

The **GSE** REPORT™

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Major Events

Housing rescue bill stalls in the Senate over call for renewal of energy tax credits

The debate goes on

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Is housing now an inalienable right and *new* entitlement?

Housing rescue bill stalls in the Senate over call for renewal of energy bill credits

- An impasse over energy tax provisions forced Senate Democrats to postpone action on the foreclosure prevention and housing oversight bill until after Congress returned from its July 4th recess. The legislation did not reach a final vote because of a bid by Senator John Ensign (R-NV) to include an amendment which would extend approximately \$8.3 billion of incentives and tax breaks for energy efficient homes and the alternative energy industry. Arguing that the amendment was germane to the bill since it contains tax credit for energy efficient houses, Ensign vowed to continue to press forward with the amendment, which is virtually identical to a measure adopted by the Senate by a vote of 88-8 as part of the chamber's first stimulus bill. Ensign's insistence on the amendment puts Democrats in the uncomfortable position of opposing a renewable energy measure which most support. However, such an addition would ruin efforts to craft a compromise on a housing rescue bill with the House, where 218 Democrats have signed a pledge to reject provisions which would increase the deficit. Senate Majority Leader Harry Reid (D-NV) said that Ensign's amendment is not germane to the housing bill, is not paid for, and will not be given a vote in the Senate. Senator Christopher Dodd (D-CT) said, "I think we could complete this bill in a couple of hours." Although he supports Ensign's energy credits, Dodd said that the housing bill is not the place for them. "He's put in jeopardy a bill that could make a difference," Dodd added.
- By a vote of 79-16, the Senate adopted the main section of the bill, crafted by Senators Christopher Dodd (D-CT) and Richard Shelby (R-AL), which would create a \$300 billion rescue plan for "underwater" mortgages and create a new regulatory regime for Fannie Mae, Freddie Mac and the Federal Home Loan Banks. A key element of the Dodd-Shelby language is tougher portfolio and capital requirements for Fannie Mae and Freddie Mac and a measure which would set the conforming loan limit to \$625,000 in high-cost real estate markets. On June 25th, the Senate adopted three amendments to the Dodd-Shelby language which included (1) a provision sponsored by Senator Herb Kohl (D-WI) which would protect homeowners from unscrupulous foreclosure rescue plans by prohibiting "foreclosure consultants" from collecting any fees or compensation before completing their contractual services or

from obtaining a power of attorney from the homeowner; (2) a provision sponsored by Senator John Sununu (R-NH) which would reduce unnecessary paperwork requirements for small housing authorities on the state and local level, which remain in “good standing;” and (3) a provision sponsored by Senator Christopher Bond (R-MO) which would require clear disclosure of the terms of adjustable rate loans. Senator Elizabeth Dole (R-NC) agreed to drop her proposed amendment which would have required the newly created Federal Housing Finance Agency to issue a regulation establishing appraisal standards for mortgages guaranteed or purchased by the GSEs. The Dole amendment, which was opposed by Senator Chuck Schumer (R-NY), would have superseded the appraisal code of conduct, which the GSEs agreed to adopt in a March 2008 agreement with New York Attorney General Andrew Cuomo (D).

- On June 26, President Bush said, “Congress needs to come together to pass responsible legislation to help more Americans keep their homes. ...I think we can get a bill, but it’s going to require less politics and more focus on keeping our minds on who we need to help—and that’s the homeowners.” Separately, HUD Secretary Steve Preston said he was very optimistic that the Bush administration and Congress could reach an agreement on the housing bill. “Something can be worked out,” said Preston. He said the administration’s ongoing policy discussions with lawmakers is a “turning point in our history of our mortgage markets, and what the government’s role should be, and how we are going to enable governmental institutions to fulfill that role.” Preston voiced concern that the bill could prevent FHA from charging risk-based premiums to homeowners, which could prevent homeowners from qualifying for FHA loans and drive up costs for all homeowners. Although the White House issued a veto threat against the housing bill, many lawmakers are confident that the president will sign the bill if changes are made. Shelby said that the elimination of the Senate’s provision for \$4 billion in community block grants would go a long way to securing White House support for the bill. [The House version would create \$15 billion community block grants to help communities buy and rehabilitate foreclosed properties.]
- Given the strong bipartisan support of the Dodd-Shelby language, Majority Leader Harry Reid (D-NV) said, “Now, it’s not a matter of whether, but when, the housing legislation will pass the Senate. Reid scheduled a cloture vote on the housing stimulus bill for 5:30 p.m. on July 7th, when the chamber reopens after its July 4th recess. According to Reid’s staff, the majority leader hopes to finish up the final component of the bill before the end of the week.
- According to sources, Dodd met with House Financial Services Committee chairman Barney Frank (D-MA) on June 26th to persuade him to support the Senate housing rescue bill without charges. Dodd told Frank that he has effectively pushed the compromise with Senate Republicans as far as he can. However, Frank said that House Speaker Nancy Pelosi (D-CA) wants more changes, which would benefit her home state of California. Frank said, “The loan limits will be an issue, because that’s very important to the speaker and all of California.” According to sources, Frank

indicated that the speaker felt strongly about the conforming loan limit and likely would amend the bill accordingly, which would delay enactment of the legislation and could kill it altogether. When reporters asked about the impasse, Pelosi said, “We’re not holding up the bill. We want higher limits. That is the reality of life in Massachusetts, in California, in New York, in Connecticut, and in many places in the country. When the bill is agreeable to Mr. Frank, it will be agreeable to me.”

- "If the speaker of the House thinks that the proper thing to do with this bill is to help people who make high six-figure incomes buy million-dollar houses, then the House is free to put that in the bill when it comes back over there," said a senior Republican aide. "We think it's monumentally irresponsible." In an interview, Frank called such arguments, "monumentally stupid." He added, "This notion of a zero sum game, that's a zero-brain argument... none of that makes the slightest bit of sense," he said. Moreover, the higher conforming loan limit difference would benefit the overall economy, he argued. "We are not doing this as a favor to individuals only. What ought to be clear to anybody that is paying attention is that it's the economy as a whole that suffers when the mortgage market dries up... We have a real problem with the economy if there is not enough money going into the mortgage market," said Frank.
- The House is expected to make significant changes to the Senate bill, which would include revenue raisers to offset \$2.4 billion of housing related tax breaks that aren't paid for and removing a tax provision that would prevent taxpayers from taking an additional deduction on state and local property taxes if the locality raises its property tax rate. Frank said he is confident that the two chambers can work out their differences, including the effective date of the GSE regulator which he called a “big problem.” He believes that it is “absolutely” possible and necessary for both chambers to reach an agreement on the bill before the August recess. “If we don’t get it done by the August recess that ...is a real serious problem because things are deteriorating.” (*American Banker*, Stacy Kaper, 06/27/08; *CQ Today*, Benton Ives, 06/26/08; *American Banker*, Stacy Kaper, 06/26/08; *CongressDaily*, Ben Schneider and Christian Bourge, 07/02/08; *Bureau of National Affairs*, 06/30/08; *Washington Post*, Lori Montgomery, 06/26/08; *Bureau of National Affairs*, Mike Ferullo, 06/27/08; *Reuters*, Patrick Rucker, 06/24/08; *Wall Street Journal*, Damian Paletta, 06/25/08; *HousingWire*, Paul Jackson, 07/01/08; *Reuters*, 07/01/08)

The debate goes on

- As the Senate housing bill begins to take its final form, members of the House of Representatives are stepping up their efforts to push for changes before a final bill goes to the President for signing. In separate letters to leadership, the Congressional Black Caucus, the New Democrat Coalition, and the Blue Dog Coalition raised concerns about a number of provisions in the Senate bill. In a June 19th letter, the Black Caucus wrote, “...[W]e strongly believe that the current housing package being finalized by the Senate—for all its good intentions—is simply unacceptable.” Specifically, the group assailed provisions in the Senate bill which would eliminate

down-payment assistance programs, reduce funding for community block grants, and transfer money from the affordable housing fund, which had been dedicated to rebuilding efforts in Louisiana and Mississippi, to cover the cost of the rescue bill. "We believe that we must ensure that whatever is placed before the president for signature takes the needs of African-Americans and our communities into account," wrote the Black Caucus.

- The New Democrat Coalition and the Blue Dog Coalition oppose sections of the Senate bill which place restrictions on Fannie Mae and Freddie Mac. In a June 16th letter to House leaders, 28 lawmakers wrote, "The Senate bill would hinder their ability to provide the fullest measure of liquidity and stability to the housing market. [Legislation should] enhance the ability of [Fannie and Freddie] to deliver a stable, affordable and liquid source of mortgages for low-and moderate-income Americans, not create an arbitrary barrier."
- Privacy groups, small-business organizations, and commercial bankers object to provisions in the Senate bill which would require Internet and credit card companies to track, aggregate, and report information to the IRS on payments that they make to merchants—a measure which is expected to generate \$9.8 billion over 10 years. The groups are concerned that there will be a higher risk for identity theft and a greater financial burden on merchants, if this provision becomes law. At a hearing of the House Small Business Committee in early June, Committee Chairwoman Nydia Velazquez (D-NY) said, "At first glance, this measure seems like a reasonable means of tracking financial records and a sensible way to plug the nation's tax gap. Upon further review, however, it becomes clear it could have some potentially disastrous effects on small businesses. Rather than driving new revenue, the measure would saddle small firms with a myriad of privacy concerns and undue financial burdens." Although banking industry supports the housing rescue bill, industry representatives argue that the IRS reporting provisions would be costly, burdensome, and effectively make banks tax collectors. Banks do not want to have the duty of policing consumers, said Scott Talbott, SVP of government affairs for the Financial Services Roundtable. "That's the government's role," said Talbott. "[The provision could] cost hundreds of millions in the aggregate in terms of operational costs industry wide, [which] ultimately would be borne by banks and their business customers." (*Dow Jones Newswires*, Michael R. Crittenden, 06/24/08; *American Banker*, Stacy Kaper, 06/25/08)
- Privacy advocates are also decrying the provision in the Senate bill which would require the creation of fingerprint registry for "loan originators," which includes a broad swath of employees working for mortgage lenders and brokers, and real estate firms, including clerical staff, and part-time and seasonal employees. In a June 24th letter, the Liberty Coalition, an assembly of 14 diverse organizations, voiced concern about the scope of the fingerprint registry and the lack of justification as to how this requirement would serve to reduce mortgage fraud. The Coalition wrote, "We think it is highly unlikely that proposed fingerprinting requirements will have any tangible benefits in solving the problems associated with subprime lending... We are also

concerned about the bill's lack of safeguards for the data collected. ..We urge you to strip these provisions from the bill and oppose any final legislation containing them.” (*Computerworld*, Linda Rosencrance, 06/26/08; *Correspondence to Senators Harry Reid and Mitch McConnell*, Liberty Coalition, 06/24/08)

