Office of Federal Housing Enterprise Oversight
(OFHEO)

NEWS RELEASE

Contact: Corinne Russell (202) 414-6921
Stefanie Mullin (202) 414-6376

For Immediate Release
March 11, 2008

OFHEO ANNOUNCES FOURTH QUARTER 2007 MINIMUM AND RISK-BASED CAPITAL CLASSIFICATION FOR FANNIE MAE and FREDDIE MAC

WASHINGTON, DC — James B. Lockhart, Director of the Office of Federal Housing Enterprise Oversight (OFHEO), the safety and soundness regulator for Fannie Mae and Freddie Mac, classified Fannie Mae and Freddie Mac as adequately capitalized as of December 31, 2007. Both Fannie Mae and Freddie Mac have publicly released financial results for year-end 2007 and OFHEO's results are consistent with those publicly released data.

Fannie Mae had a 9.3 percent surplus above the OFHEO-directed requirement, which is 30 percent above the required minimum capital. Freddie Mac's surplus above the OFHEO-directed requirement was 10.0 percent. Both Enterprises' percentages reflect significant increases over the depressed third quarter results due to the issuances of significant preferred stock during the fourth quarter to offset continuing market and credit-related losses. OFHEO considers this significant increase to the capital bases of both Enterprises prudent given both market conditions and the need to maintain sufficient capital.

As disclosed by Freddie Mac, its capital surplus fell below the OFHEO-directed requirement on November 30, 2007. While the non-compliance was temporary with the $6 billion preferred stock issuance settling during the first week in December, this event resulted in supervisory discussions re-emphasizing the importance of maintaining compliance, especially in light of the market volatility. Freddie Mac's management has reassured OFHEO of their commitment to ensuring compliance with the OFHEO-directed requirement going forward.

As a result of both Enterprises becoming timely annual financial statement filers and making substantial progress with respect to completing the requirements of their respective Consent Orders, Director Lockhart eliminated the portfolio growth limits effective March 1, 2008. The Enterprises must now balance portfolio and guaranteed MBS growth with their required capital limits. As stated on February 27, 2008 by Director Lockhart, as each Enterprise nears the lifting of its Consent Order, OFHEO will discuss with its management the gradual decreasing of the 30 percent OFHEO-directed capital requirement. The approach and timing of this decrease will also include consideration of the financial condition of the company, its overall risk profile, and current market conditions. It will also include consideration of the importance of the Enterprises remaining soundly capitalized to fulfill their important public purpose and the recent temporary expansion of their mission.

The Federal Housing Enterprises Financial Safety and Soundness Act of 1992 requires the OFHEO Director to determine the capital level and classification of the Enterprises not less than quarterly, and to report the results to Congress. OFHEO classifies the Enterprises as adequately capitalized, undercapitalized, significantly undercapitalized or critically undercapitalized. The Enterprises are required by federal statute to meet both minimum and risk-based capital standards to be classified as adequately capitalized.

FOURTH QUARTER CAPITAL RESULTS

Minimum and Critical Capital

Fannie Mae's OFHEO-directed capital requirement on December 31, 2007 was $41.5 billion and its statutory minimum capital requirement was $31.9 billion. Fannie Mae's core capital of $45.4 billion exceeded the OFHEO-directed capital requirement by $3.9 billion. Fannie Mae's core capital exceeded the statutory critical capital requirement by $28.8 billion.

Freddie Mac's OFHEO-directed capital requirement on December 31, 2007 was $34.4 billion and its statutory minimum capital requirement was $26.5 billion. Freddie Mac's core capital of $37.9 billion exceeded the OFHEO-directed minimum capital requirement by $3.5 billion. Freddie Mac's core capital exceeded the statutory critical capital requirement by $24.2 billion.

