

The **GSE** REPORT

All GSEs

- ***Jesse Jackson Advocates Creation of New GSE:***
 - After recently accusing Freddie Mac of racial discrimination, the Reverend Jesse Jackson advocated the idea of creating a private sector rival to Fannie and Freddie to facilitate low- and moderate-income lending, generating low-cost capital to invest in low-income underserved communities without raising taxes. According to Jackson, “An entity similar to Fannie Mae and Freddie Mac could be positioned...to generate capital and invest in areas under-served, without raising taxes.” Jackson is planning a conference in mid-July called the “Trillion Dollar Roundtable,” (a take-off on Fannie’s Trillion Dollar Commitment) to discuss the topic. High-profile CEOs, including Hugh McColl of NationsBank and Jack Smith of General Motors, are expected to attend the conference. Jackson also recently met with Travelers Group Chairman Sanford Weill and White House economic advisor Gene Sperling to discuss this issue. It is unclear whether this new “GSE” would seek tax breaks or some type of congressional charter.
 - According to the *American Banker*, Fannie and Freddie “bristled at the implication that they are not doing enough, though they acknowledged Mr. Jackson’s ideas had some merit.” “No one is doing as much as we are in reaching out to minority communities,” said a Fannie Mae spokeswoman. She called Jackson’s idea “an intriguing idea,” but noted that Fannie has a record in making more than \$110 billion investments to their 31 partnership offices. (*American Banker*, 6/12/98; *Business Wire*, 6/10/98; *National Mortgage News website*, posted 6/15/98)
- ***Merrill Lynch Accused of GSE Bias in Orange County Settlement:***
 - As part of Merrill Lynch’s \$420 million settlement with Orange County, stemming from the county’s 1994 bankruptcy, Orange County agreed to drop complaints against four GSEs whose securities figured in the county’s financial problems – the FHLBank System, Fannie Mae, Sallie Mae and the Federal Farm Credit Banks. Though Orange

County had pursued separate cases against the four GSEs, the settlement included the GSEs because the majority of the securities issued by the GSEs were sold through Merrill Lynch. Merrill sold securities issued by the GSEs to Orange County, and when interest rates started rising in 1994, the securities went down in price and the county's investment pool collapsed, causing nearly \$1.6 billion in losses and the largest municipal bankruptcy in US history. Orange County alleged that the GSEs failed to disclose the risks involved in their securities, thus contributing to the County's bankruptcy. The GSEs deny the allegations. An unspecified portion of Merrill's \$420 million settlement covered any and all charges Orange County had brought in lawsuits against the four GSEs. "There's \$420 million, and some portion of that pertains to the GSEs," said James Mercer, an attorney who represents Orange County.

Merrill Lynch Accused of including the GSEs in Settlement to Keep GSEs as Clients:

- According to Securities Data Co., Merrill Lynch is one of the GSEs' biggest underwriters. Those who worked closely on the settlement say that a major reason Merrill agreed to cover the GSEs' claims was to keep them as clients. Apparently, Merrill Lynch had some problems retaining customers, particularly municipalities, after the Orange County bankruptcy.

Before Settlement, GSEs Considered Litigation Against Merrill Lynch:

- In fact, the GSEs may have considered legal action against Merrill Lynch if they had to pay any claims. According to the *Wall Street Journal*, "Indeed, some GSEs said they had taken the position that they would consider legal action against Merrill Lynch if they had to pay any claims as a result of the county's litigation." In response, a Merrill Lynch spokesman stated that "We were never told that."

Unprecedented for a Securities Firm to Settle Legal Matters for Other Parties Named in Lawsuits & Unprecedented of Investor Suing Debt Issuers with Federal Connections:

- Spokespeople for the GSEs declined to discuss why Merrill Lynch settled the lawsuits for them. An attorney representing one of the GSEs said, "There isn't any question Merrill paid a premium" to get Orange County to drop charges against the GSEs. The *Wall Street Journal* noted that Merrill's effort on behalf of the GSEs adds "an unusual twist to the settlement agreement. It isn't often that a major securities firm agrees to settle legal matters for other parties named in a lawsuit."
 - The *Wall Street Journal* noted that Orange County's lawsuit against the GSEs marked "a rare and perhaps unprecedented instance of an investor suing debt issuers with federal connections." The Department of Justice had to defend the federal government in this case because the legal issuer of FHLBank debt, the Federal Housing Finance Board, is a federal agency. The other GSEs did not have such direct federal connections and thus, secured their own legal representation. (*Dow Jones Newswire*, 6/2/98; *Wall Street Journal Interactive*, 6/3/98)
- ***CQ Runs Extensive Profile Piece on the GSEs – "Who's Minding Mac and Mae?"***

- *Congressional Quarterly* (CQ) ran an extensive profile piece on the GSEs, questioning whether the GSEs are gaining too much clout in the markets. The GSEs' growing power has prompted interest groups from both the right and left sides of the political aisle to call for their charters to be revoked, or at least more strongly regulated. Congress seems unlikely to take action due to (1) GSEs' constituent support and (2) their "lobbying prowess."
- The GSEs exist in a semi-public world that "lets them do some things private business cannot do – such as raise money at near-government rates on Wall Street – and some things government agencies cannot do – such as officially lobby Congress."
- The most valuable perk that the GSEs receive is the implicit government guarantee. "Investors believed GSEs were a good bet because the government would never let them fail. That meant that they could borrow on the bond market at much lower rates than private entities. Estimates of the perks that the GSEs enjoy including exemption from state and local income taxes, implicit guarantee, and exemption from SEC registration fees have been estimated at \$4 to \$6 billion.

Small Private Lenders Find it Hard to Compete Against Farm Credit System:

- CQ profiled a small local banker in IA, who like many other small-town bankers "has waged a long war to curtail the activities" of the Farm Credit System. The banker, John Dean, says he and other small bankers cannot compete with the low interest rates charged by the credit system. "We saw a loan that they made the other day that's a prime customer," said Dean. "The loan's good, but the interest rate would be a disaster for a commercial bank...Everybody hates to be competing with a taxpayer-underwritten entity, and that's basically what they are."

Fannie Mae's Political Influence Instills Fear:

- Well-known for exposing political influence in Washington, Charles Lewis of the Center for Public Integrity, was surprised at the angst his questions had on people when he began to investigate Fannie's political influence. "We had folks who would only meet us in strange places" such as parking garages, Lewis said. "No one wanted to talk on the record." He added: "Usually...people are a little cautious and a little squirrely, but this was almost the next step."
- Lewis reported that the center would not publish their report on Fannie in the near future, "because it has not been able to prove what it suspects about Fannie Mae: that many of its hiring and charitable decisions are made to exert maximum political influence."

