

The **GSE** REPORT

All GSEs

- *Fed, Treasury Warn Against GSE Provisions in Senate Regulatory Relief Bill:*

Affiliations with GSEs: - Would Allow Depository Institutions to Affiliate with GSEs

- Officials from the FRB and Treasury warned against provisions in the financial regulatory relief bill introduced by Senators Richard Shelby (R-AL) and Connie Mack (R-FL) that could be misinterpreted to allow banks to affiliate with GSEs. “As worded, the section would appear to permit a bank or bank holding company to acquire control of any GSE, and to permit any GSE to acquire an insured bank,” stated FRB Governor Laurence Meyer at a recent Senate Banking Committee hearing. “This broad change, involving all GSEs, raises significant policy issues that the Board believes go beyond the scope of regulatory burden relief,” he added.
- Acting FDIC Chairman Andrew Hove, Jr., told the Senate Banking Committee that “GSEs have lower borrowing costs, which allows some GSEs to dominate their market.” Because GSEs can borrow money more cheaply than private-sector depository institutions, a GSE may be able to pass the benefit of lower borrowing costs to an affiliated bank or thrift. This relationship could result in a competitive advantage for a GSE affiliate over other banks and thrifts, and give the GSE the ability to exercise market power through vertical integration. Allowing a GSE to affiliate with a bank or thrift raises serious issues that merit further analysis,” according to Mr. Hove. He added that the “FDIC believes that additional study is warranted on the effects – intended and unintended – of allowing GSEs and depository institutions to affiliate.” The section on GSEs was originally designed to address an existing relationship that involves a bank’s ownership of shares of a single GSE. FRB Governor Meyer thought the issue could be addressed through narrower language.

FHLBank Provisions: - Provisions Serve No Public Purpose and Unfair Advantage

- Treasury Under Secretary for Domestic Finance, John Hawke, Jr. stated that Treasury has “fundamental concerns” with the FHLBank provisions in the bill. Treasury believes that the FHLBank System needs a comprehensive overhaul, not just the “piecemeal” reforms contained in the regulatory burden bill. Under Secretary Hawke was not opposed to provisions that would give the FHLBanks more control over decisions such as setting director’s salaries, but believes it would be unwise to grant more autonomy without more comprehensive reform of the System. Provisions granting the FHLBank System special treatment on the Fed’s daylight overdraft regulations, and decentralization of certain decision making authority from the FHF to the FHLBanks he felt were inappropriate without making more basic structural changes first. Both Under Secretary Hawke and FRB Governor Meyer thought that the provisions requiring the Federal Reserve to make intraday credit available to the FHLBank System would give the System special treatment over other GSEs like Fannie and Freddie. Under Secretary Hawke states in his testimony that “such an advantage would serve no public purpose, could add risk to the payments system, and would create an unfair advantage for FHLBanks over both depository institutions and other GSEs.”
- In written testimony, Under Secretary Hawke stated that the FHLBanks role in the financial markets has changed dramatically in recent years and that “the development of the secondary mortgage market and the authorization of adjustable rate-mortgages have eroded the System’s original public purpose.” However, while the public purpose has been eroding, the FHLBanks’ balance sheet has been growing. Under Secretary Hawke added that “at the end of 1997, the System had nearly \$360 billion in assets, but only \$200 billion of those assets were advances. About \$150 billion of the System’s assets were investment securities unrelated to the System’s mission – a sort of money market fund for the benefit of System members managed by the System and funded with debt securities subsidized by taxpayers.”
- Under Secretary Hawke further stated that in the early 1990’s, the FHLBanks blamed a combination of diminished demands for member advances and the \$300 million fixed REFCorp obligation as justification for building their large investment portfolios. However, member advances have steadily increased since that time and the FHLBanks have not decreased but rather increased their investment portfolios. Under Secretary Hawke stated that “while the higher dividend rates that result from the investment portfolios may help retain members in the System, these investments do not contribute to the FHLBanks’ public purpose and are unnecessary to fund a REFCorp obligation that is small in comparison to the overall size of the System. Thus any meaningful Federal Home Loan Bank legislation must include eliminating investments that do not directly serve the mission of safety and soundness of the system, better ensuring that advances to members are used to further their intended purpose; rationalizing the rules for FHLB membership; and reforming the capital structure of the Banks.”(*BNA Daily Report for Executives*, 3/11/98; *Dow Jones Newswire*, 3/10/98; *Written Testimony Submitted to Senate Banking Committee*, 3/10/98)
- *Issuance of Debt by the Federal Agencies Set a Record Last Year:*

- Federal agency debt issuance increased to a record \$5.7 trillion in 1997 (a 27.3% increase over the \$4.5 trillion in agency debt in 1996) with short-term debt accounting for most of the share. Issuance of short-term securities and discount notes totaled a record \$5.4 trillion in 1997 (a 28.1% increase from the \$4.2 sold in 1996). As recently as 1990, federal agency debt issuance was \$637 billion. The Bond Market Association compiled the 1997 figure. The US agency market consists of Fannie Mae, Freddie Mac, FHLBank System, Sallie Mae, Farm Credit System and TVA. Debt issuance by the agencies has grown in recent years due to the increased use of short-term funding instruments by the agencies.
- The primary issuer of agency debt was the FHLBank System which accounted for 37.3% of all agency debt issuance- issuing \$2.14 trillion in debt securities. According to a spokesperson for the Federal Housing Finance Board (regulator of FHLBanks), the FHLBank System borrowing generates money to meet a fixed annual obligation of \$300 million to pay interest on the off-budget thrift bailout bonds issued by the Resolution Funding Corp. The Housing Finance Board is in the process of reviewing the FHLBank's large debt issuance.
- Freddie Mac issued \$1.82 trillion in debt in 1997 (up 43.1% from the \$1.27 trillion in 1996). Short-term debt issuance accounted for \$1.78 trillion of the 1997 total, while long-term debt totaled \$38.8 billion last year.
- Fannie Mae issued \$841.4 billion in debt in 1997 (up 17.6% from the \$715.6 billion in 1996). Short-term debt accounted for \$755.1 billion and long-term debt issuance increased by 7.5% last year (\$86.3 billion in 1997 from \$80.3 billion in 1996).
- Sallie Mae issued \$686.2 billion in debt in 1997 (up from \$275.5 billion in 1996). Short-term debt accounted for \$275.5 billion in 1996, while short-term debt accounted for most of the 1997 total (\$681.5 billion). Long-term debt issuance was \$4.7 billion.
- The Farm Credit System issued \$244.8 billion in debt in 1997 (a 6.3% decrease from \$261.3 billion in 1996). Short-term debt accounted for \$225.6 billion (a decline of 6.6% from \$241.6 billion in 1996). Long-term debt issuance was flat at \$19.2 billion in 1997 (compared to \$19.7 billion in 1996).
- The TVA issued \$25 billion in debt in 1997 (a 9.8% decrease from the 27.7 billion in 1996). Short-term issuance was \$21.4 billion (a decrease of 12.8% from \$24.6 billion in 1996). Long-term issuance was \$3.6 billion in 1997 (an increase of 14.3% from \$3.2 billion in 1996). (*Dow Jones Newswire*, 3/2/98; *Wall Street Journal Interactive*, 3/3/98)

