



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

March 31, 2004

The Honorable Richard C. Shelby
Chairman
Committee on Banking, Housing and Urban
Affairs
U.S. Senate
534 Dirksen Senate Office Building
Washington, DC 20510

Dear Chairman Shelby:

I appreciate your interest in my views on your proposed legislation to establish a new regulator for Fannie Mae, Freddie Mac and the Federal Home Loan Bank System.

The objective of any legislation to strengthen GSE regulation must be to ensure that the regulator has all the powers, authority and resources necessary to do the job. Certainly, those powers should be no less than those granted to other safety and soundness regulators. Your legislation accomplishes that objective and I would like to express my support for your effort.

The new Federal Housing Enterprise Supervisory Agency ("FHESA") would have powers equal to those of other safety and soundness regulators. FHESA would have the ability to exercise its best judgment on the setting of capital standards, without the constraints of arbitrary statutory limitations. Experience from the savings and loan crisis demonstrates that capital can quickly dissipate in adverse conditions and that actions may need to be taken before capital is impaired. Therefore, the regulator must be allowed full discretion to set capital standards and make adjustments, both temporary and permanent, as necessary. The regulator must also have the authority to make adjustments quickly without unnecessary procedural hurdles.

FHSEA would also have the authority to place an enterprise into receivership. While the new regulator should do everything possible to avoid such a necessity, including timely adjustments to capital, explicit receivership provisions may be critical to preventing or lessening systemic problems in an extraordinary circumstance. Creditors deserve to know that a process exists for an orderly liquidation and satisfaction of their claims should an enterprise become insolvent. Receivership also fosters market discipline, which is an important component of safety and soundness regulation. The enterprises' subordinated debt would also become a more effective tool for the exercise of market discipline.

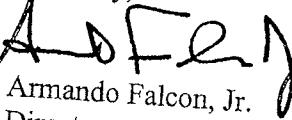
Your legislation also provides strong enforcement powers, permanent funding outside the appropriations process, direct hire authority, independent litigation authority, and full general

and incidental supervisory powers. This fills many of the gaps in OFHEO's current regulatory authorities.

Additionally, the new regulator must be an independent regulatory agency, with a governance structure that allows for decisive leadership and clear accountability. FHESA achieves that with the appointment of a Director to run the agency.

Finally, I continue to support giving the new regulator responsibility for mission regulation. All other safety and soundness regulators have this authority because safety and soundness regulation includes a responsibility to ensure that regulated entities are operating in a manner consistent with their charters. However, in exercising this authority, a GSE regulator must appreciate that the enterprises were chartered by Congress to fulfill an important public mission. If the risk and capital concerns of a new activity or program are properly addressed, then the regulator should consider charter questions with due regard for the public mission and need to innovate. Safety and soundness regulation is not incompatible with an enterprise's mission. At OFHEO, we consider our mission to be in part a housing mission, as through our work we are making an important contribution to furthering home ownership.

Thank you for considering my views, and we are available to provide the committee with any assistance it may request.

Sincerely,

Armando Falcon, Jr.
Director

cc: The Honorable Paul S. Sarbanes
Ranking Minority Member
Committee on Banking, Housing
and Urban Affairs
U.S. Senate
534 Dirksen Senate Office Building
Washington, DC 20510



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

March 31, 2004

Honorable Richard C. Shelby, Chairman
Committee on Banking, Housing,
and Urban Affairs
United States Senate
Washington, DC 20510-6075

Re: Capital Classification at December 31, 2004

Dear Mr. Chairman:

In accordance with §§ 1362 and 1364 of the Federal Housing Enterprises Financial Safety and Soundness Act of 1992, and 12 CFR § 1750, the Office of Federal Housing Enterprise Oversight (OFHEO) is required to determine the capital level and classification of the Federal Home Loan Mortgage Corporation (Freddie Mac) not less than quarterly, and to report the results to Congress. OFHEO hereby reports that Freddie Mac is classified as adequately capitalized at December 31, 2003.

On March 12, 2004, OFHEO issued a notice of proposed action indicating its intention to classify Freddie Mac as adequately capitalized at December 31, 2003. Freddie Mac had until March 24, 2004, to submit for OFHEO's consideration any information relevant to the notice of proposed action. Freddie Mac did not submit additional information and agreed with the minimum and risk-based capital requirements as calculated by OFHEO.

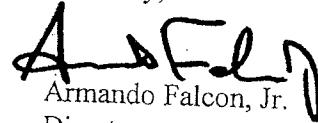
As indicated in the enclosures, Freddie Mac's minimum capital requirement was \$24.237 billion, its critical capital level was \$12.328 billion, and its risk-based capital level was \$5.426 billion at December 31, 2003. Thus, Freddie Mac's core capital of \$33.285 billion on that date exceeded the minimum requirement by \$9.048 billion and the critical level by \$20.958 billion. Freddie Mac's total capital of \$33.436 billion on that date exceeded the risk-based capital requirement by \$28.010 billion.

Freddie Mac's capital classification is based on financial information and application of accounting policies currently involved in the restatement process. The classification is also based upon capital requirements in effect for this time period. The accounting changes will impact minimum capital surpluses but have less of an impact on risk-based capital surpluses as the cash flows modeled and the economics of the various transactions have not changed. The \$5 billion capital increase that resulted from Freddie Mac's restated 2002 financials is reflected in the December 2003 results. Freddie Mac

will resubmit appropriate financial data after publishing financial results for 2003, and the Director will determine whether a recalculation of regulatory capital is necessary at that time.

Please contact me if you should have any questions or concerns regarding this matter.

Sincerely,



Armando Falcon, Jr.
Director

Enclosures

FEDERAL HOME LOAN MORTGAGE CORPORATION
Minimum Capital Level
December 31, 2003

SUMMARY

(Dollars in millions)

COMPONENTS OF THE MINIMUM CAPITAL LEVEL	
ON-BALANCE SHEET ASSETS	20,470
OFF-BALANCE SHEET OBLIGATIONS	
MBS and Equivalents	3,268
Commitments	273
OTHER OFF-BALANCE SHEET OBLIGATIONS	
Interest Rate and Foreign Exchange Rate Contracts	114
Sold Portfolio Remittances Pending	13
Other Off-Balance Sheet Obligations	98
MINIMUM CAPITAL LEVEL	24,237
CORE CAPITAL	33,285
SURPLUS/(DEFICIENCY)	9,048

Note: Totals may not add due to rounding.

FEDERAL HOME LOAN MORTGAGE CORPORATION
Critical Capital Level
December 31, 2003

SUMMARY

(Dollars in millions)

COMPONENTS OF THE CRITICAL CAPITAL LEVEL

ON-BALANCE SHEET ASSETS	10,235
OFF-BALANCE SHEET OBLIGATIONS	2,092
CRITICAL CAPITAL LEVEL	12,328
CORE CAPITAL	33,285
SURPLUS/(DEFICIENCY)	20,958

Note: Totals may not add due to rounding.



FEDERAL HOME LOAN MORTGAGE CORPORATION
Risk-Based Capital Level
December 31, 2003

SUMMARY

(Dollars in millions)

STRESS TEST SCENARIO RESULTS

UP-RATE SCENARIO	5,094
DOWN-RATE SCENARIO	5,426
RISK-BASED CAPITAL LEVEL	5,426
TOTAL CAPITAL	33,436
SURPLUS/(DEFICIENCY)	28,010

Note: Totals may not add due to rounding.



Barney

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

March 31, 2004

Honorable Barney Frank
Ranking Minority Member
Committee on Financial Services
House of Representatives
Washington, DC 20515-6050

Re: Capital Classification at December 31, 2003

Dear Congressman Frank:

In accordance with §§ 1362 and 1364 of the Federal Housing Enterprises Financial Safety and Soundness Act of 1992, and 12 CFR § 1750, the Office of Federal Housing Enterprise Oversight (OFHEO) is required to determine the capital level and classification of the Federal Home Loan Mortgage Corporation (Freddie Mac) not less than quarterly, and to report the results to Congress. OFHEO hereby reports that Freddie Mac is classified as adequately capitalized at December 31, 2003.

On March 12, 2004, OFHEO issued a notice of proposed action indicating its intention to classify Freddie Mac as adequately capitalized at December 31, 2003. Freddie Mac had until March 24, 2004, to submit for OFHEO's consideration any information relevant to the notice of proposed action. Freddie Mac did not submit additional information and agreed with the minimum and risk-based capital requirements as calculated by OFHEO.

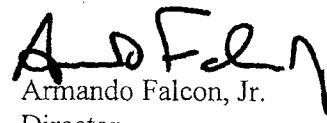
As indicated in the enclosures, Freddie Mac's minimum capital requirement was \$24.237 billion, its critical capital level was \$12.328 billion, and its risk-based capital level was \$5.426 billion at December 31, 2003. Thus, Freddie Mac's core capital of \$33.285 billion on that date exceeded the minimum requirement by \$9.048 billion and the critical level by \$20.958 billion. Freddie Mac's total capital of \$33.436 billion on that date exceeded the risk-based capital requirement by \$28.010 billion.

Freddie Mac's capital classification is based on financial information and application of accounting policies currently involved in the restatement process. The classification is also based upon capital requirements in effect for this time period. The accounting changes will impact minimum capital surpluses but have less of an impact on risk-based capital surpluses as the cash flows modeled and the economics of the various transactions have not changed. The \$5 billion capital increase that resulted from Freddie Mac's restated 2002 financials is reflected in the December 2003 results. Freddie Mac

will resubmit appropriate financial data after publishing financial results for 2003, and the Director will determine whether a recalculation of regulatory capital is necessary at that time.

Please contact me if you should have any questions or concerns regarding this matter.

Sincerely,



A handwritten signature in black ink, appearing to read "Armando Falcon, Jr."

Armando Falcon, Jr.
Director

Enclosures

FEDERAL HOME LOAN MORTGAGE CORPORATION
Minimum Capital Level
December 31, 2003

SUMMARY

(Dollars in millions)

COMPONENTS OF THE MINIMUM CAPITAL LEVEL	
ON-BALANCE SHEET ASSETS	20,470
OFF-BALANCE SHEET OBLIGATIONS	
MBS and Equivalents	3,268
Commitments	273
OTHER OFF-BALANCE SHEET OBLIGATIONS	
Interest Rate and Foreign Exchange Rate Contracts	114
Sold Portfolio Remittances Pending	13
Other Off-Balance Sheet Obligations	98
MINIMUM CAPITAL LEVEL	24,237
CORE CAPITAL	33,285
SURPLUS/(DEFICIENCY)	9,048

Note: Totals may not add due to rounding.

 FEDERAL HOME LOAN MORTGAGE CORPORATION

Critical Capital Level
December 31, 2003

SUMMARY

(Dollars in millions)

COMPONENTS OF THE CRITICAL CAPITAL LEVEL

ON-BALANCE SHEET ASSETS	10,235
OFF-BALANCE SHEET OBLIGATIONS	2,092
CRITICAL CAPITAL LEVEL	12,328
CORE CAPITAL	33,285
SURPLUS/(DEFICIENCY)	20,958

Note: Totals may not add due to rounding.

FEDERAL HOME LOAN MORTGAGE CORPORATION

Risk-Based Capital Level

December 31, 2003

SUMMARY

(Dollars in millions)

STRESS TEST SCENARIO RESULTS

UP-RATE SCENARIO	5,094
DOWN-RATE SCENARIO	5,426
RISK-BASED CAPITAL LEVEL	5,426
TOTAL CAPITAL	33,436
SURPLUS/(DEFICIENCY)	28,010

Note: Totals may not add due to rounding.



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

March 31, 2004

Honorable Richard C. Shelby, Chairman
Committee on Banking, Housing,
and Urban Affairs
United States Senate
Washington, DC 20510-6075

Re: Capital Classification at December 31, 2003

Dear Mr. Chairman:

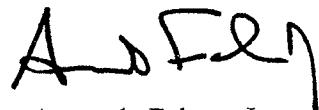
In accordance with §§ 1362 and 1364 of the Federal Housing Enterprises Financial Safety and Soundness Act of 1992, and 12 CFR § 1750, the Office of Federal Housing Enterprise Oversight (OFHEO) is required to determine the capital level and classification of the Federal National Mortgage Association (Fannie Mae) not less than quarterly, and to report the results to Congress. OFHEO hereby reports that Fannie Mae is classified as adequately capitalized at December 31, 2003. Fannie Mae's capital calculation is based on financial information and the application of accounting policies currently under review by OFHEO. The outcome of the review may result in a restatement of prior period results and a revision of the respective quarters.

On March 12, 2004, OFHEO issued a notice of proposed action indicating its intention to classify Fannie Mae as adequately capitalized at December 31, 2003. Fannie Mae had until March 24, 2004, to submit for OFHEO's consideration any information relevant to the notice of proposed action. Fannie Mae did not submit additional information and agreed with the minimum and risk-based capital requirements as calculated by OFHEO.

As indicated in the enclosures, Fannie Mae's minimum capital requirement was \$31.520 billion, its critical capital level was \$16.113 billion, and its risk-based capital level was \$27.221 billion at December 31, 2003. Thus, Fannie Mae's core capital of \$34.405 billion on that date exceeded the minimum requirement by \$2.885 billion and the critical level by \$18.292 billion. Fannie Mae's total capital of \$35.182 billion on that date exceeded the risk-based capital requirement by \$7.960 billion.

Please contact me if you should have any questions or concerns regarding this matter.

Sincerely,

A handwritten signature in black ink, appearing to read "Armando Falcon, Jr."

Armando Falcon, Jr.
Director

Enclosures

FEDERAL NATIONAL MORTGAGE ASSOCIATION

Minimum Capital Level
December 31, 2003

SUMMARY

(Dollars in millions)

COMPONENTS OF THE MINIMUM CAPITAL LEVEL	
ON-BALANCE SHEET ASSETS	25,158
OFF-BALANCE SHEET OBLIGATIONS	
MBS and Equivalents	5,851
Commitments	312
OTHER OFF-BALANCE SHEET OBLIGATIONS	
Interest Rate and Foreign Exchange Rate Contracts	137
Other Off-Balance Sheet Obligations	63
MINIMUM CAPITAL LEVEL	31,520
CORE CAPITAL	34,405
SURPLUS/(DEFICIENCY)	2,885

Note: Totals may not add due to rounding.

FEDERAL NATIONAL MORTGAGE ASSOCIATION

Critical Capital Level
December 31, 2003

SUMMARY

(Dollars in millions)

COMPONENTS OF THE CRITICAL CAPITAL LEVEL

ON-BALANCE SHEET ASSETS	12,579
OFF-BALANCE SHEET OBLIGATIONS	3,534
CRITICAL CAPITAL LEVEL	16,113
CORE CAPITAL	34,405
SURPLUS/(DEFICIENCY)	18,292

Note: Totals may not add due to rounding.

 FEDERAL NATIONAL MORTGAGE ASSOCIATION
Risk-Based Capital Level
December 31, 2003

SUMMARY

(Dollars in millions)

STRESS TEST SCENARIO RESULTS

UP-RATE SCENARIO	5,796
DOWN-RATE SCENARIO	27,221
RISK-BASED CAPITAL LEVEL	27,221
TOTAL CAPITAL	35,182
SURPLUS/(DEFICIENCY)	7,960

Note: Totals may not add due to rounding.

TED STEVENS, ALASKA, CHAIRMAN

THAD COCHRAN, MISSISSIPPI
ARLEN SPECTER, PENNSYLVANIA
PETE V. DOMENICI, NEW MEXICO
CHRISTOPHER S. BOND, MISSOURI
MICHAEL MCCONNELL, KENTUCKY
THOMAS BURNS, MONTANA
JAMES C. SHELBY, ALABAMA
JOHN GREGG, NEW HAMPSHIRE
THOMAS T. BENNETT, UTAH
DEN NIGHTHORSE CAMPBELL, COLORADO
LARRY CRAIG, IDAHO
KAY BAILEY HUTCHISON, TEXAS
MIKE DEVINE, OHIO
SAM BROWNBACK, KANSAS

ROBERT C. BYRD, WEST VIRGINIA
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PATRICK J. LEAHY, VERMONT
TOM HARKIN, IOWA
BARBARA A. MIKULSKI, MARYLAND
HARRY REID, NEVADA
HERB KOHL, WISCONSIN
PATTY MURRAY, WASHINGTON
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DIANNE FEINSTEIN, CALIFORNIA
RICHARD J. DURBIN, ILLINOIS
TIM JOHNSON, SOUTH DAKOTA
MARY L. LANDRIEU, LOUISIANA

JAMES W. MORHARD, STAFF DIRECTOR
TERRENCE E. SAUVAIN, MINORITY STAFF DIRECTOR

United States Senate

COMMITTEE ON APPROPRIATIONS

WASHINGTON, DC 20510-6025

www.senate.gov/~appropriations

May 18, 2004

The Honorable Armando Falcon Jr.
Director
Office of Federal Housing Enterprise Oversight
1700 G Street, NW
Washington, DC 20552

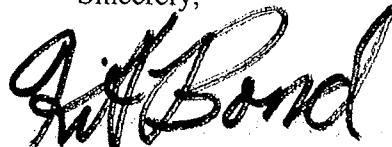
Dear Mr. Falcon,

Please provide a spending and staffing plan for the Office of Federal Housing Enterprise Oversight (OFHEO) that meets the requirement in the VA/HUD FY 2004 Appropriations Act that no less than 60 percent of the total funds appropriated for OFHEO for FY 2004 will be used only for the examination, supervision and capital oversight of Fannie Mae and Freddie Mac ("GSEs"). This plan should reflect staffing and spending decisions that are consistent with those used by other regulators of financial institutions. For purposes of this plan, staff positions at OFHEO should be consistent with the way other regulators of financial institutions, such as the Office of Thrift Supervision (OTS) and the Federal Deposit Insurance Corporation (FDIC), define the staff positions and activities associated with the professional examination, supervision and capital oversight of their regulated entities.

