



An Excerpt from the New Book:

On the Brink: Inside the Race to Stop the Collapse of the Global Financial System

By: The Honorable Henry M. Paulson, Jr.

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In his new book, former Treasury Secretary Henry M. Paulson Jr. describes the efforts of the elite in the political and financial world in response to the 2008 financial crisis.

On the Brink is a memoir of Paulson's time in the center of the crisis. He recounts the key decisions that were made -- including controversial ones such as the bailout of AIG -- and details debating the situation with the top political and economic officials of the time.

Paulson also outlines policies he says will benefit the country in the future.

Thursday, September 4, 2008

"Do they know it's coming, Hank?" President Bush asked me. "Mr. President," I said, "we're going to move quickly and take them by surprise. The first sound they'll hear is their heads hitting the floor."

It was Thursday morning, September 4, 2008, and we were in the Oval Office of the White House discussing the fate of Fannie Mae and Freddie Mac, the troubled housing finance giants. For the good of the country, I had proposed that we seize control of the companies, fire their bosses, and prepare to provide up to \$100 billion of capital support for each. If we did not act immediately, Fannie and Freddie would, I feared, take down the financial system, and the global economy, with them.

I'm a straightforward person. I like to be direct with people. But I knew that we had to ambush Fannie and Freddie. We could give them no room to maneuver. We couldn't very well go to Daniel Mudd at Fannie Mae or Richard Syron at Freddie Mac and say:

"Here's our idea for how to save you. Why don't we just take you over and throw you out of your jobs, and do it in a way that protects the taxpayer to the disadvantage of your shareholders?"

The news would leak, and they'd fight. They'd go to their many powerful friends on Capitol Hill or to the courts, and the resulting delays would cause panic in the markets. We'd trigger the very disaster we were trying to avoid.



I had come alone to the White House from an 8:00 a.m. meeting at Treasury with Ben Bernanke, the chairman of the Federal Reserve Board, who shared my concerns, and Jim Lockhart, head of the Federal Housing Finance Agency (FHFA), the main regulator for Fannie and Freddie. Many of our staffers had been up all night -- we had all been putting in 18-hour days during the summer and through the preceding Labor Day holiday weekend -- to hammer out the language and documents that would allow us to make the move. We weren't quite there yet, but it was time to get the president's official approval. We wanted to place Fannie and Freddie into conservatorship over the weekend and make sure that everything was wrapped up before the Asian markets opened Sunday night.

The mood was somber as I laid out our plans to the president and his top advisers, who included White House chief of staff Josh Bolten; deputy chief of staff Joel Kaplan; Ed Lazear, chairman of the Council of Economic Advisers; Keith Hennessey, director of the National Economic Council (NEC); and Jim Nussle, director of the Office of Management and Budget. The night before, Alaska governor Sarah Palin had electrified the Republican National Convention in St. Paul, Minnesota, with her speech accepting the nomination as the party's vice presidential candidate, but there was no mention of that in the Oval Office. St. Paul might as well have been on another planet.

The president and his advisers were well informed of the seriousness of the situation. Less than two weeks before, I had gotten on a secure videoconference line in the West Wing to brief the president at his ranch in Crawford, Texas, and explained my thinking. Like him, I am a firm believer in free markets, and I certainly hadn't come to Washington planning to do anything to inject the government into the private sector. But Fannie and Freddie were congressionally chartered companies that already relied heavily on implicit government support, and in August, along with Bernanke, I'd come to the conclusion that taking them over was the best way to avert a meltdown, keep mortgage financing available, stabilize markets, and protect the taxpayer. The president had agreed.

It is hard to exaggerate how central Fannie and Freddie were to U.S. markets. Between them they owned or guaranteed more than \$5 trillion in residential mortgages and mortgage-backed securities - about half of all those in the country. To finance operations, they were among the biggest issuers of debt in the world: a total of about \$1.7 trillion for the pair. They were in the markets constantly, borrowing more than \$20 billion a week at times.

