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OFHEO ANNOUNCES THIRD QUARTER 2006 MINIMUM AND RISK-BASED CAPITAL CLASSIFICATION FOR FANNIE MAE; RECLASSIFIES FOURTH QUARTER 2002 AND 2003 AS SIGNIFICANTLY UNDERCAPITALIZED

WASHINGTON, D.C. — James B. Lockhart III, Director of the Office of Federal Housing Enterprise Oversight (OFHEO), the safety and soundness regulator for Fannie Mae and Freddie Mac, classified Fannie Mae as adequately capitalized as of September 30, 2006. This classification is based on estimated numbers submitted by Fannie Mae and not financial statements released to shareholders. Fannie Mae's third quarter 2006 capital results also incorporate adjustments for the accounting impacts identified in the company's 2004 10-K, which was filed with the Securities and Exchange Commission on December 6, 2006.

OFHEO is also issuing updated capital results for the fourth quarters for 2002, 2003, and 2004 as a result of Fannie Mae's recent 2004 10-K release.[1] With the new information, OFHEO has reclassified Fannie Mae as significantly undercapitalized for the fourth quarters of 2002 and 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

[1] Fannie Mae requested, and OFHEO granted, an extension of 15 business days for the refiling of Q1-3 2004 quarterly capital results. OFHEO also granted a waiver regarding the refiling of Q1-3 2002 and 2003 quarterly results, although OFHEO has informed Fannie Mae that it will disclose Fannie Mae's estimated quarterly results for these years. Fannie Mae's analysis of the risk-based capital results for all applicable periods also received an extension. Once OFHEO receives and analyzes this information, additional disclosures will be forthcoming.

undercapitalized. The Enterprises are required by Federal statute to meet both minimum and risk-based capital standards to be classified as adequately capitalized.

Effect of 2004 10-K on Core Capital

Beginning with the September 2004 capital classification, OFHEO reported to the public adjusted capital results for Fannie Mae reflecting estimated losses for accounting errors identified. For year-end 2004, Fannie Mae reported the "adjusted" capital numbers to OFHEO reflecting Fannie Mae's best estimate of the impact of the pending accounting adjustements. OFHEO's original December 31, 2004 capital classification dated May 19, 2005 adjusted Fannie Mae's core capital by a negative $11.14 billion, based on the best conservative estimates of the losses at the time. Reconciling the original December 31, 2004 capital classification to the equivalent information in the recently issued 2004 10-K, results in an increase in core capital of $1.9 billion as of December 2004. OFHEO has continued to carry forward and report the estimated accounting impacts as reported by Fannie Mae throughout 2005 and 2006. Fannie Mae now reports that the net impact of the restatement on core capital as of September 30, 2006 is an increase of only $1.0 billion, which is now reflected in OFHEO's reported capital results. Thus, while the numbers for September 30, 2006 remain estimated numbers and will likely be subject to revision in forthcoming 2005 and 2006 financial disclosures, the impact of the 2004 accounting restatements are fully reflected in the capital position reported today by OFHEO.

Third Quarter 2006 Capital Classification

Fannie Mae made important progress in its restatement efforts with the issuance of the 2004 10-K, reflecting restated financials for 2002, 2003, and 2004. Further, Fannie Mae's efforts to carry the 2004 accounting adjustments of $1.0 billion forward into the September 30, 2006 reported core capital estimates gives OFHEO and the public, additional assurance that the company is maintaining a capital surplus in excess of the OFHEO-directed requirement.

While progress is evident and OFHEO is classifying Fannie Mae as adequately capitalized, significant work remains before Fannie Mae becomes a timely financial filer and corrects the internal control and operational weaknesses evident. It is therefore prudent for Fannie Mae to hold capital in excess of the OFHEO-directed requirement to compensate for these uncertainties.

Fannie Mae's surplus as a percent of the OFHEO-directed requirement increased to 11.4 percent from the prior quarter's 9.9 percent. Fannie Mae continues to operate under growth restrictions for its retained portfolio and has maintained compliance with this agreement throughout the quarter.

Restated Capital Classifications for 2002-2004

For the years-ending 2002 and 2003, Fannie Mae's restated results indicate it was significantly undercapitalized for these periods, rather than adequately capitalized, as previously disclosed. Consequently, Director Lockhart has reclassified Fannie Mae as significantly undercapitalized for fourth quarter 2002 and 2003. In both of these time periods, core capital remained above the statutory critical capital level. From a historical perspective, had Fannie Mae been following appropriate accounting rules and had the financial position been appropriately disclosed by Fannie Mae at the time, statutory regulatory intervention would have occurred during 2002 requiring Fannie Mae to develop a capital plan and restore capital to an adequate level. That action instead took place following the September 2004 classification.

