

The **GSE** REPORT

All GSEs

- ***Orange County Drops Lawsuit Against GSEs:***

- As part of Merrill Lynch's \$400 million settlement with Orange County stemming from the county's 1994 bankruptcy, Orange County agreed to drop complaints against several GSEs whose securities figured in the county's financial problems – the FHLBank System, Fannie Mae and Sallie Mae. Orange County's civil case against the Federal Farm Credit Bank was also dropped in conjunction with the settlement, said Mike Hannigan, counsel for Orange County. 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, according to a Merrill Lynch brokerage source. (*Dow Jones Newswire*, 6/2/98; *Wall Street Journal Interactive*, 6/3/98)

Fannie Mae & Freddie Mac

- ***One of "Sticking Points" on PMI Reform Bills is GSE/"High Risk Borrower" Provision:***

- Negotiations are continuing between the House and the Senate to try and reach agreement on a PMI legislative reform package. "High risk" borrowers may be one of the biggest hurdles facing negotiators. In the Senate version of the PMI bill, Fannie and Freddie are given the ability to develop guidelines that define "high risk" mortgages. These "high-risk" homebuyers would be subjected to a tougher standard for automatic termination of PMI coverage, with their loans only eligible for termination at the "half life" of the loan. Consumer groups, including Consumers Union, the National Consumer Law Center, and the AARP think this provision unfairly discriminates against an entire class of borrowers, many of whom are likely to make timely mortgage payments. The consumer groups believe that the determination of "risk" is put entirely into the hands of nongovernmental private companies (Fannie and Freddie). Rep. Bruce Vento (D-MN), believes the bill still

“needs specific criteria and guidelines” defining what constitutes “high risk.”
“Otherwise, he believes, Fannie and Freddie would be able “to declare lots of things high risk” and require credit-worthy homebuyers to pay PMI longer than most other borrowers. (*Washington Post*, 5/30/98)

- ***Fannie & Freddie May Become Large Buyers in the Commercial Mortgage-Backed Securities Market:***
 - The commercial mortgage-backed securities market has been discussing the possibility of large new potential buyers in the market, including Fannie & Freddie. Freddie Mac has been active in the market lately and Fannie Mae is said to be talking to Wall Street firms to determine the types of issues they might buy, although they have yet to make their first purchase. (*Barron's Online*, 6/1/98)
- ***FASB's Tentative Decision May Eliminate Advantages of Selling Mortgages to Fannie & Freddie:***
 - The Financial Accounting Standards Board (FASB) tentatively reached a decision eliminating the advantages of selling mortgages to the secondary market (including Fannie & Freddie) for small and medium-size banks and thrifts. FASB found out recently that the FDIC could repudiate sales transactions in cases where a bank or thrift fails and goes into receivership. FASB is considering issuing an exposure draft for public comment in the fourth quarter that would treat these sales transactions as financings (meaning the bank or thrift would have to maintain capital against the transferred assets). At this time, FASB's decision is only tentative and sales to the secondary market will continue to be treated as sales until FASB issues a final rule (possibly in late 1999). Observers are hoping that the FDIC auditors and lawyers can reach a compromise on the issue of receivership powers. (*National Mortgage News website*, posted 6/3/98)
- ***Fannie, Freddie and Lenders Team Up for Year 2000 Testing Plan:***
 - Fannie Mae, Freddie Mac, and the Mortgage Bankers Association (MBA) are working together to institute an industry testing program for lenders to verify their Year 2000 (Y2K) computer compliance. The testing program, developed by the MBA, will allow lenders that meet certain eligibility requirements, to voluntarily test their systems for Y2K readiness with their trading partners. The program will be shipped later this year for testing usage starting the first quarter of 1999. The cost of the program has not been established, but Fannie, Freddie and the MBA will fund the project management office for the first three months. The project management office will prepare test cases, transactions, and test kits for lenders, vendors, and any trading partner that needs to participate to coordinate schedules. According to Fannie Mae's press release, Fannie Mae contributed \$195,000 to help fund the MBA's testing efforts. The testing group of 15 lenders estimate that they have spent more than \$500 million in Y2K compliance, said James Horne, MBA technology initiative director. Freddie Mac requires its partners to be Y2K compliant by December 31, 1998, while Fannie Mae's deadline is March 1999. (*BNA Daily Report for Executives*, 6/5/98; *Business Wire*, 6/4/98)

