



OFFICE OF FEDERAL HOUSING ENTERPRISE OVERSIGHT

NEWS RELEASE

FOR IMMEDIATE RELEASE

Thursday, September 12, 2002

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OFHEO ISSUES QUARTERLY MINIMUM CAPITAL CLASSIFICATION REPORT INCLUDING CRITICAL CAPITAL FOR FANNIE MAE AND FREDDIE MAC

WASHINGTON, D.C. — Armando Falcon, Jr., Director of the Office of Federal Housing Enterprise Oversight (OFHEO), announced that both Fannie Mae and Freddie Mac (the Enterprises) were adequately capitalized at June 30, 2002.

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 determines whether the Enterprises are adequately capitalized, undercapitalized, significantly undercapitalized or critically undercapitalized.

OFHEO has determined:

— Fannie Mae's minimum capital requirement was \$25.227 billion and its critical capital level was \$12.867 billion at June 30, 2002. Thus, Fannie Mae's core capital of \$26.382 billion on that date exceeded the minimum capital requirement by \$1.155 billion and exceeded the critical capital level by \$13.515 billion.*

— Freddie Mac's minimum capital requirement was \$19.520 billion and its critical capital level was \$9.950 billion at June 30, 2002. Thus, Freddie Mac's core capital of \$21.445 billion on that date exceeded the minimum capital requirement by \$1.925 billion and exceeded the critical capital level by \$11.495 billion.*

*Although OFHEO's risk-based capital rule is final, the 1992 Act provides a one-year period between its effective date (September 13, 2001) and the time OFHEO may classify an Enterprise based on its risk-based capital requirement.

(more)

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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.

OFHEO's **risk-based** capital requirement is the amount of total capital — core capital plus a general allowance for loan losses — that an Enterprise must hold to absorb projected losses flowing from future severe interest-rate and credit-risk conditions, plus 30 percent to cover management and operations risk.

OFHEO began announcing the Enterprises' **critical** capital levels as part of its quarterly report on Feb. 13, 2001. 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 level associated with on-balance-sheet assets plus five-ninths of the portion of the minimum capital level associated with off-balance-sheet obligations.

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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.

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