Office of Federal Housing Enterprise Oversight

Report to Congress

Celebrating 10 Years of Excellence
1993-2003

June 2003

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OFFICE OF FEDERAL HOUSING ENTERPRISE OVERSIGHT
1700 G STREET NW WASHINGTON DC 20552 (202) 414-3800

June 15, 2003

The Honorable Richard Shelby
Chairman
Committee on Banking, Housing, & Urban Affairs
United States Senate
Washington, D.C. 20510

The Honorable Michael G. Oxley
Chairman
Committee on Financial Services
United States House of Representatives
Washington, D.C. 20515

Dear Chairmen:

I am pleased to transmit the 2003 Report to Congress from the Office of Federal Housing Enterprise Oversight (OFHEO). This report has been prepared to meet the statutory requirements in section 1319B of the Federal Housing Enterprises Financial Safety and Soundness Act of 1992 (Title XIII of P.L. 102-550). The views in this report are those of the Director and do not necessarily represent those of the President or the Secretary of Housing and Urban Development.

Pursuant to Section 1319B(a)(3) of the Federal Housing Enterprises Financial Safety and Soundness Act of 1992, the Director of the Office of Federal Housing Enterprise Oversight (OFHEO) shall include any legislative recommendations to enhance the financial safety and soundness of Fannie Mae and Freddie Mac (the Enterprises) in this annual report to Congress. Accordingly, I am forwarding the following recommendations.

The first recommendation was submitted to the Congress earlier this year through the Administration's Fiscal Year (FY) 2004 budget request. An identical recommendation was made by the Administration, and OFHEO, last year. The suggested language would exempt OFHEO from the appropriations process and permanently fund the agency. Currently, OFHEO's assessments of the Enterprises are subject to the annual Congressional appropriations process, whereas other regulators' assessments are exempt. Permanent funding would permit OFHEO to adapt more easily to changes in the ever expanding range of Enterprise activities and to act quickly should serious problems develop or a financial crisis become more likely. OFHEO's funding mechanism should be the same as that of the other federal safety and soundness regulators. The legislative language which is identical to that recommended by the Administration follows:

Section 1316(a) of the Federal Housing Enterprises Financial Safety and Soundness Act of 1992 (12 U.S.C. 4516) is amended in the first sentence by striking ", to the extent provided in appropriations Acts."

OFHEO also recommends that the 1992 Act be amended to provide that the agency may appoint a receiver to close and wind up the affairs of an Enterprise that is not viable. OFHEO's existing authority to resolve the situation would be enhanced by this legislative action. Other federal safety and soundness regulators already have this explicit authority. Financial markets, the housing sector and creditors all would benefit from a final, predictable resolution of a non-viable Enterprise.

Sincerely,

Armando Falcon, Jr.
Director

cc: The Honorable Paul S. Sarbanes, Ranking Member, Senate Committee on Banking, Housing & Urban Affairs
The Honorable Barney Frank, Ranking Member, House Committee on Financial Services

Message From the Director

On the occasion of our 10th Anniversary, it is with great pride that I report to Congress that the Office of Federal Housing Enterprise Oversight has developed into the strong, capable and innovative regulator that Congress envisioned when it created the Agency only a decade ago. OFHEO today is actively and aggressively fulfilling its mission of ensuring the safety and soundness of Fannie Mae and Freddie Mac (the Enterprises).

The Enterprises have remained safe and sound through another year of exceptional growth in the housing sector of our economy. In a year when more and more Americans have become homeowners, the public can take comfort in knowing that OFHEO is on the job, doing its part to ensure the strength and vitality of the nation's housing finance system.

In 2002, OFHEO achieved several major goals: Our state-of-the-art risk-based capital regulation was fully implemented and is now binding; we enhanced the Enterprises' mortgage-backed securities disclosures through a report and regulation; and we initiated a responsible dialogue on the systemic implications of the Enterprises' activities through the publication of a comprehensive study.

Also, consistent with the spirit of OFHEO's Congressional mandate, we have strived for transparency in our activities. As required by law, we are the only regulatory agency that publishes the results of our annual examinations (Chapter 4). Additionally, we voluntarily submit the Agency to an independent financial audit and publish the results (Chapter 5); we released the computer model for our risk-based capital stress test; and we continuously release data and research reports, such as the House Price Index, for the public's benefit. OFHEO will continue to promote disclosure of the Agency's and the Enterprises' activities whenever possible and appropriate.

OFHEO's success over the past 10 years could not have been possible without the support of the current and past Administrations as well as Congress. With their support, the Agency's budget and staff resources have doubled over the past four years. Yet ultimately, our success falls on the shoulders of the many talented and dedicated individuals who work here and I am grateful for their hard work.

I would also like to highlight Chapter Two in this year's report. This chapter contains an informative overview of the development of the secondary mortgage market in the United States. It covers not just the Enterprises, but all aspects of the market.

Finally, this Annual Report marks my last as the Director of OFHEO. I have truly enjoyed serving the public and the Congress in this position. Having worked as Counsel for the House Banking Committee when Congress created OFHEO, to serving as Director of the Agency, I am pleased to have been a part of the transformation of OFHEO from a small start-up operation to the fully successful regulator that it is today. I am sure that great things await OFHEO in the next decade and beyond.

Sincerely,

Armando Falcon, Jr.

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CHAPTER ONE: YEAR IN REVIEW

THE HOUSING MARKET CONTINUES TO BE A BRIGHT SPOT IN AN UNCERTAIN ECONOMY

In 2002 the U.S. economy continued to recover from the recession of the previous year, although the pace of economic growth was uneven. Economic activity expanded briskly in the first and third quarters of 2002, but grew more slowly in the second quarter and again in the fourth. For the full year, economic output increased 2.4 percent, a marked improvement over the growth rate of 0.3 percent in 2001. The unemployment rate fluctuated during the year and ended 2002 at 6.0 percent, the highest level since 1994 but only fractionally higher than the year-end 2001 level of 5.8 percent.

After leaving its target for the Federal funds rate unchanged for most of the year, in November the Federal Reserve responded to continuing economic weakness by lowering that target 0.5 percentage point to 1.25 percent, the lowest level in more than 40 years. Yields on Treasury securities trended downward through much of 2002. Mortgage interest rates followed the trend of long-term Treasury issues and fell throughout the year, averaging for the full year almost one-half of a percentage point below the levels of 2001.

As in 2001, the housing market in 2002 was one of the few bright spots in the U.S. economy. Stimulated by even lower interest rates, single-family housing starts approached 1.4 million units. Likewise, low mortgage rates contributed to strong home sales in 2002. Combined sales of new and existing homes totaled 6.5 million units, an increase of 5.5 percent from 2001's record-setting level of 6.2 million units. Driven by the continuing wave of refinancing stimulated by lower mortgage rates, originations of single-family loans increased 21 percent over the previous year, to $2.5 trillion.

Home prices, boosted by strong demand, continued to rise at a strong pace in most of the nation in 2002, despite some slowing as the year progressed. As measured by OFHEO's House Price Index, the average U.S. home price increased 7.6 percent from the fourth quarter of 2001 to the fourth quarter of 2002. During the previous year, average appreciation was 6.92 percent. Housing affordability, as measured by the National Association of Realtors, increased in 2002 despite rising prices.

THE ENTERPRISES' FINANCIAL PERFORMANCE

Fannie Mae and Freddie Mac had strong financial results in 2002 as they continued to benefit from the strong housing market. Both Enterprises surpassed the records for mortgage purchase volumes and securitizations they set in 2001. Assets grew at a more moderate pace in 2002, however. Each Enterprise increased its mortgage portfolio at a much slower rate, in part because strong demand for mortgage assets by commercial banks limited the attractiveness to the Enterprises of acquiring such assets. Nonetheless, the combined assets of Fannie Mae and Freddie Mac increased by a healthy 13.5 percent to $1.6 trillion, almost double the level five years before at the end of 1997. The Enterprises' combined mortgage portfolios increased by 15 percent last year to $1.4 trillion.

Despite record-setting portfolio liquidations, Fannie Mae and Freddie Mac each improved its net interest margin. That improvement resulted from a combination of a steep yield curve and a shortening of prospective mortgage asset lives, which made possible increased use of inexpensive short-term debt. The higher margins translated into higher income—combined core net income (GAAP net income adjusted to better reflect the profitability of primary operating activities) increased 20 percent in 2002 to more than $10 billion.[1] That higher income resulted in higher rates of return on equity and assets.

Credit losses and credit risk indicators remained low for both Enterprises. Combined Enterprise credit-related losses increased $18 million, or 12 percent, to $166 million, due to higher charge-offs. Despite that increase, the Enterprises' credit loss rates (credit losses as a percentage of total mortgage-backed securities outstanding plus the retained mortgage portfolio) remained relatively unchanged from the prior year. Combined Enterprise estimated exposure to sudden 5 percent decline in house prices rose last year from $788 million to $874 million, but remained less than 2 percent of combined core capital.

EXAMINATION ACTIVITIES

Comprehensive risk-based examinations are an important tool OFHEO employs to ensure the Enterprises operate prudently and remain safe and sound. Continuous on-site examination activities combined with ongoing surveillance and monitoring are key aspects of the annual risk-based examinations. The 2002 results and conclusions from Fannie Mae's and Freddie Mac's annual examinations are provided in Chapter 4.

[1] Freddie Mac has announced that it intends to restate certain financial results for 2002 and prior years. Restatement of such financial results may affect some of the statements made here.

CAPITAL REQUIREMENTS

OFHEO has two quantifiable capital measurements for the Enterprises. The Enterprises are required to meet the higher of the two requirements each quarter. Both Enterprises remained adequately capitalized during all quarters of 2002. More detailed information on minimum and risk-based capital is included in Chapter 3.

SUPERVISORY ACTIONS

Enforcement Actions. None.

Prompt Supervisory Response and Corrective Action

Fannie Mae. A Prompt Supervisory Response action (12 CFR 1777) was taken in September, 2002, to address concern regarding Fannie Mae's substantial duration gap imbalance. The concern involved the trend and size of the imbalance between the duration of Fannie Mae's mortgage assets and its liabilities. Fannie Mae was required to submit for OFHEO's review an action plan for correcting the imbalance within an acceptable time frame as well as the steps that would be taken to protect against future concerns. OFHEO maintained daily oversight of the implementation of the plan and the imbalance was rectified within an acceptable time frame. In addition, Fannie Mae demonstrated an ability to maintain an appropriate duration gap over the next six months. Accordingly, the Prompt Supervisory Response action was lifted in April, 2003.

RULEMAKING

In 2002, OFHEO published three final regulations in furtherance of the agency's undertaking to establish a comprehensive regulatory infrastructure to, among other things, enhance transparency and ensure the adequacy and enforceability of supervisory standards, including:

Corporate Governance — On June 4, 2002, OFHEO published a final rule that built upon and reinforced the agency's risk-based examination and supervisory program by setting forth minimum corporate governance standards for the Enterprises. The rule, which became effective on August 5, 2002, incorporated recent changes in Federal law and industry standards affecting governance of public corporations. The rule addressed management responsibilities, committees of the board, election of state law and indemnification issues (Box 1-1 on following page).

CORPORATE GOVERNANCE (Box 1-1)

Corporate governance involves the balanced relationships between a company, its management, board of directors, shareholders, regulators, and other stakeholders. It refers both to the structure through which the business objectives and strategies of the company are set and to the means and guiding principles for attaining those objectives and monitoring performance.

OFHEO has long recognized that good governance practices and procedures are essential to the safe and sound operations of the Enterprises. Thus, corporate governance is a specific category of risk and risk management that is routinely examined by OFHEO under its annual risk-based examination program.

In early 2001, OFHEO proposed a broadly articulated corporate governance rule as an essential component of its announced effort to implement a comprehensive regulatory structure for Fannie Mae and Freddie Mac. The rule, as adopted in June 2002, builds upon the agency's risk-based examination program and reiterates certain fundamental policies affecting the governance practices and procedures of the Enterprises. The governance standards articulated in that rule are substantially similar to those required of Federally insured financial intuitions addressing transparency, board structure and independence, management accountability and internal controls.

Some months after OFHEO's initiative in this area began, the markets were racked by the exposure of several large corporate scandals widely seen as evidencing weaknesses in the corporate governance and audit practices of many public companies. As a result of this perceived widespread corporate misconduct, regulators, investor organizations, stock exchanges and corporations themselves turned their attention to the importance of strong corporate governance and disclosure practices and procedures.

The NYSE and NASDAQ proposed new corporate governance rules for listed companies. Thereafter, in July 2002 Congress passed the Sarbanes-Oxley Act of 2002, a comprehensive Federal corporate governance law for publicly owned corporations. Among other things, the law directed the Securities and Exchange Commission to promulgate regulations affecting a wide range of corporate governance and financial disclosure practices, from CEO certification of reports to new duties for audit committees.

The Enterprises overseen by OFHEO have maintained strong corporate governance policies and work to make them effective. OFHEO's rules and ongoing, on-site examinations reinforce a positive corporate governance environment. Corporate governance remains a strong feature of the regulatory regime and of the culture at the Enterprises reflected in both OFHEO's rules and examination program as well as corporate initiatives of the Enterprises. OFHEO will remain vigilant in its support for up-to-date and effective corporate governance at the Enterprises.

Safety and Soundness — On June 21, 2002, OFHEO proposed for public comment a regulation designed to increase transparency and public awareness of minimum supervisory standards of OFHEO used in overseeing the safe ty and soundness of Fannie Mae and Freddie Mac. in a manner consistent with recent rulings of the United States Supreme Court. The regulation addressed the authority of OFHEO to provide guidances relating to safe and sound operations of the Enterprises and provided a location for such guidances. The regulation was adopted as final on August 30, 2002, and became effective on September 30, 2002.

Capital — On March 15, 2002, OFHEO adopted the first amendment to the risk-based capital rule, that had been published in September of 2001. It refined and clarified certain aspects of the rule and became effective April 15, 2002. On September 12, 2002, OFHEO published a proposal that would amend the risk-based capital rule to enhance the accuracy of the calculation and the stress test, and made ten technical and corrective changes. OFHEO adopted the ten technical and corrective amendments on November 1, 2002, effective upon publication, and reopened and extended the comment period to October 29, 2002, to allow further comment on three additional changes relating primarily to accounting rule revisions. These three changes were finalized in 2003.

OFHEO ACTIONS ON EXECUTIVE COMPENSATION

OFHEO's enabling statute and the Enterprise charter acts grant the Director of OFHEO oversight responsibility in the area of executive compensation. OFHEO's statute requires the Director to prohibit the Enterprises from providing excessive compensation to any executive officer. Specifically, the statute provides that compensation must be reasonable and comparable with compensation paid by other similar businesses to executives having similar duties and responsibilities. "Similar businesses" includes publicly held financial institutions or major financial services companies.

Additionally, the Enterprises' charter acts require the Enterprises to obtain the prior approval of OFHEO's Director before entering into or changing termination agreements with their executive officers.

The charter acts provide that the Director of OFHEO may not approve any such agreement unless the Director determines that the benefits provided under the agreement are comparable to benefits provided under such agreements for officers of other public and private entities involved in financial services and housing interests who have comparable duties and responsibilities.

In 2002, an executive compensation consultant retained by OFHEO completed a study initiated in 2001, which compared the components and levels of executive compensation of executive officers at the Enterprises with those of executive officers in other similar businesses involving similar duties and responsibilities. The study's results assist OFHEO in its supervisory review of executive compensation. During 2002, OFHEO approved no termination agreements.

OFHEO RESEARCH AND PUBLICATIONS

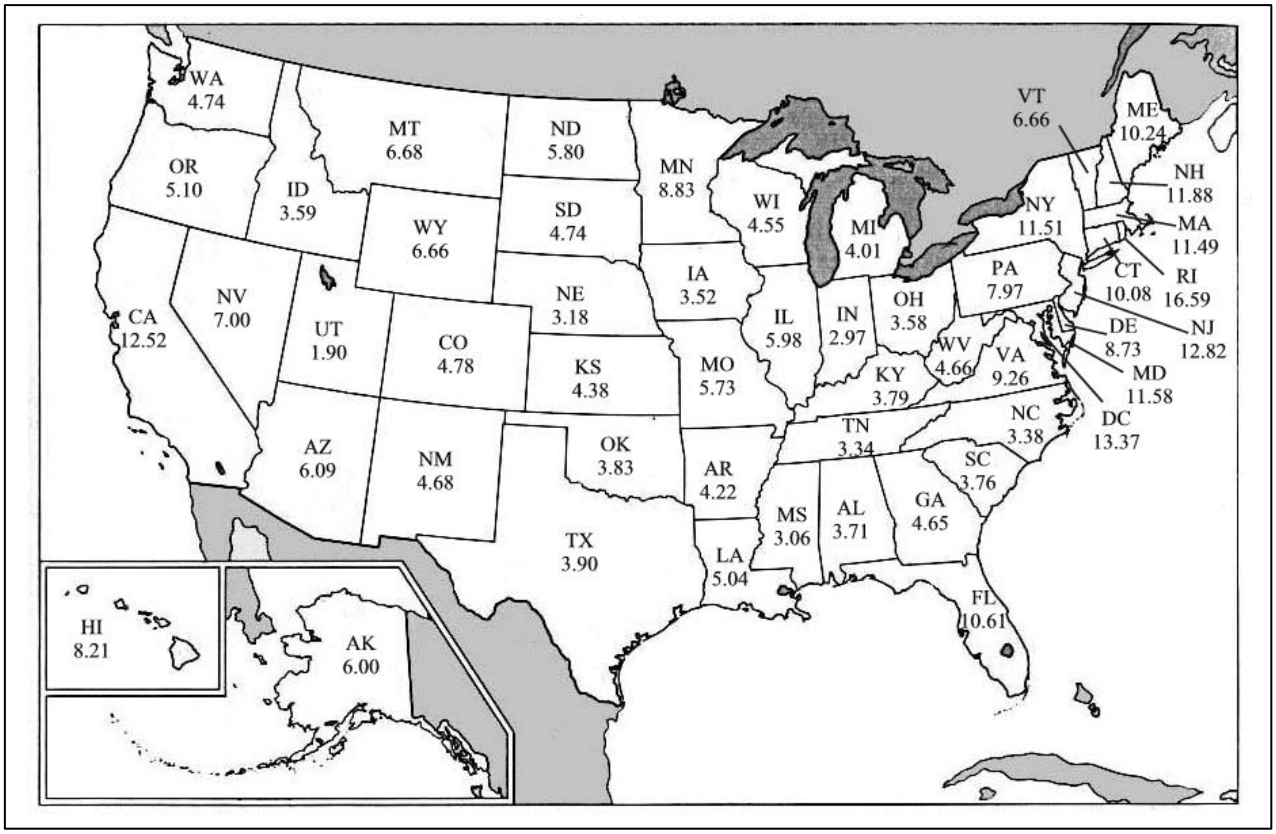
During 2002, OFHEO continued research and analysis on a variety of topics. These include subprime loans and the housing market, credit scores as determinants of mortgage prepayment and default, improving the precision of repeat sales house price indices, developing alternate ways to evaluate Enterprise risk, and single family mortgage lending in the internet era. OFHEO also conducted research for its February 2003 report, *Systemic Risk: Fannie Mae, Freddie Mac and the Role of OFHEO.* In March of 2002, OFHEO initiated its series of staff working papers. The two papers issued in 2002 can be found on OFHEO's web site at www.ofheo.gov. OFHEO's interdisciplinary Research Council continued to coordinate research plans and activities and ensure that research and analysis is focused on achieving OFHEO's strategic objectives. In future years, OFHEO anticipates undertaking additional research and analysis, including looking at issues that arose in comments on the proposed risk-based capital rule and using the risk-based capital stress test to assess alternative stress scenarios to analyze the Enterprises' safety and soundness.

OFHEO also contributed its expertise in working with other Federal agencies. OFHEO worked with the Securities and Exchange Commission and the U. S. Treasury on researching issues for the joint staff report, *Enhancing Disclosure in the Mortgage –Backed Securities Markets*, issued in January 2003.

In addition to its housing and mortgage related research in 2002, OFHEO also completed a project dealing with the performance of small business loans at the request of the Office of Management and Budget and the Small Business Administration (SBA). Using data supplied by the SBA and internal default and prepayment modeling expertise, OFHEO developed an econometric model of the behavior of loans in the SBA's section 7(a) loan guarantee program and a budget subsidy model for the program to calculate budget costs. SBA reimbursed OFHEO for the development expenses, and began using the model for the FY 2003 budget.

In 2002, OFHEO published its annual review *Mortgage Markets and the Enterprises in 2001*. This paper describes key developments in housing and mortgage markets, as well as Enterprise business activities and financial results. OFHEO also continued quarterly publication of its House Price Index (HPI), which uses Enterprise data to calculate changes in house prices for the nation as a whole, the nine Census Divisions, the 50 states and the District of Columbia, and 331 Metropolitan Statistical Areas. The HPI is based on 20 million repeat transactions over 28 years. OFHEO developed the HPI as a key input for its risk-based capital stress test. It is now regularly reported by media organizations throughout the nation and used by researchers to analyze house price behavior (Map on following page).

OFHEO House Price Index
U.S. Map
Fourth Quarter 2001 – Fourth Quarter 2002



FINANCIAL AND OTHER DISCLOSURES (Box 1– 2)

In July 2000, OFHEO announced its intent to adopt a comprehensive regulatory regime, including various written policies and procedural requirements intended to ensure the safe and sound operations of Fannie Mae and Freddie Mac. Prominent among the subject areas announced was the adoption and implementation of a regulations and policies for Enterprise financial information disclosure. OFHEO recognizes that a strong supervisory program must encompass capital regulation, broad supervision of operations and risk management and transparency.

Transparency and openness as to financial condition and business practices promote market discipline and access to funding in the capital markets. Full and adequate disclosure of information by the Enterprises concerning their financial conditions and risks is an essential element of OFHEO supervisory responsibility to ensure the financial integrity and capital adequacy of the Enterprises.

While the offering and sale of their securities are exempt from the registration requirements of the Securities Act of 1933 and their securities are "exempt securities" under the Securities Exchange Act of 1934, the Enterprises determined to voluntarily register their common stock with the SEC under the provisions of the Exchange Act. In July 2002, the Enterprises made their announcement in a joint presentation with the SEC, Treasury and OFHEO. This registration triggers compliance with the periodic disclosure requirements of the Exchange Act to the same extent as other publicly traded companies. The rules of the 1934 Act make this voluntary action permanent for all intents and purposes. OFHEO proposed and adopted in early 2003 a rule setting forth OFHEO's authority over Enterprise disclosures and supporting their voluntary registration with the SEC.

In addition, OFHEO undertook with the Department of Treasury and the SEC a review of the adequacy of disclosure practices in the mortgage-backed securities market. The review, published in January 2003, recommended six areas where enhanced disclosure was appropriate and beneficial. Fannie Mae and Freddie Mac have agreed to implement the recommendations.

Disclosure remains a central element of OFHEO's supervisory program and a critical element for the Enterprises to remain safe and sound. OFHEO will continue to enhance the disclosure practices of the Enterprises.

CHAPTER TWO: THE DEVELOPMENT OF THE U. S. SECONDARY MORTGAGE MARKET

A secondary mortgage market consists of lenders, investors, and government agencies that buy and sell residential mortgages and mortgage-backed securities (MBS). Fannie Mae and Freddie Mac are the two most important institutions in this market, and their continued financial health is critical for its continued success. The secondary market in the U.S. is highly developed. About 60 percent of single-family mortgages originated each year are funded through the sale of MBS, and most sales of whole loans occur as part of the creation of pools of mortgages that collateralize MBS. Thus, the most important parts of the U.S. secondary mortgage market are the three national submarkets for MBS:

1. **The market for MBS guaranteed by the Government National Mortgage Association (Ginnie Mae),** a Federal government agency that guarantees MBS issued by private firms and backed by pools of single- and multifamily mortgages insured by the Federal Housing Administration (FHA) or guaranteed by the Department of Veterans Affairs (VA) or the Rural Housing Service (RHS).

2. **The market for MBS guaranteed by Fannie Mae and Freddie Mac**, two government-sponsored enterprises (GSEs) chartered by Congress to support the secondary mortgage market. Fannie Mae and Freddie Mac guarantee MBS backed by nonjumbo single-family mortgages—loans with balances less than a prescribed limit, which is $322,700 in 2003—as well as multifamily mortgages. Nearly all the loans backing MBS guaranteed by the Enterprises are conventional mortgages—loans that carry no government insurance or guarantee.

3. **The market for nonagency MBS.** Those securities carry no guarantee by Ginnie Mae, Fannie Mae, or Freddie Mac and are collateralized by pools of conventional mortgages with loan balances that are too large for the Enterprises to buy (jumbo loans), mortgages to borrowers who provide little documentation or have credit problems of varying degrees of severity, or home equity loans.

This chapter summarizes the development of the U.S. secondary mortgage market by examining the evolution of those three submarkets and their predecessors. The focus is on the secondary market for loans that finance single-family homes. The table on the following page summarizes the most important developments in chronological order.

Milestones in the Development of the U.S. Secondary Market for Single-Family Mortgages

Year	Event
1938	The Federal National Mortgage Association (FNMA or Fannie Mae) is established under Title III of the National Housing Act to purchase residential mortgages insured by the Federal Housing Administration (FHA).
1954	Title III of the National Housing Act is amended to authorize Fannie Mae to issue nonvoting stock to the public to finance its operations. A conditional line of credit to the Treasury enables Fannie Mae to borrow from the public at low interest rates.
1957	States authorize Mortgage Guaranty Insurance Corporation (MGIC) to provide private mortgage insurance on conventional loans—those that do not carry government insurance or guarantees.
1966	Fannie Mae issues a series of collateralized bonds backed by mortgages owned by Fannie Mae, FHA and the Veterans Administration (VA).
1968	The Housing and Urban Development Act of 1968 replaces Fannie Mae with 1) a new Fannie Mae that is a government-sponsored enterprise (GSE) authorized to buy mortgages insured by FHA or guaranteed by VA and 2) the Government National Mortgage Association (GNMA or Ginnie Mae), which is a Federal agency charged with guaranteeing mortgage-backed securities (MBS) backed by pools of those loans.
1970	Ginnie Mae guarantees its first MBS.
1970	Title III of the Emergency Home Finance Act of 1970 charters the Federal Home Loan Mortgage Corporation (FHLMC or Freddie Mac) to provide a secondary market for conventional mortgages, authorizes Fannie Mae to purchase such loans, and limits the size of the mortgages those GSEs may buy.
1971	Freddie Mac issues its first guaranteed MBS.
1974	Fannie Mae and Freddie Mac adopt a standard mortgage loan document to be used in all 50 states for residential mortgages they purchase.
1977	Bank of America issues the first private MBS.
1978	Maggie Mae (MGIC National Mortgage Corporation) and Pennie Mae (PMI Mortgage Corporation) issue the first private MBS backed by jumbo mortgages—conventional loans with balances too large for the GSEs to buy.
1981	Fannie Mae issues its first guaranteed MBS.
1981	Freddie Mac institutes a "swap program" in which a lender creates a pool of mortgages and then swaps it for Freddie Mac MBS. Fannie Mae creates a comparable swap program.
1982	Residential Funding Corporation (RFC), a private conduit, spurs the development of an active secondary market for jumbo mortgages by offering to buy multiple types of loans each business day.
1983	Freddie Mac issues the first collateralized mortgage obligation (CMO), a type of multi-class MBS.
1984	The Secondary Mortgage Market Enhancement Act of 1984 (SMMEA) authorizes shelf registration of private MBS with a double-A or triple-A credit rating and overrides certain state laws, eliminating legal obstacles to the full development of the secondary market for private MBS. The act also authorizes the transfer of Freddie Mac stock from the Federal Home Loan Banks to their thrift members.
1986	The Tax Reform Act of 1986 promotes the use of Collateralized Mortgage Obligations (CMOs) by creating the Real Estate Mortgage Investment Conduit (REMIC), a vehicle that minimizes tax liability for multi-class MBS.
1989	The Financial Institutions Reform, Recovery and Enforcement Act of 1989 (FIRREA) severs Freddie Mac's ties to the Federal Home Loan Banks and gives it the same ownership structure as Fannie Mae.
1992	The Federal Housing Enterprises Financial Safety and Soundness Act establishes the Office of Federal Housing Enterprise Oversight as the safety and soundness regulator for Fannie Mae and Freddie Mac and gives the Secretary of Housing and Urban Development (HUD) general mission regulatory authority.
1995	Fannie Mae and Freddie Mac begin to use automated underwriting systems.
1997	The Federal Home Loan Banks begin to participate in the secondary mortgage market by investing in nonjumbo conventional single-family mortgages.
2003	The volume of outstanding mortgages securitized by the secondary market grows to $3.77 trillion.

Single-Family Mortgage Lending in the U.S. Before the Great Depression

Prior to the 1930s, most single-family mortgages in the U.S. were balloon loans with very short maturities e.g. three to five years. The mortgages generally did not amortize, and the borrower either repaid his or her loan in full upon the completion of the term or, for a fee, took out a new mortgage. Lenders, primarily thrift institutions, generally obtained mortgage funds from the deposit base in their communities.

That housing finance system had several shortcomings. Borrowers had no access to long-term, fixed-rate funding, and the volume of lending in a locality was dependent on the supply of funds in the immediate geographic area. If the quantity of funds available in a local market was less than the quantity demanded, interest rates in that market rose. As a result, there were substantial regional differences in mortgage interest rates and significant short-term fluctuations in the volume of lending. Overall, the system did not provide the market stability necessary for a sustained and high level of investment in housing.

The Federal Government's Creation of FHA and Fannie Mae in the 1930s

Those shortcomings were exacerbated by the financial traumas of 1931-33, when thousands of commercial banks and thrift institutions failed, half of all single-family mortgages defaulted and more than a quarter of a million foreclosures occurred each year. In response, the Federal government took a number of actions to support the banking sector and consumer lending, including the creation of Federal deposit insurance to encourage households to invest in bank and thrift deposits and the establishment of the Federal Home Loan Bank System to provide long-term funding to thrift institutions engaged in mortgage lending.

Two other Federal responses contributed to the development of the U.S. secondary mortgage market. First, the National Housing Act of 1934 created FHA to provide government insurance for mortgages made by private lenders. FHA pioneered the long-term, fixed-rate, self-amortizing residential mortgage, which became the standard loan used to finance the purchase of single-family homes. FHA also promoted standardization of the terms of mortgage lending, as discussed more fully in the next section.

Second, in 1934 the Congress authorized the chartering of privately owned, Federally supervised national mortgage associations to purchase and sell home loans. The private sector was reluctant to establish such associations, however, due to uncertainty about their profitability. In 1938, the Reconstruction Finance Corporation (RFC)—a Depression-era Federal agency—chartered and provided the initial capital to a subsidiary, the National Mortgage Association of Washington, which became known as Fannie Mae, which was authorized to buy and sell FHA-insured mortgages and to raise funds by borrowing from the U.S. Treasury or the public. Fannie Mae was authorized in 1948 to invest in mortgages guaranteed by VA and was transferred in 1950 to the Housing and Home Finance Agency, later part of the Department of Housing and Urban Development (HUD).

Early Trading in Single-Family Mortgages After the Great Depression

Prior to the mid-1950s, the U.S. secondary mortgage market involved only the sale of whole loans to investors. Mortgage banks and thrift institutions originated mortgages and sold them to life insurance companies, pension funds, and other thrifts. Life insurance companies and pension funds generally purchased whole mortgages from mortgage companies, whereas thrifts on the East Coast purchased mortgages from thrifts elsewhere in the country. Fannie Mae purchased FHA-insured and VA-guaranteed mortgages from lenders. With funds acquired from selling mortgages to investors, lenders were able to make new loans.

The Federal government facilitated that trading in whole loans. FHA mortgage insurance and, after World War II, VA loan guarantees protected mortgage investors from default losses. In addition, FHA required that homes financed with Federally backed mortgages be built to certain standards. Most states and localities quickly required that all homes meet those building standards, which VA also adopted. The FHA and VA programs also developed nationwide standards for hazard and title insurance, the appraisal of property values, the underwriting of applications made by prospective borrowers, and loan servicing—the management of payments to local tax authorities, hazard insurers, and investors, and the handling of delinquent loans.

Those nationwide standards and practices, which mortgage banks adopted, made the significant volume of FHA-insured and VA-guaranteed mortgages relatively homogeneous, which facilitated pricing of these assets by buyers and sellers. For investors, Federal credit enhancements and hazard and title insurance on those loans and standardized loan underwriting and servicing reduced the risk of not receiving the interest and principal payments on their investment. Administrative problems regarding late payments or default were usually handled for a fee by another institution that functioned as the servicer.

The Transformation of Fannie Mae and the Creation of Ginnie Mae

In 1954, the Congress reorganized Fannie Mae gave it a statutory charter, and expanded its responsibilities to include the management of certain mortgages owned by the Federal government. The Charter Act of 1954 also included a procedure whereby Fannie Mae would, over a period of time, be transformed into a privately owned and managed corporation. To finance Fannie Mae's secondary market operations, the act authorized issuance of nonvoting preferred stock to the Treasury. Lenders that sold mortgages to the corporation were required to purchase a certain amount of common stock based on the amount of loans they sold to Fannie Mae.

Fannie Mae was also authorized to raise funds by issuing notes and debt instruments to the public in the Federal agency debt market, with the U.S. Treasury permitted to acquire up to $500 million of those obligations (an amount raised to $2.25 billion in 1957). That presence in the Federal agency debt market and the Treasury "backstop" allowed Fannie Mae to borrow at lower rates of interest than it otherwise could have in the capital markets, despite the absence of an explicit government guarantee.

