Office of Federal Housing Enterprise Oversight (OFHEO)
1700 G Street, NW 4th Floor
Washington, DC 20552
Phone: 202-414-3800
Fax: 202-414-3823

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CONTACTS:
Corinne Russell 202.414.6921
Stefanie Mullin 202.414.6376

OFHEO ANNOUNCES FIRST QUARTER 2005 MINIMUM AND RISK-BASED CAPITAL CLASSIFICATION FOR FREDDIE MAC

WASHINGTON, D.C. — Stephen Blumenthal, Acting Director of the Office of Federal Housing Enterprise Oversight (OFHEO), safety and soundness regulator for Fannie Mae and Freddie Mac (the Enterprises), classified Freddie Mac as adequately capitalized as of March 31, 2005.

The Federal Housing Enterprises Financial Safety and Soundness Act of 1992 requires the OFHEO Director to determine the capital level and classification of the Enterprises not less than quarterly, and to report the results to Congress. OFHEO classifies the Enterprises as adequately capitalized, undercapitalized, significantly undercapitalized or critically undercapitalized. The Enterprises are required by Federal statute to meet both minimum and risk-based capital standards to be classified as adequately capitalized.

Freddie Mac's capital classification is based on financial information and the application of accounting policies currently involved in the ongoing financial review process. The publication of Freddie Mac's financial statements for March 31, 2005 will impact both its minimum capital surplus and, to a lesser degree, its risk-based capital surplus as reported and relied upon for classifications by OFHEO. OFHEO will continue to monitor and analyze Freddie Mac's first quarter capital resubmission once the financial results for this period are issued by the company.

OFHEO imposed a capital surcharge of 30 percent of the minimum capital surplus for Freddie Mac in January 2004 due to increased operational risk. Freddie Mac continues to maintain its minimum capital surplus in excess of the surcharge.

Separately, Fannie Mae's first quarter capital classification was issued on May 19, 2005. (http://www.ofheo.gov/media/pdf/capclassfanniemae51905.pdf)

FIRST QUARTER RESULTS:

As of March 31, 2005, Freddie Mac's risk-based capital requirement was $7.678 billion. Freddie Mac's total capital of $35.885 billion on that date exceeded the requirement by $28.207 billion.

Freddie Mac's minimum capital requirement was $23.743 billion. Freddie Mac's core capital of $35.601 billion exceeded the minimum capital requirement by $11.858 billion.

Capital data for Freddie Mac as of December 31, 2004 and March 31, 2005 (1):

Risk Based Capital	**Freddie Mac**			
	31-Mar-05 (3)		**31-Dec-04 (4)**	
Interest Rate Scenario	Up	Down	Up	Down
Risk Based Capital Requirement	7.678	5.787	11.108	2.795
Total Capital	35.885		34.691	
Surplus (Deficit)	28.207		23.582	

Minimum Capital	**Freddie Mac**	
	3/31/2005 (3)	**12/31/2004 (2)**
Minimum Capital Requirement	23.743	24.131
Core Capital	35.601	35.009
Estimated Surplus (Deficit)	11.858	10.878

Critical Capital	**Freddie Mac**	
	3/31/2005 (3)	**12/31/2004 (2)**
Critical Capital Level	12.121	12.308
Core Capital	35.601	35.009
Estimated Surplus (Deficit)	23.480	22.701

(1) Numbers may not add due to rounding.
(2) Restated by Freddie Mac.
(3) Freddie Mac's capital numbers are based on financial information and application of accounting policies currently involved in the restatement process. These numbers are subject to change.
(4) OFHEO determined risk-based capital resubmissions are not required for 2004 as minimum capital remains binding and the impact on the surplus is minimal.

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

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

GENERAL ANALYSIS OF THE REGULATORY CAPITAL RESULTS

Minimum Capital

Freddie Mac's total assets declined, reducing the minimum capital requirement by $0.4 billion. Freddie Mac's minimum capital surplus increased by $1.0 billion to $11.9 billion, as a result of a $0.6 billion increase in core capital and a decline in the minimum capital requirement.

Risk-based Capital

By statute, stress test interest rate levels are a function of the average 10-year Constant Maturity Treasury (CMT) over the most recent nine months. During the first quarter of 2005, the nine-month average decreased by 10 basis points to 4.26 percent. As a result, stress test interest rate levels increased to 7.45 percent in the up-rate stress test, and decreased to 2.13 percent in the down-rate stress test.

In contrast to a modest increase in the nine-month average rate level, spot market interest rates declined in January 2005 and then rose in February and March with an overall increase of 29 basis points for the quarter. This intra-quarter volatility caused mortgage durations to initially decline and then rise. By quarter end, the net impact was a slight extension of mortgage assets.

To manage the interest rate exposure, Freddie Mac lengthened liability durations as part of their risk management operations.

Similar to last quarter, Freddie Mac's risk-based capital requirement was higher in the up-rate stress test. Freddie Mac's risk-based capital requirement increased by $3.0 billion to $5.8 billion in the down-rate stress test, and decreased by $3.4 billion to $7.7 billion in the up-rate stress test. Freddie Mac's risk-based capital surplus increased to $28.2 billion.

DEFINITION OF CAPITAL STANDARDS

Minimum capital represents an essential amount of capital needed to protect an Enterprise against broad categories of business risk. For purposes of minimum capital, an Enterprise is considered adequately capitalized if core capital — common stock; perpetual noncumulative preferred stock; paid in capital; and retained earnings — equals or exceeds minimum capital. The minimum capital standard is 2.5 percent of assets plus 0.45 percent of adjusted off-balance-sheet obligations.

OFHEO's ***risk-based*** capital requirement is the amount of total capital — core capital plus a general allowance for loan losses less specific reserves — that an

Enterprise must hold to absorb projected losses flowing from future adverse interest-rate and credit-risk conditions specified by statute, plus 30 percent mandated by statute to cover management and operations risk. The risk-based capital standard is based on stress test results calculated for the two statutorily prescribed interest rate scenarios, one in which 10-year Treasury yields rise 75 percent (up-rate scenario) and another in which they fall 50 percent (down-rate scenario). Changes in both scenarios are generally capped at 600 basis points. The risk-based capital level for an Enterprise is the amount of total capital that would enable it to survive the stress test in whichever scenario is more adverse for that Enterprise, plus 30 percent of that amount to cover management and operations risk.

The ***critical*** capital level is the amount of core capital below which an Enterprise must be classified as critically undercapitalized and generally must be placed in conservatorship. Critical capital levels are computed consistent with the Federal Housing Enterprises Safety and Soundness Act of 1992 as follows: One-half of the portion of minimum capital requirement associated with on-balance-sheet assets plus five-ninths of the portion of the minimum capital requirement associated with off-balance-sheet obligations.

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