



OFFICE OF FEDERAL HOUSING ENTERPRISE OVERSIGHT

NEWS RELEASE

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OFHEO SUBMITS ITS 2001 REPORT TO CONGRESS

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, today released OFHEO's **2001 Report to Congress** as required by statute in Section 1319B of the Federal Housing Enterprises Financial Safety and Soundness Act of 1992 (Title XIII of P.L. 102-550).

Highlights of the Report to Congress:

- Director's Message
- Results and conclusions of OFHEO Examinations of the Enterprises
- A clean, independent audit of OFHEO's finances
- Numerous data tables

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OFHEO was established as an independent entity within the Department of Housing and Urban Development by the Federal Housing Enterprises Financial Safety and Soundness Act of 1992 (Title XIII of P.L. 102-550). OFHEO's primary mission is ensuring the capital adequacy and financial safety and soundness of Fannie Mae and Freddie Mac.



OFHEO
Report to Congress

JUNE 15, 2001

DIRECTOR'S MESSAGE



On behalf of the Office of Federal Housing Enterprise Oversight, I am pleased to submit the 2001 Report to Congress.

Congress required that this report contain several specific items, including agency activities, examination results, and enforcement actions. In previous annual reports, OFHEO has supplemented that information with our research and analysis work product. Given OFHEO's progress in enhancing our research capacity, we will now publish all research in a new series of working papers and official reports. This will allow the agency to release research and analysis on a more timely basis, while also streamlining the Annual Report into a more concise and user friendly format. This transition will be fully implemented in the 2002 Annual Report.

OFHEO reached a major milestone in 2000 with the completion of the risk-based capital rule. As we work with the Office of Management and Budget in 2001 on the review and clearance of the rule, we look forward to its publication as a Final Rule in the *Federal Register*. Our work on risk-based capital issues will, of course, continue as we update the implementation of the rule to account for new activities and enhance the efficiency of the computer model. With this last major component of our regulatory program finally in place, we will now continue our strategic implementation of our statutory mission.

While we continue to fulfill our day-to-day responsibilities, we must also ensure that we are properly positioned to successfully fulfill our responsibilities over the long term. OFHEO must ensure that it has the resources, expertise and infrastructure necessary to properly oversee the Enterprises in a changing market environment. I look forward to the input and consideration of all interested parties as we work to position OFHEO for future continued success.

Sincerely,


Armando Falcon, Jr.

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YEAR IN REVIEW

The year 2000 was a success for OFHEO. The Office finalized its risk-based capital rule, conducted risk-based examinations of both Enterprises, and determined each Enterprise met its regulatory capital requirements throughout the year. OFHEO also continued to adapt its regulatory program to the evolution of the nation's housing finance system and changes in the mortgage industry's use of technology. In 2000, the Office's oversight of Fannie Mae and Freddie Mac continued to ensure that the Enterprises are financially safe and sound, fostering the strength and vitality of the nation's housing finance system.

OFHEO completed development of its risk-based capital rule and continued to adapt its regulatory program to the evolution of the nation's housing finance system and changes in the mortgage industry's use of technology.

OFHEO – SAFETY AND SOUNDNESS REGULATOR

Examinations – OFHEO conducted annual risk-based examinations of Fannie Mae and Freddie Mac in 2000, and provides the results and conclusions of the examinations in Chapter 2 of this report. Each quarter, the examination staff updates its evaluations using assessment factors covering more than 150 features of financial safety and soundness, which provides OFHEO with a comprehensive and timely understanding of the Enterprises' financial condition and performance. The assessments provided by examiners evaluate the key aspects of risk and risk management and cover credit risk, interest rate risk, liquidity management, information technology, internal controls, business process controls, internal and external audits, management information, management processes, and the governance provided by the Enterprises' boards of directors.

Conducting comprehensive risk-based examinations is an important tool OFHEO employs to ensure the Enterprises operate prudently and remain safe and sound. We are committed to maintaining an excellent examination program by focusing on four core competencies: maintaining a quality examination framework; employing highly skilled personnel to conduct the program; utilizing tools that enhance the effectiveness and efficiency of examiners; and engaging in a quality improvement process to ensure continuous improvement as a cornerstone of the program.

Like the examination programs of other financial regulators, OFHEO's includes both on-site examinations and off-site surveillance and monitoring. It is through the on-site examinations that specialists make hands-on assessments of qualitative factors – such as management capabilities, risk management strategies, and internal control processes – which cannot be reflected in routine regulatory reporting.

Trained examiners with years of regulatory and industry experience verify the quality and integrity of risk management tools, risk measurements, financial and management reports, operational controls, documentation standards, and a host of other qualitative and quantitative

judgments. In short, there is no substitute for the value provided from examining the Enterprises on-site.

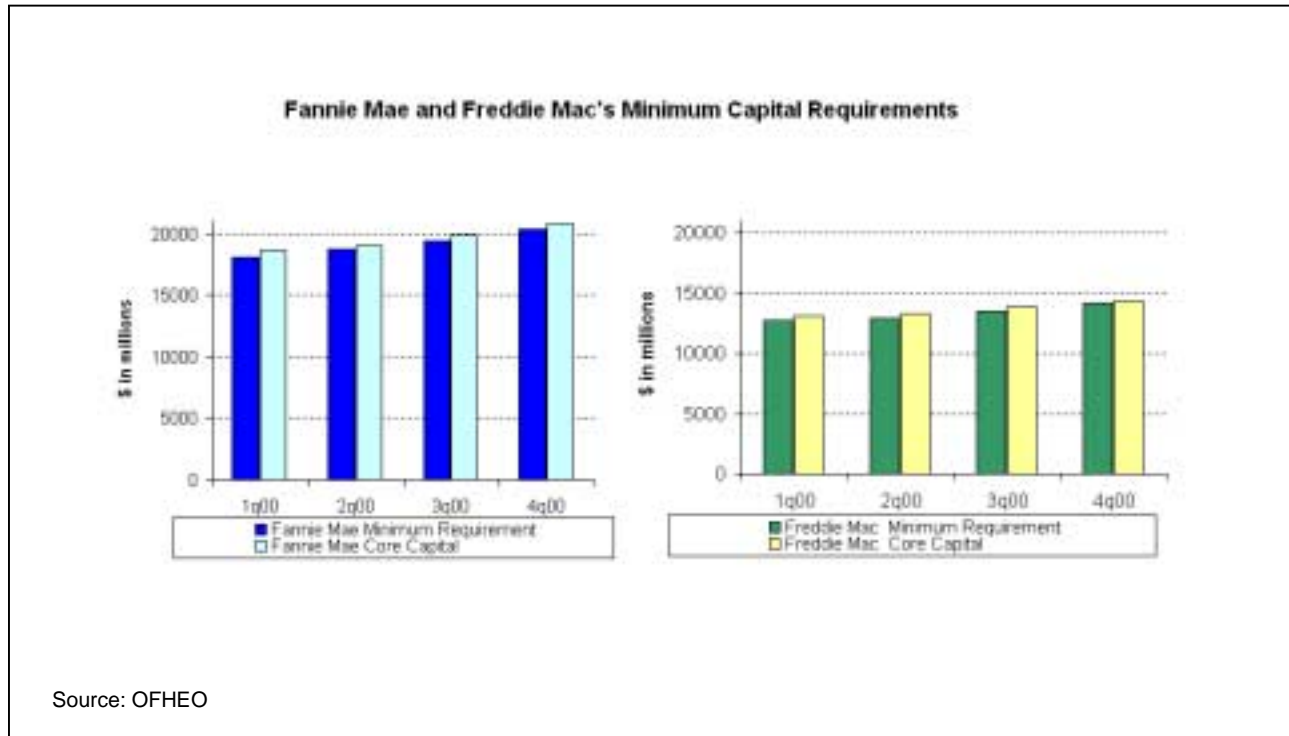
OFHEO's off-site surveillance and monitoring examination function is also an important element of prudential oversight. By (1) studying trends, (2) analyzing performance within the context of the broader marketplace, and (3) performing sophisticated analysis on features of risk at the Enterprises, the examination teams are well prepared to conduct on-site testing and evaluate the Enterprise's performance critically.

OFHEO continues to upgrade the technology, training, and knowledge-building tools used by examiners. By leveraging technology, OFHEO's examiners are able to perform sophisticated analyses more effectively and reach examination judgments more efficiently and rapidly.

Benchmarking is an important mechanism in the evolution of OFHEO's examinations. OFHEO participates in benchmarking initiatives with other federal financial regulators to achieve consistent regulatory supervision across large and complex financial firms. Areas incorporated in the benchmarking include: approaches employed by regulators, the regulatory frameworks employed in supervising, the expertise among regulatory staffs, the standards used to assess safety and soundness, the regulatory judgments of best practices for financial operations and risk management at institutions, and financial measurements of risk between peer institutions. Through benchmarking, OFHEO's examination program remains at the vanguard of financial regulation for large and complex financial firms.

Given the speed of change in the financial markets and at the Enterprises, OFHEO continuously improves its examination program. The Office's commitment to innovation is reflected in the quality-improvement process embedded within the examination program, which incorporates self- and peer-assessments and a formal feedback process. OFHEO's examination program continues to evolve to better capture the specific risks of the Enterprises.

Minimum Capital – OFHEO continued to enforce compliance with quarterly minimum capital standards for each Enterprise in 2000. Those minimum capital requirements, which are required by the Federal Housing Enterprises Financial Safety and Soundness Act of 1992 and are similar to a bank's leverage capital requirement, are computed on the basis of capital ratios specified in the Act, which are applied to defined on-balance sheet assets and off-balance sheet obligations of the Enterprises. For each quarter the requirements have been applied, each Enterprise has exceeded its minimum capital requirement and has been classified as adequately capitalized. The chart below illustrates each Enterprise's capital in terms of its minimum capital requirement and core capital at the end of each quarter of 2000.



Risk-based Capital – The 1992 Act requires OFHEO to establish risk-based capital requirements for Fannie Mae and Freddie Mac. The Office is required to use a stress test – a model that simulates the financial performance of the Enterprises under specified adverse economic conditions – to establish those requirements. On March 10, 2000, the comment period closed on a second Notice of Proposed Rulemaking for the risk-based capital standard. A solicitation of reply comments published on March 13, 2000, afforded an additional month to provide public input on the comments received by OFHEO. OFHEO then undertook a comprehensive review of all comments received, considered the issues raised, and moved to preparation of the Final Rule. In late November 2000, a copy of the text of the Final Rule was provided to the Office of Management and Budget, in advance of its official submission for review. The rule was officially submitted to OMB on March 29, 2001.

OFHEO Rulemaking – During 2000, OFHEO began a comprehensive review of its regulatory program to ensure appropriate transparency and enforceability. The agency also undertook rulemaking on a number of issues within the Office's jurisdiction. These include:

- *Equal Access to Justice Act* – On May 9, 2000, OFHEO published a Final Rule implementing the Equal Access to Justice Act. The rule addresses procedures for the filing and consideration of applications for award of fees and other expenses to individuals or entities that are a party to adverse proceedings before OFHEO, where such party is eligible for an award under the statute.
- *OFHEO Organization* – On June 28, 2000, OFHEO published a Final Rule revising its organization rule to reflect changes made in several departments as to their names, functions and responsibilities.

- *E-FOIA* – On September 13, 2000, OFHEO published a Final Rule to facilitate access to the agency’s publicly-available records through electronic means. The rule incorporates and implements changes to the Freedom of Information Act directed by the Electronic Freedom of Information Act Amendments Act of 1996.

Regulatory Infrastructure Project – On July 27, 2000, OFHEO published a notice on a regulatory infrastructure project to provide for a comprehensive review of OFHEO’s regulatory authorities. The project is designed to implement fully the statutory mandates of OFHEO, to provide legal support for OFHEO’s supervisory programs, to provide greater certainty for the regulated entities, and to produce greater transparency for the public in understanding OFHEO’s administration of its responsibilities. Areas of coverage include OFHEO organization and structure, corporate governance practices of the Enterprises, minimum safety and soundness standards and other compliance matters.

In meeting the infrastructure project, the following initiatives were undertaken in 2000:

- *Policy Guidance on Minimum Safety and Soundness Requirements* – On December 19, 2000, OFHEO published a policy guidance setting forth the minimum standards applicable to risk management by and the operations of the Enterprises.
- *Policy Guidance on Non-Mortgage Liquidity Investments* – On December 19, 2000, OFHEO published a policy guidance related to risk management standards for non-mortgage liquidity investments. The guidance highlights the appropriate standards for types of investments and risk management and suggests a standard for reporting on the investments covered by the guidance.
- *Executive Compensation* – On December 26, 2000, OFHEO published for comment a proposed rule to codify policies and practices involved in the agency review of executive compensation by the Enterprises. The proposal would largely formalize procedures currently used by OFHEO in performing its executive compensation oversight responsibilities. The processes require the submission of relevant information by the Enterprises on a timely basis.
- *OFHEO Regulation Reorganization* – In order to accommodate new rules, the numbering and listing of OFHEO regulations were reorganized on December 26, 2000.
- *Enforcement Procedures* – On December 27, 2000, OFHEO proposed to amend its rules to clarify and elaborate on its enforcement procedures for imposing sanctions, including civil money penalties and cease and desist orders, on the Enterprises, their officers or directors. The rule, which became final on May 7, 2001, addresses procedural aspects of the agency’s enforcement regime.
- *Assessments* – On December 27, 2000, OFHEO published for comment a proposed rule on the manner and procedures for collecting assessments from the Enterprises. The rule, which became final May 7, 2001, reiterated the agency’s assessment procedures and addressed problems that could result from delays in enactment of appropriations legislation.

The Enterprises' Financial Condition

Fannie Mae and Freddie Mac achieved a year of record profits in 2000, despite lower housing market activity and a 20 percent decline in the volume of mortgage originations. The Enterprises' combined net income rose 14 percent to \$7 billion. Growth in the mortgage asset portfolios of Fannie Mae and Freddie Mac was less rapid than in 1999, but remained the primary cause of profit growth. Also contributing to higher profits was a further decline in each Enterprise's credit losses.

The combined assets of Fannie Mae and Freddie Mac topped the \$1 trillion mark in 2000, increasing 18 percent over the year-end 1999 level of \$962 billion. Most of the Enterprises' balance sheet growth was due to increases in their mortgage asset portfolios. That growth enabled Fannie Mae to raise its net interest income by 16 percent to \$5.7 billion. Freddie Mac increased its net interest income (defined for consistency with Fannie Mae to include guarantee fees on mortgage-backed securities in its mortgage asset portfolio) by 12 percent to \$3.3 billion.

Fannie Mae and Freddie Mac continued to actively manage their exposure to credit risk. Each Enterprise increased to 56 percent the proportion of single-family mortgages it purchased that were evaluated using that Enterprise's automated underwriting system prior to sale. The Enterprises also continued to reduce their exposure to mortgage credit risk by obtaining credit enhancements on higher-risk single-family loans. Credit-related expenses – foreclosed property expenses plus provision for losses – declined at Fannie Mae and Freddie Mac despite continued growth in their mortgage asset portfolios and MBS held by other investors. Combined Enterprise credit-related expenses fell 30 percent during the year to a low \$200 million. That decline in credit-related expenses was due to continued strength in the economy and housing markets coupled with successful Enterprise credit management practices.

Fannie Mae and Freddie Mac also continued to actively manage their exposure to interest rate risk. As in recent years, a significant proportion of long-term debt issued by each Enterprise in 2000 had call options or rate-adjustment features, which allow them to manage the average expected maturity of their liabilities as interest rates move and the average maturity of their mortgage assets is altered. The Enterprises also manage the proportion of their debt that is effectively long-term in order to alter the average expected maturity of their liabilities as interest rates change, affecting the average expected maturity of their mortgage assets. In addition, Fannie Mae and Freddie Mac each utilized interest rate swaps, swaptions, and other financial derivatives to hedge its respective exposure to interest rate risk.

A Continued Strong Economy

The nation's economy grew 3.4 percent during 2000, with the civilian unemployment rate averaging 4.0 percent in 2000. Growth was quite rapid in the first half of the year, but slowed in the second half in response to higher interest rates.

The increased borrowing costs and economic slowdown reduced overall housing market activity for the second year in a row, although new construction and home sales remained at high levels and inflation of house prices accelerated. Single-family housing starts for the year totaled

1.3 million, 5 percent lower than 1999 but the third highest level in 22 years. Home sales also remained quite strong by historical standards. Combined sales of new and existing homes totaled 6 million units, the second-best year behind the 6.1 million level of 1999. Originations of single-family mortgages declined 20 percent to slightly over \$1 trillion, and the homeownership rate for all households increased during the year to 67.5 percent, up 0.6 percentage point from late 1999.

General price inflation, coupled with relatively high demand for housing, caused a significant rise in home values in 2000. In the fourth quarter of the year, single-family home prices, as measured by OFHEO's House Price Index (HPI), had increased 8.1 percent from the same quarter the previous year. That compares to 6.5 percent for the previous one-year period.

Technology and the Growing Sophistication of Risk Management

Finally, the use of technology further spread throughout the economy, notably in the financial services industry. Taking risk is an integral part of the financial system. Without taking risks and managing them prudently, the Enterprises would not be successful businesses, nor would they be able to fulfill their public missions. What has changed in recent years has been the degree of sophistication now required to reflect the more complex and fast-paced environment in which the Enterprises operate their businesses.

Risk management is at the heart of many critical decisions at major financial institutions like Fannie Mae and Freddie Mac. Risk management affects day-to-day operations, resource allocations, strategic planning, capital structure, legal and political exposure, performance measurement, and a host of other issues. Increasingly, financial success depends on the identification, quantification, and management of a variety of complex and interdependent risks.

The mortgage industry has been profoundly impacted by technological innovations, perhaps most conspicuously the widespread availability and acceptance of technologies automating the mortgage process. Perhaps no innovation has had greater impact on the mortgage market than the introduction of automated underwriting systems, where Fannie Mae's and Freddie Mac's systems have been among the most widely used in the marketplace. And now, the Enterprises are expanding the availability of those tools through the Internet.

We can expect further innovation in the mortgage market. This environment of change and innovation poses challenges for financial supervisors like OFHEO as well as the entities that we regulate. Those challenges require that OFHEO be diligent in upgrading its regulatory capabilities and adapt to the changes in the environment and the risks at Fannie Mae and Freddie Mac.

OFHEO Outreach and Coordination

In 2000, OFHEO continued to educate the public on the mortgage markets and to work in partnership with other agencies to address issues of common concern. Director Falcon and OFHEO staff met with trade associations, the Wall Street community, public interest groups, and others involved or interested in the mortgage markets. OFHEO also participated in professional forums and presented research papers on the mortgage market to peer groups. OFHEO economists presented research papers related to the supply elasticity of housing. Economists and policy analysts also gave presentations on risks associated with a mortgage portfolio, regulating the secondary mortgage market, and policy issues related to Fannie Mae and Freddie Mac.

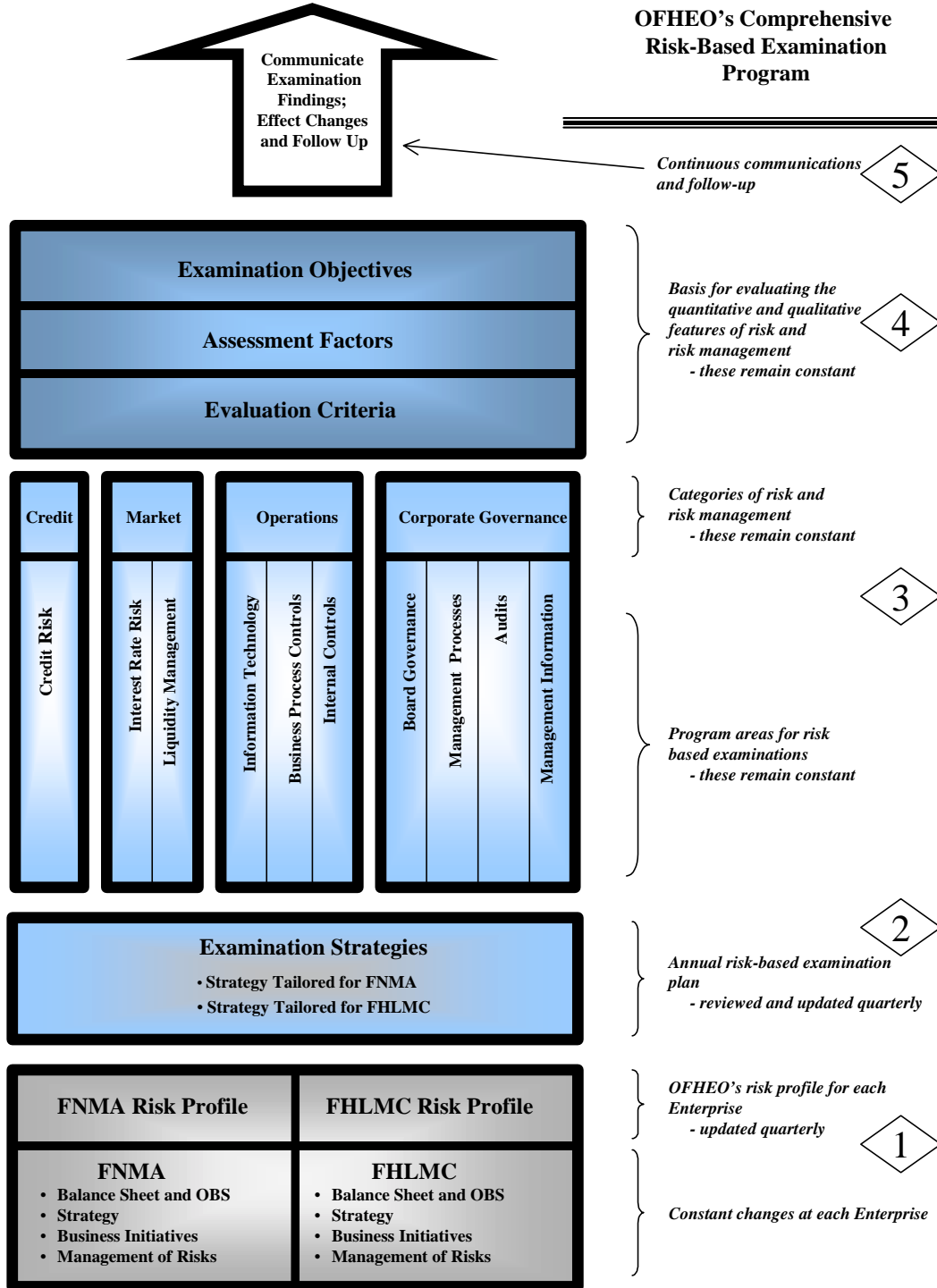
Governments from other countries sought OFHEO's expertise and advice on the development and oversight of secondary mortgage markets. During 2000, OFHEO participated in meetings with officials from Japan, China, Mexico and other nations to enhance their understanding of the U.S. housing finance system.