Enterprise Minimum Capital Requirement (Billions of Dollars) [a,b]				
	Fannie Mae		Freddie Mac	
	31-Dec-07	30-Sep-07	31-Dec-07	30-Sep-07 [c]
Minimum Capital - Statutory Requirement	31.927	30.303	26.473	26.001
Minimum Capital - OFHEO Directed Requirement	41.505	39.393	34.415	33.802
Core Capital	45.373	41.713	37.867	34.672
Surplus (Deficit) (based on OFHEO Directed Requirement)	3.868	2.319	3.452	0.871
Surplus as a Percent of OFHEO Directed Requirement	9.3%	5.9%	10.0%	2.6%

Enterprise Critical Capital Requirement (Billions of Dollars) [a]				
	Fannie Mae		Freddie Mac	
	31-Dec-07	30-Sep-07	31-Dec-07	30-Sep-07 [c]
Critical Capital Level	16.525	15.682	13.618	13.367
Core Capital	45.373	41.713	37.867	34.672
Surplus (Deficit)	28.848	26.031	24.249	21.306

a. Numbers may not add due to rounding.
b. OFHEO has directed both Fannie Mae and Freddie Mac to maintain an additional 30% capital in excess of the statutory minimum capital requirement. These requirements have been an additional requirement since January 28, 2004, for Freddie Mac and since September 30, 2005, for Fannie Mae. The OFHEO-directed minimum capital requirement and capital surplus numbers stated in these charts reflect the inclusion of the additional 30% OFHEO-directed capital requirement.
c. Restated.

During the fourth quarter of 2007, Fannie Mae’s minimum capital surplus over the OFHEO-directed requirement increased by approximately $1.5 billion to $3.9 billion, 9.3 percent above the OFHEO-directed minimum capital requirement of $41.5 billion. The OFHEO directed minimum requirement increased as both on balance sheet and off balance sheet guarantees grew during the quarter. Core capital was $45.4 billion, an increase of $3.7 billion from the third quarter. Retained earnings decreased $4.2 billion, while Fannie Mae issued $7.9 billion in preferred stock in the fourth quarter.

During the fourth quarter 2007, Freddie Mac’s minimum capital surplus over the OFHEO-directed requirement increased by $2.6 billion to $3.5 billion during the quarter, approximately 10.0 percent above the OFHEO-directed minimum capital requirement of $34.4 billion. The OFHEO-directed minimum requirement increased $0.6 billion from the restated third quarter level, as reductions in assets were offset by growth in the guarantee business. Core capital was $37.9 billion, an increase of $3.2 billion from the third quarter. Retained earnings decreased $2.7 billion, while Freddie Mac issued $6.0 billion of preferred stock in the fourth quarter.

Changes in critical capital mirrored changes in minimum capital for both Enterprises.

Risk-Based Capital

As of December 31, 2007, Fannie Mae's risk-based capital requirement was $24.7 billion. Fannie Mae's total capital of $48.7 billion on that date exceeded the requirement by $24.0 billion.

As of December 31, 2007, Freddie Mac's risk-based capital requirement was $14.1 billion. Freddie Mac's total capital of $40.9 billion on that date exceeded the requirement by $26.8 billion.

Enterprise Risk-Based Capital Requirement
(Billions of Dollars) [a, b]

	Fannie Mae				**Freddie Mac**			
	31-Dec-07		**30-Sep-07**		**31-Dec-07**		**30-Sep-07**	
Interest Rate Scenario	Up	Down	Up	Down	Up	Down	Up	Down
Risk Based Capital Requirement	18.417	24.700	10.602	24.676	10.327	14.102	5.916	11.316
Total Capital		48.658		43.053		40.929		36.394
Surplus (Deficit)		23.958		18.377		26.827		25.078

a. Numbers may not add due to rounding.

b. For periods where restatements occurred, total capital will not reconcile to restated capital submissions.

Expected mortgage prepayments increased, as Treasury spot rates fell, but the increase was much smaller than would normally be expected due to both mortgage spreads widening and the lack of appreciation in house prices, which reduced refinancing. During the quarter, both Enterprises adjusted their liability duration to maintain approximately no gap between the duration of their liabilities and assets.

By statute, stress test interest rate levels are a function of the average 10-year Constant Maturity Treasury over the most recent nine months. The nine-month average declined slightly from the previous quarter. However the starting 10-year CMT declined 42 basis points (0.4 percent). As a result, 10-year CMT levels at the end of the first year of the stress period were slightly lower at 8.07 percent in the up-rate stress test versus 8.32 percent last quarter, and 2.31 percent in the down-rate stress test versus 2.38 percent in the second quarter. The down-rate shock was 179 basis points, down from 214 the second quarter; the up- rate shock was 398 basis points, up from 380 last quarter.

