

The GSE REPORT™

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Major Events

President Bush signs stimulus legislation into law

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A housing rescue that goes too far...

President Bush signs stimulus legislation into law

- President George W. Bush signed The Economic Stimulus Act of 2008 (H.R. 5140) into law, which provides one-time tax rebates for approximately 130 million households, including disabled veterans and low-income retirees who were added to the program through Senate action. The bill also provides tax incentives to stimulate businesses' investment expenditures and temporarily increases the conforming loan limits for Fannie Mae, Freddie Mac and FHA's mortgage limit to \$729,750 through the end of 2008. The final bill did not include the Senate's proposal to provide a temporary extension of unemployment benefits, an extension of tax credits for renewable energy sources, or assistance for heating costs of low-income individuals. The aggregate cost of H.R. 5140 for the first year is \$152 billion, roughly 1% of the nation's GDP. (*Congressional Quarterly*, Richard Rubin, 02/09/08; *BusinessWire*, 02/13/08)
- In his remarks at the signing of H.R. 5140, President Bush said, "...I know many Americans are worried about meeting their mortgages. My administration is working to address this problem. Last fall..., we brought together the HOPE NOW alliance to help struggling homeowners avoid foreclosure. Yesterday, Secretaries Paulson and Jackson joined HOPE NOW in announcing what is called 'Project Lifeline,' it's a targeted outreach effort to help more at-risk homeowners. Congress can also help by passing legislation to reform the regulation of Fannie Mae and Freddie Mac, to modernize the Federal Housing Administration, and to allow state housing agencies to issue tax-free bonds to help homeowners refinance their mortgages. I hope that Congress can act on these matters quickly." (*BusinessWire*, 02/13/08)
- In a speech to the National Association of Homebuilders, Freddie Mac CEO Richard F. Syron said the increase in the GSEs' conforming loan limit "will be no boon" for his company. Syron added, "It'll take considerable effort and resources to develop the systems to handle jumbo mortgages, particularly because we'll be going from one loan limit in the contiguous 48 states to dozens of different price ceilings. Moreover, buying or simply securitizing these loans will take a good deal of capital – which is a particularly scarce resource for us, given the 30 percent surplus capital cushion that we maintain. Put all that together with today's distressed market and credit conditions, and you can see why this new responsibility will be no windfall for

Freddie Mac.” (Prepared Remarks by Richard F. Syron at the National Association of Homebuilders Annual Convention, 02/13/08)

The fine print on the new jumbo conforming mortgage product is still being written

- Under the provisions of H.R. 5140, HUD now has 30 days to publish a data bases of housing prices which will serve as the basis for determining which markets will have access to Fannie’s and Freddie’s new “jumbo conforming” mortgages and FHA’s new “expanded” loan products. According to *Housing Wire*, a HUD spokesman said, “We have not yet determined if the same data [used by HUD to calculate FHA loan limits] will be used to make the new calculations.” A few industry sources close to the process have suggested that the new conforming limits won’t be as broadly applied as might expected. “...[J]ust 15 counties in California might be designated as eligible for the loan limit increase, for example.” It is also unclear exactly how Fannie and Freddie will price the jumbo conforming loans or what initial underwriting criteria the GSEs will use. “OFHEO has already gone on record as saying the jumbo loans are more risky, so I wouldn’t be surprised if the underwriting guidelines end up being tighter than what you’d see for the usual conforming products,” said one mortgage lending executive. (*Housing Wire*, 02/13/08)
- The Securities Industry and Financial Markets Association (SIFMA) announced that Fannie Mae and Freddie Mac will have to package jumbo-conforming mortgages outside the “to-be-announced market,” in which traders buy and sell mortgage-backed securities before they are created. Traders had been concerned that jumbo conforming loans would hurt the main market for agency mortgage bonds. Following a review, SIFMA concluded that including jumbo loans in TBA pools would have the unintended effect of raising rates for conforming mortgages. Sean Davy, managing director of SIFMA’s MBS and securitized products division, said that isolating jumbo mortgages “is the least disruptive option” for the market, which would allow the GSEs to provide “rate relief to higher balance loan borrowers while not imposing additional costs or impairing liquidity [for others].” Earlier, Freddie Mac had told *Reuters* that it intended to put jumbo loans into separate pools. (*Reuters*, Al Yoon, 02/15/08)
- According to a January 31st Congressional Budget Office report, “CBO estimates that implementing ...increased loan limits [for FHA under H.R. 5140] could result in about \$10 billion in additional FHA loan guarantees through December 31, 2008.” (*Dow Jones Newswires*, John Godfrey, 02/05/08)

A housing rescue that goes too far...

- “On February 1st, the *Christian Science Monitor* wrote, “By Valentine’s Day, Congress plans to shoot a mix of stimuli into a disheartened economy. But there’s one arrow in its quiver that would miss the mark: An increase in government-sponsored credit for home loans. Lawmakers want to subsidize mortgages up to \$729,000 – a nifty gift for the well-off. A little-noticed measure in both the House

and Senate stimulus packages would let the federal handmaidens known as Fannie Mae and Freddie Mac start buying (and reselling) mortgages above their current limit of \$417,000. The action is meant to be temporary, but that's not a likely outcome."

- "The higher cap would allow the two enterprises to back so-called jumbo loans up to 125 percent of a region's median home price. It would mainly help home buyers who earn more than \$150,000 a year. In still-inflated markets such as San Francisco, Washington D.C., New York, and Seattle, such a step means Uncle Sam would ride to the rescue of the upper-middle class. Fannie Mae and Freddie Mac weren't set up by Congress to assist such folks. These publicly traded corporations are supposed to bring the American dream to the less well-off. But that hasn't stopped the giants, which spend big on Capitol Hill lobbyists, from using such allies as the National Realtors Association and the National Association of Home Builders to broaden their franchise. The proposed mortgage perk is aimed at solving a problem that really lies elsewhere – in credit markets torn apart by badly managed securities that bundled millions of high-risk subprime mortgages for investors. Investors remain reluctant to take on jumbo loans until financial institutions come totally clean on their mortgage-related losses. For now, this credit cleansing has left jumbo loans with higher interest rates relative to the smaller loans that Fannie and Freddie now back. In wealthier housing markets, fewer jumbo loans means suppressed demand and lower prices. That's not a market correction many relish."
- "But this measure comes with problems other than a break for the affluent. It would put a burden on these two institutions that they may not be able to bear. Fannie and Freddie have suffered in this subprime crisis and are still recovering from recent accounting scandals that reduced confidence in their stability. Their ability to now handle jumbos is in doubt. And if they were to falter in general, the ultimate guarantor – taxpayers – would be on the hook. With their combined \$1.4 trillion in assets, a rescue of these mortgage mammoths might cost more than the Iraq war, not to mention the fallout in financial markets."
- "What's more, Congress has yet to pass tough oversight of these now loosely regulated giants. The White House, which only reluctantly went along with the proposed higher cap on mortgage loans, must make sure lawmakers pass an oversight bill. Or perhaps it's time instead to break these two institutions into smaller parts because of the risks they pose, and to refocus such loan aid only on low-income Americans. Fannie Mae and Freddie Mac now own or guarantee 40 percent of the mortgage market. As any investor knows, it's always best to spread risk." (*Christian Science Monitor*, 02/01/08)
- In a February 9th editorial, the *Washington Post* wrote, "...The [stimulus] bill unwisely authorizes Fannie Mae and Freddie Mac to back high-cost loans, exposing the federal government [and taxpayers] to greater financial risk for the benefit, mainly, of those who buy and sell expensive real estate." (*Washington Post*, 02/09/08)

- On February 8, Leslie K. Page with Citizens Against Government Waste, wrote, "...For years, the GSEs have fought tooth and nail against increased transparency. They have spent millions of dollars on lobbyists to scuttle congressional enactment of sensible, comprehensive, regulatory oversight. Allowing the GSEs to purchase jumbo home loans is a very bad idea, a pointless side show motivated by politics. It is a solution to a problem, to be sure, but the problem it solves has to do with the GSEs' discomfort at having to live within boundaries that bar them from chasing big profits while offloading the risk of their adventures onto taxpayers. Now that the GSEs and their congressional allies have passed this unprecedented expansion of the GSEs into the mortgage market, potentially 85 percent of the nation's home mortgages will be eligible for government support or backing. This smacks of an incremental nationalization of the housing market. Since the GSE loan increases have been rammed through in the absence of any increased GSE oversight, Congress will be flying blind. After something goes ruinously wrong and the taxpayers (and their children) are saddled with a GSE bailout, members of Congress, as usual, will be able to throw up their hands and swear they never saw it coming." (*Citizens Against Government Waste*, Leslie K. Page, 02/08/08)

The nationalization of the U.S. mortgage market:

Senate Banking Committee rehashes GSE regulatory reform issues

Worried bankers urge politicians to transfer risky mortgages to the federal government

The nationalization of the U.S. mortgage market:

- Richard Iley, senior economist for North America, BNP Paribas, wrote, "The Federal Reserve's Flow of Funds data for Q3 showed that, not only was the economy's net flow of credit uninterrupted as the credit crisis unfolded, it actually surged to a record USD 5 [trillion] or 35.7% of GDP. Some credit crunch! The pace of mortgage production barely slowed right through the credit crisis. But the financing of mortgage production shifted in a dramatic fashion. Private label securitization imploded, leaving government sponsored enterprises the buyers (or financial intermediaries) of last resort. The mortgage market was effectively nationalized in Q3. The issuance of agency and GSE-backed securities exploded to a record annualized 8.5% of GDP as Freddie Mac and Fannie Mae picked up their purchases of both conforming and non-conforming mortgages. The Federal Home Loan Bank advances totaled an annualized USD 746 [billion] in Q3 or 5.3% of GDP." In *RGE Analysts' EconoMonitor*, Elisa Parisni-Capone wrote, "Unprecedented wall of GSE-finance propped up financial markets: no exaggeration to say that the mortgage market was effectively nationalized in Q3." (*RGE Analysts' EconoMonitor*, Elisa Parisni-Capone, 01/12/08)

- In testimony before the Senate Banking Committee, OFHEO director James B. Lockhart, III said, “The GSEs have become the dominant mortgage funder in these troubling times. They’ve been reducing risk in the market by concentrating risk on themselves. They’re now being asked to take on even more risk in the subprime and jumbo markets. ...During 2007, the housing GSEs’ debt and guaranteed MBS outstanding grew 16% to \$6.3 [trillion], which is larger than the \$5.4 [trillion] debt of the US, with [Fannie’s and Freddie’s] debt equal to that of the US and the FHLBs accounting for the rest. Housing prices are weak, and the Enterprises have provided stability and liquidity to the conforming mortgage market, securitizing almost \$100 [billion] per month in mortgages, which has led to a dramatic reversal in their market share, from 38% in 2006 to 76%, **so they are effectively the mortgage market, and it might be 90% if you added in the FHLBs.**” [Emphasis added.]
- Lockhart continued, “Credit losses and risks are growing. In the fourth quarter, [Fannie and Freddie] cut their dividends and raised almost \$14b in preferred stock, which is critical.... **An increase in the conforming loan limit will add to the Enterprises’ risk. OFHEO believes any increase should be coupled with enactment of comprehensive GSE reform. Jumbo loans would present new risk to the already challenged GSEs.** [Emphasis added.] Underwriting them successfully will require new models, systems, and tough capital allocation decisions. OFHEO has promised to work closely with F&F to make sure an increase is implemented as quickly, safely, and soundly as possible.”
- “Why is GSE reform so critical now? They’ve really become the secondary mortgage market, and they need to continue to provide that liquidity. We, in turn, need to maintain confidence in the GSEs, especially with foreign and domestic investors who hold about \$6.3 [trillion] of securities. We need to rebuild confidence in the housing and credit markets, and they need a stronger regulatory framework. The first component of GSE reform is the creation of a single, independent GSE regulator by combining OFHEO, the FHFB, and HUD’s mission and product authority. Second, as the Enterprises agreed, the regulator needs bank-like regulatory powers, including receivership, independent litigation, and budget authority. Most critically, OFHEO needs the flexibility to adjust capital requirements, both the statutory minimum and the risk-based requirement, which are not even working at the moment. Finally, the new regulator needs to be able to consider the mission fulfillment and risk of the portfolios. I believe the House bill is a good start, but the effective date should be upon enactment. The GSEs are stressed and are being asked to do more. I note the Committee’s strong agreement that we need to restore confidence by creating a much stronger, unified regulator to support the US housing finance system. I look forward to working with you to achieve GSE reform soon.” (*Transcript of the Senate Banking Committee’s hearing on Reform of GSE Regulation, 02/07/08*)

Senate Banking Committee rehashes GSE regulatory reform issues

- In his opening statement to at the February 7th Senate Banking Committee hearing on GSE regulatory reform, Senator Wayne Allen (R-CO) said, “It’s sort of a feeling of déjà

vu all over again. Just a short time ago we had accounting scandals, five years ago, and here we're still debating whether we have adequate regulation. A few of the issues related to executive compensation. So the housing GSEs are huge, their combined obligations exceed the publicly-held debt by more than \$1 trillion, and yet we don't have reform. We've seen a dramatic increase in their share of mortgage origination, and yet we don't have reform. We've seen a huge increase in their mortgage credit leverage, and still lack reform. We've seen more than \$10 billion in financial restatements, and yet we still don't have reform. Despite their promises, Fannie and Freddie are still not timely filers, so I think it's urgent that we move forward with GSE reform, particularly in light of legislation coming before the Senate increasing those loan limits, where we increase all those factors that have been pointed out to this Committee as a problem. So I urge the Chairman to do whatever he can to get these reforms passed in an expeditious way."

