

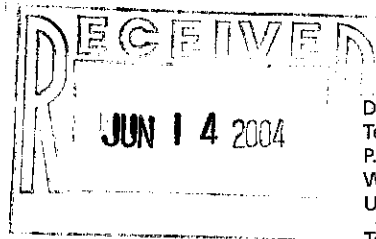
# Deloitte.

June 11, 2004

Mr. Alfred M. Pollard  
General Counsel  
Office of Federal Housing Enterprise Oversight  
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Washington, D.C. 20552

Dear Mr. Pollard:

Attention: Comments RIN 2550-AA24



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Deloitte & Touche LLP is pleased to respond to the request for comments from the Office of Federal Housing Enterprise Oversight (the "OFHEO") on its proposed amendments regarding the corporate governance standards applicable to the Federal National Mortgage Association ("Fannie Mae) and the Federal Home Loan Mortgage Corporation ("Freddie Mac") (collectively the "Enterprises").

We support the goals of the OFHEO's proposed corporate governance rules as aiming to "promote corporate responsibility and prevent fraud" at Fannie Mae and Freddie Mac. While we generally do not object to the amendment of OFHEO's corporate governance regulations, we are providing our comments on the requirement to change the external audit firm as set forth in *Section 1710.18 Change of External Audit Partner and Audit Firm (Sec. 1710.18)*. We understand and agree that it is of utmost importance that the Enterprises have impartial oversight and review of accounting and other matters. Our concerns relate to our belief that mandatory audit firm rotation for the Enterprises is neither beneficial, nor necessary to ensure such impartial oversight and review of accounting and other matters. We believe that mandatory firm rotation increases the risk of potential audit failure and results in erosion of audit quality.

We encourage OFHEO to remove the requirement for mandatory audit firm rotation and instead focus on ensuring that the Enterprises' Audit Committees are strong, vibrant organizations that have all of the necessary resources to effectively discharge their responsibilities. The decision to change audit firms should be left in the hands of a strong, independent Audit Committee that can assess the Enterprise's needs and hire the best firm

for the job. Requiring mandatory firm rotation will not affect the values of an unethical management team, but it could impact the auditors' ability to detect issues by limiting the depth of knowledge maintained by the audit firm.

Currently, the Enterprises have Audit Committee Charters that comply with the Final NYSE Corporate Governance Rules (NYSE rules) Section 303A.06 and .07. Accordingly, at the point the proposed corporate governance rules are finalized, each respective Audit Committee has the responsibility to select and oversee the Enterprise's independent auditor (i.e. the Committee has the sole responsibility to appoint and retain, and terminate when appropriate, the independent auditor, and review and assess the activities of the outside auditor). Additionally, the respective Audit Committee must consider the independence of the outside auditor at least annually.

~~Under such circumstances and considering the requirements set forth in other sections of~~ OFHEO's proposed governance rules, for example, *Section 1710.12 Committees of Board of Directors*, which requires that committees of the board of directors comply with NYSE rules and also requires that audit committees comply with the requirements set forth in section 301 of the Sarbanes Oxley Act (SOA) that address audit committee responsibilities and independence, we believe the independent audit committee is in the best position to decide when a change in auditors is appropriate.

We also believe it is important to consider that the SEC, The American Institute of Certified Public Accountants (AICPA), the SEC Practice Section, the United States General Accounting Office, appointed commissions and academics have all researched, analyzed and debated the issue of mandatory rotation over more than 25 years. Despite being conducted over a long period, and by several groups, the reports and studies issued all observed that mandatory auditor rotation is neither necessary nor beneficial. For instance, mandatory audit firm rotation is likely to, among other things: 1) decrease the effectiveness of audits, 2) increase the possibility of audit failure and 3) further erode public confidence in our capital markets. Such studies also point out that the asserted advantages of firm rotation can be achieved by rotation of personnel assigned to an audit, while avoiding many of the disadvantages, such as limited depth of knowledge and increased risk of audit failures in the early years of a new auditor relationship. We note that these studies were completed in periods prior to the enhancements of the role and responsibilities of audit committees

required under SOA. We believe that such enhancements, which have significantly strengthened the oversight of the auditor relationship by audit committees, have essentially alleviated many of the concerns related to audit firms' relationships with clients, thus eliminating any need for firm rotation.

Specifically, we believe that the fresh look desired by OFHEO is achieved by rotating audit partners and requiring concurring reviews by partners who are also subject to mandatory rotation. We believe that the level of industry knowledge and expertise that can be brought to each audit of the Enterprises is significantly improved by the continuity of an audit firm. Such knowledge and expertise is essential to an effective audit. Further, in the current environment where many services are independence impairing, the availability of competent, qualified resources to choose from for audit and non-audit services will be limited in many respects if mandatory rotation of the Enterprise's audit firm is required.

We also point out that impartial oversight and review of accounting matters is already incorporated into PCAOB registered accounting firms' policies and procedures, as they relate to internal consultation. Paragraph 19 of AICPA Statement of Quality Control Standards No. 2 (which is now part of the PCAOB Interim Professional Auditing Standards adopted on April 16, 2003) states:

"Policies and procedures should also be established to provide reasonable assurance that personnel refer to authoritative literature or other sources and consult, on a timely basis, with individuals within or outside the firm, when appropriate (for example, when dealing with complex, unusual, or unfamiliar issues). Individuals consulted should have appropriate levels of knowledge, competence, judgment, and authority. The nature of the arrangements for consultation depends on a number of factors, including the size of the firm and the levels of knowledge, competence, and judgment possessed by the persons performing the work."

Finally, while we agree with the portion of Sec. 1710.18 that proposes to require the external audit and concurring review partner to rotate after five years, we believe that such requirements should be consistent with the SEC's requirements in this area, also requiring rotation of other audit partners involved in the audits of the Enterprises after seven years of service. This requirement would then be consistent with Section 203 of the Sarbanes Oxley

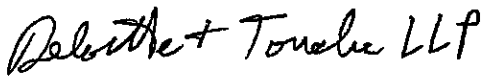
Page 4  
Mr. Alfred M. Pollard  
June 11, 2004

Act Legislation policies and policies required at registered public accounting firms, to which Fannie Mae is subject and to which Freddie Mac, upon an effective registration with the SEC, will be subject.

In summary, we recommend that the requirement in Sec. 1710.18 mandating audit firm rotation be removed based upon the increased role and responsibilities assigned to each respective Audit Committee, the addition of consistent audit partner rotation rules, and the professional consultation requirements effective for PCAOB registered firms. We would encourage OFHEO to ensure that the Audit Committees of the Enterprises are strong, vibrant organizations with the necessary resources to discharge their increased and very important responsibilities. Such measures would ensure that the corporate governance rules proposed "promote corporate responsibility and prevent fraud."

We appreciate the opportunity to comment, and would be pleased to discuss these issues with you further. If you have any questions or would like to discuss these issues further please contact Robert J. Kueppers at (203) 761-3579.

Very truly yours,



Deloitte & Touche LLP