

The **GSE** REPORT™

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Major Events

Banking trade groups urge Fannie Mae to
“immediately ...renounce any rights to enforce” its patent
on the computerized loan system

- In an October 27th letter to Fannie Mae CEO Daniel Mudd, the American Bankers Association, American Community Bankers, American Financial Services Association, Consumer Mortgage Coalition, and the Housing Policy Council of The Financial Services Roundtable urged Fannie Mae to “take the steps necessary to renounce any rights to enforce the Patent” on a computerized loan system [Patent No. 7,089,503 B1 or the “Patent”] and “place it into the public domain.” Although Fannie Mae executives and its counsel have said that the company does not plan to apply the Patent at this time, the groups argue that the GSE’s mere possession of this Patent could chill innovation in the marketplace, since few firms would be willing to risk a future patent infringement claim, made by Fannie or another firm to which the company might transfer the patent. This problem is compounded by the broad scope of the patent. “We believe that the Patent, in the hands of a GSE that is chartered to support the mortgage market, could stifle innovation,” wrote the groups. “To avoid this type of anti-competitive disruption in the marketplace, immediate action is needed. By placing the Patent in the public domain, Fannie Mae could afford all market participants in the marketplace the opportunity to build additional innovations on the basis of the Patent’s scope, and enable the industry to continue to improve their lending processes without fear of litigation. Finally, given the charter act issues that this Patent raises, we urge you to move quickly to place this Patent into the public domain.” (*Correspondence to Daniel Mudd*, American Bankers Association, American Community Bankers, American Financial Services Association, Consumer Mortgage Coalition, and the Housing Policy Council, The Financial Services Roundtable, 10/27/06)
- On October 22, the Mortgage Bankers Association also sent Mudd a letter, expressing their concerns about Fannie Mae’s Patent. The MBA wrote, “The patent spans many aspects of the mortgage lending process, from initial borrower interest in a loan through origination, secondary market sale, servicing and refinancing. The patent also appears to extend beyond mortgage lending into other types of loans. We are concerned that the patent and the patented technology exceed the boundaries of Fannie Mae’s charter act. We are also concerned that the patent may make lenders and other companies liable for infringement royalties or subject to injunctive action. We are very concerned that even the possibility of royalties or injunctions related to this patent may cause industry participants to refrain from using existing, or developing new, technology. This legal disincentive is present if a technology might infringe on some part of Fannie Mae’s patent, regardless of whether Fannie Mae is marketing or using any of the patented technology. In other words, the mere existence of this patent may stifle important innovation in the lending industry, thus

harming consumers and diminishing market competition. We believe these outcomes to be at odds with Fannie Mae's secondary market mission and government-sponsored status." (*Correspondence to Daniel Mudd*, Mortgage Bankers Association, 10/22/06)

- On November 3, Anne Canfield, executive director of the Consumer Mortgage Coalition, wrote OFHEO Director James B. Lockhart, III to discuss her group's concerns about Fannie Mae's Patent. Canfield wrote, "...[T]he industry has had discussions with Fannie Mae about this issue and we are hopeful that Fannie Mae will take advantage of the opportunity to provide a great service to the industry and the consumers we serve by placing the Patent in the public domain at no cost to any user. Should Fannie Mae decline, we strongly urge you to require Fannie Mae to place the Patent in the public domain because the application and mere holding of the Patent is a violation of its Charter." Canfield argued, (1) "Fannie Mae's acquisition of the Patent in and of itself was a violation of the company's Charter Act;" (2) "OFHEO has authority to address such charter act violations by the company, even if those violations do not directly involve safety and soundness concerns.;" and (3) "In this case, OFHEO has authority to correct the improper condition (i.e., Fannie Mae's holding of the Patent) that resulted from the charter act violation (i.e., Fannie Mae's acquisition of the Patent)." Canfield concluded, "...[T]o undo the harm caused by Fannie Mae's ultra vires act, OFHEO's corrective order, to be effective, should require Fannie Mae to (1) renounce any rights to enforce the Patent and (2) place the Patent into the public domain." (*Correspondence to the Honorable James B. Lockhart, III*, Anne C. Canfield, 11/02/06)
- While Fannie Mae says it has no plans to use the Patent, the company hasn't said it will give up its rights to retain the Patent. "We are pleased to address any issues or concerns our customers and partners may have with regard to the patent," said Fannie Mae spokesman Brian Faith. "We have been in discussions with the organizations that have raised concerns." Separately, Faith told the *Dow Jones International*, "We plan on allowing primary market participants to use this tool, which after all, is intended to help people get fair mortgages." (*Reuters News*, 10/27/06; *Dow Jones International*, Damian Paletta, 10/27/06)
- Bert Ely, an Alexandria, VA bank consultant and frequent GSE critic, called the Patent "a way for Fannie to move another step closer to the primary market. It would supplant a lot of what lenders and mortgage bankers do." Anne Canfield, executive director of Consumer Mortgage Coalition and signatory of the October 27th trade groups' letter to Mudd, said, "Just because they say they are not going to exercise their rights of their Patent right now, it doesn't give anyone comfort."
- OFHEO spokeswoman Corinne Russell said that director James B. Lockhart, III had "discussed the issue with interested parties and anticipates resolution shortly." (*American Banker*, William Launder, 10/31/06)