GSEs Spend Large Amounts of Money on Lobbying:

- Fannie Mae downplays the significance of its lobbying efforts. John Buckley, Senior VP for Communications, calls their lobbying "relatively modest" and said the company lobbies mostly because it needs to educate Members and staff about their role in affordable housing.
- (Seems like an awful lot of \$ "affordable housing education"):

Lobbying Expenditures 1997	
Fannie Mae In-house Outside firms (12)	\$4.96 million \$798,635
Freddie Mac In-house Outside firms (6)	\$1.56 million \$641,000
Farmer Mac In-house Recently hired one outside firm	\$180,000 N/A
Federal Home Loan Banks 11 of 12 have lobbied	\$534,900
Farm Credit System Banks Total	\$646,700
Farm Credit Council In-house	\$420,000
Sallie Mae In-house Outside firms (8)	None \$281,000
Connie Lee In-house Outside firms (3 in 1996)	None \$110,000
Source: Legislative Resource Center of US Congress	

Lax Regulation of GSEs:

- “While Congress created the GSEs, it has never been very interested in overseeing them, nor has the executive branch.” This lax of regulation caused problems in the 1980’s when “high interest rates caused the mortgage market and farm economy to slump, sending Fannie Mae and the Farm Credit System into a financial depression.” Fannie Mae used its \$2.25 billion Treasury Department line of credit it had been given by its charter, but since the Farm Credit System didn’t have a line of credit or an adequate risk-management system, Congress provided a \$1.26 billion bailout loan package and a plan to install a tougher regulator. The Farm Credit System now has capital-to-asset ratio of 15%, so it should be better able to absorb loan defaults. “But it is not as clear what effect a deep financial crisis might have on the other GSEs, particularly the two largest ones, Fannie Mae and Freddie Mac. Both are Fortune 500 companies.” (The GAO estimates their failures could cost the government \$1.4 trillion)

Congressional Action on GSEs:

- Chairman of the Subcommittee on Capital Markets & the GSEs, Richard Baker (R-LA) noted that if Fannie & Freddie’s safety and soundness regulator, OFHEO, were not able to promulgate regulations by October to set capital standards, “then it’s time for Congress to look for a new regulator.” Baker also supports Congress ensuring that all the GSEs have uniform business and investment regulations. “They vary widely, and I think it is inappropriate,” he said, adding that at a minimum the Treasury Department (which is

stronger politically than OFHEO and has been more antagonistic to the GSEs), should have a greater oversight role. The article adds, however, that Baker doesn't think Congress would back such a plan. Baker also discussed how, he believes the GSEs' competitive advantage in the housing market will erode. If that happens, "the GSEs are going to come to the Hill looking for expanded market opportunities. When you have that downturn, when you have them looking for additional product opportunities, whenever there is a step that requires broadening of authority by Congress, that's when you'll see the policy reviewed."

- Chairman of the House Banking Committee Jim Leach (R-IA) has long championed the idea of placing "user fees" on Fannie and Freddie. Republican leaders recently brought up a "user fee" proposal on the GSEs, however, the proposal was dropped after an "energetic weekend lobbying by Fannie Mae, Freddie Mac, mortgage bankers and others with ties to the housing industry." Leach may also propose a plan limiting the GSEs' outside investments.

Business Competitors are Relatively Silent on GSEs:

- A bank lobbyist noted that "They've got the franchise." But he said: "We look at them as potential competitors because eventually we think they are going to be moving closer to the origination market. At least that's the fear." Part of that fear has arisen because of the new products initiated by Fannie and Freddie, including automated underwriting and the GSEs seeking access to "jumbo" and "subprime" mortgages. Business competitors tend not to outwardly criticize Fannie & Freddie, because so much of their business is dependent on their activities and "those who might want to compete with the two GSEs do not want to jeopardize their ability to sell their mortgages to them." (*CQ Weekly*, June 13, 1998)

• ***Agencies Issue Record Mortgage-Backed Securities (MBS):***

- According to the Bond Market Association, agencies' issuance of pass-through MBS totaled \$132.5 billion in the first quarter, up 68% from the same period last year. Fannie Mae was the leading issuer, but Freddie had the largest percentage gain from last year. According to the Bond Market Association, the record for GSE issuance was \$568.1 billion back in 1993.

Agencies' Issuance of Pass-Through MBS*:

<i>Agency</i>	<i>First Quarter of 1998</i>	<i>First Quarter of 1997</i>
<i>Fannie Mae</i>	\$58.3 billion (nearly double '97 & 44% of the total for the GSEs)	\$30.9 billion
<i>Freddie Mac</i>	\$44.3 billion (jump of 68.7% from '97)	\$26.3 billion
<i>Ginnie Mae</i>	\$30 billion (up 37.9% since '97)	\$21.7 billion
total	\$132.5 billion (up 68% since '97)	

* Based on data from the Securities Data Co.

- The *American Banker* noted that some traders were surprised by the size of Fannie Mae's MBS issuance lead. "The Fannie-Freddie balance is not what I would have thought it would have been," said one Wall Street trader. He attributed the increase in first-quarter

volume to refinancings. (*American Banker*, 6/9/98; *National Mortgage News website*, posted 6/9/98)

Fannie Mae & Freddie Mac

- ***Fannie & Freddie's Safety & Soundness Regulator Hasn't Filled Its Top Position for 2 Years:***
 - The head of OFHEO, Fannie and Freddie's safety and soundness regulator, has remained vacant now for almost two years. President Clinton announced last year that he wanted to nominate recently departed Ginnie Mae President Kevin Chavers for the position. The White House never sent the nomination to Congress for Senate confirmation after spending more than eight months 'vetting' Chavers for the job. Chavers resigned his presidency of Ginnie Mae on June 11th to work in the private sector, and a White House official noted that Chavers made it known that he was no longer to be considered a candidate to become head of OFHEO. Filling the OFHEO post is crucial to OFHEO's major effort to develop risk-based capital guidelines for Fannie and Freddie. Sources told *Mortgage Marketplace*, that the only name that has surfaced as a potential candidate to succeed Chavers as President of GNMA is Albert Jacquez, chief of staff for Rep. Esteben Torres (D-CA), a member of the House Banking Committee. One source when commenting about the cause of Chavers departure and non-interest in the OFHEO position noted that Senate Banking Committee Chairman Alfonse D'Amato (R-NY) is not currently confirming any Administration appointees because he is upset over the firing of Lawrence Costiglio, who was removed from the FHFB in March. Mark Kinsey is currently serving as acting director at OFHEO. (*American Banker*, 6/8/98; *Dow Jones Newswire*, 6/11/98)
- ***OFHEO Released Its 1998 Annual Report to Congress on Fannie & Freddie:***
 - OFHEO released its 1998 annual report to Congress outlining the results of its examination of Fannie & Freddie. The report notes that: "Though not explicitly guaranteed by the federal government, the Enterprises' financial obligations are priced in the market virtually as if they have such guarantees." Beginning in January, OFHEO transitioned from its initial cycle of core examinations "covering discrete areas of risk at the Enterprises" to its comprehensive annual risk-based examination program. These activities include on-site examinations, off-site financial analysis, and supervisory monitoring, as well as ongoing communications with the Board of Directors and management of Fannie & Freddie.
 - Using stress-test modeling, OFHEO is nearing completion on its risk-based capital regulation of the GSEs to more closely align capital with risk.

