



**Office of Federal Housing Enterprise Oversight
(OFHEO)**

NEWS RELEASE

Contact: Corinne Russell (202) 414-6921
Stefanie Mullin (202) 414-6376

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**OFHEO ANNOUNCES THIRD QUARTER 2007
MINIMUM AND RISK-BASED CAPITAL CLASSIFICATION
FOR FANNIE MAE and FREDDIE MAC
Reaffirms Fannie Mae Q1-2 2007 as Adequately Capitalized**

WASHINGTON, DC — James B. Lockhart, Director of the Office of Federal Housing Enterprise Oversight (OFHEO), the safety and soundness regulator for Fannie Mae and Freddie Mac, classified Fannie Mae and Freddie Mac as adequately capitalized as of September 30, 2007. Both Fannie Mae and Freddie Mac have released financial results publicly for September 30, 2007 and OFHEO's results are consistent with those publicly released data.

Fannie Mae had a 5.9 percent surplus above the OFHEO-directed requirement, which is 30 percent above the required minimum capital. Freddie Mac's surplus above the OFHEO-directed requirement was 1.7 percent. Both Enterprises' percentages reflect significant declines from the second quarter, primarily due to the credit and market related stresses on income. Both Enterprises raised capital through the preferred stock market in the third quarter to enhance their capital base. While the September 30, 2007 classification is only based on the capital position at the end of the quarter, OFHEO notes that both Enterprises issued significant amounts of preferred stock in the fourth quarter due to the continued market and credit related pressures on earnings and capital. OFHEO considers this significant increase to the capital bases of both Enterprises prudent considering both market conditions and the need to maintain sufficient capital.

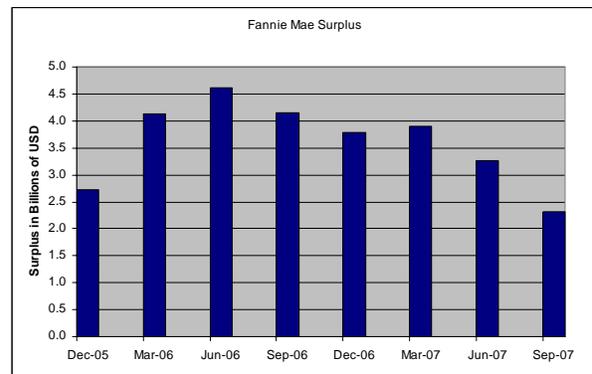
The Federal Housing Enterprises Financial Safety and Soundness Act of 1992 requires the OFHEO Director to determine the capital level and classification of the Enterprises not less than quarterly, and to report the results to Congress. OFHEO classifies the Enterprises as adequately capitalized, undercapitalized, significantly undercapitalized or critically undercapitalized. The Enterprises are required by federal statute to meet both minimum and risk-based capital standards to be classified as adequately capitalized.

Fannie Mae

As of the third quarter 2007, Fannie Mae reached the milestone of reporting timely quarterly financial results for the first time since the second quarter 2004. Fannie Mae's November 9, 2007 SEC 10-Q filing is consistent with the third quarter capital results reported to OFHEO. Further, Fannie Mae resubmitted first and second quarter capital results to OFHEO at the same time. After reviewing these results, Director Lockhart is reaffirming the previous capital classification of adequately capitalized for the first and second quarters of 2007. All capital data for these historical quarters can be found on OFHEO's Web site in the historical charts at <http://www.ofheo.gov/CapitalRequirements.aspx?Nav=273>.

Fannie Mae's surplus as a percent of the OFHEO-directed requirement decreased significantly to \$2.3 billion or 5.9 percent from a restated 8.3 percent the prior quarter. The decline is due mainly to market and credit related losses and dividend payments that reduced core capital. During the third quarter, Fannie Mae issued \$1 billion in preferred stock to partially offset the earnings declines. Fannie Mae continues to operate under growth restrictions for its retained portfolio and has maintained compliance with this agreement throughout the quarter. In September, the growth restrictions were loosened and the retained mortgage portfolios have remained well below these new limits. There are no restrictions on its issuance of guaranteed Mortgage Backed Securities (MBS).