Finally, OFHEO participated in interagency groups to address issues of common concern. This involvement included participation in two Interagency Task Forces on Fair Lending and a presentation on mortgage fraud at the Federal Deposit Insurance Corporation's Financial Crimes Unit's 8th Annual Fraud and Enforcement Conference.

CHAPTER TWO



OFHEO’S EXAMINATION PROGRAM



INTRODUCTION

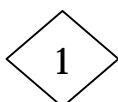
OFHEO’s annual risk-based examination program is an integral part of a system designed to ensure the ongoing safety and soundness of Fannie Mae and Freddie Mac. The examination program assesses the appropriateness and effectiveness of the Enterprises’ policies and processes for risk management, and assesses the companies’ financial performance. Using a risk-based approach allows OFHEO to recognize the unique operations of each Enterprise while applying uniform safety and soundness standards throughout the year. This aspect of the examination program’s design ensures that OFHEO is responsive to changes at the Enterprises while not imposing unnecessary burdens. The analysis and testing conducted during the examinations add further depth and perspective to OFHEO’s oversight of Fannie Mae and Freddie Mac. The examination program, together with OFHEO’s capital adequacy framework, informs the Director’s judgment about the appropriateness of the balance of risk and capital at each Enterprise.

The 2000 examinations found both Enterprises to be financially sound and well managed.

The process OFHEO employed in its comprehensive annual risk-based examinations to reach these conclusions is briefly described below, and depicted on the chart set forth in Table 1. This information is provided to give context for the summary of the examination results and conclusions for each Enterprise. The description of the examination process corresponds to the chart in Table 1, beginning with the base of the chart and concluding at the top. Numeric references to the chart are included in the text that describes the examination process.

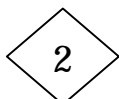
OFHEO’s Examination Program

Risk Profiles



Through a wealth of resources (including OFHEO knowledge, external sources and proprietary Enterprise information and data), the examination process begins by assessing the quantity of risk and quality of risk management at each Enterprise. OFHEO reviews each Enterprise’s risk profile at least quarterly, and revises its views if, for example, the Enterprise has planned or undertaken substantive new business initiatives, or if the Enterprise has substantially changed its level of risk or the manner in which it manages risks.

Examination Strategies



Based upon OFHEO’s unique position to understand the Enterprises’ risk profiles, in the next step of the examination process OFHEO develops detailed examination strategies to provide effective, efficient oversight of each Enterprise. The annual written examination strategies are dynamic and represent a blueprint of the examination work to be conducted in the coming year. The examination strategies are reviewed and updated quarterly based on Enterprise, industry and economic developments. In conjunction with the strategies, OFHEO creates work plans that describe how the strategies will be achieved. The work plans outline the scope, timing, and resources needed to meet the objectives and examination activities set forth in the strategies.

Program Areas for Risk-Based Examinations and Categories of Risk and Risk Management

Once OFHEO has strategies and work plans in place, examiners implement the strategies by completing exam work in each of the program areas for risk-based examinations. These are the program areas that capture the areas of risk and risk management being assessed at the Enterprises, with each program area focusing on specific sources of risk or risk management practices and tools. Later in this chapter, OFHEO presents results and conclusions by program area for both Fannie Mae and Freddie Mac.

In order to enhance examinations and maximize expertise, OFHEO has grouped the program areas into four categories of risk and risk management, and aligned its examiner force expertise into five teams that correspond to the categories of risk and risk management, and provide analytical expertise and financial monitoring.

The 10 program areas, grouped by category, are:

CREDIT

- **Credit Risk Program** - the risk that borrowers and counterparties will fail to meet their contractual or other obligations to the Enterprise.

MARKET

- **Interest Rate Risk Program** - the risk from movements in interest rates, including changes in: the level of interest rates; the shape of the yield curve; the level of volatility; and the relationships or spreads among various yield curves or indices.
- **Liquidity Management Program** - the risk that could arise from the Enterprise's inability to efficiently meet its obligations as they come due and to transact the next incremental dollar of business cost effectively.

OPERATIONS

- **Information Technology Program** - the infrastructure, or the general controls, needed to safeguard data, protect computer application programs, prevent system software from unauthorized access, and ensure continued computer operations in case of unexpected interruptions.
- **Business Process Controls Program** - assesses the process employed to ensure business initiatives and endeavors are considered and evaluated within a complete business context with particular attention directed to risk assessment and risk management framework.
- **Internal Controls Program** - the plan of organization, methods and procedures adopted by management to ensure that: goals and objectives are met; resource use is consistent with laws, regulations and policies; resources are safeguarded against waste, loss and misuse; and reliable data are obtained, maintained and fairly disclosed in reports.

CORPORATE GOVERNANCE

- **Audit Program** - the risk that the Board or management’s reliance on internal or external audits is misplaced.
- **Management Information Program** - the risk that management will make decisions based on ineffective, inaccurate or incomplete information or reports.
- **Management Processes Program** - the processes used to drive behaviors to support the Enterprise’s defined corporate goals, standards and risk tolerances.
- **Board Governance Program** - the manner in which the Board discharges its duties and responsibilities.



4

Evaluation Criteria, Assessment Factors and Examination Objectives

OFHEO conducts examination work in each of the 10 program areas by using evaluation criteria, assessment factors and examination objectives. The examination objectives are broad in scope, the assessment factors are more narrowly focused and the evaluative criteria are narrower still.

The approximately 700 evaluation criteria in the examination program detail both qualitative and quantitative items that examiners consider when making decisions about the assessment factors. The evaluation criteria are designed to assist the examiners and to ensure that the examination work is consistent at both Enterprises by creating transparency and understanding of the framework within which examiners make judgments.

Examiners use the information and data from the evaluation criteria to form their expert opinions about the almost 100 assessment factors which in turn link directly to one or more of the examination objectives for each of the program areas. Sources for the assessment factors include industry standards and benchmarks, best practices and examiner expertise.

For each program area there are four or five examination objectives. These are the broad statements of what OFHEO’s examiners will achieve through their work in each of the 10 program areas. In order to make a determination on an examination objective, OFHEO’s examiners are required to opine on each of the supporting assessment factors. By using the evaluation criteria to reach judgments about the approximately 100 assessment factors, OFHEO achieves its examination objectives, and reaches the examination results and conclusions that are reported in this chapter.

Communicate Examination Findings



5

Throughout the course of conducting examinations, OFHEO communicates with Enterprise personnel not only to gather information, but also to share findings and discuss observations. OFHEO is committed to continuous, effective communication with the Enterprises. OFHEO has the same goal for all communications; that the free flow of information furthers the objective of ensuring the safe and sound operations of the Enterprises. Communications are tailored to the individual structure and dynamics of the Enterprise, and the timing of the

communication depends on the situation being addressed. OFHEO keeps executive management and the Board appropriately informed and communicates directly with them as often as required by the Enterprise's condition and the findings from examination activities. OFHEO brings those issues that introduce an exposure to the stable operation of the Enterprise, otherwise fall under the normal duties and responsibilities of the Board, or warrant the Board's attention to the immediate attention of the Board and executive management. Technical issues and matters relating to a single line of business or activity are generally brought to the attention of operating managers with the Board and executive management kept appropriately informed.

Throughout the 2000 annual examination cycle, OFHEO's examiners had ongoing dialogues with the operating management at both Enterprises about the operations and processes covered by each of the 10 examination program areas. In these discussions, the examiners shared their views about specific opportunities the companies had to strengthen their operations and processes, including initiatives that if implemented, would enhance existing tools and processes and minimize the resulting exposure to financial risk. The goal of ensuring that the Enterprises' operations meet or exceed financial safety and soundness standards at any given point in time is supported by this iterative process and netted results that found both companies to be well-managed and financially sound.

Effect Changes and Follow Up

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A primary goal of the examination process is to influence positive changes at the Enterprises to enhance their financial safety and soundness. The intensity of the influence exerted by OFHEO relates directly to the risk presented by an issue. If, for example, in the course of an examination OFHEO identifies a significant issue in risk management systems or an undesirable risk level, OFHEO will require management to develop and execute a corrective action plan, and will ensure that the Board holds management accountable for executing the action plan. OFHEO will review the action plan to ensure that it identifies the steps or methods required to cure the root causes of significant deficiencies, and to determine whether the plan is likely to resolve the significant issues within an appropriate time frame. As part of follow up, OFHEO will verify that the action plan has been executed and evaluate its success.

OFHEO will consider the responsiveness of the Enterprise in recognizing the issue and formulating an effective solution when determining if OFHEO needs to take incremental action. If an Enterprise is unresponsive or unable to effect the resolution of meaningful issues, OFHEO will take more formal steps to ensure deficiencies are corrected.

While "effect changes and follow up" is at the top of the chart for the comprehensive annual risk-based examination process, in practice, the final step starts the examination cycle anew.

INTERNAL MODELS

OFHEO Examinations Will Place Increased Emphasis on the Exposures Arising From the Enterprises’ Use of Computer-Based Financial Models

In 2001 OFHEO is implementing an additional examination program area – Model Risk – dedicated to assessing the Enterprises’ exposures that arise from the use of internal models to select, price and manage risks. Previously, OFHEO assessed each Enterprise’s exposure to the use of internal models as part of its other examination activities. In light of the growing reliance by the Enterprises on proprietary models to manage and operate their businesses and the central role these models play in effective risk management, OFHEO determined that its examination program would be enhanced by having dedicated expertise and a separate examination program focused solely on the use and controls surrounding internal models. The following briefly describes some of the key factors that led to OFHEO’s decision.

Computer-based financial models have become critical elements in the operation of the Enterprises’ businesses, providing decision support in such areas as measuring credit risk and interest rate risk, balance sheet management, and valuation of financial instruments and financial positions. These models are fundamental to how the Enterprises operate their businesses and have significantly influenced the U.S. housing finance system.

The use of computer-based financial models can result in better decisions by bringing powerful analytical techniques to bear on vast amounts of information. The use of such models is not, however, without risk. Model exposure, or model risk, is the potential for loss that derives from using financial models for decision support. Such losses could occur if poor business decisions were to result from use of a model that is flawed in the information it utilizes, its logical operations, or in its application. Because models are frequently very complex, errors in them could go undetected, and because of the central role models are routinely given in decision-making, potential model errors could prove very costly. Consequently, models must be developed, implemented, and maintained within a comprehensive and rigorous risk management framework. In fact, financial institutions and financial regulators around the world are making progress on developing best practices for improving the reliability of financial models through back-testing and independent validation.

(continued on page 14)

Because Fannie Mae and Freddie Mac make extensive use of financial models in many key areas of their business, those models must be utilized in a safe and sound manner. To that end, OFHEO issued a guidance on February 12, 2001, which reinforces the importance of comprehensive validation of financial models and identifies ways in which errors or flaws can inadvertently arise in them. The new guidance, “Examining for ‘Model Exposure,’” (EG-2001-01) was incorporated into OFHEO’s Examination Handbook and posted on the OFHEO web site at www.ofheo.gov.

While this did not represent a new activity in the Agency’s supervision of Fannie Mae and Freddie Mac, OFHEO’s guidance did mark an increased emphasis by the Agency on its review of the Enterprises’ independent testing and validation of financial models.

OFHEO’s oversight in the area of model risk will emphasize the importance of model reliability – not just when the models are introduced, but as long as they are used. The responsibilities of the new examination team will encompass the assessment, testing, and validation of financial models and other sophisticated quantitative techniques used by the Enterprises’ business units. The team will bring specialized expertise to bear in considering the Enterprise’s models, and these activities will be coordinated with those of the other examination teams.

Like the examination teams working on the other program areas, the team examining the area of model risk will be guided by a set of examination objectives, assessment factors, and specific evaluation criteria. These are designed to ensure that examination work is consistent at both Enterprises by providing transparency and understanding of the framework within which examiners will make judgments. The objectives, assessment factors, and evaluation criteria the team will utilize will complement those of the other program areas and will be published in OFHEO’s Examination Handbook later this year.

2000 EXAMINATION RESULTS AND CONCLUSIONS FOR FANNIE MAE

In accordance with OFHEO’s examination program, the results and conclusions for each program area are reported in relation to safety and soundness standards – whether they meet, exceed, or fail to meet safety and soundness standards. At year-end 2000, Fannie Mae exceeded safety and soundness standards in all examination program areas. These results reflect the examination work conducted from January through December 2000, and do not necessarily reflect the current condition or operations of the Enterprise.

Fannie Mae’s credit risk management and credit risk management framework exceed safety and soundness standards. The portfolio is diversified and the profile of credit risk is in compliance with the internally prescribed limits. Policies, procedures, internal controls and management reporting for the credit function are effective. Fannie Mae is appropriately compensated for the credit risk it assumes. Management prudently manages counterparty exposure. New products and initiatives are well researched prior to implementation. The process for determining the reserve for losses and credit risk sharing strategies are effective, as are the tolls used to manage credit risk. Fannie Mae effectively identifies, quantifies and tracks its credit risk exposures. Management has an effective means for following up on credit related issues. The technology and controls supporting the credit risk management function are effective. Management effectively reconciles differences between actual and expected credit portfolio performance.

Fannie Mae’s interest rate risk management exceeds safety and soundness standards. The policies, procedures, internal controls and management reporting relating to interest rate risk are effective. Management has a meaningful methodology for quantifying and monitoring the level and nature of interest rate risk. Fannie Mae’s management effectively follows up on issues related to interest rate risk. Fannie Mae appropriately researches and controls the extent to which new products and initiatives may impact the interest rate risk profile. The technology and controls supporting the interest rate risk management function are effective. The tools used to model interest rate risk, and the strategies to alter the exposures to interest rates are effective. Management effectively incorporates tactical and strategic issues into the management of interest rate risk. The responsibilities for strategy and analytics functions are appropriately separated from those for the execution functions. Derivative instruments are used prudently and in accordance with the standards used by other large financial intermediaries.

Fannie Mae’s liquidity management exceeds safety and soundness standards. The policies, procedures, internal controls and management reporting relating to liquidity management are effective. Management has an effective methodology for quantifying and monitoring liquidity, and management appropriately evaluates the impact of events and alternative environments when developing contingency plans. The planning process for liquidity management is effective. Fannie Mae appropriately considers the impact new products and initiatives may have on liquidity. Management effectively follows up on issues and initiatives that influence liquidity. Technology and controls for liquidity management are effective. The quality of tools Fannie Mae uses to manage and monitor liquidity, and the quality of tools used to

perform scenario analyses are effective. An appropriate separation of duties exists between the strategy and analytics functions and the execution function. There are no adverse trends or anomalies in funding spreads. Liquidity management is appropriately integrated with other management and with financial performance issues.

The information technology infrastructure and surrounding risk management framework exceed safety and soundness standards. Operating processes are in place to ensure secure, effective and efficient data center processing and problem management. There are effective policies and processes in place to ensure that data, information and computing resources are secure and accessed only by authorized users. There are effective policies and processes in place to ensure the timely and appropriate resumption of business in the event of a disaster. Management has an adequate process to ensure information technology plans effectively address business unit and corporate objectives. Effective processes are in place to ensure appropriate controls are implemented. Documentation for system development and maintenance is complete. Fannie Mae has implemented effective processes to ensure data and information are processed accurately and in a timely manner.

Fannie Mae's internal control framework and the management of that framework exceed safety and soundness standards. Management has an accurate and reliable process for identifying risks to business processes and implementing appropriate controls. Implemented controls properly address risks assessed by management. Management has a reliable process for ensuring the timely resolution of control related issues. Internal Audit appropriately identifies and communicates control deficiencies to management and the Board of Directors. There are established policies and procedures that delineate internal control process and standards for the control environment. Management effectively ensures compliance with established internal controls.

The framework for business process controls and the management of that framework exceeds safety and soundness standards. The processes and control environment used when Fannie Mae considers and/or develops new or substantially revised business initiatives are effective. The use of pilot programs and the communication flows surrounding new or substantially revised business initiatives are effective. The balance between risk management, internal controls and the pressure to develop new or substantially revised business initiatives is appropriate. Fannie Mae's corporate environment promotes and supports the introduction of new ideas and intellectual capital, and the corporate culture effectively guides the plans for managing and marketing new or substantially revised business initiatives. Both the analysis and review conducted for potential new or substantially revised business initiatives, and the analysis conducted after a new or substantially revised business initiative is launched, are effective. Executive management and the Board of Directors are appropriately informed of the adequacy of due diligence for new or substantially revised business initiatives.

The audit functions exceed safety and soundness standards. The Internal and External Audit functions have the appropriate independence. Auditors performing the work possess appropriate professional proficiency. The scope of audit work performed is appropriate, and the

audit work is complete. The management of the Internal Audit department is effective. Executive management and the Board of Directors are appropriately involved with and follow up on identified audit issues. The auditor’s risk assessment process is effective. Internal Audit is appropriately involved in new products and new initiatives.

The Board discharges its duties and responsibilities in a manner that exceeds safety and soundness standards. The Board is appropriately engaged in the development of a strategic direction for the company, and ensures that management appropriately defines the operating parameters and risk tolerances of the Enterprise in a manner consistent with the strategic direction; legal standards; and ethical standards. The Board has an effective process for hiring and maintaining a quality executive management team, and effectively holds the executive management team accountable for achieving the defined goals and objectives. The Board is appropriately informed of the condition, activities and operations of the Enterprise, and has sufficient, well-organized time to carry out its responsibilities.

The framework used to produce timely, accurate and reliable reports exceeds safety and soundness standards. Management and the Board of Directors receive necessary reports on Fannie Mae’s performance relative to established goals and objectives. Management reporting provides the levels of management with the necessary information to carry out their responsibilities efficiently and effectively. Management reporting permits management to gauge the quality of their decisions. Information systems are linked to Fannie Mae’s overall strategy, and are developed and refined pursuant to a strategic plan. The reports management uses for decision making are accurate. Enterprise strategy, roles and responsibility are effectively communicated. Employees have effective channels of communication to provide feedback, report suspected improprieties and suggest enhancements. Communications across the company are effective.

Key management processes that influence company-wide talent and behaviors exceed safety and soundness standards. The strategic planning process is comprehensive. Business unit goals, implementation plans and programs designed to achieve the corporate plan are effective. Management is able to monitor and manage change. Key performance measures are appropriate, effective and align with strategy. The behavior management programs are effectively designed to achieve corporate goals and objectives. Fannie Mae has effective programs for career and management development, and for recruiting competent people. Fannie Mae’s proprietary risk management programs and systems are effective. Management effectively conveys an appropriate message of integrity and ethical values. Management’s philosophy and operating style have a pervasive effect on the company. The organizational structure and the assignment of responsibility provide for accountability and controls.

2000 EXAMINATION RESULTS AND CONCLUSIONS FOR FREDDIE MAC

In accordance with OFHEO's examination program, the results and conclusions for each program area are reported in relation to safety and soundness standards – whether they meet, exceed, or fail to meet safety and soundness standards. At year-end 2000, Freddie Mac exceeded safety and soundness standards in all examination program areas. These results reflect the examination work conducted from January through December 2000, and do not necessarily reflect the current condition or operations of the Enterprise.

Freddie Mac's credit risk management and credit risk management framework exceed safety and soundness standards. The portfolio is diversified and the profile of credit risk is in compliance with the internally prescribed limits. Policies, procedures, internal controls and management reporting for the credit function are effective. Freddie Mac is adequately compensated for the credit risk it assumes. Management prudently manages counterparty exposure. New products and initiatives are well-researched prior to implementation. The process for determining the reserve for credit losses, credit risk sharing strategies, and the credit risk management tools management uses are effective. Freddie Mac effectively identifies, quantifies and tracks its credit risk exposures. Management has an effective means for following up on credit-related issues. The technology and controls supporting the credit risk management function are effective. Management effectively reconciles differences between actual and expected credit portfolio performance.

Freddie Mac's interest rate risk management exceeds safety and soundness standards. The policies, procedures, internal controls and management reporting relating to interest rate risk are effective. Management has a meaningful methodology for quantifying and monitoring the level and nature of interest rate risk. Freddie Mac's management effectively follows up on issues related to interest rate risk. Freddie Mac appropriately researches and controls the extent to which new products and initiatives may impact the interest rate risk profile. The technology and controls supporting the interest rate risk management function are effective. The tools used to model interest rate risk and the strategies to alter the exposures to interest rates are effective. Management effectively incorporates tactical and strategic issues into the management of interest rate risk. The responsibilities for strategy and analytics functions are appropriately separated from those for the execution functions. Derivative instruments are used prudently and in accordance with the standards used by other large financial intermediaries.

Freddie Mac's liquidity management framework exceeds safety and soundness standards. The policies, procedures, internal controls and management reporting relating to liquidity management are effective. Management has an effective methodology for quantifying and monitoring liquidity, and management appropriately evaluates the impact of events and alternative environments when developing contingency plans. The planning process for liquidity management is effective. Freddie Mac appropriately considers the impact new products and initiatives may have on liquidity. Management effectively follows up on issues and initiatives that influence liquidity. Technology and controls for liquidity management are effective. The quality of tools Freddie Mac uses to manage and monitor liquidity, and the quality of tools used

to perform scenario analyses are effective. An appropriate separation of duties exists between the strategy and analytics functions and the execution function. There are no adverse trends or anomalies in funding spreads. Liquidity management is appropriately integrated with other management and with financial performance issues.

