

The **GSE** REPORT™

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Major Events

Representative Barney Frank (D-MA) sets the stage for a floor showdown on restrictions to affordable housing fund provision in H.R. 1461

- Representative Barney Frank (D-MA) called for showdown on the revised affordable housing language in the GSE regulatory reform legislation (H.R. 1461) when the legislation comes up for a vote on the House floor. Frank alleges that the revised language would greatly limit the range of organizations that could take part in an affordable housing program. "Let's bring the bill out," Frank told *Reuters*, saying he wants open debate. "Bring it on." Frank has rallied the help of religious leaders, low-income housing groups and others to oppose recent concessions made to H.R. 1461, which mollified objections from conservatives in the Republicans Study Committee (RSC) over the affordable housing fund provision in the bill. Specifically, the amendment would prohibit groups from receiving money from the fund if they engage in get-out-the-vote efforts or other election activities in the past year. Frank, the ranking Democrat on the House Financial Services Committee, said the changes to the affordable housing fund were "unacceptable" and is rallying support in the House to defeat the amendment. "Why should the Catholic Church choose between doing voter registration or affordable housing, especially since it's separate money?" asked Frank. He said the provision "represent[s] an assault on faith-based groups and other organizations involved in low- and moderate-income housing." He added, "What started as a fiscally responsible, off budget, and non taxpayer-financed way of providing affordable housing has turned into a political football." In an interview with *Dow Jones Newswire*, Frank said, "If we get an open vote on this in the full House, I think we can get it defeated." He said he is confident that Republican leaders will allow a vote on a floor amendment to strip the RSC-language from Oxley's manager amendment. "If [the RSC-language] were to come up without a chance to vote on it, then I wouldn't support the bill," warned Frank. "But I don't believe [the GOP leadership] would do that. It would be very high-handed."
- A coalition of 61 non-profits, civil rights, faith-based, housing and human services groups signed an October 19th letter to House Speaker Hastert (R-IL), arguing that the proposed amendment "would restrict the ability to American citizens to engage in our democratic process." The groups wrote, "These provisions are blatantly undemocratic and raise substantial constitutional questions in the attempt to limit the rights of affiliation. They are intended for no other purpose than to reduce access to voting by low income people. People of color are overrepresented in the low income population, making this a civil rights issue. Moreover, these provisions have serious implications for the broader nonprofit community by setting a very dangerous precedent." Signatories of the letter included Alliance for Healthy Homes, Alliance for Justice, American Counseling Association, American Federation of State, County and Municipal Employees, American Network of Community Options and Resources, Americans for Democratic Action, Association of Community Organizations for Reform Now (ACORN), Campaign for America's Future, Center

for Community Change, Center for Law and Social Policy, Child Welfare League of America, Children's Defense Fund, Cities for Progress at the Institute for Policy Studies, Coalition on Human Needs, Consortium for Citizens with Disabilities, Corporation for Supportive Housing, Enterprise Foundation, Environmental Working Group, Episcopal Church, Lawyers' Committee for Civil Rights Under Law, Leadership Conference on Civil Rights, Local Initiatives Support Corporation, Lutheran Services in America, Mercy Housing, National AIDS Housing Coalition, National Alliance of HUD Tenants, National Alliance on Mental Illness, National Alliance to End Homelessness, National Association for the Advancement of Colored People (NAACP), National Association of Housing Cooperatives, National Coalition for the Homeless, National Committee for Responsive Philanthropy, National Community Reinvestment Coalition, National Council on the Aging, National Council of Nonprofit Associations, National Council on Independent Living, National Fair Housing Alliance, National Head Start Association, National Health Care for the Homeless Council, National Housing Conference, National Housing Law Project, National Housing Trust, National Law Center on Homelessness & Poverty, National Low Income Housing Coalition, National Neighborhood Coalition, National Policy and Advocacy Council on Homelessness, National Urban League, OMB Watch, Poverty and Race Research Action Council, Presbyterian Church (U.S.A.), Washington Office, Public Housing Authorities Directors Association (PHADA), RESULTS, Smart Growth America, Stewards of Affordable Housing for the Future, Technical Assistance Collaborative, The Arc of the U.S., U.S. Public Interest Research Group (U.S. PIRG), National Association of State PIRGs, United Cerebral Palsy, United Church of Christ Justice and Witness Ministries, Women's Committee of 100, YWCA USA.

- The U.S. Council of Catholic Bishops, the NAACP, National Low Income Housing Coalition, and dozens of nonprofit groups flooded Hastert's office with letters in recent weeks, asking him to oppose attaching the compromise measure to H.R. 1461 before it goes to the floor for a vote. The groups argue the provision would set a dangerous precedent by forcing nonprofit organizations to choose between helping low-income Americans to find affordable housing and helping them to exercise their right to vote. The Reverend Dr. Willie Gable, vice chairman of the National Baptist Convention, now calls H.R. 1461 "the Non-Voting Rights Act of 2005."
- In response to the non-profits' outcry about the proposed changes to the AH fund, one GOP aide said, "Look, we're all for Habitat for Humanity. But it's not about affordable housing; it's about using affordable housing to fund the Democratic political machine." A House Democratic staff member told *Bureau of National Affairs* that when the Republican Study Committee (RSC) aimed the bill's prohibitions at the Association of Community Organizations for Reform Now (ACORN), they may have inadvertently hit some faith-based organizations that they might not have intended to prevent from engaging in AH activities. "This is going to affect Catholic Charities" and other organizations that provide housing services and also participate in certain political activities, said the staffer. "It's going to force some

of these groups to decide whether they want to be involved in affordable housing or voter registration,” the source added.

- In an October 19th Dear Colleague letter, 19 Democratic members of the House Financial Services Committee urged lawmakers to support H.R. 1461 as reported out of the Committee and “reject amendments that would undermine the delicate balance” of committee members’ support. Signatories included Paul E. Kanjorski (D-PA), Darlene Hooley (D-OR), Brad Sherman (C-CA), Dennis Moore (D-KS), Harold E. Ford (D-TN), Joseph Crowley (D-NY), Steve Israel (D-NY), Carolyn McCarthy (D-NY), Joe Baca (D-CA), Jim Matheson (D-UT), David Scott (D-GA), Arthur Davis (D-AL) and Melissa L. Bean (D-IL).
- House Majority Leader Roy Blunt (R-MO) said that he "looks forward" to a House vote the week of October 24 on GSE regulatory reform legislation. At a briefing and later in a statement on the House floor, Blunt said the House will begin with the H.R. 1461 passed by the House Financial Services Committee in July, but added the package "does need some adjustments." He added, “The compromise works,” referring to the agreement worked out by Representative Michael Oxley (R-OH), chairman of the Financial Services Committee with conservatives in the Republican Study Committee over the affordable housing provision. Blunt indicated that a manager's amendment is being prepared and will be presented to the House Rules Committee the week of October 24, but did not say what changes to the underlying bill will be in the amended version. Republican sources told *Bureau of National Affairs* the leadership so far indicates that they intend to call for a House vote on the manager’s amendment in its current form, which includes the RSC language. Members have until noon on October 25th to hand in possible amendments to H.R. 1461, said Jo Maney, spokeswoman for Rules Committee Chairman David Dreier (R-CA). Representative Scott Garrett (R-NJ) said he plans offer an amendment in the Rules Committee, requiring that Fannie Mae and Freddie Mac reduce the size of their combined \$1.5 billion investment portfolios. Democrats want to offer an amendment that would exclude language from the manager’s amendment concerning restrictions on AH fund, but have been told informally that the Rules Committee won’t allow it, said Frank. Sources said that the House Rules Committee will make a final determination October 25 on when a vote on GSE regulatory reform is to be scheduled, which would most likely come on October 26 or October 27.
- It will be difficult for Republicans to pass H.R. 1461 without Democratic support, since 218 votes are need for passage and party has a narrow margin of control of only 231 House members. Even with the recent compromise measure, it’s highly likely that some fiscal conservatives will still break party ranks and vote against the bill, said several GOP aides. In a speech before Fannie Mae’s National Advisory Council, Representative Howard Baker (R-LA), co-sponsor of H.R. 1461, told the group that he was confident that the bill would be approved in the House.
- Even H.R. 1461 passes, the vote could prove to be largely symbolic, since provisions of the bill face strong opposition from the Bush Administration, the Federal Reserve,

and the Senate, where Banking Committee Chairman Richard Shelby (R-AL) has drafted a significantly different companion bill (S. 662). While the administration will likely support getting the bill through the House to move the process forward, the Bush White House hopes to significantly strengthen the legislation when it gets combined with the Senate bill in conference. Shelby won't push for floor votes on his bill, which is favored by the administration, until after Fannie Mae wraps up an internal investigation of its accounting practices that is expected to be completed in January 2006, according to Senate aides. "We're making an effort at achieving consensus on the committee, but haven't been able to do that," said Senate Banking spokesman Andrew Gray. "Clearly Senator Shelby wants to move a GSE reform bill, but it must contain the core elements that the banking committee passed in July." Senators on both sides of the isle have warned that a failure in the House to reach a bipartisan consensus on the affordable housing fund would doom the bill's prospects for passage in the Senate. In a speech before America's Community Bankers, Senator Mel Martinez (R-FL), a member of the Senate Banking Committee and former Secretary of HUD, said he does not expect the Senate to pass GSE regulatory reform legislation before the end of the year, but said legislation should advance in 2006.

