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How can organizations lead through uncertainty and times of disruption? In this episode of Resilient, Don Layton, CEO of Freddie Mac, discusses how turning around a failing business takes leadership in finance and organizational transformation.

Michael Kearney: There are a lot of leaders that have helped the United States recover from the great recession of 2008. However, I don't know many that selflessly came out of retirement, not once, but twice to make an immediate impact on two great organizations, E-Trade and Freddie Mac. I'm, of course, talking about Don Layton, the CEO of Freddie Mac and former CEO of E-Trade. As chairman and CEO of E-Trade, Don oversaw the recapitalization of E-Trade's balance sheet and led a restructuring effort that put the company's online brokerage business back on track.

Under Don's leadership at E-Trade, he also helped recruit senior executives and reorganized the management and strategy of the company, all in a couple years. At Freddie Mac, Don has overseen the transfer of $1 trillion—that's a lot—in credit risk from taxpayers to private investors. The serious delinquency rate for single family homes has dropped below one percent for the first time in a decade.

And over the last ten years, Freddie Mac has returned $114 billion to taxpayers, nearly 60 percent more than what they received from the US Treasury. And in the last year—and this is a big impact on people like you and me—they have helped 355,000 first-time homebuyers achieve the American dream, 524,000 families refinance, probably the most important, 100,000 families avoid foreclosure. I have a lot to talk to Don about.

Here are a few of the topics that I plan to explore with him. The benefit of taking a pause during your career to reflect on what's important. How he transformed Freddie Mac over the last several years. What's most critical when turning around a business? He's got, obviously, a tremendous about of experience. What changes Don sees on the horizon in the mortgage industry, and as always, I love asking questions about leadership advice. He's had an incredible career. My guess is, he's got a lot for us.

If your company's in existential trouble, the balance is easy, move fast. There's no nicety about it. You have no chance. If it's normal circumstances, you have to be a little more balanced about it all.

Michael Kearney: Welcome to the resilient podcast, where we hear stories from leaders on crisis, risk, and disruption. My name is Mike Kearney. I'm a Deloitte partner based out of San Francisco. And I'll say, I am energized by many of the things that I'm doing at Deloitte. I lead a new way of bringing tech-enabled solutions to our clients called Spark. I lead the brand and reputation venture fund. I love advising risk executives on how you elevate risk to the Csuite. And I moonlight on this podcast, where I get this incredible opportunity to go speak to CEOs, board members, and other leaders about what they have to say about crisis, risk, and disruption.

Today, I am in New York City, and I am really looking forward to speaking with Don. And in doing my research, it became clear that he is a man of deep character. I kept thinking that this is a guy that's guided by something that is way deeper than his title, CEO, or his paycheck. Shoot, when he became CEO of E-Trade, he requested that all of his 2008 and 2009 incentive compensation be in the form of equity.

Don, welcome to *Resilient*.

Don Layton: Thank you. It's great to be here.

Michael Kearney: Don, I always love opening up with a question that, in doing my research, I find there to be kind of an interesting fun fact or anecdote about somebody. And one of the things I think I've gleaned, and you can tell me if I'm right or wrong, and that is that you have a deep joy or you like turning around businesses. My question is, was there a moment in your career where you stood back and you said, "I'm actually pretty good at this, and it's something I like?"

Don Layton: Okay. I'm going to do a left turn on you.

Michael Kearney: I like left turns.

Don Layton: I don't regard myself as a turnaround guy. But, I'll come back to why you think that. I regard myself as a take whatever I do and make it better guy. And as I've gotten more senior, I have figured out that people, for whatever reason, some naturally are more stand pat type managers, some are more, I'm going to improve what I have managers. I cannot just sit on what I inherit. I have to move it forward.

Early in my career that was largely about building new things in the markets, what became the derivatives business was my move from very young. And that got me to be head of all trading and treasury at Manufacturers Hanover, a name long gone. But at that point the fourth largest bank in America. And I became head of trading and treasury at the age of 37 off of that. So, I was a builder.

Then the LDC debt crisis hit and kind of crushed the banks, and we went into merger mode. ManHan and Chemical did the first modern kind of merger of equals to get stronger. Chemical Bank was the fifth largest bank. They were located across the street. It was very convenient. And then we did these giant mergers, overlap mergers every four years. ManHan and Chemical '91, '92. Then we kind of merged with/bought Chase in '95, '96. Then we bought —another guy and I bought JPMorgan in 2000. Then the Bank One deal four years later. Every four years.

And so that was being assigned to take these two businesses. You work for both sides, pure overlap. Get the best of both. Don't just get bigger, get better. And so, we did that, and then I got assigned to turn around the operating services business, that's custody and cash management things. So, I was more of just, whatever it is, take it and move it forward.

The reason why you think I'm a turnaround guy is 'cause after I left ManHan—not ManHan, sorry—what was then JPMorgan Chase in 2004 off of the Bank One merger. I'd been running half the company, half the organization. Basically, as co-chief operating officer then with the merger, Jamie Dimon was coming in as that role, so the other guy and I left after a little while.

When you're out looking for a role, and at that point the only thing worth doing for me was CEO 'cause I had done everything else, people don't hire from outside to be a CEO. Oh, I have a great company, everything's fabulous, but I need an outsider, please. They hire outside for turnarounds. That's the strong correlation. So the reason you think of me as a turnaround type person is, when you're out, that's who hires you. So, that was ETrade and that was Freddie Mac.

Michael Kearney: There definitely is a through line of restlessness.

Don Layton: Yes.

Michael Kearney: Meaning you like—it doesn't matter how good or bad something is, I need to make it better.

Don Layton: Well, that's interesting. Yes. Some people are motivated by that, by just pure competitiveness, the type who is in four sports in high school and college and things. Others I've noticed it's the more intellectual challenge or some combination. I'm actually more the intellectual challenge guy. So, yeah, I cannot sit and just operate. I have to move it forward.

Michael Kearney: So, where do you think that comes from? Were there any early experiences that shaped who you are today? Maybe it could point back to say, when I was younger, whether it's in college or a kid, here's some things that shaped me?

Don Layton: First I want to tell a little joke. What I am not is the person who planned to have this happen. A lot of life is just putting one step in front of the other and you see how it goes. I remember driving around looking at colleges with one of my kids, I think it was my younger son, and he's reading from the typical guide on schools, and it's about Harvard. We were about to visit Harvard. And he's reading from it and it says, "Harvard is the kind of place where half the students have been planning their Senate run from third grade."

I'm not that guy. I never planned to be CEO. That was just an unknown thing to me. I just kept pushing forward. If there were any anecdotes about high standards, very high—I was very good academically from a young age, and my father had been—my parents both were very smart. My mother was one of the very first women to go to business school at City College, which is now Baruch. And the family joke was, if I got 100 on a test, I'd come home and tell my father 100, and the response was, “What? No extra credit?” which, of course, I did to my kids.

But, other than that—and I had an older brother. There was a little competitiveness going on and such. But, other than that, I think it’s just circumstances and just—and the nurture and nature I think it was a little more than nature.

Michael Kearney: Absolutely. So, I have read a lot, and I think you’ve even commented in some articles that your deeper analytical skills is what really differentiated you when you started out.

Don Layton: Analytical is maybe too vague a phrase. One of my kids is an English major, and analytical writing. I’m not talking—I’m talking about a quant. Okay? And before there were quants in Wall Street or that was a recognized thing, I was a quant in banking.

Michael Kearney: You were a quant, yep.

Don Layton: And that’s the MIT background.

Michael Kearney: And did you recognize that that would be valuable at that time?

Don Layton: Nope. The only hint I had was that a friend of my father’s, who had gotten an MBA who’s younger, he told me if you got a quant-type degree, like an engineering situation and then went to—it was Harvard Business School, which is notoriously qualitative—you had both ends. And it ended up what I was doing. I went to MIT. I got two degrees in economics, which is highly quantitative. It’s like applied math at MIT. And then I went up the river to Harvard Business School, which is extremely qualitative.