- Senate Banking Committee Chairman Chris Dodd (D-CT) asked OFHEO Director James B. Lockhart about the GSEs' capital surcharge and the possibility of the GSEs deploying their surcharge (\$17 billion to \$18 billion) into subprime rescues. Lockhart responded, "My recommendation is that we need to be very careful when we take this off of the added risk these companies have. We need to be very careful. But I think the more important thing is I would be much more comfortable taking this [capital surcharge] off if I had regulatory power to look at capital. At the moment I really don't. They were only imposed because of the consent agreement. I think what we need... is to give the regulator power to look at minimum capital and risk-based capital." When questioned about his concerns about increasing the GSEs' conforming loan limits, Lockhart replied, "We're adding more risk to companies that are already pretty well stretched, and to me that means that we need to make sure that we have a good capital regime, the ability to make sure that what they're putting in their portfolio makes sense. Another thing that concerns me is that it's going to lessen their ability to meet their AH goals. A jumbo mortgage takes three times as much capital as their normal mortgage, so that's a concern to us, but from a safety and soundness standpoint, the key thing is that they're going to have to build models, they're going to have to put in rigorous discipline, because these are different risks, that they're never dealt with before, so I think it's critical that we have all the powers of a strong regulator, not only to make sure they do this properly, but to make sure everybody else believes that they can do it properly." Lockhart reiterated that the GSEs will be enhancing risk in an area where they have no expertise with jumbo conforming loans and they will also face a very concentrated risk (geographically) "in that well over 50% [of these loans will be located] in California."
- Senator Charles Schumer (D-NY) said he has been "disappointed" with the response of Fannie Mae and Freddie Mac to the housing crisis and urged them to do more to help borrowers. "Fannie Mae and Freddie have not lived up to my expectations when it comes to assisting borrowers who are having difficulty affording their loans," said Schumer. "I expect in return for allowing the enterprises to enter the jumbo market, the companies will also make a commitment to fund additional refinancing or

modification resources to lower-income borrowers who are having difficulty affording their payments.”

- Senator Richard Shelby (R-AL) expressed concerns about the bond insurers and the financial pressure that the monoline bond insurance industry has been under. Shelby asked Lockhart if the GSEs are adequately reserved for possible losses, should the private mortgage insurers face further difficulties or downgrades by the credit rating agencies. Lockhart responded that Fannie and Freddie are spending a lot of time evaluating this issue, along with his agency. “We are concerned about [the PMI’s] capital,” said Lockhart, who acknowledged that 25% of Fannie’s and Freddie’s retained portfolio is in the form of private-label MBS. Shelby asked Lockhart about Credit Swiss’s recent estimate that Freddie could face an \$8 billion to \$10 billion write-down on its mortgage portfolio, while Fannie could face an impairment of \$2.5 billion to \$5 billion. Lockhart responded, “I think the Credit Swiss numbers are too high—but we’re certainly looking into it. ...Whether they’ll have to take an impairment charge or not on these securities is something that they’re looking at right now.”
- In testimony before the Senate Banking Committee, Freddie Mac chairman and CEO Richard Syron said, “[T]he subprime MBS mortgages were bought to meet our [AH] goal. We do not, at this time, expect to take any losses in those mortgages. It doesn’t trade, a lot is priced to esoteric indexes, but when we look at transition rates and difficulty rates, **we do not expect to take any losses in them.**” [Emphasis added.] Shelby followed up by asking, “Did I hear it right that your subprime portfolio is performing?” Syron responded, “We have about \$100 billion in AAA-rated subprime.” Shelby asked, “And are they AAA-rated because of private insurance?” Syron answered, “Some, yes. We look at that all the time. But so far, and anyone would be foolhardy to make promises about the future, we’ve had good experience in that, and we’re heavily subordinated, so we think all, or almost all, of this is going to be money good.”
- Syron and Fannie Mae CEO Daniel Mudd warned the Banking Committee that requiring the GSEs to maintain capital levels on par with commercial banks could cause further economic distress. “Permanently higher capital without regard to risk could have a significant market impact, particularly in times of economic strain,” said Syron in his prepared remarks. Mudd acknowledged the need for both companies to hold more capital if their regulator has a safety or soundness concern, but added, “when such concerns are absent, legislation should ensure that our capital requirements return to the levels established by Congress.”
- Senator Shelby also voiced his anger over Treasury Secretary Henry Paulson’s agreeing to include higher conforming loan limits in the stimulus bill, absent GSE regulatory reform. Shelby said, “[Paulson] met with Republicans. I asked him the question: ‘Was he and the administration soft... on GSE reform?’ And he said, ‘Absolutely not.’ I asked him the further question: ‘Was he going to negotiate the upward [conforming loan] limit?’ He said, ‘Absolutely not.’ Two hours later, he did it. I haven’t met him lately,

but we'll see each other again... I know Mr. Lockhart is committed to [GSE reform], and I know Mr. Rosenfeld is, but I'm not sure about Secretary Paulson. You know, he says one thing and does another." Senator Mel Martinez (R-FL) added, "I think that I am suffering also under greatly diminished credibility from the Secretary of the Treasury because to direct point-blank questions, the answer came back that yes, he wanted to insist on a strong regulator, and no, he was not in favor and it would not be part of the stimulus, to have higher conforming loan limits for the GSEs. Within a matter of a few hours of that conversation, that is exactly what he did." (*Transcript of the Senate Banking Committee's hearing on Reform of GSE Regulation*, 02/07/08; *Dow Jones Newswires*, Michael R. Crittenden, 02/07/08; *Congressional Quarterly Today*, Benton Ives, 02/07/08; *American Banker*, Steven Sloan, 02/08/08; *CQ Today Midday Update*, 02/07/08; *Marketwatch*, Robert Schroeder, 02/07/08)

- In testimony before the House of Representatives' Budget Committee, Treasury Secretary Henry Paulson said that raising the conforming loan limit for Fannie and Freddie "flies in the face of the GSEs' affordable housing mission." He added that he agreed to the temporary increase in loan limits sought by Democratic lawmakers as a price to secure a wider package of measures to help the economy in the stimulus package. Paulson stressed that any permanent increase in GSEs' conforming loan limits needed to be tied to a wider GSE regulatory reform legislation. (*Reuters*, 02/13/08)
- Over the past decade, Freddie Mac and Fannie Mae have spent more than \$86 million and \$74 million, respectively, lobbying Congress, according to *Congressional Daily AM*. (*Congressional Daily AM*, 02/05/08)

Worried bankers urging politicians to transfer risky mortgages to the federal government

- Representatives of the banking industry are urgently shopping proposals with the Bush administration and Congress to shift some of the risk of troubled mortgages to the federal government. Credit Suisse Group has advanced one proposal, which would expand the scope of FHA mortgage guarantees and allow the agency to guarantee approximately 600,000 refinanced mortgages [totaling \$89 billion] by delinquent subprime borrowers. Another plan would make it easier for banks to write-off part of the unpaid balance on loans which exceed the property value, according to several individuals familiar with the matter. "Everybody is looking at everything," said FDIC chairman Shelia Bair. "The door is not closed on anything." (*Wall Street Journal*, Damian Paletta, 02/14/08)
- As politicians consider any and all options, others are asking what the unintended consequences of some "solutions" may be. In a February 17th *Creators Syndicate* column, Steve Chapman wrote, "...Clinton has a stunningly simple solution [to the subprime crisis], as stated in one of her TV ads: 'freeze foreclosures' for 90 days and 'freeze rates on adjustable mortgages.' Those are a perfect answer, assuming this is the question: How can the government reward irresponsibility, discourage mortgage

lending and raise the cost of financing a home? After all, it's easy to pass a law prohibiting lenders from foreclosing. But the first result of that would be a lot more borrowers deciding that paying the mortgage is no longer the highest priority. Those who have practiced strenuous frugality in order to meet their monthly obligations would get nothing, and those who behaved recklessly would prosper. The second result would be to choke off the flow of credit. When a bank makes a loan, it needs some assurance of being repaid. When it isn't, foreclosure offers a way to minimize its loss. If Clinton blocks that option for a time, banks will be markedly less eager to offer loans -- particularly for anyone with a less than perfect credit history. Then there is the matter of the interest rates future borrowers will have to shoulder. Lenders offer adjustable-rate mortgages, which carry low rates in the early years, in the hope of reaping higher rates later on. If a President Clinton were to void the second part of these deals, many mortgage companies would stop offering the first part, in effect saying: Freeze this."

- "Obama is not willing to let this turbulent market sort itself out without the intervention of government, but he offers nothing remotely as alarming as Clinton's dual freeze. Among his main proposals are tougher enforcement of laws against fraud and deception and mandates for 'easy-to-understand information' for borrowers—ideas few advocates of economic freedom would find objectionable. More important than what he advocates is what he doesn't. His chief economic adviser, Austan Goolsbee of the University of Chicago, told me that Obama thinks 'we shouldn't have a blanket policy of bailing out everyone.' In formulating remedies, Goolsbee says, 'you have to think how not to reward bad behavior.' In Clinton's world, that is not a concern: The government can take from the lenders and give to the borrowers without any unwanted consequences. Now who's telling the fairy tale?" (*Creators Syndicate*, Steve Chapman, 02/17/08)
- In a February 4th article in *New Republic*, Richard Thaler and Susan Woodward wrote, "Senator Clinton's policy [for handling the subprime mortgage crisis] amounts to a command-and-control approach to economic policy in which the government announces prices and tells suppliers what to produce. Undertaking such an intervention can only raise interest rates on mortgages (and maybe other interest rates as well) as markets attempt to incorporate risk premiums to cope with possible future interventions. Promising the American people that you can fix things by just lowering their interest rates is dishonest, a fairy tale that won't come true." (*New Republic*, Richard Thaler and Susan Woodward, 02/04/08)

HOPE NOW enhances its program with a foreclosure "pause" for 30 days

- On February 12th, the HOPE NOW Alliance of mortgage lenders, services, and investors announced an expansion of its program to help delinquent borrowers with subprime, Alt-A, or prime mortgages by offering a "30-day pause" in foreclosure proceedings. This new initiative, called Project Lifeline, is "aimed at homeowners who face a real risk of losing their homes, but have not yet addressed the problem,"

said Treasury Secretary Henry Paulson. Project Lifeline involves prominent Alliance members—Bank of America, JP Morgan Chase, Wells Fargo, Countrywide and Washington Mutual—who service approximately half of the mortgage loan servicing in the United States. Under the program, servicers will contact delinquent borrowers, who are 90 days past due on the payments, and offer them a chance to delay foreclosure for 30 days while the lender and homeowner seek to work out a more affordable loan terms. HOPE NOW said that it helped 545,000 subprime borrowers during the last six months of 2007, representing 7.7% of the 7.1 million subprime loans outstanding at the end of September. Approximately 150,000 subprime borrowers received permanent loan modifications, while 395,000 borrowers negotiated repayment plans.