Fannie Mae and Freddie Mac

GSE reform rumblings on the eve of the November 7th elections

- Representative Barney Frank (D-MA), ranking member on the House Financial Services Committee, said Fannie Mae and Freddie Mac would be required to channel more than \$650 million each year into a low-cost housing fund under a plan by Democrats, if his party wins control of the U.S. House of Representatives in the November 7th elections. Frank said he plans to increase the money Fannie Mae and Freddie Mac must provide for the Affordable Housing Fund (AHF) beyond the 3.5% of after-tax profit required in a bill passed by the House in October 2005. “I am going to get as much as I can,” Frank, 66, said in an interview with *Bloomberg News*. Frank said he is negotiating with the Treasury over expanding the AHF and other provisions in the GSE regulatory reform bill. According to Frank, Treasury “objected to it being a percentage of profits because they think that makes people cheer on their profits,” He responded, “Fine with me,” but did not elaborate on an alternative funding formula. Frank said he also supports efforts by the Treasury and Republicans to ensure Fannie Mae and Freddie Mac can’t use housing aid to influence lawmakers. “[The AFH] won’t be run by Fannie and Freddie,” said Frank. He will not endorse a tough limit on the GSEs’ mortgage portfolios in exchange for Republican support of a new affordable housing fund. “Are you saying: Are we going to make a deal - housing for (a portfolio limit)?” Frank asked, rhetorically. “No, of course not, because we were going to get housing anyway.” Under his leadership, Frank said the committee will be as determined to strengthen regulation of Fannie Mae and Freddie Mac. Frank said, “This is one of the issues where there has been no difference in the House [between Republicans and Democrats].” Frank also praised Paulson’s “understanding of the financial community and called him “the first real Secretary of the Treasury they have (had).” Frank said he hopes a compromise can be passed when lawmakers return to Washington in November for a lame duck session. “I’m trying to get an agreement,” he said. His spokesman, Steve Adamske, added, “[Frank] wants it done this year. Nobody wants to start over from zero next year.” While Frank is working with Senator Jack Reed (D-RI) on structuring an AH fund that would address the Bush administration’s objections, Adamske indicated that a solution hasn’t been worked out yet.
- Frank “is not an unabashed cheerleader for these companies and he feels strongly that they have failed” to meet their federal mission to help low-income Americans buy homes, said Bert Ely, a banking and regulations consultant in Alexandria, Virginia. “Frank was genuinely put off by a lot of the troubles that came to light at Fannie Mae and Freddie Mac,” said Jim Vogel, agency research manager at FTN Financial. “He will keep pushing the issues of executive compensation and the management oversight function of regulators as well.”

- Regardless of which party leads the committee, the Treasury could still restrict debt sales and thereby limit the GSEs' growth. OFHEO also will continue to curb mortgage assets until Fannie Mae and Freddie Mac overhaul accounting and controls and restore timely financial reporting, said Moshe Orenbuch, a Credit Swiss Group analyst. While the GSEs' portfolio limits "may be raised modestly in 2007, they are unlikely to be repealed until [the GSEs] are current with their financials, which OFHEO still estimates is years away," said Orenbuch.
- Fannie Mae CEO Daniel Mudd and Freddie Mac chairman and CEO Richard Syron said that they were both encouraged by meetings that each recently held with Treasury Secretary Henry Paulson about GSE regulatory reform legislation. Syron said, "I'm a huge fan of the Secretary and the team he is bringing in there. He understands capital markets. He is a very practical man, in the best sense of the word, and I thought the session we had together was constructive." While Mudd did not want to compare Paulson's involvement with past Treasury officials, he said, "I think it's a terrific thing that somebody with his background is engaged in the process." (*Bloomberg News*, James Tyson, 10/31/06; *Reuters*, Patrick Rucker, 10/26/06; *Reuters*, 10/23/06; *MortgageWire*, 11/02/06)

Follow the money

- According to the *Wall Street Journal*, " 'Systemic' risk is no laughing matter. One such risk that keeps us awake at night is having so much housing risk concentrated in two big firms, Fannie Mae and Freddie Mac -- especially when they enjoy an implicit government guarantee on the leverage they use to fatten their bottom line. Those two companies, by the way, have a combined portfolio nearly as large as the entire hedge-fund industry. But Capitol Hill prefers to ignore that systemic danger because the two mortgage giants and their homebuilder allies lather the place with campaign contributions." (*Wall Street Journal*, 10/31/06)

OFHEO issues final regulation on GSEs' record retention

- On October 24, OFHEO filed in the *Federal Register* its final rule, requiring Fannie Mae and Freddie Mac to establish and maintain a record retention program to ensure that complete and accurate records are readily accessible by the agency for examination and supervisory purposes. The regulation also requires that the GSEs establish internal controls, procedures and training programs to ensure the adequacy and effectiveness of the record retention program. "With this regulation, the Enterprises will have an obligation to maintain and promptly produce records needed in regulatory examinations and other proceedings, an essential element of safe and sound operations," said OFHEO Director James B. Lockhart, III. (*OFHEO Press Release*, 10/24/06)

Fannie Mae and Freddie Mac vow to regain their MBS market share

- Fannie Mae and Freddie Mac said they intend to win back some of the market share they have ceded to private-label conduits over recent years. Freddie Mac CEO Richard Syron said that his company “is determined to be as competitive as it can be.” Noting that both Fannie and Freddie have “been in the penalty box” while dealing with their accounting scandals, the GSEs have been playing mostly defense. With private issuers controlling an estimated 55% to 60% of the MBS market, Syron said they have benefited because “the real gain has been going on outside us [in non-prime mortgage lending].” Stricter oversight of lenders offering exotic mortgages will likely reduce the originations non-prime mortgages and allow Fannie Mae and Freddie Mac to recoup some lost ground. Syron said, “How the regulators approach [exotic mortgages] is going to be a major determinant of what the GSEs have” for their share of the bond market. However, the GSEs will not regain the same degree of dominance they once enjoyed, said Fannie Mae CEO Daniel Mudd. Fannie Mae hasn’t been innovative enough, particularly while it’s been dealing with its accounting problems, said Mudd. While the company has “been working to get our house in order,” Fannie Mae has been “rethinking a lot of things, including how we do business,” said Mudd. Noting that the GSEs were designed for the turbulent and changing markets that lies ahead, Mudd said, “We’re rushing to get back into the game. We will be there.” (*National Mortgage News*, Lew Sichelman, 10/30/06; *Reuters News*, Al Yoon, Reuters News, 10/23/06)

Market outlook uncertain with \$1 trillion of “creative ARMs” set to reset in 2007

- Fannie Mae sees \$1 trillion in volume of creative ARM resets happening in the next year, which will have profound impact on the housing industry. “Those resets are going to be interesting and have difficult-to-predict impacts on consumers,” said Mudd. The danger of mortgage rate resets have emerged along with “all of the innovation that has gone on in the market,” said Mudd. “I would be the first to argue for that innovation,” but cautioned that a wave of mortgage resets could be disruptive. One excess of the housing boom has been a glut of financing filtered through new mortgage products, said Syron. “There is too much capital chasing too little profit,” said Syron. “We’re all getting squeezed out on the risk curve.” He foresees “a fairly tough correction” for housing market after “coming off probably the best 10, 15 years in the mortgage industry in the world.” (*National Mortgage News*, 10/30/06; *Reuters News*, 10/23/06; *Dow Jones International News*, Damian Paletta and Lavonne Kuykendall, 10/23/06)
- The Mortgage Bankers Association estimates that between \$1.1 and \$1.5 trillion of ARMS will reset in 2007. MBA chief economist Doug Duncan estimates that just \$600 billion to \$700 billion will refinance. With regard to defaults, Duncan said that many of these ARMs have reset at least once, which is when the biggest threat of default occurs. Duncan anticipates that the remaining \$500 billion to \$800 billion

will just reset and the borrowers will struggle to make their higher payments.
(*National Mortgage News Online*, October 28-29, 2006)