In addition, I also ask that you verify that the staff positions, including education, expertise, responsibilities, salaries and other compensation, at OFHEO are consistent with the characteristics of the staff at other financial regulators. Also, please provide an analysis of how all resources are allocated at OFHEO as compared to other financial regulators.

Thank you in advance for your time and consideration. I assume most of this information and analysis is already available within OFHEO and that this request can be easily expedited within the next 30 days. If you have any questions, please contact Jon Kamarck, Clerk, VA/HUD Appropriations Subcommittee at (202) 224-0410.

Sincerely,



Christopher S. Bond
Chairman
Subcommittee on VA, HUD, and
Independent Agencies



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

June 23, 2004

The Honorable Christopher S. Bond
Chairman
Subcommittee on Veterans Affairs, HUD and
Independent Agencies
Committee on Appropriations
U. S. Senate
130 Dirksen Senate Office Building
Washington, D.C. 20510

Dear Chairman Bond:

I am pleased to provide you with OFHEO's spending and staffing plans that meet the requirement in the VA/HUD FY 2004 Appropriations Act. OFHEO continues to remain focused on its mission as the safety and soundness regulator of Fannie Mae and Freddie Mac (the Enterprises). In FY 2004, OFHEO plans to devote 84 percent of its resources on examination, supervision and capital oversight of the Enterprises, far in excess of the 60 percent minimum requirement of the total funds appropriated in FY 2004. (Attachment 1)

I have strengthened OFHEO's examination program by creating two separate, fully-staffed examination units, one for Fannie Mae and one for Freddie Mac. Each unit will be headed by an examiner-in-charge. In addition, I created two new offices to focus on exams for compliance and accounting issues. As of June 8, OFHEO had 161 employees on-board. With the resources requested in the President's FY 2005 budget, OFHEO plans on growing to 237 employees, with 85 percent of this growth in the offices responsible for the direct supervision of the Enterprises. (Attachments 2 and 3) To assist us in this growth, OFHEO requested and received direct hire authority from OPM for examiners and accountants. This will maintain our current focus on and resource allocation for examination activities.

OFHEO staff positions are comparable to the staff positions at other financial regulators. Our position descriptions clearly outline the necessary skills, experience, and other qualifications needed to be considered for employment at OFHEO. OFHEO regularly recruits employees from other financial regulators and banking institutions. For example, since mid-May, 2004, OFHEO has filled thirteen examiner positions with individuals who are currently employed or were employed by other financial regulators. Of those thirteen positions, three employees were hired from the Office of the Comptroller of the Currency, two from the Federal Reserve Board, one from the Pension Benefit Guarantee Corporation, one from the Small Business Administration,

and six from private banks. Each of these employees performed duties at their former employers similar to those they will be responsible for at OFHEO.

Compensation at OFHEO is required by law to be comparable to that at other federal regulators. To achieve comparability, OFHEO periodically conducts a thorough study of the compensation for its employees, comparing it to compensation for similar positions at the other financial regulators. Based on our most recent study, OFHEO moved from a 7-broad pay band structure to an 18-grade structure to provide for finer delineations of compensation levels. All positions were then slotted into the new structure in order to more effectively ensure comparability.

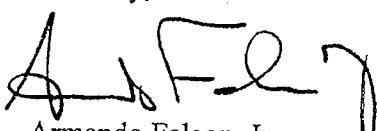
OFHEO also conducts annual reviews of all the compensation programs at other federal regulators. Annual merit pay increase amounts for OFHEO employees are determined by the results of this review in order to ensure that OFHEO maintains comparability.

OFHEO estimates the allocation of resources to each of the three strategic objectives contained in its Strategic Plan. Strategic Objective One relates directly to the examination, supervision and capital oversight of the Enterprises and, as previously stated, 84 percent of its FY 2004 resources are devoted to these activities. In FY 2005, OFHEO estimates that 91 percent of its budgeted resources will be devoted to this Objective.

OFHEO is comparable with the other financial regulators with respect to the percentage of its resources devoted to supervision activities. Using information contained in publicly available FY 2004 performance plans, the percentage of resources devoted to supervision activities is 87 percent for the Office of Thrift Supervision, 60 percent for the Federal Deposit Insurance Corporation, and 89 percent for the Office of the Comptroller of the Currency. (Attachment 4)

OFHEO continues to strengthen its oversight of the Enterprises and looks forward to working with you in the future to accomplish the agency's important mission.

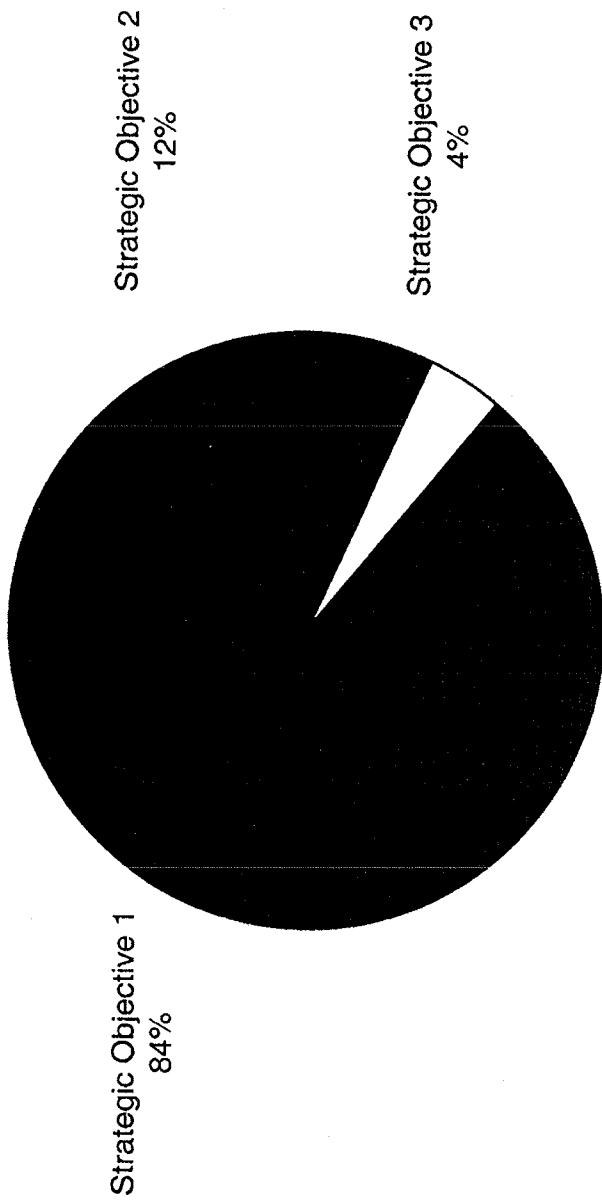
Sincerely;



Armando Falcon, Jr.
Director

Attachments

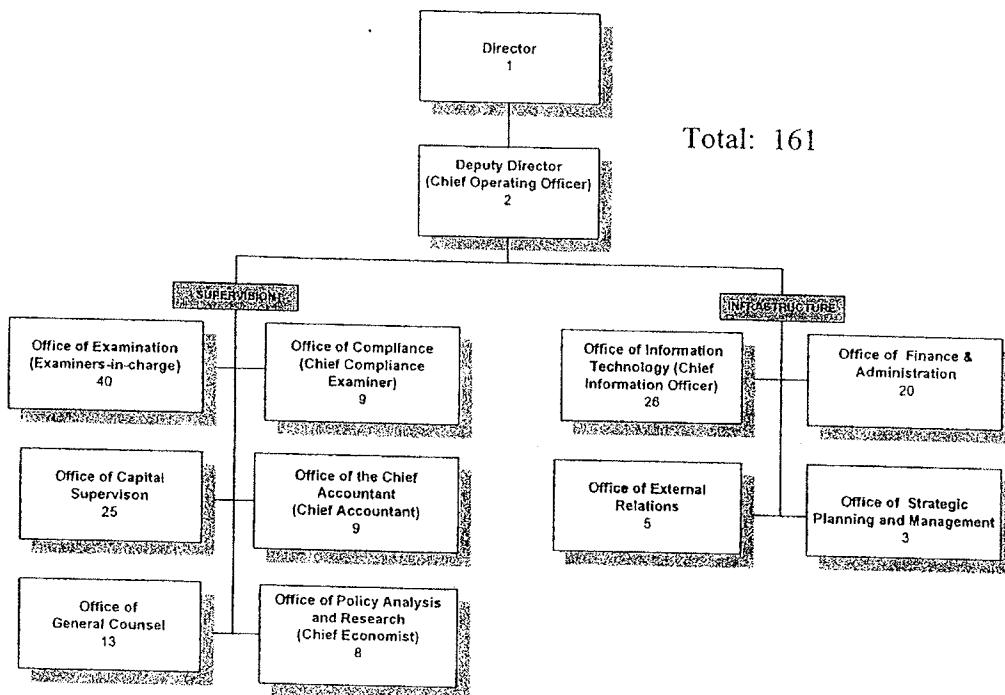
Distribution of FY 2004 Budget Request (Includes Total Budget Request of \$39,915,000)



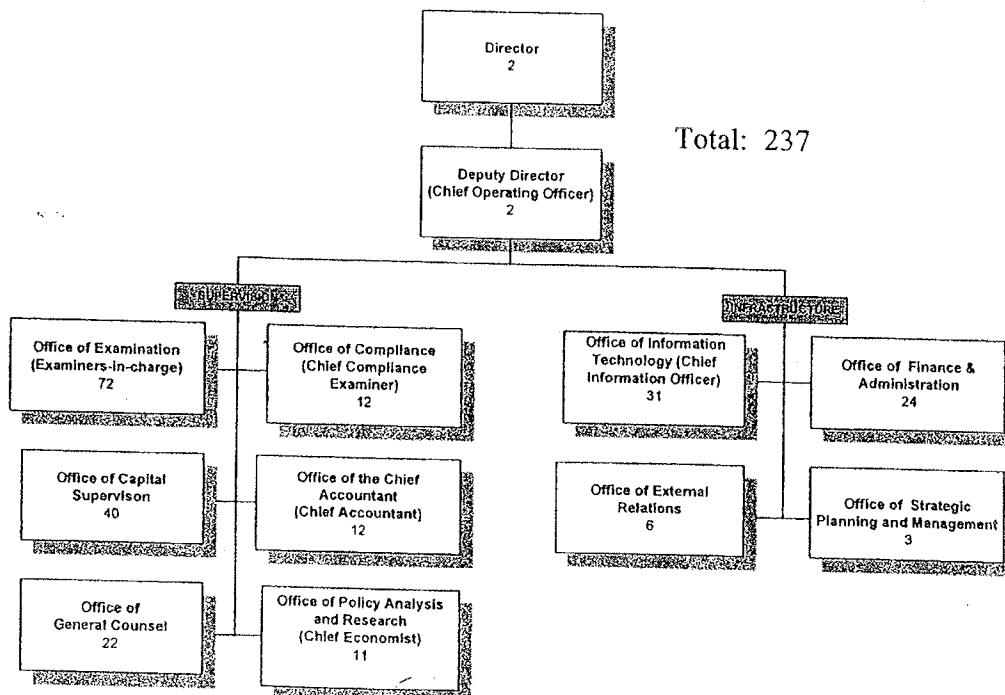
- Strategic Objective 1: Ensure the Enterprises comply with safety and soundness standards, are adequately capitalized, and comply with other legal requirements.
- Strategic Objective 2: Enhance public understanding of the nation's housing finance system.
- Strategic Objective 3: Contribute to Federal efforts to promote efficient and effective financial markets and homeownership.

Attachment 2

**Current On Board
As of June 8**

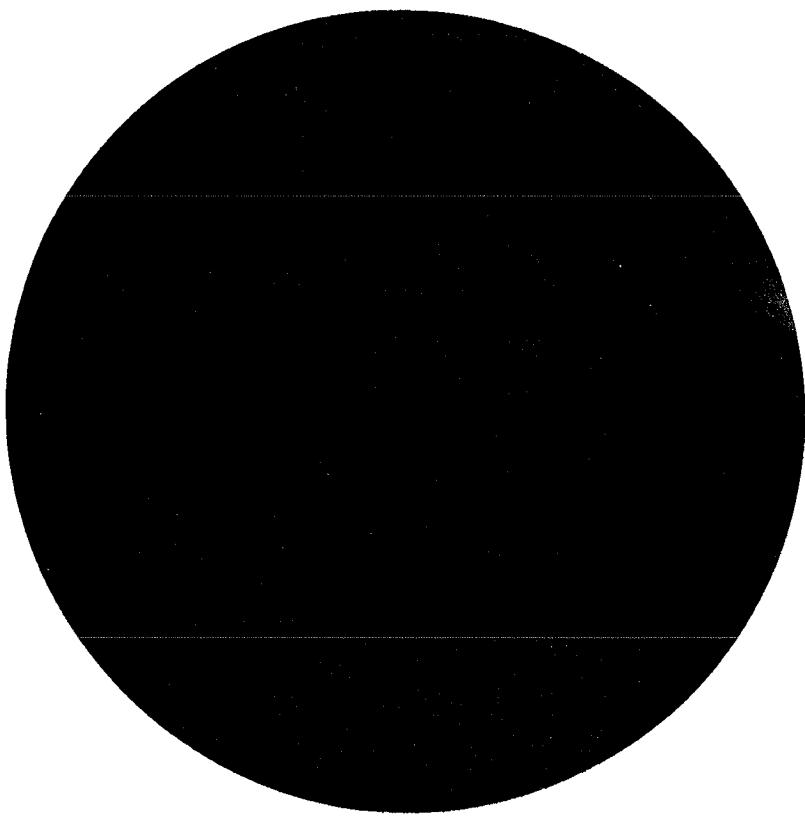


**Staffing Plan Through FY 2005
As of June 2004**



Note: Positions include part time and temporary.

85% of New Positions in 2005 Planned for Examination or Capital Activities



Attachment 4

Financial Regulator Resource Allocations for FY 2004

Category	OTS % of Budget	FDIC % of Budget	OCC % of Budget	Office % of Budget
Supervision	\$154,773,000 87.0%	\$652,064,026 59.8%	\$423,896,000 88.9%	\$33,544,275 84.0%
Legal and Regulatory Framework	\$17,790,000 10.0%	\$0 0.0%	\$52,979,000 11.1%	\$0 0.0%
Professional Workforce	\$5,337,000 3.0%	\$0 0.0%	\$0 0.0%	\$0 0.0%
Insurance Program	\$0 0.0%	\$161,507,987 14.8%	\$0 0.0%	\$0 0.0%
Receivership Management Program	\$0 0.0%	\$276,431,407 25.4%	\$0 0.0%	\$0 0.0%
Enhance Public Understanding of Housing System	\$0 0.0%	\$0 0.0%	\$0 0.0%	\$4,694,867 11.8%
Promote Effective Financial Markets & Homeownerships	\$0 0.0%	\$0 0.0%	\$0 0.0%	\$1,675,858 4.2%
Total	\$177,900,000 100.0%	\$1,090,003,420 100.0%	\$476,875,000 100.0%	\$39,915,000 100.0%

Sources:

OTS: 2004 Budget Performance Plan
FDIC: 2004 Annual Performance Plan
OCC: 2004 Budget Performance Plan

OFHEO
Fiscal Year 2005 Congressional Justification Budget

BUDGET GOALS:

1. Continue to strategically strengthen and enhance supervisory programs concentrating on the annual examination, special compliance examinations, accounting treatment examinations, and capital management examination and analyses.
2. Add the necessary depth and breadth in supervision staff to ensure that OFHEO serve as an early warning system for control and management problems, accounting treatments and business practices, and for emerging financial issues.
 - Seeks \$59.2 million supporting 237 positions.
Increase of \$19.3 million over the enacted fiscal year 2004 budget of \$39.9 million.
Increase of 59 positions over the estimated fiscal year 2004 budget.
 - Requests \$3.3 million for contract services for special examinations.
 - Adds \$2.5 million to complete the automated examination workstation to bolster examiner access to internal and external data resources and strengthen examination work products.
 - Seeks \$1.4 million to purchase and deploy analytical software to improve oversight of interest rate risk at the Enterprises.
 - Asks for \$990,000 for contractor support to leverage existing software capability to improve controls over time and attendance and payroll, enhance financial management information, and further streamline administrative processes. This also includes funding to implement the E-Travel software mandated by the General Services Administration, and funding for services to electronically link the new time and attendance system to the National Finance Center payroll systems.
 - Continues existing programs and activities for IT maintenance, Contingency of Operations, employee benefits, intergovernmental services.

DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT
OFFICE OF FEDERAL HOUSING ENTERPRISE OVERSIGHT

Legislative Proposal

It is expected that all resources available to the Office of Federal Housing Enterprise Oversight (OFHEO) would be transferred to a new strengthened housing GSE regulator upon enactment of the proposal announced by the Secretaries of the Departments of Housing and Urban Development and the Treasury on September 10, 2003 and October 16, 2003. Absent legislative change, however, OFHEO's expenses for regulating the GSEs Fannie Mae and Freddie Mac in 2005 are now anticipated to be \$59,208,753, as indicated in the President's 2005 Budget as amended May 6, 2004. The Administration continues to support direct funding of these activities with mandatory assessments on Fannie Mae and Freddie Mac.

Salaries and Expenses

The Federal Housing Enterprises Financial Safety and Soundness Act of 1992, (P. L. 102-550, Section 1313(a)), Title XIII of the Housing and Community Development Act of 1992 (1992 Act), established OFHEO as an independent office in the Department of Housing and Urban Development (HUD) to supervise the two largest government-sponsored enterprises - Fannie Mae and Freddie Mac. The Act mandates annual examinations of Fannie Mae and Freddie Mac by OFHEO to determine the condition of each Enterprise for the purpose of ensuring financial safety and soundness. The statute also requires OFHEO to develop and administer capital requirements for the Enterprises and to conduct other research and financial analysis necessary for effective regulatory oversight. In so doing, OFHEO helps ensure the Enterprises are able to provide liquidity to the mortgage markets and promote homeownership.