- ***Fannie & Freddie Are Building their Portfolios of Retained Loans:***
 - According to Jonathan Gray, principal at Sanford C. Bernstein & Co., Fannie and Freddie are building their portfolios of retained loans and mortgage-backed securities at a rapid pace. Gray noted that the balance sheet generates 65% to 75% of the GSEs' earnings. Gray further predicted that Fannie Mae's balance sheet would gain 15% this year and Freddie Mac's would grow 22%, and he predicted that of the more than \$340 billion of loans originated during the second quarter, over 50% (\$175 million) would be sold to Fannie and Freddie. Gray noted however that the balance sheet produces declines in net interest rate margins and "both companies showed a fairly sharp contraction." Gray believes Fannie's net interest margins will face a sharp decline in the fourth quarter (103 to 105 basis points). Fannie's net interest margins averaged 117 basis points and 114 basis points in the first quarter of 1998. Additional pressure may be put on the interest rate spreads of the GSEs - with rallies in the bond market and a flat yield curve - the GSEs are getting below-average spreads on the mortgages they buy (dampening investor enthusiasm), Gray said. He does however, predict the outlook for Fannie and Freddie's earnings growth as "quite robust" for this year and next, provided that interest rates remain relatively stable and that there is a normalization of the yield curve. (*American Banker*, 6/3/98)
- ***Fannie & Freddie Participate with House Members in "Houses that Congress Built":***
 - More than 340 members of Congress and their staffs are committed to working on building a house in the "Houses that Congress Built" program. The goal is to build a house in each of the 435 congressional districts in 1998. The program was proposed by Rep. Jerry Lewis and backed by a bipartisan group of House leaders and Members, involving Habitat for Humanity International, congressional representatives and the National Partners in Homeownership, which includes Fannie Mae, Freddie Mac, the National Association of Home Builders, and the National Association of Realtors. Chairman and CEO Leland Brendsel will kick off the campaign with a ground breaking ceremony for two homes in Alexandria, VA on June 6th with Congressman James Moran, Congressman Tom Davis and HUD Secretary Andrew Cuomo. (*PR Newswire*, 6/2/98, 6/3/98, 6/4/98)
- ***Fannie Mae and Freddie Mac Have No Welfare-to-Work Program:***
 - The Associated Press conducted a survey of the 100 largest companies, measured by 1997 revenue, plus the 50 largest employers, as determined by *Fortune* magazine's annual survey. The Associated Press survey 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)

Fannie Mae

- ***Fannie Mae – “Washington’s Power Company”:***
 - The *National Journal* wrote a profile piece on Fannie Mae’s lobbying efforts, referring to them as “Washington’s Power Company.” The article notes how successful Fannie Mae has been over the years at fighting off assaults at its franchise and how Fannie Mae and their lobbyists are “tough to beat.” Under Jim Johnson’s reign as Chairman, Fannie Mae “has emerged as one of the most prominent turf warriors in Washington.” Fannie Mae employs politically connected staff, its board of directors is “sprinkled with political luminaries,” and its alumni are considered powerful. Adding to this, Fannie Mae also employs lots of outside lobbyists, many of whom are former Members of Congress. Fannie Mae hired approximately a dozen outside lobbying firms in 1997, at a cost of \$800,000 as part of their overall \$6 million annual lobbying budget. Last year, approximately 50 people (not including in-house lobbyists) were registered to lobby for Fannie Mae. Fannie Mae has also paid approximately \$100,000 in “soft money” between the Republican and Democratic parties. Fannie Mae also benefits by having its headquarters in Washington, DC. “Their employees live next door to a lot of important people,” said a financial services industry lobbyist. “They have a very good system in place to understand what relationships people have, and the willingness to use them when necessary.” Even though they are private companies, Fannie Mae and Freddie Mac are able to borrow money at below-market rates, because the markets assume that their federal charter gives them an implicit government guarantee should they fall into a financial crisis. The power of Fannie Mae both politically and financially causes some fear in Washington. “I’m always amazed at how people bend under Johnson’s pressure,” said Bert Ely, a banking consultant. “It’s not anything explicit. It’s just that they have so many tentacles, people fear that three moves later Fannie will stick it to them.” (*National Journal*, 5/23/98)
- ***Fannie Mae Launches High LTV Refinancing:***
 - Fannie Mae announced an experimental pilot that allows consumers to refinance high LTV mortgages that carry above market interest rates. This pilot marks the first time the refinance option is available for high LTV loans not previously owned or securitized by Fannie Mae. (*American Banker*, 5/27/98)
- ***Fannie Mae is Staying in the Texas Home Equity Loan Market:***
 - Reports are that Fannie Mae is no longer threatening to withdraw from the Texas home equity lending market. Earlier this year, there were reports that Fannie was withdrawing from the market by May 31st unless the Texas Department of Insurance approved of additional lender protections to the Texas Home Equity Lender title insurance mortgage policy. A spokesman said, “Fannie Mae is extending the deadline.” (*National Mortgage News website*, posted 5/28/98)
- ***Fannie Mae Issues Another Benchmark Note – First Seven-Year Note:***