- Results of the OFHEO Examinations:

(1) Information Systems and Technology (IT) Examinations – Fannie and Freddie have been leaders in the development and implementation of technological innovations. Recognizing this increased reliance, OFHEO conducted examinations to assess Fannie & Freddie’s exposure to risks presented by the management and use of information technology. OFHEO defines IT risk as the potential that an event or action may impair the GSE’s ability to process transactions and information in a timely and accurate manner.

- Fannie & Freddie were only “Satisfactory*” (or adequate) in this Area
- OFHEO found that Fannie and Freddie’s risk management of the IT area was “satisfactory.” This designation signifies that the risk management of Fannie & Freddie’s automated environment adheres to appropriate safety and soundness standards. While some issues OFHEO identified warrant the attention of the Board of Directors and senior management, none pose safety and soundness concerns.
- (*OFHEO has substituted the term ‘satisfactory’ for the term “adequate” to characterize practices that adhere to safety and soundness standards. OFHEO uses the term “strong” to characterize practices that substantially exceed safety and soundness standards.)

(2) Internal Audit/Operations Risk Examinations – OFHEO evaluated the structure, scope of authority, activities, policies, and procedures for the internal audit program. By evaluating the work of each GSE’s internal audit program, OFHEO assessed the degree to which the GSEs manage their exposure to operations risks.

- Fannie & Freddie Results were “High Quality” in this Area
- OFHEO found that Fannie and Freddie’s internal audit work products were high quality and that audit activities and results were well documented. OFHEO did not identify any safety and soundness concerns, nor did it identify aspects of the internal audit program that required the board or senior management’s involvement or follow-up.

OFHEO Noted Fannie & Freddie Expanded into a Wider Range of Mortgage Products:

- “Driven by competitive pressures for attractive mortgage investment opportunities coupled with their own double-digit growth targets, Freddie Mac and Fannie Mae have begun to expand into a wider range of mortgage products.” OFHEO noted that Freddie Mac has announced that it intends to use its automated underwriting system, Loan Prospector, and risk-based-pricing to expand into two markets: (1) alternative-A mortgages and (2) A- minus mortgages. In addition Freddie has participated in a small number of highly credit-enhanced structured transactions involving still higher risk mortgages – so called “B” and “C” credit grades. Freddie indicated that participation in these transactions might lead to improvements in underwriting and risk management systems for these types of loans. Fannie Mae announced changes to its automated underwriting system, Desktop Underwriter, that will allow the company to be more competitive in the alternative-A market. In addition, Fannie initiated a pilot program that will allow purchases of higher risk loans through Desktop Underwriter with the placement of deeper private mortgage insurance.

Fannie & Freddie Met their Regulatory Minimum Capital Requirements:

- OFHEO noted that Fannie & Freddie exceeded their regulatory minimum capital requirements by approximately \$1.5 billion in 1997. Fannie's minimum capital requirement was \$12.7 billion at year-end 1997, and held surplus capital of approximately \$1.1 billion. Freddie held \$440 million above its minimum capital requirement of nearly \$7.1 billion. The Enterprises were required to hold \$1.8 billion more in regulatory capital at year-end 1997 compared with 1996, due to higher levels of assets. (*OFHEO 1998 Annual Report to Congress*, June 1998)
- ***Fannie & Freddie Starting to Securitizate More CRA Loans to Meet their Housing Goals: (GSEs Are Accused of "Cherry Picking" Portfolios):***
 - According to the *American Banker*, in the past eight months, more than \$1.5 billion of CRA loans have been securitized in three major deals. The latest was a \$787 million package of loans from Fleet Finance Group, while Fannie plans to sell in a \$750 million REMIC. This is the largest deal issued by a GSE. The whole-loan REMIC will consist of seasoned mortgages originated by Fleet, and will be issued under Fannie's Wisconsin Avenue Securities structure, which includes senior tranches guaranteed by Fannie Mae as well as non-guaranteed subordinate tranches. The deal follows Freddie Mac transactions with First Union Corp. and Mellon Bank Corp.
 - Ned Brown, President of Financial Modeling Concepts, noted that in the past banks had two choices for the CRA loans: (1) hold onto them; or (2) sell them to Fannie or Freddie. But the GSEs would "cherry pick" the portfolios, and banks were not always happy with the price they received, he said. Fannie and Freddie would not buy CRA loans without mortgage insurance, about 80% of all CRA loans, Brown said. (*American Banker*, 6/24/98; *National Mortgage News website*, posted 6/15/98)
- ***Fannie, Freddie and MBA Back MERS Recap:***
 - Fannie, Freddie and the MBA will guarantee up to \$8 million in loans to the Mortgage Electronic Registration Systems Inc. MERS is trying to energize its electronic registry for tracking ownership of mortgage loans and servicing rights. The recapitalization plan, which also includes support from participating lenders, was necessary because MERS backers underestimated how long it would take the industry to implement the electronic registry. The GSEs individually contributed almost \$1 billion to help MERS start. (*Inside Mortgage Finance website*, posted 6/15/98, *National Mortgage News website*, posted 6/18/98)

Fannie Mae

- ***Fannie Mae as a Mortgage Servicer? (News Not Yet Reported):***
 - Rumors have circulated that Fannie Mae is in negotiations to buy Ocwen Mortgage Services.
- ***Fannie Mae Foundation (Non-Political?) Pays Interns to Work in Congressional Caucus, Committees and Congressional Member Offices:***
 - The Fannie Mae Foundation awarded a \$42,000 grant to the Congressional Black Caucus Foundation for a summer internship program for 27 high school students from the District of Columbia. The grant was announced with Congresswoman Eleanor Holmes Norton (D-DC). District senior high school students will each receive a \$1,000 stipend for the 8-week program, which begins July 6 and runs through August 28. Students will work in the office of a congressional Member as well as committees and subcommittees to gain first-hand experience. In addition to the stipends, the grant will cover educational programs and cultural activities. (*PR Newswire*, 6/23/98)
- ***Maybe President Clinton Should Work at Fannie Mae After His Presidency?:***
 - The June issue of the *Washington Monthly* theorizes that President Clinton might want to consider a position at Fannie Mae when his Presidential term expires. A move to Fannie Mae might seem like an unglamorous move on the surface, however, “scoring an executive post at Fannie Mae is recognized around establishment Washington as the equivalent of winning the lottery.” Fannie Mae lures political and government officials (like President Clinton) to their companies with “posh offices, political and market clout, and seven-figure incomes.” Fannie draws former political and government officials with its government-subsidized profits, and then sends these officials out to “make sure the corporation retains the government-sponsored perks that provide those subsidies/salaries.”