The information technology infrastructure and surrounding risk management framework exceed safety and soundness standards. Operating processes are in place to ensure secure, effective and efficient data center processing and problem management. There are effective policies and processes in place to ensure that data, information and computing resources are secure and accessed only by authorized users. There are effective policies and processes in place to ensure the timely and appropriate resumption of business in the event of a disaster. Management has an adequate process to ensure information technology plans effectively address business unit and corporate objectives. Effective processes are in place to ensure appropriate controls are implemented. Documentation for system development and maintenance is complete. Freddie Mac has implemented effective processes to ensure data and information are processed accurately and in a timely manner.

The internal control framework and the management of that framework exceed safety and soundness standards. Management has an accurate and reliable process for identifying risks to business processes and implementing appropriate controls. Implemented controls properly address risks assessed by management. Management has a reliable process for ensuring the timely resolution of control related issues. Internal Audit appropriately identifies and communicates control deficiencies to management and the Board of Directors. There are established policies and procedures that delineate internal control process and standards for the control environment. Management effectively ensures compliance with established internal controls.

The audit functions exceed safety and soundness standards. The Internal and External Audit functions have the appropriate independence. Auditors performing the work possess appropriate professional proficiency. The scope of audit work performed is appropriate, and the audit work is complete. The management of the Internal Audit department is effective. Executive management and the Board of Directors are appropriately involved with and follow up on identified audit issues. The auditor’s risk assessment process is effective. Internal Audit is appropriately involved in new products and new initiatives.

The Board discharges its duties and responsibilities in a manner that exceeds safety and soundness standards. The Board is appropriately engaged in the development of a strategic direction for the company, and ensures that management appropriately defines the operating parameters and risk tolerances of the Enterprise in a manner consistent with the strategic direction; legal standards; and ethical standards. The Board has an effective process for hiring and maintaining a quality executive management team, and has processes in place designed to hold the executive management team accountable for achieving the defined goals and objectives. The Board of Directors has sufficient, well-organized time to carry out its responsibilities, and is appropriately informed of the condition, activities and operations of the Enterprise.

The framework used to produce timely, accurate and reliable reports exceeds safety and soundness standards. Management and the Board of Directors receive necessary reports on Freddie Mac's performance relative to established goals and objectives. Management reporting provides the levels of management with the necessary information to carry out their responsibilities efficiently and effectively. Management reporting permits management to gauge the quality of their decisions. Information systems are linked to Freddie Mac's overall strategy, and are developed and refined pursuant to a strategic plan. The reports management uses for decision making are accurate. Management communicates Enterprise strategy, roles and responsibility. Employees have effective channels of communication to provide feedback, report suspected improprieties and suggest enhancements. Communications across the company are adequate.

Key management processes that influence corporate-wide behaviors exceed safety and soundness standards. The strategic planning process is comprehensive and dynamic. Business unit goals are effective. Implementation plans and programs designed to achieve the corporate plan are satisfactory. Management monitors and manages change. Key performance measures are appropriate, effective and align with strategy. The behavior management programs are designed to achieve corporate goals and objectives. Freddie Mac has programs for career and management development, and for recruiting competent people. Freddie Mac's proprietary risk management programs and systems are effective. Management effectively conveys an appropriate message of integrity and ethical values. Management's philosophy and operating style have a pervasive effect on the company. The organizational structure and the assignment of responsibility provide for accountability and controls.

CHAPTER THREE



FINANCING OFHEO'S OPERATIONS

OFHEO'S BUDGET

OFHEO's operations are not financed by taxpayer funds. OFHEO's annual operating budget is, however, subject to the Federal appropriations process and is based on the amount appropriated by Congress and signed into law by the President. The amounts provided for by the appropriations process are collected from Fannie Mae and Freddie Mac in the form of an annual assessment paid semi-annually.

OFHEO Director Armando Falcon has continuously stated that the lengthy appropriations process may not allow OFHEO the flexibility necessary to address evolving, dynamic issues before those issues impact the financial safety and soundness of the Enterprises or funding for the housing market. The Director has asked that OFHEO be removed from the appropriations process. OFHEO is seeking the authority to operate like all other financial safety and soundness regulators, such as the Office of the Comptroller of the Currency and the Office of Thrift Supervision. OFHEO's operations would remain subject to the oversight of Congress, but its budget would be free from the unpredictability of the annual appropriations process.

For fiscal year 2000, OFHEO's budgetary resources totaled \$19,626,203. Budgetary resources represent \$19,493,000 appropriated to OFHEO for fiscal year 2000 plus a small recovery of prior year funds. The fiscal year 2000 operating budget supported drafting the rule for the risk-based capital regulation for Fannie Mae and Freddie Mac, conducting comprehensive annual risk-based examinations of Fannie Mae and Freddie Mac, reviewing and classifying the capital adequacy of each Enterprise quarterly, and performing other safety and soundness related regulatory activities.

For fiscal year 2001, OFHEO received an appropriation of \$22,000,000, which was \$3.8 million less than the \$26,770,000 contained in the President's Budget Request. In last year's Annual Report, OFHEO explained the \$26,770,000 budget request would be used to bolster OFHEO's regulatory infrastructure, strengthen OFHEO's capability to perform qualitative and quantitative assessments of risk, and respond to the rapid growth and increasing complexity of the Enterprises' business operations. OFHEO had also planned to hire additional staff to acquire the necessary depth and expertise to accomplish the Office's regulatory mission. The resources appropriated OFHEO were not sufficient to carry out OFHEO's strategic staffing plan and the Office shifted internal resource allocations to accomplish its most critical goals.

OFHEO's fiscal year 2002 budget request totals \$27,000,000. These resources will maintain existing staffing levels, continue current examination and oversight programs and upgrade OFHEO's computing capacity which is critical to the efficient implementation of the risk-based capital regulation and to support needed research and analysis on the ever-changing risk profiles of the Enterprises.

OFHEO CONTINUES TO RECEIVE UNQUALIFIED AUDIT OPINION IN FY 2000

In conjunction with the government's goal of improved accountability, OFHEO voluntarily prepared financial statements for fiscal year 2000 and subjected these statements and underlying processes to independent audit. The certified public accounting firm of Dembo, Jones, Healy, Pennington and Ahalt audited the statements. The firm issued an unqualified audit opinion on OFHEO's fiscal year 2000 Financial Statements. Following is a copy of the audit opinion and the associated principal financial statements and notes.

**OFFICE OF FEDERAL HOUSING
ENTERPRISE OVERSIGHT**

FINANCIAL REPORT

September 30, 2000

Office of Federal Housing Enterprise Oversight

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OFFICE OF FEDERAL HOUSING ENTERPRISE OVERSIGHT**FISCAL YEAR 2000****MANAGEMENT'S DISCUSSION AND ANALYSIS**Mission Statement

OFHEO promotes housing and a strong economy by ensuring the safety and soundness of Fannie Mae and Freddie Mac and fostering the strength and vitality of the nation's housing finance system.

Overview

The Office of Federal Housing Enterprise Oversight (OFHEO) was established by Title XIII of the Housing and Community Development Act of 1992, Public Law Number 102-550, known as the Federal Housing Enterprises Financial Safety and Soundness Act of 1992 (1992 Act). OFHEO is an independent office within the Department of Housing and Urban Development with responsibility for examining and regulating the Federal Home Loan Mortgage Corporation (Freddie Mac) and the Federal National Mortgage Association (Fannie Mae) (collectively, the Enterprises) and ensuring that they are adequately capitalized.

A Director appointed by the President and confirmed by the Senate for a five-year term heads OFHEO. In October, 1999, Armando Falcon, Jr. was sworn in as OFHEO's second director.

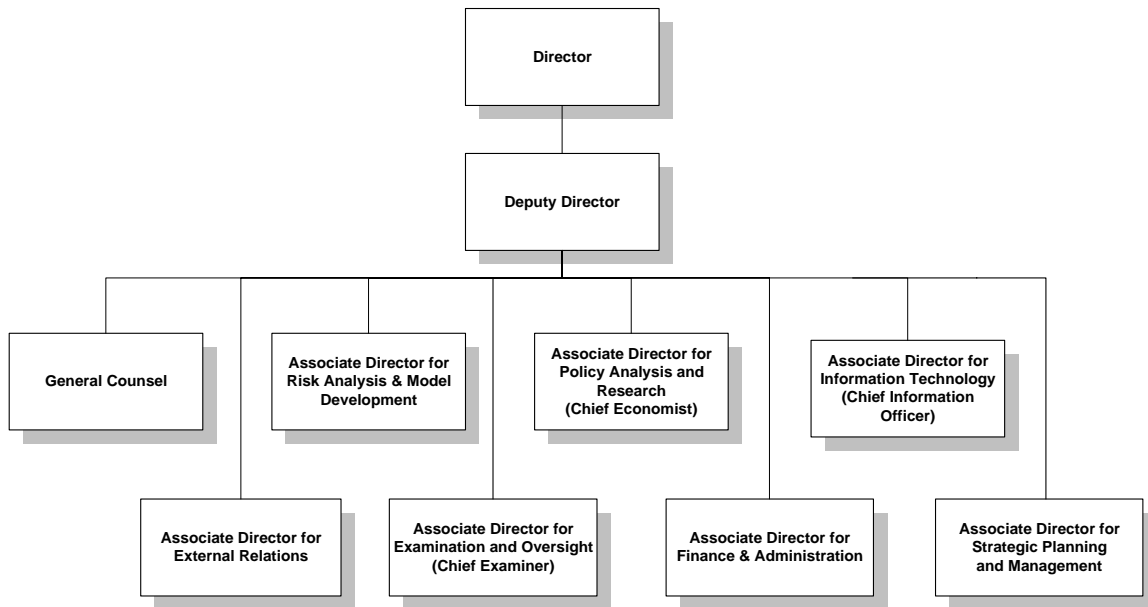
To ensure that the Enterprises are adequately capitalized, OFHEO is required by law to develop a stress test to determine risk-based capital requirements. Since taking office, Director Falcon has focused OFHEO on the task of completing the stress test and the associated risk-based capital regulation. In addition, Director Falcon has devoted additional resources to bolster OFHEO's capacity to analyze developments in the housing finance markets that affect the Enterprises. This increased capacity was needed to effectively regulate the Enterprises.

Director Falcon has also added resources to OFHEO's examination and oversight function to keep pace with the tremendous growth in the size and complexity of the Enterprises' operations. OFHEO is required by law to conduct on-site comprehensive examinations at Fannie Mae and Freddie Mac to determine the overall safety and soundness of the two companies. The examinations are designed to identify the risks in the business activities of the Enterprises, and to determine if those risks are being prudently managed, controlled, and monitored.



OFHEO IS GROWING BUT REMAINS SMALL

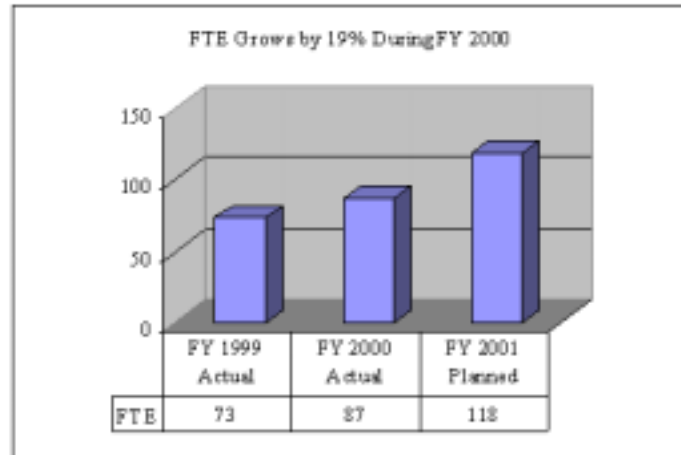
The OFHEO is located at 1700 G Street NW in the District of Columbia. The Director and Deputy Director carry out OFHEO's mission through the coordinated efforts of eight offices. These offices are: (1) General Counsel, (2) Risk Analysis and Model Development, (3) Policy Analysis and Research, (4) Information Technology, (5) External Relations, (6) Examination and Oversight, (7) Finance and Administration, and (8) Strategic Planning and Management.



January 17, 2001

During FY 2000, OFHEO responded to the challenge of finalizing the risk-based capital regulation and strengthening examination and oversight by employing about 87 full time equivalent (FTE) workyears, up 19 percent from FY 1999. The nature of OFHEO's mission requires a highly skilled, motivated, and diverse workforce to provide institutional capacity in mission-critical areas at all times. During FY 2001, OFHEO plans to increase staffing in key mission-related areas, most notably Information Technology and Examination and Oversight, to ensure that it can maintain adequate breadth and depth in those areas.





OFHEO OPERATIONS ARE NOT FINANCED BY TAXES

While OFHEO's budget is subject to the annual congressional appropriations process, it is not funded by tax dollars. Fannie Mae and Freddie Mac bear the full cost of OFHEO's operations through an annual assessment based on OFHEO's annual operating budget as appropriated. Each Enterprise pays a pro rata share of the annual assessment. The combined assets and off-balance sheet obligations of each Enterprise determine the pro rata shares. OFHEO receives the annual assessment in semi-annual payments each fiscal year. By statute these payments are due to OFHEO October 1, and April 1, of each fiscal year, excluding years when the Enterprises must also pay based on temporary funding resolutions.

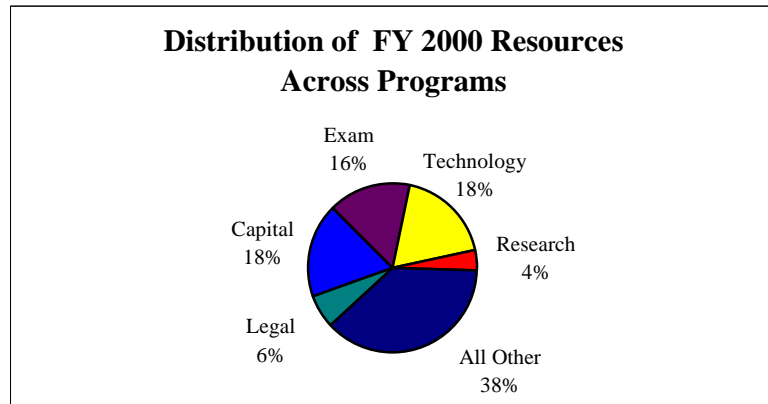
Unlike most other federal financial regulators, OFHEO must submit a request for an annual operating budget to the Office of Management and Budget (OMB) and the Congress. This process diminishes the efficiency and effectiveness of OFHEO's programs by requiring the Office to predict in advance the resources that it may need to respond to external events that will not arise for over two years. OFHEO has no operating funds for a fiscal year until appropriation legislation is enacted by Congress and signed by the President. OFHEO's budget is bundled with the Department of Housing and Urban Development, the Department of Veterans Affairs and a variety of independent agencies such as the National Science Foundation. When the Congress and the Administration are unable to reach timely budget agreements, it results in OFHEO's not having an enacted budget until after the fiscal year has commenced. The appropriations process has forced OFHEO to trim operations until large, unrelated budget issues are resolved between the executive and legislative branches.

Director Falcon has repeatedly asked Congress to remove OFHEO from the appropriations process. He is concerned that the appropriations process constrains OFHEO's ability to respond appropriately to new unanticipated developments that could impair the financial safety and soundness of the Enterprises and prohibit the Enterprises from performing their important public missions. Removal from the appropriations process would put OFHEO on par with bank and thrift regulatory agencies and would allow the office to operate more efficiently and effectively while maintaining vigorous congressional oversight.

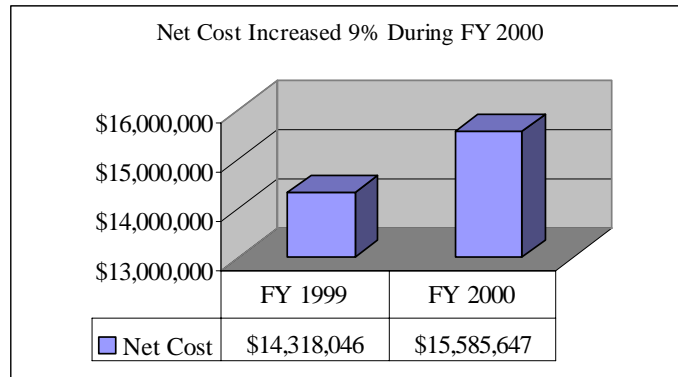
KEY FINANCIAL INFORMATION

OFHEO had \$19.6 million available for obligation during FY 2000. Obligations represent monies awarded to specific contractors, payroll costs for FY 2000, and other expenses such as equipment purchases and employee travel costs for the fiscal year. All but \$9,762 was obligated by the end of year on September 30, 2000. As required by law, the \$9,762 was credited against the FY 2001 annual assessment to be paid by the Enterprises.

Of the \$19.6 million obligated during FY 2000, over \$12 million (62%) were obligated for purchases that directly support mission activities such as examination and oversight, capital adequacy, and financial research related to housing finance. The balance of funds were obligated for activities supporting the accomplishment of the mission such as rent, internal financial and administrative management, external relations to the Congress and the public, and legal support.



As OFHEO matures and staffing levels expand to meet the demand of regulating the Enterprises, the net cost of OFHEO's operations is rising. Net cost represents assessment collections, from Fannie Mae and Freddie Mac, that have been expensed for salaries and operating expenses, including retirement benefits financed by the Office of Personnel Management, to support OFHEO during the fiscal year. The net cost of operations for FY 2000 was \$15,585,647, up 9 percent from FY 1999. The increase in FY 2000 reflects the employee compensation and benefits costs for a larger workforce, and costs associated with developing the stress test and the associated risk-based capital regulation.



FINANCIAL MANAGEMENT ACHIEVEMENTS AND IMPROVEMENTS

Financial Statement Audit. OFHEO received an ***unqualified audit opinion*** on its FY 1998 and 1999 financial statements, internal controls and compliance with laws and regulations. The auditor did not issue a separate management letter for FY 1999 because OFHEO had addressed the issues noted in a separate management letter accompanying the FY 1998 audit and there were no additional conditions identified that warranted reporting in a management letter. The improvements made during FY 1999 in relation to the FY 1998 Management Letter included:

- Discussions with cross service providers about systems functionality and the development of electronic links between systems to improve efficiencies.
- Implementation of new invoice and delivery processes to ensure that the general ledger contains materially accurate accounts payable at the end of the fiscal year.
- Periodic reminders to staff to submit travel vouchers within regulatory timeframes, and specific reminders to staff members who have not submitted vouchers on time.

Federal Managers' Financial Integrity Act (FMFIA). In letters dated December 29, 2000, Director Falcon advised the President and the Congress that OFHEO was in compliance with FMFIA as of the end of FY 2000 (September 30, 2000). During FY 2000, OFHEO's managers continued to monitor internal controls and reported on the effectiveness of controls to the Director. No reportable material weaknesses were identified.

Compliance with Prompt Payment Act. OFHEO maintains excellent compliance with the Prompt Payment Act and OMB circular A-125, which focus on improving the cash management practices of the government. OMB defines "on time as those payments made 23 to 30 days after receipt of the invoice, earlier payments where discounts were taken, and earlier payments made in accordance with management guidance." This means that OFHEO must pay its bills within a narrow window – not too early and not late.

During FY 2000, OFHEO reduced the amount it paid for interest penalties to a miniscule \$516.53 in relation to nearly \$5 million in disbursements covered by the Prompt Payment Act. This reduction follows an outstanding performance in FY 1999 when OFHEO paid a paltry \$1,687 in interest penalties from a similar amount of disbursements. OFHEO accomplished this reduction in interest penalties by reducing the number of invoices paid late through enhanced tracking procedures for credit card statement payments.

Federal Financial Management Information Act (FFMIA) of 1996

The FFMIA codified in law certain financial management system requirements that were already in place by Executive Branch policies and added one new requirement. The Act established new requirements for auditors to report on agency compliance with system requirements and for agency heads and agency management to correct deficiencies within a reasonable time period.

The OFHEO contracts certain administrative and financial services from other government agencies. Since OFHEO is small, these cross servicing arrangements with larger agencies provide a cost-effective means for the use of systems, which are generally expensive to purchase and maintain. OFHEO maintains its financial accounting on a system owned by the Department of Veterans Affairs (VA). The National Finance Center (NFC), operated by the Department of Agriculture, provides OFHEO with payroll systems and services. The Department of Housing and Urban Development provides personnel action processing services and systems and a human resources data interface with the NFC systems.

OFHEO requested funding in its Fiscal Year 2001 budget to support the procurement of a fully integrated administrative, human resources and financial system. OFHEO did not receive the full amount of its budget request and management had to make tough decisions in allocating the budget. OFHEO is currently evaluating systems and services options that could become available from VA when VA converts to a new financial management system. At the same time, OFHEO continues to cooperate with its current service providers to develop automated interfaces among key systems, which would enhance productivity and reduce the likelihood of errors caused by data entry.

FY 2000 MARKS KEY PERFORMANCE ACCOMPLISHMENTS FOR OFHEO

OFHEO's FY 2000 Annual Performance Plan and its operations were designed to achieve the Office's three strategic goals, described in the FY 1998-2003 Strategic Plan:

1. To effectively regulate the Enterprises by ensuring that they are adequately capitalized and operate in a safe and sound manner.
2. To promote an efficient secondary mortgage market through an independent and balanced approach to regulatory oversight of the Enterprises.
3. To effectively regulate the Enterprises by ensuring that they comply with all laws under our jurisdiction.

Through the FY 2000 Annual Performance Plan, OFHEO set its performance goals for the year and outlined means and strategies to achieve them. Highlights of the goals and accomplishments that relate to each of these strategic goals are described below. In accordance with the Government Performance and Results Act, the FY 2000 Annual Performance Report will contain a more detailed description of OFHEO's performance, and will be issued by March 29, 2001.

