October 31, 1997

The *GSE* REPORT

Fannie Mae & Freddie Mac

- *News Not Yet Reported:*

    - Ed DeMarco, formerly the U.S. Department of the Treasury's financial economist in the Office of Financial Institutions Policy has been named Director of the U.S. Department of the Treasury's Office of Government-Sponsored Enterprise Policy, a newly formed division. Mr. DeMarco will report directly to Assistant Secretary Richard Carnell, Assistant Secretary for Financial Institutions at the U.S. Department of the Treasury.
    - While Freddie Mac has been marketing its "Loan Prospector" automated underwriting system to lenders and FHA, Fannie Mae has been marketing their automated underwriting system to mortgage brokers.

- *Upcoming Event:*

    - On November 7, the 19th Annual Research Conference of the Association for Public Policy Analysis and Management (APPAM) will feature a panel on "The Benefits and Costs of Government-Sponsored Enterprises (GSEs)." The conference, being held in Washington, DC at the ANA Hotel, will focus on papers presented by Mario Ugoletti of the U.S. Department of the Treasury, Charles Capone of OHFEO, and Robin Seiler, Jr. of the Congressional Budget Office. The paper topics include conceptual issues involved in measuring the benefits of GSE status (Mario Ugoletti); the net value generated from Fannie and Freddie's housing goals (who is involved and what other delivery mechanisms could be used) (Charles Capone); and the similarities between GSEs and investor-owned public utilities (Robin Seiler, Jr.).

- *GAO Report and Rep. Richard Baker (R-LA) Blast OFHEO for Failing to Regulate Fannie, Freddie:*

- Rep. Richard Baker, chairman of the House Banking Subcommittee on Capital Markets, Securities, and Government Sponsored Enterprises held a subcommittee hearing on October 30th to discuss a General Accounting Office report on the Office of Federal Housing Enterprise Oversight (OFHEO). The GAO reported that OFHEO has a number of problems, including:
    - OFHEO's inability to complete a legally required risk-based capital standard for Fannie and Freddie;
    - OFHEO's failure to perform timely and comprehensive oversight examinations of the enterprises; and
    - The appropriateness of frequent housing-related trips to Mexico by OFHEO's leadership over the past few years.

    (Background: When Congress created the agency in 1992, it required the agency to establish comprehensive examination and risk-based capital programs for the GSEs by December 1, 1994)

Chairman Baker's Statements of Note:

- Chairman Baker stated that "OFHEO has consistently failed to meet its obligations," to develop risk-based capital standards for Fannie and Freddie. "The stress test is absolutely essential. And it's essential that the stress test be delivered on time, and if it is not, then we certainly will be completely warranted in taking action responding to this need."
- Although the GSEs "are in extraordinarily sound condition today," on the other hand, "the only certainty in life is that financial cycles are cyclical, and we will see a downturn." "Then everyone will see whether the GSEs are sufficiently well capitalized to bear the inevitable losses that will occur when demand goes down and interest rates go up," he said.
- Chairman Baker noted that the GAO report found that OFHEO has suffered frequent losses of employees and, as of the time of the report, had five vacant positions out of an authorized staff of 18. The regulatory overseer has been "hampered operationally" and "has suffered from changes in management," he said.
- Chairman Baker declined to make specific suggestions about how OFHEO could have better performed its regulatory tasks. Yet, he said, "this has gone on now for several years, with [repeated] promises of meeting a date, and failing to meet it." Despite these problems, he said, "They have not…come up to the Congress asking for significant resources" on top of what they have been allocated. OFHEO needs to remain in closer touch with Congress, he said. "They at least ought to make more trips to Congress than they do to Mexico."
- OFHEO's job of monitoring the GSE's capital is even more important as the GSEs take on new and sometimes riskier business. Noting that Freddie Mac has express an interest in the subprime market, Baker cautioned that "capital adequacy is extraordinarily important as you take on new risks."
- If OFHEO does not improve its oversight, Chairman Baker said he would consider legislation to address the problem. "We would well be looking at a new regulatory structure altogether." In particular, Chairman Baker said he would consider

introducing legislation to create a single regulator of all the housing GSEs, pending the results of future GAO reports on the adequacy of the Federal Housing Finance Board's supervision of the Federal Home Loan Bank System, and HUD's oversight of the scope of Fannie Mae's and Freddie Mac's mission.

GAO Recommendations:

- GAO recommended that close congressional oversight is necessary to ensure that OFHEO completes the process as soon as possible and that the director of OFHEO periodically report to Congress on its progress toward completing a stress test and risk-based capital standards by 1999.
- GAO urged the OFHEO's director to assess the resources needed to complete "risk-focused" examinations on one- to-two-year examination cycles. The current cycles are three to four years long.
- GAO found that OFHEO's examination schedule, established in September 1994 and providing for two-year cycles of review, had not been fully implemented. The plan called for the assessment of six "core" risks. As of May 1997, only five of the six risk evaluations had been completed.

OFHEO Progress:

- Current acting director of OFHEO, Mark Kinsey, said that his agency consistently underestimated the time necessary to develop risk-based capital standards and a comprehensive examination program for the GSEs. Moreover, Kinsey said OFHEO had expected Fannie and Freddie Mac to be similar companies, but instead, it found two different entities in terms of bureaucratic culture, management processes, and data systems, among other things. The oversight office has begun to brief the government agencies likely to weigh in on the risk-based capital standards. Among them are OMB, Treasury, and HUD. It will then begin the complex task of converting the financial model into capital regulations in January and send those rules to the budget office for review in September 1998.
- However, Mr. Kinsey said the agency is on track to completing a proposed stress test and risk-based capital rules by September 30, 1998. In addition, the OFHEO plans to begin annual risk-based examinations of the GSEs in January 1998.
- Regarding the delays in developing the risk-based capital regulation, Mr. Kinsey explained that OFHEO has established minimum capital standards, but that the new rule will more accurately assess adequate capital levels over the long run. In particular, Kinsey said the agency decided in 1994 to develop its own risk-based capital rules.
- Mr. Kinsey said OFHEO will report to Congress every three months, and will focus especially on any problems that arise and actions planned to correct them.