Clinton Could Be Attracted to Market Clout of Fannie Mae:

- Although Fannie tries to market itself as just another market player – “We are *not* an agency,” a staffer in the communications office politely reminded the *Washington Monthly* reporter – Fannie’s GSE status does provide a number of financial benefits (incl. exemption from state & local taxes, line of credit to Treasury, exemption from SEC registration requirements, and implicit guarantee) giving them a formidable edge in the marketplace. The implicit guarantee allows the GSEs to borrow at below market rate. The implicit guarantee was estimated as \$4 billion to Fannie in 1995 alone, according to a 1996 CBO Report. “Fannie Mae is *not* just another financial services company. Fannie’s enormous profits, and thus its ability to reward its executives so richly, come compliments of the federal government. (An estimated 40 to 50 percent of Fannie’s net income is the result of retained subsidies.)”
- According to *Washington Monthly*: “Fannie’s financial advantages make it almost impossible for private firms to compete in the field of ‘conforming’ mortgages...the company controls one-fifth of the nation’s residential mortgage market and boasts that, in

terms of assets, it is the largest corporation in the country.” And Fannie Mae is in the enviable position, House Banking Committee Chairman James Leach has noted, of enjoying “the privatization of profits, coupled with the socialization of cost and risks.”

The prestige & lush accommodations may attract President Clinton.

- *Washington Monthly's* description of the Fannie Mae's office sounds like a fairy-tale: “The grounds and façade of the company's grand headquarters in northwest D.C. are more befitting an English estate than an office complex...the main building (Fannie occupies three) is modeled on the governor's mansion at Williamsburg, VA – only greatly expanded.” Efforts to make Fannie pay corporate income taxes for their plush offices in DC – estimated to raise \$300 million or more a year, have failed repeatedly. Fannie's executives warn publicly if these proposals were introduced, they would be forced to move out of DC. Notes *Washington Monthly*: “This kind of pseudo-blackmail, however, could be dealt with in kind: Fannie would be unlikely to head for the suburbs were Congress to suggest that such a move would prompt serious review of Fannie's GSE status and the more than \$4 billion in savings it brings the company each year. Come to think of it, maybe having Fannie pay \$1 billion in ‘user fees’ in exchange for those subsidies would be an even better idea.”

Clinton Might be Attracted to Fannie's Executive Compensation:

- The company's profits are significantly boosted by its government subsidies, but, unlike, government agencies, Fannie is not bound by government salary caps. Chairman Jim Johnson received an estimated \$7.2 million in 1996. Fannie Mae President Lawrence Small earned over \$700,000 in base pay, a \$1 million bonus, and “other annual compensation” valued at over \$35,000. Lawrence Small makes more than the entire Supreme Court, and Chairman-designee Raines' annual income will be more than the President of the US, the Vice President, and all of the Cabinet Secretaries combined.
- Even if President Clinton didn't want a full-time job at Fannie Mae, he would be attractively compensated as a Board Member. As a Board Member, “one's business pedigree is even less important than political connections, particularly among the five presidentially appointed directors. Members currently serving at Clinton's behest include both the chief of staff and a deputy campaign manager for the president's 1992 campaign, a former White House aide, a hotshot DNC fund-raiser and erstwhile Lincoln bedroom guest, and a prominent GOP real estate developer from Los Angeles who crossed party lines in '92 to endorse Clinton. And although the financial windfall board members enjoy pales next to that of senior management, it's still a nice way for a president to say ‘thank you’ to a political ally: Each director receives an annual retainer of \$23,000, plus \$1,000 for each board or committee meeting attended, and an additional \$500 for each meeting he or she chairs. (Directors who participate by phone receive \$600 for their troubles - \$900 if they chair the meeting.) Each board member also gets tens of thousands of dollars worth of stock in Fannie Mae.”

Clinton's Position at Fannie Mae Would Be to Retain the Profitable GSE Status and Expand Fannie's Business Activities:

- “Were Clinton to sign on at Fannie Mae, then, a significant part of his duties would be to keep Congress and the administration convinced that – far from conveying an unfair

market advantage or posing any kind of risk to taxpayers – keeping Fannie on the GSE gravy train is in the best interests of everyone. (This, despite the CBO’s findings that a third of Fannie’s government subsidies go to fatten company profits.)”

- “The president might also prove successful in helping Fannie broaden its range of business activities. Having dominated all portions of the market in which it may compete, Fannie Mae must find ways to expand its operations or soon face a slowdown in growth.” Private sector competitors are already worrying about Fannie’s entry into the sub-prime and home equity business. One industry watcher noted, “These are markets that developed just fine without government subsidies, and the participants don’t want to see a government-sponsored enterprise come in and take over.”