The OFHEO budget request of \$59.2 million for fiscal year 2005 remains modest in comparison with the trillions of dollars at stake at the Enterprises and the importance of public confidence in the Enterprises. The number of corporate accounting fraud cases and subsequent corporate failures in the past few years has eroded the Public's confidence in business practices and shaken the U.S. economy. The accounting failures and management control weaknesses made public last year at Freddie Mac served to underscore the importance of maintaining a strong, flexible regulator of the Enterprises.

The Enterprises engage in two principal lines of business; the buying and holding of residential mortgages and mortgage-backed securities, and the guaranteeing of securities backed by residential mortgages. The Enterprises' business decisions reflect their understanding, interpretation and management of risk. It is OFHEO's responsibility to understand and interpret the Enterprises' risk management strategies as well as how risks may evolve over time and what potential ramifications these risks may have within the economy and housing sector and economy in general. For example the Enterprises have increased their use of derivative instruments from a national amount of \$72 billion at year-end 1993 to \$1.7 trillion on December 31, 2003 representing a twenty-fold increase.

At the same time, dramatic advances in technology represent the foundation of these business initiatives. The Enterprises employ cutting-edge risk management techniques, built on quantitative models, to manage the many alterations of their risk profile. These technologies carry with them operational challenges that no only permit Fannie Mae and Freddie Mac to leverage their resources but also expand their operational risks.

Just as the Enterprises continually evaluate their operating processes and initiate new activities, OFHEO must continually evaluate its capability to oversee these new processes and risks. OFHEO must be able to respond quickly to developments at the Enterprises, and must have adequate resources to deploy quickly to address emerging issues.

BUDGET HIGHLIGHTS

The following table summarizes the funding and staffing levels for OFHEO for fiscal year 2003, the enacted fiscal year 2004, and the amended fiscal year 2005.

	ACTUAL 2003	ESTIMATE 2004	ESTIMATE 2005	INCREASE + DECREASE - 2005 vs 2004	
				(\$ in thousands)	
<u>From Appropriation:</u>					
Budget Authority (Assessed To GSE's)	\$30,000	\$39,915	\$59,209		\$19,294
Interagency Agreements ...a/ Prior Year Recoveryb/	\$29 <u>\$68</u>	... <u>... \$30,097</u>	... <u>... \$39,915</u>	... <u>... \$59,209</u>	... <u>... \$59,209</u>
Total Obligations	\$30,095	\$39,915	\$59,209		\$59,209
Unobligated Balance EOY	0
Outlays (net)	\$27,742	\$39,000	\$58,500		\$19,500
Positions Funded	126	178	237		59

a/ The \$29,353 in 2003 represents an extension of the 2002 Economy Act Agreement between OFHEO and the Small Business Administration (SBA). OFHEO is assisting SBA in the development of an econometric equation-based computer model. The Office of Management and Budget (OMB) apportioned this amount to OFHEO for obligation during 2003.

b/ OMB approved OFHEO's request to recover prior year obligations for re-obligation during fiscal year 2003. OMB reapportioned \$67,884 to OFHEO as an increase in budgetary resources available to OFHEO during fiscal year 2003.

1. CHANGES FROM ESTIMATES INCLUDED IN 2004 BUDGET

Since the fiscal year 2004 Budget was submitted, the regulatory environment of the Enterprises has changed dramatically, and OFHEO's funding requirements have likewise changed. The events at Freddie Mac that led to the announcement that it would need to re-state its financial statements resulted in OFHEO conducting a special investigation of the circumstances leading to that announcement.

The special investigation identified serious internal management control issues and accounting weaknesses at Freddie Mac and led to subsequent enforcement actions by OFHEO. The report of special investigation at Freddie Mac concluded that OFHEO must ensure that Freddie Mac establishes an adequate remediation plan and allocate the necessary resources to establish a new corporate culture that rewards integrity and the acceptance of responsibility while penalizing failure to meet appropriate standards of conduct. OFHEO will oversee corrective actions taken by Freddie Mac during fiscal year 2004, and evaluate their operational effectiveness.

Late in fiscal year 2003, OFHEO announced plans to conduct a special examination of accounting practices at Fannie Mae, and issued a "Request for Proposals" to secure contract services to support the special examination.

2004 Budget Request

OFHEO amended the funding request for fiscal year 2004 in order to respond to the additional events at Freddie Mac and to strengthen overall examination activities. OFHEO requested and received a total of \$39.9 million, including \$32.4 million contained in the President's fiscal year 2004 budget and \$7.5 million in a budget amendment transmitted September 12, 2003. The increase of \$7.5 million is allocated to three supervisory initiatives.

First, \$1.5 million was allocated to the litigation of enforcement actions against the former CEO and Chairman of the Freddie Mac Board, and the former Chief Financial Officer. These enforcement actions are currently being litigated, requiring increasing amounts of internal and external resources for legal support, discovery and litigation management. OFHEO is seeking additional resources in 2005 to support the litigation of the enforcement actions.

Second, \$3 million was allocated to contract support for the special examination of accounting practices at Fannie Mae. OFHEO awarded a contract in March 2004 for a comprehensive examination of applied accounting policies at the Enterprise. The \$3 million was not adequate to fully fund the scope of work envisioned for the special examination and OFHEO is seeking additional funds in the 2005 budget to complete the examination.

Finally, \$3 million was allocated to strengthen and add capacity to OFHEO's supervisory program of the Enterprises. These funds are being used to hire and pay additional staff supporting the restructured, focused program of supervision. OFHEO is seeking additional funding in the fiscal year 2005 budget to more fully staff the new supervisory program.

Restructuring OFHEO

Fiscal year 2004 marks the commencement of a targeted re-structuring of OFHEO to enhance the focus on supervision and improve internal collaboration on Enterprise safety and soundness issues. OFHEO reorganized the annual examination function into two fully staffed units, one for Freddie Mac and one for Fannie Mae. Each unit is headed by an Examiner-in-Charge. This structure facilitates full time examination teams covering specific risks at each Enterprise rather than the previous shared examination team for specific risks. This targeted approach also fosters improved responsibility and accountability for examination activities at each Enterprise.

The Director created two new examination offices to provide more focused supervision over compliance and accounting activities. The Office of Compliance conducts special examinations of the Enterprises on particular issues or specific areas requested by the Director that are outside the scope of the regular safety and soundness program. This office is responsible for identifying and investigating emerging issues and potential weaknesses of the Enterprises and recommending corrective, preventive and enforcement actions, as appropriate.

The Office of the Chief Accountant advises the Director and OFHEO staff on all accounting matters that concern the Enterprises. The Office develops policy on safety and soundness issues related to accounting and financial reporting and monitors all accounting policy related to the Enterprises, working with the Enterprises at a policy level as emerging issues arise. This Office supports and

coordinates accounting resources within the agency to ensure the best and most efficient use of those resources. This office supports other OFHEO offices to ensure that accounting policy interpretation and implementation are consistent across offices and with the mission of OFHEO. This office also interacts with external constituents on accounting issues.

In order to facilitate increased collaboration among key staff, the Director grouped the following offices under "Supervision": Office of Examination, Office of Compliance, Office of the Chief Accountant, Office of Capital Supervision, Office of General Counsel, and Office of Policy Analysis and Research. These offices each report to the Deputy Director who ensures coordination and information flow on key Enterprise issues.

SUMMARY OF AMENDED 2005 BUDGET

Absent enactment of the legislative proposal in the 2005 Budget, the \$59.2 million budget request for fiscal year 2005 provides resources to enhance and expand supervisory activities at the Enterprises through a restructured and refocused OFHEO. While OFHEO has made progress in fiscal year 2004 in strengthening its supervision functions, the additional funding in 2005 is required to fully implement a robust, proactive oversight program of the Enterprises.

OFHEO's proposed fiscal year 2005 Budget seeks an increase in base funding to continue to expand and strengthen the Office's risk assessment capabilities needed to achieve Strategic Goal 1. With the resources requested for fiscal year 2005, OFHEO plans to strengthen and add to existing capacity to: 1) assess the financial impact of the Enterprises' recorded transactions, in comparison to the economic intent of the transactions; 2) develop the capacity to analyze the financial impact of accounting treatments for various financial transactions; 3) evaluate the effectiveness of corporate governance activities; 4) provide a more focused and continuous analysis of new activities and products; and 5) evaluate OFHEO experience under the existing RBC regulation to determine whether adjustments are required in order to provide the most appropriate measurement of risk-based capital for each Enterprise. OFHEO believes these initiatives would serve to enhance the effectiveness of its regulatory efforts and address many of the concerns raised by Congress in the wake of the recent events at Freddie Mac.

Staffing Increase to Strengthen Supervision

The proposed budget for fiscal year 2005 supports 237 positions. The 2004 Enacted budget funded 178 positions. This is an increase of 59. Below is a distribution of the planned 2005 new positions and overall staff resources.

- Fifty (85%) of the 59 new FTE are allocated to direct supervision activities of the Enterprises.
 - Twelve positions would expand and strengthen capital management through the creation of capital examination and the enhancement of capital administration and improvement of modeling capabilities.
 - Eleven positions are added to staff the newly created Chief Compliance Examiner's office.
 - Ten are allocated to strengthen annual examination activities.
 - Eight positions are added to staff the newly formed Chief Accountant's office.
 - Seven new legal positions are allocated for enforcement and litigation support related to supervision.
 - Two new positions are allocated for housing finance study and emerging issue research that impact the businesses of the Enterprises and ultimately OFHEO's supervisory programs.
 - Nine positions are needed to strengthen the OFHEO infrastructure to provide support and services to the organization, to reduce key person risk, and strengthen overall management and policy development.

- o Five positions are planned to strengthen human resources including benefits administration and personnel policy development; budget and finance functions including payroll, financial reporting and internal controls; and facilities management and contingency operations planning, testing and administration.
- o Three positions are planned to add strength to information technology programs including an Enterprise Architect as required by public law and to provide efficient support to OFHEO staff located at the Enterprises.
- o One position will be devoted to senior level policy evaluation and advice for the Director. This position will also review and coordinate actions on sensitive and confidential issues requiring management and policy decisions by the Director. Additionally, the position will analyze international housing finance issues and assess their impact on the Enterprises as well as develop policy regarding OFHEO's role in the creation of developing secondary mortgage markets. The majority of work is expected to relate to supervisory issues and policies.

The 2005 budget requests \$2.5 million to complete the examiner workstation. The examiner workstation will automate the preparation, review and centralized storage and retrieval of documentation generated by and associated with the examination process. The examiner workstation is a multi-purpose tool that will be used to facilitate and manage the examinations of the Enterprises. OFHEO will use it to document the findings and supporting information from its examinations. OFHEO will also use the examiner workstation to track the status of current examinations and support examiners through the retrieval of information regarding trends, and potential areas of risk. The Federal Deposit Insurance Corporation, the Federal Reserve, and the Office of the Comptroller of the Currency either have or are developing similar systems to enhance their capabilities to electronically manage, document, and archive in a repository examination documentation.

The 2005 Budget Request includes \$3.3 Million for varied one-time contract services related to on-going special and future special examinations required to review preliminary examination findings more closely. Although the Budget amendment transmitted May 6, 2004, indicated \$5.0 million for these one-time costs, OFHEO has subsequently ascertained that it will be more cost effective to redirect \$1.7 million of these funds to hire 5 litigation specialists with temporary appointments and 2 paralegal positions. Consequently, OFHEO reallocated funds from other services to personal services to cover this strategic shift. OFHEO awarded a contract in fiscal year 2004 to support a special accounting examination at Fannie Mae. The contract estimates \$6 million would be necessary to fund the work proposed by OFHEO. This assumes that no major findings are identified that would require a more intensive review. The funding received in fiscal year 2004 for this examination was limited to \$3 million. OFHEO is monitoring the contract services closely, and is contemplating a number of actions to close the funding gap. These actions include reallocation of existing funds within the 2004 budget, using OFHEO staff to complete some of the work envisioned in the contract, and delaying some contract services until fiscal year 2005 when additional funding is available.

In addition, actions taken in fiscal year 2004 against responsible corporate officers in relation to the Freddie Mac investigation are resulting in litigation against the agency including lengthy discovery proceedings. OFHEO is augmenting its small legal staff with outside counsel and has obligated all the funding received in fiscal year 2004 to support the Freddie Mac investigation. OFHEO anticipates a continuing need for contract services related to these legal challenges.

OFHEO is seeking \$1.4 million to procure analytic software to enhance its capability to evaluate capital adequacy at the Enterprises. The software would provide:

- A wide range of risk measures that quantify a variety of interest rate risk exposures;
- Analytical capabilities such as Monte-Carlo simulations, Value-at-Risk and net interest income simulations;
- Comprehensive interest rate scenario analysis;
- Flexibility to change the valuation routines to reflect development in methodology and innovation in the market place;
- Sensitivity analysis including hedging and "what if" analysis;

- Capability to interface with external databases; and
- Direct access capability for off-site examiners.

One-time Infrastructure Contract Services

OFHEO received funding in fiscal year 2003 to purchase software to streamline and improve administrative and financial systems. That project is well underway and OFHEO plans on converting to a new integrated procurement, accounting and financial reporting system on October 1, 2004. OFHEO Plans to begin Phase II of the administrative modernization project in fiscal year 2005, and is requesting \$990,000 for implementation of three new components utilizing existing software capabilities.

The first component would improve controls over payroll through conversion to an electronic time and attendance system residing within the new financial system that would be interfaced directly to the National Finance Center. The current time and attendance system is not flexible, is error prone and time consuming to administer and manager. The new time and attendance system would strengthen controls over payroll and provide management and employees on-line access to data.

For the second component, OFHEO plans to implement and convert to one of the E-Travel contracts mandated by the General Services Administration (GSA). OFHEO believes an interagency agreement will result in the most cost effective compliance with the E-Travel mandate and has given the Department of Interior a "Letter of Intent" to use its services. OFHEO can link any of E-Travel software packages to its new financial system and will do as part of the conversion to E-Travel.

Finally, for the third component of this project, OFHEO will implement business intelligence capability residing within the new financial system. This capability will enable OFHEO Executives to query or perform analysis on financial and program data at their desktops. It will also support organizational analyses of operating data to support financial and program decisions made by the Director.

Funding

The following table summarizes obligations for OFHEO by object class.

	ACTUAL 2003 a/ (Dollars in Thousands)	ENACTED 2004 b/ 2005	ESTIMATE 2005	Variance 2005 vs 2004
Personal Services	\$18,211	\$26,821	\$36,828	+10,007
Travel and Transportation Of Persons	137	377	483	+106
Transportation of Things	7	11	112	+101
Rent, Communications, and Utilities	3,481	3,699	4,706	+1,007
Printing and Reproduction	45	60	206	+146
Other Services	5,484	7,275	11,299	+4024
Supplies and Materials	239	278	391	+113
Furniture and Equipment	2,030	1,394	4,344	+2950
Land & Structure	461	...	840	+840
Total Obligations	30,095	39,915	59,209	19,294

a/ Fiscal year 2003 includes \$29,353 for an extension to the 2002 Interagency Agreement with SBA and an anticipated recovery of \$67,884.

b/ Includes budget amendment requested by the President on September 12, 2003.

EXPLANATION BY OBJECT CLASS

Personal Services. The fiscal year 2005 Budget Request includes funding of \$36.8 million for 237 FTE. There are 59 additional FTE over the fiscal year 2004 estimate.

50 positions are added to strengthen supervisory functions.

- o Twelve positions would expand and strengthen capital management through the creation of capital examination and the enhancement of capital administration and improvement of modeling capabilities. OFHEO plans to examine capital management at the Enterprises as well as enhance the stress test to include new products and risk management practices of the Enterprises.
- o Eleven positions are added to staff the newly created Chief Compliance Examiner's office. OFHEO has created an Office of Compliance headed by the Chief, Compliance Examiner who will focus on specific areas identified for special examinations and will review compliance issues identified at either Enterprise.
- o Ten are allocated to strengthen annual examination activities. OFHEO plans to implement a more robust annual examination process at each Enterprise headed by a Chief Examiner-In-Charge for that Enterprise.
- o Eight positions are added to staff the newly formed Chief Accountant's office. OFHEO plans to continue the focus on accounting treatment at the Enterprises for specific types of transactions and financial instruments, and will review Enterprise accounting policy and practice with GAAP.
- o Seven new legal positions are allocated for enforcement and litigation support related to supervision.
- o Two new positions are allocated for housing finance study and emerging issue research that impact the businesses of the Enterprises and ultimately OFHEO's supervisory programs.
- Nine positions to strengthen infrastructure activities.

- o Five positions would minimize key person risk, strengthen administrative functions and absorb an increased work flow due to organizational growth. These positions would be deployed to human resources including benefits administration and recruitment, to budget and finance for financial management including payroll and benefits reconciliation, budget execution and financial reporting. One position would be used to strengthen facilities management, space utilization and contingency operations.
- o Three positions are planned for Information Technology activities. One position would serve as an Enterprise Architect in compliance with requirements of current public law. Two positions would strengthen and expand management and administration of financial systems and external links involving those systems, enhance contingency operations, absorb the growing workload from hiring necessary through turnover or new positions, and support examiners located off site at Freddie Mac or Fannie Mae.
- o One position will be devoted to senior level policy evaluation and advice for the Director. This position will also review and coordinate actions on sensitive and confidential issues requiring management and policy decisions by the Director. Additionally, the position will analyze international housing finance issues and assess their impact on the Enterprises. The majority of work is expected to relate to supervisory issues and policies.

OFHEO did not hire in 2004 as quickly as it had planned. It was necessary to delay hiring through several Continuing Resolutions covering over four months of the fiscal year. It has also been necessary to reallocate funds from personal services to other services to support contractor services for specific supervisory activities involving Fannie Mae.

Travel. For fiscal year 2005, OFHEO is requesting \$483,000 for 237 FTE or \$2,038 per FTE. This is a small reduction from the FY 2004 travel budget of \$2,118 per FTE. OFHEO examiners must continue local travel to both Enterprises as well as temporary

duty travel to Enterprise sites located outside Washington, DC. OFHEO will also continue outreach activities and participate in skill enhancement training and conferences.