- Stanford Washington Research Group analyst Jaret Seiberg predicts GSE regulatory reform will be delayed until 2006, given disagreements over policy and other business on the Senate's agenda. "There's so many hurdles to the Senate being able to get this done," he said, noting that in addition to full slate of budget issues and the pending confirmation of Harriet Miers to the Supreme Court, lawmakers must also find a middle ground on the mortgage portfolio issue. "We see GSE reform stretching into 2006," he said, where "political tensions only increase in an election year." Seiberg concluded that the odds are against enactment before the mid-term congressional elections next year. (*Dow Jones Newswires*, Dawn Kopecki, 10/21/05; *Washington Post*, Annys Shin, 10/21/05; *Market News International*, John Shaw, 10/20/05; *Dow Jones Business News*, Robert Schroeder, 10/19/05; *National Journal's Congress Daily*, Molly M. Peterson, 10/19/05; *National Journal's Congress Daily AM*, Molly M. Peterson, 10/20/05; *Bureau of National Affairs' Report for Executives*, Richard Cowden, 10/20/05; *Bureau of National Affairs*, Richard Cowden, 10/21/05; *Congressional Quarterly's CQ Today*, 10/21/05; *Bloomberg News*, Laura Litvan and James Tyson, 10/20/05; *Congressional Quarterly's CQ Today*, 10/21/05; *Reuters News*, 10/17/05; *Congressional Quarterly's CQ Today*, Molly M. Peterson, 10/17/05; *Letter to the Honorable Dennis Hastert (R-IL)*, National Organizations Opposed to Voter Restrictions in H.R. 1461, 10/19/05; *Letter to Members of the House of Representatives*, National Association of Realtors, 10/18/05; *Dear Colleague Letter*, 19 Democratic members of the House Financial Services Committee, 10/19/05)

<p>HUD concludes that Fannie Mae's partnership offices were used primarily to lobby Congress rather than to promote affordable housing</p>
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- Following a year-long review of Fannie Mae's regional partnership offices, HUD concluded that the company used its regional partnership offices over the years to

primarily lobby Congress instead of promoting affordable housing. While the agency refused to release its full report, it issued an October 17th statement, indicating that Fannie Mae's charter allows the GSE to set up regional offices to promote affordable housing. The agency added, "However, the department also concluded from its review that the activities of the partnership offices were not confined to affordable housing initiatives. Rather, a central purpose of the Partnership Offices was to engage in activities that were primarily designed to obtain access to or influence members of Congress." HUD notified Fannie Mae that it will monitor its partnership activities going forward "to ensure that the offices are being operated in a manner that is consistent with Fannie Mae's charter authorities."

- On October 19, HUD released to the media the August 31st letter from Federal Housing Commissioner Brian Montgomery to Fannie Mae CEO Daniel Mudd, which outlined the agency's findings on its review of the company's partnership offices. Montgomery said that the Fannie Mae had misdirected its partnership offices toward gaining legislative clout and away from their federally-approved mission to expand homeownership. Directors of Fannie's Partnership Offices were "assigned the duty of assisting in outreach efforts to members of Congress," said Montgomery. "...Further, based on information provided by Fannie Mae, many offices are located and staffed based on criteria related to the congressional districts represented by various members of Congress, including party affiliation and the committee assignments of the representative in these districts." For example, Rob Bennett, the son of Senator Robert Bennett (R-UT) is the deputy director of Fannie Mae's partnership office in the Senator's home state. Jeffrey Bennion, Utah's partnership office director, worked for former Utah Governor Michael Leavitt (R). In 2001, Bennion was hired to replace Timothy Stewart, who served as legislative aide to the Senator Bennett (R-UT) for seven years before joining Fannie Mae in 2000.
- HUD concluded, "Collectively, this information indicates that a central purpose of the partnership offices is to engage in activities primarily designed to obtain access to or influence members of Congress. This information contradicts Fannie Mae's public characterization of the partnership office's [sic] purposes as intended to promote affordable housing." HUD directed Fannie Mae to conduct an internal review of the political activities of its 55 regional offices.
- HUD spokesman Lemar Wooley refused to say why the agency wasn't publicly releasing its findings and suggested that reporters to file formal requests for the report under the Freedom of Information Act. A source familiar with the report said HUD has been reluctant to release it and was pressured by lawmakers and the administration to keep the full report quiet because it would make both parties "look bad."
- Fannie Mae spokesman Brian Faith said the company is refocusing its partnership offices under a new name, community business centers, "to better align our business with the needs and focus of our customers and partners. The purpose of the community business centers is to expand affordable housing opportunities and to

work with our customers to get more people into homes and help them remain in those homes." In the past month, Fannie Mae has laid off 20 lobbyists and publicists located at its 55 partnership offices outside Washington and is dismantling its grass-roots lobbying network,

- *Dow Jones Market Talk* reported, "Laughs erupted at a [recent] closed-door meeting of Washington lobbyists at the American Bankers Association ...after one attendee announced, 'HUD issued a statement that they had a report showing Fannie had used their partnership offices primarily for lobbying purposes. In a related note, HUD was shocked to discover there was gambling going on in Las Vegas.'" (*Dow Jones Newswires*, Dawn Kopecki, 10/17/05; *Associated Press*, 10/17/05; *Bloomberg News*, 10/19/05; *Dow Jones Newswires*, Dawn Kopecki, 10/19/05; *Dow Jones Newswires*, Dawn Kopecki, 10/21/05)

Fannie Mae and Freddie Mac

Hurricane recovery efforts continue along the Gulf Coast:

New Orleans prepares to demolish thousands of flood-damaged properties

Losses mount from storm-related damage in the Gulf Coast

Senators Kennedy (D-MA) and Gregg (R-NH)
support the creation of the Gulf Coast Recovery and Disaster Preparation Agency

Representative Baker (R-LA) introduces H.R. 4100
to establish the Louisiana Recovery Corporation

Governor Blanco pledges to account for “every single penny” of federal aid

Fannie Mae and Freddie Mac continue their efforts to assist with the recovery efforts

New Orleans prepares to demolish thousands of flood-damaged properties

- As officials begin inspecting thousands of rotting houses and preservationists begin efforts to save them, city and federal officials say that 30,000 to 50,000 of New Orleans' houses will probably have to be demolished. While the number of demolitions is smaller than earlier predictions, nevertheless the demolitions account for more than 25% of the city's housing stock. "Really, the whole scope of this thing is hard to get your mind around," said Allen Morse, who will be in charge of the demolition effort for the Army Corps of Engineers. "It's going to be a huge task." Of New Orleans' 180,000 homes, 110,000 were flooded and half of those sat for days or weeks in more than six feet of water, say city officials. If up to 45% of the flooded homes are beyond salvaging, many others could be saved through extensive—and expensive—repair, if the homeowner has the resources to rebuild. Thus, the number of demolitions could soar, since the price of renovations has more than tripled to nearly \$120 a square foot in New Orleans. No one is certain when the demolitions will begin or what will happen to homes without flood insurance.
- Preservationists argue that money must be found to rebuild some of the most historic properties and the demolition process must proceed cautiously. “When you have a city that has suffered an incredible disaster, you can't overlook any economic resource, and the historic buildings are an economic resource,” said Patricia Gay, executive director of the Preservation Resource Center of New Orleans. "This type of thing is the flesh and blood of the city."