- In a statement, Senate Banking Committee Chairman Christopher Dodd (D-CT) said, “The industry and the Administration are running to catch up as fast as they can to a problem that is getting broader and deeper by the day, but they seem to be falling further and further behind. This plan, while a step in the right direction, will not stem the tide of the millions of foreclosures we are facing in the coming months.” Instead, Dodd favors the creation of a Homeownership Preservation Corporation, modeled on a federal entity established during the Great Depression, to purchase mortgages in danger of foreclosure. “Regardless, it’s clear we need to move faster and more aggressively to combat this problem and keep Americans in their homes,” said Dodd. When Paulson was asked by the media about setting up a federal agency to purchase mortgages, the Treasury Secretary appeared to reject the idea by saying, “I don’t see that.” Paulson noted that during the Great Depression, unemployment was 25% and half of all mortgages were delinquent, compared to today’s unemployment rate of less than 5% and delinquent mortgage rate of 7%. Paulson said that the country is working through a housing correction and that his department is focused on working with programs like HOPE NOW and, to deal with the broader issue, “we have the stimulus plan.”
- When asked by reporters if Project Lifeline would work better than a government-brokered temporary rate freeze program, FDIC chairman Shelia Bair told reporters, “I wouldn’t say it’s any more effective.” Bair called Project Lifeline “another piece” in government and industry efforts to stem losses in a weakening U.S. housing market. In contrast, a banking regulator with the OCC called the new plan “an important initiative” to help distressed homeowners and a representative of OTS said the agency was “totally supportive” of Project Lifeline as a way to encourage borrowers to talk to their lenders. (*Reuters*, John Poirier, 02/13/08; *Associated Press*, Marcy Gordon, 02/12/08; *CQ Today Midday Update*, 02/12/08; *Bureau of National Affairs*, Richard Cowden, 02/13/08)
- Separately, Countrywide Financial Corp. announced that it has reached an agreement with the Association of Community Organizations for Reform Now (ACORN), which will further enhance the process for helping borrowers who are delinquent on their subprime mortgage payments to find home retention solutions and avoid foreclosure. Countrywide and ACORN have formalized workout programs for borrowers of all

type of subprime mortgages, which addresses home retention options and procedures for borrowers in various stages of mortgage delinquency. The program provides “a streamlined approach to provide affordable home retention options that include short-term repayment plans or loan modifications in line with identified affordability standards.” Specifically, modification options include capitalization of arrearages, an interest rate freeze or roll-back to pre-reset rates, and under certain circumstances, an interest rate reduction. (*Countrywide/ACORN Press Release*, 02/11/08)

- HUD has begun mailing letters to hundreds of thousands of at-risk homeowners, as part of the agency’s efforts to generate FHA-Secure applicants. According to a press release, HUD was mailing 280,000 letters the week of February 11th and an additional 570,000 letters would be mailed through September 2008. The letter directs the homeowner to call an FHA-specified number, rather than the HOPE NOW hotline, to speak to a housing counselor. “For hundreds of thousands of families, this letter might be the most important piece of mail they receive all year,” said HUD Secretary Alphonso Jackson. “Not only could this information keep a roof over their heads, it could provide them with financial sustainability and security for the long term. Our aggressive outreach will ensure families are educated about the safe mortgage alternative that FHA offers.” (*Housing Wire*, 02/11/08)
- Representative Maxine Waters (D-CA), who chairs the House Financial Services Subcommittee on Housing and Community Opportunity, is drafting legislation that would ban foreclosures unless the loan servicer made good-faith effort to help the borrower stay in their home and would require reports on loan modifications. According to a draft bill obtained by *American Banker*, the legislation would amend the RESPA by prohibiting foreclosures unless loan-loss-mitigation efforts had been tried first. Provisions of the bill define acceptable loss-mitigation activities to include waivers of late payments and penalty interest, forbearance, modification of loan terms, extension of maturity date, and having another mortgage company assume the loan. For loans originated in 2005 and 2006, servicers would have to gauge whether the borrower could afford a pending interest rate reset; for loans deemed unaffordable, the servicer would have to begin loss-mitigation efforts. The servicer could not use the borrower’s credit score to disqualify the borrower from a loss-mitigation offer, if the borrower could prove his or her credit score was hurt by a subprime adjustable-rate mortgage. The bill would ban servicers from forcing borrowers to accept mandatory arbitration clauses as a condition of mitigation offers, or otherwise waive legal rights. Industry representatives, who have analyzed the draft, said the legislation would create a host of problems. They argued that the bill would force them to break existing mortgage contracts and would open them to a barrage of investor lawsuits. They said it also would allow borrowers who did not receive an appropriate loan modification effort to sue. “This is a nightmare,” said Jeffrey Naimon, a partner with the law firm Buckley Kolar. “This bill would have dramatic negative effects on the United States mortgage and residential property market.” (*American Banker*, Stacy Kaper, 02/13/08)

- On February 14, Senate Democrats unveiled the Foreclosure Prevention Act (S. 2636), a second stimulus package devoted to housing reforms which will bypass the normal committee process and take a fast track instead for full consideration by the full Senate when it returns from recess. S. 2636 would (1) provide an additional \$200 million of federal funding of pre-foreclosure counseling; (2) increase the current cap by \$10 billion for housing finance agencies to issue mortgage revenue bonds to be used to refinance subprime mortgages, to provide mortgages for first-time homebuyers, and for multi-family rental housing; (3) change the bankruptcy code to allow the judge to modify the debtor's mortgage on debtor's principal residence; (4) provide \$4 billion in Community Development Block Grants to purchase and rehabilitate foreclosed properties ; (5) provide companies that have suffered losses a five-year extension of the net operating loss carryback from the two years currently in law; and (6) amend the Truth-In-Lending Act to require improved mortgage loan disclosures.
- During a press conference, Senate Majority Leader Harry Reid (D-NV) said, "This [bill] is narrow and so fixed ...it shouldn't be a stumbling block for anyone" – brushing aside concerns that the bankruptcy provision could stall the bill. Senate Majority Whip Richard Durbin (D-IL) said, "The stimulus bill was necessary ...but it isn't sufficient. What was the catalyst? What was the slide into economic recession? Housing, and until we address this fundamental industry in America, I don't think we're going to set this economy in the right track." Durbin also argued that the bankruptcy provision was necessary to stop a wave of foreclosures. "We are trying to slow down this march to foreclosure that will bring down property values across America, including those who are dutifully making their monthly payments," he added. Senator Reed (D-RI) said, "The economy is slowing dramatically. We have a liquidity crisis. It is spreading from the housing market to other aspects of the economy... [I]f we do nothing... we could lose 20 percent to 30 percent of the values of homes from their peaks. That translates to \$4 trillion to \$6 trillion ... in wealth for the American families... [F]rom a national perspective, that is chilling."
- National Association Homebuilder CEO Jerry Howard said, "As far as we are concerned, Congress hasn't done enough to help the housing market. We feel like the concerns of our industry have been ignored." NAHB wants Congress to provide home buyers a "buyer tax credit" to help ease the huge inventory of unsold homes on the market. The trade group also wants Congress to pass an expansion of the NOL carryback from two years to five years [as proposed in S. 2636]. On February 12th, the NAHB announced that they had cut off campaign donations to congressional candidates "until further notice."
- Mortgage Bankers Association lobbyist Erick Gustafson said, "The industry is violently opposed to legislation that bankruptcy judges can rewrite the contracts. [Democrats are] going to have a difficult time reaching 60 votes in the Senate." While it remains unclear how far this bill might go, S. 2636 may at least provide the

Democrats fodder for political finger-pointing in an election year. (*Bureau of National Affairs*, Joe Tinkelman and Rachel McTague, 02/15/08; *Wall Street Journal*, Sarah Lueck, 02/15/08; *American Banker*, Stacy Kaper and Cheyenne Hopkins, 02/15/08; *Bureau of National Affairs*, 02/15/08; *Wall Street Journal*, Michael Corkery, 02/15/08)

- In a February 6th study entitled “The Effect of Bankruptcy Strip-Down on Mortgage Rates,” Adam J. Levitin, associate professor of law at Georgetown University, and Joshua S. Goodman, a PH.D. candidate at Columbia University’s Department of Economics, conclude that there is no empirical evidence that supports the Mortgage Bankers Association’s claim that either permitting strip-down or other forms of modification of principal home mortgage loans in bankruptcy would have anything other than a minor impact on mortgage rates or on home ownership.” The study noted that the MBA has claimed that permitting modification of mortgages in bankruptcy will result in an effective 200 basis point increase in interest rates on single-family, owner-occupied properties. However, the researchers concluded that “[a]ll empirical and market observational data indicates that the MBA’s claim of an effective 150-200 basis point increase from allowing strip-down is groundless. The empirical evidence indicates that there is unlikely to be anything more than a de minimus effect on interest rates as a result of permitting bankruptcy modification.” In a news conference, Levitin said, “[T]he overwhelming thrust of the historical analysis is that the effect of permitting strip-down on mortgage interest rates would be either nonexistent or quite small—nothing near the range suggested by the Mortgage Bankers Association.” He added that the MBA’s argument against the pending legislation has “no basis and their economic argument is not viable.” Levitin also told reporters that “voluntary modification of loans in Chapter 13, to the extent it is helpful, is a wonderful thing.” If HOPE NOW is not successful, Levitin said, “having a bankruptcy judge as a third party may very well be the best thing. To the extent the legislation would stave off foreclosures, we should want it because it helps third parties.” (*Bureau of National Affairs*, Diane Davis, 02/08/08)

Federal Reserve Chairman Bernanke urges Congress to pass legislation to modernize the FHA and reform the regulation of Fannie Mae and Freddie Mac

- In testimony before the Senate Banking Committee, Federal Reserve Chairman Ben Bernanke urged Congress to pass legislation to modernize the FHA and to overhaul the regulation of Fannie Mae and Freddie Mac. “[The FHA] provides an opportunity to refinance troubled borrowers into more stable, long-term ...mortgages,” said Bernanke. He also urged Congress to pass GSE regulatory reform legislation that would allow Fannie Mae and Freddie Mac “to safely expand their efforts to support the housing market.” (*CQ Today Midday Update*, 02/14/08)

- On February 14, Freddie Mac announced that it is temporarily changing its Private Mortgage Insurer Eligibility Requirements in order to increase the claims-paying and capital retention capacities of its mortgage insurance counterparties during the current market correction. Effective on or after June 1, 2008, Freddie Mac-approved private mortgage insurers may not cede new risk if the gross risk or gross premium ceded to captive reinsurers is greater than 25 percent. Beyond limiting the allowable cede to 25 percent, the temporary policy does not limit the mortgage industry's use of captive reinsurance. Triggered by the ongoing decline in home prices and poor performance of subprime, Alt A and other higher-risk mortgages, Freddie Mac says the temporary change is intended to allow mortgage insurers to retain more insurance premiums to pay current claims and re-build their capital base. This new policy applies to all Freddie Mac-approved private mortgage insurers. Freddie Mac also is now requiring all eligible private mortgage insurers to provide additional information about their business activities to better monitor the state of the industry. Freddie said it also is suspending certain rules that automatically trigger new requirements for insurers that are downgraded by credit-rating agencies below a certain level. (*Freddie Mac Press Release*, 02/14/08)
- Freddie's rule changes will help the insurers cover the losses they face due to sky-rocking defaults and "takes a bit of the pressure on ratings off the industry," said Mark Tonnesen, CEO of Triad Guaranty Inc. Wall Street analysts said that Freddie's announcement signals likely losses at two other major firms, PMI Group and Radian Group Inc. "We expect the industry to report losses in 2008, and possibly into 2009, as credit trends continue accelerating to the downside," said UBS analyst Eric Wasserstrom, in a note to clients on February 13th. (*Marketwatch*, Greg Morcroft, 02/14/08; *Dow Jones Newswire*, Lavonne Kuykendall, 02/15/08)
- Separately, MGIC Investment Corp. said it has retained an advisor to help the company raise capital. MGIC, which reported a fourth-quarter loss of \$1.47 billion—roughly triple the estimate of analysts polled by Thomson Financial, reiterated that it does not expect to return to profitability in 2008. MGIC said it stopped writing "bulk" insurance for Wall Street customers in the fourth quarter, because the business had "deteriorated materially" as a result of lower average FICO scores, higher percentage of adjustable-rate mortgages, and other factors. (*American Banker*, Kate Berry and Marc Hochstein, 02/14/08)
- According to *Calculated Risk* [blog], "The GSEs have enormous exposure to the MIs. Their own risk management depends on how they maintain eligibility standards for MI carriers; if they accept policies written by lower-grade insurers with less certain claims-paying ability, their own reserves for loss have to increase. On the other hand, if they cut off an insurer that gets notched under AA-, they're not just losing new insured mortgage business, they're increasing the pressure on the MI by cutting off its main source of new policies written. The problem with a downgraded MI for the GSEs: you can't live with them, and you can't shoot them. So the 'workout'

proposals begin. Whether this is a wise response that will avert major catastrophe in the MI business, or the first step in following a failing MI down, is anyone's guess. I personally can't see how they can not 'work things out' with the MIs right now, even as I see it as **just one more reason that Congress needs to give it a rest with these plans for the GSEs to take on more and more of the risk of failing private sector mortgage portfolios.**" [Emphasis added.] (*Calculated Risk*, 02/14/08)

Fannie Mae and Freddie Mac

"The world has changed"

- In a speech to the National Association of Homebuilders (NAHB), Freddie Mac CEO Richard F. Syron said, "[U]nder today's market conditions, a 95 percent loan-to-value (LTV) mortgage originated two years ago may be effectively 110 percent LTV today. By contrast, during the boom, this same 95 percent LTV mortgage would have been down to an 80 percent LTV after two years. As we've all seen, the double-digit price increases year after year just weren't sustainable. Now that the market has turned, the landscape looks entirely different. As House Financial Services Committee Chairman Barney Frank said recently, 'The world's changed.'"
- "...Unfortunately, the market situation is likely to get tougher before it gets better. I think we're well into the housing correction, but still short of the inflection point. All of this has begun affecting consumer confidence and behavior. The decline in housing-related activity that took a full percentage point off real GDP growth in 2007 will continue to be a drag on economic growth this year. Even if we're lucky enough to avoid an official national recession—and that's very much in question—housing will subtract at least a percentage point from growth in the first half of this year. Freddie Mac is currently forecasting that housing activity will begin to turn by the end of 2008 or early in '09. That said, we're also projecting that home sales will be down 12 percent in 2008, and housing starts will be down an additional 22 percent relative to last year." (*Prepared Remarks by Richard F. Syron at the National Association of Homebuilders Annual Convention*, 02/13/08)

Contagion...

