



OFFICE OF FEDERAL HOUSING ENTERPRISE OVERSIGHT

NEWS RELEASE

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REGULATOR ISSUES QUARTERLY CAPITAL CLASSIFICATION OF FANNIE MAE AND FREDDIE MAC

WASHINGTON — Mark Kinsey, Acting Director of the Office of Federal Housing Enterprise Oversight (OFHEO), announced today that Fannie Mae and Freddie Mac were adequately capitalized on December 31, 1996

The Federal Housing Enterprises Financial Safety and Soundness Act of 1992 requires the OFHEO Director to determine at least quarterly if the Federal National Mortgage Association (Fannie Mae), and the Federal Home Loan Mortgage Corporation (Freddie Mac), are adequately capitalized, undercapitalized, significantly undercapitalized or critically undercapitalized.

As of December 31, 1996, OFHEO determined:

— **Fannie Mae's core capital of \$12,773 million exceeded its minimum capital requirement of \$11,466 million by \$1,307 million.**

— **Freddie Mac's core capital of \$6,743 million exceeded its minimum capital requirement of \$6,517 million by \$226 million.**

OFHEO is statutorily required to determine capital adequacy of the Enterprises on the basis of both *minimum* and *risk-based* 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.

(more)

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OFHEO's *risk-based capital* requirement is the amount of total capital — core capital plus a general allowance for foreclosure losses — that an Enterprise must hold to absorb projected losses flowing from future severe interest-rate and credit-risk conditions, plus 30 percent to cover management and operations risk. The risk-based capital requirement is based on a stress test, now under development by OFHEO.

OFHEO is an independent office within the Department of Housing and Urban Development that reports to Congress. It is funded through assessments of Freddie Mac and Fannie Mae, and receives no government funds. In its regulatory authority, OFHEO is analogous to such other federal financial regulators as the Office of the Comptroller of the Currency, the Office of Thrift Supervision, the Federal Deposit Insurance Corporation, and the Federal Reserve Board.

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