Office of Federal Housing Enterprise Oversight
(OFHEO)

NEWS RELEASE

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For Immediate Release
June 9, 2008

OFHEO ANNOUNCES FIRST QUARTER 2008 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 March 31, 2008. Both Fannie Mae and Freddie Mac have publicly released financial results for the first quarter 2008 and OFHEO's results are consistent with those publicly released data.

On March 19, 2008, OFHEO announced an agreement with the Enterprises to reduce the OFHEO-directed capital requirement from 30 percent to 20 percent in recognition of the significant remediation efforts and the commitments by the Enterprises to raise significant new capital and to retain substantial surpluses over the OFHEO-directed requirement.

On March 31, 2008 Fannie Mae's surplus over the OFHEO-directed requirement (20 percent over the statutory requirement as of quarter-end) and statutory capital requirement were 13.5 percent and 36.2 percent, respectively. This compares to 9.3 percent above the 30 percent OFHEO-directed requirement and 42.1 percent above the statutory capital requirement at year-end. Freddie Mac's surplus above the new 20 percent OFHEO-directed requirement was 18.5 percent while its surplus over the statutory requirement was 42.3 percent for March 31, 2008. This compares to 10.0 percent above the 30 percent OFHEO-directed requirement and 43.0 percent above the statutory requirement at year-end 2007. Both Enterprises' percentages over the OFHEO-directed requirement reflect significant increases over the fourth quarter results, due primarily to the reduction in the OFHEO-directed requirement. Freddie Mac's surplus compared to the statutory requirement remained fairly steady during the quarter. Fannie Mae's surplus compared to the statutory requirement declined, primarily due to credit related losses.

Fannie Mae completed its capital raise on May 19, 2008, with the addition of approximately $7.4 billion in new capital during May, 2008. As a result of this capital raise, Fannie Mae's OFHEO-directed requirement has been reduced to 15 percent. Freddie Mac has announced its plans to raise approximately $5.5 billion in new capital following completion of its ongoing process to register with the Securities and Exchange Commission (SEC). Freddie Mac's OFHEO-directed requirement will also be lowered to 15 percent upon the successful completion of the capital increase, assuming no additional safety and soundness concerns.

The efforts by both Fannie Mae and Freddie Mac to raise new capital, their commitments to maintain overall capital levels well in excess of the requirements, and appropriately reserve for credit risks, positions them to fulfill their mission and support the mortgage market during these stressful times. OFHEO will continue to remain vigilant in supervising the safe and sound operations of these companies, and will act quickly to address any deficiencies that may arise.

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.

FIRST QUARTER CAPITAL RESULTS

Minimum and Critical Capital

Fannie Mae's OFHEO-directed capital requirement on March 31, 2008 was $37.6 billion and its statutory minimum capital requirement was $31.3 billion. Fannie Mae's core capital of $42.7 billion exceeded the OFHEO-directed capital requirement by $5.1 billion. Fannie Mae's core capital exceeded the statutory critical capital requirement by $26.4 billion.

Freddie Mac's OFHEO-directed capital requirement on March 31, 2008 was $32.3 billion and its statutory minimum capital requirement was $26.9 billion. Freddie Mac's core capital of $38.3 billion exceeded the OFHEO-directed minimum capital requirement by $6.0 billion. Freddie Mac's core capital exceeded the statutory critical capital requirement by $24.5 billion.

Enterprise Minimum Capital Requirement (Billions of Dollars) [a,b]				
	Fannie Mae		Freddie Mac	
	31-Mar-08	31-Dec-07	31-Mar-08	31-Dec-07
Minimum Capital - Statutory Requirement	31.335	31.927	26.937	26.473
Minimum Capital - OFHEO Directed Requirement	37.602	41.505	32.324	34.415
Core Capital	42.676	45.373	38.319	37.867
Surplus (Deficit) (based on OFHEO Directed Requirement)	5.074	3.868	5.995	3.452
Surplus as a Percent of OFHEO Directed Requirement	13.5%	9.3%	18.5%	10.0%

Enterprise Critical Capital Requirement (Billions of Dollars) [a]				
	Fannie Mae		Freddie Mac	
	31-Mar-08	31-Dec-07	31-Mar-08	31-Dec-07
Critical Capital Level	16.251	16.525	13.864	13.618
Core Capital	42.676	45.373	38.319	37.867
Surplus (Deficit)	26.426	28.848	24.455	24.249

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. The excess capital requirement has been in place since January 28, 2004, for Freddie Mac and since September 30, 2005, for Fannie Mae. For both Enterprises the requirement was reduced from 30% to 20% on March 19, 2008. The OFHEO-directed minimum capital requirement and capital surplus numbers stated in these charts reflect the inclusion of the 20% additional OFHEO-directed capital requirement for the quarter-end March 31, 2008.

During the first quarter of 2008, Fannie Mae's minimum capital surplus over the OFHEO-directed capital requirement increased by $1.2 billion to $5.1 billion, approximately 13.5 percent above the OFHEO-directed minimum capital requirement of $37.6 billion. The OFHEO-directed minimum capital requirement declined in the first quarter, due mostly to the reduction of the OFHEO-directed requirement from 30 percent to 20 percent, although the requirement also declined due to reduced asset levels in the quarter. Core capital was $42.7 billion, a decline of $2.7 billion from the previous quarter primarily due to a net loss of $2.2 billion and dividends of $0.7 billion.

