

The **GSE** REPORT

Fannie Mae & Freddie Mac

- *Fannie and Freddie's Domination Upsets MBS Buyers:*
 - Fannie and Freddie were big buyers of MBSs last year. While the increasing support of Fannie and Freddie has reassured MBS investors, the presence of these outsized competitors has been more irksome recently, according to Linda Lowell, mortgage analyst at Credit Suisse First Boston. "Lately that comfort investors felt about the agencies' presence in the mortgage market has been replaced with annoyance." Investors cannot compete with the agencies for cheap funding since the GSEs command the lowest yields of any private debt issuer in the capital markets. At the same time, the GSEs' huge purchases are compressing spreads in the MBS markets. Freddie Mac's mortgage portfolio grew to \$164.4 billion at the end of 1997 compared to \$137.8 billion at the end of 1997. Freddie Mac's outstanding long-term debt issues grew to \$118.3 billion at the end of the first quarter of 1998 from \$113.4 billion at the end of 1996. (*Dow Jones*, 4/15/98)
- *Fannie Mae and Freddie Mac Oppose the Establishment of Bank Reinsurance Subsidiaries:*
 - Fannie and Freddie are opposed to the establishment of bank reinsurance subsidiaries because they feel banks would not need their services as much if allowed to operate a reinsurance subsidiary. The controversy has come up because the Office of the Comptroller (OCC) approved ABN Amro subsidiary LaSalle National Bank's application to establish a reinsurance subsidiary. The subsidiary would reinsure a portion of the mortgage insurance on loan originated by and purchased by LaSalle or its lending affiliates. According to the OCC, reinsurance done through a subsidiary is functionally equivalent to or a logical outgrowth of the bank's core business of underwriting mortgages. Julie Williams, a lawyer at the OCC, wrote that LaSalle's reinsurance proposal is comparable to extending low down payment mortgage loans without mortgage insurance, but with higher interest rates to cover the risk of non-payments. (*American Banker-Bond Buyer*, 4/13/98)

- *Fannie and Freddie Announce Risky MBS Strips:*
 - Fannie Mae and Freddie Mac have both announced huge mortgage-backed strip deals, even though those risky securities have underperformed in recent months as mortgage prepayments have soared. These strip deals divide interest-only (IOs) and principal-only (POs) securities. The threat of prepayments, however, has made these securities risky. Income from IOs can evaporate if prepayments continue at their recent pace. Rising prepayments wipe out returns on IOs, while falling prepayment speeds increases the life of POs and brings down their returns. Fannie Mae announced it was increasing a strip trust, the 1998-24 backed by 6% passthroughs, to \$3.22 billion from \$2.6 billion. Freddie Mac announced two strip deals totaling \$4.2 billion, saying it was aggressively pursuing strip deals to meet investor needs and help absorb callable securities in the marketplace. The deals are Strip Trust 195, for about \$3.1 billion, backed by 30-year 7 ½ percent Gold PCs and Strip Trust 196 for \$1.1 billion, backed by 8 percent 30-year Gold PCs. (*Dow Jones Newswire*, 4/14/98; *Reuters*, 4/14/98)

- *Mega-Mergers May Help Institutions Negotiate with Fannie and Freddie:*
 - The recent financial institutions' mega-mergers (e.g., Bank of America, NationsBank) may give these new institutions a favorable negotiating position with Fannie and Freddie due to their size. Weston Edwards, a mortgage consultant says “the larger and more powerful these firms become, the more they can leverage with the agencies; it’s a dollars and cents thing, and it’s a systems thing.” Large institutions are concerned with getting the best execution and pricing possible, so they may wait a long time before deciding whether or not to use the Fannie and Freddie origination and servicing software. (*The Mortgage Marketplace, American Banker-Bond Buyer*, 4/20/98)

- *Fannie and Freddie Release 1997 Annual Reports:*
 - Fannie and Freddie have posted their 1997 annual reports on their respective websites (www.fanniemae.com and www.freddiemac.com). Highlights of the two reports include:

Fannie Mae

- Fannie Mae had its eleventh consecutive year of double-digit growth, one of only nine companies listed in the S&P 500 to post that type of performance over the past 11 years. Fannie Mae’s annualized total rate of return on their stock of 39.5% outperformed Intel, Coca-Cola, General Electric, Walt Disney, Exxon and McDonald’s. Net income grew 12% - \$3.056 billion.. Fannie’s mortgage portfolio grew 10% with a mortgage investment portfolio at the end of the year of \$316 billion. MBS guaranty fees were \$1.3 billion in 1997 and Fannie issued \$149 billion MBS in 1997. Fannie Mae achieved record earnings in 1997, increasing its earnings per common share by 14%. Net interest income increased to \$3.949 billion in 1997 as a result of an 11% increase in the average mortgage portfolio balance. The balance of the investment portfolio was \$65 billion, and the average rate earned on securities was 5.82%. Management expects that in 1998 the net interest income will continue to increase because of continued growth in the average