But investors were losing faith in them -- for good reason. Combined, they already had \$5.5 billion in net losses for the year to date. Their common share prices had plunged -- to \$7.32 for Fannie the day before from \$66 one year earlier. The previous month, Standard & Poor's, the rating agency, had twice downgraded the preferred stock of both companies. Investors were shying away from their auctions, raising the cost of their borrowings and making existing debt holders increasingly nervous. By the end of August, neither could raise equity capital from private investors or in the public markets.



Moreover, the financial system was increasingly shaky. Commercial and investment bank stocks were under pressure, and we were nervously monitoring the health of several ailing institutions, including Wachovia Corporation, Washington Mutual, and Lehman Brothers. We had seen what happened in March when Bear Stearns's counterparties -- the other banks and investment houses that lent it money or bought its securities-- abruptly turned away. We had survived that, but the collapse of Fannie and Freddie would be catastrophic. Seemingly everyone in the world -- little banks, big banks, foreign central banks, money market funds -- owned their paper or was a counterparty. Investors would lose tens of billions; foreigners would lose confidence in the U.S. It might cause a run on the dollar.

The president, in suit coat and tie as always, was all business, engaged and focused on our tactics. He leaned forward in his blue-and-yellow-striped armchair. I sat in the armchair to his right; the others were crowded on facing sofas. I told the president we planned to summon the top management of Fannie and Freddie to meet with Bernanke, Lockhart, and me the following afternoon. We'd lay out our decision and then present it to their boards on Saturday: we would put \$100 billion of capital behind each, with hundreds of billions of dollars more available beyond that, and assure both companies of ample credit lines from the government. Obviously we preferred that they voluntarily acquiesce. But if they did not, we would seize them.

I explained that we had teams of lawyers, bank examiners, computer specialists, and others on standby, ready to roll into the companies' offices and secure their premises, trading floors, books and records, and so forth. We had already picked replacement chief executives. David Moffett, a former chief financial officer from U.S. Bancorp, one of the few nearly pristine big banks in the country, was on board for Freddie Mac. For Fannie Mae we'd selected former TIAA-CREF chief executive and chairman Herb Allison. (He was vacationing in the Caribbean, and when I reached him later and twisted his arm to come to Washington the next day, he'd initially protested: "Hank, I'm in my flip-flops. I don't even have a suit down here." But he'd agreed to come.)

White House staff had been shocked when we first suggested conservatorship for Fannie and Freddie, which had the reputation of being the toughest street fighters in Washington. But they liked the boldness of the idea, as did the president. He had a deep disdain for entities like Fannie and Freddie, which he saw as part of a permanent Washington elite, detached from the heartland, with former government officials and lobbyists cycling through their ranks endlessly while the companies minted money, thanks, in effect, to a federal entitlement.

The president wanted to know what I thought the longer-term model for Fannie and Freddie ought to be. I was keen to avoid any existential debate on the two companies that might bog down in partisan politics on the Hill, where Fannie and Freddie had ardent friends and enemies.



"Mr. President," I replied, "I don't think we want to get into that publicly right now. No one can argue that their models aren't seriously flawed and pose a systemic risk, but the last thing we want to start right now is a holy war."

"What do you suggest?"

"I'll describe this as a time-out and defer structure until later. I'll just tell everybody that we're going to do this to stabilize them and the capital markets and to put the U.S.A. behind their credit to make sure there's mortgage finance available in this country."

"I agree," the president said. "I wouldn't propose a new model now, either. But we'll need to do it at the right time, and we have to make clear that what we are doing now is transitory, because otherwise it looks like nationalization."

I said that I had come to believe that what made most sense longer-term was some sort of dramatically scaled-down structure where the extent of government support was clear and the companies functioned like utilities. The current model, where profits went to shareholders but losses had to be absorbed by the taxpayer, did not make sense. The president rose to signal the meeting was over. "It will sure be interesting to see if they run to Congress," he said.

