



Weekly Update

Public Policy Network
FHLBank Pittsburgh

Policy Update March 1, 2010

If this Policy Update began with the prediction that a broad financial reform bill would be released by Senate Banking Committee Chairman Chris Dodd (D-CT) this week, the reader would be entitled to wonder if he or she was experiencing déjà vu. Needless to say, a draft bill is being developed but a bipartisan agreement remains elusive. A bill this week? No predictions this time.

Amidst the release of more grim financials from Fannie Mae and Freddie Mac, the issue of putting these GSEs on budget heated up with the introduction of legislation by House Republicans to do just that. The Administration is resisting this move. The issue will be debated this week when the House Financial Services Committee votes on recommendations to the House Budget Committee for the FY 2011 Budget Resolution.

The intensity of the debate over budget treatment of Fannie and Freddie demonstrates the high political stakes of this \$5 trillion question, but also underscores how budget considerations will have a major impact on GSE reform debates.

Legislation to make permanent the ability of FHLBanks to provide letters of credit on non-housing tax-exempt bonds will be introduced in the House in the near future.

GSE Reform Update

GSE reform is a multi-year journey that is slow to get out of the blocks. Treasury Secretary Tim Geithner said in an appearance before the House Budget Committee that the Administration will not release GSE reform proposals until 2011. Secretary Geithner did promise "broad objectives and principles" regarding GSE reform this year to stimulate comment, but this will fall short of promised specific proposals.

Financial Services Committee Chairman Barney Frank (D-MA) announced a hearing on the future of housing finance on March 23 and stated he expects the Administration's outline for the future of housing finance at the hearing, and that it will "not be acceptable to not be prepared". At a hearing on executive compensation, Ranking Member Spencer Bachus (R-AL) asked Acting FHFA Director Ed DeMarco if reform could wait until 2011. DeMarco stated he appreciates the difficulty in the task but the time is now to ask the questions, and the FHFA stands ready to work through them.

Federal Reserve Chairman Bernanke weighed in on the issue during hearings in the House and Senate. When asked by Congressman Mike Castle (R-DE) if Fannie Mae and Freddie Mac should be changed, Chairman Bernanke urged caution in returning the two enterprises to a model of private shareholders with a public objective, suggesting instead a utility model or privatization. Chairman Bernanke suggested that changes could wait until next year but establishing an ultimate objective now could help guide work on reform. Asked a similar question in the Senate, Bernanke referred to their model as a “platypus,” and that privatization is an “interesting direction to go.”

FDIC Releases the Quarterly Banking Profile (QBP)

On February 23, the FDIC released the fourth quarter QBP with data on the deposit insurance fund and the banking industry. The following excerpts are of interest:

- The profit reported by the industry (\$914 million) essentially represented break-even performance, but it contrasted sharply with the record quarterly loss posted in the fourth quarter of 2008 (\$37.8 billion).
- In 2009, only 31 new charters were added, the smallest annual total since 1942. 140 insured institutions failed - the largest number since 1992.
- The number and assets of “problem” institutions are at the highest level since June 30, 1993.
- Institutions increased their reliance on deposit funding. Even as assets were declining, total deposits increased by \$125.7 billion, rising from 68.7 percent of assets to 70.4 percent, the highest level since March 31, 1996.
- Non-deposit liabilities fell by \$268.1 billion.
- FHLBank advances as a percentage of assets declined from 5.8 percent to 4.1 percent, the smallest percentage on record (2001 to present).

FHFA Acting Director DeMarco Testifies on Fannie/Freddie Compensation

Acting Director DeMarco testified on February 25 at a hearing of the Financial Services Committee on compensation at Fannie Mae and Freddie Mac. Of note in his testimony was the statement, “We have also taken advantage of new [HERA] authorities in a limited number of cases involving the hiring or departure of Federal Home Loan Bank (FHLBank) executives, and we have issued a new proposed rule broadly implementing our responsibility to prohibit excessive compensation at both the Enterprises and the FHLBanks. We expect to issue a final rule in the next few months. We have not had occasion to use new authority to withhold compensation or to recapture previous payments under some circumstances, but we may find them valuable in the future.”

Another perspective on compensation at Fannie and Freddie can be found in Fannie Mae’s most recent 10K: “Since August 2008, we have had a total of three Chief Executive Officers, three Chief Financial Officers, three Chief Risk Officers, two General Counsels and an interim General Counsel, two Executive Vice Presidents leading our Single Family business, two Executive Vice Presidents leading our Capital Markets group, and two Chief Technology Officers, as well as significant departures by various other members of senior management... further turnover in key management positions

could harm our ability to manage our business effectively and ultimately adversely affect our financial performance.”

Ted Tozer Sworn In as GNMA President

Ted Tozer, former Nat City executive and active participant in the MPF® program, was sworn in on February 24 as the President of GNMA.