



OFFICE OF FEDERAL HOUSING ENTERPRISE OVERSIGHT

NEWS RELEASE

For Immediate Release
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FANNIE MAE/FREDDIE MAC REGULATOR APPEALS TO HOUSE APPROPRIATIONS COMMITTEE FOR FULL BUDGET

WASHINGTON, D.C. – **Armando Falcon, Jr.**, Director of the Office of Federal Housing Enterprise Oversight (OFHEO), financial safety and soundness regulator of Fannie Mae and Freddie Mac, today released two letters in anticipation of a Full House Appropriations Committee mark-up Wednesday. In letters to Appropriations Committee Chairman Bill Young (R-FL) and Subcommittee on Veterans Affairs, HUD, and Independent Agencies Chairman James Walsh (R-NY), Falcon reiterated his request for full funding of OFHEO's FY 2001 budget. Falcon detailed how the cuts will affect OFHEO's ability to perform its function as mandated by Congress. OFHEO is the only Federal financial regulator subject to the Appropriations process.

Two weeks ago the Appropriations VA-HUD Subcommittee reported out a bill providing OFHEO with only \$22 million of the nearly \$26.8 million OFHEO requested.

"The \$4,770,000 shortfall will impede our efforts to: Examine the Enterprises with adequate depth; maintain a flexible and current risk-based capital regulation; and update our technology, which enables us to do our job well with a small and efficient staff," Falcon wrote.

"It is vital for OFHEO to have adequate resources to keep up with the growth of Fannie Mae and Freddie Mac. The Enterprises' exposure to credit risk has doubled in size since OFHEO was established in 1992. The Enterprises own or guarantee over \$2 trillion in residential mortgages and their \$850 billion-plus combined mortgage portfolio is larger than the mortgage holdings of the entire savings and loan industry," Falcon said in the letter.

"The business risks of the Enterprises are much more complex and increasingly global. The impact in today's environment of financial problems at the Enterprises, should that ever occur, would likely impact the U.S. housing finance market as well as stretch into the global marketplace," Falcon wrote.

House Banking Committee Ranking Member John LaFalce (D-NY) and House Banking Committee Capital Markets Subcommittee Chairman Richard Baker (R-LA) and Ranking Member Paul Kanjorski (D-PA) have sent letters to the House Appropriations Subcommittee urging full funding for OFHEO.

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

June 2, 2000

Honorable C.W. Bill Young
Chairman
Committee on Appropriations
U.S. House of Representatives
H-218 Capitol Building
Washington, DC 20515

Dear Mr. Chairman:

This letter is to respectfully request your assistance in ensuring that the House Appropriations Committee fully fund the Fiscal Year (FY) 2001 amended budget request of \$26,770,000 for the Office of Federal Housing Enterprise Oversight (OFHEO). I appreciate the efforts of Chairman Walsh, Ranking Member Mollohan and the Subcommittee on Veterans Affairs, HUD, and Independent Agencies to provide an increase over last year's budget. However, in light of the critical nature of the task Congress has given the Office, I must appeal to you for assistance in obtaining our full budget request.

As set forth by Congress, the Office's task is to ensure the safety and soundness of Fannie Mae and Freddie Mac (the Enterprises). Providing OFHEO with full funding does not require a budgetary offset since we are funded entirely through semi-annual assessments on the Enterprises.

Last week the Subcommittee reported out a bill that would provide OFHEO with only \$22,000,000 of the \$26,770,000 requested. The \$4,770,000 shortfall will impede our efforts to: Examine the Enterprises with adequate depth; maintain a flexible and current risk-based capital regulation; and update our technology, which enables us to do our job well with a small and efficient staff.

It is vital for OFHEO to have adequate resources to keep up with the growth of Fannie Mae and Freddie Mac. The Enterprises own or guarantee over \$2 trillion in residential mortgages and their \$850 billion-plus combined mortgage portfolio is larger than the mortgage holdings of the entire savings and loan industry. To put it another way, the Enterprises' exposure to credit risk has doubled in size in the seven years since OFHEO was established. Their retained mortgage portfolios (which pose both credit and interest rate risk) have grown by 350 percent over the same time period. This dramatic growth demands prudent oversight.

While the Enterprises are currently financially healthy and well-managed, that has not always been the case. In the early 1980s, Fannie Mae was technically insolvent on a mark- to-market basis and losing money at a rate of approximately one million dollars per day. Mindful of this and the problems that faced the savings and loan industry, Congress created OFHEO in 1992 to ensure that the Enterprises maintain adequate capital and operate in a safe and sound manner.

