

The **GSE** REPORT™

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Major Events

Congressmen Chris Shays (R-CT) and Edward Markey (D-MA) introduce a bill (HR 4071) that would repeal Fannie & Freddie's exemption from Securities and Exchange Commission (SEC) registration requirements

House Capital Markets Subcommittee Chairman Richard Baker (R-LA) commends the lawmakers for introducing the bill

Fannie & Freddie oppose the bill

Fannie & Freddie are the only two Fortune 500 companies not subject to SEC disclosure and registration rules

Citizens Against Government Waste (CAGW) suggests Fannie & Freddie should be subject to SEC disclosure rules

- Congressmen Shays and Markey introduced a bill (HR 4071) on March 20 that would repeal Fannie and Freddie's exemption from SEC registration requirements. (*National Mortgage News Daily Web site*, 3/21/02)
- "There's no way I know of to defend the special privilege" for Fannie and Freddie, that other publicly traded companies do not enjoy, Congressman Shays said. (*American Banker*, Michele Heller and Rob Garver, 3/21/02) "For me, a Fortune 500 company needs to be following the rules like everybody else," Congressman Shays said in an interview. "They are traded in the marketplace, and it's important that people know what they're buying." (*Washington Post*, Kathleen Day, 3/21/02) "While there was justification for this type of exemption when these entities were part of the federal government, there is no excuse for private, investor-owned corporations to be exempted out of these important investor protection requirements," said Congressman Markey. (*Housing Affairs Letter*, 3/29/02) A spokesman for Congressman Markey said that requiring Fannie and Freddie to adhere to the SEC's disclosure rules further ensures that everything that needs to be disclosed is being disclosed. Repealing that exemption would also help remove their perceived federal guarantee, he said. "It does take away something that was a special exemption for them," he said. "It helps to the extent that people start reviewing them as just a regular company." (*Dow Jones Newswire*, Dawn Kopecki, 3/29/02)
- Congressmen Shays and Markey issued a joint statement on HR 4071 on March 21. "Every other Fortune 500 company in the United States is required to disclose its financial transactions to the Securities and Exchange Commission," Congressman Shays said. "This disclosure is paramount to maintaining transparent markets and providing investors with the accurate and timely information they need to make informed financial decisions. The exclusion of Fannie Mae and Freddie Mac from federal securities laws flies in the face of good corporate practice. Our legislation simply brings Fannie and Freddie in line with other firms, and gives investors access to vital information," Congressman Shays said. "I'm pleased to join in introducing this bill to repeal the exemptions that Fannie Mae and Freddie Mac have had from the registration and financial reporting provisions of the federal securities laws," Congressman Markey stated. "While there was justification for this type of exemption when these entities were part of the federal government, there is no excuse for private, investor-owned corporations to be exempted out of these important investor protection requirements." (*Statements of Congressman Christopher Shays and Ed Markey on Introduction of HR 4071*, 3/21/02)

- A “Dear Colleague” letter sent by Congressmen Shays and Markey to fellow Congressional Members noted, “Bringing these two corporations in line with all other companies with publicly traded stock would increase transparency, reduce systemic risk and enhance investor protection – without compromising the housing mission of these two government sponsored enterprises (GSEs).” Another letter sent on March 22 to House Financial Services Committee Chairman Michael Oxley (R-OH) by Congressman Bob Ney (R-OH) urged caution in taking on such a task, worrying about potential damage to US housing markets. “At the present time, there is no public policy concern that will be addressed by repealing the long-standing GSE exemption from SEC registration,” wrote Congressman Ney. “Fannie Mae and Freddie Mac currently disclose more than is required by the SEC rules and, in comparison to other financial services companies, are far more transparent in the capital markets.” (*Dow Jones Newswire*, Dawn Kopecki, 3/29/02)

Congressman Baker commends the lawmakers for introducing the bill

- In a March 22 statement, Congressman Baker said he commends Congressmen Shays and Markey “for showing leadership on this issue and for introducing this bill.” Congressman Baker stated, “I think it’s very significant, because it demonstrates that a growing number of lawmakers, from both sides of the aisle, are taking a close look at these government-assisted companies and working toward regulatory adjustments that protect the taxpayers’ pockets.” He added that he looks forward “to working actively and closely with them on this disclosure issue and on other GSE issues in the days ahead.” (*Congressman Baker press release*, 3/22/02)

SEC Commissioner Pitt’s statements about GSEs’ SEC exemption

- SEC Commission Chairman Pitt was asked on March 20 by Congressman Shays at an Enron-related hearing in the House Financial Services Committee if the SEC still adheres to a 1992 Treasury-Federal Reserve-SEC report on the government securities market that recommended among other things, that the GSEs’ exemption from the federal securities laws be repealed. According to a transcript of the hearing, Pitt replied to Shays as follows: “We have not changed our general position. But we have not refocused on it. I will say in this day and age I believe transparency has to be the order of the day. To the extent the exemptions provide less than transparency, which I believe is the case, I believe at least that portion has to be removed. Frankly, I could care less whether the GSEs pay registration fees or things of that nature. But I do believe that disclosure is critical for the GSEs, as well as for other public companies.” (*Dow Jones Newswire*, John Connor, 3/21/02; *Dow Jones Newswire*, Dawn Kopecki, 3/21/02; *Federal News Service, Transcript of Panel I of House Financial Services Committee hearing on Accounting Standards and the Enron Collapse*, 3/20/02)
- Fannie said it started receiving phone calls after Pitt’s statement and in turn called the SEC to inquire about what Pitt said and what he meant. Fannie’s Chairman Franklin Raines, who was also testifying at the hearing, told reporters afterward that he thought Pitt’s comments were misunderstood, and expected the SEC to make a clarifying statement. The SEC issued a clarification statement saying Pitt had told Congress that as a matter of principle, all publicly traded companies, including GSEs, should meet the highest standards of disclosure and transparency, but that “neither Chairman Pitt nor the commission is advocating any change in the legal status of GSEs.” As John Connor with *Dow Jones Newswire* noted, “Pitt reportedly missed the reference to the 1992 report and its recommended legislation in the question to which he responded on Capitol Hill.” (*Dow Jones Newswire*, John Connor, 3/21/02) In an interview with the *Washington Post* on March 20, Pitt elaborated further. “I indicated to the committee that any corporation that raises funds from the public must adhere to the highest standards of transparent disclosure,” he said. “That was as far as I went.” (*Washington Post*, Kathleen Day, 3/21/02)

- A spokeswoman for the SEC said that the SEC has not seen a copy of the Shays-Markey bill and would not comment unless asked to testify before Congress. (*Reuters*, 3/21/02)

Fed's statements about the bill

- The Federal Reserve, which joined in the 1992 Treasury-Federal Reserve-SEC report recommending Fannie and Freddie's SEC exemption be eliminated, has not reviewed the matter since the 1992 report but has seen no evidence that the facts have changed in any material way in the last 10 years, a Fed spokeswoman said. The Treasury Department is understood to believe that it is appropriate to review any such securities law exemptions. And significant sentiment seems to exist in the White House for comparable securities law treatment for publicly traded companies. (*Dow Jones Newswire*, Dawn Kopecki and John Connor, 3/25/02)

Fannie & Freddie oppose the bill and say they will voluntarily disclose more

- Strict adherence to SEC registration requirements would overwhelm the SEC's capacity and "seriously disrupt" the secondary market, Freddie's spokeswoman Sharon McHale said. "Freddie Mac exceeds the disclosures SEC requires today," she said. "So this seems to be nothing more than a politically motivated bill on the part of FM Watch." (*National Mortgage News Daily Web site*, 3/21/02) A Freddie spokeswoman warned that mandatory disclosure would increase mortgage costs for most homebuyers and questioned the agency's ability to effectively review the huge amount of securities both firms issue each year. (*National Mortgage News*, 3/25/02)
- Fannie's spokesman Robert McCarson said it would "disrupt the housing finance market" if Fannie had to register each security. Fannie issued 40,000 MBS last year. "For example, homebuyers will no longer be able to lock in their mortgage, or they will have to pay a handsome price," he claimed. "And lenders will have to become underwriters of our MBS." (*National Mortgage News Daily Web site*, 3/21/02) A Fannie spokesman said Fannie's "disclosure regime, including our voluntary transparency initiatives, go beyond what the SEC requires in terms of quantity, quality, frequency, and ease of use." (*National Mortgage News*, 3/25/02)
- On March 20, Fannie said it would disclose on its Web site beginning in April purchases and sales of the company's stock by its top executives. On March 19, Freddie said it would post the information on its Web site, although it said it has always disclosed the information to investors who called. Companies that register with the SEC have had to make those disclosures for years. (*Washington Post*, Kathleen Day, 3/21/02) Fannie currently prohibits company insiders, top executives and members of key boards, from trading its stock during most of the year. Insiders have a brief window of time to buy or sell shares immediately after Fannie's quarterly earnings are released, said Fannie's Chairman Franklin Raines. Fannie's first insider transactions will be posted on the company's Web site shortly after it releases its next earnings report in April, he said. (*Dow Jones Newswire*, Dawn Kopecki, 3/20/02) Fannie's executives are currently exempt from insider trading reporting requirements under the GSE's congressional charter. However, Fannie requires executives to report trades internally, and then shares that information with its safety and soundness regulator, the Office of Federal Housing Enterprise Oversight (OFHEO), Raines said. (*Reuters*, 3/20/02)

CAGW suggests Fannie & Freddie be subject to SEC disclosure rules

- As noted in the March 15, 2002 *GSE Report*, CAGW Vice President Leslie Paige noted the following: "Fannie and Freddie are the only two Fortune 500 companies not subject to Securities and Exchange Commission disclosure rules. The GSEs are overseen only by a weak and inadequate regulator" at OFHEO. "If Fannie and Freddie really are such 'glass boxes,' why won't they subject themselves to SEC disclosure standards? They claim this will cost too much money, but this congressionally

chartered corporation makes huge profits. If they continue to require taxpayer underwriting, they should be at least as accountable and transparent as private corporations.”

- “In the wake of Enron mess, taxpayers and their representatives in Congress should remember that Wall Street analysts were giving Enron the buy sign two weeks before that company went up in smoke,” Paige said. “Fannie and Freddie have combined debt of \$1.26 trillion, up from \$518 billion in 1997, which makes for an annualized growth rate of nearly 25 percent. The two combined outborrowed the U.S. Treasury by \$1.1 trillion in 2001. All together, according to the Office of Management and Budget, the GSEs’ outstanding obligations total \$3.1 trillion.”
- “As President Bush has correctly noted recently, Fannie and Freddie have rapidly expanding liabilities that create ‘a potential problem.’ These liabilities are particularly worrying as Fannie and Freddie have sharply increased their use of derivatives...to hedge risk. The great concern is that taxpayers will be left standing with some or all of these debts when the music stops. Before it’s too late, Fannie and Freddie should come clean,” Paige concluded. (*PR Newswire*, 3/1/02)

1992 joint report by Treasury, Federal Reserve, and SEC recommended removing Fannie & Freddie’s SEC exemption

- According to John Connor with *Dow Jones Newswire*, in early 1992, in the wake of the Salomon Brothers Treasury bond scandal, the Treasury, Federal Reserve and SEC issued a joint report on the government securities market, which supported legislation removing the exemptions from the federal securities laws for equity and unsecured debt securities of GSEs such as Fannie and Freddie. The proposal would have required GSEs to register such securities with the SEC. (*Dow Jones Newswire*, John Connor, 3/20/02)
- During the investigation, Salomon admitted overstating the amounts of GSE securities sold when it reported sales to the GSEs. The SEC investigated and found that the amount of customer orders reported to the GSEs by their selling group members far exceeded the amount of securities available. This reportedly was done by dealers in a bid to get hefty allocations of bonds, and involved alleged books and records violations. (*Dow Jones Newswire*, John Connor, 3/20/02)
- The SEC went after about 100 dealers (bank regulators went after a couple bank dealers). Some dealers were highly irate, insisting privately that the GSEs knew all about the practices in question and that the GSEs didn't complain because those practices helped get their paper into the hands of investors. The GSEs insisted they knew no such thing, and, to varying degrees, acted like aggrieved parties. In the aftermath of the 1992 report, the recommendation to repeal the GSE-securities law exemptions went nowhere on Capitol Hill. Then-SEC Chairman Richard Breeden pitched the idea to Congress and through the Administrative Conference of the United States, to no avail. The SEC reportedly received a deluge of communications opposed to the idea on the view, advanced by Fannie and Freddie, that the GSEs already had impeccable disclosure and that to subject them to SEC registration fees would be a new tax on housing. (*Dow Jones Newswire*, John Connor, 3/20/02)
- Over the years, the Congressional Budget Office has listed the option of requiring all GSEs to register with the SEC in its annual listing of spending and revenue options. CBO noted in one report: “Requiring issuers to register their securities with the SEC protects investors by ensuring that all offerings are accompanied by disclosures of uniform information. GSEs were originally exempted from the requirement in part to relieve them of the cost of registering until they became accepted names in the marketplace. That rationale no longer applies: the five exempt GSEs are well known in financial markets. Repealing the exemption would not impose significant additional regulatory

burdens on those GSEs because they now disclose most of the required information voluntarily. Moreover, it would reduce the competitive advantages that the enterprises have over other firms that finance loans by issuing debt or mortgage-backed securities. A more level playing field would likely lead to a more efficient allocation of credit.” (*Dow Jones Newswire*, John Connor, 3/20/02)

Treasury Department is expected to release its policy on Fannie & Freddie this summer

Capital Markets Subcommittee Chairman Richard Baker (R-LA) is waiting for the Treasury Department’s plan before he takes any initiatives on the GSE issue

New GSE legislation may be introduced in the summer

- The Bush Administration will release its policy on the GSEs at a hearing this summer, said a spokesman for Congressman Baker. Treasury Department officials are expected to formally release their views on the financial operations of Fannie and Freddie and make any recommendations the administration may have for reforming the way the GSEs are regulated. Treasury’s formulation of a GSE policy is a response to discussions between Treasury Secretary Paul O’Neill and Congressman Baker regarding the safety and soundness of the GSEs, the spokesman said. (*BNA Daily Report for Executives*, 3/20/02)
- Congressman Baker still has grave concerns about the government’s regulation of Fannie and Freddie but is waiting for the release of the Treasury Department’s policy before taking any new initiatives. Congressman Baker said that he has met with Treasury Secretary Paul O’Neill and Under Secretary Peter Fisher “to get the administration to formulate a GSE policy. I have asked them to do it and prepare it for mid-year.” (*National Mortgage News*, Brian Collins, 3/25/02)
- Congressman Baker spoke to *National Mortgage News’ MW* after informing the Consumer Federation of America (CFA) that he has not withdrawn from the “battle” to improve the regulation of Fannie and Freddie and that although his current priorities involve Enron-related reform and insurance issues, he is still involved in GSE reform. “I can assure you we will return with the same vigor and interest in that subject as I have demonstrated in the past,” he said. Congressman Baker said he would like to hold the GSE hearing after the Office of Federal Housing Enterprise Oversight (OFHEO) has announced the results of its risk-based capital (RBC) requirements for Fannie and Freddie. [OFHEO is expected to release the results in June 2002. (*National Mortgage News*, 12/17/01)] Congressman Baker said he has waited 12 years for OFHEO to run the RBC stress test, and he compared OFHEO to a contractor who takes 12 years to paint a house, which is one reason he takes a “dim view” of OFHEO, he told the CFA. (*National Mortgage News Daily Web site*, 3/15/02) Congressman Baker warned consumer advocates that the failure of Enron has had little impact on the economy, except for the employees and investors. However, the failure of the GSEs would have a huge impact and the taxpayers would be responsible for the losses. “It is not clearly understood by most Americans that if GSEs make a profit they get to keep it. But if they lose money, you get to pay the bill,” he said. (*National Mortgage News*, Brian Collins, 3/25/02)
- Congressman Baker’s spokesman indicated that there is likely to be new legislation introduced this summer to address how the GSEs are regulated, but “not necessarily” offered by Congressman Baker. (*BNA Daily Report for Executives*, 3/20/02)

Wall Street Journal editorials raise concerns about Fannie & Freddie

March 19 editorial raises concerns about Fannie & Freddie's corporate governance and their exemption from SEC requirements

“Fan and Fred don't function like other companies. The two biggest mortgage holders in the country are allowed to pile up debt, implicitly guaranteed by taxpayers, without being held to even the minimum of corporate governance standards that every other publicly traded company has to observe. Sooner or later this is asking for trouble.”