Best Part of A Job at Fannie Mae – No One Is There to Tell You “No”:

- “No matter how richly the company profits from its subsidies, no matter how hard it lobbies to keep out competitors, no matter what plans it makes to muscle in on other segments of the industry, Fannie Mae retains an approval rating even Clinton would envy.” Fannie Mae has the reputation of scaring its critics silent. “The company is famous for its vindictiveness toward those who cross it, with perhaps the most oft-told story being Fannie’s decision to stop doing business with investment powerhouse Salomon Brothers for a period after folks at Salomon spoke out against Fannie’s operations.” No one in the mortgage market or staffers on Capitol Hill would comment for the *Washington Monthly* article, and one mortgage company executive noted that “You’ll have to find someone who has nothing to lose.” The press is also not immune to Fannie’s scare tactics: “Press attention tends to make the company unhappy – unless, of course, reporters are covering one of the foundation’s PR events. No scrap of information is released by Fannie, or its foundation, without the requester first undergoing a thorough grilling.”
- The *Washington Monthly* concludes by noting that “Fannie essentially operates without any meaningful checks on its behavior... But the corporation has grown so big, so rich, and so powerful that it is largely beyond the control of both government regulators and free-market forces.” (*Washington Monthly*, June 1998)
- ***Fannie Mae Foundation Advertising Goal to Consumers is Met 2 ½ Years Early:***
 - Chairman of the Fannie Mae Foundation Jim Johnson announced that Fannie has already met their goal of receiving 5 million consumer responses by the end of the year 2000 by June 18, 1998 (2 and ½ years early), as a result of its outreach advertising effort which began in 1994. (*Business Wire*, 6/23/98)
- ***Fannie Processes Record Number of Transaction over Desktop Originator ®:***
 - According to Fannie, more than 1,000 mortgage originators and 27 lenders are using Desktop Originator ® to process more than 10,000 transactions per month. Fannie reported that transactions submitted over Desktop Originator ® increased nearly eight-fold since this same time last year. Desktop Originator ® links mortgage originators to lenders who are using Desktop Underwriter ® and enables mortgage lenders to automate

business transactions with their affiliated mortgage brokers using one system. (*Business Wire*, 6/22/98)

- ***Fannie Expands Automated Underwriting to Include Credit Reports:***

- Trans Union and Chicago Title Services Inc. signed a letter to intent to enter into an affiliation arrangement through which Trans Union and its affiliates may make credit reports available to end users of Desktop Underwriter ® and Desktop Originator ®. (*PR Newswire*, 6/19/98)

- ***Two Days After Rev. Jesse Jackson announced Creating another GSE and only weeks after He Accused Freddie Mac of Racial Discrimination, Fannie Mae holds Press Conference with Rev. Jackson's Son, Cong. Jesse Jackson, Jr.:***

- During a period when the GSEs are taking heat from Rev. Jesse Jackson, Fannie Mae held a press conference with Cong. Jesse Jackson, Jr. to announce Chicago's First City Home Expo Rehab Fair June 27-28. *Interestingly, Fannie first made a smaller press announcement about the Expo with Chicago Mayor Richard Daley and Commissioner of Housing, Julia Stasch on June 9th (a day before Rev. Jackson's plans to create a new GSE were reported in the press).* The Expo is co-sponsored by Fannie and the City of Chicago. City Home Expo is a housing fair for consumers who wish to buy a fixer-upper or who plan to make significant home improvements. Fannie earmarked \$100 million in loan packages for the rehab program as part of its \$12 billion commitment to Chicago through 2004, "HomeStyle Chicago." HomeStyle Chicago offers the following:
 - HomeStyle Standard Mortgage – Home buyers can finance the purchase and moderate to major renovation or repair of a condominium, townhouse, single-family, or two- to four-family home with just one loan
 - HomeStyle Community Mortgage – Low and moderate-income home buyers in Chicago area can purchase & renovate a home with this loan, offering low down payment options and flexible qualifying guidelines
 - HomeStyle Flexible 97 – Home buyers with good credit can purchase and renovate a home with a 3% down payment first mortgage
 - HomeStyle Investor Mortgage – Investors can purchase, renovate, and sell a home with a single mortgage at owner-occupied rates.
 - Neighborhood Housing Services Neighborworks Program for One- to Four-Family Homes – Qualified home buyers can make a 5% down payment (2% from the borrowers funds together with 3% from other sources) for a single-family or two-unit home; and 10% for a three- or four-family home.
 - HomeStyle Construction Experiment – Option allows homebuyers to roll the permanent mortgage and construction financing into one loan.
 - HomeStyle Remodeler – A mortgage that features generous loan amounts (up to \$50,000), simplified property valuation methods, and ease of origination and administration
 - HomeStyle Home Keeper Mortgage – Allows seniors 62 years and older to tap into the equity in their homes to make necessary repairs, with no obligation to repay the loan until

they move out of the house. (*Business Wire*, 6/9/98, 6/12/98, 6/15/98, *Chicago Sun Times*, 6/16/98)

- ***President Clinton's Nominee for Deputy Secretary Served on Fannie's Regional Board:***
 - President Clinton nominated Mayor Saul Ramirez, Jr. to serve as deputy secretary at HUD. Ramirez has been serving since 1997 as Assistant Secretary for Community Planning and Development at HUD. From 1990 to 1997, Ramirez was the mayor of Laredo, TX and he served as a board member for the Southwest Region of Fannie Mae. The position for which he is nominated will be responsible for the administration of HUD's programs, including housing, community development, and fair housing. The deputy secretary also serves as the chief operating officer as well as handling the day to day operations for the Department. (*US Newswire*, 6/19/98)

- ***Fannie Credit Enhances 2 Housing Revenue Bonds:***
 - S&P assigned its triple-'A' rating to Los Angeles County Housing Authority, California's multifamily housing revenue bonds (The Palms Apartments) series 1998E dated June 1, 1998 due July 1, 2028 and California Statewide Community Development Authority's multifamily housing revenue bonds (Woodcreek Terrace Senior Apartment Project) series 1998W dated June 1, 1998 due Feb. 1, 2031. The ratings reflect among other things, Fannie Mae's credit enhancement of the mortgage backing the bonds through a collateral agreement and MBS guarantee. (*Business Wire*, 6/16/98; *PR Newswire*, 6/8/98)

- ***Fannie Mae Foundation Names 25 Community Leaders as Fannie Mae Foundation Fellows at Kennedy School:***
 - The Foundation named 25 community leaders from across the country as the 1998 Fannie Mae Foundation Fellows for the Program for Senior Executives in State and Local Government at Harvard University's John F. Kennedy School of Government. The 25 Fellows are the most recent addition to the more than 2,000 senior public officials to participate in the Foundation's Fellowship Program. The program offers an intensive, three-week experience designed to prepare participants for increased responsibilities, stimulate interest in new management ideas and techniques, and develop relationships among public-sector colleagues across the country. The Fannie Mae Foundation Kennedy Fellows attend special housing sessions coordinated by the Kennedy School's Joint Center for Housing Studies. (*PR Newswire*, 6/15/98)

- ***Fannie Expects Mortgage Originations to Reach Record High in 1998:***
 - Fannie Mae said it expects total mortgage originations to reach a record high of \$1.17 trillion in 1998. The previous record was set in 1993 when total mortgage originations reached \$1.1 trillion. (*Reuters*, 6/17/98)