So I just kind of fell into it. I went into finance, which is obviously more mathy. But, the Greek letter stuff was just the glimmers of a beginning. We’re talking 1974 and ’75. It was still the old world. So, this was early on. But on the other hand, by the time I became a low-level officer, so four or five years later, the senior people from the bank were coming down to me to do these math things because I didn’t break out into a nervous sweat when you saw a Greek letter. But when I started banking, a Greek letter person was a jock. Not a quant.

Michael Kearney: Got it.

Don Layton: It changed.

Michael Kearney: What about when you look at folks coming out of school now, or even some of the executives that work for you, are there any skills you think are undervalued, overlooked? Things that maybe people should work on? And the reason I ask this is, we get a lot of younger kids that are listening to this, and I think it’s always valuable for them to hear what does a CEO value in terms of skills?

Don Layton: There are the hard skills, and there are the soft skills. Quant is about hard skills, and they helped me early on. But, as you get more senior, you need more of the soft skills of motivating people, integrating people, motivating them. I also have noticed there are people who are just great engagers. They work with people well. They can create excitement. They have some vision. They may have quanty people working for them. They don't need that.

I've seen great leaders who are great off of one set of skills and not great leaders in other, you complement yourself with other people. But that positive, can-do personality, the person who is low maintenance, not high maintenance, you run into people and go, "They're a winner because of all that, and then they have the skills too." And the people who don't have that kind of personality, who are always high maintenance, difficult to get along with, you can have great skills, but eventually it usually doesn't end up too well.

Michael Kearney: I probably mentioned this on one of my previous interviews, but the one thing I've always said, now being at Deloitte 25 years, I'd rather be on a tough project, a bad project, with a great team that you love working with because they have those kind of characteristics you just talked about versus the best project in the world with people I don't want to work with.

Don Layton: That's a tough trade-off if you're 23 and you want to eat next week.

Michael Kearney: True. Got it.

Don Layton: But your observation is relevant. It was very relevant to me many years later. So, I retired from JP Morgan Chase off of the Bank One merger. I was 54 years old, and it was interesting. I got a lot of advice from people what to do. And this is where you go, "Oh my god, advice from all these different people." It turns out it was all the same advice. They were telling me I was like a six-sided peg, and this is what a six-sided hole looks like.

I was a certain age. I was a certain title experience, and I had certain kind of net worth 'cause of how well we were paid. And I went back, and you think, what do I want to do? You put your feet up on the railing on the back porch and go, what do I want out of life when I don't need the money? You're in a rut. I've got to eat. I've got to get a job. I've got to have a house, kids. It's past that.

And one of the things you decide in that circumstance is, I only want to work where I like the people I'm working with. It is definitely not worth it to work with people you don't like. Same comment. Just different time of life when I discovered it.

Michael Kearney: I'm going to go there. I was actually going to ask you this later 'cause you have a great quote, which I love, and I've got a few questions which is—I'm going to quote you. "Semi-retiring gave me a chance to become a little more philosophical and think about giving back and helping others."

Don Layton: Yes.

Michael Kearney: Can you elaborate even a bit more on that? Because I think that's—here's one of the things that I think oftentimes people in business are impacted by, and that is we're going 100 miles an hour. And the ability to really deeply step back and think about your career, what you want to do, is a challenge. So maybe if you could just touch on that a big more in that time of your life.

Don Layton: I developed the phrase to describe exactly what you're talking about. It's the rut. Again, you're 22, 24, you get out of school and go, I'd like to eat. I need a job. I'd like the house and the kids come along and financial security, and you're in the rut. And you're running so fast since the jobs you're talking about usually aren't exactly 9:00 to 5:00 low-stress jobs. And you're in the rut, and you just stay in there.

In my case with the last merger and leaving. Again, my age and because I had made enough money, you don't need to worry about money anymore. It's a great position to be in at that age, but I was. Then literally get to go, at that age, well, if I had been born a Rockefeller or a Kennedy and I had that kind of family money, what would I have done?

Well, forget the philosophy of what I might have done. At this stage what do you want to do with yourself?

Michael Kearney: Right. Going forward.

Don Layton: Do you want your legacy to be, I went to lots of budget meetings? The answer of course is no. What do you want to do? Where's your value added to the world and things? And as a quant guy and in the rut, I had never philosophized. I have a quant education.

Michael Kearney: That's not who I am.

Don Layton: I didn't do that, and it was really quite interesting. My choices were constrained some because we had kids late. So, when I retired at 54, my kids were 11 and 14. So, you couldn't do the travel the world thing or kind of, you know, all those kind of things. You had to be a good role model for, in my case, two boys. So you didn't want to hang around the house doing nothing. Certainly, that's bad.

So, you did have this notion of, what do I want to do? And I explored foundation work. I explored other kinds of nonprofit work. I went and competed for a big job down in Washington. I didn't get it, but the process of competing for a high-level appointed position was both educational and scary. And I came back to my real value of the world is finance and running financial things. And we'll come back to this later.

In college, I had always had a little bit of this dream of being $1.00 a year man. Now, do you know what $1.00 a year man is? It's an old phrase.

Michael Kearney: I'm going to say no because I think a lot of people listening may not know. So, yeah.

Don Layton: A $1.00 a year man is a phrase, I think it was most commonly used before World War II about someone who was either born into wealth or who was successful in business and then said, "I'm done. I'll go into public service and earn $1.00 a year."

Michael Kearney: Got it.

Don Layton: The most famous early one in American history, Ben Franklin, who retired from his printing business and went off and did all his government stuff but living off the printing business. The most recent example right here in New York City was Mike Bloomberg, who took $1.00 a year. And so, one of the other things when the Freddie Mac opportunity came up, and it's restricted compensation, I regarded it as public service in a sort of convenient commercial form.

I didn't need the money, so I was happy to take the fixed salary, low salary. But, my quid pro quo with the government people was I get to do government-type work. I'm in the room when you do policy things. I don't get a vote legally, but I get to say something 'cause I know the field, and that has worked out. So, I'm an extremely high-priced $1.00 a year man or a very low-priced CEO, depending on how you want to define it.

Michael Kearney: I'm really curious, and if there's any examples, I think it would be great. But my guess is that the way you operated as a CEO or operated as an executive, let's just say, probably changed material when money wasn't the driving force. I don't even think money's ever been probably your driving force.

Don Layton: No.

Michael Kearney: But it was not even really a consideration at this point in time. Has it changed you, do you think, as a leader?

Don Layton: Well, let me—the answer is it doesn't stand alone, but let me give you a little package here. Going into run Freddie Mac, so I wasn't doing it for the money because there's no stock options, there's no upside for me. It's the two GSEs are such a large part of the housing finance system, by fixing yourself and change things, you can improve the whole system.

But my legal fiduciary duty, while Freddie Mac is in this legal status called conservatorship, is to the government, to the particular part of the government that is the conservator. And that's a rather obscure agency called the Federal Housing Finance Agency, which is our regulator. So, I didn't have any conflict. Trying to the right thing for the system and the right thing for Freddie at the same time was the objective.

As opposed to, if my fiduciary duty had been to shareholders separately, not to be too crude about it, but my job was to engage in lobbying and all the usual legal tricks to snooker the government to make life good for us, but not necessarily good for the country. Total alignment because of the fiduciary duty legally with my objective of create a better housing finance system.

And our, in fact, our corporate strategy is the two parts. It's a better Freddie Mac and a better housing finance system. And we have tried to do everything so it's both. It's not one versus the other. And I'm not an apologist for the old GSC system. It was one versus the other.

Michael Kearney: What about when you came into E-Trade? And during your time there you had some significant success. What I'm curious about is, because you turned it around fairly quickly, at least from an outsider's perspective, were there any key decisions that you made early on? And the reason why I ask this is, there's a lot of executives that are out there that are faced with similar type challenges—maybe not to the extent that you are— but that are coming into a turnaround situation and they need to make decisions quickly. If you could just talk a bit about some learnings or some key decisions that you made.