Director Lockhart has determined not to reconsider the original Fannie Mae December 31, 2004 capital classification of significantly undercapitalized.

While the significantly undercapitalized position for these time periods is indeed noteworthy and reflective of financial reporting errors, additional regulatory action is not needed at this time as Fannie Mae is adhering to the terms and conditions of its Capital Restoration Plan, including maintaining capital above the OFHEO-directed requirement and restricting retained portfolio growth. OFHEO will appropriately reflect the update to reported capital in the historical tables found on OFHEO's web site. It should also be noted that there was no restatement prior to 2002, which means that Fannie Mae could have been significantly undercapitalized for some time prior to 2002.

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THIRD QUARTER CAPITAL RESULTS:

Minimum and Critical Capital

Fannie Mae's adjusted[2] OFHEO-directed capital requirement on September 30, 2006 was $37.7 billion and its adjusted statutory minimum capital requirement was $29.0 billion. Fannie Mae's adjusted core capital of $42.0 billion exceeded the adjusted OFHEO-directed capital requirement by $4.3 billion. Fannie Mae's adjusted core capital exceeded the adjusted statutory critical capital requirement by $27.0 billion.

Fannie Mae Minimum Capital Requirement (Billions of Dollars) [a,b,c,d]		
	30-Sep-06	**30-Jun-06**
Minimum Capital - Statutory Requirement	29.010	29.419
Minimum Capital - OFHEO Directed Requirement	37.714	38.245
Core Capital	42.008	42.037
Surplus (Deficit) (based on OFHEO Directed Requirement)	4.294	3.792

Fannie Mae Critical Capital Requirement (Billions of Dollars) [a,b,d]		
	30-Sep-06	**30-Jun-06**
Critical Capital Level	14.959	15.145
Core Capital	42.008	42.037
Surplus (Deficit)	27.049	26.892

a. Numbers may not add due to rounding.
b. Subject to revision based upon results of ongoing financial restatement and audit processes.
c. OFHEO has directed Fannie Mae to maintain an additional 30% capital in excess of the statutory minimum capital requirement. This has been an additional requirement since September 30, 2005. The minimum capital requirement and minimum capital surplus numbers stated in these charts reflect the inclusion of the additional 30% OFHEO-directed capital requirement.
d. Fannie Mae's minimum capital, critical capital, and core capital are adjusted for accounting errors identified to date, including adjustments identified in the 2004 10-K issued on December 6, 2006.

During the third quarter of 2006, Fannie Mae's adjusted minimum capital surplus increased by $0.5 billion to $4.3 billion, approximately 11.4 percent over the adjusted OFHEO-directed capital requirement of $37.7 billion. The surplus amount increased because the minimum capital requirement decreased due to a decline in assets while core capital remained unchanged. Core capital remained unchanged because the positive $1.0 billion core capital restatement adjustment was offset by a $0.8 billion reduction in retained earnings after a

[2] The term "adjusted" reflects that Fannie Mae's minimum capital submissions adjust book capital based upon estimated accounting change impacts, including the roll-forward of 2004 adjustments.

dividend payment of $0.4 billion, and additional ongoing accounting adjustments to core capital of about negative $0.2 billion.

Changes in critical capital mirrored changes in minimum capital.

Risk-Based Capital

The risk-based capital requirement reported below has not been updated to reflect the full roll-forward effect of the 2004 10-K accounting adjustments.[3]

As of September 30, 2006, Fannie Mae's <u>risk-based capital</u> requirement was $22.5 billion. Fannie Mae's total capital of $41.8 billion on that date exceeded the requirement by $19.3 billion.

Enterprise Risk-Based Capital Requirement (Billions of Dollars) [a,b]				
	Fannie Mae			
	30-Sep-06		30-Jun-06	
Interest Rate Scenario	Up Dow	n	Up D	own
Risk Based Capital Requirement	22.524	16.447	18.843	26.330
Total Capital	41.820			42.888
Surplus (Deficit)	19.296			16.558

a. Numbers may not add due to rounding.

b. Subject to revision based upon results of ongoing financial restatement and audit processes.