portfolio. The interest margin is expected to decline. Guarantee fee income increased to \$1.274 billion because of a \$27 billion increase in average net Fannie Mae MBS outstanding and a .003 percentage point increase in the average effective guaranty fee rate. There was a 45% increase in miscellaneous income due to an increased demand in REMIC and other miscellaneous items. From 1996, single family credit-related losses declined by 15%. This decrease stemmed from a decline in the average loss per foreclosed property (from \$16.8 thousand in 1996 to 12.8 thousand in 1997). Management expects that the single family credit loss ratio that declined from 1996 to continue to decline in 1998 from the 1997 level. In 1997, the corporation exceeded its goals in the following housing areas: low and moderate income housing, geographical goals, and special affordable housing.

- Fannie Mae has been actively addressing the Year 2000 problem by coordinating with other companies with which it electronically interacts to ensure that all systems will be compliant, and plans to complete this effort in early 1999. Use of the Desktop Underwriter increased significantly in 1997, and during December it evaluated up to 6,000 loan submissions per day. In order to reduce future credit losses, Fannie Mae introduced the Risk Profiler that predicts the likelihood that a loan will go into foreclosure. Fannie Mae's second initiative to decrease losses involves placing Fannie Mae employees on site with certain services to facilitate these efforts.

Freddie Mac

- To continue their success, one of Freddie Mac's priorities in 1998 will be entering new markets and implementing risk-based pricing. "In the securitization business, 1998 will mark the year that Freddie Mac begins to carefully enter new markets, leveraging our investment in credit management and technology." Using pilot initiatives to enter new markets, Freddie Mac said the company would begin with the highest quality segments, and only take risks they can manage. In 1997, Freddie Mac generated record revenues and earnings. Total revenues increased 14% to \$3.28 billion. Net income increased 12% to \$1.395 billion. Earnings per common share – basic were up 15%, earnings per common share – diluted grew 15%. Management and guaranteed income increased 4%, net interest income in earnings totaled \$1.882 billion, up from \$1.542 billion, and Freddie Mac's return on common equity was 23% - the sixteenth consecutive year that this rate has exceeded 20%. Management believes that the retained portfolio will increase by approximately \$20 to \$30 billion in 1998. By the year 2000, management anticipates those single-family and multi-family credit losses, as a percentage of the average total mortgage portfolio will decline to 5 basic points. During 1997, Stockholders' equity increased by \$790 million. During the 10-year period ending December 31, 1997, Freddie Mac's basis and diluted earnings grew at a compound annual rate of 16%. Credit related expenses decreased 13%. Credit losses went down 10.9 basis points from in 1996, and this continued improvement is expected through the year 2000. Single-family at-risk delinquency was 0.55%, down from 0.58% in 1996. In 1997, single family credit losses were down to \$497 million from \$580 in 1996. The multi-family delinquency rate fell from 1.96% in 1996 to 0.96 in 1997.

- The Director of OFHEO is working on developing a regulation that would implement the risk-based capital standard using a stress test model. Freddie Mac has used a stress test model for internal assessments of capital for several years, and believes that implementation of the risk-based capital standard would not require the corporation to increase its capitalization substantially. This standard would require Freddie Mac to maintain an amount of total capital sufficient for the corporation to maintain positive total capital for a 10-year period under highly stressful economic scenarios. The minimum capital standard is an amount of core capital equal to the sum of 2.50% of aggregate on-balance sheet assets, 0.225% of average mortgage purchase commitments, and 0.45% of other aggregate off-balance sheet obligations. As of December 31, 1997, Freddie Mac's core capital totaled approximately \$7.4 billion, which exceeded the applicable permanent minimum capital requirement under the GSE Act. While this standard could have a significant impact, at this time it is impossible to determine what, if any, impact the regulation will have on Freddie Mac.
- In 1997, Freddie Mac introduced the Workout Manager, a software application that enables servicers to analyze their entire portfolios of pending and completed foreclosure alternatives. It also launched HomeSteps, a home sales service aimed at attracting potential buyers of the corporation's REO properties. Responding to the Year 2000 problem, Freddie Mac has created a steering committee, and each Freddie Mac division has a Year 2000 project officer and project manager responsible for preparing a readiness plan. Systems and data links are currently being modified, and it is expected that all the internal systems will be ready by the end of 1998. This will allow Freddie Mac to spend all of 1999 conducting tests on its system. Because of the importance of other businesses being ready for the change, Freddie Mac's efforts have included working with vendors, and other businesses, and Freddie Mac will be participating in the securities industry Year 2000 readiness effort. Additionally, in preparing for the possibility that external computer systems will not be Year 2000 compliant, Freddie Mac is developing contingency plans to permit business operations to continue uninterrupted in case of this occurrence. (*Fannie Mae and Freddie Mac's 1997 Annual Reports*)
- *Experts Caution Consumers About Possibility of "Fannie/Freddie" Fraudulent Web Sites":*
 - Experts are cautioning consumers to stay away from websites that offer loans using the Fannie Mae or Freddie Mac name, or more likely, a clever variant. Experts believe Fannie and Freddie may be vulnerable to fraud because Internet mortgage originations are expected to boom over the next few years. Fannie and Freddie are not concerned about the possibility of these fraudulent activities because neither of the two agencies is in the business of direct lending and because Web lending is only about a year old. Both agencies feel they are insulated and that lenders and borrowers need to insulate themselves from fraud. Fannie Mae feels they have sufficient safeguards in place and according to a spokeswoman "what the lenders do on their own web sites must be self-governed...we just provide a link." If a phony Freddie Mac website were launched, Freddie Mac believes the onus is on consumers. "We don't make loans, so no one should be going on the Internet looking for money from Freddie Mac," said company spokeswoman Kimberly Stein. "We don't have any liability issues in that respect," she