OFHEO's ACCOMPLISHMENTS

Strategic Goal 1: To effectively regulate the Enterprises by ensuring that they are adequately capitalized and operate in a safe and sound manner.

During FY 2000, OFHEO completed its second set of comprehensive annual risk-based examinations. Through these examinations for calendar year 1999, OFHEO determined that both Enterprises were financially sound and well managed. Before conducting the examinations, the Office established and shared with the Enterprises safety and soundness standards that reflect various components of risk and risk management. For these examinations, OFHEO considers four major areas—credit risk, market risk, operations risk, and corporate governance. These risk areas contain 10 program areas, such as interest rate risk, liquidity management, and information technology, for which over 100 factors are assessed at the start of the year and updated quarterly to reflect changes. The examination process is described in more detail in OFHEO's 2000 Report to Congress. Both examinations were completed on schedule and both Enterprises responded appropriately to examination issues. OFHEO accomplished its goals in these areas.

The Enterprises met applicable capital standards quarterly, and OFHEO met its goal in this area. Each quarter, OFHEO applied the minimum capital standard to each Enterprise's financial position and determined that they met the standards. Until OFHEO's risk-based capital regulation is final, this is the only capital standard applied to the Enterprises. While the standard was met each quarter, at times it was only by a thin margin. In looking further, OFHEO found that one of the Enterprises was very close to being undercapitalized between reporting periods. OFHEO then requested that the Enterprises report their capital positions on a monthly basis. As a result, the capital cushions have improved. OFHEO is also planning to revise the minimum capital regulation, and will seek public comments on the proposed amendments during FY 2001.

OFHEO is nearing completion of its final rule for risk-based capital, the Office's second standard for measuring capital adequacy in the Enterprises. During FY 2000, OFHEO closed the public comment period for its Notice of Proposed Rulemaking on risk-based capital. After receiving nearly 2,000 pages of substantive comments submitted by over 35 commenters when the comment period closed on March 10, 2000, the Office shared these comments with the public for an additional month, and received 11 more comments in reply. This volume of comments far exceed OFHEO's original target of 18, and furthered the Office's goal to maximize the understanding of the proposed risk-based capital regulation and public participation in the rulemaking process. After the second comment period closed, OFHEO reviewed and analyzed all comments, made steady progress in revising the rule, and in December 2000, sent a copy of the final version of the rule to the Office of Management and Budget for their review. OFHEO accomplished its goals in these areas.

Once the regulation is final and enforceable by law, OFHEO cannot enforce compliance with the risk-based capital regulation until one year after it is issued in final form. OFHEO will calculate risk-based capital levels for each Enterprise on at least a quarterly basis. During FY 2000, in response to comments from the Enterprises, OFHEO adopted a new strategy for these calculations. Through a newly developed risk-based capital report, each Enterprise will prepare and send its data submission to OFHEO in a format necessary to run the stress test model. Under the original plan, the Enterprises would have sent raw data and OFHEO would have done all of the data aggregation and calculations necessary to input the data into the stress test. Under the new strategy, the Enterprises will perform all of the data aggregations and calculations necessary to directly input the data submission into the stress test. OFHEO and the Enterprises agree that this will improve the timeliness, accuracy and transparency of the risk-based capital calculations. Once the regulation is implemented, this risk-based capital report

will be submitted for each risk-based capital determination. This change in strategy supplants the specifics of the Performance Goal in the FY 2000 Performance Plan: To streamline the risk-based capital calculation process by reducing the time from receipt of Enterprise data to calculation of risk-based capital requirements.

Strategic Goal 2: To promote an efficient secondary mortgage market through an independent and balanced approach to regulatory oversight of the Enterprises.

OFHEO strengthened its independent capacity to analyze the Enterprises and mortgage markets by bolstering its staffing levels in key mission-related areas. OFHEO met its goals by continuing to issue internal reports for analyzing Enterprise risks throughout FY 2000. The Office also met its goals for maintaining the examination cadre's objectivity and expertise. Examination staff participated in professional development and training programs, and interagency assignments and forums. In FY 2001 and future years, OFHEO anticipates undertaking additional research and analysis, including using the risk-based capital stress test to assess alternative scenarios to continue to analyze the Enterprises.

Strategic Goal 3: To effectively regulate the Enterprises by ensuring that they comply with all laws under our jurisdiction.

During FY 2000, OFHEO found no violations of the Enterprises' Charter Acts or other applicable laws. As part of OFHEO's responsibility to prohibit excessive executive compensation at the Enterprises, OFHEO reviewed six termination agreements of Executives who left the Enterprises, and found them satisfactory. OFHEO also reviewed the propriety of Freddie Mac's participation in an Internet venture with HomeAdvisor Technologies, Incorporated. OFHEO concluded that Freddie Mac's participation is not inconsistent with the Enterprise's charter, nor did it raise sufficient safety and soundness concerns as to warrant regulatory action by OFHEO. OFHEO met its goals in this area.

OFHEO's FY 2000-2005 Strategic Plan.

During the last quarter of FY 2000, OFHEO developed a new Strategic Plan for FY 2000-2005. This plan provides a framework for OFHEO's future Annual Performance Plans and operations. Taking OFHEO to its next stage, the plan details OFHEO's mission, goals and objectives for the next five years and provides a blueprint for achieving them.

The new plan reflects OFHEO's congressional mandate to ensure the safety and soundness of Fannie Mae and Freddie Mac and emphasizes the need to foster the strength and vitality of the nation's housing finance system. It also recognizes that success in carrying out this mission promotes a robust housing sector and a strong economy. The strategic objectives continue OFHEO's focus on ensuring the Enterprises are adequately capitalized and that they comply with safety and soundness standards and other legal requirements. The objectives also place increased emphasis on enhancing public understanding of the nation's housing finance system and contributing to Federal efforts to promote efficient and effective financial markets and homeownership. OFHEO's three primary regulatory responsibilities are incorporated in the plan: Ensuring that the Enterprises are adequately capitalized, conducting safety and soundness examinations, and undertaking research and analysis on emerging Enterprise-related matters.

LIMITATIONS OF THE FINANCIAL STATEMENTS

While OFHEO is not specifically covered by the requirements in the Chief Financial Officers Act, the Office has prepared financial statements to report the financial position and results of operations of OFHEO, pursuant to the requirements of 31 U.S.C. 3515(b). The statements have been prepared from the books and records of OFHEO in the format prescribed by OMB. These statements supplement the periodic financial reports used to monitor and control budgetary resources that were prepared from the same books and records. The statements should be read with the realization that they are for a component of the U.S. Government.

The following principal statements present the financial position of OFHEO, an independent office within HUD, as of September 30, 2000. The statements are in conformity with the instructions provided for federal entities by the OMB and comply with Statements of Federal Financial Accounting Standards effective as of September 30, 2000.

Dembo, Jones, Healy, Pennington & Ahalt, P.C.

Certified Public Accountants and Consultants

**Independent Auditors' Opinion
on the Financial Statements**

Mr. Armando Falcon
Director
Office of Federal Housing Enterprise Oversight

We have audited the accompanying Principal Statements and related notes of the Office of Federal Housing Enterprise Oversight as of September 30, 2000 and 1999, and for the years then ended. These Principal Statements (hereinafter referred to as "financial statements") comprised of the balance sheets, the statements of net cost, changes in net position, budgetary resources and financing, are the responsibility of the agency's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with generally accepted auditing standards; *Government Auditing Standards*, issued by the Comptroller General of the United States; and Office of Management and Budget (OMB) Bulletin No. 01-02, "Audit Requirements for Federal Financial Statements." These standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the assets, liabilities, and net position; net costs; changes in net position; budgetary resources; and reconciliation of net costs to budgetary obligations of the Office of Federal Housing Enterprise Oversight as of September 30, 2000 and 1999, and for the years then ended in conformity with generally accepted accounting principals.

The Management Discussion and Analysis and the Required Supplemental Information sections are not required parts of the basic financial statements of the Office of Federal Housing Enterprise Oversight but are supplementary information required by the Federal Financial Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the Management Discussion and Analysis and the Required Supplementary Information. However, we did not audit the information and express no opinion on it.

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In accordance with Governmental Auditing Standards, we have also issued a report dated February 9, 2001, on our consideration of the Office of Federal Housing Enterprise Oversight's internal control over financial reporting and our tests of its compliance with certain provisions of laws and regulations.

This report is intended solely for the information and use of the management of the Office of Federal Housing Enterprise Oversight, OMB and Congress, and is not intended to be and should not be used by anyone other than these specified parties.

Dembo, Jones, Healy, Pennington & Ahalt, P.C.

February 9, 2001

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Dembo, Jones, Healy, Pennington & Ahalt, P.C.
CERTIFIED PUBLIC ACCOUNTANTS AND CONSULTANTS

Dembo, Jones, Healy, Pennington & Ahalt, P.C.

Certified Public Accountants and Consultants

**Report of Independent Auditors
on Internal Control**

Mr. Armando Falcon
Director
Office of Federal Housing Enterprise Oversight

We have audited the Principal Statements (hereinafter referred to as "financial statements") of the Office of Federal Housing Enterprise Oversight as of and for the years ended September 30, 2000 and 1999, and have issued our report thereon dated February 9, 2001. We conducted our audits in accordance with: generally accepted auditing standards; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and Office of Management and Budget (OMB) Bulletin No. 01-02, "Audit Requirements for Federal Financial Statements."

In planning and performing our audits, we considered the Office of Federal Housing Enterprise Oversight's internal control over financial reporting by obtaining an understanding of the agency's internal control, determined whether internal controls had been placed in operation, assessed control risk, and performed tests of controls in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements. We limited our internal control testing to those controls necessary to achieve the objectives described in OMB Bulletin No. 01-02. We did not test all internal controls relevant to operating objectives as broadly defined by the Federal Managers' Financial Integrity Act of 1982, such as those controls relevant to ensuring efficient operations. The objective of our audits was not to provide assurance on internal control. Consequently, we do not provide an opinion on internal control.

Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be reportable conditions. Under standards issued by the American Institute of Certified Public Accountants, reportable conditions are matters coming to our attention relating to significant deficiencies in the design or operation of the internal control that, in our judgment, could adversely affect the agency's ability to record, process, summarize, and report financial data consistent with the assertions by management in the financial statements. Material weaknesses are reportable conditions in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Because of inherent limitations in internal controls, misstatements, losses, or noncompliance may nevertheless occur and not be detected. However, we noted no matters involving the internal control and its operation that we considered to be material weaknesses as defined above.

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Finally, with respect to internal control related to performance measures reported in the annual performance plan, we obtained an understanding of the design of significant internal controls relating to the existence and completeness assertions, as required by OMB Bulletin No. 01-02. Our procedures were not designed to provide assurance on internal control over reported performance measures, and, accordingly, we do not provide an opinion on such controls.

This report is intended solely for the information and use of the management of the Office of Federal Housing Enterprise Oversight, OMB and Congress, and is not intended to be and should not be used by anyone other than these specified parties.

Dembo, Jones, Healy, Pennington & Ahalt, P.C.

February 9, 2001

Dembo, Jones, Healy, Pennington & Ahalt, P.C.

Certified Public Accountants and Consultants

**Report of Independent Auditors
on Compliance with Laws and Regulations**

Mr. Armando Falcon
Director
Office of Federal Housing Enterprise Oversight

We have audited the Principal Statements (hereinafter referred to as "financial statements") of the Office of Federal Housing Enterprise Oversight as of and for the years ended September 30, 2000 and 1999, and have issued our report thereon dated February 9, 2001. We conducted our audits in accordance with: generally accepted auditing standards; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and, Office of Management and Budget (OMB) Bulletin No. 01-02, "Audit Requirements for Federal Financial Statements."

The management of the Office of Federal Housing Enterprise Oversight is responsible for complying with laws and regulations applicable to the agency. As part of obtaining reasonable assurance about whether the agency's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws and regulations, noncompliance with which could have a direct and material effect on the determination of financial statement amounts and certain other laws and regulations specified in OMB Bulletin No. 01-02, including the requirements referred to in the Federal Financial Management Improvement Act (FFMIA) of 1996. We limited our tests of compliance to these provisions and we did not test all laws and regulations applicable to the Office of Federal Housing Enterprise Oversight.

The results of our tests of compliance with the laws and regulations described in the preceding paragraph exclusive of FFMIA disclosed no instances of noncompliance that are required to be reported under *Government Auditing Standards* or OMB Bulletin No. 01-02. OMB Bulletin No. 97-01, "Form and Content of Agency Financial Statements" defines the form and content of financial statements of the executive departments and agencies listed in the attachment to the Bulletin. The Office of Federal Housing Enterprise Oversight is not required to follow OMB Bulletin No. 97-01 but has voluntarily adopted the Bulletin's requirements.

Under FFMIA, we are required to report whether the agency's financial management systems substantially comply with the Federal financial management systems requirements, applicable Federal accounting standards, and the United States Government Standard General Ledger at the transaction level. To meet this requirement, we performed tests of compliance with FFMIA section 803(a) requirements.

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The results of our tests disclosed no instances in which the agency's financial management systems did not substantially comply with the three requirements discussed in the preceding paragraph.

Providing an opinion on compliance with certain provisions of laws and regulations was not an objective of our audits and, accordingly, we do not express such an opinion.

This report is intended solely for the information of the management of the Office of Federal Housing Enterprise Oversight, OMB and Congress, and is not intended to be and should not be used by anyone other than these specified parties.

Dembo, Jones, Healy, Pennington & Ahalt, P.C.

February 9, 2001

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**OFFICE OF FEDERAL HOUSING ENTERPRISE OVERSIGHT
BALANCE SHEETS
AS OF SEPTEMBER 30, 2000 AND 1999**

	<u>2000</u>	<u>1999</u>
ASSETS		
Intragovernmental Assets		
Fund Balance with Treasury - Note 2	\$ 5,939,763	\$ 4,365,321
Advance/Prepayment - Note 3	<u>460,142</u>	<u>-</u>
Total Intragovernmental Assets	6,399,905	4,365,321
Accounts Receivable	-	1,206
Property, Plant and Equipment, Net - Note 4	10,935,914	8,765,845
TOTAL ASSETS	\$ 17,335,819	\$ 13,132,372
LIABILITIES		
Liabilities Covered by Budgetary Resources:		
Intragovernmental Liabilities		
Accrued Payables	\$ 146,555	\$ 58,599
Total Intragovernmental Liabilities	<u>146,555</u>	<u>58,599</u>
Other Payables and Liabilities		
Accounts Payable	1,349,098	1,493,434
Other Liabilities	<u>688,166</u>	<u>473,666</u>
Total Other Payables and Liabilities - Note 5	2,037,264	1,967,100
Total Liabilities Covered by Budgetary Resources	<u>2,183,819</u>	<u>2,025,699</u>
Liabilities Not Covered by Budgetary Resources:		
Governmental		
Liability for Future Worker's Compensation	-	430,010
Accrued Annual Leave	<u>673,519</u>	<u>484,548</u>
Total Liabilities Not Covered by Budgetary Resources - Note 6	673,519	914,558
TOTAL LIABILITIES	\$ 2,857,338	\$ 2,940,257
NET POSITION		
Unexpended Appropriations	\$ 3,754,738	\$ 2,339,622
Cumulative Results of Operations	<u>10,723,743</u>	<u>7,852,493</u>
Total Net Position - Note 7	14,478,481	10,192,115
TOTAL LIABILITIES AND NET POSITION	\$ 17,335,819	\$ 13,132,372

The accompanying notes are an integral part of these statements.

**OFFICE OF FEDERAL HOUSING ENTERPRISE OVERSIGHT
STATEMENTS OF NET COST
FOR THE FISCAL YEARS ENDED
SEPTEMBER 30, 2000 AND 1999**

	2000	1999
Program Costs		
Production Costs		
Public Production	\$ 13,263,439	\$ 11,822,640
Federal Production	2,173,453	2,044,421
Total Production Costs - Note 8	<u>15,436,892</u>	<u>13,867,061</u>
Non-production Costs		
Imputed Financing Sources - Note 9	389,794	332,384
Financing Sources Yet to be Provided - Note 10	<u>(241,039)</u>	<u>118,601</u>
Total Non-Production Costs	<u>148,755</u>	<u>450,985</u>
Total Program Costs	15,585,647	14,318,046
Net Cost of Operations	\$ 15,585,647	\$ 14,318,046

The accompanying notes are an integral part of these statements.

**OFFICE OF FEDERAL HOUSING ENTERPRISE OVERSIGHT
STATEMENTS OF CHANGES IN NET POSITION
FOR FISCAL YEARS ENDED
SEPTEMBER 30, 2000 AND 1999**

	2000	1999
Net Cost of Operations	\$ (15,585,647)	\$ (14,318,046)
Financing Sources		
Appropriations Used	18,067,103	16,960,774
Imputed Financing Sources - Note 9	389,794	332,384
Total Financing Sources	18,456,897	17,293,158
Net Results of Operations	2,871,250	2,975,112
Cumulative Effect of Change in Accounting Policy - Note 13	-	248,126
Net Change in Cumulative Results of Operations	2,871,250	3,223,238
Increase / (Decrease) in Unexpended Appropriations	1,415,116	(986,094)
Changes in Net Position	4,286,366	2,237,144
Net Position - Beginning of Period	10,192,115	7,954,971
Net Position - End of Period - Note 7	\$ 14,478,481	\$ 10,192,115

The accompanying notes are an integral part of these statements.

**OFFICE OF FEDERAL HOUSING ENTERPRISE OVERSIGHT
STATEMENTS OF BUDGETARY RESOURCES
FOR THE FISCAL YEARS ENDED
SEPTEMBER 30, 2000 AND 1999**

	2000	1999
Budgetary Resources		
Appropriations	\$ 19,493,000	\$ 16,000,000
Unobligated Balance Brought Forward October 1	10,780	442,751
Spending Authority for Offsetting Collections		
Collected	-	1,649
Receivable from Federal Source	-	(1,649)
Adjustments		
Recoveries of Prior Year Obligations - Note 11	133,203	286,520
Permanently not available Pursuant to Public Law 102-550	(10,780)	(442,751)
Total Budgetary Resources	\$ 19,626,203	\$ 16,286,520
Status of Budgetary Resources		
Obligations Incurred	\$ 19,616,441	\$ 16,275,742
Unobligated Balance Not Available	9,762	10,778
Total Status of Budgetary Resources	\$ 19,626,203	\$ 16,286,520
Outlays		
Obligations Incurred	\$ 19,616,441	\$ 16,275,742
Less: Spending Authority from Collections/Adjustments		
Collected	-	1,649
Receivable from Federal Sources	-	(1,649)
Actual Recoveries of Prior Year Obligations - Note 11	(133,203)	(286,520)
Total Obligations Incurred	19,483,238	15,989,222
Obligated Balance, Net - Beginning of Period	4,354,541	5,150,754
Obligation Transfer	-	(401,917)
Obligated Balance, Net - End of Period		
Undelivered Orders	(3,746,183)	(2,328,842)
Accounts Payable	(2,183,818)	(2,025,699)
Total Obligated Balance, Net - End of Period	(5,930,001)	(4,354,541)
Total Outlays	\$ 17,907,778	\$ 16,383,518
Disbursements	\$ 17,923,953	\$ 16,385,167
Collections	(16,175)	(1,649)
Total Outlays	\$ 17,907,778	\$ 16,383,518

The accompanying notes are an integral part of these statements.

OFFICE OF FEDERAL HOUSING ENTERPRISE OVERSIGHT
STATEMENTS OF FINANCING
FOR THE FISCAL YEARS ENDED
SEPTEMBER 30, 2000 AND 1999

	2000	1999
Obligations and Nonbudgetary Resources		
Obligations Incurred	\$ 19,616,441	\$ 16,275,742
Less: Spending Authority from Offsetting Collections/Adjustments		
Earned Reimbursements		
Collections	-	1,649
Receivables from Federal Sources	-	(1,649)
Recoveries of Prior Year Obligations - Note 11	(133,203)	(286,520)
Other - Imputed Financing Sources - Note 9	389,794	332,384
Exchange Revenue Not in the Entity's Budget	1,206	(1,206)
Total Obligations as Adjusted and Nonbudgetary Resources	<u>19,874,238</u>	<u>16,320,400</u>
Resources That Do Not Fund Net Cost of Operations		
Change in Goods/Services/Benefits Ordered but not Provided (Increases)	(1,877,483)	974,613
Change in Unfilled Customer Orders	-	(3,060)
Costs Capitalized on the Balance Sheet (Increases)		
General Property, Plant and Equipment	(2,170,069)	(3,340,634)
Cumulative Effect in Change of Accounting Policy - Note 13	-	248,126
Total Resources That Do Not Fund Net Costs of Prior Periods	<u>(4,047,552)</u>	<u>(2,120,955)</u>
Financing Sources Yet to be Provided		
Annual Leave	188,971	94,841
Future Workers' Compensation	(430,010)	23,760
Total Financing Sources Yet to be Provided - Note 10	<u>(241,039)</u>	<u>118,601</u>
Net Cost of Operations	<u>\$ 15,585,647</u>	<u>\$ 14,318,046</u>

The accompanying notes are an integral part of these statements.

NOTES TO FINANCIAL STATEMENTS

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

- ***Reporting Entity***

The Office of Federal Housing Enterprise Oversight (OFHEO) was established as an independent office within the Department of Housing and Urban Development (HUD) by the Federal Housing Enterprises Financial Safety and Soundness Act of 1992 (title XIII of P.L. 102-550).

Since 1993, Congress has enacted no-year appropriations, which are available for obligation by OFHEO until expended. The appropriation is funded by an annual assessment from two government sponsored enterprises, Fannie Mae and Freddie Mac (the “Enterprises”) and not with taxpayer funds. Beginning with the FY 1998 appropriation, OFHEO receives an appropriation from the U.S. Treasury General Fund each year. OFHEO fully offsets the General Fund appropriation with collections from the assessments of the Enterprises and ensures that taxpayer funds are not used for OFHEO’s operations.