Fannie Mae & Freddie Mac

- *GSEs Non-Mortgage Investments Will Receive Attention Again:*

- In the near future, HUD is expected to close its comment period on its Advanced Notice of Proposed Rulemaking, as to whether HUD should draft new regulations limiting Fannie and Freddie's non-mortgage investments. Also, Chairman of the House Banking Committee Jim Leach (R-IA) is expected to hold a hearing on a soon-to-be published GAO Report on Fannie and Freddie's non-mortgage investments. The issue was first brought to attention when Chairman Leach was upset over Freddie Mac's purchase of Philip Morris bonds, and Chairman Leach asked HUD to review the GSEs' non-mortgage investments.
- Although the comment period for HUD's proposal on the GSEs ends soon – HUD has not received any letters on the subject. One HUD observer stated that although few people probably object to the GSEs' purchase of non-mortgage securities, there is widespread concern that there does not appear to be any regulatory limits on what the GSEs can do. Some observers believe that HUD's proposal was so half-hearted that potential commenters questioned whether HUD had the desire to even regulate Fannie and Freddie. Last summer, the GAO determined that HUD did have the authority to regulate the GSEs' non-mortgage investments if HUD found the activities weren't consistent with the public purposes of their charters. Legal observers question if there is anything in Fannie and Freddie's charters preventing them from investing in anything they want, so long as it furthers their business of providing mortgage credit and promoting homeownership. Should Chairman Leach feel that the GSEs' charters allow them unlimited authority, he may consider legislation. (*Inside Mortgage Finance website*, posted 2/27/98, as appeared in 2/27/98 issue of *Inside MBS and ABS*)
- *Are Fannie and Freddie Slowing Down the Refinancing Surge?:*
 - Refinancings have been at the highest level in years causing Fannie and Freddie to worry about the value of their securities. The rising loan volume has put pressure on the agencies to buy more loans from lenders. However, the refinancing wave has raised the concerns of investors who buy Fannie and Freddie's securities. Patrick Flood, president of HomeBanc Mortgage Corp. in Atlanta, believes that the agencies are "walking a fine line right now" and "they don't want to make it too easy [to refinance loans], because if that happens it will devalue their securities." Mr. Flood believes that instead of working to streamline the loans and simplify the process in order to purchase more refinanced loans, the agencies may be erring on the side of protecting value to investors. "There is a tremendous opportunity for the agencies to simplify the process and to make it easier for lenders to raise their productivity to meet consumer demand," he said, "but we've not seen that take place at this point, and that's disappointing." Mr. Flood said HomeBanc has been in negotiations to ask the agencies to "be more liberal with making the process easier for consumers that are high grade in credit." However, despite a streamlined process that allows loans to be refinanced without appraisals, Mr. Flood said that Fannie and Freddie are "limiting that process to customers that are not adding closing costs back to their loan balance to cover the cost of refinancing." Officials at Fannie and Freddie insist that they have bought more loans since the refinancing wave and have worked to simplify the process. (*American Banker*, 3/3/98)

- *Fannie and Freddie are Fiercely Competing for Automated Underwriting Business:*
 - Fannie and Freddie have been updating their automated underwriting systems not just for streamlining purposes but also to increase market share (Fannie Mae – Desktop Underwriter; Freddie Mac – Loan Prospector). Reports from lenders suggest that Freddie Mac is ahead of Fannie Mae in market share, but Fannie will likely catch up with Freddie by the end of the year in terms of the percentage of business coming through its automated underwriting system. One mortgage industry observer notes that “the momentum appears to have shifted from Freddie to Fannie in recent months, and lenders say it is because of Fannie’s better pricing, as well as a more flexible [AU] product that provides more information on a loan decision.” According to Mortech data, 54% of lenders that close loans in their name are using an AU system. Of that percentage, Fannie Mae has 39.5% of the market as of October 1997 (increasing 27.9% since 1996). Fannie Mae claims that over 500 lenders use their system and they close over 14,000 loans a day. Freddie Mac’s share only increased slightly from 43.7% to 43.9%. (*Inside Mortgage Finance website*, posted 3/9/98, as appeared in 3/9/98 issue of *Inside Mortgage Technology*; *Business Wire*, 3/10/98)

- *Fannie and Freddie Guidelines Make it Difficult for Prospective Condo Buyers to Obtain Mortgages:*
 - Fannie Mae and Freddie Mac have tight guidelines for condominiums. For loans with down payments of less than 25%, they require that complexes be at least 60% owner-occupied. According to Warren Bell, president of a 296-unit condominium complex in Fairfax County, VA, the condos are very difficult to sell because most of the prospective buyers cannot afford to spend much, and cannot make large downpayments, and therefore, do not meet the strict guidelines. Fannie Mae’s Director of Credit Policy, Chip Coffay, said the rules are necessary to prevent loan defaults. “In circumstances where we’ve had bad experiences with individual condo projects...when we’ve gone in and examined what occurred, they were projects that at the time loans began to default had a high percentage of investor-owners.” John Hemschoot, director of home mortgage standards at Freddie Mac, said: “These projects that have a large percentage of investor-owners generally don’t tend to be maintained as well and frequently are the source of marketability issues.” Mr. Hemschoot said the guidelines were issued two years ago, before the rest of the market players. There was a sense, he said, that “we were not getting the most desirable mortgages.” Marilyn Wools, a manager of a condominium building in Washington, DC that is 25% owner-occupied believes that a building that is predominantly filled with renters can still be a good project. According to Wools, lenders “won’t touch this building...It’s been very difficult to sell units; there’s only conventional financing” with high downpayments.” (*Washington Post*, 2/28/98)

- *Fannie Mae, Freddie Mac, and Sallie Mae Hold \$9 billion of Outstanding Municipal Bonds:*
 - According to the Bond Market Association, Fannie Mae, Freddie Mac and Sallie Mae collectively hold about \$9 billion of outstanding municipal bonds. The Bond Market

Association gave the statistics during Congressional testimony before the House Ways and Means Committee in opposition to several Administration proposals that they believe are detrimental to borrowers in the municipal market. In a letter sent to the entire Senate, the House Leadership, and members of the House Ways and Means Committee, the Bond Market Association said that the Administration proposal to eliminate the two-percent de minimis rule for “financial intermediaries” would stop Fannie Mae, Freddie Mac, and Sallie Mae from buying municipal bonds altogether. The result would be significantly higher financing costs for these uses of bonds. (*Dow Jones Newswire*, 2/25/98; *Bond Market Association Letter*, 3/2/98)