- In a November 1st speech before the Opportunity Finance Network's Annual Conference, Federal Reserve Chairman Ben Bernanke said that the historically underserved U.S. markets have seen sharp gains in credit access, homeownership, and small business developments as a result of the "democratization" of credit, resulting from new technologies, lenders' better pricing risk, and increased funding from capital markets. Bernanke said he sees "room for improvement" in educating consumers about the terms of non-traditional mortgages. "Some evidence, including recent Federal Reserve research on consumers holding adjustable-rate mortgages, suggests that awareness could be improved, particularly among borrowers with lower incomes and education levels," said Bernanke. (*American Banker*, Steven Sloan, 11/01/06; AFX International Focus, 11/01/06)

Could conforming loan limit fall in 2007?

- Declining home prices may reduce the size of conforming loans, which Fannie Mae and Freddie Mac may buy, raising consumer borrowing costs in some high-cost regions, according to analysts. The conforming loan limit is based upon the Federal Housing Finance Board's Monthly Interest Rate Survey, which shows a 3.1% decline for the 12 months through September. If that percentage decline were applied to the full year, the GSE loan limit would fall from \$417,000 (for 2006) to \$404,907 for next year. OFHOE will determine the conforming loan limit for 2007 based upon the release of October data on November 28. According to analysts, it is unclear if OFHEO has discretion over its model in setting loan limits. "We believe that if OFHEO follows its procedures strictly to the letter, there will be a small decline in the conforming loan limit for 2007," said UBS analysts in a recent research note. (*National Mortgage News*, 10/30/06; *Reuters News*, Al Yoon, 11/01/06; *Home Equity Wire*, 11/01/06)

BofA plots "disruptive strategy" for mortgage market

- Confronting a performance gap in mortgages, BofA says it is considering turning to "disruptive strategies" analogous to those it applied to [free] online stock trading. In the company's October 19 earnings conference call, BofA CFO Alvaro G. de Molina said his firm would like to boost its mortgage business, which it considers a weak link, and "is looking at different ways to approach [it]." He added, "When we've got a weak strategic position and we have a spectacular franchise opportunity, that's the ideal state in which to deploy a disruptive strategy." (*American Banker*, Paul Davis, 10/25/06)

FASB proposes MBS exemption to rules on accounting for derivatives

- By a vote of 6-1, FASB proposed a rule which would exempt collateralized mortgage obligations from FAS 155. The change would allow investors, who hold approximately \$3.5 trillion in agency MBS from having to recognize interest-rate driven gains and losses on income statements. Without this exemption, FAS 155 “would have required either a full marked-to-market of those securities through the income statement or the bifurcation of certain ‘embedded prepayment derivatives’ from the ‘host contracts’ for entities reporting under GAAP,” said Barclays MBS strategist Art Frank in a report. Frank noted that the October 25th decision is “only preliminary; a 30-day comment period will ensue as soon as the FASB staff releases its proposed guidance in the form of a draft.” (*Reuters*, Emily Chasan and Al Yoon, 10/25/06; *Bureau of National Affairs*, Steve Burkholder, 10/26/06; *National Mortgage News*, Bonnie Sinnock, 10/30/06)

Electronic vault for mortgage documents gains acceptance

- With the paperless mortgage still years away, more participants in the secondary market are agreeing to accept documents in electronic form. LaSalle Bank, the Chicago unit of ABN Amro Holding NV of the Netherlands, announced that it has created an electronic vault for mortgage documents. This vault will allow Wall Street clients to sell MBS “probably 24-hours” after they have assembled the loans, said LaSalle’s SVP of collateral services Harry Cichetti. Typically, this process takes three to five business days to ship the required documents. Cichetti said that LaSalle’s next step will be to get Wall Street firms to purchase electronic notes. LaSalle is the second bank—following in the footsteps of GMAC Bank-- to have adopted this technology. (*American Banker*, Kate Berry and Marc Hochstein, 10/31/06)

Fannie Mae

Fannie Mae submits its independent review of executives' and directors' role in accounting scandal to OFHEO

- On October 23, Fannie Mae submitted to OFHEO its internal review that probed whether existing company executives and directors should be penalized for any role they may have played in its \$10.6 billion accounting scandal, said an OFHEO spokeswoman Stefanie Mullin. “We have received the report from Fannie Mae in compliance with the consent order,” she added. The agency declined to make the report available to the public. The internal review was led by outside directors Dennis Beresford, former head of the Financial Accounting Standards Board; Greg C. Smith, vice chairman of Ford Motor Co; Bridget A. Macaskill, principal of BAM Consulting LLC; and John K. Wulff, chairman of Hercules Inc. The directors, who joined Fannie Mae after the accounting mistakes were discovered conducted the review, may have recommended that the company fire certain officials or seek repayments of prior bonuses. Their review did include former chairman and CEO Franklin D. Raines or former CFO Timothy Howard. Previously, OFHEO said that it expects to file lawsuits against Raines and Howard for their role in the accounting scandal.
- On October 23, Fannie Mae CEO Daniel Mudd said that while he has not seen by the company’s internal report, he will abide by its recommendations. “I have not seen the report,” said Mudd. “I was recused from the process so I would be the wrong one to ask [about the report].” When asked by reporters if he would return bonuses and other compensation to the company, Mudd responded “If the board makes a determination, that’s good enough for me.” He warned that it would be speculative to consider whether other current executives would follow suit and agree to return bonuses, if asked by board to do so. (*Dow Jones Newswire*, Damian Paletta, 10/23/06; *Reuters News*, 10/23/06; *American Banker*, Steven Sloan, 10/25/06)

Fannie Mae’s mortgage portfolio shrinks 2.1% in September

- Fannie Mae’s mortgage portfolio shrank 2.1% (annualized) to \$725.5 billion in September. At month end, the company’s retained commitments totaled \$10.4 billion, suggesting the GSE may add slightly to its portfolio in the near future. During September, Fannie Mae’s duration gap moved to zero months from negative one month in August.
- According to company spokesman Jason Lobo, Fannie Mae’s mortgage-backed securities business was boosted by greater demand from banks to sell their loans as collateral for bonds. Fannie Mae issued \$47 billion of MBS in September, up from \$37.6 billion in August. [In contrast, Freddie Mac said it issued only \$30.6 billion in