(*Bureau of National Affairs, Daily Report for Executives,* 10/24/97, 10/31/97, House Banking Committee press release 10/22/97, *American Banker* 10/30/97)

- OFHEO has faced harsh criticism from the other side of Capitol Hill as well. Senator Bob Bennett (R-UT), who requested the original report from the Government Accounting Office, was also disappointed with the report's findings and agreed Congress needed to monitor the agency more closely. "It is unfortunate that with all of the resources granted OFHEO since its start-up, it has not committed more time and effort to its statutory responsibilities and has ignored many of its congressional mandates," Bennett said in a statement. Bennett also indicated his intention to ask Senate Banking Committee Chairman Alfonse D'Amato to hold a hearing on the oversight agency's conduct. (*Reuters*, 10/22/97)

- *GSE Pool Insurance Probed:*

  - California Assemblyman Bill Morrow (R-Oceanside) claims lenders are reaping the benefits of GSE pool insurance and failing to pass along the savings to consumers. According to Assemblyman Morrow, lenders are saving as much as $1,500 per loan because of the new product, and he has asked the state insurance commissioner to probe whether lenders' failure to pass along the savings violates state kickback laws or the federal Real Estate Settlement Procedures Act. Assemblyman Morrow added, "If any money can be saved in the closing costs, all of it should go directly to the consumer. And that should definitely be the case where a federally chartered agency such as Freddie Mac is involved." He added that some mortgage insurers sell Freddie and Fannie partial coverage of low-down-payment pools for as little as $1 per mortgage. The partial coverage lets Fannie and Freddie reduce the guarantee fees they charge to lenders that sell the pools, and insurers hope those lenders will bring them more profitable primary mortgage insurance business. Geoffrey Cooper, a spokesman for MGIC Investment Corp., says that lenders in pool deals have an "unspoken commitment" to give more primary insurance business to the insurers involved. Such agreements might violate RESPA. (*American Banker*, 10/22/97, *PR Newswire*, 10/16/97)

- *Fannie and Freddie May Be to Blame for High Foreclosures:*

  - In an article reporting on the large number of mortgage foreclosures in Cook County, Brian Carey, an economist for the Mortgage Bankers Association, said "foreclosures have been on the increase since 1996, when the Federal National Mortgage Association and the Federal Home Loan Mortgage Corp., better known as Fannie Mae and Freddie Mac, respectively, began to encourage lenders who service collection of their loans to move faster in the event of a delinquency." Representatives of both Fannie and Freddie denied there was any such policy change, or that their portfolio of loans has shown any significant increase in foreclosures. (*Chicago Sun Times*, 10/27/97)

- *Private Mortgage Insurance Bill May Give Fannie and Freddie Regulatory Authority:*

  - An amendment to the private mortgage insurance bill that passed the Senate Banking Committee on October 23 grants Fannie Mae and Freddie Mac the ability to develop guidelines that define "high risk" mortgages. Senators Chris Dodd (D-CT) and John Kerry (D-MA) offered the amendment. The bill requires that automatic cancellation of PMI would occur at 22% equity. However, the measure would exclude certain classes of high-risk loans from the cancellation provisions, and would require these loans to carry private mortgage insurance no longer than the half-life of the loan. The amendment would require Fannie and Freddie to define "high-risk loans. Senator Dodd stated that we "wanted some guidelines (for high-risk loans) without the need for a federal regulator." He said Fannie and Freddie would not be involved in the enforcement of the insurance law. Senator Dodd was concerned that the original language was too broad. "The amendment should not single out affordable loans because many are not "high risk," Senator Dodd said. "I have a legitimate concern that it would place too many homeowners in the high risk category." While certain GOP Banking Committee members said they do not like the idea of Fannie Mae and Freddie Mac assuming the "regulatory role" of defining eligibility standards for PMI cancellation exemptions, Chairman of the Committee, Senator Alfonse D'Amato (R-NY) said the committee would resolve those concerns before the bill goes to the floor. "The definition of 'high-risk' needs work," acknowledged an aide to Senator Lauch Faircloth (R-NC). "We need a definition that, without bringing in federal regulators to interpret it, defines high risk in such a way as to render the purpose of the legislation," the Faircloth aide said. "It is necessary to have a high-risk category, but is difficult to qualify what that means," Senator Faircloth said. "But Fannie (Mae) and Freddie (Mac) should not be the regulators." (*Dow Jones News*, 10/23/97, *Bureau of National Affairs –Daily Report for Executives*, 10/24/97, *American Banker*, 10/27/97)

- *Fannie and Freddie Near the Top of "Soft Money" Donor Lists:*

  - In the first 6 months of this year, Fannie and Freddie were among the top "soft-money" contributors to both the Republican and Democratic Party. An analysis by Common Cause using FEC records, reported that Freddie ranked 7th overall in soft-money contributions to the Republican Party, contributing $200,000 (behind such companies as Amway and Phillip Morris). Fannie donated $65,250 to the Republican Party. Common Cause considers the top donors as any company that contributes $50,000 or more during this six-month period, and the GSEs clearly surpassed this figure. Common Cause also broke the listing of contributors into various business categories. Fannie Mae and Freddie Mac were included in the "banks and lender" category. Fannie Mae and Freddie Mac completely dominated this category in contributions to the Republican and Democratic Party. Freddie Mac was the number one contributor to both the Republican and Democratic Party in the "banks and lender" category, donating $200,000 to the Republican Party and $75,000 to the Democratic Party. Fannie Mae was ranked number three in the "banks and lenders" category, donating $62,250 to the Republican Party. Fannie and Freddie's combined contributions were 46% of the total amount of all contributions to the Republican Party by "banks and lenders." Freddie Mac by itself contributed 29% of all "banks and lenders" soft-dollar contributions to the Democratic Party. (*Common Cause, Bureau of National Affairs Daily Report for Executives*, 10/15/97).