said. Griff Straw, Freddie Mac's director of Business Management Services, added: "The lion's share of the responsibility in safeguarding against fraud rests with the lender, since there is no direct link between Freddie Mac and consumers. We work directly with the lenders." (*Reuters*, 4/20/98)

- *Fannie and Freddie Have "Moral Backing" of the Government?"*
 - In a Personal Finance Column in the *Christian Science Monitor*, an individual from CA submitted a question asking about the notes and bonds issued by Fannie and Freddie. The offering reported "certain risk factors" and said the US did not guarantee the issues, but their broker said the issues were AAA rated and the issuers have the government's "moral backing." The questioner then asked how safe and sound were these investments. According to Peter Perrotti, senior vice manager and director of residential mortgage securities at Hartford Investment Management Company stated that the questioner should be able to "sleep well." Fannie and Freddie have substantial credit lines and "lots of political clout," says Perrotti. And the securities carry either "actual or implicit AAA ratings." (*Christian Science Monitor*, 4/20/98)
- *"Too Big to Fail" – Implicit Government Guarantee?:*
 - The recent mega-mergers of financial institutions (e.g., Travelers, Citicorp, NationsBank, Bank of America) are causing lawmakers and regulators to worry about deposit insurance reform. Because these new institutions will be so massive, many believe they will be considered "too big to fail," which means the government would bail out all depositors – regardless of the \$100,000 insurance limit – if the institutions went bankrupt. This implicit guarantee worries people because depositors, even those with millions of dollars at stake, would not need to monitor an institution's health because their funds would be fully protected. (*American Banker*, 4/20/98)

Fannie Mae

- *Fannie Mae Chairman Resigns; OMB Director will Head Fannie Mae:*
 - Fannie Mae's Chairman & CEO Johnson announced that he is retiring as Chairman at the end of the year. Fannie Mae's Board unanimously named OMB Director Franklin Raines as Johnson's successor. Raines will begin his new Chairmanship on January 1, 1999. Raines, a former Vice Chairman of Fannie Mae (1991 to 1996), resigned his position as the Director of the Office of Management and Budget (OMB) at the White House for the new Fannie Mae position. Fannie will nominate Raines to its Board and name him Chairman and chief executive-designate at its May 21 annual shareholder meeting. Through the transition, Johnson will remain chairman of the company's executive committee through 1999. Johnson had served as Fannie Mae's Chairman and CEO since 1991.

Jim Johnson – Next Secretary of Treasury?:

- Rumors have been circulating that Johnson might be a replacement for Treasury Secretary Robert Rubin who's rumored to be wanting a job on Wall Street. Rubin, however, commented that he would not be leaving anytime soon and he would not be going back to Wall Street. Fannie Mae spokesman John Buckley said "this is one of those periodic rumors that flare up from time to time," and it's been out there since 1963. The rumor is coming around again "because there's a perception of availability" of a job at Treasury." (*Washington Post – In the Loop*, 4/17/98)

Fannie Mae Compensation

- Raines' compensation at Fannie Mae is currently undetermined but should be well above his annual salary at OMB which was just under \$151,800. In 1996, Jim Johnson earned an estimated \$7.2 million in cash, stock options and other compensation at Fannie Mae. Raines reported making \$5.8 million in 1996 as Fannie Mae's Vice Chairman.

Diversity

- With Raines as CEO, Fannie Mae will be the largest US corporation to be headed by a black executive – which many hope will set an example for other corporations. However, Mallory Sanford, president of Philadelphia's ExecuSearch Inc., a large minority recruiting firm, believes Raines' hiring says more about Fannie Mae's desire to keep strong Beltway connections than it does about diversifying offices. "This is more of a political move – hiring him because of his contacts," Mr. Sanford said.