- Critics also expressed disappointment that the large banks, such as Credit Suisse and Bank of America, have played such a large role in drafting the housing rescue plan. Key provisions which would allow distressed homeowners to refinance their mortgages through lower-cost FHA-insured mortgages, were proposed to lawmakers in January by Credit Suisse, a large investment bank that had heavily invested in mortgage-backed securities. Bank of America followed with a similar and more detailed proposal, which was set forth in a 28-page discussion document on March 11th. According to the *Wall Street Journal*, the BofA document appears to have become the framework for the Senate housing rescue bill that was negotiated by Dodd and Shelby. One Senate staffer told *Wall Street Journal* reporter Steve Moore, “We literally had banking lobbyists writing this bill.” Dean Baker, co-director of the Center for Economic and Policy Research, a liberal research group, said, “It is ironic that Congress, responding to a crisis that was created in large part by irresponsible lending, would produce a bill, the main beneficiaries of which are likely to be those lenders. There are aspects that work hugely to the banks’ advantage.” Moore wrote, “...This isn't the way it's supposed to work in Washington, especially when the party in power on Capitol Hill keeps pledging to get rid of the ‘corporate special interests.’ But apparently that new ethic of anticorruption will have to wait..., when the Dodd-Shelby housing bill comes up for a final vote and taxpayers are put on the line for nearly \$40 billion of bailout funds. No word yet on whether Senator Barack Obama will break from his crusade against ‘corporate lobbyists’ to be on hand—or which way he would vote if he were there.” (*Wall Street Journal*, Steve Moore, 06/24/08; *Washington Post*, Jeffrey H. Birnbaum, 06/25/08; *iStockAnalyst.com*, 07/06/08)
- The *Washington Post* reports that Senator Barack Obama and his wife also got a “sweetheart” deal on their “super super jumbo” mortgage of \$1.32 million from Chicago’s Northern Trust, which saved the couple more than \$300 a month or about \$110,000 over the life of the mortgage. Since 1990, Northern Trust employees have donated more than \$739,000 to federal election campaigns, including \$71,000 to Obama. *Investor Business Daily* asks: If Obama is animated by high ideals for the future, why are we finding so many lowdown deals in his past?” (*Investor Business Daily*, 07/02/08; *Washington Post*, Joe Stephens, 07/02/08)
- In response to media criticism of the preferential mortgage terms that lawmakers have received from their mortgage lenders, the six members of the Senate Ethics Committee formally proposed more stringent disclosure requirements for senators’ mortgages. The Committee crafted the measure, which would require the disclosure of the rough amount of the lawmaker’s mortgage, along with the interest rate and duration of the loan, as an amendment to the housing rescue bill. (*CQToday Midday Update*, 06/24/08)

Editorial boards speak out on the housing rescue bill

- In a June 27th editorial, the *Christian Science Monitor* wrote, “Congress hopes to pass a bill soon that aims to rescue enough at-risk homeowners to put a price floor under a collapsing housing market. In theory, everyone benefits. In practice, well, the rescue plan itself might end up needing a rescue, at taxpayers’ expense. Lawmakers say they justify putting federal money at risk during this housing recession because a high rate of foreclosures is leaving too many neighborhoods with abandoned and neglected houses - about 19 million - dragging down home prices for others, fostering crime, and eroding the economy. Also, they say, the Federal Reserve put up risky money in March for an emergency bailout of creditors for Bear Stearns investment bank. If Wall Street's bacon can get saved, why not Main Street’s?”
- “While those points may well be grounds for federal action, the bill that is likely to pass could end up committing the same mistake careless lenders and borrowers did in inflating the housing bubble: It assumes prices will soon rise and that the new government-backed loans to be negotiated in coming months won't go belly up. The bill, in other words, sets up Uncle Sam to try and catch a falling dagger. The heart of the measure would allow the Federal Housing Administration to insure up to \$300 billion in new loans for at-risk borrowers, but only if lenders take a hit by volunteering to issue a new loan at 15 percent below the appraised value of the borrowers’ homes.”
- “Sure, borrowers would need to meet strict criteria and show they have the income and credit record to accept the new, lower-interest mortgages. And they must actually be living in the home, which shoos away many speculators. (Studies show a majority of the foreclosures so far involved financial misrepresentations by the borrower.) But who can accurately appraise a home's worth in a market that has seen a 16 percent drop in prices nationally over the past year? Collateral in many houses is still fading like a Cheshire cat's grin. Congress is betting taxpayers’ money on a price bottom that doesn't yet exist. And what's to keep lenders from simply pushing the most risky borrowers into this program? Or borrowers from purposely missing loan payments to qualify for this government handout?”
- “The Congressional Budget Office estimates that the FHA would issue 400,000 loans worth \$68 billion, out of some 2.2 million borrowers now at risk. But about a third of those new loans would go bad, the CBO says. Knowing that, Congress hopes to pay for those bad loans by imposing a fee on healthy borrowers who get loans backed by government-sponsored Fannie Mae and Freddie Mac. That may spare taxpayers for a while, but the money from the fees may reach only \$700 million. The bill's backers say the ultimate cost to taxpayers may be only \$2.7 billion—chump change in Washington. But that assumes home prices start to climb soon. The reality is that lawmakers want to look as if they're doing something about the housing crisis before an election and please the powerful lobbies for house-builders and real estate agents.”

- “Lending money in a falling market is a fool's errand. Taxpayers should not be made the fool by this bill. Congress needs to start over.” (*Christian Science Monitor*, 06/27/08)
- In a June 25th editorial, the *Rocky Mountain News* [Denver, CO] wrote, “The ‘Housing and Economic Recovery Act of 2008’ was bad enough before the stench of a scandal began to rise from the offices of two senior senators with oversight of financial matters. With conflict-of-interest now haunting the bill, too, it should be absolutely radioactive. Should be. In fact, it isn't. Indeed, the legislation will surely pass the Senate any time now. It's an election year, and lawmakers are determined to act.”
- “We've opposed the bill for months, and during that time it's only gotten worse. One recently added provision would assist financially stressed homeowners by having the federal government (meaning taxpayers) assume any risks of mortgage defaults. It's this ‘Countrywide bailout’ section of the bill that has drawn extra scrutiny, and rightly so. In recent years Senate Banking Committee Chairman Chris Dodd, D-Conn., and Senate Budget Committee Chairman Kent Conrad, D-N.D., received massively discounted mortgages from Countrywide that weren't available to customers who didn't have connections. ...Countrywide, the nation's largest mortgage lender, was vilified on Capitol Hill during the subprime meltdown. It is, however, about to be bought by Bank of America. And that bank stands to benefit handsomely from the bailout provision.”
- “In return for renegotiating delinquent or otherwise troubled mortgages, lenders would get a guarantee: The federal government would reimburse lenders for their losses should any loans default. Such refinancing may prevent some homeowners from foreclosure. Still, this sounds like Version 2.0 of the savings-and-loan debacle. Defaults could be significant - the Congressional Budget Office estimates a default rate of 35 percent for loans guaranteed in this manner. The House version of the bill would use tax dollars to underwrite these losses; the Senate bill relies instead on fees collected by the government-sponsored mortgage giants Freddie Mac and Fannie Mae. Either way, it's a government bailout of a private lender. Given Countrywide's significant exposure to subprime mortgages—and the sweetheart deals landed by Dodd and Conrad—this legislation has no business becoming law. Yet attempts to either kill the bailout measure or kick the bill back to the banking committee have gone nowhere.”
- “Another provision would pile additional risks on taxpayers by increasing the limits on mortgages guaranteed by the Federal Housing Administration. FHA financing, which often features lower rates than private mortgages, is now available for homes that are roughly 100 percent of the area's median value. The bill would boost that limit to 150 percent - or to as much as \$625,000. Talk about welfare for the well-to-do.”

- “On Tuesday, Sen. John Cornyn, R-Texas, the top Republican on the Senate Ethics Committee, introduced an amendment to the bill requiring all senators to fully disclose the terms of any mortgages they have. Cornyn has the support of Sen. Barbara Boxer, D-Calif., who chairs the committee. Such disclosure would be helpful. But it will make little difference if the bill becomes law and Countrywide/BofA can laugh all the way to the bank.” (*Rocky Mountain News*, 06/25/08)
- In a *U.S. News & World Report* editorial, Mortimer B. Zuckerman wrote, “...Everyone is trying to find a solution for the artificial downward pressure [on housing prices] producing unnecessary foreclosures. Three ideas are working their way through the legislative chambers of Congress. One is to eliminate the tax liability associated with debt forgiveness on owner-occupied home loans. A second is to shorten the seasoning period that rehabilitated loans need to go through before they can be sold to entities like Fannie Mae and Freddie Mac. The third idea is for government to provide backing for 85 percent of the newly appraised value of the home, if the lender is willing to accept the loss between the previous mortgage amount and the new mortgage loan. As always, the devil is in the details. By what standards are the appraisals to be made, and who makes them, given that residential appraisals have had a very dubious record over the past five years?”
- “... The legislation also calls for \$300 billion of troubled loans to be turned over to the Federal Housing Administration, which would expand the FHA portfolio to about 1.5 million mostly high-risk subprime mortgages. The *Wall Street Journal* hit the nail on the head: ‘At the very time private lenders and investors are fleeing subprime markets, Congress wants taxpayers to dive in.’ The Senate bill also would double the FHA's loan limits while lowering down payment requirements on mortgage acquisitions. All in all, this would make taxpayers responsible for tens of billions of dollars of additional mortgage losses.”
- “The *Journal*, hardly an enemy of business, calls the provision to allow private banks to dump risky subprime loans on the FHA ‘the most reckless provision now on the Senate floor,’ and it points out that ‘lenders have all but admitted that, if the bailout becomes law, they will dump their worst loans on to the FHA.’ No wonder homeowners who didn't live beyond their means will ask why their taxes should help out the less provident--and the most reckless lenders.”
- “Just as bad is raising the limits on mortgages to be guaranteed by the FHA or bought by Freddie Mac and Fannie Mae. These two quasi-public corporations were set up by the government to promote homeownership for moderate- and low-income families by providing a ready pool of mortgage funds. They are now involved in approximately 70 percent of all U.S. mortgages. But under the new bill, these two agencies would be able to buy and support mortgages to a level of as much as \$630,000, reflecting home values of as much as \$800,000. This assistance to the relatively well-off is hardly consistent with their mission. Fannie Mae and Freddie Mac, which are privately owned, are also dragging their feet in raising enough new

equity because that would dilute their share values. This is intolerable. They already benefit financially from implicit government sponsorship, for their borrowing rates reflect the credit advantages of quasi-government support. They save literally tens of billions of dollars a year from reduced interest rates—a good portion of which is passed on to the companies' private shareholders.”