- ***Fannie's CEO Receives Lifetime Achievement Award:***
 - Chairman Jim Johnson will receive a Lifetime Achievement Award from the Center for Policy Alternatives on June 25th for "his dedication to strengthening communities by making home ownership a possibility for low- and moderate-income families." (*PR Newswire*, 6/22/98)
- ***Fannie Mae Provides Grant for PBS Series on Slavery:***
 - Fannie Mae was one of the contributors to a new PBS, four-part, six-hour WGBH documentary on slavery called "Africans in America." The series will air in October of 1998. (*Current Online*, 6/22/98)
- ***Weeks After AP Reports that Fannie & Freddie Have No Welfare-to-Work Program, Fannie Hosts Roundtable on Bridging the Gap between Affordable Housing and Welfare Reform:***
 - As we noted in the June 5th issue of the *GSE Report*, in an Associated Press survey of the 100 largest companies, AP listed companies in the following categories: (1) companies with welfare-to-work programs; (2) companies with no welfare-to-work program; and (3) companies developing a welfare-to-work program. Fannie Mae and Freddie Mac were listed in the category – "companies with no welfare-to-work program." (*Associated Press*, 5/25/98) On June 26th, Fannie is hosting a National Roundtable to "bridge the gap between affordable housing and welfare reform." The roundtable - called "Managing Affording Housing Under Welfare Reform: Reconciling Competing Demands" - will focus on how welfare reform will affect the business of housing to discuss what housing providers can do to help families move from welfare to work. (*Fannie Mae Press release*, 6/23/98)
- ***Fannie Mae Celebrates Five Year "Home Team" Partnership with Cleveland Cavs:***
 - The Foundation celebrated its five-year anniversary of its "Home Team" Partnership with the Cleveland Cavs by rebuilding a home. (*PR Newswire*, 6/5/98)

Freddie Mac

- ***Rev. Jesse Jackson Continues to Attack Freddie Mac on Racial Discrimination:***

- Continuing his accusations of racial discrimination at Freddie Mac, Rev. Jesse Jackson's Rainbow Push Coalition informed *Barron's* that it was planning to buy about \$1,000 worth of Freddie Mac stock to enable Jackson to attend shareholder meetings and press his charges that Freddie Mac is guilty of "flagrant racial discrimination in its employment and lending practices."

More details emerge about the fired Freddie Mac employee, Tony Morgan, whose case sparked the lawsuit:

- Tony Morgan was a chief economist for the Democratic Policy Committee in the Senate and has an MBA from the University of Pennsylvania's Wharton School. In his complaint, he told interviewers at Freddie that he wanted a vice president's job, a post for which, then-Senate Majority Leader George Mitchell recommended him. The complaint states that he was offered a lower-level job as "director, executive corporate relations," paying \$90,000 a year instead. Contrary to Freddie's policy, the suit contends, the post didn't carry a job description, but Morgan accepted it anyway, confident he'd eventually become a VP. According to his suit, he was given no direction, so he set his own agenda, claiming to have done an "exemplary" job despite one annual review that "unfairly criticized his performance." Morgan applied repeatedly for higher-level jobs at Freddie Mac, but he claims each time he was passed over, and sometimes for less qualified whites. At this same time, he also urged Freddie to do more to help inner-city residents afford homes. He blames his layoff in 1996 to racial discrimination.

Fannie and Freddie's Racial Composition:

- According to *Barron's* "wherever the truth lies," Freddie Mac, "could probably be held blameworthy for political boneheadness. A government-sponsored enterprise that receives an implicit federal subsidy estimated in the billions of dollars and that is headquartered within minutes of the predominately black nation's capital should hedge its political risks by maintaining a racially and sexually diverse executive suite. Instead, only four of Freddie Mac's 71 vice presidents are African American. Of its 3,200 employees, only 13.6% are of that minority." According to *Barron's*, 16% of Fannie Mae's executives are black, including Chairman Franklin Raines, and 26.5% of its total employees are black. Fannie is also about to receive an award for employing minority lawyers.

Little Press Coverage:

- Morgan's attorney, Debra Katz, was disappointed so far with the media coverage on the discrimination suit. According to *Barron's*, The *Washington Post* ran the story deep inside the business section, while the *New York Times* ignored it. [For further info. on the case, please see the June 5th, 1998 *GSE Report*.] (*Barron's Online*, 6/15/98)

- ***Freddie Mac & City of Atlanta Announce \$75 Million Home Ownership Program with Mayor of Atlanta:***

- Freddie and the City of Atlanta announced a new \$75 million lending initiative, Housing to Help Ownership Program (H2O Program), combining home ownership counseling,

low down payment mortgage products and downpayment assistance programs. Three of the largest mortgage lenders in the region are also participating in the program: First Union Mortgage Company, HomeBanc Mortgage, SunTrust Bank, and the Atlanta Housing Authority. The \$75 million H2O Program is part of the Atlanta Mayor Bill Campbell's plans. The Atlanta Center for Home Ownership, a partnership between the Atlanta Housing Authority and the Atlanta Empowerment Zone Corporation, will work with the real estate sales community who will receive homebuyer referrals from the Atlanta Center and the three participating lenders. Homebuyers only need \$1,000 or just 2% of the purchase price for the downpayment, and there are no income limits on the program if the homebuyer is purchasing a home within the city of Atlanta. Homeowners who need cash to rehabilitate their existing home or refinance an existing mortgage can also participate in the H2O Program. (*PR Newswire*, 6/10/98)

- ***Freddie Mac Issuing First Euro Note by a GSE to Attract International Investors:***

- Freddie Mac issued the first Euro-denominated discount note program by a GSE to take advantage of Europe's demand for high quality debt and to build up its reputation with European investors. Fannie Mae is "not necessarily creating super-specific structures just for Europe," said Jon Losen, vice president for debt marketing in Fannie's treasury department. However, they are finding "European participation in the broad range of all of our debt products." (*American Banker*, 6/23/98)

- ***Freddie Mac Issues Second "Reference Note" (Marketed as Alternative to Treasuries):***

- Freddie Mac issued its second "Reference Note" program on June 24th – a \$4 billion, five-year bond. The "Reference Note" program like Fannie's "Benchmark" securities are marketed as alternatives for US Treasury paper. Freddie's first "Reference Note" in April (\$5 billion, 10-year global bond), was the largest fixed-rate bond ever issued. (*Reuters*, 6/24/98)

- ***Freddie Mac's Chief Credit Officer/Risk Management Executive Retires:***

- Michael Stamper, executive vice president of risk management/chief credit officer at Freddie announced his retirement. Stamper, however, will continue in his current position until a successor is named later this year and after his retirement, he will continue to work at Freddie on a part-time basis as an adviser to management. (*Dow Jones Newswire*, 6/5/98; *Reuters*, 6/5/98)