Don Layton: I'm going to start first with how I fell into E-Trade. I wasn't looking for that. A woman I knew in business was on their board called me up one day and went, "We're in trouble." E-Trade is the first firm you've ever heard of that the financial crisis crushed. While they're an online brokerage, the cash in brokerage accounts and the value of that cash is one of the prime revenue sources in retail brokers, whether it's online or old style, it doesn't matter.

They took and invested it via an affiliate, Thrift, in mortgages. And as the budget pressures got bigger, riskier and riskier mortgage-type assets. And then some analysts went one day and went what would now be called OMG. This stuff is not really worth what it really is on the books. This stuff is cratering. I'm talking some slice and dice CDO positions. I mean, all sorts of things.

That created a run on the broker, not a run on the bank, a run on the broker. People went, "I don't want my money in—

Michael Kearney: Taking their money out. Yep.

Don Layton: "—this brokerage." So, they closed their accounts and took their money. So, they had a liquidity drain roughly akin to what a run on the bank would be. And she said, "We, the board, need our own advisor. Not a lawyer, a business finance person." So I said, "That'll be fun for a month or two." And I went and did that, and they were trying to sell the company and recap it. And there was a big recap, partial recap.

Obviously, part of the deal was to fire management that had put in this position and the CEO. And the board chair was a very elderly person who lived far away who wasn't very—so I stepped in as board chair, and it was, go find a new CEO. I learned a lesson. It's very hard to find a CEO when your company is heading downhill rapidly. So I ended up stepping in as CEO under a two-year contract. It was not looking to be a long-term career deal.

Of course, they were in trouble. There's no ifs, ands, or buts if they were in trouble. There was no, "Are we really in trouble or not?" This is past that point. So I sold off everything outside the core business quickly. I sold a Canadian brokerage subsidiary for a price probably five times what I would've sold it for 12 months later. They had, very silly for a company of small size, two decent-sized corporate jets. We sold them off. A year later they would've had zero value 'cause with the financial crisis coming—

Michael Kearney: People weren't buying corporate jets.

Don Layton: It was a glut of these things.

Michael Kearney: So, what advice would you give to somebody? Obviously, very different circumstances but in a turnaround, it sounds like there were a couple key items. Like, one is obviously making sure you have the right management, and the other one is making quick decisions.

Don Layton: Okay. I talked about being a pro-change person. I can't just sit. There's a cost of change. You have to be judgmental of the speed. I don't like, the manager's not good, guess what? You fall back six months if you have to get someone new in and they learn and everything. There's always this balance. If your company's in existential trouble, the balance is very easy, move fast. There's no nicety about it. You have no choice. If it's normal circumstances you have to be a little more balanced about it all, but not in abnormal circumstances.

Michael Kearney: What's your perspective, let's say it's not as acute as that situation. But I've got some clients that some industries are being disruptive. They know they need to change, but maybe the time horizon's a little longer. I'd be interested in your thoughts on change 'cause you actually just kind of touched on change and impact on culture. Any thoughts on that?

Don Layton: Yeah. I'll come back to my theme of pro-change. You need skills. You need to know where you're going. You need people who cooperate, are a good team. But that balance of defensiveness, holding back, I want more information, more information, more information. What is it? Analysis paralysis? The CEO has to know where they are on the spectrum of—change has to be fast with understanding you'll make more mistakes maybe. But the upside you'll need too versus it can be slower 'cause the cost of taking longer is small. If you're in an industry being disrupted by technology, you're back to the, you need to move fast even if you make mistakes. 'Cause if you go slow, you're being run over.

Michael Kearney: That's interesting.

Don Layton: So, you need to know where you are on that spectrum. If you were a newspaper company eight years ago, you should've moved fast. 'Cause all that happened was value of your franchise declined. It's things like that.

Michael Kearney: I actually interviewed Jim Moroney two years ago, he was the president of the *Dallas Morning News* and their holding company. So I heard a lot about that and what they had to— *[Crosstalk]*

Don Layton: Absolutely. If you know anything about the newspaper business, the biggest source of profits was the old classified ads.

Michael Kearney: Classifieds.

Don Layton: You know how much revenue they get from that now?

Michael Kearney: Not much.

Don Layton: Zero.

Michael Kearney: I won't call out the companies, but yes, there's many that do that now. So I read a really funny story I think early on in your tenure, I think, at E-Trade where I guess there was a lot of noise. I think it was the run on the accounts maybe, but it was really being kind of propelled by, maybe not social media at the time but kind of a 24-hour news cycle. I don't want to say it caught you off guard, but you certainly didn't think that the information—

Don Layton: Yeah. This was before I got there.

Michael Kearney: Oh, this was. Okay.

Don Layton: This is what caused them to go into crisis to look to do a recap. That's when I joined the board as an advisor when they were in the midst of that going, what the hell is going on here? But what I learned afterwards, so I think a sell side Wall Street equity analyst says, "These people have a hidden loss," published it, and it took off like wildfire.

Now, one thing about, while you may go, it's not social media, this was online brokerage. If you're the typical person with a, what's the weighted average typical classic brokerage cap person, someone in their 50s and 60s. They're working. They're not an E-Trader type or quick traders and everything. The online brokerages were more the quick trader types. And this was Yahoo! Finance page was there and Motley Fool was there, and all these early days of the pre-social media with the finance.

So people were writing little Web postings and everything. So it took off early, even in the absence of official social media that was, it was definitely Internet tied 'cause their customer base was very Internet oriented, and they looked at all these gossip things and such. So it spread like wildfire. It wasn't a report that someone read and over a few weeks they considered. It just took off.

Michael Kearney: So a lot has changed, obviously, since then. How do you, as a CEO, manage, I guess through these 24-hour news cycles, social media that change the way that you operate or think?

Don Layton: The answer is modestly. But here's where I'm in a very fortuitous position. Since we're under the control of the government, part of the rule is keep your head down and your profile low, and don't say anything controversial. So I am able to be only on the fringe of that media circus and the 24-hour news cycle. We have it some but not a ton. Only because of this weirdness of conservatorship. So, I'm not out making speeches about social things.

The problem is, if I say something, am I talking for the government or not? And it's confusing, and it looks like you are. So, we keep low profiles, and the speeches are all much more, I'll call them straight business, and we're not allowed to do a lot of advertising or anything except sort of technical educational things. So the profile is low except for the straight industry things.

As an observer, however, and at the fringes, the 24-hour news cycle is really tough. Besides the, you're always on and you always have to expect the phone call with, they're going to print this tomorrow. I'm showing my age, they're going to print this tomorrow.

Michael Kearney: They can print it right now.

Don Layton: This is going to appear online in three hours. It's different. And you have to deal with that once in a while. And then you have the whole problem of, what do I say? If I say something defensive, does it make it worse? But we've had very few of those because of the nature of conservatorship. I don't have activist investors. I have the government. It's a very different environment that way.

Michael Kearney: This is a nice segue way. So, Freddie Mac, you came out of retirement a second time. Why? What drew you to that?

Don Layton: I want to take you back to that $1.00 a year man. If Freddie Mac had been a classic CEO hype paid job, I probably would've told them, "Go away." I mentioned my kids were young when I first retired. I was going empty nester then. The world was my oyster. This was the, let's travel, let's build the house in Florida for the winters, all this kind of stuff was on the table, but this was the $1.00 a year man situation.

I did mention I competed for a government job. It was deputy secretary of the treasury back in 2000—I'll say '05 and '06. That's a core job. And you had to really stiffen your spine to take a job like that. I got more nervous as it went on because you're in the political maelstrom and it's not fair. And your reputation is at risk, 'cause people will throw mud at you, sometimes just made up. Not because you, just because they politically disagree with your positions.

So you're in the kitchen, and it has heat. The Freddie Mac job was almost perfect. You get to be in the center of the actual housing finance system. But all politically sensitive decisions are made by the government. But the joke is, what do they do at treasury every day? This was running a company. It was familiar to me. It was a commercial format.

So I thought it was the perfect combo of daily life being right up my alley, as opposed to how to deal with the Senate Banking Committee. You have to learn these things. Right up my alley, and yet I could be in on the non-political part of policymaking about housing finance system.