I left the White House and walked back to Treasury, where we had to script what we would say to the two mortgage agencies the following day. We wanted to be sure we had the strongest case possible in the event they chose to fight. But even now, at the 11th hour, we still had concerns that FHFA had not effectively documented the severity of Fannie's and Freddie's capital shortfall and the case for immediate conservatorship. The cooperation among the federal agencies had generally been superb, but although Treasury, the Fed, and the Office of the Comptroller of the Currency (OCC) agreed, FHFA had been balky all along. That was a big problem because only FHFA had the statutory power to put Fannie and Freddie into conservatorship. We had to convince its people that this was the right thing to do, while making sure to let them feel they were still in charge.

I had spent much of August working with Lockhart, a friend of the president's since their prep school days. Jim understood the gravity of the situation, but his people, who had said recently that Fannie and Freddie were adequately capitalized, feared for their reputations. The president himself wouldn't intervene because it was inappropriate for him to talk with a regulator, though he was sure Lockhart would come through in the end. In any event, I invoked the president's name repeatedly. "Jim," I'd say, "you don't want to trigger a meltdown and ruin your friend's presidency, do you?"

The day before I'd gone to the White House, I spoke with Lockhart by phone at least four times: at 9:45 a.m., 3:45 p.m., 4:30 p.m., and then again later that night. "Jim, it has to be this weekend. We've got to know," I insisted.



Part of FHFA's reluctance had to do with history. It had only come into existence in July, as part of hard-won reform legislation. FHFA and its predecessor, the Office of Federal Housing Enterprise Oversight, which Lockhart had also led, were weak regulators, under-resourced and outmatched by the companies they were meant to oversee, and constrained by a narrow view of their charters and authorities. FHFA's people were conditioned by their history to judge Fannie and Freddie by their statutory capital requirements, not, as we did, by the much greater amounts of capital that were necessary to satisfy the market. They relied on the companies' own analyses because they lacked the resources and ability to make independent evaluations as the Fed and OCC could. FHFA preferred to take the agencies to task for regulatory infractions and seek consent orders to force change. That approach wasn't nearly enough and would have taken time, which we did not have.

Complicating matters, FHFA had recently given the two companies clean bills of health based on their compliance with those weak statutory capital requirements. Lockhart was concerned -- and Bob Hoyt, Treasury's general counsel, agreed -- that it would be suicide if we attempted to take control of Fannie and Freddie and they went to court only to have it emerge that the FHFA had said, in effect, that there were no problems.

We had been working hard to convince FHFA to take a much more realistic view of the capital problems and had sent in teams of Fed and OCC examiners to help them understand and itemize the problems down to the last dollar. The Fed and the OCC saw a huge capital hole in Fannie and Freddie; we needed to get FHFA examiners to see the hole.

Lockhart had been skillfully working to get his examiners to come up with language they could live with. But on Thursday they still had not done enough to document the capital problems. We sent in more help. Sheila Bair, chairman of the Federal Deposit Insurance Corporation, which had ample experience in closing banks, agreed to send me her best person to help write a case. Finally, Lockhart managed to get his examiners to sign off on what we needed. Either Jim had worn those examiners down or they had come to realize that immediate conservatorship was the best way for them to resolve this dangerous situation with their reputations intact.

Thursday evening, Jim put in calls to the CEOs of Fannie and Freddie, summoning them to a meeting Friday afternoon that Ben and I would attend at FHFA's headquarters on G Street. (Jim didn't speak directly to Mudd until Friday morning.) We arranged for the first meeting to start just before 4:00 p.m. so that the market would be closed by the time it ended. We decided to lead with Fannie Mae, figuring they were more likely to be contentious.

The companies obviously knew something was up, and it didn't take long for me to start getting blowback. Dan Mudd called me on Friday morning and got straight to the point. "Hank," he asked, "what's going on? We've done all you asked. We've been cooperative. What's this about?" "Dan," I said, "if I could tell you, I wouldn't be calling the meeting."