- ***Freddie Promotes General Counsel to EVP:***

- Freddie Mac announced that the company has promoted Maud Mater to executive vice president. Mater has been Freddie's general counsel since 1982 and acquired the additional title of senior vice president in 1984. She has served on Freddie's Board of

Directors since 1996. Mater started as assistant general counsel at Freddie Mac in 1976. (*National Mortgage News website*, posted 6/18/98)

- ***Freddie Foundation Dedicates Adolescent Protection Center – Provides \$1 Million Grant:***
 - Children’s National Medical Center and the Freddie Mac Foundation dedicated a new facility for a new Freddie Mac Foundation Child and Adolescent Protection Center. The facility was made possible by a \$1 million grant from the Freddie Mac Foundation. (*PR Newswire*, 6/15/98)
- ***Freddie Mac Foundation Raises \$202,500 for NYC Foster Children:***
 - The Freddie Mac Foundation raised \$202,500 through its ninth annual Freddie Mac Foundation Reach Out to a Child 5K Run/Walk in Central Park. (*PR Newswire*, 6/11/98)

Federal Home Loan Banks

- ***Closed Door Meeting at FHFB Creates News:***
 - ***Treasury Undersecretary Hawke Laid Out Treasury’s View of GSEs***
 - ***No Rush Among FHLBank Members to Curb Non-Mortgage Investments:***
- A recent closed door meeting of the FHFB focused on the System’s current value, its future, and the subject of non-mortgage investments

Treasury Under Secretary Makes Comments about GSEs:

- According to a *Dow Jones Newswire* article, FHFB Chairman Morrison noted that Treasury Under Secretary Hawke laid out Treasury’s view that the appropriate role of a GSE is only to fill a “market failure” need; that GSEs should remain narrowly focused; and that GSEs should go out of business when they’ve done their job. Hawke declined through a spokesman to discuss his remarks at the meeting.

Non-Mortgage Investments Discussed:

- FHFB Chairman Morrison also noted that the discussions among Senior System officials on non-mortgage investments went well, but he acknowledged that there was no rush to change. “There’s no question about how people feel,” said Morrison who characterized the sentiment among the Senior Officials towards increased mission-related investments as “Do we have to?” The FHFB hopes to issue a proposed rule on non-mortgage related investments before the end of the year. (*Dow Jones Newswire*, 6/5/98)
- ***FHLBank Expansion Activities (News Not Yet Reported):***
 - We have been advised that the FHLBank Board and its member banks are lining up members of the Senate Banking Committee to support two, if not more amendments, to expand Senator’s Chuck Hagel’s (R-NE) FHLBank bill (that would expand the FHLBank System). Senator Hagel is expected to offer an expanded version of his initial bill as an

amendment to the credit union bill that the Senate Banking Committee might markup following the July 4th recess. Most importantly, the two additional amendments the FHLBank System is advocating would: (1) reduce FHLBank capital standards to those of Fannie Mae and Freddie Mac, and; (2) allow FHLBanks to issue “letters of credit” and other such instruments.

- ***Groups Support Speeding Up Passage of FHLBank Expansion Bill:***
 - Groups representing the homebuilders and bankers signed a letter to Senator Majority Leader Trent Lott urging that Senator Hagel’s FHLBank Expansion bill (S. 1423) be attached as an amendment to “any appropriate legislation considered by the Senate.” The group called the bill, “essential legislation” providing “constructive approaches to governance and regulation of the FHLBank System.” Senator Hagel’s bill is co-sponsored by Senators Trent Lott (R-MS), Robert Kerrey (D-NE), Rod Grams (R-MN), Robert Bennett (R-UT), Conrad Burns (R-MT) and Kent Conrad (R-ND). The bill would revamp some FHLBank membership rules and increase access to funds for banks and thrifts. The bill would allow community banks with assets less than \$500 million to use FHLBank advances to make secured small business loans and agricultural loans, as well as finance rural and low-income development projects. The America’s Community Bankers, American Bankers Association, Council of Federal Home Loan Banks, Independent Bankers Association of America, and the National Association of Homebuilders signed the letter. (*BNA Daily Report for Executives*, 6/10/98; *Dow Jones Newswire*, 6/9/98)
- ***FHFB Expands Financial Disclosure – FHFB Hopes Its Efforts Will Keep Congress from Requiring the GSEs to File SEC Registrations:***
 - During a meeting on June 24th, the Federal Housing Finance Board unanimously voted to subject the FHLBank System to most SEC disclosure requirements. The expanded financial disclosure was approved in a final policy statement (“Disclosures in the Combined Annual and Quarterly Reports of the Federal Home Loan Bank System”) and related rule. The expanded financial disclosures, however, will be enforced by the FHFB, not the SEC. The policy statement requires that the combined annual and quarterly financial reports of the System be prepared in a manner that is consistent with the financial and other disclosure requirements of the SEC. Certain exceptions are provided to accommodate the System’s unique characteristics.

FHFB Attempts to Keep the System Exempt from SEC Registration & Reporting Requirements:

- The expanded disclosure is intended to provide investors in the FHLBank System obligations with the same types of disclosures that are provided by securities issuers with the SEC, and according to an article in the *Dow Jones Newswire*: “It also aims at warding off any attempts by Congress to subject the System by statute to the federal securities laws.” FHFB Chairman Bruce Morrison and Board Member J. Timothy

O'Neill "made it clear that the initiative stems in part from a proposal that surfaced in the House last year to bring the System within the purview of the federal securities laws." The House proposal was never adopted, but it clearly left an impression on the FHLBank System. The GSEs have fought forcefully against such proposals, alleging that it would increase their cost of doing business without providing commensurate benefits to investors. According to Morrison, "I think our position (against SEC registration) is made increasingly credible by these steps."

