



*OFFICE OF FEDERAL HOUSING ENTERPRISE OVERSIGHT*  
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June 28, 2002

John D. Graham, Ph.D.  
Administrator  
Office of Information and Regulatory Affairs  
Executive Office of the President  
Office of Management and Budget  
Washington, DC 20503

Dear Dr. Graham:

With the substantial progress the Office of Federal Housing Enterprise Oversight (OFHEO) has made in its review of the disclosure policies and practices of Fannie Mae and Freddie Mac (the Enterprises), I am now in a position to respond to your May 29, 2002 letter on the subject.

As you know, the review involves an examination of the Enterprise disclosures, the requirements of the federal securities laws, the rules, regulations, and guidance of the Securities and Exchange Commission (SEC), and the rules of the New York Stock Exchange. The review has progressed to the point that it is clear to me that OFHEO must promulgate enforceable rules in this area.

Accordingly, we are moving expeditiously to complete the review and develop proposals for a rulemaking. A rule will establish mandatory Enterprise disclosures that are at, a minimum, comparable to those of other publicly traded companies, further strengthen the safety and soundness of the Enterprises, and advance the President's Ten-Point Plan for Corporate Responsibility and Protecting America's Shareholders.

We are considering a proposed rule that would contain the following:

1. Periodic Reports--reports filed on a quarterly and annual basis, supplemented by special report filings for material developments occurring between quarterly reports. This framework is identical to what is required of SEC registered companies filing Forms 10-Q, 10-K and 8-K. SEC Regulations S-K and S-X govern the specific contents of periodic reports and in the interest of uniformity and to insure that OFHEO required disclosures are as comprehensive as those required of SEC registered companies, OFHEO filings will be required to conform to SEC regulations wherever applicable.

2. Registration--requirements that the Enterprises register their offerings of stock and debt. This is a complex matter in light of the established nature of these companies and the frequency with which they come to market. OFHEO is developing an approach that will facilitate registration in a manner that does not impede their ability to meet their financing needs.
3. Supplemental Disclosures--disclosure of additional information above and beyond that currently required by the SEC. Possible areas include interest rate risk, derivatives, and mortgage backed securities.

At your suggestion, OFHEO is also studying the disclosures favored by the Multidisciplinary Working Group on Enhanced Disclosures.

I appreciate your acknowledgment that OFHEO is uniquely positioned to evaluate and adopt proposals for Enterprise disclosures. Our extensive involvement with the regulation of Enterprise minimum- and risk-based capital, our examination program, and our enforcement authority means that we are intimately familiar with the underlying information from which required disclosures are drawn. The United States Supreme Court has interpreted the Federal securities laws as requiring the disclosure of all **material** facts and it is OFHEO that is best positioned to determine what elements of the enormous amounts of information developed by the Enterprises meet that standard and should be disclosed to the public.

Furthermore, our enforcement authority will insure that difficult disclosure decisions are made with safety and soundness of the enterprises and the interests of the public foremost in mind. Also, as noted in your letter, mandatory requirements will assure market confidence even where companies fear the release of negative information. In an environment where Enron and WorldCom headlines dominate the news, no other standard can be acceptable.

I look forward to our continuing dialogue on this matter.

Best regards,

/signature/

Armando Falcon, Jr.  
Director