- *OFHEO Names Director of Congressional Affairs:*
 - The Office of Federal Housing Enterprise Oversight (OFHEO), the safety and soundness regulator of Fannie and Freddie, has named Joanne Hanley, director of Congressional Affairs. Ms. Hanley was acting director for legislative matters since October of last year. Prior to OFHEO, Ms. Hanley was a legislative adviser at the FDIC and the National Credit Union Administration. She is also a former staffer on the Housing Banking Committee. (*CQ Monitor*, 3/6/98)

Fannie Mae

- *Fannie Mae’s Joint Partnership Web Site, iQualify, Will Now Allow Real Estate Agents to Process Loans Directly through Fannie’s Automated Underwriting System and then Direct Loans to Fannie Mae-approved Lenders and Connect Agents’ Clients to Finet Loan Counselors (Fannie’s Joint Partner)*
 - Fannie Mae’s program, iQualify (www.iqualify.com) is a multi-lender web site where consumers can send a loan application that is processed by Fannie Mae’s Desktop Underwriter before a consumer even chooses a lender. The website is a joint program with Fannie Mae and Finet Holdings Corp. (owner of Monument Mortgage). (Please see January 16th and February 13th issue of the *GSE Report* for more information about the corporate background of Finet Holdings and how the website works.)
 - Recently, Finet Holdings has formed a LLC with NDS Software, Inc. to work on a new co-branded Internet site, named CityNet. CityNet will be available to any homebuyer who gains access through information provided by their real estate agent. The homebuyer will see all the homes through information provided by their real estate agent and all the homes currently in the HomeSeekers.com inventory (now a total of 500,000 listings); however, the only real estate agent advertising seen by the consumer will be from the real estate agent who directed the homebuyer to the CityNet site. In addition to the residential real estate for sale on HomeSeekers.com., Finet will add the functionality of its iQualify.com Internet service that will allow consumers to receive an on-line loan decision over the Internet through Fannie Mae’s Desktop Underwriter automated loan approval system. Once approved, they can select an appropriate lender and loan program from among the Fannie Mae approved lenders.

- According to L. Daniel Rawitch, Finet's CEO, "the public doesn't understand the difference between being 'pre-qualified' for a mortgage, which is nothing more than a non-binding opinion, and an actual loan approval that will be honored by any Fannie Mae lender." According to Rawitch, with CityNet and their unique system, every PTN [property transaction network] agent using their own PC or the Agent Connector software, can allow buyers to get a loan decision in minutes while viewing homes. The program now offers PTN Direct that allows real estate agents to post a personal website allowing consumers to view over 500,000 loans, and receive financing approval directly through Fannie Mae's automated loan approval system. PTN realtor members will be able to post a personal website and new listing to the Internet, connect their clients to Finet's loan center counselors, and exchange mail. The site is expected to earn both firms substantial revenues from advertising and loan related fees.
- In related news, Finet Holdings also announced an agreement to jointly establish a unique "Home Center" within iMall, the industry's leading independent electronic shopping mall. The Finet Home Center will eventually offer a full spectrum of home-related tangible and intangible services. Home Center will expand later by adding iMall tenants who offer homeowner related products and services. (*Business Wire*, 2/26/98; *PR Newswire*, 3/13/98)
- *Administration's FHA Proposal Pits Fannie Mae Against HUD:*
 - The Administrations' proposal to raise the FHA limits has pitted HUD Secretary Cuomo against Fannie Mae Chairman Jim Johnson – both Democratic political heavy-weights. Mr. Johnson opposes the FHA increase because he feels that it would be encroaching on Fannie Mae's market. He believes the proposal would divert FHA's focus from first time, minority, and low-income homebuyers. Sec. Cuomo believes that the government would be backing borrowers that are not served by the private market and would not affect the FHA's focus on low-income homebuyers. A staff member for Sec. Cuomo said that supporters of the proposal were "taken aback" by Mr. Johnson's heavy lobbying campaign against the issue – who has been observed leaving the offices of Members of the Senate Banking and Appropriations Committee. The plan would raise over \$200 million in additional revenue next year, which is an enticement for Congressional appropriators. Sec. Cuomo and Johnson have discussed the issue a few times and the story reported is that Mr. Johnson bluntly told Sec. Cuomo that the Administration would lose. Both supporters and opponents on Capitol Hill say that it is too hard to tell how things will turn out since both Sec. Cuomo and Jim Johnson are such evenly matched opponents. (*American Banker*, 3/12/98)
- *Fannie Mae Launched Third Benchmark Issue – Investors Believe Backed by Gov't:*

Details of Benchmark:

- Fannie Mae recently launched a \$4 billion three-year note that was priced at 99.779 with a coupon of 5 5/8%. The yield spread, 11 basis points over US Treasuries, was marginally wider than initially anticipated by the markets. Investors apparently cannot get

enough of Fannie Mae's benchmark notes, if trading in Fannie's latest global offering is any guide. Fannie Mae priced \$4 billion of its new three-year Benchmark notes at a spread of 11 basis points above Treasuries. However, shortly before noon that same day, the notes were trading at 9.5 basis points above Treasuries. Andy McCormick, assistant Treasurer at Fannie Mae said that "So far, trading volume and investor interest have exceeded expectations on all Benchmark issues." In offering investors three-year notes, Fannie Mae will continue its \$40-billion-a-year program to provide investors and traders with a surrogate for the shrinking supply of Treasury securities. Along with its sale of new three-year notes, Fannie Mae announced that it re-opened the 10-year benchmark issue it sold last month by adding \$750 million to the \$4 billion issue outstanding. It was priced at 98.081 with a coupon of 5 3/4%, offering a yield spread of 27.5 basis points over Treasuries. Mr. McCormick said that all of the reopened 10-year notes were sold to investors.

- Overseas investors were less active buyers in Fannie Mae's third benchmark issue. Tighter spreads and the shorter maturity of the issue were reasons cited for less overseas investors. According to William Lloyd, director and head of market strategy and credit research at Barclays Capital, the first two issues were bought by domestic and overseas investors predominantly from Asia and Europe but the third benchmark issue was more coolly received in Europe and Asia because of the tight spread. Based on preliminary estimates, Fannie Mae said 60% of investors in the new three-year note were from the US, with 20% from Europe, 12% from Asia and the remainder from other regions. Among those investors, Mr. McCormick said that many different foreign central banks participated in the sale. Fannie Mae's first benchmark was a \$4 billion five-year bond in January, followed by a \$4 billion 10-year.