April 2 editorial commends Fannie for improving its financial disclosures but suggests that the GSE address another issue of corporate governance (direct accountability to shareholders); contends Fannie's Chairman Franklin Raines and the GSE are making progress but still “have a ways to go”

March 19 *Wall Street Journal* editorial

- A March 19 *Wall Street Journal* editorial raises concerns about Fannie and Freddie's corporate governance – the standards that their boards of directors and senior management follow in order to be accountable to shareholders.
- The *Journal* noted that transparency is the “mother lode for investors” and that the chief mechanism for transparency is the Securities and Exchange requirement that all public companies with more than \$10 million in assets file periodic reports disclosing their financial information. The *Journal* noted, “One of the most closely watched events is the quarterly record of insider trading in company stock. This information is crucial because studies have shown that net buying or selling by those with intimate knowledge of their company is an excellent indicator of future prospects.” **However, the *Journal* pointed out that investors in Fannie and Freddie won't be able to find that information on the SEC's Edgar database, as investors would find with other publicly traded companies, because Fannie and Freddie are not required to file quarterly insider trading forms with the SEC.**
- **“This nifty loophole is only part of the duo's sweet deal. For instance, Fan and Fred don't have to register their securities...While other companies have to tell prospective investors about their properties and business, describe the securities they are offering for sale and disclose information about their management, Fan and Fred just go right into the marketplace. No Edgar disclosure for them. Except in the case of fraud, Fan and Fred are not subject to SEC enforcement or action based on violations of securities laws.”**
- The *Journal* further noted that both Fannie and Freddie have 18 directors on their boards, five of whom are political appointees made by the President. Recently, the GSE's safety and soundness regulator – the Office of Federal Housing Enterprise Oversight – examined the GSEs' corporate governance standards and “found they weren't up to snuff.” OFHEO then published a proposed corporate governance rule “to bring the duties and responsibilities of their directors in line with other financial institutions. The proposal covered such routine matters as what kind of quorum the boards must have, what a written conflict-of-interest standard should entail, and what sort of indemnification the agencies can offer directors who might engage in naughtiness. Hardly a big deal, and no more than what directors of banks and other regulated financial institutions are subject to.”

- “A funny thing then happened. This modest proposal caused the five presidential appointees to Fan's board to go more or less berserk. They wrote a cranky letter to OFHEO, complaining, among other things, that the new rule would tighten indemnification against litigation and calling such a limitation ‘unreasonable.’ These warriors of the shareholders’ interest also suggested that any increase of liability for wrongdoing might make it difficult to attract directors and asked OFHEO to withdraw its proposal.”
- **The *Journal* concluded, that the “point all of this makes, and the point we’ve been trying to make all along, is that Fan and Fred don't function like other companies. The two biggest mortgage holders in the country are allowed to pile up debt, implicitly guaranteed by taxpayers, without being held to even the minimum of corporate governance standards that every other publicly traded company has to observe. Sooner or later this is asking for trouble.”** (*Wall Street Journal* editorial, 3/19/02)

April 2 *Wall Street Journal* editorial

- The *Wall Street Journal* wrote an editorial in response to Fannie’s recent announcement of improving their financial disclosures. [More details on the disclosures in this *GSE Report*.] The *Journal* congratulated Fannie’s Chairman Franklin Raines for taking steps to improve Fannie’s financial disclosures but still had a few questions about the company's accountability procedures.
- The *Journal* noted that Fannie announced disclosure rules for its financial derivatives and agreed to disclose the insider stock trades of top managers and board members on its Web site. The *Journal* called both “welcome steps” and the *Journal* was especially pleased to see a promise by Fannie to disclose the details of the GSEs’ net derivative exposure, including collateral positions and the financial condition of its counterparties.
- The *Journal* wondered whether these moves would “help to derail demands for disclosure already building in Congress.” For example, Congressmen Shays and Markey recently introduced a bill that would make Fannie and Freddie subject to SEC registration and disclosure requirements and the *Journal* noted that at a recent House hearing, SEC Chairman Harvey Pitt argued that Fannie and Freddie ought to be subject to the same disclosure rules as other publicly traded companies. “No doubt these folks will join us in monitoring what exactly Fannie does disclose down the road before we all jump for joy.”
- The *Journal* added that Raines should now address another issue of corporate governance: director accountability to shareholders. “Consider conflict of interest. One such conflict arises when a board member has another relationship with the same company.” According to Fannie’s 2000 proxy statement, one of Fannie’s outside directors was paid \$375,000 for consulting services.
- The *Journal* added that excluding the five directors appointed by the President on Fannie’s board, “four of 13 are more political than corporate types...Since companies typically want directors with experience directly useful to their business, we have to wonder if the main business of Fannie is not financial but political.”
- The *Journal* noted that the five presidential appointees to Fannie’s board is “strange for any private company. But maybe not so strange for a company that, despite being publicly traded, is also government-sponsored and Congressionally chartered. Maybe its main business really is politics because, after all, Fan depends on a special relationship with the government.”

- American Enterprise Institute’s Peter Wallison recommended that Fannie’s presidentially appointed directors be obligated to serve taxpayers, which would relieve them of the normal private-company fiduciary duty to maximize shareholder value. Instead, their duty would be to ensure that the entire taxpayer subsidy is passed on to homebuyers and that Fannie's financial practices do not put taxpayers at risk. The *Journal* stated, “This constitutes an odd kind of corporate governance, we admit, but we are talking about an odd kind of company. **Fan and Fred make private profits but with public risk, and as our editorials have noted they are taking on more risk and debt all the time. Fannie and Mr. Raines are making progress, but they still have a ways to go.**” (*Wall Street Journal* editorial, 4/2/02)

Peter Wallison, Resident Fellow at AEI

- In an April 2 *Wall Street Journal* Letter-to-the-Editor, American Enterprise Institute Resident Fellow Peter Wallison noted that five members of the boards of each of Fannie and Freddie are appointed by the president. “Whom do you suppose they were intended to represent? Clearly it is not the shareholders. Why would the president be given the unusual authority to appoint directors of these companies unless it was to look after the interests of the government and the taxpayers?”
- Wallison sent a memo to OFHEO several weeks ago “suggesting it include in its next set of corporate governance regulations a direction to the presidentially appointed directors of Fannie and Freddie that in the future they represent the government and the taxpayers, which are of course distinct from the interests of the shareholders. Thus far, I have had no reply, but perhaps your editorial -- which points out how little the current presidentially appointed directors understand their proper role -- will stimulate some action.” (*Wall Street Journal Letter-to-the-Editor*, Peter Wallison, 4/2/02)

Senator Kit Bond (R-MO) criticizes OFHEO and does not want to remove OFHEO from the appropriations process

Other federal financial regulators are not subject to the appropriations process

The Bush Administration, Congressman Richard Baker (R-LA), Citizens Against Government Waste (CAGW), National Taxpayers Union (NTU), and the Mortgage Bankers Association (MBA) support removing OFHEO from the appropriations process

OFHEO – the Office of Federal Housing Enterprise Oversight – is Fannie & Freddie’s safety and soundness regulator

- In a March 12 letter to Office of Management and Budget Director Mitch Daniels, Senator Bond – the Ranking Republican Member on the Senate Appropriations Subcommittee with jurisdiction over OFHEO - warned that removing OFHEO from the appropriations process would reduce Congress’ ability to oversee OFHEO’s implementation of its risk-based capital rule for Fannie and Freddie. (*BNA Daily Report for Executives*, Adam Wasch, 3/28/02)
- OFHEO Director Armando Falcon has repeatedly called for OFHEO to be removed from the appropriations process and given authority to control its own budget. OFHEO currently is funded, not by taxpayer money, but by assessments on Fannie and Freddie. OFHEO’s funding, however, is subject to Congressional approval. Other federal financial regulators, such as the OCC and OTS, are not subject to the appropriations process, and thus, simply collect their fees directly from the banks and thrifts they supervise, without Congressional approval. (*BNA Daily Report for Executives*, Adam Wasch, 3/28/02)

- Senator Bond called OFHEO a “troubled office that has largely failed to meet it[s] primary mission of establishing in a timely manner effective risk-based capital requirements” for Fannie and Freddie. Senator Bond noted that OFHEO was created in 1992 and the regulator has spent “10 years not meeting this primary mission, and I believe there are significant concerns that the new [risk-based capital] regulations still do not provide the necessary guidance and requirements.” Senator Bond added, “this Administration needs to reverse the failings of OFHEO.” (*Senator Bond letter to OMB Director Daniels, 3/12/02; American Banker, Robert Julavits, 3/27/02*)
- “I believe it is critical that we have a Director at OFHEO who has the confidence of Congress as well as the necessary expertise and background to ensure that OFHEO can meet its primary mission goal of issuing effective risk-based capital regulations,” Senator Bond wrote. He said he also has “continuing concerns about how the proposed new regulations will operate, including their impact on the amount of capital that the GSEs must hold, the possible impact on the price of homeownership, and the possible impact on financial markets and the housing industry.” Senator Bond said he is also “concerned by OFHEO’s continuing efforts to expand its mission” and he is “troubled by OFHEO’s proposal to issue research papers on GSE financial issues.” Finally, he noted that OFHEO “has failed to meet the spirit, if not the letter, of the law, in its efforts to provide a staffing plan to the House and Senate Committees on Appropriations by January 30, 2002, as required by the VA/HUD FY 2002 Appropriations Act.” (*Senator Bond letter to OMB Director Daniels, 3/12/02*)

OFHEO’s comments

- OFHEO Director Armando Falcon believes that removing OFHEO from the appropriations process would increase its ability to regulate Fannie and Freddie. Falcon claims that OFHEO has met its statutory obligations “often times without the full resources we had requested.” Falcon stated, “I look forward to working with Senator Bond to allay his concerns and seek his support for the resources and permanent funding we have requested.” (*BNA Daily Report for Executives, Adam Wasch, 3/28/02*)

Others support removing OFHEO from the appropriations process

- As noted in the February 8, 2002 *GSE Report*, the Administration recommended in its FY 2003 budget that OFHEO be removed from the appropriations process. The budget stated, “**In order to treat OFHEO similarly to other financial regulators, including the regulator of the Federal Home Loan Bank System, the Budget proposes legislation that would provide direct funding of OFHEO’s activities with mandatory assessments on Fannie Mae and Freddie Mac.**” (*Budget of the United States Government, Fiscal Year 2003 - Appendix, p. 518*)
- As noted in the March 1, 2002 *GSE Report*, Capital Markets Subcommittee Chairman Richard Baker (R-LA) supports removing OFHEO from the appropriations process. (*Cong. Baker press release, 2/13/02*)
- CAGW also praised the administration’s recommendation to provide greater resources and independence to OFHEO. “The president deserves taxpayers’ appreciation for pursuing this issue and trying to prevent expensive future bailouts,” said CAGW Vice President Leslie Paige. (*CAGW press release, 2/20/02*)
- As noted in the March 15, 2002 *GSE Report*, the NTU praised the Administration’s proposal to remove OFHEO from the appropriations process. The NTU said the proposal would provide a more independent, assessment-based structure for OFHEO, similar to that which exists for other financial regulatory agencies. (*NTU press release, 3/1/02*)

- The MBA supports removing OFHEO from the appropriations process. (*National Mortgage News*, 4/1/02) In a March 8 letter-to-the-editor of the *Wall Street Journal*, MBA President and CEO Jonathan Kempner said the MBA supports removing OFHEO from the appropriations process and providing HUD with the necessary resources to fulfill its regulatory duties. “Currently, the financial, political, and strategic means of the companies dwarf the capacity of their regulators,” wrote Kempner. (*Wall Street Journal Letter-to-the-Editor by Jonathan Kempner*, 3/8/02)

OFHEO plans to study Fannie & Freddie’s executive compensation

- OFHEO plans to complete during this fiscal year “an extensive study of executive compensation” of Fannie and Freddie, according to John Connor with *Dow Jones Newswire*. OFHEO said the study will be done with the assistance of an executive compensation consulting firm. An OFHEO spokeswoman said the agency has hired Buck Consultants, pursuant to a public request for proposals, and could pay the Pittsburgh-based firm as much as \$180,000. The study is expected to be completed by late summer, the spokeswoman said. OFHEO is required by law to prohibit Fannie and Freddie from providing “excessive compensation” to any executive officer. The appropriateness of Fannie and Freddie’s executive compensation is determined in part by reviewing compensation levels at comparable organizations.
- OFHEO identified the executive compensation study in its recent annual performance plan for fiscal year 2003. “The study will result in the identification of an updated peer group of comparable firms,” the plan said. “Using that peer group and other publicly available information, OFHEO will continue to monitor changes in executive compensation at the enterprises in FY 2003 to ensure that such compensation is not excessive,” it added. (*Dow Jones Newswire*, John Connor, 3/29/02)

OFHEO notes that Fannie & Freddie’s risk profile has changed in recent years

Fannie & Freddie are rapidly increasing their mortgage portfolio investments, increasing their interest rate risk

- **Fannie and Freddie have changed their business strategy in recent years in a way that “significantly alters the risk profile of the enterprises, shifting risk management from credit risk to both credit risk and interest rate risk management,”** OFHEO said in its annual performance plan for FY 2003. OFHEO noted that Fannie and Freddie have changed their business strategy over the last few years in favor of rapidly increasing their mortgage portfolio investments.
- “As a consequence, at year-end 2001, their mortgage portfolios accounted for 44% of their total mortgage business, up from 19% in 1992.” OFHEO added, “In dollar terms, the enterprises increased their mortgage portfolio holdings from \$190 billion in 1992 to \$1.2 trillion.” OFHEO noted, **“This realignment in business strategy significantly alters the risk profile of the enterprises, shifting risk management from credit risk to both credit risk and interest rate risk management.”**
- OFHEO noted that Fannie and Freddie, in response to more ambitious affordable housing goals and the shift in business strategy, have developed new business products with increasing sophistication and complexity. “Fannie Mae and Freddie Mac structured high loan-to-value mortgages to support the drive to higher homeownership, promoted the expansion of reverse mortgages for elderly homeowners, and developed the means to reach less credit-worthy borrowers,” OFHEO said.