September.] “Fannie’s market share versus Freddie improved significantly to 61 percent in September compared to 54 percent [in August],” noted analysts at Credit Suisse in a research note. (*Main Wire*, 10/27/06; *Reuters*, 10/27/06)

Fannie Mae to file Form 12b-25 with SEC
and hold investor conference call on November 8th

- On the morning of November 8, Fannie Mae will file its third quarter 12b-25 with SEC and will hold a conference call for the investment community at 4:00 p.m. to discuss the filing. Information on how to participate in this phone call and ask questions during the session is available on Fannie Mae’s website at <http://www.fanniemae.com/newsreleases/2006/3835.jhtml;jsessionid=DSL5KB1IB4YRDJ2FQSHSFGQ?p=Media&s=News+Releases>. (*Fannie Mae Press Release*, 10/03/06)

Rudman will withhold documents requested by Ohio Attorney General
in class action suit against Fannie Mae

- Former Senator Warren Rudman, who conducted an independent investigation of Fannie Mae at the request of its board of directors, said he would withhold interview records and other documents from Ohio General Jim Petro and investors who are seeking to prove fraud. Investigators are acting on their “own privilege as a law firm that wants to protect work product and things we don’t think plaintiffs are entitled to,” said Rudman. He added that his law firm, Paul, Weiss, Rifkind, is not acting on behalf of Fannie Mae. (*Washington Post*, 10/24/06)

Freddie Mac

Freddie Mac's portfolio shrinks for the fifth straight month

- In September, Freddie Mac's mortgage portfolio shrank 7.7% to \$702 billion, the fifth consecutive monthly decline. Year-to-date, the company's mortgage portfolio contracted at an annualized 1.4%. Freddie Mac has announced that it probably will not increase its debt in future months, fueling speculation that its mortgage portfolio will remain unchanged or smaller through the remainder of 2006. At September 30, the company's duration gap was zero months, unchanged from the prior month. (*Reuters*, Julie Haviv, 10/24/06)

How *did* Freddie Mac get in trouble?

- When asked by the *San Francisco Chronicle* how Freddie Mac got into trouble, the company's chairman and CEO Richard Syron responded, "I can give you my economic as compared to legal diagnosis. The company grew far faster in size than it grew its infrastructure. It didn't have the ability to handle the throughput in products that it was taking. The bigger issue was letting the company grow very dramatically without saying maybe we need to have a more extensive accounting system. Maybe we need to have a much more extensive information technology system. Maybe we need to develop more formal control systems. Maybe we need to have much more developed legal checks. The growth from being a mom-and-pop shop to sort of a giant without growing the support mechanisms."
- When asked why it has taken more than three years to get Freddie Mac back on track, Syron responded, "That's a very reasonable question. There are two primary factors. One is that you're really starting with a tabula rasa. When I came in, there was very little in a lot of places. Part of that was the company made a decision to remain right. I mean you didn't have the luxury of saying, 'We're going to take the car and put it into the garage and do a frame-up restoration,' which was really what you needed to do. We didn't have any human resources department. We had a really totally non-functional IT department. We didn't have any enterprise risk control. We had no compliance function. [What *did* Freddie Mac have?]
You want to take it into the garage and do a frame-up restoration, but you couldn't do that if you were going to stay in the market. Also if you did that, we do have this thing called shareholders that we are legally responsible to. If you had done that, there wouldn't be any market left for you. Once you came out of the shop -- and I don't think that we sufficiently appreciated the difficulty of trying to run the business and try to fix it at the same time. In retrospect, I think we probably made what's an understandable mistake as a corporation, and we made this decision quite early in 2003. We focused on trying to do the 2003 numbers, do the 2004 numbers and keep getting them out as close to

regular time as normal. Build the system first. Don't try to generate the numbers first. That was a mistake that we made, and we didn't discover it was inherent in the way that we approached things until really late last year, and we made a sort of token change in how we deal with it."

- "How is [the recovery effort] affecting [Freddie Mac's] business today?" Syron was asked. He responded, "What you try to do is you try to separate things out, but it has been a significant stretch and I think there is no sense in denying that. More than 50 percent of the offices we have in the company are now spending a significant amount of their time on the financial remediation issue. Actually, on the business side, we've substantially increased our market share. We've substantially increased our performance on the affordable housing, mission side. Where it has hurt us is in developing the next stages of the business. Where that is most evident is in information technology. Essentially, all of our IT resources are embedded in trying to build accounting systems, build control systems and all these things, which doesn't leave you spare resources to say, 'These six big originators want to change the way they supply data to us.' They don't want to send it through a 3/8-inch pipe anymore. They want to send it through a 4-inch pipe, so we have to get away from 3/8-inch pipe and build six different pipes, so they want to send it through fiber-optic cable or something." (*San Francisco Chronicle*, 10/29/06)
- [Editorial Question: If a very strong GSE regulatory reform bill is not passed, **what** will prevent Fannie Mae and Freddie Mac from making these same mistakes again?]

Freddie Mac reports its highest share of cash out financing in 16 years

- Despite higher mortgage rates, Freddie Mac reports that homeowners continue to take cash out of their homes when refinancing. During the third quarter of 2006, 89% of Freddie Mac-owned loans that were refinanced, resulted in new mortgages with amounts that were at least 5% higher than the original loan balances. This cash-out refinance ratio is up from 88% in the second quarter of 2006, which was the highest share since the second quarter of 1990. According to Freddie Mac, the prices of properties refinanced during the third quarter had a median appreciation of 33% from the time the original loan was financed, down from a revised 34% for the second quarter. Freddie Mac made these estimates based upon a sample of properties on which Freddie Mac funded at least two consecutive loans. (*Dow Jones Newswires*, Danielle Reid, 11/01/06; *Associated Press*, 11/01/06)

Freddie Mac plans to put Loan Prospector on a new software platform

- To meet the needs of a changing loan product environment, Freddie Mac plans to put Loan Prospector on a new rules-based software platform. "We're putting LP on a new platform because the prior one is 10-years old," said Ed Albrigo, vice president, enterprise program office at Freddie Mac. "We want new technology that will make

it easier for us to look at new loans that we haven't looked at historically." To achieve this goal, Freddie is looking for rules-based technology which will allow the company to reprogram LP in the future without having to use hard code. The transition to the new platform is expected to be completed next year. (*National Mortgage News*, Anthony Garritano, 10/30/06)