Michael Kearney: So, it's almost the best of both worlds.

Don Layton: Fitting me, it was the best of both worlds. I do want to give you one piece of background. When I say the housing finance system, people just kind of blank stare. Let me put it this way. Residential mortgages in this country, there are $11 trillion worth. The entire base, deposit base of the entire FDIC-insured banking system, I think, is only $12 or $13 trillion.

This is monstrous. It is unbelievable amounts of money sloshing around. Freddie Mac is not like a regular company, Fannie Mae are not like regular companies. They're sovereign sized. They're government sized 'cause you're doing something for the whole economy this way. So we have $2 trillion in assets. I mean, that's a lot. And since they're all mortgages, that's almost 20 percent of the market. That's what's going on.

So it's a large impact. In human terms, you know the phrase, the biggest item in your budget is housing. It's the mortgage payment or the rent payment.

Michael Kearney: Absolutely.

Don Layton: Multiply that by every American. That's why it's such a large number. When people talk about credit cards for auto loans, those are a little over $1 trillion each. We're ten times that size.

Michael Kearney: Can you talk—

Don Layton: This affects everybody in large size.

Michael Kearney: And the numbers are staggering. I was going through them in advance. Can you talk about what Freddie Mac was before the crisis or maybe before you came in? 'Cause I think it's actually changed quite a bit, and I don't think a lot of people have an appreciation.

Don Layton: I'm going to go away from business here and talk the unhappy combination of business and politics. The housing finance system in America has extremely high government involvement, depending upon your definition, the government is directly involved in maybe 70 to 75 percent of the mortgages in America. It's a lot of history. The banking system didn't finance houses very well in the 1920s, so the depression came in, the government got heavily involved and more and more.

And so, it was well meaning. The problem was the design of these things were not the greatest government intervention, certainly, as the decades went on. So, what you ended up with is a system with defects and all the special interest. So much money is sloshing around, lobbying and politics played a very large role. This is not new news. There are whole books written about this. Just go to Amazon and put in, "American mortgages," or something, and you'll see from the titles and such.

So, the system was and still is highly politicized to all these interests trying to get their hands on some of the cash and move it around. The GSEs were controversial, especially near the end, highly controversial in Washington, highly politicized, and were regarded as sort of half a company and half a political machine extracting and protecting subsidies in the government. That is a correct characterization.

And so they had a lot of executives who were revolving Washington types who weren't so much finance executives as they were Washington types. That's the way they ran. That was the reality. When they were taken over by the government that ended because lobbying is prohibited, so I do no lobbying. And that was quite a change in your whole thinking.

So these companies in my personal view were pretty mediocre, competitive commercial companies. They were great Washington machines for subsidies. And so, the books that report them that way to a fair degree are true. They then went into the financial crisis, and it was the foreclosure crisis, the tsunami wave of foreclosures. So they were kind of deer in headlights dealing with this and with the government involved and everything.

I got there when that was starting to subside, and then what was the blank field in front of you was, now what? And that's where I got to play a role of, let's build a normal, competitive company that can prosper in an unpoliticized normal system. Because you're efficient. You're innovative. You're taking advantage of technology.

If you ask a typical banker in America today, what's the most backwards part of the consumer finance system in America? They'll say, the mortgage system.

Michael Kearney: So, Don, can you maybe just back up a bit and maybe just note a couple kind of examples, tangible things for people to get their mind around as to what changes have happened? 'Cause it sounds like under your leadership and also obviously as a result of going into conservatorship, a lot's changed.

Don Layton: I'm going to give you two examples with a little bit of color around them that are very different. One is very understandable by an average person. The other one's a little more galactic. The first one understandable is, when you go in and get a—when you buy a home and you want to get a mortgage from anyone, whether we buy it or not, you need an appraisal, right?

Michael Kearney: Right.

Don Layton: And we figure the average appraisal in America costs $500.00. An appraisal consists of someone coming around, looking at your house, taking pictures of other comparable houses in the neighborhood, the values, and if you've ever seen these reports they show the comparable houses. It's a technique that is sometimes called the gold standard, but the actual history is, it's an adequate technique, no better.

There are a lot of accusations of inflated appraisals and inaccurate appraisals and fraudulent appraisals. It's an adequate system it's been built on. It's the modern world. We have competitive people. We have fancy techy people, and I, and we came up with a big data-base way. We said, we won't need an appraisal for houses where the circumstances meet the following criteria, which we figure is about 15 percent. That's one five. We'll just do our own estimated value off of available data sources.

Michael Kearney: Interesting.

Don Layton: And if you think of data and Zillow and everything that's available, now I'm going to use an extreme case. If we know what Apartment 6A and 8A are valued at 'cause they sold, it really isn't that hard to figure out what 7A is. So we announced that and put that in. We got approval from the government. That's a kind of change we engineered. The color I'm going to add about it, of course, is the real estate appraisers were not real happy with that because it's a revenue stream loss.

So, you do have to have—then the government agency that controls this then had to have the discussions with Congress of why this was a good thing. The republic was not going to fall because the appraisal industry had a little disruption, like we talked about, like our classified ad in the newspapers. This is the way it is, but that's why change is hard in mortgages because of all these interests groups.

Michael Kearney: Is that what's holding it back from going above 15 percent?

Don Layton: No. That's the technology.

Michael Kearney: That is the technology.

Don Layton: Maybe someday there'll be more data and things, but so far it's just targeted at that.

Michael Kearney: Interesting. 'Cause I would've thought it would've been higher than 15, if you just had said what percentage *[Crosstalk]*.

Don Layton: Well, given we're taking the credit risk of these mortgages, you wanted some track record before you go too far.

Michael Kearney: That's a fair point. One of the—

Don Layton: That was one change.

Michael Kearney: That's right. I actually—

Don Layton: The galactic one is, the two biggest financial crises since World War II are all centered on mortgages, if you hadn't noticed. The recent one and the thrift crisis of the late 80s, which cost the government at the time about $135 billion, which in the late 80s, early 90s was a lot of money. Part of the reason for this is the government, in helping the housing system, engineered all these what are called monolines. Financial institutions that are just mortgages, the two GSEs, us and Fannie, home loan banks.

And remember, we had an entire parallel banking system of thrifts, S&Ls and savings banks, 80 percent of the assets had to be mortgages. So, whenever that asset class caught a cold, the concentrated monoline institution got pneumonia. And you had the collapse of the thrifts, and this time the collapse of lots of things. So, one of the ways to get out of this is developing what are called creditor's transfer.

Let's securitize the credit risk instead of sitting on—there was $5 trillion of one asset class mortgages in two companies. This is against normal design of a financial system for stability. You don't concentrate risk, you disperse risk. This was the exception because of this help in housing history. So, well-meaning, but when you look at it in retrospect, you wish you had done it differently.

Credit risk transfer, which Freddie Mac led the development of, everybody in the industry knows that, is instead of us sitting and holding it, we take and redistribute it out to the marketplace. Largely bonds, some insurance contracts. And of new flow in, 80 percent of the credit risk is going out the back door on these things now. So, as the portfolio turns over, which takes about a decade, we will fundamentally have taken this giant, systemic concentration of risk, which is poor design. It's a systemic risk to the system, and we will have solved the problem.

Michael Kearney: Essentially put it out into the market. Is there some numbers that you can through around? Meaning, the size it was before? Maybe what the numbers are now.

Don Layton: Freddie Mac by itself had the credit risk on single family mortgages at that time about $1.7 trillion. We also have multifamily. That's an industry phrase meaning apartment house. So, about $1.7 trillion. And about a third of the risk has been dispersed. That's $600 billion worth. And again, the new flow is about 80 percent going out. So, as the people take new mortgages and pay the old ones off, the average life's about ten years. Then this one-third will creep up.

We figure by 2022 it'll be about getting close to 60 and two-thirds-ish and will just keep going. So, these—when I say $600 billion, and here I'm just estimating—maybe you would know as well as I do. That's probably larger than all but about three banks in America, maybe four. And that's just our numbers.

