

# The **GSE** REPORT <sup>TM</sup>

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- Former Chairman of Fannie says the debate about Fannie & Freddie has been mis-focused ([p. 24](#))
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  - Fannie has 51 Partnership Offices open across the country
  - Fannie “wins the gratitude of politicians by staging local events with them, often to ‘announce’ its plans to buy local mortgages...It’s almost as if Ford or Microsoft could allow politicians to gain some credit with voters for every Escort or Windows package sold in their district.” - *Wall Street Journal*, Nicholas Kulish & Jacob M. Schlesinger, 7/25/01

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## Major Events

**Minneapolis Federal Reserve Bank study finds that Fannie & Freddie's effect on mortgage rates is only negligible and has a minimal impact on helping renters buy a home**

**Study suggests that cash payments to potential homeowners would have a larger effect on homeownership than Fannie & Freddie**

**Federal Reserve Board Chairman Alan Greenspan and the Federal Reserve Banks of California, Minneapolis, San Francisco, and St. Louis have all raised GSE issues in 2002**

- Ron Feldman, Assistant Vice President of Banking and Policy Studies at the Minneapolis Federal Reserve Bank, authored a study entitled, "*Mortgage Rates, Homeownership Rates, and Government-Sponsored Enterprises*," in the Minneapolis Federal Reserve Bank's 2001 Annual Report. The study reviewed the effects of mortgage rates on homeownership and, in particular, the role of Fannie and Freddie. The views expressed by Feldman are not necessarily those of the Minneapolis Federal Reserve Bank or the Federal Reserve System. (*The Region, Volume 16, Number 1, 2001 Annual Report*, "Mortgage Rates, Homeownership Rates, and Government-Sponsored Enterprises," Ron Feldman, Assistant Vice President of Banking and Policy Studies, Minneapolis Federal Reserve Bank)
- The study examined whether the mortgage rate reductions produced by Fannie and Freddie are likely to increase homeownership. The federal government has granted special subsidies to Fannie and Freddie to help them increase homeownership by lowering mortgage rates. The study reviewed evidence on the effect of mortgage rate changes on a potential borrower's ability and desire to buy a home. Most of the evidence suggests that mortgage rates need to change around 2 percentage points before they have a modest, but not trivial, effect on homeownership. Fannie and Freddie likely have an effect on mortgage rates considerably lower than 2 percentage points. Fannie and Freddie's effect of their mortgage rate reductions on homeownership is likely to be quite modest, although not trivial. The study showed that Fannie and Freddie's interest-rate reduction is negligible and has a minimal impact on helping renters buy a home, reported *Dow Jones Newswire*. (*The Region, Volume 16, Number 1, 2001 Annual Report*, "President's Message," Minneapolis Federal Reserve Bank President Gary Stern; "Mortgage Rates, Homeownership Rates, and Government-Sponsored Enterprises," Ron Feldman, Assistant Vice President of Banking and Policy Studies, Minneapolis Federal Reserve Bank; *Dow Jones Newswire*, Dawn Kopecki, 8/12/02, 8/13/02)
- The study suggested that a more direct method of subsidizing homeowners would have a larger effect on homeownership, while using the same amount of resources, than the reductions in mortgage rates attributed to Fannie and Freddie. The analysis found that Fannie and Freddie's subsidy, estimated in the Fed study at about \$8.3 billion a year, would be best spent in the form of cash payments to potential borrowers. The study proposed converting the \$8.3 billion subsidy to the GSEs into a federal program that provides direct cash payments to first-time homebuyers. That money could provide grants of \$10,000 to some 830,000 first-time homeowners, benefiting more homebuyers. Fannie and Freddie are credited with reducing mortgage rates by an average of 0.2 to 0.5 percentage points. But the study shows mortgage rates would have to fall 2 percentage points to provide a meaningful change in the percentage of households that can afford to buy a home. Renters benefit far more from low down-payment programs and direct cash assistance, the study showed. Fannie and Freddie have made progress in the area of reducing down-payment requirements. The Fed study found, however, that cash payments starting around \$5,000 have the largest effect on increasing homeownership. A \$5,000 payment increases the percentage of renters who can afford a home by 11% for all renters, 13% for black renters, and 7% for Hispanic renters. A cash payment of \$10,000 has nearly twice the effect, the study showed. (*Dow Jones Newswire*, Dawn Kopecki, 8/12/02, 8/13/02; *The Region, Volume 16, Number 1, 2001 Annual Report*, "President's Message," Minneapolis

Federal Reserve Bank President Gary Stern; “Mortgage Rates, Homeownership Rates, and Government-Sponsored Enterprises,” Ron Feldman, Assistant Vice President of Banking and Policy Studies, Minneapolis Federal Reserve Bank)

- The study recommended additional research on the relationship between the mortgage rate reductions produced by the GSEs and the homeownership rate in two areas. First, the study noted that a widespread reduction in mortgage rates could end up increasing home prices. The higher home prices would offset, at least in part, the effect of lower rates. Because the GSEs spread their subsidy so widely, they may end up encouraging a very large group of homebuyers to bid up home prices. As a result, the rate reductions could effectively increase home prices. Second, Fannie and Freddie finance rental properties. Subsidizing both forms of housing can limit their ability to reduce the relative price of homeownership. (*The Region, Volume 16, Number 1, 2001 Annual Report*, “President’s Message,” Minneapolis Federal Reserve Bank President Gary Stern; “Mortgage Rates, Homeownership Rates, and Government-Sponsored Enterprises,” Ron Feldman, Assistant Vice President of Banking and Policy Studies, Minneapolis Federal Reserve Bank; *Dow Jones Newswire*, Dawn Kopecki, 8/12/02, 8/13/02)

#### Fannie & Freddie’s comments

- Fannie officials noted that Congress decided to form the GSEs as the best way to reduce homeownership rates, “because it attracts global private capital to US homebuyers without a government guarantee or taxpayer dollars.” Freddie’s spokeswoman Sharon McHale said, “The study reinforces the fact that we bring a wide range of benefits to homebuyers throughout the country, beyond lowering mortgage rates.” She added, “We bring stability to the market, we’ve brought innovation in products, we’ve brought standardization to underwriting, which has increased the number of people who qualify for a loan in addition to bringing more capital to the market.” She stated, “The fact of the matter is these direct-assistance programs have not had a terribly successful history.” (*Dow Jones Newswire*, Dawn Kopecki, 8/13/02)

#### Several Federal Reserve Banks raise GSE issues in 2002

- **The Minneapolis Federal Reserve Bank study came just days after the St. Louis Federal Reserve Bank President William Poole warned that the GSEs are a potential source of future instability in the financial markets.** (See August 2, 2002 *GSE Report* for more information.) **In July, in an appearance before the Senate Banking Committee, Federal Reserve Board Chairman Alan Greenspan said the issue of financial disclosures among GSEs needs to be examined further.** (See July 19, 2002 *GSE Report* for more information.) **In April, Federal Reserve Board Chairman Alan Greenspan noted that government support for Fannie and Freddie might be leading investors to underestimate the risk of dealing in their securities. That same month, Federal Reserve Bank of San Francisco President Robert Parry noted that the economic role of Fannie and Freddie should be closely monitored.** (See May 3, 2002 *GSE Report* for more information.) **In the first quarter of 2002, the Federal Reserve Bank of Atlanta released two studies on the GSEs – one examining the federal subsidies that the GSEs receive, noting that there are costs associated with GSE subsidies and the second study comparing Fannie and Freddie’s voluntary risk management initiative to current banking standards.** (See April 19, 2002 *GSE Report* for more information.)

**Congressmen Richard Baker (R-LA) and Chris Shays (R-CT) request that the SEC submit all written documents regarding the voluntary agreement by Fannie & Freddie to register their common stock with the SEC (while maintaining their exemption from registering their debt and mortgage-backed securities (MBS) with the SEC)**

**Congressmen request additional information on any “assurances” the SEC provided to the GSEs and a chronology of the events leading up to the agreement**

**The lawmakers also requested that Treasury and OFHEO submit all written documentation on the agreement**

**Fannie & Freddie received “no action” letters from the SEC revealing that the two GSEs will still retain a number of exemptions from the securities law, reported *Inside Mortgage Finance’s* new publication, *Inside the GSEs***

**[Fannie & Freddie are the only two Fortune 500 publicly traded companies not subject to all SEC requirements]**

- In an August 8 letter to SEC Commissioner Harvey Pitt, Congressmen Baker and Shays requested the SEC submit all written documents regarding the July 12 voluntary agreement by Fannie and Freddie to register their common stock with the SEC (while maintaining their exemption from registering their debt and mortgage-backed securities (MBS) with the SEC). The announcement reflected an agreement between the GSEs, SEC, Treasury, and OFHEO. The Congressmen noted, “Subsequent to the July 12 announcement, we have yet to see any documents governing it. We respectfully ask that you share with us any documents relating to this agreement between the SEC and the two GSEs.”
- “In addition, during Fannie Mae’s second quarter earnings call, which was held on July 15, 2002, Chief Financial Officer Tim Howard alluded to a written ‘assurance’ which was provided to Fannie Mae by the Commission regarding the July 12 announcement. We ask that you send us any documents relating to this ‘assurance.’” [At a July 23 Capital Markets Subcommittee hearing, Congressman Shays wondered whether Fannie was attempting to perpetuate its implicit government guarantee and questioned whether Fannie was “trying to have it both ways by assuring the administration and Congress that it will submit to the government regulation and assuring Wall Street that it will remain exempt from government regulation.” Congressman Shays noted that CFO Tim Howard recently stated, “We sought and attained concurrence from the SEC that voluntary registration under the 1934 Act would not change the fact that, among other things, securities issued or guaranteed by Fannie Mae are exempt securities under the Securities Act of 1933 and may be sold without registration under that Act.” (*Federal News Service*, transcript of 7/23/02 hearing)]
- The Congressmen also asked the SEC to provide them with a “chronology of events that led to the July 12 announcement.” The lawmakers were particularly “interested in knowing by whom and when these discussions were initiated, and how an agreement was reached.” The Congressmen requested that the SEC provide this information within 15 business days. (*Congressmen Baker and Shays letter to SEC Commissioner Pitt*, 8/8/02)
- At a July 23 Capital Markets Subcommittee hearing, Congressmen Baker and Shays requested that OFHEO provide all written documentation on Fannie and Freddie’s voluntary agreement. The Congressmen requested this same information from the Treasury Department at the July 16<sup>th</sup> Capital Markets Subcommittee hearing. (See August 2, 2002 and June 19, 2002 *GSE Report* for more information.)

- Under the July 12 voluntary agreement, Fannie and Freddie claimed that they will now be subject to all the rules governing the Securities Exchange Act of 1934 that apply to all other publicly traded companies institutions, while retaining their exemption from the 1933 Securities Act. However, Fannie and Freddie received “no action” letters from the SEC revealing that the two GSEs will still retain a number of exemptions from the Securities Exchange Act of 1934, reported *Inside Mortgage Finance’s* new publication, *Inside the GSEs*. Based on the SEC letters, *Inside the GSEs* provided examples of the exemptions that Fannie and Freddie will still retain. The publication also found that Fannie and Freddie received assurance from the SEC that they are still considered “an agency, authority or instrumentality of the United States” for purposes of the Investment Act. (*Inside the GSEs, (Inside Mortgage Finance)*, 7/31/02)

**Treasury Undersecretary Peter Fisher urges the 12 FHLBanks and Sallie Mae to comply with the same SEC financial disclosure rules recently agreed to by Fannie & Freddie**

**FHLBank System holds first task force meeting to discuss increased financial disclosure requirements for the FHLBanks**