- While homeowners have the final say on whether their homes will be torn down, they have a limited time to make the decision to renovate or demolish. "At some point, we have to have a cutoff," said Michael Centineo, director of New Orleans' Department of Safety and Permits. "When it becomes a public nuisance, when it becomes a blight."
- On October 17, columnist Robert Novak provided a first hand account of the recovery efforts in New Orleans. According to Novak, business leaders want government services and police protection restored, so businesses can reopen and the "magic of commerce" can do its work. While more than 2,500 National Guardsmen from around the country currently augment the local police force, other governmental services are inadequate. Large volumes of spoiled food and garbage remain on city streets due to inadequate or minimal garbage collection service and electric power has not been fully restored, resulting in few operating traffic lights in the city. There is no public transportation and limited taxi service.
- Novak said his short visit there revealed the scope of the problem. "Only about 5 percent of the city's 460,000 residents have returned or never left. The devastation is complete in the predominantly African-American Lower 9th Ward, 36 percent of whose residents live below the poverty level. Their houses, in poor condition before the floodwaters, are not worth replacing," wrote Novak. The expectation in New Orleans is that the city will downsize to around 250,000 residents. Novak writes, "So many poor black people are expected never to return to New Orleans that the Rev. Jesse Jackson claims a sinister plot by Bush adviser Karl Rove to send African-American voters into 'perpetual exile.' More than the poor are leaving forever. Ruth's Chris Steakhouse is moving its permanent corporate headquarters to Orlando, FL, and New Orleans may never again see its Saints football team."
- As for disaster relief, Novak writes, "Nobody here takes seriously [the] \$250 billion proposed for disaster relief by [Senators] Landrieu (D-LA) and Vitter (R-LA). Representative Richard Baker (R-LA), a senior member of the House Financial Services Committee who represents Baton Rouge, told me that 'we're not just going to dump a lot of money on Louisiana.'" (*New York Times*, Adam Nossiter, 10/23/05)

Losses mount from Hurricane Katrina and Rita

- Hurricanes Katrina and Rita are expected to result in at least \$1.3 billion in bad loans for major banks in the areas designated as disaster zones by FEMA. More than a dozen banks with substantial presence in Louisiana, Mississippi or Texas disclosed in their third quarter results that they had suffered storm-related losses, including J.P Morgan Chase, which charged off \$400 million for hurricane related (pre-tax) losses, followed by Citigroup (\$375 million), Hibernia Corp. (\$175 million), Wells Fargo (\$100 million), Regions Bank (\$62 million), and Bank of America (\$50 million). (*Wall Street Journal*, Valerie Bauerlein, 10/22/05)

- Early industry figures show that uninsured flood damage could top \$44 billion or more in Louisiana, Mississippi, Alabama and Texas, according to testimony by William Jenkins, GAO's Director of Homeland Security and Justice Issues, before the Senate Banking Committee. Jenkins later told *Dow Jones Newswires*, "Probably less than half of the [flooded] properties carried flood insurance and in Mississippi as little as a third." Robert Hartwig, chief economist for the Insurance Information Institute, told Congress that most of the flood losses are uninsured. He added "Tragically, fewer than 10% of property owners in some coastal counties had purchased flood insurance." Hartwig, who has tallied insurance payouts after natural disasters in the United States, Western Europe and Japan, found that private insurance has covered on average 62% of the economic losses after natural disasters in those places. In New Orleans, however, he expects that insurance will cover less than half of the losses--and perhaps much less than that--because of the magnitude of uninsured flood losses. "It will probably be the lowest percentage of coverage for a major natural disaster in the U.S. for the last half-century," Hartwig said. "Unfortunately, the level of coverage in New Orleans is likely to be somewhere between the Western countries and the Third World -- where places can be affected for years, if not decades, by natural disasters." Total Katrina damage has been estimated at \$125 billion, he added, which is too low since the interruption of business is only partially included.
- The GAO criticized FEMA for having lax controls over its flood program. Specifically, the GAO said FEMA's flood maps were outdated, its data collection and analysis were inconsistent and failed to use "statistically valid" methods in monitoring claims. Moreover, FEMA maps were based on a vastly mistaken assumption that levees and flood walls protecting New Orleans would remain in tact and thus, slightly higher elevated areas such as the Lower Ninth Ward and much of neighboring St. Bernard parish were *not* in a flood plain. Michael Buckley, deputy director of FEMA's flood migration division, noted that simply throwing out the assumption that the levee holds could create significant problems for New Orleans. If the areas are designated in the flood plain, flood insurance regulations would require that every new building in the area would have to be built as much as 15 feet above ground, making the new construction both ungainly and much more expensive. "It is not a simple subject," Buckley added.
- While FEMA is working to correct its deficiencies, the agency lacks the reserves to cover this year's flood claims and will need authorization from Congress to borrow more money from the U.S. Treasury, testified David Maurstad, FEMA's acting director of the Federal Insurance Administrator Mitigation Division. FEMA estimates that it could pay in excess of \$22 billion in hurricane-related claims. Although Congress recently passed legislation to increase the borrowing capacity of FEMA's National Flood Insurance Program from \$1.5 billion to \$3.5 billion, Maurstad said the agency needs to borrow an additional \$5 billion just to cover claims it expects to pay by mid- to late November. In contrast to past borrowings, the insurance fund has no hope of repaying debt of this magnitude from premium income. Maurstad called the increased borrowing a "stopgap" while fundamental questions about the future of the flood insurance program are addressed by Congress. (*Washington Post*, Albert B.

Crenshaw, 10/19/05; *Bureau of National Affairs*, Karen L. Werner, 10/19/05; *Dow Jones Newswires*, Henry J. Pulizzi, 10/12/05; *Dow Jones Newswires*, Dawn Kopecki, 10/18/05; *Washington Post*, Peter Whoriskey, 10/17/05)

Senators Kennedy (D-MA) and Gregg (R-NH) introduce S. 1836 to create Gulf Coast Recovery and Disaster Preparation Agency

- Senator Judd Gregg (R-NH), chairman of the Senate Budget Committee, and Senator Ted Kennedy (D-MA) joined forces in proposing the creation of a new federal agency to coordinate the rebuilding of the Gulf Coast, modeled after the Tennessee Valley Authority. The new legislation (S. 1863) would create a “Gulf Coast Recovery and Disaster Preparation Agency” (DCRDPA) responsible for planning and executing rebuilding activities in the Gulf Coast. S. 1863 authorizes the agency for a three years period, but allows the president decide to extend its authority for an additional three years. The agency director, who will be appointed by the president and confirmed by the Senate, would submit an annual redevelopment budget to the president and have full budget authority over Gulf Coast rebuilding appropriations. Within DCRDPA, a public-private redevelopment authority named the “Gulf Coast Revitalization Authority” (GCRA) would be formed to develop a comprehensive plan, in conjunction with local leaders, for the reconstruction of the region. The GCRA’s 19-member board would be composed of state and local officials, including the governors of Louisiana, Mississippi, Alabama and Texas, and the mayor of New Orleans, as well as leaders from the business and non-profit sectors in those states, and the agency’s director. S. 1863 is likely to meet with resistance in some quarters, including the Bush administration. Mississippi Republican Governor Haley Barbour and the state’s congressional delegation have opposed federal control of the rebuilding of Mississippi. (*CQ Today*, Joseph J. Schatz, 10/11/05)

Representative Baker (R-LA) introduces H.R. 4100 to establish the Louisiana Recovery Corporation

- On October 20, Representative Richard H. Baker (R-LA) introduced H.R. 4100 to establish the Louisiana Recovery Corporation (LRC), a federal agency that “would function in consultation with state and local officials with the mission of facilitating both the economic stabilization of property owners and mortgage lenders and the redevelopment of areas of Louisiana devastated by Hurricanes Katrina and Rita.”
- The LRC would be governed by a president-appointed seven-member board of directors, two of whom would be selected by recommendations from the Governor of Louisiana. The Corporation would exist for ten years and be funded through the issuance of U.S. Treasury bonds, rather than direct appropriations. The LRC would be empowered to (1) offer payout opportunities to property owners with options for future ownership, (2) settle the loans with lending institutions, (3) make infrastructure improvements to tracts of land so they are suitable for sale and development, and (4) use its profits from the sales to repay the federal treasury.