Investors Believed Backed By Government:

- The benchmark notes also attracted fixed-income investors who normally stay away from the thinly traded bonds that have been a staple in the agency-debt market. Although Fannie Mae's debt isn't guaranteed by the US government, investors and rating agencies believe the US would back the agency if it defaulted.
- With turmoil in overseas markets, the implied government guarantee of Fannie and Freddie is an attraction to foreign investors. A senior analyst with Salomon, Smith Barney, Thomas O'Donnell, said the GSEs are a "good proxy for Treasury debt...with even more benefits. Non Americans are not as aware of the agency market as they should be and as they will be over time. It's a way for them to get implied government backing on the debt. And it's higher-yielding than Treasury debt." William Lloyd, director and head of market strategy and credit research for Barclays Capital said "buying U.S. governments or quasi-U.S. governments is a relatively safe way for Europeans to play the market." The Benchmark notes are viewed by investors as a proxy for government debt, said Mr. Lloyd and European investors are attracted to the agency debt securities because the high credit quality creates a government surrogate and because of the liquidity, Mr. Lloyd said.

- Freddie Mac's mortgage-backed securities are also attractive to foreign investors. According to Ray Redlingshafer, director of international investors at Freddie Mac, Freddie plans to increase overseas sales of its mortgage-backed bonds this year in the "billions" of dollars. Mr. Redlingshafer stated "many people overseas are viable investors in mortgages and have never looked at them." He reported that Freddie Mac plans to make its biggest sales pitch in Europe, but it is also targeting Asian investors. Only about 12% of all mortgage bonds are held outside the U.S. Most investors assume the government would never let Freddie Mac or its bonds fail, since the company was set up by Congress to help finance home ownership for low- and middle-income Americans. That makes the securities attractive not only to U.S. investors, but also to central banks and institutional investors looking for higher yields than Treasury bonds. (*American Banker*, 2/4/98; 2/10/98; 3/5/98; *Dow Jones Newswire*, 3/3/98, 3/4/98; *Milwaukee Journal Sentinel*, 2/1/98; *Wall Street Journal Interactive*, 3/3/98, 3/9/98)
- *Subsidiary of Bank of America Offers Lower Cost Down-Payment Loan than Fannie Mae's Low-Downpayment Program*
 - A subsidiary of Bank of America now offers the nation's first large-scale no-down-payment program targeted at both new homebuyers and homeowners wishing to re-finance. The program is called "Neighborhood Advantage Zero Down," and it allows qualified applicants to make a no cash downpayment and let them pay their closing costs with funds obtained as a gift, a loan, a grant or as a concession from the home seller. The interest rate on a 30-year fixed-rate zero-down loan will be the same that the bank charges customers on regular mortgages. Compared with Fannie Mae's existing 3% down-payment programs, Bank of America's new plan will cut applicants' up-front costs of acquiring or refinancing a home by over half. For example, on a 3% down program, "Fannie Mae 97" mortgage, the cash to close would total \$4,996. On a new zero-down-payment, by contrast, total cash to close would come to \$2,028 (\$600 for appraisal, credit and other fees, \$808 in standard closing costs, and \$630 for escrow and hazard insurance reserves). (*Washington Post*, 2/28/98)
- *Fannie Mae Invites Congressional Staffers to Celebrate Half-Way Mark of Trillion Dollar Commitment to Low- and Moderate-Income Homebuyers:*
 - Fannie Mae's Chairman and CEO Jim Johnson issued an invitation to Congressional staffers for a luncheon meeting at Fannie Mae's headquarters on Monday, March 16th to celebrate the fourth anniversary of Fannie Mae's Trillion-Dollar Commitment for targeted housing finance. Fannie Mae will also announce its new partnership with Black Entertainment Television. (*Fannie Mae Letter from Chairman Jim Johnson*, 2/27/98, *Business Wire*, 3/11/98)
- *Fannie Mae Names New Members to National Advisory Council:*
 - Fannie Mae named 26 new members to its National Advisory Council – a forum that brings industry leaders and government together to discuss opportunities and challenges with Fannie Mae. Council members meet three times a year with Fannie Mae senior

management to advise them on issues affecting the industry. The council has 41 total members, with members serving two-year terms. The Chair of the 1998 Council will be Andrew Woodward, Jr., president of NationsBanc Mortgage. The following are the new members:

- Dennis Archer, mayor of Detroit since 1993
 - Robert Barsness, prez., Prior Lake State Bank in MN (current VP for IBAA)
 - E. Lee Beard, prez. & CEO, First Federal Savings, PA (on Board of ACB –will be president in 1999)
 - Russell Booth, prez, Mansell Commercial Real Estate, UT (past prez. of NAR)
 - Jorge Cantero, broker-owner, Apollo Group Realty, FL, past prez. of Realtor Assoc. of Greater Miami
 - Ray Carlisle, president, Carlisle Cos. Of CA
 - Dick DeWolfe, chairman & CEO of DeWolfe Cos.
 - Kitty George, vp of Community State Bank, WI
 - Martin Heck, evp & general manager of GE Capital Mortgage Insurance
 - Paul Hudson, prez. & CEO of Broadway Federal Bank, MI
 - R. Scot Jones, chairman & CEO of the Goodhue County Nat'l Bank of Red Wing, chairman of United Community Bancshares, will be 1999 President of ABA
 - Kenneth Koranda, prez. of MidAmerica Federal Savings Bank
 - Robert Kulick, prez. of Nova Investment Realty, past prez. of CA Assoc. of Realtors
 - William Lacy, chairman & CEO of Mortgage Guaranty Insurance (MGIC), WI, past prez. & CEO of MGIC Investment Corp. and vp of Mortgage Insurance Companies of America (MICA)
 - William Longbrake, evp & CEO of Wasington Mutual, was chief financial officer and deputy to chairman for finance at the FDIC
 - Carol Marinovich, mayor and CEO of Unified Gov't of Wyandotte County, KS
 - Alfonse Martinez-Fonts, Jr., chairman & CEO of Chase Bank, TX
 - William McConnell, chairman & CEO of Park National Corp., OH, 1998 prez. of ABA & past chairman of ABA Gov't Relations Council
 - Robert McMillan, founder & chair, Long Island Housing Partnership, also serves as director of ACB
 - Eric Michaux, prez. of law firm Michaux Michaux in NC, chairman of the National Assoc. of Real Estate Brokers
 - Malcolm Morris, prez. & CEO of Stewart Title Guaranty Co-serves as prez. of ALTA
 - Charles Ruma, prez. of Davidson Phillips Inc.,OH, current vp of NAHB
 - Suzanne Samson, first vp of Irwin Mortgage Corp, CA, serves as treasurer of the MBA and second vp of the California MBA
 - Nicholas St. Geore, prez. and CEO of Oakwood Homes Corp., NC, dir. of Manufactured Housing Institute (*Business Wire*, 3/3/98)
- *Software Company (ALLTEL) Provides Access to Fannie Mae's Loss Mitigation Tool:*
 - ALLTEL's clients who use the ALLTEL Mortgage Servicing Package (MSP) will be able to use Fannie Mae's Risk Profiler loss mitigation tool for credit scoring loans. ALLTEL is a provider of software and processing services to residential mortgage loan firms – ALLTEL's MSP system is an online mortgage loan servicing system that automates all areas of loan servicing. Mortgage servicers using ALLTEL's MSP will be able to seamlessly analyze their delinquent loan portfolios using Risk Profiler. New data fields have been added to the MSP system to provide users with information on the number of units financed by the mortgage loan, the original property appraisal amount and the original sales amount. The system allows servicers to select the loans in the MSP system they would like scored. Once scored, these ratings are sent to the MSP system and ALLTEL provides the client with a standard report set. According to Fannie Mae,