We'd been operating in secrecy and had managed to avoid any leaks for several weeks, which may be a record for Washington. To keep everyone in the dark, we resorted to a little cloak-and-dagger that afternoon. I drove to FHFA with Kevin Fromer, my assistant secretary for legislative affairs, and Jim Wilkinson, my chief of staff, and instead of hopping out at the curb, we went straight into the building's parking garage to avoid being seen. Unfortunately, Ben Bernanke walked in the front door and was spotted by a reporter for the Wall Street Journal, who posted word on the paper's website.

We met the rest of our teams on the fourth floor. FHFA's offices were a contrast to those at the Fed and Treasury, which are grand and spacious, with lots of marble, high ceilings, and walls lined with elegant paintings. FHFA's offices were drab and cramped, the floors clad in thin office carpet.

As planned, we arrived a few minutes early, and as soon as I saw Lockhart I pulled him aside to buck him up. He was ready but shaky. This was a big step for him. Our first meeting was with Fannie in a conference room adjacent to Jim's office. We'd asked both CEOs to bring their lead directors. Fannie chairman Stephen Ashley and general counsel Beth Wilkinson accompanied Mudd. He also brought the company's outside counsel, H. Rodgin Cohen, chairman of Sullivan & Cromwell and a noted bank lawyer, who'd flown down hastily from New York.

Between our group from Treasury, the Fed's team, Lockhart's people, and Fannie's executives, there must have been about a dozen people in the glass-walled conference room, spread around the main table and arrayed along the walls.

Lockhart went first. He took Fannie Mae through a long, detailed presentation, citing one regulatory infraction after another. Most didn't amount to much, frankly; they were more like parking tickets in the scheme of things. He was a little nervous and hesitant, but he brought his speech around to the key point: his examiners had concluded there was a capital deficiency, the company was operating in an unsafe and unsound manner, and FHFA had decided to put it into conservatorship. He said that we all hoped they would agree to do this voluntarily; if not, we would seize control. We had already selected a new CEO and had teams ready to move in.

As he spoke I watched the Fannie Mae delegation. They were furious. Mudd was alternately scowling or sneering. Once he put his head between his hands and shook it. In truth, I felt a good bit of sympathy for him. He had been dealt a tough hand. Fannie could be arrogant, even pompous, but Mudd had become CEO after a messy accounting scandal and had been reasonably cooperative as he tried to clean things up.

I followed Lockhart and laid out my argument as simply as I could. Jim, I said, had described a serious capital deficiency. I agreed with his analysis, but added that although I'd been authorized by Congress to do so, I had decided that I was not prepared to put any capital into Fannie in its current form. I told them that I felt Fannie Mae had done a better job than Freddie Mac; they had raised \$7.4 billion



earlier in the year, while Freddie had delayed and had a bigger capital hole. Now, however, neither could raise any private money. The markets simply did not differentiate between Fannie and Freddie. We would not, either. I recommended conservatorship and said that Mudd would have to go. Only under those conditions would we be prepared to put in capital.

"If you acquiesce," I concluded, "I will make clear to all I am not blaming management. You didn't create the business model you have, and it's flawed. You didn't create the regulatory model, and it is equally flawed."

I left unspoken what I would say publicly if they didn't acquiesce.

Ben Bernanke followed and made a very strong speech. He said he was very supportive of the proposed actions. Because of the capital deficiency, the safety and soundness of Fannie Mae was at risk, and that in turn imperiled the stability of the financial system. It was in the best interests of the country to do this, he concluded.

Though stunned and angry, the Fannie team was quick to raise issues. Mudd clearly thought Fannie was being treated with great injustice. He and his team were eager to put space between their company and Freddie, and the truth was they had done a better job. But I said that for investors it was a distinction without a difference -- investors in both companies were looking to their congressional charters and implicit guarantees from the United States of America. The market perceived them as indistinguishable. And that was it. The Fannie executives asked how much equity capital we planned to put in. How would we structure it? We wouldn't say. We weren't eager to give many details at all, because we didn't want to read about it in the press.