- In consultation with state and local officials, the LRC would implement goals of economic development, urban planning with an eye toward traditional neighborhood design and historic preservation, and affordable homeownership opportunities. “Consistent with the vision of President Bush and Governor Blanco that the rebuilding of Louisiana be locally led and locally driven, the Louisiana Recovery Corporation will be a vehicle to implement the actual rebuilding phase of a comprehensive recovery plan by making available the resources of the federal government, maximizing the role of Louisianans, but minimizing the exposure to the taxpayer,” said Baker. “The main beneficiaries of this proposal are the affected residents, business and property owners, enhancing options and opportunities for them but also offering homeownership opportunities for all Louisianans through a system that promises innovation, efficiency, and accountability, that utilizes private investment and, as a consequence, goes some way toward helping pay for itself.”
- Property owners would have the option to opt out of any financial or other arrangement with the Corporation or negotiate with the Corporation over the purchase of their property. Any compensation offer will provide an owner with a settlement and an agreement by any lender to consider any mortgage paid in full. Any owner will retain a first right of refusal to purchase a lot of similar scope and location after a bid to redevelop the area has been accepted but before the area is made available to the general public. The owner may opt to retain an interest in their property and have the Corporation negotiate to satisfy any outstanding mortgage. The owner will receive no monetary compensation for the property but will be required to develop the property and reimburse the Corporation for any expenses associated with improving the property and readying it for construction.
- Working in concert with local and State officials, the Corporation will establish a bidding process that will place a premium on proposals incorporating: (1) use of local suppliers and contractors, (2) effective land use management, (3) mixed-use development, (4) affordable housing, (5) commitment of leveraging resources such as tax credits, etc. to enable broad homeownership opportunity, (6) commitment of private capital, and (7) scale of development and local job creation.
- Once contracts are let and development moves forward, the Corporation will monitor and submit quarterly and annual reports on progress. The Corporation will monitor all transactions to ensure funds are properly spent and may re-bid contracts and bar any person or company from future business dealings with the Corporation in the instance of corruption or breach of contract. The text for H.R 4100 is available on the Internet at <http://www.baker.house.gov/files/lrc.pdf>. (*Representative Richard H. Baker Press Release, 10/20/05*)

Louisiana Governor Blanco pledges to account for “every single penny” of federal aid

- Responding to lawmakers’ concerns that Louisiana will waste federal hurricane rebuilding funds, Governor Kathleen Babineaux Blanco pledged to place unprecedented safeguards on federal assistance in testimony before two subcommittees of the House Transportation and Infrastructure panel. Blanco said the

state would hire a “Big Four” accounting firm to conduct an initial audit of Louisiana’s use of federal rebuilding dollars and would hire another major firm to audit the initial audit. In addition, an appointed commission also would review the use of federal funding, she said. “I expect to account for every single penny of federal money that is received by the state of Louisiana,” said Blanco. Representative Baker (R-LA) said that he has noticed increasing resistance from lawmakers to bills designed to assist Louisiana, and said other members of Congress want “more transparency.” He added, “Clearly, a message is being received by me and other members of the delegation.” (*CQ Today Midday Update*, 10/18/05)

Fannie Mae and Freddie Mac continue their efforts to assist with the recovery efforts

- Freddie Mac has committed to purchase up to \$1 billion in hurricane-related, tax-exempt revenue bonds issued by the state of Louisiana and its local housing agencies. The bond proceeds are expected to help as many as 10,000 families in disaster areas obtain below-market rate loans to finance home repairs and new construction. In the Katrina Emergency Tax Relief Act signed into law on September 23, Congress and the administration waived the first time homebuyers requirement for the bonds and raised the cap on home repair loans from \$15,000 to \$150,000. The GSE’s bond purchase “further demonstrates what Congress created Freddie Mac to do: to provide stability, liquidity, and affordability for housing markets -- both in good times and in crises like this one,” said Freddie Mac president and CEO Richard F. Syron. (*Washington Post*, Annys Shin, 10/13/05; *Dow Jones Newswires*, Dawn Kopecki, 10/13/05)
- Fannie Mae announced plans to ease rules making it easier for survivors of hurricanes Katrina and Rita to finance new homes. Under the new terms, lenders have the option of relying on the borrower’s credit history before the storm when making loan decisions and can ignore any money the borrower may still owe on the storm-damaged owner-occupied property when determining the debt-to-income ratios. The lender can also let borrowers apply relief funds toward down payments. Also, lenders may take into account the borrower’s future income as documented by an employment contract. Fannie Mae said it will also reimburse servicers up to \$30 for property inspections in areas that sustained damage. The GSE estimated the cost of reimbursement would total approximately \$1.5 million. (*American Banker*, 10/19/05; *Fannie Mae Press Release*, 10/18/05)

The debate on GSE regulatory reform continues:

Former OFHEO Director Falcon urges “adult supervision” for the GSEs

Freddie Mac CEO Syron argues that now is not the time to limit the GSEs’ portfolios

Former Senator Garn (R-UT) urges Congress to pursue “reasonable and responsible (GSE regulatory) reforms” rather than “major and ...unnecessary surgery”

NTU urges public to stop Congress from forming the a taxpayer-financed AH slush fund

Former OFHEO director Falcon urges “adult supervision” for the GSEs

- In the October 11 issue of *Wall Street Journal*, former OFHEO director Armando Falcon, Jr. wrote, “Over the past several years, corporate America has been rocked by major scandals involving billions of dollars of financial restatements, significant losses for investors, reputation problems for big business, and, in some cases, jail time for senior executives. Whether it was Enron, Adelphia or WorldCom, Congress wasted no time examining and strengthening the oversight functions and regulatory authority of various federal agencies, including passage of the wide-ranging Sarbanes-Oxley Act. To date, there remains one glaring exception. In the past two years, accounting failures at Fannie Mae and Freddie Mac ...have led to the largest financial restatements in history -- totaling more than \$20 billion -- dwarfing the combined restatements of both Enron and WorldCom. In recent days, news reports indicate the financial misconduct could be wider and deeper than has emerged thus far.”
- “Left undetected and unchecked, the web of misconduct at Fannie Mae and Freddie Mac might have unraveled in a way that caused serious disruptions to our financial system. The likely collateral damage was presciently spelled out in a report on systemic risk that their regulator, the Office of Federal Housing Enterprise Oversight (OFHEO) issued in 2003. Yet the report, like the subsequent scandals at both companies, illustrates the need to address statutory shortcomings in our regulatory system. OFHEO did its job despite being hamstrung by substandard statutory powers, inadequate resources and political interference. Without a doubt, future regulatory oversight will always be a difficult struggle as long as these problems remain unaddressed by Congress. Yet, two and a half years after Freddie Mac's scandal unfolded, legislation to strengthen regulation remains mired in gridlock.”
- “One of the key areas of disagreement is the appropriateness and size of the mortgage portfolios these enterprises retain. Unfortunately, much of the discourse around the portfolios is characterized by misinformation and scare tactics. It is critical to have a candid discussion about the portfolios. The fact is that they have grown 12-fold in 14 years for one reason: to generate additional profits for the GSEs. That is

nonjudgmental, just a fact. Other stated purposes for the portfolios, such as enhancing the liquidity of the mortgage-backed security market and promoting affordable housing, would be no less well-served if the Fannie and Freddie continued to buy mortgage products as they do today but retained much smaller portfolios.”

- “Currently, there are no real limits on the size of the portfolios. OFHEO's statutory mandate is to ensure that the enterprises manage the risks of their portfolios in a safe and sound manner, not to limit their amount. However, Fed Chairman Greenspan and other economic leaders have repeatedly warned policy makers that they should be concerned not just about the safety and soundness of Fannie and Freddie, but more broadly concerned about the risks to our financial system. Reducing their portfolios will certainly leave the GSEs with much smaller balance sheets and less systemic risk. However, the enterprises would still be able to earn a fair return for investors from their guarantee business, and be more focused on their affordable housing mission. Is this then an appropriate trade-off?”
- “This was not a judgment I felt empowered to make when I was at OFHEO, but it is an issue on which I have advice for Congress. After reflecting on six years of serving as the regulator of these companies, my answer is YES. The amount of time and resources the enterprises must dedicate to managing the risks associated with their portfolios is very substantial and dwarfs any marginal benefit to their affordable housing mission. In addition, the recent scandals at both companies illustrate the problems they can get themselves into as they try to manage the volatility associated with very large portfolios.”
- “Smaller, mission-focused portfolios would better serve everyone, even shareholders. If well managed, they are capable of a fair return to investors and a strong return to the public interest. But as it is now all too clear, the enterprises never were the steady earnings juggernauts they held themselves out to be.”
- “Legislation should give the regulator discretion to manage the size of the portfolios, but be clear as to the regulator's mandate. The mandates in the Senate and House bills are very different and would produce different results. The Senate bill would direct regulators to design and implement an orderly reduction in the enterprises portfolios without harm to affordable housing efforts. But the House bill would preserve the status quo, which permits the enterprises to maintain portfolios of any size as long as safety and soundness considerations are met. The House bill should be amended to put the proper mandate in place.”
- “Time is not necessarily a luxury in passing legislation to strengthen regulation. Fannie Mae and Freddie Mac have constructed their portfolio risk-management strategies around hedging techniques that remain untested by adverse market conditions. Even assuming the companies employ the very best risk-management practices, prudence demands that we have the strongest regulatory structure in place to deal with the fallout if they just get it wrong. Remember Long Term Capital Management.”

