



By Pat Cutler

The Sting

Attracted to sweet tea, coca-cola, and sour mash whiskey, yellow jackets can be found at fall sporting events and picnics throughout the South. Yellow jackets typically build nests underground, concealed by leaves, pine straw or other ground covering. Known for their aggressive behavior, they are ferocious in defense of their nests. Running and squealing only attracts more of them. When a yellow jacket is hurt, it releases an alarm pheromone that alerts other yellow jackets, which will come to the rescue.

During a recent conversation with my mother, she mentioned that she needed four bales of pine straw to mulch her flower beds. I told her that it was available at Lowe's for five dollars a bundle. Mom does not like to pay for anything if she can find a way to get it for free. She quickly decided to acquire pine straw from my uncle, who has a yard full of pine trees.

Mom and her 80 year old friend, Maxine, showed up unannounced at my uncle's house and told him they were collecting pine straw. My uncle was late for a meeting, but told them to help themselves. To speed things along, they gathered pine straw he had recently raked from his yard and placed in his flower beds. Mom held the leaf bag while Maxine removed the straw from the beds and stuffed it in the bags.

They had almost filled the last bag when Maxine stabbed a yellow jacket nest with her pitchfork. Angry yellow jackets immediately poured out. My mother stood her ground. Maxine ran, frantically swatting the black and yellow dive bombers. Mom survived the attack unscathed, but Maxine was stung eight times and suffered a severe allergic reaction. After loading the straw in her car, Mom drove Maxine to the emergency room. She paid \$250 for Maxine's treatment and spent the next three days nursing her back to health. She still hasn't acknowledged that she would have been better off going to Lowe's for the pine straw.

The Perfect Swarm

Since they don't die after stinging, yellow jackets can sting over and over again. The same can be said of the Tea Party, which is stinging every tenured Democrat and moderate Republican in sight. Followers oppose big government, high taxes, large deficits and government controlled health care. Corporate bailouts, stimulus spending and Obamacare stuck a shovel in their nest.

The Tea Party in particular and Americans in general are put out with the current state of the Union. While most people believe something needed to be done about health care, almost no one is happy with Obamacare. Most everyone also believes additional regulations and increased capital requirements are necessary to prevent a financial Armageddon. A regulatory reform bill known as Dodd-Franks was passed in July. At a length of approximately 2,300 pages, one might assume the bill contains detailed rules on the reforms imposed on the financial services industry. That assumption is wrong.

Next up, an auditorium full of academics, statisticians and career government employees will gather to write hundreds of pages of new financial regulations to fill in the blanks on Dodd-Franks. Did we need health care and regulatory reform? Yes we did. Should we have spent the last 18 months passing this legislation while Rome burned? No, we should have focused on the economy first. Our government has failed to provide the leadership required to grow the economy and provide jobs. The administration continues to vilify business leaders, the very people who will lead us to an economic recovery. Right or wrong, the politicians in charge will be held accountable. Regardless of one's opinion of the Tea Party, it could be the swarm that sinks the Democrats' boat in November.

If things go as expected, the Republicans will take charge of the House and make gains in the Senate. Will Obama tack to the right as Clinton did following the Republican takeover of 1994, or choose to swat Republican yellow jackets for the next two years? Clinton's move to the middle cemented his legacy as a good president and perhaps the best politician to ever occupy the Oval Office. Obama's choice could determine whether he is remembered as the president of hope and change or ends up stung to death.

Fannie and Freddie in Critical Condition Following Stinging Attacks

Fannie Mae and Freddie Mac continue to be chased and stung by talking heads, politicians and other bureaucrats, who believe the time has come to end government involvement in the housing markets.

Many are the same people who either directly or indirectly played a role in the current debacle. Like yellow jackets, which aggressively defend their nests if disturbed, they are attacking Fannie and Freddie with a vengeance.

For forty years, Fannie Mae and Freddie Mac have enabled Americans to obtain 30-year mortgage financing at below private market interest rates. Fannie and Freddie products and guidelines are the standard for the mortgage industry in the United States. Along with Ginnie Mae, they are the foundation of the most liquid secondary market for mortgages in the world.

Fannie Mae and Freddie Mac give structure and stability to the mortgage market. The government guarantee to make investors whole in the event of default ensures stable interest rates for housing. This is especially critical today, when the overall housing market is anything but stable.

Near term, it is unrealistic to expect the private market to offer the solutions needed to stabilize the housing market. Investors, faced with the prospect of buying mortgages backed by something other than a government agency guarantee, will require higher down payments and impeccable credit. They will demand rates substantially higher than those currently available using a Fannie or Freddie execution. Tougher underwriting standards and higher rates are not the change we are hoping for.

The agencies should be reshaped and given a new mission. A different fee structure could be instituted to adequately compensate the government for the risks Fannie and Freddie are taking. If these risks are priced appropriately, there is time to make good decisions regarding government involvement in the housing market. Restructuring is ok, administering last rites is not. The government should not withdraw its guarantee for loans backed by Fannie Mae and Freddie Mac. Now is not the time to give up on the best chance we have for realizing a housing recovery.

Trick or Treat

Repurchase goblins, foreclosure witches and ghosts of loans past haunt the cubbies and offices of banks and mortgage companies everywhere. Fear has descended upon the mortgage industry. Prepare now. Don't wait until regulators, investors and warehouse lenders show up on your door step and yell, "Trick or Treat?"

- 1) **Evaluate Policies, Procedures and Processes.** Ensure they are up to date and being adhered to.
- 2) **Conduct a review of current investors.** Y-t-d volume, financials, scorecards, funding times, delivery penalties and follow up documentation outstanding should be included in the review.
- 3) **Establish methodology for approving investors.** Written guidelines for approving investors should be established. A committee such as ALCO should approve and periodically review all mortgage investors.
- 4) **Evaluate the benefits of Mandatory or Assignment of Trade execution.** Turmoil in the mortgage markets puts additional pressure on aggregators to increase their profit margins and tighten guidelines on their best efforts programs.
- 5) **Retained versus released servicing executions should be reviewed and your current execution validated.** Costs associated with pending and potential litigation, along with delays in processing foreclosures, could negatively impact already depressed servicing values.
- 6) **Establish a compliance plan.** Additional regulatory and investor scrutiny will require additional compliance resources. Cross training or outsourcing may be an option.

To lead is difficult when you're a follower of fear. ~T.A. Sachs

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