The Housing and Urban Development Act of 1968 divided Fannie Mae into two entities. The assets, liabilities, and management associated with the agency's secondary market operations were transferred to a new GSE, which retained the Fannie Mae name. The statute continued to restrict Fannie Mae to purchasing FHA-VA mortgages. All Treasury-held preferred shares provided for in the 1954 Act were retired, eliminating government ownership. The 1968 Act also created a new Federal agency, Ginnie Mae, which remained part of HUD.

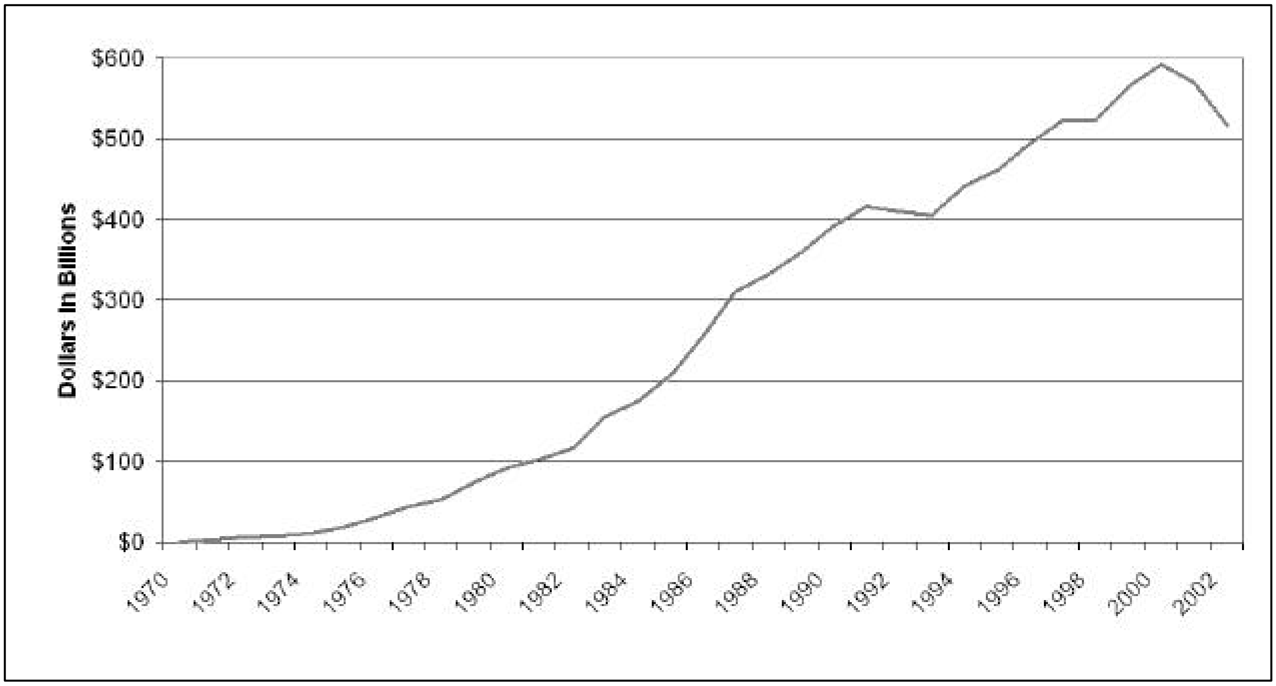
Among other things, the 1968 Act authorized Ginnie Mae to guarantee MBS issued by lenders and collateralized by pools of mortgages insured by FHA and guaranteed by VA or RHS. The first MBS guaranteed by Ginnie Mae was issued in 1970. The Ginnie Mae guarantee program was a critical step in the development of the U.S. secondary mortgage market as we know it today.

Ginnie Mae guarantees the timely payment of the principal and interest due on MBS as well as the timely repayment of MBS principal associated with outstanding loan balances when borrowers prepay or default on their mortgages. In the event of default, Ginnie Mae makes timely payments to the security purchaser and takes responsibility for settling accounts with the servicer. That relieves investors from administrative problems and delays in receiving mortgage payments. For Ginnie Mae's guarantee, which is backed by the full faith and credit of the government, the MBS issuer is charged a guarantee fee, which is covered by the yields on the mortgages in the securitized pool.

The Ginnie Mae MBS guarantee program dramatically changed the secondary mortgage market. The guarantee enabled originators of FHA and VA mortgages to pool the loans and issue MBS collateralized by loan pools. Those securities were underwritten by investment banking firms and sold to investors that had not previously participated in the secondary market for whole loans. Investors were attracted to the securities because FHA insurance or a VA or RHS guarantee minimized the default risk of the collateral and Ginnie Mae's guarantee assured timely payment. Those Federal credit enhancements made the credit risk of the MBS identical to that of U.S. Treasury securities.

In the 1970s the Ginnie Mae MBS program rapidly became the preferred means of funding FHA and VA single-family mortgages. Issuance of MBS guaranteed by Ginnie Mae represented less than 20 percent of FHA and VA originations in 1971, but that share exceeded two-thirds after 1978. Since the end of the 1980s, virtually all FHA-insured and VA-guaranteed single-family mortgages have been securitized with MBS guaranteed by Ginnie Mae. Figure One shows the volume of Ginnie Mae-guaranteed MBS backed by single-family loans outstanding from 1970 through 2002.

Figure One
Ginnie Mae-Guaranteed Single-Family MBS Outstanding, 1970-2002



The Creation of Freddie Mac and the Development of the Secondary Market for MBS Backed by Conventional Mortgages and Guaranteed by the Enterprises

A volatile interest rate environment in the late 1960s, combined with ceilings on deposit yields at thrift institutions, resulted in credit shortages and a reduction in the flow of funds to the conventional mortgage market. There was no secondary market for conventional single-family mortgages comparable to that being fostered by the Ginnie Mae guarantee program, despite the fact that conventional loans accounted for the majority of residential mortgage originations. Thus, finding a way to securitize conventional loans became an important concern of thrifts and the Congress.

The Congress enacted the Emergency Home Finance Act of 1970 specifically to create a secondary market for conventional mortgages. That act chartered the Federal Home Loan Mortgage Corporation (the FHLMC or, informally, Freddie Mac) to provide a secondary mortgage market for thrifts and other originators of conventional mortgages. Freddie Mac was authorized to purchase and make commitments to purchase conventional mortgages. The Act also allowed Fannie Mae to purchase conventional mortgages and gave Freddie Mac authority to purchase FHA-VA loans. Those provisions were intended to allow both Enterprises to compete for all residential mortgages. In practice, Freddie Mac has seldom purchased FHA or VA loans, and Fannie Mae has significantly changed its practices to purchase predominantly conventional loans.

The Federal Home Loan Banks and their member thrift institutions initially owned and capitalized Freddie Mac, but the Enterprise's ownership structure changed over time. The Secondary Mortgage Market Enhancement Act of 1984 (SMMEA) authorized the issuance of Freddie Mac stock to the thrifts that had belonged to the Federal Home Loan Bank System in 1970 when the Enterprise was chartered. In 1988, the Federal Home Loan Bank Board allowed sales of Freddie Mac stock to private investors. The Financial Institutions Reform, Recovery, and Enforcement Act of 1989 (FIRREA) effectively severed the Enterprise's ties to the Federal Home Loan Bank System, gave Freddie Mac the same ownership structure as Fannie Mae, and subjected Freddie Mac to the general regulatory authority of the Secretary of HUD. Freddie Mac began to issue and guarantee MBS backed by conventional loans it purchased in 1970. Fannie Mae continued to hold the mortgages it purchased in portfolio during the 1970s and began to issue guaranteed MBS in 1981.

Purchases of conventional single-family mortgages by Fannie Mae and Freddie Mac (both outright purchases of whole loans and guarantees of MBS) expanded dramatically in the 1980s. That growth was spurred in part by the declining importance of thrift institutions as a source of long-term financing for residential mortgages. In response to volatile interest rates, a decline in the industry's profitability, and alterations in Federal policy, thrifts abandoned their historical practices of holding most of the single-family loans they originated until maturity. Instead, they chose to operate more like mortgage banks, selling mortgages into the secondary market. Falling interest rates during the mid-1980s, which sparked a wave of refinancing, also contributed substantially to the Enterprises' growth.

Mortgages purchased or securitized by Fannie Mae and Freddie Mac jumped sharply in 1982, when many thrifts increased the liquidity of their portfolios by swapping whole loans for MBS guaranteed by the Enterprises. First Freddie Mac and then Fannie Mae had instituted "swap" programs in 1981 to allow lenders to increase the liquidity of mortgages they owned. The Enterprises' business volumes rose even more during the refinancing boom of 1985-86.

In 1986, the volume of nonjumbo, conventional, fixed-rate mortgages (FRMs) purchased by Fannie Mae and Freddie Mac totaled one-half of originations of those loans. That share reached 69 percent in 1989 and has remained near or above that level ever since. Figures Two and Three show the single-family mortgages owned or securitized by Fannie Mae and Freddie Mac from 1971 through 2002.

Since the mid-1980s there has been a two-tier market for conventional FRMs, with borrowers generally paying lower interest rates on non-jumbo fixed-rate loans, which have principal balances low enough to make them eligible for Fannie Mae and Freddie Mac to buy. That structure arises from the benefits of access to the guarantees provided by Fannie Mae and Freddie Mac, which is reflected in the yields on nonjumbo FRMs in the primary market. That reduction was about 30-40 basis points in the latter half of the 1980s, but narrowed to about 20-25 basis points by the late 1990s. The Ginnie Mae guarantee program had already had a similar effect on the yields of FHA-insured mortgages.

Importantly, because the Federal government's backing of support for Ginnie Mae, and support for Fannie Mae and Freddie Mac, resulting in lower yields on the mortgages they purchase or that are securitized with their guarantees, the role of private conduits in the U.S. secondary mortgage market has been limited to sectors of the market not served by these agencies.

In 1983 Freddie Mac issued the first collateralized mortgage obligation (CMO), which is a type of a multi-class MBS. A single-class MBS allocates all payments on a pool of mortgages to investors in proportion to their investment in the MBS collateralized by the pool. In a multi-class MBS issue, the cash flows from a pool of mortgages are allocated to multiple classes of securities, where each class differs in terms of the amount of principal and interest payments on the mortgages that investors in that class receive each month. Multi-class MBS promote the efficiency of the secondary mortgage market by allowing issuers to tailor the cash flows and risk of different classes of securities to match the preferences of different groups of investors, thereby broadening the universe of investors who are willing to hold mortgage assets.

The Tax Reform Act of 1986 stimulated the use of multi-class MBS by creating Real Estate Mortgage Investment Conduits (REMICs), a vehicle that allows issuers of multi-class MBS to avoid double taxation of interest income at the trust and the investor level. A substantial portion of MBS guaranteed by Fannie Mae, Freddie Mac, and Ginnie Mae are used to collateralize REMICs. Each agency earns fees for guaranteeing REMIC securities.

The advent of REMICs spurred the growth of mortgages securitized by Fannie Mae and Freddie Mac in the late 1980s. Another stimulus was the implementation of the international agreement on capital regulation of banks known as the Basel Accord. Under that compact, the Federal bank regulatory agencies have required banks and thrifts to hold 2.5 times as much capital against high quality private MBS or whole mortgages as they must against high-quality MBS including those guaranteed by Fannie Mae and Freddie Mac.

Three other events in the 1990s affected the secondary market for nonjumbo conventional mortgages. First, the Federal Housing Enterprises Safety and Soundness Enhancement Act of 1992 established the Office of Federal Housing Enterprise Oversight (OFHEO) as the safety and soundness regulator of Fannie Mae and Freddie Mac. The 1992 Act imposed stringent Federal capital standards on the Enterprises and imposed, a safety and soundness regulatory regime, enhancing the stability of the secondary mortgage market.

Second, in the early 1990s Fannie Mae and Freddie Mac began increasing their on-balance sheet assets, primarily by buying MBS and REMICs. Buying mortgage assets allows the Enterprises to take full advantage of their low funding costs. This has facilitated increases increases in their earnings at double-digit rates despite less rapid growth in nonjumbo conventional mortgage debt outstanding, and it has added stability to the mortgage securities market in times of otherwise weak demand. Figures Two and Three show the acceleration of the growth in the Enterprises' mortgage assets in the 1990s.

Figure Two
Single-Family Mortgages Owned or Securitized by Fannie Mae, 1971-2002

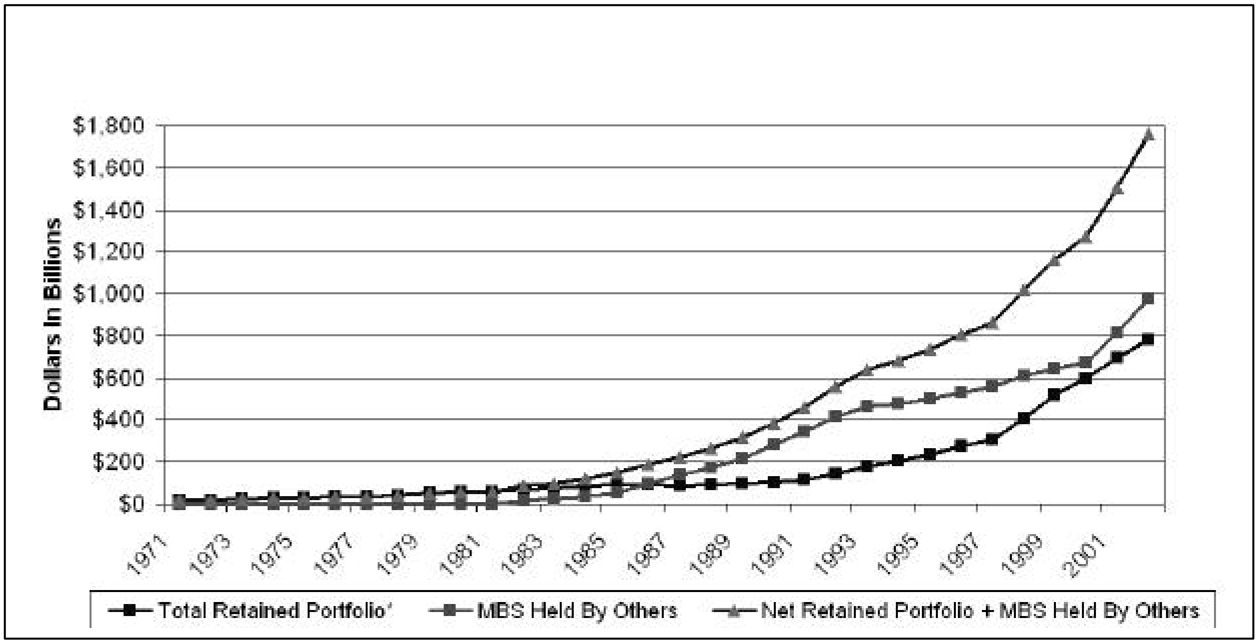
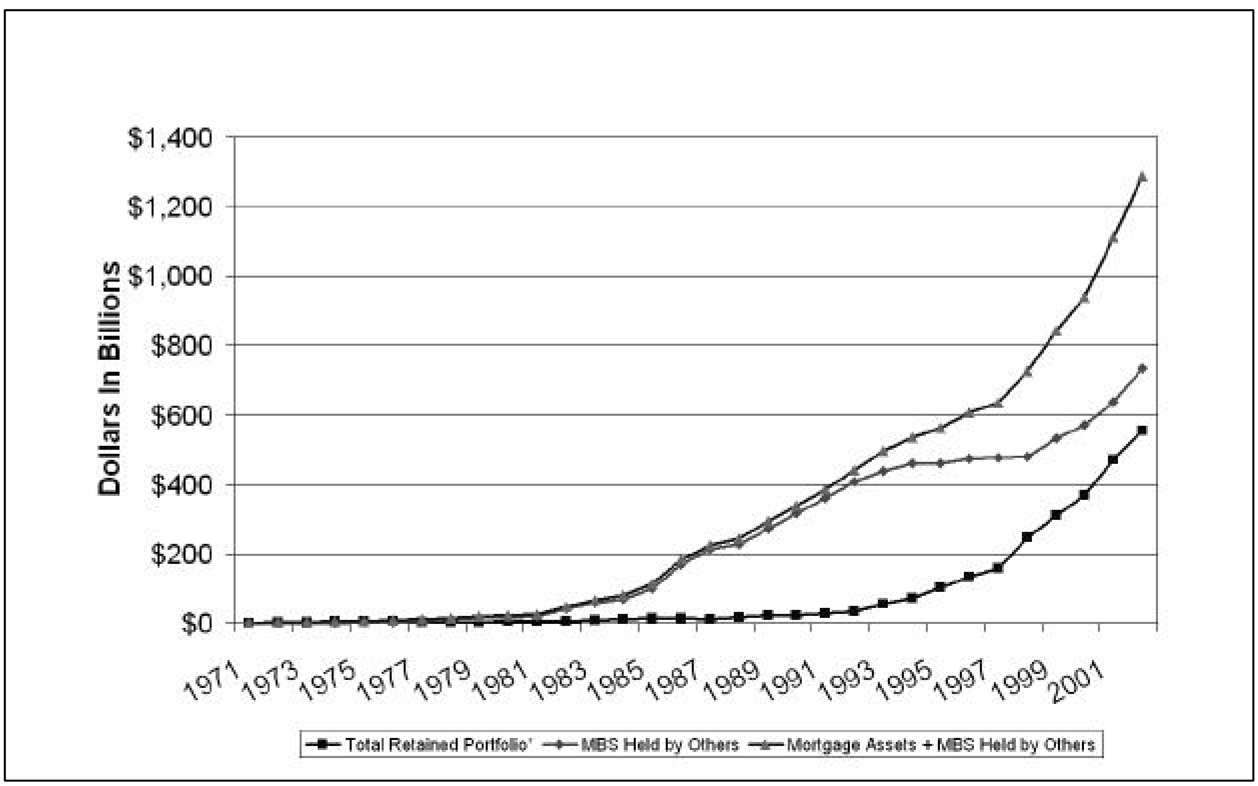


Figure Three
Single-Family Mortgages Owned or Securitized by Freddie Mac, 1971-2002



Third, in 1995 first Freddie Mac and then Fannie Mae each began to encourage lenders to use its automated underwriting system (AUS) to evaluate the credit risk of mortgages prior to origination. Widespread use of those systems has helped lenders reduce the time and expense involve in originating loans, thereby increasing the efficiency of the housing finance system.

Evolution of the Nonagency Secondary Mortgage Market

Although private conduits issued the first nonagency MBS in the late 1970s, those programs were not major successes. Between 1979 and 1982, the nonagency MBS market financed less than $2 billion in residential mortgages. Significant growth in that market began only with the creation of the Residential Funding Corporation (RFC), a private conduit, in 1982. The RFC was successful because it was willing to be in the market every day with rates and prices for a menu of mortgage products and to manage the risk associated with funding and hedging loans until its inventory was large enough to create a MBS.

The nonagency MBS market securitized nearly $10 billion in loans between 1982 and 1986. By 1986, private conduits were playing a dominant role in the market for jumbo loans. The passage of the Secondary Mortgage Market Enhancement Act of 1984 (SMMEA) provided a major boost by allowing shelf registration with the Securities and Exchange Commission (SEC) of securities that received a credit rating of double A or higher.

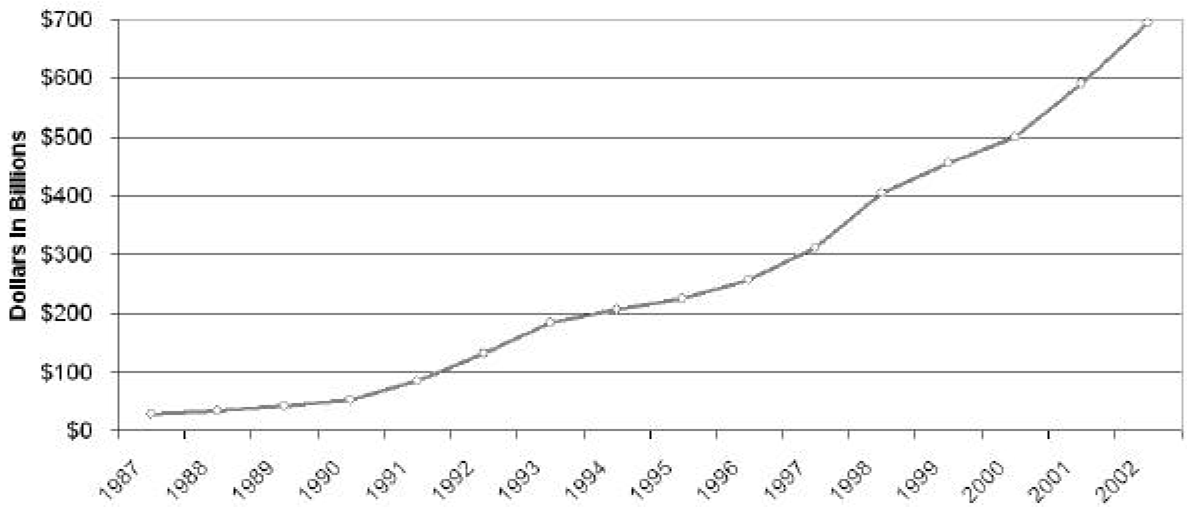
The growth of the nonagency MBS market received another boost when the REMIC authority in the Tax Reform Act of 1986 encouraged the use of multi-class MBS. Private MBS issuers can subordinate the claims of investors in junior classes of REMIC securities to those of investors in more senior classes, thereby obtaining a credit enhancement of the senior securities without having to purchase bond insurance. The use of senior/sub REMIC structures facilitated rapid growth in outstanding nonagency MBS in the 1990s. Other factors contributing to that growth were the securitization of loans to borrowers that provide little documentation (so-called Alt A mortgages), loans to borrowers that have credit problems of varying degrees of severity (sub- or nonprime mortgages), and home equity loans. Figure Four shows nonagency single-family MBS outstanding from 1987 through 2002.

The Emergence of the Federal Home Loan Bank System

In the second half of the 1990s a third GSE, the Federal Home Loan Bank System, also began to play a direct role in the U.S. secondary mortgage market. The Congress chartered the System in the 1930s to provide long-term loans to thrifts that financed residential mortgages. The System is a cooperative consisting of 12 regional banks, each of which is cooperatively owned by member institutions, most of which are banks and thrifts.

Recently, a number of the Federal Home Loan Banks have begun to invest in nonjumbo, single-family FRMs originated by member institutions. In most cases, a Bank will absorb all interest rate risk on the loans and share the credit risk with the originating institution. That approach is an alternative to the lender selling the mortgages to Fannie Mae or Freddie Mac or to a larger institution that would place them in a pool and issue MBS guaranteed by one of the Enterprises.

Figure Four
Nonagency Mortgage Securities Outstanding, 1987-2002



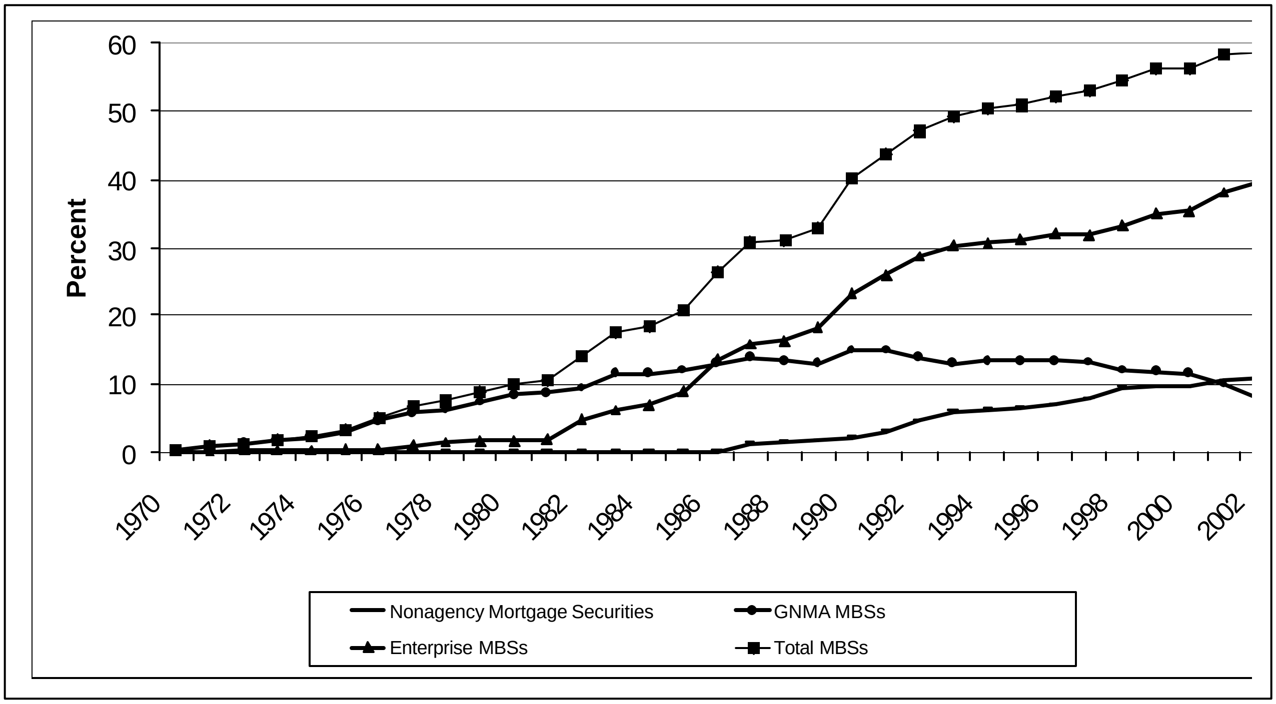
The Federal Home Loan Banks have increased their ownership of residential mortgages through such programs significantly in recent years. Specifically, single-family mortgages owned by the System rose from less than $1 billion at the end of 1998 to $16.1 billion at year-end 2000, $27.6 billion at year-end 2001, and $60.6 billion at year-end 2002.

The Securitized Share of Single-Family Residential Mortgage Debt

The share of single-family residential mortgage debt outstanding financed through securitization grew steadily between 1970 and 2002, exceeding 58 percent at the end of the latter year (see Figure Five). The share of the single-family market financed with MBS guaranteed by Ginnie Mae exceeded 10 percent in 1982, rose to 15 percent in 1991 and 1992, and declined thereafter, falling to below 8 percent in 2002. That decline reflected the shrinking share of single-family mortgage debt outstanding insured by FHA or guaranteed by VA or RHS. MBS guaranteed by Fannie Mae and Freddie Mac grew rapidly after 1982 and accounted for over 30 percent of single-family debt outstanding at the end of 1993. Thereafter, the share of the market securitized by the Enterprises grew more slowly before accelerating in 2001 or 2002. By year-end 2002, the Enterprises' securitized share of the market had risen to nearly 40 percent of the overall market. The share of the single-family market financed with nonagency mortgage securities rose steadily after 1986, reaching nearly 11 percent at year-end 2002.

Figure Five

Securitized Share of Single-Family Residential Debt Outstanding

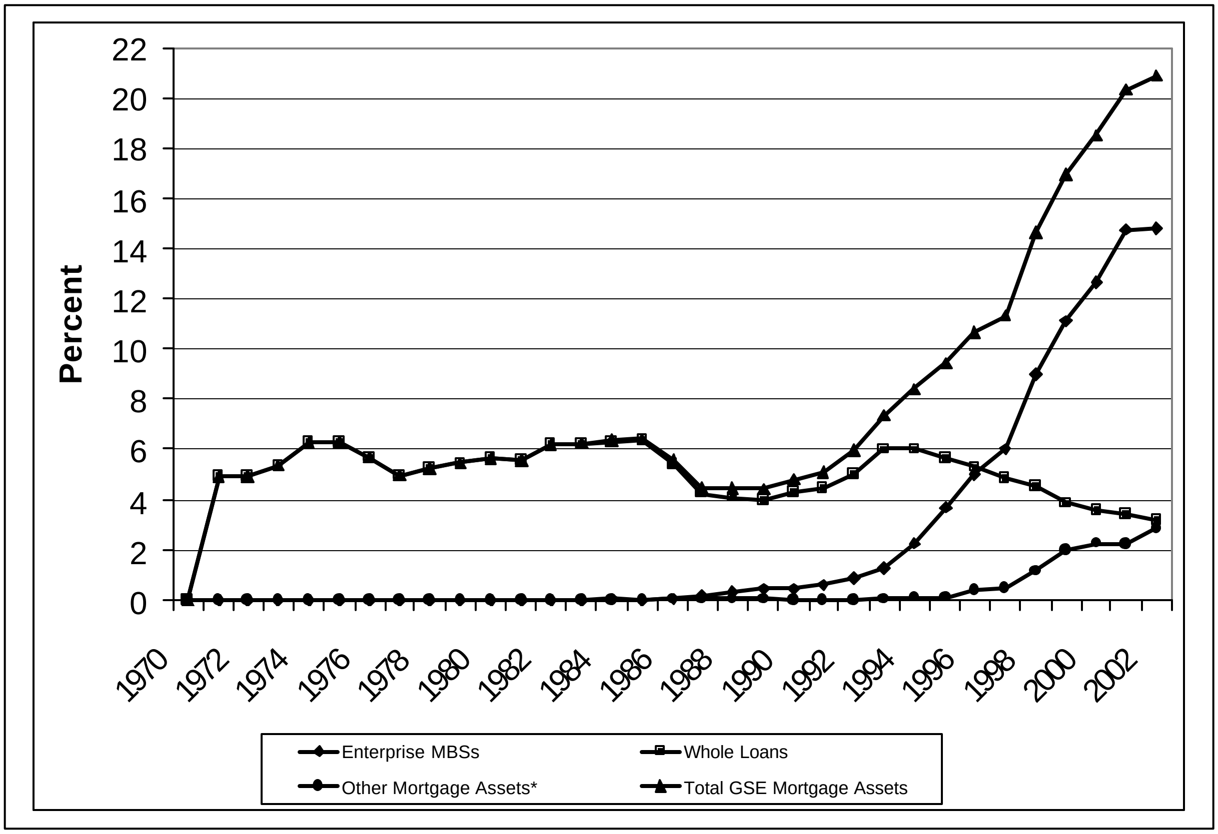


The Proportion of Single-Family Residential Mortgage Debt Outstanding Held by GSEs

As Fannie Mae and Freddie Mac increased their mortgage assets in the 1990s, the share of single-family mortgage debt outstanding held by the Enterprises rose from less than 5 percent in 1990 to over 21 percent at the end of 2002 (see Figure Six). Most of that growth resulted from the rapid expansion of Fannie Mae and Freddie Mac holdings of Enterprise guaranteed MBS and, since the late 1990s, nonagency MBS. At year-end 2002, whole loans held by Fannie Mae and Freddie Mac accounted for less than 4 percent of the market, down from a high of 6 percent at points in the 1980s, whereas MBS held by the Enterprises accounted for nearly 17 percent. Federal Home Loan Bank mortgage investments have grown to just under 1 percent of single-family mortgage debt outstanding.

Figure Six

Proportion of Single-Family Residential Mortgage Debt Outstanding Held by GSEs



CONCLUSION

The expansion of the secondary market for single-family mortgages in the last three decades has had several beneficial effects on the housing finance system and the housing sector in the U.S. Local and regional markets for FRMs have been integrated with the international capital markets, and the interest rates on fixed-rate loans financed by MBS guaranteed by Ginnie Mae, Fannie Mae, and Freddie Mac have been reduced. Lending practices in the primary market have become more standardized, competition among mortgage originators has increased, the up-front costs of financing a home purchase or refinancing a mortgage have been reduced, households have a broader menu of financing options from which to choose, and homeowners can easily tap into the wealth they have accumulated in their homes. Those effects have contributed to greater housing activity and homeownership in the U.S.

CHAPTER THREE: CAPITAL REGULATION

The administration of OFHEO's capital adequacy program is multi-faceted. First, OFHEO was required by the 1992 Act to establish two quantitative assessments of capital – minimum and risk-based. While the minimum, or ratio-based, standards have been in place since 1993, 2002 marks the advent of OFHEO's risk-based capital standard, which became enforceable for the third quarter of 2002. Thus, the Enterprises are required to maintain sufficient capital to pass both of the two tests. Second, OFHEO's examination program provides a qualitative assessment of capital adequacy through a continuous and comprehensive examination of each Enterprise. Both the quantitative and qualitative measurements of capital adequacy are supplemented with other tests, analysis, and research. Other regulatory tools supplement OFHEO's regulatory framework that allow OFHEO to respond to safety and soundness concerns prior to their impact on capital adequacy. Failure to meet the capital adequacy requirement triggers a range of regulatory responses, depending upon the capital classification of an Enterprise.

RISK-BASED CAPITAL OVERVIEW

What is the Risk-Based Capital Standard?

The principal behind risk-based capital is to ensure a close relationship between the level of risk undertaken at a particular time by an Enterprise, and the level of capital it must hold.

OFHEO's stress test is tailored to the specific risks of the Enterprises – guaranteeing and investing in mortgages. OFHEO's stress test simulates an Enterprise's financial performance over a 10-year period under severe economic conditions. These conditions include high levels of mortgage defaults, with associated losses and large, sustained movements in interest rates, both increasing (up-rate scenario) and decreasing (down-rate scenario).

The 10-year stress test is used to measure risk in the context of each Enterprise's overall portfolio, including the effectiveness of their risk management positions. The results of the stress test determine 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, plus an additional 30 percent to cover unspecified management and operations risk.