- Fannie Mae launched another Benchmark Note on June 2nd – a \$3.5 billion, seven-year note. This is the sixth issue from Fannie’s Benchmark note program. Fannie hopes its Benchmark program will offer investors an alternative to Treasuries, however, this is the first time that Fannie Mae has sold the Benchmark notes in a maturity different from those in Treasury’s periodic auction cycle. “This is their first attempt to go solo,” said Perry Beaumont, agency debt analyst at Salomon Smith Barney, referring to the fact that the notes will have no “on-the-run,” or recently sold, Treasury issue against which to compare them. Analysts also believe that the seven-year note would fill a gap in the market since the federal government stopped issuing seven-year Treasuries in 1993. Beaumont believes that the seven-year note would provide a welcome filling of the gap between five and 10-year Treasuries. With the seven-year note, Fannie Mae will have sold large bond issues in all key maturities from the three-year to the ten-year. The two-year is the only maturity that Fannie Mae has not yet issued, however, according to John Losen, vice president for debt marking at Fannie Mae, the agency will soon offer a two-year note. Fannie Mae’s benchmark notes are starting to see more use in the repurchase agreement market where dealers borrow them to hedge corporate or mortgage bond inventory. Losen stated, “There is very active financing of the notes in the repo market. Financing levels in the repo market are inside of general collateral on a consistent basis.” Losen would not comment on whether Fannie Mae used derivatives called rate-locks to lock in an interest rate on the notes. Because Fannie Mae wants to offer benchmarks with regularity, they have occasionally used derivatives to lock in interest rates opportunistically, according to Wall Street traders. Fannie Mae then unwinds the “rate-locks” after pricing the bonds, traders said. Losen noted that “the only comment I can make is that we use proceeds of the benchmark notes to fund our mortgage portfolio.” The agency’s bonds, rated triple-A by virtue of an implicit guarantee on its obligations by the government, are considered a good proxy for government debt. (*National Mortgage News website*, posted 6/2/98; *Reuters*, 6/3/98; *Wall Street Journal Interactive Edition*, 6/2/98)
- Fannie Mae’s IT Staff Note Biggest Challenge to \$1 Trillion Commitment is Encouraging Lending Partners to Change their Business Processes to Meet Fannie’s Technology:***

 - Fannie Mae set a goal in March 1994 of providing \$1 trillion in targeted lending for 10 million homes by the end of the decade. Martin Colburn, vice president of Fannie Mae’s technology-management center, attributes much of Fannie Mae’s success in already reaching more than half of its goal, to the company’s technological advances and training of partners. Colburn notes that Fannie’s success is due to the company’s continuous investments in its IT staff, its ability to improve upon its existing infrastructure, and its commitment to helping mortgage partners adapt to technological change. Technology, however, is not the greatest obstacle in achieving the \$1 trillion goal. “The biggest issue is that folks have to change their business processes to take advantage of the technology,” Colburn says of Fannie Mae’s lending institution customers. Fannie Mae said it provides its software products at no charge to lending institutions, and dispatches business and technology analysts depending on lenders’ needs. “We’re not just handing them the technology, we’re working with them,” Colburn says.

- After Fannie's \$1 trillion announcement in 1994, the company extended its traditional four-month Business System Technologist program to include products geared toward the \$1 trillion commitment, such as new underwriting applications. During the same time, Fannie also launched a training track, Engineering Systems Technologist. These two programs offer hands-on instruction in core business and technologies, respectively. Fannie Mae's automated underwriting system, Desktop Underwriter, is the result of Fannie's emphasis on linking technology to their business. Fannie Mae's system is based largely on Sun Microsystems servers, Sybase software, and Cisco networking products. Current developments include object reuse and Java tools. Fannie Mae is also migrating to a switched Ethernet environment with Cisco switches, laying the foundation for multimedia applications and ATM internetworking, due for completion at the end of the year. (*InfoWorld*, 5/25/98)
- ***Fannie Mae Plans to Increase Web Presence by Dominating the Home Pages of Libraries Across the Country:***
 - One of Fannie Mae's strategies to increase its web presence is by hyperlinking its homepath.com Web site to libraries across the US. The Fannie Mae site will provide consumers access to free online home buying and refinancing information. Mona Simons, deputy director of Fannie Mae's Columbus, OH, partnership office says, "Not everyone has ready access to a computer...The local library is one place where any person can link up with the Internet." In only a few months, Fannie Mae has created links to library webpages in New York, Chicago, Baltimore, and Los Angeles. Fannie is also currently extending the network in Ohio and is promoting the program to other library systems through its 30 partnership offices. Fannie also has plans to provide links with local computer labs, community colleges and centers that provide computer training. The homepath.com page was created a year ago by Fannie Mae and is averaging approximately 26,000 hits a day. The site provides addresses and names of local counselors, details different Fannie Mae mortgages, and provides a listing of lenders who offer Fannie Mae products. Consumers can also e-mail questions to Fannie Mae. "It's much easier for consumers to find a lender if the bank is listed on the site," says Bruce Cornelius, Fannie Mae's director of electronic commerce. "They can click on lists of local or out-of-state lenders and there's a special 'quick access' site with icons of 86 lenders." According to Cornelius, "Fannie Mae's consumer resource center in Washington, DC, counsels applicants, saving branch officers the time it takes to do the same work." (*American Banker*, 6/3/98)
- ***Fannie Mae Plans to Open Partnership Office in Buffalo, NY:***
 - Fannie Mae is planning to open a "Western and Central New York" Partnership Office in Buffalo, NY, in the Congressional District of Congressman John LaFalce (D-NY), the second highest Democratic Member on the House Banking Committee. (The current Ranking Member, Cong. Gonzalez is retiring this year – LaFalce is expected to succeed Gonzalez as Ranking Member.) It is unsure how much money Fannie will invest in the area, however, Cong. LaFalce, who "prodded" Fannie Mae to start up the local operation, said he expects the effort's impact will be substantial. A Fannie Mae spokeswoman said

the company hopes to open its Buffalo office in late July or early August. Fannie Mae's CEO Jim Johnson was going to officially announce the effort after a meeting with LaFalce and other public officials at Como Restaurant in Niagara Falls. (*The Buffalo News*, 5/1/98)