Risk Profiler is unique from others in the marketplace because it uses credit data in combination with updated property value. (*PR Newswire*, 3/3/98)

- *Fannie Mae – One of Most Widely Held Stocks:*
 - According to Morningstar, the most widely held stocks among U.S. diversified stock funds (as of Dec. 31) are Intel Corp., Cisco Systems Inc., Philip Morris Cos., Bristol-Myers Squibb Co., General Electric Co., Fannie Mae, Merck & Co., IBM, Microsoft Corp. and Johnson & Johnson (*St. Louis Post-Dispatch*, 3/6/98)
- *Fannie Mae Identifies Programs to Help Detroit:*
 - Fannie Mae will create a plan to address Detroit's vacant buildings and affordable housing problems. Fannie Mae identified the following five programs for Detroit:
 - Detroit Community HomeStyle Mortgage – allows borrowers to purchase and rehab their property with the same loan. Up to 75% of the home's as-completed value can fund rehabilitation
 - Detroit Investor HomeStyle Mortgage – allows developers to rehab up to five properties at a time, as long as the mortgage is assumed by a qualified buyer
 - Detroit Lease Purchase HomeStyle Mortgage – lets nonprofits rehab and rent properties under lease-purchase arrangements that allow homebuyers to save their down payment while living in the home
 - Homekeeper for Home Purchase Reverse Mortgage – enables seniors to buy a home without having to make mortgage payments. There is no credit or income qualification, and repayment is not due as long as the borrower occupies the home
 - Flexible 97 – allows greater flexibility for borrowers with excellent credit but little cash to assist in buying a newly constructed home. The 3% downpayment can come from gifts, grants and unsecured loans (including credit cards). (*Detroit Free Press online (Freep)*, 3/3/98)
- *Fannie Mae Assists Tornado Victims in FL:*
 - The Fannie Mae Foundation provided \$300,000 in grants to non-profit organizations to assist storm recovery efforts in Central FL. Officials at its Orlando Partnership Office said homeowners who suffered tornado losses can apply for special mortgage relief, including a three-month halt in mortgage payments and reduced payments for up to 18 months. Fannie said the relief program would not affect interest payments made to holders of Fannie Mae securities. (*News-Journal-Daytona Beach*, 3/98)
- *Fannie Mae Provides Grant for Asian Immigrant Homeownership Education:*
 - Fannie Mae provided a \$25,000 grant to the Union of Pan Asian Communities to help educate Asian immigrants about the home-buying process and the benefits of owning a home. A portion of the money will go to a part-time staffer and the funds will also be used for educational materials. (*San Diego Union-Tribune*, 3/8/98)

- *Fannie Mae Foundation Raises Money for “Help the Homeless” Campaign:*
 - The Fannie Mae Foundation presented \$2.5 million to its “Help the Homeless” Campaign (which benefits 100 homeless service providers in the Washington area). The \$2.5 million is the largest amount ever raised in the 10-year history of the campaign. (*Associated Press*, 3/3/98)
- *Fannie Mae Donates Money for Free Performances at the Kennedy Center:*
 - Fannie Mae Chairman and CEO Jim Johnson announced that with the help of corporate sponsorship by the *Washington Post* and the Fannie Mae Foundation, the Millennium Stage, would be a permanent fixture of the Kennedy Center. The Millennium Stage was developed in 1997 offering free performances at the Kennedy Center to showcase regional diverse talents. (*Washington Post*, 3/2/98)
- *Fannie Mae Sponsors “Women & Democracy” Exhibit:*
 - Fannie Mae donated money for a traveling exhibit entitled “Our Mothers Before Us: Women & Democracy, 1789-1920” that showcases the role of women in the political process, from the first Congress to the year they received the vote. The exhibit is currently on display in Tallahassee, FL. (*The Tampa Tribune*, 2/28/98)

Freddie Mac

- *Freddie Mac’s New Pilot May Have a “One-Stop Shopping Center” and 120% LTV Loan Program:*
 - Craig Nickerson, vice president of community lending for Freddie Mac, announced that Freddie Mac may begin a new pilot in Milwaukee where Freddie Mac would buy “purchase-rehab” loans at the time of purchase, instead of after rehabilitation, giving borrowers loans of as much as 120% of a house’s value with 3% downpayments. The program would also establish a “one-stop shopping” homeownership center in the city to make it easier for first-time homebuyers to obtain information. The program would also offer low-downpayments, landlord training and rent calculations for duplex buyers and offer \$1,000 downpayment programs with debt ratios up to 42% to buyers who complete formal homeownership counseling courses. Other cities besides Milwaukee that are being considered are: Chicago, Dallas, and Los Angeles, but Mr. Nickerson acknowledge that plans had not gone as far as Milwaukee. Freddie Mac hopes to have the pilot in effect by the second week in June. (*Milwaukee Journal Sentinel*, 3/11/98)
- *Freddie Mac’s Automated Underwriter Approved by FHA:*