- “The growth of the portfolios held by these two GSEs has coincided with a strong economy, except for a mild recession in 2001 that left the housing sector unaffected largely because interest rates fell to historic lows. However, long-term interest rates are more likely to begin an upward trend that may cool off the housing market. Everyone has an interest in ensuring that a fully empowered regulator is in place to deal with any pressures such market changes place on the enterprises.”
- “Freddie Mac and Fannie Mae play an important role in our housing finance system and I support their public mission. The key is to ensure they are truly focused on this mission in a safe and effective manner. If this public-private arrangement is to work, the enterprises must have a fully empowered regulator and get back to serving the public interest, not the ambitions of management.” (*Wall Street Journal*, Armando Falcon, Jr., 10/11/05)

Freddie Mac CEO Syron argues that now is not the time to limit the GSEs’ portfolios

- In a speech before the America’s Community Bankers conference, Freddie Mac Chief Executive Richard Syron said Congress should not try to restrict the size of the GSEs’ investment portfolio amid growing concern about the U.S. housing market and economic uncertainty following Hurricanes Katrina and Rita. "To be blunt, this is a particularly unwise and dicey time to mess with success and tamper with the most liquid and productive housing finance system in history," said Syron. He added that the push to restrict the GSEs’ portfolios was not due to any systemic risk, but was caused by some in Washington, who seek a debate on U.S. spending on housing, and by others, who are competitors that want to break into Freddie’s and Fannie’s market. Syron said the current period was just the type of uncertain environment in which the portfolios help the GSEs fulfill their federally mandated mission. "After all, this is an uncertain period, for our broader economy as well as the long housing boom. The hurricanes, particularly Katrina, have only added to the uncertainty," he said. "New inflationary pressures, job losses, energy and transportation disruptions, housing needs, you name it -- we're in uncharted territory here." Syron urged his audience to support Freddie Mac in opposing efforts to place what he called arbitrary restrictions on the GSEs' portfolios. (Reuters, Kristin Roberts, 10/17/05)

Former Senator Garn (R-UT) urges Congress to pursue “reasonable and responsible (GSE regulatory) reforms” rather than “major and ...unnecessary surgery”

- In an October 21 editorial syndicated by Knight Ridder, former Senator Jake Garn (R-UT) wrote that while there’s “no doubt that Fannie Mae and Freddie Mac need serious reforming,” Congress should avoid “major and ...unnecessary surgery” such as portfolio limits, which will hamper the GSEs ability to fund the secondary market. “Secondary market reform is not best serve by [portfolio limits] mandates, but by a strong, independent regulator empowered to act,” said Garn. “...As the full House and Senate edge closer to enacting housing finance reforms, lawmakers should be careful to strike a proper balance between many competing interests. To my mind,

that means providing stronger regulatory oversight without handcuffing Fannie and Freddie as they go about their main mission of helping all Americans achieve homeownership.” (*Knight Ridder/Tribune Information Services*, Jake Garn, 10/21/05)

NTU urges public to stop Congress from forming the a taxpayer-financed AH slush fund

- The National Taxpayers Union (NTU) is urging taxpayers to write their Congressman about H.R. 1461 and its provision to create a taxpayer-financed slush fund for affordable housing. NTU said, “Although [GSE regulatory] reforms are essential -- privatization and the severing of Fannie's and Freddie's ties to the Treasury being the best options -- the bill likely to come before the House in the next few days (H.R. 1461) will actually expand the power and indebtedness of these mortgage giants while doing nothing to promote real reform. ... [T]he House of Representatives is on the verge of passing a "reform" bill that would only make the situation worse. It would delay the establishment of the new regulator for a year, increase the amount of debt Fannie and Freddie can take on, and create a 5 percent set-aside fund for a huge new "affordable housing and community development" bureaucracy. In the days leading up to this vote, it is up to you to tell the House of Representatives that no reform package at all is preferable to a half-baked bill that panders to special interests.” (National Taxpayers Union Press Release, 10/19/05)

Asian investors and U.S. commercial banks fill the GSEs’ void in mortgage market

- Asian investors and U.S. commercial banks have emerged as the biggest buyers of mortgage bonds in the past two years after Fannie Mae and Freddie Mac reduced the size of their investment portfolios, amid narrowing margins and prospects for stronger regulation, said Richard Lightburn, head of agency mortgage bond trading at HSBC USA Inc. “The Asian buying has effectively absorbed the MBS that have been shed from agency portfolios in 2005,” Lightburn said. “Asia has been the predominant buyer more recently.” Federal Reserve data show that foreign investors owned a record \$829.3 billion in MBS and unsecured agency bonds in the second quarter 2005. (*Bloomberg News*, Al Yoon and Chris Cooper, 10/13/05)

Fannie Mae

Fannie Mae announces its fourth quarter dividends

- Fannie Mae's board of directors declared a fourth quarter dividend of \$0.26 per share, unchanged from the third quarter. The board also declared dividends for the company's preferred stock in accordance with the terms of the issues. (Fannie Mae Press Release, 10/18/05)

Investment advice on Fannie Mae

- John Dizard writes in the October 11th issue of *Financial Times*, "It is always dangerous to call a bottom for a troubled company, and Fannie Mae is troubled. However, I believe that the balance of risks and opportunity is such that the stock is a trading buy, as distinct from something for your grandchildren. The stock's price has already incorporated the near term regulatory, legislative, and accounting disclosure risks. The dismal end to the disclosures about the previous management's poor controls and policies is coming, and when it does, the investing public is very likely to find that the most egregious errors of the previous management are not as economically significant as it feared."
- He continues, "Part of the opportunity here is an arbitrage between the Washington view of the world and the New York centered markets' view of the world. ***New York, along with the rest of the financial world, knows the securities issued, and guaranteed, by Fannie Mae and the rest of the government-sponsored enterprises are, effectively, US government paper.*** [Emphasis added] However, New York also believes that the government could live with the equity losing all its value, if that is what a tough accounting and write-offs policy would demand. I don't think that is so, at least for the next couple of years..."
- Dizard argues that Congress will preserve the GSEs' franchise, which will allow common shareholders "to earn probably no less than 15% or so." He is "led to understand" that Fannie Mae will issue a lot of preferred equity, which will be used to buy back common shares. Dizard is also "led to understand" that Fannie Mae's management believes the company "could issue reliable financial statements very soon," but for its outside accountants and their concerns about the company's application of FASB 133.
- Dizard concludes, "So you now have a stock with a yield of nearly 2.5 per cent, a significantly less risky balance sheet strategy, a management that isn't taking risks to get its options into the money, and a huge amount of headline risk already published. Fannie will probably restructure as a holding company, with the implied government guarantee confined to a subsidiary, which should reduce some of the political risks."

With a Dollars 40bn market cap for Fannie, you have enough liquidity to get out quickly if I am wrong..." (*Financial Times*, John Dizard, 10/11/05)

Fannie Mae to prepay principal on a portion of loans from 113 MBS pools

- Fannie Mae will pass through full prepayments of principal that represent repurchases of certain mortgage loans from 113 MBS pools on the November distribution date for these pools. Fannie Mae will reflect the prepayment activity in its November 2005 Pool Factors. One of Fannie Mae' seller/servicers notified the company that it delivered certain mortgage loans into Fannie Mae MBS Pools that did not meet Fannie Mae's underwriting guidelines. This notification and the company's confirmation of the deficiencies triggered the repurchases. Of the MBS pools affected, 80 have been re-securitized into 563 Fannie Mae Mega and 241 REMIC transactions. Four of the affected Megas have pool concentrations greater than 1% and none of the affected REMICs have pool concentrations greater than 1%. (*Fannie Mae Press Release*, 10/20/05)

Is bad news for Fannie Mae good news for its bond holders?

- Bad news for Fannie Mae may be good news for its bondholders, says Jon Jacobs, fixed income market coordinator for Cantor Fitzgerald. "... [B]ond investors have welcomed the prospect of stronger regulatory oversight [for Fannie and Freddie], and have anticipated a reduction in debt supply, resulting in a scarcity premium applied to outstanding Fannie Mae debt," wrote Jacobs in a recent report.