Transportation of Things. The fiscal year 2005 Budget Request reflects a \$101,000 increase over the fiscal year 2004 estimate. OFHEO plans to provide relocation benefits to a limited number of new hires as a recruitment tool to fill vacancies. The budget also supports routine shipping costs for supplies and equipment.

Rent, Communication and Utilities. The proposed fiscal year 2005 budget for this category reflects an increase of 27 percent. The increase represents the normal annual increase in base rent for existing space, and the cost for additional space for new employees in 2005. It also includes estimated telecommunications costs to support the full complement of staff planned for fiscal year 2005.

Printing and Reproduction. OFHEO projects printing costs will increase in fiscal year 2005, due to the publication of OFHEO analytical reports, studies and proposed and final regulations.

Other Services. The proposed fiscal year 2005 Budget reflects an increase of over \$4 million in other services. The bulk of the increase is attributed to examination related costs. OFHEO is requesting \$2.5 million in fiscal year 2005 to complete the development, construction, and implementation of the examiner workstation. The examiner workstation will dramatically increase the analytical capability and productivity of examiners on site at the Enterprises and in the OFHEO office. OFHEO is also requesting one-time costs of \$3.3 million to continue the special examination at Fannie Mae, and to cover litigation expenses relating to the Freddie Mac investigation and enforcement actions. Although the Budget amendment transmitted May 6, 2004, indicated \$5.0 million for these one-time costs, OFHEO has subsequently ascertained that it will be more cost effective to redirect \$1.7 million of these funds to hire 7 litigation specialists with temporary appointments and 2 paralegal positions. Consequently funds were reallocated from other services to personal services to support hiring these additional 7 positions.

The 2005 budget also seeks \$1.4 million to complete procurement of analytic software to improve OFHEO understanding and assessment of interest rate risk at the Enterprises. This will enable OFHEO to better determine the adequacy of capital levels at the Enterprises. OFHEO received proposals in 2004, and was unable to issue the contract due to a lack of funding. The budget supports continued use of existing analytic tools and data services.

OFHEO is also seeking just under \$1 million for further improvement of financial and administrative systems. These funds would use existing software to implement the time and attendance module within the new financial system and create an electronic interface to the National Finance Center, the mandated payroll service agent for OFHEO. The new time and attendance system would improve internal controls over a material financial category, streamline existing and duplicate data entry systems, and reduce errors that must be corrected. The funds would also be used to comply with the GSA E-Travel mandate, by converting to one of three mandated E-Travel contracts via an interagency agreement. The E-Travel system would be electronically linked to the new financial system maintaining seamless processing and recording of financial events. In addition, the funds would also be used to develop and implement the business intelligence within the existing software. Application of business intelligence would support OFHEO Executives and financial management personnel by having access to real-time financial data, and by having the capability to structure analytical queries or reports of financial information from their desktops.

The Budget continues to fund training for OFHEO employees in support of performance goals and continues other required service agreements.

Supplies and Materials. The increase in supplies and materials reflects the new staff added in 2004 and 2005, and inflationary increases for business-related subscriptions. The budget also includes disaster recovery supplies and materials.

Furniture and Equipment. The \$2.9 million increase in the proposed fiscal year 2005 budget primarily represents furniture and equipment for the new staff proposed in the 2005 budget, the phased replacement costs of obsolete personal computers and peripherals, the replacement of obsolete servers, the upgrade of the tape backup system, the replacement of LAN room air Conditioners, the upgrade of the software licenses to accommodate the increase in staff, and continues existing software licenses and maintenance agreements.

Office of Federal Housing Enterprise Oversight

PROGRAM PERFORMANCE OVERVIEW

OFHEO's Strategic Plan for fiscal year 2003-2008 describes the Office's mission and three Strategic Goals to achieve it. OFHEO's means and strategies are the key activities, actions, processes and technologies that describe how OFHEO will use its fiscal year 2005 resources to achieve each performance goal. The Office provides regulation, supervision, guidance, review and a variety of products that influence the Enterprises and the financial markets. As for all regulators, the outcomes or results of OFHEO's work are achieved through the actions of others.

2003 - 2005 Resource Allocation Estimates a/

		Dollars in Millions					
		Strategic Goal 1		Strategic Goal 2		Strategic Goal 3	
Year	Dollars	Dollars	Percent	Dollars	Percent	Dollars	Percent
2005	54.0	91.2	3.1	5.3	2.1	59.2	3.5
2004	33.5	84.0	4.7	11.8	1.7	4.2	39.9
2003	24.2	80.4	4.0	13.3	1.9	6.3	30.1

FTE

		Dollars in Millions					
		Strategic Goal 1		Strategic Goal 2		Strategic Goal 3	
Year	FTE	FTE	Percent	FTE	Percent	FTE	Percent
2005	215	91.1	14	5.9	7	237	3.0
2004	132	79.0	25	15.0	10	6.0	167
2003	95	75.4	20	15.9	11	8.7	126

a/ Strategic Goal 1: Ensure the Enterprises comply with safety and soundness standards, are adequately capitalized, and comply with other legal requirements.

Strategic Goal 2: Enhance public understanding of the nation's housing finance system.

Strategic Goal 3: Contribute to Federal efforts to promote efficient and effective financial markets and homeownership.

2004 FTE estimate is based on information available at the time the enacted budget was received.

Strategic Goal 1: Ensure the Enterprises Comply with Safety and Soundness Standards, are adequately capitalized, and comply with other Legal Requirements.

OFHEO's primary duty as a regulator is to ensure that the Enterprises have the financial strength to fulfill their important role in the nation's housing finance system. Providing a comprehensive and effective oversight program requires attention to the Enterprises' operations, the risks inherent in their activities, their management, and the dynamic environment in which they operate. Maintaining risk-based standards and understanding the risk profiles of the Enterprises is essential to OFHEO's ability to ensure their continuity.

Performance Goal 1.1: Ensure the Enterprises comply with safety and soundness standards.

Performance Measure: Each Enterprise responds appropriately to 100 percent of OFHEO's safety and soundness concerns.

Means and Strategies:

On a calendar year cycle, OFHEO conducts risk-based examinations annually at each Enterprise. An integral part of the examination program is identifying risks, developing risk-focused examination strategies and updating those strategies as risk profiles change. OFHEO bases the examination strategies on an analysis of the risk profiles of each Enterprise combined with a comprehensive and systematic review of the assessment factors and the corresponding evaluation criteria for each of the examination program areas. In advance of the examination, OFHEO completes and communicates the Examination Strategies for each Enterprise and updates these strategies quarterly, as necessary, as risk profiles change.

Each quarter, OFHEO updates the risk profile for each Enterprise as necessary. This updated risk profile benefits from: the analytical work conducted through the Surveillance and Monitoring Program; financial analysis tools; technical work being conducted and special studies; special examination reports; economic analysis; and environmental analysis.

Throughout the course of conducting the examination, OFHEO communicates with Enterprise personnel not only to gather information, but also to share findings and discuss observations. The communications conducted during the examination range from informal to formal. Regardless of the format, OFHEO has the same goal for all communications: that the free flow of information further the objective of ensuring the safe and sound operations of the Enterprises. Communications are tailored to the individual structure and dynamics of the Enterprises, and the timing of the communications depends on the situation being addressed.

OFHEO keeps each Enterprise's executive management and Board of Directors appropriately informed and communicates with them as often as required by the Enterprise's condition and the nature of the findings from examination activities. OFHEO brings to the immediate attention of the Board and executive management those issues that introduce a risk exposure to the stable operation of the Enterprise, otherwise fall under the normal duties and responsibilities of the Board or warrant the Board's attention. Technical issues and matters relating to a single line of business or activity will generally be brought to the attention of operating managers, with the Board and executive management kept appropriately informed.

A primary goal of the examination process is to influence positive changes at the Enterprises to enhance their financial safety and soundness. The nature of OFHEO's efforts relates directly to the risk presented by an issue. If, for example, in the course of an examination, OFHEO identifies a significant issue in risk management systems or an undesirable risk level, OFHEO will require management to develop and execute a corrective action plan, and will ensure that the Board holds management accountable for executing the action plan. OFHEO will review the action plan to ensure that it identifies the steps or methods required to cure the root causes of significant deficiencies, and to determine whether the plan is likely to resolve any significant concerns within an appropriate time frame. As part of follow-up, OFHEO will verify that the action plan has been executed and will evaluate its success.

OFHEO considers the responsiveness of the Enterprises in recognizing the issue and formulating an effective solution when determining if OFHEO needs to take incremental supervisory action. If an Enterprise is unresponsive or unable to affect the resolution of meaningful issues, OFHEO will take more formal steps to ensure that deficiencies are corrected.

To comprehensively examine the Enterprises' risks as they continue to grow, realign their business strategies, expand business products to meet their public mission, and employ cutting-edge risk-management techniques based on rapid changes in technology, OFHEO developed a multi-year plan to expand examination staff and complementary technology initiatives. The new examiners provide needed depth in examining the Enterprises' core credit, market, and interest rate risk areas to keep pace with continued rapid growth of the two companies. They also provide capacity to expand the scope and depth of the program to include new and emerging risk areas including accounting policies and practices, risk measurement methods, structured financial transactions, business recovery planning, internal financial models, and capital adequacy. The increased capacity bolsters the program's infrastructure to ensure that industry "best practices" are used as evaluation criteria for all of the risk areas being examined and to conduct regulatory benchmarking to ensure consistency and relevance of safety and soundness standards.

OFHEO's planned database expansion and reporting tools will provide enriched information for the examiners to better evaluate risks. The Examiner Workstation investment will provide examiners with a comprehensive tool to access information necessary to assess risk from a single software application on their computer, both onsite and off-site (at the Enterprises). The Examiner Workstation is similar in concept to initiatives being developed at the Federal Reserve and the OCC. During fiscal year 2005, OFHEO will continue the Examiner Workstation project.

Related Fiscal Year 2005 Goal and Prior Year Performance Information

2005	Ensure the Enterprises comply with safety and soundness standards. Each Enterprise responds appropriately to 100% of OFHEO's safety and soundness concerns.
2004	The Enterprises meet or exceed safety and soundness standards. Each Enterprise responds appropriately to 100% of OFHEO's safety and soundness concerns. (Fiscal year 2004 Performance Goal 1.1)
2003	Both Enterprises were financially sound; however, OFHEO identified unsafe and unsound practices at Freddie Mac and undertook remedial actions. OFHEO continues its review and remedial steps into the 2004 fiscal year.
2002	Both Enterprises were financially sound and well managed.
2001	Both Enterprises were financially sound and well managed.
2000	Both Enterprises were financially sound and well managed.

Performance Goal 1.2: Ensure the Enterprises are adequately capitalized.

Performance Measure 1.2(1): Each Enterprise meets the minimum capital standard at least quarterly.

Performance Measure 1.2(2): Each Enterprise meets the risk-based capital standard at least quarterly.

Performance Measure 1.2(3): Continually review the capital standards and risk-based capital model and change them as needed to reflect new risk measurement techniques and new Enterprise risks.

Performance Measure 1.2(4): Using the capital standards, a variety of analytics, environmental scans and early warning indicators, each Enterprise is determined by the OFHEO Director to be adequately capitalized on at least a quarterly basis.

Performance Measure 1.2(5): Whenever an Enterprise does not comply with the OFHEO Director's determination of capital adequacy, OFHEO receives an acceptable capital plan.

Means and Strategies:

OFHEO seeks to ensure the Enterprises remain adequately capitalized. Capital compliance with the statutory prescriptions is achieved through quarterly measurements, routine updates about the Enterprises, financial condition and operating environment, the Agency's examinations, scenario analyses, economic analysis, alternative modeling tools, and research. Collectively, these assessments position OFHEO to make informed decisions about the Enterprise's capital adequacy.

OFHEO's assessment of the Enterprises' capital adequacy is multifaceted. The qualitative assessment of capital occurs through OFHEO's continuous and comprehensive examination of each Enterprise.

The two key quantitative assessments of capital are OFHEO's minimum and risk-based standards. The minimum capital standard, as with other financial regulators, is a ratio-based capital cushion relative to the size of the company. It represents an essential amount of capital needed to protect an Enterprise against broad categories of business risk. The risk-based capital requirement is based directly on the risks inherent in the Enterprises' portfolios and other obligations, particularly the risks related to credit extended and to changes in interest rates. OFHEO uses a 10-year stress test to determine the amount of total capital that each Enterprise must hold to absorb projected losses from future adverse interest-rate and credit-risk conditions, plus an additional 30 percent to cover unspecified management and operations risk.

OFHEO will continue to determine, at least quarterly, if each Enterprise meets the quantifiable capital requirements on the basis of OFHEO's minimum capital and risk-based capital (RBC) standards, as required by law. The complete classification program includes the calculation, analysis, and review of the minimum and risk-based capital results, other measures of risk and capital, and qualitative assessments of Enterprise capital adequacy. When final, capital classifications are made public.

Fiscal Year 2005 will be the third full year that the risk-based capital standard will be used for capital classification. To calculate and apply minimum and risk-based capital standards, OFHEO performs a series of ongoing tasks that verify every aspect of the capital classification process, and ensure its continued integrity and accuracy. OFHEO verifies Enterprise data used in the stress test and analyzes stress test results, sensitivity analysis, and new Enterprise products and activities. These activities, taken together, ensure the results are as expected based on changes in the Enterprises' balance sheets.

In fiscal year 2005, OFHEO will continue its broadened focus to provide a more comprehensive evaluation of the Enterprises' capital adequacy and assessment of risks that affect capital. OFHEO will pursue analysis of additional perspectives of risk that may not be reflected in the stress test and develop alternative models and measurements of risk and capital adequacy. The Office will research topics that have a direct impact on the effectiveness of the minimum and risk-based capital calculations and the other capital adequacy measures. Initiatives will include the development of additional risk measures and analysis using a new portfolio risk metrics model to evaluate the risks embedded in the Enterprises' derivatives portfolios, including interest rate, basis, and credit risks. This model will allow analysis of stochastic market value and earnings, in contrast to the stress test cash flow model.

OFHEO will also explore alternative approaches to assessing the capital of the Enterprises. This analysis will examine all aspects of regulation, modeling, data and data sources, the reliance or use of counterparties and third party vendors. The goal is to objectively evaluate various methods for assessing capital adequacy and risk and to ensure OFHEO is well positioned through tools and analysis to monitor and assess the Enterprises' capital positions in the future. In fiscal year 2005, OFHEO will continue to review stress test assumptions and explore enhancements to aspects of the stress test model, such as considering alternative treatments of sub prime mortgages and adding credit scores or other explanatory variables to the model.

As the financial markets and mortgage finance industry evolve, the Enterprises regularly adapt their business activities and products. OFHEO will ensure that new Enterprise activities and accounting treatments are assessed timely and thoroughly to determine their effect on the Enterprises' capital adequacy. OFHEO is committed to continually reviewing the capital standards and risk-based capital model, and changing them as needed to reflect new risk measurement techniques and new Enterprise risks. The conclusions of these projects and initiatives may result in proposed modifications to the risk-based capital regulation.

Related Fiscal Year 2004 Goal and Prior Year Performance Information

2005	Ensure the Enterprises are adequately capitalized.
2004	Ensure the Enterprises are adequately capitalized. (Fiscal year 2004 Performance Goal 1.2)
2003	Each Enterprise is adequately capitalized. Quarterly minimum capital classification ratios Fannie Mae: 1.032 to 1.052 Freddie Mac: 1.170 to 1.298*

Quarterly risk-based capital classification ratios
 Fannie Mae: 1.204 to 1.831
 Freddie Mac: 5.100 to 21.597
 Made technical amendments to the final rule and initiated projects to consider future changes.

2002 Each Enterprise is adequately capitalized.
 Quarterly minimum capital classification ratios
 Fannie Mae: 1.028 to 1.05
 Freddie Mac: 1.051 to 1.310*

Third Quarter CY 2002 risk-based capital ratios (first enforceable application of the risk-based capital standard)
 Fannie Mae: 1.332
 Freddie Mac: 4.696

2001 Each Enterprise is adequately capitalized.
 Quarterly minimum capital classification ratios
 Fannie Mae: 1.02 to 1.03
 Freddie Mac: 1.068 to 1.103*

2000 Each Enterprise is adequately capitalized.
 Quarterly minimum capital classification ratios
 Fannie Mae: 1.00 to 1.03
 Freddie Mac: 1.025 to 1.086*

* The capital data for Freddie Mac for 2000, 2001 and 2002 are based on restatement of previously issued consolidated financial statements and reflect adjustments to previously reported results. The capital data for 2003 are based upon financial information and application of accounting policies currently involved in the Freddie Mac restatement process. The 2003 numbers are subject to change.

Performance Goal 1.3: Ensure the Enterprises comply with applicable laws, regulations and directives, including corporate responsibility and disclosure.

Performance Measure: Any identified instances of non-compliance with laws, regulations or directives are resolved to OFHEO's satisfaction.

Means and Strategies:

OFHEO reviews the Enterprises' compliance with laws, regulations and directives that are under OFHEO's jurisdiction. In some cases as issues arise, OFHEO's internal reviews may be conducted by committees or working groups (e.g., the Enterprises' use of derivatives). If compliance is associated with OFHEO's established risk assessment factors for examination, the review may be part of the risk-based examination (e.g., compliance with the National Flood Insurance Act or OFHBO's Policy Guidance on non-mortgage liquidity investments). OFHEO may review the compliance of the Enterprises through special examinations. OFHEO monitors the early-alert triggers described in the Prompt Supervisory Response regulation so that any needed regulatory response would be timely. OFHEO will also monitor the Enterprises' accounting policies to assure proper application, and Enterprise disclosure to ensure that it conforms to applicable laws and regulations.