- The FHA approved Freddie Mac's automated underwriting system, Loan Prospector ®, to cut application time for FHA-insured mortgages. The agreement will enable FHA to use a new version of Loan Prospector ® system for evaluating homebuyer applications. The new FHA version of Loan Prospector ® will be available immediately to all FHA-approved direct endorsement lenders who use Freddie Mac's Prospector ®. Other FHA lenders will have access via an FHA Internet connection within a few months, but it will not work as fast as using Loan Prospector ® directly. The agreement, in theory, will allow FHA borrowers to receive a loan prequalification within two minutes. Local lenders in TN say the system will save a lot of time and paperwork, however, under the best circumstances, a week to 10 days from application to closing is a more realistic timeframe. HUD also waived certain credit and documentation requirements for lenders using Freddie Mac's Loan Prospector ® system that should expedite processing as well. FHA currently insures about 750,000 mortgages each year. Over the course of this year, FHA will work with Freddie Mac to develop FHA's own high-speed loan evaluation model that will then be available to all FHA lenders.
- FHA is now reviewing Fannie Mae's underwriting system (Desktop Underwriter) for similar authorization. Other government agencies that back home loans, such as the Veteran's Administration, are also experimenting with Loan Prospector ®. The automated underwriting programs financially benefit Fannie and Freddie, which charge a fee for running the loans through the software. Last year, half of all loans Freddie bought were approved through its automated underwriting system. This year, Freddie hopes 80% of its business will be electronically approved. A senior Federal Reserve analyst wrote recently that if Fannie and Freddie gain dominance in the automated underwriting area, homebuyers could pay more for a home loan than they currently do and the agencies could gain a larger share of the secondary market. Fannie Mae has said it does not agree with the premise of this criticism. (*American Banker*, 3/5/98; *Commercial Appeal-Memphis, TN*, 3/8/98; *Dow Jones Newswire*, 3/3/98; *Freddie Mac News Release*, 3/3/98; *Inman News*, 3/3/98; *Los Angeles Times*, 3/4/98; *National Mortgage News Web Site*, 3/4/98; *Reuters*, 3/3/98; *Richmond Times-Dispatch*, 3/6/98; *US Newswire*, 3/3/98)
- *First Union's Purchase of The Money Store Raises Questions about Earlier Freddie Mac-First Union Deal – (Freddie Mac's Back-Door Entrance into Subprime?):*
 - First Union's recent purchase of The Money Store raises the issue of whether First Union will be able to complete more of its Freddie Mac-wrapped deals. Brian Simpson, head of First Union's asset-backed group said that First Union has had several conversations with Freddie Mac and he expects the joint-issuances to continue in the future. However, with pools of mixed collateral, future First Union securities issues are clearly going to contain a large number of subprime loans, collateral with which Freddie has expressed an interest. In the October 31 issue of the *GSE Report*, we noted that under this First Union-Freddie Mac deal, Freddie Mac agreed to guarantee the loans, meaning that investors are assured of getting at least their principal back. (*Inside Mortgage Finance website*, posted 3/9/98, as appeared in 3/6/98 issue of *Inside MBS and ABS*)
- *Freddie Mac's HomeSteps™ Picks Cendant Asset Services to Manage Its Property Sales:*

- Freddie Mac selected Cendant Asset Services as its primary partner for managing and selling homes from their \$2 billion inventory of single family properties. Under the three-year agreement, Cendant will manage HomeSteps™ properties from the foreclosure point and support sales across the country. HomeSteps™, Freddie Mac's real estate unit, works with real estate professionals to sell an estimated 20,000 homes a year from its inventory of properties owned by Freddie Mac. Both HomeSteps™ and Cendant are based in Dallas. HomeSteps™ is the nation's second largest owner-seller of single family property. The Cendant network includes over 200,000 agents worldwide and owns the Century 21, Coldwell Banker and ERA real estate brands. (*Freddie Mac press release, 3/2/98; Inman News Feature, 3/2/98*)
- *Freddie Mac Considers Benchmark Note Program like Fannie Mae:*
 - Greg Parseghian, Freddie's chief investment officer, stated that Freddie is considering issuing a benchmark program like Fannie's, however, they have not made a decision yet. According to syndicate managers, Freddie has been considering the program for the last two to three months. One syndicate official believes that Freddie will do no more than two \$3 billion benchmark note issues this year, because it has much lower funding needs than Fannie, but could "become bigger issuers later." Another official thought Freddie could try something more structured than Fannie like releasing a calendar of issuance dates. Another syndicate manager felt that Freddie Mac would have to address the problem of taking on interest rate risk if they make issues in large sizes and are forced to warehouse funds for weeks. Both Fannie and Freddie raise funds in the agency debt market to invest the money in mortgage product, and they always prefer to invest funds borrowed in the market into mortgage products – instead of investing in products at lower yields. But, by issuing in large sizes at regular intervals, Fannie and Freddie might be able to cut costs. For example, Fannie cut the fees to underwriters in half on its benchmark notes and obtained a better interest rate than smaller bullet issues. (*Dow Jones Newswire, 2/26/98*)
- *Freddie Mac Increases Quarterly Stock Dividend and Decides to Issue More Preferred Stock:*
 - Freddie Mac's Board of Directors voted to increase the dividend on common stock from \$0.10 to \$0.12 a share and to issue up to \$1 billion of preferred stock. Freddie Mac said it expects most or all of the preferred stock to be issued in two or more offerings in 1998 (stock will be perpetual and non-cumulative as to dividends). Freddie Mac's Board also set May 14, 1998 as the date for their annual stockholders meeting. Holders of Freddie Mac's common stock as of March 16, 1998 will be eligible to elect 13 members of the Freddie Mac's 18-member board of directors. The remaining directors are appointed by the President of the US. Freddie Mac also declared quarterly dividends on existing preferred stock issues. The dividends were \$0.42 per share on its 6.72% preferred stock, \$0.62 on its variable-rate preferred stock, \$0.765625 on its 6.125% preferred stock, \$0.7675 on its 6.14% preferred stock, and \$0.72625 on its 5.81% preferred stock. (*Freddie Mac Press Release, 3/6/98; Reuters, 3/6/98*)

- *Freddie Mac Purchases Loan for Minnesota Senior Housing Apartments:*
 - Freddie Mac purchased a \$5.47 million, 10-year loan attached to a senior housing complex in Minnesota. The loan was originated by Northland Financial Co., Bloomington, MN and will enable the new owners to acquire an 11-story, 140-unit property known as Earle Brown Terrace Apartments, Brooklyn Center, MN. (*Dow Jones Newswires*, 3/10/98; *PR Newswire*, 3/10/98)
- *Freddie Mac Participates in Hispanic Credit Education Campaign Pilot in Los Angeles:*
 - The Partnership for Consumer Credit Education – an alliance of lenders, merchants, and financial institutions (including Freddie Mac), has launched an Hispanic Credit Education Campaign under the leadership of Consumer Credit Counseling Service (CCCS). The objective of the program is to provide credit counseling and alternatives to bankruptcy through education, personal finance counseling and debt management programs. Rep. Esteben Torres (D-CA) and Liz Dias, the district deputy for Congresswoman Lucille Roybal-Allard (D-CA) were speakers at a press conference announcing the new campaign. The program is based around a three-month media campaign of public-service announcements on local Spanish-language television. CCCS is also *offering free one-on-one counseling*. (*Business Wire*, 2/26/98, 2/27/98; *Freddie Mac press release*, 3/3/98; *Los Angeles Times*, 3/3/98)

International GSEs

- *Greenspan Warns Against Foreign Governments Implicitly Backing Loans:*
 - In Federal Reserve Board Chairman Alan Greenspan’s remarks to the Independent Bankers Association identifying the causes of the Asian crisis, the Chairman said that “foreign governments should stop implicitly backing loans to private businesses and they should stop trying to force industrial practices.” (*American Banker*, 3/4/98) (In the Feb. 27 issue of the *GSE Report*, an Economics Professor at MIT, Paul Krugman, made a similar argument when he stated that the implicitly government guaranteed “financial intermediaries” were a cause of the Asian financial crisis.)