Fannie Mae promises reinvigorated multifamily effort

- At a late-July meeting with its Delegated Underwriting and Servicing (DUS) lenders, Fannie Mae President and CEO Daniel H. Mudd and members of management showed up with "a renewed vigor," said Herman Bulls, president and CEO of Bulls Capital Partners, a DUS lender. "There's a sense of being competitive and a sense of teamwork going on." DUS lenders said they expect a number of changes to come from Fannie, which would involve changes in process and execution within the DUS system, according to Rodrigo Lopez, president of AmeriSphere Multifamily Finance and the vice chairman of Fannie's advisory group of DUS lenders. He described his fellow DUS lenders as "energized" to compete "in a very, very liquid market." Bulls expects Fannie to be "super-aggressive in terms of going below their standard ... 75% loan-to-value ratio, [and] I think in exceptional cases there will be opportunities to be more aggressive in pricing. I think one of the things you're going to see is ... more flexibility in their early rate lock," said Bulls.

- Several informed sources have noted Fannie is working on an unfunded forward commitment product for 9% low-income housing tax credit deals, but it would be one of the long-term items on Fannie’s list because it is still in early development and at press time, lenders did not know when it would appear. “I have heard they are working on the unfunded forward product, but I do not know the projected release date,” said Liz Diamond, vice president and deputy chief production officer at Green Park Financial. Other future refinements to its forward commitment product line may include more competitive pricing and reduced negative arbitrage. (*Affordable Housing Finance*, John Zipperer, September 2005)

Fannie Mae Foundation launches KnowledgePlex
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- The Fannie Mae Foundation has launched DataPlace, a tool that facilitates customized data gathering for the affordable housing industry through its Internet-based portal, www.knowledgeplex.org. DataPlace aims to be a one-stop source for housing and demographic data about communities, regions, and the nation. The site assembles a variety of data sets from multiple sources and provides tools and guides to assist in analyzing, interpreting, and applying the data. The tool can accessed at www.dataplace.org.
- Fannie Mae Foundation’s extranet portal, KnowledgePlex, is a partnership with national organizations and community-based non-profits to collaborate and search a centralized digital library, which aggregates and indexes articles, case studies, reports, journals and over 300 news sources in a searchable knowledge base. The portal also provides a hosting for collaboration groups, where users discuss and share documents, and provides a daily email digest of housing news articles. Initially launched in October 2001, the KnowledgePlex portal has over 6,000 registered users and is growing on average at a rate of 500 new users per month from word-of-mouth referrals. (*National Mortgage News*, Amilda Dymi, 10/10/05; www.dataplace.org; http://www.plumtree.com/customers/industries/non_profit/fannie_mae.asp)

Freddie Mac

Freddie Mac REMIC draws largest demand to date

- Freddie Mac said its third sale of reference Real Estate Mortgage Investment Conduits (REMICs) drew the largest demand to date. Freddie Mac's \$2.5 billion offering was oversubscribed by 22%, prompting the company to close the books a day earlier than originally scheduled. Domestic investors purchased 59% of the issue, while Asian investors absorbed the remaining 41%. In the GSE's first two REMIC offerings, 55% was sold domestically and 45% went to Asian investors. About 100 investors participated in the GSE's latest offering, up from 40 on its second offering. Commercial banks and central banks purchased 42% of the offering, while money managers and hedge fund absorbed 26% and 16%, respectively. Insurance companies and pension funds purchased an aggregate 10%, while other government and retail investors took in 3% each. The 5.125% percent REMICs have a maturity of October 15, 2015 and were priced at 99.777, yielding 5.187% or 87 basis points over the interpolated Treasury curve. The joint lead managers for the offering were Credit Suisse First Boston, Deutsche Bank Securities and UBS Investment Bank. "This program has attracted new capital to the mortgage securities market, and has created better securities to fit investors needs and further supports our mission," said Mark Hanson, vice president of mortgage funding at Freddie Mac. (*Reuters*, 10/20/05)
- In a promotional tour for the offering, Freddie Mac told investors that it wants to at least double the issuance of a new range of mortgages backed by a pool of mortgages in 2005. Sales of REMICs are expected to reach \$9 billion in 2005, said Mark Hanson, head of the company's funding. We want next year's issuance "to be at least as big, if not bigger," said Hanson in an interview with *Bloomberg News*. (*Bloomberg News*, Al Yoon, 10/12/05)

Freddie Mac participates in innovative plan to rehabilitate foreclosed homes in Gwinnett County

- Freddie Mac is helping to revive Gwinnett County (GA) neighborhoods by rehabilitating dozens of empty foreclosed homes, providing affordable low-down payment mortgages and potentially thousands of dollars in down payment assistance to qualified, mainly first-time, homebuyers. Freddie is partnering with a The IMPACT Group, 501(c)(3) nonprofit community development corporation, and mortgage lender Taylor, Bean & Whitaker, Brand in the *Building A Better Block Gwinnett* program. Homesteps™, Freddie Mac's real estate-owned sales unit, will renovate the properties by investing on average \$5,000 in improvements to the properties. To provide affordable mortgage financing to Gwinnett borrowers, Taylor, Bean & Whitaker will offer a wide range of low-down payment, flexible credit mortgage products, including Freddie Mac's Home Possible Mortgages as part of the

initiative. To make homeownership even more possible for more borrowers, *Building a Better Block Gwinnett* offers several down payment assistance programs. For example, The IMPACT Group will offer eligible homeowners up to \$5,000 in down payment assistance and all program participants the ability to participate in their Individual Development Account (IDA) program – a special down payment savings program that provides a minimum of a 3 to 1 match for every dollar the borrower saves. In addition, HomeSteps™ has agreed to provide a \$500 closing certificate for each borrower to use when they purchase a HomeSteps home. “Building a Better Block Gwinnett continues to re-write the rule book for renewing America’s urban and suburban neighborhoods,” said Craig Nickerson, Freddie Mac’s vice president of Housing and Community Investment. “This is a cohesive and well-integrated effort to transform empty houses into attractive homeownership opportunities. We applaud The IMPACT Group, Taylor, Bean & Whitaker and Brand Bank for the vision and the commitment to make Building a Better Block Gwinnett a reality.” (*Freddie Mac Press Release, 10/18/05*)

Federal Home Loan Banks

<p>FHLB-Chicago announces third quarter dividends and changes to its regulatory agreement with the Finance Board</p>
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- With the approval of the Federal Housing Finance Board, the FHLB-Chicago has announced a stock dividend of 3.75% annualized, which will not reduce the Bank's level of regulatory capital. The Bank's board of directors also voted to discontinue redemptions of excess or "voluntary" capital stock. While voluntary redemptions have been discontinued, the Bank intends to continue paying stock dividends to members, in keeping with past practice. "While we regret the need to discontinue voluntary redemptions, we believe it is essential to the long-term ability of the Bank to provide ever-greater service to members and to transition to a new capital structure," said Mike Thomas, President and CEO of the FHLB-Chicago. "In February, we committed to substantially reducing voluntary stock redemption pursuant to the Business and Capital Management Plan that was accepted by the Finance Board. However, we have had net redemptions this year approximately equal to the amount expected by the end of the year. Further redemptions in the near term would seriously affect our ability to continue to meet the needs of, and our obligations to, our members. We therefore find it necessary to discontinue redemptions of voluntary stock for a period of time. We will resume redemptions as soon as possible, subject to Finance Board approval."
- In addition, the FHLB-Chicago and the Finance Board have amended the agency's Written Agreement to reduce the Bank's minimum capital ratio from 5.1% to 4.5%. The amendment requires the Bank to maintain minimum total capital stock of \$3.964 billion, representing its actual balance at the close of business on October 18, 2005, including its third quarter dividend. Additionally, Bank stock may not be redeemed, if doing so would cause the Bank to fail to meet any of its minimum capital requirements. Finance Board spokeswoman Kelly Spearman said, "The amendments ...are a result of new concerns we have about the bank's earnings. We want to enhance and improve the earnings and capital of the bank." She added that the Finance Board lowered the Bank's capital requirement because the agency has confidence in its management team. Thomas said, "We appreciate this action by the Finance Board. It will allow us to expand our advances business and other earning assets, generating additional profits both to build retained earnings and to pay future dividends. It is an important step in our plan to continue building financial strength while serving our members." (*FHLB-Chicago Press Release, 10/18/05; Federal Housing Finance Board Press Release, 10/18/05; Dow Jones Newswires, Dawn Kopecki, 10/18/05*)