- In a speech to the National Association of Homebuilders, Freddie Mac CEO Richard F. Syron said, "...Unless you're over 80, the housing correction that's underway is the most consequential we've seen in our lifetimes. The downturn has affected not only the U.S. housing sector and related industries, but the global economy, as well. The effects have spread to the consumer credit sector both domestically and internationally, and show no sign of stopping there..." (*Prepared Remarks by*

Richard F. Syron at the National Association of Homebuilders Annual Convention, 02/13/08)

- In his February 14th testimony before the Subcommittee on Capital Markets, Insurance, Government Sponsored Enterprises, Patrick M. Parkinson, deputy director of the Federal Reserve Board's Division of Research and Statistics, testified on the potential effects on financial stability of further financial deterioration and ratings downgrades of financial guarantors. Parkinson testified, "... [D]owngrades [of bond insurers] might adversely affect financial stability through several channels. These include: (1) the potential for disruptions to municipal bond markets, (2) potential losses and liquidity pressures on banks and securities firms that have exposures to the guarantors, and (3) the potential for further erosion of investor confidence in financial markets generally."
- "... If guarantors are downgraded to below AA-, many money funds will be required to put tender option bonds and variable demand obligations back to the liquidity providers. Investors may also choose to put securities back in advance of potential downgrades. Indeed, some money market funds reportedly have already exercised this option with respect to securities insured by those guarantors with significant exposure to CDOs of subprime RMBS."
- "...Of greater concern is the potential for losses at banks that have hedged their holdings of super senior tranches of CDOs of ABS with credit protection purchased from the guarantors. These hedges lose value when the financial condition of the guarantors deteriorates. In fact, many banks already have written down the value of their hedges significantly to reflect the market view that some guarantors may not meet their obligations on the protection they sold to the banks. Thus, further downgrades of the guarantors may not necessarily require those banks to write down the value of their hedges significantly further. However, as long as the concerns about the ability of some guarantors to meet their obligations persist, any further declines in the value of the banks' holdings of CDOs of ABS will not be fully offset by increases in the value of their hedges."
- "Even if banks' losses from exposures to the guarantors are moderate relative to capital, banks could experience significant balance sheet and liquidity pressures if they take significant volumes of tender option bonds, variable-rate demand obligations, or ARS onto their balance sheets. The banks that have these exposures are currently well capitalized. However, if these banks take on significant-enough volumes of such securities, the resulting downward pressure on capital ratios might prompt some of them to raise additional capital or constrain somewhat the growth of their balance sheets to ensure that they remain well capitalized. Efforts to constrain the growth of their balance sheets could be reflected in somewhat tighter credit standards and terms for a variety of bank borrowers, including households and businesses. Many banks already have tightened lending standards and terms, likely in part because of balance sheet pressures associated with recent turmoil in financial markets. Further tightening would add to the financial headwinds that the economy

already is encountering.” (*Testimony of Patrick M. Parkinson, Deputy Director, Division of Research and Statistics of the Federal Reserve System, 02/14/08*)

- According to *Calculated Risk* [blog], “...Part of the problem is no one knows how large the losses will be. As Parkinson notes, even moderate losses for the banks can result in further tightening and exacerbate the credit crunch.” (*Calculated Risk, 02/14/08*)
- State regulators' plans to break up monoline bond insurers into “good” businesses covering municipal debt and “bad” businesses liable to subprime-related losses may trigger “years of litigation,” said Bank of America Corp. (BofA) analysts. In a February 14th House hearing, New York Insurance Department Superintendent Eric Dinallo and New York Governor Eliot Spitzer (D) said that insurers may need to be divided if they can't raise enough capital to compensate for losses on subprime-mortgage guarantees. Tim Mercer, chief investment officer for Musashi Capital Ltd. [a Hong Kong-based hedge fund] said, “It is the equivalent of going to a casino and trying to keep only the winning bets. This would be a straightforward case of fraudulent conveyance and everyone involved would be liable for damages from deprived creditors.”
- On February 15th, FGIC Corp., the fourth-largest monoline insurer, applied for a license with the NY Insurance Department to create a standalone municipal company and separate the company's unit that guarantees subprime-mortgage bonds and related securities. The *Wall Street Journal* also reports that New York-based Ambac Financial Inc., the second largest bond insurer, may seek a similar split.
- “Despite the regulatory interest in separating the exposures, the essential fact remains that all policy holders, whether municipal or structured finance, entered into contracts backed by the entire entity,” BofA analysts wrote in a note to investors dated February 15. “[A breakup is] likely to lead to significant legal challenges holding up the resolution of the monoline issues for years.” According to CMA Datavision, the cost of MBIA's and Ambac's credit-default swaps has soared to \$1.7 million upfront and \$500,000 a year to protect \$10 million of bonds from default for five years. [These contracts, which cost \$25,000 a year ago, trade upfront when investors see a risk of imminent default.] According to the BofA report, any breakup of the monoline insurers may cause “significant widening” in the credit-default swaps as the structured finance company is likely to be “deeply distressed.” Mercer added, “The [state] authorities' encouragement of such a solution reveals their fundamental misunderstanding of basic commercial law and principles and also their sense of desperation.” (*Bloomberg News, Cecile Gutscher, 02/18/08*)
- In a February 14th appearance on CNBC's Closing Bell, Ron Insana said, “I am going to go way out on a limb here... I think this credit crisis is viral and it's spreading quickly in all corners of the credit markets. We talked earlier this week about auction rates on municipal bonds where we are having some failures on auctions taking place with banks unwilling to take the overflow when investors don't buy. We are going to

have another crisis in munis beyond the bond auction issue. I think ultimately when it's all said and done, the Fed is going to have to be the Bank of Japan and go to zero interest rate policy to reflate our way out of this thing. This is far bigger, far more misunderstood, than anybody knows. This is a real crisis of historic proportions and still no one is paying full attention. In the immortal words of Casey Stengel 'Don't nobody here know how to play this game?'" (<http://www.cnbc.com/id/15840232?video=652509137>)

Other notes on subprime crisis

- During a question and answer session at the American Securitization Forum in Las Vegas, Federal Reserve Governor Randall Kroszner said that improving the clarity of mortgage underwriting standards will help boost investor confidence in the mortgage market. When asked about the role of credit rating agencies in the market, Kroszner said, "I can tell you as a large investor that I have absolutely no confidence in rating agencies. There's too much blood on their hands." He also urged attendees to adopt standards that would help determine which subprime borrowers can afford to stay in their homes. In his prepared remarks, Kroszner said, "While much has been done to prevent avoidable foreclosures, more still needs to be done. I strongly encourage market participants to adopt and to implement...fast-track modification proposals as quickly as possible." (*Dow Jones Newswires*, Cynthia Koons, 02/04/08; *American Banker*, 02/05/08)
- Fannie Mae and Freddie Mac have played a role in banks' steep declines in earnings, as the institutions write-down the value of their investments in the GSEs. At least 19 publicly-traded bank and thrift holding companies have taken other-than-temporary impairment charges for the fourth quarter on their investment in the GSEs' preferred stock. Write-downs have ranged from \$576,000 (at Farmers National Bank, Canfield, OH) to \$13.3 million (Astoria Financial Corp., Lake Success, NY). After Freddie raised \$6 billion of preferred stock with a dividend rate of 8.375% and Fannie raised \$7 billion with a dividend rate of 8.25%, the companies' previously issued preferred shares declined 20% to 30%, said Todd Spring, the Midwest financial institutions practice leader for Grant Thornton LLP. (*American Banker*, Robert Barba, 02/08/08)
- According to a study by Navigant Consulting, lawsuits stemming from the subprime mortgage crisis are on pace to surpass the number of cases that stemmed from the savings and loan crisis of the late 1980s. Borrowers, investors and other plaintiffs filed 278 civil lawsuits in federal courts related to subprime lending in 2007—roughly half the number of lawsuits filed during the thrift industry failure. "The S&L crisis has been a high-water mark in terms of the litigation fallout of a major financial crisis," said Jeff Nielsen, managing director of Navigant. "The subprime-related cases appear on their way to eclipsing that benchmark." (*Reuters*, Martha Graybow, 02/14/08)

- “If you look at the market in California, there are homes in Newport Beach owned by doctors and lawyers that are in default. It’s not necessarily a subprime problem, but a housing leverage problem,” said Sarbashis Ghosh, a senior director in Merrill Lynch & Co. Inc.’s global securities research and economics department during a panel discussion at the American Securitization Forum conference on February 4. (*American Banker*, Kate Berry, 02/07/08)

OFHEO receives \$66.6 million in the Bush administration’s FY2009 budget

- The Bush administration’s FY2009 Budget calls for \$66.6 million for OFHEO, a 1% increase (\$0.6 million) over the agency’s FY2008 enacted budget. Like other bank regulators, OFHEO’s funds come from the institutions that it supervises, but its revenues must be appropriated by Congress. The agency’s budget reflects the administration’s plan to create a new regulator to supervise Fannie Mae, Freddie Mac, and the FHLBs, which will require Congress to pass legislation to establish the new regulatory regime. (*Bureau of National Affairs*, Richard Cowden, 02/05/08)

Bush urges Congress to confirm his nominations to the Federal Reserve and Counsel for Economic Advisors

- On February 7, President Bush said the Senate is taking too long to confirm some 180 nominees, including three members of the Federal Reserve Board of Governors and two vacancies on the president’s Council of Economic Advisors (CEA). “The Fed decides monetary policy and it sets key interest rates that have an impact on homeowners and businesses across our country,” said Bush. “Yet the Senate is delaying confirmation of three highly qualified nominees for the Fed’s Board of Governors [who were nominated nearly nine months ago].” He added, they should be confirmed “as soon as possible.” In May, Bush nominated Elizabeth Duke, of Virginia, senior executive vice president of TowneBank; and Larry A. Klane, head of Global Financial Services of Capital One Financial Corp. Duke was nominated to fill the remainder of a 14-year term at the Fed ending January 31, 2012, while Klane nominated to complete a term ending January 31, 2010. Bush also nominated Randall S. Kroszner, an economist who taught at the University of Chicago, who has served as a Fed governor since March 2006, filling out an unexpired term which ended this past January 31. Kroszner remains on the board pending confirmation of his new appointment. Of the three-member CEA, the only confirmed member is Chairman Edward Lazear. Senator Christopher Dodd (D-CT), the chairman of the Senate Banking Committee which has jurisdiction on the nominations, indicated to a reporter that there is no urgency, saying that this was “not a crisis” since Kroszner can remain at the Federal Reserve for now. (*Bureau of National Affairs*, Diana I. Gregg, 02/08/08)

- In a February 7th editorial, the *Wall Street Journal* wrote, “Though it’s sometimes hard to tell, the Bush Administration has another year left and a government to run in the interim. Is it too much to ask the Senate to do its job of advice and consent, and allow up-or-down votes on the more than 180 vacancies in the executive branch that remain in a state of suspended nomination? ...Three vacancies on the Federal Reserve Board have been held hostage since May to the whims of Banking Chairman Chris Dodd. Now that Mr. Dodd’s historic Presidential campaign has shut down, presumably he can return to his real job. But the Senator doesn’t consider the nominations to be priorities and has no plans to schedule a vote.”
- “Majority Leader Harry Reid says the delay is in retaliation for stalled progress on pro-forma Democratic recommendations for agencies that are bipartisan by law, like the FCC or SEC. But the leadership is demanding that their nominees be seated immediately, before their background checks have cleared. And they’ve been negotiating in bad faith with the White House, often telling nominees that they won’t be granted a vote unless they formally pledge to step down after President Bush leaves office. This is especially pointless since they’d serve at the pleasure of the next President anyway... Democrats might think about the precedent they are setting for the next President.” (*Wall Street Journal*, 02/07/08)