Freddie Mac extends its construction-to-permanent mortgages in the secondary market

- Freddie Mac plans to increase the period that lenders have to originate, document and sell construction-to-permanent mortgages (CTP) in the secondary market from six to 18 months. To streamline the process, the company also plans to remove separate time lines for origination, construction and sales of loans financing new construction and renovations. These changes clarify that Freddie Mac is financing only the "permanent takeout" mortgage and not the land, acquisition, development or construction financing. (*Origination News*, November 2006)
- Freddie Mac is making a strategic shift by expanding outside its four-building campus in McLean, VA by opening its first regional office in Chicago, which will have 85 staff members. Given the concerns about a potential for bird flu pandemic and the tight labor market in the Washington, DC area, Ed Albrigo, vice president of the company's enterprise program office, said that Freddie Mac is rethinking its current structure of having all of its employees in one city. The company is considering opening regional offices in Dallas and Atlanta, as early as next year. (*American Banker*, Kate Berry, 10/26/06)

Prudential Mortgage earns Freddie Mac license to offer targeted affordable housing loans

- Freddie Mac has approved Prudential Mortgage Capital Company to originate targeted affordable multifamily loans nationally on its behalf. As a targeted affordable lender, Prudential has been delegated approval to underwrite and close qualifying transactions under Freddie Mac's Delegated Underwriting initiative. (*BusinessWire*, 10/24/06)

Federal Home Loan Banks

Are the Federal Finance Board waivers a sign of a “more cooperative relationship” between the FHLBs and their regulator?

- For the second time in six months, the Federal Housing Finance Board has approved a rule change which has helped a struggling FHLB. On October 11, the Finance Board unanimously approved a rule to relieve members of the FHLB-Seattle from excess-stock rules that would have barred them from borrowing from the Bank. In April, the Finance Board issued a rule which allowed the FHLB-Chicago to use \$1 billion of its own debt to buy back some excess stock. The Finance Board’s actions are seen by some as a sign of a new flexibility by the regulator on the issue of excess stock, which the Board proposed earlier this year to restrict. However, others argued that the Finance Board’s actions did not signal a policy change. In an interview with *American Banker*, Michael Powers, the Finance Board’s portfolio manager, said, “These are situations that are specific.” He added, “[Membership] is a concern with the Seattle Bank. They are not repurchasing stock or paying dividends [since May 2005], so they are having a challenge.”
- Other FHLB insiders view the Finance Board’s approval of amendments with great interest and wonder if the approvals signal a change of heart with regard to excess stock. “We saw [the Finance Board’s approval] as encouraging,” said FHLB-Cincinnati spokesman John Byczkowski. But, Powers cautioned not to read too much into these approvals. “This is not a departure,” Powers cautioned. Some observers said that other FHLBs should follow Seattle’s lead, arguing that if the Finance Board would approve the plans for a troubled FHLB, it will have to approve any requests it gets from healthier Banks. John von Seggern, the president of the Council of FHLBs, said that the Finance Board’s approval of waivers marks the beginning of a different, more cooperative relationship between the FHLBs and its regulator. “The issue is to allow each bank to make the case that what they’re doing is mission-consistent and safe and sound, instead of a blanket rule that doesn’t work,” said von Seggern. (*American Banker*, Steven Sloan, 10/24/06)

Will the Finance Board turn its attention to the Banks’ mortgage participation programs?

- After the Federal Housing Finance Board completes its work on the excess capital rule, observers believe that the regulator may turn its attention to the FHLBs’ mortgage participation programs (MPP). While sources have told *MortgageWire* that board officials have discussed issuing a propose rule for the MPPs, the Finance Board’s spokesman maintains, “We have no plans to address the mortgage programs right now.” He added, “However, we continue to monitor those programs. If in the future we feel it is necessary to do something we will go forward at that time.”

Sources “suspect” that the Finance Board will likely consider a rule on the MPPs during the first half of 2007, which would establish a standard purchase stock requirement for members who want to sell single-family mortgages to the FHLBs. Such a stock purchase requirement would discourage large banks from participating in the MPPs, essentially limit the participation to community banks in the programs, and prevent the FHLBs from selling mortgages to other Banks [because the FHLBs cannot own the stock of another Bank]. (*MortgageWire*, 10/25/06)

FHLBs announce third quarter results and third quarter dividends
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- The FHLB-San Francisco reported third quarter earnings of \$140 million, a 53.8% increase over its third quarter earnings for 2005. The Bank’s earnings for the nine months ended September 30 totaled \$387 million compared to \$259 million for the corresponding period in 2005. During the first nine months of 2006, the Bank’s advances grew 7% to \$11.6 billion, while total assets grew 4% to \$8.1 billion. At September 30, the Bank reported total capital of \$10.4 billion, representing 4.55% of total assets, and a duration gap of one month. The FHLB-San Francisco’s dividend rate for the third quarter is 5.5% (annualized), up from 4.58% for the third quarter of 2005. (*BusinessWire*, 10/25/06)
- During the third quarter, the FHLB-Boston reported net income of \$50.3 million, an increase of 62.6% compared with \$31.0 million for the same period last year. The Bank’s assets grew 3.5% to \$59.7 billion during the third quarter, while its advances declined 0.5% to 37.9 billion. Member mortgage assets decreased 5.5% to \$4.6 billion, while the Bank’s capital declined 2.6% to \$2.6 billion. (*PR Newswire US*, 10/26/06)
- The FHLB-Cincinnati reported that its third quarter earnings of \$62.9 million increased 12.6% compared to the third quarter of 2005, while its nine months income ended September 30 of \$184.3 increased 17.7% from the same period last year. The Bank’s assets of \$79.9 billion increased 3.5% compared to year-end 2005 and were up 2.2% from June 30. Advances rose 12.8% from year-end 2005 to \$45.3 billion, while the Bank’s mortgage portfolio balance remained at \$8.3 billion, virtually unchanged from December 31. The Bank’s capital stock totaled \$184.3 billion on September 30, for a capital to assets ratio of 4.78%. However, regulatory capital decreased \$200.8 million, or 5.1%, from the prior year due to exemptions of excess non-member capital stock. On September 30, the FHLB- Cincinnati’s regulatory capital to assets ratio was 4.96%. (*PrimeZone Media*, 10/24/06)
- The FHLB-New York’s board of directors approved a third quarter dividend of 6.25% (annualized), payable on October 31. Retained earnings after the dividend payout will be approximately \$289 million. If the Finance Board’s proposed retained earnings regulation were in effect, the Bank would be in compliance. (*PR Newswire*, 10/26/06)