- *Pressure on Lenders to Use Vigilance Since Fannie and Freddie are More Willing to Guarantee Nonconventional Mortgages:*

  - There is pressure on mortgage bankers to sharpen their underwriting and servicing skills now that Fannie and Freddie are opening their doors to nonconventional mortgages. Both

Fannie and Freddie have said that their agencies are willing to guarantee more types of mortgages. At a New York conference last week, representatives of securities firms and credit ratings agencies urged lenders to originate and police the newer loans carefully – or risk losing investor support. Investment bankers say they are already seeing more Fannie and Freddie guarantees on mortgages further down the credit spectrum. The agencies are also doing more with "alternative-A" loans, which are made to borrowers who have good credit but lack traditional documentation. Lenders must become more proactive with servicing to keep subprime and alternative-A loans on track, said Rajiv Sobti, Donaldson, Lufkin & Jenrett. Mortgage bankers are taking steps in this direction, he said, "but the jury is still out" about long-term performance. Vigilance in the mortgage market is especially crucial right now, said Andrew Jones, Duff & Phelps. The bull market is inviting all kinds of efforts by the agencies and private-label securitizers, Mr. Jones said. "We're seeing a lot of transactions making it through in the rush to securitize. Occasionally some things slip through." (*American Banker*, 10/28/97)

- *Fannie Mae, Freddie Mac Underwriting Guidelines May Cause Mortgage Difficulties for the Self-Employed:*

  - A self-employed borrower in Virginia reported in great detail that she had difficulty obtaining a loan because she was self-employed. If a lender does not obtain sufficient documentation from a self-employed applicant, Fannie and Freddie can refuse to buy their loan or ask lenders to buy them back. The purpose of Fannie and Freddie's underwriting software is to specify the required documentation and expedite the loan process. However, the self-employed may not always enjoy such benefits. A Virginia woman encountered several difficulties in using Freddie Mac's Loan Prospector as a result of her self-employed status, and was unable to take advantage of the expedited documentation process. Many self-employed people are unable to benefit from the underwriting software and thus must face the rigors of traditional underwriting – including more documentation problems. "It's our only defensive tool against being asked to buy back our mortgages," said Debbie Dunn, vice president of production support for CTX, a national lender headquartered in Dallas. The Virginia woman met with a mortgage officer and presented explicit financial records that clearly delineated her ability to abide by the terms of the mortgage. Being self-employed for one-year was the primary barrier she faced, despite earning more than she did when she was an employee of another company. At one point, she was forced to endure a long, costly process during which her CPA was asked to verify every bank account statement, check stub, and mutual fund account statement for her. She was stalled numerous times and asked to provide more and more documents while constantly given the excuse, "underwriting and Fannie require it." (*The Washington Post*, 10/25/97).

- *Fannie Mae and Freddie Mac Are Partly to Blame for Decrease in Minority Mortgages*:

  - Steady gains in mortgage loans to African-American and Hispanic homebuyers in the 1990s has ground to a halt nationwide and is starting to reverse, according to a study conducted by the Association of Community Organizations for Reform Now (ACORN).

ACORN spokesman Bruce Dorpalen cites a number of reasons for this downturn, including a Fannie Mae rule change that requires mortgage applicants have four credit sources to qualify. "If you are a renter who pays utilities but don't have a credit card, a car loan, or something to make that fourth piece of credit, you don't qualify," Dorpalen said. Another ACORN spokesman, Patrick Woodall, is particularly concerned by the banking industry's increased reliance on computers to determine the credit-worthiness of borrowers. "They use cookie-cutter underwriting guidelines that have an effect of screening out minority borrowers," Woodall said. He feels the minimum standards programmed into the computer are designed around a white, suburban market. "As a consequence, minority borrowers who have more complex credit issues – not necessarily worse credit but different – are being screened out," Woodall said. Though Fannie Mae and Freddie Mac say their research shows that scores do not discriminate against minorities, San Francisco-based Greenlining Institute blames scoring models for a recent reduction in loans made to African-American and Latino borrowers in CA, said Bob Gnaizda, policy director for the consumer group. Because minority borrowers have thinner credit records, they tend to receive lower scores, even though they may be good risks, Gnaizda said. (*Philadelphia Daily News*, 9/12/97, *Tampa Tribune - The Money Page*, 10/19/97).

- *Staff Director of Senate Banking Committee Doesn't See Interest from the Senate for Privatizing Fannie and Freddie:*

  - Howard Menell, the Senate Banking Committee's Staff Director, stated that he does not see any interest among Members of the Senate to privatize Fannie Mae and Freddie Mac. "Some…have taken a run at that unsuccessfully," he said. "I don't think that's an issue." (*National Mortgage News*, 10/13/97)

- *Fannie, Freddie Support Early Registration of Loans on Mers Electronic System:*

  - Mortgage Electronic Registration Systems, Inc. (Mers), the electronic system that tracks ownership of mortgage servicing rights, recently received a boost from Fannie Mae and Freddie Mac. Fannie and Freddie announced that Mers can now be listed as the mortgagee of record on mortgage documents. As a result, lenders can close loans under the Mers name and then immediately register the loan on the system. Registering loans on Mers this early in the origination process could save brokers and correspondents an average of $22 per loan on front-end costs, and is "a much more efficient way for lenders to receive loans from correspondents," according to Paul Mullings, President and CEO of Mortgage Electronic Registration Systems Inc. (*American Banker*,10/27/97)