Comptroller General Walker submits his resignation effective March 12 th

- David M. Walker, comptroller general and head of GAO, has submitted his resignation effective March 12th in order to accept the position of president and CEO of the newly established Peter G. Peterson Foundation. Peterson, the co-founder and senior chairman of the Blackstone Group, has pledged to contribute at least \$1 billion to the new foundation. Walker said that his decision to join the Peterson Foundation was motivated by his desire to maximize his ability to make a real and lasting difference to address the fiscal, entitlement, healthcare, energy, education and other major sustainability challenges facing the United States. The GAO’s chief operating officer, Gene Dodaro, will serve as the acting comptroller general until Walker’s successor is found. (*GAO Press Release*, 02/15/08; *CQ Today Online News*, David Clarke, 02/15/08; *Washington Post*, Elizabeth Williamson, 02/16/08)

MBA hires Michael Carrier as its senior director of secondary markets

- The Mortgage Bankers Association has hired Michael Carrier to serve as its senior director of secondary markets in its government affairs office, where he will work on policies related to GSEs and other industry issues. Previously, Carrier has worked at the National Association of Home Builders, the Conference of State Bank Supervisors, and America’s Community Bankers. (*American Banker*, Steven Sloan, Joe Adler, and Cheyenne Hopkins, 02/11/08)

Fannie Mae

Fannie Mae's decaying credit quality a worrying sign that the mortgage meltdown is spreading into its prime mortgage portfolio

- In a client report, Morgan Stanley analyst Kenneth Posner said that he expects Fannie Mae's seriously delinquent single-family mortgages to creep up from 0.9% to the GSE's total single-family mortgage portfolio in November to 1% in December, as the meltdown in the subprime mortgage market spills over into the prime mortgages. "Credit quality is now deteriorating sharply even for prime mortgages," wrote Posner. "Delinquency trends and transition rates have deteriorated in the last few months at an accelerating pace." The analyst's "Underweight" rating for Fannie Mae is predicated on the GSE's deteriorating credit quality. (*BusinessWeek*, 02/07/08)

Fannie Mae's efforts to keep the mortgage market "liquid, stable and affordable"

- In a February 13th speech to the National Association of Homebuilders, Fannie Mae CEO Daniel Mudd outlined the actions his company has taken to keep the mortgage market "liquid, stable and affordable" during the subprime crisis. Mudd said that Fannie Mae has (1) ramped up its single-family guaranty business "full tilt" and stepped up its multi-family guaranty business to meet market demand; (2) purchased multi-family and other mortgage assets in segments needing liquidity (within the GSE's mortgage portfolio and capital constraints); (3) ramped up their operations to implement the temporary increase in GSE loan limits in high cost markets; (4) developed and are promoting Fannie's HomeStay™ initiative to help distressed borrower refinance their mortgages into safer fixed-rate loans; (5) beefed up the company's foreclosure prevention operations in Dallas, TX; and (6) taken tough but prudent steps to make sure that the company can weather the mortgage crisis, by bolstering its capital by \$7 billion, tightening its credit standards, beefing up its credit loss mitigation, and raising its credit guaranty fees. (*Remarks by Daniel H. Mudd, Fannie Mae President and Chief Executive Officer*, 02/13/08)

Proposed class action lawsuit against Fannie seeks up to \$7 billion in damages

- Fannie Mae faces a proposed class action lawsuit, filed by the Houston-based Lanier Law Firm, over as much as \$7 billion it earned on property owners' escrow accounts starting in the 1970s. [Lanier was successful in the winning the largest Vioxx jury award against Merck & Co. over a fatal heart attack suffered by a patient taking the medicine.] U.S. District Judge David Folsom, 60, twice refused Fannie Mae's motion to throw out the case, filed in 2006 by three property owners who built a 36 unit complex in Lorain, Ohio, in 1969. The plaintiff's lawyer, Mark Lanier, claims that

the GSE violated government policy and breached its duty to about 4,000 owners of government insured moderate and low income housing and should return \$3 billion to \$7 billion of related financial gains to the property owners. Fannie Mae argues that it acted legally. The plaintiffs are asking to sue as a class, arguing that their claims are similar enough to be decided in one trial. Since the case involves state laws, Fannie Mae argues that the owners are too diverse to sue as a group.

- In a May 2006 affidavit, William Ross, a former HUD deputy undersecretary [1966 to 1970] and chairman and acting CEO of Fannie [1969-1970] said that he believed HUD senior officials and Fannie Mae directors knew of the escrow investing. However, Ruth Prokop, HUD's general counsel [1977-1979], said she was "shocked" to learn Fannie had declared in court papers that she knew the GSE was retaining the earnings from escrow accounts. In a July 2006 affidavit, Prokop testified that she wasn't aware of the practice. The funds were supposed to benefit only the housing projects, and owners were wrongly kept ignorant of the investments, she added. "HUD rules aside, they were acting as a fiduciary and didn't have the authority to do what they did," said Prokop. HUD spokesman Lemar Wooley said his agency's rules have required that any interest on the accounts benefit the projects since 1970.
- In 2005, Judge Folsom refused Fannie's request to dismiss the law suit, after the GSE argued that it didn't have a fiduciary relationship with the mortgage holders. "An element of trust arguably exists between the parties because the plaintiffs trusted Fannie Mae to deposit their escrow payments into escrow accounts for their intended purpose and not use the payments for Fannie's own pecuniary gain," wrote Folsom in March 2005. "The theory being put forth to the case has a lot of support to it," said Duke University law professor James Cox. "This has a lot of traction and a lot of support in the courts." (*Bloomberg News*, Laurence Viele Davidson, 02/13/08)

Fannie Mae marks 20 years of its DUS Program

- During the 20th year of its designated underwriting program, Fannie Mae financed \$60 billion in multi-family rental housing through its partners—a multifamily industry record for annual loan production. In 2007, Fannie's DUS lenders delivered \$30.3 billion of the GSE's investment in multi-family housing. In addition, Fannie Mae committed \$1.1 billion in equity investments that qualify for LIHTC. Approximately 88% of the multifamily units financed in 2007 by Fannie Mae were affordable to families at or below the median income of their communities. (*MortgageOrb.com*, 02/06/08)

Fannie Mae's lobbying expenditures total \$2.9 million in 2007

- According to www.opensecrets.org, Fannie Mae spent \$2.9 million on lobbying expenses in 2007. According to the website, Fannie Mae's highest paid external lobbyists included Fierce, Isakowitz & Blalock, Johnson, Madigan et al, Downey

McGrath Group, and Elmendorf Strategies (each received \$100,000).
(www.opensecrets.org)

Freddie Mac

Freddie Mac to hold investor conference call on February 28th to discuss FY2007 results

- Freddie Mac will hold an investor conference call on February 28th at 1:00 p.m. to review the company's FY2007 results and answer analysts' questions. A live webcast, accompanying slide presentation, and other earnings-related information will be available on the company's website. (*Freddie Mac Press Release*, 02/15/08)
- Freddie Mac also announced that its annual shareholders meeting, will be held on June 6th, in which holders of record as of March 31st will elect the company's 13-member board. (*Freddie Mac Press Release*, 02/04/08)

Credit losses "may bottom out" by end of 2008

- In an interview with *Bloomberg News*, Freddie Mac chairman and CEO Richard Syron said, "In the fourth quarter of this year, we'll begin to see some inflection [in housing]." Freddie Mac's credit losses, which totaled a record \$2 billion in the third quarter of 2007, "may bottom out, certainly before the end of the year," added Syron. (*Bloomberg News*, James Tyson, 02/07/08)

Freddie Mac spends \$4.28 million on lobbying in 2007

- According to OpenSecrets.org, Freddie Mac reported total lobbying expenses of \$4.28 million in 2007. Timmons & Co. reported the highest lobbying contract expense paid by Freddie (\$180,000), followed by Porterfield & Lowenthal (\$140,000), and Ryan, Phillips, et al, Smith-Free Group, David L. Horne LLC, Avenue Solutions, Buchanan, Ingersoll & Rooney, and Cassidy & Assoc. (each receiving \$120,000). According to the website, total campaign contributions from Freddie Mac's PAC, and individual and soft money donors totaled \$335,698 for election cycle 2008 with \$177,850 given to Democratic candidates (53% of total contributions) and \$157,848 given to Republican candidates (47%).
(www.opensecrets.org)

Freddie Mac plans a new program to securitize multi-family mortgages

- Freddie Mac is developing a proposal that would allow the GSE to create and sell bonds backed by multifamily mortgages. If the program is approved by the company's management and regulators, Freddie Mac could expand its presence in apartment financing and be more competitive with Wall Street. "We have done components of this for some time," said Mike May, a senior vice president at Freddie Mac. "We buy mortgages and we have sold credit risk. We have just never had a program where we could systematically bring things together." Today, the company retains the multifamily mortgages it buys in portfolio. Under the new program, Freddie would package as securities the "senior" portions of the loans that are rated investment grade and sell the riskier slices. "The loans for this product will be consistent with Freddie Mac's credit philosophy," said May. (*Wall Street Journal*, Lingling Wei and James Hagerty, 02/04/08; *Reuters*, 02/04/08)
- In the fourth quarter, Freddie Mac also began working on new mortgage products to compete with other lenders in the acquisition-rehab space. "We think that with these acquisition-rehab products, we will take those loans off the street sooner than anybody else, at what appear to be very aggressive terms," said May. Freddie's new products basically combine a bridge loan with a permanent loan. "Freddie Mac figures out a way to tap into that bridge market and create in essence a bridge loan product to roll into their permanent product," said Phil Melton, SVP at Grandbridge Real Estate Capital. "Freddie Mac is setting itself up to become its own bridge loan feeder with these products." The first new product being offered by Freddie is the Acquisition Rehabilitation Mortgage, aimed at substantial rehabilitation efforts which are capped at \$30,000 per unit or 30% of acquisition cost with a minimum cost per unit of \$10,000. Freddie's second product, the Acquisition Upgrade Mortgage, is aimed at lighter rehabilitation and cosmetic improvements, including deferred maintenance costs. AUM is capped at either \$10,000 per unit or 20% of the acquisition cost with a minimum cost of \$3,000 per unit. (*Affordable Housing Finance*, Jerry Ascierito, February 2008)
- In 2007, Freddie Mac purchased a record \$44.7 billion in new multifamily business transactions, a 55% increase over 2006. Through these transactions, the company financed approximately 644,400 apartment houses for low- and moderate-income families. (*Freddie Mac Press Release*, 02/04/08)

