

IN THE NEWS

Fannie Mae Under Fire

A regulator's report of "cookie jar" accounting sparks hearings and a criminal probe

Fannie Mae, the federally created financial corporation that serves as a major market maker for home mortgages, is facing a barrage of regulatory scrutiny, a criminal investigation, and Congressional hearings in the wake of a harshly critical report from a watchdog agency charged with keeping an

eye on the lending giant's practices.

A September report by the Office of Federal Housing Enterprise Oversight took Fannie Mae to task for in essence cooking the books to make the company's financial performance look better. The report alleges that Fannie Mae's management team set aside a "cookie jar" cash fund and used it to keep reported income up during actual down periods, smoothing out the company's earnings reports from quarter to quarter so that short-term trends would not spook investors into

pulling out of Fannie Mae stock.

The "cookie jar" allegation might trigger criminal charges because of a conflict of interest: By boosting reported earnings, executives may have not only suckered investors, but also inflated the value of their own stock options and even earned themselves higher cash bonuses. Equally serious is a charge that Fannie Mae accountants deferred the write-off of certain operating expenses to a later accounting period to improve the

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New Structural System Weathers Charley's Wrath

On August 6, home builder Brian Bishop put the finishing touches on three affordable homes in Port Charlotte, Fla., and turned them over to the owners. He had built the homes using an innovative new structural system designed to resist high winds better than standard framing. A week later, the system got its first real-world test. Hurricane Charley blew through the state, leveling or damaging 30,000 homes. The eye wall passed through Port Charlotte, but Bishop's homes emerged unscathed. Two of the homes remained completely intact, and the third was only slightly damaged when a palm tree landed on the roof. "It was a

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The workers setting a roof panel in place on this Florida home (left) are using a new structural system designed to withstand high winds. The houses built with the system — including the one above — rode out last August's Hurricane Charley with barely a scratch.



PHOTOS COURTESY HOME FRONT

New Structural System

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minor leak," says Bishop. "It was quickly patched."

Stronger SIPs. Most new Florida homes use wood trusses tied to block or wood-framed walls with steel strapping. In a wood frame, additional straps tie the pieces of the frame to one another and to the foundation. Bishop's homes used none of these techniques. His company, Home Front in Venice, Fla., offers an alternative to wood-frame and concrete-block construction: a panelized home system with reinforced concrete and steel structural insulated panels (SIPs).

The panels are standard SIPs, but the wall panels replace the oriented strand board facings with fiber-cement board, and the roof panels with aluminum. This gives the home resistance against flying debris. To withstand the high pressures caused by hurricane-force winds, the builder assembles the panels around a welded steel frame. The frame consists of a steel ridge beam that runs the length of the house and steel columns sunk into the home's concrete slab.

Dade County test. Bishop engineered the system to meet

the wind-load requirements for Dade County, which are the strictest in the nation. To pass, he had to build a complete house in a wind tunnel at a Miami testing center, where it endured 9,000 cycles of winds of up to 200 mph, then was hit with three pieces of 2x4 lumber shot out of a cannon at 39 mph. Because the house was tested as a system, it must be built as one; builders can't choose bits and pieces of it and still meet code.

The homes are comparable in cost to a concrete-block house, but dry-in takes days rather than weeks. Bishop says that the walls' R-20 insulation translates to a \$50-per-month summer air conditioning bill. And the absence of wood framing eliminates termite worries.

Bishop is offering the system to builders in Florida and elsewhere. He says that about 50 homes have been built using his system in the last three years, some by Home Front and some by others. But after a particularly bad hurricane season, builders are taking a closer look. Before Charley, "we were on track to build 100 homes," says Bishop. But by early September orders were pouring in.

"Now," he says, "because of the storm, we have hundreds more." — *Charles Wardell*

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company's financial report, with the same possible motive of personal financial gain.

Trouble for builders? Any instability in Fannie Mae is a potential worry for the home building industry: Fannie Mae looms large in the world of home sales. The nation's second largest financial company (only Citicorp is larger), Fannie Mae purchases around half of all the conventional mortgages issued in the U.S., repackaging them into large bond issues and selling the bonds to investors of all stripes.

