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NEWS RELEASE

FOR IMMEDIATE RELEASE Thursday, March 31, 2005 CONTACTS: Corinne Russell 202.414.6921 Stefanie Mullin 202.414.6376

OFHEO ANNOUNCES FOURTH QUARTER 2004 MINIMUM AND RISK-BASED CAPITAL CLASSIFICATION FOR FREDDIE MAC

WASHINGTON, D.C. — Armando Falcon, Jr., Director of the Office of Federal Housing Enterprise Oversight (OFHEO), safety and soundness regulator for Fannie Mae and Freddie Mac (the Enterprises), has classified Freddie Mac as adequately capitalized as of December 31, 2004.

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.

Freddie Mac's capital classification is based on financial information, released today by the company, certified by Freddie Mac's Chief Financial Officer.

OFHEO imposed a capital surcharge of 30% of the minimum capital surplus for Freddie Mac in January 2004 due to increased operational risk. Freddie Mac continued to maintain its minimum capital surplus in excess of the surcharge during the fourth quarter 2004.

OFHEO has analyzed Freddie Mac's quarterly 2004 minimum capital resubmissions. OFHEO has determined that Freddie Mac remained adequately capitalized during all periods in 2004. OFHEO has also determined, based upon analysis of information submitted by Freddie Mac, that Freddie Mac is not required to resubmit risk-based capital for the four quarters in 2004.

Separately, OFHEO is not releasing a capital classification for Fannie Mae at this time. Fannie Mae continues to provide OFHEO with information related to the company's accounting and controls that may affect its capital classification.

FOURTH QUARTER RESULTS:

As of December 31, 2004, Freddie Mac's <u>risk-based capital</u> requirement was \$11.108 billion. Freddie Mac's total capital of \$34.691 billion on that date exceeded the requirement by \$23.582 billion.

Freddie Mac's <u>minimum capital</u> requirement was \$24.129 billion. Freddie Mac's core capital of \$34.899 billion exceeded the minimum capital requirement by \$10.771 billion.

Capital data for Freddie Mac as of September 30, 2004 and December 31, 2004:

Risk-based Capital (1)(3)				
	31-Dec-04		30-Sept-04	
Interest Rate Scenario	Up	Down	Up	Down
Risk-Based Capital Requirement	11.108	2.795	5.749	2.623
Total Capital	34.691		34.397	
Surplus (Deficit)	23.582		28.648	

Minimum Capital (1)(2)		
	31-Dec-04	30-Sept-04
Minimum Capital Requirement	24.129	24.271
Core Capital	34.899	34.763
Surplus (Deficit)	10.771	10.492

Critical Capital (1)(2)		
	31-Dec-04	30-Sept-04
Critical Capital Level	12.307	12.368
Core Capital	34.899	34.763
Surplus (Deficit)	22.592	22.395

- (1) Numbers may not add due to rounding.
- (2) Freddie Mac's 9/30/2004 numbers reflect restated financial results as restated during the financial restatement process.
- (3) OFHEO determined risk-based capital resubmissions are not required for 2004 as minimum capital remains binding and the impact on the surplus is minimal.

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

Media questions regarding these results should be directed to Corinne Russell at: crussell@ofheo.gov or 202.414.6921 or Stefanie Mullin at: stefanie.mullin@ofheo.gov or 202.414.6376.

GENERAL ANALYSIS OF THE REGULATORY CAPITAL RESULTS

By statute, stress test interest rate levels are a function of the average 10-year Constant Maturity Treasury (CMT) over the most recent nine months. During the fourth quarter of 2004, the nine-month average increased by approximately 5 basis points to 4.36%. As a result, the stress test interest rate levels increased slightly in both the up-rate and down-rate stress tests—to 7.63% in the up-rate stress test and 2.18% in the down-rate stress test.

Similar to the nine-month moving average, spot market interest rates changed minimally compared to last quarter. Mortgage rates were down during the first two months of the quarter and rebounded slightly in December. Lower interest rates resulted in slightly higher prepayment speeds and, consequently, shorter durations on fixed-rate mortgage assets. As part of its risk management and rebalancing operations, Freddie Mac responded to shorter duration assets by rebalancing the funding portfolio and off-balance-sheet positions.

Similar to last quarter, the up-rate stress test was binding for the Enterprise in the fourth quarter. Freddie Mac's risk-based capital requirement increased by \$0.2 billion to \$2.8 billion in the down-rate stress test and increased by \$5.4 billion to \$11.1 billion in the up-rate stress test. Freddie Mac's capital surplus declined to \$23.6 billion due to a higher risk-based capital requirement.

Net interest margin for Freddie Mac increased slightly in the down-rate stress test and fell in the up-rate test compared to last quarter. The results of the down-rate stress test environment were driven by slightly lower funding costs stemming from rebalancing activities in off-balance-sheet derivatives. The converse occurred in the up-rate environment where rebalancing activities resulted in higher funding costs and, subsequently, lower net interest margin.

For the fourth quarter, Freddie Mac's minimum capital surplus increased by \$0.5 billion to \$10.8 billion. The primary driver in the increase in surplus was a \$0.3 billion increase in core capital that was aided by a \$0.2 billion decrease in the minimum capital requirement. The decrease in the minimum capital requirement was the result of a decline in on-balance-sheet assets.

DEFINITION OF CAPITAL STANDARDS

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 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.

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.

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