- “It is not surprising that the White House threatens to veto the Senate version of the bill. The worm in the apple is manifest in the recent revelation of a whole group of Washington insiders who had preferential mortgage rates from one of the most egregious lenders, Countrywide Financial.”
- “It is appropriate for the government to try to create a firewall around foreclosures because the country faces a real macroeconomic crisis in the danger of an accelerating, self-reinforcing collapse of home prices. Rep. Barney Frank put it well when he said, “The economy has been taken hostage by people that took some very bad decisions. The answer is to pay as little ransom as possible to the least ill-deserving people we can find.” The legislation before the Congress, alas, benefits too many of the most ill-deserving people and companies...” (*U.S. News & World Report*, Mortimer B. Zuckerman, 06/07/08)
- In a July 5th commentary in the *Wall Street Journal*, Bob McTeer, a fellow of the National Center for Policy Analysis and former president of the Federal Reserve Bank of Dallas, wrote, “...The Fed and others have argued for years for reform of Fannie Mae and Freddie Mac—including clarifying that their debt is not backed by the full faith and credit of the U.S. government, and capping their growth to limit the distortions caused by their artificially low borrowing costs and thin capital. The current reforms under way, including raising their capital, may have been needed. But they should be expedited to facilitate, rather than inhibit, the important role Fannie and Freddie can play in resolving the credit crisis. Let's postpone our hand wringing over their government-sponsored credit ratings and cost advantages, and take opportunistic advantage of them in the current crisis. We need them, as well as the Federal Housing Administration, to do more of what they do, not less.” (*Wall Street Journal*, Bob McTeer, 07/05/08)

Is housing now an inalienable right and new entitlement?

- In a June 27th *HousingWire* commentary, Paul Jackson wrote, “The nation’s housing crisis appears to be moving towards another high note — or low note, more accurately — as federal and state authorities move to put legislation into effect that promises to change how lenders and servicers both make and manage loans. While efforts on Capitol Hill to push a behemoth housing package through before July face an uncertain fate, key state-level and local legislators are busy with their own attempts to ‘do something,’ led in large part by a vocal minority of consumer advocates that are clamoring for sprawling access to government funds in the name of preserving (and even expanding) homeownership gains.”

- “For those with a history in mortgage banking watching this unfold, the shifting ground the industry is now one that must seem, at the very least, ironic. After all, the roles now being played by key actors were once very different — and our nation’s collective memory is being proven, yet again, to be astoundingly malleable. It wasn’t that long ago, after all, that nearly everyone was swept up in ‘the Ownership Society’ — with the White House issuing press release after press release challenging lenders to loosen their credit standards and make riskier loans to minorities in the name of ‘expanding homeownership.’ Consumer groups often even partnered with lenders to make riskier loans to the very minority groups they’re now indignantly suing lenders for lending to.”
- “Let’s take a trip down memory lane, shall we? Consider this press release from Citigroup in September of 2004, which finds ACORN and Citi happily holding hands and pushing ‘the goals of both organizations to promote homeownership in low- and moderate-income neighborhoods, especially in immigrant communities.’ From the press statement: ‘With this agreement, ACORN will be able to expand our mission of strengthening communities by helping low- and moderate-income families, including new immigrants to this country, become homeowners,’ said Maude Hurd, National President of ACORN. It’s not as if Citi and ACORN were the only ones jumping deep into subprime lending together, either. Economic policy research at the time centered on how lenders were denying loans to those with poor credit, often minorities; consider the following conclusion from a September 1999 study: ‘The Urban Institute report issued today says that “not all Americans enjoy equal access to the benefits of homeownership, in part because of unequal access to capital.”’
- “‘Fair lending’ essentially became synonymous with a universal lowering of credit standards — and as lenders loosened credit standards, community groups cheered, and the White House lauded the commitment to ‘expanding homeownership.’ Legislatively, President Bush went so far as to propose eliminating down payment requirements altogether. In a September 2004 press statement, administration officials touted a so-called ‘Zero-Downpayment Initiative’ that would eliminate the statutory requirement of a minimum three percent down payment for FHA-insured single-family mortgages for first-time homebuyers.”
- “Even when we had clear data suggesting that lending to people who couldn’t afford their loans would likely end up badly, we ignored it. Consider this story from April 2004, which noted a Fannie Mae study that found that 49 percent of English-language Hispanics, 46 percent of Spanish-language Hispanics, and 42 percent of African Americans cited ‘credit concerns’ as the primary reason they had not yet bought a home. Instead of realizing that borrowers’ concerns over their credit and finances might actually be valid, we — and that means everyone, from lenders to legislators, to community and consumer groups — decided to convince them otherwise, out of the belief that being part of the ‘Ownership Society’ trumped small-minded credit concerns. There was a bigger experiment in social progress at stake, after all.”

- “We unfortunately now know all too well how well pursuing ‘greater access to credit and capital’ turned out, not only for ACORN and Citi, but for nearly every lender and consumer group out there that bought into the strange and wonderful ethic of ‘the Ownership Society.’ None more than Countrywide Financial. Yet, it’s now often the very same consumer groups screaming about ‘subprime sludge’ who are pushing legislators to stop the lending practices they were often complicit in helping make happen.
- “John Carney at *DealBreaker* offered up one of the few honest takes I’ve seen yet on this mess, way back in January: ‘... don’t blame Mozilo. He was only responding rationally to the incentives created by that all too compassionate monster, the state.’ Long before the Bush administration attempted to rebuild Iraqi society, it set out to rebuild American society. Although it went under the banner of ‘compassionate conservatism,’ the Bush administration’s call for an ‘Ownership Society’ was, at its core, central economic planning on a colossal scale. The market had failed to make enough Americans homeowners, and so the Bush administration set out to ‘expand homeownership.’ And the consumer groups lined up right behind the White House to help make it happen.”
- “We’re now reaping what was first sown back then, a war of entitlement spawned by the ideals of the ‘Ownership Society.’ For many, housing has become more than a privilege; it has transformed into an inalienable right, on the level of free speech. And that sense of entitlement is what has driven many consumer groups from working side-by-side with lenders to make risky loans on one hand, to now pushing legislation that seeks to use federal and state funds to maintain the ideals established by the ‘Ownership Society,’ on the other.”
- “That sense of entitlement has given traction to guys like Bruce Marks at the Neighborhood Assistance Corporation of America, whose boorish tactics would be universally condemned at any other point in our nation’s history. Instead, the use of those tactics got him named ‘Bostonian of the Year’ by the *Boston Globe*, and find him putting banks in a veritable vise grip — perhaps even rightfully so — over their lending tactics. That sense of entitlement has pushed state legislators in places like California to consider some extreme housing measures, which when defeated earlier this month led consumer groups to be ‘outraged,’ according to an *LA Times Story*.”
- “To be sure, we face a complex and changing housing and mortgage crisis — one that isn’t likely to be solved quickly. But if we’re to develop a sound and lasting solution for borrowers and industry participants alike, doing so should at least require that we all take the time to truly understand how we got here. Which is to say that entertaining support for knee-jerk solutions rooted in the very same logic that got us into this mess to begin with strikes me as a sure-fire way to make things worse.”
(*HousingWire*, Paul Jackson, 06/27/08)

Fannie Mae and Freddie Mac

Freddie Mac reports a 53.4% annualized growth in its portfolio in May versus Fannie Mae's annualized growth of 15%

- In May, Freddie Mac's retained portfolio grew at an annualized rate of 53.4% to \$770.4 billion—exceeding the size of the historically larger Fannie Mae retained portfolio of \$736.9 billion on May 31st. By way of contrast, Fannie's retained portfolio grew at an annualized rate of 15% in May, while the company's mortgage-backed securities and other guarantees rose at an annualized rate of 11.6% to \$63.6 billion [versus \$47.3 billion for Freddie Mac for the month]. In May, most of Fannie's and Freddie's new portfolio growth has come from purchases of their own securities with such purchases representing \$20.2 billion of the \$32.8 billion of growth in Freddie's retained portfolio and \$8 billion of the \$8.5 billion of growth in Fannie's portfolio. "Freddie has put its newly freed capital to work [while Fannie has held back]," said Jim Vogel, SVP and debt analyst with FTN Financial, headquartered in Memphis, TN. "[Fannie Mae] had indicated that it was going to push its portfolio up, but sales reported for May doesn't show much evidence of that yet. Until Fannie Mae reports further, its current strategy is opaque."
- In a sign that the mortgage market continues to deteriorate, Fannie and Freddie announced that their mortgage delinquency rates have doubled over the past twelve months. In April, 1.22% of the mortgages that Fannie Mae guarantees were past due by at least three months or were in foreclosure—more than double the rate of 0.62% recorded in April 2007 and up 7 basis points from March 2008. Similarly, Freddie Mac reported a delinquency ratio of 0.81% in April, more than double that reported in May 2007 [0.40%] and 4 basis points higher than March 2008. Fannie and Freddie also reported effective duration GAPS of positive one month and zero months, respectively.
- Fannie Mae's and Freddie Mac's mortgage activities illustrate what some had predicted the GSEs would do with their newly won freedom to purchase of jumbo conforming mortgages. Instead of buying the jumbo conforming mortgages, the enterprises instead were purchasing their own mortgage-backed securities. According to *Inside Mortgage Finance*, Fannie Mae had packaged \$24 million of jumbo conforming mortgages into MBS, while Freddie Mac has added just \$220 million – while the GSEs invested more than \$32.4 million in their own MBS. "They were granted expanded opportunity to help recovery in a troubled housing market and yet have appeared to focus on their own recovery," said former Representative Richard Baker (R-LA). "[The change places taxpayers at greater risk] without facilitating the policy goals I believe the Congress had in mind when they eased these portfolio limits." Jerry Howard, president of the National Association of Homebuilders, said that Fannie's and Freddie's slow entry into the jumbo conforming market may have

exacerbated the housing slump in California and Florida, where prices declines have exceeded the national averages. “Had they been quicker into the marketplace, they could have helped slow the downward spiral in housing prices,” said Howard. In 2007, the National Association of Realtors estimated that Fannie and Freddie would buy \$150 billion of conforming jumbo loans in 2008. Today, AG analysts estimate the GSEs’ purchase will as much as \$74 billion—although the enterprises’ projections indicate that they may not even reach that revised estimate. “So far, we haven’t seen as much impact as we anticipated,” said Paul Bishop, managing director of research for NAR. “Fannie and Freddie are catering to low-risk homeowners with high credit scores and a lot of equity in their homes,” said Dan Green, a loan broker at Mobium Mortgage Group Inc. “I’m sure there will be some high-cost areas in the country that will benefit. They just don’t happen to be Florida, Michigan, California, [and] Nevada.” In *HousingWire*, Paul Jackson wrote, “...The bottom line here is that all that new capital the GSEs raised never was likely to push Fannie or Freddie headlong into a risky mortgage market it doesn’t understand [i.e., jumbo conforming loans] , and anyone who thought so was focused only on production, rather than understanding execution (see: realtors, home builders). Proof of that is pretty apparent in the underwriting standards used by Fannie and Freddie relative to their suddenly-goosed cousin at the FHA, which has been underwriting and securitizing jumbos at a pace that vastly dwarfs activity thus far at either GSE.”