"Dan's too gracious a man to raise this," said Beth Wilkinson. "But we're a unified management team. How come he is the only one being fired, and why are you replacing him?"

"I don't think you can do something this drastic and not change the CEO," I replied. "Beyond that, frankly, I want to do as little as possible to change management."

"Our board will want to take a close look at this," Mudd said, attempting to push back.

Richard Alexander, the managing partner for Arnold & Porter, FHFA's outside counsel, replied: "I need you to understand that when these gentlemen"-- he meant Lockhart, Bernanke, and me -- "come to your board meeting tomorrow, it's not to have a dialogue."

"Okay," Rodge Cohen said, and it was clear he understood the game was over.



After the meeting, I made a few quick calls to key legislators. I had learned much, none of it good, since going to Congress in July for unprecedented emergency authorities to stabilize Fannie and Freddie. I had said then that if legislators gave me a big enough weapon -- a "bazooka" was what I specifically requested -- it was likely I wouldn't have to use it. But I had not known of the extent of the companies' problems then. After I had learned of the capital hole, I had been unable to speak about it publicly, so conservatorship would come as a shock, as would the level of taxpayer support. I was also very concerned that Congress might be angered that I had turned temporary authority to invest in Fannie and Freddie, which would expire at year-end 2009, into what effectively was a permanent guarantee on all their debt.

First up were Barney Frank, chairman of the House Committee on Financial Services, and Chris Dodd, his counterpart on the Senate Banking Committee. Barney was scary-smart, ready with a quip, and usually a pleasure to work with. He was energetic, a skilled and pragmatic legislator whose main interest was in doing what he believed was best for the country. He bargained hard but stuck to his word. Dodd was more of a challenge. We'd worked together on Fannie and Freddie reform, but he had been distracted by his unsuccessful campaign for the Democratic presidential nomination and seemed exhausted afterward. Though personable and knowledgeable, he was not as consistent or predictable as Barney, and his job was more difficult because it was much harder to get things done in the Senate. He and his staff had a close relationship with Fannie, so I knew that if they decided to fight, they would go to him.

As it turned out, the calls went well. I explained that what we were doing was driven by necessity, not ideology; we had to preempt a market panic. I knew their initially supportive reactions might change after they understood all the facts and had gauged the public reaction. But we were off to a good start. Then I went into the meeting with Freddie. Dick Syron had brought his outside counsel, along with a few of his directors, including Geoff Boisi, an old colleague from my Goldman Sachs days.

We ran through the same script with Freddie, and the difference was clear: Where Mudd had been seething, Syron was relaxed, seemingly relieved. He had appeared frustrated and exhausted as he managed the company, and he looked like he'd been hoping for this to happen. He was ready to do his duty like the man handed a revolver and told, "Go ahead and do it for the regiment."

He and his people mostly had procedural issues to raise. Would it be all right for directors to phone in or would they have to come in person? How would the news be communicated to their employees?

As we had with Fannie Mae, we swore everyone in the room to silence. (Nonetheless the news leaked almost immediately.) When the meeting broke up, I made some more calls to the Hill and to the White House, where I gave Josh Bolten a heads-up. I spoke with, among others, New York senator Chuck Schumer; Alabama senator Richard Shelby, the ranking Republican on the Senate Banking



Committee; and Alabama representative Spencer Bachus, the ranking Republican on the House Committee on Financial Services.

I went home exhausted, had a quick dinner with my wife, Wendy, and went to bed at 9:30 p.m. (I'm an "early to bed, early to rise" fellow. I simply need my eight hours of sleep. I wish it weren't the case, but it is.)

At 10:30 p.m. the home phone rang, and I picked it up. My first thought, which I dreaded, was that maybe someone was calling to tell me Fannie was going to fight. Instead I heard the voice of Senator Barack Obama, the Democratic nominee for president.