FHLB-Indianapolis announces third quarter dividend

- The FHLB-Indianapolis's board of directors has declared a dividend rate of 4.25% on B-1 stock and 3.4% on B-2 stock for the third quarter. Since the Bank has not completed its registration with the SEC, the Federal Housing Finance Board approved this dividend. (*PrimeZone Media Network*, 10/14/05)

President and CEO of FHLB-Seattle retires

- The Federal Housing Finance Board has appointed Martin Heger and Michael A. Jessee to the board of the FHLB's Office of Finance. Heger is the president of the FHLB-Indianapolis and Jessee is president of the FHLB-Boston. Each will serve a one year term on the board, beginning November 10. (*American Banker*, Luke Mullins, 10/13/05)

Ginnie Mae

Ginnie Mae enhancing electronic reporting system to reduce reporting burden

- Ginnie Mae is significantly enhancing its electronic commerce capabilities which will reduce the reporting burden on issuers and servicers. "In 2006, Ginnie Mae will be significantly changing the way we collect data from [issuers and servicers]," said Michael Garcia, director of single-family housing at Ginnie Mae. The agency's new electronic reporting system will also result in business changes, with the reporting of loan level data will be due on the second business day of each month rather than the 15th calendar day, said Garcia. (*Mortgage Servicing News*, September 2005)

Farm Credit System / Farmer Mac

FCA board approves rule revising the Farmer Mac's risk-based capital stress test

- The Farm Credit Administration's board approved a proposed rule that would revise FCA regulations governing the Farmer Mac's risk-based capital stress test (RBCST). The proposed rule is designed to update Farmer Mac's RBCST to reflect the evolution of the Corporation's loan portfolio and the practices of other leading financial institutions. The FCA board is currently scheduled to consider a final rule for the Farmer Mac RBCST in September 2006. The proposed rule will be published in the Federal Register for a 90-day comment period. (FCA Press Release, 10/13/05)

Co-Bank leads consortium of farm credit banks to finance construction of \$86 million ethanol plant in Michigan

- CoBank of Omaha, NE will lead a consortium of farm credit banks to provide construction and term financing for a 55 million gallon per year ethanol production facility in Albion, MI. The facility, expected to be completed in September 2006, will involve an aggregate investment of approximately \$86 million. The Andersons, Inc., which will run the facility, will also invest in the project, along with New Energy Capital and three other equity investors. New Energy, a New England-based company that invests in, owns and operates renewable energy projects, is funded by VantagePoint Venture Partners and the California State Teachers' Retirement System. Plant construction will involve approximately 250 new jobs and will require 30 full-time staff. (BusinessWire, 10/13/05; www.RenewableEnergyAccess.com, 10/20/05)

FCWisconsin offers "rural lifestyle financing expertise"

- FCWisconsin, a collaborative effort of four Farm Credit Associations serving the state, are promoting products specifically tailored to "rural lifestyle customers," who typically have off-farm jobs as their primary source of income and farm as a hobby. "Whether they are current farmers converting to hobby farming or city dwellers looking to escape crowds of traffic, more and more people are turning to a rural lifestyle," said Bryan Mullendore, senior financial services team leader for AgStar Financial Services in Baldwin. "Farm Credit's knowledge of rural Wisconsin helps us understand how to best serve this group." (*Wisconsin Ag Connection*, 10/11/05)

Postal Service

Disappointing news in a hand-delivered letter from the USPS Board of Governors

- In Advisory No. 194, the Institute for Research on the Economics of Taxation (IRET), reported that “In a September 13 letter, the Postal Service’s Board of Governors informed Congress that the government-owned enterprise objects to H.R. 22 and S. 662 in their current forms. ...The letter came as a surprise because the Postal Service is only now objecting to an important component of the bills after years of debate. ...The changes [to the bills that] the Service claims are essential are not needed and would violate important reform principles. The broadened scope of regulatory oversight contemplated by the drafters of H.R. 22 and S. 662 is one of the bills’ best features. In contrast, the weak and narrow regulation that the Postal Service desires would largely undo the checks and balances built into H.R. 22 and S. 662, and would offer less transparency and accountability than does current law ...One vital point on which the Service is correct, and probably should have been more forceful, is that it needs better cost-control tools from Congress if it is to succeed in its mission of providing high-quality mail service throughout the nation at reasonable cost.” (IRET Congressional Advisory No. 194, 10/20/05)

“Hallmark Hold” upends postal reform efforts

- According to Association for Postal Commerce President Gene Del Polito, “The Senate Bill, as it stands--while still in need of refinement in some respects--- is reflective of the careful study and recommendations that the President's Commission on the Postal Service advanced. The Hallmark language would up-end that balance. It would deprive the Postal Service of the very flexibility in pricing and product offerings that the Senate Bill is intended to create. It would do so to the extreme detriment of all mail customers--both large and small; to the detriment of the many thousands of American who are employed in postal and postal related industries; and, ironically, to the detriment of the very Postal customers that Hallmark claims that they are seeking to protect.” (*Association for Postal Commerce*, Gene Del Polito, 10/21/05)

Postal Rate Commission supports postal reform legislation

- In an October 12th letter to House Government Reform Chairman Tom Davis (R-VA) and Rep. John McHugh (R-NY), the Postal Rate Commission (PRC) chairman George Omas endorsed the legislation championed by both lawmakers to revamp the Postal Service, countering criticism of the bill by the agency's Board of Governors. In a letter last month to lawmakers, the Board of Governors said that postal reform

legislation would undermine some of its governing authority and could hinder agency operations. However, Omas argued that “such fears are totally unfounded. The legislation does not require the Postal Service to obtain permission to modernize its network, as the Governors suggest. There is nothing in the language or legislative history of these bills that supports suggestions that the PRC should or would interfere in the day-to-day management of the Postal Service.” Omas said he was surprised that the Postal Board of Governors, “longtime apparent supporters” of the reforms embodied in H.R. 22, are now expressing major reservations and want massive changes “that would drastically alter the carefully balanced responsibilities of our two agencies.” Omas’ letter lists several complaints registered by the Governors and provides his assurances that the role of the PRC would not be to interfere in the day-to-day management of the USPS. He respectfully disagrees with the Governors that the USPS should be allowed to exceed the CPI rate cap "whenever it appears 'reasonable and necessary' to do so." Furthermore, Omas and his colleagues "continue to believe that when managers of a government monopoly are granted broad authority, it is necessary that the public have an avenue that allows effective pursuit of complaints relating to the exercise of that authority." (*GovExec.com*, 10/14/05; *Business Mailers Review*, 10/21/05; www.nonprofitmailers.org, 10/18/05)

- In a recent editorial, Association for Postal Commerce President Gene Del Polito observed, “It's been fascinating to watch the postal Governors and the Postal Rate Commission trade barbs over what they believe is good or bad about pending postal legislative reform. The roles and responsibilities of either a Board of Directors or a third-party regulator should be relatively straightforward. Directors direct; regulators regulate. No one wants a PRC crafted in the mold of the U.K.'s postal regulator, but no one wants a postal monopolist imbued with unfettered powers. The incentives that underlie this system must be structured to provide a risk-reward system akin to a competitive private sector rather than a governmental-bureaucratic model.” (*Association for Postal Commerce*, 10/18/05)

The Halloween Trick or Treat: Approval of the postal rate increase
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- The Postal Rate Commission likely will offer its recommended decision by Halloween to implement a 5.4 percent across-the-board rate increase, according to Jerry Cerasale, senior vice president, government affairs at the Direct Marketing Association. The USPS Board of Governors, whose approval of the decision is needed, will meet shortly thereafter and likely vote to implement the increase. The outcome is never certain, Cerasale cautioned, and if postal finances are better than anticipated, the new rates may be implemented later in the year. However, rising fuel costs are likely to adversely impact the Postal Service’s profitability and assure rapid implementation of the postal rate increase. (*DMNews.com*, Melissa Campanelli, 10/19/05)