- In February, House Financial Services Committee Chairman Barney Frank (D-MA), said that Fannie and Freddie should buy bigger mortgages “because we’re in an economic crisis and need a short-term response.” Subsequently, Frank has criticized the GSEs, saying that they are moving too slowly and should get “more bang for the buck” from their spending power in the jumbo market. Making the conforming jumbo higher limits permanent in the pending housing bill may encourage purchases, he argued. William Poole, the former president of the St. Louis Federal Reserve and now a senior fellow at the Cato Institute, argues that the GSEs’ purchases of their own securities are making them riskier because they retain 100% of the credit and interest-rate exposure on those assets. “Any legislation today that simply expands what they do is going in the wrong direction,” said Poole. “It’s potentially digging the taxpayer in deeper.” (*Bloomberg News*, Dawn Kopecki, 06/24/08; *HousingWire*, Paul Jackson, 06/26/08; *Bloomberg News*, Dawn Kopecki, 06/25/08; *Washington Post*, David S. Hilzenrath, 06/26/08; *Fannie Mae Monthly Summary*, May 2008, *Freddie Mac Monthly Volume Summary*, May 2008; *HousingWire*, Paul Jackson, 06/24/08)

SEC proposes additional credit rating agency regulations
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- On June 25th, the SEC voted unanimously to propose a set of new regulations governing credit rating agencies, equity-indexed annuities, and foreign broker-dealers. In an effort to limit the importance of credit ratings in the regulation of financial firms and end the quasi-official status of the ratings, the SEC agreed to seek public comment on a proposal that would revise references to credit ratings so as to highlight the different risks of products in the agency’s rules. SEC chairman

Christopher Cox said, “The SEC’s own rules don’t distinguish between ratings for corporate bonds and ratings for structured finance products.” This lack of distinction among products leaves the agency open to criticism that the SEC’s use of ratings for regulatory purposes doesn’t reflect the different risk characteristics of structured finance products, said Cox. Based upon review of the agency’s rules, the SEC staff proposed changes in 26 of the 44 rules that referenced NRSRO ratings to clarify their underlying regulatory purpose. The amended rules would then “permit reliance on credit ratings as one way to achieve that purpose,” said Cox. Andrew Donohue, director of the SEC’s Division of Investment Management, said the revised rules would also benefit investors, but emphasize that ratings are merely “a starting point” and should be used only as “the beginning of the analysis” in the decision making process which leads to an investment., “Ratings have become such a crutch,” said SEC Commissioner Paul Atkins. “Blind reliance on ratings is not something the SEC should foster. Unfortunately, by putting them in our rules, we did just that.”

- The SEC also voted to adopt rule changes which would streamline the process for handling proposals from SROs to change their rules. Under the proposals, the agency would have 15-days from the date of the SRO’s submission, to publish the rule change. For proposed rules that are controversial or complex, the director of the Division of Trading and Markets could lengthen the agency’s review period beyond the 15-day deadline. (*Bureau of National Affairs*, Malini Manickavasagam, 06/26/08; *Washington Post*, Neil Irwin, 06/26/08)

The credit rating agencies and GSEs are focused on improving the due diligence process for securitizations to improve their transparency
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- At a June 24th finance conference sponsored by the Securities Industry and Financial Markets Association, the U.S.’s three chief credit rating agencies and GSEs said that that the mortgage origination due diligence process will likely go through “adjustments” to ensure that mortgage-backed securities are more transparent and are higher quality. “The data is the key,” said Rick Sorkin, Fannie Mae’s vice president for structured transactions. “You’ve got to have clean data.”
- Representatives of the three major credit rating agencies announced that they will require issuers of mortgage-backed securities to submit enhanced data when submitting securities for credit ratings. Susan Barnes, managing director for S&P, said her firm will require “enhanced” representations and warranties concerning a securitization, with a specific focus on data quality. Fitch Ratings Managing Director Diane Pendley said her firm plans to introduce an “expanded ... new criteria” for issuers of securities. Warren Kornfeld, managing director for Moody’s said that while his firm likely will adjust its scrutiny of investment banks submitting securitizations for a credit rating to his firm, such scrutiny will not affect his firm’s consideration of adopting a single global ratings scale, which was announced on June 12th. Pendley said, “Before the market can come back, the quality of the information has to come back.” Kornfeld added, “The theme is going to be back to basics.”

- Ultimately, due diligence will be more comprehensive, take longer to complete and be more expensive. Banc of America Securities LLC principal Sharon Fox said, "Due diligence is going to cost more moving forward, particularly the talent." (*Bureau of National Affairs*, Stephen Joyce, 06/25/08)

Delay of a Federal Reserve/SEC pact is likely

- As the Federal Reserve and SEC neared the finalization of a information-sharing agreement that would start the process of redrawing how Wall Street would be regulated, Senators Chris Dodd (D-CT) and Richard Shelby (R-AL) warned the agencies not to finalize any agreements without congressional review. In a June 27th letter to Federal Reserve Chairman Ben Bernanke, SEC Chairman Christopher Cox, and Treasury Secretary Henry Paulson, the Senators wrote, "It is Congress's role to determine if and how any alterations to our financial regulatory system should be undertaken." In a June 27th letter to the senators, Cox responded, "[The Fed Reserve-SEC agreement] is intended to facilitate our agencies' ongoing, day-to-day cooperation." Cox added that it's Congress's role to determine whether to "alter the existing regulatory structure," which the proposal doesn't address.
- The Fed/SEC agreement is designed fill in the gaps in regulatory oversight and increase the cooperation and information sharing, such as data regarding settlements, trades and positions, as well as investment banks' short-term financing with the Fed, their trading positions, and leverage and capital requirements. The information agreement would enact some of the changes proposed by Treasury Secretary Paulson, which would fill some regulatory gaps immediately. Cox said, "[The agreement] is designed to facilitate our joint efforts to fulfill our respective regulatory functions in a post-Bear environment."
- In a July 2nd speech at the Chatham House in London, Treasury Secretary Paulson renewed his calls for an expansion of regulatory power to ensure that the failure of a nonbank financial institution doesn't threaten the entire financial system. "The financial landscape has changed, and non-bank financial institutions play a significantly greater role," said Paulson. "We need to consider broadly the resolution regime in light of these changes. ... [L]ooking beyond the immediate market challenges of today, we need to create a resolution process that ensures the financial system can withstand the failure of a large complex financial firm. To do this, we will need to give our regulators additional emergency authority to limit temporary disruptions. ... It is clear that some institutions, if they fail, can have a systemic impact so we must give regulators the authorities to limit that impact and facilitate an orderly failure." Paulson said that the recent turmoil at Bear Stearns highlighted the need for the Federal Reserve and SEC to share information through a formal arrangement. In addition, the Fed should also be given the authority to access information from complex financial institutions and the tools to intervene in advance of a crisis, he added. (*Bureau of National Affairs*, Aaron Lorenzo, 07/03/08; *Wall*

Street Journal, Tom Barkley, 07/02/08; *Wall Street Journal*, Kara Scannell, Deborah Solomon, and Sudeep Reddy, 06/23/08; *Wall Street Journal*, Damian Paletta, 06/30/08)

Words of wisdom for policymakers as they draw up plans
to regulate the shadow financial system

- In a June *Financial Services Outlook*, American Enterprise Institute fellow Peter J. Wallison wrote, “It is now said confidently by commentators that the current turmoil in the financial markets marks the end of a long period of financial deregulation, especially in the United States. But the withdrawal of the U.S. and other governments from control of the financial world has done its work—the free movement of capital, assisted by advances in communications technology, has permitted enormous economic growth in developed countries and in other fast developing economies throughout Eastern Europe and Asia. It has also spawned a global financial market that bears little resemblance to the international financial system that existed a quarter century ago. Today, private-sector financial assets far outstrip the financial resources that government can bring to bear for financial stability, financial transactions are not localized in any place where any government can control them, and private markets have begun to develop risk-management techniques that are more effective than government regulation. All these changes suggest that the U.S. and other governments should proceed cautiously to assert their priorities.”
- “...The advocates of more comprehensive regulation of securities firms after the Bear Stearns bailout blithely assume that this will enhance market stability and allow the Fed to deal with systemic risk. Why, after all, should the government regulate securities firms unless it expects it might have to bail them out someday? But in reality, it will introduce moral hazard into the securities business and thus reduce market discipline. It is not clear, given the size of the major financial institutions relative to the assets of the Fed, that this is a risk the Fed should be expected to undertake. In addition, badly designed and intrusive regulation, as several reports have shown, can drive financial transactions to places where regulatory costs are lower or where regulation is more cost-effective. Finally, the private sector has been developing risk-management tools like CDSs that are in many respects more effective than government regulation.”
- “Regulatory policy ...should focus on things markets themselves cannot solve, not on those problems markets—and market discipline—can effectively address. This means policies that enhance transparency to make market discipline more effective, avoid moral hazard, and encourage the development of clearinghouses for CDSs. Above all, it means that government regulatory policies should not make things worse by failing to recognize government’s own limitations in an era when private markets have grown so large.”