Fannie Mae Enjoyed Financial Success Under Johnson:

- During Johnson's eight-year tenure as Chairman at Fannie Mae, the company has enjoyed financial and political success. Financially, Fannie Mae ranks among the top elite in both assets and return to investors. Fannie currently ranks first in total assets on the Fortune 500 list of US companies. Fannie also receives enormous financial benefit from its special GSE status and Fannie can raise more money cheaply on global financial markets.
- Fannie did not always enjoy such financial success. Because of its GSE status, Fannie Mae is able to borrow cheaply. Fannie buys mortgages that carry higher interest rates and then holds the loans in its portfolio, making a large profit off the "spread" between its borrowing costs and the yield on the mortgages. During the 1970s, the economy changed and interest rates soared. This caused Fannie's spread to reverse on its loan portfolio and put Fannie deeply into the red. By 1983, Fannie was losing \$1 million a day, and officials at the Reagan administration feared that a federal bailout might be necessary costing billions of dollars to taxpayers. The company, however, was able to survive after interest rates eased and new ways of packaging mortgages into securities to be sold to others were developed. By 1989, when Johnson became Chairman of Fannie Mae, the company was profitable.

Fannie Mae Will Continue to Lead in Political Strength:

- Johnson was also extremely adept at conquering political storms and has defused attempts at taking away Fannie Mae's exemption from state income taxes. Through private political lobbying and public events displaying Fannie's commitment to low- and moderate-income homebuyers, Fannie Mae's politically well connected executives have succeeded in marginalizing their critics. Johnson hired many politically connected people during his tenure as Chairman including: Jamie Gorelick, deputy attorney general in the Clinton Administration, as vice chairman; Robert Zoellick, who held various senior posts in the Reagan and Bush administrations, as executive vice president for public policy (now departed); and Gerald McMurray, a top aide to former House Banking Chairman Henry Gonzalez (D-TX), as vice president of public policy and government relations. John Buckley, a spokesman for Ronald Reagan's 1984 presidential campaign and communications director for Robert Dole's 1996 presidential campaign, is the communications director. At the same time, Ellen Seidman, formerly Fannie Mae senior vice president, has held several jobs in the Clinton administration before becoming head of the Office of Thrift Supervision. Johnson believes that these people that he has "brought in or promoted. I think that's the single thing I am proudest of," he said
- One of Raines' toughest jobs may be keeping the legislators away from the GSEs. However, Chairman of the House Banking Committee Jim Leach (R-IA) does not look for any "extraordinary change in the congressional GSE relationship in the near future."
- Politics is considered crucial to Fannie Mae and Raines agreed that his political experience would be key at Fannie Mae. "I've learned a lot about how to deal with tough issues over the last couple of years," he said. "I think it will make me better able to make sure that the company's message is heard and understood by the key decision makers in Washington. Fannie is a regulated company and the CEO has to deal with that on a continuing basis." Having both Johnson and Raines on board at Fannie Mae at the same time would only add to the political advantages of Fannie Mae.

Raines May Now Get Involved in FHA Battle:

- As soon as he starts his job, Raines is expected to play a key role in fighting the proposal in the Administration's budget to increase the FHA loan limit. While he was OMB Director, Raines recused himself from the issue when the budget was being drafted. Federal ethics law prevents Raines from lobbying the White House for the next year, and Raines has voluntarily pledged not to lobby other federal executive branch officials for five years. However, he can still lobby Congress and plan lobbying strategies. Fannie strongly opposes the FHA loan limit increase. But changing the limit would raise \$1.2 billion from mortgage insurance premiums, and the Senate Budget Committee suggested in its report on the fiscal 1999 budget resolution that the new revenue could help pay for transportation spending.

Raines' Involvement in DC Control Board Raises Issue of Fannie's State Income Tax Exemption:

- When Raines was Director of OMB, he was considered the point man on the Clinton Administration's efforts to reform the District of Columbia and was involved in the Administration's search for new appointees to the District's federally appointed control

board. Congress vests the five-member control board with the authority to run virtually all of the District's government. Critics have blasted Fannie Mae for its special tax status, which they argue, deprives the District billions of dollars in potential revenue. Raines denied that he would be a candidate to serve on the District's control board, however, he would focus on the control board appointments over the next week before leaving the Administration on April 20. By serving on the control board, Raines would cause consumer advocates to criticize that Fannie, because of its exemption from state and local income taxes, does not pay its fair share to the District government. (*American Banker*, 4/15/98, 4/21/98; *CQ Daily Monitor*, 4/22/98; *Dow Jones Newswire*, 4/14/98; *Los Angeles Times*, 4/15/98; *New York Times*, 4/15/98; *PR Newswire*, 4/14/98; *Wall Street Journal Interactive*, 4/14/98, 4/15/98; *Washington Post*, 4/15/98)