- The FHLB-Atlanta announced that it has raised its third quarter dividend to 5.90%, up 30 basis points from its second quarter dividend of 5.60%. The dividend was credited to members' accounts on November 2. (*Banking Wire*, 10/30/06)
- The FHLB-Indianapolis increased its third quarter dividend to 4.75% for its B-1 shares, up from 4.5% for the second quarter. The Bank has also increased its third quarter dividends for its B-2 shares to 3.80%, up from 3.6% for the second quarter. The dividends will be paid in cash to its members. (*Credit Union Journal*, 10/30/06)

Michael Edwards joins the FHLB-Boston board of directors

- The FHLB-Boston announced the appointment of Michael Edwards, group vice president and treasurer of Citizens Bank of Rhode Island and Citizens Financial Group to the Bank's board of directors. Edwards' term will commence on January 1, 2007 and expire on December 31, 2009. (*PR Newswire*, US)

FHLB-Cincinnati announces departure of its CFO

- "By mutual agreement of the parties," the FHLB-Cincinnati announced that Sandra E. Bell, its CFO for the past two years, will leave the Bank on November 30. A Bank spokesman said that Bell's departure is not a result of financial irregularities, nor has the Board stated a search for her successor. Prior to joining the Bank, Bell spent 12 years as a managing director of Deutsche Bank Securities in New York. (*American Banker*, Steven Sloan, 10/31/06)

Finance Board member Bacino appoints Jonathan Lindley as Special Assistant

- The newest member of the Federal Housing Finance Board, Geoff Bacino, has appointed Jonathan Lindley to serve as his special assistant. Previously, Lindley served as Deputy Assistant Secretary in the Economic Development Administration in the U.S. Department of Commerce and a professional staff member for the Senate Banking Committee. In the private sector, Lindley served as director of the Washington office of Ferguson and Company, a financial institutions consulting firm, and as assistant to the CEO of Bowery Savings Bank. He also served in senior positions at the Association of Financial Service Holding Companies, the National Savings and Loan League, the National Association of State Credit Union Supervisors, and the Credit Union National Association. (*Federal Housing Finance Board Press Release*, 10/24/06)

Ginnie Mae

Ginnie Mae enters into alliance with MISMO to develop and publish government standards related to electronic mortgage transactions

- The Mortgage Industry Standards Maintenance Organization (MISMO) has formed an alliance with Ginnie Mae to form one or more Government Housing Workgroups (GHW) within MISMO. The goal of GHW is to develop and publish government standards related to electronic mortgage transactions involving government entities within the MISMO framework. “By having future Ginnie Mae reporting and data formats in alignment with established industry standards, and providing Ginnie Mae with a robust forum in which to develop its formats and interface specifications, this is a ‘win-win’ for both the industry and Ginnie Mae,” said MISMO. (*MortgageWire*, 10/26/06)

International Mortgage Market

“Big bang in the making” in Mexico’s mortgage market

- According to an October 23 study released by the Federal Reserve Bank of Dallas, Mexico’s “nascent” mortgage market is booming due to the country’s stronger economy and increased wealth. “A series of quiet reforms—many enacted in just the past few years—points to a financial big bang in the making,” said the Federal Reserve’s international financial analyst Edward C. Skelton, in the study “Laying the Foundation for a Mortgage Industry in Mexico.” Thanks to recent reforms, the country’s mortgage market is growing rapidly as the number of people who have access to competitively priced mortgages expands. Although Mexico issued its first mortgage-backed security in 2003 totaling \$178 million, the country’s secondary mortgage market has expanded to approximately \$1.5 billion a year. According to the study, the market is expected to double in 2007 and double again in 2008. The full study is available at <http://www.dallasfed.org/research/eclett/2006/el0610.html> (*Bureau of National Affairs*, R. Christian Bruce, 10/25/06)

Farm Credit System / Farmer Mac

Farm Credit System reports 17% increase in profits

- The Farm Credit System reported a combined net income of \$621 million for the three months ended September 30, 17.2% above the third quarter of 2005. At September 30, the Farm Credit System reported total assets of \$154.7 billion, \$115.1 billion of loans outstanding, \$126.1 billion of system-wide debt and total capital of \$24.2 billion. Non-performing loans decreased \$20 million from December 31, 2005 to \$580 million, representing 0.50% of the System's total loans at September 30, 2006. Jamie B. Stewart, President and CEO of the Federal Farm Credit Banks Funding Corporation, said, "The Farm Credit System achieved another favorable quarter, highlighted by sustained growth in the System's loan portfolio. Despite the competitive market place, System institutions continued to report solid earnings, enabling them to support the growth of their loan portfolios, while maintaining their strong capital positions. The favorable level of credit quality of the System's loan portfolio reflected a continued period of generally healthy agricultural conditions." (*BusinessWire*, 10/31/06)

When will the Farm Credit System register with the SEC?

- On October 5, the Federal Housing Finance Board announced that all 12 FHLBs have completed the registration process with the SEC, leaving the Farm Credit System the only GSE outside the "SEC fold," "The holders of over \$120 billion of FCS debt securities and the owners of \$988 million of FCS preferred stock clearly will benefit from SEC scrutiny of the FCS's financial disclosures," wrote Bert Ely in the October issue of *Farm Credit Watch*. "...Since [Fannie Mae, Freddie Mac, the FHLBs, and Farmer Mac] have experienced difficulty in properly accounting for their hedging activities (admittedly not an easy task), it is reasonable to assume that the FCS has experienced similar problems. Further, FCS hedge accounting and documentation has been delegated to the five Farm Credit Banks, each of which 'formally documents all relationships between hedging instruments and hedged items, as well as the risk management objective and strategy for undertaking various hedge transactions.' In other words, the FCS has five accounting centers where it can err in its hedge accounting. [Bert Ely has] written ...FCA Chairman Nancy Pellett to ask what steps the FCA is taking to review the FCS's hedge accounting." (*Farm Credit Watch*, Bert Ely, October 2006)