- Treasury Undersecretary Peter Fisher urged the 12 FHLBanks and Sallie Mae to comply with the same SEC financial disclosure rules recently agreed to by Fannie and Freddie. On July 12, a voluntary financial disclosure agreement was reached among Fannie, Freddie, the SEC, OFHEO, and Treasury, in which Fannie and Freddie agreed to voluntarily register their common stock with the SEC (in compliance with the Securities Exchange Act of 1934), while retaining their exemption from registering their debt and MBS with the SEC (1933 Securities Act). Therefore, Fannie and Freddie will not register their debt or MBS with the SEC as do other publicly traded companies. In July 16 testimony before the House Capital Markets Subcommittee, Treasury Undersecretary of Domestic Finance Peter Fisher called on all GSEs to comply with the same SEC financial disclosure rules recently agreed to by Fannie and Freddie. A Treasury spokesman said August 23 that the letters were a follow-up to Fisher’s July 16 testimony. (*Reuters*, 8/22; *Bloomberg News*, Al Yoon, 8/22/02; *BNA Daily Report for Executives*, 8/26/02)
- In an August 21 letter to Sallie Mae President Marianne Keler and in August 22 letters to the 12 FHLBank Presidents, Fisher noted that the same provision of the Securities Exchange Act of 1934 allowing for voluntary registration was available to Sallie Mae and the 12 FHLBanks. “The Administration strongly supports the recent agreement between Fannie Mae and Freddie Mac, the SEC, and the Office of Federal Housing Enterprise Oversight and believes that the disclosure requirements of the Securities Exchange Act of 1934...as interpreted and applied by the SEC, should apply to all [government-sponsored enterprises],” Fisher wrote to the 12 FHLBanks. A similarly worded statement was included in the letter to Sallie Mae’s Keler. “Given the size and importance of the GSEs’ operations in our capital markets and banking system, continued operations outside of the Securities Exchange Commission-administered disclosure regime is inconsistent with our goal of a sound and resilient financial system,” Fisher said. “The Administration believes that (government-sponsored enterprises), through their financial disclosures, should be ‘role models for our system of investor protection, not exceptions to it,” he said. He encouraged Sallie Mae’s President and the Office of Sallie Mae Oversight to discuss the disclosure initiatives and believes that compliance with all applicable sections of the 1934 Act can be achieved. Fisher noted in his letters to the 12 FHLBanks that he has asked FHFBC Chairman John Korsmo to include registration in its rule-making agenda. (*Reuters*, 8/22; *Bloomberg News*, Al Yoon, 8/22/02; *BNA Daily Report for Executives*, 8/26/02)

FHLBank System holds first task force meeting

- The FHLBank System held its first task force meeting August 13 to discuss increased financial disclosure requirements for the FHLBanks. FHFBC Chairman John Korsmo said the task force meeting was a “valuable session,” however, “at this point, it raised more questions than it answered.” Korsmo said last month that he

would examine the issue after Fannie and Freddie voluntarily agreed to increase their financial disclosures. (*Dow Jones Newswire*, Dawn Kopecki, 8/14/02)

- Korsmo said he has had preliminary discussions with the SEC and Treasury about expanding the financial disclosure requirements for the FHLBank System. Like Fannie and Freddie, the FHLBanks are exempt from most securities laws. However, implementing disclosure requirements for the FHLBanks is much different than for Fannie and Freddie, since FHLBank stock is privately held by banks that are members of the system and their debt isn't issued in as uniform a manner as Fannie and Freddie. Korsmo said the disclosure task force will hold another meeting with the FHFB, possibly in late August. (*Dow Jones Newswire*, Dawn Kopecki, 8/14/02) A new report by the FHFB's Office of Finance noted that "due to the unique nature of the FHLBanks, changes in disclosure requirements, if any, for the FHLBanks have not yet been determined." (*Dow Jones Newswire*, John Connor, 8/14/02)

**Concerns are raised about Fannie's use of its non-profit foundation to run self-promotional ads**

**"It's highly unethical," said co-founder of the National Committee for Responsive Philanthropy Pablo Eisenberg**

**Unlike other foundations, the Fannie Mae Foundation spends more of its money on advertising than on anything else**

- The *Wall Street Journal's* John McKinnon wrote an extensive article August 15 about Fannie's foundation – the Fannie Mae Foundation. Critics claim that ads paid for by Fannie's non-profit foundation "burnish the company's image, cut its tax bill and expand the business base that earned it \$6 billion in profits last year," reported McKinnon. Critics see the foundation's ads as a way of building a "Fannie Mae brand" among consumers, which could lay the groundwork for Fannie to get into mortgage lending, an activity which is currently prohibited by its charter.
- **"It's highly unethical," said Pablo Eisenberg, a senior fellow at Georgetown University's Public Policy Institute who co-founded the National Committee for Responsive Philanthropy. Eisenberg said the ads are "not a philanthropic enterprise" and should "never have been included in the foundation's activities." Eisenberg's group has considered investigating the issue, but does not have the resources.**
- Fannie funded and established the foundation in 1979. In 1996, Fannie moved the advertising campaign to the foundation and gave it \$350 million of its own shares to pay for the ads and other activities. In 2001, Fannie provided the foundation with \$63 million of stock in HomeStore.com, which Fannie helped establish, and an additional \$300 million of Fannie stock this past January and February. The foundation's assets currently total more than \$440 million – more than any other corporate foundations reported on their 2001 tax returns.
- **Unlike other foundations, "the Fannie Mae Foundation spends more of its money on advertising than on anything else," reported McKinnon.** In 2001, the foundation spent almost \$48 million, or 44% of its overall budget of \$100 million, on ads and related expenses, compared with \$35 million on grants to non-profit groups.
- **Rick Cohen, president of the National Committee for Responsive Philanthropy notes that unlike other corporate foundations the major recipient of grants is not non-profit groups – but the corporation itself - Fannie Mae.**

- **Low-income housing advocates say the foundation should spend less on Fannie’s image and more on affordable housing.**
- **FM Watch executive director Mike House stated, “The foundation does many good things but this amount of advertising is about corporate branding, not good works.”**
- **Using the foundation to run ads provides Fannie with tax breaks and other financial benefits. When Fannie moved the ad campaign to the foundation, it removed a big annual expense from its books and got a large, upfront tax deduction when it donated its shares to the foundation. Fannie also avoids paying taxes on any appreciated non-Fannie Mae securities it contributes. Fannie also avoided capital-gains taxes on its investment in HomeStore.com by donating its shares to the foundation.**
- **Fannie’s spokeswoman Janice Daue said Fannie has sought and received favorable rulings from the Internal Revenue Service “on every activity transferred to the foundation. At every step of the way, Fannie Mae has bent over backwards to make sure it has done everything within the letter and spirit of the law.” (*Wall Street Journal*, John D. McKinnon with contributions by Kelly K. Spors, 8/15/02)**

**Fannie & Freddie get the lowest grades in the mortgage market for minority lending, according to an analysis by *Inside Mortgage Finance’s* new publication, *Inside the GSEs***

**Fannie & Freddie had the lowest share of their business going to African-American and Hispanics in 2001, compared to Ginnie Mae, banks and private conduits**

- **Fannie & Freddie get the lowest grades in the mortgage market for minority lending, according to an analysis by *Inside Mortgage Finance’s* new publication, *Inside the GSEs*. According to just-released Home Mortgage Disclosure (HMDA) numbers, Fannie and Freddie had the lowest share of their business going to African-American and Hispanics in 2001, compared to Ginnie Mae, banks and private conduits. Only 2.2% of Fannie’s purchases went to blacks in 2001 and 3.7% to Hispanics; while Freddie’s numbers were only 2% to blacks, and 3.5% to Hispanics. In contrast, banks and thrifts purchases were 3.7% to blacks and 5.7% to Hispanics. (*Inside the GSEs*, (*Inside Mortgage Finance* publication), 8/14/02)**

**FM Watch study finds that Fannie & Freddie’s first-time homebuyer record is not as good as the private sector**

**“Consumers and the Congress are being led to believe that helping young, minority, or single-parent families buy their first homes is what Fannie Mae and Freddie Mac are all about,” said FM Watch Executive Director Mike House. “The truth is first-time homebuyer loan purchases represent a much smaller portion of Fannie Mae and Freddie Mac’s business than the private sector’s.”**

**FM Watch reports that despite Fannie & Freddie’s advertising that their major objective is helping first-time homebuyers, the opposite is true**

**Study finds that Fannie in 2001 bought more loans for absentee landlords, vacation homes, and second mortgages than first-time homebuyer loans**

- **FM Watch released a study on August 11 finding that Fannie and Freddie spend millions of dollars a year on full-page advertisements that deliberately seek to convey the impression that their major objective is helping first-time homebuyers. But, according to the data which Fannie and Freddie provide to the federal government, FM Watch found that these images are the very opposite of Fannie Mae and Freddie Mac’s primary business. FM Watch’s study - “Closing the Doors to the American**

## **Dream – Fannie Mae and Freddie Mac’s Record on First-Time Homebuyers” - found Fannie and Freddie:**

- support repeat homebuyers almost 2 to 1 over first-time homebuyers;
  - together buy less than 10% of loans to first-time African-American and Hispanic homebuyers.
  - between 1996-2001 purchased a declining percentage of first-time homebuyer loans as part of their overall home loan purchases.
- The study also found that in 2001 Fannie bought more loans for absentee landlords, vacation homes, and second mortgages than first-time homebuyer loans.
  - **“Consumers and the Congress are being led to believe that helping young, minority, or single-parent families buy their first homes is what Fannie Mae and Freddie Mac are all about,” said Mike House, Executive Director of FM Watch. “The truth is first-time homebuyer loan purchases represent a much smaller portion of Fannie Mae and Freddie Mac’s business than the private sector’s.”**
  - The FM Watch study noted that according to GSE and HUD data -
    - **“The GSEs Help Repeat Homebuyers More Than First-Time Homebuyers**  
According to their own data, the GSEs’ support repeat homebuyers 2 to 1 over first-time homebuyers. And the Department of Housing and Urban Development’s (HUD) data agrees. During the 1997-1999 period, Fannie and Freddie purchased just 22.2 percent of all first-time homebuyer loans, while purchasing 45.4 percent of all repeat homebuyers loans. According to their own Annual Housing Activities Reports (AHAR) submitted to HUD, the gap between purchases of loans from repeat homebuyers and first-time homebuyers has grown over time.”
    - **“The GSEs Show Little Interest in Helping Minority First-time Homebuyers**  
Even more compelling is the GSEs’ feeble support for African-American and minority homebuyers. According to HUD, during the period 1997-1999 Fannie Mae and Freddie Mac purchases represented just 6.9% and 2.9%, respectively, of the African-American first-time homebuyer market and 9.4% and 4.3%, respectively, of the minority first-time homebuyer market.”
    - **“Fannie Mae Favors Absentee Landlords, Vacation Homes and Second Mortgages over First-time Homebuyers**  
Between 1996-2001, Fannie and Freddie increased their lending to buyers financing non-owner occupied homes, second homes and second mortgages overwhelmingly while their purchase of first-time homebuyers loans basically remained stagnant. While Fannie Mae’s first-time homebuyer purchases increased only 17.2% over the period, its purchases of the other categories rose nearly 300 percent. Similarly, Freddie Mac’s first-time homebuyer purchases increased 33.5% while its purchases of the other categories rose 231 percent.”
    - **“GSEs’ First-time Homebuyer Loan Purchases Decrease Over Time**  
Fannie Mae’s percentage of purchases of first-time homebuyers declined from 34.7% in 1996 to 26.3% in 2001. Freddie Mac’s purchases declined from 29.7% to 26.8 percent. During the same period the annual percentage of first-time homebuyers remained at close to 40 percent.”
    - **“Little of the GSE Taxpayer Subsidy goes to First-time Homebuyers**  
Fannie and Freddie’s dismal performance is even more astounding when you consider the \$10.6 billion taxpayer subsidy they receive. Of the minor portion that actually goes to support home purchase loans

(30%, the majority of the subsidy goes to GSE shareholders and second mortgages) only 8% supports first-time homebuyers.”

- “The complete FM Watch study is available on FM Watch’s Web site ([www.fmwatch.org](http://www.fmwatch.org)) (*FM Watch press release, 8/11/02*)

#### National Mortgage News’ analysis

- *National Mortgage News* analyzed the GSE data and found that Fannie and Freddie had a record year of first-time homebuyer loans over the past six years, however first-time homebuyer loans are slipping slightly at Freddie and a bit more at Fannie. For example in 1996, first-time homebuyer loans accounted for almost 30% of Fannie’s conventional purchases (19.68% in 2001) and 26.8% of Freddie’s (22.13% in 2001). (*National Mortgage News, Brian Collins and Paul Muolo, 8/5/02*)

#### Fannie & Freddie’s comments

- “We are the largest private source of funds for first-time homebuyers and first-time homebuyers are certainly a large part of our outreach efforts to expand the market,” said Fannie’s spokesman Bob McCarson. “But no where does our charter limit us to serving only first-time homebuyers.” (*Dow Jones Newswire, Dawn Kopecki, 8/2/02*)
- “The FM Watch numbers are completely inaccurate because it’s based on a HUD study that included loans that we don’t buy, primarily government-insured loans,” said Freddie’s spokeswoman Sharon McHale. “Freddie Mac’s mission is to bring liquidity and capital to the mortgage market, to bring affordable mortgage credit to all homebuyers in the United States, and it’s not just first-time homebuyers,” McHale said. (*Dow Jones Newswire, Dawn Kopecki, 8/2/02*)

#### **New York Insurance Dept. considers Fannie & Freddie to be “instrumentalities” of the US and the obligations they issue to be “government obligations” of the US**

- The New York Insurance Department issued an informal opinion confirming its view that Fannie and Freddie are considered “government obligations” and “instrumentalities” of the US for purposes of New York Insurance Law § 1404(a)(1) (a New York Insurance Law provision regarding permissible investments). According to the law firm Goodwin Procter, the interpretation is significant for those with insurance companies and captive reinsurers subject to the New York Insurance Law because it generally allows for investments in Fannie and Freddie obligations without regard to the percentage limitations applicable to investment in other securities (besides certain government obligations). The informal opinion is available at <http://www.ins.state.ny.us/rg204261.htm>. (*InfoBytes, Goodwin Procter, 8/9/02; State of New York Insurance Department, 4/26/02 informal opinion*)

### ***Fannie Mae and Freddie Mac***

#### **Wall Street Journal reports that Fannie & Freddie may be running out of room to grow**

- The *Wall St. Journal*’s Patrick Barta noted that US homeownership rates may have risen so high that Fannie and Freddie could have little room to grow. Fannie and Freddie have more than tripled in size in a decade, with Fannie becoming America’s second-largest company in assets, and Freddie falling in at number five. “**This huge size and rapid growth, coupled with their concentration in a single industry, has brought concern about possible risk to the US economy should one of them ever fail,**” reported Barta.