How it Works

The OFHEO RBC rule is implemented using a collection of statistical and econometric models incorporated into a computer code developed by OFHEO. OFHEO uses this detailed computer model to simulate each Enterprise's cash flows associated with mortgages and other financial assets and obligations. The modeling of incoming and outgoing cash flows captures the risks embedded in those financial assets and obligations and the benefits of the hedges each Enterprise has set in place.

This type of cash flow modeling provides an economic valuation versus a market valuation of the Enterprises.

The model uses specific data from the Enterprises to model cash flows of all assets, liabilities, and off-balance sheet obligations. The model captures economic changes, mortgage performance characteristics (e.g., defaults, prepayments, and credit enhancements), and various accounting assumptions that influence the timing and amount of cash flows. The model calculates gains and losses for each month over the 10-year period. The model then determines the amount of capital the Enterprise must have at the beginning of the stress test, plus the additional 30%, to maintain positive capital over the 10-year stress period. 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 (up-rate or down-rate) is more adverse for that Enterprise.

The economic conditions of the stress test are driven by interest rate changes combined with adverse house price conditions. The 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), are statutorily prescribed. Changes in both scenarios are influenced by the existing interest rate environment as a starting point before the shock and cannot exceed 600 basis points. House price conditions are driven by a benchmark loss experience based on a historical analysis of newly originated 30-year fixed-rate single-family loans from the states of Arkansas, Louisiana, Mississippi, and Oklahoma during 1983 - 1984.

How Much Data are Required?

The Enterprises provide OFHEO with quarterly data sufficient in nature to replicate the actual financial condition of each Enterprise. The data is sufficiently detailed to accurately project cash flows for assets, liabilities, and off-balance sheet obligations. Some of the data is provided in aggregate such as mortgage loans, where common risk characteristics exist. Other data is required specific to the instrument to accurately project its cash flows, as is the case for derivatives and debt instruments. The Enterprises provide data on over 282,000 instruments submitted in nearly 30 million separate data fields each quarter.

Box 3-1
Risk-Based Capital Implementation Achievements

During 2002, significant OFHEO resources were dedicated to implementation efforts surrounding the risk-based capital rule. Specifically, a task force focused on operational issues was formed in late 2001 with nine individuals directly assigned to identify issues, coordinate resources, and implement solutions. Numerous staff throughout the agency were directly tasked with implementing the solutions to the stress test implementation. Virtually 100% of the staffs in two divisions (Office of Risk Analysis and Model Development and Office of Information Technology) held risk-based capital implementation as a top priority. Among the major accomplishments achieved during the year are:

- Issuing the first binding risk-based capital requirement as of September 30, 2002, one year after rule approval. Additionally, results of the stress test were released for the prior two non-enforceable quarters for the first and second quarter 2002 results providing additional transparency to the public.
- Establishment of a Change Management Control process – Given the critical nature of synchronizing changes to the stress test code with the data base and data requirements, OFHEO dedicated additional resources to meet on a regular basis to provide a controlled environment to process, test, synchronize and communicate changes
- Establishment of operating guidelines – Once the rule became final, OFHEO began the steps associated with establishing various operating guidelines to ensure tasks are carried out in an efficient and timely manner on a regular quarterly basis. Numerous guidelines were issued and are published on OFHEO's web site.
- Changes to Rule – During implementation, OFHEO began the process of reviewing and enhancing the Rule to ensure it is dynamic and appropriately captures risk. Rule changes covering various correcting amendments were issued in April 2002, several technical amendments were issued in November 2002, and at year-end 2002 an additional rule amendment covering several issues was pending approval.
- Incorporation of New Activities - New Activity notifications were also included with the first enforceable classification as of September 30, 2002. While these activities were previously treated on an interim basis, the permanent OFHEO treatment was implemented with the third quarter results. The treatments of these activities are posted on the OFHEO web site for public comment.
- Availability of Code, User's Guides, and RBC Report Instructions for public use through OFHEO web site – OFHEO provided a user-friendly version of the stress test code with complete user's guides as of 1/31/2003. This version of code and instructions were applicable to the year-end 2002 data provided by the Enterprises.
- Development of Stylized Data Set – In conjunction with the public release of the code, OFHEO developed a stylized data set representing a small GSE that the public could use to test the functionality of the stress test code.
- Operational Implementation at GSEs – OFHEO worked closely with the Enterprises during 2002 to ensure they understood the rule, the Report Instructions, and the computer code.

MINIMUM CAPITAL STANDARD - OVERVIEW

OFHEO's ratio-based minimum capital standard measures capital as a percentage of total assets. This ratio-based standard is mandated in the 1992 Act.

Minimum capital represents an essential amount of capital needed to protect an Enterprise against broad categories of business risk. Minimum capital represents an absolute floor, related to the level of Enterprise assets and obligations, below which core capital should not dip. 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.

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 as 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.

CLASSIFICATION PROCESS

Each quarter, OFHEO calculates a minimum capital requirement, which includes both a "minimum" and a lower "critical" level, and a risk-based capital requirement for each Enterprise. As of September 30, 2002 the Enterprises were required to meet or exceed both the minimum and risk based capital requirement to be classified as "adequately capitalized."

An Enterprise that meets the minimum capital requirement, but does not meet the risk-based capital requirement would be classified as "undercapitalized." An Enterprise that does not meet the minimum capital requirement would be classified as "significantly undercapitalized." An Enterprise that holds less than the critical requirement would be classified as "critically undercapitalized." Failure to meet the requirements triggers a range of regulatory responses, depending upon the capital classification of the Enterprise.

Each quarter, OFHEO proposes a capital classification in writing to each Enterprise. Each Enterprise has the opportunity to review and comment on its proposed classification. After reviewing any comments from the Enterprise, OFHEO makes a final capital classification and releases the classification to the public.

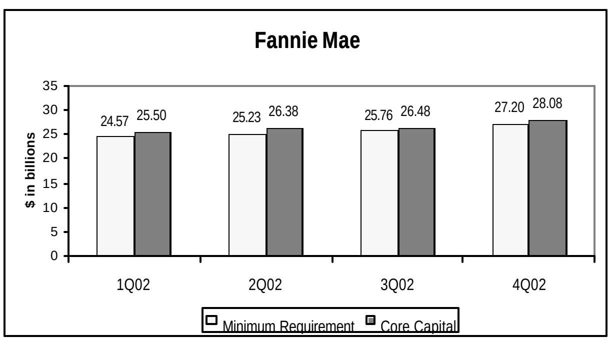
RESULTS AND ANALYSIS OF CAPITAL ADEQUACY

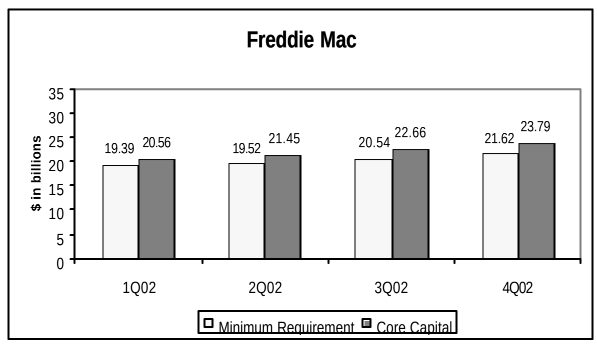
Both Enterprises, through the period ending December 31, 2002, have met or exceeded the capital requirements and are adequately capitalized.

The Enterprises' successes in meeting the risk-based capital requirement reflects the effective interest rate risk management, the lower interest rate environment in 2002, and, to a lesser extent, on recent years' house price appreciation. During 2002, interest rate risk exposure accounted for most of the Enterprises' risk-based capital requirements. Although home price appreciation moderated in the fourth quarter 2002, past house price growth continued to support the overall credit quality of the Enterprise mortgage portfolios. The house price appreciation, combined with effective risk sharing arrangements, has limited the significance of mortgage credit losses in the stress test.

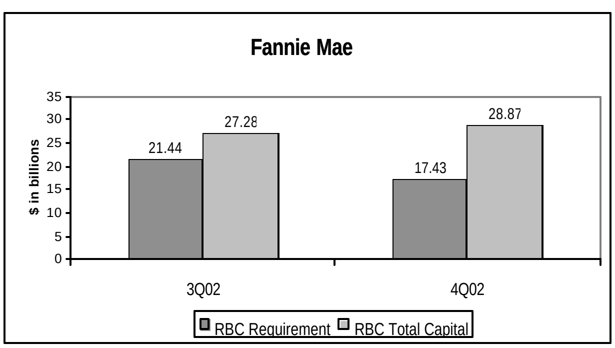
Results of Capital Adequacy (Box 3-2)

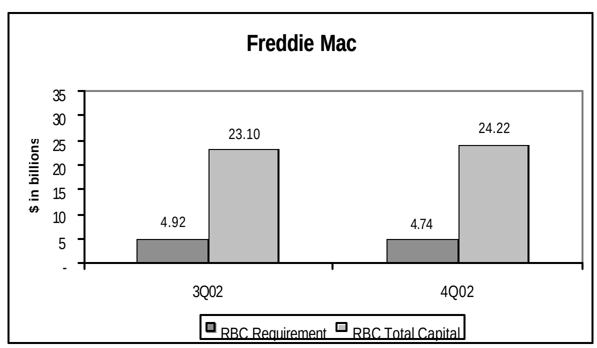
MINIMUM CAPITAL RESULTS





RISK-BASED CAPITAL RESULTS





ONGOING ENHANCEMENTS

OFHEO is committed to ensuring the risk-based capital stress test and its capital oversight processes remain dynamic. The risk-based capital rule will continue to evolve in order to accommodate market innovations as well as developments in risk-measurement techniques. Treatments for new activities will be incorporated and disclosed to the public at the time OFHEO determines appropriate permanent treatment. OFHEO will also continue to pursue specific research projects and consider alternative or supplementary ways of assessing Enterprise risk as more is understood about the potential for these tools to improve OFHEO's supervisory capacity. More sensitivity analysis "what if" scenarios, close scrutiny of the Enterprises' own assessment of their risks, and a consideration of the relative probability of capital impairment under particular circumstances beyond those specified in the rule, are all subject areas to be pursued. Likewise, OFHEO will continue to make its risk-based capital stress test available to the public for replication purposes, thus encouraging feedback and refinement to the process.

CAPITAL ADEQUACY (BOX 3-3)

Enterprise Risk-Based Capital Requirement (Billions of Dollars) (2)								
	Fannie Mae				**Freddie Mac**			
	31-Dec-02		**30-Sep-02**		**31-Dec-02 (1)**		**30-Sep-02**	
	High	Low	High	Low	High	Low	High	Low
Interest Rate Scenario	17.434	14.637	18.887	21.440	4.743	3.753	4.919	0.732
Total Capital	28.871			27.278	24.222		23.101	
Surplus (Deficit)	11.437			5.838	19.479		18.182	

Fannie Mae Minimum Capital Requirement (Billions of Dollars) (2)				
	31-Dec-02	**30-Sep-02**	**30-Jun-02**	**31-Mar-02**
Minimu m Capital Requirement	27.203	25.756	25.227	24.571
Core Capital	28.079	26.484	26.382	25.500
Surplus (Deficit)	0.877	0.729	1.155	.929

Freddie Mac Minimum Capital Requirement (Billions of Dollars) (2)				
	31-Dec-02	**30-Sep-02**	**30-Jun-02**	**31-Mar-02**
Minimum Capital Requirement	21.620	20.538	19.520	19.390
Core Capital	23.792	22.656	21.445	20.558
Surplus (Deficit)	2.172	2.118	1.925	1.169

Fannie Mae Critical Capital Requirement (Billions of Dollars) (2)				
	31-Dec-02	**30-Sep-02**	**30-Jun-02**	**31-Mar-02**
Critical Capital Level	13.880	13.145	12.867	12.529
Core Capital	28.079	26.484	26.382	25.500
Surplus (Deficit)	14.199	13.339	13.515	12.971

Freddie Mac Critical Capital Requirement (Billions of Dollars) (2)				
	31-Dec-02	**30-Sep-02**	**30-Jun-02**	**31-Mar-02**
Critical Capital Level	11.009	10.463	9.950	9.874
Core Capital	23.792	22.656	21.445	20.558
Surplus (Deficit)	12.783	12.193	11.495	10.684

(1) Freddie Mac's 12/31/2002 capital numbers are based on financial statements, which are currently undergoing an audit. These numbers are subject to change.
(2) Numbers may not add due to rounding

CHAPTER FOUR: OFHEO'S EXAMINATION PROGRAM

INTRODUCTION

OFHEO's annual risk-based examination program is an integral part of a system designed to ensure the ongoing safety and soundness of Fannie Mae and Freddie Mac. The examination program assesses the appropriateness and effectiveness of the Enterprises' policies and processes for risk management, and assesses the companies' financial performance. Using a risk-based approach allows OFHEO to recognize the unique operations of each Enterprise while applying uniform safety and soundness standards throughout the year. This aspect of the examination program's design ensures that OFHEO is responsive to changes at the Enterprises while not imposing unnecessary burdens. The analysis and testing conducted during the examinations add further depth and perspective to OFHEO's oversight of Fannie Mae and Freddie Mac. The examination program, together with OFHEO's capital adequacy framework, informs the Director's judgment about the appropriateness of the balance of risk and capital at each Enterprise.

The 2002 examinations found both Enterprises to be financially sound and well-managed.

The process OFHEO employed in its comprehensive annual risk-based examinations to reach these conclusions is briefly described below. This information is provided to give context for the summary of the examination results and conclusions for each Enterprise.

OFHEO's Examination Program

Risk Profiles

Through a wealth of resources (including OFHEO knowledge, external sources and proprietary Enterprise information and data), the examination process begins by assessing the quantity of risk and quality of risk management at each Enterprise. OFHEO reviews each Enterprise's risk profile at least quarterly, and revises its views if, for example, the Enterprise has planned or undertaken substantive new business initiatives, or if the Enterprise has substantially changed its level of risk or the manner in which it manages risks.

Examination Strategies

Based upon OFHEO's unique position to understand the Enterprises' risk profiles, in the next step of the examination process OFHEO develops detailed examination strategies to provide effective, efficient oversight of each Enterprise. The annual written examination strategies are dynamic and represent a blueprint of the examination work to be conducted in the coming year. The examination strategies are reviewed and updated quarterly based on Enterprise, industry and economic developments. In conjunction with the strategies, OFHEO creates work plans that describe how the strategies will be achieved. The work plans outline the scope, timing, and resources needed to meet the objectives and examination activities set forth in the strategies.

Program Areas for Risk-Based Examinations and Categories of Risk and Risk Management

Once OFHEO has strategies and work plans in place, examiners implement the strategies by completing exam work in each of the program areas for risk-based examinations. These are the program areas that capture the areas of risk and risk management being assessed at the Enterprises, with each program area focusing on specific sources of risk or risk management practices and tools. Later in this Chapter, OFHEO presents results and conclusions for both Fannie Mae and Freddie Mac.

In order to enhance examinations and maximize expertise, OFHEO has grouped the program areas by categories of risk and risk management, and aligned its examiner force expertise into teams that align with the categories of risk and risk management, and provide analytical expertise and financial monitoring.

The examination program areas, grouped by category, are:

CREDIT

- **Credit Risk Program -** the risk that borrowers and counterparties will fail to meet their contractual or other obligations to the Enterprise.

MARKET

- **Interest Rate Risk Program –** the risk from movements in interest rates, including changes in: the level of interest rates; the shape of the yield curve; the level of volatility; and the relationships or spreads among various yield curves or indices.
- **Liquidity Management Program** - the risk that could arise from the Enterprise's inability to efficiently meet its obligations as they come due and to transact the next incremental dollar of business cost effectively.

MODELLING

- **Model Exposure Program – the exposure that arises when using computer models and quantitative techniques to select, price and manage risks.**

OPERATIONS

- **Information Technology Program** - the infrastructure, or the general controls, needed to safeguard data, protect computer application programs, prevent system software from unauthorized access, and ensure continued computer operations in case of unexpected interruptions.
- **Business Process Controls Program** – assesses the process employed to ensure business initiatives and endeavors are considered and evaluated within a complete business context with particular attention directed to risk assessment and risk management framework.
- **Internal Controls Program** - the plan of organization, methods and procedures adopted by management to ensure that: goals and objectives are met; resource use is consistent with laws, regulations and policies; resources are safeguarded against waste, loss and misuse; and reliable data are obtained, maintained and fairly disclosed in reports.

CORPORATE GOVERNANCE

- **Audit Program** - the risk that the Board or management's reliance on internal or external audits is misplaced.
- **Management Information Program** – the risk that management will make decisions based on ineffective, inaccurate or incomplete information or reports.
- **Management Processes Program -** the processes used to drive behaviors to support the Enterprise's defined corporate goals, standards and risk tolerances.
- **Board Governance Program** - the manner in which the Board discharges its duties and responsibilities.
- **Financial Reporting –** the policies, procedures and practices used for financial recordation and reporting.

Evaluation Criteria, Assessment Factors and Examination Objectives

OFHEO conducts examination work in each of the program areas by using evaluation criteria, assessment factors and examination objectives. The examination objectives are broad in scope, the assessment factors are more narrowly focused and the evaluative criteria are narrower still.

The approximately 800 evaluation criteria in the examination program detail both qualitative and quantitative items that examiners consider when making decisions about the assessment factors. The evaluation criteria are designed to assist the examiners and to ensure that the examination work is consistent at both Enterprises by creating transparency and understanding of the framework within which examiners make judgments.

Examiners use the information and data from the evaluation criteria to form their expert opinions about the almost 100 assessment factors which in turn link directly to one or more of the examination objectives for each of the program areas. Sources for the assessment factors included industry standards and benchmarks, leading practices and examiner expertise.

For each program area there are four or five examination objectives. These are the broad statements of what OFHEO's examiners will achieve through their work in each of the examination program areas. In order to make a determination on an examination objective, OFHEO's examiners are required to opine on each of the supporting assessment factors. By using the evaluation criteria to reach judgments about the approximately 100 assessment factors, OFHEO achieves its examination objectives, and reaches the examination results and conclusions that are reported in this chapter.

Communicate Examination Findings

Throughout the course of conducting examinations, OFHEO communicates with Enterprise personnel not only to gather information, but also to share findings and discuss observations and opportunities for enhancement. OFHEO is committed to continuous, effective communication with the Enterprises. OFHEO has the same goal for all communications -- the free flow of information furthers the objective of ensuring the safe and sound operations of the Enterprises. Communications are tailored to the individual structure and dynamics of the

Enterprise, and the timing of the communication depends on the situation being addressed. OFHEO keeps executive management and the Board appropriately informed and communicates directly with them as often as required by the Enterprise's condition and the findings from examination activities. OFHEO brings those issues that introduce an exposure to the stable operation of the Enterprise, otherwise fall under the normal duties and responsibilities of the Board, or warrant the Board's attention to the immediate attention of the Board and executive management. Technical issues and matters relating to a single line of business or activity are generally brought to the attention of operating managers with the Board and executive management kept appropriately informed.

Throughout the 2002 annual examination cycle, OFHEO's examiners had ongoing dialogues with the operating management at both Enterprises about the operations and processes covered by each of the examination program areas. In these discussions, the examiners shared their views about discrete opportunities the companies had to strengthen their operations and processes, including initiatives that if implemented, would enhance existing tools and processes and minimize the resulting exposure to financial risk. The goal of ensuring that the Enterprises' operations meet or exceed financial safety and soundness standards at any given point in time is supported by this iterative process and netted results that found both companies to be well-managed and financially sound.

Effect Changes and Follow Up

A primary goal of the examination process is to influence positive changes at the Enterprises to enhance their financial safety and soundness. The intensity of the influence exerted by OFHEO relates directly to the risk presented by an issue. If, for example, in the course of an examination OFHEO identifies a significant issue in risk management systems or an undesirable risk level, OFHEO will require management to develop and execute a corrective action plan, and will ensure that the Board holds management accountable for executing the action plan. OFHEO will review the action plan to ensure that it identifies the steps or methods required to cure the root causes of significant deficiencies, and to determine whether the plan is likely to resolve the significant issues within an appropriate time frame. As part of follow up, OFHEO will verify that the action plan has been executed and evaluate its success.

OFHEO will consider the responsiveness of the Enterprise in recognizing the issue and formulating an effective solution when determining if OFHEO needs to take incremental action. If an Enterprise is unresponsive or unable to effect the resolution of meaningful issues, OFHEO will take more formal steps to ensure deficiencies are corrected.

FANNIE MAE AND FREDDIE MAC EXAMINATION RESULTS AND CONCLUSIONS

Introduction

In accordance with our examination program, the results and conclusions for the examination activities are reported in relation to safety and soundness standards. Throughout the annual examination cycle, January through December 2002, OFHEO's examiners had ongoing dialogues with operating management at Fannie Mae and Freddie Mac about each company's operations and processes in the areas covered by Credit Risk, Market Risk, Model Exposure, Operational Risk and Corporate Governance. In these discussions, the examiners shared their views about discrete opportunities the company had to strengthen its operations and processes, including initiatives that if implemented, would enhance existing tools and processes and minimize the resulting exposure to financial risk. The goal of ensuring that the Enterprises' operations meet or exceed financial safety and soundness standards at any given point in time is supported by this iterative examination process.

No matters identified in our 2002 examination work required the direct involvement of the Board of Directors for their remediation. At both Enterprises operating management was responsive and effective in addressing issues raised for their attention and action.

The results and conclusions which are reported below reflect the examination work conducted from January through December 2002.

Fannie Mae Examination Results and Conclusions

Fannie Mae's credit risk management and credit risk management framework are effective. The portfolio is diversified and the profile of credit risk is in compliance with the internally prescribed limits. Policies, procedures, internal controls and management reporting for the credit function are effective. Fannie Mae is appropriately compensated for the credit risk it assumes. Management prudently manages counterparty exposure. New products and initiatives are well researched prior to implementation. The credit risk sharing strategies are effective, as are the tools used to select, price and manage credit risk. Fannie Mae effectively identifies, quantifies and tracks its credit risk exposures. Management has an effective means for tracking and following up on credit related issues. The technology and controls supporting the credit risk management function are effective and being further enhanced. Management effectively identifies and reconciles differences between actual and expected credit portfolio performance.

Fannie Mae's management of interest rate risk was effective. During 2002, Fannie Mae's strategies and practices were ultimately effective in responding to the financial impacts associated with a volatile rate environment that resulted in sharp increases in mortgage prepayment speeds. In the second-half of 2002, Fannie Mae's duration gap widened significantly, which if not corrected, would have posed a safety and soundness concern. However, management effectively executed a plan that rebalanced the portfolio's sensitivity position. Examiners and Fannie Mae representatives were in close communication while the sensitivity position was outside the company's targeted operating range. Examiners focused on management's compliance with its prescribed policies, the quality of management's action plans and the effectiveness of management's actions.

Management has a meaningful methodology for quantifying and monitoring the level and nature of interest rate risk. Fannie Mae's management effectively follows up on issues related to interest rate risk. Fannie Mae appropriately researches and controls the extent to which new products and initiatives may impact the interest rate risk profile. The technology and controls supporting the interest rate risk management function are effective. The tools used to model interest rate risk, and the strategies to alter the exposures to interest rates are effective. Management effectively incorporates tactical and strategic issues into the management of interest rate risk. The responsibilities for strategy and analytics functions are appropriately separated from those for the execution functions. Derivative instruments are used prudently and in accordance with the standards used by other large financial intermediaries.

Fannie Mae's liquidity management is effective, and the company's liquidity access was stable throughout 2002. The policies, procedures, internal controls and management reporting relating to liquidity management are effective. Management has an effective methodology for quantifying and monitoring liquidity, and management appropriately evaluates the impact of events and alternative environments when developing contingency plans. The planning process for liquidity management is effective. Fannie Mae appropriately considers the impact new products and initiatives may have on liquidity. Management effectively follows up on issues and initiatives that influence liquidity. Technology and controls for liquidity management are effective. The quality of tools Fannie Mae uses to manage and monitor liquidity, and the quality of tools used to perform scenario analyses are effective. An appropriate separation of duties exists between the strategy and analytics functions and the execution function. Fannie Mae effectively analyzes and is well positioned to respond to trends and anomalies in funding spreads. Liquidity management is appropriately integrated with other management and financial performance issues.

The information technology infrastructure and its surrounding risk management framework is effective. Operating processes are in place to ensure secure, effective and efficient data center processing and problem management. There are effective policies and processes in place to ensure that data, information and computing resources are secure and accessed only by authorized users. There are effective policies and processes in place to ensure the timely and appropriate resumption of business in the event of a disaster. Management has processes in place that ensure information technology plans effectively address business unit and corporate objectives. Effective processes are in place to ensure appropriate controls are implemented. Documentation for system development and maintenance is complete. Fannie Mae has implemented effective processes to ensure data and information are processed accurately and in a timely manner. Effective controls are in place to secure networks and/or firewalls from unauthorized or inappropriate actions. Fannie Mae has effective controls over end-user computing.

Fannie Mae's internal control framework and the management of that framework are effective. Management has an accurate and reliable process for identifying risks to business processes and implementing appropriate controls. Implemented controls properly address risks assessed by management. Management has a reliable process for ensuring the timely resolution of control related issues. Internal Audit appropriately identifies and communicates control deficiencies to management and the Board of Directors. There are established policies and procedures that delineate internal control process and standards for the control environment. Management effectively ensures compliance with established internal controls.

The processes and control environment used when Fannie Mae considers and/or develops new or substantially revised business initiatives are effective. The use of pilot programs and the communication flows surrounding new or substantially revised business initiatives are effective. The balance between risk management, internal controls and the pressure to develop new or substantially revised business initiatives is appropriate. The corporation's operating culture fosters the introduction of new ideas and innovation. Both the analysis and review conducted for potential new or substantially revised business initiatives, and the analysis conducted after a new or substantially revised business initiative is launched, are effective.

The audit functions are independent and effective and adhere with the standards that are evolving. The Internal and External Audit functions have the appropriate independence. Auditors performing the work possess appropriate professional proficiency. The scope of internal audit work performed is appropriate, and the internal audit work is complete. The management of the Internal Audit department is effective. The Board of Directors are appropriately involved with and follow up on identified audit issues. The auditor's risk assessment process is effective. Internal Audit is appropriately involved in new products and new initiatives.

The Board of Directors discharges its duties and responsibilities effectively and in accordance with the leading practices that are evolving. The Board is appropriately engaged in the development of a strategic direction for the company, and the Board ensures that management appropriately defines the operating parameters and risk tolerances of the Enterprise in a manner consistent with the strategic direction; legal standards; and ethical standards. The Board has an effective process for hiring and maintaining a quality executive management team, and the Board effectively holds the executive management team accountable for achieving the defined goals and objectives. The Board is appropriately informed of the condition, activities and operations of the Enterprise, and has sufficient, well-organized time and the necessary resources to carry out its duties and responsibilities.

The framework used to produce timely, accurate and reliable reports is effective. Management and the Board of Directors receive necessary reports on Fannie Mae's performance relative to established goals and objectives. Management reporting permits management to gauge the quality of their decisions. Information systems are linked to Fannie Mae's overall strategy, and are developed and refined pursuant to a strategic plan. The reports management uses for decision making are accurate. Enterprise strategy, roles and responsibility are effectively communicated. Employees have effective channels of communication to provide feedback, report suspected improprieties and suggest enhancements. Communications across the company are effective.

Key management processes that influence company-wide talent and behaviors are effective. The strategic planning process is comprehensive. Business unit goals, implementation plans and programs designed to achieve the corporate plan are effective. Management is able to monitor and manage change. Key performance measures are appropriate, effective and align with strategy. The behavior management programs are effectively designed to achieve corporate goals and objectives. Fannie Mae has effective programs for career and management development, and for recruiting competent people. Fannie Mae's proprietary risk management programs and systems are effective. Management effectively conveys an appropriate message of integrity and ethical values. Management's philosophy and operating style have a pervasive effect on the company. The organizational structure and the assignment of responsibility provide for accountability and controls.

Freddie Mac Examination Results and Conclusions

Freddie Mac's credit risk management and credit risk management framework are effective. The portfolio is diversified and the credit risk profile is in compliance with the internally prescribed limits. Policies, procedures, internal controls and management reporting for the credit function are effective. Freddie Mac is adequately compensated for the credit risk it assumes and its credit risk models produce reliable results. Management prudently manages counterparty exposure. New products and initiatives are well-researched prior to implementation. The credit risk sharing strategies are effective, as are the tools used to select, price and manage credit risk. Freddie Mac effectively identifies, quantifies and tracks its credit risk exposures. Management has an effective means for following up on credit-related issues. The technology and controls supporting the credit risk management function are effective and being further enhanced. Management effectively identifies and reconciles differences between actual and expected credit portfolio performance.

Freddie Mac's management of interest rate risk was effective. During 2002, Freddie Mac's hedging strategies and practices were effective in minimizing the financial impacts associated with a volatile rate environment that resulted in sharp increases in mortgage prepayment speeds. The policies, procedures, internal controls and management reporting relating to interest rate risk are effective. Management has a meaningful methodology for quantifying and monitoring the level and nature of interest rate risk. Freddie Mac's management effectively follows up on issues related to interest rate risk. Freddie Mac appropriately researches and controls the extent to which new products and initiatives may impact the interest rate risk profile. The technology and controls supporting the interest rate risk management function are effective. The tools used to model interest rate risk and the strategies to alter the exposures to interest rates are effective. Management effectively incorporates tactical and strategic issues into the management of interest rate risk. The responsibilities for the strategy and the analytics functions are appropriately separated from those for the execution functions. Derivative instruments are used prudently and in accordance with the standards used by other large financial intermediaries.

Freddie Mac's liquidity management is effective, and the company's liquidity access was stable throughout 2002. The policies, procedures, internal controls and management reporting relating to liquidity management are effective. Management has an effective methodology for quantifying and monitoring liquidity, and management appropriately evaluates the impact of events and alternative environments when developing contingency plans. The planning process for liquidity management is effective. Freddie Mac appropriately considers the impact new products and initiatives may have on liquidity. Management effectively follows up on issues and initiatives that influence liquidity. Technology and controls for liquidity management are effective. The quality of tools Freddie Mac uses to manage and monitor liquidity, and the quality of tools used to perform scenario analyses are effective. An appropriate separation of duties exists between the strategy and analytics functions and the execution function. Freddie Mac effectively analyzes and is well positioned to respond to trends and anomalies in funding spreads. Liquidity management is appropriately integrated with other management and with financial performance issues.

The information technology infrastructure and its surrounding risk management framework is effective. Operating processes are in place to ensure secure, effective and efficient data center processing and problem management. There are effective policies and processes in place to ensure that data, information and computing resources are secure and accessed only by authorized users. There are effective policies and processes in place to ensure the timely and appropriate resumption of business in the event of a disaster. Management has processes in place to ensure information technology plans effectively address business unit and corporate objectives. Effective processes are in place to ensure appropriate controls are implemented. Documentation for system development and maintenance is complete. The controls over end-user computing are effective and there are controls that secure networks and firewalls from inappropriate or unauthorized actions. Freddie Mac has processes in place to ensure data and information are processed accurately and in a timely manner.

The internal control framework and the management of that framework are effective. Management has an accurate and reliable process for identifying risks to business processes and implementing appropriate controls. Implemented controls properly address risks assessed by management. Management has a reliable process for ensuring the timely resolution of control related issues. Internal Audit appropriately identifies and communicates control deficiencies to management and the Board of Directors. There are established policies and procedures that delineate internal control process and standards for the control environment. Management effectively ensures compliance with established internal controls.

The process and control environment used when considering or developing new or substantially revised business initiatives is effective. The criteria Freddie Mac uses to subject a business initiative to review as new or substantially revised are appropriate. Pilot programs are effectively used and the analysis and review conducted after the launch of a new or substantially revised business initiative is appropriate. The communications associated with new or substantially revised business initiatives are effective. Freddie Mac appropriately balances risk management, internal controls and the pressure to deliver new or substantially revised business initiatives. Freddie Mac's corporate culture fosters the introduction of new ideas and innovation.

The audit functions are independent and effective. The Internal and External Audit functions have the appropriate independence. Auditors performing the work possess appropriate professional proficiency. The scope of audit work performed is appropriate, and the audit work is complete. The management of the Internal Audit department is effective. Executive management and the Board of Directors are appropriately involved with and follow up on identified audit issues. The auditor's risk assessment process is effective. Internal Audit is appropriately involved in new products and new initiatives.

The Board of Directors discharges its duties and responsibilities effectively and in accordance with the leading practices that are evolving. The Board is appropriately engaged in the development of a strategic direction for the company and ensures that management appropriately defines the operating parameters and risk tolerances of the Enterprise in a manner consistent with the strategic direction; legal standards; and ethical standards. The Board has an effective process for hiring and maintaining a quality executive management team, and has processes in place designed to hold the executive management team accountable for achieving the defined goals and objectives. The Board is appropriately informed of the condition, activities and operations of the Enterprise.

Management and the Board of Directors receive necessary reports on Freddie Mac's performance relative to established goals and objectives. Internal reporting processes and reports provide the means to evaluate management's decisions. Information systems are linked to Freddie Mac's overall strategy, and are developed and refined pursuant to a strategic plan. There are effective communications across the company. Employees have effective channels of communication to provide feedback, report suspected improprieties and suggest enhancements.