- “The enterprises funded their expanded portfolios with complex funding strategies,” OFHEO continued. “For example, the enterprises have increased their use of derivative instruments from a notional amount of \$72 billion at year-end 1993 to \$1.6 trillion in September, 2001, representing a more than twenty-fold increase.” OFHEO added, “Each of these initiatives represents a heightening of sophistication and complexity embedded in the risk profiles of Fannie Mae and Freddie Mac.”
- OFHEO noted that Fannie and Freddie’s technology represents the foundation for the business initiatives of the GSEs, but warned that these technologies carry with them “operational challenges that not only permit Fannie Mae and Freddie Mac to leverage their resources but also heighten their operational risks.” (*Dow Jones Newswire*, John Connor, 3/29/02)

Fannie & Freddie disclose more information about their derivatives

Spokesman for Congressman Ed Markey (D-MA) says the additional disclosures are useful, but it still does not require review of that disclosure by SEC examiners

Critics say the voluntary disclosures still fail to subject the GSEs to the same disclosure requirements as other publicly traded firms

OFHEO calls the GSEs’ disclosures a “positive step”

- Under pressure from their critics, Fannie and Freddie have agreed to make additional disclosures about their derivatives. Freddie said it will disclose the number of counterparties it has on its investments in derivatives, ranking them by their credit rating. At this point, neither GSE is willing to disclose the names of their counterparties. A Freddie spokeswoman noted that no financial institution, to the best of her knowledge, discloses the identities of their counterparties. (Together, the two GSEs hold \$1.4 trillion in derivative contracts.) (*National Mortgage News Daily Web site*, 3/21/02)

Fannie

- Fannie announced on April 1, 2002 the publication of its 2001 financial Information Statement, which includes enhanced disclosures about the company’s derivatives activity and counterparty exposure. The Information Statement includes Fannie’s audited year-end financial statements and describes the business and operations of the GSE as of December 31, 2001.
- Fannie’s Chairman Franklin Raines said, “We know that being a ‘glass box’ financial institution is necessary for Fannie Mae to attract low-cost capital from around the world for affordable homeownership in the United States. Fannie Mae continues to adopt the most cutting-edge ideas on corporate transparency and financial disclosures.”
- Fannie claimed that it does not engage in trading or other speculative uses of derivatives, but instead uses derivative instruments in its core business of managing and reducing mortgage interest rate risk. These derivative instruments include interest rate swaps, basis swaps, swaptions, and interest rate caps.
- The following items, which include many of the enhanced disclosures, will be updated in Fannie’s Information Statement on a quarterly basis:
 - The company's net exposure from derivatives, showing years to maturity, cross-maturity netting, net exposure pre- and post-collateral categorized by counterparty credit rating;

- A comprehensive description of Fannie’s collateral policy, collateral agreements and how the company’s net exposure to derivative counterparties is reduced by collateral;
- A description of the types of collateral held as of December 31, 2001;
- A description of Fannie’s counterparties as well as information on actual losses due to counterparty non-performance;
- The total number of counterparties with which Fannie had derivatives transactions in place at the end of the reporting period;
- Notional, maturity, and fair value information regarding hedging instruments; and,
- Information regarding the impact of derivatives on callable debt financing. (*Fannie press release, 4/1/02*)

Freddie

- Freddie announced on April 1 the publication of its 2001 financial Information Statement, which includes enhanced disclosures about the company’s use of derivatives, risk-counterparties, and other risk management practices. Freddie claimed that the new Information Statement presents more clearly and comprehensively information about Freddie’s use of derivative financial instruments to manage interest rate risk on its portfolio of residential mortgages. Freddie claimed that the disclosure shows that Freddie uses derivatives to manage its portfolio risk and not to speculate in the capital markets. It also contained new information regarding how Freddie manages the credit risk associated with its derivatives counterparties. Freddie also claimed that its Information Statement “meets or exceeds” the SEC disclosure requirements for public companies. (*Freddie press release, 4/1/02; Dow Jones Newswire, Bill Platt, 4/1/02*)
- Freddie’s Information Statement included a new chart showing a summary by credit rating of the counterparties used in the company’s derivative transactions, the notional balance of outstanding contracts, Freddie’s total counterparty credit risk exposure, and its exposure net of collateral. Freddie also claimed that the Information Statement shows that, as of the end of 2001, the simultaneous default by all of Freddie’s over-the-counter derivative counterparties would result in a loss of \$69 million—less than one week’s worth of Freddie’s total earnings in 2001. Freddie claimed that this is an unusually low exposure, especially when compared to the risk exposures of other publicly traded financial institutions. (*Freddie press release, 4/1/02*)
- Freddie’s exchange-traded derivatives “do not measurably increase the corporation’s exposure to counterparty credit risk because changes in value of open exchange-traded contracts are settled daily,” according to Freddie. Fannie’s total exposure to counterparty default was a bit higher than Freddie’s, though still low. “Assuming the highly unlikely event that all of Fannie Mae’s derivatives counterparties to which Fannie Mae was exposed at December 31, 2001, were to default simultaneously, it would have cost an estimated \$110 million to replace the economic value of those contracts,” Fannie said. “This replacement cost represents less than 2% of Fannie Mae’s 2001 pretax income.” (*Dow Jones Newswire, Tyler Lifton, 4/1/02*)
- Other disclosures being made for the first time in Freddie’s Information Statement for 2001 include:
 - A new table that shows the quantitative benefit of derivatives on the company’s average level of portfolio market value sensitivity (a key measure of interest rate exposure) for 2001.
 - A new section that provides an in-depth discussion of Freddie’s critical accounting policies in accordance with recent SEC guidance. Specifically, this section discusses policies that concern the establishment of loan loss reserves, the determination of the fair value of assets and liabilities (including derivatives), securitization transactions, and the application of SFAS 133 to Freddie’s hedging activities.

- A new section that significantly expands Freddie’s discussion of its principal hedging strategies, including its hedges of forecasted debt issuances, foreign currency exposure, existing long-term fixed rate debt, and embedded prepayment options in its retained pass-through mortgage securities. (*Freddie press release, 4/1/02*)

Critics say the voluntary disclosures are not enough

- A spokesman for Congressman Ed Markey (D-MA) said that while the additional disclosures are useful, it still does not require review of that disclosure by SEC examiners. “We still think that it makes sense to eliminate the special exemptions that have excluded them from public reporting requirements that apply to every other company in America,” the Markey spokesman said. (*Reuters, Mark Felsenthal, 4/1/02*)
- “It’s helpful, but if it’s here today, it might be gone six months from now,” said Anne Canfield of the Consumer Mortgage Coalition. “If the public pressure is off, you wonder if they’ll continue it.” (*Reuters, Mark Felsenthal, 4/1/02*)
- Financial consultant Bert Ely said he was pleased with the GSEs’ disclosures, but he added that the rapid growth of the GSEs’ use of derivatives was still a concern, and he questioned whether there would be enough counterparties available to meet the GSEs’ demand for derivatives contracts. Both GSEs said they don’t believe they will run out of counterparties. (*Wall Street Journal, Patrick Barta, 4/2/02*) Ely called the GSEs’ disclosures “a small step in the right direction” but said Fannie and Freddie’s financial statements “still did not provide adequate information regarding their counterparty risk – only snapshots of their risk positions at the end of the year.” Ely said Fannie and Freddie are providing vastly different information on derivatives and counterparties. The lack of consistency in the GSEs’ disclosures makes it harder to understand their derivatives activities, and makes it impossible to compare them, he said. (*American Banker, Tommy Fernandez, 4/4/02*) “The GSEs’ transparency still leaves a lot to be desired,” said Ely. “Because these two entities are so much alike, there needs to be more precise disclosures for them with regard to what their off-balance sheet exposure is. And, there needs to be greater accountability.” Ely said the disclosures are “helpful,” but warned that they should not serve as a distraction from the “real issues” involved – the GSEs perceived “mission creep.” “Maybe one of the real benefits of this will not be the off-balance sheet business, but the full range of their activities,” Ely said. “But the risk is still there.” (*Real Estate Finance Today, Mike Sorohan, 4/8/02*)

OFHEO calls the disclosures a “positive step”

- OFHEO called Fannie and Freddie’s first-ever disclosures of their derivatives trading “a positive step,” according to *Dow Jones Newswire*. “Our derivatives working group will be reviewing these disclosures, which appear to be a positive step,” said OFHEO spokeswoman Stefanie Mullin. (*Dow Jones Newswire, Dawn Kopecki, 4/1/02*)
- As noted in the March 15, 2002 *GSE Report*, OFHEO has created a task force to examine Fannie and Freddie’s increased use of derivatives. OFHEO Director Armando Falcon’s primary concern is whether “the derivatives market is large enough and liquid enough” to handle the GSEs’ growth. Just eight banks and securities dealers accounted for 78% of Fannie’s \$533 billion derivatives business in 2001, according to new data released April 1, 2002. Nearly 60% of Freddie’s \$661 billion in over-the-counter derivatives contracts were with five of its largest counterparties. This isn’t unexpected since seven institutions controlled 96% of the nation’s nearly \$50 trillion derivatives contracts as of December 31, 2001, according to the Office of the Comptroller of the Currency. With seven institutions controlling nearly all of the interest rate derivatives trading in the U.S., OFHEO is also

looking at whether that poses an additional risk to the GSEs. “Beyond the transactional issues we examine, there are also broader issues,” Falcon said. “The issues related to, for instance, consolidation in the financial services industry and what that means in terms of concentration of risk if there are a limited number of counterparties that can enter into a transaction with the enterprises.” (*Dow Jones Newswire*, Dawn Kopecki, 3/13/02, 4/1/02)

- Speaking to reporters at a breakfast meeting on March 20, Fannie’s Chairman Franklin Raines defended Fannie’s use of derivatives. “Whether or not we are going to run out of derivatives is not a question,” Raines said, adding that Fannie has other financing tools available if necessary. (*Dow Jones Newswire*, Dawn Kopecki, 3/20/02) According to Raines, Fannie holds \$533 billion in interest rate derivatives contracts, of which 80 percent are interest rate instruments. “There’s no concern about liquidity in that market,” he stated. “We have vastly more capacity there than we could ever use.” (*Reuters*, 3/20/02)
- The total derivatives industry is currently valued at \$119 trillion, according to the Bank for International Settlements, however, the majority of Fannie and Freddie’s derivatives dealings are kept within the U.S. market and confined to primarily interest rate instruments. The U.S. interest rate derivatives market is considerably smaller, \$38.3 trillion in the fourth quarter of 2001, according to the Office of the Comptroller of the Currency. (*Dow Jones Newswire*, Dawn Kopecki, 3/13/02, 4/1/02)
- OFHEO noted that Fannie and Freddie’s use of derivatives has grown. Fannie and Freddie held \$1.6 trillion in derivatives in the third quarter, up from \$794 billion in 2000, according to OFHEO. Freddie is the biggest user of derivatives with notional, or contract value, of its derivatives holdings at \$1.1 trillion in the quarter, up from \$474.5 billion in 2000. Of that, \$661 billion was over-the-counter derivatives, while the remainder was primarily exchange-traded. (*Dow Jones Newswire*, Tyler Lifton, 4/1/02; *Reuters*, 3/11/02; *Bloomberg News*, Rob Wells, 3/11/02) Fannie’s derivatives grew 65% to \$533 billion at the end of 2001, up from \$324 billion 2000. OTC derivatives account for Fannie’s entire book. (*Dow Jones Newswire*, Tyler Lifton, 4/1/02)
- At the end of 2001, 74% of Freddie’s over-the-counter derivatives were with counterparties rated AA- or better. Freddie held more derivatives from counterparties rated AA- than any other credit class – a total notional value of \$260 billion in derivatives from 13 different counterparties with that rating. Freddie also held \$96 million in derivatives from a single institution rated BBB+, the lowest rated institution it held derivatives contracts with at that time. Freddie also held an aggregate \$62 million of derivatives from two counterparties rated AAA. At the end of 2001, Fannie said all of its derivatives exposure was with counterparties rated A or better by Standard & Poor’s, while 83% was with counterparties rated AA or better. Five counterparties rated A or better accounted for 98% of Fannie’s derivatives exposure. (*Dow Jones Newswire*, Tyler Lifton, 4/1/02)

America’s Community Bankers (ACB) oppose a provision in a regulatory relief bill that would allow privately insured credit unions to join the FHLBank System

National Association of State Credit Union Supervisors strongly supports the provision

- ACB urged Congressional Members to reject a provision in a regulatory relief bill (HR 3951) that would allow privately insured credit unions to join the FHLBank System. In a letter to Congressman Spencer Bachus (R-AL), Chairman of the House Financial Services Financial Institutions Subcommittee, the ACB wrote, “Every other depository institution that is a member of a FHLBank must be and is federally insured and federally regulated. This helps ensure that these institutions are

operated in a safe and sound manner, providing a substantial layer of security for the FHLBank System. In the recently enacted Gramm-Leach-Bliley Act [GLB] the Congress struck a careful balance for the System by equalizing membership requirements for all insured depository institutions and reforming the System's capital system to reflect these changes. Permitting privately insured credit unions that undergo no federal regulatory scrutiny to borrow from the FHLBank System undermines the carefully balanced decisions made in GLB." (*ACB Letter to Cong. Bachus, 3/11/02*)

- In March 14 testimony before the House Financial Services Financial Institutions Subcommittee hearing on the regulatory relief bill, the National Association of State Credit Union Supervisors (NASCUS) said they strongly support the provision that would authorize state-chartered privately insured credit unions to be eligible for membership in the FHLBanks. The NASCUS said there are approximately 375 credit unions that are non-federally insured. All of these credit unions are regulated and examined by agencies of state governments to assure that they are operating in a safe and sound manner. They claimed that permitting non-federally insured institutions to join the FHLBank System would not establish a new membership principle for the FHLBank System. More than 50 insurance companies, chartered and regulated by state governments, are now members of these FHLBanks. "Allowing FHLBank membership to these credit unions specializing in housing finance would not inflict any new or unusual exposure on the Bank System. Moreover, each Federal Home Loan Bank has a sophisticated credit screening system to assure that any borrower, federally insured or not, is —credit worthy. In addition, every advance is secured by marketable collateral. Indeed, even during the savings and loan debacle, we understand that no Federal Home Loan Bank suffered a loss on advances extended to their members." The NASCUS continued, "In the past, Congress has expanded the membership eligibility for the Bank System as a mechanism to help local financial institutions meet the housing and home ownership needs of their communities. The inclusion of this provision, enabling state-chartered, privately insured credit unions to be eligible to join the FHLBank System, is merely one more step in bringing home ownership opportunities to these credit union members." (*NASCUS testimony of Roger Little, Deputy Commissioner, Credit Unions, Office of Insurance and Financial Services before the Subcommittee on Financial Institutions and Consumer Credit, 3/14/02*)

Two members of the five-member Federal Housing Finance Board (FHFB) claim the FHFB's process for selecting board members of the 12 FHLBanks is too political

FHFB regulates the FHLBank System

- The two Democrats on the five-member FHFB – Franz S. Leichter and Allan I. Mendelowitz - claim the FHFB's process for selecting board members of the 12 FHLBanks is too political, reported Rob Garver with the *American Banker*. Leichter and Mendelowitz claimed they were shut out of the nominating process.
- On March 6, the FHFB approved a slate of 36 nominees to be "public interest" directors on the boards of the various FHLBanks. Each FHLBank board has between six and eight directors, who are supposed to represent the views of the communities served by the bank. The slate was approved in a 3-to-2 vote along party lines.
- In addition to Leichter and Mendelowitz, the National Congress for Community Economic Development was also critical. The group accused the Republican-led FHFB of packing the slate of nominees with people sympathetic to the banking industry. Fuel is being added to this fire by the fact that several of the new FHLBank board members are campaign donors whose businesses are directly

affected by the FHLBanks, and at least 20 have donated \$1,000 or more to various Republican candidates, party committees, and political action committees over the past two election cycles.