Federal Home Loan Banks

FHLB-Dallas and FHLB-Chicago continue their merger talks

- In a February 6th letter to members, Mike Thomas, president of the FHLB-Chicago [FHLBC], wrote, “The *American Banker* has published an article implying that a definitive merger agreement has been reached between FHLBC and the Federal Home Loan Bank of Dallas. Our discussions with Dallas continue, but no definitive agreement has been reached. As I mentioned in my letter of January 23rd, complex issues remain. We will continue to disclose the status of the discussions directly with you and in our filings with the SEC. In the meantime, we remain committed to serving all of you with the products and services that help you meet your credit needs during this difficult economic environment.” (*Correspondence to FHLB-Chicago members*, Mike Thomas, 02/06/08)
- In a February 6th article, *American Banker* reported that the boards of directors for the FHLB-Chicago and FHLB-Dallas “had approved plans to merge.” According to the article, FHLB-Chicago initially was intent on achieving essentially a “merger of equals” that would not penalize its members. However, the tone of negotiations changed in October, when the Federal Housing Finance Board finalized a cease-and-desist (C&D) order with the Chicago Bank, which imposed capital requirements and dividend restrictions. The C&D gave the FHLB-Chicago an incentive to pursue a merger at less-than-ideal terms. According to sources, the Chicago Bank effectively will sell itself to the FHLB-Dallas. The C&D order likely would disappear, giving members in the Chicago Bank’s members a “better shot” at dividend payments in the future. The merger transaction that is likely to emerge would segregate the Chicago Bank’s stock, allowing the Dallas Bank’s members to continue receiving uninterrupted dividends and the Chicago Bank’s members to be a separate dividend at a rate that would be determined by members of the newly merged board. If merger moves forward, the transaction could be completed by the fall.
- The FHLB-Chicago’s board of directors has amended its contract with CEO Mike Thomas, slashing his compensation by more than half to \$300,000. Previously, Thomas’s total compensation had eclipsed the 11 other FHLB presidents, reaching \$1.4 million in 2006, the last year for which full salary figures are available. (*American Banker*, Steven Sloan, 02/06/08)
- At a February 7th hearing, Senate Banking Committee Chairman Christopher Dodd asked Federal Housing Finance Board Chairman Ronald A. Rosenfeld about “serious questions” related to the reported voluntary merger of the FHLB-Dallas and FHLB-Chicago. Specifically, Dodd asked Rosenfeld if the charter under which the Finance Board operates authorizes them to approve such a merger. He also asked the chairman if the Board plans to follow an “open process allowing for comment from the other banks and their members, who are, after all, jointly and severally liable...” Rosenfeld responded, “The Chicago and Dallas banks have been engaged in merger

conversations. Our responsibility [at the Finance Board] will be to review the safety and soundness of whatever may be ultimately proposed. An application has not come forth, so we have not addressed that issue. The single most significant element in our deliberation will be the [safety and soundness] of the banks and of the overall system. It's public knowledge that the Chicago Bank is currently operating under a consent and decist order, which restricts stock redemptions and so on, but suffice it to say that institution has a somewhat long history of having some distress in its operations. The Dallas Bank has been a very well run, number one rated bank, and we have very high regard for that institution. As I've said on other occasions, although there are twelve FHLBs, there's no particular reason there has to be twelve. If two Banks for their own reason decide they want to combine, and if it meets our standards for safety and soundness, I think that's the ultimate test. In terms of the process, we've not determined it, because it's not ripe, although it's fundamentally a matter between the two Banks involved. Without question, if it were to occur, a very important element would be the judgment that it enhances the safety and soundness of the two Banks and of the entire [FHLB] system. Dodd followed up, by asking: "...Is there something we ought to be concerned about in terms of the authority of the Board to make that decision? Rosenfeld responded, "There's never been a voluntary [FHLB] merger. There was an event in 1946 where two banks got together, then moved. That was involuntary. It resulted in lawsuits and was sustained. We believe, based on the advice of counsel, that we do have the authority to merge two banks, if that were deemed appropriate." (*Transcript of the Senate Banking Committee's hearing on Reform of GSE Regulation, 02/07/08*)

FHLBs announce FY2007 results

- The FHLB-Cincinnati announced that at year-end 2007, the Bank's assets totaled \$87.5 billion, up nearly 8% compared to the previous year. Mission Asset Activity, comprised of Credit Services and the Mortgage Purchase Plan, grew 21% to \$68.8 billion with advances to members increasing 26% to \$53 billion and the principal balance of mortgage loans growing approximately 6% to \$8.9 billion. Net income for FY2007 totaled \$269 million, compared to \$253 million for FY2006. However, the Bank's profitability for the fourth quarter dipped 4% to \$66 million. Return on equity for FY2007 was 6.87%, an increase of 17 basis points over FY2006. (*PrimeNewswire, 02/11/08*)
- On December 31, 2007, the FHLB-Pittsburgh reported total assets of \$101.2 billion, an increase of 30.8% from year-end 2006, and total capital of \$4.3 billion, an increase of 17.9% from the prior yearend. "The story of 2007 was advances, which many of our members relied upon during market disruptions in the last half of the year and still today," said John R. Price, the Bank's president and CEO. "We are doing what we were designed to do 75 years ago – ensure a reliable flow of credit to our members and the communities they serve – on request, in all market cycles. Additionally, we are delighted to announce that our 2007 performance allows us to set aside a record \$26.4 million for affordable housing." Net income for FY2007 totaled \$236.8 million, an increase of 9.4% over FY2006. Return on average capital

for FY2007 was 6.47% compared to 6.29% for FY2006. During the fourth quarter, the Bank reported total income of \$66.7 million, an increase of 14.6% over the fourth quarter of 2006. (*FHLB-Pittsburg Press Release, 02/12/08*)

- The FHLB-Boston reported total assets of \$78.3 billion at December 31, 2007, an increase of 36.2% from year-end 2006. Advances grew 49.1% to \$55.7 billion and represented 71.2% of total assets. The Bank's investments, including short-term placements and securities, increased 17.2% to \$17.9 billion while member-mortgage assets declined 9.1% to \$4.1 billion. The Bank's FY2007 net income increased 1.2% to \$198.2 million, resulting in total capital of \$3.4 billion at year-end. The Bank's board of directors has declared a dividend rate with an equivalent annual yield of 6.00%, for members' average stock outstanding for the fourth quarter of 2007 to be paid on March 4, 2008. (*FHLB-Boston Press Release, 02/09/08*)
- The FHLB-San Francisco announced that its 2007 net income rose \$110 million, or 20%, to \$652 million, while net income for the fourth quarter of 2007 rose 49%, to \$231 million from \$155 million for the prior-year period. The Bank's increased profitability primarily reflected growth in net interest income, as well as differences in fair value adjustments for the respective periods. During 2007, the Bank's total assets grew 32% to \$323.0 billion, while advance increased 32% to \$251.0 billion. At December 31st, the Bank had total capital of \$13.6 billion, representing 4.29% of total assets. (*FHLB-San Francisco Press Release, 02/14/08*)

Ginnie Mae

HUD warns Congress that FHA is moving closer to insolvency

- In a February 11th letter to House and Senate committee leaders, HUD Secretary Alphonso Jackson warned that FHA could face financial difficulty if Congress limits his agency's ability to charge higher premiums to riskier borrowers. "FHA will move ever closer toward financial insolvency, given the uncertainty and volatility in today's mortgage market if forced to continue its current premium structure," wrote Jackson. The HUD Secretary suggested that some significant differences remain between the Bush administration and members of Congress over how best to reform FHA—chief among them the issue of providing FHA the flexibility of setting premiums. "Insurance is about balancing risk and balancing premium income against losses," wrote Jackson. "FHA becomes a full-fledged subsidy program [without that balance]." The Bush administration also opposes FHA reform provisions which would limit the agency's ability to charge borrowers fees above a certain level. Jackson also warned lawmakers about including a House provision that would use a portion of FHA receipts to pay for an affordable housing fund, a top goal of House

Financial Services chairman Barney Frank (D-MA) (*Dow Jones Newswires*, Michael R. Crittenden, 02/12/08)

- “We’re not negotiating with them [the Bush administration]. We’re negotiating with the Senate, said Frank, dismissing Jackson’s letter urging leadership pass FHA reform “that the president could sign.” Frank indicated that Jackson’s pleas were neither noteworthy nor interesting to him. According to *CQ Today*, “[The final FHA bill] would have to be a bad one for the White House to reject it. President Bush hasn’t threatened a veto, and given the current mortgage crisis and Treasury Secretary Henry M. Paulson Jr.’s public lobbying for quick passage of a modernization measure, the administration may end up taking whatever it can get.” (*CQ Today*, Libby George, 02/13/08)

International Mortgage Market

German banks receive bailouts to cover losses tied to subprime market

- On February 14, the German government said it would contribute 66% of a \$1.5 billion euros (\$2.2 billion) bailout of IKB Deutsche Industriebank with the remainder expected to be contributed by private banks. This bailout represents the third injection of capital into IKB, which suffered heavy losses from speculation in securities collateralize by subprime mortgages. The prospect of direct state support of IKB has generated criticism that the banking industry, having profited from speculation in subprime mortgage MBS, was now handing the German taxpayers the bill for the losses. (*New York Times*, Carter Dougherty, 02/14/08)
- WestLB, a state-owned German bank, is receiving a \$7.2 billion bailout to cover growing losses from its British operations, and losses tied to bad trades and the subprime mortgage market. Under the rescue plant, WestLB’s owners [the German state of North Rhine-Westphalia and the state’s municipal savings banks] have agreed to guarantee a new off-balance sheet unit that will own \$33 billion of risky securities and provide a guarantee of approximately \$7.2 billion. Under the plan, WestLB will eliminate 1,500 jobs—or 20% of its workforce—by the year 2010. (*New York Times*, Carter Dougherty, 02/09/08)

Morgan Stanley economist calls for creation of a Fannie Mae-style agency to deal with emergency loan problems in the UK

- In the Institute of Fiscal Studies and Morgan Stanley 2007 Green Budget report Morgan Stanley chief UK economist David Miles has called on the U.K. government to form a Fannie Mae/ Freddie Mac-style agency to deal with emergency lending situations. Specifically, Miles proposes creating—or using an existing—government-

backed agency to buy or lend against the collateral of mortgage-backed securities. Unless the securitization market is reopened, UK lenders face a \$137 billion shortfall in funds this year, representing approximately 66% of net lending in 2007. Miles believes lending for a specific period against the collateral of mortgage-backed securities has the advantage that the agency could set a safety margin between the amount lent and the market value of the collateral. Ray Boulger, a senior technical manager for John Charcol, said that Miles' proposal is very well researched and quite sensible. "The mortgage market model is broken," said Boulger. "Although I believe in a free market, I recognize there are times when there is a need for the Government to intervene. This would be helpful and would bring back funding more quickly. There is an incentive for the Government to look carefully at this." (*Money Marketing*, 02/07/08)

Farm Credit System / Farmer Mac

FCS reports \$2.7 billion net income for FY2007

- The Farm Credit System reported combined net income of \$2.708 billion for the year ended December 31, 2007, an increase of \$329 million or 13.8% over the prior year. The FCS's combined net income increased \$90 million [15%] to \$687 million for the fourth quarter of 2007. Nonperforming loans, consisting of nonaccrual loans, accruing restructured loans, and accruing loans 90 days or more past due, increased \$6 million to \$621 million at December 31, 2007 and represented 0.43% of the System's loans. FCS's total capital increased \$1.989 billion during 2007 to \$26.419 billion, representing 14.2% of total assets.
- "The System's 2007 financial results were strong, despite the unpredictable national economy and the turmoil in the credit markets," said Jamie B. Stewart, Jr., President and CEO of the Federal Farm Credit Banks Funding Corporation. "One of the primary drivers behind the System's financial results was the robust agricultural economy, which has allowed the System to support our customers, increase earnings, grow loan volume, and maintain the excellent credit quality of the System's loan portfolio. Through strong management and prudent underwriting standards, the System is favorably positioned in the present agricultural environment."
(*BusinessWire*, 02/14/08)

Studies conclude that biofuels—including ethanol—exacerbate global warming and "are actually worse for the environment" than petroleum

- In a February 13th editorial, the *Wall Street Journal* wrote, "The ink is still moist on Capitol Hill's latest energy bill and, as if on cue, a scientific avalanche is demolishing

its assumptions. To wit, **trendy climate-change policies like ethanol and other biofuels are actually worse for the environment than fossil fuels.** [Emphasis added]. Then again, Washington's energy neuroses are more political than practical, so it's easy for the Solons and greens to ignore what would usually be called evidence."

- "The rebukes arrive via two new studies in *Science*, a peer-reviewed journal not known for right-wing proclivities. The first, by ecologists at Princeton and the Woods Hole Research Center, reviews the environmental consequences of increased biofuel consumption, which had never been examined comprehensively. Of course, that didn't stop Congress and the Bush Administration from jacking up the U.S. mandate to 36 billion gallons by 2022, a fivefold increase from a mere two years ago. Such policies are supposedly justified because corn-based ethanol and other 'alternatives' result in (very modest) reductions in greenhouse-gas emissions when mixed with gasoline."
- "The researchers break new ground by exposing a kind of mega-accounting error: Prior studies had never credited the carbon-dioxide emissions that arise when virgin forests, grasslands and the like are cleared to grow biofuel feedstocks. About 2.7 times more carbon is stored in terrestrial soils and plant material than in the atmosphere, and this carbon is released when these areas are cleared (often by burning) and the soil is tilled. Compounding problems is the loss of 'carbon sinks' that absorb atmospheric CO₂ in the bargain. Previous projections had also ignored the second-order effects of transferring normal farm land to biofuels, which exerts world-wide pressure on land use. So, incredibly, when the hidden costs of conversion are included, **greenhouse-gas emissions from corn ethanol over the next 30 years will be twice as high as from regular gasoline.** [Emphasis supplied]. In the long term, it will take 167 years before the reduction in carbon emissions from using ethanol 'pays back' the carbon released by land-use change. As they say, it's not easy being green."
- "The second study comes out of the University of Minnesota and the Nature Conservancy and explores what the authors call the 'carbon debt' when native ecosystems are converted to biofuel stock. Until the debt is repaid, biofuels from those fields will be greater net emitters than the fossil fuels they replace. The authors find that the debt for corn ethanol in the U.S. is between 48 and 93 years. In Indonesia and Malaysia, which have a 1.5% annual rate of deforestation to produce palm oil for Western European biodiesel, the debt is as high as 423 years. Yep, that's four centuries. Even Fidel Castro won't last that long."
- "If all this doesn't lead to a great awakening among policy makers, we don't know what will. The studies are even more damning because they examine the issue with the theories of the global warmists and conclude that biofuels actually exacerbate the problem they're supposed to solve. On top of that, they're creating new environmental troubles like deforestation and a reduction in biodiversity that may be

worse over time than whatever the importance of observed climate change. In either case, or both, they're damaging the planet more than they're helping it."