Michael Kearney: That's just your numbers. Yeah. What about, you've talked about there's been a lot of change within the mortgage industry we'll just say. But there's a lot of exciting change in the future. Can you touch on what you see in the future?

Don Layton: Listen, we're in a general era of disruption. There's two kinds of disruption. The media of course focuses, rightly to a large degree, on technology-based disruption. But, the other thing going on is just, industries are more competitive and less cartel thinking than they used to be. Business models are changing. Technology certainly is part of it. Think about the category killers, like a Home Depot coming in versus buying all your stuff at a department store or the local hardware store and such.

So there's just lots of business model changes have been accelerating. They're funded by venture capital stock market. It's not just tech. It's lots of things. So here was an industry that was pretty backwards because everybody protected their turf with lobbying in a lot of ways like cartel behavior in the industry. I'm sorry. That's the reality. And the GSEs, Freddie and Fannie as much or more than anyone. And it's exciting is that all that stagnant years we get to make up fast.

So, it's business models like doing credit risk transfer rather than sitting on it. By the way, it doesn't take a lot of IQ to sit on all this credit risk. You have to actually engage more brainpower to get it out and sell it to the market. Technology, here's this paper-based industry. The documents will follow in three months. This should be something where it's all online and your closing is your thumbprint on the iPad.

Michael Kearney: Do you see that coming sometime soon?

Don Layton: The answer is, soon, no. But we're moving there at a reasonable pace now. And we are doing as much as anyone to lead it. I mentioned the appraisal item. There are just, the processing of the mortgages between us and mortgage lenders is being electronified in leaps and bounds now. In terms of, people can be online and put the things in and they can know whether a mortgage would be approved. How about, remember when you had to deliver copies of your tax statements to show your income?

Michael Kearney: Yeah. I do.

Don Layton: The W-2, but the tax statements. Now you just need their permission, and you can get most tax statements online.

Michael Kearney: Right away.

Don Layton: You don't need it. So, it's all this kind of technology to be efficient. You need competition. You need a competitive mindset to do that, as opposed to the old cartel mindset. Well, if Fannie doesn't do it, I won't do it. And they look at us and go, "Well, if they won't do it. I won't do it." Now, we're both doing it, and the industry is moving forward rapidly. It was so backwards, there's a lot of wood to chop.

Michael Kearney: That's what I was going to say. It's kind of late in need, and now it's actually coming to fruition.

Don Layton: We're not blazing paths in a broad sense, but for mortgages, it's a lot of change. We do feel for our customers, the lenders. They are facing a lot of change 'cause they have to make change systems. They have to do stuff. Plus, they, of course, have many requirements for the government that requires changes and systems things. So there is an issue of the digestibility of the pace of change by the industry broadly, but at least we're moving.

Michael Kearney: Absolutely. Let me ask you a question. I'm going to kind of go back to some of the turnaround considerations. And the one that I'm interested in, we talked about kind of your perspectives on what's critical in a turnaround. We've also touched on culture and people. Can you talk a bit about, though, how do you change kind of the mindset? Or how do you lead a large group of people that have very different perspectives that, to a certain degree, their livelihood is impacted by the changes that are happening in these organizations. How do you bring them along? Is there any guidance or any perspective that you could share?

Don Layton: I'm going to give you some guidance, but I don't think it's any different than the standard guidance. You have to have a view of where you're going. You have to have an ability to articulate it in easily digestible ways. Long, erudite paragraphs are not the way to do it. You need the short, punchy, here's where we're going. Sometimes you have to circle around on that. You try some things and some things work and then you find others.

And you have to get out and repeat it frequently, but you have to also be visibly taking actions in that direction. One of the most interesting things in companies, and I'm not sure if I've ever seen this in the book, is morale drops when there's change. But, I tell people, there's two kinds of morale going down. There's good-bad morale and bad-bad morale.

Bad-bad morale is when it's heading down because it's drifting and they don't know where they're going. Good-bad morale is when it drifts 'cause you're doing change that will make it better, then it turns up. You're building the turnaround. People love change intellectually, but they always want their job.

Michael Kearney: They like change theoretically, but when it impacts their lives, they—

Don Layton: I have to tell you a little story on that more broadly. So, one of these efforts to reform the system was being run through Congress. And the leaders of, it was called Corker-Warner, was Senator Corker and Senator Mark Warner. And I was in a meeting with their staffs and either one or both of them, I don't remember anymore. And someone asked the staff person, what do the small lenders say? There's several small lender organizations.

And the staff person goes, "Senator, their message was simple. They said, 'We love everything you're doing. Just make sure none of it changes anything for them.'" That was the large version of this. The small version of this is true. So, you have to get out there and repeat it, come up with a phrase that resonates but take actions. And it's a tough time until the benefit of the changes show up, and then morale turns up. You have to be willing to take the hassle of the downturn. If you try to keep everybody happy every instant, you will never make any change whatsoever.

Michael Kearney: You've said a couple things that I think are important. One is, you've got to get out ahead of it. You've got to communicate simply and transparently, and you've got to communicate a lot. And you probably also need to help them understand where you're going and kind of how they fit into that. So while it may be painful on the downslope, they at least know what the vision of where this is going, right?

Don Layton: I was willing to get up and say the company was too dedicated to the politics and the subsidies and not enough to being a commercially competitive company." We're out of the politics and subsidies business. We're into creating a competitive commercial company that can hold its own in the marketplace. We don't know what's going to happen in our future, but chances are there'll be less subsidies and less politics. So, let's be ready for come out.

I also was a little intellectual about it when I found some examples. Does anyone know any company that was sort of protected from competition in the past, whether from government or not, and then they were exposed to competition? Usually, the companies do very poorly. My government protection example was the airlines.

Before they were deregulated by Alfred Kahn, they all had protected market shares in each airport and then it was thrown to competition. On average, those people have gone bankrupt twice as they try to become competitive companies. That was one. The other was no government involved. The classic case, and I handed the book out to my senior management by Lou Gerstner. The classic case was the old IBM. It had such protected market share from its historic position that when technology changed, it collapsed.

Lou, who I do know and dealt with in the day, he wrote his book, *Who Says Elephants Can't Dance?* and it's just great anecdotes about how IBM had become fat and dumb off of its protected market. I went, we're going to be the one that comes out, is going to be set to do well, as opposed to delaying all the changes until the last possible second.

Michael Kearney: There is so much that we can unpack here. But the one thing that I think is extremely interesting that I think is a powerful leadership technique is the ability to use story—

Don Layton: Absolutely.

Michael Kearney: —from other instances that people can wrap their mind around really quickly. Like, I know because I fly all the time, I actually have some airline clients so I've seen kind of the downside of deregulation many years later. So, it's sticky. So they can put themselves in that position. Like, I see where I play in this story, and I don't want it ending up like that.

Don Layton: There's a gentleman, he's since retired, he and I, whenever we get together, the meeting would always go over 'cause we're notorious storytellers. So we tell each other stories. Yes. This is part of making—abstract strategic concepts don't work. You have to make it real to the people in the middle and the bottom that why we are doing change, why the gain will be worth it from the pain.

So you have to articulate that, and you have to take decisions. You can't do the, you do the pain but not me. I had to be willing to, I had to take the actions to let senior people go who were just stuck in the past.

Michael Kearney: The only other comment I was going to make, once again, we can talk about this piece forever, but my guess is, some of these things you were changing, probably in the organization people have been talking about for years, like why do we operate in the way that we do?

Don Layton: Absolutely.

Michael Kearney: So you almost in some regards are unlocking the desire of the organization as well.

Don Layton: So, my direct reports are almost all outsiders. But the person chosen to be the inside candidate to succeed me is one of the two long-term employees. He was waiting to be liberated. Others were waiting to be liberated. The other analogy I like to use is, there's a thin man inside the fat man just waiting to get out. And—

Michael Kearney: Why are we all laughing?

Don Layton: Yeah. Well, I got more to laugh about than you guys. And so, when I talk about Freddie was too political, I go, there was a lot of good stuff. But at the top it was too much politics and subsidies. Let's liberate these things. And again, they're always nervous. But yeah, the best people have been liberated. And they do great.