The chart to the right shows Fannie Mae's surplus over the OFHEO-directed requirement over the last seven quarters. During this time series, the surplus has fallen from its \$4.1 billion peak in the second quarter of 2006 to \$2.3 billion as of September 30, 2007.



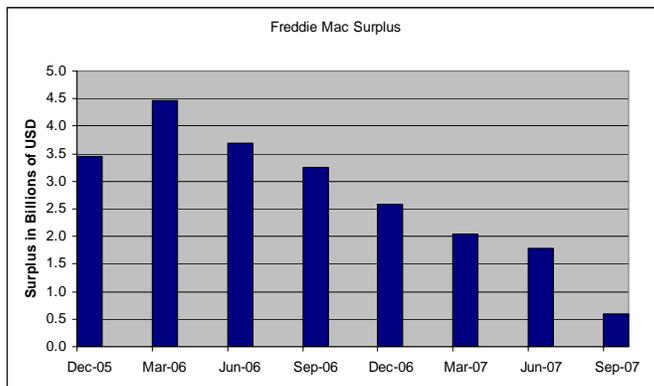
Although progress in becoming a timely quarterly filer is evident and OFHEO is classifying Fannie Mae as adequately capitalized for the third quarter 2007, the company's remediation process is not finished and a number of safety and soundness issues are not yet resolved.

OFHEO continues to support Fannie Mae's practice of managing the surplus above the OFHEO-directed requirement to compensate for its internal control and operational weaknesses, and to account for the sensitivity of the capital surplus to potential market valuation losses arising from changes in interest rates, market volatility, and credit loss expectations.

Freddie Mac

Freddie Mac's third quarter of 2007 classification of adequately capitalized is based upon results consistent with its November 20, 2007 Financial Statements and Information Statement Supplement.

Freddie Mac's surplus as a percent of the OFHEO-directed requirement significantly declined from 5.1 percent for the second quarter 2007 to \$0.6 billion or 1.7 percent for the third quarter 2007. The decline is a result of a \$1.7 billion reduction in core capital due primarily to increased credit loss expectations, continued market volatility and dividend payments. Freddie Mac has agreed to growth restrictions on its retained portfolio as of July 1, 2006 and remains in compliance with these restrictions. In September, the growth restrictions were loosened and the retained mortgage portfolios have remained well below these new limits. There are no restrictions on its issuance of guaranteed MBS.



The chart to the left shows Freddie Mac's surplus over the OFHEO-directed requirement over the last seven quarters. Over this time series, the surplus has fallen from its peak of \$4.5 billion in March 2006 to \$0.6 billion.

Although the filing of the Third Quarter 2007 Financial Statements and Information Statement Supplement continues to

demonstrate progress for Freddie Mac in returning to timely and accurate financial reporting, internal control and operational weaknesses remain evident. Significant work remains before Freddie Mac becomes a timely filer and SEC registrant.

OFHEO continues to support Freddie Mac's practice of managing the surplus above the OFHEO-directed requirement to compensate for its internal control and operational weaknesses, and to account for the sensitivity of the capital surplus to potential market valuation losses arising from changes in interest rates, market volatility, and credit loss expectations.

THIRD QUARTER CAPITAL RESULTS

Minimum and Critical Capital

Fannie Mae's OFHEO-directed capital requirement on September 30, 2007 was \$39.4 billion and its statutory minimum capital requirement was \$30.3 billion. Fannie Mae's core capital of \$41.7 billion exceeded the OFHEO-directed capital requirement by \$2.3 billion. Fannie Mae's core capital exceeded the statutory critical capital requirement by \$26.0 billion.

Freddie Mac's OFHEO-directed capital requirement on September 30, 2007 was \$34.0 billion and its statutory minimum capital requirement was \$26.2 billion. Freddie Mac's core capital of \$34.6 billion exceeded the OFHEO-directed minimum capital requirement by \$0.6 billion. Freddie Mac's core capital exceeded the statutory critical capital requirement by \$21.2 billion.