Examiners tracked the progress associated with the introduction of the new CPA firm in 2002. Subsequent to year-end 2002, Freddie Mac announced a delay in its certified 2002 financial statement and the reaudit of certain past financial statements. The delay in financial statements and the reaudit arise from specific accounting interpretations regarding the timing of income recognition. Freddie Mac agreed with its new external auditor that the previous accounting treatment, while agreed to by Freddie Mac's previous auditor, was incorrect. OFHEO opined that a reaudit and delay in 2002's statements is prudent and appropriate under the circumstances. In addition, management and its Board of Directors initiated efforts in 2002 to enhance the expertise and controls in the areas of financial accounting and operational control. Examiners evaluated management's and the Board's actions and find these to be enhancements. We remain satisfied that the Board of Directors and executive management are taking the appropriate action.

Key management processes that influence corporate-wide behaviors are effective. The strategic planning process is comprehensive and dynamic. Business unit goals are effective and implementation efforts reflect changing priorities. Management has the ability to monitor and manage change. Key performance measures are appropriate, effective and align with strategy. The behavior management programs are effectively designed to achieve corporate goals and objectives. Freddie Mac has programs for career and management development, and for recruiting competent people. Freddie Mac's proprietary risk management programs and systems are effective. Management effectively conveys an appropriate message of integrity and ethical values. Management's philosophy and operating style have a pervasive effect on the company. The organizational structure and the assignment of responsibility provide for accountability and controls.

CHAPTER FIVE: FINANCING OFHEO'S OPERATIONS

OFHEO'S BUDGET

OFHEO's operations are not financed by taxpayer funds. OFHEO's annual operating budget is, however, subject to the Federal appropriations process and is based on the amount appropriated by Congress and signed into law by the President. The amounts provided for by the appropriations process are collected from Fannie Mae and Freddie Mac in the form of an annual assessment paid semi-annually.

The President's Budget for Fiscal Year 2004 continues to include a proposal to remove OFHEO from the appropriations process. OFHEO Director Armando Falcon has continuously stated that the lengthy appropriations process may not allow OFHEO the flexibility necessary to address evolving, dynamic issues before those issues impact the financial safety and soundness of the Enterprises or funding for the housing market. The Administration is seeking the authority for OFHEO to operate like all other financial safety and soundness regulators, such as the Office of the Comptroller of the Currency and the Office of Thrift Supervision. OFHEO's operations would remain subject to the oversight of Congress, but its budget would be free from the unpredictability of the annual appropriations process.

For fiscal year 2002, OFHEO's budgetary resources totaled $27,337,587. Budgetary resources represent $27 million appropriated to OFHEO for fiscal year 2002 plus recovery of prior year funds and reimbursable agreement earnings. OFHEO supported the Small Business Administration through an Economy Act agreement utilizing OFHEO's financial modeling expertise. The fiscal year 2002 operating budget supported the integration of the Risk-Based Capital regulation into a comprehensive program of risk-based oversight of the Enterprises. In addition to paying on-going salary and operating expenses, the 2002 budget also funded a new, large computer system supporting the risk-based oversight program and one-time leasehold improvements for space configuration and renovation. The office continued to conduct comprehensive annual risk-based examinations of Fannie Mae and Freddie Mac, reviewed and classified the capital adequacy of each Enterprise quarterly, and performed other safety and soundness related regulatory activities.

Five months into fiscal year 2003, OFHEO received its full budget request of $30,000,000. OFHEO will use these resources to strengthen examination and oversight activities by bolstering OFHEO's capacity to oversee Enterprise risk management activities, by improving OFHEO's capacity to analyze stress test outputs, and by improving OFHEO's capacity to analyze developments in the mortgage and securities markets.

OFHEO's fiscal year 2004 budget request totals $32,415,000. These resources will be used to continue strengthening examination and oversight activities. OFHEO will also enhance its analytic capability through creation of a prototype examiner workstation.

OFHEO CONTINUES TO RECEIVE UNQUALIFIED AUDIT OPINION IN FY 2002

In conjunction with the government's goal of improved accountability, OFHEO voluntarily prepared financial statements for fiscal year 2002 and subjected these statements and underlying processes to an independent audit. The certified public accounting firm of Dembo, Jones, Healy, Pennington and Marshall audited the statements. The firm issued an unqualified audit opinion on OFHEO's fiscal year 2002 Financial Statements. The complete audit report follows.

OFFICE OF FEDERAL HOUSING ENTERPRISE OVERSIGHT

FINANCIAL REPORT

September 30, 2002

Office of Federal Housing Enterprise Oversight

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OFFICE OF FEDERAL HOUSING ENTERPRISE OVERSIGHT
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Mission Statement

OFHEO promotes housing and a strong economy by ensuring the safety and soundness of Fannie Mae and Freddie Mac and fostering the strength and vitality of the nation's housing finance system.

Overview

The Office of Federal Housing Enterprise Oversight (OFHEO) was established by Title XIII of the Housing and Community Development Act of 1992, Public Law Number 102-550, known as the Federal Housing Enterprises Financial Safety and Soundness Act of 1992 (1992 Act). OFHEO is an independent office within the Department of Housing and Urban Development (HUD) with responsibility for examining and regulating the Federal Home Loan Mortgage Corporation (Freddie Mac) and the Federal National Mortgage Association (Fannie Mae) (collectively, the Enterprises) and ensuring that they are adequately capitalized.

A Director appointed by the President and confirmed by the Senate for a five-year term heads OFHEO. In October 1999, Armando Falcon, Jr. was sworn in as OFHEO's second Director. Under Director Falcon's leadership, OFHEO effectively regulated the Enterprises in FY 2002. OFHEO determined that the Enterprises were adequately capitalized and operating in a safe and sound manner. In addition, OFHEO promoted an efficient secondary mortgage market through an independent and balanced approach in its oversight of the Enterprises.

To ensure that the Enterprises are adequately capitalized, the 1992 Act required OFHEO to develop a stress test to determine risk-based capital requirements. The final Risk-Based Capital rule was published September 13, 2001. During the mandatory one-year phase-in period following publication of the final rule, Director Falcon devoted considerable resources to the implementation of the Risk-Based Capital Rule. Also, Director Falcon allocated significant resources to strengthening other risk-based oversight activities.

OFHEO is also required by law to conduct on-site comprehensive examinations at Fannie Mae and Freddie Mac to determine the overall safety and soundness of the two companies. The examinations are designed to identify the risks in the business activities of the Enterprises, and to determine if those risks are being prudently managed, controlled, and monitored. Director Falcon has maintained focus on OFHEO's examination and oversight function and plans to increase the number of examiners and automated resources in this area over a four-year period beginning in FY 2003. These additional resources are required to keep pace with the tremendous growth in the size and complexity of the Enterprises' operations, and to provide needed depth in the examination of the Enterprises' core credit, market and interest rate risk areas. The additional resources would also provide capacity to expand the scope and depth of the examination program to include new and emerging activities including accounting practices, risk management methods, operational risk and Risk-Based Capital compliance.

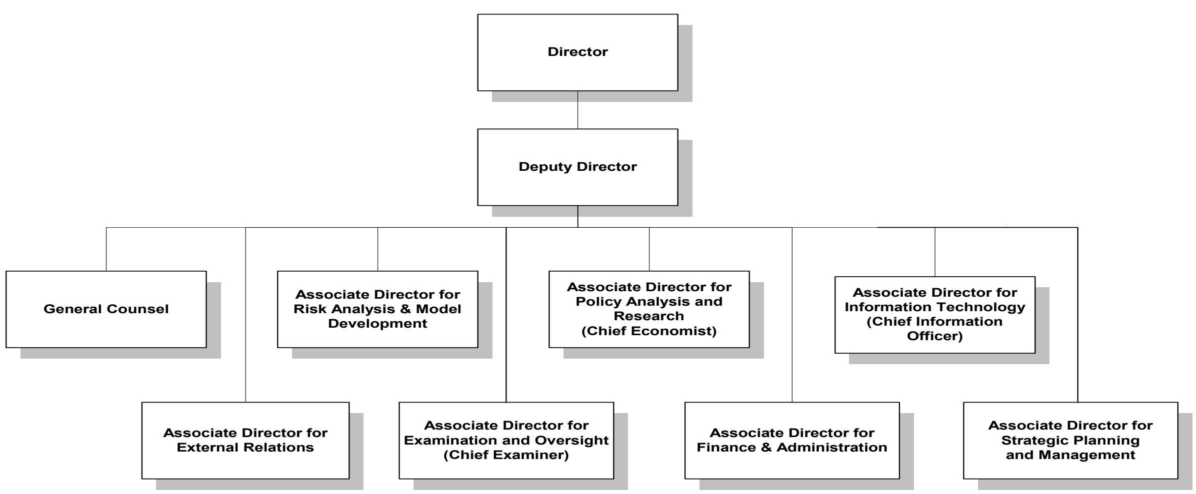
Since OFHEO began operations in 1993, the Enterprises have more than doubled in size and fundamentally shifted their business mix from guarantors of mortgage-backed securities to asset managers. In response to more ambitious affordable housing goals and the shift in business strategy, the Enterprises have also expanded business products and structured programs to purchase high loan-to-value mortgages to support the drive to higher rates of homeownership, to promote the expansion of reverse mortgages for elderly homeowners, and to develop the means to reach less credit worthy borrowers. To fund their expanded portfolios, the Enterprises issued innovative debt instruments, including instruments denominated in foreign currencies and established a program of regular issuances that frequently viewed as an alternative to U.S. Treasury securities. The Enterprises have also increased their use of derivative instruments from a notional amount of $72 billion at year-end 1993 to $1.3 trillion on September 30, 2002, representing a more than seventeen-fold increase. Each of these initiatives represents a heightening of the sophistication and complexity embedded in the risk profiles of Fannie Mae and Freddie Mac.

At the same time, dramatic advances in technology represent the foundation for the Enterprises new business initiatives. The Enterprises employ cutting edge risk management techniques, built on quantitative models, to manage the many alterations of their risk profiles. Automated underwriting and related technology innovations by Fannie Mae and Freddie Mac have revolutionized the mortgage finance process and have led to significant shifts in the structure of the mortgage finance industry. These technologies carry with them operational challenges that not only permit the Enterprises to leverage their resources but also heighten their operational risks. These developments and trends have challenged the resources of OFHEO in its oversight role.

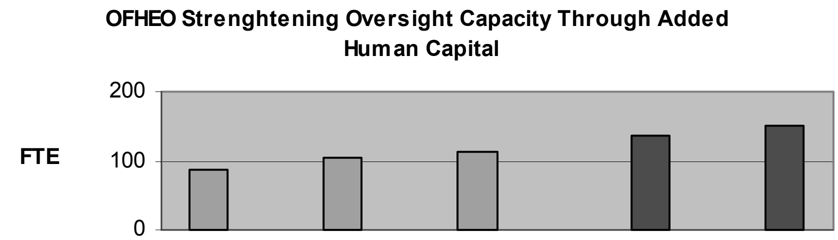
It is imperative that OFHEO continue to have the capability to assess the consequences of further growth and innovation by Fannie Mae and Freddie Mac. In order to do so, OFHEO must be able to add resources and shift existing resources contemporaneously with business developments impacting the Enterprises. OFHEO also must share a commitment to technology that will permit the Office to leverage the expertise and skills of its staff. Consequently, the Director’s multi-year budget strategy includes the enhancement of OFHEO’s computing capacity in FY 2002, followed by integration of commercial automated analytic tools into OFHEO’s regulatory and oversight systems in FY 2003 and phased expansion of human capital over 2003 through 2006.

HUMAN CAPITAL AND FLEXIBILITY KEY TO SOUND MANAGEMENT

OFHEO is located at 1700 G Street NW in the District of Columbia. The Director and Deputy Director carry out OFHEO’s mission through the coordinated efforts of eight offices. These offices are: (1) General Counsel, (2) Risk Analysis and Model Development, (3) Policy Analysis and Research, (4) Information Technology, (5) External Relations, (6) Examination and Oversight, (7) Finance and Administration, and (8) Strategic Planning and Management.



During FY 2002, OFHEO implemented the Risk-Based Capital Rule and conducted examination and oversight of the Enterprises by employing about 112 full time equivalent (FTE) workyears, up from 105 FTE in FY 2001. The nature of OFHEO's mission requires a highly skilled, motivated, and diverse workforce to provide institutional capacity in mission-critical areas at all times. The Director's long-term strategy would continue to increase staffing through FY 2006 and strengthen OFHEO's capacity to perform oversight of the evolving risk profiles of the Enterprises.



	FY 2000	FY 2001	FY 2002	FY 2003	FY 2004
Actual FTE	87	105	112		
Planned FTE				135	151

OFHEO IS NOT FINANCED BY TAXES

While OFHEO's budget is currently subject to the annual congressional appropriations process, it is not funded by tax dollars. Fannie Mae and Freddie Mac bear the full cost of OFHEO's operations through an annual assessment based on OFHEO's annual operating budget as appropriated. Each Enterprise pays a pro rata share of the annual assessment. The combined assets and off-balance sheet obligations of each Enterprise determine the pro rata shares. OFHEO receives the annual assessment in semi-annual payments each fiscal year. By statute these payments are due to OFHEO October 1, and April 1, of each fiscal year, excluding years when the Enterprises must also pay based on temporary funding resolutions.

OFHEO NEEDS INCREASED BUDGET FLEXIBILITY

The President's FY 2003 and 2004 budgets contain an administrative provision that would provide direct funding to OFHEO eliminating the appropriations requirement. Without passage of this provision, OFHEO, unlike other federal financial regulators, must submit a request for an annual operating budget to the Office of Management and Budget (OMB) and the Congress. This process diminishes the efficiency and effectiveness of OFHEO's programs by requiring the Office to predict in advance the resources that it may need to respond to external events that will not arise for over two years. OFHEO is subject to OMB review of its budget proposal and must adopt OMB budget policy in making a budget request of the Congress. This may involve OFHEO seeking fewer resources than it proposed to OMB.

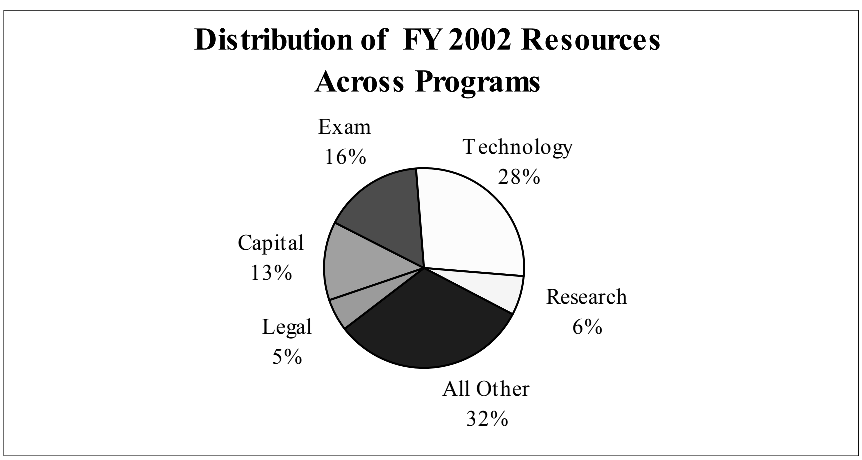
In addition, OFHEO has no operating funds for a fiscal year until appropriation legislation is enacted by Congress and signed by the President. OFHEO's budget is bundled with the Department of Veterans Affairs (VA), HUD, and a variety of independent agencies such as the National Science Foundation. When the Congress and the Administration are unable to reach timely budget agreements, it results in OFHEO's not having an enacted budget until after the fiscal year has commenced. Due to budget uncertainty in FY 2003, OFHEO slowed hiring during the fourth quarter of 2002 and in 2003. When the 2003 fiscal year began on October 1, 2002, OFHEO's budget had not received Congressional approval. Consequently, OFHEO had to operate under Continuing Resolutions at the FY 2002 level, $3 million less than the pending FY 2003 budget. Four months into the year, OFHEO was still subject to restricted funding under the Continuing Resolutions. The appropriations process forces OFHEO to trim operations until large, unrelated budget issues are resolved between the executive and legislative branches.

Director Falcon has repeatedly voiced concern about the potential impacts of OFHEO's current funding strategy and has asked both OMB and Congress to remove OFHEO from the appropriations process. He is concerned that the appropriations process constrains OFHEO's ability to respond appropriately to new unanticipated developments that could impair the financial safety and soundness of the Enterprises and prohibit the Enterprises from performing their important public missions. Removal from the appropriations process would put OFHEO on par with bank and thrift regulatory agencies and would allow the office to operate more efficiently and effectively. Congress and OMB would still exercise vigorous oversight of OFHEO activities.

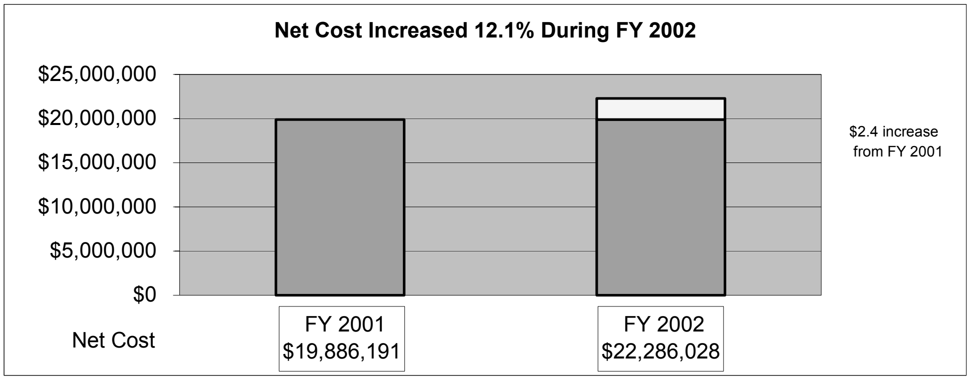
KEY FINANCIAL INFORMATION

In FY 2002, Congress appropriated OFHEO $27 million for salaries and operating expenses. Due to reimbursable agreements and recovery of prior year obligations, OFHEO had $27,337,587 available for obligation during FY 2002. Obligations represent monies awarded to specific contractors, payroll costs, and other expenses such as equipment purchases and employee travel costs for the fiscal year. All but $1,142 was obligated for the year ended September 30, 2002. As required by law, the $1,142 has been credited against the FY 2003 assessment payments paid by the Enterprises.

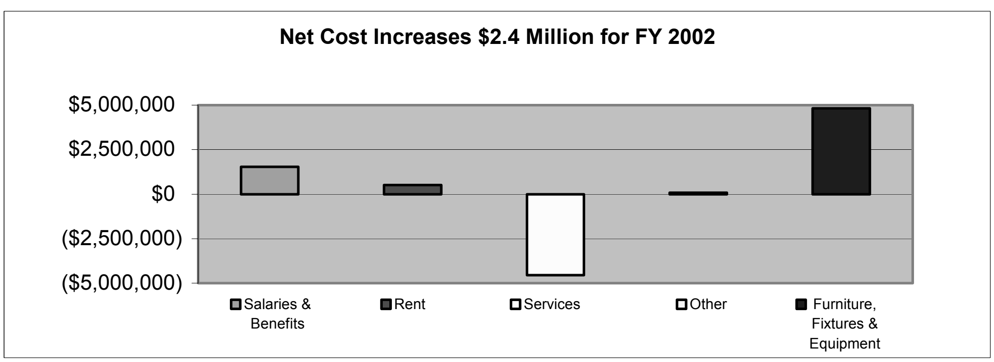
Of the $27.3 million obligated during FY 2002, 68.4% or $18.7 million, were obligated for purchases that directly support mission activities such as examination and oversight, capital adequacy, and financial research related to housing finance. Mission related funding increased 4.4% from FY 2001 to FY 2002. The balance of funds were obligated for activities supporting the accomplishment of the mission such as rent, internal financial and administrative management, external relations to the Congress and the public, and non-mission legal support.



OFHEO achieved two milestones when the Risk-Based Capital Rule was published on September 13, 2001 and when it became enforceable on September 13, 2002. OFHEO is evolving to meet the demands of fully integrating risk-based capital into a comprehensive program of risk-based oversight of the Enterprises. This evolution contributed to the increase in the net cost of OFHEO's operations. Net cost represents assessment collections, from Fannie Mae and Freddie Mac, that have been expensed for salaries and operating expenses, including retirement benefits financed by the Office of Personnel Management. The net cost of operations for FY 2002 was over $22 million, up 12.1% from $19.9 million in FY 2001.



The nearly $2.4 million increase in net cost is primarily associated with higher staffing levels. Of the total increase in net cost, 70.3% is in salary and benefits attributable to filling vacancies to support examination, capital, information technology (IT) and legal programs. The jump in rent represents an increase in leased space to house additional staff and an increase in leased space to house the new large-scale service and tape back-up storage facility that supports OFHEO's technology requirements. Increase in rent costs account for 23.5% of the change in net cost. OFHEO also undertook substantial capital leasehold improvements to house the growing staff and the new, large computer system. These capital improvements and the new, large computer comprise the $4.7 million increase in furniture, fixtures and equipment. These are one-time costs and this category will decrease in FY 2003. The $4.7 million increase in cost in furniture, fixtures and equipment is offset by a reduction of $4.6 million in contract services. The decrease in contract costs resulted from the substitution of cheaper OFHEO staff for more expensive contracting services in key program areas and in the completion of contract services linked to the Risk-Based Capital model development. Contract costs will expand and contract annually based on planned performance goals and emerging developments at the enterprises. Miscellaneous costs (travel, printing, supplies, etc.) increased by only 3.3% in FY 2002.



FINANCIAL MANAGEMENT ACHIEVEMENTS AND IMPROVEMENTS

Financial Statement Audit. OFHEO has received ***unqualified audit opinions*** for the last four years on it's financial statements, internal controls and compliance with laws and regulations.

Federal Managers' Financial Integrity Act (FMFIA). In letters dated December 16, 2002, Director Falcon advised the President and the Congress that OFHEO was in compliance with FMFIA as of the end of FY 2002 (September 30, 2002). During FY 2002, OFHEO's managers continued to monitor internal controls and reported on the effectiveness of controls to the Director. No reportable material weaknesses were identified.

Compliance with Prompt Payment Act. The Prompt Payment Act requires Federal agencies to make timely payments to vendors and improve the cash management practices of the government by taking discounts when they are justified. This means that OFHEO must pay its bills within a narrow window of time – not too early and not late.

In FY 2002, OFHEO maintained respectable performance for prompt payment of bills. During FY 2002, OFHEO's invoices, subject to prompt payment, increased by 25% over FY 2001, from nearly $6.6 million to $8.2 million. While the amount of interest penalties rose in FY 2002 to $2,188.09 from $445 paid in FY 2001, the percentage of invoices paid late was only 4.2%. This compares favorably to performance reported by the Department of Treasury for FY 2002 of 4.53%.

The increase in prompt payment interest is attributable to delays in credit card processing and in processing a couple of large contract invoices. OFHEO has reviewed the circumstances associated with the increase in prompt payment interest and has taken corrective action. In FY 2002, OFHEO identified the need to hire an additional administrative support employee to assume some duties that were competing with review of invoices. When the new employee is hired, during FY 2003, OFHEO will realign among staff specific functions to ensure that adequate resources are available for prompt invoice processing.

Federal Financial Management Information Act (FFMIA) of 1996

The FFMIA codified in law certain financial management system requirements that were already in place by Executive Branch policies and added one new requirement. The Act established new requirements for auditors to report on agency compliance with system requirements and for agency heads and agency management to correct deficiencies within a reasonable time period.

OFHEO contracts certain administrative and financial services from other government agencies. Since OFHEO is small, these cross servicing arrangements with larger agencies provide a cost-effective means for the use of systems, which are generally expensive to purchase and maintain. OFHEO maintains its financial accounting on a system owned by VA. The National Finance Center (NFC), operated by the Department of Agriculture, provides OFHEO with payroll systems and services. In April of 2002, OFHEO assumed the responsibility from HUD for personnel actions processing and implemented a direct link between OFHEO and the NFC payroll/personnel system. OFHEO established a quality assurance function over data entry into the system and strengthened internal controls.

OFHEO ACHIEVES KEY PERFORMANCE GOALS IN FY 2002

OFHEO's FY 2002 Annual Performance Plan was the first annual plan developed to carry out its FY 2000-2005 Strategic Plan. OFHEO's annual plan and its operations were designed to achieve the Office's four strategic objectives, described in the FY 2000-2005 Strategic Plan:

1. Ensure the Enterprises are adequately capitalized.

2. Ensure the Enterprises comply with safety and soundness standards and other legal requirements.

3. Enhance public understanding of the nation's housing finance system.

4. Contribute to Federal efforts to promote efficient and effective financial markets and home ownership.

Through the FY 2002 Annual Performance Plan, OFHEO set its performance goals for the year and outlined means and strategies to achieve them. Highlights of the goals and accomplishments that relate to each of these strategic objectives are described below. In accordance with the Government Performance and Results Act, the FY 2002 Annual Performance Report will contain a more detailed description of OFHEO's performance, and will be issued by February 27, 2003.

OFHEO's ACCOMPLISHMENTS

At year-end, OFHEO's major criteria for achieving its mission have been satisfied. OFHEO classified the Enterprises as adequately capitalized each quarter and determined through its examination program that they meet or exceed safety and soundness standards. For the quarter ending September 30, 2002, OFHEO used its Risk-Based Capital Standard as well as the Minimum Capital Standard in determining the Enterprises' capital classifications. This was the first time that OFHEO's Risk-Based Capital Standard was fully enforceable.

OFHEO established four strategic objectives with 18 performance goals, as well as a crosscutting Human Resources Strategy with three performance goals. OFHEO achieved 19 of its 21 FY 2002 performance goals, and achieved one of those remaining goals a quarter later than planned. In FY 2002, OFHEO also achieved three deferred FY 2001 performance goals related to implementing the Risk-Based Capital Standard, as described in the FY 2001 Annual Performance Report.

Strategic Objective 1: *Ensure the Enterprises are adequately capitalized.*

During FY 2002, the Enterprises met applicable capital standards quarterly, and OFHEO met its goal in this area. For each quarter, OFHEO applied the minimum capital standard to each Enterprise's financial position and determined that they met the standard. For the quarter ending September 30, 2002, the first quarter for which the risk-based capital standard became fully enforceable, OFHEO applied that standard as well.

During FY 2002, OFHEO's task force to implement the risk-based capital rule worked with the Enterprises to facilitate the data submission and clarify guidelines and procedures for the risk-based capital classification. As part of the implementation, OFHEO also calculated each Enterprise's capital levels for the first and second quarters of calendar year 2002 in accordance with the risk-based capital standards and made the results public. Both Enterprises met the risk-based capital standards for those two quarters. The Office also continues to monitor the Enterprises' minimum capital levels monthly.

OFHEO also published several adjustments and technical corrections to the risk-based capital regulation in FY 2002. In future years, OFHEO will continue to review possible changes to the risk-based and minimum capital standards and will seek public comments on any proposed amendments.

Strategic Objective 2: *Ensure that the Enterprises comply with safety and soundness standards and other legal requirements.*

During FY 2002, OFHEO completed its comprehensive annual risk-based examinations. Through these examinations for calendar year 2001, OFHEO determined that both Enterprises were financially sound and well managed. As in prior years, before conducting the examinations, the Office established and shared with the Enterprises safety and soundness standards that reflect various components of risk and risk management. For these examinations, OFHEO considered five major areas–credit risk, market risk, operations risk, corporate governance and model risk. These risk areas contain 11 program areas, such as interest rate risk, liquidity management, and information technology, for which over 100 factors are assessed at the start of the year and updated quarterly to reflect changes. The examination process and results are described in more detail in OFHEO's 2002 Report to Congress. Both examinations were completed on schedule and both Enterprises responded appropriately to examination issues. OFHEO initiated its calendar year 2002 examination in FY 2002.

During FY 2002, OFHEO continued to monitor the Enterprises' compliance with applicable laws; no violations were identified. During the year, OFHEO issued several final regulations to strengthen its regulatory infrastructure. These include regulations on Prompt Supervisory Response and Prompt Corrective Action, Flood Insurance, Corporate Governance, and a comprehensive Safety and Soundness rule. OFHEO also completed a review of executive compensation that updated the peer group of industry comparables used to benchmark Enterprise Executives' compensation. During FY 2002, no instances of excessive executive compensation were found.

During the course of the year, OFHEO also analyzed several emerging topics that could relate to safety and soundness and/or legal requirements. These include establishing an internal working group on derivatives, working with the Securities and Exchange Commission (SEC) and the Treasury Department on appropriate disclosure for the Enterprises, and monitoring the duration gap and interest rate risk at the Enterprises.

Strategic Objective 3: Enhance public understanding of the nation's housing finance system.

OFHEO made great strides in this area in FY 2002—the first year that it was raised as a strategic objective. OFHEO continued to issue its quarterly House Price Index, which documents changes in house price trends for the nation, each state, the nine census regions and metropolitan statistical areas (MSA's). In addition to issuing two analytical reports, its Annual Report to Congress and its report on Mortgage Markets and the Enterprises in 2001, OFHEO introduced a staff working paper series, initiated with two papers—Patterns of Default and Prepayment for Prime and Nonprime Mortgages, and Alternative Methods of Increasing the Precision of Weighted Repeat Sales House Prices Indices. All of these publications are available on OFHEO's website.

OFHEO also increased the transparency of its own analysis and operations. When announcing the capital levels of each Enterprise quarterly, OFHEO made public analytical information about the components of the Enterprises' holdings that affected the risk-based capital calculations and the changes from quarter to quarter. OFHEO also made available to the public the guidelines related to the implementation of the risk-based capital standard and the treatment of new activities.

For FY 2002, OFHEO established an ambitious research agenda. However, due to the press of other emerging issues, particularly disclosure, increased efforts on risk-based capital and OFHEO's systemic risk study, and work on credit risk for the Small Business Administration, OFHEO did not have the resources to complete its research agenda as originally envisioned. In future years, OFHEO plans to revise its research agenda expectations by mid-year.

OFHEO met all but two performance goals in this area, but met the second goal a quarter later than planned when it issued the report on Mortgage Markets and the Enterprises in 2001 in September 2002.

<u>Strategic Objective 4:</u> Contribute to Federal efforts to promote efficient and effective financial markets and homeownership.

While OFHEO had contributed to Federal efforts in an ongoing way, this was the first year that OFHEO raised its participation to the strategic objective level. OFHEO continued work with the other Federal financial regulators, the Treasury Department, the Council of Economic Advisors, the Justice Department, and the Department of Housing and Urban Development on a variety of issues. These include subprime lending, large bank examinations and other supervision issues, predatory lending practices, mortgage fraud, the mortgage protection program, corporate disclosure, Federal Housing Administration (FHA) issues, and early warning systems for risk management and risk modeling. OFHEO has been asked to lead an interagency working group on Communications and Coordination for the Financial and Banking Information Infrastructure Committee, a standing committee of the President's Critical Infrastructure Protection Board. OFHEO is also working with the Treasury and SEC to study disclosure related to mortgage-backed securities.

<u>Human Resources Strategy:</u> Ensure OFHEO's human resources efficiently support the regulatory mission.

OFHEO's workforce is a critical foundation for achieving all of its strategic objectives. OFHEO identified three crosscutting performance goals as indicative of an effective program to attract and retain the staff the Office needs. OFHEO met all three goals. OFHEO's performance appraisal system provides incentives for staff to achieve OFHEO's strategic goals through merit pay based on performance of individual job performance plans. These individual plans tie to OFHEO's Annual Performance Plans and Strategic Plan. To enhance and maintain their knowledge and expertise, OFHEO staff continued to participate in training and development, including interagency forums and joint projects with other financial regulators or professional groups. No one declined an OFHEO job offer because other regulators' compensation systems and human resources policies were perceived as more desirable. OFHEO also established individual development plans for each employee, a year ahead of schedule.

<u>FY 2003 and the Future</u>

For the next several years, OFHEO's FY 2000-2005 Strategic Plan will provide a framework for the Office's Annual Performance Plans and operations. The plan reflects OFHEO's congressional mandate to ensure the safety and soundness of Fannie Mae and Freddie Mac and emphasizes the need to foster the strength and vitality of the nation's housing finance system. In developing its FY 2003 Performance Plan, OFHEO consolidated the first two strategic objectives into one to recognize the connectivity between capital adequacy and safety and soundness. An Enterprises' capital adequacy is one of the indicators of safety and soundness and depends on factors in addition to meeting the minimum and risk-based capital standards. OFHEO's three primary regulatory responsibilities are incorporated in the plan: Ensuring that the Enterprises are adequately capitalized, conducting safety and soundness examinations, and undertaking research and analysis on emerging Enterprise-related matters.

During FY 2003, in accordance with the Government Performance and Results Act, OFHEO will revise and update its long term Strategic Plan.

LIMITATIONS OF THE FINANCIAL STATEMENTS

While OFHEO is not specifically covered by the requirements in the CFO Act, the Office has prepared financial statements to report the financial position and results of operations of OFHEO, pursuant to the requirements of 31 U.S.C. 3515(b). The statements have been prepared from the books and records of OFHEO in the format prescribed by OMB. These statements supplement the periodic financial reports used to monitor and control budgetary resources that were prepared from the same books and records. The statements should be read with the realization that they are for a component of the U.S. Government.

The following principal statements present the financial position of OFHEO, an independent office within HUD, as of September 30, 2002, and September 30, 2001. The statements are in conformity with the instructions provided for federal entities by the OMB and comply with Statements of Federal Financial Accounting Standards effective as of September 30, 2002.