"Hank," he began, "you've got to be the only guy in the country who's working as hard as I am."

He was calling from someplace on the road. He had learned about the moves we'd made and wanted to talk about what it meant. I didn't know him very well at all. At my last official function as Goldman Sachs CEO before moving to Washington, I'd invited him to speak to our partners at a meeting we'd held in Chicago. The other main speaker at that event had been Berkshire Hathaway CEO Warren Buffett. I would, in fact, get to know Obama better over the course of the fall, speaking to him frequently, sometimes several times a day, about the crisis. I was impressed with him. He was always well informed, well briefed, and self-confident. He could talk about the issues I was dealing with in an intelligent way. That night he wanted to hear everything we'd done and how and why. I took the senator through our thinking and our tactics. He was quick to grasp why we thought the two agencies were so critical to stabilizing the markets and keeping low-cost mortgage financing available. He appreciated our desire to protect the taxpayers as well.

"Bailouts like this are very unpopular," he pointed out.

I replied that it wasn't a bailout in any real sense. Common and preferred shareholders alike were being wiped out, and we had replaced the CEOs.

"That sounds like strong medicine," Obama said. He was glad we were replacing the CEOs and asked about whether there had been any golden parachutes.

I told him we would take care of that, and he shifted the conversation to discuss the broader issues for the capital markets and the economy. He wanted to hear my views on how we'd gotten to this point, and how serious the problems were.

"It's serious," I said, "and it's going to get worse."

In all, we were on the phone that night for perhaps 30 minutes.



Arizona senator John McCain's selection of Sarah Palin as his running mate had energized the Republican base, and McCain was surging in the polls, but at least overtly there didn't seem to be "politics" or maneuvering in Obama's approach to me. Throughout the crisis, he played it straight. He genuinely seemed to want to do the right thing. He wanted to avoid doing anything publicly -- or privately -- that would damage our efforts to stabilize the markets and the economy.

But of course, there's always politics at play: the day after the election Obama abruptly stopped talking to me.

When I woke the next morning, word of our plan to take control of Fannie and Freddie was bannered in all the major newspapers.

Then, when I got to the office, I told my staff about my conversation with Obama, and they got a bit panicky. Since some Republicans considered me to be a closet Democrat, my staff had misgivings about any action on my part that might be construed as favoring Obama. So we figured I had better put in a call to McCain to even things up.

I connected with the Republican candidate late in the morning. I had a cordial relationship with John, but we were not particularly close and had never discussed economic issues -- our most indepth conversations had concerned climate change. But that day McCain was ebullient and friendly. The Palin selection had clearly revitalized him, and he began by saying he wanted to introduce me to his running mate, whom he put on the phone with us.

McCain had little more to say as I described the actions we had taken and why, but Governor Palin immediately made her presence felt. Right away she started calling me Hank. Now, everyone calls me Hank. My assistant calls me Hank. Everyone on my staff, from top to bottom, calls me Hank. It's what I like. But for some reason, the way she said it over the phone like that, even though we'd never met, rubbed me the wrong way.

I'm also not sure she grasped the full dimensions of the situation I had sketched out -- or so some of her comments made me think. But she grasped the politics pretty quickly.

"Hank," she asked, "did any of their executives get golden parachutes? Did you fire all the people you need to? Hank, can we claw back any of their compensation?"

From that call I went into a noon meeting that lasted perhaps an hour with the board of directors of Freddie Mac. In the afternoon, around 3:00 p.m., it was Fannie Mae's turn. To avoid publicity, we switched from FHFA headquarters to a ground-floor conference room at the Federal Housing Finance Board offices, a few blocks from Lafayette Square.



Lockhart, Bernanke, and I followed the same script from the previous afternoon: Jim led off explaining that we had decided on conservatorship, citing capital inadequacy and his list of infractions. I laid out our terms, and Ben followed with his description of the catastrophe that would occur if we did not take these actions.