- "Ethanol and biofuel proponents always point out that current options are little more than placeholders, temporary fixes until the technology advances and 'second-generation' options emerge: 'It's just around the corner,' we're told. 'No, really, this time it's real.' That's why the Congressional energy bill put a cap on corn ethanol and, with lavish subsidies and tax credits, essentially legislated the creation of a speculative new biofuel industry from scratch. One hitch is that the technology never seems to turn that corner. Another is that, as the blockbuster *Science* studies imply, the unintended consequences of such divination matter more than the self-congratulation that 'doing something' provides."
- "Yet special blame also belongs to the environmentalists, who are engaged in a grand bait-and-switch. They stir up a panic about global warming, and Washington responds to the political incentives. Then those policies don't work and the greens immediately begin pushing a new substitute, whose outcomes and costs are equally uncertain. But somehow, that never seems to discredit the entire enterprise and taxpayers keep footing the subsidy bill. Our guess is that these new revelations will also be ignored. They're too embarrassing." (*Wall Street Journal*, 02/123/08)
- In the February 13th edition of *American Spectator*, William Tucker added, "...How did we ever get into this? The historical record makes it fairly clear. It was a combination of ill-thought-out ideas from 'alternate energy' enthusiasts (most of them trying to find a way around nuclear power), plus politicians who think they can override the laws of nature by passing legislation. ...Meanwhile, thanks to a 51-cents-per-gallon tax break, 25 percent of the American corn crop is being turned into ethanol. Farmland prices are soaring and food prices are escalating all over the world. ...What's the moral of all this? Energy issues should be resolved in the marketplace, not by legislation. Put a price on carbon emissions—either through a straight carbon tax or a cap-and-trade system—and then let the market sort things out. ...In what direction is this likely to take us? I don't know any more than anyone else, but I do know that nuclear reactors are now making so much money that the attorney general of Connecticut has proposed a windfall profits tax. I also know if we're ever going to develop electric cars, we'll need a lot more electricity. Putting a price on carbon emissions would make the economics of carbon-free nuclear electricity even more favorable. But that's another story. (*American Spectator*, William Tucker, 02/13/08)
- Iowa State University Extension economist Michael Duffey said that much of the credit for increasing farm land prices can be attributed to the rapid growth of the ethanol industry, which has triggered a dramatic rise in corn prices. [More than 25% of America's corn crop is now being refined into ethanol, which has diverted corn from other uses, such as animal feed, and resulted sharp increases in food and dairy prices.] The Federal Reserve Bank of Chicago reported that farm real estate prices rose 15% for the first three quarters of 2007 in its district [including Iowa, and parts

of Illinois, Indiana, Wisconsin, and Michigan]—which is on top of a 14% increase nationwide in 2006. (*USA Today*, Lynn Hicks and Jerry Perkins, 02/05/08)

- At June 30, 2007, the Farm Credit System had \$1.668 billion in loans outstanding, which were related to biofuels products, and had \$2.238 billion in loan commitments to extend credit to the biofuel industry, according to the Farm Credit Council. An FCC study, conducted by John Urbanchuk with LECG,LLC , concludes that the Congressional mandate of 36 billion gallons of renewable fuels target by 2022 will require approximately \$105.5 billion [in 2007 dollars] of additional capital to support the biofuel industry's growth. (*Farm Credit Council Press Release*, 10/25/08)

Maximum pay to FCS board members tops \$50,000

- The maximum pay that a Farm Credit System bank director can receive in 2008 is \$50,205. according to an FCA Informational Memorandum dated February 1st. Pursuant to the Farm Credit Act and FCA regulations, directors' compensation is adjusted each year by the regulator to reflect the change in the Consumer Price Index. (*Farm Credit Administration Informational Memorandum*, 02/01/08)

Postal Service

USPS rates to increase (again) in May

- The cost of a first-class stamp will rise a penny to 42 cents starting May 12th. Charges for other services, including advertising mail, periodicals, packages, and special services, will also change. The Postal Service will announce at a later date the price changes for Priority Mail and Express Mail. Under the postal reform legislation passed by Congress in December, the Postal Service is allowed to increase postal rates with a 45-day notice, as long as changes are within the rate of inflation for the previous 12-months. According to the Postal Regulatory Commission, the rate of inflation for the 12 months ended January 31st was 2.9%, which limited the first class rate to an increase of just over a penny. Under the new law, postal rates will be adjusted annually each May. (*Associated Press*, 02/11/08)
- Mass mailers reacted to the Postal Service's rate increase with mostly sighs of relief – and even some cheers. Hamilton Davison, executive director of the American Catalog Mailers Association said the news music to his ears. “It’s a terrific result,” said Davidson. “It’s an important first step in what I hope is a significant series of improvements to the rate structure and totality of how mail is managed.” The USPS clearly needs to grow its volume and cover its structural decline in other mail classes,

he added. “We represent a great opportunity to do that,” said Davidson. “The USPS has shown a willingness to meet with us. This shows that the USPS is clearly reaching out to the catalog industry through the ACMA.” (*Multichannel Merchant*, Jim Tierney, 02/12/08)

USPS reports \$672 million net income for the first quarter of 2008

- For the three months ended December 31st, the USPS reported net income of \$672 million on revenue of \$20.4 billion. Total revenue for the period was up 3.5% over the same period last year, primarily due to increase in postal rates that went into effect in May. Excluding one time costs of funding retiree health benefits, total expenses remained constant, despite rising fuel and labor costs. Total mail volume declined 3% with first class mail volume particularly effected, declining 3.9%. The economic downturn was the main factor for the volume decline, as the hard hit financial and housing sectors are heavy users of the mail,” said Postmaster General John Potter. (*United States Postal Service Press Release*, 02/05/08)

NAPUS unveils its 2008 legislative agenda

- The National Association of Post Masters of the United States said that their legislative priorities in 2008 include safeguarding universal and affordable postal services, defending postmaster retirement equity, and promoting leave equity. According to NAPUS, “‘Safeguarding the USPS’ relates to enabling the Postal Service to acquire the Medicare subsidy to which other employers are eligible, educating state and federal legislators about the risks of adopting ‘do-not-mail’ registries, requesting Congressional support of ‘vote-by-mail’ initiatives, and defending community post offices. ‘Defending Postmaster Retirement’ concerns enactment of legislation to address the Government Pension Offset and Windfall Elimination Provision, to permit retiree health insurance premium contributions on a pre-tax basis, and to ensure that Congress not adopt legislation to reduce earned retirement benefits in order to reduce the budget deficit. Finally, ‘Promoting Leave Equity’ refers to legislation to more adequately manage the workforce by providing FERS retirees compensation for unused sick leave, similar to the compensation available to CSRS employees. These are the issues that 1,000 postmasters will be bringing to Capitol Hill during the 2008 NAPUS Leadership Conference.” (*eNAPUS Legislative & Political Bulletin*, 02/15/08)

Chickens coming home to roost ... at APWU

- In the February 1st issue of *Postal Points*, L. Raymond wrote, “...APWU has never accepted the fact that the rest of the mailing world has changed a lot in the past 35 years, and has acted as if refusing to acknowledge the consequences of that change

will allow it to avoid facing them. Moreover, it's never dealt with the simple fact that some of the changes it's seen are a direct result of its own actions: keeping costs high means the Postal Service and its customers have to look for ways to offset them."

- "For decades, the APWU has shown no interest in working with the Postal Service to implement work-sharing, expand automation, improve retail service, or realign the infrastructure; rather, the union has fought the agency at every turn. Instead of having a plan to adapt to the changing environment, forging new work rules, tying real productivity to real reward, and working with the Postal Service on a sensible way to trim the postal infrastructure with minimal harm to members, the APWU has stubbornly repeated its mantra that if it weren't for commercial mailers and their excessive discounts the world would always be a happy place."
- "Now we're not suggesting that the union should roll over and play dead, or accept wholesale wage or benefit cuts; that wouldn't be serving members, either. But, conversely, the APWU is hardly doing what's right for its members if it takes every opportunity to maximize USPS cost. Although we believe it should know better, such behavior is ignorant of or indifferent to the fact that blocking steps to control USPS costs drives up postage, inhibits mail volume, and inevitably leads to the loss of the very jobs the union presumably wants to protect."
- "Here's some news for the APWU:
 - Mailers aren't the enemy - they fund your paychecks;
 - Mail volume is not guaranteed, and neither is the future of your members or their employer;
 - The internet may be draining away volume, but more is being lost because mailers are deciding that the mail is getting too expensive; and
 - Like it or not, you (APWU) and your peer unions and your members are more responsible for the status of USPS service, efficiency, and costs than you like to admit."
- "The hard-liners at the APWU may not take it, but here's our advice: stop grandstanding for the membership, stop being so quick to run to Congress to be protected from problems, and stop being so belligerently and myopically opposed to everything that might not leave life as you've known it untouched."
- "Instead, accept that the golden goose can't lay eggs forever, that the post-postal-reform USPS can't sustain itself without radical measures to reduce costs and improve productivity and service, and that ignoring such hard realities will lead to the very disruption of your members' lives that you say you're trying to prevent. You (collectively) need more than a clue, you need an epiphany, and to start accepting your share of responsibility for good service and ensuring that mail remains affordable - and that includes what's reasonable to improve productivity and help minimize postal operating costs."

- “And don’t lay the responsibility off on management. The head of the APWU likes to point out that the union’s job isn’t to make management’s life easier, but neither should it be to make management’s life harder. Moreover, management doesn’t do the work, or decide how efficiently to work, or decide to make the ‘discretionary effort’ to do better than absolutely required.”
- “The APWU and, for that matter, all the postal unions, can affect their members’ job security more positively by working with the Postal Service to face the institution’s challenges than by continuing business-as-usual. But that means making changes themselves, and the unions still seem too clueless, or willfully ignorant, to understand that. For them, any smacking of cooperation is equal to collaborating with the enemy. In the 11th century, Danish King Canute had his throne brought to the seashore, where he ordered the tide not to come in. Of course it did anyway, and Canute used the situation to show his subjects the limits on the power of earthly royalty.”
- “Adapting that story, the tide of change is coming in fast for the Postal Service, and the APWU is standing on the beach. If the union still believes that tide can be held back, or at least ignored, particularly with the help of its friends in Congress, our advice would be that the APWU should urge its members to start swimming lessons.” (*Mailing & Fulfillment Service Association’s Postal Points*, L. Raymond, 02/01/08)
- In a letter to APWU members, William Burrus, the union’s president, responded to Mr. Raymond’s missive: “I consider it a bit presumptuous for major mailers to suggest that they know better than APWU members what our union should and should not do to protect our jobs and improve service to the American public... While approximately 60 percent of postal revenue is paid by major mailers, the postal system that enables them to deliver their bills and advertisements was paid for by the citizens. The postal network that they use so prodigiously was built and paid for by the American people. Appropriately, the law governing postal operations begins with the words, ‘The United States Postal Service shall be operated as a basic and fundamental service provided to the people by the government.’” (*Burrus Update*, William Burrus, 02/12/08)

Privatization is the only real answer for the Postal Service’s broken business model

- In the fall issue of the *Cato Journal*, Robert Carbaugh wrote, “The business model of the Postal Service faces great challenges. They stem from secular changes involving the substitution of electronic media, such as e-mail, for letter mail as well as competition that the Postal Service faces from private express companies. Also, as a governmental enterprise, the Postal Service lacks two major incentives for cost containment and service improvement: It has no profit incentive, and it is unable to go bankrupt. Recognizing these inadequacies, the Postal Service has favored a plan to transform itself by initiating incremental reforms to make it operate more like a business.”