The bonds are popular with fund managers because they add stable earnings to an investment portfolio. But it's home builders and homeowners who reap the direct benefits from Fannie Mae's activities: As a ready buyer for home mortgage loans, Fannie Mae keeps the mortgage banking

industry stoked with cash, stimulating a strong flow of mortgage lending that has kept home buyers buying and builders building, even as other industries have in recent years flagged.

Big builders who finance their own sales rely heavily on Fannie Mae. Many large builders earn more from the mortgage lending side of their businesses than they do from the home-building side. After earning origination fees on each loan they issue, they can immediately roll the loans over to Fannie Mae for another profit, and at the same time step away from the risk of a homeowner default. Meanwhile, by bundling the loans into large, diverse packages, Fannie Mae cuts the risk to the bond investors whose cash is floating the whole arrangement, and spreads that reduced risk over a wider pool of lenders.

A hiccup or a choke? Fannie Mae's stock has already dropped sharply in reaction to the allegations. If the com-

pany is forced to restate its earnings, the stock could continue to fall, and Fannie Mae has already promised regulators that it will increase its capitalization with further bond issues, storing up cash in case the worth of its mortgage-loan holdings weakens. All these factors could translate into higher mortgage rates for home buyers, and a cooling of the home building market.

But the company's underlying mission — bundling home mortgages into bonds to spread risk and support homeownership — remains a strong one. With population growing, productivity rising, and land, labor, and materials still scarce, demand for homes continues to outstrip supply, and homes continue to be a strong personal investment. That ride is far from over, say analysts, and most see little reason to fear that stricter accounting at Fannie Mae will amount to more than a brief speed bump. — *Ted Cushman*

Texas Tackles Workers' Comp Crisis

A state "Sunset Commission" advisory panel assembled to troubleshoot the Texas workers' comp system is recommending "drastic changes," including the abolition of the Texas Workers' Compensation Commission (TWCC). Doctors, employers, insurance companies, and injured workers have all been complaining about the Texas system for years; state representative Burt Solomons, the panel chairman, sums it up: "Nobody likes it."

Doctors certainly don't. A recent survey by the Texas Medical Association (TMA) found that fewer than a quarter of Texas doctors accept workers' comp patients. San Antonio neurologist Richard Senelick told the *San Antonio Express-News*, "The entire system needs to be blown up. Most of us have withdrawn from it because it is so unfair." Every treatment chosen or bill submitted takes a special phone call, and it takes an average of two months to get a treatment plan approved — and five months to resolve disagreements or billing disputes.

Nevertheless, Texas pays more per comp claim than any other state — while covering fewer treatments than most. It's a truism in the insurance industry that slow processing makes cases more costly and outcomes worse. Texas is the poster child for that problem, according to panel chairman Solomons: A quarter of all Texans hurt on the job do not return to full employment. Time out of work averages 21 weeks per injury, and physical recovery is reported to be 75 percent lower than in other states.

Meanwhile, the high cost of comp creates an economic

drag for the state. It's not just the comp premiums: Texas is the only state in the U.S. where employers can opt not to carry comp insurance at all. But if they don't, they're exposed to ordinary liability lawsuits from injured workers, which aren't allowed in states where comp is mandatory. So Texas employers who opt not to carry comp are bidding up the cost of general liability insurance instead — for themselves and for everyone else in Texas.

To clean up the mess, the Sunset Commission recommended completely abolishing the TWCC and giving its functions to the Texas Department of Insurance (TDI), where a special customer-service division would be set up to speed cases to resolution.

The TMA's Dr. David Henkes told reporters that "it only makes sense" to put the comp process in the hands of TDI, which is familiar with claims handling. But Mike Hachtman, the TWCC's current chairman, disagreed, saying that the TDI is not set up to administer disputes over medical issues.

Hachtman said scrapping the TWCC would be "like replacing the crew of the Titanic but not changing course. The Texas workers' compensation system is still headed for disaster."