- In statements released at the March 6 meeting, Leichter and Mendelowitz said they were given only 48 hours to consider the list of nominees before voting on them. As has been the FHFB's practice, the vote was to be "notational," meaning the votes would be submitted in writing, rather than voiced at a public forum. Leichter exercised his right as a board member to demand that the vote be taken in an open meeting. "I had hoped that ... there would be real input by all of the directors," he said in a statement. "This has not happened." Mendelowitz said he opposed the list of nominees "because the process by which it was developed is so badly flawed that I cannot in good conscience vote for it."
- In an interview with the *American Banker*, FHFB Chairman John Korsmo defended the process and suggested that the two Democrats' opposition is simply a case of sour grapes. "I don't think it should be the subject of horse trading, and frankly, we had a couple of directors who I think were disappointed that they didn't have the personal privilege of naming somebody of their own choosing to one of the spots, and that's not the way we're going to do it now," Korsmo said. He also challenged the claims that the Democrats had no input and were not made aware of the candidates until the last minute. "I met with each of the board members separately," he said. "They each provided me with a list of potential people they would like to see considered. Names off of each of their lists ended up on the final list, so again, I'm not sure exactly what they are talking about in terms of not having the opportunity to see the list. These are names that had been with us, literally, for months." (*American Banker*, 3/15/02)

All GSEs

GSE debt news:

- (1) Fannie & Freddie claim their debt buyback programs are for hedging, however, market professionals believe their primary motivation is to increase their profits**
- (2) Fannie & Freddie may face a more difficult time in the debt markets in 2002**
- (3) With short-term debt under pressure, could the GSEs be the next to face increased scrutiny**
- (4) Freddie's euro benchmark debt program has met little success**
- (5) Fannie's Chairman Franklin Raines believes mortgage capital will double in next decade – to support this demand Fannie plans to issue debt**
- (6) FHLBanks issued more debt in 2001 than was reported in the Administration's FY 2003 budget**

Background on GSE debt and the supply of Treasurys

- 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 Treasurys. 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 Treasurys 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 investments may be lessened.

Fannie & Freddie claim their debt buyback programs are for hedging, however, market professionals believe their primary motivation is to increase their profits

- When Fannie and Freddie first introduced their debt buyback programs last year, the GSEs cited them as portfolio management tools and a way to protect themselves against changes in interest rates. “These buybacks will only occur in the context of an asset-liability adjustment need, i.e., lengthening or shortening of Fannie Mae’s liability maturity profile,” according to Fannie’s May 2001 issue of *Fundingnotes*.
- However both buy-side and sell-side professionals agree that a primary motivation behind Fannie and Freddie’s buybacks is instead to increase profits for the GSEs, according to Tyler Lifton with *Dow Jones Newswire*. The buybacks, they claimed, enable the GSEs to repurchase securities that have become inexpensive against the London Interbank Offered Rate in order to sell new securities in maturities that carry a richer value against Libor.
- “I don’t think they’re building a yield curve now so much as taking advantage of expensive versus cheap funding levels,” said Andy Brenner, head of institutional fixed-income at Investec Ernst & Co.
- “It is crystal clear to me that Fannie Mae and Freddie Mac are able to identify which of their debt securities are cheap...to the Libor curve, and I have only seen them come in and buy those securities,” said Jeff Drobny, senior trader at Cargill Global Trading. “I see that as opportunistic debt management,” he said, adding, “Frankly, I’d be doing the same thing.”
- While bond professionals agree it is a savvy business practice, they also point out that Fannie and Freddie don’t discuss Libor valuation in the context of their buybacks. And, for some, that doesn’t sit right at a time when greater disclosure is being demanded from corporate borrowers. “As a business decision, I commend it, but I don’t think it’s as advertised,” Investec’s Brenner said.
- Lifton provided two examples of recent buyback operations, in which the GSEs repurchased \$581 million and \$615 million of 30-year securities, respectively, suggesting that the GSEs were seeking to replace debt that’s inexpensive versus Libor with richer securities. (*Dow Jones Newswire*, Tyler Lifton, 3/25/02)

Fannie & Freddie may face more difficult time in the debt markets in 2002

- Issuers with AAA credit ratings, such as Fannie and Freddie, found it easy to raise debt in 2001. However, interest rates are on the way up and investors may be focusing on yield rather than quality. Investors had the jitters and wanted safe bonds that were easy to sell in 2001, but there wasn’t much high-grade paper available for them to buy because many governments had small budget deficits and were not issuing much debt. As a result of this imbalance between supply and demand, most AAA-rated bonds issued last year ended up oversubscribed even when the rate of interest on offer was extremely low. Many quality issuers saw the spread between their bond yields and those of government bonds such as German bunds or US Treasuries narrow to their tightest-ever levels during 2001. Things are changing: (1) fears of a prolonged global recession have eased and most economists now expect the US and the eurozone economies to show positive growth rates by the end of the year; (2) the interest rate environment is much more uncertain, which is likely to make the timing and pricing of bonds tricky; and (3) it’s likely that AAA bond issuance will be significantly higher this year than last. “We benefited from the flight to quality last year,” said Louise Herrle, Freddie’s treasurer in charge of investment funding. “I think 2002 may be a little bit more difficult.” (*Euromoney*, 2/02)

With short-term debt under pressure, could the GSEs be the next to face increased scrutiny

- As investors turn up the heat on the short-term debt market, some professionals wonder whether the GSEs - which are highly dependent on short-term funding - could be next to face increased scrutiny, reported Tyler Lifton with *Dow Jones Newswire*. "The reliance on short term debt funding is obviously a hot button issue" in the market right now, said Mitch Stapley, chief fixed-income officer at Fifth/ Third Investment Advisors in Grand Rapids , MI. "It's certainly plausible that, given the questions that are being asked in the market," some investors could turn their attention to GSE short-term funding, he said.
- As of February, Fannie's short-term liabilities totaled \$277 billion, according to the agency's data, while Freddie had \$215.2 billion of short-term debt outstanding in January, according to the agency. The FHLBank System had \$138 billion in outstanding short-term debt at the end of February, a spokeswoman said. Those numbers have some in the market already concerned.
- A recent e-mail from a primary Wall Street dealer to a client stated, "The agencies arguably have excessive dependence on short funding and exposure to debt rollover risk. Interest rate risk (hedged with swaps) is not the only risk the agencies need to manage. Even a top credit like GE is starting to run into problems with their access to the short term funding market." The client sent the e-mail to *Dow Jones Newswire*, on the condition that neither he nor the dealer is identified.
- The GSEs argue that their transparency and sizable liquidity reserves have garnered the trust of the market and insulated them from such concerns.
- Suzy Chapman, chairwoman of the short-term duration group at Criterion Investment Management in Houston, said the GSEs won't have any difficulty accessing the short-term debt market "as long as they have the implicit government guarantee."
- Fannie spokesman Robert McCarson said that the market is reacting negatively to companies that need to improve their disclosure levels. Because no company is more transparent than Fannie and Freddie, according to McCarson, the GSEs will not be subjected to liquidity constraints in the secondary market. "If other companies want to avoid the kind of concerns that were created last week... they could look to our voluntary initiatives as a model," he said. Officials at Freddie and the FHLBanks weren't available to comment for Lifton's article. (*Dow Jones Newswire*, Tyler Lifton, 3/28/02)

Freddie's euro benchmark debt program has met little success

- Freddie is the only US borrower to have a euro benchmark program. "But wooing European fund managers is proving a tough task," reported *Euromoney*. Freddie's treasurer in charge of investment funding, Louise Herrle, has spent three of the past 12 months on the road marketing Freddie's bonds to investors in Europe and Asia. "To date...her efforts have met with little success. Freddie Mac still pays significantly more to raise debt on the euro benchmark program it set up last year than it does on its US dollar program," reported *Euromoney*. "You have to wonder how long it can afford to maintain this strategy," speculated a London-based syndicate head. "It must be getting rather expensive." Herrle insisted that Freddie remains committed to the program. "We are not going to withdraw. The events of September 11 have highlighted the importance of having a diverse range of funding sources." (*Euromoney*, 2/02)
- Fannie may issue euro-denominated bonds in the future but has no current plans for a program like Freddie's euro-denominated bond program, Fannie's Vice President and Treasurer Linda Knight said

on March 14. Knight said that Fannie would continue to be opportunistic when examining non-dollar funding opportunities. “We look at it all the time, but we have not yet executed in the euro market.” She noted that Fannie’s responsibility on the funding side “is to deliver to a mortgage portfolio the most attractively priced debt in the best structure at any point in time...So far we continue to see that execution in dollars as opposed to other currencies. But we constantly monitor these markets and if we see some opportunities we would be happy to take advantage of them.” (*Reuters*, Alex Clelland, 3/14/02)

Fannie’s Chairman Raines believes mortgage capital will double in next decade – to support this demand Fannie plans to issue debt

- Speaking at a media briefing in London on March 14, Fannie’s Chairman Franklin Raines said demand for mortgage capital would double over the next decade. To keep up with this surge, Fannie and other agencies will need to provide \$11 trillion to \$14 trillion in financing over the next decade. To support this demand, Fannie plans to issue fixed-income products throughout the global capital markets, which includes Fannie’s benchmark notes and bonds as well as benchmark bills. Since the benchmark programs inception in 1998, Fannie has issued 46 long-term notes and bonds as well as 32 reopenings for a total of \$268.75 billion. This amount, along with \$11.7 billion in benchmarks concurrent with three-debt exchanges, brings the agency’s total outstanding to \$258.62 billion. Fannie has issued \$13 billion in callable benchmarks in 13 different issues since the program started in July 2001. Last year, Fannie issued a record-setting \$84.75 billion in long-term benchmarks. So far in 2002, Fannie has issued \$10 billion. Fannie estimated that it will bring to market approximately \$225 billion in long-term debt in 2002, including more than \$70 billion in noncallable benchmark notes and bonds. (*Dow Jones Newswire*, Julie Haviv, 3/14/02)
- To meet the \$11 trillion to \$14 trillion in financing over the next decade, Fannie and Freddie will have to access the capital markets at unprecedented levels. For Freddie, that means increasing investment from Asia, said Freddie’s Chairman Leland Brendsel. He recently returned from a trip to Asia, which included stops in Kuala Lumpur and Tokyo. Freddie has seen a tremendous increase in Asian investment in its paper in the last five years. Previously less than 10% of its debt was distributed abroad in both Asia and Europe. Now it is over 30%, split between the two. (*National Mortgage News*, Brad Finkelstein, 3/25/02)

FHLBanks issued more debt in 2001 than was reported in the Administration’s FY 2003 budget

- The FHLBanks issued more debt in 2001 than was reported in the Administration’s FY 2003 budget, according to John Connor with *Dow Jones Newswire*. The Administration’s FY 2003 budget noted that the FHLBank System issued \$4.9 trillion in securities. The budget added: “However, the majority of the debt issued by the system is overnight or short-term, but 73% of debt outstanding had an original maturity of one year or longer, and total debt outstanding was about \$611 billion at the end of 2001.” On April 1, 2002, the FHLBanks’ financial report for 2001 was released. Connor reported, “Not easily found in the new FHLBank financial report, however, was much of anything regarding the \$4.9 trillion debt-issuance figure” cited by the Administration’s budget.
- Connor noted that the FHLBank System report did note that discount notes, which are short-term instruments, are “a significant funding source for the FHLBanks,” and comprised 22.5% of outstanding consolidated obligations at year-end 2001 but accounted for 91.8% of the proceeds from the sale of consolidated obligations in 2001. “Much of the discount note activity reflects the refinancing of overnight discount notes, which averaged \$14.7 billion in 2001,” the report explained.

- A chart in the report noted that net proceeds from the sale of system obligations for 2001 appear to be more than \$4.6 trillion for discount notes and over \$415 billion for bonds. A spokesman for the Federal Housing Finance Board confirmed that the FHLBank debt-issuance figure for last year was more than \$5 trillion. (*Dow Jones Newswire*, John Connor, 4/1/02)

Fannie Mae and Freddie Mac

***National Mortgage News* editorial says the “GSEs are Not the Same as Enron”**

***National Mortgage News* editorial supports competition in the secondary market for Fannie & Freddie**

- An April 1 editorial by *National Mortgage News* said they were in favor of transparency and Senate hearings on GSE accounting practices, but that they would be “very surprised if Fannie Mae turns out to be another Enron, a possibility raised by a couple of high-profile editorials in the *Wall Street Journal*.” *National Mortgage News* noted, “As far as we can tell, funny accounting at Enron masked fraud and incompetent business practice more comparable to day trading than to anything we’d expect from a respected company. And as far as we can tell at Fannie and Freddie, their huge derivative positions follow competent business practice for hedging the risks that come from handling hundreds of billions of dollars of mortgages each year.” The editorial added, “An unhedged GSE would be something for our legislators to really worry about.”
- “We continue to favor close supervision of the GSEs so that the ‘bright line’ between primary and secondary markets continues to be observed as it is now (barely). And while the Journal is right to stump for transparency for trillions of dollars worth of complicated transactions, we feel the ‘Fannie Mae Enron’ label is a bum rap.”
- “On a related matter, we are in favor of allowing the securitization of mortgages by the Federal Home Loan Bank System. It’s been clear to us for some time now that the alternative secondary mortgage markets started by two Federal Home Loan Banks will have trouble in effectively challenging Fannie Mae and Freddie Mac without having access to end investors the way Fannie and Freddie do. Capital constraints will surely hobble the FHLBs’ effort if the district banks must continue to hold purchased loans in their portfolio. We believe that competition is a good thing for GSEs just as much as for lenders and servicers.” (*National Mortgage News Editorial*, 4/1/02)

Analysts differ on whether Fannie & Freddie’s financing of 60% of all US mortgage loans last year is a “good thing or not”

- Fannie and Freddie financed 60% of all US mortgage loans in 2001. Analysts differ on whether this is a “good thing or not,” reported Joseph DiStefano of the *Philadelphia Inquirer*. Supporters such as UBS Warburg analyst Gary Gordon noted that everyone from the National Association of Homebuilders to small-bank lobbyists credit Fannie and Freddie with making housing cheaper. He believes Fannie and Freddie have plenty of capital and are carefully hedged against even the most extreme economic conditions.
- Critics, however, such as Sean J. Ryan of the New York research and trading firm Fulcrum Global Partners are urging investors to sell Fannie’s stock. Ryan worries that Fannie is moving too

aggressively to finance high-risk “subprime” borrowers and apartment buildings. He does not believe people are going to keep buying more houses the way they did in the 1990s. “While Fannie Mae forecasts that housing prices will rise by 5 to 6.5 percent a year over the next decade,” a federal housing price index rose at an annual rate of just 1 percent in the fourth quarter – and dropped in 51 of 185 metro areas, Ryan noted. (*Philadelphia Inquirer*, Joseph N. DiStefano, 3/5/02)

OFHEO solicits comments on proposed guidelines to ensure the quality of information OFHEO disseminates to the public

- OFHEO is soliciting comments on its draft information quality guidelines designed to ensure the quality of information OFHEO disseminates to the public. OFHEO has drafted proposed information quality guidelines pursuant to Office of Management and Budget Final Guidelines issued on February 22, 2002. “OFHEO’s proposed guidelines ensure and maximize the quality, objectivity, utility, and integrity of information that is disseminated by the agency to the public,” OFHEO said in a notice. OFHEO said “it will undertake to ensure that the information it disseminates to the public is objective (accurate, clear, complete, and unbiased), useful, and has integrity.” John Connor with *Dow Jones Newswire* reported, “Alas, the proposed guidelines and their pre-dissemination review provision would only apply to information the agency first disseminates on or after October 1, 2002.” As Connor noted, “If the guidelines were retroactive and really did deliver what they purport to deliver, interested parties and curious bystanders might be able to get a real sense of the import and probable consequences of OFHEO’s ‘state-of-the-art’ risk-based capital rule for Fannie and Freddie.” Connor explained, “As matters now stand, this rule is commonly perceived to be (1) impenetrable (2) gargantuan (3) and years overdue in terms of being enforced (which isn’t to be confused in OFHEO-land with being effective).” (*Dow Jones Newswire*, John Connor, 4/4/02; *Federal Register*, page 15580, 4/2/02)
- OFHEO’s proposed guidelines provide an administrative process allowing affected individuals to seek and obtain correction of information maintained and disseminated by OFHEO that does not comply with OMB guidelines. The proposed guidelines are posted on OFHEO’s Web site (www.ofheo.gov). Comments on the proposed guidelines are due by May 2, 2002. (*Federal Register*, page 15580, 4/2/02)