- Wallison’s white paper entitled, “For Financial Regulation, the Era of Big Government Really Is Over,” is available on the American Enterprise Institute website at www.aei.org/publications/pubID.28152/pub_detail.asp (*American Enterprise Institute’s Financial Services Outlook*, Peter J. Wallison and Karen Dubas, June 2008)

Subprime and beyond

- At a June 25th Demo news conference, Mark Zandi, chief economist and co-founder of Moody’s Economy.com, said that the level of foreclosures will continue to rise and isn’t likely to peak in the near term. Zandi estimated that some 9 million homeowners have negative equity in their homes. In May, approximately 2.75 million home loans were in default, more than three times the level of defaults in 2005, he added. “The problem is not going to go away,” said Zandi. “It is likely to intensify for the remainder of this year and into the next.” (*National Mortgage News’ MortgageWire*, 07/26/08)
- According to a June 23rd report released by Harvard University’s Joint Center for Housing Studies, the deterioration in the housing market has not yet run its course and could go on for several more years. According to the study, the number of homeowners paying more than half of their income on housing rose from 6.5 million in 2001 to 8.8 million in 2006, reflecting looser mortgage underwriting standards and the impact of resetting mortgage rates to higher payment levels. The number of homes entering foreclosure nearly doubled to 1.3 million in 2007, from about 660,000 million in 2005, which have exerted “extreme downward pressure” on prices, especially in low-income and minority areas where the most risky subprime loans are most heavily concentrated, the study concluded. (*San Diego Union-Tribune*, Emmet Pierce, 06/23/08; *Bureau of National Affairs*, Thecla Fabian, 06/24/08)
- OFHEO announced that its monthly home price index fell 0.8% on a seasonally-adjusted basis from March to April. The agency also said that home prices fell 4.6% for the twelve months ending April 30, 2008. (*OFHEO Press Release*, 06/24/08)
- According to the S&P/Case-Shiller 20-city Home Price Index, home prices declined 15.3% on a year-over-year basis and were down 1.4% during the month of March. Prices on the Index have dropped from 21 straight months since July 2006. April data suggests that the Cleveland, Ohio market may have found a bottom with prices increasing 2.9% during the month. Other bright spots include the Charlotte, NC market, which was up 0.2%—up the second month in a row, and the Dallas, TX market, where prices appreciate for the second month—up 1.1% in April. (*CNNMoney*, Les Christie, 06/25/08)
- According to a new report from Clayton Fixed Income Services, the delinquency percentages and roll rates for Alt-A mortgages increased in every vintage during May, while cure rates declined only for the 2003 and 2007 vintages. Loss severity

reached 41.4% for all Alt-A liens in REO during the most recent rolling six month period through May—up from 37.6% the month earlier, according to Clayton. Rapidly falling home prices coupled with a weakening economy seem to be the chief culprits, rather than rate resets, concludes the report. “Amid all the attention being paid to rate adjustments, however, it’s important to note that out of all the active delinquent ARM loans in Clayton’s portfolio, approximately 70 percent were already delinquent prior to the first rate change date,” concluded Clayton analysts. (*HousingWire*, Paul Jackson, 06/26/08)

- The American Bankers Association reports that stress in the housing market, coupled with general weakness in the overall economy, has contributed a rising delinquency rates for home equity lines of credit and bank credit cards during the first quarter of 2008. Delinquency rates for HELOC accounts 30 days past due [on a seasonally-adjusted basis] increased 14 basis points to 1.10% during the first quarter of 2008, while credit card delinquencies increased 13 basis points to 4.51%. (*Bureau of National Affairs*, Mike Ferullo, 07/03/08; *HousingWire*, Paul Jackson, 07/02/08)
- HOPE NOW Alliance helped about 170,000 at-risk homeowners stay in their homes in May, about 7% fewer than the 183,000 homeowners who were assisted in April. The group estimates that it has helped 1.7 homeowners avoid foreclosure since July. HOPE NOW executive director Faith Schwartz said that the pace of workouts is accelerating and that workouts during the second quarter will exceed those in the first quarter. (*Bureau of National Affairs*, 07/03/08; *Washington Post*, Renae Merle, 07/03/08)
- In an effort to prevent homeowners who are preparing to default on their mortgage in order to purchase a more affordable home, Fannie Mae has announced new underwriting guidelines to prevent these “buy-and-bail schemes.” Effective August 1st, Fannie Mae will require borrowers who propose to rent their home to (1) demonstrate that they have 30% equity in the property or demonstrate that they have adequate financial resources to service both mortgages for six months; (2) provide a copy of the lease agreement; and (3) provide a copy of the security deposit. (*National Mortgage News’ MortgageWire*, 07/26/08)
- Senate Banking Committee leaders are urging federal banking regulators to “wake up” and revamp their appraisal standards, rather than complain about the steps taken by Attorney General Andrew Cuomo to curb appraisal fraud. During a debate on the housing rescue bill, Senate Banking Committee chairman Christopher Dodd (D-CT) said, “...[T]he appraisal fraud over the past couple of years, and the attorney general’s action, should serve as a wake-up call to the regulators that their appraisal standards must be revamped and their enforcement stepped up.” Senator Richard Shelby (R-AL) also urged regulators to revise their appraisal standards to improve the independence of appraisers. (*National Mortgage News’ MortgageWire*, 07/27/08)
- Fitch is withdrawing its ratings on MBIA Inc. and Ambac Financial Group [and their subsidiaries] because the two bond insurers will no longer will provide “substantial

non-public portfolio information.” Negative ratings actions by Standard & Poor’s and Moody’s have impacted the insurers’ business prospects and the companies’ “reactive strategic and capital management planning creates a volatile credit variable,” said Fitch. (*American Banker*, Allison Bisbey Colter, 07/03/08)

- During the last week of June, Moody’s cut Radian Group’s mortgage and bond insurance subsidiaries due to deteriorating performance among the assets that Radian insures. In June, S&P also lowered Radian’s ratings. Subsequently, Freddie Mac had released a statement, saying that it had reviewed Radian’s plans to restore its AAA-rating and that the GSE would continue to treat Radian as a Type-I mortgage insurer. (*American Banker*, Allison Bisbey Colter, 07/03/08; *Reuters*, 07/01/08; *Wall Street Journal*, Serena Ng, 06/26/08)
- Freddie Mac has ordered Republic Mortgage Insurance Co., headquartered in Winston-Salem, NC, to develop a remediation plan within 60 days to maintain its Type I status as a mortgage insurer. Freddie’s action was triggered by Moody’s downgrading of RMIC’s insurance financial strength rating from Aa3 to A1, along with a downgrading of the debt rating of its parent company from (P)A1 to (P)A2. Moody said its actions reflect the deterioration of RMIC’s capital adequacy and medium-term prospects for profitability. (*Thomson Financial*, 07/01/08)
- During the first six months of 2008, private-label mortgage-backed securities issuance plunged more than 80% from the same period last year, as investors shied away from risky non-agency issues. During the second quarter, 83 issues of private-label MBS were issued, totaling \$48.6 billion—the lowest quarterly volume since the second quarter of 2000, when 102 issues totaling \$33.3 billion were sold, said Matthew Toole, a Thomson Reuters analyst. “Without the implied U.S. government guarantee that Fannie Mae and Freddie Mac offer, it is hard to bring deals to market,” said Toole. “Even big banks that have mortgage arms are not doing deals, which shows the dearth of opportunity that investors have for any type of collateral.” (*Reuters*, 07/01/08)
- Many state and local governments, which were once flush with tax revenue during the five-year building boom, now face budget shortfalls, as a result of falling home prices and rising foreclosures, along with rising unemployment rates and higher inflation. According to the Center on Budget & Policy Priorities, at least 29 states and the District of Columbia reported budget shortfalls of about \$48 billion, as they compiled their 2009 fiscal budgets. States which top the list of budget shortfalls include Arizona, Florida, Nevada, Rhode Island, and California. (*BusinessWeek*, Prashant Gopal, 06/30/08)
- On *National Mortgage News’ Mortgage Blog*, Paul Muolo wrote, “‘Unprecedented,’ is what one high placed Washington source called a letter sent by Sen. Charles Schumer ...to regulators at the FDIC and OTS concerning the financial viability of IndyMac Bancorp, a thrift that ranks number 11 ...among mortgage funders. In other words, it's not every day that a U.S. Senator potentially panics depositors at a large

federally insured depository. What was Senator Schumer thinking? You got me. (It's no secret that IndyMac is having financial difficulties. Its stock is trading for less than \$1.)..."

- Muolo continues, "The Senator apparently cares a great deal about wrongdoing in the mortgage industry but not so much about what's transpired on Wall Street in the past few years. Sen. Schumer's lack of interest in Wall Street's role in the mortgage crisis is touched on briefly in *Chain of Blame, How Wall Street Caused the Mortgage and Credit Crisis*. (I'm one of two co-authors, as I've mentioned before. The book is now available.) Now, why would Sen. Schumer turn a blind eye to Wall Street? Here's a theory: Between 2003 and 2008 the senator received campaign donations of \$1.37 million from securities and investment firms or what we call 'Wall Street.' (Figures courtesy of OpenSecrets.org). He has spent the last six months making Countrywide chairman CEO Angelo Mozilo ... a whipping boy for the mortgage crisis. ... Now that Mr. Mozilo will no longer be involved in the industry, perhaps, the Senator needs a new target. His concern in regard to IndyMac might be better understood if the institution were headquartered in New York State. But it's not. Its HQ is in Southern California. As one analyst told us, 'There's bigger and more troubled institutions to worry about than IndyMac.' (And they happen to be located south of Canal Street down near the New York Stock Exchange. I think Sen. Schumer knows that neighborhood well.) Perhaps, this is the Senator's way of getting back at the Golden State for stealing the Brooklyn Dodgers and New York Giants in the late 1950s. As one New Yorker Ricky Ricardo once quipped, 'You have a lot splaining to do'..." (*National Mortgage News' Mortgage Blog*, Paul Muolo, 06/27/08)
- On July 1st, Indy Mac said, "As a result of Senator Schumer making his letter public and the resulting press coverage, we did experience elevated customer inquiries and withdrawals in our branch network last Friday and Saturday of roughly \$100 million, or about 1/2 of 1% of total deposits." The bank indicated that its customer traffic remains elevated and further withdrawals are likely, but it was "hopeful that his issue appropriately abates soon." (*HousingWire*, Amy McAlister, 07/01/08)
- *HousingWire* reported, "Our industry sources have gone so far as to suggest that Schumer was paid off to leak the letter to the press, although it's unclear if the suggestion is anything more than idle speculation. The conspiracy theory goes like this: IndyMac has been privately negotiating for new capital for at least the last few months, and a Large Investor offered a deal that CEO Michael Perry balked at; Large Investor decided to pay a few bucks to a Senator in New York to force the issue. We're no conspiracy theorists at *HW*, but nothing on Capitol Hill would surprise us right about now." (*HousingWire*, Paul Jackson, 07/03/08)
- During the third week of June, Stacey Farnen Bernards, a spokeswoman for House Majority Leader Steny H. Hoyer (D-MD), said it might be a good idea for the House Ethics Committee to look into the "financial missteps" of Representative Laura Richardson (D-CA), whose Sacramento home was lost to foreclosure with \$9,000 of unpaid property taxes. On top of that, Richardson defaulted on loans six times on two

other California homes and failed to pay an auto mechanic for hundreds of dollars of car repairs and later abandoned the car at another auto shop. Citizens for Responsibility and Ethics in Washington (CREW), a liberal watchdog group, filed a complaint, which resulted in Hoyer and Minority Leader John A. Boehner (R-AL) saying that Richardson's financial woes might merit an ethics inquiry. Bernards said, "Mr. Hoyer has always said the ethics committee should look at anything that's raised in the public sphere. That gives people the confidence that the House is policing itself." Hoyer's concerns, however, didn't deter him from attending a fundraiser the following week to help Richardson retire the \$330,000 of campaign debts that she owed on June 30th. CREW's executive director, Melanie Sloan, said, "I'd prefer to see a member file an ethics complaint against Richardson rather than help retire her campaign debt." (*Washington Post*, Jeffrey H. Birnbaum, 06/24/08)