Enterprise Minimum Capital Requirement (Billions of Dollars) ^(a,b)				
	Fannie Mae		Freddie Mac	
	30-Sep-07	30-Jun-07 ^c	30-Sep-07	30-Jun-07
Minimum Capital - Statutory Requirement	30.303	30.328	26.190	26.580
Minimum Capital - OFHEO Directed Requirement	39.393	39.426	34.048	34.555
Core Capital	41.713	42.690	34.643	36.334
Surplus (Deficit) (based on OFHEO Directed Requirement)	2.319	3.265	0.596	1.779
Surplus as a Percent of OFHEO Directed Requirement	5.9%	8.3%	1.7%	5.1%

Enterprise Critical Capital Requirement (Billions of Dollars) ^(a)				
	Fannie Mae		Freddie Mac	
	30-Sep-07	30-Jun-07 ^c	30-Sep-07	30-Jun-07
Critical Capital Level	15.682	15.669	13.461	13.637
Core Capital	41.713	42.690	34.643	36.334
Surplus (Deficit)	26.031	27.021	21.182	22.697

a. Numbers may not add due to rounding.

b. OFHEO has directed both Fannie Mae and Freddie Mac to maintain an additional 30% capital in excess of the statutory minimum capital requirement. These requirements have been an additional requirement since January 28, 2004, for Freddie Mac and since September 30, 2005, for Fannie Mae. The OFHEO-directed minimum capital requirement and capital surplus numbers stated in these charts reflect the inclusion of the additional 30% OFHEO-directed capital requirement.

c. Restated.

During the third quarter of 2007, Fannie Mae's minimum capital surplus over the OFHEO-directed requirement decreased by \$0.9 billion to \$2.3 billion, approximately 5.9 percent above the OFHEO-directed minimum capital requirement of \$39.4 billion. The OFHEO-directed minimum capital requirement was flat from the second quarter as growth in MBS outstanding was offset by a decline in on-balance sheet assets. Core capital was \$41.7 billion, a reduction of \$1.0 billion from the second quarter. Fannie Mae reported losses of \$1.4 billion and dividend payments of \$0.6 billion, which were partially offset by the issuance of \$1.0 billion in preferred stock in the third quarter.

During the third quarter of 2007, Freddie Mac's minimum capital surplus over the OFHEO-directed requirement decreased by \$1.2 billion to \$0.6 billion, approximately 1.7 percent above the OFHEO-directed minimum capital requirement of \$34.0 billion. The OFHEO-directed minimum capital requirement declined \$0.5 billion from the second quarter due to reductions in the liquidity portfolio, which was partially offset by growth in MBS outstanding. Core capital was \$34.6 billion, a reduction of \$1.7 billion from the second quarter. Freddie Mac reported losses of \$2.0 billion, paid

dividends of \$0.4 billion and repurchased \$0.2 billion of common stock, which was partially offset by the issuance of \$1.0 billion in preferred stock in the third quarter.

Changes in critical capital mirrored changes in minimum capital for both Enterprises.

Risk-Based Capital

As of September 30, 2007, Fannie Mae's risk-based capital requirement was \$24.7 billion. Fannie Mae's total capital of \$43.1 billion on that date exceeded the requirement by \$18.4 billion.

As of September 30, 2007, Freddie Mac's risk-based capital requirement was \$11.3 billion. Freddie Mac's total capital of \$36.4 billion on that date exceeded the requirement by \$25.1 billion.

Enterprise Risk-Based Capital Requirement (Billions of Dollars) ^(a)								
Interest Rate Scenario	Fannie Mae				Freddie Mac			
	30-Sep-07		30-Jun-07		30-Sep-07		30-Jun-07	
	Up	Down	Up	Down	Up	Down	Up	Down
Risk Based Capital Requirement	10.602	24.676	4.847	10.225	5.916	11.316	7.956	18.944
Total Capital		43.053		43.578		36.394		37.141
Surplus (Deficit)		18.377		33.354		25.078		18.197

a. Numbers may not add due to rounding.