FCS merger wave in the making

- In the October issue of *Farm Credit Watch*, Bert Ely wrote, “Two FCS association mergers in Texas may signal the start of another consolidation wave within the FCS. After a significant number of mergers in the 1999-2002 period, which trimmed the association count from 189 to 104, the number of associations declined by only eight, to 96, as of the end of last month. However, on October 1, two Texas associations merged to form the largest association in the Lone Star state, with \$2.5 billion in assets, but only the eighth largest in the FCS. Since then, the Farm Credit Administration (FCA) approved the merger of two other Texas associations, to form a \$625 million association.”
- “Despite these mergers, Texas will still have twelve associations, California eight, Oklahoma seven, Kansas six, Florida five, and Arkansas and North Dakota four each. The consolidation potential in these states is evidenced by the fact that the three largest FCS associations, which together held 28.5% of all association assets on June 30, 2006, serve all or portions of fifteen states. Numerous well-placed sources report that two North Dakota associations will soon enter into a joint management agreement which will lead, one year later, to a merger forming one of the largest North Dakota-based financial institutions. The two Illinois FCS associations share the same website address and are headquartered just 50 miles apart, which makes one wonder how soon they will merge to form a \$3.6 billion institution. I have long predicted the FCS will shrink to 20 or fewer associations. Perhaps that will soon occur. No longer will the FCS have any small, locally focused, farmer-run cooperative lenders.” (*Farm Credit Watch*, Bert Ely, October 2006)

William J. Hoffman named executive assistant to FCA chairman and CEO Pellett

- William J. Hoffman has been named Executive Assistant to FCA Chairman and CEO Nancy C. Pellett, effective October 29. Hoffman replaces James Morris, who has been named as General Counsel of the Farm Credit System Insurance Corporation. Most recently, Hoffman has served the FCA as the Associate Director for Examination and Supervision in the Office of Secondary Market Oversight, which oversees the Federal Agricultural Mortgage Corporation. (*US Fed News*, 10/26/06)

Farm Credit institutions issue \$51.6 million loan commitment for construction of ethanol plant

- On October 18, CoBank and Farm Credit Services of America (FCSA) issued a Letter of Commitment to loan \$51.6 million to Superior Ethanol, LLC, a wholly-owned subsidiary of Green Plains Renewable Energy (the Company), for the construction and working capital financing necessary to complete an ethanol plant currently under

construction in Superior, IA. CoBank and FCSA are also lenders on the Company's Shenandoah [ethanol plant] project. (*M2 Presswire*, 10/23/06)

Postal Service

The buzz on the Postal Service's contract negotiations

- According to the American Postal Workers Union, "At the negotiating table, postal management has given a series of formal presentations on the Postal Service's financial position, marketing, and mail volume, which are intended to undermine union demands and justify USPS proposals. The union has countered with documentation of the cost of postage as compared to the rates in other countries; the effect of excessive discounts on USPS finances, the employment uncertainties caused by massive excessing and reassignments; increases in the cost of living; and the need to balance the rights of employees more equitably between management and the employees." (*APWU Negotiations 2006*, Burris Update #15-06, 10/30/06)
- The National Association of Letter Carriers (NALC) has presented the U.S. Postal Service its opening proposal for a new contract. NALC's opening economic proposal calls for a seven-year agreement which includes a continuation of existing cost-of-living adjustments, with no changes; general wage increases of 3% in each year of the agreement; and a pay upgrade of one grade for all letter carriers. (*Association for Postal Commerce*, 10/28/06)

USPS consolidation plan leaves postal workers "concerned for customers"

- According to KLAS-TV [Las Vegas, NV], a consolidation plan for post offices could leave customers standing in longer lines, according to APWU members who protested changes to the postal system in a nationwide protest. In a Las Vegas rally, postal workers urged local residents to write their representatives and ask for their help. Local postal union president Joe Lewis, said, "It's not about jobs. We already have a no lay off policy. It's strictly about service for the people in Las Vegas and across the nation." (*KLAS-TV*, Edward Lawrence, 10/27/06)

Delays in the implementation of the postal rate case
“costs” the USPS \$450 million a month

- According to the Postal Service’s CFO H. Glen Walker, it costs the agency \$450 million for each month beyond the projected implementation date. The Association for Postal Commerce responded, “Actually, it costs the Postal Service NOTHING! The revenue needed to break-even as the law requires is guaranteed by mailers’ postal rates. This ‘cost’ stuff is NONSENSE and the Governors should bring an end to it.” (*DM News*, Melissa Campanelli, 11/02/06; *Postcom*, 11/02/06)

Postage tax “spreads” to New Jersey

- As postage costs continue their upward spiral, states, such as New Jersey, have begun assessing state taxes to cover fees and postage in the taxable sales price, under the provisions of a national Streamlined Sales and Use Tax Agreement implemented by 19 states. New Jersey modified an existing law to provide for taxation of delivery charges on taxable items and imposed the tax on sales of direct mail material as well as direct mail processing services and postage. While New Jersey is not the only state charging sales taxes, it is the most visible, said Leo Raymond, director of postal affairs for the Mailing and Fulfillment Service Association. Other states which tax postage including Indiana, Kansas, Kentucky, Nebraska, Minnesota, North Carolina, and South Dakota. (*DM News*, Melissa Campanelli, 10/31/06)

Slip sliding away...

- According to the Postal Service’s integrated financial plan for 2007, the agency projects earnings of \$1.7 billion, largely generated by the postal rate increase scheduled to occur in May. According to the plan, the USPS projects that First Class volume will decline 2.8% from its 2006 estimate of 97.546 billion pieces, representing “lost” revenues of \$1 billion. The USPS also projects a 1.9% increase in Standard Mail volume, which would generate \$400 million in additional revenue. In *DM News* column, Gary H. Baer, past chairman of the Association for Postal Commerce, asked, “What is the USPS doing to stop First Class Mail from continuing to slip-slide away? Not much, from my perspective. Sure, the USPS has added negotiated service agreements with a few large First Class users. But that’s like putting a finger in a dike. It won’t change the big picture. It is surprising and disappointing how little the USPS is doing to try to maintain First Class volume. Other than modest changes to the address correction rate structure, not much new is proposed in this rate case for First Class. ...[G]iven the lack of progress on postal reform, one has to wonder how this trend away from First Class toward ad mail will affect future reform efforts in Congress.” (*DM News*, Gary H. Baer, 10/25/06)

USPS phases out postage vending machines
and many of its free-standing mail drop boxes

- In 2007, the USPS will begin a three-year phase-out of more than 23,000 postage vending machines at post offices “The heart of the matter is a lot of these machines are up to 20 years old,” said Postal Service spokeswoman Yvonne Yoerger. To replace the vending machines, the USPS will be installing more automated postal centers that print postage on demand and also sell some stamps. The agency is also removing many of its free-standing blue mail boxes, due to the decline in first-class mail which has resulted in fewer items being placed in these boxes. (*Associated Press*, 10/25/06)