OFHEO’s enabling statute requires that OFHEO return to the Enterprises, in the form of a credit against the next year’s annual assessment, any unobligated assessment funds at the end of the fiscal year. This effectively makes OFHEO operate like a hybrid annual appropriation with no-year authority -- OFHEO’s annual resources are available for obligation and expenditure without regard to any fiscal year limitation. OFHEO reduces the current year’s assessment by the amount of the unobligated balance from the previous year. Consequently, there is no carry over of budget authority from one year to the next and the annual assessment is adjusted by the credit given to the Enterprises each year.

The accompanying financial statements reflect the activities of OFHEO. OFHEO has only entity activities and the financial statements reflect those activities, which include the appropriation received to conduct operations. OFHEO does not perform custodial activities on behalf of other federal agencies.

- ***Basis of Presentation***

OFHEO is not covered by the Chief Financial Officer’s (CFO) Act and is not required to follow the Office of Management and Budget (OMB) Bulletin 97-01 on form and content. However, OFHEO adopted OMB’s requirements for CFO Act financial statements. The principal statements were prepared from the official financial records and general ledger of OFHEO in accordance with Generally Accepted Accounting Principles (GAAP) as established through the Federal Accounting Standards Advisory Board (FASAB) standards.

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

- ***Basis of Accounting***

Transactions are recorded on both an accrual accounting basis and on a budgetary basis. Under the accrual method, revenues are recognized when earned and expenses are recognized when a liability is incurred, without regard to receipt or payment of cash. Budgetary accounting facilitates compliance with legal requirements and controls over the use of Federal funds. OFHEO complies with the U.S. Standard General Ledger and conforms to the hierarchy of accounting principles for the Federal Government:

Standards established by the FASAB, approved by the Director of OMB, the Comptroller General, and the Secretary of the Treasury. The American Institute of Certified Public Accountants (AICPA) has recognized FASAB standards as GAAP.

Interpretations related to Standards issued by OMB in accordance with the procedures outlined in OMB Circular A-134, Financial Accounting Principles and Standards;

Accounting principles published by other authoritative standard-setting bodies in the absence of guidance provided above; and

Accounting policy and procedures established by OFHEO to enhance consistency or to provide guidance in the absence of government-wide standards.

- ***Funds with the U.S. Treasury***

OFHEO cash receipts and disbursements are processed by the United States Department of the Treasury (Treasury). The funds with Treasury are primarily assessment funds that are available to pay current liabilities and to finance authorized purchase commitments. OFHEO does not have monetary assets held outside OFHEO's fund balance at Treasury. OFHEO does not have an advance from Treasury to maintain an Imprest Fund and does not hold any marketable or non-marketable securities. OFHEO does not operate a direct loan or loan guarantee program.

- ***Property and Equipment***

OFHEO's property and equipment is recorded at cost and is depreciated using the straight-line method over the estimated service lives of the assets. Service lives have been established as three years. OFHEO has an established capitalization threshold of \$5,000 to conform with the materiality approach for the accounting that supports OFHEO's independent financial statements. Other property items, normal repairs, and maintenance are charged to expense as incurred.

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

- ***Property and Equipment (continued)***

At present, internally developed software is being created at OFHEO. This asset is software under development to support the oversight of the Enterprises. The software supports the development of risk-based capital standards and will be used to implement the final risk-based capital standards. It also supports the examination of the Enterprises. The software is being developed internally, utilizing significant contractor support. The asset had not been placed in service as of September 30, 2000 and no depreciation has been recorded.

OFHEO has no capitalized leases, no real property holdings, and no heritage assets.

- ***Prepaid and Deferred Charges***

Payments in advance of the receipt of goods and services are recorded as prepaid charges at the time of prepayment and are recognized as expenditures/expenses when the related goods and services are received.

- ***Liabilities***

Liabilities represent the amount of moneys or other resources that are likely to be paid by OFHEO as the result of a transaction or event that has already occurred. However, no liability can be paid by OFHEO absent an appropriation. Liabilities for which an appropriation has not been enacted and for which there is no certainty that an appropriation will be enacted are classified as Liabilities Not Covered by Budgetary Resources. OFHEO's Liabilities Covered by Budgetary Resources, both intragovernmental (payable to other federal entities) and governmental liabilities, consist of accounts payable and accrued liabilities. Accounts payable reflect invoices processed for payment during the fiscal year which are yet unpaid as of the end of the fiscal year due to scheduling of payments to reflect prompt payment guidelines. Accrued liabilities consist of both estimates of accounts payable for the value of services received during the fiscal year for which OFHEO had not been billed as of the end of the fiscal year and payroll accruals reflecting payroll costs earned by employees during the fiscal year which are not paid until the next fiscal year. OFHEO's Liabilities Not Covered by Budgetary Resources consist of accrued annual leave balances at the end of the fiscal year and Future Workers' Compensation (FWC) benefits under the Federal Employees Compensation Act (FECA). In prior years, OFHEO recorded an estimated FWC liability based upon a ratio of OFHEO employees to HUD employees, then multiplied by HUD's estimated FWC liability as actuarially determined by the Department of Labor. In FY 2000, OFHEO changed its estimation methodology by using a ratio of past FECA claims paid by OFHEO to past FECA claims paid by HUD, multiplied by HUD's estimated FWC liability. OFHEO's current year budgetary resources do not fund these liabilities.

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**• Retirement Plans**

OFHEO participates in the retirement plans offered by the Office of Personnel Management (OPM) and does not maintain any private retirement plans or benefits. The majority of OFHEO's employees participate in either the Civil Service Retirement System (CSRS) or the Federal Employees Retirement System (FERS). OFHEO expenses its contributions to the retirement plans of covered employees as the expenses are incurred. OFHEO is reporting imputed financing with respect to retirement plans, health benefits and life insurance pursuant to guidance received from OPM. These costs are paid by OPM and not by OFHEO. Disclosure is intended to provide information regarding the full cost of OFHEO's program in accordance with GAAP.

• Net Position

OFHEO's net position is comprised of the following components:

1. Undelivered orders and unobligated balances of OFHEO's funds.
2. Invested capital represents U.S. Government resources invested in OFHEO's property and equipment and inventory not held for sale. Increases to invested capital are recorded when assets are acquired with direct appropriations, and decreases are recorded as a result of the depreciation, disposition of capital assets, or consumption of inventory.
3. Future funding requirements represent (a) accumulated annual leave earned but not taken as of the financial statement date and (b) Future Workers' Compensation. The expense for these accruals is not funded from current assessments, but will be funded from future assessments as the expenses are incurred.
4. Prepayments and advances of OFHEO's funds.

NOTE 2 - FUND BALANCE WITH TREASURY

Fund Balance with Treasury consists of the following as of September 30, 2000 and 1999:

	<u>Obligated</u>	<u>Unobligated</u>		<u>2000</u>	<u>1999</u>
		<u>Available</u>	<u>Unavailable</u>		
General Funds	\$5,930,001	-	\$9,762	\$5,939,763	\$4,365,321

NOTE 3 – ADVANCE/PREPAYMENT

The Advance/Prepayment is a payment made by OFHEO to another federal agency for additional occupancy space contracted for in fiscal year 2000 but not to be occupied until fiscal year 2001.

NOTE 4 - PROPERTY, PLANT AND EQUIPMENT

Property, Plant and Equipment balances as of September 30, 2000 and 1999 are as follows:

<u>Asset Type</u>	<u>Acquisition Cost</u>	<u>Accumulated Depreciation</u>	<u>2000 Net Book Value</u>	<u>1999 Net Book Value</u>
Equipment	\$ 1,227,723	\$502,104	\$ 725,619	\$ 633,382
Information Technology Software	<u>10,210,295</u>	<u>-</u>	<u>10,210,295</u>	<u>8,132,463</u>
Total	\$11,438,018	\$502,104	\$10,935,914	\$8,765,845

NOTE 5 - OTHER PAYABLES AND LIABILITIES

	<u>2000</u>	<u>1999</u>
Accounts Payable in Process	\$ 263,479	\$ 29,479
Accrued Accounts Payable	<u>1,085,619</u>	<u>1,463,955</u>
Sub-Total Other Payables and Liabilities	\$1,349,098	\$1,493,434
Accrued Payroll and Benefits	<u>688,166</u>	<u>473,666</u>
Total Other Payables and Liabilities	\$2,037,264	\$1,967,100

NOTE 6 - LIABILITIES NOT COVERED BY BUDGETARY RESOURCES

In prior years, OFHEO recorded an estimated FWC liability based upon a ratio of OFHEO employees to HUD employees, then multiplied by HUD's estimated FWC liability as actuarially determined by the Department of Labor. Given the differences between OFHEO's work environment and size compared to HUD's more varied work environment and larger size, OFHEO re-evaluated its estimation methodology. In FY 2000, OFHEO changed its estimation methodology by using a ratio of past FECA claims paid by OFHEO to past FECA claims paid by HUD, multiplied by HUD's estimated FWC liability. OFHEO has had only one small claim filed since OFHEO was created and OFHEO's estimated FWC liability was negligible. Since OFHEO also had no current compensation claims, the negligible amount was reduced to zero for the FWC liability.

NOTE 7 - NET POSITION

Net Position consists of the following as of September 30, 2000 and 1999:

	2000	1999
Unobligated – Available	\$ 9,762	\$ 10,780
Undelivered Orders	3,746,182	2,328,842
Refund – Collection	<u>(1,206)</u>	<u>-</u>
Total Unexpended Appropriations	\$ 3,754,738	\$ 2,339,622
Invested Capital	\$10,935,914	\$ 8,765,845
Future Funding Requirements	(673,519)	(914,558)
Advances/Prepayments	460,142	-
Refund – Collected	<u>1,206</u>	<u>1,206</u>
Total Cumulative Results of Operations	<u>\$10,723,743</u>	<u>\$ 7,852,493</u>
Total Net Position	\$14,478,481	\$10,192,115

NOTE 8 - PRODUCTION COSTS

OFHEO is a single program providing financial safety and soundness oversight of Fannie Mae and Freddie Mac. OFHEO does not have any stewardship responsibilities for federal lands. Production Costs represent assessment collections, from Fannie Mae and Freddie Mac, that have been expensed for salaries and operating expenses to support OFHEO during the fiscal year ended September 30, 2000 and 1999. Production Costs are distributed into two categories: Public and Federal. Public costs result from contracts with the private sector for goods or services. Federal costs are a result of OFHEO contracting with other federal agencies for goods and/or services (e.g. purchase of supplies from the General Services Administration).

	2000	1999
Public Production Costs Paid	\$11,907,319	\$10,202,114
Accrued Accounts Payable Public	1,085,619	1,463,955
Depreciation Expense	<u>270,501</u>	<u>156,571</u>
Total Public Production Costs	\$13,263,439	\$11,822,640
Federal Production Costs Paid	\$ 2,026,898	\$ 1,985,822
Accrued Accounts Payable Federal	<u>146,555</u>	<u>58,599</u>
Total Federal Production Costs	<u>\$ 2,173,453</u>	<u>\$ 2,044,421</u>
Total Production Costs	\$15,436,892	\$13,867,061

NOTE 9 - IMPUTED FINANCING

Imputed Financing represents the post retirement benefits funded by OPM for OFHEO employees.

	<u>2000</u>	<u>1999</u>
CSRS Imputed	\$198,115	\$171,146
FERS Imputed	(14,985)	(10,880)
CSRS Offset Imputed	5,776	7,783
Life Insurance Imputed	1,189	892
Health Insurance Imputed	<u>199,699</u>	<u>163,443</u>
Total Imputed Financing – Post Employment	\$389,794	\$332,384

NOTE 10 - FINANCING SOURCES YET TO BE PROVIDED

Financing Sources Yet to be Provided reflects potential future costs for accrued annual leave and future worker's compensation (FWC), which are not funded by current budgetary resources. The amounts reported are the net change of the FWC liability from the prior year.

	<u>2000</u>	<u>1999</u>
Annual Leave Expense	\$188,971	\$ 94,841
Future Worker's Compensation	<u>(430,010)</u>	<u>23,760</u>
Total Financing Sources Yet To Be Provided	(\$241,039)	\$118,601

NOTE 11 - RECOVERIES OF PRIOR YEAR OBLIGATIONS

Recoveries of prior year obligations consist of the reapportionment of prior year funds by OMB. OFHEO requested and received the authority to re-obligate these prior year funds in FY 2000

NOTE 12 – PENSION EXPENSE

OFHEO recognizes the full cost of providing future pension benefits to eligible employees while they are working. The excess of total pension expense over the amounts contributed by OFHEO and its employees must be financed by OPM. OFHEO recognizes an imputed financing source equal to this excess amount. Pension expense in FY 2000 and 1999 consisted of the following:

	<u>Employer Contributions</u>	<u>Accumulated Costs Imputed to OPM</u>	<u>2000 Total Pension Expense</u>	<u>1999 Total Pension Expense</u>
Civil Services Retirement	\$ 213,660	\$203,891	\$ 417,551	\$ 367,236
Federal Employee's Retirement	649,159	(14,985)	634,174	454,773
Thrift Savings Plan	<u>228,722</u>	-	<u>228,722</u>	<u>188,032</u>
Total Pension Expense	\$1,091,541	\$188,906	\$1,280,447	\$1,010,041

NOTE 13 – CUMULATIVE EFFECT OF CHANGE IN ACCOUNTING POLICY

In years prior to FY 1999, OFHEO used the capitalization policy of HUD, which set the threshold at \$100,000 for an individual asset. However, in FY 1999, OFHEO reviewed purchases received between October 1, 1996 and September 30, 1999. Based on this data, OFHEO determined the capitalization threshold should be \$5,000 in order to conform with the materiality approach for the accounting that supports OFHEO's independent financial statements. Consequently, effective with the financial statements for the accounting period ended September 30, 1999, OFHEO implemented a change in accounting policy and lowered the threshold to \$5,000 for capitalization of assets with a useful life of two or more years. The FY 1999 financial statements include the cumulative effect of this change in accounting policy which consisted of:

	<u>2000</u>	<u>1999</u>
Property & Equipment Purchased in Prior Years	-	\$325,361
Prior Years Accumulated Depreciation	-	(77,235)
Total Cumulative Effect of Change in Accounting Policy	-	\$248,126

NOTE 14 – OPERATING LEASE

OFHEO has an occupancy lease with the Office of Thrift Supervision (OTS) that covers office space and building services which include utilities, security guards, janitorial services, mail delivery, use of the loading dock, garage parking and building operation and maintenance. The initial term of the lease was for five years beginning in 1993, with the option to renew for three 5-year terms. OFHEO has exercised the first of the three option terms. Total rent expense for years ending September 30, 2000 and 1999 was approximately \$1.7 million and \$1.6 million respectively.

OFHEO may terminate the lease agreement in whole or in part. In the event of a termination at OFHEO's discretion, OFHEO would be required to pay two months rent, at an approximate cost of \$286,200 (based on FY 2000 rates). OFHEO's obligation to make payments ceases on the date that the space is rented. If either party ceases to exist or merge with another entity by operation of law, either party may terminate the rental agreement. In the event of termination under this provision, neither party is liable for further costs, fees, damages or other monies due to the termination, except for payments through the date of termination. During FY 2000, OFHEO rented additional space from OTS which will not be ready for occupancy until FY 2001, therefore, OFHEO is reflecting the rental payment for the additional space as an Advance/Prepayment.

Office of Federal Housing Enterprise Oversight
Required Supplementary Information
Intra-governmental Trading Partners
As of September 30, 2000 and 1999

Trading Partner Agency	Intra-governmental Assets	
	2000	1999
Department of Treasury ¹	\$ 5,939,763	\$ 4,365,321
Office of Thrift Supervision ²	460,142	-
	\$ 6,399,905	\$ 4,365,321

¹ Fund balance with Treasury consists of assessment funds that are available to pay current liabilities and to finance authorized purchase commitments.

² During FY 2000 OFHEO rented additional space from OTS, this space will not be ready for occupancy until FY 2001, therefore, OFHEO is reflecting the rental payment for the additional space as a Prepayment.

Trading Partner Agency	Intra-governmental Liabilities	
	2000	1999
General Services Administration	\$ -	\$ 1,949
Federal Deposit Insurance Corp	3,248	-
Department of Treasury	9,305	7,760
Department of Veteran's Affairs	27,397	25,612
Department of Housing and Urban Development	95,827	20,427
Federal Reserve Board	3,500	-
Department of Commerce	3,500	2,315
Office of Personnel Management	3,112	536
Department of Agriculture	666	-
	\$ 146,555	\$ 58,599

OFHEO's intra-governmental liabilities consist of accounts payable for the value of services received during the fiscal year for which OFHEO had not been billed as of the end of the fiscal year.

CHAPTER FOUR - HISTORICAL DATA TABLES

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Table 1. Fannie Mae Mortgage Purchases

Business Activity (\$ in Millions)				
Period	Purchases			
	Single-Family (\$)	Multifamily (\$)	Total ¹ (\$)	Mortgage Securities² (\$)
4Q00	71,759	3,430	75,189	44,569
3Q00	59,578	2,662	62,240	33,849
2Q00	55,115	2,309	57,424	22,415
1Q00	40,617	1,976	42,593	25,201
Annual Data				
2000	227,069	10,377	237,446	126,034
1999	316,136	10,012	326,148	166,431
1998	354,920	11,428	366,348	144,461
1997	159,921	6,534	166,455	48,848
1996	164,456	6,451	170,907	45,016
1995	126,003	4,966	130,969	34,036
1994	158,229	3,839	162,068	24,552
1993	289,826	4,135	293,961	6,275
1992	248,603	2,956	251,559	4,930
1991	133,551	3,204	136,755	2,384
1990	111,007	3,180	114,187	977
1989	80,510	4,325	84,835	Not
1988	64,613	4,170	68,783	Applicable
1987	73,942	1,733	75,675	Before
1986	77,223	1,877	79,100	1990
1985	42,543	1,200	43,743	
1984	27,713	1,106	28,819	
1983	26,339	140	26,479	
1982	25,929	10	25,939	
1981	6,827	2	6,829	
1980	8,074	27	8,101	
1979	10,798	9	10,807	
1978	12,302	3	12,305	
1977	4,650	134	4,784	
1976	3,337	295	3,632	
1975	3,646	674	4,320	
1974	4,746	2,273	7,019	
1973	4,170	2,082	6,252	
1972	2,596	1,268	3,864	
1971	2,742	1,298	4,040	

Source: Fannie Mae

¹ Cash purchases from lenders plus lender-originated securitizations; excludes non-Fannie Mae securities and repurchased Fannie Mae MBS.² Not included in total purchases.

Table 2. Fannie Mae MBS Issuances

Business Activity (\$ in Millions)					
Period	MBS Issuances				
	Single-Family MBS (\$)	Multifamily MBS (\$)	Total MBS (\$)	Multiclass MBS¹ (\$)	
4Q00	65,080	2,340	67,420	12,908	
3Q00	54,898	1,791	56,689	9,482	
2Q00	46,778	1,808	48,586	9,193	
1Q00	37,310	1,657	3,8967	7,961	
Annual Data					
2000	204,066	7,596	211,662	39,544	
1999	292,192	8,497	300,689	55,160	
1998	315,120	11,028	326,148	84,147	
1997	143,615	5,814	149,429	85,415	
1996	144,201	5,668	149,869	30,780	
1995	106,269	4,187	110,456	9,681	
1994	128,385	2,237	130,622	73,365	
1993	220,485	959	221,444	210,630	
1992	193,187	850	194,037	170,205	
1991	111,488	1,415	112,903	112,808	
1990	96,006	689	96,695	68,291	
1989	66,489	3,275	69,764	41,715	
1988	51,120	3,758	54,878	17,005	
1987	62,067	1,162	63,229	9,917	
1986	60,017	549	60,566	2,400	
1985	23,142	507	23,649	Not Issued Before 1986	
1984	13,087	459	13,546		
1983	13,214	126	13,340		
1982	13,970	Not Issued Before 1983	13,970		
1981	717		717		
	Not Issued Before 1981		Not Issued Before 1981		

Source: Fannie Mae

¹ The majority qualify as Real Estate Mortgage Investment Conduits (REMICs) and are also known as structured securitizations.

Table 3. Fannie Mae Earnings

Earnings (\$ in Millions)							
Period	Net Interest Income ¹ (\$)	Guarantee Fee Income (\$)	Average Guarantee Fee Rate (basis points)	Administrative Expenses (\$)	Credit-Related Expenses ² (\$)	Net Income (\$)	Return on Common Equity ³ (%)
4Q00	1485	339	19.3	232	21	1,165	25.3
3Q00	1425	341	19.5	232	22	1,124	25.6
2Q00	1399	339	19.6	224	21	1,097	25.8
1Q00	1362	332	19.4	217	30	1,062	25.7
Annual Data							
2000	5,674	1,351	19.5	905	94	4,448	25.6
1999	4,894	1,282	19.3	800	127	3,912	25.2
1998	4,110	1,229	20.2	708	261	3,418	25.2
1997	3,949	1,274	22.7	636	375	3,056	24.6
1996	3,592	1,196	22.4	560	409	2,725	24.1
1995	3,047	1,086	22.0	546	335	2,144	20.9
1994	2,823	1,083	22.5	525	378	2,132	24.3
1993	2,533	961	21.3	443	305	1,873	25.3
1992	2,058	834	21.2	381	320	1,623	26.5
1991	1,778	675	21.0	319	370	1,363	27.7
1990	1,593	536	21.1	286	310	1,173	33.7
1989	1,191	408	21.3	254	310	807	31.1
1988	837	328	21.6	218	365	507	25.2
1987	890	263	22.1	197	360	376	23.5
1986	384	175	23.8	175	306	105	9.5
1985	139	112	25.6	142	206	(7)	(0.7)
1984	(90)	78	26.2	112	86	(71)	(7.4)
1983	(9)	54	26.3	81	48	49	5.1
1982	(464)	16	27.2	60	36	(192)	(18.9)
1981	(429)	0.3	25.0	49	(28)	(206)	(17.2)
1980	21	Not Applicable	Not Applicable	44	19	14	0.9
1979	322	Before 1981	Before 1981	46	35	162	11.3
1978	294	1981	1981	39	36	209	16.5
1977	251			32	28	165	15.3
1976	203			30	25	127	13.8
1975	174			27	16	115	14.1
1974	142			23	17	107	14.7
1973	180			18	12	126	20.3
1972	138			13	5	96	18.8
1971	49			15	4	61	14.4

Source: Fannie Mae

¹ Interest income net of interest expense, nominal basis.² Credit-related expenses are mortgage loan loss provision plus real estate owned expense.³ Average common equity used to calculate return.