- “However, privatization is likely to be much more effective than public enterprise in providing incentives for the Postal Service to succeed commercially. Although the Postal Service has privatized some of its operations vis-à-vis worksharing, its efforts have not gone far enough to make it an efficient organization. At a minimum, additional privatization will be necessary. This might consist of preserving the Postal Service monopoly on the last mile delivery, while opening up the acceptance, transport, sorting, and processing of mail to much greater competition. Although additional worksharing tends to promote greater operating efficiencies, it is only those operations that are workshered.”
- “Conceivably, the entire Postal Service, not just pieces of it, could be privatized through a carefully structured sale of the entire operation to private owners. The Postal Service could be set up like a private corporation with the announcement that it will be completely privatized within the next several years. During this transition period, its chief executive officer and board of directors would be delegated the responsibility of achieving this objective. However, management of such a liquidation would be extremely difficult, especially given the enormous size of the Postal Service. Instead, partial privatization will be the likely path that the Postal Service will follow in the near future, especially in the work of expanding worksharing agreements with private-sector firms.”
- “Will the monopoly of the Postal Service on the delivery of letter mail and access to the mailbox be removed? Will the Postal Service be completely privatized? The answer is not in the foreseeable future. In 2003, the President’s Commission on the U.S. Postal Service recommended decreasing the Postal Service’s monopoly over time as well as removing legal obstacles to the closing of underutilized post offices. They also would subject priority mail, expedited mail, parcel post, and international mail to federal income taxation, antitrust laws, and truth-in-advertising laws, thus nudging them toward conventional business activities. However, letter mail would continue to be protected by the delivery monopoly, and the Postal Service would not be completely privatized. Yet these recommendations have not been enacted. As for the Postal Accountability and Enhancement of 2006, it may provide the Postal Service some additional flexibility to compete with private-sector firms. However, it is not clear that this legislation will be able to offset the challenges of decreasing volume of first-class mail.”
- “Indeed, implementing any reform of the Postal System is difficult. Numerous groups, including unions, prefer the status quo, and Congress has found substantial postal reform to be too controversial. Yet other industrialized countries have started serious efforts to allow competition into their postal systems. Perhaps with the Internet breathing down the postman’s back, Congress will be forced to implement stronger reforms, and the Postal Service will have to follow a different path.” (*Cato Journal*, Robert Carbaugh, Fall 2007)

Only at the USPS

- While neither wind nor rain nor sleet might keep Joseph S. Winstead from doing his job as a mail processor for the Postal Service in Washington, D.C. – but pretending that he was serving on a jury certainly did. On February 14th, Winstead pled guilty to fabricating courthouse paperwork which claimed he had served on a jury and defrauding his employer; he was sentenced to 8 to 14 months in prison and agreed to pay back \$38,923.95 to the USPS. The defendant got caught on his second scam of fabricating that he had been serving on a jury for 40 days –when he had only served a fraction of the time. In 2003 and 2004, he spent 144 days goofing off from work, while providing his boss documentation that “proved” that he was serving on a jury. Winstead likely would have gotten away with his first scam, had he not tried to repeat it a second time. The court records for Winstead’s indictment and guilty plea showed that fooling the USPS with fabricated paperwork wasn’t hard at all. (*Washington Post*, Carol D. Leonnig, 02/14/08)

The Postal Service’s “Let us dare to read, think, speak and write” campaign

- According to *Advertising Age*, HBO has launched a wide-ranging retail and on-line campaign called “Power of the Letter,” which promotes its new miniseries John Adams, premiering March 16th. The campaign was inspired by the former president’s famous love of writing his wife Abigail, with whom he exchanged more than 1,100 letters. Adams’ quote, “Let us dare to read, think, speak and write,” will be featured on 3.75 million sales receipts issued each day by the USPS in February and March. The quote will also appear on 3 billion pieces of mail as part of the cancellation marks. This type of promotion is a first for the USPS. (*Advertising Age*, Andrew Hampp, 02/08/08)

TVA

TVA reports \$17 million loss for first quarter due to drought conditions

- For the first quarter of FY2008, TVA reported a \$17 million loss, citing continuing drought conditions which drove up operating costs. For the four months ended January 31st, rainfall was 28% below normal in TVA's operating region while water runoff was 67% below normal. "When these factors are unfavorable, TVA must increase reliance on more expensive generation and purchased power," said TVA president Tom Kilgore. He said that TVA expects to face continuing challenges from higher fuel and purchased power costs through the remainder of FY2008. The utility's expenses rose 14% to \$2 billion for the quarter ending December 31st, driven by a \$196 million increase in fuel and purchased power costs which offset reduced hydroelectric production. TVA's \$17 million loss on nearly \$2.4 billion in income for the quarter ended December 31st, compares to a \$51 million profit on \$2.1 billion in income during the three months ended December 31, 2006. (*Chattanooga Times Free Press*, Dave Flessner, 02/12/08; *Associated Press*, 02/12/08)
- On February 15th, the TVA board of directors approved a 7% increase in power rates effective April 1st to support the utility's need to generate more power. The agency's rate increase follows its 4.5% rate decrease in October 2006 and 9.95% rate increase in April 2006. TVA executive vice president Ken Breeden said, "There are rate increases all around us. I don't think we are losing any ground at all because the pressure is on for everybody. Nobody is immune to this capacity issue. Everybody is growing out of their capacity." The rate increase will generate \$300 million in revenue which TVA will apply to its \$1 billion capital expansion program. Major expenditures include the acquisition of more gas turbine power plants and the \$2.5 billion completion of a second reactor at Watts Bar nuclear station.
- In a related development, TVA's board also agreed to work with the utility's distributors on what could become the first jointly-owned power plant in the TVA region. The distributors have formed Seven States Power Corp., which has raised approximately \$1 million to explore shared financing for a gas turbine plant. The board of directors also re-elected William B. Sansom as chairman. Sansom is chairman and CEO of H.T. Hackeny Co., a Knoxville, TN company involved in wholesale grocer, gas and oil, and furniture manufacturing. (*Associated Press*, Duncan Mansfield, 02/15/08; *Chattanooga Free Times*, 02/15/08))

The NRC plans to monitor TVA's Brown Ferry Unit 1 more closely following five unplanned shutdowns of the reactor over the past nine months

- The U.S. Nuclear Regulatory Commission has downgraded one of its safety classifications of TVA's Browns Ferry nuclear plant from a "green" to a "yellow"

will increase its monitoring of the plant because of five unplanned shutdowns since May. NRC spokesman Roger Hannah said five outages since the plant's Unit 1 reactor was restarted in May 2007 were the most of any plant in the country. Browns Ferry spokesman Craig Beasley said the unit has performed without any unplanned shutdowns over the past two months and that TVA remains committed to safety first. (*Associated Press*, 02/14/08)

Do as I say and not as I do...

- On January 31st, the U.S. Court of Appeals for the 4th Circuit ruled that North Carolina can pursue its common law claim that pollution from TVA's power plants is a public nuisance—a novel legal effort by State Attorney General Roy Cooper to seek additional emission curbs on the utility's plants after EPA rejected the state's petition for emissions cuts beyond what federal clean air rules require. The case is one of several pollution cases recently filed under common law rather than the Clean Air Act. To date, other courts have rejected states' efforts to pursue common law claims over global warming issues on the grounds that the cases raised "political questions" that the courts were not equipped to answer. (*Inside EPA*, Dawn Reeves, 02/08/08)
- In a February 5th editorial, the *Charlotte Observer* wrote, "...The 4th Circuit decision doesn't mean North Carolina has won its argument about pollution that drifts here from other states; it does mean the state can try to persuade a federal court to order TVA to clean up emissions at its plants in other states so they won't foul the air here. It's a significant decision because the TVA argued it was immune from such suits. At the 4th Circuit, a three-judge panel rejected that argument. That gives North Carolina the opportunity to persuade the district court to issue an injunction 'prohibiting the TVA from operating its plants in a harmful manner and requiring it to abate the alleged nuisance.' The TVA intends to defend itself by arguing that North Carolina's air pollution produced in-state exceeds what blows in from other states and contending North Carolina should clean up its own emissions first.
- "The TVA is right in pointing out that this state must clean up its own house. The state has begun that process with the 2002 Clean Smokestacks Act and other legislative and administrative efforts to reduce air pollution. But North Carolina's less-than-perfect record does not deprive the state of the responsibility to combat other air polluters in court as well. N.C. Attorney General Roy Cooper, who filed the suit in 2006, must make sure not only that other states clean up air that residents here must breathe, but also that air polluters here make regular and measurable progress in clearing the air. The fact is that TVA, like many other public and private entities, has worked to clean up its air emissions and reduce specific pollutants. It is installing costly pollution control measures at three power plants nearest the Great Smoky Mountains, and it has targeted impressive reductions in emissions. That's good. But as the Southeast region continues to grow, the continual need for reductions in air pollution is demonstrable. The appeals court decision enables North Carolina to make that case where it counts -- in court." (*Charlotte Observer*, 02/05/08)

- In a Letter to the Editor in the *Asheville Citizens-Times*, Eva L. Ritchey wrote, “Let me see if I understand this correctly. We, the state of North Carolina, are going to walk into a federal courtroom and proceed with a lawsuit that accuses [TVA] of causing a ‘public nuisance’ with pollution from its coal-fired plants while our Department of Air Quality just ruled that we, the state of North Carolina, can build our 800-megawatt, 6 million tons of CO₂-polluting coal-fired electric plant at the foot of the Blue Ridge a plant that is opposed by the National Park Service because it is already choking on tainted air. I think what we have here is a glass house moment or a big case of ‘chutzpah.’” (*Asheville Citizens-Times*, Eva L. Ritchey, 02/06/08)

Georgia and Tennessee battle over their state boundary and access to the Tennessee River

- In 1818, University of Georgia mathematician James Camak erroneously established the boundary between Georgia and Tennessee approximately one mile south of the “35th degree of North Latitude,” which was adopted by the states’ 1818 Boundary Commission. Approximately 180 years later, Georgia state legislators want to move the border with Tennessee approximately 1.1 miles north to provide the state free access to the Tennessee River.
- “Today [February 10], Georgia legislators masquerading as mapmakers hope to fix Camak’s error,” wrote Dan Chapman in the *Atlanta Journal-Constitution*. “They introduced resolutions last week to move the state line 1.1 miles northward — smack into the middle of the bountiful Tennessee River. Billions of gallons of water could then flow unimpeded to parched metro Atlanta.” Senator David Shafer (R-Duluth), the resolution’s sponsor, said, “The Tennessee River was part of Georgia long before there was a state of Tennessee. I don’t understand why a water-sharing agreement can’t be worked out between the two states.” The resolutions call for the governors of both states to fix the boundary problem by January 2009, through the establishments of boundary commissions from both states to re-survey the states’ border. Legal scholars and water rights experts question the Georgia legislature’s actions, noting that while the border may have been inaccurately drawn, it has been accepted for generations. If the states cannot resolve the dispute, the courts —and possibly Congress—will be called upon to resolve the issue.
- Interstate disputes are generally handled by the U.S. Supreme Court, which is expected to settle an on-going water dispute between the Carolinas. In 2007, South Carolina sued North Carolina over distribution of the Catawba River, which flows between the two states. In January 2008, the Supreme Court has appointed a “special master” to make recommendations to the justices. Randy Gentry, director of the Southeastern Water Resources Institute at the University of Tennessee, said this dispute could be “precedent-setting” and have implications for Georgia and Tennessee. “Both states will likely be unwilling to do any arbitration, so it will likely go to the Supreme Court,” said Gentry. “It will be long, litigious and expensive and the [result] may not be to the liking of either party.”

- In a 2004 study, TVA analyzed if the Tennessee River could supply water to Metro Atlanta, Birmingham, AL and northeastern Mississippi. The study concluded that “additional [Inter-Basin Transfers] are not likely to substantially affect future water reservoir elevations” of the Tennessee River. (*Atlanta Journal-Constitution*, Dan Chapman, 02/10/08; *Professional Surveyor Magazine*, Gregory Spies, PLS, March 2004)

<p>TVA to buyback its Chattanooga office space for \$22 million –and spend \$20 million to upgrade the facility</p>

- In 2011, TVA will buy back its Chattanooga headquarter for \$158 million less than it sold the buildings for in 1986. TVA vice president Terrell Burkhart said the agency will pay \$22 million [\$18 a square foot] to purchase the 1.1 million-square foot complex in January 2011. The utility also plans to spend more than \$20 million over the next couple of decades to upgrade the buildings. In an interview, Burkhart said, “We want to make the buildings more energy efficient and make some other changes. But even considering the costs of those investments, it will still be much cheaper for TVA to own the Chattanooga Office Complex at this price than to continue our lease.” TVA’s purchase price is less than half its \$52 million that the utility pays annually to the current owner. The move ensures that TVA will remain a presence in downtown Chattanooga, where the utility has more than 2,000 employees. (*Chattanooga Times Free Press*, 02/10/08;

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