“The nickel-and-dime complaint” is history

- The U.S. Attorney's office has decided not to pursue a criminal case against John Walsh, the former member of the USPS Board of Governors accused of using his position for personal gain. Walsh, 78, quit the Board in August as an investigation by the U.S. Postal Service's office of inspector general was winding down. The investigation alleged that Walsh filed expense reports with the USPS for \$840 in parking fees for trips to board meetings, even though he had a lifetime parking pass. In May, Walsh ordered a postal employee to pick him and his wife up at the local airport. Walsh took the postal service car from the employee and kept it for five days, until his personal car was brought from Florida. Walsh mentioned his position on the BOG in letters endorsing friends and family members for jobs at Yale University, local city government, and to the USPS Postal Inspectors Service. Walsh used a federal credit card to frame and laminate photos of himself with former Vice President Al Gore, Senator Joe Lieberman (D-CT), Representative Rosa DeLauro (D-CT) at a cost of \$3,200. Finally, Walsh was accused of using a USPS credit account to purchase more than \$4,700 in equipment for an office the New Haven Post Office without prior approval. Additionally, he charged more than \$1,100 in lunches and dinners for him and his wife, according to the report. The five month investigation was started in April, after a whistleblower contacted the inspector's office in New Haven to complain that Walsh chronically misused postal property.
- Walsh has paid back about \$840 in parking fees he had charged the postal service for parking and returned the equipment he had taken to his homes in Connecticut and Florida. "The fact he elected to resign and reimburse the postal service was one of the factors we looked at when we decided not to pursue a criminal case," said U.S. Attorney Kevin O'Connor said Wednesday. O'Connor acknowledged that his office has pursued similar cases involving postal theft but in this case "ultimately decided not to bring charges against Walsh because of an agreement that he would resign." Walsh was appointed to the Board of Governors by President Bill Clinton in 1999, based upon the recommendations of Senators Joe Lieberman (D-CT) and Christopher Dodd (D-CT). Attorney Hugh Keefe, who represents Walsh, said his client is a "highly reputed and well-known personality in New Haven. He has reached the point in life where he chose not to contest this nickel-and-dime complaint and as far as we're concerned it's history." (*Hartford Courant*, Dave Altimari, 10/19/05; *Hartford Courant News*, Dave Altimari, 10/20/05)

“Neither snow nor rain nor heat nor gloom of night stays these couriers from the swift completion of their appointed rounds,” says the USPS (except in hurricanes)

- Many local residents and businesses welcomed a step toward normalcy when the Postal Service announced on October 12 that mail service had returned to New Orleans. In the announcement, the USPS said that mail services had been re-established for every ZIP Code in New Orleans, with street delivery beginning in a

few areas and over-the-counter service available for all others. But a week later, some who are still struggling through post-hurricane chaos say mail — or the lack thereof — remains a thorn in their side. Residents and businesses were still complaining. Not only had they received little or no forwarded mail during the six weeks following the storm, but when they went to the designated stations in New Orleans to pick up what they thought would be a month's worth of mail, they came away with nothing. (*PostalWatch.com*, 10/20/05)

A grateful nation supports our men and women in uniform—and their families

- In a recent update for its members, the Association for Postal Commerce wrote, “Last week, the House Government Reform Committee approved H.R. 923, the Mailing Support to Troops Act of 2005. The legislation, which the Committee passed by voice vote, would permit family members to send letters and packages to members of the armed services in combat zones free of charge. Representative Vito Fossella (R-NY) introduced the bill. Under current law, members of the armed forces may send material to their family members, postage free, but not visa versa. H.R. 923 would allow overseas service members to send vouchers to loved ones in the U.S. that would be redeemable for the postage of one letter or 15-pound package per month. The legislation directs the Department of Defense to reimburse the USPS for the cost of the free mailing. The program would last for one year.” (www.PostalWatch.com, 10/10/05)

“It’s a miracle,” says Japan’s Prime Minister Koizumi, following parliament’s approval of the sale of the nation’s postal system

- On October 14, Japan's parliament approved a sale of, the nation's postal system, allowing Prime Minister Junichiro Koizumi to sell Japan Post, the world's largest savings bank and an insurance business with combined assets of \$3.1 trillion. Dubbed by Koizumi as Japan's biggest reform in a century, the bill passed the upper house by a vote of 134 to 100. In August, the upper house rejection of the same proposal, prompting Koizumi to call national elections and put the issue to the public. After Koizumi won a landslide victory on September 11, the legislation was resubmitted, unchanged except for a six-month delay to October 2007 in the start of the sale process. Selling Japan Post is the focus of Koizumi's bid to cut spending and curb public debt, the largest in the industrialized world.
- While approval of the bill is a political success for the prime minister, the immediate economic benefits are limited, said Takahira Ogawa, a director at Standard & Poor's in Singapore. "There is potential benefit from the rationalization of the systems and because of the potential revenue increase if the privatization is a success," said Ogawa, adding the passing of the bill had no implications for Japan's credit rating. "At this stage there aren't any immediate economic or fiscal implications for the future. There's a long way to go."

- "It's a miracle," Koizumi told reporters at a press conference after the bill was passed. "And it's thanks to the public." (*Bloomberg News*, Lindsay Whipp, Kyoko Shimodoi, Hitomi Aoyagi, and Yasue Aoi, 10/14/05)

TVA

<p>Eight states and New York City appeal dismissal of global warming lawsuit against of five of the country's largest utilities</p>

- Eight states and the city of New York have appealed last month's dismissal of their global warming lawsuit against American Electric Power Co. Inc., Southern Co., Xcel Energy Inc., Cinergy Corp. and the TVA. In July 2004, the plaintiffs argued that greenhouse gas emissions from the utilities' plants were a public nuisance and would cause irreparable harm to property and asked the U.S. District Court for the Southern District of New York to force the utilities to cut their carbon-dioxide emissions. In September, Judge Loretta Preska dismissed the suit, saying the issue was a political question for Congress or the President to decide, not the judiciary. On September 20, the states and New York City submitted a notice of appeal, notifying the court that they were appealing the case to the U.S. Court of Appeals for the Second Circuit. "The district court unfortunately took an erroneously narrow view of its authority, and our hope is that the federal courts will hold these polluting plants accountable for the harm they do to our health and environment," said Connecticut Attorney General Richard Blumenthal. "We're going to continue to fight as long and as hard as is necessary to protect our citizens." American Electric Power spokesman Pat Hemlepp said the company believes that Judge Preska made the appropriate decision in dismissing the case. "This is not something to be decided by the courts -- this is purely a policy decision that belongs with elected officials," said Hemlepp. "We're confident that the appeal will show the same thing." (*Reuters*, 10/19/05)

<p>Homeland Security Bill provides no funding for security of TVA facilities</p>
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- *WVLT Volunteer TV* reports, "One item, perhaps conspicuously missing from the [2006] Homeland Security Bill: money for power plants and dams. According to the Tennessee Valley Authority no federal money goes to the security of their facilities, including their nuclear facilities. They tell us it is because they are self-sufficient." (*WVLT Volunteer TV*, Channel 8, Knoxville, TN, 10/22/05)

TVA is a sponsor for the Legislative Retreat and Training Seminar, which is closely associated with Tennessee's Black Caucus

- A state legislative retreat that is closely associated with the Black Caucus was funded by a mix of Tennessee state agencies, private businesses with an interest in legislation, utilities and universities. The 2004 Legislative Retreat and Training Seminar, which had a total budget of \$248,000, consisted of several days of workshops, seminars and social events for about 1,500 attendees. The retreat was organized by the [Tennessee] Office of Minority Affairs and the Black Caucus participated in planning for the event. Tennessee House Speaker Pro Tempore Lois DeBerry, a Memphis Democrat and caucus member, served as chairwoman of the retreat. She said, "It's not a party weekend. It's about a community coming together, helping us (as legislators) set our agenda to help the people we represent with their agenda. There's not all that much money involved and, considering everything we do, there's no way money could be going to waste." TVA was a gold level sponsor, who donated \$10,000 for this event. Fannie Mae earned the designation of "silver level" by making a \$5,000 donation for the event. This year's retreat, which is expected to draw more than 2,000 attendees, is expected to "fetch" similar sums from the same group of underwriters, said Barbara Nance, executive director of the Office of Minority Affairs for the State of Tennessee.
- State Representative Stacey Campfield (R) said he wasn't surprised by the list of deep-pocketed donors for the event. "I find it very curious," he said. "The other key component is: 'Where does the money go?'" In a written statement, DeBerry said the fees cover costs of the retreat, which provides public policy education to Tennessee residents and young people. "The focus of the conference is on issues of the day, not of lobbying," said DeBerry, who recently stepped down from the legislature's joint committee on ethics after admitting that she accepted \$200 in gambling cash from an undercover agent posing as a lobbyist in Tunica, MS. DeBerry said she thought the money was a birthday gift. (*Associated Press*, 10/14/05; *The Tennessean*, Bonna de la Cruz, 10/14/05)

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