Michael Kearney: I'm going to pivot to some leadership questions. It's actually part of my favorite aspect of these interviews. And I'm going to share a quote. I love quoting you. And actually, this one really stood out 'cause I never heard a CEO talk about it in this context. Your quote is as follows, "The easiest thing about being a CEO is you're not in charge of the business. You're in charge of people who are in charge of the business." Maybe if you can just share a bit. I've got a couple questions on that. But what drove that insight, that quote from you? I'm sure there's something behind it.

Don Layton: I have not been involved at organizations, which I'll call are kind of just a single little business where the CEO is also head of the business, and there was the head of sales and the head of manufacturing. Whatever. I've always been involved in companies where there are multiple business lines. In banking there's the credit card business separate from the FX business. And just different things.

So, this came to me in a realization. So I had moved up. I was made at an early age head of trading treasury and when I got moved up—there were three trading and treasury divisions. There were three divisions. And I got moved up to be head of all of them. So, to replace me as head of the one of them, I pick someone who'd been running, and it had that five, one of the divisions that had about five businesses. I'm still friends with him.

And he moved up to run this. And he came to me very frustrated like a month or two later of, I'm struggling to get around the people below me to get my hands on the businesses. And that's where I went, you're not running those businesses, they're running those businesses. You're just running them, and you're not supposed to be on those businesses like you were when you were running your little unitary business.

And so, that's the kind of realization that you picked up on. The higher up you get, the more you are managing a team of leaders who need a significant amount of discretion to be leaders themselves. If all they are is order takers, you telling all these micro things, that's not going to last very long. No one has that capacity. They're also demotivated.

So, don't extrapolate this to everybody's supposed to be a business head with a lot of discretion to make choices. If you get high enough up, you're running business heads who need a fair amount of discretion. You have to have an agreed strategy. Yes, you're supervising them so the big choices you're in on too and such. But you can't just treat them as order takers. They have to be business heads. So I have the head of the single family guarantee business. I have the head of the markets business. You need people like that.

Michael Kearney: It's a certain mindset, and I totally agree with you, and I don't think many leaders would disagree with this premise. But it almost would dictate how you look at your day, the things that you do. And what I would argue is, you probably then consciously think about coaching these individuals and giving them advice and guidance and building them up as leaders versus, my mindset's on the business, which I think's a fascinating small difference.

Don Layton: So, this is different than just saying you should empower your people. When they're running a business, they need a fair amount of discretion to make the trade-offs. Now, I'll give you another example of this. When I got to Freddie Mac, when they got in trouble, the reaction by the succession of CEOs before me was centralized. So, no one could run their business. Everything had been pulled away.

Think of a robot, but the heart is actually, there's a long wire over to the next room. The heart's over there, and the motors are over there. They had the shell. And so, I had to reorganize and pull it back so they could run a complete business that every decision didn't have to be second-guessed and a collaboration with somebody in another area. So they could actually have it.

If a business through its own org chart cannot make 80 percent of the decisions on its own, it has to collaborate with other people for every decision. It's an ineffective work strategy.

Michael Kearney: Absolutely. If people are so important, what have you learned over your career in terms of either skills, capability, soft skills, whatever it may be that is potentially most prescient in figuring out if they're going to be successful or not. What do you look for in people?

Don Layton: I don't think I've had any blinding insight in that you need a combination of skills. I'm in finance. You do need—

Michael Kearney: You need the core skills.

Don Layton: Skills. You can't, the person of good judgment and character is not enough. You need skills. You need someone, bias for action is the usual phrase. That's my pro-change. It's all this bias for action type thing. You need somebody who can get along with people and not be the—this is a phrase I invented from one of my experiences —who aren't the pineapple juice person.

Michael Kearney: You've got to explain that one.

Don Layton: If you take fresh pineapple juice and put it in gelatin, it will not gel. There's a chemical in fresh pineapple juice that prevents the gel from gelling.

Michael Kearney: Interesting.

Don Layton: The pineapple juice person is the person who prevents the team from gelling 'cause they're always difficult to deal with. When I was at E-Trade, the management team there was not gelling. It was one person. I pushed this person out, and it was unbelievable. It was Jell-O then.

Michael Kearney: Were you able to figure out who that person was quickly?

Don Layton: Oh, yeah.

Michael Kearney: Yeah. You knew who the pineapple juice person was.

Don Layton: Who's the pineapple juice person? And I still use the phrase 'cause we run into it. There's just people who just make everything difficult, will always dispute, will always point fingers. They're the pineapple juice person.

Michael Kearney: Have you ever hired a pineapple juice person? And did you learn anything from it?

Don Layton: I've not hired a pineapple juice person. Once in a while someone has a little juice in 'em, but not too much.

Michael Kearney: So there's no, gosh, I made this really bad hire, and here's what I learned from it?

Don Layton: There's an old line. God knows where I picked it up. If you hire from outside and they're really successful, more than 50 percent of the time you're beating the odds, 'cause you don't know exactly what you're getting.

Michael Kearney: That’s the challenge.

Don Layton: I’ve been very lucky. I’ve done a lot of outside hiring, and I have almost no failures, okay? Maybe I do more due diligence or whatever or it’s more skills based and you can figure it out than other industries.

Michael Kearney: Right.

Don Layton: But, I haven’t had these big failures.

Michael Kearney: Okay. What about, is there, I think people, and the name of this podcast is *Resilient*, people learn most about themselves and enhance themselves as a leader in really troubling or challenging times. Has there ever been a time in your career that you’re comfortable sharing that was a challenge and maybe a learning that came out of it?

Don Layton: Well, there have been many challenges. How do you lead in tough times? That’s different than leading in normal times. And with E-Trade, where it was about to fail, that was tough times. When I was a senior vice president, maybe early EVP in banking, in the late 80s is when the LDC debt crisis hit. Now many of your members wouldn’t know that. This is where in the old days the American banks had lots of sovereign loans to Latin America and some other LDC countries, and they over-borrowed and they got into trouble. And that crippled the large banks in the world.

At that point, before this started, all of the major American banks were AAA rated and they started getting whacked ’cause of these giant losses. They had overindulged because the notion was this was sovereign debt. Sovereign, now Brazil’s Brazil, but it’s not gonna be there. But it turns our Brazil doesn’t have to pay necessarily. You can’t foreclose on Brazil, you know? It’s kind of hard to tow it away.

Michael Kearney: Right.

Don Layton: So this kind of really hurt the banks, and I saw our bank’s CEO, and that’s what I saw it. He actually had been a fairly famous football player in college when he was young, so he had the right physique. You have to have, the CEO has to have broad shoulders. You have to take the angst. You can’t be the one going, “Oh, my God, what’s gonna happen? What’s gonna happen?” You’re the one having to be calm. “We’ll take it in. We’ll work on it. Let’s move forward.” You have to have broad shoulders while other people are losing it a little bit and be the steady rock.

And at E-Trade we were extremely close to going under. That’s when you had to have broad shoulders to everybody. But I will tell you, sitting in my home office working on stuff on a lot of weekends, it was nerve wracking.

Michael Kearney: How did you personally get through that? I mean, just as a leader, I know there’s a lot of talk nowadays about, you know, wellness and how you manage stress like that. Was there anything that you—

Don Layton: Well, let me—I had it somewhat easier than others. This was a reputation issue to me. It was like if this goes under, I'm toast. No one's ever gonna—I took it over when it was already weak, but it doesn't matter. You're tarred with it anyway. I'm done. But it was not my net worth, because my net worth had been from JP Morgan Chase and it was—ETrade I'd just come into. I really feel for the people where they're longtime and it's both their reputation and their net worth. Those people are, you know, they can't get a job afterwards, and so it's a real struggle. So I only had the reputation issue.

The answer is you just had to go, "I'm in it." I just, when the going gets tough, you've just got to get going, and push, and push, and work it. Work hard. Guess what? I had no net worth tied up in this substantively, but it was working weekends. In the warm weather I would go play golf once a weekend just to forget about work for five, six hours. But you, it was all the time, but it wasn't crushing me 'cause it wasn't my net worth.