Table 4. Fannie Mae Balance Sheet

Balance Sheet (\$ in Millions)						Mortgage Backed Securities Outstanding (\$ in Millions)	
Period	Total Assets (\$)	Retained Mortgage Portfolio ¹ (\$)	Non- Mortgage Investments ² (\$)	Debt Outstanding (\$)	Stockholders' Equity (\$)	Total MBS Outstanding ³ (\$)	Multiclass MBS Outstanding ⁴ (\$)
4Q00	675,072	607,602	54,982	642,682	20,838	706,684	334,508
3Q00	638,147	571,604	54,963	607,039	19,687	701,024	331,492
2Q00	608,775	550,179	47,398	578,527	18,791	696,573	333,292
1Q00	586,698	537,193	38,326	557,543	18,371	684,684	334,386
Annual Data							
2000	675,072	607,602	54,982	642,682	2,838	706,684	334,508
1999	575,167	522,977	39,751	547,619	17,629	679,169	335,514
1998	485,014	415,434	58,515	460,291	15,453	637,143	361,613
1997	391,673	316,592	64,596	369,774	13,793	579,138	388,360
1996	351,041	286,527	56,606	331,270	12,773	548,173	339,798
1995	316,550	252,868	57,273	299,174	10,959	513,230	353,528
1994	272,508	220,815	46,335	257,230	9,541	486,345	378,733
1993	216,979	190,169	21,396	201,112	8,052	471,306	381,865
1992	180,978	156,260	19,574	166,300	6,774	424,444	312,369
1991	147,072	126,679	9,836	133,937	5,547	355,284	224,806
1990	133,113	114,066	9,868	123,403	3,941	288,075	127,278
1989	124,315	107,981	8,338	116,064	2,991	216,512	64,826
1988	112,258	100,099	5,289	105,459	2,260	170,097	26,660
1987	103,459	93,665	3,468	97,057	1,811	135,734	11,359
1986	99,621	94,123	1,775	93,563	1,182	95,568	Not Available Before 1987
1985	99,076	94,609	1,466	93,985	1,009	54,552	
1984	87,798	84,135	1,840	83,719	918	35,738	
1983	78,383	75,247	1,689	74,594	1,000	25,121	
1982	72,981	69,356	2,430	69,614	953	14,450	
1981	61,578	59,629	1,047	58,551	1,080	717	
1980	57,879	55,589	1,556	54,880	1,457	Not Issued Before 1981	
1979	51,300	49,777	843	48,424	1,501		
1978	43,506	42,103	834	40,985	1,362		
1977	33,980	33,252	318	31,890	1,173		
1976	32,393	31,775	245	30,565	983		
1975	31,596	30,820	239	29,963	861		
1974	29,671	28,666	466	28,168	772		
1973	24,318	23,589	227	23,003	680		
1972	20,346	19,652	268	19,239	559		
1971	18,591	17,886	349	17,672	460		

Source: Fannie Mae

¹ Gross retained portfolio net of unamortized purchase premium, discounts and deferred price adjustments.² Prior to 1982 balances primarily composed of U.S. government and agency securities.³ Total MBS outstanding net of Fannie Mae MBS in the retained portfolio.⁴ The majority qualify as REMICs and are also known as structured securitizations.

Table 5. Fannie Mae Retained Mortgage Portfolio Detail

(\$ in Millions)					
Period	Whole Loans (\$)	Fannie Mae Securities (\$)	Other Mortgage-Related Securities (\$)	Total Retained Mortgage Portfolio ¹ (\$)	
4Q00	152,505	351,066	106,551	610,122	
3Q00	149,718	319,804	104,565	574,087	
2Q00	150,477	299,242	102,447	552,166	
1Q00	147,879	291,131	99,741	538,751	
Annual Data					
2000	152,505	351,066	106,551	610,122	
1999	149,105	281,714	93,122	523,941	
1998	155,779	197,375	61,361	414,515	
1997	160,102	130,444	26,132	316,678	
1996	167,891	102,607	16,554	287,052	
1995	171,481	69,729	12,301	253,511	
1994	173,909	43,998	7,150	225,057	
1993	163,149	24,219	3,493	190,861	
1992	134,597	20,535	2,987	158,119	
1991	109,251	16,700	3,032	128,983	
1990	101,797	11,758	3,073	116,628	
1989	95,729	11,720	3,272	110,721	
1988	92,220	8,153	2,640	103,013	
1987	89,618	4,226	2,902	96,746	
1986	94,167	1,606	2,060	97,833	
1985	97,421	435	793	98,649	
1984	87,205	477	427	88,109	
1983	77,983		273	78,256	
1982	71,777		37	71,814	
1981	61,411		1	61,412	
1980	57,326		1	57,327	
1979	51,096		1	51,097	
1978	43,315			43,315	
1977	34,377			34,377	
1976	32,937			32,937	
1975	31,916			31,916	
1974	29,708			29,708	
1973	24,459			24,459	
1972	20,326			20,326	
1971	18,515			18,515	

Source: Fannie Mae

¹ Total gross unpaid principal balance.

Table 6. Fannie Mae Financial Derivatives

Financial Derivatives (\$ in Millions)						
Period	Interest Rate Swaps (\$)	Interest Rate Caps, Floors, and Corridors (\$)	Foreign Currency (\$)	Futures & Options and Forward Rate Agreements (\$)	Short Sales and Other (\$)	Total (\$)
4Q00	227,651	33,663	9,511	48,865	0	319,690
3Q00	211,302	27,800	9,544	49,665	4,355	302,676
2Q00	208,583	27,550	11,335	45,210	2,385	295,063
1Q00	200,285	28,950	11,460	32,569	1,925	275,189
Annual Data						
2000	227,651	33,663	9,511	48,865	0	319,690
1999	192,032	28,950	11,507	41,081	1,400	274,970
1998	142,846	14,500	12,995	13,481	3,735	187,557
1997	149,673	100	9,968	0	1,660	161,401
1996	158,140	300	2,429	0	350	161,219
1995	125,679	300	1,224	29	975	128,207
1994	87,470	360	1,023	0	1,465	90,317
1993	49,458	360	1,023	0	1,425	52,265
1992	24,130	0	1,177	0	1,350	26,658
1991	9,100	0	Not Available	50	1,050	10,200
1990	4,800	0	Before 1992	25	1,700	6,525

Source: Fannie Mae

Table 7. Fannie Mae Non-Mortgage Investments

Non-Mortgage Investments (\$ in Millions)							
Period	Federal Funds and Eurodollars (\$)	Asset-Backed Securities (\$)	Repurchase Agreements (\$)	Commercial Paper and Corporate Debt (\$)	Other (\$)	Total ¹ (\$)	
4Q00	7,539	17,512	2,722	8,893	18,316	54,982	
3Q00	6,431	17,253	4,503	10,177	16,599	54,963	
2Q00	4,129	18,801	2,285	8,158	14,025	47,398	
1Q00	3,276	18,102	1,596	4,217	11,135	38,326	
Annual Data							
2000	7,539	17,512	2,722	8,893	18,316	54,982	
1999	4,837	19,207	2,574	1,723	11,410	39,751	
1998	7,926	20,993	7,556	5,155	16,885	58,515	
1997	19,212	16,639	6,715	11,745	10,285	64,596	
1996	21,734	14,635	4,667	6,191	9,379	56,606	
1995	19,775	9,905	10,175	8,629	8,789	57,273	
1994	17,593	3,796	9,006	7,719	8,221	46,335	
1993	4,496	3,557	4,684	0	8,659	21,396	
1992	6,587	4,124	3,189	0	5,674	19,574	
1991	2,954	2,416	2,195	0	2,271	9,836	
1990	5,329	1,780	951	0	1,808	9,868	
1989	5,158	1,107	0	0	2,073	8,338	
1988	4,125	481	0	0	683	5,289	
1987	2,559	25	0	0	884	3,468	
1986	1,530	0	0	0	245	1,775	
1985	1,391	0	0	0	75	1,466	
1984	1,575	0	0	0	265	1,840	
1983	1,462	0	0	0	227	1,689	
1982	1,799	0	0	0	631	2,430	
1981	Not Available	Not Available	Not Available	Not Available	Not Available	1,047	
1980	Before 1982	Before 1982	Before 1982	Before 1982	Before 1982	1,556	
1979	Before 1982	Before 1982	Before 1982	Before 1982	Before 1982	843	
1978						834	
1977						318	
1976						245	
1975						239	
1974						466	
1973						227	
1972						268	
1971						349	

Source: Fannie Mae

¹ Prior to 1982, the majority of non-mortgage investments were comprised of U.S. government securities and agency securities.

Table 8. Fannie Mae Asset - Liability Mix

Asset - Liability Ratios					
Period	Asset Mix		Liability Mix		
	Retained Portfolio / Total Assets (%)	Non-Mortgage Investments / Total Assets (%)	Callable Debt / Total Effective Long-Term Debt^{1,2} (%)	Total Effective Long- Term Debt / Total Debt³ (%)	
4Q00	90.0	8.1	42.9	84.6	
3Q00	89.6	8.6	44.5	87.2	
2Q00	90.4	7.8	45.1	87.8	
1Q00	91.6	6.5	43.9	88.3	
Annual Data					
2000	90.0	8.1	42.9	84.6	
1999	90.9	6.9	43.4	87.1	
1998	85.7	12.1	42.9	76.4	
1997	80.8	16.5	46.4	79.4	
1996	81.6	16.1	47.5	80.5	
1995	79.9	18.1	48.0	73.9	
1994	81.0	17.0	54.6	72.6	
1993	87.6	9.9	58.1	80.0	
1992	86.3	10.8	48.8	77.9	
1991	86.1	6.7	36.0	85.5	
1990	85.7	7.4	21.9	82.6	
1989	86.9	6.9	10.1	80.1	
1988	89.2	4.7	3.6	78.7	
1987	90.5	3.4	Not Available	Not Available	
1986	94.5	1.8	Before 1988	Before 1988	
1985	95.5	1.5			
1984	95.8	2.1			
1983	96.0	2.2			
1982	95.0	3.3			
1981	96.8	1.7			
1980	96.0	2.7			
1979	97.0	1.6			
1978	96.8	1.9			
1977	97.9	0.9			
1976	98.1	0.8			
1975	97.5	0.8			
1974	96.6	1.6			
1973	97.0	1.0			
1972	96.6	1.3			
1971	96.2	1.8			

Source: Fannie Mae

¹ Callable debt includes derivative financial instruments that provide interest-rate protection similar to callable debt.

² Total effective long-term debt represents debt with an effective repricing date greater than one year.

³ Total effective long-term debt represents debt with an effective repricing date greater than one year.

Table 9. Fannie Mae Mortgage Asset Quality

Mortgage Asset Quality						
Period	Single-Family Delinquency Rate¹ (%)	Multifamily Delinquency Rate² (%)	Credit Losses / Total MBS Outstanding plus Retained Portfolio³ (%)	REO /Total MBS Outstanding plus Retained Portfolio⁴ (%)	Credit-Enhanced Outstanding /Total MBS Outstanding plus Retained Portfolio⁵ (%)	
4Q00	0.45	0.05	0.01	0.05	20.3	
3Q00	0.42	0.03	0.01	0.05	20.7	
2Q00	0.41	0.05	0.01	0.06	20.8	
1Q00	0.45	0.18	0.01	0.06	20.9	
Annual Data						
2000	0.45	0.05	0.01	0.05	20.3	
1999	0.48	0.12	0.01	0.06	20.9	
1998	0.58	0.29	0.03	0.08	17.5	
1997	0.62	0.37	0.04	0.10	12.8	
1996	0.58	0.68	0.05	0.11	10.5	
1995	0.56	0.81	0.05	0.08	10.6	
1994	0.47	1.21	0.06	0.10	10.2	
1993	0.48	2.34	0.04	0.10	10.6	
1992	0.53	2.65	0.04	0.09	15.6	
1991	0.64	3.62	0.04	0.07	22.0	
1990	0.58	1.70	0.06	0.09	25.9	
1989	0.69	3.20	0.07	0.14	Not Available Before 1990	
1988	0.88	6.60	0.11	0.15	Not Available Before 1990	
1987	1.12	Not Available Before 1988	0.11	0.18	Not Available Before 1990	
1986	1.38	Not Available Before 1988	0.12	0.22	Not Available Before 1990	
1985	1.48	Not Available Before 1988	0.13	0.32	Not Available Before 1990	
1984	1.65	Not Available Before 1988	0.09	0.33	Not Available Before 1990	
1983	1.49	Not Available Before 1988	0.05	0.35	Not Available Before 1990	
1982	1.41	Not Available Before 1988	0.01	0.20	Not Available Before 1990	
1981	0.96	Not Available Before 1988	0.01	0.13	Not Available Before 1990	
1980	0.90	Not Available Before 1988	0.01	0.09	Not Available Before 1990	
1979	0.56	Not Available Before 1988	0.02	0.11	Not Available Before 1990	
1978	0.55	Not Available Before 1988	0.02	0.18	Not Available Before 1990	
1977	0.46	Not Available Before 1988	0.02	0.26	Not Available Before 1990	
1976	1.58	Not Available Before 1988	0.03	0.27	Not Available Before 1990	
1975	0.56	Not Available Before 1988	0.03	0.51	Not Available Before 1990	
1974	0.51	Not Available Before 1988	0.02	0.52	Not Available Before 1990	
1973	Not Available Before 1974	Not Available Before 1988	0.00	0.61	Not Available Before 1990	
1972	Not Available Before 1974	Not Available Before 1988	0.02	0.98	Not Available Before 1990	
1971	Not Available Before 1974	Not Available Before 1988	0.01	0.59	Not Available Before 1990	

Source: Fannie Mae

¹ Includes conventional loans for which Fannie Mae has primary risk of loss that are 90 or more days delinquent or are in the process of foreclosure. Data prior to 1992 includes loans in relief or bankruptcy, even if they are less than 90 days delinquent.

² Includes loans that are two or more months delinquent based on the dollar amount of such loans in the portfolio and underlying MBS.

³ Credit losses are charge-offs plus real estate owned expense; average balances used to calculate ratios subsequent to 1994; quarterly data are annualized.

⁴ Real Estate Owned balances reflect end-of-period amounts. Beginning with 1995, data reflect adoption of SFAS 114.

⁵ The proportion of loans that have additional recourse from a third party to accept some or all of the expected losses on defaulted mortgages.

Table 10. Fannie Mae Capital

Capital (\$ in Millions)							
Period	Stockholders' Equity / Total MBS Outstanding plus Total Assets (%)	Stockholders' Equity plus Reserves / Total MBS Outstanding plus Total Assets ¹ (%)	Core Capital ² (\$)	Regulatory Minimum Capital Requirements ³ (\$)	Regulatory Capital Surplus (Deficit) ⁴ (\$)	Market Capitalization ⁵ (\$)	Common Share Dividend Payout Rate ⁶ (%)
4Q00	1.51	1.57	20,827	20,294	533	86,643	24.7
3Q00	1.47	1.53	19,870	19,381	489	71,234	25.6
2Q00	1.44	1.50	19,044	18,688	356	52,245	26.4
1Q00	1.44	1.51	18,637	18,080	557	56,980	27.3
Annual Data							
2000	1.51	1.57	20,827	20,294	533	86,643	26.0
1999	1.41	1.47	17,876	17,770	106	63,651	28.8
1998	1.38	1.45	15,465	15,334	131	75,881	29.5
1997	1.42	1.50	13,793	12,703	1,090	59,167	29.4
1996	1.42	1.50	12,773	11,466	1,307	39,932	30.4
1995	1.32	1.41	10,959	10,451	508	33,812	34.6
1994	1.26	1.37	9,541	9,415	126	19,882	30.8
1993	1.17	1.29	8,052	7,064	988	21,387	26.8
1992	1.12	1.25	Not Applicable Before 1993	Not Applicable Before 1993	Not Applicable Before 1993	20,874	23.2
1991	1.10	1.24				18,836	21.3
1990	0.94	1.06				8,490	14.7
1989	0.88	1.01				8,092	12.8
1988	0.80	0.94				3,992	11.2
1987	0.76	0.90				2,401	11.7
1986	0.61	0.74				3,006	8.0
1985	0.66	0.76				1,904	30.1
1984	0.74	0.85				1,012	N/A
1983	0.97	1.10				1,514	13.9
1982	1.09	1.25				1,603	N/A
1981	1.73	1.90				502	N/A
1980	2.49	2.73				702	464.2
1979	2.93	3.17				Not Available Before 1980	45.7
1978	3.13	3.36					30.3
1977	3.45	3.66					31.8
1976	3.03	3.19					33.6
1975	2.73	2.84					31.8
1974	2.60	2.69					29.6
1973	2.80	2.87					18.1
1972	2.75	2.78					15.2
1971	2.47	2.49					18.7

Source: Fannie Mae

¹ Effective 1995, reserves exclude specific allowances for impaired loans pursuant to SFAS 114.² The sum of outstanding common stock, noncumulative preferred stock, paid-in capital, and retained earnings.³ Minimum capital requirement in accordance with the Federal Housing Enterprises Financial Safety and Soundness Act of 1992.⁴ The difference between Core Capital and Minimum Regulatory Capital Requirement.⁵ Stock price multiplied by number of outstanding common shares.⁶ Common dividends paid as a percentage of net income available to common shareholders.

Table 11. Freddie Mac Mortgage Purchases

Business Activity (\$ Millions)					
Period	Purchases				Mortgage Securities² (\$)
	Single-Family (\$)	Multifamily (\$)	Total¹ (\$)		
4Q00	57,329	2,581	59,910		32,569
3Q00	47,467	1,249	48,716		19,936
2Q00	35,419	986	36,405		22,711
1Q00	27,798	1,214	29,012		16,680
Annual Data					
2000	168,013	6,030	174,043		91,896
1999	232,612	7,181	239,793		101,898
1998	263,490	3,910	267,400		128,446
1997	115,160	2,241	117,401		35,385
1996	122,850	2,229	125,079		36,824
1995	89,971	1,565	91,536		39,292
1994	122,563	847	123,410		19,817
1993	229,051	191	229,242		Not Available Before 1994
1992	191,099	27	191,126		
1991	99,729	236	99,965		
1990	74,180	1,338	75,518		
1989	76,765	1,824	78,589		
1988	42,884	1,191	44,075		
1987	74,824	2,016	76,840		
1986	99,936	3,538	103,474		
1985	42,110	1,902	44,012		
1984	Not Available Before 1985	Not Available Before 1985	21,885		
1983			22,952		
1982			23,671		
1981			3,744		
1980			3,690		
1979			5,716		
1978			6,524		
1977			4,124		
1976			1,129		
1975			1,716		
1974			2,185		
1973			1,334		
1972			1,265		
1971			778		

Source: Freddie Mac

¹ Loans purchased from lenders; excludes non-Freddie Mac securities and repurchased Freddie Mac MBS.² Not included in total purchases.

Table 12. Freddie Mac MBS Issuances

Business Activity (\$ in Millions)					
MBS Issuances					
Period	Single-Family MBS (\$)	Multifamily MBS (\$)	Total MBS (\$)	Multiclass MBS ¹ (\$)	
4Q00	55,736	978	56,714	13,931	
3Q00	47,085	201	47,286	14,494	
2Q00	34,816	328	35,144	9,713	
1Q00	27,478	279	27,757	10,064	
Annual Data					
2000	165,115	1,786	166,901	48,202	
1999	230,986	2,045	233,031	119,565	
1998	249,627	937	250,564	135,162	
1997	113,758	500	114,258	84,366	
1996	118,932	770	119,702	34,145	
1995	85,522	355	85,877	15,372	
1994	116,901	209	117,110	73,131	
1993	208,724	0	208,724	143,336	
1992	179,202	5	179,207	131,284	
1991	92,479	0	92,479	72,032	
1990	71,998	1,817	73,815	40,479	
1989	72,931	587	73,518	39,754	
1988	39,490	287	39,777	12,985	
1987	72,866	2,152	75,018	0	
1986	96,798	3,400	100,198	2,233	
1985	37,583	1,245	38,828	2,625	
1984	Not Available	Not Available	18,684	1,805	
1983	Before 1985	Before 1985	19,691	1,685	
1982			24,169	Not Issued Before 1983	
1981			3,526		
1980			2,526		
1979			4,546		
1978			6,412		
1977			4,657		
1976			1,360		
1975			950		
1974			46		
1973			323		
1972			494		
1971			65		

Source: Freddie Mac

¹ The majority qualify as Real Estate Mortgage Investment Conduits (REMICs), and are also known as structured securitizations. In years 1983 - 1986, data consists of collateralized mortgage obligations (CMOs) and mortgage cash flow obligations (MCFs).

