessary to protect the taxpayer from future crisis and restore the US banking system to its historically strong position. First, it is imperative to separate depository institutions from proprietary capital groups and derivatives traders. We cannot have systemically important depository institutions taking enormous risks in the derivatives marketplace. Second, I thought we learned that off-balance sheet = BAD during the Enron and Worldcom fiascos. Bring all risks and leverage back on the balance sheet in order for regulators and investors to be able to compare apples to apples. Third, we must determine if 25X leverage is the correct minimum level of capitalization. Mandating a 10% capital balance does not seem too far away from where we need to be. 10X leverage is plenty, and it still might not be stringent enough in an environment where we have a multi-standard deviation event and 10% losses become the norm.

The US Banking system currently has 8,099 insured institutions (after 170 have failed in this crisis). The composition of the system should also be reviewed as the top 4 banks have 41% of deposits and 45% of bank assets. The US banking system has developed into a top-heavy institution itself with concentrations like this. Regulators must decide what the individual institution concentration limits

should be to prevent too-big-to-fail ("TBTF") problems all over again. Maybe banking should be de-centralized and more regional to prevent any one institution from becoming TBTF.

Exhibit 4: Breakdown of Deposits and Total Assets Held by Major US Financial Institutions



Deposit-taking institutions should not be able to leverage and bet in the derivatives marketplace. The fact that the taxpayer was essentially forced (in the spirit of systemic risk reduction) to buy ***equity*** in Citigroup rather than be senior to existing creditors/bondholders is an affront to the US taxpayer. There needs to be a framework for how taxpayer money is invested in for-profit corporations, and I believe the repeal of the *Gramm-Leach-Bliley Act* is necessary. Former Federal Reserve Chairman Paul Volcker has suggested a return to the principles of the *Glass-Steagall Act* of 1933 where commercial banking was forcibly separated from most proprietary capital transactions. I endorse this concept; it is one part of a necessary set of reforms to curtail the risky activities of so-called TBTF institutions and acknowledges that the role and importance of some institutions demands tight regulation.

At the heart of the current crisis has been the emergence of systemically important institutions that have been exposed to so much risk that adverse events have driven them into insolvency. Standard market theory suggests that firms that adopt too much risk leave themselves open to insolvency and failure – this should act as a suitable disincentive to excessive risk taking. I believe that, in a perfect world, the market forces should be completely free to regulate and cast judgment upon a firm's behavior – rewarding and punishing it with no safety nets or taxpayer bail outs. However we do not live

in that world, and if we assume that there are indeed some institutions that really are TBTF – which appears to be the reality facing us today – then we must acknowledge that these institutions represent a substantial moral hazard.

Their very systemic importance provides them with an implicit guarantee of solvency from their counterparties or, ultimately, the taxpayer because their failure is regarded as too damaging to the system as a whole. The effect of this implicit guarantee of solvency is to divorce the institution's incentives from the prudent risk management. With no real threat of failure, a firm has an incentive to ratchet up risk in order to profit from the upside ignoring any concerns of the downside. No banking institution that has been the recipient of capital from the US government is regarded by the marketplace as having anything other than an implicit guarantee by the US Treasury. This guarantee may have restored faith in these firms as counterparties, but it has done so without reforming the balance sheets or behavior of the banks that generated the market concern over their solvency and viability in the first place. Several recipients of TARP have more daily Value at Risk (VAR) in proprietary trading today than they did prior to November 2008. The danger of this moral hazard is that it will lead to further reckless behavior and more losses in the future, thus creating further market chaos and necessitating even greater taxpayer expense. In the current environment the TBTF institutions are incentivized to play a game of "heads I win, tails you lose".

If we must accept that there are institutions that are TBTF then the moral hazard must be addressed through regulation. The systemically important part of the institution should be separated or firewalled from the part that engages in excessive risk taking. I have mentioned earlier that new leverage ratios and standards should be applied to the banking system. These limits should be ironclad, universal and completely transparent (that means no SIVs or other off balance sheet vehicles) for institutions touching the retail consumer. The cost of being a systemically important depositary institution is to have profitability regulated and limited to balance the benefit of an implicit guarantee.