Michael Kearney: So let's go to maybe a lighter, and maybe in some regards more important topic, which is your involvement with the Partnership for Homelessness. Why is that important to you? And I'm really actually interested in—

Don Layton: You're the first person who's ever called homelessness a lighter topic. *[Laughter]*

Michael Kearney: That's actually a good point, and we're gonna keep this, meaning, people don't usually stump me. You just stumped me, so thank you for that. But why is it so important to you? And I'd love to hear about you bringing your kind of quant, an analytical side to it, it looks like.

Don Layton: I'm gonna tell you, to give interesting stories I'm gonna tell you how I got involved with Partnership for the Homeless. Okay, so I am Jewish. I have two boys. Bar mitzvah time comes along. We're not the, my wife especially, we're not the fancy type with the giant, thousand-person affair. We have a modest afternoon reception and lunch for 100 people and that's it. But part of the charitable history of bar mitzvahs is, 'cause the kid gets gifts and gets money, is you're gonna donate. They're 13; they still listen to you then. By the time they're 17, they don't.

Michael Kearney: I have a 17-year-old daughter, so yeah, I get what you're saying. Yeah.

Don Layton: Yeah, okay. When they're 13, they listen to you. "You're gonna donate a quarter or a third of this money to a charity. Let's pick the charity." And it's what they've had at school or have seen, and that's where we wanted—it was homelessness because they had been involved at school in something. This was the older one. And did some research and at that point I was vice chairman at JP Morgan Chase, got the community group in. "Check out these charities for me. Which ones are good?" And that's how we picked Partnership for the Homeless. And so because of who I was, the president of the organization came up to see me, but the point was the kid gave the money. I gave an amount equal to the cost of the whole bar mitzvah to them, too.

Now if you're the head of a charity and someone gives you money, you tend to grab onto their hand and not let go until you're about dead. So that's how I got into that, and then I joined their board and everything like that. So it's an interesting background.

The reason I got pulled into it more and more, obviously there's two issues. One is when I got involved, this organization soon thereafter had its 25th anniversary. Homelessness was discovered officially as a problem 25 years ago, and this place was founded then. The statistics are just as bad.

Michael Kearney: Or worse maybe, right? Maybe, yeah, yeah.

Don Layton: Maybe these days. This was a while ago. It wasn't then. And you go, "Wait a minute. The government has put—federal, state, local government, cities—put billions into this. It's no better." And so one of the things I discovered was that a lot of people who worked at Partnership for the Homeless in the ranks, they were empathetic, they really wanted to solve the problem, but they could not organize getting your glasses from here to the door. They had no administrative managerial skills. And that was the first time I'd been exposed to people who really are just in a different world, and their skill set is just totally different.

Then I discovered that the city, a lot of these were city-run programs. Same problem: they wanted a program that looked good, they had to do it by the next election, and so the success—and then that commissioner changes, a new commissioner, and they change. And so you have a lot of programs, well-meaning, a lot of money, but not ultimately that effective in addressing homelessness.

And the biggest effort was the shelters. Shelters are not solving homelessness. That's just taking care of you in a—

Michael Kearney: It's a temporary fix.

Don Layton: In a not terrible way while you're homeless. And so it's kind of depressing that this went on. So we tried and made a dent a little bit of, let's do better. Let's do some research. Let's figure out underlying causes. Let's be longer-term thinking. And the one success out of it is what—and homelessness is a whole bunch of different, it's a symptom. It's like you're sneezing. It could be different diseases. You know, homelessness of a 70-year-old is different than a 20-year-old single mom with two kids. And we ended up with this, one of the poorest neighborhoods in New York, what I'll call the Family Resource Center, and it was aimed at the moms with the kids and helping the kids. The public schools were pushing the kids out 'cause they didn't want these homeless kids out of the shelter in their school 'cause it ruined their numbers. And so it was trying to get these moms on the first rung of normal life. So it was getting childcare. It was getting them—it was like being a personal shopper—get this for your kids, get them into school, get home care, get you training. The problem is they had no skills. Get you training so you can get a job. And every one of these underlying programs, they just do their little program. No one puts it together for these people. So that was one successful area where we made a dent.

Michael Kearney: So change is coming for you.

Don Layton: Mm-hmm. I have officially according to my kids, flunked retirement twice, okay, 'cause I was out and then in. Now this was not retirement like my father when he was 90 was retired. I was on boards and you do charity stuff and investing, so you're kind of busy. Now the humor part, though, is, so I was in the rat race until I left JP Morgan Chase in 2004. E-Trade I started in 2007. I left there end of 2009. Then I was out until I did the Freddie job in the middle of 2012. Since I left the bank, I've had the perfect balance of being busy but not. The only problem was when I was working full time I'm too busy, and when I wasn't, I wasn't busy enough. It's hard to maintain activities to keep your neurons going, and if you find yourself watching *Oprah* in the afternoon, just jump out the window, you know?

Michael Kearney: *[Laughter]*

Don Layton: Where these days I suppose the equivalent is either Fox News or MSNBC, depending upon your personal bias.

Michael Kearney: Go back to the 24-hour news, yeah, yeah.

Don Layton: Political bias.

Michael Kearney: So you want to find something that's maybe that sweet spot, or yeah.

Don Layton: Yeah, so I'm going back to that assembled activities where you still have some life but not as much pressure. So I assume in there there'll be one or two boards, although my age is starting to become a constraint versus maximum ages. I am, the commuting to Washington versus living in New York has made nonprofit work very hard 'cause a lot of them are locally based and I'm never in one place. So I've already started to work on reengaging in a New York–based nonprofit where I'll join their board or even discussions. But I am one of the most knowledgeable people on housing finance at this point, and housing finance policy, when there's still a lot of it up in the air about how it's gonna come down. So I want to stay involved in that, and part of that is maybe writing a book about that, not a general book, a book about housing issues. And know what you don't know: I don't know anything about writing a book. I've talked to some people now. I have to decide whether it's gonna be a more erudite, policy-oriented, kind of wonky book or the mortgage equivalent of *Sex, Lies, and Mortgages* or something like that—

Michael Kearney: *[Laughter] Sex, Lies*, well, there. You've got your title.

Don Layton: Yeah. You know, your more tell-all, zingy, it depends what market you're interested in, and I'm still working through that. I'm talking whether I should join an affiliate with a think tank part time, so you're part of something that has more of a machine aspect to be involved in it, rather than just you doing it, or blog posts. So I'm researching that now, but I've got to stay involved, and so I have to use that to influence so things go well.

Michael Kearney: I get a sense that you're not the type that could just sit around, too.

Don Layton: No. I can't, but then you do something otherwise. An older than me friend of mine goes, she's been retired a while. She goes, "You know, you get up. You read the paper. You go to the club, have lunch, play golf. Pretty soon it's time for cocktails." *[Laughter]* You can't—old people can stretch the day out. Another one goes, "Just getting the newspaper down at the store can take two hours at my age," you know, just because that's the way you run your life. Your life will expand. I don't want to be in that until I'm medically infirm, thank you. That's not me. I have to do something.

Michael Kearney: So, Don, I only have a couple final questions. This is one that I actually have really enjoyed asking recently, and there's kind of a cliché question of always, like, "Don, what would you define success as?" When I've started to ask—

Don Layton: Yeah, it's your typical interview question. "Tell me what your weakness is." And you answer, "I work too hard."

Michael Kearney: Exactly.

Don Layton: Yes, thank you.

Michael Kearney: What I've found more interesting, though, is if you take that cliché question of what would success look like, and you know all the cliché answers, what would you exclude from your definition of success? Like when you think of success, what is something that you'd say, "You know what? I would not include my, or this attribute in my definition because of…" whatever it may be.