But with the AFL-CIO, the Texas Association of Business, and the TMA all backing the plan, Hachtman is bucking heavy political odds — and his agency will be lucky to survive the next session of the Texas legislature. — *T.C.*

OFFCUTS

OSHA has launched a Web site containing information and tips related to the safety and health of residential construction workers. Created with input from the NAHB, the Residential Construction Safety and Health site (www.osha.gov/SLTC/residential/) features information about OSHA standards that apply to residential construction, hazards unique to the industry, and available solutions.

The NAHB Research Center has posted an updated version of the "Builder's Guide to Frost Protected Shallow Foundations" on its Web site. The manual examines the applications and limitations of FPSFs, and includes information on design methods and recommended construction techniques and details, such as how to use FPSFs for home additions and walkout basements. The new version also contains detailed drawings showing insulation details. Tables include a simplified comparison of the FPSF design requirement and the energy-code design requirement, and ways of calculating the design of an FPSF in different climates. To download the guide, go to www.toolbase.org/fpsf.



Florida Requires Ring-Shank Nails for Hurricane-Zone Roof Sheathing

The 2004 edition of Florida's building code has a new nailing requirement for residential pitched roofs: All sheathing must be nailed with ring-shank 8d nails at 6 inches o.c.

The requirement grows out of research conducted by Ricardo Alvarez, a professor at Florida International University's International Hurricane Center, and his colleagues as part of Florida's "Hurricane Loss Reduction Program." The program has paid for extensive study of construction techniques and their effect on building durability in high-wind events. After testing the holding ability of ring-shank nails, Alvarez and his team concluded that using the modified nails would provide a major upgrade in strength for a barely noticeable cost.

In the Florida team's testing and other studies, 8d ring-shank nails at 6 inches o.c. have shown an uplift capacity of 292 psf, while ordinary 8d common nails provide only 126 psf of uplift capacity. "Currently prescribed 8d common nails would only meet allowable design uplift pressures for some limited roof conditions, roof heights, and only up to wind speeds of 120 mph," said the team in their code change proposal. "The proposed 8d

ring-shank nail would perform adequately under all roof conditions and heights, from 15 feet up to 40 feet, including gable ends in any exposure." According to data in the proposal, the added cost for a typical house would be about \$7.

Press stories in Florida hailed Alvarez's research as a breakthrough, but the holding power of ring-shank nails was established long ago. "As the inventor of threaded nails, Maze Nails is not surprised," said Roelif Loveland of Maze Nails in an e-mail message. "They've been available for 70 years." Maze introduced a screw-shank nail in 1933, and Independent Nail, now owned by Maze, brought out ring-shank nails in 1934.

A 1958 paper by the late Virginia Tech professor George Stern argued that threaded nails should replace bright nails for many applications, particularly for house construction in wind zones: "There is no doubt that a frame assembled with threaded nails results in a stronger house which may be able to resist the forces of wind better than the weaker frame assembled



with plain-shank nails ... its walls are less likely to crack and its joints are less likely to open." A house built with green lumber would perform properly only if threaded nails were used, argued Stern, because they maintain more holding power as wood shrinks and moves. His testing also showed that ring-shank nails had as much as a fourfold holding advantage over smooth nails in flooring applications.

Information on the Florida Building Code is available at www.floridabuilding.org. — T.C.

Big Builders See Gains in Customer Satisfaction

Smaller builders have always touted construction quality and customer satisfaction to differentiate themselves from big production companies. That may get harder as the big guys improve their image in those areas. J.D. Power and Associates, a marketing and research firm based in Westlake Village, Calif., reported in September that, as a group, production-builder customers have been happier with their new homes in 2004 than they were in 2003. The company said satisfaction scores increased in 18 of 20 metropolitan markets over the previous year.

The biggest jumps were in Minneapolis; Raleigh-Durham, N.C.; Las Vegas; Austin, Texas; and the Denver-Colorado Springs region.

"The bar continues to be raised by builders committed to improving customer satisfaction," says Paula Sonkin, executive director of the real estate industries practice at J.D. Power. "In this kind of market, with builders increasingly focused on exceeding customer expectations, simply staying consistent will not allow builders to remain competitive." — C.W.