Fractional lending operates on confidence that any one institution will be able to satisfy any creditors from day-to-day even though there is an acceptance that all possible creditors could not be satisfied at any given time (the proverbial "run on the bank"). This gives depositary institutions a special role in maintaining confidence in the financial system. If one fails, it may have a contagion effect on others, which is why we have the FDIC and an insurance mechanism for deposits to ameliorate this risk. This special role only enhances the reasons for tighter regulation of the operations and behavior of these

firms. Retail banking has essentially become a public utility, and should be regulated as one – with the limits as well as the associated guarantees.

I do, however, believe that there is a role for leverage and for aggressive risk taking in the economy, but that role should be played by firms that are open and susceptible to the risk of insolvency and failure. Capitalism requires failure and bankruptcy as a consequence in order to guide behavior. As the old adage goes – "Capitalism without bankruptcy is like Christianity without hell". If we cannot allow a firm to go bankrupt, then we should regulate its activities so that it cannot engage in the sort of risky transactions that put it at risk of bankruptcy. To be clear, we should not prevent all firms from taking on leverage or engaging in risky behavior; we must ensure that they are not allowed to become TBTF. One of the options to prevent this is a hard and fast balance sheet cap that is not "gamed" by "risk weighting". At a certain nominal gross balance sheet size a firm is deemed TBTF and subject to new limits on risk-taking and asset concentration. As a firm approaches this balance sheet size, it would be monitored by the appropriate regulator and warned that continued growth would push it into a new and tightly controlled regulatory regime that would force it to divest certain assets and unwind certain positions. The alternatives would be to stop growth, spin off units of the firm into separate and remote companies or sell them to other market participants. The cap could be reviewed every 5 years (as an example) and adjusted to the size of GDP to allow that as the economy grows so too does the upper size on a firm before it is considered TBTF. The aim of this regulatory regime would be to ensure that no non-depositary financial institution could grow to a size that made them TBTF. I believe that a combination of balance sheet caps, monitoring by the appropriate systemic risk regulator and the introduction of regulations like the uniform collateral requirements (which will tend to reduce the overall size of derivative positions) I have mentioned earlier would go a long way to reducing the likelihood of non-depositary institutions becoming TBTF.

This concludes my written testimony, in which I have addressed what I believe to be the issues of critical importance. I recognize that the Commission's mandate is to address a broader range of issues outlined in Section 5(c)(1) of the Fraud Enforcement and Recovery Act of 2009. I have opinions on most if not all of those topics that I can address if necessary. I am happy to take questions from the Commission at this point. Thank you.