- *Fannie Mae's Automated Underwriting System Begins FHA Pilot – VA Pilot Soon:*
 - Just one month after the FHA approved Freddie Mac's automated underwriting system for FHA loans, Fannie Mae, HUD and PMI Services Co. announced a pilot program to evaluate the use of the pmiAURA for FHA software system for underwriting FHA mortgage loans. The pilot will be conducted with a limited number of FHA-approved lenders and HUD will assess the software system. During the pilot, the dozen participating lenders will process and deliver a total of between 2000-5000 loans, using Fannie Mae's Desktop Underwriter and the pmiAURA system to quickly check eligibility, documentation requirements, maximum loan limits, and other calculations. According to Roger Conley, Fannie Mae's Desktop Underwriter also has applications that allow for subprime loans and jumbo loans in addition to conforming agency mortgages. After the FHA pilot starts, Fannie will continue to work on a similar program for VA loans. Conley stated that "if lenders choose, they will eventually be able to use a single platform for all of their loans, whether they be conforming, subprime, or government loans." Conley expects that Fannie's Desktop Underwriter should process more than one million loans this year. Desktop Underwriter is currently processing about 15,000 loans per day, up nearly 1,000% from last year. (*American Banker-Bond Buyer*, 4/20/98; *Business Wire*, 4/15/98)
- *Borrowers May not be able to Obtain Reverse Mortgages in Texas Because Fannie Mae will Not Enter Texas Reverse Mortgage Market Yet:*
 - Fannie Mae has decided not to enter the Texas reverse mortgage market until it is clear whether a RAM (reverse annuity mortgage) can be offered legally in the state, according to *Real Estate Online News*. The problem comes from the constitutional amendment passed by Texas voters last year allowing reverse mortgages, which carries a lengthy list of requirements on RAMs and in some cases requires lenders to assume greater risks than reverse mortgage lenders in other states. Borrowers may not be able to find reverse mortgage lenders until Fannie enters the market. (*Inman News Feature*, 4/17/98)
- *Fannie Mae Foundation Study Finds Minorities More Confident About Purchasing Homes. However, Some Consumer Groups Fault Fannie for Lack of Low Down-Payment Programs to Help Minorities:*

Survey Results

- The Fannie Mae Foundation conducted a study on African American and Hispanic attitudes about homeownership. The study found that minorities are more confident about owning a home. The survey found that 74% of African Americans and Hispanics were somewhat confident their income and credit records would qualify them for mortgages, as compared with 49% in 1996. Almost half of those surveyed were “totally confident” they could get a loan. Just under half of African Americans and one-in-three Hispanics said there were obstacles particular to people of racial and ethnic backgrounds in buying a home. However, the perception that minorities suffered from discrimination in mortgage lending “all or most of the time” fell by one-third among both groups in the last five years.

Criticism of Fannie Mae:

- Some consumer groups responded with cynicism to Fannie’s study. Bruce Marks, executive director of Union Neighborhood Assistance Corp (community activist group in Boston) believes optimism is on the rise for minorities but the “major roadblock to homeownership is the lack of savings, and Fannie Mae continues to require substantial down payments and closing costs” on the loans it buys from lenders. Marks feels that NationsBank, First Union Corp., Fleet Financial Group, and BankAmerica Corp. “are doing much more portfolio lending on criteria that Fannie Mae won’t purchase.” A Fannie Mae spokesman said the down payment obstacle is one Fannie has “systematically moved to address,” and that Fannie’s efforts have led to wider acceptance of low down payment loans. (*American Banker*, 4/23/98; *Business Wire*, 4/21/98)
- *Fannie Mae Announces Largest-Ever Agency REMIC:*
 - Fannie Mae announced its largest-ever REMIC, a \$4.02 billion deal with Goldman, Sachs. It is the largest agency REMIC ever done with an investment banking firm. The Fannie Mae REMIC 1998-24 makes it the biggest fixed-rate agency collateralized mortgage obligation (CMO) ever. The REMIC is not only the largest, but it also uses an innovative structure. The REMIC is also a record on the basis of its 90 tranches, each one of which tailors principal and interest payments from the underlying mortgages to meet investors’ demands for risk and maturity. According to Richard Moogan of LaSalle National Bank, the REMIC is a “stacked deal” made up of shelves of approximately a month’s worth of CMOs all combined under a single label. Moogan believes, however, that it is the size of the offering – and what it says about the volume of CMOs produced in a single month – that is remarkable. The whole deal is roughly the equivalent of a month of Fannie Mae CMO creation from Goldman. Previously, such transactions would be handled in three or four smaller and more focused REMICs created individually over a similar period.
 - The REMIC transaction is backed by 30-year home mortgages taken out by new homebuyers or people who refinanced their homes within the past six months or so, said Sharon Stieber, vice president of Fannie Mae’s mortgage capital markets department. The Goldman REMIC (119-24) consists of 90 tranches and is backed by \$3.0 billion in