Fannie Mae's down-rate risk based capital requirement was essentially unchanged, increasing only slightly. In the down-rate test, the additional capital costs and the higher credit expenses were largely offset by the portfolio rebalancing, which had a larger impact in reducing the requirement in the down-rate test. Fannie Mae's up-rate risk-based capital requirement increased. The three major factors in the change were higher cost of additional preferred stock, higher credit expenses, and partially offsetting those factors were reductions in the requirement due to changes in portfolio composition from the third quarter. Fannie Mae's recently issued preferred stock becomes floating rate after a three-year lockout period, and the model does not make changes to the capital structure during the stress test, including calling preferred stock. Overall, the up-rate requirement was $18.4 billion, an increase of $7.8 billion in the fourth quarter. The binding down-rate requirement was $24.7 billion, unchanged from the third quarter.

Freddie Mac's risk-based capital requirements increased in both the up and down scenarios in the fourth quarter. The up-rate requirement was $10.3 billion in the fourth quarter, up $4.4 billion from the third quarter. The down-rate requirement increased to $14.1 billion, an increase of $2.8 billion from the third quarter. Both requirements increased due to higher preferred dividend payments (due to the newly issued preferred stock) and higher credit losses during the stress period. The up-rate scenario increased more than the down-rate scenario because the recently issued preferred stock becomes floating rate after the fifth year (call lockout period) and the model does not make any capital adjustments. The down-rate scenario remained binding in the fourth quarter.

QUALIFICATIONS AND COMPLIANCE

Fannie Mae's capital classification is based upon its financial condition, as certified and represented as true and correct to the best of Fannie Mae management's belief and knowledge, and consistent with the SEC 10-K publicly released by Fannie Mae on February 27, 2008. Fannie Mae remains subject to the requirements imposed by the Consent Order dated May 23, 2006 and the Capital Restoration Plan approved February 17, 2005. The Capital Restoration Plan required Fannie Mae to achieve a 30 percent capital surplus over the minimum capital requirement by September 30, 2005 (OFHEO-directed capital requirement) and maintain it thereafter. Fannie Mae initially achieved the September 30, 2005 requirement of 30 percent surplus and it has continued to maintain the surplus through the fourth quarter of 2007.

Freddie Mac's capital classification is based upon its financial condition, as certified and represented as true and correct by Freddie Mac's management, and consistent with the publicly disclosed Annual Report issued on February 28, 2008. OFHEO imposed a capital surcharge of 30 percent of the minimum capital requirement for Freddie Mac in January 2004 due to increased operational risk. Freddie Mac achieved compliance at the end of the fourth quarter 2007. As disclosed by Freddie Mac, its minimum capital surplus fell below the OFHEO-directed capital requirement on November 30, 2007. The shortfall was a result of rapid and significant credit and market related losses in the fourth quarter. The shortfall was eliminated with the issuance of $6 billion in preferred stock during the first week of December.

FOURTH QUARTER QUALIFYING SUBORDINATED DEBT RESULTS

OFHEO is releasing qualifying subordinated debt positions of Fannie Mae and Freddie Mac in accordance with the September 1, 2005 Agreements between OFHEO and the Enterprises. (See 9/2/05 release at http://www.ofheo.gov/newsroom.aspx?ID=237&q1=0&q2=11)

Fannie Mae's total capital and qualifying subordinated debt for the fourth quarter 2007 exceeded the requirements outlined in the Agreement dated September 1, 2005.

Freddie Mac's total capital and qualifying subordinated debt for the fourth quarter 2007 exceeded the requirements outlined in the Agreement dated September 1, 2005.

