OFFICE OF FEDERAL HOUSING ENTERPRISE OVERSIGHT
1700 G STREET NW WASHINGTON DC 20552 (202) 414-3800

NEWS RELEASE

FOR IMMEDIATE RELEASE
Wednesday, December 31, 2003

Media Contact: Corinne Russell at crussell@ofheo.gov
202.414.6921
Technical Contact: rbcquestions@ofheo.gov

OFHEO ANNOUNCES THIRD QUARTER MINIMINUM AND RISK-BASED CAPITAL CLASSIFICATIONS FOR FANNIE MAE AND FREDDIE MAC

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 determined that the Enterprises were adequately capitalized under OFHEO's capital standards as of September 30, 2003. Although OFHEO is evaluating the implementation of a capital surcharge for Freddie Mac, that surcharge would not impact past periods, including the third quarter 2003.

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.

Freddie Mac's capital calculation is based on financial information and the application of accounting policies currently involved in the restatement process. The accounting changes reflected in the 2003 restatements will impact both minimum capital surpluses and, to a lesser degree, risk-based capital surpluses. The $5 billion capital increase reflected in Freddie Mac's restated 2002 financials is not yet reflected in the third quarter numbers. The stress test for risk-based capital utilizes cash flows and the economics of the individual transactions. OFHEO will determine the need for recalculation of regulatory capital after Freddie Mac publishes financial results for 2003.

THIRD QUARTER RESULTS:

FANNIE MAE

As of September 30, 2003, Fannie Mae's risk-based capital requirement was $27.853 billion. Fannie Mae's total capital of $33.542 billion on that date exceeded the risk-based capital requirement by $5.689 billion.

Fannie Mae's minimum capital requirement was $31.435 billion. Fannie Mae's core capital of $32.752 billion exceeded the minimum capital requirement by $1.316 billion.

FREDDIE MAC

As of September 30, 2003, Freddie Mac's risk-based capital requirement was $1.319 billion. Freddie Mac's total capital of $28.486 billion on that date exceeded the requirement by $27.168 billion.

Freddie Mac's minimum capital requirement was $24.052 billion. Freddie Mac's core capital of $28.129 billion exceeded the minimum capital requirement by $4.077 billion.

Capital data for each Enterprise as June 30, 2003 and September 30, 2003:

Enterprise Risk-Based Capital Requirement (Billions of Dollars) (2)								
	Fannie Mae				Freddie Mac(1)			
	30-Sep-03		30-Jun-03		30-Sep-03		30-Jun-03	
Interest Rate Scenario	Up	Down	Up	Down	Up	Down	Up	Down
Risk-Based Capital Requirement	0.0	27.853	18.114	10.558	1.319	1.319	4.720	4.720
Total Capital		33.542	31.469		28.486	28.486	29.340	29.340
Surplus (Deficit)		5.689	13.355		27.168	27.168	24.620	24.620

Enterprise Minimum Capital Requirement (Billions of Dollars) (2)				
	Fannie Mae		Freddie Mac(1)	
	30-Sep-03	30-Jun-03	30-Sep-03	30-Jun-03
Minimum Capital Requirement	31.435	29.147	24.052	22.688
Core Capital	32.752	30.675	28.129	28.958
Surplus (Deficit)	1.316	1.527	4.077	6.270

Enterprise Critical Capital Requirement (Billions of Dollars) (2)				
	Fannie Mae		Freddie Mac(1)	
	30-Sep-03	30-Jun-03	30-Sep-03	30-Jun-03
Critical Capital Level	16.050	14.912	12.220	11.540
Core Capital	32.752	30.675	28.129	28.958
Surplus (Deficit)	16.701	15.762	15.909	17.418

(1) Freddie Mac's 6/30/2003 and 9/30/2003 capital numbers are based on financial information and application of accounting policies currently involved in the restatement process. These numbers are subject to change.
(2) Numbers may not add due to rounding.

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.

GENERAL ANALYSIS OF THE RISK-BASED CAPITAL RESULTS

By statute, stress test interest rate levels are a function of the average 10-year Constant Maturity Treasury over the most recent nine months. During the third quarter, this benchmark rate level increased from the second quarter's level of 3.85% to 3.92%. As a result, interest rate levels in both the up- and down-rate scenarios rose modestly during the third quarter.

In response to rising market interest rates in the third quarter, both Enterprises lengthened the duration of their liabilities. The shift to longer-term liabilities improved financial performance relative to last quarter in the up-rate stress test but created additional exposures in the down-rate stress test.

For Fannie Mae, the shift to longer-term liabilities effectively eliminated losses in the up-rate stress test. Consequently, unlike in the prior quarter, the down-rate scenario was binding for Fannie Mae at September 30, 2003. The net interest margin during the down-rate stress test decreased compared to last quarter driven by higher interest expense and lower yields on earning assets. As a result, the risk-based capital calculation in the down-rate scenario increased from $10.6 billion to $27.9 billion, and Fannie Mae's capital surplus decreased from $13.4 billion to $5.7 billion.

In the up-rate scenario, there was no computed capital need for Fannie Mae. Fannie Mae's net interest margin in that scenario was higher than it was last quarter, and its capital position improved throughout the stress test.

As with the prior quarter, Freddie Mac's risk-based capital requirement is the same for both the up- and down-rate scenarios, reflecting an increase in its capital position throughout the stress test in both scenarios. Freddie Mac's risk based capital calculation, which decreased from $4.7 billion to $1.3

billion, is driven primarily by off-balance sheet obligations and management and operations risk. Freddie Mac's risk-based capital surplus increased from $24.6 billion to $27.2 billion.

In the up-rate scenario, Freddie Mac's net interest margin was comparable to last quarter. In the down-rate scenario, the net interest margin during the stress test decreased compared to last quarter as a result of lower yields on earning assets and higher interest expense from longer-term liabilities.

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.

###