OFFICE OF FEDERAL HOUSING ENTERPRISE OVERSIGHT
BALANCE SHEETS
AS OF SEPTEMBER 30, 2002 and 2001

	2002	2001
ASSETS		
Intragovernmental Assets		
Fund Balance with Treasury - Note 2	$ 4,983,580	$ 4,628,495
Accounts Receivable	12,412	46,459
Advances/Prepayments - Note 3	118,625	575,339
Total Intragovernmental Assets	5,114,617	5,250,293
Accounts Receivable	-	2,871
Property, Plant and Equipment, Net - Note 4	19,826,567	15,176,690
TOTAL ASSETS	**$ 24,941,184**	**$ 20,429,854**
LIABILITIES		
Liabilities Covered by Budgetary Resources:		
Intragovernmental Liabilities		
Accrued Liabilities	$ 86,949	$ 157,304
Total Intragovernmental Liabilities	86,949	157,304
Other Payables and Liabilities		
Accounts Payable	1,147,467	1,433,217
Other Liabilities	398,607	859,872
Total Other Payables and Liabilities	1,546,074	2,293,089
Total Liabilities Covered by Budgetary Resources - Note 5	**1,633,023**	**2,450,393**
Liabilities Not Covered by Budgetary Resources:		
Governmental		
Accrued Annual Leave	935,119	890,745
Total Liabilities Not Covered by Budgetary Resources - Note 6	**935,119**	**890,745**
TOTAL LIABILITIES	**$ 2,568,142**	**$ 3,341,138**
NET POSITION		
Unexpended Appropriations	$ 3,228,855	$ 2,212,149
Cumulative Results of Operations	19,144,187	14,876,567
Total Net Position	**22,373,042**	**17,088,716**
TOTAL LIABILITIES AND NET POSITION	**$ 24,941,184**	**$ 20,429,854**

The accompanying notes are an integral part of these statements.

OFFICE OF FEDERAL HOUSING ENTERPRISE OVERSIGHT
STATEMENTS OF NET COST
FOR THE FISCAL PERIODS ENDED
SEPTEMBER 30, 2002 and 2001

	2002	2001
Program Costs		
Program Costs		
Intragovernmental Costs	$ 3,171,039	$ 2,893,462
Less: Earned Revenues	(121,703)	-
Total Intragovernmental Costs	3,049,336	2,893,462
Public Costs	19,236,692	16,992,729
Total Net Program Costs - Note 8	$ 22,286,028	$ 19,886,191
Net Cost of Operations	**$ 22,286,028**	**$ 19,886,191**

The accompanying notes are an integral part of these statements.

OFFICE OF FEDERAL HOUSING ENTERPRISE OVERSIGHT
STATEMENTS OF CHANGES IN NET POSITION
FOR THE FISCAL PERIODS ENDED
SEPTEMBER 30, 2002 and 2001

	2002 Cumulative Results of Operations	2002 Unexpended Appropriations	2001 Cumulative Results of Operations	2001 Unexpended Appropriations
Beginning Balance	**$ 14,876,567**	**$ 2,212,149**	**$ 10,722,537**	**$ 3,755,944**
Budgetary Financing Sources:				
Appropriations Received	$ -	$ 27,000,000	$ -	$ 22,000,000
Other Adjustments	-	(6,713)	-	(9,761)
Appropriations Used	25,976,581	(25,976,581)	23,534,034	(23,534,034)
Other Financing Sources:				
Imputed Financing	577,067	-	506,187	-
Total Financing Sources	$ 26,553,648	$ 1,016,706	$ 24,040,221	$ (1,543,795)
Net Cost of Operation	(22,286,028)	-	(19,886,191)	-
Ending Balance - Net Position	**$ 19,144,187**	**$ 3,228,855**	**$ 14,876,567**	**$ 2,212,149**

The accompanying notes are an integral part of these statements.

OFFICE OF FEDERAL HOUSING ENTERPRISE OVERSIGHT
STATEMENTS OF BUDGETARY RESOURCES
FOR THE FISCAL PERIODS ENDED
SEPTEMBER 30, 2002 and 2001

	2002	2001
Budgetary Resources		
Appropriations	$ 27,000,000	$ 22,000,000
Unobligated Balance Brought Forward October 1	6,713	9,762
Spending Authority from Offsetting Collections		
Collected	121,702	-
Recoveries of Prior Year Obligations - Note 10	215,885	605,000
Permanently not available Pursuant to Public Law 102-550	(6,713)	(9,762)
Total Budgetary Resources	**$ 27,337,587**	**$ 22,605,000**
Status of Budgetary Resources		
Obligations Incurred - Note 9	$ 27,336,445	$ 22,598,287
Unobligated Balance Not Available	1,142	6,713
Total Status of Budgetary Resources	**$ 27,337,587**	**$ 22,605,000**
Relationship of Obligations to Outlays:		
Obligated Balance, Net - Beginning of Period	**4,655,829**	**5,930,001**
Obligation Transfer		
Obligated Balance, Net - End of Period		
Undelivered Orders	(3,349,415)	(2,205,436)
Accounts Payable	(1,633,023)	(2,450,393)
Total Obligated Balance, Net - End of Period	**(4,982,438)**	**(4,655,829)**
Outlays		
Disbursements	$ 26,793,952	$ 23,306,279
Less: Collections	(121,702)	(4,773)
Net Outlays	**$ 26,672,250**	**$ 23,301,506**

The accompanying notes are an integral part of these statements.

OFFICE OF FEDERAL HOUSING ENTERPRISE OVERSIGHT
STATEMENTS OF FINANCING
FOR THE FISCAL PERIODS ENDED
SEPTEMBER 30, 2002 and 2001

	2002	2001
Budgetary Resources Obligated		
Obligations Incurred	**$ 27,336,445**	**$ 22,598,287**
Less: Spending Authority from Offsetting Collections/Adjustments		
Collections	(121,702)	-
Receivables from Federal Sources	-	(12,412)
Recoveries of Prior Year Obligations - Note 10	(215,885)	(605,000)
Obligations Net of Offsetting Collections and Recoveries	$ 26,998,858	$ 21,980,875
Exchange revenue Not in Entity's Budget	2,871	(2,871)
Net Obligations	$ 27,001,729	$ 21,978,004
Other Resources		
Imputed Financing from Costs Absorbed by Others	577,067	506,187
Net Other Resources Used to Finance Activities	577,067	506,187
Total Resources Used to Finance Activities	$ 27,578,796	$ 22,484,191
Resources Used to Finance Items not Part of the Net Cost of Operations		
(Increase) Decrease in Goods/Services/Benefits Ordered but not Provided	(687,265)	1,425,550
Resources That Finance the Acquisition of Assets	(5,697,403)	(4,544,471)
Total Resources Used to Finance Items not Part of the Net Cost of Operations	(6,384,668)	(3,118,921)
Total Resources Used to Finance the Net Cost of Operations	$ 21,194,128	$ 19,365,270
Components of the Net Cost of Operations that will Require or Generate Resources in Future Periods		
Increase in Annual Leave Liability	44,374	217,226
Total Components of Net Cost of Operations that will Require or Generate Resources in Future Periods	44,374	217,226
Components Not Requiring or Generating Resources:		
Depreciation and Amortization	1,047,526	303,695
Total Components Not Requiring or Generating Resources	1,047,526	303,695
Net Cost of Operations	**$ 22,286,028**	**$ 19,886,191**

The accompanying notes are an integral part of these statements.

NOTES TO FINANCIAL STATEMENTS

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

- ***Reporting Entity***

The Office of Federal Housing Enterprise Oversight (OFHEO) was established as an independent office within the Department of Housing and Urban Development (HUD) by the Federal Housing Enterprises Financial Safety and Soundness Act of 1992 (title XIII of P.L. 102-550). OFHEO is responsible for examination of Fannie Mae and Freddie Mac, and determining whether the Enterprises are operating in a financially safe and sound manner and are adequately capitalized.

The accompanying financial statements reflect the activities of OFHEO. OFHEO has only entity activities and the financial statements reflect those activities, which include the appropriation received to conduct operations. OFHEO does not perform custodial activities on behalf of other federal agencies.

- ***Basis of Presentation***

OFHEO is not covered by the Chief Financial Officer's (CFO) Act and is not required to follow the Office of Management and Budget (OMB) Bulletin 01-09. However, OFHEO adopted OMB's requirements for CFO Act financial statements. The principal statements were prepared from the official financial records and general ledger of OFHEO in accordance with Generally Accepted Accounting Principles (GAAP) as established through the Federal Accounting Standards Advisory Board (FASAB) standards.

- ***Basis of Accounting***

Transactions are recorded on both an accrual accounting basis and on a budgetary basis. Under the accrual method, revenues are recognized when earned and expenses are recognized when a liability is incurred, without regard to receipt or payment of cash. Budgetary accounting facilitates compliance with legal requirements and controls over the use of Federal funds. OFHEO complies with the U.S. Standard General Ledger and conforms to the hierarchy of the American Institute of Certified Public Accountants (AICPA) through Statement on Auditing Standards (SAS) No. 69, as amended by SAS No. 91, *Federal GAAP Hierarchy*, of accounting principles for the Federal Government:

> Federal Accounting Standards Advisory Board (FASAB) Statements and Interpretations plus AICPA and Financial Accounting Standards Board (FASB) pronouncements if made applicable to the Federal governmental entities by a FASAB Statement or Interpretation;
>
> FASAB Technical Bulletins and the following pronouncements if specifically made applicable to Federal governmental entities by the AICPA and cleared by the FASAB: AICPA Industry Audit and Accounting Guides and AICPA Statements of Position;

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

AICPA Accounting Standards Executive Committee (ACSEC) Practice Bulletins if specifically made applicable to Federal governmental entities and cleared by the FASAB and Technical Releases of the Accounting and Auditing Policy Committee of the FASAB;

Implementation guides published by the FASAB staff and practices that are widely recognized and prevalent in the Federal government (OMB Circular A-134); and

Accounting policy and procedures established by OFHEO to enhance consistency or to provide guidance in the absence of government-wide standards.

- ***Funds with the U.S. Treasury***

Since 1993, Congress has enacted each year a "no-year" appropriation to fund OFHEO's operating costs. The appropriation is paid by an annual assessment from Fannie Mae and Freddie Mac and not with taxpayer funds. Beginning with the FY 1998 appropriation, OFHEO receives an appropriation warrant from the U.S. Treasury General Fund each year, and fully offsets the General Fund warrant with money collected from the Enterprises.

OFHEO's enabling statute requires that each year OFHEO return to the Enterprises unobligated funds as of the end of the fiscal year. It is important to understand how the crediting provision functions with the "no year" fund designation. "No year" funds are available for obligation without fiscal year limitation. Rules for "no year" funds essentially removes all statutory limits as to when the funds may be obligated and expensed, and funds remain available for their original purpose until expended. When OFHEO closes its books each fiscal year, it accounts for funds not obligated as of the end of that fiscal year (September 30). OFHEO reduces the current year's (October 1) assessment by the amount of the unobligated balance from the previous year. Consequently, there is no carry over of budget authority from one year to the next and the amount of funds collected from the Enterprises in the annual assessment is adjusted by the credit awarded to the Enterprises for unobligated funds from the prior year.

OFHEO cash receipts and disbursements are processed by the United States Department of the Treasury (Treasury). The funds with Treasury are primarily assessment funds that are available to pay current liabilities and to finance authorized purchase commitments. OFHEO does not have monetary assets held outside OFHEO's fund balance at Treasury. OFHEO does not have an advance from Treasury to maintain an Imprest Fund and does not hold any marketable or non-marketable securities. OFHEO does not operate a direct loan or loan guarantee program.

- ***Property and Equipment***

OFHEO's property and equipment is recorded at cost and is depreciated using the straight-line method over the estimated service lives of the assets. Service lives have been established as three years for computer related systems and up to 20 years for other equipment. Leasehold improvements are depreciated over the remaining term of the lease agreement. OFHEO has an established capitalization threshold of $5,000 to conform with the materiality approach for the accounting that supports OFHEO's independent financial statements. Other property items, normal repairs, and maintenance are charged to expense as incurred.

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

OFHEO has no capitalized leases, no real property holdings, and no heritage assets.

- ***Advances and Prepayments***

Payments in advance of the receipt of goods and services are recorded as prepaid charges at the time of prepayment and are recognized as expenditures/expenses when the related goods and services are received.

- ***Accounts Receivable***

OFHEO's Accounts Receivable consists of receivables and reimbursements due from others. No account is estimated as uncollectable.

- ***Liabilities***

Liabilities represent the amount of funds that are likely to be paid by OFHEO as the result of a transaction or event that has already occurred.

OFHEO reports its liabilities under two categories: Liabilities Covered by Budgetary Resources and Liabilities Not Covered by Budgetary Resources.

OFHEO's Liabilities Covered by Budgetary Resources are liabilities that are funded by a current appropriation or other funding source. Both intragovernmental (payable to other federal entities) and governmental liabilities consist of accounts payable and accrued liabilities. Accounts payable reflect invoices processed for payment during the fiscal year which are yet unpaid as of the end of the fiscal year due to scheduling of payments to reflect prompt payment guidelines. Accrued liabilities consist of both estimates of accounts payable for the value of services received during the fiscal year for which OFHEO had not been billed as of the end of the fiscal year and payroll accruals reflecting payroll costs earned by employees during the fiscal year which are not paid until the next fiscal year.

OFHEO's Liabilities Not Covered by Budgetary Resources are liabilities that are not funded by any current appropriation or other funding source. These liabilities consist of accrued annual leave at the end of the fiscal year. Reimbursements owed to the Department of Labor for claims already paid under the Federal Employees Compensation Act would also be reported under this liability category: however, OFHEO has no claims outstanding in FY 2002 and 2001. In addition, a liability for any future claims (future worker's compensation) would be reported in this category. The agency's methodology for estimating this future worker's compensation liability determined that the liability would be negligible and therefore no liability is recorded for fiscal years 2002 or 2001.

- ***Retirement Plans***

OFHEO participates in the retirement plans offered by the Office of Personnel Management (OPM) and does not maintain any private retirement plans. The majority of OFHEO's employees participate in either the Civil Service Retirement System (CSRS) or the Federal Employees Retirement System (FERS). OFHEO expenses its contributions to the retirement plans of covered employees as the expenses are incurred. OFHEO is reporting imputed financing with

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

respect to retirement plans, health benefits and life insurance pursuant to guidance received from OPM. These costs are paid by OPM and not by OFHEO. Disclosure is intended to provide information regarding the full cost of OFHEO's program in accordance with GAAP.

- ***Net Position***

OFHEO's net position is comprised of the following components:

1) Undelivered orders and unobligated balances of OFHEO's funds.

2) Invested capital represents U.S. Government resources invested in OFHEO's property and equipment and inventory not held for sale. Increases to invested capital are recorded when assets are acquired with direct appropriations, and decreases are recorded as a result of the depreciation, disposition of capital assets, or consumption of inventory.

3) Future funding requirements represent accumulated annual leave earned but not taken as of the financial statement date. The expense for these accruals is not funded from current assessments, but will be funded from future assessments as the expenses are incurred.

4) Prepayments and advances of OFHEO's funds.

NOTE 2 - FUND BALANCE WITH TREASURY

Fund Balance with Treasury consists of the following as of September 30, 2002 and 2001:

		Unobligated			
	Obligated	Available	Unavailable	2002	2001
General Funds	$4,982,438	-	$1,142	$4,983,580	$4,628,495

NOTE 3 – ADVANCES/PREPAYMENTS

The Advances/Prepayments are payments made to the Office of Thrift Supervision (OTS) for additional occupancy space contracted for in fiscal year 2001 but not occupied until fiscal year 2002 and for additional occupancy space contracted for in fiscal year 2002 but not to be occupied until fiscal year 2003.

NOTE 4 - PROPERTY, PLANT AND EQUIPMENT

As part of OFHEO's mission, OFHEO developed software to model the Risk-Based Capital stress test (Stress Test) required by the Federal Housing Enterprises Financial Safety and Soundness Act of 1992. Under the terms of that statute and the final Risk-Based Capital rule published in September 2001, the quarter ended September 30, 2002 was the first quarter that the risk-based standard was fully enforceable. Since the quarter ended September 30, 2002 was the first time that the software was used to establish the risk-based capital requirement on other than a trial test, depreciation will begin when the data from the Enterprises has been received and

NOTE 4 - PROPERTY, PLANT AND EQUIPMENT (Continued)

processed through the stress test software. Property, Plant and Equipment balances as of September 30, 2002 and 2001 are as follows:

Asset Type	Acquisition Cost	Accumulated Depreciation	2002 Net Book Value	2001 Net Book Value
Equipment	$ 5,119,576	$1,723,973	$ 3,395,603	$ 705,124
Leasehold Improvements	1,498,036	129,352	1,368,684	465,797
Information Technology Software	15,062,280	-	15,062,280	14,005,769
Total	$21,679,892	$1,853,325	$19,826,567	$15,176,690

NOTE 5 – LIABILITIES COVERED BY BUDGETARY RESOURCES

	2002	2001
Intragovernmental Accrued Accounts Payable	$ 86,949	$ 157,304
Other Liabilities	1,147,467	1,433,217
Sub-Total Intragovernmental/Other Liabilities	$1,234,416	$1,590,521
Accrued Payroll and Benefits	398,607	859,872
Liabilities Covered by Budgetary Resources	$1,633,023	$2,450,393

NOTE 6 – LIABILITIES NOT COVERED BY BUDGETARY RESOURCES

Liabilities Not Covered by Budgetary Resources consists of Accrued Annual Leave earned but not used as of September 30, 2002 and 2001. The accrued annual leave liability is adjusted as leave is earned and used through out the year. The expense for these accruals will be funded from future assessments as the expenses are incurred. The net changes of the Accrued Annual Leave are reflected in the Statement of Financing.

NOTE 7 – OPERATING LEASE

OFHEO has an occupancy lease with the Office of Thrift Supervision (OTS) that covers office space and building services which include utilities, security guards, janitorial services, mail delivery, use of the loading dock, garage parking and building operation and maintenance. The initial term of the lease was for five years beginning in 1993, with the option to renew for three 5-year terms. OFHEO has exercised the first of the three option terms. Total rent expense for years ending September 30, 2002 and 2001 was approximately $2.5 million and $1.8 million respectively.

OFHEO may terminate the lease agreement in whole or in part. In the event of a termination at OFHEO's discretion, OFHEO would be required to pay two months rent, at an approximate cost of $364,000 (based on September 2002 rate). OFHEO's obligation to make payments ceases on the date that the space is rented. If either party ceases to exist or merge with another entity by operation of law, either party may terminate the rental agreement. In the event of termination under this provision, neither party is liable for further costs, fees, damages or other monies due to the termination, except for payments through the date of termination.

NOTE 7 – OPERATING LEASE (Continued)

During FY 2001 and FY 2002, OFHEO rented additional space from OTS, which was not ready for occupancy until FY 2002 and FY 2003 respectively, therefore, OFHEO is reflecting the remaining balance of these rental payments as Advances/Prepayments.

NOTE 8 – PROGRAM COSTS

OFHEO does not have any stewardship responsibilities for federal lands. Production Costs represent assessment collections, from Fannie Mae and Freddie Mac, that have been expensed for salaries and operating expenses to support OFHEO during the fiscal years ended September 30, 2002 and 2001. Production Costs are distributed into two categories: Public and Federal. Public costs result from contracts with the private sector for goods or services. Federal costs are a result of OFHEO contracting with other federal agencies for goods and/or services (e.g. purchase of supplies from the General Services Administration).

	2002	2001
Intragovernmental Program Costs	$ 3,084,090	$ 2,736,158
Less: Earned Revenue	(121,703)	-
Accrued Accounts Payable Federal	86,949	157,304
Total Federal Program Costs	$ 3,049,336	$ 2,893,462
Public Program Costs Paid	$17,041,699	$15,445,907
Accrued Accounts Payable Public	1,147,467	1,243,127
Depreciation Expense	1,047,526	303,695
Total Public Program Costs	$19,236,692	$16,992,729
Total Program Costs	$22,286,028	$19,886,191

NOTE 9 – APPORTIONMENT CATEGORIES OF OBLIGATIONS INCURRED

Obligations incurred as reported on the Combined Statement of Budgetary Resources in 2002 and 2001 consisted of the following:

	2002	2001
Direct Obligations – Category B	$27,214,743	$22,598,287
Reimbursable Obligations - Category B	121,702	-
Total Obligations Incurred	$27,336,445	$22,598,287

NOTE 10 - RECOVERIES OF PRIOR YEAR OBLIGATIONS

Recoveries of prior year obligations consist of the reapportionment of prior year funds by OMB. OFHEO requested and received the authority to re-obligate these prior year funds in FY 2002 and also in FY 2001.

NOTE 11 – EXPLANATION OF DIFFERENCES BETWEEN THE STATEMENT OF BUDGETARY RESOURCES AND THE BUDGET OF THE UNITED STATES GOVERNMENT

The Budget of the United States Government with actual amounts for the year ended September 30, 2002 has not been published as of the issue date of these financial statements. This document will be available in February 2003.

Office of Federal Housing Enterprise Oversight
Required Supplementary Information
Intra-governmental Trading Partners
As of September 30, 2002 and 2001

Trading Partner Agency	Intra-governmental Assets 2002	2001
Department of Treasury[1]	$ 4,983,580	$ 4,628,495
National Finance Center[2]	12,412	12,412
Office of Thrift Supervision	118,625 [3]	609,386
	$ 5,114,617	$ 5,250,293

[1] Fund balance with Treasury consists of assessment funds that are available to pay current liabilities and to finance authorized purchase commitments.

[2] During FY 2001 duplicate awards were processed. Employees have issued checks for repayment to the National Finance Center, OFHEO is awaiting the refund from the National Finance Center. Reflected as an Accounts Receivable from the National Finance Center.

[3] During FY 2001 OFHEO rented additional space from OTS, this space was not occupied until FY 2002, therefore, OFHEO reflected this rental payment for additional space as a Prepayment. This is the remaining balance of prepaid rent for fiscal year end September 30, 2002. The FY 2001 amount includes an erroneous OPAC charge of $34,047, that was rejected on October 1, 2001.

Trading Partner Agency	Intra-governmental Liabilities 2002	2001
Comptroller of the Currency	$ -	$ 100
Federal Deposit Insurance Corp	-	46,000
Department of Treasury	705	1,592
Office of Thrift Supervision	2,500	15,902
Department of Veteran's Affairs	14,860	44,196
Department of Housing and Urban Development	63,484	40,827
Department of Commerce	4,200	8,507
Office of Personnel Management	1,200	-
Department of State	-	180
	$ 86,949	$ 157,304

OFHEO's intra-governmental liabilities consist of accounts payable for the value of services received during the fiscal year for which OFHEO had not been billed as of the end of the fiscal year.

CHAPTER SIX: HISTORICAL DATA TABLES

Table 1. Fannie Mae Mortgage Purchases

Business Activity ($ in Millions)				
	Purchases			
Period	Single-Family ($)	Multifamily ($)	Total [1] ($)	Mortgage Securities[2] ($)
4Q02	289,135	7,169	296,304	109,949
3Q02	177,042	2,775	179,817	49,838
2Q02	144,969	2,829	147,798	39,086
1Q02	189,170	3,838	193,008	70,061
Annual Data				
2002	800,316	16,611	816,927	268,934
2001	567,673	19,131	586,804	209,124
2000	227,069	10,377	237,446	129,716
1999	316,136	10,012	326,148	169,905
1998	354,920	11,428	366,348	147,260
1997	159,921	6,534	166,455	50,317
1996	164,456	6,451	170,907	46,743
1995	126,003	4,966	130,969	36,258
1994	158,229	3,839	162,068	25,905
1993	289,826	4,135	293,961	6,606
1992	248,603	2,956	251,559	5,428
1991	133,551	3,204	136,755	3,080
1990	111,007	3,180	114,187	1,451
1989	80,510	4,325	84,835	Not Applicable Before 1990
1988	64,613	4,170	68,783	
1987	73,942	1,733	75,675	
1986	77,223	1,877	79,100	
1985	42,543	1,200	43,743	
1984	27,713	1,106	28,819	
1983	26,339	140	26,479	
1982	25,929	10	25,939	
1981	6,827	2	6,829	
1980	8,074	27	8,101	
1979	10,798	9	10,807	
1978	12,302	3	12,305	
1977	4,650	134	4,784	
1976	3,337	295	3,632	
1975	3,646	674	4,320	
1974	4,746	2,273	7,019	
1973	4,170	2,082	6,252	
1972	2,596	1,268	3,864	
1971	2,742	1,298	4,040	

Source: Fannie Mae

1 Cash purchases plus securitizations; excludes non-Fannie Mae securities and repurchased Fannie Mae MBS.

2 Not included in total purchases.

Table 1a. Fannie Mae Mortgage Purchases Detail, By Type of Loan - Part 1, Single-Family

Period	Purchases[1] ($ in Millions)							
	Single-Family Mortgages							
	Conventional				FHA/VA			Total Single-Family Mortgages ($)
	Fixed-Rate ($)	Adjustable-Rate ($)	Seconds ($)	Total ($)	Fixed-Rate ($)	Adjustable-Rate ($)	Total ($)	
4Q02	262,795	25,663	10	288,468	201		667	289,135
3Q02	160,378	16,010	10	176,398	265	379	644	177,042
2Q02	131,226	13,060	9	144,295	296	378	674	144,969
1Q02	176,260	12,039	12	188,311	534	325	859	189,170
Annual Data								
2002	730,659	66,772	41	797,472	1,296	1,548	2,844	800,316
2001	534,115	25,648	1,137	560,900	5,671	1,102	6,773	567,673
2000	187,236	33,809	726	221,771	4,378	920	5,298	227,069
1999	293,188	12,138	1,198	306,524	8,529	1,084	9,613	316,137
1998	334,367	14,273	1	348,641	5,768	511	6,279	354,920
1997	136,329	21,095	3	157,427	2,062	432	2,494	159,921
1996	146,154	15,550	3	161,707	2,415	334	2,749	164,456
1995	104,901	17,978	9	122,888	3,009	106	3,115	126,003
1994	139,815	16,340	8	156,163	1,953	113	2,066	158,229
1993	274,402	14,420	29	288,851	855	120	975	289,826
1992	226,332	21,001	136	247,469	1,055	79	1,134	248,603
1991	114,321	17,187	705	132,213	1,300	38	1,338	133,551
1990	95,011	14,528	654	110,193	799	15	814	111,007
1989	60,794	17,692	521	79,007	1,489	14	1,503	80,510
1988	35,767	27,492	433	63,692	823	98	921	64,613
1987	60,434	10,675	139	71,248	2,649	45	2,694	73,942
1986	58,521	7,305	498	66,054	11,155	14	11,169	77,223
1985	29,993	10,736	871	41,600	927	16	943	42,543
1984	17,998	8,049	937	26,984	729	0	729	27,713
1983	18,136	4,853	1,408	24,397	1,942	0	1,942	26,339
1982	19,311	3,210	1,552	24,073	1,856	0	1,856	25,929
1981	4,260	107	176	4,543	2,284	0	2,284	6,827
1980	2,802	0	0	2,802	5,272	0	5,272	8,074
1979	5,410	0	0	5,410	5,388	0	5,388	10,798
1978	5,682	0	0	5,682	6,620	0	6,620	12,302
1977	2,366	0	0	2,366	2,284	0	2,284	4,650
1976	2,513	0	0	2,513	824	0	824	3,337
1975	547	0	0	547	3,099	0	3,099	3,646
1974	1,128	0	0	1,128	3,618	0	3,618	4,746
1973	939	0	0	939	3,231	0	3,231	4,170
1972	55	0	0	55	2,541	0	2,541	2,596
1971	0	0	0	0	2,742	0	2,742	2,742

Source: Fannie Mae

1 Cash purchases plus securitizations; excludes non-Fannie Mae securities and repurchased Fannie Mae MBS.

Table 1a. Fannie Mae Mortgage Purchases Detail, By Type of Loan - Part 2, Multifamily

Purchases[1] ($ in Millions)				
	Multifamily Mortgages			
Period	Conventional ($)	FHA/RHS ($)	Total Multifamily Mortgages ($)	Total Mortgage Purchases ($)
4Q02	4,587	2,582	7,169	296,304
3Q02	2,765	10	2,775	179,817
2Q02	2,821	8	2,829	147,798
1Q02	3,777	61	3,838	193,008
Annual Data				
2002	13,950	2,661	16,611	816,927
2001	17,849	1,282	19,131	586,804
2000	9,127	1,250	10,377	237,446
1999	8,858	1,153	10,011	326,148
1998	10,844	584	11,428	366,348
1997	5,936	598	6,534	166,455
1996	6,199	252	6,451	170,907
1995	4,677	289	4,966	130,969
1994	3,620	219	3,839	162,068
1993	3,919	216	4,135	293,961
1992	2,845	111	2,956	251,559
1991	3,183	21	3,204	136,755
1990	3,165	15	3,180	114,187
1989	4,309	16	4,325	84,835
1988	4,149	21	4,170	68,783
1987	1,463	270	1,733	75,675
1986	1,877	0	1,877	79,100
1985	1,200	0	1,200	43,743
1984	1,106	0	1,106	28,819
1983	128	12	140	26,479
1982	0	10	10	25,939
1981	0	2	2	6,829
1980	0	27	27	8,101
1979	0	9	9	10,807
1978	0	3	3	12,305
1977	0	134	134	4,784
1976	0	295	295	3,632
1975	0	674	674	4,320
1974	0	2,273	2,273	7,019
1973	0	2,082	2,082	6,252
1972	0	1,268	1,268	3,864
1971	0	1,298	1,298	4,040

Source: Fannie Mae

1 Cash purchases plus securitizations; excludes non-Fannie Mae securities and repurchased Fannie Mae MBS.

Table 1b. Fannie Mae Purchases of Mortgage-Related Securities

Purchases[1] ($ in Millions)									
		Others' Securities							
				Private - Label					
End of Period	Enterprise Securities ($)	Freddie Mac ($)	Ginnie Mae ($)	Home Equity[2] ($)	Manufactured Housing ($)	Other ($)	Total Private ($)	Mortgage Revenue Bonds ($)	Total Mortgage-Related Securities ($)
4Q02	104,525	2,189	0	1,458	0	661	2119	1,116	109,949
3Q02	44,269	1,929	0	2,193	0	646	2,839	801	49,838
2Q02	29,133	2,756	4,425	1,272	56	52	1,380	1,392	39,086
1Q02	67,112	1,083	0	620	0	258	878	988	70,061
Annual Data									
2002	245,039	7,957	4,425	5,543	56	1,617	7,216	4,297	268,934
2001	180,582	20,072	333	1,466	Not Available Before 2002	2,047	3,513	4,624	209,124
2000	104,904	10,171	2,493	Not Available Before 2001		8,466	8,466	3,682	129,716
1999	125,498	6,861	17,561			16,511	16,511	3,474	169,905
1998	104,728	21,274	2,738			15,721	15,721	2,799	147,260
1997	39,033	2,119	3,508			4,188	4,188	1,469	50,317
1996	41,263	779	2,197			777	777	1,727	46,743
1995	30,432	2,832	20			752	752	2,222	36,258
1994	21,660	571	2,321			0	0	1,353	25,905
1993	6,275	0	0			0	0	331	6,606
1992	4,930	0	0			0	0	498	5,428
1991	2,384	0	0			0	0	696	3,080
1990	977	0	0			0	0	474	1,451

Source: Fannie Mae

1 Cash purchases plus securitizations; excludes non-Fannie Mae securities and repurchased Fannie Mae MBS.

2 Purchases incorporate securities specifically identified as home equity or seconds. Other security purchases may include some underlying loans which are home equity or seconds.

Table 2. Fannie Mae MBS Issuances

Business Activity ($ in Millions)				
	MBS Issuances			
Period	Single-Family MBS ($)	Multifamily MBS ($)	Total MBS ($)	Multiclass MBS[1] ($)
4Q02	262,562	5,427	267,989	47,294
3Q02	158,649	1,971	160,620	25,521
2Q02	132,863	2,143	135,006	40,261
1Q02	173,183	2,797	175,980	57,719
Annual Data				
2002	727,257	12,338	739,595	170,795
2001	514,621	13,801	528,422	139,403
2000	204,066	7,596	211,662	39,544
1999	292,192	8,497	300,689	55,160
1998	315,120	11,028	326,148	84,147
1997	143,615	5,814	149,429	85,415
1996	144,201	5,668	149,869	30,780
1995	106,269	4,187	110,456	9,681
1994	128,385	2,237	130,622	73,365
1993	220,485	959	221,444	210,630
1992	193,187	850	194,037	170,205
1991	111,488	1,415	112,903	112,808
1990	96,006	689	96,695	68,291
1989	66,489	3,275	69,764	41,715
1988	51,120	3,758	54,878	17,005
1987	62,067	1,162	63,229	9,917
1986	60,017	549	60,566	2,400
1985	23,142	507	23,649	Not Issued Before 1986
1984	13,087	459	13,546	
1983	13,214	126	13,340	
1982	13,970	Not Issued Before 1983	13,970	
1981	717		717	
	Not Issued Before 1981		Not Issued Before 1981	

Source: Fannie Mae

1 The majority qualify as Real Estate Mortgage Investment Conduits (REMICs) and are also known as structured securitizations.