- *Fannie, Freddie Team Up with Habitat for Humanity:*

  - House Speaker Newt Gingrich congratulated two Washington, DC families as they received the keys to their new homes in the Skyland Neighborhood, completing the first phase of The House(s) That Congress Built. Begun June 5 to launch National

Homeownership Week, the completed homes also represent the beginning of a new partnership between the U.S. House of Representatives, Habitat for Humanity, Fannie Mae, Freddie Mac, and the National Partners in Homeownership. Reps. Jerry Lewis, Louis Stokes, Eleanor Holmes Norton were also in attendance at the celebration. The project seeks to build a "self-help" home with a low-income family in all 435 congressional districts during 1998. The goal of the partnership is to achieve an all-time high rate of homeownership, 67 percent of all American households, by the year 2000. (*PR Newswire*, 10/24/97).

Fannie Mae

- *Fannie Mae Strikes First Multi-Family Mortgage Insurance Deal with Bank:*

  - Metropolitan Savings Bank of Cleveland has set up an unusual deal with Fannie Mae that insures its pool of smaller apartment-building mortgage loans. Fannie Mae has devised a simplified structure for credit-risk insurance for apartment building mortgages that will allow smaller mortgages to be sold to investors in the secondary market. “The Metropolitan deal is the first time a lender has elected to purchase multifamily risk insurance that covers the full amount of the recourse, or first loss coverage obligation that normally is required in a mortgage-backed securities transaction,” Fannie Mae said. The Metropolitan Savings Bank recently completed the first deal under the new structure, a $92 million securitization that included 105 mortgage loans on five- to 50-unit properties in Cleveland and Columbus, OH. The loans are primarily ARM mortgages with remaining terms of less than 10 years and an average size of about $750,000. The new product will enable Fannie Mae to securitize smaller pools of $100-200 million of primarily small conventional multi-family mortgage loans and will give lenders on smaller properties broader access to the efficiencies of secondary market execution, said a Fannie Mae spokesperson. “This insurance facilitates a more efficient delivery of multifamily small loan portfolios to Fannie Mae at a competitive execution price, and offers a new secondary market vehicle previously not available to thrifts and commercial banks,” said Bob Jones, President & CEO of CAM Financial. (*Cleveland Live Business*, 10/9/97, *National Mortgage News*, 10/6/97).

- *Fannie Mae Responds to Forbes Article:*

  - John Buckley, Senior Vice President of Fannie Mae, responded to a *Forbes Magazine* article titled “Fall of the House of Fannie.” He responded to a statement in the original article that stated that if Fannie Mae were to liquidate tomorrow, there would scarcely be a ripple. He believes the destruction of Fannie Mae would “better resemble a tsunami than a pebble thrown in a pond.” Fannie Mae owns or guarantees nearly 11 million mortgages, with a value of nearly $1 trillion. He claims that only after the company’s reengineering process was it able to turn a profit, and also that Fannie Mae “enjoys strong, bipartisan support because we fulfill our mission extraordinarily well.” (*Forbes Magazine*, 11/3/97)

- *Fannie Mae and GE Capital Mortgage Services Announce Production Pilot to Quicken Underwriting Decisions on Jumbo Loans:*

    - Fannie Mae and GE Capital Mortgage announced they have completed the integration of GE's Automated Loan Approval Service with Fannie's Desktop Underwriter. Through this integration, approved lenders will get loan decisions from GE Capital on jumbo mortgages (over the Fannie Mae purchase limit of $214,000) in which GE Capital will invest. GE Capital's scoring technology first determines a loan's risk. Lenders will then access Desktop Underwriter electronically, input loan data, and receive a GE Capital loan purchase decision, eligibility messages, and price indication. "Customers can be more profitable and streamline their operations by accessing GE's Automated Loan Approval Service via Desktop Underwriter," said Joe McCartin, GE Capital Mortgage Services' Chief Information Officer. "Our partnership with Fannie Mae enables us to offer purchase and pricing decisions to more customers within minutes." (*Fannie Mae Press Release*,10/7/97)

- *Fannie Mae Adds Additional Credit Agencies to MORNETPlus:*

    - As the result of an affiliation program initiated in July, Fannie Mae announced lenders would soon be able to request credit information from 26 additional credit agencies through its MORNETPlus network. (There were originally four credit vendors that provide electronic credit reports over the MORNETPlus network, and a fifth (TransUnion) will be added in 1998.) Desktop Underwriter is a key component of the MORNETPlus technology group. (*Business Wire*, 10/17/97).

- *Silicon Valley Council May Turn to Fannie Mae for Assistance:*

    - A Santa Clara Valley Manufacturing Group recently launched the Housing Leadership Council to tackle issues surrounding the valley's housing crisis. U.S. Rep. Zoe Lofgren (D-CA), a Santa Clara County Supervisor, and a Lockheed Martin Executive currently lead the 40-plus-member council. The coalition has formed five groups to suggest ideas to ease the crisis. One of the groups suggested exploring a potential partnership with Fannie Mae for $1 billion in first-time homebuyer's assistance. (*The Business Journal*, 10/13/97).