By statute, stress test interest rate levels are a function of the average 10-year Constant Maturity Treasury (CMT) over the most recent nine months. At the end of the third quarter of 2006, the nine-month average of the 10-year CMT rose to 4.85%, 14 basis points higher than the nine-month average at the end of the second quarter of 2006. As a result, 10-year CMT levels at the end of the first year in the risk-based capital stress test increased from 8.24% to 8.48% in the up-rate stress test, and from 2.35% to 2.42% in the down-rate stress test.

In the third quarter of 2006, the yield curve shifted downward as compared to last quarter, and remained flat. As interest rates declined, expected prepayment speeds increased and the duration of fixed-rate mortgage assets decreased. To maintain a tight asset/liability gap, the Enterprise adjusted its debt and derivative portfolios.

Fannie Mae's risk-based capital surplus increased from $16.6 billion to $19.3 billion. Falling rates in the quarter caused rebalancing actions that increased exposure in the up-rate scenario and reduced exposure in the down-rate scenario. Fannie Mae's risk-based capital requirement in the up-rate stress test was $22.5 billion, $3.7 billion higher than the second quarter of 2006. The Enterprise's risk-based capital requirement in the down-rate stress test

[3] The total capital number is understated and does not reconcile to the core capital submission because only the latter includes the effect of the roll-forward of the 2004 accounting impacts.

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fell by $9.9 billion to $16.4 billion due largely to significant increases in its receive-fix swaption position.

FOURTH QUARTER 2002, 2003 and 2004 RESTATED CAPITAL RESULTS:

Fannie Mae's restated December 31, 2002 statutory minimum capital requirement was $27.7 billion. Fannie Mae's restated core capital of $20.4 billion resulted in a deficit statutory capital position of ($7.3) billion. Fannie Mae's restated core capital exceeded the restated statutory critical capital requirement by $6.3 billion.

Fannie Mae's restated December 31, 2003 statutory minimum capital requirement was $31.8 billion. Fannie Mae's restated core capital of $27.0 billion resulted in a deficit statutory capital position of ($4.9) billion. Fannie Mae's restated core capital exceeded the restated statutory critical capital requirement by $10.7 billion.

Fannie Mae's restated December 31, 2004 statutory minimum capital requirement was $32.1 billion. Fannie Mae's restated core capital of $34.5 billion exceeded the statutory capital position by $2.4 billion, which was the result of a $5 billion preferred stock issue in December, 2004. Fannie Mae's restated core capital exceeded the restated statutory critical capital requirement by $18.1 billion.

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Fannie Mae Minimum Capital Requirement (Billions of Dollars) [a,b]			
	December 31, 2002		
	Restated	**Originally Reported**	**Change**
Minimum Capital - Statutory Requirement	27.688	27.203	0.485
Core Capital	20.431	28.079	(7.648)
Minimum Capital Surplus (Deficit)	(7.257)	0.877	(8.134)
Critical Capital Requirement	14.126	13.880	0.246
Core Capital	20.431	28.079	(7.648)
Critical Capital Surplus (Deficit)	6.305	14.199	(7.894)

Fannie Mae Minimum Capital Requirement (Billions of Dollars) [a,b]			
	December 31, 2003		
	Restated	**Originally Reported**	**Change**
Minimum Capital - Statutory Requirement	31.816	31.520	0.296
Core Capital	26.953	34.405	(7.452)
Minimum Capital Surplus (Deficit)	(4.863)	2.885	(7.748)
Critical Capital Requirement	16.261	16.113	0.148
Core Capital	26.953	34.405	(7.452)
Critical Capital Surplus (Deficit)	10.691	18.292	(7.601)

Fannie Mae Minimum Capital Requirement (Billions of Dollars) [a,b]			
	December 31, 2004		
	Restated	**OFHEO Adjusted and Reported on May 19, 2005 [c]**	**Change**
Minimum Capital - Statutory Requirement	32.121	32.166	(0.045)
Core Capital	34.514	32.641	1.873
Minimum Capital Surplus (Deficit)	2.393	0.475	1.918
Critical Capital Requirement	16.435	16.455	(0.020)
Core Capital	34.514	32.641	1.873
Critical Capital Surplus (Deficit)	18.078	16.186	1.892

a. Numbers may not add due to rounding.

b. Restated and resubmitted on December 8, 2006.

c. OFHEO further "adjusted" Fannie Mae's December 31, 2004 capital submission resulting in a total estimated reduction of core capital by $11.1 billion based upon Fannie Mae generated and certified best estimates of the impact of pending accounting adjustments.

