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

NEWS RELEASE

FOR IMMEDIATE RELEASE
June 30, 2003

Contact: Stefanie Mullin
SMullin@ofheo.gov
202.414.6921
www.ofheo.gov

OFHEO ISSUES 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 March 31, 2003.

The Federal Housing Enterprises Financial Safety and Soundness Act of 1992 requires OFHEO 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 classification is based on financial information and application of accounting policies currently undergoing re-audit and restatement. The accounting changes will impact minimum capital surpluses but have limited impact on risk-based capital surpluses as the cash flows modeled and the economics of the various transactions have not changed. When the restatement of Freddie Mac's financial results is concluded, Freddie Mac will resubmit appropriate financial data and the Director will determine whether to recalculate risk-based and minimum capital requirements for prior quarters, and whether to re-classify Freddie Mac.

FIRST QUARTER RESULTS:

FANNIE MAE

As of March 31, 2003, Fannie Mae's risk-based capital requirement was $16.555 billion. Fannie Mae's total capital of $30.309 billion on that date exceeded the risk-based capital requirement by $13.753 billion.

Fannie Mae's minimum capital requirement was $28.226 billion. Fannie Mae's core capital of $29.517 billion exceeded the minimum capital requirement by $1.291 billion.

FREDDIE MAC

As of March 31, 2003, Freddie Mac's risk-based capital requirement was $5.198 billion. Freddie Mac's total capital of $26.512 billion on that date exceeded the requirement by $21.314 billion.

Freddie Mac's minimum capital requirement was $21.773 billion. Freddie Mac's core capital of $26.107 billion exceeded the minimum capital requirement by $4.334 billion.

Capital data for each Enterprise as of December 31, 2002 and March 31, 2003:

Enterprise Risk-Based Capital Requirement (Billions of Dollars) (2)								
	Fannie Mae				Freddie Mac(1)			
	31-Mar-03		31-Dec-02		31-Mar-03		31-Dec-02	
Interest Rate Scenario	High	Low	High	Low	High	Low	High	Low
Risk-Based Capital Requirement	16.555	11.466	17.434	14.637	5.198	5.198	4.743	3.753
Total Capital	30.309		28.871		26.512	26.512	24.222	
Surplus (Deficit)	13.753		11.437		21.314	21.314	19.479	

Enterprise Minimum Capital Requirement (Billions of Dollars) (2)				
	Fannie Mae		Freddie Mac(1)	
	31-Mar-03	31-Dec-02	31-Mar-03	31-Dec-02
Minimum Capital Requirement	28.226	27.203	21.773	21.620
Core Capital	29.516	28.079	26.107	23.792
Surplus (Deficit)	1.291	0.877	4.334	2.172

Enterprise Critical Capital Requirement (Billions of Dollars) (2)				
	Fannie Mae		Freddie Mac(1)	
	31-Mar-03	31-Dec-02	31-Mar-03	31-Dec-02
Critical Capital Level	14.413	13.880	11.088	11.009
Core Capital	29.517	28.079	26.107	23.792
Surplus (Deficit)	15.103	14.199	15.020	12.783

(1) Freddie Mac's 12/31/2002 and 3/31/2003 capital numbers are based on financial information and application of accounting policies currently undergoing re-audit and restatement. These numbers are subject to change.
(2) Numbers may not add due to rounding.

GENERAL ANALYSIS OF THE RISK-BASED CAPITAL RESULTS

At March 31, 2003 capital surpluses for both Enterprises grew, continuing a trend observed since the third quarter of 2002. As noted for each of the previous two quarters, the ongoing decline in interest rates continues to dampen the magnitude of the interest rate shocks, which serves to reduce debt refunding costs, especially in the up-rate stress scenario. The smaller size of the interest rate shocks, and, to a lesser extent, recent years' house price appreciation, largely account for the growth in capital surpluses.

Interest rates during the stress test are, by statute, a function of recent rates. The continuing decline in rates over the year has provided the Enterprises the opportunity to reduce the cost of their existing debt at a faster rate than the decline in rates on their mortgage holdings. Further, the rates they must pay on debt issued during the stress test have declined as well.

As with the prior quarter, the up-rate stress test scenario is the most stressful scenario for Fannie Mae, although the lower interest rate environment at the start of the stress test and Fannie Mae's maintenance of hedges against rising interest rates helped produce a $0.9 billion decline in its risk-based capital requirement from the prior quarter. In the binding up-rate scenario, Fannie Mae's risk-based capital surplus increased by $2.3 billion between December 31, 2002 and March 31, 2003, driven largely by a $1.4 billion increase in its starting capital position. The $3.2 billion decline in Fannie Mae's non-binding down-rate stress test capital requirement primarily reflects continued shortening in its liability durations as it seeks to better match those of its mortgage assets in a falling interest rate environment.

Freddie Mac's risk-based capital requirement is the same for both the up- and down-rate scenarios, indicating that its financial position improved throughout the stress test. This result reflects unusually favorable market trends over the past year, and Freddie Mac's hedging of its interest rate risk. Further, Freddie Mac has maintained a surplus of both minimum and risk-based capital to buffer against potential volatility of the risk-based capital requirement. Due to the uncertainty of changes which may result from the pending restatement, Freddie Mac has increased these surpluses.

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, pl us 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.

###