- *$50 Million Initiative for Long Island:*

    - On October 27, Fannie Mae hosted a press conference with Senator Alfonse D'Amato, Representatives Peter King (R-NY), Carolyn McCarthy (D-NY), and Nassau and Suffolk County Representatives to announce its $50 million commitment to provide lower cost home rehabilitation financing for more than 1,000 Long Island, NY families over the next three years. The new program, "HomeStyle Long Island," is part of the "Living on Long Island" initiative. Building on the program, the new HomeStyle Long Island initiative offers a collection of mortgage products that allow consumers to purchase homes that need fixing up or to renovate a home they currently own. The initiative includes HomeStyle Remodeler," a new home improvement loan that provides second mortgages up to $50,000 to homeowners with good credit but little equity who want to make moderate to major improvements to their existing home. HomeStyle Remodeler offers loan terms from 5-20 years, and the loan can also be used to improve a second home. Also available for the first time, is Fannie "Flexible 97 mortgage" that allows a borrower to purchase a home with a very low down payment loan. The mortgage requires a down payment of just 3% which can come from the borrower's own funds, a gift from a family member, a grant or an unsecured loan. The "Flexible 97 mortgage" also can be used for home purchase and renovation in which case up to 30% of the as-completed value of the property may be used for renovation expenses. The loan amount under the purchase and renovation option is based on the value of the property after the repairs are completed up to a limit of $214,600. There are no income limits for these "Flexible 97 mortgages." Other mortgage products offered include:

- HomeStyle Standard Mortgage – provides financing for one- to four-unit properties, allowing up to 50% of the as-completed value of the property to be used to finance the costs of remodeling or repairs;
- HomeStyle Investor Mortgage – allows investors to purchase and rehabilitate single unit properties with a loan that will be assumed within 18 months by an owner-occupant;
- HomeStyle Community Mortgage – this product allows down payments of as little as five percent for borrowers with incomes up to $89,050 (130 percent of the Long Island area median income of $68,500). Up to 50% of the as-completed value of the property can be used for renovation costs, and;
- FHA Title I – Fannie Mae is making available home improvement loans of up to $60,000 for 5- to 12-unit properties. Fannie Mae has increased its loan limits to match the Title I program. The loan limit is $36,000 for three-unit properties and $48,000 for four-unit properties;
- HomeStyle Home Keeper Mortgage – allows seniors 62 years and older to tap into the equity in their homes to make necessary repairs, with no obligation to repay the loan until they move out of the house; and
- HomeStyle Remodeler – in addition to the flexibilities described previously, also allows owners of a condominium to borrow up to $15,000 to finance renovations. (*Fannie Mae Press Release*, 10/20/97, *Los Angeles Times*, 10/27/97)

- *Fannie Introduces "New Neighbor" Program in South Florida:*

    - Over the next five years, Fannie Mae says it will finance $14 billion worth of local mortgages and create several initiatives to provide affordable housing for families. The initiative, House South Florida, includes the $10 million "New Neighbor" program, which qualifies immigrant buyers to use alternative sources of funds for a down payment or closing costs. For example, a person with good credit but little savings might pledge a security deposit from a previous apartment toward a down payment. Qualified immigrants will be required to come up with down payments of just 3% and show one year of income stability (two years is the industry standard). Other features of the program include:
        - A three-year, $50 million pool of funds to help 2,000 South Florida families finance home improvements;

    - A $5 million credit line for the Metro-Dade Housing Agency for development of seven affordable housing projects. The money will be used to finance elderly assisted living units, affordable rental units, rehab of some rental units and rehab of current public housing units;
    - A $50 million loan program called Flexible 97 to help qualified home buyers who lack down payment funds obtain 30-year fixed rate mortgages with as little as 3% down; and
    - A $400 million commitment to expand South Florida's affordable rental stock by assisting in financing the development of multifamily housing. (*The Miami Herald*, 10/20/97).

- *Fannie Mae Foundation Awards $145,000 Grant for PlanBaltimore:*

    - The Fannie Mae Foundation announced it will grant $145,000 to support Baltimore's Comprehensive Master Plan process to help the city assess its physical environment, including housing, urban design, economic development, public facilities, transportation, and the environment. The city will hold public forums in three targeted neighborhoods to ensure citizen input and participation. (*Newswire,* 10/15/97).

- *Fannie Mae Boosts Atlanta's Olympic Legacy Program*:

    - On October 27, Fannie Mae sponsored a press conference with Mayor Bill Campbell, Rep. John Lewis (D-GA), Atlanta Housing Authority Executive Director Renee Glover to announce Fannie Mae's efforts under the HouseAtlanta initiative. Fannie Mae will provide $2.4 million for new construction at Summerdale Commons (part of the Olympic Legacy program) to provide 136 apartments to tenants with mixed incomes. Thirty percent of the apartments are dedicated to public housing tenants and the remainder is reserved for a mix of market-rate and low-income tax credit qualified units. Midland Mortgage, a Fannie approved lender for its Delegated Underwriting and Servicing product line, is providing construction financing and acting as the Fannie Mae permanent lender for the Summerdale investment. Fannie Mae's American Communities Fund also provided essential short term financing to help the developer purchase the property before the end of 1996, in order to preserve its tax credits until the loan could close. The complex is being developed and financed by a number of private and public sector partners, including Summerdale Partners, AHA, HUD. The Olympic Legacy Program is a neighborhood revitalization initiative established in 1994 by the Atlanta Housing Authority, and the goals of the program are to restore Atlanta's most severely distressed public housing communities. Fannie Mae also announced a $5 million underwriting experiment with the Atlanta Development Authority that allows first-time homebuyers to purchase a home within the city of Atlanta with a minimum investment of $1,500 of their own funds which can also be used toward down payment, closing costs, and prepayments. Borrowers must attend an approved homebuyer education seminar. Fannie Mae also invested $310 million over the past year in metro Atlanta to provide affordable multifamily rental housing, and invested $6.4 million in Phase I and Phase II of Techwood/Centennial Place for 358 apartments that qualify for the Federal Low-Income Housing Tax Credit. (*Business Wire*, 10/27/97)

- *Fannie Mae Program Aims to Put Immigrants in Dream Homes*:

  - Fannie Mae initiated a new program, the New Americans Initiative, on October 24 in San Antonio, TX, to increase homeownership among immigrants in 13 large U.S. cities. The initiative, began in 1995, provides an array of material in several languages, from Spanish to Chinese, and works with community organizations that deal with immigrants and refugees. Fannie Mae will start a partnership program with the Lawyers Committee for Civil Rights, the San Antonio Immigrant and Refugee Coalition and other groups to disseminate information about home buying as well as information about becoming a U.S. citizen. (*San Antonio Express-News*, 10/25/97)

- *Fannie Mae Foundation Launches Portuguese Homeownership Guide*:

  - The Fannie Mae Foundation will host a press briefing on November 6th, to launch its Portuguese language homebuying guide called "Opening the Door to a Home of Your Own." The Foundation will also award the Massachusetts Alliance of Portuguese Speakers (MAPS) a $25,000 grant to help support homeownership outreach efforts in Boston." (*PR Newswire*, 10/30/97)

- *Fannie Mae joins with others in Harris Lake Shores Development Program in Michigan:*

  - Fannie Mae, Standard Federal Bank, the Mayor of Pontiac, Your Home Company, Inc. and other are lenders are participating in Harris Lake Shores Development, a 22-unit affordable housing venture in Pontiac, MI. The development will provide new affordable housing units in Pontiac for low- to moderate-income homebuyers, and will consist of 11 duplex housing units located on lake front property. Each duplex unit will be sold to a qualified lease-holder within a two-year period. (*PR Newswire*, 10/28/97)

- *Fannie Mae Awards $25,000 Grant to Arizona Community Housing Group:*

  - Fannie Mae Foundation awarded a $25,000 grant to Community Housing Resources of Arizona to support homebuyer and homeowner education and counseling programs geared toward low- and moderate-income households. (*Arizona Business Gazette*, 10/16/97)

Freddie Mac

- *B&C Bond Insurers Protest Freddie's Move Into the Subprime Market:*

  - The Association of Financial Guaranty Insurors (AFGI), the trade group that represents the nation's bond insurers, wants the Department of Housing and Urban Development to prevent Freddie Mac from entering the subprime market. In a letter to House Banking Committee Chairman Jim Leach (R-IA), AFGI asks that Congress make it clear to HUD that "the risks of this program are unacceptable and HUD's interpretation of Freddie Mac's charter should be revisited." If Congress allows Freddie to plunge into the subprime market, the first to fail could be the monoline insurers that Freddie will displace directly. In its letter, AFGI expressed "deep concerns…[that Freddie Mac will] directly compete with the private financial guarantee insurance industry, despite the fact that there is no evidence of any failure by private companies to competitively serve this segment of the market." (*National Mortgage News*, 10/27/97).

- *First Union Bundles CRA Asset-Backeds:*

  - First Union Corp. and Freddie Mac have accomplished a financing first by packaging CRA loans into mortgage-backed securities. The $384.6 million deal was placed with institutional investors including several banks that can count the investment toward their Community Reinvestment Act goals. This transaction allows First Union to recycle $385 million back into making more home loans for low-income families. This is the first time that a bank has taken low-income home loans and packaged them for Wall Street, and is also the latest opportunity for Freddie Mac to expand the kinds of mortgages it supports. Freddie Mac agreed to guarantee the loans, meaning that investors are assured of getting at least their principal back. The deal also had assistance from Bear, Stearns & Co., which helped with distribution. In recent years, Fannie Mae and Freddie Mac have been under fire from people such as the Neighborhood Assistance Corp. of America (a Boston-based pressure group that specializes in consumer banking issues) for not making it easier for banks to sell mortgages to investors. For example, the group spent Easter demonstrating in front of Fannie Mae's front door with a well-known local minister carrying a cross. The event made the TV news. (*American Banker*, 10/22/97, *PR Newswire*, 10/20/97, *Florida Times-Union*, 10/27/97).

- *Freddie Mac Simplifies Appraisal Feature on Loan Prospector*:

  - Freddie Mac has announced that it has designed a program to estimate property values using information segmented by county and ZIP code locales nationwide. Called Home Value Estimator, the service can return estimates of values for all 50 states within minutes. The program, which will be available next year, is an alliance with DataQuick, a San Diego property information company. Loan Prospector has been retooled to allow the program to use their appraisers for more streamlined property assessments. If a property value can be verified through one of the program's property models, a loan is eligible for the most streamlined assessment. This means a lender could wait as little as two minutes for a minimum assessment report accepted by Freddie Mac (*Inman News Features*, 10/10/97, *National Mortgage News*, 10/13/97).

- *Freddie Mac's Third Quarter Earnings Increase 20 Percent:*

  - Freddie Mac reported record earnings per common share of $0.49 in third quarter 1997, a 20 percent increase over third quarter 1996 earnings of $0.41 per share. For the first three quarters of 1997, earnings were $1.39 per share, up 14% from the same period a year ago. Net income was $354 million for the third quarter, and $1,023 million for the first three quarters of 1997, compared to $312 million and $922 million for the same periods a year ago. "Strong third quarter results were driven by continuing improvements in credit performance and solid retained portfolio growth," said Leland C. Brendsel, Chairman and CEO. "In our securitization business, I am confident that we are implementing the innovative business solutions our customers need in a rapidly changing mortgage finance system." (*PR Newswire*, 10/15/97).

Federal Home Loan Banks

- *News Not Yet Reported*

  Subtitle H of H.R.10, the section of the omnibus financial services reform package expanding the powers of the Federal Home Loan Banks, was deleted from the House Commerce Committee's version of the bill reported out of Committee last week. Capitol Hill sources report that Congressman Richard Baker (R-LA) will try to get the "Boehner Financial Services Reform Task Force" to include Subtitle H in any bill that is considered by the full U.S. House of Representatives next year.