Table 3. Fannie Mae Earnings

Earnings ($ in Millions)						
Period	Core Net Interest Income[1] ($)	Guarantee Fee Income ($)	Average Guarantee Fee Rate (BasisPoints)	Administrative Expenses ($)	Credit-related Expenses[2] ($)	Core Net Income[3] ($)
4Q02	2,238	523	20.4	313	33	1,672
3Q02	2,192	463	19.0	315	14	1,631
2Q02	2,202	423	18.3	301	24	1,573
1Q02	2,120	407	18.6	290	21	1,518
Annual Data						
2002	8,752	1,816	19.1	1,219	92	6,394
2001	7,500	1,482	19.0	1,017	78	5,367
2000	5,674	1,351	19.5	905	94	4,448
1999	4,894	1,282	19.3	800	127	3,912
1998	4,110	1,229	20.2	708	261	3,418
1997	3,949	1,274	22.7	636	375	3,056
1996	3,592	1,196	22.4	560	409	2,725
1995	3,047	1,086	22.0	546	335	2,144
1994	2,823	1,083	22.5	525	378	2,132
1993	2,533	961	21.3	443	305	1,873
1992	2,058	834	21.2	381	320	1,623
1991	1,778	675	21.0	319	370	1,363
1990	1,593	536	21.1	286	310	1,173
1989	1,191	408	21.3	254	310	807
1988	837	328	21.6	218	365	507
1987	890	263	22.1	197	360	376
1986	384	175	23.8	175	306	105
1985	139	112	25.6	142	206	(7)
1984	(90)	78	26.2	112	86	(71)
1983	(9)	54	26.3	81	48	49
1982	(464)	16	27.2	60	36	(192)
1981	(429)	0	25.0	49	(28)	(206)
1980	21	Not Available Before 1981	Not Available Before 1981	44	19	14
1979	322			46	35	162
1978	294			39	36	209
1977	251			32	28	165
1976	203			30	25	127
1975	174			27	16	115
1974	142			23	17	107
1973	180			18	12	126
1972	138			13	5	96
1971	49			15	4	61

Source: Fannie Mae

1 Interest income net of interest expense, nominal basis, adjusted to remove FAS 133 effects starting in 2001.

2 Credit-related expenses are mortgage loan loss provision plus real estate owned expenses.

3 Net income adjusted to remove FAS 133 effects starting in 2001.

Table 3a. Fannie Mae Earnings

Earnings ($ in Millions)							
Period	Net Income ($)	Remove Purchased Option (Income) Expense ($)	Purchased Option Amortization Expense ($)	Cumulative Gain on Adoption of FAS 133 ($)	Tax Effects of Preceding Adjustments ($)	Core Net Income[1] ($)	Return on Adjusted Common Equity[2] (%)
4Q02	952	1,881	(774)	0	(387)	1,672	26.4
3Q02	993	1,378	(399)	0	(341)	1,631	26.2
2Q02	1464	499	(331)	0	(59)	1,573	25.8
1Q02	1210	787	(310)	0	(169)	1,518	25.8
Annual Data							
2002	4619	4,545	(1,814)	0	(956)	6,394	26.1
2001	5894	37	(590)	(258)	284	5,367	25.4
2000	4,448	Not Applicable Before 2001	Not Applicable Before 2001	Not Applicable Before 2001	Not Applicable Before 2001	4,448	25.2
1999	3,912					3,912	25.0
1998	3,418					3,418	25.2
1997	3,056					3,056	24.6
1996	2,725					2,725	24.1
1995	2,144					2,144	20.9
1994	2,132					2,132	24.3
1993	1,873					1,873	25.3
1992	1,623					1,623	26.5
1991	1,363					1,363	27.7
1990	1,173					1,173	33.7
1989	807					807	31.1
1988	507					507	25.2
1987	376					376	23.5
1986	105					105	9.5
1985	(7)					(7)	(0.7)
1984	(71)					(71)	(7.4)
1983	49					49	5.1
1982	(192)					(192)	(18.9)
1981	(206)					(206)	(17.2)
1980	14					14	0.9
1979	162					162	11.3
1978	209					209	16.5
1977	165					165	15.3
1976	127					127	13.8
1975	115					115	14.1
1974	107					107	14.7
1973	126					126	20.3
1972	96					96	18.8
1971	61					61	14.4

Source: Fannie Mae

1 Reported net income adjusted for net effect of the reconciliation.

2 Calculated as annualized core net income available for common shareholders divided by average realized common shareholders’ equity (common stockholders’ equity excluding "Accumulated other comprehensive income, net of taxes").

Table 4. Fannie Mae Balance Sheet

Balance Sheet ($ in Millions)							Mortgage Backed Securities Outstanding ($ in Millions)	
End of Period	Total Assets[1] ($)	Total Retained Mortgage Portfolio[2] ($)	Non-Mortgage Investments[3] ($)	Debt Outstanding ($)	Shareholders' Equity[4] ($)	Core Capital [5] ($)	Total MBS Outstanding[6] ($)	Multiclass MBS Outstanding[7] ($)
4Q02	887,515	797,772	59,844	850,982	16,288	28,079	1,029,456	401,486
3Q02	837,880	758,151	51,221	800,255	14,964	26,484	990,393	404,502
2Q02	826,843	740,806	63,991	788,909	17,730	26,382	945,497	402,330
1Q02	808,122	731,926	56,351	769,775	20,753	25,500	896,310	409,239
Annual Data								
2002	887,515	797,772	59,844	850,982	16,288	28,079	1,029,456	401,486
2001	799,948	705,372	74,554	763,467	18,118	25,182	858,867	392,457
2000	675,224	607,602	54,982	642,682	20,838	20,827	706,684	334,508
1999	575,308	522,977	39,751	547,619	17,629	17,876	679,169	335,514
1998	485,146	415,434	58,515	460,291	15,453	15,465	637,143	361,613
1997	391,673	316,592	64,596	369,774	13,793	13,793	579,138	388,360
1996	351,041	286,527	56,606	331,270	12,773	12,773	548,173	339,798
1995	316,550	252,868	57,273	299,174	10,959	10,959	513,230	353,528
1994	272,508	220,815	46,335	257,230	9,541	9,541	486,345	378,733
1993	216,979	190,169	21,396	201,112	8,052	8,052	471,306	381,865
1992	180,978	156,260	19,574	166,300	6,774	Not Applicable Before 1993	424,444	312,369
1991	147,072	126,679	9,836	133,937	5,547		355,284	224,806
1990	133,113	114,066	9,868	123,403	3,941		288,075	127,278
1989	124,315	107,981	8,338	116,064	2,991		216,512	64,826
1988	112,258	100,099	5,289	105,459	2,260		170,097	26,660
1987	103,459	93,665	3,468	97,057	1,811		135,734	11,359
1986	99,621	94,123	1,775	93,563	1,182		95,568	Not Issued Before 1987
1985	99,076	94,609	1,466	93,985	1,009		54,552	
1984	87,798	84,135	1,840	83,719	918		35,738	
1983	78,383	75,247	1,689	74,594	1,000		25,121	
1982	72,981	69,356	2,430	69,614	953		14,450	
1981	61,578	59,629	1,047	58,551	1,080		717	
1980	57,879	55,589	1,556	54,880	1,457		Not Issued Before 1981	
1979	51,300	49,777	843	48,424	1,501			
1978	43,506	42,103	834	40,985	1,362			
1977	33,980	33,252	318	31,890	1,173			
1976	32,393	31,775	245	30,565	983			
1975	31,596	30,820	239	29,963	861			
1974	29,671	28,666	466	28,168	772			
1973	24,318	23,589	227	23,003	680			
1972	20,346	19,652	268	19,239	559			
1971	18,591	17,886	349	17,672	460			

Source: Fannie Mae

1 Beginning in 1998, the guaranty liability for MBS held in the portfolio is classified as a liability.
2 Gross retained portfolio net of unamortized purchase premium, discounts and deferred price adjustments.
3 Prior to 1982 balances primarily composed of U.S. government and agency securities.
4 GAAP basis.
5 The sum of common stock, noncumulative preferred stock, paid-in capital and retained earnings.
6 Total MBS outstanding net of MBS in portfolio.
7 The majority qualify as REMICs and are also known as structured securitizations.

Table 4a. Fannie Mae Total MBS Outstanding Detail - Part 1, Single-Family

Single-Family Mortgages ($ in Millions)							
	Conventional				FHA/VA		
End of Period	Fixed-Rate ($)	Adjustable-Rate ($)	Seconds ($)	Total ($)	Fixed-Rate ($)	Adjustable-Rate ($)	Total ($)
4Q02	879,113	92,485	338	971,936	5,147	1,262	6,409
3Q02	856,459	79,095	424	935,978	5,554	1,296	6,850
2Q02	820,149	70,900	504	891,553	5,744	1,298	7,042
1Q02	777,056	69,946	615	842,617	5,997	1,239	7,236
Annual Data							
2002	879,113	92,485	338	971,936	5,147	1,262	6,409
2001	737,023	62,617	772	800,412	12,246	1,300	13,546
2000	599,961	61,495	1,165	662,621	6,778	1,298	8,076
1999	586,093	51,474	1,212	638,779	7,159	1,010	8,169
1998	545,680	56,903	98	602,681	5,340	587	5,927
1997	483,982	70,106	7	554,095	3,872	213	4,085
1996	460,866	65,682	9	526,557	4,402	191	4,593
1995	431,755	63,436	13	495,204	5,043	91	5,134
1994	415,692	55,780	18	471,490	5,628	0	5,628
1993	405,383	49,987	28	455,398	7,549	0	7,549
1992	360,619	45,718	43	406,380	9,438	0	9,438
1991	290,038	45,110	89	335,237	11,112	0	11,112
1990	225,981	42,443	121	268,545	11,380	0	11,380
1989	Not Available Before 1990	Not Available Before 1990	Not Available Before 1990	Not Available Before 1990	Not Available Before 1990	Not Available Before 1990	Not Available Before 1990

Source: Fannie Mae

Table 4a. Fannie Mae Total MBS Outstanding Detail - Part 2, Multifamily

Multifamily Mortgages ($ in Millions)				
End of Period	Conventional ($)	FHA/RHS ($)	Total Multifamily ($)	Total MBS Outstanding[1] ($)
4Q02	50,127	984	51,111	1,029,456
3Q02	46,525	1,040	47,565	990,393
2Q02	45,819	1,083	46,902	945,497
1Q02	45,306	1,151	46,457	896,310
Annual Data				
2002	50,127	984	51,111	1,029,456
2001	43,728	1,181	44,909	858,867
2000	35,207	780	35,987	706,684
1999	31,518	703	32,221	679,169
1998	28,378	157	28,535	637,143
1997	20,824	134	20,958	579,138
1996	16,912	111	17,023	548,173
1995	12,579	313	12,892	513,230
1994	8,908	319	9,227	486,345
1993	8,034	325	8,359	471,306
1992	8,295	331	8,626	424,444
1991	8,599	336	8,935	355,284
1990	7,807	343	8,150	288,075
1989	Not Available Before 1990	Not Available Before 1990	Not Available Before 1990	216,512
1988				170,097
1987				135,734
1986				95,568
1985				54,552
1984				35,738
1983				25,121
1982				14,450
1981				717
				Not Issued Before 1981

Source: Fannie Mae

[1] MBS and other mortgage-related securities guranteed by Fannie Mae and held by investors other than Fannie Mae.

Table 5. Fannie Mae Retained Mortgage Portfolio Detail

($ in Millions)					
End of Period	Whole Loans[1] ($)	Fannie Mae Securities[1] ($)	Other Mortgage-Related Securities[1] ($)	Unamortized Premiums, Discounts, Deferred Adjustments, and Unrealized Gains/Losses on Available-for-Sale Securities [2] ($)	Total Retained Mortgage Portfolio ($)
4Q02	185,801	508,831	96,168	6,972	797,772
3Q02	179,467	468,552	103,405	6,727	758,151
2Q02	175,756	459,097	105,891	62	740,806
1Q02	171,581	459,094	103,219	(1,968)	731,926
Annual Data					
2002	185,801	508,831	96,168	6,972	797,772
2001	165,957	431,484	110,035	(2,104)	705,372
2000	152,505	351,066	106,551	(2,520)	607,602
1999	149,105	281,714	93,122	(964)	522,977
1998	155,779	197,375	61,361	919	415,434
1997	160,102	130,444	26,132	(86)	316,592
1996	167,891	102,607	16,554	(525)	286,527
1995	171,481	69,729	12,301	(643)	252,868
1994	170,909	43,998	7,150	(1,242)	220,815
1993	163,149	24,219	3,493	(692)	190,169
1992	134,597	20,535	2,987	(1,859)	156,260
1991	109,251	16,700	3,032	(2,304)	126,679
1990	101,797	11,758	3,073	(2,562)	114,066
1989	95,729	11,720	3,272	(2,740)	107,981
1988	92,220	8,153	2,640	(2,914)	100,099
1987	89,618	4,226	2,902	(3,081)	93,665
1986	94,167	1,606	2,060	(3,710)	94,123
1985	97,421	435	793	(4,040)	94,609
1984	87,205	477	427	(3,974)	84,135
1983	77,983	Not Available Before 1984	273	(3,009)	75,247
1982	71,777		37	(2,458)	69,356
1981	61,411		1	(1,783)	59,629
1980	57,326		1	(1,738)	55,589
1979	51,096		1	(1,320)	49,777
1978	43,315		Not Available Before 1979	(1,212)	42,103
1977	34,377			(1,125)	33,252
1976	32,937			(1,162)	31,775
1975	31,916			(1,096)	30,820
1974	29,708			(1,042)	28,666
1973	24,459			(870)	23,589
1972	20,326			(674)	19,652
1971	18,515			(629)	17,886

Source: Fannie Mae

1 Unpaid principal balance.

2 Beginning in 2002, include unrealized gains/losses on available-for-sale securities.

Table 5a. Fannie Mae Retained Mortgage Portfolio Detail - Part 1a, Whole Loans

End of Period	Whole Loans[1] ($ in Millions)				
	Single-Family				
	Conventional				
	Fixed-Rate ($)	Adjustable-Rate ($)	Seconds ($)	Total ($)	Total FHA/VA ($)
4Q02	157,203	9,045	524	166,772	5,458
3Q02	152,489	8,940	592	162,021	5,289
2Q02	149,164	9,103	692	158,959	5,194
1Q02	144,984	9,475	772	155,231	5,145
Annual Data					
2002	157,203	9,045	524	166,772	5,458
2001	139,023	10,410	917	150,350	5,069
2000	125,657	13,244	480	139,381	4,763
1999	130,488	6,058	176	136,722	4,472
1998	135,351	7,633	206	143,190	4,404
1997	134,543	10,389	268	145,200	4,631
1996	137,507	12,415	323	150,245	4,739
1995	137,032	14,756	423	152,211	4,780
1994	133,882	16,475	537	150,894	4,965
1993	123,308	19,175	772	143,255	5,305
1992	91,500	22,637	1,355	115,492	6,097
1991	69,130	19,763	2,046	90,939	6,962
1990	61,873	19,558	1,851	83,282	8,524
1989	55,638	20,751	1,614	78,003	9,450
1988	53,090	20,004	1,561	74,655	10,480
1987	55,913	13,702	1,421	71,036	11,652
1986	Not Available Before 1987	Not Available Before 1987	Not Available Before 1987	Not Available Before 1987	Not Available Before 1987

Source: Fannie Mae

1 Unpaid principal balance.

Table 5a. Fannie Mae Retained Mortgage Portfolio Detail - Part 1b, Whole Loans

End of Period	Whole Loans[1] ($ in Millions)			
	Multifamily			Total Whole Loans ($)
	Conventional ($)	FHA/RHS ($)	Total ($)	
4Q02	12,217	1,354	13,571	185,801
3Q02	10,761	1,396	12,157	179,467
2Q02	10,158	1,445	11,603	175,756
1Q02	9,699	1,506	11,205	171,581
Annual Data				
2002	12,217	1,354	13,571	185,801
2001	8,987	1,551	10,538	165,957
2000	6,547	1,814	8,361	152,505
1999	5,564	2,347	7,911	149,105
1998	5,590	2,595	8,185	155,779
1997	7,388	2,883	10,271	160,102
1996	9,756	3,151	12,907	167,891
1995	11,175	3,315	14,490	171,481
1994	11,681	3,369	15,050	170,909
1993	11,143	3,446	14,589	163,149
1992	9,407	3,601	13,008	134,597
1991	7,641	3,709	11,350	109,251
1990	6,142	3,849	9,991	101,797
1989	3,926	4,350	8,276	95,729
1988	2,699	4,386	7,085	92,220
1987	2,448	4,482	6,930	89,618
1986	Not Available Before 1987	Not Available Before 1987	Not Available Before 1987	94,167
1985				97,421
1984				87,205
1983				77,983
1982				71,777
1981				61,411
1980				57,326
1979				51,096
1978				43,315
1977				34,377
1976				32,937
1975				31,916
1974				29,708
1973				24,459
1972				20,326
1971				18,515

Source: Fannie Mae

[1] Unpaid principal balance.

Table 5a. Fannie Mae Retained Mortgage Portfolio Detail - Part 2a, Mortgage-Related Securities

Mortgage-Related Securities[1] ($ in Millions)								
		Others' Securities						
				Private - Label				
End of Period	Total Enterprise Securities ($)	Freddie Mac ($)	Ginnie Mae ($)	Home Equity[2] ($)	Manufactured Housing ($)	Other ($)	Total Private Label ($)	Total Others' Securities ($)
4Q02	508,831	32,826	15,587	9,992	9,525	8,600	28,117	76,530
3Q02	468,552	37,397	18,148	11,323	Not Available Before 4Q02	17,065	28,388	83,933
2Q02	459,097	39,060	20,005	10,205		17,112	27,317	86,382
1Q02	459,094	39,130	17,198	9,776		18,296	28,072	84,400
Annual Data								
2002	508,831	32,826	15,587	9,992	9,525	8,600	28,117	76,530
2001	431,484	42,921	19,138	7,571	Not Available Before 2002	22,008	29,579	91,638
2000	351,066	33,290	23,768	9,472		24,794	34,266	91,324
1999	281,714	25,577	23,701	Not Available Before 2000		31,673	31,673	80,951
1998	197,375	23,453	8,638			19,585	19,585	51,676
1997	130,444	5,262	7,696			5,554	5,554	18,512
1996	102,607	3,623	4,780			1,486	1,486	9,889
1995	69,729	3,233	2,978			747	747	6,958
1994	43,998	564	3,182			1	1	3,747
1993	24,219	Not Available Before 1994	972			2	2	974
1992	20,535		168			3	3	171
1991	16,700		180			93	93	273
1990	11,758		191			352	352	543
1989	11,720		202			831	831	1,033
1988	8,153		26			810	810	836
1987	4,226		Not Available Before 1988			1,036	1,036	1,036
1986	1,606					1,591	1,591	1,591
1985	435					Not Available Before 1986	Not Available Before 1986	Not Available Before 1986
1984	477							
1983	Not Available Before 1984							

Source: Fannie Mae

1 Unpaid principal balance.

2 Balances incorporate securities specifically identified as home equity or seconds. Other securities may include some underlying loans which are home equity or seconds.

Table 5a. Fannie Mae Retained Mortgage Portfolio Detail - Part 2b, Mortgage-Related Securities

End of Period	Mortgage-Related Securities ($ in Millions) Mortgage Revenue Bonds[1] ($)	Total Mortgage-Related Securities ($)	Unamortized Premiums, Discounts, Deferred Adjustments, and Unrealized Gains/Losses on Available-for-Sale Securities [2] ($)	Total Retained Mortgage Portfolio ($)
4Q02	19,638	604,999	6,972	797,772
3Q02	19,472	571,957	6,727	758,151
2Q02	19,509	564,988	62	740,806
1Q02	18,819	562,313	(1,968)	731,926
Annual Data				
2002	19,638	604,999	6,972	797,772
2001	18,397	541,519	(2,104)	705,372
2000	15,227	457,617	(2,520)	607,602
1999	12,171	374,836	(964)	522,977
1998	9,685	258,736	919	414,434
1997	7,620	156,576	(86)	316,592
1996	6,665	119,161	(525)	286,527
1995	5,343	82,030	(643)	252,868
1994	3,403	51,148	(1,242)	220,815
1993	2,519	27,712	(692)	190,169
1992	2,816	23,522	(1,859)	156,260
1991	2,759	19,732	(2,304)	126,679
1990	2,530	14,831	(2,562)	114,066
1989	2,239	14,992	(2,740)	107,981
1988	1,804	10,793	(2,914)	100,099
1987	1,866	7,128	(3,081)	93,665
1986	469	Not Available Before 1987	(3,710)	94,123
1985	Not Available Before 1986		(4,040)	94,609
1984			(3,974)	84,135
1983			(3,009)	75,247
1982			(2,458)	69,356
1981			(1,783)	59,629
1980			(1,738)	55,589
1979			(1,320)	49,777
1978			(1,212)	42,103
1977			(1,125)	33,252
1976			(1,162)	31,775
1975			(1,096)	30,820
1974			(1,042)	28,666
1973			(870)	23,589
1972			(674)	19,652
1971			(629)	17,886

Source: Fannie Mae

[1] Unpaid principal balance.

[2] Beginning in 2002, include unrealized gains/losses on available-for-sale securities.

Table 6. Fannie Mae Derivatives

Financial Derivatives - Notional Amount Outstanding ($ in Millions)							
End of Period	Interest Rate Swaps ($)	Interest Rate Caps, Floors, and Corridors ($)	Foreign Currency Contracts ($)	OTC Futures, Options and Forward Rate Agreements ($)	Exchange-Traded Futures, Options, and Other Derivatives ($)	Other ($)	Total ($)
4Q02	246,508	122,393	4,109	283,675	0	0	656,595
3Q02	291,655	104,493	4,036	228,425	0	0	628,609
2Q02	333,533	89,693	4,977	166,290	0	0	594,493
1Q02	315,030	84,543	8,496	158,192	0	0	566,261
Annual Data							
2002	246,508	122,393	4,019	283,675	0	0	656,595
2001	299,953	75,893	8,493	148,800	0	0	533,139
2000	227,651	33,663	9,511	53,915	0	0	324,740
1999	192,032	28,950	11,507	41,081	0	1,400	274,970
1998	142,846	14,500	12,995	13,481	0	3,735	187,557
1997	149,673	100	9,968	0	0	1,660	161,401
1996	158,140	300	2,429	0	0	350	161,219
1995	125,679	300	1,224	29	0	975	128,207
1994	87,470	360	1,023	0	0	1,465	90,317
1993	49,458	360	1,023	0	0	1,425	52,265
1992	24,130	0	1,177	0	0	1,350	26,658
1991	9,100	0	Not Available Before 1992	50	0	1,050	10,200
1990	4,800	0		25	0	1,700	6,525

Source: Fannie Mae

Table 7. Fannie Mae Non-Mortgage Investments

Non-Mortgage Investments[1] ($ in Millions)						
End of Period	Federal Funds and Eurodollars ($)	Asset Backed Securities ($)	Repurchase Agreements ($)	Commercial Paper and Corporate Debt ($)	Other ($)	Total ($)
4Q02	1,548	22,311	20,732	14,075	1,178	59,844
3Q02	5,768	20,988	7,522	14,903	2,040	51,221
2Q02	9,828	23,416	3,176	19,901	7,670	63,991
1Q02	5,281	21,921	6,234	18,324	4,591	56,351
Annual Data						
2002	1,548	22,311	20,732	14,075	1,178	59,844
2001	16,089	20,937	9,380	23,805	4,343	74,554
2000	7,539	17,512	2,722	8,893	18,316	54,982
1999	4,837	19,207	2,574	1,723	11,410	39,751
1998	7,926	20,993	7,556	5,155	16,885	58,515
1997	19,212	16,639	6,715	11,745	10,285	64,596
1996	21,734	14,635	4,667	6,191	9,379	56,606
1995	19,775	9,905	10,175	8,629	8,789	57,273
1994	17,593	3,796	9,006	7,719	8,221	46,335
1993	4,496	3,557	4,684	0	8,659	21,396
1992	6,587	4,124	3,189	0	5,674	19,574
1991	2,954	2,416	2,195	0	2,271	9,836
1990	5,329	1,780	951	0	1,808	9,868
1989	5,158	1,107	0	0	2,073	8,338
1988	4,125	481	0	0	683	5,289
1987	2,559	25	0	0	884	3,468
1986	1,530	0	0	0	245	1,775
1985	1,391	0	0	0	75	1,466
1984	1,575	0	0	0	265	1,840
1983	1,462	0	0	0	227	1,689
1982	1,799	0	0	0	631	2,430
1981	Not Available Before 1982	Not Available Before 1982	Not Available Before 1982	Not Available Before 1982	Not Available Before 1982	1,047
1980						1,556
1979						843
1978						834
1977						318
1976						245
1975						239
1974						466
1973						227
1972						268
1971						349

Source: Fannie Mae

[1] Prior to 1982, the majority of non-mortgage investments was comprised of U.S. government securities and agency securities.

Table 8. Fannie Mae Asset - Liability Mix

Asset - Liability Ratios				
	Asset Mix		Liability Mix	
End of Period	Total Retained Portfolio / Total Assets (%)	Non-Mortgage Investments/ Total Assets (%)	Callable Debt / Total Effective Long-Term Debt[1] (%)	Total Effective Long-Term Debt /Total Debt[2] (%)
4Q02	89.9	6.7	53.7	76.6
3Q02	90.5	6.1	47.9	82.1
2Q02	89.6	7.7	38.5	87.0
1Q02	90.6	7.0	37.9	85.3
Annual Data				
2002	89.9	6.7	53.7	76.6
2001	88.2	9.3	37.1	82.2
2000	90.0	8.1	42.9	84.6
1999	90.9	6.9	43.4	87.1
1998	85.6	12.1	42.9	76.4
1997	80.8	16.5	46.4	79.4
1996	81.6	16.1	47.5	80.5
1995	79.9	18.1	48.0	73.9
1994	81.0	17.0	54.6	72.6
1993	87.6	9.9	58.1	80.0
1992	86.3	10.8	48.8	77.9
1991	86.1	6.7	36.0	85.5
1990	85.7	7.4	21.9	82.6
1989	86.9	6.7	10.1	80.1
1988	89.2	4.7	3.6	78.7
1987	90.5	3.4	Not Available Before 1988	Not Available Before 1988
1986	94.5	1.8		
1985	95.5	1.5		
1984	95.8	2.1		
1983	96.0	2.2		
1982	95.0	3.3		
1981	96.8	1.7		
1980	96.0	2.7		
1979	97.0	1.6		
1978	96.8	1.9		
1977	97.9	0.9		
1976	98.1	0.8		
1975	97.5	0.8		
1974	96.6	1.6		
1973	97.0	1.0		
1972	96.6	1.3		
1971	96.2	1.8		

Source: Fannie Mae

1 Callable debt includes derivative financial instruments that provide interest-rate protection similar to callable debt.

2 Total effective long-term debt represents debt with an effective repricing date greater than one year.

Table 9. Fannie Mae Mortgage Asset Quality

Mortgage Asset Quality					
End of Period	Single-Family Delinquency Rate[1] (%)	Multifamily Delinquency Rate[2] (%)	Credit Losses /Total MBS Outstanding plus Retained Portfolio[3] (%)	REO / Total MBS Outstanding plus Retained Portfolio[4] (%)	Credit-Enhanced Outstanding / Total MBS Outstanding plus Retained Portfolio[5] (%)
4Q02	0.57	0.05	0.01	0.06	29.6
3Q02	0.53	0.08	0.00	0.05	31.7
2Q02	0.49	0.12	0.00	0.05	32.9
1Q02	0.53	0.24	0.01	0.05	33.3
Annual Data					
2002	0.57	0.05	0.01	0.06	29.6
2001	0.55	0.27	0.01	0.04	34.2
2000	0.45	0.07	0.01	0.05	40.4
1999	0.47	0.11	0.01	0.06	20.9
1998	0.56	0.23	0.03	0.08	17.5
1997	0.62	0.37	0.04	0.10	12.8
1996	0.58	0.68	0.05	0.11	10.5
1995	0.56	0.81	0.05	0.08	10.6
1994	0.47	1.21	0.06	0.10	10.2
1993	0.48	2.34	0.04	0.10	10.6
1992	0.53	2.65	0.04	0.09	15.6
1991	0.64	3.62	0.04	0.07	22.0
1990	0.58	1.70	0.06	0.09	25.9
1989	0.69	3.20	0.07	0.14	Not Available Before 1990
1988	0.88	6.60	0.11	0.15	
1987	1.12	Not Available Before 1988	0.11	0.18	
1986	1.38		0.12	0.22	
1985	1.48		0.13	0.32	
1984	1.65		0.09	0.33	
1983	1.49		0.05	0.35	
1982	1.41		0.01	0.20	
1981	0.96		0.01	0.13	
1980	0.90		0.01	0.09	
1979	0.56		0.02	0.11	
1978	0.55		0.02	0.18	
1977	0.46		0.02	0.26	
1976	1.58		0.03	0.27	
1975	0.56		0.03	0.51	
1974	0.51		0.02	0.52	
1973	Not Available Before 1974		0.00	0.61	
1972			0.02	0.98	
1971			0.01	0.59	

Source: Fannie Mae

1 Beginning with 1998, data include all seriously delinquent conventional loans with and without third party enhancement. Prior to 1998, data include loans for which Fannie Mae has primary risk of loss. Data prior to 1992 include loans in relief or bankruptcy, even if they are less than 90 days delinquent.

2 Beginning in 1998, data include all loans that are two or more months delinquent. Data prior to 1998 include loans for which Fannie Mae has primary risk of loss.

3 Credit losses are charge-offs plus real estate owned expense; average balances used to calculate ratios subsequent to 1994; quarterly data are annualized.

4 Real Estate Owned balances reflect end-of-period amounts. Beginning with 1995, data reflect adoption of SFAS 114.

5 Beginning in 2000, "credit enhanced" is expanded to include primary mortgage insurance. Prior to 2000, reflect proportion of the retained portfolio with additional recourse from a third party to accept some or all of the expected losses on defaulted mortgages.

Table 10. Fannie Mae Capital

Capital ($ in Millions)							
End of Period	Core Capital ($)	Regulatory Minimum Capital Requirement[1] ($)	Regulatory Capital Surplus (Deficit)[2] ($)	Market Capitalization[3] ($)	Core Capital / Total Assets (%)	Core Capital / Outstanding MBS plus Total Assets (%)	Common Share Dividend Payout Rate[4] (%)
4Q02	28,079	27,203	877	63,612	3.16	1.46	19.8
3Q02	26,484	25,756	729	58,869	3.16	1.45	20.3
2Q02	26,382	25,227	1,155	73,217	3.19	1.49	21.2
1Q02	25,500	24,571	929	79,523	3.16	1.50	22.1
Annual Data							
2002	28,079	27,203	877	63,612	3.16	1.46	20.8
2001	25,182	24,182	1,000	79,281	3.15	1.52	23.0
2000	20,827	20,294	533	86,643	3.08	1.51	26.0
1999	17,876	17,770	106	63,651	3.11	1.42	28.8
1998	15,465	15,334	131	75,881	3.19	1.38	29.5
1997	13,793	12,703	1,090	59,167	3.52	1.42	29.4
1996	12,773	11,466	1,307	39,932	3.64	1.42	30.4
1995	10,959	10,451	508	33,812	3.46	1.32	34.6
1994	9,541	9,416	126	19,882	3.50	1.26	30.8
1993	8,052	7,876	176	21,387	3.71	1.17	26.8
1992	Not Applicable Before 1993	Not Applicable Before 1993	Not Applicable Before 1993	20,874	Not Applicable Before 1993	Not Applicable Before 1993	23.2
1991				18,836			21.3
1990				8,490			14.7
1989				8,092			12.8
1988				3,992			11.2
1987				2,401			11.7
1986				3,006			8.0
1985				1,904			30.1
1984				1,012			Not Applicable
1983				1,514			13.9
1982				1,603			Not Applicable
1981				502			Not Applicable
1980				702			464.2
1979				Not Available Before 1980			45.7
1978							30.3
1977							31.8
1976							33.6
1975							31.8
1974							29.6
1973							18.1
1972							15.2
1971							18.7

Source: Fannie Mae and OFHEO

1 Minimum capital requirement in accordance with the Federal Housing Enterprises Financial Safety and Soundness Act of 1992.
2 The difference between Core Capital and Minimum Regulatory Capital Requirement.
3 Stock price multiplied by number of outstanding common shares.
4 Common dividends paid as a percentage of core net income available to common shareholders.