OFHEO's statute requires the Director to prohibit the Enterprises from providing excessive compensation to any executive officer. Additionally, the Enterprises' chartering acts require the Enterprises to obtain the prior approval of OFHEO's Director

Office of Federal Housing Enterprise Oversight

before entering into or changing agreements to provide termination benefits to executive officers. OFHEO reviews overall compensation and termination benefits to see that they meet statutory requirements for comparability with payments made by comparable organizations.

OFHEO, with the assistance of an executive compensation consulting firm, conducted an extensive study of executive compensation at the Enterprises in fiscal year 2002. The study identified an updated peer group of comparable firms. Using that peer group and other publicly available information, OFHEO will continue to monitor changes in executive compensation at the Enterprises in fiscal year 2005 to ensure that such compensation is not excessive. Also, when an Enterprise submits for OFHEO's approval an agreement or amendment to an agreement that provides termination benefits to an executive, OFHEO will review and act upon the Enterprise's request. OFHEO will also monitor the Enterprises' compliance with the executive compensation regulation and, if necessary, take appropriate steps to assure their compliance. OFHEO also reviews termination benefits when an executive officer leaves an Enterprise.

Should a violation of law be determined by another regulator or by a judicial body under a statute not within OFHEO's direct enforcement authority, OFHEO may take such supervisory action as deemed necessary within its authorities relating to safety and soundness and the charter acts.

Related Fiscal Year 2004 Goal and Prior Year Performance Information

2005	Ensure the Enterprises comply with applicable laws, regulations and directives, including corporate responsibility and disclosure.
2004	Ensure the Enterprises comply with applicable laws, regulations and directives, including corporate responsibility and disclosure. (Fiscal year 2004 Performance Goal 1.3)
2003	OFHEO identified instances of unsafe and unsound practices at Freddie Mac, undertook supervisory actions, and required remedial steps.
2002	No instances of violation identified during fiscal year 2002.
2001	No instances of violation identified during fiscal year 2001.
2000	No instances of violation identified during fiscal year 2000.

Strategic Goal 2: Enhance public understanding of the nation's housing finance system.

Enhancing the public's understanding of the nation's housing finance system, including the roles and activities of the Enterprises and OFHEO contributes directly to the strength and vitality of that system. The public—borrowers, investors, market participants, policymakers and other stakeholders—will make better decisions about the allocation of their resources if they are well informed. OFHEO, with its expertise in housing finance, is uniquely positioned to provide the public with information and analysis, leading to more informed decision-making by the public.

Performance Goal 2.1: Enhance awareness and understanding of housing and mortgage market developments and Enterprise risks and activities.

Performance Measure 2.1(1): Analyze and report about house price trends quarterly through the House Price Index (HPI) report.

Performance Measure 2.1(2): Report on OFHEO activities, examination results and conclusions, and the secondary mortgage market in the OFHEO annual Report to Congress.

Means and Strategies:

OFHEO provides information about house prices, mortgage markets, and the Enterprises on a regular basis through several vehicles. OFHEO's quarterly House Price Index (HPI) documents changes in house prices for the nation, each state, the nine census regions, and metropolitan statistical areas (MSAs). OFHEO posts the HPI on its web site each quarter. Many researchers, analysts and practitioners rely on OFHEO's HPI. In fiscal year 2005 OFHEO will continue research to refine the HPI and assess the implications of changes in house prices.

OFHEO publishes an annual review of housing finance market developments, including the financial performance and activities of the Enterprises, as well as comprehensive historical Enterprise data. OFHEO also issues publicly its annual Report to Congress, available by June 15th each year, which summarizes the results and conclusions of OFHEO's annual risk-based examinations of the Enterprises and describes OFHEO's activities in the preceding calendar year.

OFHEO provides valuable information to the public regarding the Enterprises and developments in housing finance through published reports, staff studies, and other analyses. On a quarterly basis, OFHEO will disclose appropriate information about each Enterprise's compliance with both the minimum and risk-based capital standards. The information will include non-proprietary details relating to the calculation of the minimum capital requirement and a description of the Enterprise's performance in the risk-based capital stress test. In fiscal year 2005, OFHEO will continue analyses of appropriate disclosure of information about Enterprise risks and activities to expand public awareness of the financial health of the Enterprises. OFHEO will focus in particular on interest rate risk measurement and management, including review and evaluation of the Enterprises' models and methodologies.

Related Fiscal Year 2004 Goal and Prior Year Performance Information:

2005	Enhance awareness and understanding of housing and mortgage market developments and Enterprise risk and activities.
2004	Enhance awareness and understanding of housing and mortgage market developments and Enterprise risk and activities. (Performance Goal 2.1)
2003	Annual Report on OFHEO activities and examination results and conclusions sent to Congress June 4, 2003. House Price Index (HPI) Report issued quarterly.
2002	Analysis of the secondary mortgage market issued September 2002. Annual Report on OFHEO activities and examination results and conclusions sent to Congress June 15, 2002. House Price Index (HPI) Report issued quarterly.
2001	Annual Report sent to Congress June 15, 2001. HPI Report issued quarterly. Analysis of secondary mortgage market issued separately, July 2001.
2000	Annual Report sent to Congress June 15, 2000. HPI Report issued quarterly.

Performance Goal 2.2: Undertake research and analysis of risks and emerging issues.

Performance Measure 2.2(1): Meet the Director's priorities for research as identified in the fiscal year 2005 research plan.

Performance Measure 2.2(2): Prepare special reports on topical issues.

Means and Strategies:

OFHEO's research enables the Office to understand how changes in the market impact the Enterprises and conversely how changes in Enterprise operations impact the market. OFHEO's research is designed to support the Office's supervisory efforts in fostering safety and soundness through examinations, capital standards, and the regulatory regime, which falls under the first strategic goal: "Ensure the Enterprises comply with safety and soundness standards, are adequately capitalized, and comply with other legal requirements." Some research also presents the opportunity to improve the public's understanding of the housing finance system. OFHEO's seven broad objectives for its research and analysis describe the areas in which additional investigation will be crucial to keeping OFHEO's supervisory structure pro-active and at pace with the dynamics of the markets and the Enterprises. The objectives are:

- Enhance OFHEO's risk based capital stress test.
- Evaluate alternative approaches to assessing the risk of failure and capital adequacy of financial institutions.
- Develop an early warning system to use within OFHEO to monitor the ongoing safety and soundness of the Enterprises.
- Assess disclosures by the Enterprises and other public firms.
- Understand how the Enterprises affect and are affected by the economy.
- Understand the Enterprises and the financial sector.
- Understand the potential costs and benefits of changes in public policies related to the housing finance system.

The fiscal year 2005 research plan will identify the topics on which OFHEO plans to conduct empirical research and policy analysis during the fiscal year. OFHEO will select topics based on knowledge of current issues, the most recent research, and available data and resources. The plan will establish goals for the preparation of reports, staff studies, professional papers, or other analyses or publications, reflecting priorities set by the OFHEO Director. OFHEO will revise the plan as needed during fiscal year 2005 to take into account research priorities that emerge during the year.

Because of the proprietary nature of certain information, some of the projects will be for internal use only and others will be available for public dissemination. Reports, staff studies, and other analyses released by OFHEO will provide valuable information to the public and enhance understanding of the housing finance system, the Enterprises, and related policy issues. In accord with the objectives described above, OFHEO's fiscal year 2005 research will continue to focus on sub prime lending and affordable housing, refining the HPI, as well as issues associated with systemic risk, competition in the secondary mortgage market, and various measures of capital adequacy.

Related Fiscal Year 2004 Goal and Prior Year Performance Information

2005	Undertake research and analysis of risks and emerging issues. Meet the Director's priorities for research as identified in the fiscal year 2005 research plan. Prepare special reports on topical issues.
2004	Undertake research and analysis of risks and emerging issues. Meet the Director's priorities for research as identified in the fiscal year 2004 research plan. Prepare special reports on topical issues. (Fiscal year 2004 Performance Goal 2.2)
2003	Research and analysis of emerging issues have been ongoing. OFHEO made progress on its research agenda.
2002	Research and analysis of emerging issues have been ongoing. OFHEO made progress on its research agenda.
2001	Research and analysis have been ongoing. Additional research priorities have been developed.
2000	Research and analysis have been ongoing.

Performance Goal 2.3: Communicate effectively with all stakeholders on regulatory issues.

Performance Measure 2.3(1): The majority of survey respondents attending OFHEO's symposium find it valuable.

Performance Measure 2.3(2): Consider and respond appropriately to all Congressional inquiries within 14 days.

Performance Measure 2.3(2): Consider and respond appropriately to all public inquiries within 21 days.

Means and Strategies:

OFHEO will continue the practice, begun in fiscal year 2003, of hosting a Symposium, open to the public, on significant emerging issues or trends. The Symposium will focus on matters of importance related to the Enterprises and to the public policy considerations related to their mission and regulation.

OFHEO will continue to expand its communications with Congress to ensure that legislators have an understanding of the condition and activities of the Enterprises as well as OFHEO's operations, proposals, and regulatory activities. In addition to providing testimony and reports to Congress, OFHEO will continue to strengthen its existing and develop new relationships with the legislative branch.

OFHEO will respond appropriately to public inquiries regarding the Enterprises as well as OFHEO's operations, proposals and regulatory activities to ensure appropriate transparency. OFHEO representatives will continue to speak at industry forums to provide information about the secondary mortgage market, the Enterprises, and OFHEO's regulatory role.

OFHEO will continue to update its web site timely with OFHEO products: Reports, testimony, speeches, news releases, the quarterly house price index, capital classifications and staff working papers. OFHEO will also continue to respond timely and effectively to inquiries from Congress and the public.

Related Fiscal Year 2004 Goal and Prior Year Performance Information

2005	Communicate effectively with stakeholders on regulatory issues. The majority of survey respondents attending OFHEO's symposium find it valuable. Consider and respond appropriately to all Congressional and inquiries within 14 days. Consider and respond appropriately to all public inquiries within 21 days.
2004	Communicate effectively with stakeholders on regulatory issues. Consider and respond appropriately to all Congressional and inquiries within 14 days. Consider and respond appropriately to all public inquiries within 21 days. (Fiscal year 2004 Performance Goal 2.3)
2003	Responded to nearly all inquiries from Congress and the public within 7 days.
2002	Responded to all inquiries from Congress and the public within 7 days.
2001	Responded to all inquiries from Congress and the public within the 15-day goal.
2000	Responsive to Congress and the public. Data not collected.

Strategic Goal 3: Contribute to Federal efforts to promote efficient and effective financial markets and homeownership.

The secondary mortgage market and the diverse capital markets have experienced dramatic growth and have become increasingly complex. The Enterprises' role in several of these markets is a dominant one, and in others, their role has grown. To ensure that these dynamics are recognised, OFHEO must work with other Federal agencies to ensure a strong and vital housing finance system and efficient and effective capital markets. In addition, OFHEO will contribute to Federal efforts to promote homeownership and affordable housing as reflected in the Office's mission statement.

Performance Goal 3.1: Cooperate with other Federal financial agencies on regulatory issues.

- Performance Measure 3.1(1): Participate in on-going task forces and forums with other regulatory agencies.
- Performance Measure 3.1(2): Respond within 30 days to requests from other Federal agencies for information about housing finance markets and the Enterprises.

Means and Strategies:

In fiscal year 2005, OFHEO will continue to support interagency efforts to identify and analyze emerging trends and policy issues related to housing finance, homeownership, and affordable housing, as well as broad public policy issues affecting the

Office of Federal Housing Enterprise Oversight

Enterprises. OFHEO will participate in and host seminars, brown-bag lunch presentations, and other informal meetings of Federal and non-federal researchers, analysts, and examiners, and may sponsor more formal meetings.

To support OFHEO's research and analysis, the Office is continuing to develop a data warehouse which will have a comprehensive database on housing finance markets—direct loans, loan guarantees, insurance, and government sponsored enterprises (GSEs)—that promote homeownership and affordable housing. OFHEO anticipates using the data warehouse to provide information (within well-defined confidentiality rules and controls) to other federal agencies, as requested, to support on-going federal research needs. OFHEO will implement the next stages of this data warehouse as described in OFHEO's Strategic Plan and 5-Year IT Strategic Plan (see Performance Goal 4.2).

OFHEO will continue to participate in a number of interagency task forces and forums related to housing finance, safety and soundness regulation, and housing, such as: the Interagency Task Force on Fair Lending, the Interagency Task Force on Predatory Lending, the Ad Hoc Credit Scoring Group, the HUD GSE Working Group, the Working Group on Mortgage Fraud, the GSE Examination Council, the Federal Financial Regulators Results Act Working Group, the Financial and Banking Infrastructure Committee, and the Federal Financial Institutions Examination Council (FFIEC) Information Systems Subcommittee.

As described in Performance Goal 2.3, OFHEO will continue to expand ways to communicate with all stakeholders. Through improved interaction with stakeholders, OFHEO will stay abreast of private sector efforts to promote efficiencies in the market, expand homeownership and achieve other public policy goals, and will help ensure that public policy development takes private sector efforts into account.

Related Fiscal Year 2004 Goal and Prior Year Performance Information

2005	Cooperate with other Federal financial agencies on regulatory issues.
2004	Cooperate with other Federal financial agencies on regulatory issues. (Fiscal year 2004 Performance Goal 3.1)
2003	Worked with other Federal financial agencies on regulatory issues.
2002	Worked with other Federal financial regulators on regulatory issues.
2001	Worked with HUD on regulatory issues of a common interest. Cooperation has been ongoing.
2000	Cooperation has been ongoing.

Performance Goal 3.2: Ensure there is sufficient disclosure of information regarding Enterprise operations to allow market participants to trade their obligations efficiently and effectively in the financial markets.

Performance Measure 3.2(1): Any identified instances of non-compliance with laws, regulations or directives regarding disclosure are resolved to OFHEO's satisfaction.

Means and Strategies:

Market discipline can be a useful supplement to regulation in promoting safety and soundness. Meaningful financial disclosure is essential for such discipline and can also contribute to the efficiency of financial markets, generally.

OFHEO will continue to monitor the Enterprises' compliance with rules and regulations on financial disclosure. OFHEO will conduct special examinations as necessary. OFHEO will also update regulatory standards to ensure their continued effectiveness in facilitating market innovations, accommodating changes in financial products, and addressing emerging market risks. OFHEO will work in concert with the Securities and Exchange Commission, the Treasury Department, and other Federal agencies to ensure complementary activities and uniformity of supervisory standards.

Related Fiscal Year 2004 and Prior Year Performance Information

2005	Ensure there is sufficient meaningful disclosure of information regarding Enterprise operations to allow market participants to trade their obligations efficiently and effectively in the financial markets.
2004	Ensure there is sufficient disclosure of information regarding Enterprise operations to allow market participants to trade their obligations efficiently and effectively in the financial markets. (Performance Goal 3.2 a new performance goal in fiscal year 2004)
2003	Issued final disclosure regulation. Completed joint staff review with the Securities and Exchange Commission and the Treasury Department on disclosure related to Mortgage-Backed Securities. Initiated a special examination of Freddie Mac (and issued a report in FY 2004). (Not a fiscal year 2003 performance goal)
2002	Drafted proposed disclosure regulation. Participated in joint staff review with the Securities and Exchange Commission and the Treasury Department on disclosure related to Mortgage-Backed Securities. (Not a fiscal year 2002 performance goal)
2001	No related performance goal.
2000	No related performance goal.

Resource Management Strategy: Manage OFHEO resources effectively to enable the office to fulfill its mission.

OFHEO's success in achieving its strategic objectives depends on the effective management of its resources and seamless financial and administrative support functions. The size of OFHEO's budget in relation to its mission requires OFHEO to use its limited resources efficiently. As a small office, OFHEO relies on staff and management to accomplish its goals through matrix management of cross-organizational teams, timely information for decision-making, and coordination.

OFHEO's management philosophy reflects the Administration's governmentwide management goals. OFHEO focuses on human capital management, effective information technology resource management, and strong program controls, including integrating financial systems, through the achievement of the following performance goals.

Performance Goal 4.1: Ensure the staff has the knowledge and skills to fulfill the goals of the agency.

Performance Measure: Revise Individual Development Plans for each staff member annually to ensure OFHEO staff maintains and enhances the expertise and skills necessary to achieve the Office's goals.

Means and Strategies:

OFHEO's staff is its most valuable resources. The Office relies on those with cutting-edge professional skills and a breadth and depth of knowledge in their fields. Their technical competence, skills, and effective teamwork are crucial to ensuring the successful completion of its goals. Due to the small size of OFHEO, all staff members must possess a depth and breadth of skill and knowledge that is a combination of several positions at a larger agency. OFHEO hires staff with highly technical skills and oftentimes must provide training to enhance and maintain knowledge and skills.

OFHEO invests in staff development by providing appropriate training for achievement of OFHEO's performance goals. This investment ensures that staff not only stay abreast of changes in the Enterprises, but also in the financial, regulatory, and technological environments in which the Enterprises and OFHEO operate.

Individual Development Plans (IDPs) provide a systematic way to ensure proper skill maintenance and development. In fiscal year 2002, OFHEO staff and managers established Individual Development Plans (IDPs) for each staff member, and have continued to update them on an annual basis. In fiscal year 2005, managers and staff will review the strategic plan and annual performance plan and determine what skill enhancements are needed to carry out the tasks to achieve the agency goals and update their IDPs as appropriate.

OFHEO will also institute new outreach efforts to continue to attract and maintain a high performance workforce.

Related Fiscal Year 2004 Goal and Prior Year Performance Information

- | | |
|------|---|
| 2005 | Ensure the staff has the knowledge and skills to fulfill the goals of the agency.
Revise Individual Development Plans for each staff member annually to ensure OFHEO staff maintains and enhances the expertise and skills necessary to achieve the Office's goals. |
| 2004 | Ensure the staff has the knowledge and skills to fulfill the goals of the agency.
Revise Individual Development Plans for each staff member annually to ensure OFHEO staff maintains and enhances the expertise and skills necessary to achieve the Office's goals.
(Fiscal year 2004 Performance Goal 4.1) |
| 2003 | Completed annual revision of individual development plans for 95% of staff members. Training and development have been ongoing. |
| 2002 | Individual Development Plans were established for all employees. Training and development have been ongoing. |
| 2001 | Training and development have been ongoing. |
| 2000 | Training and development have been ongoing. |

Performance Goal 4.2: Provide effective information resources management services to OFHEO managers and staff.