Congress has attempted to curb their growth, but efforts “have, for the most part, gone nowhere. But now, a new possibility is emerging: that the natural forces of the marketplace could tame Fannie and Freddie.”

- **A Fulcrum Global Partners report argued that “Fannie and Freddie may run into ‘the mathematical inevitability of market saturation,’ in part because of the difficulty of finding new, untapped pockets of new homeowners nationwide. They face an eventual future of slower growth and decreasing profit margins, said the report, and ‘we believe the only quibble is over the exact timing.’”**
- **Ken Posner, mortgage-finance analyst at Morgan Stanley said that skeptics are missing the point: “whatever happens to mortgages’ growth rates, he says, the companies can continue to use their cost advantages to buy up existing pools of mortgages that currently are held by others.” Barta noted that Fannie and Freddie often make the same point. However, Barta warned that this kind of purchasing can turn Fannie and Freddie into virtual investment funds, and less like mortgage financiers, their Congressional mandate. Critics say this kind of purchasing doesn’t increase homeownership and adds additional risk to the economy, since Fannie and Freddie are taking on interest rate risk in owning their securities. Posner estimated that Fannie and Freddie could own or guarantee \$13.3 trillion in mortgages by 2020 and “at some point, they own the whole market.” This sort of growth could face risks, said Posner. Sustained purchases of greater amounts of mortgages requires Fannie and Freddie to issue a staggering amount of debt in order to have the funds to purchase the mortgages and would require a breathtaking amount of hedging.**
- **In order to expand their growth, Fannie and Freddie are also entering into other areas of the mortgage business, such as subprime mortgages and home appraisals. “But subprime loans...carry much higher risks and are a relatively small market. And expansion into businesses such as appraisals only increases criticism from banks and entrenched real estate interests, which have long complained that Fannie and Freddie have an unfair advantage because their government sponsorship gives them cheaper capital.”**
- **The FHLBanks’ Mortgage Partnership Finance (MPF) program may pose an additional challenge to Fannie and Freddie’s growth in the mortgage market. The MPF program allows the FHLBanks to buy loans from banks and place them in their portfolios just like Fannie and Freddie. Chairman of the FHLBank of Chicago Alex Pollock believes Fannie and Freddie’s expansion was initially a “good thing,” but that the companies became too big and squeezed out many smaller banks and thrifts from the business by taking too big a portion of their profits. “Giving lenders another place to sell mortgages, Pollock said, will weaken Fannie’s and Freddie’s lock on the market.”**
- Barta noted that there is some doubt as to how big a threat the FHLBanks will pose to Fannie and Freddie in the long-run, since the FHLBanks haven’t found a way to securitize their loans for sale in the secondary market and there’s considerable infighting between the 12 FHLBank presidents. Fannie and Freddie strongly oppose the FHLBank program. Barta noted that many major mortgage lenders support the FHLBanks’ program, seeing it as a way to exert competitive pressure on Fannie and Freddie, and smaller lenders see it as a chance to get a better deal. (*Wall St. Journal*, Patrick Barta, 8/5/02)

**Goldman Sachs downgrades Fannie & Freddie; estimates Fannie & Freddie could saturate the market in 10 to 14 years**

- Goldman, Sachs & Co. lowered its ratings on Fannie and Freddie, saying their earnings will slow. Goldman Sachs analyst Howard Shapiro cut his ratings on Fannie and Freddie to “market outperform” from “trading buy.” Recently Shapiro removed Fannie and Freddie from Goldman’s “recommend list.” Fannie and

Freddie predicted that a Federal Reserve interest rate cut was expected this year. Shapiro said shareholders wouldn't benefit from the mortgage refinancings that would follow the interest rate cut. "We are going to have the refinancing rally and the stocks have anticipated that," Shapiro said. "As we look beyond the refinancing rally the implications are not that great for Fannie and Freddie" because there won't be another opportunity any time soon for consumers to buy lower cost mortgages. "Quite simply there will be fewer opportunities to take market share," said Shapiro. He still expects that Fannie and Freddie will beat the Standard & Poor's 500 Index with 12 percent to 14 percent "long earnings growth." (*Bloomberg News*, Al Yoon, 8/6/02) Without these refinancing opportunities, which the GSEs use to take market share, Shapiro believes Fannie and Freddie will be forced to rely on natural growth in the mortgage markets. "We estimate Fannie Mae and Freddie Mac could saturate their markets in roughly 10 to 14 years," Shapiro said. (*CBS Market Watch*, 8/6/02)

- Other analysts and investors agreed that the GSEs are due for slowdown. "They benefited hugely from last year's refinance boom" and the ensuing deceleration in revenue growth "will extend probably to early 2003," said Banc of America Capital Management analyst Mike Ancell. Banc of America sold a net 4.35 million Fannie shares and 540,791 Freddie shares in the second quarter, according to SEC filings. (*Bloomberg News*, Al Yoon, 8/6/02)

**Chairman and Chief Executive of Annaly Mortgage Management – a real-estate investment trust (REIT) which invests in mortgage-backed securities (MBS) – writes a commentary in the *American Banker* on Fannie & Freddie's MBS**

**Fannie & Freddie "are two of the most highly leveraged, undercapitalized, overpoliticized, and least diversified financial institutions on Earth," however, Annaly Mortgage owns more than \$14 billion of Fannie & Freddie's MBS, in part because of the GSEs' implied government guarantee**

- **Michael A.J. Farrell, Chairman and Chief Executive of Annaly Mortgage Management, wrote an August 2 commentary in the *American Banker*, stating that Fannie and Freddie "are two of the most highly leveraged, undercapitalized, overpoliticized, and least diversified financial institutions on Earth." He noted, however, that he owns "without hesitation," more than \$14 billion of MBS issued by Fannie and Freddie.**
- "As the biggest issuers of mortgage-backed securities and corporate securities in the world, the biggest buyer and hedger of the securities in the world and, not least, the source of liquidity for more than 75% of conventional and conforming home mortgages...Fannie Mae and Freddie Mac are about as central to the American capital markets as the Treasury Department. They might even be more central."
- "Suggesting that Fannie and Freddie do not have government support does not resonate with a market that has witnessed the government-sponsored bailouts of Mexico and Long-Term Capital Management, two institutions with arguably a much less pervasive presence on the American financial landscape." He further noted that 20% of marketable U.S. government and federal agency securities held in custody by the Federal Reserve Banks for foreign official and international accounts are agency securities - double the percentage of three years ago. "A consulting economist we know told us that most of his foreign clients think [Fannie's Chairman] Franklin Raines' office is literally two doors down from [Treasury Secretary] Paul O'Neill's. Figuratively, at least, most American investors do too."
- **Farrell said he is concerned about two things. "First, the companies are huge, leveraged, and growing faster than their market. From 1990 to 2001, Fannie Mae grew twice as fast as the mortgage market as a whole, and it has said it will have 15%-a-year earnings growth. Continuing at this pace could lead to mission creep and credit creep. On March 31 of this year, the two GSEs' combined equity to**

assets was 2.5%, less than virtually every solvent financial institution outside of Japan, while the ratio of their combined mortgage book outstanding to equity was 70 to 1... Second, the two companies are publicly traded stocks. Fannie Mae and Freddie Mac serve two masters - the government that chartered and regulates them and the stock market that rewards their executives....management has clearly been favoring the stock market.”

- Farrell concluded, “I don’t doubt that most of the GSEs’ many and far-flung constituents - except maybe the holders of common stock - would [be] more comfortable with slower growth, better disclosure about risk counterparties, and a profile less leveraged to ever-rising home prices. The question of how all of this affects Fannie and Freddie investors depends on what they bought or where they sit in the capital structure, because not all the GSEs’ obligations are equal.” For example, “the MBS holder has multiple levels of protection. Besides the implied guarantee of Treasury, the MBS holder is secured - protected by the actual loan-to-value rating of the home, mortgage insurance, the income verification and maintenance of the homeowner, property/casualty and life insurance, the rights of foreclosure and the settlement process, and the reduction in principal amount from monthly amortization.” **He predicted “some re-regulation of the GSEs in the future, or outright privatization.”** Meanwhile, he noted, **“I sleep well at night because of the layers of protection inherent to the MBS structure. I don't think I would if I owned the common [stock].”** (*American Banker, Viewpoint by Michael A.J. Farrell, 8/2/02*)

### Fannie & Freddie’s portfolios grow in July

**Fannie’s interest rate risk increases (Fannie’s duration gap was negative nine months; Freddie’s was “one month or less”)**

#### Fannie

- Fannie’s mortgage investment portfolio grew at an annualized pace of 4.6% in July, rebounding from June’s 0.08% growth rate, its lowest monthly growth in nearly two years. Fannie said it raised the size of its investment portfolio to \$743.4 billion. Despite July’s increase, Fannie’s investment portfolio is growing on a year-to-date basis at 9.5%, compared with 16.1% for all of 2001. Fannie bought \$17.6 billion in mortgage assets for its portfolio, up from June’s \$16.3 billion. Fannie said it issued \$29.7 billion in commitments for future purchases in July, up from \$22.2 billion June. The July commitment number was the highest number this year and the highest since November’s \$49.1 billion. (*Reuters, Richard Leong, 8/12/02*) Fannie also increased its mortgage volume forecast for 2002, to a record \$2.2 trillion. (*American Banker, Tommy Fernandez, 8/13/02*)
- **Although Fannie announced strong growth in July, the company faced more interest rate risks with its portfolio, reflecting volatility in the bond market in recent weeks due to a fragile economic recovery and shaky stock market. Fannie said its duration gap widened to a 10-month high in July. In July, the duration difference between Fannie’s mortgage assets and its liability, essentially the debt it issues to raise money to buy mortgage assets, widened to negative nine months from June’s negative four months.** This duration gap is a gauge of how well matched are the cash flows between the company’s mortgage assets and its debt. A negative reading means that mortgage assets on Fannie’s book are rolling off faster than its liability. A zero duration gap indicates no interest-rate risk. Fannie aims to keep this duration gap in a range of positive to negative six months. A sustained difference outside this range would hurt its earnings. “About a third of the time, we operate outside the plus to minus six-month range,” said Mary Lou Christy, Fannie’s vice president of investor relations. “We are well cash-flow matched,” added Christy. “When the duration on mortgages moves so quickly there’s no way they can react overnight,” said Friedman, Billings Ramsey Group Inc. analyst Paul Miller. “You have to give them time to adjust. I’m not concerned unless it’s out of line for more than three months.” The last time the duration gap was this wide was in October 2001, when the US Treasury said it would eliminate the sale of 30-year bonds, and interest

rates fell. The situation corrected itself when Treasury rates rose in November. The duration gap has slipped in each of the four months since March. Fannie officials said they could correct the gap by increasing its purchasing of mortgages. Other alternatives, traders said, would be for Fannie to buy Treasuries or swap contracts. (*Reuters*, Richard Leong, 8/12/02; *Bloomberg News*, Al Yoon, 8/12/02)

- Among other measures of Fannie's rate exposure, an interest rate change of 50 basis points in July would affect 3.8% of its income on a one-year basis, up from June's 1.2%. The same rate change would impact 5.1% of its income on a four-year basis, up from 2.4% in June. If there were a 25 basis point change between short- and long-term interest rates, 4.5% of Fannie's earnings would be affected on a one-year basis, up from 3% in June. On a four-year basis, the same change in the yield curve would affect 6.6% of its income in July, up from 5.7% in June. When asked about the July rise in risk readings, Christy said, "We are comfortable with those (figures)." (*Reuters*, Richard Leong, 8/12/02)