The 1992 Act creating OFHEO clearly states that the full faith and credit of the U.S. government does not back the Enterprises, either explicitly or implicitly. By fulfilling our mission, OFHEO ensures that Congress never has to reconsider that policy, as the Enterprises will remain adequately capitalized, solvent, and healthy with OFHEO's oversight. This is done through the Office's risk-based capital standard, in tandem with the examination and research and analysis components. Together, these components ensure that the Enterprises are operating in a safe and sound manner, in good and bad economic times. That is why we must have the resources to do our job as thoroughly as necessary.

The business risks of the Enterprises are much more complex and increasingly global. The impact in today's environment of financial problems at the Enterprises, should that ever occur, would likely impact the U.S. housing finance market as well as stretch into the global marketplace.

More specifically, our regulatory capacity will be adversely impacted, as for example we would not be able to:

- Hire six additional examiners, four of which are to constitute a new team dedicated to examining and understanding the internal models used by the Enterprises to manage risk;
- Improve OFHEO's capability to model new business processes that may create different business risks for the Enterprises.
- Complete the Research System Environment, Financial Simulation Model, including documentation of the model programming, which are significant components to both the risk-based capital and examination processes;
- Develop an examiner workstation that would use the data in the Research System Environment with other quantitative and qualitative data and make available to examiners integrated quantitative and qualitative assessments of risk simultaneously.
- Integrate our purchasing, human resources, and accounting systems to achieve a more efficient administrative system that complies with stipulated requirements for federal financial systems.

As you can understand, the impact of less than full funding on our ability to thoroughly fulfill our mission will be substantial. I hope you will look favorably on this request. If you need any additional information, please do not hesitate to contact me directly at 414-3801. Thank you for your consideration.

Sincerely,


Armando Falcon, Jr.
Director

Cc: Honorable David Obey
Ranking Minority Member
Committee on Appropriations



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

June 2, 2000

Honorable James T. Walsh
Chairman
Subcommittee on Veterans Affairs, HUD, and Independent Agencies
Committee on Appropriations
U.S. House of Representatives
H-143 Capitol Building
Washington, DC 20515

Dear Mr. Chairman:

This letter is to respectfully request that you reconsider the level of funding provided for in the Subcommittee's recently reported Veterans Affairs, HUD, and Independent Agencies Appropriations bill and ensure that the Committee fully funds the FY 2001 amended budget request for the Office of Federal Housing Enterprise Oversight (OFHEO). I appreciate the increase over last year's budget you and the Subcommittee provided. However, in light of the critical nature of the task Congress has given the Office, to ensure the safety and soundness of Fannie Mae and Freddie Mac (the Enterprises), I must appeal to you for assistance in obtaining our full budget request. Moreover, providing OFHEO with full funding does not require a budgetary offset since we are funded entirely through semi-annual assessments on the Enterprises.

As you know, the Subcommittee reported out a bill that would provide OFHEO with only \$22,000,000 of the \$26,770,000 requested. The \$4,770,000 shortfall will impede our efforts to: Examine the Enterprises with adequate depth; maintain a flexible and current risk-based capital regulation; and update our technology, which enables us to do our job well with a small and efficient staff.

It is vital for OFHEO to have adequate resources to keep up with the growth of Fannie Mae and Freddie Mac. The Enterprises own or guarantee over \$2 trillion in residential mortgages and their \$850 billion-plus combined mortgage portfolio is larger than the mortgage holdings of the entire savings and loan industry. To put it another way, the Enterprises' exposure to credit risk has doubled in size in the seven years since OFHEO was established. Their retained mortgage portfolios (which pose both credit and interest rate risk) have grown by 350 percent over the same time period. This dramatic growth demands prudent oversight.

While the Enterprises are currently financially healthy and well-managed, that has not always been the case. In the early 1980s, Fannie Mae was technically insolvent on a mark-to-market basis and losing money at a rate of approximately one million dollars per day. Mindful of this and the problems that faced the savings and loan industry, Congress created OFHEO in 1992 to ensure that the Enterprises maintain adequate capital and operate in a safe and sound manner.

The 1992 Act creating OFHEO clearly states that the full faith and credit of the U.S. government does not back the Enterprises, either explicitly or implicitly. By fulfilling our mission, OFHEO ensures that Congress never has to reconsider that policy, as the Enterprises will remain adequately capitalized, solvent and healthy with OFHEO's oversight. This is done through the Office's risk-based capital standard, in tandem with the examination and research and analysis components. Together, these components ensure that the Enterprises are operating in a safe and sound manner, in good and bad economic times. That is why we must have the resources to do our job as thoroughly as necessary.

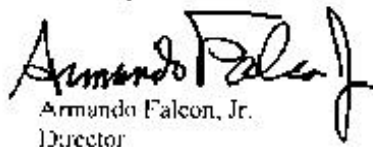
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Sincerely,


Armando Falcon, Jr.
Director

Cc: Honorable Alan B. Mollohan
Ranking Minority Member
Subcommittee on Veterans Affairs, HUD, and Independent Agencies
Committee on Appropriations