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QUALIFICATIONS AND COMPLIANCE

Fannie Mae's capital classification is based upon Fannie Mae's best estimates of its financial condition, as certified and represented as true and correct to the best of Fannie Mae management's belief and knowledge. The third quarter 2006 capital classification remains subject to revision pending Fannie Mae's submission of audited 2006 financial statements and corresponding regulatory capital reports.

Fannie Mae remains subject to the requirements imposed by the Consent Order dated May 23, 2006 and the Capital Restoration Plan approved February 17, 2005. The Capital Restoration Plan required Fannie Mae to achieve a 30 percent capital surplus over the minimum capital requirement by September 30, 2005 (OFHEO-directed capital requirement). Fannie Mae is required to maintain a capital surplus above the OFHEO-directed requirement on an ongoing basis. Fannie Mae met the initial September 30, 2005 achievement of 30% surplus and they have continued to maintain the surplus through the third quarter 2006.

THIRD QUARTER QUALIFYING SUBORDINATED DEBT RESULTS

Additionally, OFHEO is releasing qualifying subordinated debt positions of Fannie Mae in accordance with the September 1, 2005 Agreements between OFHEO and the Enterprises. (See 9/2/05 release at http://www.fhfa.gov/webfiles/2098/9205SubDebtDiscAgreements.pdf)

Fannie Mae's total capital and qualifying subordinated debt for the third quarter 2006 exceeded the requirements outlined in the Agreement dated September 1, 2005.

Qualifying subordinated debt levels are disclosed below.

Fannie Mae Enterprise Qualifying Subordinated Debt Disclosure
(Billions of Dollars) [a,b]

	30-Sep-06 [c,d]	30-Jun-06 [c,d]
Total Capital & Qualifying Subordinated Debt	50.453	50.744
Sub Debt Requirement [e]	41.488	42.324
Surplus (Deficit)	8.965	8.421

a. Numbers may not add due to rounding.
b. Qualifying Subordinated Debt is defined as subordinated debt that contains the interest deferral feature. The interest deferral requires the deferral of interest payments for up to 5 years if:
1) The corporation's core capital falls below 125% of critical capital, or
2) The corporation's core capital falls below minimum capital AND, pursuant to the corporation's request, the Secretary of the Treasury exercises discretionary authority to purchase the company's obligations under Section 306(c) of the Freddie Mac Charter Act and Section 304(c) of the Fannie Mae Charter Act.
c. Subject to revision based upon results of ongoing financial restatement and audit processes.
d. Fannie Mae's minimum capital, critical capital, core capital and qualifying subordinated debt are adjusted for accounting errors identified to date.
e. The sum of outstanding net MBS times 0.45 percent and on-balance sheet assets times 4 percent

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DEFINITION OF CAPITAL STANDARDS

Core Capital is the sum of outstanding common stock, perpetual, noncumulative preferred stock, paid-in capital, and retained earnings. Core capital does not include Accumulated Other Comprehensive Income (AOCI), which is captured as part of stockholder's equity.

Total Capital is the sum of Core Capital plus the allowance for loan losses.

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 by law 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, including guaranteed mortgage securities.

The ***OFHEO-directed*** capital requirement is the amount of capital the Enterprise needs to maintain to compensate for increased operational risks including systems, accounting, and internal control risks. The level is prescribed by the Director of OFHEO. At this time, both Enterprises are required to hold 30 percent over the statutory minimum capital requirement. This is calculated by multiplying the minimum capital requirement by 1.3 times.

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.

QUALIFYING SUBORDINATED DEBT

Qualifying subordinated debt is defined as subordinated debt that contains the interest deferral feature described below:

The interest deferral requires the deferral of interest payments for up to 5 years if:

- o The corporation's core capital falls below 125 percent of critical capital, or
- o The corporation's core capital falls below minimum AND, pursuant to the corporation's request, the Secretary of the Treasury exercises discretionary authority to purchase the company's obligations under Section 306(c) of the Freddie Mac Charter Act and Section 304(c) of the Fannie Mae Charter Act.

The September 1, 2005 agreement requires that:

Subordinated debt will be issued in a quantity such that the sum of total capital (core capital plus general allowance for losses) plus the outstanding balance of qualified subordinated debt will equal or exceed the sum of outstanding net MBS times 0.45 percent and total on-balance sheet assets times 4 percent.

Technical questions regarding these results should be directed to: rbcquestions@ofheo.gov.

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OFHEO's mission is to promote housing and a strong national housing finance system by ensuring the safety and soundness of Fannie Mae and Freddie Mac.