- ***Real Estate Investment Trust Will Use Proceeds from a Unsecured Tax-Exempt Debt to Refinance Existing Tax-Exempt Mortgage Debt Backed by Fannie Mae:***

- In a new financing option, Irvine Apartment Communities (a real estate investment trust and dominant owner and operator of apartment properties on the Irvine Ranch in Orange County), priced a \$334 million offering of unsecured tax-exempt debt at an average interest rate of 4.93% in three tranches ranging from 10 to 15 years. According to Irvine Apartment Communities, this is the first time a real estate company has ever assessed the unsecured tax-exempt debt market. Proceeds from the offering will be used to refinance the company's existing tax-exempt mortgage debt that is backed by credit and liquidity support from Fannie Mae. (*Business Wire*, 5/28/98; *Reuters*, 5/28/98)

- ***Fannie Mae Promotes Former Senate Staffer to Vice President:***

- Fannie Mae promoted Pamela Banks as vice president of regulatory compliance. Between 1994 to present, Banks was director of regulatory policy at Fannie Mae. Prior to her service at Fannie Mae, Banks was counsel with the Senate Judiciary Subcommittee on Antitrust, Monopolies, and Business Rights under Senator Howard Metzenbaum. She also served as Tax Counsel for the FHLBank Board, the House Ways and Means Committee, and the Internal Revenue Service. (*PR Newswire*, 6/1/98)

- ***Fannie Mae Holds Press Conference with Banking Committee Member Hooley (D-OR):***

- Fannie Mae hosted a press conference with House Banking Committee Member Darlene Hooley (D-OR), to announce a new \$10 billion, five-year housing investment plan, and the expansion of its Partnership Office to serve the entire state of Oregon. At an Oregon Housing Symposium in Salem, Fannie Mae announced the completion of HousePortland and the creation of a new "HouseOregon" plan. Fannie Mae claims HousePortland has helped more than 13,000 families by offering such products as their low down-payment Flexible 97 program (as described in earlier *GSE Reports*), community land trusts, and Arbor Vista condominium project. Under the community land trusts program, Fannie Mae provided \$750,000 in financing for loans made on Community Land Trust properties. Under this initiative, the borrower purchases the home and then leases the land from the Community Land Trust at an affordable rent. Since the land cost is not part of the home purchase, the sales price is lower than a typical home purchase in the same location. (*Business Wire*, 5/28/98)

- ***Fannie Mae Holds Press Conference with Senator Thad Cochran (R-MS):***

- Fannie Mae announced the results of the first-year of Fannie’s “HouseMississippi” with Senator Thad Cochran (R-MS), and Jackson Mayor Harvey Johnson at a ground-breaking ceremony for a new housing community in North Jackson. Fannie Mae announced that it had provided more than \$460 million in affordable mortgage financing for 6,300 families in Mississippi in the past year. The ground-breaking event took place on the future site of Forest Park, a neighborhood development with 1,100 homes ranging from \$70,000 to \$150,000. Local lenders will offer Fannie’s low-down payment products such as Fannie 97, Community Home Buyer’s program, and Flexible 97. (*Business Wire*, 5/26/98)
- ***Fannie Mae Holds Press Conference with Cong. Deborah Pryce (R-OH) & Mayor of Columbus:***
 - Fannie Mae joined Congresswoman Deborah Pryce (R-OH) and Columbus Mayor Gregory Lashutka to announce a new partnership with Fannie Mae and the city of Columbus, OH that will provide up to \$4,000 in down payment and closing cost assistance and to announce the first year results of “HouseColumbus.” Rep. Pryce is the House Republican Conference Secretary, the 7th ranking Member of the House leadership. Fannie Mae announced that it had invested more than \$280 million in Columbus to provide affordable housing for more than 5,200 families in the first year of “HouseColumbus.” Among its accomplishments, Fannie Mae opened a Columbus Partnership Office, introduced a new low down payment program (Flexible 97), and created a partnership with the Ohio Public Library Information Network to put Fannie Mae’s homethat website on the library’s computers. Plans for the second year include (1) “Your Home Columbus,” a new down payment program where the city has allocated \$600,000 for approximately 150 low- and moderate-income homebuyers who earn 80-120% of the area median income; (2) Fannie Mae will finance the city’s \$600,000 pool by purchasing a note issued by the city, and agreeing to purchase the first mortgage loans originated by the Huntington Mortgage Col. In conjunction with the program; and (3) Fannie Mae will make \$20 million available in financing for a work equity mortgage program. Using this option, homebuyers may help perform some construction on the home they are buying in return for up to 3% of the down payment. (*Business Wire*, 6/3/98)
- ***Fannie Mae Foundation Hosts Press Conference with Oakland Mayor:***
 - Oakland Mayor Elihu Harris will join the Fannie Mae Foundation and the business community in a press conference to celebrate the revitalization efforts of downtown Oakland and the historic Swans Market. The Fannie Mae Foundation supported the revitalization of downtown Oakland with more than \$1 million. Swans market will be renovated into a mixed-use complex of restaurants, shops and housing. (*PR Newswire*, 5/22/98)
- ***Fannie Mae Participates in Minority Homeownership Expo in Columbus:***