TVA

Debate over TVA’s land policy continues

- A number of Tennessee city and county officials believe that the TVA proposed land policy, which would restrict how the utility disposes of land, is a “poor choice.” Oak Ridge [TN] Mayor David Bradshaw and other regional mayors reached a consensus on opposing the policy at a recent meeting. Bradshaw said TVA’s proposed policy eliminates the potential for residential and commercial developments on the agency’s lands and “severely limits” industrial development. For example, the policy could “cripple” efforts to market the Clinch River Industrial Site, and “adversely impact” economic development and the quality of life in Oak Ridge, said Bradshaw. The proposed Clinch River project would involve an investment of more than \$100 million and create 700 jobs. “Simply stated, the city of Oak Ridge cannot support TVA’s proposed policy that would restrict industrial development opportunities to those businesses requiring water access for navigation or water supply,” the mayor wrote, in a draft letter to the utility’s Community Relations Committee. Land issues are of “critical importance” to Oak Ridge, with more than 60% of the city’s land controlled by TVA, the U.S. Department of Energy and the state government, which affects the city’s ability to create and sustain a tax base, he said. The 30-day public comment period on TVA’s proposed land policy doesn’t provide the Tennessee mayors enough time to voice their opinions. The local mayors need more time because adopting an official position on behalf of their constituents is impossible or almost impossible to do in a month’s time, said Bradshaw. “It’s a very difficult position,” he added. (*The Oak Ridger* [TN], John Huotari, 10/23/06)
- On October 19, Representative Zach Wamp (R-TN) met with members of the Watts Bar Development Authority (WBDA) to discuss strategies for opposing TVA’s proposed moratorium on residential and commercial development on the agency’s land. “You are a legal authority, formed by the legitimately elected governments of

Rhea and Meigs counties at the encouragement of TVA, and now they are just going to shut you down?” asked Wamp. More than three years ago, TVA’s Economic Development Group prompted the formation of WBDA and helped the authority board develop its Master Concept Plan to convert 1,700 acres of TVA land adjacent to Watts Bar Dam in Rhea and Meigs counties into a mixed-use development. The plan calls for the development of upscale single family and townhouse communities, two golf courses, a country club, marinas, industrial and business parks and commercial districts, which would bring hundreds of new residents and tourists and millions of dollars into area, according to MBDA Chairman Everett Roberson. “We need to get TVA to recognize the need for this development project,” said Wamp. “This is the textbook case for the line of exceptions that TVA should write into its land policy. This is not about a bunch of local developers getting rich, it’s about enabling local government to meet its obligations to its citizens.” Proceeds from the sale of the TVA land for the development, estimated at up to \$400 million, could be used to extend water lines to unserved areas of Rhea and Meigs counties and to provide other needed services. The development also would produce an annual infusion of millions of dollars into the local economies, additional property and sales tax dollars for the two counties and electrical usage for TVA.

- Rhea County Executive Billy Ray Patton was particularly upset TVA urged them to form the authority and to develop the mixed-use development plan. “They approached us about this,” said Patton. “They dangled the carrot in front of us and then jerked the rug out from under us.” Meigs County Mayor Ken Jones should receive an exception from TVA even if the board approves the land policy. “Rhea County and Meigs County are economically distressed counties,” said Jones. “We should be a priority over other counties that are in a lot better shape. We’re only asking for a very miniscule piece of TVA’s total properties.”
- Wamp said that the 30-day comment period initiated by TVA, which ended on November 3, was far too short for such an important issue and that public comment meetings should have been in other locations besides Knoxville. “This impacts a whole lot of people I represent,” Wamp said, referring to the proposed land policy. “I think the TVA Board is receiving a lot of pressure from extreme environmental groups, and we need to make sure that local residents and local governments are heard before this thing is slam-dunked on us. We don’t want the extremists to win the day and drown out the voices of the local people. We need to ask for more time and organize a grassroots effort of local people to go to the meetings.” The authority board agreed to ask the TVA Board to extend its public comment period and to schedule a public comment meeting in either Rhea or Meigs County. (*The Herald-News* [Dayton, TN], John B. Carpenter, 10/22/06)
- TVA officials received more than 2,000 comments from the public about its plan to stop selling the 293,000 acres of public land that it manages for residential or retail development. Susan Williams, who chairs TVA’s community relations committee that recommended the policy in September, said that people on both sides of the issue feel very deeply about it. The committee crafted the proposed policy after TVA

agreed to swap public lands to allow two high-end residential developments on Nickajack and Tellico lakes in southeast Tennessee. The land deals unleashed a storm of criticism from the environmental community and those who believed that land bought for public purposes generations ago should remain in public hands. (*Associated Press*, 11/04/06)

Nuclear power is key to the future

- In a meeting with the American Society of Mechanical Engineers, TVA director Howard Thraikill said that new nuclear generation is the best choice to meet the country's future power needs. "The Department of Energy estimates in 25 years we're going to need 45% more electrical energy in this country," said Thraikill. From the standpoint of cost per kilowatt hour and lack of greenhouse emissions, nuclear power is the best option for future power needs, he added. To meet growing power demand, TVA is working to restart Unit 1 at Browns Ferry in May, which the chairman of the Nuclear Regulatory Commission recently said was "doable." TVA's board has also authorized a \$20 million engineering study on a planned restart of Unit 2 at Watts Bar and may eventually consider building new generation reactors at its Bellefonte Plant, said Thraikill. (*Huntsville Times*, Brian Lawson, 11/02/06; *Associated Press*, Brian Lawson, 11/01/06)

TVA offers six distributors chance to rescind cancellations

- TVA is offering the six distributors that have announced plans to leave TVA a chance to rescind their notices by January 10 and return to their standard power contracts without paying additional costs. At the end of the 60-day offer, distributors will be subject to a reintegration fee if they later decide to buy power from TVA. With power supplies becoming more limited, TVA spokesman John Moulton said some distributors who have shopped elsewhere for power may now opt to remain with TVA. The Tennessee Valley Public Power Association (TVPPA), the trade group which represents the 158 distributors of TVA power, said it approves of TVA's new offer. "TVA and TVPPA leadership believe it would be in the best interests of consumers in the Tennessee Valley for TVA to extend this offer," said TVA President and CEO Tom Kilgore said. (*Chattanooga Times Free Press*, Dave Flessner, 11/03/06)

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