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NEWS RELEASE

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OFHEO ANNOUNCES FIRST QUARTER 2004 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 March 31, 2004.

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. OFHEO will determine the need for recalculation of regulatory capital after Freddie Mac publishes financial results for 2003 and OFHEO has sufficient time to analyze the financial position. OFHEO imposed a capital surcharge for Freddie Mac in January 2004 due to increased operational risk. Freddie Mac has maintained their minimum capital surplus in excess of the surcharge during the first quarter 2004.

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.

FIRST QUARTER RESULTS:

FANNIE MAE

As of March 31, 2004, Fannie Mae's risk-based capital requirement was $25.961 billion. Fannie Mae's total capital of $36.481 billion on that date exceeded the risk-based capital requirement by $10.520 billion.

Fannie Mae's minimum capital requirement was $31.354 billion. Fannie Mae's core capital of $35.701 billion exceeded the minimum capital requirement by $4.347 billion.

FREDDIE MAC

As of March 31, 2004, Freddie Mac's risk-based capital requirement was $7.131 billion. Freddie Mac's total capital of $34.898 billion on that date exceeded the requirement by $27.767 billion.

Freddie Mac's minimum capital requirement was $24.472 billion. Freddie Mac's core capital of $34.781 billion exceeded the minimum capital requirement by $10.309 billion.

Capital data for each Enterprise as of December 31, 2003 and March 31, 2004:

Enterprise Risk-Based Capital Requirement (Billions of Dollars) (1)								
	Fannie Mae (2)				Freddie Mac(3)			
	31-Mar-04		31-Dec-03		31-Mar-04		31-Dec-03	
Interest Rate Scenario	Up	Down	Up	Down	Up	Down	Up	Down
Risk-Based Capital Requirement	25.961	16.587	5.796	27.221	7.047	7.131	5.094	5.426
Total Capital	36.481			35.182		34.898		33.436
Surplus (Deficit)	10.520			7.960		27.767		28.010

Enterprise Minimum Capital Requirement (Billions of Dollars) (1)				
	Fannie Mae (2)		Freddie Mac(3)	
	31-Mar-04	31-Dec-03	31-Mar-04	31-Dec-03
Minimum Capital Requirement	31.354	31.520	24.472	24.237
Core Capital	35.701	34.405	34.781	33.285
Surplus (Deficit)	4.347	2.885	10.309	9.048

Enterprise Critical Capital Requirement (Billions of Dollars) (1)				
	Fannie Mae (2)		Freddie Mac(3)	
	31-Mar-04	31-Dec-03	31-Mar-04	31-Dec-03
Critical Capital Level	16.041	16.113	12.454	12.328
Core Capital	35.701	34.405	34.781	33.285
Surplus (Deficit)	19.660	18.292	22.327	20.958

(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 12/31/2003 and 03/31/2004 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 (CMT) over the most recent nine months. During the first quarter of 2004, the nine month average increased by 13 basis-points to 4.18%. As a result, the stress test interest rate levels increased to 7.31% in the up-rate stress test and 2.09% in the down-rate stress test.

In contrast to the moving average rate level, spot market interest rates declined during the first quarter. The duration of existing mortgage assets generally fell as a result. In addition, the spread between mortgage rates and borrowing rates was narrower during the first quarter reducing the attractiveness of mortgage portfolio investment opportunities for both Enterprises. As a result, Fannie Mae's net mortgage portfolio shrank by 1.7% while Freddie Mac's shrank by 0.8%.

Thus, in addition to generally shorter mortgage durations associated with lower interest rates, both Enterprises experienced a decrease in the weighted average maturity of their mortgage portfolios caused by attrition in fixed maturity mortgages. Consistent with shorter assets and a falling interest rate environment, the Enterprises moved to shorten liability durations during the first quarter as part of their risk management operations.

Unlike in the prior quarter, the up-rate stress test scenario produced the higher capital requirement for Fannie Mae. Fannie Mae's risk-based capital level fell by $10.6 billion in the down-rate stress test to $16.6 billion and rose in the up-rate stress test to $26.0 billion. Fannie Mae's capital surplus increased from $8.0 billion in the prior quarter to $10.5 billion due to a lower binding risk-based capital requirement and higher starting total capital.

Compared to last quarter, Fannie Mae's net interest margin increased in the down-rate stress test and decreased in the up-rate. Shorter-term liabilities resulted in lower debt yields and improved net interest margin in the down-rate stress test. Conversely, net interest margin in the up-rate stress test was driven by higher interest expense on debt that stemmed from more short-term debt refunding at higher debt yields.

Similar to last quarter, Freddie Mac was binding in the down-rate stress test. Unlike the up-rate stress test where the lowest discounted capital level during the stress test occurred at the start of the stress test, the down-rate stress test was binding as a result of a slight decline in capital in the first month of the stress test. Freddie Mac's risk-based capital level increased in both stress test scenarios primarily due to an increase in total capital at the start of the stress test caused by an increase in portfolio mark-to-market adjustments during the first quarter. Risk-based capital levels increased to $7.1 billion in the down-rate stress test and to $7.0 billion in the up-rate stress test. Freddie Mac's capital surplus declined to $27.8 billion.

Net interest margin, for Freddie Mac, increased in the down-rate stress test and decreased in the up-rate compared to last quarter. The results of both stress test environments were driven by lower debt yields stemming from shorter-term liabilities.

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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