



OFFICE OF FEDERAL HOUSING ENTERPRISE OVERSIGHT

NEWS RELEASE

FOR IMMEDIATE RELEASE
Monday, June 16, 1997

Contact: Jill Weide
202-414-3813

OFHEO RELEASES 1997 ANNUAL REPORT TO CONGRESS ***REPORT INCLUDES RESULTS OF EXAMINATIONS OF*** ***FANNIE MAE AND FREDDIE MAC***

WASHINGTON — The Office of Federal Housing Enterprise Oversight (OFHEO) today released its 1997 Annual Report to Congress. The report includes the results of OFHEO's examinations of Fannie Mae and Freddie Mac.

In addition to the examination results, OFHEO's 1997 Annual Report discusses OFHEO's recent regulatory activities, including development of a risk-based capital standard that will determine required capital levels for Fannie Mae and Freddie Mac.

The Annual Report contains an analysis of the business activities and financial condition of Fannie Mae and Freddie Mac as well as OFHEO's views of major trends in the mortgage markets. There is also an extended discussion of the fundamentals of mortgage pricing, including the changes brought by technological innovation in underwriting and the increasing sophistication of scoring systems used to measure borrower credit risk.

OFHEO's report also contains a statistical appendix summarizing the financial performance of Fannie Mae and Freddie Mac from 1971 to the present.

"OFHEO's fourth Annual Report to Congress demonstrates the commitment and progress that this Office has made in carrying out its regulatory mandate," said Mark Kinsey, OFHEO's Acting Director. "In particular, it describes the significant progress that has occurred in development of a risk-based capital standard for Fannie Mae and Freddie Mac. The report also describes the vital monitoring of safety and soundness conditions at Fannie Mae and Freddie Mac by OFHEO's examiners."

OFHEO is the financial safety and soundness regulator of the Federal National Mortgage Association (Fannie Mae) and the Federal Home Loan Mortgage Corporation (Freddie Mac). By statute, OFHEO is required to conduct annual, on-site examinations of Fannie Mae and Freddie Mac, and to report the "results and conclusions of the annual examinations" to Congress in its Annual Report. The report was transmitted to Chairman Alfonse D'Amato of the Senate

Committee on Banking, Housing and Urban Affairs, and Chairman Jim Leach of the House Committee on Banking and Financial Services.

SUMMARY RESULTS OF OFHEO EXAMINATIONS

Business Risk Examination — During the 12 months ending in June 1997, OFHEO completed examinations of Business Risk at Freddie Mac and Fannie Mae. The Business Risk Examination was designed to identify sources of business risk in the single-family mortgage business; to assess development of strategies to respond to these risks; and to evaluate risk management processes and internal controls associated with business strategies.

Summary results - Fannie Mae: OFHEO concluded that management of business risk as it relates to single-family business is “generally strong.” OFHEO identified “certain aspects” of Fannie Mae’s business risk management that can be improved...in the normal course of business.”

Summary results - Freddie Mac: OFHEO concluded that management of business risk as it relates to single-family business is “generally strong.” OFHEO identified “certain aspects” of Freddie Mac’s business risk management that “can be improved...in the normal course of business.”

(Strong risk management indicates that the quality of risk management substantially exceeds safety and soundness standards.)

Data Integrity Examination — OFHEO conducted a Data Integrity Examination at Freddie Mac “because of ongoing difficulties with the accuracy, completeness and consistency of Freddie Mac’s data deliveries to OFHEO for the purposes of the risk-based capital regulation. The examination also addressed other data integrity weaknesses identified in prior examinations.”

Summary results: OFHEO determined that internal controls over data integrity for financial mortgage data are effective; that internal controls over data deliveries to OFHEO were ineffective, and that management plans to ensure data integrity were incomplete. OFHEO has made a variety of recommendations