Table 13. Freddie Mac Earnings

Earnings (\$ in Millions)							
Period	Net Interest Income ^{1, 2, 3} (\$)	Guarantee Fee Income ^{2,3} (\$)	Average Guarantee Fee ^{2,3} (basis points)	Administrative Expenses (\$)	Credit-Related Expenses ⁴ (\$)	Net Income (\$)	Return on Common Equity ⁵ (%)
4Q00	851	270	19.1	184	25	663	22.8
3Q00	846	263	19.2	180	21	645	25.2
2Q00	803	261	19.4	180	29	631	26.4
1Q00	770	263	19.4	169	31	608	26.5
Annual Data							
2000	3,270	1,057	19.3	713	106	2,547	23.7
1999	2,926	1,019	19.8	655	159	2,223	25.5
1998	2,215	1,019	21.4	578	342	1,700	22.6
1997	1,847	1,082	22.9	495	529	1,395	23.1
1996	1,705	1,086	23.4	440	608	1,243	22.6
1995	1,396	1,087	23.8	395	541	1,091	22.1
1994	1,112	1,108	24.4	379	425	983	23.3
1993	772	1,009	23.8	361	524	786	22.3
1992	695	936	24.7	329	457	622	21.2
1991	683	792	23.7	287	419	555	23.6
1990	619	654	22.4	243	474	414	20.4
1989	517	572	23.4	217	278	437	25.0
1988	492	465	21.5	194	219	381	27.5
1987	319	472	24.2	150	175	301	28.2
1986	299	301	22.4	110	120	247	28.5
1985	312	188	22.1	81	79	208	30.0
1984	213	158	24.7	71	54	144	52.0
1983	125	132	26.2	53	46	86	44.5
1982	30	77	24.5	37	26	60	21.9
1981	34	36	19.5	30	16	31	13.1
1980	54	23	14.3	26	23	34	14.7
1979	55	18	13.2	19	20	36	16.2
1978	37	14	14.9	14	13	25	13.4
1977	31	9	18.9	12	8	21	12.4
1976	18	3	13.6	10	(1)	14	9.5
1975	31	3	24.8	10	11	16	11.6
1974	42	2	25.5	8	33	5	4
1973	31	2	32.4	7	15	12	9.9
1972	10	1	39.4	5	4	4	3.5
1971	10	1	Not Available Before 1972	Not Available Before 1972	Not Available Before 1972	6	5.5

Source: Freddie Mac

¹ Interest income net of interest expense, nominal basis.

² Effective 1/1/96, Freddie Mac reports guarantee fees on retained MBS as guarantee fee income. However, in these data, fees on retained MBS have been estimated and reclassified as interest income for comparability with Fannie Mae.

³ In 1993, Freddie Mac adopted a change in reporting of uncollectable interest on single-family mortgages. Pre-1993 amounts do not reflect this change.

⁴ Credit-related expenses are mortgage loan loss provision plus real estate owned expense. From 1988 to 1990, data include real estate owned disposition loss provisions instead of expense, and before 1988, only mortgage loan loss provision.

⁵ Average common equity used to calculate return for annual data. Quarterly data are based on averages of quarter-end equity.

Table 14. Freddie Mac Balance Sheet

Balance Sheet (\$ in Millions)						Mortgage-Backed Securities Outstanding (\$ in Millions)	
Period	Total Assets (\$)	Retained Mortgage Portfolio ¹ (\$)	Non- Mortgage Investments ² (\$)	Debt Outstanding (\$)	Stockholders' Equity (\$)	Total MBS Outstanding ³ (\$)	Multiclass MBS Outstanding ⁴ (\$)
4Q00	459,297	385,451	43,521	426,899	14,837	576,101	309,185
3Q00	433,346	359,638	45,126	406,936	13,192	559,242	306,674
2Q00	412,701	348,255	33,040	384,286	12,248	543,287	312,030
1Q00	406,068	334,009	42,477	378,074	11,892	539,830	314,456
Annual Data							
2000	459,297	385,451	43,521	426,899	14,837	576,101	309,185
1999	386,684	322,914	34,152	360,711	11,525	537,883	316,168
1998	321,421	255,670	42,160	287,396	10,835	478,351	260,504
1997	194,597	164,543	16,430	172,842	7,521	475,985	233,829
1996	173,866	137,826	22,248	156,981	6,731	473,065	237,939
1995	137,181	107,706	12,711	119,961	5,863	459,045	246,366
1994	106,199	73,171	17,808	93,279	5,162	460,656	264,152
1993	83,880	55,938	18,225	49,993	4,437	439,029	265,178
1992	59,502	33,629	12,542	29,631	3,570	407,514	218,747
1991	46,860	26,667	9,956	30,262	2,566	359,163	146,978
1990	40,579	21,520	12,124	30,941	2,136	316,359	88,124
1989	35,462	21,448	11,050	26,147	1,916	272,870	52,865
1988	34,352	16,918	14,607	26,882	1,584	226,406	15,621
1987	25,674	12,354	10,467	19,547	1,182	212,635	3,652
1986	23,229	13,093	Not Available	15,375	953	169,186	5,333
1985	16,587	13,547	Before 1987	12,747	779	99,909	5,047
1984	13,778	10,018		10,999	606	70,026	3,214
1983	8,995	7,485		7,273	421	57,720	1,669
1982	5,999	4,679		4,991	296	42,952	Not Issued Before 1983
1981	6,326	5,178		5,680	250	19,897	
1980	5,478	5,006		4,886	221	16,962	
1979	4,648	4,003		4,131	238	15,316	
1978	3,697	3,038		3,216	202	12,017	
1977	3,501	3,204		3,110	177	6,765	
1976	4,832	4,175		4,523	156	2,765	
1975	5,899	4,878		5,609	142	1,643	
1974	4,901	4,469		4,684	126	780	
1973	2,873	2,521		2,696	121	791	
1972	1,772	1,726		1,639	110	444	
1971	1,038	935		915	107	64	

Source: Freddie Mac

¹ Gross retained portfolio net of unamortized purchases premiums, discounts, and deferred fees.² Excludes mortgage-related securities held for trading purposes.³ Total MBS outstanding net of Freddie Mac MBS held in the retained portfolio.⁴ The majority qualify as REMICs and are also known as structured securitizations. In years 1983 - 2000, data also includes original issue CMOs and MCFs, and structured securitizations and PCs with mandatory purchase obligations.

Table 15. Freddie Mac Retained Mortgage Portfolio Detail

(\$ in Millions)				
Period	Whole Loans ¹ (\$)	Freddie Mac Securities (\$)	Other Mortgage-Related Securities (\$)	Total Retained Mortgage Portfolio ² (\$)
4Q00	58,998	246,209	80,244	385,451
3Q00	55,060	23,649	72,929	359,638
2Q00	54,391	225,354	68,510	348,255
1Q00	54,680	217,276	62,053	334,009
Annual Data				
2000	58,998	246,209	80,244	385,451
1999	55,147	211,198	56,569	322,914
1998	57,745	168,108	29,817	255,670
1997	48,576	103,400	12,567	164,543
1996	46,575	81,195	10,056	137,826
1995	44,035	56,006	7,665	107,706
1994	Not Available Before 1995	30,670	Not Available Before 1995	73,171
1993		15,877		55,938
1992		6,394		33,629
1991		Not Available Before 1992		26,667
1990				21,520
1989				21,448
1988				16,918
1987				12,354
1986				13,093
1985				13,547
1984				10,018
1983				7,485
1982				4,679
1981				5,178
1980				5,006
1979				4,003
1978				3,038
1977				3,204
1976				4,175
1975				4,878
1974				4,469
1973				2,521
1972				1,726
1971				935

Source: Freddie Mac

¹ Includes purchase and sale premiums, discounts, and deferred fees and unrealized gain or loss on available-for-sale securities.

² Gross retained portfolio net of amortized purchases, premiums, discounts and deferred fees.

Table 16. Freddie Mac Financial Derivatives

Financial Derivatives (\$ in Millions)							
Period	Interest Rate Swaps¹ (\$)	Interest Rate Caps, Floors, and Corridors (\$)	Treasury-Based Contracts^{1,2} (\$)	Foreign Currency (\$)	Futures & Options and Forward Rate Agreements (\$)	Other (\$)	Total (\$)
4Q00	277,888	12,819	2,200	10,280	135,581	35,839	474,535
3Q00	266,068	12,957	11,286	5,946	161,718	0	457,975
2Q00	237,171	13,606	9,380	909	129,422	0	390,488
1Q00	172,838	18,218	11,779	1,096	166,669	0	365,600
Annual Data							
2000	277,888	12,819	2,200	10,208	135,581	35,839	474,535
1999	126,580	19,936	8,894	1,097	267,737	0	424,244
1998	57,555	21,845	11,542	1,464	220,832	0	313,238
1997	54,172	21,995	12,228	1,152	6,000	0	95,547
1996	46,646	14,095	651	544	0	0	61,936
1995	45,384	13,055	24	0	0	0	58,463
1994	21,834	9,003	0	0	0	0	30,837
1993	17,888	1,500	0	0	0	0	19,388

Source: Freddie Mac

¹ In 1999, reclassifications were made between certain financial derivatives contracts and 1998 amounts have been restated to reflect these reclassifications.

² Excludes exchange-traded derivative financial instruments, such as U.S. Treasury-based futures contracts.

Table 17. Freddie Mac Non-Mortgage Investments

Non-Mortgage Investments ¹ (\$ in Millions)							
Period	Federal Funds and Eurodollars (\$)	Asset-Backed Securities (\$)	Repurchase Agreements (\$)	Commercial Paper and Corporate Debt (\$)	Other ¹ (\$)	Total (\$)	
4Q00	2,267	19,063	7,488	7,302	7,401	43,521	
3Q00	8,640	17,052	4,440	10,222	4,772	45,126	
2Q00	1,850	14,758	3,144	9,977	3,311	33,040	
1Q00	15,673	11,164	4,848	8,035	2,757	42,477	
Annual Data							
2000	2,267	19,063	7,488	7,302	7,401	43,521	
1999	10,545	10,305	4,961	3,916	4,425	34,152	
1998	20,524	7,124	1,756	7,795	4,961	42,160	
1997	2,750	2,200	6,982	3,203	1,295	16,430	
1996	9,968	2,086	6,440	1,058	2,696	22,248	
1995	110	499	9,217	1,201	1,684	12,711	
1994	7,260	0	5,913	1,234	3,401	17,808	
1993	9,267	0	4,198	1,438	3,322	18,225	
1992	5,632	0	4,060	53	2,797	12,542	
1991	2,949	0	4,437	0	2,570	9,956	
1990	1,112	0	9,063	0	1,949	12,124	
1989	3,527	0	5,765	0	1,758	11,050	
1988	4,469	0	9,107	0	1,031	14,607	
1987	3,177	0	5,859	0	1,431	10,467	

Source: Freddie Mac

¹ Excludes mortgage-related securities held for trading purposes.

Table 18. Freddie Mac Asset - Liability Mix

Asset-Liability Ratios					
Period	Asset Mix		Liability Mix		
	Retained Portfolio / Total Assets (%)	Non-mortgage Investments / Total Assets (%)	Callable Debt / Total Effective Long-Term Debt ^{1, 2} (%)	Total Effective Long-Term Debt / Total Debt ² (%)	
4Q00	83.9	9.5	69.0	77.0	
3Q00	83.0	10.4	63.0	86.7	
2Q00	84.4	8.0	62.0	87.9	
1Q00	82.3	10.5	61.0	92.6	
Annual Data					
2000	83.9	9.5	69.0	77.0	
1999	83.5	8.8	67.2	92.0	
1998	79.5	13.1	75.6	70.6	
1997	84.6	8.4	83.9	70.8	
1996	79.3	12.8	73.8	72.4	
1995	78.5	9.3	72.5	70.2	
1994	68.9	16.8	81.0	59.8	
1993	66.7	21.7	86.1	63.9	
1992	56.5	21.1	Not Available Before 1993	Not Available Before 1993	
1991	56.9	21.2	Not Available Before 1993	Not Available Before 1993	
1990	53.0	29.9	Not Available Before 1993	Not Available Before 1993	
1989	60.5	31.2	Not Available Before 1993	Not Available Before 1993	
1988	49.2	42.5	Not Available Before 1993	Not Available Before 1993	
1987	48.1	40.8	Not Available Before 1993	Not Available Before 1993	
1986	56.4	Not Available Before 1987	Not Available Before 1993	Not Available Before 1993	
1985	81.7	Not Available Before 1987	Not Available Before 1993	Not Available Before 1993	
1984	72.7	Not Available Before 1987	Not Available Before 1993	Not Available Before 1993	
1983	83.2	Not Available Before 1987	Not Available Before 1993	Not Available Before 1993	
1982	78.0	Not Available Before 1987	Not Available Before 1993	Not Available Before 1993	
1981	81.9	Not Available Before 1987	Not Available Before 1993	Not Available Before 1993	
1980	91.4	Not Available Before 1987	Not Available Before 1993	Not Available Before 1993	
1979	86.1	Not Available Before 1987	Not Available Before 1993	Not Available Before 1993	
1978	82.2	Not Available Before 1987	Not Available Before 1993	Not Available Before 1993	
1977	91.4	Not Available Before 1987	Not Available Before 1993	Not Available Before 1993	
1976	86.1	Not Available Before 1987	Not Available Before 1993	Not Available Before 1993	
1975	82.2	Not Available Before 1987	Not Available Before 1993	Not Available Before 1993	
1974	91.5	Not Available Before 1987	Not Available Before 1993	Not Available Before 1993	
1973	87.7	Not Available Before 1987	Not Available Before 1993	Not Available Before 1993	
1972	97.4	Not Available Before 1987	Not Available Before 1993	Not Available Before 1993	
1971	90.1	Not Available Before 1987	Not Available Before 1993	Not Available Before 1993	

Source: Freddie Mac

¹ Callable debt includes derivative financial instruments that provide interest-rate protection similar to callable debt.

² Total effective long-term debt represents debt with an effective repricing date greater than one year.

Table 19. Freddie Mac Mortgage Asset Quality

Mortgage Asset Quality						
Period	Single-Family Delinquency Rate ¹ (%)	Multifamily Delinquency Rate ^{2,3} (%)	Credit Losses / Total MBS Outstanding plus Retained Portfolio ⁴ (%)	REO/Total MBS Outstanding plus Retained Portfolio ⁵ (%)	Credit-Enhanced / Total MBS Outstanding plus Retained Portfolio ⁶ (%)	
4Q00	0.36	0.05	0.01	0.04	31.8	
3Q00	0.35	0.09	0.01	0.04	31.8	
2Q00	0.34	0.06	0.01	0.04	31.2	
1Q00	0.36	0.08	0.01	0.05	30.5	
Annual Data						
2000	0.36	0.05	0.01	0.04	31.8	
1999	0.39	0.14	0.02	0.05	29.9	
1998	0.50	0.37	0.04	0.08	27.3	
1997	0.55	0.96	0.08	0.11	15.9	
1996	0.58	1.96	0.10	0.13	10.0	
1995	0.60	2.88	0.11	0.14	9.7	
1994	0.55	3.79	0.08	0.18	7.2	
1993	0.61	5.92	0.11	0.16	5.3	
1992	0.64	6.81	0.09	0.12	Not Available Before 1993	
1991	0.61	5.42	0.08	0.14		
1990	0.45	2.63	0.08	0.12		
1989	0.38	2.53	0.08	0.09		
1988	0.36	2.24	0.07	0.09		
1987	0.36	1.49	0.07	0.08		
1986	0.42	1.07	Not Available Before 1987	0.07		
1985	0.42	0.63		0.10		
1984	0.46	0.42		0.15		
1983	0.47	0.58		0.15		
1982	0.54	1.04		0.12		
1981	0.61	Not Available Before 1982		0.07		
1980	0.44			0.04		
1979	0.31			0.02		
1978	0.21			0.02		
1977	Not Available Before 1978			0.03		
1976				0.04		
1975				0.03		
1974				0.02		

Source: Freddie Mac

¹ 1994 - 2000 data include only loans for which Freddie Mac has assumed primary default risk ("at-risk"); includes foreclosures and in process. Pre-1994 calculations include both at-risk and non-at-risk loans.

² 1982 - 1987 data based on the number of loans delinquent 60 days or more; calculations subsequent to 1987 based on unpaid principal balance of loans 60 days or more.

³ Pre-1991 amounts do not reflect change in reporting of multifamily in-substance foreclosures pursuant to adoption of SFAS 114.

⁴ Credit losses are defined as charge-offs plus real estate owned expense; average balances used to calculate ratios subsequent to 1994; quarterly data are annualized.

⁵ Real Estate Owned balances reflect end-of-period balances; beginning in 1992, data reflects adoption of SFAS 114.

⁶ Includes loans for which the lender or third-party has agreed to retain primary default risk. Also includes securities guaranteed by agencies such as the Government National Mortgage Association, as well as asset-backed securities and commercial mortgage-backed securities.

Table 20. Freddie Mac Capital

Capital (\$ in Millions)							
Period	Stockholders' Equity / Total MBS Outstanding plus Total Assets (%)	Stockholders' Equity plus Reserves / Total MBS Outstanding plus Total Assets ¹ (%)	Core Capital ² (\$)	Regulatory Minimum Capital Requirements ³ (\$)	Regulatory Capital Surplus (Deficit) ⁴ (\$)	Market Capitalization ⁵ (\$)	Common Share Dividend Payout Rate ⁶ (%)
4Q00	1.43	1.51	14,380	14,178	202	47,702	19.3
3Q00	1.33	1.41	13,865	13,525	340	37,401	19.8
2Q00	1.28	1.36	13,368	12,936	432	27,997	20.1
1Q00	1.26	1.34	13,139	12,756	383	30,739	21.0
Annual Data							
2000	1.43	1.51	14,380	14,178	202	47,702	20.0
1999	1.25	1.33	12,692	12,287	405	32,713	20.1
1998	1.35	1.45	10,715	10,333	382	44,797	20.7
1997	1.12	1.22	7,376	7,082	294	28,461	21.1
1996	1.04	1.04	6,743	6,517	226	19,161	21.3
1995	0.98	1.09	5,829	5,584	245	14,932	21.1
1994	0.91	1.14	5,169	4,884	285	9,132	20.5
1993	0.85	0.99	4,437	3,782	655	9,005	21.6
1992	0.76	0.93	Not Applicable Before 1993	Not Applicable Before 1993	Not Applicable Before 1993	8,721	23.1
1991	0.63	0.81				8,247	21.6
1990	0.60	0.77				2,925	23.2
1989	0.62	0.77				4,024	24.3
1988	0.61	0.76				Not Applicable Before 1989	Not Applicable Before 1989
1987	0.50	0.64					
1986	0.50	0.64					
1985	0.67	0.85					
1984	0.73	0.93					
1983	0.63	0.83					
1982	0.60	0.82					
1981	0.95	1.25					
1980	0.98	1.27					
1979	1.19	1.44					
1978	1.29	1.50					
1977	1.72	1.93					
1976	2.05	2.22					
1975	1.88	2.03					
1974	2.22	2.34					
1973	3.30	3.47					
1972	4.95	4.96					
1971	9.71	9.80					

Source: Freddie Mac

¹ Effective 1995, reserves exclude specific allowances for impaired loans pursuant to SFAS 114.

² The sum of outstanding common stock, noncumulative preferred stock, paid-in capital, and retained earnings.

³ Minimum capital requirement in accordance with the Federal Housing Enterprises Financial Safety and Soundness Act of 1992.

⁴ The difference between Core Capital and Minimum Regulatory Capital Requirement.

⁵ Stock price multiplied by number of outstanding common shares.

⁶ Paid common dividends as a percentage of earnings available to common shareholders.

Table 21. Aggregate Purchases

Business Activity (\$ in Millions)					
Purchases					
Period	Single-Family (\$)	Multifamily (\$)	Total (\$)	Mortgage Securities ¹ (\$)	
4Q00	129,088	6,011	135,099	77,138	
3Q00	107,045	3,911	110,956	53,785	
2Q00	90,534	3,295	93,829	45,126	
1Q00	68,415	3,190	71,605	41,881	
Annual Data					
2000	395,082	16,407	411,489	217,930	
1999	548,748	17,193	565,941	268,329	
1998	618,410	15,338	633,748	272,907	
1997	275,081	8,775	283,856	84,233	
1996	287,306	8,680	295,986	81,840	
1995	215,974	6,531	222,505	73,328	
1994	280,792	4,786	285,478	44,369	
1993	518,877	4,326	523,203	Not Available Before 1994	
1992	439,309	2,879	442,188	Not Available Before 1994	
1991	233,280	3,440	236,720	Not Available Before 1994	
1990	185,187	4,518	189,705	Not Available Before 1994	
1989	157,275	6,149	163,424	Not Available Before 1994	
1988	107,497	5,361	112,858	Not Available Before 1994	
1987	148,766	3,749	152,515	Not Available Before 1994	
1986	177,159	5,415	182,574	Not Available Before 1994	
1985	84,653	3,102	87,755	Not Available Before 1994	
1984	Not Available Before 1985	Not Available Before 1985	50,704	Not Available Before 1994	
1983	Not Available Before 1985	Not Available Before 1985	49,431	Not Available Before 1994	
1982	Not Available Before 1985	Not Available Before 1985	49,610	Not Available Before 1994	
1981	Not Available Before 1985	Not Available Before 1985	10,573	Not Available Before 1994	
1980	Not Available Before 1985	Not Available Before 1985	11,791	Not Available Before 1994	
1979	Not Available Before 1985	Not Available Before 1985	16,523	Not Available Before 1994	
1978	Not Available Before 1985	Not Available Before 1985	18,829	Not Available Before 1994	
1977	Not Available Before 1985	Not Available Before 1985	8,908	Not Available Before 1994	
1976	Not Available Before 1985	Not Available Before 1985	4,761	Not Available Before 1994	
1975	Not Available Before 1985	Not Available Before 1985	6,036	Not Available Before 1994	
1974	Not Available Before 1985	Not Available Before 1985	9,204	Not Available Before 1994	
1973	Not Available Before 1985	Not Available Before 1985	7,586	Not Available Before 1994	
1972	Not Available Before 1985	Not Available Before 1985	5,129	Not Available Before 1994	
1971	Not Available Before 1985	Not Available Before 1985	4,818	Not Available Before 1994	

Sources: Fannie Mae and Freddie Mac

¹ Not included in total purchases.