Federal Home Loan Banks

Senate Banking Committee Holds Hearing on FHLBank Expansion Bill

Senate FHLBank Bill Efforts May be Stalled Over Recent FHFB Controversy
Senate Banking Committee Plans Oversight Investigation of the Federal Housing Finance Board

Senate Banking Committee Hearing on FHLBank Bill

- The Senate Banking Committee held a hearing to discuss rural credit needs and Senator Chuck Hagel's (R-NE) FHLBank bill (S. 1423). The hearing centered around the credit needs of rural America, how the FHLBank bill would address these rural credit concerns and whether a GSE was the best solution to meet the credit needs of rural America. Senator Hagel's bill would allow financial institutions with assets less than \$500 million to access the FHLBank System for new lending. Community banks would be able to use FHLBank advances to make secured small-business loans and agricultural loans, as well as finance rural and low-income community development. Also, institutions would be able to use these loans as collateral to qualify for additional advances. Institutions under the \$500 million-asset threshold would no longer be required to have 10% of their assets in residential mortgage loans. Opponents of the bill have called this a major expansion of the FHLBanks, but Senator Hagel feels that this is a modest expansion because advances of the FHLBanks to these small institutions represent only 14% of outstanding advances. He is willing to tighten the collateral definitions in his bill to address concerns that have been expressed to him. His bill would also provide voluntary membership for thrifts, reform the capital structure of the FHLBank System, change the REFCorp formula to a fixed percentage, and give the FHLBanks authority to run all of the day-to-day operations of their Banks. The bill is supported by 10 of the 12 FHLBanks and is co-sponsored by Senators Robert Bennett (R-UT), John Kerry (D-MA), and Rod Grams (R-MN).
- Senator Michael Enzi (R-WY) said he had "reservations" about using the federally backed system to promote business and agricultural loans by rural banks. This would go "well beyond its original mission" of advancing funds to thrifts for home loans and could expose the government to losses, he said. Senator Wayne Allard (R-CO) added that "Congress should not institute expansion of government programs when market remedies or existing programs are sufficient."
- Representatives from the banking industry - the ABA, IBAA, and the ACB - all testified in support of the bill because it would provide community banks with an additional source of loanable funds where new deposits are scarce. The bill, they testified, would be especially important to smaller institutions. Robert Gullledge, president of Citizen's Bank of Robertsdale, AL, testifying on behalf of the IBAA, said that IBAA supports expanding the mission of the FHLBank System "beyond its current focus on affordable housing to other types of lending consistent with community banking." Community bankers testified that losses of deposits to mutual funds, population shifts to cities, and the difficulty small institutions have raising capital on Wall Street have depleted sources of funds for community banks.
- The panelists who testified represented banking trade groups, academics and non-profit groups - none of the FHLBanks testified, however the Chairman of the Federal Housing Finance Board, Bruce Morrison, did submit a written statement strongly supporting the

bill, qualifying that his views were his personal views as Chairman and not the views of the other Directors of the Finance Board or the Administration. He believes Fannie and Freddie carry an enormous concentration of credit risk (some \$1.4 trillion in residential mortgages held or guaranteed). The FHLBanks represent a triple-A rated System that empowers the retail institutions to offer healthy competition to the secondary market giants. This would lead to competition and the choice would lead to lower costs for homebuyers. Whether through the more traditional advances or through pilot programs (such as the Mortgage Partnership pilot of the FHLBank of Chicago), the FHLBanks can provide new ways to allocate risks in the mortgage business and allow depository institutions to remain competitors in housing finance. Suggestions made by Chairman Morrison for expanding the FHLBank System to target the underserved markets: the FHLBanks could be used to fund nonconforming home mortgage loans, loans for multifamily dwellings that cannot be sold into the secondary market, and can put together difficult economic development deals.

Federal Housing Finance Board Controversy

- During the Senate Banking Committee hearing, Senator Lauch Faircloth (R-NC) was concerned that: (1) the FHLBank expansion legislation was being considered without any Congressional recommendations and; (2) was concerned that the regulator of the FHLBank System, the Federal Housing Finance Board (FHFB), was both the mission and the safety and soundness regulator. However, his most immediate concern was the fact that the White House had just asked Larry Costiglio, a finance board member to leave the FHFB. Senator Faircloth wondered how anyone could support an expansion of the FHLBanks without curbing the power of the Chairman. He felt that FHFB directors, Larry Costiglio and Timothy O’Neill, provided a sort of checks-and-balance against the Chairman. Senator Faircloth hoped that the White House would reconsider its decision to remove Costiglio or he will question the support of any Clinton appointee that needs approval from the Committee.
- Larry Costiglio was considered to be closely aligned with Republican Finance Board member, J.Timothy O’Neill - both often were in opposition to policies advanced by Finance Board Chairman Bruce Morrison. Although Costiglio is a Democrat (nominated by President Bush), “he has fought the administration on practically every issue,” said White House spokesman Barry Toiv. Recently, both Costiglio and O’Neill were upset by a memo produced by Chairman Morrison. The memo was written by Chairman Morrison giving a legal opinion on whether certain financial instruments were a permissible investment for FHLBanks. The Chairman’s memo summarized an underlying legal opinion that was written by the Finance Board’s Office of the General Counsel. In the Chairman’s memo, the general counsel concluded that housing bonds, as mission-related, “value-added” investment, are not subject to certain restrictions, while SBA Pool Certificates are. Costiglio and O’Neill countered in a memo that the Chairman’s memo represented the opinions of only the Chairman.
- The FHFB is supposed to have five directors on its board. With Costiglio’s departure, there will now only be three members - Chairman Morrison, Timothy O’Neill and Art

Agnos, a former mayor of San Francisco who was only recently named as HUD's representative on the board.

- On March 25, the Finance Board is expect to formally launch a top-to-bottom review of the FHLBank System investments - 2 days after Costiglio's official White House-instructed-termination of his tenure. Attention has been focused on the FHLBank System's huge borrowing and heavy investment in short-term money market instruments. Last year, the agency issued a staggering \$2.14 trillion in debt securities- \$1.97 trillion of which was short-term debt.
- Costiglio wrote a letter to President Clinton that he intends to remain and serve on the Finance Board until his successor "has been appointed an qualified as prescribed in 12 U.S.C. 1422a(d)(1)." Costiglio's term as director expired in Feb. 1995, but he had been serving the agency in a hold-over capacity until his successor was named and confirmed by the Senate. According to White House spokesperson, Barry Toiv, the White House is looking at people for nomination and that the president deserves to select his own nominee. When the Administration called for his resignation, Costiglio wrote a letter to Senate Banking Committee Chairman Alfonse D'Amato (R-NY) and Ranking Member Paul Sarbanes (D-MD) alleging broad abuse of power and intimidation by Chairman Morrison.