### Freddie

- Freddie announced its total and retained mortgage portfolios grew for the second consecutive month in July at an annualized rate of 5%. Freddie's mortgage portfolio grew at an annualized rate of 5.4%, down from 7.2% in June. As mortgages were refinanced, the amount of loans paid off early in its portfolio rose to \$11.1 billion, up from \$9.4 billion in June, and the fastest monthly rate since January. Freddie's retained or investment portfolio, increased \$2.321 billion to \$521.14 billion at the end of July, its highest level in four months. Freddie's commitment to purchase mortgage debt increased \$19.6 billion in July from \$12.5 billion in June. Freddie's total participation certificate portfolio grew at an annualized rate of 3% in July. Freddie's structured securitizations increased to \$20 billion in July, up from \$19 billion for June. Freddie's single-family delinquency rate was 36 basis points, unchanged from June. (*Reuters*, Aleksandrs Rozens, 8/20/02; *Bloomberg News*, Al Yoon, 8/20/02; *Freddie's Monthly Volume Summary*, July 2002)
- **Freddie said its level of interest-rate risk in its portfolio was little changed in July. Freddie's duration gap was "at or less than a one month duration gap," according to Rob Weiss, senior director of finance at Freddie.** Freddie, unlike Fannie, does not officially publish its duration gap level on a monthly basis. (*Reuters*, Aleksandrs Rozens, 8/20/02)

### Is Fannie & Freddie's political risk increasing or decreasing?

- John Connor with *Dow Jones Newswire* wrote, "One baseline question is whether the political risk faced by Fannie Mae and Freddie Mac is increasing or decreasing, which leads to the question of how to measure such political risk." Connor explained, "If the measurement is in terms of realistic prospects of Congress or the firms' regulator really cramping their style or otherwise laying the wood to them, a reasonable conclusion would be that their political risk isn't high and hasn't moved much in some years despite a whole lot of noise...If the measurement of political risk is done in terms of clamor, well, there's no lack of that when it comes to Fannie Mae and Freddie Mac. They've attracted the ire of many clanging gongs, and therein may lie another angle." He added, "Some people...maintain that the ranks of these Fannie-Freddie foes inevitably will grow over time in reaction to sharp elbows wielded by the firms, and that a critical mass eventually will be reached and a tip-over point will come where Fannie and Freddie suddenly will find themselves in deep political trouble. Perhaps. But any such tipping point doesn't seem anywhere close at hand, and arguably has moved farther away over the past couple of years." (*Dow Jones Newswire*, John Connor, 8/9/02)

### American Banker reports there are new questions about the GSEs, but investors remain calm

- Tommy Fernandez with the *American Banker* noted that recent questions have been raised about the GSEs, however investors remain calm. Fernandez cited statements made by Federal Reserve Bank of St. Louis

President William Poole who warned that the GSEs are a potential source of future instability in the financial markets (see August 2, 2002 *GSE Report* for more details) and a recent downgrade of the GSEs' shares by Goldman Sachs. The article also noted that Salomon Smith Barney analyst Robert Young stated that mortgage prepayment speeds at Fannie and Freddie were up 30% in July and could increase again in August. Fannie and Freddie dismissed these concerns, claiming that their companies are well capitalized. (*American Banker*, Tommy Fernandez, 8/12/02)

### **Fannie & Freddie CEOs voluntarily certify their financial reports**

**Unlike other publicly traded companies, Fannie & Freddie were not required to certify their financial reports**

- Effective August 14, the SEC required the top executives at 947 US companies to certify their company financials in the wake of numerous accounting scandals. On August 9, Fannie's Chairman and CEO Frank Raines and Fannie's CFO Timothy Howard voluntarily certified the company's financial statements in compliance with the SEC's request. On August 14, Freddie's Chairman and CEO Leland Brendsel and Freddie's CFO Vaughn A. Clarke certified Freddie's recent financial disclosures. Fannie and Freddie will not be required to begin submitting regular SEC filings until 2003. Fannie and Freddie previously announced that they will voluntarily register their common stock in 2003 under the Securities Exchange Act of 1934, which will permanently require the firms to file periodic disclosures with the SEC. The two GSE retained their exemption from the Securities Act of 1933. (*Fannie press release*, 8/9/02; *Freddie press release*, 8/14/02; *Washington Post*, 8/12/02; *Reuters*, 8/9/02)

### **Fannie & Freddie's executives are among the highest paid in the Washington, DC area**

- Top executives at Fannie and Freddie are among the highest paid executives in the Washington area, reported *Housing Affairs Letter*. Fannie's Chairman and CEO Franklin Raines receives top compensation of \$21 million a year, which includes a \$992,250 salary and a \$3,125,650 bonus. The bulk of the remainder is the potential value of his stock options, bringing his total annual compensation to \$21,045,188. Freddie's Chairman and CEO Leland Brendsel earned a \$1,132,500 salary and a \$2,123,438 bonus. Stock options and other compensation bring his annual pay to \$14,735,583. Freddie's Vice Chairman and President David Glenn receives an \$850,000 annual paycheck and a \$1,275,000 bonus, with total compensation of \$9,430,775. Fannie's Vice Board Chairman Jamie Gorelick receives \$656,429 in salary and a \$1,083,109 bonus, with total compensation of \$8,808,312. Fannie's Vice Chairman and COO Daniel Mudd receives a salary and bonus package identical to Gorelick's, but his total compensation is \$7,396,268. Fannie's Chief Financial Officer Timothy Howard receives a \$463,315 salary with a \$694,938 bonus, with total compensation at \$7,011,497. Fannie's Executive Vice President and head of housing and community development Robert Levin receives \$457,317 in salary with a \$686,028 bonus, with total compensation at \$5,418,379. (*Housing Affairs Letter*, 8/2/02)

## GSE debt news:

- (1) *Pittsburgh Post-Gazette* warns that Freddie's \$1,000 investment notes (debt) to consumers come with some catches
- (2) Foreign investors are flocking to GSE debt
- (3) Morgan Stanley may unseat Merrill Lynch on GSE business
- (4) Fannie sells its first three-year callable debt

### Background on GSE debt and the supply of Treasuries

- Over the past few years, as the US was running budget surpluses, and the national debt was being paid down, the supply of Treasury securities shrunk. Investors, traders, borrowers, and even the US Federal Reserve were being forced to find new benchmark securities to replace the shrinking number of Treasuries. Among possible alternatives as a benchmark were: (1) the debt securities of Fannie and Freddie; (2) derivatives tied to the swaps market; or (3) high-grade corporate bonds. Investors view the debt securities of Fannie and Freddie as "almost" as good as US Treasuries because of the implicit government guarantee of Fannie and Freddie's securities. Fannie and Freddie began bond issuance programs (Fannie – Benchmark bond program; Freddie- Reference bond program) to mirror traditional Treasury operations in size and regularity as an alternative benchmark. Given the expected budget deficits in the next few years, the search for alternative benchmark investments may be lessened.

### *Pittsburgh Post-Gazette* warns that Freddie's \$1,000 investment notes (debt) to consumers come with some catches

- The *Pittsburgh Post-Gazette* said it has noticed a number of ads promoting Freddie's \$1,000 minimum investment notes. The article warned that these notes come with some catches. The article noted, "Generally these notes are 'callable.' When a note is callable, you have a one-sided deal. If rates happen to drop on the date it is callable and you're starting to feel that you've made a brilliant investment, watch out. Your note likely will be 'called.' Your principal and interest will be returned, and you'll be forced to reinvest all over again at lower rates. On the other hand, if rates rise and you'd really like to ditch your note because of its miserable rate, good luck. Your only option is to sell it on the secondary market, most likely at a loss." The article further noted that though the notes appear to operate like CDs, they are not government guaranteed. Although the market perception is that the government would not allow Freddie to fail, there are no guarantees, which contrasts with bank CDs' FDIC insurance, backed by the "full faith and credit" of the government. The article warned that Freddie's \$1,000 investment notes should not be confused with Freddie's participation certificates or collateralized mortgage obligations. Those securities are secured by mortgages, while the investment notes are backed by nothing other than the company that issues them. (*Pittsburgh Post-Gazette*, 8/12/02)
- As noted in the June 14, 2002 *GSE Report*, the Treasury Department raised concerns about the marketing of Fannie and Freddie's \$1,000 investment notes to consumers. In a June 4, 2002 letter to the SEC, then Treasury Assistant Secretary for Financial Institutions Sheila Bair noted that these retail investment securities are not sold directly by Fannie and Freddie, but through securities broker-dealers. She noted, "Some broker-dealer marketing efforts rely heavily on the GSEs' relationship to the government as a selling tool. While the GSEs are required to and do clearly disclose that the Federal government does not guarantee their securities, little or no mention of the lack of a Federal guarantee is typically included in broker-dealers' marketing efforts." (*Treasury Assistant Secretary Bair's letter to SEC*, 6/4/02; *Reuters*, Mark Felsenthal, 6/5/02) Fannie's investment note program (launched in May 2001) is called "Investment Notes" and Freddie's program (launched in April 2001) is called "FreddieNOTES. Freddie raised \$9.5 billion through sales of its FreddieNOTES since last April, while Fannie sold \$5.3 billion of its investment notes since last May. (*Dow Jones Newswire*, Dawn Kopecki, 5/9/02)

- Bair noted that sales literature circulated by some brokerage firms seems to “skimp on the warning label” that the GSEs are not government guaranteed. Bair cited as an example a sales piece by Edward D. Jones, a regional brokerage firm that was offering Freddie’s bonds in denominations sized for retail investors. The brochure noted that the issuer was “created by Congress” but never stated that its debts are not guaranteed by the government. (*New York Times*, Alison Leigh Cowan, 6/6/02)

### **Foreign investors are flocking to GSE debt**

- “Sham accounting may have undermined corporate America and its debt but a glow surrounds” the debt of Fannie, Freddie, and the FHLBanks. Through July, the agencies have taken over Treasuries to capture first place among fixed-income asset performers. Whether agencies can sustain this strength all year depends largely on external factors: the US economy and its impact on stocks, and the trust level in US corporations, analysts and investors agreed. Fannie and Freddie had \$1.3 trillion in debt outstanding and guaranteed another \$1.8 trillion in mortgage-backed securities at the end of 2001. The government had \$3 trillion in marketable Treasuries outstanding. Foreign investors, who have soaked up US agency debt for higher yields and shelter from stocks and geopolitical risk, held on to them despite a slumping dollar this year. (*Reuters*, Lynn Adler, 8/9/02)

### **Morgan Stanley may unseat Merrill Lynch on GSE business**

- Morgan Stanley has won the most business from Fannie, Freddie, the FHLBank and other agencies this year, putting it on pace to unseat Merrill Lynch & Co. from three years at the top of the rankings. Government agencies, which sold \$452 billion of debt this year, picked Morgan Stanley to sell \$37.9 billion, according to Bloomberg data. Merrill, the agencies’ top underwriter from 1999 through last year, was second at \$36.8 billion. Fannie and Freddie say they pick underwriters based on how they adapt to the agencies’ changing needs, and by their research and trading advice. Analysts expect agency underwriting to grow in coming years. Fannie and Freddie plan to increase their mortgage portfolios beyond the current totals of \$740 billion and \$519 billion, respectively. With their mortgage-backed securities, the two GSEs already own or guarantee some 41% of the \$7 trillion mortgage market. (*Bloomberg News*, Al Yoon, 8/5/02)

### **Fannie sells its first three-year callable debt**

- Investor demand, a steep yield curve and a possible need to replace recently redeemed short-term securities are leading Fannie to sell its first three-year callable benchmark bond. Fannie announced that it would sell between \$2 and \$3 billion of the securities, which would be callable one time after a year has gone by. (*Dow Jones Newswire*, Julie Haviv, 8/5/02)

### **OHFEO issues clarifying regulation to promote transparency and public awareness of supervisory standards for Fannie & Freddie**

- OFHEO August 22 released a final safety and soundness regulation to promote transparency and public awareness of the supervisory standards for Fannie and Freddie. The safety and soundness regulation, a component of OFHEO’s Regulatory Infrastructure Project begun in July 2000, was proposed for public comment on June 21, 2002. The regulation provides a stronger legal foundation, in line with Supreme Court rulings, for existing and future agency guidances. “The regulation should increase public awareness of the safety and soundness standards OFHEO employs in its supervision of the Enterprises,” said OFHEO. “As with other federal financial regulators, the rule also provides a central location for such guidances.” The rule will be effective 30 days after publication in the *Federal Register*. (*OFHEO press release*, 8/22/02; *BNA Daily Report for Executives*, 8/23/02)