Fannie Mae

Fannie says it set a record in 2001 by providing over \$463 billion in financing for 4.2 million U.S. families during the second year of the company's \$2 trillion American Dream Commitment

- Fannie’s Chairman Franklin Raines claimed that Fannie set a record in 2001 by providing over \$463 billion in financing for 4.2 million U.S. families during the second year of the company's \$2 trillion American Dream CommitmentSM to increase homeownership rates and serve 18 million targeted American families. (*Fannie press release*, 3/20/02)
- “Our commitment to underserved markets has become the vision of our company,” Raines said in issuing his annual report on the company's pledge to provide \$420 billion to help three million minority homeowners by 2010. He announced that in 2001, Fannie provided \$87.6 billion in financing for 680,000 minority families, more than double the \$34.9 billion in targeted funding provided in the first nine months of 2000. Last year's "record-breaking numbers" included \$16.6 billion for 153,000 African-American families, \$32.7 billion for 273,000 Hispanics, and \$38.3 billion

for 253,500 other minority households, including women, immigrants, and Native Americans. Ed London of the National Association of Real Estate Brokers, an organization of minority realty professionals, lauded Fannie's program. "This is a true commitment," he said. "Fannie Mae has taken on the challenge, not just to enhance its bottom line, but as a true ministry." (*National Mortgage News Daily Web site, 3/20/02*)

Fannie announces four new officers

- Fannie announced on March 27 that Kathy Gallo has been hired as senior vice president for human resources, Harold Lewis as senior vice president of single-family mortgage business, Darren Thompson as vice president for credit policy, and Mike Dirrane as vice president for marketing for the Southwestern Regional Office. (*Fannie press release, 3/27/02*)

Fannie appoints 26 new members to its National Advisory Council

- Fannie announced on March 18 that it has named 26 new members to its National Advisory Council. According to Fannie, council members meet three times a year with Fannie's senior management to advise the corporation on housing and mortgage finance industry issues and the expansion of homeownership opportunities. The council, formed in 1971, has 46 members, including mortgage bankers, commercial bankers, and investment banking executives, real estate agents, home builders, government and community leaders, housing authority officials, and representatives of consumer groups. Council members serve two-year terms, with approximately half of the membership rotating off at the end of each year. The chairman of the 2002 National Advisory Council C.R. "Rusty" Cloutier, is president and chief executive officer of MidSouth National Bank in Lafayette, LA, which has assets in excess of \$350 billion and nineteen locations. Mr. Cloutier also serves as chairman-elect for the Independent Community Bankers of America.
- The following new members have been appointed to serve on the council until October 2003:
 - (1) **Jerry Baker**, president and chief executive officer of First Horizon Home Loan & Financial Centers, Irving, TX. Baker holds the Certified Mortgage Banker designation, the highest professional designation in the mortgage banking industry.
 - (2) **The Honorable Kay Barnes**, mayor of Kansas City, MO. Mayor Barnes is Kansas City's first female mayor. Mayor Barnes helped found the Women's Resource Service at the University of Missouri-Kansas City and developed multicultural women's speaking panels throughout the western United States.
 - (3) **Deborah C. Bochain**, executive vice president of personal lending for Liberty Bank, Middletown, CT. In 1998, Bochain was elected the first female president of the CT Mortgage Bankers Association, serving for many years as chairperson and board member of its Affordable Housing and Fair Lending Committee.
 - (4) **The Honorable Willie Brown**, mayor of San Francisco, CA. Mayor Brown is the city's first African American mayor. He was elected to the California Assembly in 1964 and re-elected 16 times, serving a total of 31 years in the Assembly. In 1980, he was elected Speaker of the Assembly and held the position for 15 years.
 - (5) **Graham L. Champion**, senior vice president and manager of governmental affairs for AmSouth Bank, Montgomery, AL. Champion is a member of the American Bankers Association's Legislative Liaison Advisory Committee, its Government Relations Council (GRC) and the Administrative Committee of the GRC. He is chairman of the Financial Services Roundtable's

Government Affairs Council and also serves on the Board of Directors of its Political Action Committee.

- (6) **C. Kent Conine**, president of Conine Residential Group, Frisco, TX. Conine is the first vice president of the 205,000-member National Association of Home Builders and board member of the Home Builders Association of Greater Dallas, the TX Association of Builders, the National Council of State Housing Agencies and the NATIONAL ASSOCIATION OF REALTORS[®], and serves as vice chairman of the board of the Texas Department of Housing and Community Affairs.
- (7) **Robert M. Couch**, president and chief executive officer of New South Federal Savings Bank and managing director of Collateral Mortgage, Ltd., Birmingham, AL. Couch is vice chairman of the Mortgage Bankers Association of America (MBA) and also serves MBA's Board of Directors and on the Residential Board of Governors.
- (8) **Curt S. Culver**, president and chief executive officer of MGIC Investment Corporation, Milwaukee, WI. MGIC is the nation's leading private mortgage insurer. Culver's career spans more than 26 years in the mortgage insurance business, including the last 19 years at MGIC. He also serves as president of the Mortgage Insurance Companies of America.
- (9) **Hattie B. Dorsey**, president and chief executive officer of the Atlanta Neighborhood Development Partnership, Inc., Atlanta, GA. Dorsey serves as board chair of The Community Development Partnership Network, and serves in an advisory role with the ULI Urban Neighborhood Revitalization Forum and the Central Atlanta Progress Housing Task Force.
- (10) **C. Kendric Fergeson**, chairman of the board and chief executive officer of the National Bank of Commerce, Altus, OK. Fergeson also is currently first vice president of the American Bankers Association and has served on various boards and committees of the ABA and several banking associations including the Oklahoma Bankers Association and the Corporation for American Banking.
- (11) **Joseph Haskins Jr.**, chairman, president and chief executive officer of Harbor Bankshares Corporation, Baltimore, MD. Harbor Bankshares Corporation is one of the top ten African American owned and operated financial institutions in the United States, according to *Black Enterprise* magazine. Haskins also chairs the board for the Department of Business and Economic Development for the state of Maryland.
- (12) **Kenneth Koranda**, president of Mid America Bank, Naperville, IL. Mid America Bank, a \$5.6 billion institution, services more than \$5 billion in mortgages and is an active retail lender. Mr. Koranda serves as a member of the Mortgage Bankers Association's Board of Directors and its Residential Board of Governors.
- (13) **Chris Lamberti**, member of AARP Board of Directors, Houston, TX. During 2000-2002, Lamberti serves on the Board Governance Committee and the AARP Andrus Foundation Board of Trustees. She also is a member of the Executive Director's Evaluation Committee.
- (14) **Edward London**, chairman and chief executive officer of EC London and Associates, Atlanta, GA. London also is the National Association of Real Estate Brokers' 22nd president and serves as a member of the Georgia Commission on Equal Opportunity and the Georgia Real Estate Commission's Brokerage Task Force.
- (15) **Walter T. McDonald**, owner/broker of Walt McDonald Real Estate, Riverside, CA. Walt McDonald Real Estate is a single-office, independent firm specializing in property sales, leasing and lending. Mr. McDonald is the 2002 first vice president of the NATIONAL ASSOCIATION OF REALTORS[®].
- (16) **Michael W. Perry**, vice chairman and chief executive officer of IndyMac Bancorp, Inc., Pasadena, CA. Perry has 17 years of business experience with mortgage banking companies, financial institutions, and real estate firms.

- (17) **Terry Peterson**, chief executive officer of the Chicago Housing Authority, Chicago, IL. Peterson was chosen by Mayor Richard M. Daley to oversee the Chicago Housing Authority's five-year, \$1.5 billion Plan for Transformation, recently approved by HUD.
- (18) **Stephen J. Rotella**, president and chief executive officer of Chase Manhattan Mortgage Corporation, Edison, NJ. Rotella also serves as an executive vice president of JPMorgan Chase and serves on the Legislative Committee of the MBA.
- (19) **Bruce Smith**, president of Smith Quality Homes, Alamo, CA. Smith Quality Homes is a 65-year old, family-owned company. Smith also is the immediate past president of the 205,000-member National Association of Home Builders.
- (20) **D. Russell Taylor**, president and chief executive officer of Rahway Savings Institution, Rahway, NJ. Rahway Savings Institution is a \$408 million state-chartered, mutual savings bank. Taylor is the first vice chairman of America's Community Bankers and has been a member and chairman of its numerous committees.
- (21) **Gary Thomas**, president of RE/MAX Real Estate Services, Aliso Viego, CA. After many years serving both the California Association of REALTORS® and National Association of REALTORS® in a range of positions such as director and treasurer, Thomas was elected 2001 president of the CA Association of REALTORS®
- (22) **Frank Torres, III**, legislative counsel of Consumers Union, Washington, DC. Consumers Union is the publisher of Consumer Reports magazine. Torres is a leading advocate on issues related to banking and financial services and works closely with members of Congress and their staff, administration officials, and financial service regulators.
- (23) **David L. Vigen**, president and chief executive officer of ESL Federal Credit Union, Rochester, NY. Vigen also is a member of the Federal Reserve Board's Thrift Institutions Advisory Council and serves on the National Association of Federal Credit Union's Legislative Committee.
- (24) **David Walker**, managing director and chief credit officer of Countrywide Credit Industries, Inc., Calabasas, CA, a diversified financial services provider and a member of the S&P 500.
- (25) **Mark H. Wright**, president and chief executive officer of USAA Federal Savings Bank, San Antonio, TX. Wright also serves as vice chairman of USAA's Board of Directors and president of the Federal Reserve Board of Governors' Thrift Institutions Advisory Council in Washington, DC. He has more than 30 years of experience in the banking industry.
- (26) **James E. Young**, president and chief executive officer of Citizens Trust Bank of Atlanta, Atlanta, GA. Young also is a member of the Board of Directors of the National Bankers Association and the Atlanta Chamber of Commerce.

Returning members of the National Advisory Council include:

The Honorable Clarence E. Anthony, mayor of South Bay, FL;
David M. Applegate, president and CEO of GMAC Residential, Horsham, PA;
Harley D. Bergmeyer, chairman of the board of Saline State Bank, Wilber, NE;
The Honorable Henry Cisneros, chairman and CEO of American CityVista, San Antonio, TX;
Terence W. Edwards, president and CEO of Cendant Mortgage, Mt. Laurel, NJ;
Joseph L. Falk, president of National Association of Mortgage Brokers, Miami, FL;
William A. Fitzgerald, chairman and CEO of Commercial Federal Bank, FSB, Omaha, NE;
F. Gary Garczynski, president of National Capital Land Development Company, Woodbridge, VA;
Robert A. Goethe, chairman and CEO of Regions Mortgage, Inc., Montgomery, AL;
Jack R. Gravo, president and CEO of FirstMerit Mortgage Corporation, Canton, OH;
William F. Hofmann III, executive vice president and treasurer, Provider Insurance Group, Inc., Belmont MA;
The Honorable Glenda E. Hood, mayor of Orlando, Florida;

John B. Johnson, president and CEO of Mortgage America Inc., Birmingham, AL;
Richard A. Mendenhall, realtor/owner of RE/MAX Boone Realty, Columbia, MO;
Mark J. O'Brien, president and COO of Pulte Homes Inc., Bloomfield Hills, MI;
Jose "Tony" A. Rey, president of Rey Group, Orlando, FL;
J. Ronald Terwilliger, national managing partner of Trammell Crow Residential, Atlanta, GA;
Catherine B. Whatley, broker/owner, Buck and Buck, Inc., Jacksonville, FL; and
Frank P. Willey, vice chairman and manager of agency operations of Fidelity National Financial, Inc., Santa Barbara, CA. (*Fannie press release, 3/18/02*)

Freddie Mac

Freddie commissions study criticizing Ginnie Mae Choice

Analysts said Freddie's move is simply a battle for turf

“Ginnie Mae Choice” supporters say the proposal will lower costs to consumers, increase revenue to the federal government, and create competition for Fannie & Freddie

- Freddie released a study that it commissioned on Ginnie Mae Choice – a program that would allow Ginnie Mae to securitize privately insured high loan-to-value conventional mortgages. According to Freddie's new study, Ginnie Mae Choice would weaken both Ginnie Mae and the Federal Housing Administration and would negatively impact the federal budget by \$1.9 billion over a ten-year period. According to the study by Dr. Susan M. Wachter, Professor of Real Estate and Finance, The Wharton School, University of Pennsylvania, the Ginnie Mae Choice proposal may provide benefits to private mortgage insurers and some lenders, but likely will do so at the cost of reducing long-term homeownership opportunities for underserved populations. “The program is a major departure from the historically successful role of the federal government in mortgage markets. As designed, it will not reduce the disparities in homeownership rates across borrower groups but in fact will threaten key programs which are successfully reducing those disparities,” Wachter said. “Simply put, GNMA Choice would increase costs and risks to U.S. taxpayers without advancing the public interest.” (*Freddie press release, 3/19/02*)
- Freddie calls Ginnie Mae Choice a “poor public policy proposal.” Freddie claims GNMA Choice will: (1) weaken HUD's Federal Housing Administration (FHA) program; (2) extend the full faith and credit of the government to the conventional mortgage market, without adequate risk management controls; (3) provide no discernible benefits to consumers nor will it address disparities in homeownership rates; and (4) negatively impact the federal budget. (*Freddie Mac News Analysis: GNMA Choice: The Public Policy Issues, 3/18/02*)

Analysts said Freddie's move is simply a battle for turf

- Analysts said Freddie's study is simply a battle for turf, according to Karen Sibayan with *Asset Securitization Report*. “If Ginnie Mae Choice is approved then Ginnie would have more opportunity to securitize, and therefore Freddie would have less (opportunity to securitize),” said a mortgage analyst. “Besides, \$1.9 billion over ten years is a small cost to taxpayers considering the size of the government's budget.” (*Asset Securitization Report, Karen Sibayan, 3/25/02*)
- There are currently two versions of “Ginnie Mae Choice” bills. The bills were introduced by Senator Wayne Allard (R-CO) and Congresswoman Marge Roukema (R-NJ) on November 1, 2001 and would

allow Ginnie Mae to securitize privately insured mortgage loans for the first time and allow Ginnie Mae to compete with Fannie and Freddie in the secondary mortgage market. (*Reuters*, Mark Felsenthal, 12/3/01) **Industry and political observers said Ginnie Mae Choice could pose a major competitive threat to Fannie and Freddie. Several analysts have said that a larger role for Ginnie Mae would stimulate competition through lower guarantee rates and better execution for mortgage banks. That would in turn check the growth of Fannie and Freddie, observers said.** (*American Banker*, Tommy Fernandez, 2/11/02)