- The Columbus Urban League joined Fannie Mae and private mortgage lenders in hosting the first-ever Columbus Minority Homeownership Expo. Attendees at the expos can receive free credit reports, free credit counseling, and free mortgage loan pre-qualifications from lenders on site. (*Business Wire*, 5/29/98)
- ***Fannie Mae & Local Housing Experts Sponsor Free Miami-Dade Home Buying Fair:***
 - The Fannie Mae Foundation, Miami-Dade Housing Agency, Greater Miami Neighborhoods, the National Association of Urban Bankers, and HOT 105, are sponsoring a free home buying fair for the Miami-Dade area of Florida. “I salute the Fannie Mae Foundation’s efforts to educate families on what it takes to realize the dream to homeownership,” said Rep. Carrie Meek (D-FL). (*PR Newswire*, 6/3/98)
- ***Fannie Mae and GMAC Participate in A Boys & Girls Club Clean-Up Effort:***
 - Fannie Mae and GMAC Mortgage executives and employees participated in a volunteer renovation and beautification of the Germantown Boys & Girls Club in Philadelphia, PA on June 4th. (*PR Newswire*, 5/29/98)
- ***Fannie’s Chairman & CEO Johnson Receives National Osteoporosis Leadership Award:***
 - The National Osteoporosis Foundation presented its National Leadership Award in Osteoporosis to Fannie Mae Chairman & CEO Jim Johnson, for his instrumental work in forming the Osteoporosis Business Coalition. (*Business Wire*, 5/21/98)

Freddie Mac

- ***Freddie Mac Sued Over Race Allegations - Jesse Jackson Urges Freddie's Shareholders to Withdraw Investments and Urges Congress to Conduct Oversight Hearings:***

Jesse Jackson's Comments

- Reverend Jesse Jackson urged Freddie Mac's major shareholders to withdraw their investments because of Freddie Mac's "hostile" work environment for blacks. This is the first time Jackson has urged shareholders to withdraw their investments from a company that he says displays "antiworker or anticivil rights" policies. Jackson believes Freddie Mac has a duty to be accountable to the public because of the benefits it receives from its GSE status. Jackson also noted that Freddie Mac does a poor job servicing minority homebuyers. Jackson is expected to contact 60 of the top Freddie Mac shareholders to ask them to disinvest from the company. Jackson also urged Congress to "conduct appropriate oversight hearings" of Freddie Mac in light of the allegations of racial discrimination. A Congressional aide was unable to comment as to whether the comments by Jackson would result in increased oversight of Freddie Mac. Jackson also encouraged President Clinton and Housing Secretary Andrew Cuomo to become involved.

Class Action Discrimination Suit

- Jackson held a press conference with a former Freddie Mac employee, Tony Morgan (former Director of Executive Corporate Relations), who accused Freddie Mac of discrimination. Morgan filed a \$15 million civil lawsuit in US district court on June 3rd alleging Freddie Mac had a "racially hostile" work environment that discriminated against him and others. Named as defendants are Freddie Mac Corp.; company chief executive officer Leland Brendsel; chief financial officer John Gibbons; and Mitchell Delk, vice president of government and industry relations. Morgan is also seeking class-action status on behalf of 500 current and former Freddie Mac African-American employees.

Suit Also Raises Questions about Freddie's Performance in Purchasing Minority Loans

- Morgan charged that his job was down-sized and he was terminated two years ago because he raised concerns about Freddie's "poor performance" in purchasing mortgages from low-income and minority homebuyers. Morgan's attorney, Debra Katz, said "Freddie Mac's employment practices with respect to African-American employees are disgraceful and worthy of public condemnation." Katz alleges that top managers at Freddie Mac were aware of extensive racial misconduct, as well as efforts to curb investment in low income and minority mortgages. Katz said the suit will allege "that there is a racist work environment that Freddie Mac is aware of, and that it condones and ratifies this environment." According to Katz, "People who raise questions about affordable housing and other minority-related issues are also being retaliated against."
- Freddie Mac believes that the discrimination suits are "groundless," but they do acknowledge that they trail Fannie Mae in the purchasing of minority loans. "It is a fact that our purchases of minority mortgages are lower than Fannie Mae's, as a percent of

our business,” said a Freddie Mac spokeswoman. “I think that’s why it has become an issue for us.” Consumers groups charge that Fannie and Freddie’s minority purchases are low. “With all these special loan programs that have been created that are more and more competitive with FHA, we still see that Fannie and Freddie’s purchases are relatively low for minorities, lower than the market,” said Calvin Bradford, president of Bradford & Associates. According to an *American Banker* article, this recent Freddie Mac controversy “gets to the heart of Fannie and Freddie’s role as government-sponsored enterprises. The two are private companies with allegiance to their shareholders, but they also have a public mission to foster homeownership for underserved people.”