- According to *BNA*, the regulation provides the regulatory framework to enforce minimum standards set forth in OFHEO's policy guidances designed to identify key safety and soundness concerns regarding operation and management of Fannie and Freddie and to ensure that the conduct and practices of the companies "reasonably avoid the emergence of problems that might entail serious risks." The minimum standards also reflect the need for internal policies and procedures in particular areas that, if not appropriately addressed, "may warrant supervisory action by OFHEO in order to reduce risks of loss and corresponding capital impairment." OFHEO said, however, that the minimum standards are intended to stop short of dictating how Fannie and Freddie must be managed. (*BNA Daily Report for Executives*, 8/23/02)
- OFHEO said it hoped the regulation would give some of its rules greater protection if it ever faced a legal challenge and would give guidelines it has already issued higher standings in a court. OFHEO noted that the format of the regulations was designed to follow those used by the Office of the Comptroller of the Currency for national banks. OFHEO said it received comments from Fannie, Freddie, and the Mortgage Bankers Association of America, generally supporting the rule. (*BNA Daily Report for Executives*, 8/23/02)

**Radian Guaranty pulls its alternative title insurance product off the market as a result of a cease-and-desist order from the California Department of Insurance**

**Fannie & Freddie were purchasing loans with Radian Guaranty's alternative title insurance**

**American Land Title Association (ALTA) requested that OFHEO prohibit Fannie & Freddie from using alternative title insurance**

- Radian Guaranty is no longer selling its controversial title insurance alternative – Radian Lien Protection. Radian was forced to stop marketing the product in all 50 states as a result of a cease-and-desist order from the California Department of Insurance (CDI), according to Radian EVP and General Counsel Howard Yaruss. He said the product will remain off the market until the legal proceedings have been concluded and Radian receives a favorable outcome. Yaruss said Radian plans to reinstate the product once it "has a favorable decision as to the result of our appeal in the state of California." He noted, "We have a hearing scheduled for early fall and hope to have the product vindicated, so we can resume business." Radian hopes to convince the California courts that it is not selling title insurance, as the title insurers claim, but is instead offering a mortgage insurance product. (*Inman News Feature*, Bridget McCrea, 8/20/02; *Washington Times Home Guide*, 8/23/02)
- As noted in the June 28 *GSE Report*, CDI issued a "Cease and Desist" order June 20 against Radian Guaranty, ordering them to "immediately stop marketing, soliciting and selling insurance policies that provide coverage for undisclosed property liens." The order required Radian Guaranty to discontinue the sale of Radian Lien Protection. Also issued was a Notice of Right to Hearing and a Notice of Fine. A fine of up to \$5,000 per day may be imposed if the order is violated. (*ALTA press release*, 6/20/02) The CDI noted, "Although Radian Guaranty refers to this program as an alternative to title insurance, the CDI has concluded that these policies are, in fact, title insurance policies." The CDI argued that Radian was not authorized to transact title insurance business in California. (*CDI press release*, 6/20/02)
- In 2001, ALTA filed a lawsuit against Radian Guaranty and its subsidiaries in Orange County, CA to prevent Radian from offering Radian Lien Protection. ALTA argued that the Radian product is title insurance and that the mortgage insurance company isn't licensed to issue such insurance. (*ALTA press releases*, 11/20/01, 12/13/01)

- Radian Guaranty announced June 20 that it would appeal CDI's order. "We respectfully disagree with the California Department's assessment and are requesting a hearing to appeal this order," stated Roy J. Kasmar, Radian's President and Chief Operating Officer. "We look forward to the opportunity to demonstrate once and for all that Radian Lien Protection is not title insurance, but rather a mortgage insurance policy, substantially identical to those that Radian and its competitors have been issuing for almost two decades." Radian argued that if Radian Lien Protection had been used exclusively in lieu of title insurance in 2001, American homeowners would have saved more than \$3 billion, or an average of approximately \$9 million per day. (*PR Newswire*, 6/20/02)

#### Pennsylvania rejects Radian Guaranty's alternative title insurance product

- In related news, the Pennsylvania Department of Insurance advised Radian Guaranty not to offer Radian Lien Protection in the Commonwealth of Pennsylvania until properly licensed to do so. "This is great news for the title industry," said ALTA's Executive Vice President James R. Maher. Pennsylvania is the seventh state thus far to take such an action. California, Texas, Florida, Connecticut, North Carolina and New Mexico have also rejected the product. (*ALTA e-news online*, 8/5/02; *ALTA press release*, 7/31/02)
- Maher noted that the problem is that alternative title insurance does not involve a full title search, does not provide the protection of traditional title insurance, and does not provide the industry's legal defense guarantee. "In addition, it puts the consumer at risk for undetected liens and for other title related issues on his or her property." Maher noted, "These products claim totally unsubstantiated cost savings when, in fact, our studies show that with more than half of the residential mortgages in the country, our members' cost to the borrower are either the same or less expensive than the so-called alternative." (*ALTA press release*, 7/31/02)

#### ALTA requested OFHEO prohibit Fannie & Freddie from using alternative title insurance

- As noted in the May 17, 2002 *GSE Report*, ALTA requested that OFHEO prohibit Fannie and Freddie from using alternative title insurance products. OFHEO's Deputy Director Jimmy Barton said OFHEO was reviewing the issue and planned to issue an opinion. (*National Mortgage News Web site*, 5/8/02) Fannie and Freddie have been purchasing loans with Radian Lien Protection on a negotiated basis. (*National Mortgage News*, 10/29/01)

## ***Fannie Mae***

### **Fannie responds to *Washingtonian* article, and author defends his position**

**Citizens Against Government Waste calls the *Washingtonian* article "an excellent expose on the culture of secrecy and political privilege that characterizes" Fannie & Freddie**

- Following the August 2002 *Washingtonian* magazine article about Fannie, Fannie's research director, John DiQuollo, wrote a letter to the editor protesting many of *Washingtonian* author Ross Guberman's claims. The director of the Fannie Mae Foundation, Stacey H. Davis, also wrote a letter to the editor. Guberman refuted DiQuollo and Davis' complaints in his response. [See August 2, 2002 *GSE Report* for a summary of the original *Washingtonian* article.]

#### Letter by Fannie's DiQuollo and *Washingtonian* author Guberman's response

- DiQuollo's letter accused Guberman's article of relying on too many of Fannie's critics, as well as having numerous errors and mischaracterizations. DiQuollo noted that Fannie is one of the best workplaces in America, citing its rankings at *Fortune* and *Business Ethics*. He noted that Fannie provides cheap mortgages to all communities under all economic situations, claiming that without Fannie and Freddie, a

borrower would not be able to obtain a 30-year, fixed-rate mortgage with a low down payment. He praised the company for being a “leader in financial disclosure.”

- Guberman responded, **“Few would dispute that Fannie Mae is a great place to work. But that was not the subject of the article. Could Fannie Mae direct more of its subsidy to first-time homeowners and other consumers who need help? Could it discourage the financial markets from counting on a taxpayer bailout? Could it encroach less on the rest of the housing-finance industry? Does it use the Fannie Mae Foundation as a political tool? And should it tone down some of its advertising, lobbying, revolving-door hiring, and hostility toward both critics and the press? These questions matter.”** Guberman reported that the *New York Times* has called Fannie an “unlikely corporate governance model” because its board of directors is stocked full of patronage appointees and because Fannie has resisted efforts to bring its directors under corporate governance rules that apply to all other Fortune 500 companies. Guberman noted, **“The question isn’t whether Fannie Mae is safer than you think. As Federal Reserve official William Poole said in an August speech, the massive scale of Fannie Mae and Freddie Mac’s debt could create a massive problem in a housing crisis—and then what would happen?”**
- DiQuollo accused Guberman of incorrectly reporting the findings of the 2001 CBO report. In his article, Guberman reported that out of every \$3 of Fannie’s subsidy that is passed on to consumers, the company keeps another \$2 for shareholders and executives. However, DiQuollo claimed that what the 2001 report actually found is that for every \$3 of the subsidy, or as he puts it “value created by the charter,” Fannie and Freddie pass on \$2 to the consumers. DiQuollo faulted the CBO study for errors such as overstating Fannie’s advantages over other debt issuers and misstating the amount of short-term debt the company issues. Guberman noted that the CBO agrees with his characterization of their study, and noted that DiQuollo’s numbers came from a 1996 study, not the more recent 2001 study. He also took Fannie to task for their criticism of the CBO study, noting that scholars, economists, the Federal Reserve, GAO and Treasury have backed the study.
- DiQuollo refuted Guberman’s claims that Fannie and Freddie are the only Fortune 500 companies that are not required to disclose their financial status to the public. He noted that while Congress exempted the GSEs from registering with the SEC, the NYSE has required disclosure of “audited annual reports, proxy statements, and material events.” DiQuollo noted that Fannie voluntarily agreed to additional disclosures of interest- and credit-rate sensitivity in October 2000. “Fannie Mae’s mandatory and voluntary disclosures, taken together, meet materially those of SEC requirements and, in some cases, exceed them and give a transparency to Fannie Mae equaled only by Freddie Mac,” he stated. DiQuollo questioned Guberman’s report that Fannie was dragged into their recent SEC agreement “kicking and screaming,” noting that Treasury Secretary O’Neill thanked Fannie and Freddie for their “self-initiated compliance.” DiQuollo claimed that Guberman exaggerated the benefits of the GSEs’ charter, calling them “gifts” while not mentioning the limits the GSEs’ charters place on their business practices. DiQuollo claimed that the article “imprecisely” defines the GSEs’ line of credit with the Treasury. DiQuollo stated that it actually is not a \$2.25 billion line of credit, but rather the Treasury’s ability to purchase up to \$2.25 billion of the GSEs’ debt.
- Guberman refuted DiQuollo’s claims that Fannie discloses as much or more than the SEC requires, noting that **“the relationship between Fannie Mae and the New York Stock Exchange is not an issue in the article, nor do the NYSE’s weaker disclosure requirements satisfy Representatives Shays and Markey and their supporters.”** Guberman also noted his report that Fannie was dragged “kicking and screaming” into SEC disclosure agreements came from the views of sources involved in the negotiations. **“Subsequent reporting and other press accounts confirm that Fannie Mae and Freddie Mac agreed to make the additional disclosures under the combined weight of a tepid stock performance, negative press coverage, a ‘prompt’ letter from the Bush administration, the threat of a mandatory-disclosure rule**

from their regulator, increased interest in the Shays-Markey legislation, and the threat of potentially embarrassing testimony scheduled to be delivered at a congressional hearing just a few days after Fannie Mae made its ‘self-initiated’ announcement.” Guberman stated that he did mention the restrictions placed on the GSEs, and defended his use of the term “\$2.25 billion line of credit” since it is referred to almost universally by all involved. Guberman noted that the line of credit is “symbolic, not pragmatic” and reflects the view that the GSEs’ are “creatures of the federal government.”