Senate confirms Elizabeth Duke to serve on the Federal Reserve Board
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- On June 27th, the Senate confirmed one of President Bush's three nominees to the Federal Reserve Board—Elizabeth A. Duke, who was nominated in May 2007 to fill the remainder of a 14-year term that expires in 2012. The Democratic leadership refused, however, to consider the president's two remaining nominees to the board, arguing that each nominee would serve a term lasting far beyond that of President Bush's. Senate Majority Leader Harry Reid (D-NV) said, "In confirming Elizabeth A. Duke for a term through 2012, we are ensuring the Fed can function during these difficult economic times." (*Wall Street Journal*, Judith Burns, 06/24/08; *CQ Today*, Kathleen Hunter, 06/27/08)
- The Senate also approved three nominees to serve on the Securities and Exchange Committee, which included Democrats Luis Aguilar, an Atlanta lawyer, and Elisse Walter, a Financial Industry Regulatory Authority executive, and Republican Troy Paredes, a Washington University law professor. (*Bureau of National Affairs*, 06/30/08)
- The White House issued a statement saying that while President is pleased that the Senate had acted, he was eager to see additional nominees confirmed. "That still leaves 189 non-career nominees who are waiting for a fair up or down vote by the Senate, including two nominees to the Federal Reserve Board of Governors, three nominees to the Commodity Futures Trading Commission, four nominees for top leadership positions at the Department of Justice and four nominees for senior level positions at the Department of Defense," said White House spokeswoman Emily A. Lawrimore. "These important nominations are for vital positions affecting our economy and our national security."
- In a June 26th editorial, the *Washington Post* said it's time to end the battle over confirmations. *WaPo* wrote, "...[T]he years-long battle over appointments to jobs within the federal government continues as scores of men and women eager to serve have languished in confirmation limbo for months, if not years. This is no way to run

a government. ...Altogether, 394 nominees have waited a combined 52,122 days for confirmation. In all the bickering, it's easy to forget that there are real people behind the numbers. They've answered invasive questions about their families and their finances. They've put their lives on hold and have declined opportunities to take jobs and earn more money in the private sector to be in public service. They deserve to be told once and for all whether their service is needed." (*Washington Post*, 06/26/08)

Fannie Mae

Fannie Mae provides grant for a new mortgage program benefiting Massachusetts military veterans

- On July 2nd, Massachusetts Governor Deval Patrick announced the creation of “A Home for the Brave,” a new mortgage program that will offer safe, affordable home loans to Massachusetts veterans. The program will include mortgage insurance that will pay a veteran’s monthly mortgage payment for up to six months in the event he or she becomes unemployed or deployed on active duty. Closing cost assistance will be provided through a grant by Fannie Mae. (*Press Release from the Commonwealth of Massachusetts Executive Department, the Honorable Deval L. Patrick, 07/02/08*)

The gift that keeps on giving...

- In a July 3rd editorial about “meaningless [campaign] bloopers, the *Washington Post* wrote, “[Former chairman and CEO Jim Johnson] made a lot of money at Fannie Mae at a time when its accounting was messed up. As a wealthy person, he got a mortgage that may or may not have been more favorable than the mortgages available to other wealthy people. Mr. Obama handled the controversy clumsily. But, once more, this episode tells us nothing important about Mr. Obama. Mr. Johnson as Washington insider? Please. Mr. Obama sought the help of a Democrat who had experience vetting potential vice presidential running mates... This might sound awfully quaint. It may be pitifully naive. But would it be too much to ask for just a little more focus on what the candidates themselves have to say—and less on the surrogate bloopers du jour?” (*Washington Post, 07/02/08*)
- The *Washington Post* editors “are wrong,” writes Jim Geraghty in *National Review’s Campaign Spot*. “In just about every speech, Barack Obama denounces corporate CEOs who run their companies into trouble and then leave with enormous salaries and bonuses. Jim Johnson's tenure at Fannie Mae was exactly that. And no one in the Democratic Party has ever said so, or mentioned him in a speech as example of the problem. By donating to Democrats, by having close ties to powerful Democrats, by working for powerful Democrats, Jim Johnson has proven that you can be a bad manager, a vastly overpaid CEO, and you can buy absolution. (*National Review’s Campaign Spot, Jim Geraghty, 07/02/08*)

Freddie Mac

Freddie Mac's stock dips to 13-year low, as investors worry about the company's ability to raise fresh capital

- On July 3rd, Freddie Mac's stock closed at \$14.50, the lowest price for the shares since August 1995, amid broad weakness in the financial sector and concerns among investors about the company's ability to complete its planned \$5.5 billion capital raising after completion of its registration with the SEC. According to analysts, the longer Freddie Mac waits to complete its stock offering, the more shares it might have to issue and the more dilution existing shareholders might suffer. The company's shares have fallen 46.8% since May 14th, when Freddie announced its plans to raise additional capital. In an interview with *Bloomberg News*, Freddie spokeswoman Sharon McHale added, "We still feel the SEC process is going well and we believe we will make our mid-summer time frame. Given how close we are to releasing our earnings, it's unlikely we would do the capital raise prior to the release of our 2Q earnings," which are likely to be released during the first half of August.
- Concurrently, Wall Street analysts have begun to question the risks in Freddie Mac's mortgage portfolio. Noting Freddie Mac's rapid expansion of its retained mortgage portfolio and rising mortgage delinquencies in May, Moshe Orenbuch, an analyst at Credit Suisse Group, wrote in a June 26 research note: "We are becoming increasingly concerned about a series of risks at Freddie Mac."
- According to *Wall Street* reporter Peter Eaves, if Freddie Mac had issued \$2.75 billion in common stock at its May 14th price—assuming the balance was raised through preferred shares—then existing shareholders would have faced a 15% dilution. Approximately seven weeks later, the potential dilution for common shareholders now has swelled to 29%, based upon the July 3rd close (\$14.50).
- Eaves notes that the reason for the delay—registration with the SEC—may also prove irksome to shareholders, since it appears that Freddie hasn't got its books fully in order as part of its efforts to reregister the company's common shares. During the investors' telephone conference call on May 14th, Freddie Mac CEO Anthony Pizsel said the company's SEC registration would occur "very shortly" and Freddie's website said reregistration would be completed by June. Eaves speculates that the remaining seven "significant deficiencies" in Freddie Mac's financial reporting controls that have yet to be resolved may be an impediment to the SEC registration. Freddie Mac's spokeswoman said, "The SEC has not declined to register our stock," but declined to comment further on the delay in the registration process at the Commission. "One of the big lessons of the credit crunch is that weakened financial firms should issue stock as quickly as possible," concluded Eaves. "Even the credibility problem of most financials, investors should be expected to sell off shares

of companies that don't move quickly to fix problems.” (*Wall Street Journal*, Peter Eaves, 07/03/08; *Bloomberg News*, Dawn Kopecki, 07/03/08)

Freddie Mac ramps up its due diligence of mortgage loans

- Lax underwriting standards during the housing boom and resulting delinquencies have prompted Freddie Mac to more than triple its review of individual loans from pools it buys to improve the quality of its holdings, said Ronald Feigles, a director of conduit risk assessment at Freddie Mac. The company now reviews about half of the loans its purchases up from about 15% two years ago, he said. And, due diligence sample sizes are likely to continue growing particularly on riskier loans, he added. Greater due diligence efforts, coupled with higher fees, are examples of how Freddie and Fannie clamping down on what they buy in an effort to staunch losses. (*Reuters*, Al Yoon, 06/24/08)

Freddie Mac renews its alliance with the Credit Union National Association

- On June 24th, Freddie Mac announced that it had renewed its alliance agreement with the Credit Union National Association, designed to provide credit unions a comprehensive set of technological services, mortgage products, and correspondent lending. Through the alliance, credit unions will have continued access to a full range of correspondent mortgage lending services and competitive secondary market strategies without having to add staff or new computer systems, said Iliana Ghanem, Freddie Mac’s vice president for community lending. Wes Miller, vice president of CUNA Strategic Services, said, ““With the current economic climate, this renewed alliance ensures that credit unions will continue to have options to succeed in the mortgage lending market, including affordable lending solutions to meet the needs of low- to moderate-income borrowers.” (*Bureau of National Affairs*, Thecla Fabian, 06/25/08)

Federal Home Loan Banks

FHLBs announce second quarter dividends

- The FHLB-San Francisco projects a second quarter dividend of 6.06%, based upon the information available to date. The Bank plans to file its second quarter 10-Q on or about August 13th, at which time it will finalize its dividend rate in accordance with its Retained Earnings and Dividend policy. (*FHLB-San Francisco Press Release*, 06/27/08)

- The FHLB-Atlanta’s board of directors has approved an annualized dividend rate of 5.75% for the second quarter, applicable to capital stock held by members from April to June 29th, payable on July 1st. (*FHLB-Atlanta Press Release, 06/26/08*)

The FHLB-Des Moines announces repurchase of all excess membership stock

- On June 26th, the FHLB-Des Moines announced that it will repurchase all excess member stock held by its members and non-members on July 18th. (*FHLB-Des Moines Press Release, 06/26/08*)
- Separately, the Bank announced that it is working with its members to provide special relief to borrowers affected the devastating effects of flooding and other weather-related events in the Midwest. The Bank now authorizes all Participating Financial Institution Servicers (MPF Servicers) to suspend mortgage payments for three months—July, August, and September—for all borrowers who qualify for Individual Assistance and whose properties are located the Major Disaster Area as designated by FEMA. MPF Servicers are encouraged and authorized to (1) waive late fees for July, August, and September; (2) not file negative reports to credit rating agencies; (3) expedite the release of insurance proceeds to assist borrowers with repair efforts; and (4) suspend all collection and foreclosure proceedings during this three month period. (*FHLB-Des Moines Press Release, 07/01/08*)

FHLB-Indianapolis announces second round of funding of \$100 million for its HomeRetain Program

- Milton J. Miller, President & CEO of the FHLB- Indianapolis, has announced a second round of the bank’s \$100 million lending initiative, HomeRetain, to help the Bank’s members assist families facing foreclosure. The second round, like round one, will offer \$100 million split between the states of Indiana and Michigan that may be used to modify or refinance mortgages for primary residences in any state in which a member does business. Through HomeRetain, the Bank makes available funding to its member financial institutions at its cost of funds plus a small administrative markup. The financial institutions can then use those funds to help homeowners at risk of foreclosure to refinance their homes or modify their mortgages on more favorable terms. Mortgages financed with HomeRetain funds can be made to homeowners earning 115 percent or less of an area’s median income. Homeowners may not take any “cash out” of the modification or refinancing, and they must complete a homeowner counseling program. “It is important that the financial industry continue to work to develop realistic approaches to help families avoid foreclosure during this critical time,” said Miller. “HomeRetain is one new resource for our members.” (*FHLB-Indianapolis Press Release, 07/02/08*)

