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NEWS RELEASE

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OFHEO ANNOUNCES FOURTH QUARTER MINIMUM AND RISK-BASED CAPITAL CLASSIFICATIONS FOR FANNIE MAE AND FREDDIE MAC

WASHINGTON, D.C. — Armando Falcon, Jr., Director of the Office of Federal Housing Enterprise Oversight (OFHEO), safety and soundness regulator for Fannie Mae and Freddie Mac (the Enterprises), has determined that the Enterprises were adequately capitalized under OFHEO's capital standards as of December 31, 2003. Although OFHEO imposed a capital surcharge for Freddie Mac in January 2004 due to increased operational risk, that surcharge does not impact past periods, including the fourth quarter 2003.

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 calculation is based on financial information and the application of accounting policies currently involved in the restatement process. The accounting changes reflected in the 2003 restatements will impact both minimum capital surpluses and, to a lesser degree, risk-based capital surpluses. The $5 billion capital increase reflected in Freddie Mac's restated 2002 financials is incorporated in the fourth quarter numbers. The stress test for risk-based capital utilizes cash flows and the economics of the individual transactions. OFHEO will determine the need for recalculation of regulatory capital after Freddie Mac publishes financial results for 2003. In addition, Fannie Mae's capital calculation is based on financial information and the application of accounting policies currently under review by OFHEO. The outcome of the review may result in a restatement of prior period results and a revision of the respective capital calculations.

FOURTH QUARTER RESULTS:

FANNIE MAE

As of December 31, 2003, Fannie Mae's risk-based capital requirement was $27.221 billion. Fannie Mae's total capital of $35.182 billion on that date exceeded the risk-based capital requirement by $7.960 billion.

Fannie Mae's minimum capital requirement was $31.520 billion. Fannie Mae's core capital of $34.405 billion exceeded the minimum capital requirement by $2.885 billion.

FREDDIE MAC

As of December 31, 2003, Freddie Mac's risk-based capital requirement was $5.426 billion. Freddie Mac's total capital of $33.436 billion on that date exceeded the requirement by $28.010 billion.

Freddie Mac's minimum capital requirement was $24.237 billion. Freddie Mac's core capital of $33.285 billion exceeded the minimum capital requirement by $9.048 billion.

Capital data for each Enterprise as of September 30, 2003 and December 31, 2003:

Enterprise Risk-Based Capital Requirement (Billions of Dollars) (1)								
	Fannie Mae (2)				Freddie Mac(3)			
	31-Dec-03		30-Sep-03		31-Dec-03		30-Sep-03	
Interest Rate Scenario	Up	Down	Up	Down	Up	Down	Up	Down
Risk-Based Capital Requirement	5.796	27.221	0.0	27.853	5.094	5.426	1.319	1.319
Total Capital		35.182		33.542		33.436	28.486	28.486
Surplus (Deficit)		7.960		5.689		28.010	27.168	27.168

Enterprise Minimum Capital Requirement (Billions of Dollars) (1)				
	Fannie Mae (2)		Freddie Mac(3)	
	31-Dec-03	30-Sep-03	31-Dec-03	30-Sep-03
Minimum Capital Requirement	31.520	31.435	24.237	24.052
Core Capital	34.405	32.752	33.285	28.129
Surplus (Deficit)	2.885	1.316	9.048	4.077

Enterprise Critical Capital Requirement (Billions of Dollars) (1)				
	Fannie Mae (2)		Freddie Mac(3)	
	31-Dec-03	30-Sep-03	31-Dec-03	30-Sep-03
Critical Capital Level	16.113	16.050	12.328	12.220
Core Capital	34.405	32.752	33.285	28.129
Surplus (Deficit)	18.292	16.701	20.958	15.909

(1) Numbers may not add due to rounding.
(2) Fannie Mae's capital calculation is based on financial information and the application of accounting policies currently under review by OFHEO. The outcome of the review may result in a restatement of prior period results and a revision of the respective capital calculations.
(3) Freddie Mac's 9/30/2003 and 12/31/2003 capital numbers are based on financial information and application of accounting policies currently involved in the restatement process. These numbers are subject to change.

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

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GENERAL ANALYSIS OF THE RISK-BASED CAPITAL RESULTS

By statute, stress test interest rate levels are a function of the average 10-year Constant Maturity Treasury over the most recent nine months. During the fourth quarter, this benchmark rate level increased to 4.04%, up from the third quarter's level of 3.92%. As a result, interest rate levels rose modestly in the up-rate stress test and slightly in the down-rate stress test.

The spread between mortgage rates and borrowing rates narrowed during the fourth quarter. In response to narrower spreads both Enterprises limited the expansion of their mortgage investment portfolios. Fannie Mae's gross mortgage portfolio actually shrank by 2.1% while Freddie Mac's mortgage portfolio grew by just 1.4%. Partly as a consequence, the weighted average maturity of the mortgage portfolio decreased for both enterprises as well. Consistent with shorter assets and a stable interest rate environment, the duration of enterprise liabilities was shorter at the start of the stress test.

Similar to the third quarter, the down-rate stress test was binding for Fannie Mae in the fourth quarter. Net interest margin in the down-rate stress test increased compared to last quarter, driven by lower debt yields from shorter-term liabilities. Conversely, in the up-rate stress-test, overall debt costs rose as more short-term debt refunded at higher debt yields serving to decrease the net interest margin.

Compared to third quarter levels, Fannie Mae's risk-based capital level fell by $0.7 billion in the down-rate stress test to $27.2 billion and rose in the up-rate stress test to $5.80 billion. This higher level is the binding requirement. Accordingly, Fannie Mae's capital surplus increased from $5.7 billion to $8.0 billion due to a lower binding risk-based capital requirement and higher starting total capital.

This quarter, the down-rate stress test was binding for Freddie Mac. Net interest margin was higher in both the up-rate and down-rate stress tests compared to last quarter. Unlike the up-rate stress test in which capital increased throughout the stress test, the down-rate stress test was binding as a result of a slight decline in capital in the initial periods of the down-rate stress test, driven by higher expenses. Freddie Mac's risk-based capital level increased in both stress test scenarios primarily due to higher total capital at the start of the stress test resulting from the financial restatement during the fourth quarter.

Freddie Mac's risk-based capital level increased to $5.4 billion in the down-rate stress test and to $5.1 billion in the up-rate stress test. Freddie Mac's capital surplus rose from $27.2 billion to $28.0 billion as a result of higher starting capital that was mostly offset by a higher capital requirement.

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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