- DiQuollo claimed that Guberman “overdepends on critics,” citing 65 direct or paraphrased quotes from 40 critics, and only five “supporters” quoted. DiQuollo asserted that Bert Ely is not a neutral economist, but a “coauthor of a treatise developed as part of the ‘message toolbox’ of FM Watch.” Guberman defended the claims that the article is unbalanced. Guberman noted that Bert Ely was identified as a critic of the GSEs, and FM Watch did not fund his book. Guberman said he interviewed fewer than a handful of GSE critics, and used Fannie executives and staff, as well as government officials, economists and academics as references. (*Washingtonian Magazine*, <http://www.washingtonian.com/etc/business/balactletters.html> ; September 2002)

#### Letter by Fannie’s Davis and Washingtonian author Guberman’s response

- Stacey H. Davis, director of the Fannie Mae Foundation, refuted Guberman’s claims that the Foundation operates as an arm of the company. She noted that they lease separate office space from a third party, and have been completely separate from Fannie Mae since 1996. Davis claimed that “we rigorously adhere to strict rules for all our grantmaking, and we honor all our grant commitments, as spelled out in binding agreements with each of our grantees.”
- Guberman responded by noting that Davis’ letter failed to mention why the Foundation’s biggest expense last year was \$44 million in advertising. Furthermore, **“As to whether the foundation and the corporation “engage in completely separate activities,” why have some critics of the corporation’s commitment to affordable housing seen their grants from the foundation disappear? Why have some grant recipients been encouraged to lobby on the corporation’s behalf? Ms. Davis’s letter doesn’t deal with these issues that were raised in the article.”** (*Washingtonian Magazine*, <http://www.washingtonian.com/etc/business/balactletters.html> ; September 2002)

#### Citizens Against Government Waste

- **Leslie Paige with Citizens Against Government Waste sent a letter to the *Washingtonian*, calling Guberman’s article “an excellent expose on the culture of secrecy and political privilege that characterizes” Fannie and Freddie. She noted that the “timing of the article couldn’t have been better,” since the “issues of corporate governance, accountability, and financial transparency are daily subjects of negative headlines.” Paige finds it “astonishing” that in this environment, legislators that claim that are champions of investor and taxpayer protection have not supported the Shays/Markey bill that would subject Fannie and Freddie to the same disclosure laws as other financial institutions.**
- **“The GSEs always portray compliance to any form of accountability as a means of ‘denying the dream of homeownership to low-income Americans.’ Yet they routinely divert hundreds of millions of dollars into direct-to-consumer advertising campaigns, ‘partnership offices,’ foundation grants, and soft-money donations to political parties.”** (*Washingtonian Magazine*, <http://www.washingtonian.com/etc/business/balactletters.html> ; September 2002)

**Location-efficient mortgages (LEMs) are more costly and risky than proponents claim, says CATO Institute researcher Allen Blackman**

**The party that bears most of the cost of mortgage defaults on LEMs is Fannie, which has agreed to purchase \$100 million worth of LEMs during a two-year pilot program**

- To discourage sprawl, policymakers are using location-efficient mortgages (LEMs), which allow families willing to live in densely populated, transit-rich communities to obtain larger mortgages with smaller down payments than traditional underwriting guidelines allow. According to proponents, LEMs reduce sprawl by making homes in “location-efficient” communities more affordable to low- and middle-income borrowers who would ordinarily live in less expensive fringe areas.
- However LEMs may have more costs and risks than proponents claim. Cato researcher Allen Blackman found no demonstrable relationship between location efficiency and the probability of default. Thus making low-down-payment loans available to borrowers in location efficient areas is tantamount to making such loans available to a random sample of borrowers, which in turn, means that the loans have a higher default risk.
- Location efficiency does not reduce borrowers’ default risk, claimed Blackman:
  - While homeowners in location-efficient areas may actually enjoy transportation cost savings, those savings are simply not large enough to affect their propensities to default.
  - Estimates of transportation cost savings generated by the LEM computer model --often hundreds of dollars per month -- are overstated.
  - Real estate markets efficiently capitalize any financial benefits from location efficiency into housing prices -- such as the premium on houses close to a subway stop.
  - Thus, homeowners in location-efficient areas end up spending their transportation cost savings on higher mortgage payments, leaving their disposable income (and their ability to repay debt) unchanged.
- According to Blackman, the party that currently bears the cost of mortgage default on LEMs is Fannie, which has agreed to purchase \$100 million worth of LEMs from primary lenders during a two-year pilot phase. Private mortgage insurance purchased by LEM borrowers typically covers a fraction of default costs. (*National Center for Policy Analysis Digest*, 8/8/02; *Allen Blackman, "Testing the Rhetoric," Regulation, Vol. 25, No. 1, Spring 2002, Cato Institute, <http://www.cato.org/pubs/regulation/regv25n1/v25n1-4.pdf>*)

**Fannie purchases record numbers of FHA loans**

- In 2001, Fannie purchased almost \$10 billion in FHA-backed mortgages, a **275% increase** from 2000. Figures were not available on Fannie’s 2002 purchases of FHA loans (Fannie used to disclose its FHA purchases monthly, but no longer does). If Fannie’s FHA purchases are measured against the overall government-backed market (FHA and VA loans), its market share of GNMA loans was 6.08% in 2001 – Fannie’s largest market share figure ever and more than three times what it was back in 1997 (Freddie’s 2001 market share was just 0.28%). (*National Mortgage News*, 8/12/02)

## Former Chairman of Fannie says the debate about Fannie & Freddie has been mis-focused

- In response to the *Wall Street Journal's* July 30 story, "Freddie Mac's Friend in Need – Bills Languish as Top Lobbyist Raises Funds for House Members," retired Chairman and CEO of Fannie, David Maxwell, suggested that the debate about Fannie and Freddie "has been mis-focused." He added, "The issue is not their 'advantages.' The issue is the mortgage finance system. Anchored by Fannie and Freddie, our system has produced high rates of affordable homeownership with a degree of efficiency that is the envy of the world. If the opponents of this system have something better to offer, they have yet to make it known." (*Letter-to-the-Editor by David Maxwell, Wall Street Journal, 8/12/02*)

### **Fannie further expands its political reach by including Federal and State officeholders in its press conferences and press releases and increasingly using its Partnership Offices in press events**

#### **Fannie has 51 Partnership Offices open across the country**

**Fannie "wins the gratitude of politicians by staging local events with them, often to 'announce' its plans to buy local mortgages...It's almost as if Ford or Microsoft could allow politicians to gain some credit with voters for every Escort or Windows package sold in their district." – *Wall Street Journal*, Nicholas Kulish & Jacob M. Schlesinger, 7/5/01**

#### Fannie has 51 partnership offices

- According to Fannie's Web site, the company has 51 partnership offices open across the country ([http://www.fanniemae.com/contact/partnerhsip\\_offices.html](http://www.fanniemae.com/contact/partnerhsip_offices.html)) 8/13/02). Fannie also announced the opening of a Dallas/Fort Worth Metroplex Partnership Office in Dallas. (*Fannie press release, 8/16/02*)

#### Senator Max Baucus (D-MT), Senator Craig Thomas (R-WY) and Senator Mike Enzi (R-WY)

- Fannie and the United Native American Housing Association are convening an affordable housing symposium for tribal lands. The above named officials will address the conference by video. (*Fannie press release, 8/9/02*)

#### Senator Craig Thomas (R-WY) and Senator Mike Enzi (R-WY)

- Fannie joined the above named officials to announce the first annual Teton County Congressional Housing Forum. (*Fannie press release, 8/12/02*)

#### Senator Don Nickles (R-OK) and Oklahoma Lieutenant Government Mary Fallin

- Fannie joined with the above named officials and local housing partners to announce a five-year \$8 billion investment plan for Oklahoma. (*Fannie press release, 8/8/02*)

#### Senator Jim Bunning (R-KY) and Covington, KY Mayor Butch Callery

- Fannie joined with the above named officials to announce an initiative allowing Section 8 recipients to use assistance vouchers for mortgage payments. (*Fannie press release, 8/9/02*)

#### Senator Rick Santorum (R-PA)

- Fannie joined with Senator Santorum and Citizen's Bank to announce a three-year \$50 million commitment to low-and moderate-income homebuyers in Western Pennsylvania. (*Fannie press release, 7/19/02*)

#### Senator Larry Craig (R-ID)

- Fannie joined Senator Craig to announce the opening of a new affordable single-family development in Garden City, ID. The development offers 66 homes. (*Fannie press release, 8/12/02*)

Congressman Peter DeFazio (D-OR) and Congresswoman Darlene Hooley (D-OR)

- Fannie joined the above named officials to announce the opening of a new 56-unit affordable housing rental housing development. (*Fannie press release, 8/9/02*)

Congressman Charles Gonzalez (D-TX) , Congressman Cir Rodriguez (D-TX), and Bexar County, TX Mayor Ed Garza, and Bexar County Judge Nelson Wolff

- Fannie joined the above named officials to announce a \$42 million mortgage revenue bond issued by the Bexar County Housing Finance Corporation and San Antonio Housing Trust Corporation. The bond was purchased by Fannie. (*Fannie press release, 8/13/02*)

Congressman Rush Holt (D-NJ) and Holmdel, NJ Mayor Arthur Davey

- Fannie joined with the above named officials and Fleet New Jersey to announce the availability of Fleet's Suite Advantage mortgage products – products with no income limit, for low- and moderate-income borrowers and for those purchasing a home in underserved areas, where there is no limit. (*Fannie press release, 7/22/02*)

Congressman Mike Pence (R-IN) and Columbus, IN Mayor Fred Armstrong

- Fannie joined with the above named officials to convene a roundtable with Southern Indiana employers on employer-assisted housing benefits. (*Fannie press release, 8/5/02*)

Congresswoman Diana DeGette (D-CO) and Colorado Attorney General Ken Salazar

- Fannie joined with the above named officials to announce a \$3 million predatory mortgage lending pilot program. (*Fannie press release, 8/5/02*)

Congressman Richard Pombo (R-CA) and Stockton, CA Mayor Gary Podesto

- Fannie joined with Mayor Podesto to announce an initiative allowing Section 8 recipients to use assistance vouchers for mortgage payments. A statement of support by Congressman Pombo was included in the press release. (*Fannie press release, 8/9/02*)

Congressman Sam Johnson (R-TX) and Garland, TX Mayor Pro-Tem Sharon Stotts

- Fannie joined the above named officials to announce the availability of affordable mortgage financing under Garland Housing Finance Corporation's Mortgage Revenue Bond Program. (*Fannie press release, 8/13/02*)

Congresswoman Hilda Solis (D-CA) and El Monte, CA Mayor Rachel Montes

- Fannie joined with the above named officials to celebrate the opening of a new smart-growth community in San Gabriel Valley. (*Fannie press release, 8/17/02*)
- Fannie joined Congresswoman Solis in a training course with Chase Manhattan Mortgage and local real estate brokers to discuss the new resources developed by Chase and Fannie for underserved borrowers. (*Fannie press release, 8/20/02*)

Congressman Kenny Hulshof (R-MO) and Columbia, MO Mayor Darwin Hindman

- Fannie joined with the above named officials and representatives from the city of Columbia and the Columbia Chamber of Commerce to announce an Employer-Assisted Housing benefit. (*Fannie Press release, 8/21/02*)

Congressman Mark Udall (D-CO) and County Commissioner James Newberry

- Fannie joined with the above named officials to announce the opening of an affordable rental housing development. (*Fannie press release, 8/23/02*)

Congressman Robert Menendez (D-NJ)

- Fannie joined Congressman Menendez and the Raritan Bay Medical Center to announce a new housing benefit for employees. (*Fannie press release, 8/6/02*)

Congressman Bennie Thompson (D-MS)

- Fannie joined Congressman Thompson and housing leaders to announce the opening of a \$16 million development adjacent to Jackson State University. (*Fannie press release, 8/7/02*)

Congressman Mike Rogers (R-MI)

- Fannie joined Congressman Rogers to convene a community lending product training program for mortgage lenders, developers, real estate professionals, and nonprofit groups. (*Fannie press release, 8/12/02*)

Congressman Dave Weldon (R-FL)

- Fannie joined with Congressman Weldon to announce a housing summit for the Kissimmee-St. Cloud-Osceola County area. (*Fannie press release, 8/16/02*)

Congresswoman Judy Biggert (R-IL)

- Fannie joined Congresswoman Biggert to convene a housing roundtable on employer-assisted housing benefits. (*Fannie press release, 8/13/02*)

Congresswoman Susan Davis (D-CA)

- Fannie joined Congresswoman Davis in a training course with Chase Manhattan Mortgage and local real estate brokers to discuss the new resources developed by Chase and Fannie for underserved borrowers. (*Fannie press release, 8/19/02*)

Congressman Rob Portman (R-OH)

- Fannie joined Congressman Portman to convene a housing industry roundtable to discuss Southern Ohio's rural housing needs. (*Fannie press release, 8/23/02*)

Congressman Joe Knollenberg (R-MI)

- Fannie joined Congressman Knollenberg to convene a housing roundtable to discuss affordable homeownership and community development in Pontiac, MI. (*Fannie press release, 8/23/02*)

Congressman Frank Lucas (R-OK)

- Fannie joined Congressman Lucas to convene a housing roundtable to discuss housing issues in Oklahoma's 6<sup>th</sup> Congressional district. (*Fannie press release, 8/23/02*)

Other local officials with whom Fannie held press opportunities:

- (1) Austin Mayor Pro-Tem Jackie Goodman (*Fannie press release, 7/26/02*)
- (2) Albuquerque, NM Mayor Martin Chavez (*Fannie press release, 8/8/02*)
- (3) Fort Worth, TX Mayor Kenneth Barr (*Fannie press release, 8/16/02*)

## ***Freddie Mac***

### **Freddie purchases \$1.5 billion of home equity debt**

**The GSEs are starting to purchase home equity loans in the secondary market that are mainly used to pay off credit card debt or to make home improvements. “Home equity loans do not help families on the cusp of home-ownership get into homes.”** (*Citizens Against Government Waste*, Leslie K. Paige)