Other Charges of Discrimination

- This is not the only incident of racial discrimination for which Freddie Mac has been charged. The EEOC is continuing a court case that was prompted by the charges by Morgan and last month, the EEOC ruled on behalf of another former employee. The employee, Brenda Walls-Booth charged that she was denied job promotions after she brought to officials’ attention, racist e-mails that were internally distributed. Booth, who works as an administrative coordinator, charges people refuse to speak to her at work and her job description has been changed frequently since she filed charges with the EEOC. The two sides are currently mediating the case, however, the EEOC ruling said Freddie Mac’s “continuous refusal to rectify discriminatory acts has perpetuated a hostile work environment for black employees.” In another incident in April of this year, officials intercepted an interoffice memo addressed to Maxine Stokes, a black Freddie Mac Vice President who had just held a meeting to warn employees against such actions. Freddie Mac acknowledged the incident in its report to the EEOC and assigned a security guard to protect Stokes. Other employees have complained of racial graffiti in men’s rooms and swastikas painted under keyboards.

Freddie Mac’s Response

- After a meeting with Jesse Jackson, CEO Leland Brendsel said his firm would do more to reach out to minorities in hiring and in purchasing loans. “We continue to have conversations ultimately to reach toward action that results in greater opportunities for minority employees and home buyers,” Jackson noted that Freddie Mac will disclose the exact numbers and positions of its minority employees. Brendsel said. Freddie Mac denies that their company has widespread discrimination and noted that approximately 13% of their employees are African-American, which is representative of the US population as a whole. David Palombi, Freddie Mac’s vice president for corporate communications, said they were “disappointed” to hear about Jackson’s announcement and that the events of discrimination are “isolated events.” Palombi also notes that 42.9% of the homes Freddie Mac helped finance in 1997 were for low- and moderate-income families, which was above the 42% target set by the Department of Housing and Urban Development. A Freddie Mac spokeswoman said the company denies that there was racial discrimination against Morgan and that “allegations that his loss of position was related to race were unfounded.” Freddie Mac has also hired a private company to review the company’s work environment, implement more security, and expand diversity training. (*American Banker*, 6/5/98; *Associated Press*, 6/4/98; *Chicago Tribune*, 6/4/98;

Dow Jones Newswire, 6/3/98, 6/4/98; National Mortgage News website, posted 6/3/98; Reuters, 6/2/98; Wall Street Journal, 6/2/98; Washington Post, 6/4/98)

- ***Freddie Mac Will Use Servicing Systems to Enter Subprime Market:***
 - Freddie Mac believes building more high-tech tools for its loan servicers will create greater efficiency and more predictive powers that will be critical to Freddie's plans to buy more subprime loans. Freddie Mac's President David Glenn believes that the advances Freddie Mac has made in automated underwriting will make it possible to lend more profitably to borrowers with less than perfect credit. Glenn said Freddie Mac's attention to loan scoring systems for originators and servicers, will let Freddie Mac take a more aggressive approach to lower-quality loans than Fannie Mae. (*American Banker, 5/26/98*)

- ***Freddie Mac Partners With Chase on Credit Counseling Service:***
 - Freddie Mac and Chase Manhattan Mortgage Corp. announced a new \$25 million pilot initiative with four Consumer Credit Counseling Service organizations. Under the pilot, consumers who are receiving credit counseling services at four National Foundation for Consumer Credit (NFCC) affiliate organizations can move closer to qualifying for a mortgage loan from Chase once they have completed the organization's program. All qualifying loans are eligible for sale to Freddie Mac. Featured loans under the pilot include Freddie's Affordable Gold 97 ®, which allows for just a three- percent down payment. (*PR Newswire, 5/26/98*)

- ***Freddie Mac is Building a Tracking System:***
 - According to Prism Solutions (a company specializing in data warehousing), Freddie Mac is building a tracking system for 19 million mortgages. The system will be based on data warehouse technology and will enable Freddie Mac to address the Year 2000 challenge by replacing two outdated legacy environments. According to Prism, Freddie Mac chose Prism because of Prism's ability to cleanse and transform data from UNIX and MVS environments using meta data-driven rules. Prism believes this is critical because Freddie's first warehouse iteration involves more than 40 data sources. (*PR Newswire, 6/1/98*)

Federal Home Loan Banks

- ***Three More FHLBanks Plan to Compete Directly with Fannie & Freddie by Purchasing Mortgages:***
 - ***The Chicago FHLBank's pilot "mortgage partnership finance" (MPF) program has been so successful, that three other FHLBanks (Indianapolis, New York, and Pittsburgh) have expressed interest in doing the same type of program. Under the MPF program, system members originate conventional loans in their own names and then transfer the loan to the Chicago bank. To date, the Chicago FHLBank has granted over \$400 million in master commitments and funded \$151 million in residential product.***

FHLBank of Indianapolis:

- The FHLBank of Indianapolis announced that it wants to compete directly against Fannie & Freddie for conventional loan products. The FHLBank of Indianapolis is preparing to apply to the Federal Housing Finance Board (FHFB) in June for approval to purchase residential mortgages from its member financial institutions. If the FHLBank of Indianapolis wins approval from the FHFB, it will be the second FHLBank to enter the secondary market for conventional loans. (The FHLBank of Chicago was the first.)
- The FHLBank calls their new program, the "Mortgage Purchase Program." According to an announcement by the FHLBank of Indianapolis, the new program will require no additional paperwork or processing and will "merely be another bidder on any mortgages its members want to sell." The FHLBank of Indianapolis will purchase home mortgages from its members, who will retain servicing rights. The FHLBank of Indianapolis believes they will be better able than Fannie & Freddie to tailor their programs for the specific needs of their regions. According to their announcement: "The close working relationship between the FHLBI and its members will also enable the Bank to tailor its loan requirements to the needs of lenders in Indiana and Michigan instead of relying on the one-size fits all criteria of the national secondary market." A Freddie Mac spokesman said, "We don't think it's going to have that big an impact on our business. We are only talking a couple of hundred million dollars here. If it grew to \$10 billion – that's another story."