Performance Measure: Implement the fiscal year 2005 component of OFHEO's 5-Year IT Strategic Plan.

Means and Strategies:

OFHEO's regulation of the Enterprises is highly dependent upon the strategic use of technology. The use of information technology is an integral part of OFHEO's mission and of the operation of the Enterprises that the Office regulates. Without technologies comparable to those used by other organizations with similar risk assessment and analytical requirements, OFHEO would not be able to provide independent analysis of safety and soundness issues to accomplish its mission. OFHEO examiners use technology to analyze the performance of the Enterprises and the mortgage markets in order to update the risk profiles of the Enterprises. The Enterprises' risk-based capital requirements are calculated using a large and complex computer model that simulates the cash flows of the Enterprises, assets and obligations under stressful conditions. Research projects often depend on large and well-maintained databases, advanced software, and very high-speed computational facilities. OFHEO also relies heavily on technology to implement its administrative processes. To maintain the technological capability to perform these functions effectively and efficiently so that OFHEO can accomplish its fiscal year 2003-2008 Strategic Plan, OFHEO will review its 5-Year IT Strategic Plan each year, and ensure that the annual component of the Plan ties to the Office's Annual Performance Plan. The fiscal year 2005 component of OFHEO's 5-Year IT Strategic Plan contains the following goals:

- Continue the Examiner Workstation project.
- Manage the data supporting OFHEO's analysis and research through the data warehouse.
- Continue to enhance the security, reliability and capacity of OFHEO's IT infrastructure.

Related Fiscal Year 2004 Goal and Prior Year Performance Information

2005	Implement fiscal year 2005 Component of 5-Year IT Strategic Plan.
2004	Implement fiscal year 2004 Component of 5-Year IT Strategic Plan. (Fiscal year 2004 Performance Goal 4.2)
2003	Implemented four projects from the fiscal year 2003 Component of 5-Year IT Strategic Plan, made substantial progress on two others, and suspended one project.
2002	5-Year IT Strategic Plan Approved.
2001	Not Applicable.
2000	Not Applicable.

Performance Goal 4.3: Maintain a strong internal control and risk management program.

Performance Measure: No material weakness identified by OFHEO's external auditor or external review.

Means and Strategies:

To ensure that OFHEO's resources are managed effectively and efficiently, OFHEO must maintain a strong internal control and risk management program. OFHEO will continue to seek an independent audit of its financial statements and an independent review of its information security program. OFHEO will revise policies and procedures as necessary to ensure that OFHEO resources are used to achieve its strategic objectives and ultimately its mission.

In addition to maintaining strong internal controls, in fiscal year 2005 OFHEO will improve its ability to manage its resources by completing the implementation of an integrated administrative, human resources and financial management system. Currently OFHEO uses separate systems, with different service providers or requiring manual data entry. During fiscal year 2004, OFHEO will begin the conversion and implementation to a new integrated administrative and financial system. This will facilitate enhanced capability to report planned budget resources and actual expenses in concert with OFHEO's strategic goals. The integration of administrative, human resources and finance functions into a single financial system will provide OFHEO management with improved financial information to support agency resource decisions and strengthen OFHEO's internal control and risk management program.

OFHEO's information security program provides for the protection of its information assets, including the hardware and software used to create and maintain the information. Information security at OFHEO is a shared responsibility among the Information Systems Security Officer, several information technology professionals, and everyone in OFHEO. During fiscal year 2005, OFHEO will continue its program of information security monitoring and staff training, and will update risk assessments of its systems to ensure the associated risks have been mitigated. OFHEO will also continue its internal review program, and follow up with its fourth independent review of its information security program.

To ensure that OFHEO continues to function in the event of an emergency, OFHEO will continue to update its "Continuity of Operations Plan" (COOP) and perform periodic disaster recovery testing at a remote site during fiscal year 2005.

Related Fiscal Year 2004 Goal and Prior Year Performance Information

2005	Maintain a strong internal control and risk management program.
2004	Maintain a strong internal control and risk management program. (Fiscal Year 2004 Performance Goal 4.3)
2003	Received an unqualified audit opinion on financial statements, internal controls and compliance with laws and regulations from an independent, external auditor. No material weaknesses were reported during the independent review of OFHEO's information security program. The HUD IG issued a report with two findings: improve oversight of the travel program and implement a space utilization policy (which OFHEO satisfied by early FY 2004).
2002	Received an unqualified audit opinion on financial statements, internal controls and compliance with laws and regulations from an independent, external auditor. Contracted for an independent review of IT security and found no material weaknesses.
2001	OFHEO received a clean audit opinion on its financial statements.

OFHEO conducted its first independent review of its IT security program. No material weaknesses were found.

2000 OFHEO received a clean audit opinion on its financial statements.

Verification and Validation of Performance Information

The Office is systematically monitoring and tracking progress in achieving its performance goals. OFHEO maintains information, as described in the Performance measures themselves, so that the Office's performance can be validated. OFHEO's managers report ongoing performance and progress against the performance goals, and can rely on this information as they manage their operations. Most of OFHEO's performance indicators reflect data and outputs internal to the Office. The data used as input to the capital calculations are an exception. For the minimum capital and risk-based capital calculations, senior officers of each Enterprise transmit their data and attest to their completeness and accuracy. OFHEO is able to validate the minimum capital data through comparison with published Enterprise data, and has been satisfied with the data received. For the risk-based capital standard, OFHEO uses data validation protocols to ensure consistency and integrity of the data received. This allows ready identification of data issues, which OFHEO resolves with the Enterprises. OFHEO will continue to improve the sophistication of its validation checks. OFHEO had the financial simulation model used in the risk-based capital calculation independently tested during fiscal year 2001 and continuously tests any changes made to the software model to ensure accuracy. OFHEO and the Enterprises work in concert to ensure the replication of model results by OFHEO and the Enterprises.

Freddie Mac's capital calculation is based on financial information and the application of accounting policies currently involved in the accounting restatement process. The accounting changes reflected in the 2003 statements will impact the minimum capital surpluses and, to a lesser degree, the risk-based capital surpluses. The \$5 billion increase reflected in Freddie Mac's 2002 financials is not yet reflected in the FY 2003 numbers. The risk-based capital stress test utilizes cash flows and the economics of the individual transactions. OFHEO will determine the need for recalculations of regulatory capital after Freddie Mac publishes financial results for 2003. OFHEO anticipates that Freddie Mac's FY 2005 financial information will be reliable.

Monitoring and Reporting on Performance

During fiscal year 2005, OFHEO will evaluate its performance internally, make appropriate adjustments, and continue to analyze and reallocate its budgetary resources to enable the Office to achieve its annual performance goals. OFHEO will continue using the systems in place to monitor actual performance against the Performance Plan, and will enhance these systems by implementing the integrated financial and administrative management system in fiscal year 2004. On a quarterly basis, OFHEO's progress in meeting its performance goals is discussed among senior management and disseminated to OFHEO staff. Because OFHEO's appropriation is for a single account, and management has access to real time budget information, management will be able to redirect resources timely, if necessary, to accomplish the Office's goals.

As required by the Government Performance and Results Act of 1993 and the Reports Consolidation Act of 2000, OFHEO will submit a performance report for fiscal year 2005 to Congress by February 27, 2006, to discuss the Office's actual performance as compared with the fiscal year 2005 Annual Performance Plan.



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

June 30, 2004

Honorable Barney Frank
Ranking Minority Member
Committee on Financial Services
House of Representatives
Washington, DC 20515-6050

Re: Fannie Mae Capital Classification at March 31, 2004

Dear Congressman Frank:

In accordance with §§ 1364 and 1368 of the Federal Housing Enterprises Financial Safety and Soundness Act of 1992, and 12 CFR § 1777.21, the Office of Federal Housing Enterprise Oversight (OFHEO) is required to determine the capital level and classification of the Federal National Mortgage Association (Fannie Mae) not less than quarterly, and to report the results to Congress. OFHEO hereby reports that Fannie Mae is classified as adequately capitalized at March 31, 2004. Fannie Mae's capital calculation is based on financial information and the application of accounting policies currently under review by OFHEO. The outcome of the review may result in a restatement of prior period results and a revision of the respective quarters.

On June 10, 2004, OFHEO issued a notice of proposed action indicating its intention to classify Fannie Mae as adequately capitalized at March 31, 2004. Fannie Mae had until June 25, 2004, to submit for OFHEO's consideration any information relevant to the notice of proposed action. Fannie Mae did not submit additional information and agreed with the minimum and risk-based capital requirements as calculated by OFHEO.

As indicated in the enclosures, Fannie Mae's minimum capital requirement was \$31.354 billion, its critical capital level was \$16.041 billion, and its risk-based capital level was \$25.961 billion at March 31, 2004. Thus, Fannie Mae's core capital of \$35.701 billion on that date exceeded the minimum requirement by \$4.347 billion and the critical level by \$19.660 billion. Fannie Mae's total capital of \$36.481 billion on that date exceeded the risk-based capital requirement by \$10.520 billion.

Please contact me if you should have any questions or concerns regarding this matter.

Sincerely,

A handwritten signature in black ink, appearing to read "Armando Falcon, Jr."

Armando Falcon, Jr.
Director

Enclosures

FEDERAL NATIONAL MORTGAGE ASSOCIATION
Minimum Capital Level
March 31, 2004

SUMMARY

(Dollars in millions)

COMPONENTS OF THE MINIMUM CAPITAL LEVEL	
ON-BALANCE SHEET ASSETS	24,809
OFF-BALANCE SHEET OBLIGATIONS	
MBS and Equivalents	6,057
Commitments	301
OTHER OFF-BALANCE SHEET OBLIGATIONS	
Interest Rate and Foreign Exchange Rate Contracts	128
Other Off-Balance Sheet Obligations	60
MINIMUM CAPITAL LEVEL	31,354
CORE CAPITAL	35,701
SURPLUS/(DEFICIENCY)	4,347

Note: Totals may not add due to rounding.

FEDERAL NATIONAL MORTGAGE ASSOCIATION
Critical Capital Level
March 31, 2004

SUMMARY

(Dollars in millions)

COMPONENTS OF THE CRITICAL CAPITAL LEVEL

ON-BALANCE SHEET ASSETS	12,404
OFF-BALANCE SHEET OBLIGATIONS	3,636
CRITICAL CAPITAL LEVEL	16,041
CORE CAPITAL	35,701
SURPLUS/(DEFICIENCY)	19,660

Note: Totals may not add due to rounding.

FEDERAL NATIONAL MORTGAGE ASSOCIATION
Risk-Based Capital Level
March 31, 2004

SUMMARY

(Dollars in millions)

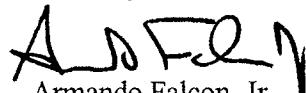
STRESS TEST SCENARIO RESULTS	
UP-RATE SCENARIO	25,961
DOWN-RATE SCENARIO	16,587
RISK-BASED CAPITAL LEVEL	25,961
TOTAL CAPITAL	36,481
SURPLUS/(DEFICIENCY)	10,520

Note: Totals may not add due to rounding.

publishing financial results for 2003, and the Director will determine whether a recalculation of regulatory capital is necessary at that time.

Please contact me if you should have any questions or concerns regarding this matter.

Sincerely,



Armando Falcon, Jr.
Director

Enclosures



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

June 30, 2004

Honorable Barney Frank
Ranking Minority Member
Committee on Financial Services
House of Representatives
Washington, DC 20515-6050

Re: Freddie Mac Capital Classification at March 31, 2004

Dear Congressman Frank:

In accordance with §§ 1364 and 1368 of the Federal Housing Enterprises Financial Safety and Soundness Act of 1992, and 12 CFR § 1777.21, the Office of Federal Housing Enterprise Oversight (OFHEO) is required to determine the capital level and classification of the Federal Home Loan Mortgage Corporation (Freddie Mac) not less than quarterly, and to report the results to Congress. OFHEO hereby reports that Freddie Mac is classified as adequately capitalized at March 31, 2004.

On June 10, 2004, OFHEO issued a notice of proposed action indicating its intention to classify Freddie Mac as adequately capitalized at March 31, 2004. Freddie Mac had until June 25, 2004, to submit for OFHEO's consideration any information relevant to the notice of proposed action. Freddie Mac did not submit additional information and agreed with the minimum and risk-based capital requirements as calculated by OFHEO.

As indicated in the enclosures, Freddie Mac's minimum capital requirement was \$24.472 billion, its critical capital level was \$12.454 billion, and its risk-based capital level was \$7.131 billion at March 31, 2004. Thus, Freddie Mac's core capital of \$34.781 billion on that date exceeded the minimum requirement by \$10.309 billion and the critical level by \$22.327 billion. Freddie Mac's total capital of \$34.898 billion on that date exceeded the risk-based capital requirement by \$27.767 billion. Further, Freddie Mac has maintained the capital surplus in accordance with the capital directive issued January 28, 2004.

Freddie Mac's capital classification is based on financial information and application of accounting policies currently involved in the restatement process. The classification is also based upon capital requirements in effect for this time period. The accounting changes will impact minimum capital surpluses but have less of an impact on risk-based capital surpluses as the cash flows modeled and the economics of the various transactions have not changed. Freddie Mac will resubmit appropriate financial data after

FEDERAL HOME LOAN MORTGAGE CORPORATION
Minimum Capital Level
March 31, 2004

SUMMARY

(Dollars in millions)

COMPONENTS OF THE MINIMUM CAPITAL LEVEL	
ON-BALANCE SHEET ASSETS	20,544
OFF-BALANCE SHEET OBLIGATIONS	
MBS and Equivalents	3,377
Commitments	314
OTHER OFF-BALANCE SHEET OBLIGATIONS	
Interest Rate and Foreign Exchange Rate Contracts	120
Sold Portfolio Remittances Pending	25
Other Off-Balance Sheet Obligations	92
MINIMUM CAPITAL LEVEL	24,472
CORE CAPITAL	34,781
SURPLUS/(DEFICIENCY)	10,309

Note: Totals may not add due to rounding.

FEDERAL HOME LOAN MORTGAGE CORPORATION
Critical Capital Level
March 31, 2004

SUMMARY

(Dollars in millions)

COMPONENTS OF THE CRITICAL CAPITAL LEVEL

ON-BALANCE SHEET ASSETS	10,272
OFF-BALANCE SHEET OBLIGATIONS	2,182
CRITICAL CAPITAL LEVEL	12,454
CORE CAPITAL	34,781
SURPLUS/(DEFICIENCY)	22,327

Note: Totals may not add due to rounding.

FEDERAL HOME LOAN MORTGAGE CORPORATION
Risk-Based Capital Level
March 31, 2004

SUMMARY

(Dollars in millions)

STRESS TEST SCENARIO RESULTS

UP-RATE SCENARIO	7,047
DOWN-RATE SCENARIO	7,131
RISK-BASED CAPITAL LEVEL	7,131
TOTAL CAPITAL	34,898
SURPLUS/(DEFICIENCY)	27,767

Note: Totals may not add due to rounding.



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

June 30, 2004

Honorable Richard C. Shelby, Chairman
Committee on Banking, Housing,
and Urban Affairs
United States Senate
Washington, DC 20510-6075

Re: Fannie Mae Capital Classification at March 31, 2004

Dear Mr. Chairman:

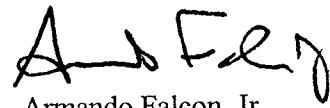
In accordance with §§ 1364 and 1368 of the Federal Housing Enterprises Financial Safety and Soundness Act of 1992, and 12 CFR § 1777.21, the Office of Federal Housing Enterprise Oversight (OFHEO) is required to determine the capital level and classification of the Federal National Mortgage Association (Fannie Mae) not less than quarterly, and to report the results to Congress. OFHEO hereby reports that Fannie Mae is classified as adequately capitalized at March 31, 2004. Fannie Mae's capital calculation is based on financial information and the application of accounting policies currently under review by OFHEO. The outcome of the review may result in a restatement of prior period results and a revision of the respective quarters.

On June 10, 2004, OFHEO issued a notice of proposed action indicating its intention to classify Fannie Mae as adequately capitalized at March 31, 2004. Fannie Mae had until June 25, 2004, to submit for OFHEO's consideration any information relevant to the notice of proposed action. Fannie Mae did not submit additional information and agreed with the minimum and risk-based capital requirements as calculated by OFHEO.

As indicated in the enclosures, Fannie Mae's minimum capital requirement was \$31.354 billion, its critical capital level was \$16.041 billion, and its risk-based capital level was \$25.961 billion at March 31, 2004. Thus, Fannie Mae's core capital of \$35.701 billion on that date exceeded the minimum requirement by \$4.347 billion and the critical level by \$19.660 billion. Fannie Mae's total capital of \$36.481 billion on that date exceeded the risk-based capital requirement by \$10.520 billion.

Please contact me if you should have any questions or concerns regarding this matter.

Sincerely,



Armando Falcon, Jr.
Director

Enclosures

FEDERAL NATIONAL MORTGAGE ASSOCIATION

Minimum Capital Level

March 31, 2004

SUMMARY

(Dollars in millions)

COMPONENTS OF THE MINIMUM CAPITAL LEVEL	
ON-BALANCE SHEET ASSETS	24,809
OFF-BALANCE SHEET OBLIGATIONS	
MBS and Equivalents	6,057
Commitments	301
OTHER OFF-BALANCE SHEET OBLIGATIONS	
Interest Rate and Foreign Exchange Rate Contracts	128
Other Off-Balance Sheet Obligations	60
MINIMUM CAPITAL LEVEL	31,354
CORE CAPITAL	35,701
SURPLUS/(DEFICIENCY)	4,347

Note: Totals may not add due to rounding.