Enterprise Qualifying Subordinated Debt Disclosure
(Billions of Dollars) [(a)]

	Fannie Mae		Freddie Mac	
	31-Dec-07	**30-Sep-07**	**31-Dec-07**	**30-Sep-07** [(b)]
Total Capital & Qualifying Subordinated Debt	55.144	49.538	44.559	41.593
Capital Requirement at 4% for On-Balance Sheet Assets and at 0.45% for Net MBS / PCs Outstanding	44.837	42.607	38.000	37.369
Surplus (Deficit)	10.307	6.931	6.560	4.224

Footnote:

a. Qualifying Subordinated Debt is defined as subordinated debt that contains the interest deferral feature. The interest deferral requires the deferral of interest payments for up to 5 years if:
   1) The corporation's core capital falls below 125% of critical capital, or
   2) The corporation's core capital falls below minimum capital AND, pursuant to the corporation's request, the Secretary of the Treasury exercises discretionary authority to purchase the company's obligations under Section 306(c) of the Freddie Mac Charter Act and Section 304(c) of the Fannie Mae Charter Act.

b. Restated.

DEFINITION OF CAPITAL STANDARDS

Core Capital is the sum of outstanding common stock, perpetual, noncumulative preferred stock, paid-in capital, and retained earnings. Core capital does not include Accumulated Other Comprehensive Income (AOCI), which is captured as part of stockholder's equity.

Total Capital is the sum of Core Capital plus the allowance for loan losses.

Minimum capital represents an essential amount of capital needed to protect an Enterprise against broad categories of business risk. For purposes of minimum capital, an Enterprise is considered by law adequately capitalized if core capital — common stock; perpetual noncumulative preferred stock; paid in capital; and retained earnings — equals or exceeds minimum capital. The minimum capital standard is 2.5 percent of assets plus 0.45 percent of adjusted off-balance-sheet obligations, including guaranteed mortgage securities.

The OFHEO-directed capital requirement is the amount of capital the Enterprise needs to maintain to compensate for increased operational risks including systems, accounting, and internal control risks. The level is prescribed by the Director of OFHEO. At this time, both Enterprises are required to hold 30 percent over the statutory minimum capital requirement. This is calculated by multiplying the minimum capital requirement by 1.3 times.

OFHEO's risk-based capital requirement is the amount of total capital — core capital plus a general allowance for loan losses less specific reserves — that an Enterprise must hold to absorb projected losses flowing from future adverse interest-rate and credit-risk conditions specified by statute, plus 30 percent mandated by statute to cover management and operations risk. The risk-based capital standard is based on stress test results calculated for the two statutorily prescribed interest rate scenarios, one in which 10-year Treasury yields rise 75 percent (up-rate scenario) and another in which they fall 50 percent (down-rate scenario). Changes in both scenarios are generally capped at 600 basis points. The risk-based capital level for an Enterprise is the amount of total capital that would enable it to survive the stress test in whichever scenario is more adverse for that Enterprise, plus 30 percent of that amount to cover management and operations risk.

The **critical capital** level is the amount of core capital below which an Enterprise must be classified as critically undercapitalized and generally must be placed in conservatorship. Critical capital levels are computed consistent with the Federal Housing Enterprises Safety and Soundness Act of 1992 as follows: One-half of the portion of minimum capital requirement associated with on-balance-sheet assets plus five-ninths of the portion of the minimum capital requirement associated with off-balance-sheet obligations.

QUALIFYING SUBORDINATED DEBT

Qualifying subordinated debt is defined as subordinated debt that contains the interest deferral feature described below:
The interest deferral requires the deferral of interest payments for up to 5 years if:

- The corporation's core capital falls below 125 percent of critical capital, or
- The corporation's core capital falls below minimum AND, pursuant to the corporation's request, the Secretary of the Treasury exercises discretionary authority to purchase the company's obligations under Section 306(c) of the Freddie Mac Charter Act and Section 304(c) of the Fannie Mae Charter Act.

The September 1, 2005 agreement requires that:
Subordinated debt will be issued in a quantity such that the sum of total capital (core capital plus general allowance for losses) plus the outstanding balance of qualified subordinated debt will equal or exceed the sum of outstanding net MBS times 0.45 percent and total on-balance-sheet assets times 4 percent.

Technical questions regarding these results should be directed to: rbcquestions@ofheo.gov.

# # #

OFHEO's mission is to promote housing and a strong national finance system by ensuring the safety and soundness of Fannie Mae and Freddie Mac.