New York and Pittsburgh:

- MortgageWire reported that the FHLBanks of New York and Pittsburgh have not filed a pilot application yet, but both are planning to use the MPF plan as a model. A spokesperson at the FHLBank of Pittsburgh stated that, "We have looked at the Chicago pilot for a year now and we like what we see." The FHLBank of Pittsburgh's Board will now decide whether to ask the FHFB for approval of a pilot in July. MortgageWire couldn't reach the FHLBank of New York for comment, however, the sheer size of the NY metropolitan mortgage market could have a significant impact on Fannie and Freddie's business. (*FHLBank of Indianapolis website- news announcement, 5/26/98; National Mortgage News website, posted 5/26/98 and 6/1/98*)

- ***House Members Concerned with FHLBank Provisions in H.R. 10 and Support Senator D’Amato’s Bill to Abolish the FHFB:***
 - A half-dozen House Members wrote a letter to leaders of the House Banking Committee (Chairman Leach and Ranking Member LaFalce) about their concerns with the FHLBank provisions in the financial services modernization bill (H.R. 10) that was just recently passed by one vote in the House. The letter preferred Senator D’Amato’s bill (S. 1986) that would abolish the FHFB by transferring its functions to HUD and the OFHEO over the FHLBank “reform” provisions in H.R. 10. The letter stated that the FHLBank provisions in H.R. 10 “fail to address a fundamental conflict of interest at the Finance Board” – by regulating both safety and soundness and mission of the System. “The Bank System must have purely an arms length safety and soundness supervisor not compromised by conflicting interests,” the letter stated. According to the letter, “With a few changes – notably, the addition of appropriate investment and capital provisions – S. 1986 would be the needed and proper Federal Home Loan Bank modernization legislation.”
 - The letter stated the following problems with the provisions in H.R. 10: “(1) they would increase dramatically the costs of membership through excessive capital requirements for the majority of the 6,500 member community leaders; (2) they would further reduce the already conservative investment portfolio of the Home Loan Banks to such an extent that the Affordable Housing Program – one of the best and growing public/private housing partnerships in the country – would suffer cutbacks; and (3) they would curtail significantly the System’s ability to pay reasonable dividends to its members, causing members to possibly withdraw from a system that would, frankly, be too costly to remain a member.”
 - Should H.R. 10 reach a Conference stage in the legislative process, the Members who signed the letter asked that Chairman Leach and Ranking Member LaFalce urge other House Members to replace the current FHLBank provisions in H.R. 10 with Sen. D’Amato’s bill (with some amendments addressing the “appropriate investment and capital provisions”). (*Dow Jones Newswire*, 5/27/98; Congressional Letter to Leach & LaFalce, 5/13/98)
- ***Senator D’Amato’s FHFB Bill Emerges as a Campaign Issue:***
 - New York City Public Advocate Mark Green who is running for the Democratic nomination for the seat currently held by Senator Alfonse D’Amato (R-NY) attacked Senator D’Amato for his introduction of a bill to abolish the Federal Housing Finance Board (FHFB), charging D’Amato with “cronyism.” Green urged Senate Democrats to block D’Amato’s bill. Green charges D’Amato with “cronyism” because D’Amato introduced the bill after President Clinton terminated a D’Amato contributor (Lawrence Costiglio) from the Board in a dispute over whether to reduce the non-mortgage investments by the FHLBanks. Green charges that D’Amato’s bill would support Costiglio’s position – allowing the FHLBanks to invest more of their assets in non-

mortgage investments. “Senator D’Amato would like to turn a public asset that expands the availability of housing into a subsidy program for private investors,” Green said. “Once again the Senator has sided with a contributor and a crony over the needs of average New York families.” Green charges that D’Amato’s proposal would benefit private banks at the expense of taxpayers and limit the number of loans available to potential homebuyers. Green noted that D’Amato’s proposal would redirect a significant government subsidy (the borrowing cost advantage from its implied government guarantee) to the private gain of the FHLBanks and their member institutions at the expense of affordable housing. In a letter to Senator Paul Sarbanes (D-MD) (Ranking Democrat on the Senate Banking Committee), Green stated that the bill was “a brazen attempt to use this public benefit for private gain.” He also urged the Senate Banking Committee to not take action on the bill and to keep the bill out of any other banking legislation considered before the Committee. (*Dow Jones Newswire*, 6/3/98; *Reporters Dispatch*, 6/3/98)