FEDERAL NATIONAL MORTGAGE ASSOCIATION

Critical Capital Level

March 31, 2004

SUMMARY

(Dollars in millions)

COMPONENTS OF THE CRITICAL CAPITAL LEVEL

ON-BALANCE SHEET ASSETS	12,404
OFF-BALANCE SHEET OBLIGATIONS	3,636
CRITICAL CAPITAL LEVEL	16,041
CORE CAPITAL	35,701
SURPLUS/(DEFICIENCY)	19,660

Note: Totals may not add due to rounding.

FEDERAL NATIONAL MORTGAGE ASSOCIATION
Risk-Based Capital Level
March 31, 2004

SUMMARY

(Dollars in millions)

STRESS TEST SCENARIO RESULTS	
UP-RATE SCENARIO	25,961
DOWN-RATE SCENARIO	16,587
RISK-BASED CAPITAL LEVEL	25,961
TOTAL CAPITAL	36,481
SURPLUS/(DEFICIENCY)	10,520

Note: Totals may not add due to rounding.



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

June 30, 2004

Honorable Richard C. Shelby, Chairman
Committee on Banking, Housing,
and Urban Affairs
United States Senate
Washington, DC 20510-6075

Re: Freddie Mac Capital Classification at March 31, 2004

Dear Mr. Chairman:

In accordance with §§ 1364 and 1368 of the Federal Housing Enterprises Financial Safety and Soundness Act of 1992, and 12 CFR § 1777.21, the Office of Federal Housing Enterprise Oversight (OFHEO) is required to determine the capital level and classification of the Federal Home Loan Mortgage Corporation (Freddie Mac) not less than quarterly, and to report the results to Congress. OFHEO hereby reports that Freddie Mac is classified as adequately capitalized at March 31, 2004.

On June 10, 2004, OFHEO issued a notice of proposed action indicating its intention to classify Freddie Mac as adequately capitalized at March 31, 2004. Freddie Mac had until June 25, 2004, to submit for OFHEO's consideration any information relevant to the notice of proposed action. Freddie Mac did not submit additional information and agreed with the minimum and risk-based capital requirements as calculated by OFHEO.

As indicated in the enclosures, Freddie Mac's minimum capital requirement was \$24.472 billion, its critical capital level was \$12.454 billion, and its risk-based capital level was \$7.131 billion at March 31, 2004. Thus, Freddie Mac's core capital of \$34.781 billion on that date exceeded the minimum requirement by \$10.309 billion and the critical level by \$22.327 billion. Freddie Mac's total capital of \$34.898 billion on that date exceeded the risk-based capital requirement by \$27.767 billion. Further, Freddie Mac has maintained the capital surplus in accordance with the capital directive issued January 28, 2004.

Freddie Mac's capital classification is based on financial information and application of accounting policies currently involved in the restatement process. The classification is also based upon capital requirements in effect for this time period. The accounting changes will impact minimum capital surpluses but have less of an impact on risk-based capital surpluses as the cash flows modeled and the economics of the various transactions have not changed. Freddie Mac will resubmit appropriate financial data after

publishing financial results for 2003, and the Director will determine whether a recalculation of regulatory capital is necessary at that time.

Please contact me if you should have any questions or concerns regarding this matter.

Sincerely,



Armando Falcon, Jr.
Director

Enclosures

FEDERAL HOME LOAN MORTGAGE CORPORATION

Minimum Capital Level

March 31, 2004

SUMMARY

(Dollars in millions)

COMPONENTS OF THE MINIMUM CAPITAL LEVEL	
ON-BALANCE SHEET ASSETS	20,544
OFF-BALANCE SHEET OBLIGATIONS	
MBS and Equivalents	3,377
Commitments	314
OTHER OFF-BALANCE SHEET OBLIGATIONS	
Interest Rate and Foreign Exchange Rate Contracts	120
Sold Portfolio Remittances Pending	25
Other Off-Balance Sheet Obligations	92
MINIMUM CAPITAL LEVEL	24,472
CORE CAPITAL	34,781
SURPLUS/(DEFICIENCY)	(10,309)

Note: Totals may not add due to rounding.

FEDERAL HOME LOAN MORTGAGE CORPORATION
Critical Capital Level
March 31, 2004

SUMMARY

(Dollars in millions)

COMPONENTS OF THE CRITICAL CAPITAL LEVEL

ON-BALANCE SHEET ASSETS	10,272
OFF-BALANCE SHEET OBLIGATIONS	2,182
CRITICAL CAPITAL LEVEL	12,454
CORE CAPITAL	34,781
SURPLUS/(DEFICIENCY)	22,327

Note: Totals may not add due to rounding.

FEDERAL HOME LOAN MORTGAGE CORPORATION
Risk-Based Capital Level
March 31, 2004

SUMMARY

(Dollars in millions)

STRESS TEST SCENARIO RESULTS

UP-RATE SCENARIO	7,047
DOWN-RATE SCENARIO	7,131
RISK-BASED CAPITAL LEVEL	7,131
TOTAL CAPITAL	34,898
SURPLUS/(DEFICIENCY)	27,967

Note: Totals may not add due to rounding.



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

September 30, 2004

Honorable Richard C. Shelby, Chairman
Committee on Banking, Housing,
and Urban Affairs
United States Senate
Washington, DC 20510-6075

Re: Fannie Mae Capital Classification at June 30, 2004

Dear Mr. Chairman:

In accordance with §§ 1364 and 1368 of the Federal Housing Enterprises Financial Safety and Soundness Act of 1992, and 12 CFR § 1777.21, the Office of Federal Housing Enterprise Oversight (OFHEO) is required to determine the capital level and classification of the Federal National Mortgage Association (Fannie Mae) not less than quarterly, and to report the results to Congress. OFHEO hereby reports that Fannie Mae is classified as adequately capitalized at June 30, 2004. Fannie Mae's capital calculation is based on financial information and the application of accounting policies currently under review by OFHEO. The outcome of the review may result in a restatement of prior period results and a revision of the respective quarters.

Fannie Mae has agreed to increase minimum capital surpluses over a nine-month time period to 30% of the minimum capital requirement due to the uncertainties in the financial statements and operational weaknesses.

As an additional safeguard against those uncertainties and weaknesses, OFHEO will determine and publish Fannie Mae's capital classification on a monthly basis. This monthly determination will take effect based on their capital position as of September 30, 2004, and will continue until such time as all safety and soundness concerns are fully addressed.

On September 7, 2004, OFHEO issued a notice of proposed action indicating its intention to classify Fannie Mae as adequately capitalized at June 30, 2004. Fannie Mae had until September 24, 2004, to submit for OFHEO's consideration any information relevant to the notice of proposed action. Fannie Mae did not submit additional information and agreed with the minimum and risk-based capital requirements as calculated by OFHEO.

As indicated in the enclosures, Fannie Mae's minimum capital requirement was \$31.188 billion, its critical capital level was \$15.957 billion, and its risk-based capital level was \$24.391 billion at June 30, 2004. Thus, Fannie Mae's core capital of \$36.115 billion on that date exceeded the minimum requirement by \$4.927 billion and the critical level by \$20.157 billion. Fannie Mae's total capital of \$36.862 billion on that date exceeded the risk-based capital requirement by \$12.471 billion.

Please contact me if you should have any questions or concerns regarding this matter.

Sincerely,



Armando Falcon, Jr.
Director

Enclosures

FEDERAL NATIONAL MORTGAGE ASSOCIATION
Minimum Capital Level
June 30, 2004

SUMMARY

(Dollars in millions)

COMPONENTS OF THE MINIMUM CAPITAL LEVEL	
ON-BALANCE SHEET ASSETS	24,647
OFF-BALANCE SHEET OBLIGATIONS	
MBS and Equivalents	6,120
Commitments	233
OTHER OFF-BALANCE SHEET OBLIGATIONS	
Interest Rate and Foreign Exchange Rate Contracts	125
Other Off-Balance Sheet Obligations	63
MINIMUM CAPITAL LEVEL	31,188
CORE CAPITAL	36,115
SURPLUS/(DEFICIENCY)	4,927

Note: Totals may not add due to rounding.

FEDERAL NATIONAL MORTGAGE ASSOCIATION

Critical Capital Level

June 30, 2004

SUMMARY

(Dollars in millions)

COMPONENTS OF THE CRITICAL CAPITAL LEVEL

ON-BALANCE SHEET ASSETS	12,323
OFF-BALANCE SHEET OBLIGATIONS	3,634
CRITICAL CAPITAL LEVEL	15,957
CORE CAPITAL	36,115
SURPLUS/(DEFICIENCY)	20,157

Note: Totals may not add due to rounding.

FEDERAL NATIONAL MORTGAGE ASSOCIATION
Risk-Based Capital Level
June 30, 2004

SUMMARY

(Dollars in millions)

STRESS TEST SCENARIO RESULTS

UP-RATE SCENARIO	7,074
DOWN-RATE SCENARIO	24,391
RISK-BASED CAPITAL LEVEL	24,391
TOTAL CAPITAL	36,862
SURPLUS/(DEFICIENCY)	12,471

Note: Totals may not add due to rounding.



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

September 30, 2004

Honorable Richard C. Shelby, Chairman
Committee on Banking, Housing,
and Urban Affairs
United States Senate
Washington, DC 20510-6075

Re: Freddie Mac Capital Classification at June 30, 2004

Dear Mr. Chairman:

In accordance with §§ 1364 and 1368 of the Federal Housing Enterprises Financial Safety and Soundness Act of 1992, and 12 CFR § 1777.21, the Office of Federal Housing Enterprise Oversight (OFHEO) is required to determine the capital level and classification of the Federal Home Loan Mortgage Corporation (Freddie Mac) not less than quarterly, and to report the results to Congress. OFHEO hereby reports that Freddie Mac is classified as adequately capitalized at June 30, 2004.

On September 7, 2004, OFHEO issued a notice of proposed action indicating its intention to classify Freddie Mac as adequately capitalized at June 30, 2004. Freddie Mac had until September 24, 2004, to submit for OFHEO's consideration any information relevant to the notice of proposed action. Freddie Mac did not submit additional information and agreed with the minimum and risk-based capital requirements as calculated by OFHEO.

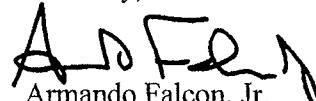
As indicated in the enclosures, Freddie Mac's minimum capital requirement was \$24.266 billion, its critical capital level was \$12.362 billion, and its risk-based capital level was \$3.858 billion at June 30, 2004. Thus, Freddie Mac's core capital of \$32.884 billion on that date exceeded the minimum requirement by \$8.619 billion and the critical level by \$20.523 billion. Freddie Mac's total capital of \$33.081 billion on that date exceeded the risk-based capital requirement by \$29.224 billion. Further, Freddie Mac has maintained the capital surplus in accordance with the capital directive issued January 28, 2004.

Freddie Mac's capital classification is based on financial information and application of accounting policies currently involved in the restatement process. The classification is also based upon capital requirements in effect for this time period. The accounting changes will impact minimum capital surpluses but have less of an impact on risk-based capital surpluses as the cash flows modeled and the economics of the various transactions have not changed. Freddie Mac has resubmitted capital information for

2003, including a revision for the second, third and fourth quarters of 2003. OFHEO has reaffirmed the capital adequacy determination for all quarters in 2003.

Please contact me if you should have any questions or concerns regarding this matter.

Sincerely,



Armando Falcon, Jr.
Director

Enclosures

FEDERAL HOME LOAN MORTGAGE CORPORATION
Minimum Capital Level
June 30, 2004

SUMMARY

(Dollars in millions)

COMPONENTS OF THE MINIMUM CAPITAL LEVEL	
ON-BALANCE SHEET ASSETS	20,148
OFF-BALANCE SHEET OBLIGATIONS	
MBS and Equivalents	3,461
Commitments	436
OTHER OFF-BALANCE SHEET OBLIGATIONS	
Interest Rate and Foreign Exchange Rate Contracts	109
Sold Portfolio Remittances Pending	14
Other Off-Balance Sheet Obligations	97
MINIMUM CAPITAL LEVEL	24,266
CORE CAPITAL	32,884
SURPLUS/(DEFICIENCY)	8,619

Note: Totals may not add due to rounding.

FEDERAL HOME LOAN MORTGAGE CORPORATION

Critical Capital Level

June 30, 2004

SUMMARY

(Dollars in millions)

COMPONENTS OF THE CRITICAL CAPITAL LEVEL

ON-BALANCE SHEET ASSETS	10,074
OFF-BALANCE SHEET OBLIGATIONS	2,287
CRITICAL CAPITAL LEVEL	12,362
CORE CAPITAL	32,884
SURPLUS/(DEFICIENCY)	20,523

Note: Totals may not add due to rounding.

FEDERAL HOME LOAN MORTGAGE CORPORATION
Risk-Based Capital Level
June 30, 2004

SUMMARY

(Dollars in millions)

STRESS TEST SCENARIO RESULTS

UP-RATE SCENARIO	1,322
DOWN-RATE SCENARIO	3,858
RISK-BASED CAPITAL LEVEL	3,858
TOTAL CAPITAL	33,081
SURPLUS/(DEFICIENCY)	29,224

Note: Totals may not add due to rounding.



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

September 30, 2004

Honorable Barney Frank
Ranking Minority Member
Committee on Financial Services
House of Representatives
Washington, DC 20515-6050

Re: Fannie Mae Capital Classification at June 30, 2004

Dear Congressman Frank:

In accordance with §§ 1364 and 1368 of the Federal Housing Enterprises Financial Safety and Soundness Act of 1992, and 12 CFR § 1777.21, the Office of Federal Housing Enterprise Oversight (OFHEO) is required to determine the capital level and classification of the Federal National Mortgage Association (Fannie Mae) not less than quarterly, and to report the results to Congress. OFHEO hereby reports that Fannie Mae is classified as adequately capitalized at June 30, 2004. Fannie Mae's capital calculation is based on financial information and the application of accounting policies currently under review by OFHEO. The outcome of the review may result in a restatement of prior period results and a revision of the respective quarters.

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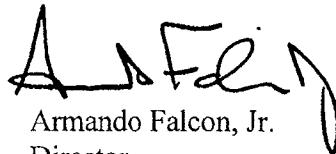
As an additional safeguard against those uncertainties and weaknesses, OFHEO will determine and publish Fannie Mae's capital classification on a monthly basis. This monthly determination will take effect based on their capital position as of September 30, 2004, and will continue until such time as all safety and soundness concerns are fully addressed.

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As indicated in the enclosures, Fannie Mae's minimum capital requirement was \$31.188 billion, its critical capital level was \$15.957 billion, and its risk-based capital level was \$24.391 billion at June 30, 2004. Thus, Fannie Mae's core capital of \$36.115 billion on that date exceeded the minimum requirement by \$4.927 billion and the critical level by \$20.157 billion. Fannie Mae's total capital of \$36.862 billion on that date exceeded the risk-based capital requirement by \$12.471 billion.

Please contact me if you should have any questions or concerns regarding this matter.

Sincerely,

A handwritten signature in black ink, appearing to read "Armando Falcon, Jr."

Armando Falcon, Jr.
Director

Enclosures

FEDERAL NATIONAL MORTGAGE ASSOCIATION

Minimum Capital Level

June 30, 2004

SUMMARY

(Dollars in millions)

COMPONENTS OF THE MINIMUM CAPITAL LEVEL	
ON-BALANCE SHEET ASSETS	24,647
OFF-BALANCE SHEET OBLIGATIONS	
MBS and Equivalents	
Commitments	6,120
Commitments	233
OTHER OFF-BALANCE SHEET OBLIGATIONS	
Interest Rate and Foreign Exchange Rate Contracts	125
Other Off-Balance Sheet Obligations	63
MINIMUM CAPITAL LEVEL	31,188
CORE CAPITAL	36,115
SURPLUS/(DEFICIENCY)	4,927

Note: Totals may not add due to rounding.

FEDERAL NATIONAL MORTGAGE ASSOCIATION

Critical Capital Level

June 30, 2004

SUMMARY

(Dollars in millions)

COMPONENTS OF THE CRITICAL CAPITAL LEVEL

ON-BALANCE SHEET ASSETS	12,323
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CORE CAPITAL	36,115
SURPLUS/(DEFICIENCY)	20,157

Note: Totals may not add due to rounding.

FEDERAL NATIONAL MORTGAGE ASSOCIATION
Risk-Based Capital Level
June 30, 2004

SUMMARY

(Dollars in millions)

STRESS TEST SCENARIO RESULTS

UP-RATE SCENARIO	7,074
DOWN-RATE SCENARIO	24,391
RISK-BASED CAPITAL LEVEL	24,391
TOTAL CAPITAL	36,862
SURPLUS/(DEFICIENCY)	12,471

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

September 30, 2004

Honorable Barney Frank
Ranking Minority Member
Committee on Financial Services
House of Representatives
Washington, DC 20515-6050

Re: Freddie Mac Capital Classification at June 30, 2004

Dear Congressman Frank:

In accordance with §§ 1364 and 1368 of the Federal Housing Enterprises Financial Safety and Soundness Act of 1992, and 12 CFR § 1777.21, the Office of Federal Housing Enterprise Oversight (OFHEO) is required to determine the capital level and classification of the Federal Home Loan Mortgage Corporation (Freddie Mac) not less than quarterly, and to report the results to Congress. OFHEO hereby reports that Freddie Mac is classified as adequately capitalized at June 30, 2004.

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As indicated in the enclosures, Freddie Mac's minimum capital requirement was \$24.266 billion, its critical capital level was \$12.362 billion, and its risk-based capital level was \$3.858 billion at June 30, 2004. Thus, Freddie Mac's core capital of \$32.884 billion on that date exceeded the minimum requirement by \$8.619 billion and the critical level by \$20.523 billion. Freddie Mac's total capital of \$33.081 billion on that date exceeded the risk-based capital requirement by \$29.224 billion. Further, Freddie Mac has maintained the capital surplus in accordance with the capital directive issued January 28, 2004.