30-year fixed-rate mortgages in MBS form with an interest rate of 7.0%; \$800 million in 30-year fixed-rate mortgages in MBS form with an interest rate of 6.5%; and \$220 million in 30-year fixed-rate mortgages in MBS form with an interest rate of 6.0%. Fannie's largest previous REMIC was a \$3.18 billion deal with Salomon Brothers that closed in February 1997, and consisted of 89 tranches. (*Business Wire*, 4/15/98; *Dow Jones*, 4/15/98, 4/16/98; *SmartMoney Interactive*, 4/15/98)

- *Fannie's Controversial Online Mortgage Site, iQualify, is a Finalist in the Smithsonian Computerworld Award:*
 - Fannie's controversial joint partnership website, iQualify (site that links consumers directly to Fannie Mae's underwriting over the Internet), is a finalist for the 1998 Computerworld Smithsonian Award for its innovative use of information technology to create positive changes for society. Fannie's program, iQualify, is a multi-lender website where consumers can send a loan application that is processed by Fannie Mae's Desktop Underwriter before a consumer even chooses a lender. Fannie's contribution will become part of the Smithsonian Institution's Permanent Research Collection on Information Technology at the National Museum of American History. Fannie Mae will be honored along with other finalists at a ceremony in Washington, DC on June 8th. (*PR Newswire*, 4/20/98) [Please see January 16th, February 13th and March 13th *GSE Reports* for further information about the iQualify website.]
- *Fannie Mae Nominates Politically-Connected Consultant to its Board:*
 - Fannie Mae nominated Kenneth Duberstein to its Board of Directors. Duberstein fills the board seat vacated by Richard Parsons, whose term expires at the May 21st shareholder meeting. Duberstein's appointment is subject to shareholder approval. Duberstein is currently Chairman and CEO of The Duberstein Group, a Washington-based independent strategic planning and consulting company. Duberstein formerly served as chief of staff to President Ronald Reagan in 1988 and 1989; was deputy chief of staff to the President in 1987, and held other posts in the Reagan White House from 1981-1983. Before that, he was vice president and director of business-government relations of the Committee for Economic Development, and also served in the administration of President Gerald Ford and President Richard Nixon. He is currently Vice Chairman of the Kennedy Center and serves on the Board of Directors for Boeing, Cinergy, and USF&G Corporation, and is serving his third term on the Board of Governors of the American Stock Exchange. Fannie Mae's Board of Directors consists of 13-shareholder elected directors and five members appointed by the President. (*Dow Jones Newswire*, 4/16/98; *PR Newswire*, 4/16/98)
- *Fannie Mae & Rep. David Hobson Announce Fannie's Internet Partnership with OH Library:*
 - Fannie Mae and House Appropriations Committee Member Rep. David Hobson (R-OH) announced that the Clark County Library in Springfield, OH would provide free on-line homebuying and refinancing access through their public library on Fannie Mae's website.

The Clark County Public Library will create a hyperlink to Fannie Mae's HomePath.com site on the Internet. Using the library's free Internet service, consumers can assess Fannie Mae's site to find a list of lenders who currently offer Fannie Mae's low down payment, flexible mortgage products; explanations of different kinds of Fannie Mae mortgages; and information about the mortgage process. (*Business Wire*, 4/16/98) [Fannie Mae announced this same type of partnership with the San Antonio Public Library last year – please see November 26th *GSE Report* for information.]

- *Fannie Mae Holds Press Conference with Rep. Roybal-Allard to Announce Affordable Housing Program:*
 - Fannie Mae held a press conference on April 17th with Rep. Lucille Roybal-Allard (D-CA) (a member of the House Banking Committee) and others to announce a new initiative to provide low down payment mortgages and affordable home improvement financings for Los Angelenos. Fannie announced three initiatives – “Flexible 97,” the “Home Improvement Loan Program (HILP),” and “HomeStyle Los Angeles.” “Flexible 97” will allow homebuyers to make as little as a 3% down payment, funds for which can come from a loan or a gift. Buyers can purchase a home using any combination of the following: personal savings; personal loan; a gift from a family member; grant from an employer, nonprofit or government agency. In addition, the seller may contribute up to 3% toward the buyer's closing costs. Under the “HILP,” Fannie Mae purchased bonds from the Southern California Home Financing Authority as part of the pilot. Under the HILP, existing homeowners who occupy their homes and earn 80% or less of the area median income are eligible to obtain a home improvement loan with an interest rate of only 3%. In the “HomeStyle Los Angeles” initiative homebuyers in some cases may purchase a home with a down payment as low as 3% using a HomeStyle loan. Homeowners can also refinance their current mortgage loans and include additional renovation money in the new loan, or take out a second mortgage loan for minor and moderate home improvements or repairs. Under HomeStyle Los Angeles, lenders may increase loan amounts for rehabilitation based on the as-completed value of the home. (*Business Wire*, 4/15/98, 4/17/98)
- *Fannie Mae Holds Press Conference with Atlantic City Mayor:*
 - Fannie Mae, GMAC Mortgage, Atlantic City Mayor James Whelan, representatives of the Tropicana Casino and Resort, the Casino Reinvestment Development Authority, and the Atlantic City and County Board of Realtors held a press conference on April 14th to kick-off a \$12.5 million housing program for Atlantic City. Under the program, qualified borrowers can finance up to 100% of the purchase price of a home, provided they spend 3% on closing costs or a down payment. Fannie Mae has agreed to back the mortgages. To qualify, families of two or less must have annual household income of \$71,330 or less and must agree to make the house their primary residence. (*PR Newswire*, 4/10/98; *The Record, Northern New Jersey*, 4/15/98)
- *Fannie Announces Mortgage Relief for Victims of Tornadoes in AL, GA, and TN:*