Appendix

Appendix A: Supporting Data to Exhibit 1

	All as of Fiscal year-end 2007 (Nov 31, 2007 or Dec 31, 2007)									
	Lehman	Bear	Wachovia	Wamu	Goldman	BofA	MS	JP Morgan	Wells Fargo	Citi
($ in Thousands)	11/30/2007	11/30/2007	12/31/2007	12/31/2007	11/30/2007	12/31/2007	11/30/2007	12/31/2007	12/31/2007	12/31/2007
Total Assets	$ 691,063,000	$ 395,362,000	$ 782,896,000	$ 327,913,000	$ 1,119,796,000	$ 1,715,746,000	$ 1,045,409,000	$ 1,562,147,000	$ 575,442,000	$ 2,187,631,000
Net Adjusted Assets (1)	$ 372,959,000	$ 214,393,000	N/A	N/A	$ 747,300,000	N/A	$ 565,585,000	N/A	N/A	N/A
Risk-Adjusted Assets	N/A	N/A	$ 592,065,000	$ 252,330,000	N/A	$ 1,212,833,792	N/A	$ 1,051,879,104	$ 483,420,900	$ 1,253,321,000
Tier 1 Capital	N/A	N/A	$ 43,528,000	$ 21,610,000	NA	$ 83,264,703	NA	$ 88,746,000	$ 36,647,000	$ 89,226,000
Total Stockholders' Equity	$ 22,490,000	$ 11,793,000	$ 76,872,000	$ 24,584,000	$ 42,800,000	$ 146,803,000	$ 32,897,000	$ 123,221,000	$ 47,914,000	$ 113,598,000
Tangible Equity (includes pref stock and certain hybrids)	$ 18,363,000	$ 11,104,000	$ 43,528,000	$ 21,387,000	$ 42,728,000	$ 80,897,000	$ 28,826,000	$ 89,160,000	$ 34,091,000	$ 67,849,000
Tangible Common Equity	$ 17,268,000	$ 10,752,000	$ 33,538,100	$ 17,477,000	$ 34,608,000	$ 59,625,000	$ 26,098,000	$ 74,155,000	$ 33,837,000	$ 62,541,000
CAPITAL & LEVERAGE RATIOS										
Tier 1 Ratio - Equity (inc pref stock)/risk-adjusted assets	**N/A**	**N/A**	**7.35%**	**8.6%**	**N/A**	**6.9%**	**N/A**	**8.4%**	**7.6%**	**7.1%**
Tier 1 Implied Leverage	**N/A**	**N/A**	**13.6x**	**11.7x**	**N/A**	**14.6x**	**N/A**	**11.9x**	**13.2x**	**14.0x**
Tangible Equity/Total Assets	2.7%	2.8%	5.6%	6.5%	3.8%	4.7%	2.8%	5.7%	5.9%	3.1%
Tangible Common Equity/Total Assets	2.5%	2.7%	4.3%	5.3%	3.1%	3.5%	2.5%	4.7%	5.9%	2.9%
Tangible Equity/Net (or R/A) Assets	4.9%	5.2%	7.4%	8.5%	5.7%	6.7%	5.1%	8.5%	7.1%	5.4%
Tangible Common Equity/Net (or R/A) Assets	4.6%	5.0%	5.7%	6.9%	4.6%	4.9%	4.6%	7.0%	7.0%	5.0%
Gross Leverage to Tangible Equity	**37.6x**	**35.6x**	**18.0x**	**15.3x**	**26.2x**	**21.2x**	**36.3x**	**17.5x**	**16.9x**	**32.2x**
Gross Leverage to Tangible Common Equity	**40.0x**	**36.8x**	**23.3x**	**18.8x**	**32.4x**	**28.8x**	**40.1x**	**21.1x**	**17.0x**	**35.0x**
Net Leverage to Tangible Equity (1)	20.3x	19.3x	13.6x	11.8x	17.5x	15.0x	19.6x	11.8x	14.2x	18.5x
Net Leverage to Tangible Common Equity (1)	21.6x	19.9x	17.7x	14.4x	21.6x	20.3x	21.7x	14.2x	14.3x	20.0x
Off-Balance Sheet Exposures										
Lending-related commitments, open credit card lines &$	$ 191,346,000	$ 7,219,000	$ 66,221,000	$ 122,968,000	$ 82,747,000	$ 1,487,619,000	$ 108,618,000	$ 1,262,588,000	$ 241,881,000	$ 1,736,070,000
Other commitments and/or indemnification exposure	$ 20,286,000	$ 7,128,000	$ 78,531,000	$ -	$ 70,121,000	$ 36,415,000	$ 988,000	$ 471,020,000	$ 2,000,000	$ 356,326,000
Total Assets + Contingent Funding Commitments	$ 902,695,000	$ 409,709,000	$ 927,648,000	$ 450,881,000	$ 1,272,664,000	$ 3,239,780,000	$ 1,155,015,000	$ 3,295,755,000	$ 819,323,000	$ 4,280,027,000
Tangible Common Equity/Total Assets + Commitments	1.9%	2.6%	3.6%	3.9%	2.7%	1.8%	2.3%	2.3%	4.1%	1.5%
Gross Leverage to Tangible Common Equity	**52.3x**	**38.1x**	**27.7x**	**25.8x**	**36.8x**	**54.3x**	**44.3x**	**44.4x**	**24.2x**	**68.4x**
Derivative Notional (3)	$ 737,937,000	$ 13,396,700,000	$ 5,006,809,000	N/A (FV = $2bln)	$ 2,045,341,000	$ 34,270,664,000	$ 7,120,380,000	$ 77,249,000,000	$ 1,038,351,000	$ 35,708,587,000
LEVEL 3 ASSETS										
Level 3 Assets	$ 38,884,000	$ 28,169,000	N/A	N/A	$ 69,151,000	$ 31,470,000	$ 57,996,000	$ 43,103,000	$ 22,749,000	$ 133,435,000
Level 3 Assets/Tangible Common Equity	225.2%	262.0%	N/A	N/A	199.8%	52.8%	222.2%	58.1%	67.2%	213.4%

(1) Excludes certain assets including securities purchased under repo agreements, but may be calculated differently between firms.