Going into the weekend, there had been some trepidation among our team that the two government-sponsored enterprises (GSEs), especially Fannie, would resist. But after all my years as a Goldman Sachs banker I knew boards, and I felt sure that they would heed our call. They had fiduciary duties to their shareholders, so they would want us to make the strongest case we could.

We emphasized that if the government didn't put them into conservatorship, the companies would face insolvency and their shareholders would be worse off. I also knew that having these arguments made directly to them by their companies' regulator, the secretary of the Treasury, and the chairman of the Federal Reserve Board would carry immense weight.

Just like the initial meetings the day before, the session with the Freddie board went much easier than the one with its sister institution. Fannie's directors, like its management, wanted to differentiate their company from Freddie, but we made clear we could do no such thing.

I made a round of phone calls Saturday and Sunday to congressional leaders, as well as to senior financial industry executives, outlining our actions and the importance of stabilizing Fannie and Freddie. Just about everyone was supportive, even congratulatory, although I do remember Chris Dodd being a little put out when I talked to him a second time, on Sunday.

"Whatever happened to your bazooka, Hank?" he asked.

I explained that I had never thought I'd have to use the emergency powers Congress had given me in July, but given the state of affairs at the GSEs, I'd had no choice. Still, I knew I would have to spend some time with Chris to make him feel more comfortable.

After the Fannie board meeting, I received a call I'd been expecting most of the day. Word had gotten out that I'd talked to Palin, so I'd been thinking, Joe Biden's bound to call, too. And, sure enough, he did. The predictability of it gave me my one good laugh of the day, but the Democratic vice presidential candidate was on top of the issue; he understood the nature of the problem we faced and supported our strong actions.

Sunday morning at 11:00, Jim Lockhart and I officially unveiled the Fannie Mae and Freddie Mac rescue with a statement to the press. I described four key steps we were taking: FHFA would place the companies into conservatorship; the government would provide up to \$100 billion to each company to backstop any capital shortfalls; Treasury would establish a new secured lending credit



facility for Fannie and Freddie and would begin a temporary program to buy mortgage-backed securities they guaranteed, to boost the housing market.

I wanted to cut through all the complex finance and get to the heart of our actions and what they meant for Americans and their families. The GSEs were so big and so interwoven into the fabric of the financial system that a failure of either would mean grave distress throughout the world.

"This turmoil," I said, "would directly and negatively impact household wealth: from family budgets, to home values, to savings for college and retirement. A failure would affect the ability of Americans to get home loans, auto loans, and other consumer credit and business finance. And a failure would be harmful to economic growth and job creation."

It would also have major international financial ramifications.

Among the many financial leaders I spoke to that day were my old friends Zhou Xiaochuan, the head of the central bank of China, and Wang Qishan, vice premier in charge of China's financial and economic affairs. It was important to relay what was going on to the Chinese, who owned a vast quantity of U.S. securities, including hundreds of billions of dollars of GSE debt. They had trusted our assurances and held on to this paper at a crucial time in a shaky market. Fortunately, I knew both men well, and we had been able to speak frankly to one another throughout the crisis.

"I always said we'd live up to our obligations," I reminded Wang. "We take them seriously."

"You're doing everything you know how to," Wang said, adding that the Chinese would continue to hold their positions. He congratulated me on our moves but struck a cautious note: "I know you think this may end all of your problems, but it may not be over yet."

Still, that Sunday afternoon in my office, placing calls all around the world, I couldn't help but feel a bit relieved. We had just pulled off perhaps the biggest financial rescue in history. Fannie and Freddie had not been able to stop us, Congress was supportive, and the market looked sure to accept our moves.

I was alone, looking out the tall windows of my office, which faced south toward the National Mall. I was not naïve. I knew there were plenty of danger spots in the financial system and in the economy, but I felt a burden lift off of me as I looked out on the Washington Monument. I had come to Washington to make a difference, and we had, I thought, just saved the country -- and the world -- from financial catastrophe. The next day, Lehman Brothers began to collapse.

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