- Fannie Mae announced provisions to assist tornado victims in Alabama, Georgia and Tennessee. The provisions give mortgage servicers the discretion to help borrowers on a case-by-case basis with such options as suspending mortgage payments for up to three months, reducing the payment for up to 18 months, or creating longer loan payback plans. Fannie's guidelines also advise lenders to counsel borrowers on all payment workout options, and to inform homeowners of disaster relief available from federal agencies. Payment relief is available for single-family mortgages (including condos) serviced by Fannie Mae lenders in areas affected by the tornadoes. (*Business Wire*, 4/20/98)
- *Fannie Mae Issues Guidebook in Three Languages to Target Asian Immigrant Community:*
 - Fannie Mae issued its citizenship and homeowner guides in Chinese, Vietnamese, and Korean to target the Asian community in Oakland, CA. The guidebooks will be issued in Oakland, then Houston, Los Angeles, and New York. The Fannie Mae Foundation will also host homeownership workshops for targeted Asian homebuyers. (*PR Newswire*, 4/17/98)
- *Fannie Mae Forms New Business Health Coalition Meeting with Congressional Members on the Board:*
 - Fannie Mae and the National Osteoporosis Foundation are two co-founders of the new Osteoporosis Business Coalition, a business initiative to mobilize the private sector to support osteoporosis education and research and increase awareness of the disease. The Coalition will conduct a two-year recruitment and fundraising campaign targeted to US businesses. The Congressional Honorary Members are Senator Alfonse D'Amato (R-NY), Sen. Barbara Mikulski (D-MD), Rep. Jennifer Dunn (R-WA), Rep. Eddie Bernice Johnson (D-TX), and Rep. Connie Morella (R-MD). (*Business Wire*, 4/20/98, 4/22/98)
- *Fannie Mae Participates in Affordable Housing Program in Muncie, IN:*
 - Fannie Mae, Banc One Capital Funding, and The Sterling Group (a developer) announced that affordable housing will be constructed for families earning less than 100% of the area median income of \$42,200. The development consists of a 136-unit Apartment Complex, offering one-, two-, and three-bedroom garden apartments. (*Business Wire*, 4/21/98)

Freddie Mac

- *Freddie Mac Pilots Faster, Riskier Foreclosure Process in Hawaii:*

- Freddie Mac started a pilot program in Hawaii for non-judicial foreclosures. The foreclosure requires an affidavit filed at the State Bureau of Conveyances instead of a lawsuit filed in court like in traditional foreclosures. In a non-judicial foreclosure, the lender's attorney has power of sale; the long time often required to resolve a traditional foreclosure suit is slashed; and the need for a foreclosure commissioner is eliminated. According to a Freddie Mac spokesman, the law in Hawaii allows more than one type of foreclosure and Freddie Mac is currently looking at many different approaches to handling foreclosures in Hawaii. Currently, one of the lawyers handling Freddie Mac's foreclosure process, Lester Leu, has between 20 and 30 non-judicial cases. After a public notice is placed in newspapers, an auction of the home can be held. There is no requirement to notify the homeowner individually, Leu said.
- Sanford Langa, a partner with Langa Franco Poelman & Wiltsie on Maui, said that Freddie Mac's process of foreclosure may be less expensive and quicker, but it can be riskier to homebuyers. When the new owner of non-judicially foreclosed property tries to sell the home, the buyer may not have the highest certainty of title because the court does not adjudicate a non-judicial foreclosure, as it would in a lawsuit-foreclosure. "People who buy at foreclosure auctions may have problems down the road under nonjudicial foreclosure if the buyer wants proof the lender [that foreclosed] didn't defraud anybody." (*Pacific Business News*, 4/13/98)
- *Freddie Mac Believes Its System Will Process An Enormous Number of Appraisals:*
 - Freddie Mac's Goldworks electronic network includes a feature called Rapid Request that allows its 950 lender subscribers to order, receive and approve appraisals over Freddie's system. Griff Straw, the director of marketing and new business for Freddie Mac, said Freddie's system is currently processing about 15,000 electronic appraisals per month, up from 3,000 six months ago, and just a handful a year ago. Straw said it's likely that Freddie will process 50,000 appraisals per month by the fall of this year. (*Mortgage Marketplace*, 4/13/98)
- *Freddie Mac Announces Alliance to Increase Native American Homeownership - Senators Inhofe and Senator Nickles Invited:*
 - Freddie Mac, the Chickasaw Nation, PMI Mortgage Co. and FT Mortgage announced an alliance that provides opportunities to increase Native American homeownership. Assistant Majority Leader Don Nickles (R-OK) and Senator James Inhofe (R-OK) were invited to the press conference announcing the alliance. (*PR Newswire*, 4/16/98)
- *Freddie Mac's First Quarter Earnings Increase 23% in 1998- Net Profit Increases 19%:*
 - Freddie Mac's first quarter 1998 earnings were \$0.54 a diluted share, a 23% increase over first quarter 1997's earnings of a diluted share of \$.44. Net income or profit for the first quarter was \$393 million, compared to \$329 million for the same period last year and