Freddie plans to more broadly market hybrid adjustable-rate mortgage products

- Freddie plans to more broadly market hybrid adjustable-rate mortgage products to lenders to increase liquidity in that market and allow borrowers to take advantage of the steep yield curve, according to *Reuters*.
- With more consumers getting mortgages in order to purchase homes, instead of to refinance, hybrid adjustable-rate mortgages will play a growing role in mortgage lending, said Freddie's Chairman Leland Brendsel at a conference of regional mortgage professionals in Atlantic City, NJ.
- Hybrid adjustable-rate mortgages typically have fixed rates for a period of time, such as five years, before switching to a floating rate for the remaining life of the loan. Pricing on these loans is attractive to some borrowers because shorter-term rates are significantly lower than longer-term borrowing rates, Brendsel told *Reuters* after his speech. Although Freddie began offering these services over a year ago, it is marketing them more actively now, said David Stevens, senior vice president of community lending at Freddie. (*Reuters*, 3/20/02)

Freddie's stock expected to come under pressure, according to *The Street.com*

- John Roque with *The Street.com* believes that Freddie's stock will weaken, for the following reasons:
 - (1) "Despite being a core holding of nearly everyone under the sun, Freddie Mac hasn't made anyone an absolute dollar in the past 15 months. It seems like a prime example of an overowned stock."
 - (2) "Freddie Mac is below its 50-day and 200-day moving averages. The 50-day moving average is starting to roll over. Downward-sloping moving averages merely emphasize the price action and act as resistance points to counter contra-trend bounces. The 200-day moving average is flat, but it will start declining soon, which means more pressure on this stock."
 - (3) "The relative performance of Freddie Mac vs. the S&P 500 is also rolling. An upward-sloping line would mean that Freddie Mac is outperforming the S&P 500, and vice versa." Roque said he is a "huge believer in relative performance, but when relative performance starts deteriorating, it often happens quickly."
 - (4) Many claim that Freddie's stock is "cheap." Roque noted from his experience, "when a core stock like Freddie Mac is supposedly identified as cheap and the stock isn't going up," he believes the stock has "got to go down – usually because it wasn't as cheap as investors expected."
 - (5) Roque does not believe "the action in the bond market is going to be a good sign for Freddie Mac. It's only one example, but the last time the yield on the 30-year bond went from 5% to 6.5%, Freddie Mac went from \$65 to \$35."
- Roque noted, "I doubt very much that Freddie Mac's decline will be reminiscent of the Olympic downhill. I expect it will be a slow grind instead, with quite a number of snapback moves. Any time a cheap stock slips back to its support area, it becomes a buying company." He believes that Freddie's

stock has “good support” at \$60, at is has held there a number of times since January 2001, but he believes Freddie will “break beneath this support level and get down to the \$54-\$55 area.” (*The Street.com*, John Roque, 3/8/02)

Freddie outlines initiatives to persuade more community banks to become its active sellers

- Freddie announced on April 2 that it was launching a comprehensive effort to bring more of the benefits of secondary mortgage market financing to community lenders by enhancing their ability to sell loans in portfolio, sell loans for cash servicing released and access the Internet through fully branded websites. Freddie anticipates that the total suite of products and services will significantly boost community lenders’ mortgage originations and sales to Freddie. (*Freddie press release*, 4/2/02)
- The initiatives are designed to persuade more community banks to become active sellers to Freddie. Dave Stevens, the senior vice president and general manager of Freddie’s five-month-old community lending unit, said the effort has two principal components — a “mini-bulk” program that lets community banks sell mortgage pools worth as little as \$10 million, and a program that makes Web-based mortgage origination technology available to institutions that could not afford it on their own. Most of Freddie’s 2,200 approved sellers are community banks, but Freddie had done a poor job of serving them, Stevens said. “Hundreds of banks have told us they wanted to do business with Freddie Mac and the only reason they haven’t is that we’ve made it too difficult for them,” he said. “There’s a vast number of community institutions that fund mortgages and that could be selling those loans to Freddie that aren’t today.” Community banks hold \$865 billion of unsecuritized mortgages on their books, according to Freddie. (*American Banker*, John Reosti, 4/3/02)
- Freddie defines community lenders as companies smaller than the top 25 mortgage lenders, according to Stevens. Freddie estimates that more than \$865 billion of unsecuritized mortgages on community lending books are eligible for securitization. (*Real Estate Finance Today*, Michael Murray, 4/8/02)

Freddie sets annual stockholder meeting to elect 13 members of its 18-member board

Remaining directors are appointed by the President of the United States

- The Board of Directors of Freddie has set May 2, 2002, as the date for Freddie’s annual stockholders’ meeting. Holders of record of the corporation’s common stock as of March 11, 2002, will be electing 13 members of the corporation’s 18-member board of directors. The remaining directors are appointed to the board by the president of the United States. Current terms of the appointed and stockholder-elected directors will expire on May 2, 2002. All directors serve one-year terms ending on the date of Freddie’s next annual stockholders’ meeting. The annual meeting will convene on May 2 at 9:00 a.m. E.T. at the McLean Hilton, 7920 Jones Branch Drive, McLean, VA (*Freddie press release*, 3/8/02)

Freddie names a Vice President of Risk Management

- Freddie announced on April 1, 2002, that Paul McDermott has been named vice president of Freddie’s Multifamily Risk Management Department. McDermott will report directly to Adrian Corbiere, senior vice president of Multifamily. In this position, McDermott will be responsible for developing and maintaining processes to ensure the credit quality of Freddie’s multifamily mortgage portfolio.

- Previously, McDermott was a partner with Lend Lease Capital Partners based in Washington, DC, which was formed to raise institutional capital for investments in real estate. Prior to that, McDermott ran the Washington office of Lend Lease Real Estate Investments, overseeing commercial property acquisitions, dispositions and mortgage underwriting in the Mid-Atlantic Region. From 1986 to 1999, McDermott served as executive vice president and chief operating officer of Acacia Realty Corporation, a subsidiary of Acacia Mutual Insurance Company in Bethesda, MD. His primary responsibilities included the design and implementation of all real estate strategies and the origination, servicing and management of the real estate equity and debt portfolios. McDermott holds a bachelor's degree in business administration from Shepherd College and an M.B.A. in finance from The American University. (*Freddie press release, 4/1/02*)

Federal Home Loan Banks

FHLBank earnings decline, although advances increase in 2001

- The FHLBanks reported a slight decline in earnings in 2001, although advances outstanding grew by 7.95% during the year, according to the FHLBank System's annual report released on April 1, 2002. Net income fell from \$2.21 billion in 2000 to \$2.15 billion in 2001. The FHLBank System cited low interest rates on invested capital as the main reason for the earnings decline. Also contributing to the earnings decline was a 7.9% increase in operating expenses to \$369 million during 2001, and a change in accounting rules that reduced income by an additional \$30 million.
- The FHLBanks made \$472.7 billion in advances in 2001, compared to about \$438 billion in 2000. Advances grew by \$16.3 billion in the fourth quarter alone. In 2001, the number of banks in the FHLBank System increased by 125. The capital-to-asset ratio for the FHLBank System stood at 4.9% in 2001. The FHLBank System's annual report also shows that the newly started Mortgage Purchase Programs, run individually by the FHLBanks of Seattle, Indianapolis, and Cincinnati, generated \$2.7 billion in loans in 2001. Meanwhile, the Mortgage Partnership Finance program had \$19.5 billion in originations as well as \$8 billion in repayments and prepayments. (*National Mortgage News Daily Web site, 4/1/02; American Banker, Rob Garver, 4/2/02; BNA Daily Report for Executives, 4/3/02*)

Salaries of 11 FHLBank Presidents increase

- The *American Banker* reported that while the FHLBank System experienced declining interest rates and a weak economy in 2001, most of the FHLBank Presidents' salaries increased. Net earnings at the 12 FHLBanks declined by 2.6%, but raises for the 11 FHLBank presidents who had been in office at least since the start of 2000 increased an average of 15.4% in 2001. The average raise in 2000 was 42.8%. The year 1999 was significant for FHLBank Presidents because the Gramm-Leach-Bliley Act lifted statutory restrictions on their pay, giving bank boards the power to set salaries.
- Supporters of the FHLBank presidents claimed that the institutions' earnings should not judge their performance. "I think there are other factors," said Paul Tipps, a principal with the Columbus, OH, lobbying firm State Street Consultants and the chairman of the FHLBank of Cincinnati. "The analogy being used is a traditional publicly-traded-company way of looking at compensation and earnings. This is a cooperative, and it is owned by the shareholders, and the issue is not earnings — it is service to the shareholders." Though the FHLBank of Cincinnati's earnings declined 2.6% last year the bank gave its president, Charles L. Thiemann, a 17.6% raise, to \$836,667, which makes him the highest-paid FHLBank President.

- Other FHLBanks said that they had based increases in their presidents' compensation on comparisons with peers at other financial institutions. "We came to the conclusion that our president was not being compensated anywhere close to his peer group outside the system," said Dave Curtis, vice chairman of the Pittsburgh bank and executive vice president of Leon N. Weiner & Associates, a Pittsburgh-area home builder. Curtis said that the decision to raise the compensation of the bank's president, James D. Roy was based on research by outside experts retained by the board. Roy's compensation increased 18.8% in 2001, to \$595,971, while the bank's earnings declined 45.1%. The two-year increase in his pay was 38.2%.
- The *American Banker* listed the salaries for the 12 FHLBank Presidents:

Boston	Michael Jessee	\$536,985
New York	Alfred DelliBovi	\$757,889
Pittsburgh	James Roy	\$595,971
Atlanta	Raymond Christman	\$664,650
Cincinnati	Charles Thiemann	\$836,667
Indianapolis	Martin Heger	\$740,843
Chicago	Alex Pollock	\$749,490
Des Moines	Patrick Conway	\$592,354
Dallas	Terry Smith	\$439,790
Topeka	Frank Lowman	\$626,151
San Francisco	Dean Schultz	\$675,600 (<i>American Banker</i> , 4/4/02)

FHFB to hold April 11 public hearing on the capital plans of the FHLBanks

FHFB to consider the FHLBank of Atlanta's capital plan at April 10 meeting

- The FHFB announced that it will hold an April 11 public hearing on the capital plans of the FHLBanks. "This hearing will provide an opportunity for the FHLBanks to clarify how the capital structures they envision will be consistent with the ideal of a cooperative system and achieve the goal of providing liquidity for members in a safe and sound manner," said FHFB Chairman John Korsmo. Two topics up for discussion involve the use of excess stock and setting stock purchase requirements for member institutions that sell mortgage loans to the FHLBanks. The FHFB approved the first capital plan, submitted by the Seattle FHLBank, at its March 13 meeting. The Seattle FHLBank has a stock purchase requirement for its mortgage purchase program. Chairman Korsmo plans to complete the approval process for all the FHLBank capital plans before August. (*National Mortgage News Daily Web site*, 4/3/02)
- The FHFB staff currently is reviewing the proposed capital plans submitted by the FHLBanks to the FHFB for approval, pursuant to the requirements of the Gramm-Leach-Bliley Act and the FHFB's capital regulation. Public testimony at the hearing will be limited to presentations by FHLBank presidents or FHLBank board of directors' chairpersons. Other individuals or organizations interested in commenting on the FHLBanks' proposed capital plans may do so by submitting their comments in writing to the FHFB prior to April 11. (FHFB notice of public hearing, 4/2/02)
- The FHFB will consider for approval the FHLBank of Atlanta's plan at its April 10 meeting. The remaining 11 plans will be considered at subsequent meetings May 8, June 12, and July 10. Chairman

Korsmo plans to complete the approval process for all 12 of the FHLBank capital plans before August. (*National Mortgage News Daily Web site*, 4/3/02; FHFBS press release, 2/13/02, 4/5/02)

- The Gramm-Leach-Bliley Act (GLB), signed into law on November 12, 1999, amended the provisions of the FHLBank Act that relate to the capital structure of the FHLBanks. The law mandated the replacement of the existing subscription capital structure with a modern capital structure, with risk-based and leverage capital requirements that are similar to those of depository institutions. (*FHFBS press release*, 3/13/02) As required by GLB, all of the FHLBanks submitted proposed capital structure plans to the FHFBS by October 29, 2001. Each FHLBank must obtain FHFBS approval of its internal risk model and risk assessment procedures and controls prior to implementing its capital plan. (*FHFBS press release*, 2/13/02)

Ginnie Mae

Mortgage Bankers Association (MBA) supports bills that would repeal the 50% increase in the Ginnie Mae guarantee fee, due to go into effect in 2004

Bills introduced by Congressman John LaFalce (D-NY) and Congresswoman Marge Roukema (R-NJ)

MBA claims the increased Ginnie Mae guarantee fee is a “tax on homeownership”

- The MBA announced its support of HR 3936, introduced by Congressman LaFalce on March 12, that would repeal the proposed increase in the Ginnie Mae guarantee fee, scheduled to go into effect in FY 2004. (*MBA press release*, 3/18/02) The MBA also announced its support for the “Housing Affordability for America Act of 2002” (HR 3995), which was introduced on March 20 by Congresswoman Roukema. The legislation includes, among a number of items, a provision that would roll back the Ginnie Mae guarantee fee increase, scheduled to go into effect in FY 2004. (*MBA press release*, 3/20/02)
- “We should be making it easier, not harder for Americans to buy a home,” Congressman LaFalce said. “Raising Ginnie Mae fees will add thousands of dollars in interest payments over the life of a mortgage loan to homeowners who can least afford to pay. We should repeal this hike before it even takes place.” Congressman LaFalce noted that the increase was included in the 1998 Higher Education Act, without any consideration by the Congressional committees with jurisdiction over housing. The provision increases the annual fee that Ginnie Mae charges on mortgages loans from 6 basis points to 9 basis points, for loans made after October 1, 2004. “The provision was intended as an offset for increased education funding, but in practice will merely result in even higher profits for Ginnie Mae, at the expense of borrowers,” he said. (*Real Estate Finance Today*, Mike Sorohan, 3/18/02)
- The MBA noted that the annual fee that Ginnie Mae charges to guarantee mortgage backed securities is scheduled for a 50% increase in FY 2004. The revenue from that increase will be used to increase the level of Federal receipts produced by Ginnie Mae. The MBA estimated this increase would cost \$30 million or more a year and would penalize families that are in need of government programs to buy a home. In addition, the MBA noted there is no financial basis for a guarantee fee increase because Ginnie Mae is currently operating at a profit. (For FY 2000, Ginnie Mae’s excess of revenue over expenses exceeded \$760 million.)