(2) These contingent loans may be, as of fiscal year-end 2007, fully, partially or not committed.

(3) Notional doesn't represent true risk, but disclosure is inadequate to determine ultimate exposure.

Source: SNL Financial and 10-Ks.

Appendix B: Supporting Data to Exhibit 3

($ in thousands)	As of 12/31/2007 Fannie Mae	Freddie Mac
Assets:		
Cash, fed funds and securities purchased on repo	$ 53,543,000	$ 50,237,000
Loans net of reserves (this includes PCs for Freddie)	$ 403,524,000	$ 438,872,000
Securities (includes FNM, FRE and other RMBS)	$ 357,513,000	$ 281,685,000
Other Assets	$ 64,809,000	$ 23,574,000
Total Assets	$ 879,389,000	$ 794,368,000
MBS and other gaurantees (not held in portfolio above)	$ 2,160,497,000	$ 1,370,305,000
Total Assets + Loan Guarantees	$ 3,039,886,000	$ 2,164,673,000
Total Stockholder's equity	$ 44,011,000	$ 26,724,000
Total Equity/Assets+Guarantees	1.4%	1.2%
Leverage to Total Equity	**69.1x**	**81.0x**
Core Capital (see below)	$ 45,373,000	$ 37,900,000
Core Capital /Assets+Guarantees	1.5%	1.8%
Leverage to Core Capital (see below)	**67.0x**	**57.1x**
Statutory Minimum Capital Requirement (see below)	$ 31,927,000	$ 26,500,000
Statutory Minimum Capital/Assets+Guarantees	1.1%	1.2%
Leverage to Statutory Minimum Capital (see below)	**95.2x**	**81.7x**
Allowance %	0.18%	0.31%

From Fannie Mae and Freddie Mac filings:

Statutory Minimum Capital Requirement. *The existing ratio-based minimum capital standard ties our capital requirements to the size of our book of business. For purposes of the statutory minimum capital requirement, we are in compliance if our core capital equals or exceeds our statutory minimum capital requirement.* ***Core capital*** *is defined by statute as the sum of the stated value of outstanding common stock (common stock less treasury stock), the stated value of outstanding non-cumulative perpetual preferred stock, paid-in capital and retained earnings, as determined in accordance with GAAP. Our statutory minimum capital requirement is generally equal to the sum of:*

** 2.50% of on-balance sheet assets;*

** 0.45% of the unpaid principal balance of outstanding Fannie Mae MBS held by third parties; and*

** up to 0.45% of other off-balance sheet obligations, which may be adjusted by the Director of FHFA under certain circumstances.*

Appendix C: Supporting Data to Exhibit 4

($ in Thousands)	**Total Deposits**	***%***	**Total Assets**	***%***
JP Morgan	$ 1,014,186,148	*11%*	$ 1,768,963,935	13%
Bank of America	$ 1,110,779,388	*12%*	$ 1,714,764,797	13%
Citigroup	$ 844,295,643	*9%*	$ 1,305,664,786	10%
Wells Fargo	$ 833,381,202	*9%*	$ 1,206,919,781	9%
TOP 4	**$ 3,802,642,381**	***42%***	**$ 5,996,313,299**	**45%**
PNC	$ 189,758,847	2%	$ 278,495,745	2%
US Bancorp	$ 234,441,768	3%	$ 259,942,982	2%
Bank of New York	$ 141,854,158	2%	$ 180,163,546	1%
Suntrust	$ 125,732,956	1%	$ 166,171,009	1%
State Street	$ 97,247,558	1%	$ 160,208,203	1%
BB & T	$ 113,788,885	1%	$ 159,145,841	1%
All Other	$ 4,406,533,447	48%	$ 6,067,559,375	46%
Total	**$ 9,112,000,000**	**100%**	**$ 13,268,000,000**	**100%**