\$372 million for the fourth quarter of 1997 (an increase of 19%). Freddie Mac said its revenue rose 12% to \$872 million from \$777 million last year. Freddie's retained portfolio of mortgages grew 13% to \$50.36 billion from \$44.67 billion last year. Its portfolio of guaranteed mortgage securities increased 36% to \$135.56 billion. (*Freddie Mac press release, 4/15/98; PR Newswire, 4/15/98; Dow Jones Online News, 4/15/98*)

Federal Home Loan Banks

- *Controversial FHLBank of Chicago Pilot Program Has Over \$350 Million in Commitments:*
 - The FHLBank of Chicago's "mortgage partnership finance" (MPF) pilot program was considered controversial because it is the first time that a FHLBank will be able to directly fund mortgages made by its members. The pilot allowed the Chicago FHLBank to fund \$750 million in conventional and other types of loans through its members. The loans would then be portfolioed by the FHLBank. The FHLBank of Chicago would be able to directly fund mortgages made by members who pay no guarantee fee (as they would do to Fannie or Freddie) – but would assume a second loss credit position on the loans that they originate. The fact that the FHLBank is funding and portfolioing loans with its own money also puts it in direct competition with Fannie and Freddie.
 - The FHLBank of Chicago has already received more than \$350 million in master commitments and has funded more than \$100 million of those commitments with \$77 million of that amount coming since the beginning of the year. Approximately 52% of the mortgages are conventional Fannie Mae/Freddie Mac type product. (*National Mortgage News web site, 4/21/98*)
- *FHLBanks Lent 25% More than Last Year:*
 - The FHLBanks lent more than \$195 billion to banks and thrifts last year – 24.7% more than in 1996 and nearly double the total five years ago. Last year, nearly 500 commercial banks joined the FHLBank System increasing the membership to more than 6,500. The FHLBanks are expected to increase their lending even more since banks are competing with brokerage houses and insurance firms for deposits, and because the FHLB adopted a rule change last month that would let community bankers use a wider range of assets as collateral for advances. The rule change allows a loan to a farm or business to be counted towards the 10% requirement (at least 10% of assets in mortgages or MBS) as long as a residence is an "integral" part of the property. (*American Banker, 4/20/98*) [See April 10th *GSE Report* for more information on the FHLB rule change.]

Sallie Mae

- *Sallie Mae Refuses Administration's Proposal to Help Guaranteed Student Lending Program:*

- Against an Administration proposal to shore up the guaranteed student loan program, Sallie Mae said they refuse to provide \$1 billion of emergency lending should private lenders leave the student loan program. In a letter to Education Secretary Riley, Sallie Mae's CEO Albert Lord said Sallie Mae is required to provide only a small portion of the \$1 billion in emergency lending requested by the Administration in the event private lenders drop out of the program. Lord wrote that Sallie Mae only has to provide \$200 million under its existing lender-of-last resort commitment. Sallie Mae and bankers are currently in a disagreement with the Administration over its plans to cut rates on government guaranteed student loans. The industry has warned that private lenders might leave the program, if the Administration plans to commit an 80-basis-point cut in interest rates (scheduled to take effect July 1). Bankers believe that the cut would make the loans unprofitable. "As a publicly owned company, we have a fiduciary responsibility to our investors to protect their capital. As a government-sponsored entity, we have a responsibility to ensure the financial safety and soundness of the company," Lord said. "To compel us to make loans under the proposed conditions would compromise those responsibilities and would, in our opinion, be unconstitutional." Education Secretary Riley has proposed that the government provide \$4 billion in new direct lending, with the rest of the gap filled by Sallie Mae. (*American Banker*, 4/17/98)

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