Don Layton: Okay. In candor to your audience, I knew the questions ahead of time, so I actually had a chance to think about this one, and it may be the answer betrays the fact that I've spent the last six and a half years in Washington, where while my job is relatively commercial I am in a political environment. Life's a lot better if your success is not part of a zero sum game: yours has to be someone else's negative success. Unfortunately Washington is a lot about "I'm taking you down; I'm up 'cause you're down." I would have a lot of trouble with that life. It's better when success is a, it's for everybody and you move everybody up; it's not at someone else's expense.

Michael Kearney: So that's actually important. So I think what you're, well, reading between the lines, what you're saying is my definition of success would not be just all about me. It cannot be about what is important to me. It's about how I can actually uplift others. And then negative piece would be—

Don Layton: Yeah, there is, okay, financial success is nice regardless of how you get it. But success is a lot sweeter if it's shared and it's part of a big effort and you have friends and you have people you did it with. In these bank mergers, the first merger, our CEO was older so it was merger of equals. He stayed the CEO for two years. The guy across the street stepped down for two years and then took over. That guy, who I got, you know, I was working for him for, like, nine years, eight years, whatever it was before he retired, wonderful human being. He just passed away, obviously older. And the funeral is tomorrow. And his successor, who's my longtime boss, sent emails out and everything, but he goes, "It'll be a great opportunity for the old gang to get together and see each other," 'cause you tend to split up. And it is. You have a gang. You have people you have shared success with.

Michael Kearney: Right. That's _____, yeah.

Don Layton: And it's just, and you want to be with them. And as you get older, you know, being by yourself all the time is not a lot of fun. So having the shared success is definitely the deal. And I don't know, some people love going through life, you know, with conquered enemies or something. I think if you like that you'd go into politics more. You don't want to run into people who are your mortal enemies. It's just, life's too short for that kind of stuff. It's funny. I did these mergers, right? ManHan and Chemical, and we took the Chemical name. Then Chemical kind of bought Chase; we took the Chase name. Then we bought JP Morgan and did the combo. I have people from, and I was from ManHan, I have people from Chemical and Chase who still will tell me I am the best boss they ever had. I didn't start with, "Well, you're from the other bank. You're bad." We did a best of both, just who's good, neutral, less politics. I try to have a less political style than others, and it's part of that team, you know, good people dealing with each other.

Michael Kearney: That's a great answer. Last question, although it's two pieces. The name of the podcast is *Resilient*. What are some attributes of a resilient leader that you've seen in your career? And is there one person, this is the second part, that you would call out and you'd say, "That was a resilient person"? And it doesn't necessarily need to be somebody in business. It could be anybody that you've come into contact with during the course of your life.

Don Layton: What was the first part of the question?

Michael Kearney: The first is attributes of a resilient leader.

Don Layton: This is not a president press conference where you get to ask two questions for one, okay? So what was the first, let me do one at a time.

Michael Kearney: And we're keeping this. *[Laughter]* Attributes of a resilient leader, like what do you think, like somebody that gets knocked down, like, what is it that allows them to get back up again?

Don Layton: Yeah, it's, you know, I'm not the expert. I never took a psychology course, so I don't know how much is nurture, nature, whatever.

Michael Kearney: Yeah, yeah, yeah.

Don Layton: But I come back to they take their leadership responsibilities seriously. They know they're being watched. One thing about being CEO, they're watching you. If you, if you, this is an example I like to use when it's T&E time. If you buy the expensive bottle of wine and spend $200.00 on that, which we would never do at Freddie but others did, you just spent $20,000.00 because the people seeing this will go do it themselves. You're always being watched when you're the boss. And so part of being a resilient leader is just getting on with it, again the broad shoulders, and you're being watched and your responsibility is the leadership.

Michael Kearney: I love, no, but I love that example. You know what? It's funny. It's the impact on the downside of a decision that you make as a leader, and that $200.00 turning into $20,000.00 is, I've never thought of it.

Don Layton: Oh, absolutely. You're being watched. If you're, if you leave, if the CEO leaves at 5:00 to go to the driving range, no one's working hard in that company. If the CEO's working late, then people will work late. I mean, you're being watched, especially in this era of open plan and glassed-in offices. You're literally being watched all the time.

In terms of resilient leaders, what comes to mind, and that's circumstances. First of all, you'd rather not have the opportunity to be a resilient leader 'cause it usually means something bad happens, okay? *[Laughter]*

Michael Kearney: You got knocked down, right.

Don Layton: So you'd rather have the good times. The guy, the CEO who ran Manufacturers Hanover in the LDC debt crisis, he had to be a resilient, he had to have the broad shoulders and just let's get on with it and move and solve the problem. The problem became the first modern merger of equals between Manufacturers Hanover and Chemical. They were copied afterwards. It was the first one. So it was more than just "we'll get on with it, folks." It's "let's do something about it, thoughtful and don't overreact, but just do it," and they came up with a solution. So from these two weak banks who had been felled by the LDC debt crisis with single A or maybe even becoming BBB credit ratings, that's what JP Morgan Chase is now despite the name change.

Don Layton: Okay?

Michael Kearney: Don, that's, this has been a fantastic conversation. Is there anything that I maybe didn't ask you or anything that you want to leave us with?

Don Layton: That's another one of these standard interview questions. What question didn't I ask?

Michael Kearney: No, no, no, but I want to, like, I want to make sure that you've had an opportunity to kind of share the things that are important to you as you're moving out.

Don Layton: All I can say is when you're my age, and I'm turning 69 soon, okay? You want to be able to look back at your career and feel a lot of satisfaction and pride. And while I never sat and planned it like the Senate career from third grade at Harvard, I helped get new businesses started, the derivatives business. I was one of the early guys in that. I was one of the—

Michael Kearney: You created the nightmares for us accountants then. *[Laughter]*

Don Layton: Oh, yeah. Don't get me started on accountants. FASB and derivatives don't go together well. I played a key role in assembling JP Morgan Chase 'cause I was one of, by the time, at the end I was one of the top three, four people. Doing that, but then when it became just not commercial, saving a company like E-Trade, that's 5,000 people who didn't lose their jobs, okay? And maybe clients who didn't lose some of their money in a bankruptcy, 'cause that's not a minor affair either. And then when the calling came and the opportunity was there, I'm doing more my public service job. And the financial system is better for me having been at Freddie for the last six years. It's not all due to me. I don't want to claim that in any way. But the people in it know it's all, I was a key driver of a lot of the changes. And so you get to feel pretty good about that.

Michael Kearney: That's a great way to end it. Thank you, Don.

Don Layton: Yeah, good. Thank you.

Michael Kearney: Wow, that was incredible. Hopefully everybody listening enjoyed that as much as I did. Don, let me pause for a second and thank you. You gave some incredible insights, insights on turning around a company in troubled time, how Freddie Mac is helping transform its business to create more home ownership opportunities for people in the United States, and insights on how to lead in good times and in bad times. Thank you to all who subscribe and listen to *Resilient* at Deloitte Podcasts, produced by our friends at Rivet Radio. You can find us on Deloitte.com or by visiting your favorite podcatcher: iTunes, Sound Cloud, Google Play, and even Spotify, keyword "resilient." Check out previous episodes—great interviews with CEOs, board members, and leaders. And if you liked my conversation with Don, go back and check out my conversation with Daryl Brewster, the former CEO of Krispy Kreme and the current CEO of CECP. Much like Don, Daryl is guided by a deep sense of purpose on how organizations can improve the lives of all people.

And if you are enjoying these conversations please share them with work colleagues, family, and friends. And I'd be extremely grateful if you could spend just one minute with a rating. Ratings play such a large role in how the podcast gets promoted in places like iTunes. And hit me up on LinkedIn or Twitter. Just flying out to New York yesterday I got three messages, three direct messages on LinkedIn, people talking about my interview with Shellye Archambeau. So if you have any comments, questions, recommendations, definitely send me a message. I will respond back. My profile in LinkedIn is under Michael Kearney. If you're looking for me in Twitter, it's MKearney33.

Let me leave you with a quote from Pablo Picasso that I really think encapsulates the essence of Don and giving back. The quote goes as follows: "The meaning of life is to find your gift. The purpose of life is to give it away."