- “An increase in the guarantee fee is a tax on homeownership,” said James M. Murphy, MBA’s Chairman. “Even a fee increase of 3 basis points would eliminate the opportunity for homeownership for thousands of families. This makes absolutely no sense when you consider that Ginnie Mae has always operated at a profit – an extraordinary one – and has never required funds from Federal appropriations. Using Ginnie Mae as a cash cow will undermine the effectiveness of federal housing programs.” (*MBA press release, 3/18/02*)
- “Our position in terms of the increased fees is we see it as a tax on homeownership that would not result in any additional money being used for homeowners,” said Kathy Gibbons, director of secondary and capital markets at the MBA. Gibbons added that the increase would be particularly unfair if the cost is passed on to first-time homebuyers, or loans made out to FHA homebuyers, because the Ginnie Mae program is actually generating a substantial amount of money for the government. “The program is always operated in the black,” said Gibbons. “Therefore there is no budgetary need for the money from the increase. The government should not be making more revenue for this service.” (*Asset Securitization Report, Karen Sibayan, 3/25/02*)

Postal Service

Postal Service submits its transformation plan to Congress on April 4

Postal Service recommends creating a new model – the Commercial Government Enterprise (CGE) – modeled after Fannie & Freddie - that would keep the Postal Service as a government owned entity, but one that enjoys some of the operational and financial flexibility found in the private sector

Congress will schedule hearings later this spring to review the plan

- The Postal Service (USPS), faced with decreasing mail volume and a sluggish economy, announced details of a “transformation plan” on April 5. The “transformation plan” is a proposed new business model that would preserve universal mail delivery and strengthen the mail system. (*USPS press release, Postal Service Vows to Save Universal Mail Delivery – Proposes New Business Model, 3/5/02*) The plan provides a blueprint for the future of the USPS, outlines strategies the USPS can follow under current law, examines moderate legislative reform in key areas such as pricing flexibility, and presents long-term options to maintain universal service. (*USPS press release, PMG Unveils USPS Transformation Plan today at the National Press Club, 4/5/02*)
- Cong. John McHugh (R-NY), a longtime advocate for postal reform, called on Congress to recognize the plan as “a plea for help.” He stated, “Our nation’s postal system is in crisis. It’s not something five or 10 years down the road. The crisis is upon us.” (*Miami Herald, 4/6/02*)

Transformation plan submitted to Congress

- The final version of the plan was submitted to Congress and the Government Accounting Office (GAO) on April 4th, after an extensive comment period in which members of the mailing industry and the general public were invited to comment. Congress will schedule hearings later this spring to review the plan. (*USPS press release, Postal Service Vows to Save Universal Mail Delivery – Proposes New Business Model, 3/5/02*) Congress and the GAO requested that the USPS create a transformation plan outlining how the USPS intends to manage in the wake of changing global markets, new technologies and the need to deliver mail to an ever-increasing number of addresses. (*Postal Service press release, 3/5/02*)

Transformation needed or universal service is in jeopardy

- "The Postal Service's current financial situation threatens the service that everyone in this nation has relied on for more than 225 years," said John E. Potter, Postmaster General. "Our proposed new business model will give us the tools to succeed in the 21st century marketplace. It will help us to protect regular mail delivery, for everyone, well into the future." (*USPS press release, Postal Service Vows to Save Universal Mail Delivery – Proposes New Business Model, 3/5/02*) "If transformation is not accomplished now," Potter warned, "the universal mail service we now rely on could be in jeopardy." "If we continue to operate like the post office that we grew up with, the only post offices our children will know will be the ones they'll see in museums," Potter said. "We are at a point in our history when it's time for the next phase in postal evolution. And this time we need help." (*USPS press release, PMG Unveils USPS Transformation Plan today at the National Press Club, 4/5/02*)

Transformation plan outlines three potential business models

- The transformation plan outlines three alternative business models: (1) restructuring the USPS as a traditional government agency; (2) transforming the Postal Service into a commercial government enterprise; (3) creating a privatized corporation. Each would require structural legislative reform. Potter said the USPS has not found much support for a privatized corporation that would reduce universal service. Under that model, Potter noted, delivery standards and prices might be dictated by where a person lives or where a business is located. "People speak of a digital divide. We don't need a delivery divide." The first alternative - a governmental agency – the USPS believes would take the organization back to the days of federal subsidies and taxpayer support. Potter said the USPS believes a commercial government agency would best allow integration of the postal system into the modern economy. At the same time, it would preserve the ability of the USPS to fulfill its mission of universal service. (*USPS press release, PMG Unveils USPS Transformation Plan today at the National Press Club, 4/5/02*)

Recommends a hybrid public/private structure modeled after Fannie & Freddie

- **The transformation plan recommends a "middle ground" approach as the most appropriate modeled on Fannie and Freddie.** (*White House Bulletin, 4/5/02*) The new model, called a Commercial Government Enterprise (CGE), would create a government owned entity, but one that enjoys some of the operational and financial flexibility found in the private sector. Under the CGE, USPS claims it would set rates more predictably, be able to retain earnings, work under private sector labor laws and, depending on future legislation, could even pay taxes or dividends to the government. (*USPS press release, Postal Service Vows to Save Universal Mail Delivery – Proposes New Business Model, 3/5/02*) The model would be "owned and operated in a much more businesslike matter, with attributes appropriate to the unique role this institution plays in the nation." (*White House Bulletin, 4/5/02*) S. David Fineman, Vice Chairman of the postal Board of Governors, said the USPS would operate as a hybrid of the private and public sectors and might look something like Fannie Mae. Postal Officials said that no decision, however, has been made, noting that the Postal Service is studying semi-private postal services in New Zealand and other foreign countries. (*Washington Post, Stephen Barr and Ellen Nakashima, 4/5/02*)
- The CGE model would be a structural transformation requiring legislative action by Congress. The proposed legislative changes would be the most extensive since the Postal Reorganization Act of 1970, which enabled the USPS to function effectively until the end of the 20th Century. (*USPS press release, Postal Service Vows to Save Universal Mail Delivery – Proposes New Business Model, 3/5/02*)

- Potter also outlined the near-term implications of the plan. The USPS has already cut 30,000 jobs and \$2.5 billion in costs over the past two years. Over the next five years, costs will be cut by \$5 billion more through job attrition, outsourcing, plant consolidation, lifting the moratorium on post office closings and other measures. Costs will also be cut by improving the dispute resolution process, modernizing the rate process under the current regulatory framework and leveraging buying opportunities through aggressive purchasing. In addition, the USPS will focus on developing new "intelligent" mail products to attract new business and better serve existing customers. (*USPS press release, Postal Service Vows to Save Universal Mail Delivery – Proposes New Business Model, 3/5/02*)

Near term steps for the USPS

- The transformation plan outlined “moderate regulatory and legislative reforms” to be pursued in the near term to reduce the USPS’ costs by roughly \$5 billion over the next five years. The proposed changes would:
 - Most immediately, lift the moratorium on post office closings. “This doesn't mean there will be wholesale closings,” said Potter. “We will restart the process to close post offices that have been suspended.”
 - Dramatically expand the USPS practice of negotiating price discounts with its biggest mailers
 - Introduce experimental mail classifications and phased rates
 - Make buying procedures more flexible. As an example, Potter said, instead of buying a truck, a post office might buy space on a truck.
 - Revamp contract talks with unions to include more effective mediation procedures, rather than resolving disputes through binding arbitration by a third party – over time, the USPS would ask its unions to move to a mediation process similar to that provided by the 1926 Railway Labor Act, which has resolved disputes in the airline and railroad industries and permits White House intervention to settle disputes that would disrupt essential public services.
 - Evaluate USPS’ existing processing network
 - Encourage more aggressive purchasing strategies that leverage the USPS’ buying ability to lower costs
 - Move to modernize the rate process under the existing regulatory framework. (*USPS press release, PMG Unveils USPS Transformation Plan today at the National Press Club, 4/5/02; Washington Post, Stephen Barr and Ellen Nakashima, 4/5/02*)

Reaction to the transformation plan

- “The idea that the Postal Service really needs to be transformed into a more businesslike structure is something we applaud,” said Gene Del Polito, president of the Association for Postal Commerce. “Now it’s going to be up to Congress to figure out how to get it done.” (*Washington Post, Stephen Barr and Ellen Nakashima, 4/5/02*)
- The Postal Service’s proposed long-term changes that would revamp contract talks with unions is a “non-starter,” according to William Burrus, President of the American Postal Workers Union, because he believes the process can be manipulated by the White House. Burrus said the Postal Service could improve its financial condition by shifting discounts to consumers instead of bulk mailers. (*New York Times, 4/6/02; The Charlotte Observer, 4/5/02*)
- The Newspaper Association of America complained that the plan “is a flawed version for the future.” (*Associated Press, Randolph E. Schmid, 4/5/02*) John F. Sturm, President of the Newspaper Association of America, called for President Bush to appoint an independent commission to assess the

Service's finances. "We support its efforts to conduct business more efficiently," he said of the Postal Service. "The plan before us, however, is not the appropriate path." (*New York Times*, 4/6/02)

- Nina Link, President & CEO, of the Magazine Publishers of America (MPA) believes the transformation plan "is a positive step toward beginning to address the Postal Service's immediate and long-term problems." Link added, "We especially welcome its commitment to not raise postal rates again any earlier than calendar year 2004. We also appreciate the Postal Service's commitment to move forward immediately with the type of pricing and operational efficiency reforms that the MPA has long called for - including the closing and consolidation of redundant facilities, the acceleration of other cost control measures, and the pursuit of modernized and innovative pricing practices." Link concluded, "This lengthy and comprehensive document will take more time to examine thoroughly. Once we have had time to do so, we will comment further." (*Business Wire*, 4/5/02)
- H. Robert Wientzen, President of the Direct Marketing Association, said, "The reality is that the plan, while ambitious, can only work on the margins of existing law without Congress' help. The Congress, not just the plan, must help right the sinking ship that is the Postal Service." (*New York Times*, 4/6/02) "We believe that the Postal Service intends to move forward immediately and in a direction that will help to put it on a more financially sound footing," said Wientzen. (*Associated Press*, Randolph E. Schmid, 4/5/02)
- A spokesman for United Parcel Service criticized the idea of a commercial government enterprise. "They should not focus on a Fannie Mae structure," UPS Spokesman David Bolger said. "They should focus on their core mission, providing first-class mail, and secondly, getting their financial house in order." (*Washington Post*, Stephen Barr and Ellen Nakashima, 4/5/02) Bolger said, "We are for universal service and a strong Postal Service focusing on first-class mail," he said. However, UPS has some "serious" questions about the plan when it comes to expanding beyond first-class mail, he said. "That's what we are looking very closely at," said Bolger, who added that UPS would like to see the Postal Service retain its current structure. If given more flexibility to compete with private companies, Bolger said the Postal Service would have an unfair advantage because it doesn't pay state or local taxes, among other things. "We cry foul over that," he said. (*Commercial Appeal* (Memphis, TN) 4/6/02)
- Postal officials are hopeful that FedExCorp. will lobby on behalf of the transformation plan. Potter recently spoke to FedEx Chairman Frederick Smith. "I told him that we wanted to assure that there's a strong Postal Service for America today and into the future. And I told him I was counting on his support," said Potter. Potter said Smith reminded him that FedEx supported a long-stalled postal reform bill by Congressman John McHugh (R-NY) which gives the Postal Service more flexibility for its mail monopoly, but also weakened the Postal Service's ability to compete with private sector products. FedEx spokesman Greg Rossiter said that company hasn't had a chance to review the transformation plan. However, "We support a strong US Postal Service." (*Commercial Appeal* (Memphis, TN) 4/6/02)
- "We think it [transformation plan] falls relatively flat," said Citizens Against Government Waste (CAGW) Vice President Leslie Paige. "It's more or less the status quo." (*Bloomberg News*, Bill Murray, 4/5/02) CAGW hosted an April 5 press conference with other taxpayer watchdog and consumer groups to address the precarious financial condition of the U.S. Postal Service and to draw attention to weaknesses in the transformation plan. Other groups participating in the press conference included: Rick Merritt, PostalWatch; Pete Sepp, National Taxpayers Union; Rob Fike, Americans for Tax Reform; Ed Black, Computer & Communications Industry Association; Ed Hudgins, Objectivist

Center; and Jason Thomas, Citizens for a Sound Economy (*US Newswire*, 4/2/02) CAGW continued, “The postal service’s accounting practices are in such shambles that it’s anyone’s guess what the bottom line is. Before any transformation plan is implemented, CAGW recommends a Grace Commission-style audit be performed, publicly-disclosed, full-scale, on-site by an outside, independent entity in order to get a true picture of its financial situation,” Paige said. “The USPS must winnow down and reconfigure its 900,000 person labor force, and determine which postal facilities are non-performing in order to close them. Today, officials must pull the plug on all of its non-core businesses, eliminate all non-essential activities like advertising and retail, and root out wasteful practices. Those near-term actions alone would yield hundreds of millions of dollars in savings. In the final phase of a true transformation plan, the postal service must be spun off as a fully private entity.” (*CAGW press release*, 4/5/02)

- CAGW added, “Postal officials seem unable to envision anything innovative. They continue to be wedded to the ‘government-sponsored corporation’ option, which is exactly where we are now and which represents the worst of both worlds. It leaves the postal monopoly intact, preserves all the postal service’s special benefits, brings no market forces to bear on the agency, imposes no tougher oversight measures, and unleashes the postal service to squeeze even more money from first-class mailers. Yet, the plan is virtually silent on the cost-cutting side of the equation, which is where most of the postal service’s truly intractable problems lie. Postal management clings to the misguided notion that its financial woes can be addressed if it could simply bring in more revenue,” Paige also said. “They are seeking freedom to raise rates and negotiate deals with big mailers. Instead of masquerading as a business, postal officials should go one step further and become a fully private business. In the long term, the aim should be to lift the monopoly, ushering in competitive forces. It’s the only way to stimulate real ingenuity, achieve robust productivity and efficiency, and offer state-of-the-art customer service.” (*CAGW press release*, 4/5/02)
- The transformation plan “doesn’t move the ball forward at all,” said Jack Estes, Executive Director of the Main Street Coalition for Postal Fairness. “It screams out for a presidential commission,” he said. “Congressman need a place to hide, particularly when you have large labor problems.” (*Bloomberg News*, Bill Murray, 4/5/02)

Government Accounting Office (GAO) issues report criticizing the Postal Service

GAO says the Postal Service’s business plan needs a major overhaul and warns that raising postal rates will worsen the overall financial problems of the Postal Service

In light of the report, four Senators urge the Postal Service to submit a workable plan to lift itself out of its cycle of debt

- The GAO issued a report (GAO-02-355) on February 28, 2002 criticizing the US Postal Service (USPS). “USPS’ financial outlook is becoming increasingly dire,” the GAO noted. “Tinkering with the existing system will be insufficient to produce a comprehensive transformation that will enable USPS to fulfill its mission in the 21st century.” The GAO noted that the USPS continues to experience deficits, severe cash-flow problems, rising debt, and liabilities that exceed its assets. USPS also lacks enough income to fund needed investments in safety, maintenance, expansion, and modernization and to cover its liabilities. USPS reported a \$1.68 billion deficit in fiscal year 2001, up from \$199 million a year earlier. The pressure to increase rates will mount as USPS contends with growing long-term obligations, including employee retirement and health benefits. Although USPS assumes that rising mail volume will cover rising costs and mitigate rate increases, this business

model is increasingly problematic because of the potential for declining or stagnating mail volume. USPS has also had little success in sustaining productivity increases. USPS' financial viability is also hindered by structural, legal, and practical constraints that make it difficult to close or consolidate postal facilities or realign the postal workforce. The GAO recommended that the USPS undertake a comprehensive transformation to address its financial, operational, and human capital challenges and produce more timely and accessible financial information. (*GAO Report, "US Postal Service: Deteriorating Financial Outlook Increases Need for Transformation,"* GAO-02-355, 2/28/02)