Table 11. Freddie Mac Mortgage Purchases

Business Activity ($ Millions)				
	Purchases			
Period	Single-Family ($)	Multifamily ($)	Total Mortgages[1] ($)	Mortgage Securities[2] ($)
4Q02	196,909	5,487	202,396	98,932
3Q02	113,207	1,971	115,178	59,671
2Q02	101,004	1,632	102,636	32,054
1Q02	136,580	1,566	138,146	72,849
Annual Data				
2002	547,700	10,656	558,356	263,506
2001	393,155	9,509	402,664	230,914
2000	168,013	6,030	174,043	91,896
1999	232,612	7,181	239,793	101,898
1998	263,490	3,910	267,400	128,446
1997	115,160	2,241	117,401	35,385
1996	122,850	2,229	125,079	36,824
1995	89,971	1,565	91,536	39,292
1994	122,563	847	123,410	19,817
1993	229,051	191	229,242	Not Available Before 1994
1992	191,099	27	191,126	
1991	99,729	236	99,965	
1990	74,180	1,338	75,518	
1989	76,765	1,824	78,589	
1988	42,884	1,191	44,075	
1987	74,824	2,016	76,840	
1986	99,936	3,538	103,474	
1985	42,110	1,902	44,012	
1984	Not Available Before 1985	Not Available Before 1985	21,885	
1983			22,952	
1982			23,671	
1981			3,744	
1980			3,690	
1979			5,716	
1978			6,524	
1977			4,124	
1976			1,129	
1975			1,716	
1974			2,185	
1973			1,334	
1972			1,265	
1971			778	

Source: Freddie Mac

1 Loans purchased from lenders; excluding non-Freddie Mac mortgage securities and repurchased Freddie Mac MBS.

2 Not included in total mortgage purchases.

Table 11a. Freddie Mac Mortgage Purchases Detail, by Type of Loan - Part 1, Single-Family

Period	Purchases[1] ($ in Millions)							
	Single-Family Mortgages[2]							
	Conventional				FHA/VA			Total Single-Family Mortgages ($)
	Fixed-Rate ($)	Adjustable-Rate ($)	Seconds ($)	Total ($)	Fixed-Rate ($)	Adjustable-Rate ($)	Total ($)	
4Q02	182,855	13,694	0	196,549	360	0	360	196,909
3Q02	100,556	12,357	0	112,913	294	0	294	113,207
2Q02	91,383	9,510	0	100,893	111	0	111	101,004
1Q02	127,144	9,356	0	136,500	80	0	80	136,580
Annual Data								
2002	501,938	44,917	0	546,855	845	0	845	547,700
2001	370,661	22,206	0	392,867	288	0	288	393,155
2000	145,744	21,201	0	166,945	1,068	0	1,068	168,013
1999	224,040	7,443	0	231,483	1,129	0	1,129	232,612
1998	256,008	7,384	0	263,392	98	0	98	263,490
1997	106,174	8,950	0	115,124	36	0	36	115,160
1996	116,316	6,475	0	122,791	59	0	59	122,850
1995	75,867	14,099	0	89,966	5	0	5	89,971
1994	105,902	16,646	0	122,548	15	0	15	122,850
1993	208,322	20,708	1	229,031	20	0	20	229,051
1992	175,515	15,512	7	191,034	65	0	65	191,099
1991	91,586	7,793	206	99,585	144	0	144	99,729
1990	56,806	16,286	686	73,778	402	0	402	74,180
1989	57,100	17,835	1,206	76,141	624	0	624	76,765
1988	34,737	7,253	59	42,049	835	0	835	42,884
1987	69,148	4,779	69	73,996	828	0	828	74,824
1986	96,105	2,262	90	98,457	1,479	0	1,479	99,936
1985	40,226	605	34	40,865	1,245	0	1,245	42,110

Source: Freddie Mac

1 Loans purchased from lenders; excluding non-Freddie Mac mortgage securities and repurchased Freddie Mac MBS.

2 Data are partially estimated.

Table 11a. Freddie Mac Mortgage Purchases Detail, By Type of Loan - Part 2, Multifamily

Purchases[1] ($ in Millions)				
	Multifamily Mortgages			
End of Period	Conventional ($)	FHA/RHS ($)	Total Multifamily Mortgages ($)	Total Mortgage Purchases ($)
4Q02	5,487	0	5,487	202,396
3Q02	1,971	0	1,971	115,178
2Q02	1,632	0	1,632	102,636
1Q02	1,566	0	1,566	138,146
Annual Data				
2002	10,656	0	10,656	558,356
2001	9,506	3	9,509	402,664
2000	6,030	Not Available Before 2001	6,030	174,043
1999	7,181		7,181	239,793
1998	3,910		3,910	267,400
1997	2,241		2,241	117,401
1996	2,229		2,229	125,079
1995	1,565		1,565	91,536
1994	847		847	123,410
1993	191		191	229,242
1992	27		27	191,126
1991	236		236	99,965
1990	1,338		1,338	75,518
1989	1,824		1,824	78,589
1988	1,191		1,191	44,075
1987	2,016		2,016	76,840
1986	3,538		3,538	103,474
1985	1,902		1,902	44,012

Source: Freddie Mac

1 Loans purchased from lenders; excluding non-Freddie Mac mortgage securities and repurchased Freddie Mac MBS.

Table 11b. Freddie Mac Purchases of Mortgage-Related Securities

Purchases ($ in Millions)									
		Others' Securities							
				Private - Label[1]					
End of Period	Enterprise Securities ($)	Fannie Mae[1] ($)	Ginnie Mae ($)	Home Equity ($)	Manufactured Housing ($)	Other ($)	Total Private ($)	Mortgage Revenue Bonds ($)	Total Mortgage-Related Securities ($)
4Q02	62,126	16,957	12	12,046	0	7,524	19,570	267	98,932
3Q02	37,828	12,074	575	2,910	0	6,098	9,008	186	59,671
2Q02	20,010	1,955	35	8,113	0	1,728	9,841	213	32,054
1Q02	59,501	4,860	952	6,850	0	490	7,340	196	72,849
Annual Data									
2002	179,465	35,846	1,574	29,919	0	15,840	45,759	862	263,506
2001	158,487	57,551	2,195	6,043	0	5,930	11,973	708	230,914
2000	58,516	18,249	3,339	4,865	15	5,424	10,304	1,488	91,896
1999	69,219	12,392	3,422	7,931	3,293	4,039	15,263	1,602	101,898
1998	107,508	3,126	319	5,872	1,630	8,209	15,711	1,782	128,446
1997	31,296	897	326	374	36	1,084	1,494	1,372	35,385
1996	33,338	Not Available Before 1997	Not Available Before 1997	Not Available Before 1997	Not Available Before 1997	Not Available Before 1997	Not Available Before 1997	Not Available Before 1997	36,824
1995	32,534								39,292
1994	19,817								19,817

Source: Freddie Mac

[1] Data for 1997 through 1999 are estimated.

Table 12. Freddie Mac MBS Issuances

Business Activity ($ in Millions)				
MBS Issuances				
Period	Single-Family MBS ($)	Multifamily MBS ($)	Total MBS ($)	Multiclass MBS[1] ($)
4Q02	192,756	3,298	196,054	106,895
3Q02	110,459	182	110,641	76,069
2Q02	101,224	78	101,302	71,490
1Q02	139,011	38	139,049	77,721
Annual Data				
2002	543,450	3,596	547,046	331,675
2001	387,255	2,356	389,611	192,437
2000	165,115	1,786	166,901	48,202
1999	230,986	2,045	233,031	119,565
1998	249,627	937	250,564	135,162
1997	113,758	500	114,258	84,366
1996	118,932	770	119,702	34,145
1995	85,522	355	85,877	15,372
1994	116,901	209	117,110	73,131
1993	208,724	0	208,724	143,336
1992	179,202	5	179,207	131,284
1991	92,479	0	92,479	72,032
1990	71,998	1,817	73,815	40,479
1989	72,931	587	73,518	39,754
1988	39,490	287	39,777	12,985
1987	72,866	2,152	75,018	0
1986	96,798	3,400	100,198	2,233
1985	37,583	1,245	38,828	2,625
1984	Not Available Before 1985	Not Available Before 1985	18,684	1,805
1983			19,691	1,685
1982			24,169	Not Issued Before 1983
1981			3,526	
1980			2,526	
1979			4,546	
1978			6,412	
1977			4,657	
1976			1,360	
1975			950	
1974			46	
1973			323	
1972			494	
1971			65	

Source: Freddie Mac

[1] The majority qualify as Real Estate Mortgage Investment Conduits (REMICs), and are also known as structured securitizations. In years 1983 - 1986, data consist of collateralized mortgage obligations (CMOs) and mortgage cash flow obligations (MCFs).

Table 13. Freddie Mac Earnings[1]

Earnings ($ in Millions)						
Period	Operating Net Interest Income[2, 3, 4] ($)	Guarantee Fee Income [3,4] ($)	Average Guarantee Fee [3,4] (basis points)	Administrative Expenses[5] ($)	Credit-related Expenses[6] ($)	Operating Net Income [7] ($)
4Q02	1,352	335	18.5	280	(8)	846
3Q02	1,451	335	18.6	208	(294)	1,147
2Q02	1,445	325	18.5	204	(4)	968
1Q02	1,444	303	18.5	228	24	893
Annual Data						
2002	5,692	1,298	18.5	920	(282)	3,854
2001	4,444	1,127	18.7	844	84	3,154
2000	3,270	1,057	19.3	713	106	2,547
1999	2,926	1,019	19.8	655	159	2,223
1998	2,215	1,019	21.4	578	342	1,700
1997	1,847	1,082	22.9	495	529	1,395
1996	1,705	1,086	23.4	440	608	1,243
1995	1,396	1,087	23.8	395	541	1,091
1994	1,112	1,108	24.4	379	425	983
1993	772	1,009	23.8	361	524	786
1992	695	936	24.7	329	457	622
1991	683	792	23.7	287	419	555
1990	619	654	22.4	243	474	414
1989	517	572	23.4	217	278	437
1988	492	465	21.5	194	219	381
1987	319	472	24.2	150	175	301
1986	299	301	22.4	110	120	247
1985	312	188	22.1	81	79	208
1984	213	158	24.7	71	54	144
1983	125	132	26.2	53	46	86
1982	30	77	24.5	37	26	60
1981	34	36	19.5	30	16	31
1980	54	23	14.3	26	23	34
1979	55	18	13.2	19	20	36
1978	37	14	14.9	14	13	25
1977	31	9	18.9	12	8	21
1976	18	3	13.6	10	(1)	14
1975	31	3	24.8	10	11	16
1974	42	2	25.5	8	33	5
1973	31	2	32.4	7	15	12
1972	10	1	39.4	5	4	4
1971	10	1	Not Available Before 1972	Not Available Before 1972	Not Available Before 1972	6

Source: Freddie Mac

1 Freddie Mac has announced that it intends to restate certain financial results for 2002 and prior periods. Restatement of such financial results may affect some of the information presented in this table.

2 Interest income net of interest expense, nominal basis, adjusted to remove FAS 133 effects starting in 2001.

3 Effective 1/1/96, Freddie Mac reports guarantee fees on retained MBS as guarantee fee income. However, in these data, fees on retained MBS have been estimated and reclassified as interest income for comparability with Fannie Mae.

4 In 1993, Freddie Mac adopted a change in reporting of uncollectible interest on single-family mortgages. Pre-1993 amounts do not reflect this change.

5 Data for 4Q02 and 2002 do not reflect $225 million cash contribution to Freddie Mac's philanthropic program.

6 Credit-related expenses are mortgage loan loss provision plus real estate owned expense. From 1988 to 1990, data include real estate owned disposition loss provisions instead of expense, and before 1988, only mortgage loan loss provision.

7 Net income adjusted to remove FAS 133 effects starting in 2001.

Table 13a. Freddie Mac Earnings[1]

Period	Net Income ($)	Remove Certain FAS 133 Hedged Item Amortization ($)	Include Straight-line Option Premium Amortization ($)	Remove FAS 133 "Fair Value Gains (Losses)" ($)	Other[2] ($)	Tax Effects of Preceeding Adjustments ($)	Cumulative Gain on Adoption of FAS 133 ($)	Operating Net Income[3] ($)	Return on Adjusted Common Equity[4] (%)
	Earnings ($ in Millions)								
4Q02	1,703	(5)	(481)	(353)	(480)	462	0	846	30.2
3Q02	1,538	(46)	(468)	(18)	(70)	211	0	1,147	29.6
2Q02	1,110	134	(403)	115	(65)	77	0	968	27.9
1Q02	1,413	(4)	(425)	(240)	(130)	279	0	893	16.6
Annual Data									
2002	5,764	79	(1,777)	(496)	(745)	1,029	0	3,854	26.1
2001	4,147	(519)	(1,029)	27	0	533	(5)	3,154	23.1
2000	2,547	Not Applicable Before 2001	Not Applicable Before 2001	Not Applicable Before 2001	Not Applicable Before 2001	Not Applicable Before 2001	Not Applicable Before 2001	2,547	23.7
1999	2,223							2,223	25.5
1998	1,700							1,700	22.6
1997	1,395							1,395	23.1
1996	1,243							1,243	22.6
1995	1,091							1,091	22.1
1994	983							983	23.3
1993	786							786	22.3
1992	622							622	21.2
1991	555							555	23.6
1990	414							414	20.4
1989	437							437	25.0
1988	381							381	27.5
1987	301							301	28.2
1986	247							247	28.5
1985	208							208	30.0
1984	144							144	52.0
1983	86							86	44.5
1982	60							60	21.9
1981	31							31	13.1
1980	34							34	14.7
1979	36							36	16.2
1978	25							25	13.4
1977	21							21	12.4
1976	14							14	9.5
1975	16							16	11.6
1974	5							5	4.0
1973	12							12	9.9
1972	4							4	3.5
1971	6							6	5.5

Source: Freddie Mac

1 Freddie Mac has announced that it intends to restate certain financial results for 2002 and prior periods. Restatement of such financial results may affect some of the information presented in this table.

2 Reflects accounting differences between GAAP and operating income arising from repurchases of hedged debt, sales of hedged assets, sales of options, and other adjustments.

3 Reported net income adjusted to remove FAS 133 effects starting in 2001.

4 Annual computation reflects the simple average of quarterly returns. Calculated as annualized operating earnings available for common shareholders divided by average realized common stockholders' equity (common stockholders' equity excluding "Accumulated other comprehensive income, net of taxes").

Table 14. Freddie Mac Balance Sheet[1]

	Balance Sheet ($ in Millions)						Mortgage-Backed Securities Outstanding ($ in Millions)	
End of Period	Total Assets ($)	Total Retained Mortgage Portfolio[2] ($)	Non-Mortgage Investments[3] ($)	Debt Outstanding ($)	Shareholders' Equity[4] ($)	Core Capital[5] ($)	Total MBS Outstanding[6] ($)	Multiclass MBS Outstanding[7] ($)
4Q02	721,739	583,423	69,393	648,894	24,629	23,792	742,868	474,375
3Q02	681,980	542,568	80,060	623,267	22,566	22,656	730,341	469,445
2Q02	644,013	525,200	70,897	601,363	17,934	21,446	725,226	445,538
1Q02	646,397	527,962	78,652	603,446	15,865	20,558	677,064	407,007
Annual Data								
2002	721,739	583,423	69,393	648,894	24,629	23,792	742,868	474,375
2001	617,340	494,585	77,444	565,071	15,373	19,336	646,448	373,552
2000	459,297	385,451	43,521	426,899	14,837	14,380	576,101	309,185
1999	386,684	322,914	34,152	360,711	11,525	12,692	537,883	316,168
1998	321,421	255,670	42,160	287,396	10,835	10,715	478,351	260,504
1997	194,597	164,543	16,430	172,842	7,521	7,376	475,985	233,829
1996	173,866	137,826	22,248	156,981	6,731	6,743	473,065	237,939
1995	137,181	107,706	12,711	119,961	5,863	5,829	459,045	246,366
1994	106,199	73,171	17,808	93,279	5,162	5,169	460,656	264,152
1993	83,880	55,938	18,225	49,993	4,437	4,437	439,029	265,178
1992	59,502	33,629	12,542	29,631	3,570	Not Applicable Before 1993	407,514	218,747
1991	46,860	26,667	9,956	30,262	2,566		359,163	146,978
1990	40,579	21,520	12,124	30,941	2,136		316,359	88,124
1989	35,462	21,448	11,050	26,147	1,916		272,870	52,865
1988	34,352	16,918	14,607	26,882	1,584		226,406	15,621
1987	25,674	12,354	10,467	19,547	1,182		212,635	3,652
1986	23,229	13,093	Not Available Before 1987	15,375	953		169,186	5,333
1985	16,587	13,547		12,747	779		99,909	5,047
1984	13,778	10,018		10,999	606		70,026	3,214
1983	8,995	7,485		7,273	421		57,720	1,669
1982	5,999	4,679		4,991	296		42,952	Not Issued Before 1983
1981	6,326	5,178		5,680	250		19,897	
1980	5,478	5,006		4,886	221		16,962	
1979	4,648	4,003		4,131	238		15,316	
1978	3,697	3,038		3,216	202		12,017	
1977	3,501	3,204		3,110	177		6,765	
1976	4,832	4,175		4,523	156		2,765	
1975	5,899	4,878		5,609	142		1,643	
1974	4,901	4,469		4,684	126		780	
1973	2,873	2,521		2,696	121		791	
1972	1,772	1,726		1,639	110		444	
1971	1,038	935		915	107		64	

Source: Freddie Mac

1 Freddie Mac has announced that it intends to restate certain financial results for 2002 and prior periods. Restatement of such financial results may affect some of the information presented in this table.

2 Unpaid principal balance plus net unamortized premiums, discounts, deferred fees and unrealized gains and losses on available-for-sale mortgage-related securities.

3 Excludes mortgage-related securities held for trading purposes.

4 GAAP basis.

5 The sum of common stock, noncumulative preferred stock, paid-in capital and retained earnings.

6 Total MBS outstanding net of repurchased MBS in retained portfolio.

7 The majority qualify as REMICs and are also known as structured securitizations. In years 1983 - 1999, data also include original issue CMOs and MCFs, and structured securitizations and PCs with mandatory purchase obligations.

Table 14a. Freddie Mac Total MBS Outstanding Detail

End of Period	Single-Family Mortgages ($ in Millions)					Multifamily Mortgages ($ in Millions)			Total MBS Outstanding[2] ($)
	Conventional				Total FHA/VA[1] ($)	Conventional ($)	FHA/RHS ($)	Multifamily Mortgages ($)	
	Fixed-Rate ($)	Adjustable-Rate ($)	Seconds ($)	Total ($)					
4Q02	709,009	23,984	5	732,998	1,090	8,780	0	8,780	742,868
3Q02	703,096	19,330	6	722,432	924	6,985	0	6,985	730,341
2Q02	700,980	16,460	7	717,447	792	6,987	0	6,987	725,226
1Q02	657,256	119,88	9	669,253	763	7,048	0	7,048	677,064
Annual Data									
2002	709,009	23,984	5	732,998	1,090	8,780	0	8,780	742,868
2001	602,376	35,852	10	638,238	734	7,476	0	7,476	646,448
2000	533,331	36,266	18	569,615	778	5,708	0	5,708	576,101
1999	499,671	33,094	29	532,794	627	4,462	0	4,462	537,883
1998	Not Available Before 1999	Not Available Before 1999	Not Available Before 1999	Not Available Before 1999	Not Available Before 1999	Not Available Before 1999	Not Available Before 1999	Not Available Before 1999	478,351
1997									475,985
1996									473,065
1995									459,045
1994									460,656
1993									439,029
1992									407,514
1991									359,163
1990									316,359
1989									272,870
1988									226,406
1987									212,635
1986									169,186
1985									99,909
1984									70,026
1983									57,720
1982									42,952
1981									19,897
1980									16,962
1979									15,316
1978									12,017
1977									6,765
1976									2,765
1975									1,643
1974									780
1973									791
1972									444
1971									64

Source: Freddie Mac

1 All fixed-rate.

2 Total MBS outstanding net of MBS held in the retained portfolio.

Table 15. Freddie Mac Retained Mortgage Portfolio Detail

($ in Millions)				
End of Period	Whole Loans ($)	Freddie Mac Securities ($)	Other Mortgage-Related Securities ($)	Total Retained Mortgage Portfolio[1] ($)
4Q02	63,887	339,194	180,342	583,423
3Q02	60,934	327,835	153,799	542,568
2Q02	58,872	328,035	138,293	525,200
1Q02	59,624	335,414	132,924	527,962
Annual Data				
2002	63,887	339,194	180,342	583,423
2001	62,792	301,961	129,832	494,585
2000	59,240	246,209	80,002	385,451
1999	56,676	211,198	55,040	322,914
1998	57,084	168,108	30,478	255,670
1997	48,454	103,400	12,689	164,543
1996	46,504	81,195	11,127	137,826
1995	43,753	56,006	7,947	107,706
1994	Not Available Before 1995	30,670	Not Available Before 1995	73,171
1993		15,877		55,938
1992		6,394		33,629
1991		Not Available Before 1992		26,667
1990				21,520
1989				21,448
1988				16,918
1987				12,354
1986				13,093
1985				13,547
1984				10,018
1983				7,485
1982				4,679
1981				5,178
1980				5,006
1979				4,003
1978				3,038
1977				3,204
1976				4,175
1975				4,878
1974				4,469
1973				2,521
1972				1,726
1971				935

Source: Freddie Mac

[1] Unpaid principal balance plus net unamortized premiums, discounts, deferred fees and unrealized gains or losses on available-for-sale mortgage-related securities.

Table 15a. Freddie Mac Retained Mortgage Portfolio Detail - Part 1a, Whole Loans

	Whole Loans[1] ($ in Millions)				
	Single-Family				
	Conventional				Total FHA/VA
End of Period	Fixed-Rate ($)	Adjustable-Rate ($)	Seconds ($)	Total ($)	($)
4Q02	33,817	1,321	3	35,141	710
3Q02	32,825	1,019	3	33,847	769
2Q02	32,262	969	4	33,235	828
1Q02	34,017	1,040	5	35,062	894
Annual Data					
2002	33,817	1,321	3	35,141	710
2001	37,552	1,787	6	39,345	964
2000	39,537	2,125	9	41,671	1,200
1999	43,210	1,020	14	44,244	77
1998	47,754	1,220	23	48,997	109
1997	40,967	1,478	36	42,481	148
	Not Available Before 1997	Not Available Before 1997	Not Available Before 1997	Not Available Before 1997	Not Available Before 1997

Source: Freddie Mac

[1] Unpaid principal balance.

Table 15a. Freddie Mac Retained Mortgage Portfolio Detail - Part 1b, Whole Loans

End of Period	Whole Loans ($ in Millions)			
	Multifamily			Total Whole Loans ($)
	Conventional ($)	FHA/RHS ($)	Total ($)	
4Q02	28,033	3	28,036	63,887
3Q02	26,315	3	26,318	60,934
2Q02	24,806	3	24,809	58,872
1Q02	23,665	3	23,668	59,624
Annual Data				
2002	28,033	3	28,036	63,887
2001	22,480	3	22,483	62,792
2000	16,369	Not Available Before 2001	16,369	59,240
1999	12,355		12,355	56,676
1998	7,978		7,978	57,084
1997	5,825		5,825	48,454
1996	4,746		4,746	46,504
1995	3,852		3,852	43,753
1994	Not Available Before 1995		Not Available Before 1995	Not Available Before 1995

Source: Freddie Mac

Table 15a. Freddie Mac Retained Mortgage Portfolio Detail - Part 2a, Mortgage-Related Securities

Mortgage-Related Securities ($ in Millions)								
		Others' Securities						
				Private - Label				
End of Period	Total Enterprise Securities ($)	Fannie Mac ($)	Ginnie Mae ($)	Home Equity ($)	Manufactured Housing ($)	Other ($)	Total Private-Label ($)	Total Others' Securities ($)
4Q02	339,194	76,990	6,360	39,198	2,189	32,713	74,100	157,450
3Q02	327,835	69,995	7,030	31,140	2,241	24,001	57,382	134,407
2Q02	328,035	63,046	7,005	29,500	2,309	22,583	54,392	124,443
1Q02	335,414	68,816	7,476	23,604	2,396	21,417	47,417	123,709
Annual Data								
2002	339,194	76,990	6,360	39,198	2,189	32,713	74,100	157,450
2001	301,961	69,972	7,330	18,352	2,489	21,524	42,365	119,667
2000	246,209	28,303	8,991	15,393	2,896	17,708	35,997	73,291
1999	211,198	13,245	6,615	13,808	4,693	12,518	31,019	50,879
1998	168,108	3,749	4,458	5,923	1,711	9,336	16,970	25,177
1997	103,400	Not Available Before 1998	6,393	Not Available Before 1998	Not Available Before 1998	Not Available Before 1998	Not Available Before 1998	Not Available Before 1998
1996	81,195		7,434					
1995	56,006		Not Available Before 1996					
1994	30,670							
1993	15,877							
1992	6,394							
1991	Not Available Before 1992							
1990								
1989								

Source: Freddie Mac

Table 15a. Freddie Mac Retained Mortgage Portfolio Detail - Part 2b, Mortgage-Related Securities

End of Period	Mortgage-Related Securities ($ in Millions) Mortgage Revenue Bonds ($)	Premiums, Discounts, Deferred Fees, Plus Unrealized Gains/Losses on Available-for-Sale Securities ($)	Total Mortgage-Related Securities ($)	Total Retained Mortgage Portfolio[1] ($)
4Q02	7,642	15,250	519,536	583,423
3Q02	7,518	11,874	481,634	542,568
2Q02	7,467	6,383	466,328	525,200
1Q02	7,360	1,855	468,338	527,962
Annual Data				
2002	7,642	15,250	519,536	583,423
2001	7,299	2,866	431,793	494,585
2000	6,953	(242)	326,211	385,451
1999	5,690	(1,529)	266,238	322,914
1998	4,640	661	198,586	255,670
1997	3,031	122	Not Available Before 1998	164,543
1996	1,787	71		137,826
1995	Not Available Before 1996	282		107,706
1994		Not Available Before 1995		73,171
1993				55,938
1992				33,629
1991				26,667
1990				21,520
1989				21,448
1988				16,918
1987				12,354
1986				13,093
1985				13,547
1984				10,018
1983				7,485
1982				4,679
1981				5,178
1980				5,006
1979				4,003
1978				3,038
1977				3,204
1976				4,175
1975				4,878
1974				4,469
1973				2,521
1972				1,726
1971				935

Source: Freddie Mac

1 Unpaid principal balance plus net unamortized premiums, discounts, deferred fees, and unrealized gains and losses on available-for-sale mortgage-related securities.

Table 16. Freddie Mac Financial Derivatives

Financial Derivatives[1] - Notional Amount Outstanding ($ in Millions)								
End of Period	Interest Rate Swaps ($)	Interest Rate Caps, Floors, and Corridors ($)	Treasury-Based Contracts ($)	Foreign Currency Contracts ($)	OTC Futures, Options, Forward Rate Agreements ($)	Exchange-Traded Futures, Options, and Other Derivatives ($)	Other ($)	Total ($)
4Q02	290,093	11,663	16,540	43,687	277,416	226,891	500	866,790
3Q02	306,341	11,773	19,477	39,328	207,819	92,129	0	676,867
2Q02	302,995	11,825	14,788	35,423	226,249	108,561	4,639	704,480
1Q02	355,051	11,991	17,229	28,274	204,544	333,766	4,976	955,831
Annual Data								
2002	290,093	11,663	16,540	43,687	277,416	226,891	500	866,790
2001	442,769	12,178	13,468	23,995	187,487	369,695	2,802	1,052,394
2000	277,888	12,819	2,200	10,208	113,064	22,517	35,839	474,535
1999	126,580	19,936	8,894	1,097	172,750	94,987	0	424,244
1998	57,555	21,845	11,542	1,464	63,000	157,832	0	313,238
1997	54,172	21,995	12,228	1,152	6,000	0	0	95,547
1996	46,646	14,095	651	544	0	0	0	61,936
1995	45,384	13,055	24	0	0	0	0	58,463
1994	21,834	9,003	0	0	0	0	0	30,837
1993	17,888	1,500	0	0	0	0	0	19,388

Source: Freddie Mac

1 Excluded from this table are notional amounts for credit risk sharing agreements. Also excluded from this table are certain commitments to purchase and sell mortgages and mortgage-related securities, which are subject to the requirements of Statement of FInancial Accounting Standards No. 133, as amended ("SFAS 133").

Table 17. Freddie Mac Non-Mortgage Investments

Non-Mortgage Investments[1] ($ in Millions)						
End of Period	Federal Funds and Eurodollars ($)	Asset Backed Securities ($)	Repurchase Agreements ($)	Commercial Paper and Corporate Debt ($)	Other ($)	Total ($)
4Q02	6,090	34,699	9,174	11,988	7,442	69,393
3Q02	15,349	32,423	8,970	13,868	9,450	80,060
2Q02	10,750	26,420	8,326	13,363	12,038	70,897
1Q02	10,350	26,142	15,907	14,051	12,202	78,652
Annual Data						
2002	6,090	34,699	9,174	11,988	7,442	69,393
2001	15,846	26,253	5,531	21,424	8,390	77,444
2000	2,267	19,063	7,488	7,302	7,401	43,521
1999	10,545	10,305	4,961	3,916	4,425	34,152
1998	20,524	7,124	1,756	7,795	4,961	42,160
1997	2,750	2,200	6,982	3,203	1,295	16,430
1996	9,968	2,086	6,440	1,058	2,696	22,248
1995	110	499	9,217	1,201	1,684	12,711
1994	7,260	0	5,913	1,234	3,401	17,808
1993	9,267	0	4,198	1,438	3,322	18,225
1992	5,632	0	4,060	53	2,797	12,542
1991	2,949	0	4,437	0	2,570	9,956
1990	1,112	0	9,063	0	1,949	12,124
1989	3,527	0	5,765	0	1,758	11,050
1988	4,469	0	9,107	0	1,031	14,607
1987	3,177	0	5,859	0	1,431	10,467

Source: Freddie Mac

1 Excludes mortgage-related securities held for trading purposes.

Table 18. Freddie Mac Asset Mix[1]

Asset Ratios		
End of Period	**Total Retained Mortgage Portfolio / Total Assets (%)**	**Non-Mortgage Investments / Total Assets (%)**
4Q02	80.8	9.6
3Q02	79.6	11.7
2Q02	81.6	11.0
1Q02	81.8	12.2
Annual Data		
2002	80.8	9.6
2001	80.1	12.5
2000	83.9	9.5
1999	83.5	8.8
1998	79.5	13.1
1997	84.6	8.4
1996	79.3	12.8
1995	78.5	9.3
1994	68.9	16.8
1993	66.7	21.7
1992	56.5	21.1
1991	56.9	21.2
1990	53.0	29.9
1989	60.5	31.2
1988	49.2	42.5
1987	48.1	40.8
1986	56.4	Not Available Before 1987
1985	81.7	
1984	72.7	
1983	83.2	
1982	78.0	
1981	81.9	
1980	91.4	
1979	86.1	
1978	82.2	
1977	91.4	
1976	86.1	
1975	82.2	
1974	91.5	
1973	87.7	
1972	97.4	
1971	90.1	

Source: Freddie Mac

[1] Freddie Mac has announced that it intends to restate certain financial results for 2002 and prior periods. Restatement of such financial results may affect some of the information presented in this table.

Table 19. Freddie Mac Mortgage Asset Quality

Mortgage Asset Quality					
End of Period	Single-Family Delinquency Rate[1] (%)	Multifamily Delinquency Rate[2,3] (%)	Credit Losses / Total MBS Outstanding plus Retained Portfolio[4] (%)	REO / Total MBS Outstanding plus Retained Portfolio[5] (%)	Credit-Enhanced Outstanding / Total MBS Outstanding plus Retained Portfolio[6] (%)
4Q02	0.41	0.13	0.00	0.04	23.7
3Q02	0.38	0.01	0.01	0.05	26.3
2Q02	0.36	0.02	0.01	0.04	27.8
1Q02	0.39	0.14	0.01	0.04	28.8
Annual Data					
2002	0.41	0.13	0.00	0.04	23.7
2001	0.41	0.15	0.01	0.04	29.3
2000	0.37	0.04	0.01	0.04	31.8
1999	0.39	0.14	0.02	0.05	29.9
1998	0.50	0.37	0.04	0.08	27.3
1997	0.55	0.96	0.08	0.11	15.9
1996	0.58	1.96	0.10	0.13	10.0
1995	0.60	2.88	0.11	0.14	9.7
1994	0.55	3.79	0.08	0.18	7.2
1993	0.61	5.92	0.11	0.16	5.3
1992	0.64	6.81	0.09	0.12	Not Available Before 1993
1991	0.61	5.42	0.08	0.14	
1990	0.45	2.63	0.08	0.12	
1989	0.38	2.53	0.08	0.09	
1988	0.36	2.24	0.07	0.09	
1987	0.36	1.49	0.07	0.08	
1986	0.42	1.07	Not Available Before 1987	0.07	
1985	0.42	0.63		0.10	
1984	0.46	0.42		0.15	
1983	0.47	0.58		0.15	
1982	0.54	1.04		0.12	
1981	0.61	Not Available Before 1982		0.07	
1980	0.44			0.04	
1979	0.31			0.02	
1978	0.21			0.02	
1977	Not Available Before 1978			0.03	
1976				0.04	
1975				0.03	
1974				0.02	

Source: Freddie Mac

1 Based on number of mortgages 90 days or more delinquent or in foreclosure. 1994 - 2002 data include only loans for which Freddie Mac has assumed primary default risk ("at-risk") plus loans covered by primary mortgage insurance. Excludes non-Freddie Mac mortgage securities, securities subject to subordination agreements and loans for which the lender or a thrid party has retained primary default risk by pledging collateral or agreeing to accept losses on loans that default. In some cases, the lender's or third party's risk is limited to a specific level of losses at the time the credit enhancement befcomes effective. Pre-1994 calculations include both at-risk and non-at-risk loans.

2 1982 - 1987 data based on the number of loans delinquent 60 days or more; calculations subsequent to 1987 based on unpaid principal balance of loans 60 days or more or in foreclosure.

3 Pre-1991 amounts do not reflect change in reporting of multifamily in-substance foreclosures pursuant to adoption of SFAS 114.

4 Credit losses equal to charge-offs plus "REO operations (income) expense." Average balances used to calculate ratios subsequent to 1994; quarterly data are annualized.

5 Beginning with 1992, data reflect adoption of SFAS 114.

6 Includes loans for which the lender or third-party has retained primary default risk by pledging collateral or agreeing to accept losses on loans that default. Also includes securities guaranteed by agencies or subject to subordination agreements. In some cases, the lender's or third party's risk is limited to a specific level of losses at the time the credit enhancement becomes effective.

