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NEWS RELEASE

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OFHEO CLASSIFIES FANNIE MAE AS SIGNIFICANTLY UNDERCAPITALIZED FOR THIRD QUARTER 2004

WASHINGTON, D.C. — Armando Falcon, Jr., Director of the Office of Federal Housing Enterprise Oversight (OFHEO), safety and soundness regulator for Fannie Mae and Freddie Mac (the Enterprises), has classified Fannie Mae as significantly undercapitalized under OFHEO's capital standards as of September 30, 2004.¹

Fannie Mae's capital classification is based on financial information provided by the Enterprise and the application of accounting policies currently under review by OFHEO. The Securities and Exchange Commission (SEC), based on OFHEO's September 17, 2004 "Report of Findings to Date," undertook a review of Fannie Mae's accounting and on December 15, 2004 directed Fannie Mae to restate accounting treatments for SFAS 133 and SFAS 91 for previously reported financial statements. The disallowed hedging treatments (SFAS 133) result in an estimated \$9 billion cumulative reduction in core capital as of September 30, 2004 as disclosed by Fannie Mae. This capital level places Fannie Mae below its minimum capital requirement and results in a classification of significantly undercapitalized. Fannie Mae's critical capital level remains above the required threshold and Fannie Mae continues to meet its risk-based capital requirement. (See page 2).

OFHEO has directed Fannie Mae to provide OFHEO with a capital restoration plan to bring core capital into compliance with the minimum capital requirement plus a targeted surplus of 30 percent over the minimum capital requirement level, as set forth under OFHEO's Agreement with the Board of September 27, 2004. OFHEO will work with Fannie Mae's Board on the capital plan and its implementation.

¹ The Federal Housing Enterprises Financial Safety and Soundness Act of 1992 requires the OFHEO Director to determine the capital level and classification of the Enterprises not less than quarterly, and to report the results to Congress. OFHEO classifies the Enterprises as adequately capitalized, undercapitalized, significantly undercapitalized or critically undercapitalized. The Enterprises are required by Federal statute to meet both minimum and risk-based capital standards to be classified as adequately capitalized.

ADJUSTED THIRD QUARTER RESULTS:

As of September 30, 2004, Fannie Mae's risk-based capital requirement was \$18.342 billion. Fannie Mae's total capital of \$38.762 billion on that date exceeded the risk-based capital requirement by \$20.420 billion.

Fannie Mae's minimum capital requirement was \$31.837 billion. Fannie Mae's core capital of \$28.856 billion (\$38.032 billion adjusted for \$9.176 billion) was less than the minimum capital requirement by \$(2.981) billion.

Capital data for Fannie Mae as of June 30, 2004 and September 30, 2004:

| Risk-based Capital (1) | Fannie Mae (2) | | | |
|--------------------------------|----------------|--------|------------|--------|
| | 30-Sept-04 | | 30-June-04 | |
| | Up | Down | Up | Down |
| Interest Rate Scenario | | | | |
| Risk-Based Capital Requirement | 13.026 | 18.342 | 7.074 | 24.391 |
| Total Capital | | 38.762 | | 36.862 |
| Surplus (Deficit) | | 20.420 | | 12.471 |

| Minimum Capital (1) | Fannie Mae (2) | |
|-----------------------------|----------------|----------------|
| | 30-Sept-04 | 30-June-04 |
| Minimum Capital Requirement | 31.837 | 31.188 |
| Core Capital | 38.032 | 36.115 |
| Required Adjustment FAS 133 | 9.176 | Not Applicable |
| Surplus (Deficit) | (2.981) | 4.927 |

| Critical Capital (1) | Fannie Mae (2) | |
|-----------------------------|----------------|----------------|
| | 30-Sept-04 | 30-June-04 |
| Critical Capital Level | 16.287 | 15.957 |
| Core Capital | 38.032 | 36.115 |
| Required Adjustment FAS 133 | 9.176 | Not Applicable |
| Surplus (Deficit) | 12.569 | 20.157 |

(1) Numbers may not add due to rounding.

(2) Fannie Mae's capital calculation is based on financial information and the application of accounting policies currently under review by OFHEO. The outcome of the review may result in a restatement of prior period results and a revision of the respective capital calculations.

Technical questions regarding these results should be directed to: rbcquestions@ofheo.gov.

Media questions regarding these results should be directed to Corinne Russell at: crussell@ofheo.gov or 202.414.6921, or Stefanie Mullin at: stefanie.mullin@ofheo.gov or 202.414.6376.

DEFINITION OF CAPITAL STANDARDS

Minimum capital represents an essential amount of capital needed to protect an Enterprise against broad categories of business risk. For purposes of minimum capital, an Enterprise is considered adequately capitalized if core capital — common stock; perpetual noncumulative preferred stock; paid in capital; and retained earnings — equals or exceeds minimum capital. The minimum capital standard is 2.5 percent of assets plus 0.45 percent of adjusted off-balance-sheet obligations.

OFHEO's **risk-based** capital requirement is the amount of total capital — core capital plus a general allowance for loan losses less specific reserves — that an Enterprise must hold to absorb projected losses flowing from future adverse interest-rate and credit-risk conditions specified by statute, plus 30 percent mandated by statute to cover management and operations risk. The risk-based capital standard is based on stress test results calculated for the two statutorily prescribed interest rate scenarios, one in which 10-year Treasury yields rise 75 percent (up-rate scenario) and another in which they fall 50 percent (down-rate scenario). Changes in both scenarios are generally capped at 600 basis points. The risk-based capital level for an Enterprise is the amount of total capital that would enable it to survive the stress test in whichever scenario is more adverse for that Enterprise, plus 30 percent of that amount to cover management and operations risk.

The **critical** capital level is the amount of core capital below which an Enterprise must be classified as critically undercapitalized and generally must be placed in conservatorship. Critical capital levels are computed consistent with the Federal Housing Enterprises' Safety and Soundness Act of 1992 as follows: One-half of the portion of minimum capital requirement associated with on-balance-sheet assets plus five-ninths of the portion of the minimum capital requirement associated with off-balance-sheet obligations.

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