Ginnie Mae

Ginnie Mae ramps up its securitization of reverse mortgages

- On July 27, Financial Freedom, the reverse mortgage lending subsidiary of IndyMac Bancorp Inc., issued two fixed rate reverse mortgage transactions and one LIBOR transaction under Ginnie Mae's Home Equity Conversion Mortgage Mortgage-Backed Securities (HMBS) program. The \$177 million fixed rate issuances and the \$104 million LIBOR issuance are among the first MBS pools backed by FHA-insured fixed rate and LIBOR reverse mortgages. According to the agency's press release, the three pools pushed the Ginnie Mae HMBS program to \$648 million in issuance. "The fixed rate and LIBOR HMBS are important next steps in the evolution of a secondary market for reverse mortgages," said Michael J. Frenz, executive vice president of Ginnie Mae. "This will go a long way toward adding liquidity to the market and increasing the investor base for HECM products by providing another alternative to investors backed by the full faith and credit of the U.S. Government." (*HousingWire*, Amy McAlister, 06/27/08)

International Mortgage Market

UK's mortgage market is perilously close to total seize –creating the need for the creation of Gordon Mac, a GSE similar to Fannie and Freddie

- In a June 22nd article in *The Observer* [UK], William Hutton warned that Britain no longer has a "functioning mortgage and housing market" with house sales falling to nearly half the level of last year and home construction falling to its lowest level since 1945. With the British mortgage market "dangerously close" to a total seize, Hutton argues that a British version of Fannie Mae and Freddie Mac—Gordon Mac—must be created. Hutton wrote, "...We are looking disaster in the face. A British version of Fannie Mae and Freddie Mac must be created now. Legislation to create a Gordon Mac should be introduced before the summer recess. It should be operating by the end of September. Nor is this just an economic gambit. It will be opposed by the Conservatives as an 'anti-business' public intervention. They are wrong. The only way out of this crisis is to embrace the politics of public purpose rooted in the economics of Keynes. Mr. Brown has an opportunity to restore the housing market, the economy and his political fortunes. He must act." (*The Observer*, Will Hutton, 06/22/08)
- But, *Financial Times* 'Lex' Blog questions if the UK really needs a Fannie Mae: "...For the UK, setting up a similar agency would have attractions. Gummed-up commercial paper markets have blocked an important source of funding for mortgage

lending. That is causing house prices—against which current loan books are secured—to soften. While property prices are also falling in the US, Fannie and Freddie kept markets open in the darkest days of the credit crunch, taking over three-quarters of mortgages originated in the fourth quarter last year. And in order to help out struggling homeowners, the government has lowered Fannie and Freddie's capital requirement and allowed them to purchase larger mortgages. Yet despite the UK's current gloom, a depression-era solution is unnecessary for what is a severe but ultimately temporary problem. By next year, UK banks will have a stock of high quality mortgages on their books ready to securitize. Balance sheets are being rebuilt and the Bank of England's special liquidity scheme is freeing funds without creating excessive moral hazard. Furthermore, guaranteeing a 'Gordon Mac' would do unpleasant things to the government's already stretched finances. The housing market must be allowed to correct itself. There is no reason for policymakers to despair if 25-year-olds cannot buy a house without first saving for a deposit. (*Financial Times 'Lex' Blog*, 06/24/08)

Farm Credit System / Farmer Mac

President Bush nominates Dr. Mark Keenum to be director of FCA

- On July 2, President George W. Bush nominated Dr. Mark Keenum, U.S. Department of Agriculture undersecretary for farm and foreign services, to serve as a director for FCA. Keenum served as the USDA's point man for the implementation of the 2008 Farm Bill. Prior to joining the USDA, Keenum was chief of staff for Senator Thad Cochran (R-MS). (*Feedstuffs*, 07/02/08)

Are the Farm Credit System Insurance Corporation's proposed premiums adequate to meet its statutory reserve requirements?

- According to *Farm Credit Watch*, the 2008 Farm Bill authorized the Farm Credit System Insurance Corporation to raise its premium rates to boost the System's reserves, after FCSIC's fund balance target ratio fell to 1.682% at year-end 2007—below the statutory requirement of 2% of outstanding FCS debt. According to *Farm Credit Watch*, "...[D]espite the below-target FCSIC fund ratio and clear congressional intent, the FCSIC directors failed to boost FCSIC premiums to the 20 bps maximum so as to accelerate growth in the FCSIC fund ratio to its 2% target. Instead, the key FCSIC rate was set at 15 bps for the third quarter of this year and 18 bps for the fourth quarter. A financial model I have constructed shows that at an 18 bps premium rate, the FCSIC fund ratio would still be at 1.682% at the end of 2020 if FCS debt grew 15.8% annually. Given that FCS debt grew at a 27.5% annualized rate during the first quarter of 2008, the FCSIC must charge a higher premium rate to

reach the 2% target ratio. If the FCSIC holds its premium rate at 18 bps, the fund ratio would reach the required 2% level in 2020 only if FCS debt grew 13.1% annually, less than half the first-quarter growth rate. FCS debt growth would have to slow to 11.3% annually if the FCSIC fund ratio, at an 18 bps premium rate, is to reach 2% by the end of 2013. Congress needs to ask the FCSIC why it did not raise its premium rate to 20 bps given the current growth rate for FCS debt. Did the FCSIC respond inappropriately to FCS pressures to keep premium rates lower than they should be? Either Congress needs to authorize an even higher FCSIC premium rate or it needs to restrict the growth rate of FCS debt.” (*Bert Ely’s Farm Credit Watch*, Bert Ely, June 2008)

The Farm Credit Council’s cozy relationship with FCA

- In *Farm Credit Watch*, Bert Ely also examines the Farm Credit Council’s brief overview of its history, that the FCC presented at its 25th Annual Meeting in January, Ely wrote, “...The report demonstrated the FCS's view of its regulator, the FCA. In the first of two passages, the report stated that ‘in January 2000, a change in leadership at FCA brought a new set of challenges as the agency shifted from being supportive of change to being non-responsive to the rapidly changing agricultural and rural landscape.’ This statement is a slap at Reyna, who in his four-plus years as FCA Chairman, from 2000 to 2004, was perhaps the first true bank-like regulator the FCS has ever had. In the second passage, it was reported that by ‘May 2004 [when Pellett became FCA chairman], FCA's leadership had changed and the [FCA] ... took steps to modernize [its] interpretations of existing regulations.’ Translation: The FCA resumed giving the FCS what it wants even if Congress doesn't.” (*Bert Ely’s Farm Credit Watch*, Bert Ely, June 2008)

Ethanol is not to blame for sky-rocketing commodity costs, argues the Farm Credit Council

- To “set the record straight,” the Farm Credit Council has prepared a fact sheet on the correlation of crop prices and grocery prices –and the impact of ethanol demand, which FCC has been “greatly exaggerated.” FCC argues that other factors, including higher energy, packaging and labor costs, have had a greater impact on food prices than “what comes from the farm.” FCC wrote, “Corn prices have risen due in part to increased ethanol demand, but the correlation between crop prices and grocery prices has been grossly exaggerated by those with much to gain by limiting ethanol's growth. U.S. farm prices have less of an effect on world food prices and supplies than do factors such as drought, population growth, growing protein demand in developing countries, war, and transportation costs.” According to the FCC, higher corn prices pass through to retail prices at a rate less than 10% of the corn price change. Moreover, FCC claims that the growth in ethanol production has caused retail gas prices “to be \$0.29 to \$0.40 per gallon lower than would otherwise have

been the case,” according to Iowa State’s Center for Agriculture and Rural Development. (<http://www.fccouncil.com/Default.aspx?pageid=8>)

- According to *The Guardian* [UK], a confidential report by the World Bank concludes that biofuels have forced global food prices up by 75%--far more than the U.S. government’s claims that plant-derived fuels contribute less than 3% to food-price rises. The World Bank estimates that rising food prices have pushed 100 million people worldwide below the poverty line, marking the “first real economic crisis of globalization” says government ministers. According to the WB report, “Without the increase in biofuels, global wheat and maize stocks would not have declined appreciably and price increases due to other factors would have been moderate.” From 2002 to February 2008, the study’s basket of food prices rose 140%. The study attributed 75% of the increase to biofuels, while only 15% of the increase was attributable to higher energy and fertilizer prices. “It is clear that some biofuels have huge impacts on food prices,” said Dr David King, the UK’s former chief scientific adviser. “All we are doing by supporting these is subsidizing higher food prices, while doing nothing to tackle climate change.” (*The Guardian*, Aditya Chakraborty, 07/04/08)
- However, Wall Street analysts view the highly volatile commodities market as the “perfect storm,” in which a “once in a lifetime” confluence of market and climate forces have led to the “present global economic tsunami” akin to last summer’s subprime mortgage crisis. “There is structural change in the supply-demand equation, which has long-term implications,” said Greg Wagner, a senior commodities analyst with Ag Resource Company. David Hale, a well known economist and advisor to the Commonwealth Bank, calls it “an unprecedented structural change in global demand.” Recent floods in Iowa have resulted in the loss of between 1 million and 5 million acres of farm crops –largely corn—which sent corn future prices to soaring to nearly \$8 a bushel based on supply concerns, which in turn will drive meat and dairy costs up further because corn is used to feed livestock. “As corn goes higher there will start to be a dramatic price movement in livestock [prices],” said Wagner. “My observation is that is in fact a very, very big mess—you could see the food consumer price index jumping close to double digits. It’s a very big issue and will cause major dislocation into 2009 and beyond. We’re going to be in a period of extended food inflation which this country has not seen in a very long time.” Higher corn prices are pushing gasoline prices up further with ethanol future prices increasing nearly 20% after the Iowa floods occurred. (*Reuters*, 06/23/08)

FCA names William J. Hoffman to serve as COO
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- The Farm Credit Administration has named William J. Hoffman to serve as its Chief Operating, effective July 6. Most recently, Hoffman served the FCA’s executive assistant to former chairman and CEO Nancy C. Pellett. Previously, he served as the Associate Director for Examination and Supervision in the Office of Secondary Market Oversight, which oversees the Federal Agricultural Mortgage Corporation.