Table 20. Freddie Mac Capital[1]

Capital ($ in Millions)							
End of Period	Core Capital ($)	Regulatory Minimum Capital Requirement[2] ($)	Regulatory Capital Surplus (Deficit)[3] ($)	Market Capitalization[4] ($)	Core Capital / Total Assets (%)	Core Capital / Total MBS Outstanding plus Total Assets (%)	Common Share Dividend Payout Rate[5] (%)
4Q02	23,792	21,620	2,172	40,569	3.30	1.62	31.1
3Q02	22,656	20,538	2,118	38,750	3.32	1.60	14.0
2Q02	21,446	19,520	1,926	42,557	3.33	1.57	16.7
1Q02	20,558	19,389	1,169	44,092	3.18	1.55	18.3
Annual Data							
2002	23,792	21,620	2,172	40,569	3.30	1.62	20.1
2001	19,336	18,515	821	45,462	3.13	1.41	19.0
2000	14,380	14,178	202	47,702	3.13	1.39	20.0
1999	12,692	12,287	405	32,713	3.28	1.37	20.1
1998	10,715	10,333	382	44,797	3.33	1.34	20.7
1997	7,376	7,082	294	28,461	3.79	1.10	21.1
1996	6,743	6,517	226	19,161	3.88	1.04	21.3
1995	5,829	5,584	245	14,932	4.25	0.98	21.1
1994	5,169	4,884	285	9,132	4.87	0.91	20.5
1993	4,437	3,782	655	9,005	5.29	0.85	21.6
1992	Not Applicable Before 1993	Not Applicable Before 1993	Not Applicable Before 1993	8,721	Not Applicable Before 1993	Not Applicable Before 1993	23.1
1991				8,247			21.6
1990				2,925			23.2
1989				4,024			24.3
				Not Applicable Before 1989			Not Available Before 1989

Source: Freddie Mac and OFHEO

1 Freddie Mac has announced that it intends to restate certain financial results for 2002 and prior periods. Restatement of such financial results may affect some of the information presented in this table.

2 Minimum capital requirement in accordance with the Federal Housing Enterprises Financial Safety and Soundness Act of 1992.

3 The difference between Core Capital and Minimum Regulatory Capital Requirement.

4 Stock price multiplied by number of outstanding common shares.

5 Common dividends paid as a percentage of "operating net income available to common shareholders" for years 2002 and 2001, and as common dividends paid divided by "net income available to common stockholders" for years prior to 2001. Annual computations reflect the simple average of quarterly ratios.

Table 21. Combined Purchases

Period	Single-Family ($)	Multifamily ($)	Total ($)	Mortgage Securities[1] ($)
Business Activity ($ in Millions)				
Purchases				
4Q02	486,044	12,656	498,700	208,881
3Q02	290,249	4,746	294,995	109,509
2Q02	245,973	4,461	250,434	71,140
1Q02	325,750	5,404	331,154	142,910
Annual Data				
2002	1,348,016	27,267	1,375,283	532,440
2001	960,828	28,640	989,468	440,038
2000	395,082	16,407	411,489	221,612
1999	548,748	17,193	565,941	271,803
1998	618,410	15,338	633,748	275,706
1997	275,081	8,775	283,856	85,702
1996	287,306	8,680	295,986	83,567
1995	215,974	6,531	222,505	75,550
1994	280,792	4,686	285,478	45,722
1993	518,877	4,326	523,203	Not Available Before 1994
1992	439,702	2,983	442,685	
1991	233,280	3,440	236,720	
1990	185,187	4,518	189,705	
1989	157,275	6,149	163,424	
1988	107,497	5,361	112,858	
1987	148,766	3,749	152,515	
1986	177,159	5,415	182,574	
1985	84,653	3,102	87,755	
1984	Not Available Before 1985	Not Available Before 1985	50,704	
1983			49,431	
1982			49,610	
1981			10,573	
1980			11,791	
1979			16,523	
1978			18,829	
1977			8,908	
1976			4,761	
1975			6,036	
1974			9,204	
1973			7,586	
1972			5,129	
1971			4,818	

Sources: Fannie Mae and Freddie Mac

[1] Not included in total mortgage purchases.

Table 21a. Combined Mortgage Purchases Detail, By Type of Loan - Part 1, Single-Family

Period	Purchases ($ in Millions)							
	Single-Family Mortgages							Total Single-Family Mortgages ($)
	Conventional				FHA/VA			
	Fixed-Rate ($)	Adjustable-Rate ($)	Seconds ($)	Total ($)	Fixed-Rate ($)	Adjustable-Rate ($)	Total ($)	
4Q02	445,650	39,357	10	485,017	561	466	1,027	486,044
3Q02	260,934	28,367	10	289,311	559	379	938	290,249
2Q02	222,609	22,570	9	245,188	407	378	785	245,973
1Q02	303,404	21,395	12	324,811	614	325	939	325,750
Annual Data								
2002	1,232,597	111,689	41	1,344,327	2,141	1,548	3,689	1,348,016
2001	904,776	47,854	1,137	953,767	5,959	1,102	7,061	960,828
2000	332,980	55,010	726	388,716	5,446	920	6,366	395,082
1999	517,228	19,581	1,198	538,007	9,658	1,084	10,742	548,749
1998	590,375	21,657	1	612,033	5,866	511	6,377	618,410
1997	242,503	30,045	3	272,551	2,098	432	2,530	275,081
1996	242,470	22,025	3	284,498	2,474	334	2,808	287,306
1995	180,768	32,077	9	212,854	3,014	106	3,120	215,974
1994	245,717	32,986	8	278,711	1,968	113	2,081	280,792
1993	482,724	35,128	30	517,882	875	120	995	518,877
1992	401,847	36,513	143	438,503	1,120	79	1,199	439,702
1991	205,907	24,980	911	231,798	1,444	38	1,482	233,280
1990	151,817	30,814	1,340	183,971	1,201	15	1,216	185,187
1989	117,894	35,527	1,727	155,148	2,113	14	2,127	157,275
1988	70,504	34,745	492	105,741	1,658	98	1,756	107,497
1987	129,582	15,454	208	145,244	3,477	45	3,522	148,766
1986	154,356	9,567	588	164,511	12,634	14	12,648	177,159
1985	70,219	11,341	905	82,465	2,172	16	2,188	84,653
1984	Not Available Before 1985	Not Available Before 1985	Not Available Before 1985	Not Available Before 1985	Not Available Before 1985	Not Available Before 1985	Not Available Before 1985	Not Available Before 1985

Sources: Fannie Mae and Freddie Mac

Table 21a. Combined Mortgage Purchases Detail, By Type of Loan - Part 2, Multifamily

Purchases ($ in Millions)				
	Multifamily Mortgages			
Period	Conventional ($)	FHA/RHS ($)	Total Multifamily Mortgages ($)	Total Mortgage Purchases ($)
4Q02	10,074	2,582	12,656	498,700
3Q02	4,736	10	4,746	294,995
2Q02	4,453	8	4,461	250,434
1Q02	5,343	61	5,404	331,154
Annual Data				
2002	24,606	2,661	27,267	1,375,283
2001	27,358	1,282	28,640	989,468
2000	15,157	1,250	16,407	411,489
1999	16,039	1,153	17,192	565,941
1998	14,754	584	15,338	633,748
1997	8,177	598	8,775	283,856
1996	8,428	252	8,680	295,986
1995	6,242	289	6,531	222,505
1994	4,467	219	4,686	285,478
1993	4,110	216	4,326	523,203
1992	2,872	111	2,983	442,685
1991	3,419	21	3,440	236,720
1990	4,503	15	4,518	189,705
1989	6,133	16	6,149	163,424
1988	5,340	21	5,361	112,858
1987	3,479	270	3,749	152,515
1986	5,415	Not Available Before 1987	5,415	182,574
1985	3,102		3,102	87,755
	Not Available Before 1985		Not Available Before 1985	Not Available Before 1985

Sources: Fannie Mae and Freddie Mac

Table 21b. Combined Purchases of Mortgage-Related Securities

Period	Purchases ($ in Millions)							
		Others' Securities						
			Private - Label					
	Enterprise Securities ($)	Ginnie Mae ($)	Home Equity ($)	Manufactured Housing ($)	Other ($)	Total Private ($)	Mortgage Revenue Bonds ($)	Total Mortgage-Related Securities ($)
4Q02	185,797	12	13,504	0	8,185	21,689	1,383	208,881
3Q02	96,100	575	5,103	0	6,744	11,847	987	109,509
2Q02	53,854	4,460	9,385	56	1,780	11,221	1,605	71,140
1Q02	132,556	952	7,470	0	748	8,218	1,184	142,910
Annual Data								
2002	468,307	5,999	35,462	56	17,457	52,975	5,159	532,440
2001	416,692	2,528	7,509	0	7,977	15,486	5,332	440,038
2000	191,840	5,832	4,865	15	13,890	18,770	5,170	221,612
1999	213,970	20,983	7,931	3,293	20,550	31,774	5,076	271,803
1998	236,636	3,057	5,872	1,630	23,930	31,432	4,581	275,706
1997	73,345	3,834	374	36	5,272	5,682	2,841	85,702
1996	Not Available Before 1997	Not Available Before 1997	Not Available Before 1997	Not Available Before 1997	Not Available Before 1997	Not Available Before 1997	Not Available Before 1997	Not Available Before 1997

Sources: Fannie Mae and Freddie Mac

Table 22. Combined MBS Issuances

Business Activity ($ in Millions)				
MBS Issuances				
Period	Single-Family MBS ($)	Multifamily MBS ($)	Total MBS ($)	Multiclass MBS ($)
4Q02	455,318	8,725	464,043	154,189
3Q02	269,108	2,153	271,261	101,590
2Q02	234,087	2,221	263,308	111,751
1Q02	312,194	2,835	315,029	134,940
Annual Data				
2002	1,270,707	15,934	1,286,641	502,470
2001	901,876	16,157	918,033	331,840
2000	369,181	9,382	378,563	87,746
1999	523,178	10,542	533,720	174,725
1998	564,747	11,965	576,712	219,309
1997	257,373	6,314	263,687	169,781
1996	263,133	6,438	269,571	64,925
1995	191,791	4,542	196,333	25,053
1994	245,286	2,446	247,732	146,496
1993	429,209	959	430,168	353,966
1992	372,389	855	373,244	301,489
1991	203,967	1,415	205,382	184,840
1990	168,004	2,506	170,510	108,770
1989	139,420	3,862	143,282	81,469
1988	90,610	4,045	94,655	29,990
1987	134,933	3,314	138,247	9,917
1986	156,815	3,949	160,764	4,633
1985	60,725	1,752	62,477	2,625
1984	Not Issued Before 1985	Not Issued Before 1985	32,230	1,805
1983			33,031	1,685
1982			38,139	Not Issued Before 1983
1981			4,243	
1980			2,526	
1979			4,546	
1978			6,412	
1977			4,657	
1976			1,360	
1975			950	
1974			46	
1973			323	
1972			494	
1971			65	

Sources: Fannie Mae and Freddie Mac

Table 23. Combined Earnings[1]

Period	Core/Operating Net Interest Income ($)	Guarantee Fee Income ($)	Administrative Expenses ($)	Credit-Related Expenses ($)	Core/Operating Net Income ($)	Net Income ($)
Earnings ($ in Millions)						
4Q02	3,590	858	593	25	2,518	2,655
3Q02	3,643	798	523	(280)	2,778	2,531
2Q02	3,647	748	505	20	2,541	2,574
1Q02	3,564	710	518	45	2,411	2,623
Annual Data						
2002	14,444	3,114	2,139	(190)	10,248	10,383
2001	11,944	2,609	1,861	162	8,521	10,041
2000	8,944	2,408	1,618	200	6,995	6,995
1999	7,820	2,301	1,455	286	6,135	6,135
1998	6,325	2,248	1,286	603	5,118	5,118
1997	5,796	2,356	1,131	904	4,451	4,451
1996	5,297	2,282	1,000	1,017	3,968	3,968
1995	4,443	2,173	941	876	3,235	3,235
1994	3,935	2,191	904	803	3,115	3,115
1993	3,305	1,970	804	829	2,659	2,659
1992	2,753	1,770	710	777	2,245	2,245
1991	2,461	1,467	606	789	1,918	1,918
1990	2,212	1,190	529	784	1,587	1,587
1989	1,708	980	471	588	1,244	1,244
1988	1,329	793	412	584	888	888
1987	1,209	735	347	535	677	677
1986	683	476	285	426	352	352
1985	451	300	223	285	201	201
1984	123	236	183	140	73	73
1983	116	186	134	94	135	135
1982	(434)	93	97	62	(132)	(132)
1981	(395)	36	79	(12)	(175)	(175)
1980	75	23	70	42	48	48
1979	377	18	65	55	198	198
1978	331	14	53	49	234	234
1977	282	9	44	36	186	186
1976	221	3	40	24	141	141
1975	205	3	37	27	131	131
1974	184	2	31	50	112	112
1973	211	2	25	27	138	138
1972	148	1	18	9	100	100
1971	59	1	Not Available Before 1972	Not Available Before 1972	67	67

Sources: Fannie Mae and Freddie Mac

1 See notes to Tables 3 and 13.

Table 24. Combined Balance Sheet[1]

	Balance Sheet ($ in Millions)						Mortgage-Backed Securities Outstanding ($ in Millions)	
End of Period	Total Assets ($)	Total Retained Mortgage Portfolio ($)	Non-Mortgage Investments ($)	Debt Outstanding ($)	Stockholders' Equity ($)	Core Capital ($)	Total MBS Outstanding ($)	Multiclass MBS Outstanding ($)
4Q02	1,609,254	1,381,195	129,237	1,499,876	40,917	51,871	1,772,324	875,861
3Q02	1,519,860	1,300,719	131,281	1,423,522	37,530	49,140	1,720,734	873,947
2Q02	1,470,856	1,266,006	134,888	1,390,272	35,664	47,828	1,670,723	847,868
1Q02	1,454,519	1,259,888	135,003	1,373,221	36,618	46,058	1,573,374	816,246
Annual Data								
2002	1,609,254	1,381,195	129,237	1,499,876	40,917	51,871	1,722,324	875,861
2001	1,417,288	1,199,957	151,998	1,328,538	33,491	44,518	1,505,315	766,009
2000	1,134,521	993,053	98,489	1,069,581	35,675	35,207	1,282,785	643,693
1999	961,992	845,891	73,903	908,330	29,154	30,568	1,217,052	651,682
1998	806,567	671,104	100,675	747,687	26,288	26,180	1,115,494	622,117
1997	586,270	481,135	81,026	542,616	21,314	21,169	1,055,123	622,189
1996	524,907	424,353	78,854	488,251	19,504	19,516	1,021,238	577,737
1995	453,731	360,574	69,984	419,135	16,822	16,788	972,275	599,894
1994	378,707	293,986	64,143	350,509	14,703	14,710	947,001	642,885
1993	300,859	246,107	39,621	251,105	12,489	12,489	910,335	647,043
1992	240,480	189,889	32,116	195,931	10,344	Not Available Before 1993	831,958	531,116
1991	193,932	153,346	19,792	164,199	8,113		714,447	371,784
1990	173,692	135,586	21,992	154,344	6,077		604,434	215,402
1989	159,777	129,429	19,388	142,211	4,907		489,382	117,691
1988	146,610	117,017	19,896	132,341	3,844		396,503	42,281
1987	129,133	106,019	13,935	116,604	2,993		348,369	15,011
1986	122,850	107,216	Not Available Before 1987	108,938	2,135		264,754	5,333
1985	115,663	108,156		106,732	1,788		154,461	5,047
1984	101,576	94,153		94,718	1,524		105,764	3,214
1983	87,378	82,732		81,867	1,421		82,841	1,669
1982	78,980	74,035		74,605	1,249		57,402	Not Issued Before 1983
1981	67,904	64,807		64,231	1,330		20,614	
1980	63,357	60,595		59,766	1,678		16,962	
1979	55,948	53,780		52,555	1,739		15,316	
1978	47,203	45,141		44,201	1,564		12,017	
1977	37,481	36,456		35,000	1,350		6,765	
1976	37,225	35,950		35,088	1,139		2,765	
1975	37,495	35,698		35,572	1,003		1,643	
1974	34,572	33,135		32,852	898		780	
1973	27,191	26,110		25,699	801		791	
1972	22,118	21,378		20,878	669		444	
1971	19,629	18,821		18,587	567		64	

Sources: Fannie Mae and Freddie Mac

1 See notes to Tables 4 and 14.

Table 24a. Combined Total MBS Outstanding Detail

End of Period	MBS Outstanding ($ in Millions)						
	Single-Family Mortgages						
	Conventional				Total FHA/VA		
	Fixed-Rate ($)	Adjustable-Rate ($)	Seconds ($)	Total ($)	($)	Multifamily Mortgages ($)	Total MBS Outstanding ($)
4Q02	1,588,122	116,469	343	1,704,934	7,499	59,891	1,772,324
3Q02	1,559,555	98,425	430	1,658,410	7,774	54,550	1,720,734
2Q02	1,521,129	87,360	511	1,609,000	7,834	53,889	1,670,723
1Q02	1,434,312	76,934	624	1,511,870	7,999	53,505	1,573,374
Annual Data							
2002	1,588,122	116,469	343	1,704,934	7,499	59,891	1,772,324
2001	1,339,399	98,469	782	1,438,650	14,280	52,385	1,505,315
2000	1,133,292	97,761	1,183	1,232,236	8,854	41,695	1,282,785
1999	1,085,764	84,568	1,241	1,171,573	8,796	36,683	1,217,052
1998	Not Available Before 1999	Not Available Before 1999	Not Available Before 1999	Not Available Before 1999	Not Available Before 1999	Not Available Before 1999	1,115,494
1997							1,055,123
1996							1,021,238
1995							972,275
1994							947,001
1993							910,335
1992							831,958
1991							714,447
1990							604,434
1989							489,382
1988							396,503
1987							348,369
1986							264,754
1985							154,461
1984							105,764
1983							82,841
1982							57,402
1981							20,614
1980							Not Available Before 1981

Sources: Fannie Mae and Freddie Mac

Table 25. Combined Financial Derivatives[1]

Financial Derivatives ($ in Millions)								
End of Period	Interest Rate Swaps ($)	Interest Rate Caps, Floors, and Corridors ($)	Treasury-Based Contracts ($)	Foreign Currency Contracts ($)	OTC Futures, Options, and Forward Rate Agreements ($)	Exchange-Traded Futures, Options, and Other Derivatives ($)	Other ($)	Total ($)
4Q02	536,601	134,056	16,540	47,706	561,091	226,891	500	1,523,385
3Q02	597,996	116,266	19,477	43,364	436,244	92,129	0	1,305,476
2Q02	636,528	101,518	14,788	40,400	392,539	108,561	4,639	1,298,973
1Q02	670,081	96,534	17,229	36,770	362,736	333,766	4,976	1,522,092
Annual Data								
2002	536,601	134,056	16,540	47,706	561,091	226,891	500	1,523,385
2001	742,722	88,071	13,468	32,488	336,287	369,695	2,802	1,585,533
2000	505,539	46,482	2,200	19,719	166,979	22,517	35,839	799,275
1999	318,612	48,886	8,894	12,604	213,831	94,987	1,400	699,214
1998	200,401	36,345	11,542	14,459	76,481	157,832	3,735	500,795
1997	203,845	22,095	12,228	11,120	6,000	0	1,660	256,948
1996	204,786	14,395	651	2,973	0	0	350	223,155
1995	171,063	13,355	24	1,224	29	0	975	186,670
1994	109,304	9,363	0	1,023	0	0	1,465	121,154
1993	67,346	1,860	0	1,023	0	0	1,425	71,653

Sources: Fannie Mae and Freddie Mac

[1] See notes to Tables 6 and 16.

Table 26. Combined Non-Mortgage Investments

Non-Mortgage Investments ($ in Millions)						
End of Period	Federal Funds and Eurodollars ($)	Asset Backed Securities ($)	Repurchase Agreements ($)	Commercial Paper and Corporate Debt ($)	Other ($)	Total ($)
4Q02	7,638	57,010	29,906	26,063	8,620	129,237
3Q02	21,117	53,411	16,492	28,771	11,490	131,281
2Q02	20,578	49,836	11,502	33,264	19,708	134,888
1Q02	15,631	48,063	22,141	32,375	16,793	135,003
Annual Data						
2002	7,638	57,010	29,906	26,063	8,620	129,237
2001	31,935	47,190	14,911	45,229	12,733	151,998
2000	9,806	36,575	10,210	16,195	25,717	98,503
1999	15,382	29,512	7,535	5,639	15,835	73,903
1998	28,450	28,117	9,312	12,950	21,846	100,675
1997	21,962	18,839	13,697	14,948	11,580	81,026
1996	31,702	16,721	11,107	7,249	12,075	78,854
1995	19,885	10,404	19,392	9,830	10,473	69,984
1994	24,853	3,796	14,919	8,953	11,622	64,143
1993	13,763	3,557	8,882	1,438	11,981	39,621
1992	12,219	4,124	7,249	53	8,471	32,116
1991	5,903	2,416	6,632	0	4,841	19,792
1990	6,441	1,780	10,014	0	3,757	21,992
1989	8,685	1,107	5,765	0	3,831	19,388
1988	8,594	481	9,107	0	1,714	19,896
1987	5,736	25	5,859	0	2,315	13,935

Sources: Fannie Mae and Freddie Mac

Table 27. Combined Capital

Capital ($ in Millions)				
End of Period	Core Capital ($)	Regulatory Minimum Capital Requirements ($)	Regulatory Capital Surplus (Deficit) ($)	Market Capitalization ($)
4Q02	51,871	48,823	3,048	104,181
3Q02	49,140	46,294	2,846	97,619
2Q02	47,828	44,747	3,081	115,774
1Q02	46,058	43,960	2,098	123,615
Annual Data				
2002	51,871	48,823	3,048	104,181
2001	44,518	42,697	1,821	124,743
2000	35,207	34,472	735	134,345
1999	30,568	30,057	511	96,364
1998	26,180	25,667	513	120,678
1997	21,169	19,785	1,384	87,628
1996	19,516	17,983	1,533	59,093
1995	16,788	16,035	753	48,744
1994	14,710	14,300	410	29,014
1993	12,489	11,658	831	30,392
1992	Not Applicable Before 1993	Not Applicable Before 1993	Not Applicable Before 1993	29,595
1991				27,083
1990				11,415
1989				12,116
1988				3,992
1987				2,401
1986				3,006
1985				1,904
1984				1,012
1983				1,514
1982				1,603
1981				502
1980				702

Sources: Fannie Mae, Freddie Mac, and OFHEO

Table 28. Loan Limits

Single-Family Conforming Loan Limits[1] ($)				
Year	1-unit	2-units	3-units	4-units
1970 - 1976	33,000	Not Applicable	Not Applicable	Not Applicable
1977 - 1978	60,000	Not Applicable	Not Applicable	Not Applicable
1979	67,500	Not Applicable	Not Applicable	Not Applicable
1980	93,750	120,000	145,000	180,000
1981	98,500	126,000	152,000	189,000
1982	107,000	136,800	165,100	205,300
1983	108,300	138,500	167,200	207,900
1984	114,000	145,800	176,100	218,900
1985	115,300	147,500	178,200	221,500
1986	133,250	170,450	205,950	256,000
1987	153,100	195,850	236,650	294,150
1988	168,700	215,800	260,800	324,150
1989	187,600	239,950	290,000	360,450
1990	187,450	239,750	289,750	360,150
1991	191,250	244,650	295,650	367,500
1992	202,300	258,800	312,800	388,800
1993	203,150	259,850	314,100	390,400
1994	203,150	259,850	314,100	390,400
1995	203,150	259,850	314,100	390,400
1996	207,000	264,750	320,050	397,800
1997	214,600	274,550	331,850	412,450
1998	227,150	290,650	351,300	436,000
1999	240,000	307,100	371,200	461,350
2000	252,700	323,400	390,900	485,800
2001	275,000	351,950	425,400	528,700
2002	300,700	384,900	465,200	578,150
2003	322,700	413,100	499,300	620,500

Sources: Department of Housing and Urban Development (HUD), Federal Housing Finance Board, Freddie Mac

[1] Conforming Loan Limits are 50% higher in Alaska, Hawaii, Guam, and the U.S. Virgin Islands.

FHA Single-Family Insurable Limits ($)								
	1-unit		2-units		3-units		4-units	
Year	Low Cost Area Max	High Cost Area Max	Low Cost Area Max	High Cost Area Max	Low Cost Area Max	High Cost Area Max	Low Cost Area Max	High Cost Area Max
1997	81,546	170,362	104,310	205,875	126,103	248,888	156,731	309,338
1998	109,032	197,621	139,512	252,866	168,624	305,631	209,568	379,842
1999	115,200	208,800	147,408	267,177	178,176	322,944	221,448	401,375
2000	121,296	219,849	155,232	281,358	187,632	340,083	233,184	422,646
2001	132,000	239,250	168,936	306,196	204,192	370,098	253,766	459,969
2002	144,336	261,609	184,752	334,863	223,296	404,724	277,512	502,990
2003	154,896	280,749	198,288	359,397	239,664	434,391	297,840	539,835

Table 29. Mortgage Interest Rates

Period	Average Commitment Rates on Loans[1]		Effective Rates on Closed Loans[2]	
	Conventional		Conventional	
	30-Year Fixed Rate (%)	One-Year ARMs (%)	Fixed Rate (%)	Adjustable Rate (%)
4Q02	6.1	4.2	6.2	6.0
3Q02	6.3	4.4	6.6	5.8
2Q02	6.8	4.8	7.1	5.5
1Q02	7.0	5.1	7.3	5.4
Annual Data				
2002	6.5	4.6	6.7	5.6
2001	7.0	5.8	7.1	6.4
2000	8.1	7.0	8.3	7.0
1999	7.4	6.0	7.5	6.5
1998	6.9	5.6	7.2	6.5
1997	7.6	5.6	7.9	7.0
1996	7.8	5.7	8.0	7.2
1995	7.9	6.1	8.2	7.4
1994	8.4	5.3	8.1	6.6
1993	7.3	4.6	7.5	5.9
1992	8.4	5.6	8.5	6.9
1991	9.2	7.1	9.7	8.4
1990	10.1	8.4	10.4	9.2
1989	10.3	8.8	10.5	9.3
1988	10.3	7.9	10.4	8.5
1987	10.2	7.8	9.9	8.5
1986	10.2	8.4	10.5	9.4
1985	12.4	10.0	12.4	10.8
1984	13.9	11.5	13.2	12.1
1983	13.2	Not Available Before 1984	13.0	12.3
1982	16.1		15.2	15.4
1981	16.6		Not Available Before 1982	Not Available Before 1982
1980	13.8			
1979	11.2			
1978	9.6			
1977	8.8			
1976	8.9			
1975	9.0			
1974	9.2			
1973	8.0			
1972	7.4			

Average Commitment Rates Source: Freddie Mac
Effective Rates Source: Federal Housing Finance Board

1 Commitment rates do not reflect points.
2 Effective rates reflect points.

Table 30. Housing Market Activity

Period	Housing Starts units in thousands			Home Sales units in thousands	
	Single-Family Housing Starts	Multifamily Housing Starts	Total Housing Starts	New Single-Family Home Sales	Existing Single-Family Home Sales
4Q02*	1,414	334	1,748	1,033	5,773
3Q02*	1,340	357	1,697	1,020	5,400
2Q02*	1,328	338	1,667	951	5,500
1Q02*	1,371	354	1,725	907	5,717
Annual Data					
2002	1,359	347	1,705	973	5,567
2001	1,273	330	1,603	909	5,296
2000	1,231	338	1,569	877	5,031
1999	1,303	339	1,641	881	5,197
1998	1,271	346	1,617	885	4,970
1997	1,134	340	1,474	805	4,382
1996	1,161	316	1,477	758	4,196
1995	1,076	278	1,354	665	3,888
1994	1,198	259	1,457	670	3,916
1993	1,126	162	1,288	666	3,786
1992	1,030	170	1,200	610	3,479
1991	840	174	1,014	507	3,186
1990	895	298	1,193	535	3,219
1989	1,003	373	1,376	650	3,325
1988	1,081	407	1,488	675	3,513
1987	1,146	474	1,621	672	3,436
1986	1,180	626	1,805	752	3,474
1985	1,072	669	1,742	688	3,134
1984	1,084	665	1,749	639	2,829
1983	1,068	636	1,703	622	2,697
1982	663	400	1,062	413	1,991
1981	705	379	1,084	436	2,419
1980	852	440	1,292	545	2,973
1979	1,194	551	1,745	709	3,827
1978	1,433	587	2,020	818	3,986
1977	1,451	536	1,987	820	3,650
1976	1,162	375	1,537	647	3,064
1975	892	268	1,160	550	2,476
1974	888	450	1,338	519	2,272
1973	1,132	913	2,045	633	2,334
1972	1,309	1,047	2,357	718	2,252
1971	1,151	901	2,052	657	2,019

Components may not add to totals due to rounding
*Seasonally Adjusted Annual Rates
Housing Starts Source and New Single-Family Home Sales Source: Bureau of the Census
Existing Single-Family Home Sales Source: National Association of Realtors

Table 31. Weighted Repeat Sales House Price Index

Weighted Repeat Sales House Price Index (Annual Data)[1]										
	USA	New England	Mid-Atlantic	South Atlantic	East North Central	West North Central	East South Central	West South Central	Mountain	Pacific
1Q03	6.48	9.58	8.98	6.86	3.40	4.80	3.52	3.91	3.83	9.47
4Q02	7.60	11.33	10.87	7.71	4.45	6.27	3.57	4.18	4.53	10.84
3Q02	7.43	11.30	10.49	7.93	4.49	6.26	3.76	4.33	4.82	9.70
2Q02	7.50	12.23	10.76	7.87	5.08	7.19	3.33	4.04	4.63	8.90
1Q02	7.08	11.43	9.49	7.25	5.21	7.26	3.48	3.90	4.89	8.31
Annual Data										
2002	7.60	11.33	10.87	7.71	4.45	6.27	3.57	4.18	4.53	10.84
2001	7.66	10.94	8.89	8.24	5.25	7.45	5.37	6.16	6.56	9.15
2000	7.88	12.66	8.24	6.76	6.28	7.54	4.17	5.28	7.22	11.61
1999	5.76	10.36	5.87	4.83	5.26	7.07	2.84	4.84	4.89	6.60
1998	4.96	6.49	4.07	4.51	4.11	4.61	4.86	5.00	3.99	7.17
1997	4.58	4.61	3.24	4.50	5.22	4.96	4.74	3.85	4.90	5.20
1996	2.58	1.75	0.29	2.20	5.01	4.10	4.07	2.35	4.26	0.96
1995	4.48	4.05	3.18	4.32	6.02	5.25	5.53	4.13	7.47	2.78
1994	0.84	-2.95	-3.21	0.08	5.06	5.38	4.84	1.65	9.16	-3.41
1993	2.00	0.29	1.31	1.87	3.61	3.83	4.02	3.95	7.83	-1.98
1992	1.85	-1.10	1.70	2.12	3.88	3.01	3.25	3.43	5.34	-1.39
1991	2.55	-2.26	1.49	3.03	4.57	3.80	4.16	3.70	4.71	1.32
1990	0.16	-7.65	-2.87	0.12	3.74	0.51	0.70	0.44	1.88	2.89
1989	6.04	0.80	2.29	5.04	6.08	3.24	3.01	2.74	2.67	19.49
1988	6.25	3.65	6.13	6.95	6.71	2.45	2.57	-2.13	0.36	17.51
1987	6.87	13.28	16.11	6.94	8.07	2.47	4.19	-8.63	-2.79	9.60
1986	8.23	21.00	17.87	5.99	7.27	4.13	5.68	-0.49	3.27	7.23
1985	6.74	24.97	14.39	5.67	4.87	4.39	4.56	-1.11	2.35	4.97
1984	5.48	17.88	13.42	4.33	2.88	4.64	3.98	-0.13	2.06	5.20
1983	4.20	16.13	10.16	3.48	4.22	4.67	5.07	0.85	-2.76	1.05
1982	2.22	4.28	4.32	4.44	-4.81	-0.16	3.43	6.04	7.30	0.85
1981	4.47	5.01	0.48	6.23	2.34	-0.20	0.61	11.52	6.58	5.98
1980	6.79	6.01	9.09	7.80	1.56	4.33	7.43	7.80	6.67	11.29
1979	11.86	10.46	15.78	11.22	9.35	9.25	4.63	13.37	15.71	16.22
1978	13.21	17.94	6.76	11.08	13.65	12.85	12.03	16.78	17.31	15.73
1977	13.21	8.43	11.43	7.85	13.44	15.10	10.13	11.46	18.06	25.60
1976	7.60	3.33	2.30	5.03	8.08	5.98	5.47	9.26	9.84	20.25

Regional Divisions:
New England: CT, MA, ME, NH, RI, VT
Mid-Atlantic: NJ, NY, PA
South Atlantic: DC, DE, FL, GA, MD, NC, SC, VA, WV
East North Central: IL, IN, MI, OH, WI, ND, SD, NE
East South Central: AL, KY, MS, TN
West South Central: AR, LA, OK, TX
Mountain: AZ, CO, ID, MT, NM, NV, UT, WY
Pacific: AK, CA, HI, OR, WA

[1] All data are measured based on percentage change over the previous four quarters. Data from 1976 - 2002 are measured based on fourth quarter to fourth quarter percentage change.