During the first quarter of 2008, Freddie Mac's minimum capital surplus over the OFHEO-directed capital requirement increased by $2.5 billion to $6.0 billion, approximately 18.5 percent above the OFHEO-directed minimum capital requirement of $32.3 billion. The OFHEO-directed minimum capital requirement declined in the first quarter, due mostly to the reduction of the OFHEO-directed requirement from 30 percent to 20 percent. Core capital was $38.3 billion, an increase of $0.5 billion from the previous quarter. Although Freddie Mac generated losses of $0.2 billion and paid dividends of $0.4 billion in the first quarter, the adjustments associated with the adoption of FAS 159 resulted in an increase to Core Capital for the period.

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

Risk-Based Capital

As of March 31, 2008, Fannie Mae's risk-based capital requirement was $23.1 billion. Fannie Mae's total capital of $47.7 billion on that date exceeded the requirement by $24.6 billion.

As of March 31, 2008, Freddie Mac's risk-based capital requirement was $26.1 billion. Freddie Mac's total capital of $42.2 billion on that date exceeded the requirement by $16.1 billion.

Enterprise Risk-Based Capital Requirement (Billions of Dollars) [a]								
	Fannie Mae				Freddie Mac			
	31-Mar-08		31-Dec-07		31-Mar-08		31-Dec-07	
Interest Rate Scenario	Up	Down	Up	Down	Up	Down	Up	Down
Risk Based Capital Requirement	14.344	23.099	18.417	24.700	5.127	26.060	10.327	14.102
Total Capital		47.666		48.658		42.173		40.929
Surplus (Deficit)		24.567		23.958		16.113		26.827

a. Numbers may not add due to rounding.

The RBC stress test involves shocking interest rates by amounts determined by the 9 and 36 month moving average of the 10 year CMT. In the current quarter, although the 10 year CMT declined 59 basis points, the moving averages did not move to the same degree. As a result, the size of the interest rate shocks changed. The up rate stress test rate declined to 7.38 percent from 8.07 percent last quarter. This means that the size of the up rate shock declined to 387 basis points from 398 basis points in the prior quarter. The down-rate stress test 10 year CMT rate also declined to 2.11 percent from 2.31 percent last quarter. The size of the shock declined to 140 basis points (down from 179 basis points in the prior quarter).

Both Fannie Mae's up and down rate risk-based capital requirements decreased. Lower administrative expenses and the impact of Fannie Mae's common stock dividend reduction were the main factors in the lower requirement. Portfolio hedging had a modest impact on the risk-based capital requirement for the quarter. Credit costs, however, continued to increase.

Freddie Mac's up rate requirement declined due to hedging activities and much lower new debt costs (resulting from the lower ending rates), which more than offset increased credit costs. Freddie Mac's down rate risk-based capital requirement increased by 85 percent due primarily to higher credit costs. In the down rate test, net interest income is reduced so a given credit cost has a larger impact on the requirement.

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-Q publicly released by Fannie Mae on May 6, 2008. OFHEO lifted the Fannie Mae 2006 Consent Order on May 6, 2008, reflecting its progress in remediating their problems. The Capital Restoration Plan approved February 17, 2005 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. On March 19, 2008, OFHEO lowered the OFHEO-directed requirement to 20 percent recognizing Fannie Mae's remediation efforts, its commitment to raise significant capital, and its commitment to maintain capital substantially above requirements. The 20 percent requirement was applicable to the March 31, 2008 quarter-end. In May, 2008 Fannie Mae raised approximately $7.4 billion in new capital, resulting in a further reduction of the OFHEO-directed requirement to 15 percent as of June 30, 2008. Fannie Mae initially achieved the September 30, 2005 requirement of 30 percent surplus and it has continued to maintain the surplus in compliance with the OFHEO-directed requirements.

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 Financial Results, released publicly on May 14, 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. In an agreement dated March 19, 2008, OFHEO lowered the OFHEO-directed requirement to 20 percent. Freddie Mac remained in compliance with the requirements throughout the first quarter 2008. Assuming no additional safety and soundness concerns, the Director has indicated his plans to further reduce Freddie Mac's OFHEO-directed surplus to 15 percent upon successfully raising additional capital following SEC registration.

FIRST 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 first quarter 2008 exceeded the requirements outlined in the Agreement dated September 1, 2005.

Freddie Mac's total capital and qualifying subordinated debt for the first quarter 2008 exceeded the requirements outlined in the Agreement dated September 1, 2005.

FEDERAL NATIONAL MORTGAGE ASSOCIATION
FEDERAL HOME LOAN MORTGAGE CORPORATION
Qualifying Subordinated Debt Commitment
March 31, 2008

Enterprise Qualifying Subordinated Debt Disclosure (Billions of Dollars) [a]				
	Fannie Mae		**Freddie Mac**	
	31-Mar-08	**31-Dec-07**	**31-Mar-08**	**31-Dec-07**
Total Capital & Qualifying Subordinated Debt	53.652	55.144	45.841	44.559
Capital Requirement at 4% for On-Balance Sheet Assets and at 0.45% for Net MBS / PCs Outstanding	43.633	44.837	38.591	38.000
Surplus (Deficit)	10.019	10.307	7.250	6.560

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.

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 is required to maintain to compensate for increased operational risks including systems, accounting, and internal control risks. The level is prescribed by the Director of OFHEO. This requirement is calculated by multiplying the statutory minimum capital requirement by 1.x times, where x equals the percentage requirement in effect for the time period. On March 19, 2008, OFHEO announced an agreement with the Enterprises to reduce the OFHEO-directed capital requirement from 30 percent to 20 percent in recognition of the significant remediation efforts and the commitments by the Enterprises to raise significant new capital and to retain substantial surpluses over the OFHEO-directed requirement. The OFHEO-directed requirement as of March 31, 2008 was 1.20 times the statutory minimum capital requirement.

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:
o The corporation's core capital falls below 125 percent of critical capital, or
o 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.

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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.