“Bill brings a wealth of experience to the position, both with the Agency and the Farm Credit System (FCS), including 25 years of management experience,” said FCA Chairman and CEO Leland A. Strom. “I especially value Bill’s skills and solid proven experience as CEO of an FCS association and vice president of risk assets at a Farm Credit bank, which will serve me and the Agency well as we face a more challenging and volatile agricultural environment.” (*Farm Credit Administration Press Release, 07/04/08*)

Postal Service

Proposal to study the elimination of Saturday mail delivery gains ground

- On June 25th, the House Appropriations Committee unanimously approved an amendment offered by Representative Jack Kingston (R-GA) that would require the USPS to study the cost effectiveness and impact on the agency’s fuel consumption for a five-day delivery system and consumer demand of Saturday postal delivery. “I’ve been trying to get the postal service to end Saturday delivery for years,” said Kingston. “It’s a perfect example of government waste that is driving up the price at the pump. I can’t think of the last time I got anything but a bill in the mail and, frankly, those can wait until Monday. Now my kids get all of their bills by email. What other way can the government immediately save 20.8 million gallons of gas thereby reducing consumption and gas prices?” According to the Postal Service’s website, the agency uses 121 million gallons of gas each year—or approximately 400,000 gallons per day. Through the elimination of Saturday mail delivery, the USPS would conserve 20.8 million gallons with an estimated cost savings of \$84.7 million. “This is just one way to bring down the cost of fuel,” said Kingston. “While some oppose this idea, this study will at least give us hard numbers on which we can make an informed decision.” (*Press Release from Representative Jack Kingston, 06/25/08*)

Postal Service is at the crossroads now

- At the American Catalog Mailers Association’s National Catalog Advocacy & Strategy Forum, Postal Regulatory Commissioner Dan Bair said, “We [at the USPS] are at a crossroads right now with volume. ...Five day delivery is being considered as the USPS struggles to break even or make a profit. For some mailers, predictability and reliability is essential. “When asked if realigning the USPS’s 37,000 postal offices is doable, Bair responded, “At the heart, its’ a political issue. No Congressman wants to see a post office close in his or her district.”(*Multichannel Merchant, Jim Tieney, 06/27/08*)

- At this Forum, Postmaster General John Potter told attendees, “Quite frankly, you got hammered [by last year’s rate increase by the USPS, along with rising paper and fuel costs]. I want you to be aggressive with us to get us to do what we need to do to help you and your business to succeed.” In response to questions about the possibility of a special “prospecting” rate for catalogers, Potter admitted that there needs to be incentives to encourage mailers to enter new markets in order to grow business. “Part of that incentive should be a rate that enables that,” he said. The rate would have to be realistic, short lived, and have the ability to generate more mail going forward on a long-term basis, he added. He also suggested that the rate be on a seasonal basis. Overall, Potter said that the USPS needs to take on more risks with pricing. The Postmaster General also warned about the threat of do-not-mail legislation and the need for consumers to be informed about the value of mail and what impact such legislation might have, if it were to pass. “I think a big part of the problem is that we as an industry have not spoken with any voice on the environment,” said Potter. When mailers use environmentally friendly paper, he urged the companies to tell their customers. “When you make those changes, you don’t talk about it,” he said. “Get in the game.” (*DMNews.com*, Ellen Keohane, 06/30/08)
- According to the *Wall Street Journal*, fewer catalogues are in consumers’ mailboxes, as merchants seek ways to cut mailing costs in the face of higher paper and postal costs and sluggish consumer spending. During the quarter ended March 31st, the Postal Service’s “standard” mail volume, which includes catalogs, declined 3% from a year earlier to 24.53 billion pieces, marking the fourth quarterly decline in this category following years of growth. (*Wall Street Journal*, Jennifer Saranow, 06/24/08)

USPS submits its Network Plan to Congress

- In accordance with the requirements of the Postal Accountability and Enhancement Act, the USPS has submitted to Congress its Network Plan, describing planned changes to the agency’s mail processing, transportation, and retail network to streamline agency operations. The changes will create two “focal points” for the USPS—one to deal with shipping and mailing services and the other to work with customers and others (Customer Relations).
- The USPS has hired Robert F. Bernstock as president of the newly created Shipping and Mailing Services Division, responsible for approximately \$70 billion in annual business for the agency. Previously, Bernstock was president and CEO of Scotts Miracle-Gro Co., CVP and general manager of Dial Corp., president of Atlas Commerce, and EVP of Campbell Soup Co. Postmaster General John Potter said Bernstock “is not shackled with a mail background” and brings to the agency an outside business perspective. David Shoenfeld, previously SVP of worldwide marketing for Federal Express, will serve as SVP for mailing services. The Customer Relations division, which will handle retail and business customers, along with external and internal communications and pricing, will be headed by Stephen

Kearney, a 28-year veteran of the USPS. Most recently, Kearney served as vice president for pricing and classification.

- The Postal Service’s Network Plan also addresses the agency’s performance goals, which include the establishment of baseline performance targets for various market-dominant products, and also lists a number of initiatives designed to improve the consistency of internal mail flow management practices. The agency’s proposed changes to its infrastructure and workforce, include the continued closure of “redundant” postal airport mail centers and changes in air mail transportation operations. The Plan also outlines places where nearby mail processing operations could be consolidated and details the “transformation” of the USPS’s national network of 21 bulk mail centers into “state-of-the-art processing facilities.” The proposed institutional changes “will involve numerous site-specific employee impact determinations which cannot be quantified until the changes proposed for the particular facilities have been identified and thoroughly analyzed.”
- The Plan also outlines alternative retail options. According to the Plan, “Whether through traditional bricks-and-mortar post office locations, other retail locations, or online, the postal service will continue to actively promote increased customer use of efficient and easy-to-use retail access channels.” (*DMNews.com*, Ellen Keohane, 06/23/08; *Associated Press*, Randolph E. Schmid, 06/30/08)
- In an update to union members, APWU president William Burrus wrote, “Although [the Plan’s] details are scarce, if implemented, the proposed changes would adversely affect APWU-represented employees and disrupt mail service to the American public. We have reviewed the document and note that many of the areas targeted for change are governed by the Collective Bargaining Agreement and will require monitoring by the union to ensure compliance. Regrettably, postal management has developed a business plan that relies almost exclusively on reducing work hours as a means of remaining financially solvent. Year after year budgets are established that call for reductions in the number of employees, the consolidation of facilities, and other cost-cutting measures. This is a failed strategy and it cannot sustain America’s mail service. However, if management intends to continue down the road of employee reductions and contracting postal activities, we shall insist that every change be made consistent with our Collective Bargaining Agreement. We shall also engage the American public so that they are aware of intended changes that would erode mail services.” (*APWU Burrus Update #07-08*, William Burrus, 06/26/08)

The mailing industry generates over a \$1 trillion in revenue and creates 8.3 million jobs
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- According to a new study by EMA Foundation for Paper-Based Communication, the mailing and delivery industry employs approximately 8.3 million and generates over \$1 trillion in revenue associated with the mailing industry. According to the study, “The industry also creates jobs through the purchases of the businesses that employ these 8.3 million workers as well as the personal purchases of these employees. An

examination of Department of Commerce economic impact factors for the printing, advertising, Postal Service, and paper industries suggest that mailing industry businesses and employees together generate at least an additional 3.2 million jobs in the economy. The full study, along with a breakdown of jobs by state and Congressional district, are available at the Foundation's website: www.emafoundation.org.

- “We are excited to release this report because it shows how important the mailing industry is to the US economy. With Do-Not-Mail legislation being introduced on the state level, we hope this study will educate those legislators on the importance our industry is to their state,” said Cheryl Chapman, chairman of the EMA Foundation’s Institute for Postal Studies. (*EMA Foundation’s 2008 Economic Job Study Final Report, EMA Foundation for Paper-Based Communication, June 2008; EMA Foundation Press for Paper-Based Communication Press Release, 06/17/08*)

TVA

2008 presidential election may “turn” on energy

- In the same week that Senator John McCain (R-AZ) announced his energy policy, which proposes the construction of 45 nuclear power plants to increase the country’s nuclear production more than 40% and pledges \$2 billion toward the development of “clean coal” technology, S. David Freeman, the former TVA chairman, ripped the utility’s plans to build new nuclear reactors, arguing that the new plants will overburden the utility with debt. In the late 1970s and early 1980s, Freeman [age 82] oversaw the cancellation of eight of TVA’s planned nuclear reactors. In contrast, Senator Barack Obama (D-IL) proposes a “windfall tax” on oil companies’ profits and a federal investment of \$150 billion over 10 years in renewable and green energy.
- In a June 22nd Letter to the Editor in *The Tennessean* (Nashville, TN), Joe Clem wrote, “David Freeman exclaims, ‘How in the name of heaven could the Tennessee Valley Authority not remember how it got clobbered by this nuclear option financially?’ (*Ex-TVA official criticizes agency’s nuclear plans, June 13*). Yes, some of us remember quite well how Jimmy Carter placed nails in the coffin of our nuclear option by abandoning nuclear power when he was president in the late ’70s, and then David Freeman as TVA board chairman took the initiative to cancel [8] TVA nuclear plants in the ’80s, thus placing TVA \$25 billion in debt. If David Freeman ever looks in the mirror these days, he would see the person most responsible for clobbering TVA financially. Completing these ...nuclear plants would have allowed TVA to retire a considerable number of their fossil coal plants, which would have contributed greatly to his so-called ‘green’ concerns, and thusly made the Tennessee Valley region the envy of the rest of the country in economic electric power production. If anyone has ears to hear what David Freeman is saying, they will hear someone who is

now vehemently anti-nuke, and should have never been in charge of the TVA board in the first place. He would be a great running mate for Obama because he stands for everything the Democrats stand for — no nukes, no drilling and just conserve our way out of the energy crisis we are in.” (*Wall Street Journal*, Michael Totty, 06/30/08; *Gadsten Times* [AL], 06/21/08; *The Tennessean*, Joe Clem, 06/22/08)

TVA expands its energy conservation program

- TVA has hired Boston-based energy supplier EnerNOC to run its “demand response” conservation program, in which commercial customers are paid by the utility, based upon their energy curtailment. The program is being expanded following a test of the program last summer with 20 small companies. TVA’s demand response program is now being expanded to customers of distributors in Nashville, Memphis, Knoxville, and Huntsville, AL. The program is seeking companies willing to accept power outages of up to eight hours at a time on a 30-minute notice for a total of 40 to 80 hours of outages during the June 1st-September 1st period. Participating companies will be paid to be on-call and for actual energy savings during the outages with a 1-megawatt commitment earning the company \$18,000 to \$40,000 a year.
- Joe Hoagland, TVA’s Vice President Energy Efficiency/Demand Response, said the demand response program fits with the agency’s new energy-efficiency and conservation initiative aimed at saving 1,400 megawatts by 2012 (roughly one new nuclear reactor), while also reducing the \$1 billion that TVA spends annually to buy extra power from outside suppliers to meet peak needs. “I think it is an area where there is a lot of low-hanging fruit,” said Hoagland.
- In a June 27th editorial, *Times Daily* [Florence, AL] wrote, “...We see this [demand response] program as a move in the right direction for TVA. Obviously, TVA still will need to construct additional power plants but is hopeful it can head off construction of new plants strictly for peak demand during a few days of the summer.” (*TimesDaily.com*, 06/27/08; *Associated Press*, Duncan Mansfield, 06/24/08)

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