- Greenwich Capital Markets completed the sale of a bond pooling EquiCredit Corp. securities purchased by Freddie worth \$1.5 billion. The securities were backed by pools of home equity loans. The offering included debt Freddie purchased last year from Bank of America, which sold off home equity issues underwritten by its now-defunct EquiCredit lending arm. (*Reuters*, 8/23/02)
- **The GSEs are starting to purchase home equity loans in the secondary market that are mainly used to pay off credit card debt or to make home improvements. “Home equity loans do not help families on the cusp of home-ownership get into homes.”** (*Citizens Against Government Waste; Government Waste Watch*; Winter 2001, Leslie K. Paige)

## ***Federal Home Loan Banks***

**FHFB will issue new ethics rules to address the “cozy” relationships between the FHFB and the FHLBanks they regulate**

**FHFB will act on the new ethics rules after HUD has a chance to review**

**FHFB – the Federal Housing Finance Board – regulates the FHLBank System**

- The FHFB “wants to put an end to the ‘cozy’ alliances and questionable practices some of its executives seem to engage in with the banks they oversee,” reported Dawn Kopecki with *Dow Jones Newswire*. FHFB Chairman John Korsmo is drafting new ethics rules prohibiting the FHFB’s employees, officers and directors from attending meetings or accepting lavish dinners or travel expenses offered by the FHLBanks they regulate, according to a draft of the proposal. (*Dow Jones Newswire*, Dawn Kopecki, 8/7/02)
- An internal report prepared by Greg Walden, an attorney at Patton Boggs and former White House ethics adviser, shows that the FHFB, which has long been criticized as being too close to the industry it regulates, has turned a blind eye to some common practices that are prohibited or would at least be questioned at other financial regulators. (*Dow Jones Newswire*, Dawn Kopecki, 8/7/02)
- The proposed ethics rules would prohibit FHFB directors, officers, and employees from attending any official business meetings of a board of directors, committee, or advisory council meeting of an entity regulated by the FHFB. The proposal does not, however, prohibit meeting with directors as long as they are not conducting official business. It has become common practice for FHFB directors to attend, and even participate, in board meetings of the 12 FHLBanks, according to the internal report. “Most agency ethics officials questioned the need for or purpose behind attending a board meeting to observe the operations of the institution, and all identified a host of ethics concerns in doing so,” said the internal report. “The mere attendance of a regulator at a business meeting of a regulated entity, other than on the occasion of an examiner’s report, is inappropriate.” Of the five FHFB directors, one attended 23 bank meetings since January 2000, another attended 15 and a third director attended 13 meetings. (*Dow Jones Newswire*, Dawn Kopecki, 8/7/02; *FHFB press release*, 8/14/02)

- The proposed rules clarifies that individual FHFb directors may not speak or act on behalf of the FHFb, which exercises its authority jointly. The rules also reaffirm government rules on gift taking and reimbursement for travel, food or entertainment. (*FHFb press release*, 8/14/02) The proposed rules prohibit FHFb executives and employees from tipping off any of the FHLBanks to action pending before the board, especially if it directly involves a specific FHLBank. (*Dow Jones Newswire*, Dawn Kopecki, 8/12/02)
- The FHFb was going to consider the ethics rule at an August 14 FHFb Board meeting, however the FHFb August 14 postponed action on the proposed rules because HUD had asked for additional time to clarify that the standards would not affect the HUD Secretary or his designee outside of their duties related to the FHFb. John Weicher, Assistant Secretary and FHA Commissioner, serves as HUD Secretary Mel Martinez's designee on the five-member FHFb. FHFb Chairman John Korsmo said the FHFb will act on the proposed rules after HUD completes its review. The next regular FHFb meeting is scheduled for September 12. (*FHFb press release*, 8/14/02) The proposed new ethics rules were not released for public comment because it deals with internal management issues, said Korsmo aide Carter Wood. (*Dow Jones Newswire*, John Connor, 8/15/02)

**FHFb announces reorganization; FHFb will hire 20 additional examiners and eliminate 21 other positions**

- FHFb Chairman John Korsmo August 7 announced the reorganization of the FHFb to focus the agency's resources on its primary responsibility: regulating the FHLBanks for safety and soundness. Under the new structure, the Office of Policy, Research and Analysis will be merged into the Office of Supervision, under the Supervision's current director, Stephen M. Cross. The Office of Managing Director and the Office of Communications will be eliminated. (*FHFb press release*, 8/7/02)
- "The Finance Board must first and foremost ensure that the Federal Home Loan Banks are operating in a safe and sound manner, fulfilling their statutory duties and meeting the expectations of the public," Korsmo said. "It has become abundantly clear that our Supervision staff must be significantly expanded to accomplish these goals." (*FHFb press release*, 8/7/02)
- The FHFb, which currently has 118 employees, including 11 examiners, 11 financial specialists, and a mortgage analyst, plans to add 20 positions in its Office of Supervision. Twenty-one positions - including 11 currently vacant - will be eliminated, allowing the hiring of 20 additional examiners and financial specialists over the next two years. Korsmo said the hiring of additional examiners would permit more thorough examinations of the FHLBanks, as well as new, focused exams of specific activities - including affordable housing programs - across the entire FHLBank System. A new pilot project will also station examiners regionally outside of Washington. (*FHFb press release*, 8/7/02; *American Banker*, Rob Garver, 8/8/02)
- Korsmo noted that upon becoming Chairman in December, he found that relatively few FHFb staff were devoted to actual supervision of the FHLBanks. In all, just eight of more than 100 employees were bank examiners, compared to eight positions allocated to public relations work. (*FHFb press release*, 8/7/02)
- The Office of Supervision is responsible for ensuring that the FHLBanks operate in a safe and sound manner and that they carry out their statutory affordable housing finance mission. These supervisory functions are performed through annual on-site examinations of each of the 12 FHLBanks and the Office of Finance, as well as off-site monitoring. The inclusion of policy and research personnel within the Office of

Supervision will improve coordination among the professional staff and enhance the sophistication of the agency's FHLBank oversight, Korsmo added. (*FHFB press release*, 8/7/02)

- James Bothwell, the managing director who currently oversees the day-to-day administration of the FHFB will lose his job in the reorganization. His duties will be parceled out among the directors of the Office of Supervision and management and general counsel. Media relations will be handled through the office of the chairman, a FHFB spokesman said. (*American Banker*, Rob Garver, 8/8/02) The Office of Communications accounted for eight of the 21 position eliminations. (*Dow Jones Newswire*, John Connor, 8/7/02) Carter Wood will serve as the agency spokesman. The FHFB also loses its congressional affairs director Stephen Scherlag in the reorganization. The congressional affairs job will be shared by Counsel to the Chairman Thomas Casey and Senior Advisor to the Chairman Joseph Ventrone. (*National Mortgage News*, 8/12/02) Employees losing their positions because of the reorganization will be eligible for the federal government severance program based on length of service and age. In addition, the FHFB is providing two months of outplacement service and three or six months of salary based on federal employment status. (*FHFB press release*, 8/7/02)

**FHFB Chairman John Korsmo is not a “shrinking violet,” writes John Connor with *Dow Jones Newswire***

- FHFB Chairman John Korsmo “clearly isn’t a shrinking violet,” noted John Connor with *Dow Jones Newswire*. Connor cited several initiatives Korsmo has tackled recently including: (1) addressing a perceive FHLBank System cost of funds problems; (2) a reorganization of the FHFB to improve supervision of the FHLBank System; (3) and proposed ethics rules to keep FHFB members from having cozy relationships with the FHLBanks in which they regulate. (*Dow Jones Newswire*, John Connor, 8/15/02)

**FHLBank System’s second quarter earnings drop 23.5%, blamed on derivatives**

**FHLBank System’s assets grew 8.6%**

- The FHLBank System’s second quarter earnings dropped \$419 million on derivatives and other hedging activities during the months ending June 30. A combination of historically low interest rates and unfavorable hedges resulted in the decrease. Net income for the 12 FHLBanks for the second quarter was \$413 million, compared with \$540 million during the same quarter last year – a 23.5% decline. Net income for the first six months was \$862 million, compared with \$1,075 million for the same period last year, a 19.8% decrease.
- “The decreases in net income are primarily attributable to the effect of lower interest rates and the change from a combined net gain position to a net loss position in the unrealized gains (losses) on securities held at fair value and the realized and unrealized gains (losses) on derivatives and hedging activities,” said a summary of the FHLBank System report.
- “For the three and six months ended June 30, 2002, the FHLBanks had net realized and unrealized losses of \$84 million and \$113 million related to these investment securities, and derivatives and hedging activities, respectively, whereas for the three- and six-month periods ended June 30, 2001, the FHLBanks had net realized and unrealized gains of \$39 million and \$56 million, respectively, on these investment securities, and derivatives and hedging activities,” the summary said.
- The FHLBank System’s assets grew to \$722.2 billion as of June 30, an 8.6% increase from last year. The FHLBank System’s advances were \$470.4 billion as of June 30, a 4.4% increase over last year, and net mortgage loans increased 95.3% from last year to \$38.3 billion as of June 30. The FHLBank System’s capital was \$35.2 billion as of June 30, up 8.2% from last year.

- The FHLBank System issued more debt so far this year, with \$642.2 billion in total consolidated obligations issued during the first six months of 2002, compared with \$612.7 billion during the first six months of 2001. The FHLBank System, however, shifted its debt issuance strategy to rely more heavily on longer-term obligations. (*Dow Jones Newswire*, John Connor, 8/13/02; Dawn Kopecki, 8/13/02)

### **Membership in the FHLBank System continues to grow**

- Membership in the FHLBank System continues to grow, reaching 7,943 members as of June 30, an increase of 66 members since the end of last year. The FHLBank System had 6,884 members at the end of 1998. (*Dow Jones Newswire*, John Connor, 8/14/02)

### ***Farm Credit System/Farmer Mac***

#### **Farmer Mac says its borrowing costs have risen as criticisms of its finances increases**

- According to *Bloomberg's* Al Yoon, Farmer Mac said its borrowing costs rose last quarter as criticisms of its finances increased. "Flawed and unfounded" research and news reports since April have increased the cost of Farmer Mac's sales of medium-term notes, debt maturing in one to 10 years, Farmer Mac said in a filing with the SEC. The company did not indicate how much its borrowing costs increased. Farmer Mac has been subject to criticisms over its finances in the *New York Times* and by Gotham Partners Management Co. and is subject to an investigation of its finances by the Government Accounting Office (GAO).
- Since April, the price of Farmer Mac's credit default swaps has increased by more than 250 basis points, according to analysts. Farmer Mac said wider spreads on its medium-term notes have led to an increased use of discount notes. Farmer Mac had \$3.75 billion of notes payable as of June 30, with \$2.66 billion maturing within a year, according to the SEC filing. Farmer Mac's business of packaging and selling agricultural mortgage-backed securities has been hindered by the criticisms, which is prompting an extra \$300,000 to \$400,000 per quarter in legal consulting fees, stated the filing. "The events of recent months have begun to have a dampening effect on Farmer Mac's business prospects over the near term, which the corporation expects will be ameliorated by the issuance of the GAO report" and other actions Farmer Mac is taking to increase confidence, the filing said. (*Bloomberg*, Al Yoon, 8/16/02)

#### **Farmer Mac identifies \$4.8 million in additional delinquent loans**

- Farmer Mac identified \$4.8 million in additional delinquent loans that should have been reported as bankruptcies in its latest earnings release, according to Farmer Mac's 10-Q released August 21 by the SEC. The change puts Farmer Mac's delinquency rate for loans in which it assumes 100% credit risk at 1.45%. On July 19, Farmer Mac reported the delinquency rate was 1.35%. Farmer Mac said that all the additional delinquent loans are sufficiently collateralized and made no change to its reserves as a result of the added delinquencies, noting that the loans were correctly reported as bankruptcies in prior reporting periods. (*Dow Jones Newswire*, 8/15/02)

