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## *Message from the Acting Director*

*“It is not the going out of port, but the coming in, that determines the success of the voyage”*

- - Henry Ward Beecher



The atmosphere around OFHEO is charged with excitement as we near the completion of our risk-based capital regulation. To be a part of such unprecedented work, and to have the opportunity to work with such a talented and dedicated staff, is professionally invigorating and rewarding. Chapter 1 of this report outlines OFHEO's work on the development of this next generation of capital regulation. We will be establishing a risk-based standard that effectively captures both the credit risk and interest rate risk exposures to the Enterprises. By more closely aligning capital with risk, OFHEO's standard will be well-designed to assure that Fannie Mae and Freddie Mac can continue to fulfill their public mission while maintaining their financial safety and soundness.

Early in 1998, OFHEO reached another important regulatory milestone as we moved to a comprehensive, annual, risk-based examination program. Chapter 2 describes the details and fundamental principles of our new examination program. Chapter 3 reports the results and conclusions of our information technology and internal audit examinations of the Enterprises. These examinations provided OFHEO with the final building blocks to the essential foundation of information necessary for the evolution of our examination program.

One of OFHEO's highest priorities is working closely with the Enterprises to ensure that they successfully address their Year 2000 date change issues. Together with our partners in the federal financial regulatory community, OFHEO is working to make sure that the secondary mortgage market's transition into the new millennium is technologically successful.

A strong economy and a strong housing market proved beneficial to the operations of the Enterprises this past year. Chapter 4 analyzes developments in the primary and secondary mortgage markets as well as the performance of the Enterprises in this favorable environment.

In this period of record rates of homeownership and favorable economic conditions, strong regulation and the development of additional regulatory tools such as OFHEO's risk-based capital standard may seem like an enigma. After all, OFHEO is charged with regulating two companies that are currently healthy and enjoying record profits. However, it is our mission and responsibility to assure the financial safety and soundness of the secondary mortgage market at all times. OFHEO's regulatory activities serve to protect the American taxpayer and keep the housing finance industry safe and sound.

OFHEO's ultimate goal is that every potential homebuyer achieves their dream of owning a home. Ensuring a strong secondary mortgage market through fair and effective regulation of these two important companies can help make those dreams come true.

Mark Kinsey  
June 15, 1998