Senate Banking Committee Plans Oversight of FHFB

- Senator D'Amato announced that he intends to investigate the allegations especially those in which Chairman Morrison may have "improperly exercised or exceeded his authority." According to Senator D'Amato's statement, "The Banking Committee will conduct vigorous oversight into the administration of the [FHFB], specifically into the operation and activities of the Board, as well as the circumstances surrounding efforts to terminate Director Costiglio's services." FHFB Chairman Morrison said he "regret[s] that Mr. Costiglio has chosen to end eight years of public service at the Federal Housing Finance Board by challenging the constitutional authority of the President of the United States to terminate his tenure on the Board and by doing so in a letter of factual misrepresentations." (*American Banker*, 3/13/98; *BNA Daily Report for Executives*, 3/13/98; *Dow Jones Newswire*, 2/27/98,3/4/98,3/9/98,3/11/98,3/12/98; *Testimony Before the Senate Banking Committee*, 3/12/98)
- *Oral Argument Date Set for FHLBank of Chicago's Controversial Pilot Program:*
 - Justice department lawyers are expected to present oral arguments on March 26 in the court case deciding whether the Federal Housing Finance Board (FHFB) exceeded its authority by approving the FHLBank of Chicago's "mortgage partnership finance" (MPF) pilot program. The suit was filed last May in the US District Court for the Western District of TX by two thrifts, the Texas Savings and Community Bankers Association and the Western League of Savings Institutions who felt that the FHFB did not have the legal authority to approve the pilot.

- The pilot 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. Since the loans have private mortgage insurance the lenders see them as not having much risk. The member lenders can then service the loans and receive beneficial capital treatment from the federal regulators. The pilot program was first limited to 10 but then was increased to 20 lenders in IL and WI.
- The FHLBank of Chicago, meanwhile, has received more than \$205 million in master commitments and has funded 626 mortgages totaling \$61 million, almost half of which have come just since January. Six of the twelve FHLBanks support the pilot and have said they are also interested in providing the program to their members and five of the FHLBanks have joined the FHLBank of Chicago as investors in the MPF loans made under the pilot program. In response to opposition on the FHLBank pilot, the FHFBB is trying to develop a formal policy to use to approve future FHLBank pilot programs. (*National Mortgage News web site, 2/13/98, 10/13/97; Inside Mortgage Finance website, posted 2/27/98, as appeared in 2/27/98 issue of Inside Mortgage Finance; Credit Union Accountant, 11/24/97*)
- *Bill Would Revise Collateral Requirements for FHLBank Advances:*
 - Rep. Tom Campbell’s (R-CA) new bill, “The Affordable Housing Barrier Removal Act” (H.R. 3435), would amend the FHLBank requirement to allow FHLBank members to treat construction loans as collateral, in the same manner as mortgages are treated. Ron Wyden (D-OR) introduced a similar bill in the Senate. The House bill is co-sponsored by Reps. Jack Metcalf (R-WA), Esteben Torres (D-CA), James Talent (R-MO), Jesse Jackson, Jr. (D-IL), Mike McIntyre (D-NC) and Jon Fox (R-PA). The National Association of Realtors issued a statement of support for the bill, particularly the bill’s provisions extending the Hawaii and Alaska FHA downpayment calculation to the entire nation. The National Association of Home Builders also issued a statement supporting the legislation. (*Thomas Web site of H.R. 3435; PR Newswire, 3/12/98*)
- *New IBAA President Wants to Expand Membership in FHLBanks and Make Deal with Farm Credit System:*
 - The new President of the Independent Bankers Association of America (IBAA), William McQuillan, pledged to push for legislation providing access to funding for rural banks. In his opinion, many rural banks are excluded from membership in the FHLBanks because they do not make enough residential mortgage loans. His own bank, City National Bank of Greeley, NE, did not qualify for membership until it purchased enough mortgages to meet the portfolio requirement. He believes rural banks should be able to

pledge agricultural real estate loans as collateral for advances and he would like to work a deal with the Farm Credit System so commercial banks gain access to Farm Credit Bank advances. (*American Banker*, 3/2/98)

- *Community Banks Expect to Increase FHLBank Advances:*
 - Forty-eight percent of all community banks say they will increase their use of FHLBank advances in 1998 – this compares to 39% that anticipated an increase in usage in 1997. Approximately 47% of community banks also said that FHLBank advances would be very important in five years, compared with only 29% that describe them so today. These figures are according to Diane Casey, national director of financial services at Grant Thornton. (*CFO alert*, 3/9/98)
- *FHLBank of Seattle Provides Grant for Low-Income Housing:*
 - The FHLBank of Seattle awarded two grants totaling approximately \$270,000 to apartment complexes in Coeur d’Alene and Post Falls. The FHLBank awarded the grants to Bank of America and United Security Bank to help fund rehabilitation and construction of 63 apartments. (*The Spokesman-Review*, 2/20/98)

Farm Credit System

- *Supreme Court Ruling on Credit Unions May Affect Bank Groups’ Challenge to Farm Credit System:*
 - The Supreme Court’s ruling on credit unions determined that the banking industry had a legal right to sue the National Credit Union Administration over its decision to let occupation-based federal credit unions accept members from unrelated companies. The ruling could impact the banking industry’s challenge to the Farm Credit System because the government’s primary defense was that the banking industry lacked standing and the right to sue. Michael Crotty, deputy general counsel for litigation at the American Bankers Association stated that he expects the “other side will not continue their decision to challenge our standing to sue, in light of the credit union decision.” (As reported in the Dec. 12 issue of the *GSE Report*, the banking industry, led by the American Bankers Association (ABA) and the Independent Bankers Association of America (IBAA) sued the Farm Credit System when the agency adopted a rule letting the Farm Credit System expand beyond its Congressional intent. The judge for the US District Court for the District of Columbia dismissed the suit and said that the Farm Credit Administration had broad discretion to decide to whom member institutions may lend. The ABA and the IBAA are reviewing the decision and may appeal.) (*American Banker*, 3/11/98)

New GSEs?

- *Senior Fellow for Foreign Policy at the Council on Foreign Relations Advocates Creation of New GSEs:*

- Walter Russell Mead, a senior fellow for foreign policy at the Council on Foreign Relations, recently wrote an article in the online publication of *Mother Jones* advocating the creation of new GSEs. Mr. Mead believes that the world economy is changing and that over the next few decades, the US could have a left-leaning economy that works best when policies espoused by the traditional left, including more government spending, are applied to the economy. He suggests that the left must take some concrete steps to “improve the life prospects for Americans, especially those who will work in the less well-paid, but rapidly growing, sectors of the service economy.” In order to make retirement benefits and health care more portable, he suggests that the government could create new GSEs: “Just as the government developed Fannie Mae and Sallie Mae to handle home and student loans, it can create investment, pension, and health care corporations – voluntary and private, but backed with the faith and credit of the United States – that can play a key role in meeting these social needs at an acceptable cost.” (*Mother Jones* online - *MoJo Wire*, 3/3/98)

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