Table 22. Aggregate MBS Issuances

Business Activity (\$ in Millions)					
MBS Issuances					
Period	Single-Family MBS (\$)	Multifamily MBS (\$)	Total MBS (\$)	Multiclass MBS (\$)	
4Q00	120,816	3,318	124,134	26,839	
3Q00	101,983	1,992	103,975	23,976	
2Q00	81,594	2,136	83,730	18,906	
1Q00	64,788	1,936	66,724	18,025	
Annual Data					
2000	369,181	9,382	378,563	87,746	
1999	523,178	10,542	533,720	174,725	
1998	564,747	11,965	576,712	219,309	
1997	257,373	6,314	263,687	169,781	
1996	263,133	6,438	269,571	64,925	
1995	191,791	4,542	196,333	25,053	
1994	245,286	2,446	247,732	146,496	
1993	429,209	959	430,168	353,966	
1992	372,389	855	373,244	301,489	
1991	203,967	1,415	205,382	184,840	
1990	168,004	2,506	170,510	108,770	
1989	139,420	3,862	143,282	81,469	
1988	90,610	4,045	94,655	29,990	
1987	134,933	3,314	138,247	9,917	
1986	156,815	3,949	160,764	4,633	
1985	60,725	1,752	62,477	2,625	
1984	Not Available	Not Available	32,230	1,805	
1983	Before 1985	Before 1985	33,031	1,685	
1982			38,139	Not Issued Before 1983	
1981			4,243		
1980			2,526		
1979			4,546		
1978			6,412		
1977			4,657		
1976			1,360		
1975			950		
1974			46		
1973			323		
1972			494		
1971			65		

Sources: Fannie Mae and Freddie Mac

Table 23. Aggregate Earnings

Earnings (\$ in Millions)					
Period	Net Income (\$)	Net Interest Income (\$)	Guarantee Fee Income (\$)	Administrative Expenses (\$)	Credit-Related Expenses (\$)
4Q00	1,828	2,336	609	416	46
3Q00	1,769	2,274	604	412	43
2Q00	1,728	2,202	600	404	50
1Q00	1,670	2,132	595	386	61
Annual Data					
2000	6,995	8,944	2,408	1,618	200
1999	6,135	7,820	2,301	1,455	286
1998	5,118	6,325	2,248	1,286	603
1997	4,451	5,796	2,356	1,131	904
1996	3,968	5,297	2,282	1,000	1,017
1995	3,235	4,443	2,173	941	876
1994	3,115	3,935	2,191	904	803
1993	2,659	3,305	1,970	804	829
1992	2,245	2,753	1,770	710	777
1991	1,918	2,461	1,467	606	789
1990	1,587	2,212	1,190	529	784
1989	1,244	1,708	980	471	588
1988	888	1,329	793	412	584
1987	677	1,209	735	347	535
1986	352	683	476	285	426
1985	201	451	300	223	285
1984	73	123	236	183	140
1983	135	116	186	134	94
1982	(132)	(434)	93	97	62
1981	(175)	(395)	36	79	(12)
1980	48	75	23	70	42
1979	198	377	18	65	55
1978	234	331	14	53	49
1977	186	282	9	44	36
1976	141	221	3	40	24
1975	131	205	3	37	27
1974	112	184	2	31	50
1973	138	211	2	25	27
1972	100	148	1	18	9
1971	67	59	1	Not Available Before 1972	Not Available Before 1972

Sources: Fannie Mae and Freddie Mac

Table 24. Aggregate Balance Sheet

Balance Sheet (\$ in Millions)						Mortgage-Backed Securities Outstanding (\$ in Millions)	
Period	Total Assets (\$)	Retained Mortgage Portfolio (\$)	Non- Mortgage Investments (\$)	Debt Outstanding (\$)	Stockholders' Equity (\$)	Total MBS Outstanding ¹ (\$)	Multiclass MBS Outstanding ² (\$)
4Q00	1,134,369	993,053	98,489	1,069,581	35,675	1,282,785	643,693
3Q00	1,071,493	931,242	100,098	1,013,975	32,879	1,260,266	638,166
2Q00	1,021,476	898,434	80,435	962,813	31,039	1,239,860	645,322
1Q00	992,766	871,192	80,802	935,617	30,263	1,224,514	648,842
Annual Data							
2000	1,134,369	993,053	98,489	1,069,581	35,675	1,282,785	643,693
1999	961,851	845,891	73,903	908,330	29,154	1,217,052	651,682
1998	806,435	671,104	100,675	747,687	26,288	1,115,494	622,117
1997	586,270	481,135	81,026	542,616	21,314	1,055,123	621,951
1996	524,907	424,353	78,854	488,251	19,504	1,021,238	577,737
1995	453,731	360,574	69,984	419,135	16,822	972,275	599,894
1994	378,707	293,986	64,143	350,509	14,703	947,001	642,885
1993	300,859	246,107	39,621	251,105	12,489	910,335	647,043
1992	240,480	189,889	32,116	195,931	10,344	831,958	531,116
1991	193,932	153,346	19,792	164,199	8,113	714,447	371,784
1990	173,692	135,586	21,992	154,344	6,077	604,434	215,402
1989	159,777	129,429	19,388	142,211	4,907	489,382	120,691
1988	146,610	117,017	19,896	132,341	3,844	396,503	42,281
1987	129,133	106,019	13,935	116,604	2,993	348,369	15,011
1986	122,850	107,216	Not Applicable	108,938	2,135	264,754	Not Available
1985	115,663	108,156	Before 1987	106,732	1,788	154,461	Before 1987
1984	101,576	94,153		94,718	1,524	105,764	
1983	87,378	82,732		81,867	1,421	82,841	
1982	78,980	74,035		74,605	1,249	57,402	
1981	67,904	64,807		64,231	1,330	20,614	
1980	63,357	60,595		59,766	1,678	16,962	
1979	55,948	53,780		52,555	1,739	15,316	
1978	47,203	45,141		44,201	1,564	12,017	
1977	37,481	36,456		35,000	1,350	6,765	
1976	37,225	35,950		35,088	1,139	2,765	
1975	37,495	35,698		35,572	1,003	1,643	
1974	34,572	33,135		32,852	898	780	
1973	27,191	26,110		25,699	801	791	
1972	22,118	21,378		20,878	669	444	
1971	19,629	18,821		18,587	567	64	

Sources: Fannie Mae and Freddie Mac

¹ Total MBS Outstanding net of each Enterprise's MBS in its retained portfolio.² The majority qualify as REMICS and may also be known as structured securitizations.

Table 25. Aggregate Retained Mortgage Portfolio Detail

(\$ in Millions)				
Period	Aggregate Whole Loans (\$)	Aggregate Enterprise Securities ¹ (\$)	Aggregate Other Mortgage-Related Securities (\$)	Aggregate Total Retained Mortgage Portfolio (\$)
4Q00	211,503	597,275	186,795	995,573
3Q00	204,778	551,453	177,494	933,725
2Q00	204,868	524,596	170,957	900,421
1Q00	202,559	508,407	161,794	872,760
Annual Data				
2000	211,503	597,275	186,795	995,573
1999	204,252	492,912	149,691	846,855
1998	213,524	365,483	91,178	670,185
1997	208,678	233,844	38,699	481,221
1996	214,466	183,802	26,610	424,878
1995	215,516	125,735	19,966	361,217
1994	Not Available	74,668	Not Available	298,228
1993	Before 1995	40,096	Before 1995	246,799
1992		26,929		191,748
1991		Not Available		155,650
1990		Before 1992		138,148
1989				132,169
1988				119,931
1987				109,100
1986				110,926
1985				112,196
1984				98,127
1983				85,741
1982				76,493
1981				66,590
1980				62,333
1979				55,100
1978				46,353
1977				37,581
1976				37,112
1975				36,794
1974				34,177
1973				26,980
1972				22,052
1971				19,450

Sources: Fannie Mae and Freddie Mac

¹ Mortgage-backed securities issued by each Enterprise and held in its retained portfolio.

Table 26. Aggregate Financial Derivatives

Financial Derivatives (\$ in Millions)						
Period	Interest Rate Swaps (\$)	Interest Rate Caps, Floors, and Corridors (\$)	Foreign Currency (\$)	Futures & Options and Forward Rate Agreements (\$)	Other (\$)	Total (\$)
4Q00	505,539	46,482	19,719	184,446	38,039	794,225
3Q00	477,370	40,757	15,500	211,383	15,641	760,651
2Q00	445,754	41,156	12,244	174,632	11,765	685,551
1Q00	373,123	47,168	12,556	194,238	13,704	640,789
Annual Data						
2000	505,539	46,482	19,719	184,446	38,039	794,225
1999	318,612	48,886	12,604	308,818	10,294	699,214
1998	200,401	36,345	14,459	234,313	15,277	500,795
1997	203,845	22,095	11,120	6,000	13,888	256,948
1996	204,786	14,395	2,973	0	1,001	223,155
1995	171,063	13,355	1,224	29	999	186,670
1994	109,304	9,363	1,023	0	1,465	121,154
1993	67,346	1,860	1,023	0	1,425	71,653

Sources: Fannie Mae and Freddie Mac

Table 27. Aggregate Non-Mortgage Investments

Non-Mortgage Investments (\$ in Millions)						
Period	Federal Funds and Eurodollars (\$)	Asset-Backed Securities (\$)	Repurchase Agreements (\$)	Commercial Paper and Corporate Debt (\$)	Other (\$)	Total (\$)
4Q00	9,806	36,575	10,210	16,195	25,717	98,503
3Q00	15,071	34,605	8,943	20,399	21,371	100,089
2Q00	5,979	33,559	5,429	18,135	17,336	80,438
1Q00	18,949	29,266	6,444	12,252	13,892	80,803
Annual Data						
2000	9,806	36,575	10,210	16,195	25,717	98,503
1999	15,382	29,512	7,535	5,639	15,835	73,903
1998	28,450	28,117	9,312	12,950	21,846	100,675
1997	21,962	18,839	13,697	14,948	11,580	81,026
1996	31,702	16,721	11,107	7,249	12,075	78,854
1995	19,885	10,404	19,392	9,830	10,473	69,984
1994	24,853	3,796	14,919	8,953	11,622	64,143
1993	13,763	3,557	8,882	1,438	11,981	39,621
1992	12,219	4,124	7,249	53	8,471	32,116
1991	5,903	2,416	6,632	0	4,841	19,792
1990	6,441	1,780	10,014	0	3,757	21,992
1989	8,685	1,107	5,765	0	3,831	19,388
1988	8,594	481	9,107	0	1,714	19,896
1987	5,736	25	5,859	0	2,315	13,935

Sources: Fannie Mae and Freddie Mac

Table 28. Aggregate Capital

Capital (\$ in Millions)				
Period	Core Capital (\$)	Minimum Regulatory Capital Requirements (\$)	Capital Surplus (Deficit) (\$)	Market Capitalization (\$)
4Q00	35,207	34,472	735	134,345
3Q00	33,735	32,906	829	108,635
2Q00	32,412	31,624	788	80,242
1Q00	31,776	30,836	940	87,719
Annual Data				
2000	35,207	34,472	735	134,345
1999	30,568	30,057	511	96,364
1998	26,180	25,667	513	120,678
1997	21,169	19,785	1,384	87,628
1996	19,516	17,983	1,533	59,093
1995	16,788	16,035	753	48,744
1994	14,710	14,299	411	29,014
1993	12,489	10,846	1,643	30,392
1992	Not	Not	Not	29,595
1991	Applicable	Applicable	Applicable	27,083
1990	Before	Before	Before	11,415
1989	1993	1993	1993	12,116
1988				3,992
1987				2,401
1986				3,006
1985				1,904
1984				1,012
1983				1,514
1982				1,603
1981				502
1980				702

Sources: Fannie Mae and Freddie Mac

Table 29. Loan Limits

Single-Family Conforming Loan Limits ¹				
(\$)				
Year	1-unit	2-units	3-units	4-units
1970 - 1976	33,000	Not Available	Not Available	Not Available
1977 - 1978	60,000	Not Available	Not Available	Not Available
1979	67,500	Not Available	Not Available	Not Available
1980	93,750	120,000	145,000	180,000
1981	98,500	126,000	152,000	189,000
1982	107,000	136,800	165,100	205,300
1983	108,300	138,500	167,200	207,900
1984	114,000	145,800	176,100	218,900
1985	115,300	147,500	178,200	221,500
1986	133,250	170,450	205,950	256,000
1987	153,100	195,850	236,650	294,150
1988	168,700	215,800	260,800	324,150
1989	187,600	239,950	290,000	360,450
1990	187,450	239,750	289,750	360,150
1991	191,250	244,650	295,650	367,500
1992	202,300	258,800	312,800	388,800
1993	203,150	259,850	314,100	390,400
1994	203,150	259,850	314,100	390,400
1995	203,150	259,850	314,100	390,400
1996	207,000	264,750	320,050	397,800
1997	214,600	274,550	331,850	412,450
1998	227,150	290,650	351,300	436,000
1999	240,000	307,100	371,200	461,350
2000	252,700	323,400	390,900	485,800
2001	275,000	351,950	425,400	528,700

Sources: Department of Housing and Urban Development (HUD), Federal Housing Finance Board, Freddie Mac

¹ Conforming Loan Limits are 50% higher in Alaska, Hawaii, Guam, and the U.S. Virgin Islands.

FHA Single-Family Insurable Limits								
(\$)								
Year	1-unit		2-units		3-units		4-units	
	Low Cost Area Max	High Cost Area Max	Low Cost Area Max	High Cost Area Max	Low Cost Area Max	High Cost Area Max	Low Cost Area Max	High Cost Area Max
1997	81,546	170,362	104,310	205,875	126,103	248,888	156,731	309,338
1998	109,032	197,621	139,512	252,866	168,624	305,631	209,568	379,842
1999	115,200	208,800	147,408	267,177	178,176	322,944	221,448	401,375
2000	121,296	219,849	155,232	281,358	187,632	340,083	233,184	422,646
2001	132,000	239,250	168,936	306,196	204,192	370,098	253,766	459,969

Table 30. Mortgage Interest Rates

Period	Average Commitment Rates on Conventional Loans ¹		Effective Rates on Closed Conventional Loans ²	
	30-Year Fixed Rate (%)	One-Year ARMs (%)	Fixed Rate (%)	Adjustable Rate (%)
4Q00	7.6	7.2	8.0	6.7
3Q00	8.0	7.3	8.3	7.0
2Q00	8.3	7.0	8.5	7.2
1Q00	8.3	6.6	8.3	7.1
Annual Data				
2000	8.1	7.0	8.3	7.1
1999	7.4	6.0	7.4	6.5
1998	6.9	5.6	7.2	6.5
1997	7.6	5.6	7.9	7.0
1996	7.8	5.7	8.0	7.2
1995	7.9	6.1	8.2	7.4
1994	8.4	5.3	8.1	6.6
1993	7.3	4.6	7.5	5.9
1992	8.4	5.6	8.5	6.9
1991	9.2	7.1	9.7	8.4
1990	10.1	8.4	10.4	9.2
1989	10.3	8.8	10.5	9.3
1988	10.3	7.9	10.4	8.5
1987	10.2	7.8	9.9	8.5
1986	10.2	8.4	10.5	9.4
1985	12.4	10.0	12.4	10.8
1984	13.9	11.5	13.2	12.1
1983	13.2	Not Available Before 1984	13.0	12.3
1982	16.1		15.2	15.4
1981	16.6		Not Available Before 1982	Not Available Before 1982
1980	13.8			
1979	11.2			
1978	9.6			
1977	8.8			
1976	8.9			
1975	9.0			
1974	9.2			
1973	8.0			
1972	7.4			
1971	Not Available Before 1972			

Average Commitment Rates Source: Freddie Mac
Effective Rates Source: Federal Housing Finance Board

¹ Commitment rates do not reflect points.

² Effective rates reflect points.

Table 31. Housing Market Activity

Period	Housing Starts (units in thousands)			Home Sales (units in thousands)	
	Single-Family Housing Starts	Multifamily Housing Starts	Total Housing Starts	New Single-Family Home Sales	Existing Single-Family Home Sales
4Q00*	1,295	259	1,554	935	5,117
3Q00*	1,260	267	1,528	874	5,073
2Q00*	1,297	308	1,605	830	5,103
1Q00*	1,367	365	1,732	884	5,197
Annual Data					
2000	1,298	295	1,593	877	5,113
1999	1,367	300	1,667	880	5,205
1998	1,314	303	1,617	886	4,970
1997	1,179	296	1,474	804	4,382
1996	1,206	271	1,477	757	4,196
1995	1,110	244	1,354	667	3,888
1994	1,233	224	1,457	670	3,916
1993	1,155	133	1,288	666	3,786
1992	1,061	139	1,200	610	3,479
1991	876	138	1,014	509	3,186
1990	932	260	1,193	534	3,219
1989	1,059	318	1,376	650	3,325
1988	1,140	348	1,488	676	3,513
1987	1,212	409	1,621	671	3,436
1986	1,263	542	1,805	750	3,474
1985	1,166	576	1,742	688	3,134
1984	1,206	544	1,750	639	2,829
1983	1,181	522	1,703	623	2,697
1982	743	320	1,062	412	1,991
1981	796	288	1,084	436	2,419
1980	962	331	1,292	545	2,973
1979	1,316	429	1,745	709	3,827
1978	1,558	462	2,020	817	3,986
1977	1,573	414	1,987	819	3,650
1976	1,248	289	1,538	646	3,064
1975	956	204	1,160	549	2,476
1974	956	382	1,338	519	2,272
1973	1,250	795	2,045	634	2,334
1972	1,451	906	2,357	718	2,252
1971	1,271	781	2,052	656	2,019

Components may not add to totals due to rounding.

*Seasonally Adjusted Annual Rates

Housing Starts and New Single-Family Home Sales Source: Bureau of the Census

Existing Single-Family Home Sales Source: National Association of Realtors

Table 32. Weighted Repeat Sales House Price Index

Weighted Repeat Sales House Price Index (Annual Data) ¹										
% Change										
	USA	New England	Mid-Atlantic	South Atlantic	East North Central	West North Central	East South Central	West South Central	Mountain	Pacific
1Q01	8.8	12.4	9.2	8.5	6.1	7.9	6.5	7.1	8.8	12.3
4Q00	8.9	14.0	9.1	8.1	6.9	8.3	5.1	6.8	8.8	12.6
3Q00	8.4	13.6	8.7	7.3	6.7	8.2	4.5	6.7	7.6	12.0
2Q00	7.9	12.9	7.9	6.7	6.6	8.5	4.3	6.8	7.0	10.4
1Q00	6.9	11.5	6.6	5.8	6.4	8.5	3.6	6.1	6.2	8.3
Annual Data										
2000	8.9	14.0	9.1	8.1	6.9	8.3	5.1	6.8	8.8	12.6
1999	6.3	9.9	6.2	5.2	6.6	8.4	3.9	5.6	5.4	6.5
1998	5.4	6.9	4.6	4.8	4.3	4.9	5.1	5.4	4.6	8.0
1997	4.8	4.9	3.5	4.8	5.3	5.1	5.1	4.0	5.1	5.5
1996	2.6	1.8	0.2	2.2	5.1	4.1	4.0	2.2	4.5	1.0
1995	4.5	4.2	3.2	4.4	6.0	5.3	5.5	4.1	7.4	2.9
1994	0.9	-2.8	-3.2	0.1	5.2	5.6	4.9	1.6	9.4	-3.4
1993	2.1	0.5	1.4	2.0	3.5	3.8	4.0	4.0	7.9	-1.9
1992	1.9	-1.0	1.7	2.1	3.9	3.0	3.3	3.4	5.3	-1.4
1991	2.6	-2.2	1.5	3.1	4.6	3.8	4.1	3.7	4.8	1.4
1990	0.2	-7.6	-2.8	0.2	3.7	0.5	0.7	0.4	1.8	2.8
1989	6.1	0.7	2.4	5.0	6.0	3.2	3.1	2.9	2.8	19.5
1988	6.2	3.8	6.1	6.8	6.7	2.5	2.6	-2.2	0.3	17.4
1987	6.8	13.2	16.0	6.8	8.1	2.4	4.0	-8.7	-2.9	9.5
1986	8.2	20.9	17.9	6.0	7.3	4.3	5.8	-0.6	3.1	7.3
1985	6.7	24.9	14.3	5.6	4.9	4.3	4.5	-1.2	2.4	4.9
1984	5.5	17.4	13.5	4.2	2.7	4.9	4.4	0.0	2.0	5.2
1983	4.1	16.4	10.0	3.2	4.3	4.3	4.4	0.5	-2.5	1.1
1982	2.3	4.2	4.7	4.8	-4.8	0.0	4.3	5.9	7.1	0.7
1981	4.3	5.6	0.2	5.3	2.3	0.5	-0.8	11.9	6.4	6.1
1980	6.9	5.9	9.0	8.6	1.5	3.6	7.3	7.8	6.9	11.4
1979	11.8	11.3	15.1	11.1	9.3	9.4	5.2	13.1	15.8	16.3
1978	13.0	17.9	6.5	10.6	13.7	12.3	11.7	16.5	17.5	15.6
1977	13.0	8.4	10.6	7.0	13.2	14.5	11.5	12.0	17.9	25.7
1976	7.9	3.2	3.6	5.3	8.2	6.3	4.9	9.6	10.5	20.2

Regional Divisions:

New England: CT, MA, ME, NH, RI, VT

Mid-Atlantic: NJ, NY, PA

South Atlantic: DC, DE, FL, GA, MD, NC, SC, VA, WV

East North Central: IL, IN, MI, OH, WI, ND, SD, NE

East South Central: AL, KY, MS, TN

West South Central: AR, LA, OK, TX

Mountain: AZ, CO, ID, MT, NM, NV, UT, WY

Pacific: AK, CA, HI, OR, WA

¹ All data is measured based on percentage change over the previous four quarters. Data from 1976 - 2000 is measured based on fourth quarter to fourth quarter percentage change.