- ***FHFB Hires Psychologist to “Referee” Meeting:***

- As we stated in the May 8th *GSE Report*, the FHFB hired an organizational psychologist, David Berg, to facilitate dialogue at the annual FHLBank Directors meeting, June 1st – 2nd. The issues that should be tackled at the meeting include the FHFB Chairman Bruce Morrison’s efforts to scale back the banks’ non-mortgage investments and Senator Alfonse D’Amato’s bill to abolish the FHFB. “The System is facing change, and change is very difficult,” according to a FHFB spokeswoman. “We wanted the banks to be able to have a very free and open discussion,” she stated. A skeptic noted, “Why is Morrison hiring a psychologist when he wants is a hypnotist?” President of the FHLBank of New York Al DelliBovi stated “Clearly there are some people snickering on the side,” he said, but “having someone skilled at reconciling differences so that we can go forward has got to be a plus... We know what doesn’t work, so we might as well try something new.” (*American Banker*, 6/1/98)

- ***HUD Secretary Recommends Developing Secondary Market for Brownfields Redevelopment- Comments Made During Meeting Sponsored by FHLBank System:***

- Speaking at a US Conference of Mayors meeting sponsored by the FHLBank System, HUD Secretary Andrew Cuomo said HUD should focus more attention on economic development of the nation’s major cities. Cuomo noted that HUD is knowledgeable about financing housing, but economic redevelopment, including revitalizing “brownfields” (blighted commercial or industrial property), should be “where we have to apply ourselves.” According to Cuomo, HUD wants to create a “standardized economic development loan.” In order to do this, HUD has requested more economic development capital, requiring assistance from Congress. HUD’s fiscal 1999 budget (set to be marked-up June 8) requests \$21 billion. Of that total, “we hope to get \$400 million...to build a secondary market for economic development,” Cuomo said. HUD is requesting \$50 million specifically for brownfields redevelopment. Forty FHLBank officials participated including FHFB Chairman Bruce Morrison and Al DelliBovi, Chairman of the FHLBank of NY. (*BNA Daily Report for Executives*, 6/4/98; *PR Newswire*, 5/29/98)

- ***FHFB Issues Interim Final Rule Refining Oversight of Affordable Housing Program:***
 - The Federal Housing Finance Board (FHFB) requested comments on an interim final rule on May 20th that would amend regulations of its Affordable Housing Program (AHP). The FHFB said the rule would make technical revisions to the regulation to clarify program requirements and improve the operation of the AHP. The rule defines the minimum eligibility standards for projects requesting AHP assistance and the procedure for approving projects. The rule also gives technical changes, including clarifying the meaning of “affordable,” “low-or moderate-income household,” “owner-occupied unit,” “rental project,” and “very low-income household.” The interim final rule is effective June 19th, and written comments on the interim rule are due July 20th, 1998. (*Federal Register*, 12 CFR Part 960, page 27668; *BNA Daily Report for Executives*, 5/28/98)

Farm Credit Administration

- ***Farm Credit Administration Issues Policy Statement on Interest Rate Risk Management:***
 - On May 21st, the Farm Credit Administration (Agency) issued a policy statement that provides guidance on interest rate risk management practices to Farm Credit System (System) institutions and describes the Agency’s approach to evaluating interest rate risk when making a determination of capital adequacy. Comments on the proposal are due by June 22, 1998. In the background, the Agency said it did not anticipate that a System institution would be required to hold additional capital or enhance existing risk management practices for interest rate risk based solely on the Agency’s implementation of the criteria contained in this proposed policy statement. The policy statement also notes that the interest rate risk management process will vary among each System institution in accordance with the level of its interest rate risk exposure. (*Federal Register*, Pages 17962-27965, 5/21/98)

Sallie Mae

- ***Sallie Mae CEO Vows to Take Market Share from the Top 20 Banks in Student Lending:***
 - Sallie Mae CEO Albert Lord said Sallie Mae is working to steal market share from the top 20 banks in the student lending business. The top 20 banks account for approximately a quarter of the \$40 billion in loans issued annually as part of the government’s guaranteed student lending program. Some bankers complain that Lord’s strategy hurts both small and large banks because Sallie Mae can raise funds at lower rates and can cherry pick which schools it wants to serve. “We have Community Reinvestment Act obligations; Sallie Mae does not,” said Greg Stringer, vice president of education finance at National City Bank in Cleveland. “My guess it they won’t focus real hard on riskier markets that we cannot ignore, such as trade schools and some community

colleges with high default rates.” Lord’s goal is to increase Sallie Mae’s name on as many college campuses as possible through both servicing and origination. Sallie Mae’s origination efforts are seen as critical because Sallie Mae must end its government ties by 2008. Lord notes that Sallie Mae must find other ways to boost its margins without its preferential borrowing rates allowed by the government’s implicit government guarantee of Sallie Mae debt. Through origination, Sallie Mae can share less of their profits with banks. Lord would also like banks to give more of their servicing duties to Sallie Mae. Many believe Lord displayed his tough competitiveness when last August, he successfully fought and won a battle to force two bankers off Sallie Mae’s board by branding them as competitors to Sallie Mae. The two bankers were National City Chairman David Daberko and David Vitale, vice chairman of First Chicago. (*American Banker*, 5/26/98)

Ginnie Mae

- ***Ginnie Mae’s President Resigned:***
 - Ginnie Mae’s President Kevin Chambers unexpectedly resigned as president of Ginnie Mae and is believed to have taken a position with a securities firm. (*National Mortgage News website*, posted 5/28/98)

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