- The GAO Report noted that rising rates may have the effect of worsening the overall financial problems of the USPS by causing mailers to run increasingly to e-mail and other means of delivering messages, thus further reducing mail volume. The report cited additional problems facing the USPS including: a mandate to break even over time; reporting profits some years and losses in others; a complex and slow rate-setting system; and restraints on the USPS' ability to cut costs by closing offices and realigning its work force. The Report recommended that Congress promptly act on changes to give the USPS more operating flexibility. (*Associated Press, Randolph E. Schmid, 3/20/02*) "If the financial and structural problems aren't remedied, the GAO warned, "this could result in additional significant rate increases, lower quality of service and/or the need for additional federal appropriations." (*San Antonio Express-News, Stewart M. Powell, 3/23/02*)
- Four members of the Senate Governmental Affairs Committee responded to the GAO Report by urging the Postal Service to send them a workable plan to lift itself out of its cycle of debt. Chairman Joe Lieberman (D-CT), Ranking Republican Fred Thompson (R-TN), and Senators Daniel Akaka (D-HI) and Thad Cochran (R-MS) issued the statement. "We all know the Postal Service has a lot of problems, including deficits, cash-flow pressures, rising debt and liabilities," Senator Lieberman said. Given this situation, the USPS's plan has to be a serious blueprint for future solvency, a complete overhaul of its financial operations, he said. "The Postal Service is a key part of our national infrastructure, so we must continue to work with the service, unions and the general mailing community until USPS' financial house is in order," Senator Lieberman said. (*Associated Press, Randolph E. Schmid, 3/20/02*)
- Senator Thompson said: "The Postal Service framework established by Congress in 1970 appears to be near a breaking point. We established a system whereby the Postal Service would have the characteristics of both a federal agency and a business," Thompson said. "This system worked for years, but circumstances have changed. The Service's 'transformation plan' provides a unique opportunity for change. Capitalizing on the comments of all interested parties, we look to the Service to produce a plan that will begin to restore its position to one of economic stability." (*Senate Governmental Affairs Committee press release, 3/20/02*)
- Senator Akaka said: "This report underscores the urgent need to address what GAO calls the Postal Service's 'unsustainable business model.' Evolving technology and the recent terrorist attacks have changed the way that information is delivered. Even before September 11th, the Postal Service was experiencing a decline in volume, which has had a significant impact on revenue. As chairman of the Senate Subcommittee on International Security, Proliferation, and Federal Services, I look forward to comparing this GAO report with the Postal Service's transformation plan requested by this Committee." (*Senate Governmental Affairs Committee press release, 3/20/02*)
- Senator Cochran said: "This report will be helpful to us as we exercise our oversight responsibilities. It is essential that we continue to have the benefit of dependable and affordable services from the U. S. Postal Service." (*Senate Governmental Affairs Committee press release, 3/20/02*)

President Bush asks Congress for \$87 million to help the Postal Service prevent future biohazard attacks through the mail

- President Bush asked Congress on March 21 for an additional \$27.1 billion to finance the war on terrorism overseas and to buttress security at home. It includes \$14 billion for the Defense Department and intelligence agencies and \$5.5 billion for homeland security efforts. The \$5.5 billion homeland security request includes \$87 million to help the Postal Service prevent future biohazard attacks through the mail. (*Associated Press*, Alan Fram, 3/21/02; *Washington Post*, Dana Milbank, 3/22/02)
- As noted in previous *GSE Reports*, the Postal Service was provided \$500 million for mail sanitization as part of a \$318 billion defense department appropriations bill signed by President Bush in January. The Postal Service also received \$175 million from President Bush last year to immediately improve Postal Service safety shortly after the September 11 terrorist attacks and anthrax scare. (*DM News*, Melissa Campanelli, 2/6/02)

Postal Rate Commission approves an increase in the cost of postage rates, likely to take effect on June 30

The cost of a first-class stamp will increase from 34 to 37 cents

National Taxpayers Union (NTU) condemns postal rate increase, says solution is competition

Citizens Against Government Waste (CAGW) calls the postal rate increase a “Band-Aid on a gaping financial wound”

Taxpayers for Common Sense (TCS) criticizes the postal rate increase

- The independent Postal Rate Commission approved an unusual settlement on March 22 that will allow postal rates to increase as early as June 30. The settlement was offered in a Commission proceeding considering a Postal Service request for rate increases. The request was developed before the terrorist attacks of September 11. (*Postal Rate Commission press release*, 3/22/02) The Commission voted 3-0 to increase the postage rates. The increase still needs the formal approval of the Postal Service Board of Governors, which is scheduled to meet in mid-April. “That’s pretty much a formality,” said Postal Rate Commission General Counsel Steve Sharfman. (*BNA Daily Report for Executives*, Derrick Cain, 3/25/02)
- The Postal Service joined with mailer groups, postal employee organizations, competitors, and the Office of Consumer Advocate that represents the interests of the general public in a proposal that will increase rates by 7.7 percent. As part of the settlement, the Postal Service agreed to a schedule that would defer any additional increases until late summer of 2003. (*Postal Rate Commission press release*, 3/22/02)
- The rates for First-Class one-ounce letters will increase by 3 cents, to 37 cents. The post card rate increases two cents to 23 cents. (*Postal Rate Commission press release*, 3/22/02) The rate for First-Class two-ounce letters will increase by 3 cents, to 60 cents. Priority mail (one pound) will increase from \$3.50 to \$3.85; priority mail (distant five pound, 2,000 miles) will increase from \$7.70 to \$12.15; Express mail (8 ounces. P.O. to addressee) will increase from \$12.45 to \$13.65; Express mail

(2 lb. P.O. to addressee) will increase from \$16.25 to \$17.85; Parcel post, inter BMC (2 lb., Zone 5) will increase from \$3.45 to \$4.14; certified mail will increase from \$2.10 to \$2.30; and Return receipt, original signature will increase from \$1.50 to \$1.75. (*BNA Daily Report for Executives*, Derrick Cain, 3/25/02)

- One of the several unions of postal employees [American Postal Workers Union (APWU)] was the only party to oppose the settlement. The union favored smaller discounts for First-Class Mail presorted by mailers. The Commission did not agree that the proposed discounts were too large. (*Postal Rate Commission press release*, 3/22/02)
- This is the first time a postal rate case has been resolved through settlement. Normally, the numerous conflicting interests engage in complex litigation to determine whether rate increases are justified. Federal law requires the Postal Service to break even from operations. It is expected that next year the Service will need almost \$75 billion in postage revenue. (*Postal Rate Commission press release*, 3/22/02)

NTU condemns postal rate increase, says solution is competition

- The NTU released a statement condemning the Postal Rate Commission's decision to raise postage rates. "It is ridiculous that the Postal Rate Commission would once again allow a bloated, inefficient government monopoly to increase its rates," said NTU President John Berthoud. "Instead of allowing the Postal Service to get away with its poor management practices, such as giving out hundreds of millions of dollars in bonuses to executives and managers while losing billions of dollars, Congress needs to allow competition to encourage efficiency and better service for all Americans."
- Federal law prohibits private companies from providing first-class mail delivery service. Additionally, the USPS is exempt from all taxes, zoning laws, vehicle registration fees, and other rules and regulations that apply to private sector companies. Nevertheless, according to the U.S. Bureau of Labor Statistics, the USPS has experienced productivity growth of 11.1 percent in the last 30 years, compared with 53.4 percent for all private sector companies.
- "Private parcel delivery companies like UPS and FedEx can make a profit after paying billions of dollars in taxes and spending millions on advertising, yet the U.S. Postal Service – a tax-exempt government monopoly – can't even meet its goal of breaking even," noted Berthoud. "The difference is clear: a private company that is subject to competition and that is accountable to its shareholders must be as efficient as possible to survive. Unfortunately, the Postal Service has no competition and is only accountable to big-spending politicians and powerful labor unions."
- "In light of the inefficiency and waste within the U.S. Postal Service, another postal rate increase would be a slap in the face to all Americans," said Berthoud. "The time has come to finally privatize the Postal Service and allow competition in first class mail delivery." (*NTU press release*, 3/22/02)

CAGW calls the rate increase a "Band-Aid on a gaping financial wound"

- CAGW Vice President Leslie K. Paige released the following statement on March 22 in response to the U.S. Postal Service's latest rate hike:
- "The Postal Rate Commission's decision today to recommend an average 7.7 percent postal rate increase is a Band-Aid on a gaping financial wound. In the long run, this rate hike will not serve anyone's best interests, least of all the Post Office. This substantial increase comes a little more than a year after the last increase and is, without doubt, only a prelude to the next, inevitable, rate case,

which could come as early as October of this year. These rate increases are coming faster and are ever more draconian. We've had 3 hikes in four years and none of them have stemmed the flow of red ink.”

- “The USPS's numerous, exhaustively documented problems from its chronic financial mismanagement, abysmal investments in dead-end commercial ventures, to its heavy-handed exploitation of its monopoly status will never be fixed by rate increases. Take Priority Mail, for example. The commission today recommended a 14 percent increase in the price of this postal product in spite of the fact that it is a huge money loser and the postal service has systematically misled its customers into believing that it is any faster than regular first-class mail. An increase of this magnitude for this product is a swindle being perpetrated on American consumers, struggling families, and America's businesses, large and small.”
- “Throwing other people’s money at a thorny public policy problem that cannot be fixed with money alone is the quintessential Washington dodge. The only way to get serious reform is to turn off the spigot that is pouring money into this black hole.”
- “This increase is the result of an unusual ‘negotiated’ settlement of a rate case involving the USPS and 56 of the 63 official stakeholders. However, it is one of Washington’s worst kept secrets that many of the parties accepted this rate hike for fear of having even more severe increases imposed upon them in the near future. Though the rate commission stated today that this expedited settlement does not set a precedent for future cases, the public can expect the postal service to be back with more demands before the year is out and they will undoubtedly petition to have that rate case rushed through as well. These are the desperate tactics of a failing, government-backed monopoly.”
- “The Postal Rate Commission is vested with only the weakest authority to protect ratepayers from the predations of this mismanaged and unaccountable bureaucracy, though several of its commissioners and its Office of Consumer Advocate deserve credit for exposing some of the postal service's fiscal shenanigans. Commissioner Ruth Goldway today made clear that this rate hike is a stop gap measure and that the postal service is plagued with serious systemic problems that call for public policy action in Congress. In the short run, measures should be instituted by Congress, including (but not limited) to: a hard hiring freeze; the elimination of the postal service's advertising budget; a full accounting of and immediate stoppage of all its e-commerce activities; a complete inventory of all its properties and a thorough review of all its construction expenditures; and the elimination of lump sum payments of any kind for postal managers and supervisors. In the long run, the postal service must be demonopolized and reborn as a purely private sector enterprise.” (CAGW press release, 3/22/02)

TCS criticizes the postal rate increase

- TCS criticized the Postal Service for raising postage prices, calling it a “major tax increase on working-people and small business.” “Behind closed doors, the U.S. Post Office made a sweetheart deal with its largest corporate customers to hold down costs at the expense of hard working Americans,” stated Joe Theissen, Executive Director of TCS. “The Postal Service seems more concerned with meeting the needs of its largest corporate customers than supporting its loyal customers, the American taxpayer.”
- TCS noted that in secret meetings between the Postal Rate Commission and the Postal Service's largest customers was where the postal hike was approved. Representatives of average Americans, who do not qualify for sweetheart deals with the Postal Service, were not in attendance.

- “Rather than cutting costs by disposing of surplus property and closing under-used facilities and reducing other expenses, the Postal Service, once again, chose to make average Americans shoulder the cost of their rampant mismanagement. Congress should step in and void this increase and at the same time force the Postal Service to cut costs and reform itself,” continued Theissen.
- TCS concluded, “Not everyone can afford or chooses to use e-mail or alternatives to "snail mail." At a minimum, the Rate Commission should not be allowed to increase rates before hearing from ordinary taxpayers. TCS calls on Congress and President Bush to express outrage with this proposal and to demand that the Postal Service weigh the interests of all its customers, not just big corporate customers.” (*TCS press release, 3/22/02*)

Office of Management and Budget Director Mitch Daniels says a Presidential Commission to develop long-term solutions for the Postal Service is possible

- Speaking at a March 27 Chamber of Commerce Policy Insiders breakfast, OMB Director Mitch Daniels was asked the following question, “Is the administration looking at giving any consideration to appointing a presidential commission to develop long-term solutions for the problems that exist at the US Postal Service?”
- Daniels responded, “I think a commission is possible. The Postal Service’s problems quite obviously did not start in September. They were losing one and a half or more billion dollars last year. They have fundamental problems that they are wrestling with over there. We did include in the supplemental some more money to help them with the direct consequences – things that were not their fault obviously of the anthrax mailings and the like. But there are...basic long-term issues to be confronted. And the system probably can’t roll on as it is. I think I don’t need to go into all the ways in which structurally the US Postal Service is a strange beast in terms of its relationships with labor and its ability to manage its cost structure, in terms of its ability to price its products. So one doesn’t welcome a problem like they are in right now. But if it led to a fundamental relook at how that service operates, and how it ought to in a modern era, it might be a long-term benefit.” (*Federal News Service, Remarks by OMB Director Mitch Daniels at US Chamber of Commerce Policy Insiders Breakfast, 3/27/02*)

CAGW applauds Postal Rate Commission’s Office of Consumer Advocate

Office of Consumer Advocate issues report calling for better postal accounting

- CAGW applauded the Postal Rate Commission's (PRC) Shelley Dreifuss, acting director of the Office of the Consumer Advocate (OCA), and her team, for its March 20th report, excoriating the USPS's ongoing mismanagement of its domestic nonpostal services, particularly Internet services, hybrids of the electronic and traditional mail services, and services ancillary to the provision of traditional postal services. CAGW noted that the OCA has made a compelling argument that the PRC has the legal right of prior review for the postal services commercial activities.
- “Had it reviewed this mishmash of money losers in advance, the postal service might have been prevented from getting into these businesses and saved tens of millions of dollars,” CAGW Vice President Leslie K. Paige said. “It’s about time somebody demands and gets some straight answers from postal officials about the financial losses associated with these dead-end ventures.” The commercial ventures cited in the report were: First Class Phone Cards; Retail Merchandise; Liberty Cash; Dinero Seguero; Sure Money; eBillPay; ePayments; USPS Online Payment Services; Pay @

Delivery; USPS Send Money; NetPost CardStore; NetPost Certified Mail; Electronic Postmark; Unisite Antenna Program; Returns @ ease; Mall Package Shipment Program.

- “OCA calculates an overall loss for the entire array of 'nonpostal' services of approximately \$32.5 million for years 1995 to date,” according to the report. “[T]he Postal Service had projected revenues of \$104 million for its e-commerce initiatives in FY 2001, but had realized less than 1 percent in actual revenues by the end of the first three quarters.” The OCA also argues, “it is evident that, without regulatory oversight, the Postal Service's procedure are haphazard, inconsistent, and deficient.”
- “The OCA’s report makes clear that postal management has spent a significant amount of time and ratepayers’ money dabbling in unnecessary and inappropriate commercial businesses, even while posting massive losses, jacking up rates, and failing in its basic mission of delivering mail,” Paige added. “The OCA’s report is even more trenchant when one considers that postal managers are currently petitioning the Bush Administration for \$1.7 billion more for the next two years' security costs, on top of the \$675 million they have already received.”
- “Though members of Congress and the General Accounting Office have previously asked for an accounting of these matters, USPS has been either unable or unwilling to comply," Paige continued. "Nobody has so far been able to get to the bottom of this morass. The OCA is taking a stand, trying to put some teeth into the PRC’s oversight capabilities. It is way past time to bring these renegade business development branches at USPS under the control of some sort of supervisor. The tens of millions of dollars that USPS claims to have lost will undoubtedly be just the tip of the iceberg.”
- “The OCA report amplifies the cognitive dissonance that occurs whenever postal executives discuss finances. When Postmaster General Potter can sit before an appropriations subcommittee, his chief financial officer planted mutely by his side, and testify with a straight face that the postal service has aggressively cut costs, achieved record productivity, maintained superb levels of consumer service while losing multiple billions of dollars, you know there is a serious level of denial going on at L'Enfant Plaza,” Paige concluded. “This report, coupled with the OCA’s March 6 volume, in which it shredded the postal service's claims of stellar customer satisfaction, is refreshing. The OCA deserves the gratitude of millions of postal ratepayers and taxpayers.” (*CAGW press release, 3/22/02*)

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