With Treasury interest rates falling, expected mortgage prepayments increased, but the increase was much smaller than would normally be expected due to both mortgage spreads widening and lack of appreciation in house prices, which reduced refinancing. Both Enterprises were able to maintain approximately no gap between the expected duration of their liabilities and assets.

By statute, stress test interest rate levels used in the Risk-based capital model are a function of the average 10-year Constant Maturity Treasury (CMT) over the most recent nine months. The nine-month average remained relatively constant from the previous quarter. As a result, 10 year CMT levels at the end of the first year of the stress period were approximately the same at 8.32 percent in the up rate stress test versus 8.26 percent last quarter, and 2.38 percent in the down rate stress test versus 2.36 percent in the second quarter. However, the starting 10-year CMT declined 58 basis points (0.58 percent), and the shocks, therefore changed dramatically.

Fannie Mae's risk-based capital requirement increased by 141 percent in part due to lower house prices (which increase losses) and in part due to higher debt costs - a significant volume of new debt balances issued in the previous quarter's stress test as short-term debt were instead issued as costlier long-term debt this quarter. The up rate requirement was \$10.6 billion, an increase of \$5.8 billion in the third quarter. The binding down rate requirement was \$24.7 billion, an increase of \$14.5 billion during the third quarter.

Freddie Mac's risk-based capital requirement declined in both the up and down scenarios during the third quarter. The up rate requirement was \$5.9 billion in the third quarter down \$2.0 billion from the second quarter. The binding down rate requirement declined to \$11.3 billion, a reduction of \$7.6 billion or 40 percent from the second quarter. The down rate requirement declined predominately due to projected default rates on new loans that vary based on the size of the down rate shock. The down rate scenario remained binding in the third quarter.

QUALIFICATIONS AND COMPLIANCE

Fannie Mae's capital classification is based upon its financial condition, as certified and represented as true and correct to the best of Fannie Mae management's belief and knowledge, and consistent with financial data publicly released by Fannie Mae on November 9, 2007. 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) and maintain it thereafter. Fannie Mae met the initial September 30, 2005 achievement of 30 percent surplus and it has continued to maintain the surplus through the third quarter of 2007.

Freddie Mac's capital classification is based upon its financial condition, as certified and represented as true and correct by Freddie Mac's management, and consistent with the publicly disclosed Information Statement Supplement issued on November 20, 2007. OFHEO imposed a capital surcharge of 30 percent of the minimum capital requirement for Freddie Mac in January 2004 due to increased operational risk. Freddie Mac has continued to maintain its minimum capital surplus in excess of the OFHEO-directed capital requirement through the third quarter of 2007.

THIRD QUARTER QUALIFYING SUBORDINATED DEBT RESULTS

OFHEO is releasing qualifying subordinated debt positions of Fannie Mae and Freddie Mac in accordance with the September 1, 2005 Agreements between OFHEO and the Enterprises. (See 9/2/05 release at <http://www.ofheo.gov/newsroom.aspx?ID=237&q1=0&q2=11>)

Fannie Mae's total capital and qualifying subordinated debt for the third quarter 2007 exceeded the requirements outlined in the Agreement dated September 1, 2005.

Freddie Mac's total capital and qualifying subordinated debt for the third quarter 2007 exceeded the requirements outlined in the Agreement dated September 1, 2005.

Enterprise Qualifying Subordinated Debt Disclosure				
(Billions of Dollars) ^(a)				
	Fannie Mae		Freddie Mac	
	30-Sep-07	30-Jun-07 ^b	30-Sep-07	30-Jun-07
Total Capital & Qualifying Subordinated Debt	49.538	50.984	41.066	41.767
Capital Requirement at 4% for On-Balance Sheet Assets and at 0.45% for Net MBS / PCs Outstanding	42.607	42.897	37.609	38.452
Surplus (Deficit)	6.931	8.088	3.456	3.315

Footnote:

- a. 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.
- b. Restated.

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 finance system by ensuring the safety and soundness of Fannie Mae and Freddie Mac.