- *The Shadow Financial Regulatory Committee Makes Statement on Mortgage Lending by the FHLBanks:*

  - The Federal Home Loan Bank of Chicago recently began a program of making fixed-rate mortgage loans through FHLB member institutions to their customers, with the credit risk of the loans borne primarily by the member institution. Although the loans are serviced by the member institution, they are owned by the FHLB which, therefore, is responsible for managing the interest rate risk. The FHLB expects this program to increase competition in the secondary mortgage market, now dominated by Fannie Mae and Freddie Mac. These GSEs charge fees for insuring against credit risk that greatly exceed their historical loss rates in many parts of the country. The FHLB program is designed to provide enhanced incentives for prudent underwriting and effective monitoring of mortgage loans by the member institutions. The Shadow Financial Regulatory

Committee has long been concerned about the expansion of GSEs and the potential they pose for distortion of resource allocation, for unfair competition, and for increasing the risk of a taxpayer bailout in case of failure. The Committee has also called for privatization of the Federal Home Loan Banks, and believes that this program has the potential for enhancing competition and thereby increasing efficiency in the secondary mortgage market. To avoid an increase in the risk exposure of the U.S. taxpayer, the Committee believes it is essential that regulators require Fannie and Freddie at least to maintain their capital ratios in this more competitive environment. If the program is successful, Fannie Mae and Freddie Mac may be forced to respond to this competitive pressure by reducing their charges for credit risk. The result would tend to reduce monopoly profits and represent a step in the direction of assuring that lower prices and the funding subsidy inherent in the quasi-agency status of the GSE are passed on to mortgage borrowers. (*Shadow Financial Regulatory Commission Statement*, 9/22/97).

- *FHLB of Chicago Tells Judge Program is Legal:*

  - The FHLB of Chicago told a judge that its controversial pilot program to fund and hold mortgages is completely legal. It urged a District Court judge in Austin, TX to dismiss a challenge by the Western League of Savings Institutions and several thrifts, which charges that the Home Loan banks are improperly making direct loans to homebuyers. At issue is the Mortgage Partnership Finance pilot program, which allows Home Loan banks to manage interest rate risk for mortgages originated and serviced by participating institutions. The FHLB of Chicago argued that there is virtually no difference between pilot program loans and regular Home Loan bank lending. In both programs, Home Loan bank officials do not interact with customers of market and underwrite the loans, they said. Five other Home Loan banks, six thrifts, and two trade groups supported the Chicago district bank in the brief, filed October 17. Since the pilot program began in June, the Home Loan banks have funded $10 million in fixed-rate mortgages through four member institutions. The Finance Board designed the program to fund $750 million in loans through as many as 20 member institutions. (*American Banker*, 10/23/97)

- *Debate Continues On Usefulness of FHLB System:*:

  - In response to a letter to the editor written by Karen Shaw Petrou on Sept. 30 entitled "Home Loan Banks' Job is Done; Why Not Just Shut Them Down," James Cousins, President of the Indiana League of Savings, Indianapolis, states that "nothing could be further from the truth." He believes that the system is "critical to the continued existence of small rural and community-based depository institutions." He does not believe as Ms. Petrou suggests that all banking institutions have access to the capital markets and therefore, the system isn't needed. He does not believe that all institutions have access on the same terms and conditions. The role of the FHLBank is to "level the playing the field" between the large banks and the community banks in the capital area. (*American Banker*, 10/21/97)

- *FHLBank Membership has Tripled*:

- The Federal Home Loan Bank System membership has tripled since commercial banks and other depository lenders were allowed to join in 1989. Some 4,200 new neighborhood lenders have joined the Bank System, and total membership now surpasses the 6,300 level with total assets of $315 billion. (*National Mortgage News*, 10/6/97)

- *FHLB of Cincinnati Honors Ohio Savings Bank; Presents Cleveland Housing Network with $5000*:

  - Charles Thiemann, president of the Federal Home Loan Bank of Cincinnati, presented the 1997 President's Award to Robert Goldberg, president of Ohio Savings Bank for outstanding achievement in affordable housing and community investment through the FHLB's affordable housing program (AHP). Through the AHP, Ohio Savings Bank has been awarded $1.02 million to assist Cleveland Housing Network in creating 19 newly constructed homes and 601 rehabilitated houses for families and individuals with an average income of $15,300. This Lease-Purchase Program allows for all residents to purchase their homes after 15 years. As the winner's nonprofit sponsor, Cleveland Housing Network also received a check for $5,000. (*PR Newswire*, 10/27/97)

- *FHLB of Atlanta Presents Partnership Excellence Awards:*

  - Nineteen community partners – local banks and affordable housing programs – were recently honored by the Federal Home Loan Bank of Atlanta with awards totaling $50,000. The winners were selected based on their efforts to provide affordable housing in low-to-moderate income communities in the past year, as well as each nonprofit's impact on the community in which it operates. The banking and housing partnerships receiving awards demonstrate the Federal Home Loan Bank of Atlanta's commitment to its mission and the White House's National Homeownership Strategy which plans to generate an additional eight million homeowners by the year 2000. (*Los Angeles Times*, 10/21/97).

- *FHLB of Dallas Introduces "Helping Hand Program":*

  - The Bank's Helping Hand program creates a grant fund for advances made against mortgage loans generated in the last year to families with incomes at or below the average median for the area. The grant funds may be used on new mortgages for families with incomes at or below 80% of the area median and for the following purposes: down payment assistance, closing cost assistance, prepaid item assistance, and principal reduction. (*Federal Home Loan Bank of Dallas Press Release*, 10/23/97).