## *Postal Service*

**White House is taking a “serious look” at creating a Presidential postal reform commission**

**Postal Service Board of Governors calls for a Presidential postal reform commission**

**Unions and Congressman John McHugh (R-NY) oppose a commission**

- “A presidential commission may be the last opportunity the US Postal Service has to win significant reforms needed to respond to rising costs and increased competition that have left it in financial disarray,” reported Dan Davidson with *FederalTimes.com*. Davidson cited the failure of a postal reform bill that did not make it through the House Government Reform Committee as evidence. Davidson noted that since then several groups have come out in support of a commission and the White House signaled that it may be open to the idea. “We are certainly aware of the interest in [a presidential commission],” White House spokesman Taylor Griffin said August 2. “The White House feels a presidential commission is a real interesting concept, and we’re taking a serious look at it.” (*FederalTimes*, Dan Davidson, 8/12/02)
- Mailers Council Executive Director Robert McLean believes that a presidential commission is the only path to reform with the failure of the postal reform bill. “A commission is the only option available at this point,” he said. “There is no member of the House other than [Congressman] John McHugh who has expressed even an inkling of interest in writing a bill. There is no one in the Senate who has any interest in doing so. A commission is the only way to get the job done, and one could do it in as few as 15 months.” Gene Del Polito, president of the Association for Postal Commerce, stated, “At this point a commission seems a sure thing...It’s only a question of when. What other option do they have?” UPS wrote a letter June 25 to the White House supporting the commission, joining calls made by other industry groups, such as the Direct Marketing Association, the Main Street Coalition for Postal Fairness, the Newspaper Association of America and the Mailers Council. (*FederalTimes*, Dan Davidson, 8/12/02)
- Murray Comarow, a former senior assistant postmaster general of the Postal Service agreed that the White House may respond to numerous calls for a commission. However, he stated, “the [postal] unions are against it, and I would be too if I were in the union.” Some union workers are concerned that a commission might recommend privatizing the Postal Service or changing its current manner of collective bargaining. American Postal Workers Union President William Burrus is opposed to a commission and believes that the Postal Service works fine the way it is and that if the Postal Service did not provide deep discounts to mailers, it would not be in its current financial straits. The major proponent for postal reform in Congress, Congressman John McHugh (R-NY), opposes the idea of a commission, noted his spokesman Robert Taub. “A commission would only delay any needed reform. It would probably freeze any action. I don’t know if the Postal Service has time for a commission to just hang out there. It remains to be seen if there will be a commission,” Taub said. (*FederalTimes*, Dan Davidson, 8/12/02)
- Even if a commission were formed, it would still be necessary for Congress to pass legislation to authorize the reforms. However many commission supporters believe that a stamp of approval from a commission would add political weight to get a postal reform bill through Congress. (*FederalTimes*, Dan Davidson, 8/12/02)
- The Postal Service Board of Governors August 6 called for a Presidential postal reform commission. “The governors support all efforts for appropriate reform, including a commission of distinguished citizens to review all aspects of the postal system and recommend changes that ensure affordable, universal service is maintained in the future,” said Postal Service Board of Governors Chairman Robert Rider at the group’s monthly meeting in Washington, DC. “We also continue to encourage members of Congress to adopt

legislative change which need not await the recommendations of such a commission.” (*GovExec.com*, Matthew Weinstock, 8/6/02; *USPS press release*, 8/6/02)

### **Senator Tom Carper (D-DE) plans to introduce postal reform legislation next year**

- Senator Carper plans to introduce postal reform legislation next year. Speaking at the National Association of Letter Carriers annual meeting in Philadelphia, Senator Carper said he hopes to build a strong bi-partisan coalition and move quickly on a bill. Senator Carper plans to introduce legislation identical to legislation introduced by Congressman John McHugh (R-NY), according to congressional sources. Given the difficulty of passing postal reform legislation, reform proponents are pushing for a president postal reform commission. Senator Carper is skeptical of a commission, raising concerns that it could delay the process and that presidential commissions are too political and have a predetermined outcome. (*GovExec.com*, Matthew Weinstock, 8/21/02)

### **Postal Service’s Chief Financial Officer reports that letter mail volume alone has not provided sufficient revenue to fund postal operations**

#### **Postal Service expects to borrow less money from the Treasury than they had anticipated (earlier estimates were \$1.6 billion)**

- At the August 6 Postal Service Board of Governors meeting, the Postal Service’s Chief Financial Officer Richard Strasser presented a cost and revenue report for FY 2001 that demonstrated that letter mail volume alone has not provided sufficient revenue to fund postal operations. “We have relied on revenues from all mail product categories and services to pay for the cost of the expanding postal system,” said Strasser. Since Postal Reorganization in 1971, the Postal Service has generated just over a trillion dollars in revenue. Expenses during that period have been within six-tenths of one percent of revenue. “This is a result of efficient operational management and prudent financial planning,” noted Strasser. “Without the contributions of Priority Mail, Express Mail, Special Services and the other classes, we could not have met our break-even mandate on letter mail revenue alone.” A comparison of the weighted average price of letter mail rates in Western Europe nations showed that Europeans paid 49 cents for letter mail service. (*USPS press release*, 8/6/02; *DM News*, Melissa Campanelli, 8/7/02)
- In other business, a decision on the 2002 Borrowing Resolution was postponed until the September meeting to more closely examine the amount needed. The Postal Service has a \$15 billion borrowing limit. With the Postal Service’s action to hold down expenses and the freeze on capital expenditures, it is expected that the borrowing request will be less than that forecasted at the beginning of the fiscal year. The Postal Service had estimated it would borrow about \$1.6 billion. (*USPS press release*, 8/6/02; *DM News*, Melissa Campanelli, 8/7/02) Strasser noted the Postal Service had shed enough jobs in the past 10 months to avoid borrowing as much money from the Treasury as projected to pay for pensions and health care. In response to the estimated deficit of as much as \$3 billion for FY 2002, ending September 30, the Postal Service has cut 20,400 career employee jobs through attrition since October, according to Strasser. “The good news is that we will not be borrowing what was estimated a year ago to be a \$1.6 billion need,” he said, without specifying the new amount. “We’ve been able to prohibit additional expenses.” (*Bloomberg*, Bill Murray, 8/6/02)
- The Postal Service Board of Governors also approved market-based pricing for the Confirm® tracking service. Confirm’s technology provides customers with information about where their letters or flats are in the mail system. Beginning September 22, 2002, a three-tiered flexible pricing structure for flat- and letter-mail tracking will enable senders or recipients to follow mail as it passes through the automated mail stream. (*USPS press release*, 8/6/02; *DM News*, Melissa Campanelli, 8/7/02)

- The Board of Governors also announced the signing of a strategic alliance agreement with AuthentiDate to be the provider of the Postal Service's Electronic Postmark® (EPM) service. EPM service offers a service similar to postmarking physical mail – in that it validates the existence of a document at a specific date and time. The Postal Service and AuthentiDate are targeting EPM at the financial services industry, the government and healthcare industry. No prices were available, but AuthentiDate said it would be transaction-based, with volume discounts. The service will be available in mid-October in Washington. (*USPS press release, 8/6/02; DM News, Melissa Campanelli, 8/7/02*)
- Other news included funding approval for a new 34,251-square-foot Fairfax, Virginia Main Post Office. (*USPS press release, 8/6/02; DM News, Melissa Campanelli, 8/7/02*)

**Postal reform bill failed because it would not have solved the problems with the Postal Service, says direct marketing consultant and past chairman of the Association for Postal Commerce Cary Baer**

- In a July 30 *DM News* commentary, Cary Baer noted that the reason a recent postal reform bill did not make it out of the House Government Reform Committee “was a lack of mailing industry support, and justifiably so... It would have done little to solve the serious problems facing the US Postal Service.”
- “The bill appears well-crafted and would suit a postal service well, if the postal service were not in crisis,” said Baer. He noted that the Comptroller General of the General Accounting Office David Walker testified to Congress that the Postal Service's business model is broken. “It appears that to the authors of the bill, the major problem facing the USPS is the long, laborious and contentious process the service has to go through to raise rates. The bill's solution was to let the USPS raise rates with a minimal regulatory process, as long as the increase is less than CPI. Furthermore, it would establish a postal study commission and give it 2 ½ years to report its findings. It seems the authors of the legislation do not think anything is broken.” Baer concluded, “No one can speak for the mailing industry, but it is my impression that many, if not a majority, would agree with Walker that the business model is broken. Through the USPS is having some success in reducing its labor component, much more is needed. Real reform will require changes in the postal service's cost structure, not just a simplified rate increase process. The mailing industry needs to strongly voice its specific vision for a postal service of the future.” (*DM News commentary by Cary Baer, 7/30/02*)

***PostalWorkersOnline* editorial says the Postal Service needs to “Get Up to Speed, and Quick”**

- In a *PostalWorkersOnline* editorial, T.L. Righter wrote, “USPS should forget about the Segway and convert all routes to curbside and centralized delivery. The Postal Service is fighting a battle it cannot win. An army of letter carriers, clad in polyester, trudge door to door each day delivering the nation's mail. Their speed? About 2.5 miles per hour! Meanwhile, inside the homes and businesses of America, E-mail and other electronic communications zip along the nation's information superhighway literally at the speed of light - 186,282 miles per second. It gives a whole new meaning to the term ZIP.”
- Righter concluded, “The Postal Service needs to transform and get up to speed quick. Converting all existing walking deliveries to curbside and centralized deliveries is a step in that direction. It's one of the few operational options that currently exists for the USPS to pursue, now that postal reform at the political level is currently dead in the water. Politically speaking, the move to total mounted delivery is probably the least politically charged of the several ‘major’ options available to the USPS...Converting all routes to mounted deliveries would be beneficial to the Postal Service, to letter carriers, and to postal customers. The Postal Service would realize greater efficiencies, letter carriers would realize better working conditions, and postal customers would potentially realize earlier and more consistent delivery times.” (*PostalMag.com, PostalWorkersOnline, T.L. Righter, 8/02*)

***Times Record News* (Wichita, KS) says the Postal Service's \$25 million sponsorship of the Tour de France was excessive given the Postal Service's financial problems**

***Lake Worth Herald* submits FOIA request to find out how many postal managers, spouses, and consultants went overseas during the Tour de France**

- In an August 7 editorial, the *Times Record News* noted that it is difficult to tell whether the Postal Service's \$25 million sponsorship of the Tour de France had any impact on the impression Americans have of the Postal Service. "Given the uncertainties involved, spending \$25 million on the event does seem wasteful," said the editorial. "It's particularly questionable given the fact that the postal service is not exactly flush with money. Weighing the cost versus the benefit, we'd say the postal service erred in spending \$25 million on a bike race across Europe." The editorial added, "But, that error pales in comparison to some of the doozies pulled off by the service's top managers. How could they possibly believe it was OK to give themselves \$164 million in bonuses after a year during which they lost money?" The editorial concluded, "The postal service is supposed to be run like a business, but a good business, not an Enron." (*Times Record News*, 8/7/02)
- *Lake Worth Herald's* Leonard Saffir used an August 16 article to make a Freedom of Information (FOIA) request to the Postal Service. In an open letter to Postmaster General John Potter, Saffir wanted to know how many postal managers, spouses, consultants, etc. went overseas during the Tour de France. "The information is for taxpayers, who have paid the bills and, accordingly, have a right to know. I don't want your business secrets, just the knowledge of how the USPS spent our money going to and in France," wrote Saffir. He further noted that the *Lake Worth Herald's* editor formally sent a request for information to the Postal Service in compliance with FOIA regulations.
- Saffir, who has covered postal whistleblowers for some time, called the Postal Service's sponsorship "wrong." He noted, "If did absolutely nothing to clean up the mess that plagues the US Postal Service today...In fact, internally, it hurt." He added, "Why...would an organization that is 'hemorrhaging money,' ...spend upwards of \$25 million sponsoring a cycling team?" USPS spokespeople claim the Postal Service is only doing what other companies do. Saffir responded, "Hog wash...The difference between other companies and the post office is they can afford to do what they are doing. The post office can't even support a Little League baseball team. Plain and simple...the USPS is in worse shape today than Enron, World Com, Global Crossing." (*Lake Worth Herald*, Leonard Saffir, 8/16/02)

**President signs the recess appointment of Tony Hammond to the Postal Rate Commission**

**President Bush appoints Ruth Goldway for another term as Commissioner of the Postal Rate Commission**

- President Bush signed the recess appointment of Tony Hammond to be a Member of the Postal Rate Commission. President Bush announced the intention to nominate Hammond on November 30, 2001, and his nomination was sent to the Senate on March 4, 2002. (*White House press release*, 8/6/02) Hammond was the owner and managing member of T. Hammond Company, in Arlington, VA. He held various positions at the Republican National Committee from 1994 to 1999, including Political Director. Hammond was Director of the Missouri Republican Party from 1990 to 1994, and the Legislative Director for Congressman Gene Taylor from 1979 until 1989. (*White House press release*, 11/30/01)

- President Bush nominated Ruth Y. Goldway, of California, to an additional term to be a Commissioner of the Postal Rate Commission for the term expiring November 22, 2008. The nomination was referred to the Senate Governmental Affairs Committee. (*Senate nominations in Committee; PostalWatch.org Web site*)

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