Freddie Mac's capital classification is based on financial information and application of accounting policies currently involved in the restatement process. The classification is also based upon capital requirements in effect for this time period. The accounting changes will impact minimum capital surpluses but have less of an impact on risk-based capital surpluses as the cash flows modeled and the economics of the various transactions have not changed. Freddie Mac has resubmitted capital information for

2003, including a revision for the second, third and fourth quarters of 2003. OFHEO has reaffirmed the capital adequacy determination for all quarters in 2003.

Please contact me if you should have any questions or concerns regarding this matter.

Sincerely,



Armando Falcon, Jr.

Director

Enclosures

FEDERAL HOME LOAN MORTGAGE CORPORATION
Minimum Capital Level
June 30, 2004

SUMMARY

(Dollars in millions)

COMPONENTS OF THE MINIMUM CAPITAL LEVEL	
ON-BALANCE SHEET ASSETS	20,148
OFF-BALANCE SHEET OBLIGATIONS	
MBS and Equivalents	3,461
Commitments	436
OTHER OFF-BALANCE SHEET OBLIGATIONS	
Interest Rate and Foreign Exchange Rate Contracts	109
Sold Portfolio Remittances Pending	14
Other Off-Balance Sheet Obligations	97
MINIMUM CAPITAL LEVEL	24,266
CORE CAPITAL	32,884
SURPLUS/(DEFICIENCY)	8,619

Note: Totals may not add due to rounding.

FEDERAL HOME LOAN MORTGAGE CORPORATION
Critical Capital Level
June 30, 2004

SUMMARY

(Dollars in millions)

COMPONENTS OF THE CRITICAL CAPITAL LEVEL	
ON-BALANCE SHEET ASSETS	10,074
OFF-BALANCE SHEET OBLIGATIONS	2,287
CRITICAL CAPITAL LEVEL	12,362
CORE CAPITAL	32,884
SURPLUS/DEFICIENCY	20,523

Note: Totals may not add due to rounding.

FEDERAL HOME LOAN MORTGAGE CORPORATION
Risk-Based Capital Level
June 30, 2004

SUMMARY

(Dollars in millions)

STRESS TEST SCENARIO RESULTS

UP-RATE SCENARIO	1,322
DOWN-RATE SCENARIO	3,858
RISK-BASED CAPITAL LEVEL	3,858
TOTAL CAPITAL	33,081
SURPLUS/(DEFICIENCY)	29,224

Note: Totals may not add due to rounding.

MICHAEL G. OXLEY, OH, CHAIRMAN

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 SCOTT GARRETT, NJ
 TIM MURPHY, PA
 GINNY BROOKSHAW, FL
 J. GRESHAM BENNETT, SC
 KATHERINE HARRING, FL
 RICK REED, AZ

**U.S. House of Representatives
 Committee on Financial Services
 2129 Rayburn House Office Building
 Washington, DC 20515**

BARNEY FRANK, MA, RANKING MEMBER

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October 29, 2004

BERT U. FOSTER III
 STAFF DIRECTOR

Mr. Armando Falcon, Jr.
 Director
 Office of Federal Housing Enterprise Oversight
 1700 G Street, NW
 Washington, DC 20552

Dear Mr. Falcon:

I am writing about a recent report prepared by the U.S. Department of Housing and Urban Development Office of Inspector General (OIG) concerning alleged leaks by the Office of Federal Housing Enterprise Oversight (OFHEO). I recently requested in writing that the HUD OIG publicly release the report. In its response, the HUD OIG stated that it is prohibited by the Privacy Act of 1974 from publicly releasing the report, and further stated that OFHEO personnel to whom the report pertains have not provided to OIG written consent to disclose it.

While I understand that the Privacy Act requires the consent of individuals named in the report, I believe it is a mistake to keep the contents of the report secret. Just as I argued in similar circumstances that OFHEO's report on possible problems at Fannie Mae should be made public, a similar principle of transparency should be applied to the report about OFHEO. Accordingly, I request that those individuals identified in the report provide the OIG with written consent to disclose the report and that they be afforded an opportunity to respond. Thank you for your prompt attention to this request.



BARNEY FRANK



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

December 3, 2004

Honorable Barney Frank
Ranking Minority Member
Committee on Financial Services
House of Representatives
Washington, DC 20515-6050

Re: Fannie Mae Capital Classification

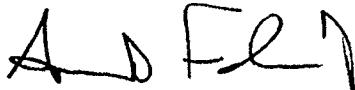
Dear Congressman Frank:

In accordance with §§ 1364 and 1368 of the Federal Housing Enterprises Financial Safety and Soundness Act of 1992 and 12 CFR § 1777.21, the Office of Federal Housing Enterprise Oversight (OFHEO) is required to determine the capital classification of the Federal National Mortgage Association (Fannie Mae) not less than quarterly, and to report the results to Congress. In our letter of September 30 to you, we noted that the results of OFHEO's special examination may result in a restatement of prior period results and a revision of the respective quarters. We also indicated that OFHEO would begin classifying Fannie Mae on a monthly basis.

On November 15, 2004 Fannie Mae filed a Form 12b-25 with the Securities and Exchange Commission (SEC). Fannie Mae indicated that its external auditors could not complete their review of its financial statements and noted the possibility of up to a \$9-billion loss dating back to 2001. As a result, OFHEO has determined it will not provide a monthly capital classification at this time.

Please contact me if you should have any questions or concerns regarding this matter.

Sincerely,



Armando Falcon, Jr.
Director



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

December 3, 2004

Honorable Richard C. Shelby, Chairman
Committee on Banking, Housing,
and Urban Affairs
United States Senate
Washington, DC 20510-6075

Re: Fannie Mae Capital Classification

Dear Mr. Chairman:

In accordance with §§ 1364 and 1368 of the Federal Housing Enterprises Financial Safety and Soundness Act of 1992 and 12 CFR § 1777.21, the Office of Federal Housing Enterprise Oversight (OFHEO) is required to determine the capital classification of the Federal National Mortgage Association (Fannie Mae) not less than quarterly, and to report the results to Congress. In our letter of September 30 to you, we noted that the results of OFHEO's special examination may result in a restatement of prior period results and a revision of the respective quarters. We also indicated that OFHEO would begin classifying Fannie Mae on a monthly basis.

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Please contact me if you should have any questions or concerns regarding this matter.

Sincerely,



Armando Falcon, Jr.
Director



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

December 21, 2004

Honorable Richard C. Shelby, Chairman
Committee on Banking, Housing,
and Urban Affairs
United States Senate
Washington, DC 20510-6075

Re: Fannie Mae Capital Classification at September 30, 2004

Dear Mr. Chairman:

In accordance with section 1364 of the Federal Housing Enterprises Financial Safety and Soundness Act of 1992 and section 1777.21(a) of title 12 of the Code of Federal Regulations, the Office of Federal Housing Enterprise Oversight (OFHEO) is required to determine the capital level and classification of the Federal National Mortgage Association (Fannie Mae) not less than quarterly. Consistent with 12 CFR § 1777.21(a)(3), OFHEO hereby provides this notice of final capital classification classifying Fannie Mae as significantly undercapitalized at September 30, 2004. Fannie Mae's capital calculation is based on financial information and the application of accounting policies currently under review by OFHEO.

On December 16, 2004, OFHEO issued a notice of proposed action indicating its intention to classify Fannie Mae as significantly undercapitalized at September 30, 2004 and requesting that Fannie Mae notify OFHEO of its agreement to waive the 30-day comment period. Fannie Mae provided OFHEO with this waiver on December 21, 2004.

After consideration of the information provided by Fannie Mae, OFHEO has determined it is appropriate to issue a final letter of capital classification.

By statute, Fannie Mae must produce a capital restoration plan. Such plan shall address the restoration of capital to receive a classification of adequately capitalized, shall address all potential strategies, including the use of equity and other approaches, and be submitted within ten days of the classification letter for OFHEO review and approval.

Also, by statute, Fannie Mae shall make no capital distribution that would result in Fannie Mae being reclassified as critically undercapitalized. Fannie Mae shall make no capital distribution unless OFHEO specifically approves that distribution in writing upon

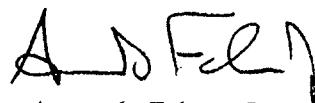
a showing by Fannie Mae that the distribution will enhance the ability of Fannie Mae to meet and maintain its required capital requirements, will contribute to the long term financial safety and soundness of the Enterprise or is otherwise in the public interest.

Additionally, Fannie Mae was informed that the reclassification to significantly undercapitalized, by statute, may lead to structural changes, restrictions on growth (including reduction of assets) as well as OFHEO directives to terminate or modify any business activities that pose excessive risk. Non-cooperation may trigger a further reclassification or other enforcement actions.

Based on information provided by Fannie Mae, the Enterprise fails to meet the minimum capital requirement. The attached enclosures illustrate Fannie Mae's position as of September 30, 2004. In particular, Fannie Mae's minimum capital requirement was \$31.837 billion, its critical capital level was \$16.287 billion, and its risk-based capital level was \$18.342 billion at September 30, 2004. Thus, Fannie Mae's core capital— after adjustment for the estimated \$9.176 FAS 133 cumulative impact— was \$28.856 billion on that date reflecting a deficit of \$2.981 billion from the minimum requirement and excess of \$12.569 billion over the critical level. Fannie Mae's total capital of \$38,762 billion on that date exceeded the risk-based capital requirement by \$20.420 billion.

Please contact me if you should have any questions or concerns regarding this matter.

Sincerely,



Armando Falcon, Jr.
Director

Enclosures

FEDERAL NATIONAL MORTGAGE ASSOCIATION
Minimum Capital Level
September 30, 2004

SUMMARY

(Dollars in millions)

COMPONENTS OF THE MINIMUM CAPITAL LEVEL	
ON-BALANCE SHEET ASSETS	25,209
OFF-BALANCE SHEET OBLIGATIONS	
MBS and Equivalents	6,194
Commitments	247
OTHER OFF-BALANCE SHEET OBLIGATIONS	
Interest Rate and Foreign Exchange Rate Contracts	121
Other Off-Balance Sheet Obligations	67
MINIMUM CAPITAL LEVEL	31,837
CORE CAPITAL	38,032
FAS 133 IMPACT (<i>FNM estimate; Unaudited</i>)	(9,176)
SURPLUS/(DEFICIENCY)	(2,981)

Note: Totals may not add due to rounding.

FEDERAL NATIONAL MORTGAGE ASSOCIATION

Critical Capital Level

September 30, 2004

SUMMARY

(Dollars in millions)

COMPONENTS OF THE CRITICAL CAPITAL LEVEL

ON-BALANCE SHEET ASSETS	12,604
OFF-BALANCE SHEET OBLIGATIONS	3,683
CRITICAL CAPITAL LEVEL	16,287
CORE CAPITAL	38,032
FAS 133 IMPACT (<i>FNM estimate; Unaudited</i>)	(9,176)
SURPLUS/(DEFICIENCY)	12,869

Note: Totals may not add due to rounding.

FEDERAL NATIONAL MORTGAGE ASSOCIATION
Risk-Based Capital Level
September 30, 2004

SUMMARY

(Dollars in millions)

STRESS TEST SCENARIO RESULTS	
UP-RATE SCENARIO	13,026
DOWN-RATE SCENARIO	18,342
RISK-BASED CAPITAL LEVEL	18,342
TOTAL CAPITAL	38,762
SURPLUS/(DEFICIENCY)	20,420

Note: Totals may not add due to rounding.



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

December 30, 2004

Honorable Barney Frank
Ranking Minority Member
Committee on Financial Services
House of Representatives
Washington, DC 20515-6050

Re: Freddie Mac Capital Classification at September 30, 2004

Dear Congressman Frank:

In accordance with §§ 1364 and 1368 of the Federal Housing Enterprises Financial Safety and Soundness Act of 1992, and 12 CFR § 1777.21, the Office of Federal Housing Enterprise Oversight (OFHEO) is required to determine the capital level and classification of the Federal Home Loan Mortgage Corporation (Freddie Mac) not less than quarterly, and to report the results to Congress. OFHEO hereby reports that Freddie Mac is classified as adequately capitalized at September 30, 2004.

On December 9, 2004, OFHEO issued a notice of proposed action indicating its intention to classify Freddie Mac as adequately capitalized at September 30, 2004. Freddie Mac had until December 22, 2004, to submit for OFHEO's consideration any information relevant to the notice of proposed action. Freddie Mac did not submit additional information and agreed with the minimum and risk-based capital requirements as calculated by OFHEO.

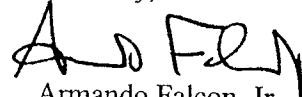
As indicated in the enclosures, Freddie Mac's minimum capital requirement was \$24.404 billion, its critical capital level was \$12.434 billion, and its risk-based capital level was \$5.749 billion at September 30, 2004. Thus, Freddie Mac's core capital of \$34.227 billion on that date exceeded the minimum requirement by \$9.823 billion and the critical level by \$21.792 billion. Freddie Mac's total capital of \$34.397 billion on that date exceeded the risk-based capital requirement by \$28.648 billion. Further, Freddie Mac has maintained the capital surplus in accordance with the capital directive issued January 28, 2004.

Freddie Mac's capital classification is based on financial information and application of accounting policies currently involved in the restatement process. The classification is also based upon capital requirements in effect for this time period. The accounting changes will impact minimum capital surpluses but have less of an impact on

risk-based capital surpluses as the cash flows modeled and the economics of the various transactions have not changed.

Please contact me if you should have any questions or concerns regarding this matter.

Sincerely,



Armando Falcon, Jr.
Director

Enclosures

FEDERAL HOME LOAN MORTGAGE CORPORATION
Minimum Capital Level
September 30, 2004

SUMMARY

(Dollars in millions)

COMPONENTS OF THE MINIMUM CAPITAL LEVEL	
ON-BALANCE SHEET ASSETS	20,221
OFF-BALANCE SHEET OBLIGATIONS	
MBS and Equivalents	3,533
Commitments	433
OTHER OFF-BALANCE SHEET OBLIGATIONS	
Interest Rate and Foreign Exchange Rate Contracts	116
Sold Portfolio Remittances Pending	14
Other Off-Balance Sheet Obligations	88
MINIMUM CAPITAL LEVEL	24,404
CORE CAPITAL	34,227
SURPLUS/(DEFICIENCY)	9,823

Note: Totals may not add due to rounding.

FEDERAL HOME LOAN MORTGAGE CORPORATION

Critical Capital Level

September 30, 2004

SUMMARY

(Dollars in millions)

COMPONENTS OF THE CRITICAL CAPITAL LEVEL

ON-BALANCE SHEET ASSETS	10,110
OFF-BALANCE SHEET OBLIGATIONS	2,324
CRITICAL CAPITAL LEVEL	12,434
CORE CAPITAL	34,227
SURPLUS/(DEFICIENCY)	21,793

Note: Totals may not add due to rounding.

FEDERAL HOME LOAN MORTGAGE CORPORATION
Risk-Based Capital Level
September 30, 2004

SUMMARY

(Dollars in millions)

STRESS TEST SCENARIO RESULTS

UP-RATE SCENARIO	5,749
DOWN-RATE SCENARIO	2,623
RISK-BASED CAPITAL LEVEL	5,749
TOTAL CAPITAL	34,397
SURPLUS/(DEFICIENCY)	28,648

Note: Totals may not add due to rounding.



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

December 30, 2004

Honorable Richard C. Shelby, Chairman
Committee on Banking, Housing,
and Urban Affairs
United States Senate
Washington, DC 20510-6075

Re: Freddie Mac Capital Classification at September 30, 2004

Dear Mr. Chairman:

In accordance with §§ 1364 and 1368 of the Federal Housing Enterprises Financial Safety and Soundness Act of 1992, and 12 CFR § 1777.21, the Office of Federal Housing Enterprise Oversight (OFHEO) is required to determine the capital level and classification of the Federal Home Loan Mortgage Corporation (Freddie Mac) not less than quarterly, and to report the results to Congress. OFHEO hereby reports that Freddie Mac is classified as adequately capitalized at September 30, 2004.

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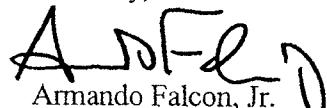
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Sincerely,



Armando Falcon, Jr.
Director

Enclosures

FEDERAL HOME LOAN MORTGAGE CORPORATION

Minimum Capital Level

September 30, 2004

SUMMARY

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FEDERAL HOME LOAN MORTGAGE CORPORATION

Critical Capital Level

September 30, 2004

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FEDERAL HOME LOAN MORTGAGE CORPORATION
Risk-Based Capital Level
September 30, 2004

SUMMARY

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

December 21, 2004

Honorable Barney Frank
Ranking Minority Member
Committee on Financial Services
House of Representatives
Washington, DC 20515-6050

Re: Fannie Mae Capital Classification at September 30, 2004

Dear Congressman Frank:

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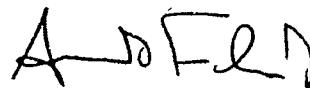
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Please contact me if you should have any questions or concerns regarding this matter.

Sincerely,



Armando Falcon, Jr.
Director

Enclosures

FEDERAL NATIONAL MORTGAGE ASSOCIATION

Minimum Capital Level

September 30, 2004

SUMMARY

(Dollars in millions)

COMPONENTS OF THE MINIMUM CAPITAL LEVEL

ON-BALANCE SHEET ASSETS	25,209
OFF-BALANCE SHEET OBLIGATIONS	
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FEDERAL NATIONAL MORTGAGE ASSOCIATION

Critical Capital Level
September 30, 2004

SUMMARY

(Dollars in millions)

COMPONENTS OF THE CRITICAL CAPITAL LEVEL

ON-BALANCE SHEET ASSETS	12,604
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SURPLUS/(DEFICIENCY)	(2,569)

Note: Totals may not add due to rounding.

FEDERAL NATIONAL MORTGAGE ASSOCIATION
Risk-Based Capital Level
September 30, 2004

SUMMARY

(Dollars in millions)

STRESS TEST SCENARIO RESULTS

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