- *Federal Home Loan Bank of Boston Contributes Funds to Finance Cambridge Housing Units:*

  - A $1.56 million loan by the Massachusetts Housing Partnership Fund is expected to give a much-needed boost to the affordable housing supply in Cambridge, MA. The loan helped finance the purchase and renovation of two apartment buildings by Homeowners Rehab Inc., a community development corporation. The two buildings will yield 52 rental units of affordable housing. In addition to brokering the sale, the city and its Affordable Housing Trust have contributed more than $3.5 million toward the purchase and renovation of the units. Others contributing funds were Cambridge Neighborhood Apartment Housing Services and the Federal Home Loan Bank of Boston (*The Boston Globe*, 10/11/97).

- *Sacramento Community Group May Ask the FHLB of San Francisco for Affordable Housing Program Funds:*

  - The Sacramento Valley Organizing Community (a multi-ethnic panel of clergy and churches) will ask the FHLB of San Francisco next year for affordable housing program funds to build more than 50 more homes in Walnut Grove. Sine 1990, the FHLB of San Francisco has distributed some $100 million in affordable housing funds to three western states. The funds have cut home purchase costs for 5,700 buyers and lowered rent payments for another 21,500 people in California, Arizona and Nevada. Buyers must earn no more than 80% of the area's median income in order to qualify. (*Sacramento Bee*, 10/6/97)

- *FHFB Approves Affordable Housing Program (AHP) Grants and Approves American Samoa and the Northern Mariana Islands Eligible for Membership:*

  - The FHFB approved $7.8 million in AHP grants through the FHLBanks of Indianapolis and Pittsburgh. The grants will help to finance the construction, purchase or renovation of 2,138 housing units in those areas – 71% of them for low-income households. The board also plans to approve $119.7 million in AHP funds this year. The next funding round is on December when applications from the FHLBanks of Boston, New York, Atlanta, Cincinnati, Chicago, Des Moines, Dallas, Topeka, San Francisco and Seattle will be approved. The FHFB also approved a proposed rule that would make financial institutions in America Samoa and the Northern Mariana Islands eligible for FHLBank membership. (*National Mortgage News*, 10/6/97)

Farmer Mac

- *Farmer Mac Reports 1997 Year-to-Date Net Income of $3.3 Million:*

  - The Federal Agricultural Mortgage Corporation (Farmer Mac) has reported net income of $1.2 million for third quarter 1997, an increase of $1.0 million net income compared to net income of $0.2 million for third quarter 1996. Net income for the first nine months of 1997 totaled $3.3 million, compared to $0.8 million for the same period one year ago. Farmer Mac president and CEO Henry D. Edelman observed that, "Farmer Mac's third quarter results continued the positive earnings trend of recent quarters. These results reflect growth in the Corporation's portfolio of program and non-program investments, as well as an increase in the volume of guarantees outstanding and ongoing gains from the securitization of agricultural mortgage-backed securities." (*PR Newswire,* 10/21/97).

Ginnie Mae

- *Departing Chief of Ginnie Mae Calls for a Focus on Affordable Housing:*

  - Kevin Chavers, departing chief of Ginnie Mae, is asking that Wall Street and lenders give more attention to affordable housing. He said with Wall Street's cooperation, Ginnie Mae loans can help the mortgage industry usher in an era in which immigrants and low-income borrowers begin to fuel mortgage growth. Calling mortgage securities "the lifeblood of our program," Mr. Chavers said Ginnie Mae must continue efforts to make its products more appealing to investors and traders. The agency cannot be complacent in its dealings with Wall Street, which replenishes lenders' capital by distributing and trading securitized Ginnie Mae loans. "With its guarantees on nearly one-third of the $1.7 trillion of mortgage securities outstanding, Ginnie is indeed a powerhouse on Wall Street." He stated that 10 lenders now account for almost two-thirds of Ginnie Mae volume, and he also urged more mortgage bankers to step up lending through VA, FHA, and rural programs that Ginnie Mae supports. While the securities industry complains that the agency is difficult to deal with, Mr. Chavers countered: "Because we are committed to increasing the visibility of Ginnie Mae securities in the national and global marketplace," the agency has taken steps like lowering guarantee fees and improving technology for quick responses. "We've driven the philosophy of customer service through the entire enterprise." Still some traders complain that Ginnie Mae remains too bureaucratic. For instance, the agency operates with 70 federal employees, a very small staff to serve Wall Street and lenders, traders say. Also while the agency did reduce certain securities fees, these charges were very high to begin with, industry observers say. Mr. Chavers was speaking on the eve of his departure from Ginnie Mae, as he is slated to receive President Clinton's nomination to the Office of Federal Housing Enterprise Oversight, which regulates Fannie Mae and Freddie Mac. But he said the Agency has been making progress by instituting a new fee and security structure by opening a new Wall Street office this month. Speculation about his successor at Ginnie Mae has been low key. Although some mortgage executives have mentioned Paul Mullings, an executive of Mortgage Electronic Registration Systems Inc. (*American Banker,* 10/21/97).

- *Ginnie Mae Pilots New Software to Educate Prospective VA and FHA Loan Borrowers:*

  - Ginnie Mae announced it will be testing its new mortgage prequalification software , called "Your Path to Homeownership", in several U.S. Department of Housing and Urban Development offices around the country. The software has been designed as an educational tool and as a resource guide for prospective homeowners with little knowledge of the process. It will allow users to calculate their eligibility for Federal Housing Administration or U.S. Department of Veterans Affairs loans in less than five minutes, and to determine how much they can spend on a house. One uniquely sensitive feature of the program is that it does not tell users outright they have been "declined" or are "not qualified." If the user does not qualify, the program will prompt them to go through the financial inventory again, determine the exact reason for a denial, and point them in the direction of a local counseling agency. (*Los Angeles Times*, 10/17/97)

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