What Will the New Expanded Disclosures in the 1997 Financial Report Include?:

- According to the FHFb, this action is the first time that the FHFb has set formal policies as to the content of the FHLBank System's annual report and quarterly combined reports. According to the FHFb, the 1997 report for the FHLBank System will include:
 - The top ten capital stockholders in each FHLBank;
 - The top ten holders of advances in the FHLBank System as well as the top five at each FHLBank;
 - Transactions with related parties, which show how much of the FHLBank's advances went to member institutions that have an officer serving on the board of directors of a FHLBank;
 - Increased disclosure concerning derivatives and interest-rate risk management; and
 - Increased disclosure on the compensation and pension plans of the FHLBank presidents and managing director of the Office of Finance.
- The FHFb deferred for a year requiring qualitative disclosures mandated under a SEC derivatives rule. The FHFb originally proposed that the derivatives disclosure be included in the System's 1997 annual report (to be released the week of June 29th), but decided to delay that requirement until the 1998 report. (*BNA Daily Report for Executives*, 6/25/98; *Dow Jones Newswire*, 6/24/98)
- ***FHFb Reaches Settlement with FHLBank of Des Moines – Dispute May be Over Non-Mission Related Investments?:***
 - During a closed session meeting on June 24th, the FHFb reached a settlement between its Office of Supervision and the FHLBank of Des Moines. The FHFb and the FHLBank of Des Moines would not comment about the details of the settlement or the nature of the underlying dispute. A FHLBank of Des Moines Spokeswoman said the matter was confidential, characterizing the dispute as technical in nature, involving the System's financial management policy, and said no fines or other payments were involved in the proposed settlement.
 - According to a *Dow Jones Newswire* story, people familiar with the dispute say the case involves an investment policy dispute related to the legal opinion written by the FHFb's Office of General Counsel stating that the so-called Small Business Administration Pool Certificates are not mission-related, value-added investments under the System's Financial Management Policy. This legal opinion was requested by FHFb Chairman Morrison, who forwarded the opinion to the FHLBank Presidents in January, encouraging FHLBanks to expand their mission-related assets. Two of the FHFb Members questioned the memo, noting that the legal opinion should have been

considered by the FHFB and that the Chairman's memo was the opinion of the Chairman only. Ousted FHFB Member, Lawrence Costiglio, was one of the signatories on the memo challenging Morrison. (*Dow Jones Newswire*, 6/24/98, 6/25/98)

- ***Rumors float that FHLBank of Dallas and FHLBank of Seattle will Merge:***
 - A rumor was sparked that FHLBank of Dallas would merge with the FHLBank of Seattle when the Dallas Bank announced that it would hold its Board Meeting in Seattle on August 17th. Dallas FHLBank President George Barclay said the rumors were unfounded. "We discussed the idea on a very preliminary basis a year ago and came to the conclusion that our members would both be better off if they remained independent." Barclay noted that merger talks are not new, and that his Bank has held similar discussions with the FHLBanks of Topeka and San Francisco in recent years. He also noted that because the Banks' membership base (thrifts and commercial banks) is consolidating, mergers among the FHLBanks are inevitable. "What has stopped us so far, though, is the need to deliver services on a personal basis. Making advances by a '1-800' number wouldn't be appropriate." (*American Banker*, 6/15/98)

Farm Credit Administration

- ***ABA, IBAA Appeal Court Decision Allowing Expansion of Farm Credit System:***

Appeal

- The American Bankers Association (ABA) and the Independent Bankers Association (IBAA) filed briefs with the US Court of Appeals in the District of Columbia on June 12 appealing a lower court's November 1997 decision that allowed expansion of the Farm Credit System (FCS). The case is set for oral argument on October 9th. A spokeswoman from the Farm Credit Council said that the FCA (regulator of FCS) would be filing its reply to the new brief by mid-July.
- "The lines between the proper role of the FCS and to whom it should lend are blurred by this rule," said John Blanchfield, manager of ABA's agricultural banking and rural development division. "The FCA is allowing the FCS to expand into more areas the law allows. The FCS is forgetting who it was created to serve – farmers and ranchers." According to Jim Caspary, president of IBAA's Agriculture-Rural America Committee, "it's clear the FCA doesn't want the FCS to be limited to serving farmers and ranchers as was envisioned when Congress granted FCS limited authorities, a privileged tax status and special government funding advantages."

Original Case:

- The ABA and the IBAA first sued the FCA back in March 1997 alleging that the changes in the FCA financing and borrower eligibility rules went beyond the scope of the FCS activities authorized by Congress. The banking groups claimed that the rule revisions

would allow the FCS institutions to enter into non-agricultural lending activities and thereby compete unfairly against commercial banks in rural areas.

Lower Courts Ruling:

- The US District Court for the District of Columbia ruled against the banking groups and found that the FCA “acted well within its regulatory authority” in approving the rule. The court said that the broad language of the Farm Credit Act of 1971 permitted the more expansive lending envisioned in the revised rules. The lower court further held that “the mere fact that the agency has not seized upon the full scope of its lending authority in the past in no way precludes it now from reasonable adopting such regulations.” (*BNA Daily Report for Executives*, 6/18/98)

- ***Farm Credit Administration Expands Eligible Farm Credit Bank Investments:***

- In a June 18th *Federal Register* notice (63 Fed. Reg. 33281), the Farm Credit Administration (FCA) proposed amending its investment regulations to provide the Farm Credit Banks with a broader choice of eligible investments. The FCA proposed that the Farm Credit Banks would for the first time be able to invest in “non-agency” mortgage securities offered by the private-sector. The private-sector securities, however, must be rated in the highest rating category by a nationally recognized rating agency, collateralized according to specific guidelines, and subject to stress testing. The private sector securities also cannot exceed 15% of each of the institution’s total investments.

FCA Rejected Request by Farm Credit Banks to Invest in more Fannie & Freddie Securities:

- The Farm Credit Banks requested that the FCA repeal the Farm Credit Bank’s 50% investment portfolio limitation on mortgage securities issued by Fannie and Freddie. Farm Credit Banks had noted that no other financial institution regulatory agency places restrictions on the credit exposure to GSEs and that exposure limits on these securities should be left to the discretion of the bank. The FCA rejected the Farm Credit Banks’ request and that mortgage securities issued by any other party other than Ginnie Mae cannot exceed 50%. The Farm Credit Banks may hold securities that are issued or fully guaranteed by Ginnie Mae without restrictions on amount.

Other Proposals:

- FCA proposal would ease restrictions on certain complex mortgage-related products and expand portfolio limits on corporate bonds and asset-backed securities.
- FCA requested comments on how it might permit the Farm Credit Banks to invest in municipal revenue bonds while limiting risks to the banks. Currently, only municipal general obligation bonds are eligible System investments.
- FCA also proposed requiring the Farm Credit Banks, at the time of purchase or sale of securities, to verify the value of the securities prices “with a source that is independent of the broker, dealer, counterparty, or other intermediary in the transaction” New issues are not covered by this requirement. (*BNA Daily Report for Executives*, 6/24/98; *Dow Jones Newswire*, 6/19/98; *Federal Register*, 6/18/98 (63 Fed. Reg. 33281))

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Canfield & Associates, Inc.
801 Pennsylvania Ave., NW, Suite 625
Washington, DC 20004
Phone: (202) 661-2100
Fax: (202) 661-2101
www.canfieldassoc.com