



OFFICE OF FEDERAL HOUSING ENTERPRISE OVERSIGHT

# ***NEWS RELEASE***

**FOR IMMEDIATE RELEASE**  
**Tuesday, February 13, 2001**

**Contact: Stefanie Mullin**  
**202.414.6921**  
**[www.ofheo.gov](http://www.ofheo.gov)**

## **OFHEO ANNOUNCES CRITICAL CAPITAL DISCLOSURE AND FAS 133 CLARIFICATION**

*Attached: Letters to Fannie Mae and Freddie Mac*

**WASHINGTON, D.C. -- Armando Falcon, Jr.**, Director of the Office of Federal Housing Enterprise Oversight (OFHEO), financial safety and soundness regulator of Fannie Mae and Freddie Mac (the Enterprises), has notified the Enterprises of OFHEO's intention to routinely disclose their critical capital levels as part of OFHEO's quarterly capital classifications beginning with the fourth quarter 2000 (to be released later this month).

"Your recent decision to issue subordinated debt with a provision that ties possible suspension of interest payments to critical capital adds to the significance of that capital figure. A potential benefit of subordinated debt issuance is increased market discipline, and public knowledge about current critical capital levels may promote such discipline by assisting investors in evaluating the likelihood of an interest suspension," said Falcon in the letters.

OFHEO plans to incorporate the calculation of critical capital levels in a regulation later this year.

As an interim measure, OFHEO also calculated the Enterprises' critical capital levels for the third quarter 2000:

**Fannie Mae's** core capital of \$19.870 billion exceeded its critical capital level of \$9.881 billion by \$9.989 billion.

**Freddie Mac's** core capital of \$13.866 billion exceeded its critical capital level of \$6.913 billion by \$6.953 billion.

1700 G STREET, NW WASHINGTON, DC (202)414-6922 FAX (202)414-3823

The Enterprises' critical capital levels are computed consistent with the Federal Housing Enterprises' Financial Safety and Soundness Act of 1992 as follows: One-half of the portion of minimum capital level associated with on-balance-sheet assets, plus five-ninths of the portion of the minimum capital level associated with off-balance-sheet obligations.

OFHEO is required by statute to determine the capital adequacy of the Enterprises on the basis of both minimum and risk-based capital standards.

The **minimum** capital level 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 the minimum capital level.

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. OFHEO announced its intention to have a final rule published in the *Federal Register* after approval from the Office of Management and Budget (OMB).

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.

### **FAS 133**

In other developments, with the recent adoption of the Statement of Financial Accounting Standards 133 (FAS 133), both Fannie Mae and Freddie Mac will begin reporting certain amounts associated with their hedging activities through a separate component of equity known as "other comprehensive income" (OCI).

OFHEO has held that, as with similar adjustments currently recorded in OCI resulting from debt and equity instruments classified as available for sale, these amounts will be excluded from the companies' calculation of statutory minimum capital. This treatment is also consistent with the policies of other financial institution safety and soundness regulators.

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1700 G STREET NW WASHINGTON DC 20552 (202) 414-3800

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February 9, 2001

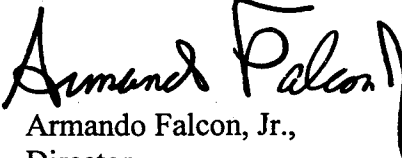
Mr. Leland C. Brendsel  
Chairman of the Board and  
Chief Executive Officer  
Federal Home Loan Mortgage Corporation  
8200 Jones Branch Drive  
McLean, VA 22102


Dear Mr. Brendsel:

Your recent decision to issue subordinated debt with a provision that ties possible suspension of interest payments to Freddie Mac's critical capital level adds to the significance of that capital figure. A potential benefit of subordinated debt issuance is increased market discipline, and public knowledge about your current critical capital level may promote such discipline by assisting investors in evaluating the likelihood of an interest suspension. Accordingly, the Office of Federal Housing Enterprise Oversight (OFHEO) will now publicly release your critical capital level for the third quarter of 2000 and will do so for future quarters along with your minimum capital and core capital levels in our quarterly capital classification announcements. While OFHEO plans to incorporate the calculation of the critical capital level in a regulation later this year, we will compute it on an interim basis, consistent with the Federal Housing Enterprise's Financial Safety and Soundness Act of 1992, as follows: one-half of the portion of the minimum capital level associated with on-balance-sheet assets, plus five-ninths of the portion of the minimum capital level associated with off-balance-sheet obligations. Your critical capital level for the third quarter of 2000 is \$6,913.35 million.

If you have any questions about this, please contact me at (202) 414-3801 or Robert Pomeranz at (202) 414-3796.

Sincerely,

  
Armando Falcon, Jr.,  
Director

 Note to reporters:

Critical capital is \$6.913 billion.



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February 9, 2001

Mr. Franklin D. Raines  
Chairman of the Board and  
Chief Executive Officer  
Federal National Mortgage Association  
3900 Wisconsin Avenue, NW  
Washington, DC 20016-2899

Dear Mr. Raines:


Your recent issuance of subordinated debt with a provision that ties possible suspension of interest payments to Fannie Mae's critical capital level adds to the significance of that capital figure. A potential benefit of subordinated debt issuance is increased market discipline, and public knowledge about your current critical capital level may promote such discipline by assisting investors in evaluating the likelihood of an interest suspension. Accordingly, the Office of Federal Housing Enterprise Oversight (OFHEO) will now publicly release your critical capital level for the third quarter of 2000 and will do so for future quarters along with your minimum capital and core capital levels in our quarterly capital classification announcements. While OFHEO plans to incorporate the calculation of the critical capital level in a regulation later this year, we will compute it on an interim basis, consistent with the Federal Housing Enterprise's Financial Safety and Soundness Act of 1992, as follows: one-half of the portion of the minimum capital level associated with on-balance-sheet assets, plus five-ninths of the portion of the minimum capital level associated with off-balance-sheet obligations. Your critical capital level for the third quarter of 2000 is \$9,881.15 million.

If you have any questions about this, please contact me at (202) 414-3801 or Robert Pomeranz at (202) 414-3796.

Sincerely,

A handwritten signature in black ink that reads "Armando Falcon, Jr." with a stylized flourish at the end.

Armando Falcon, Jr.,  
Director

 Note to reporters:

Critical capital is \$9.881 billion.