OFFICE OF FEDERAL HOUSING ENTERPRISE OVERSIGHT
1700 G STREET NW WASHINGTON DC 20552 (202) 414-3801

OFFICE OF THE DIRECTOR

March 31, 2006

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

Re: Freddie Mac Final Capital Classification at December 31, 2005

Dear Congressman Frank:

Section 1364 of the Federal Housing Enterprises Financial Safety and Soundness Act of 1992 and 12 C.F.R. § 1777.21 require that the Office of Federal Housing Enterprise Oversight (OFHEO) determine the capital classification of the Federal Home Loan Mortgage Corporation (Freddie Mac) not less than quarterly. On February 28, 2006, OFHEO issued a notice of proposed action indicating its intention to classify Freddie Mac as adequately capitalized at December 31, 2005, and requesting that Freddie Mac notify OFHEO by March 28, 2006, whether it intended to accept the classification or provide a response. Freddie Mac responded that it took no exception to the proposed capital classification.

Based on capital requirements in effect for the fourth quarter of 2005, OFHEO hereby provides notice that Freddie Mac is classified as adequately capitalized at December 31, 2005. The final capital classification is based on Freddie Mac's best estimates of its financial condition, as certified and represented as true and correct by Freddie Mac's management, but remains subject to revision during Freddie Mac's ongoing audit, management reviews, and control assessments.

As indicated in the enclosures, at December 31, 2005, Freddie Mac's minimum capital requirement was $24.993 billion, its critical capital requirement was $12.774 billion, and its risk-based capital requirement was $11.282 billion. Thus, Freddie Mac's core capital of $36.328 billion at December 31, 2005 exceeded the minimum capital requirement by $11.335 billion and the critical capital requirement by $23.555 billion. Freddie Mac's total capital of $36.781 billion at December 31, 2005, exceeded the risk-based capital requirement by $25.499 billion.

Separately, OFHEO determined that Freddie Mac's total capital and qualifying subordinated debt exceeded the requirements outlined in the agreement dated September 1, 2005.

Further, Freddie Mac has maintained a capital surplus in accordance with the capital directive issued by OFHEO on January 28, 2004. The final capital classification does not alter or amend the capital directive.

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

Sincerely,

Stephen A. Blumenthal
Acting Director

Enclosures

FEDERAL HOME LOAN MORTGAGE CORPORATION
Minimum Capital Level
December 31, 2005

SUMMARY

(Dollars in millions)

COMPONENTS OF THE MINIMUM CAPITAL LEVEL	
ON-BALANCE SHEET ASSETS	20,001
OFF-BALANCE SHEET OBLIGATIONS	
MBS and Equivalents	4,308
Commitments	509
OTHER OFF-BALANCE SHEET OBLIGATIONS	
Interest Rate and Foreign Exchange Rate Contracts	98
Sold Portfolio Remittances Pending	9
Other Off-Balance Sheet Obligations	67
MINIMUM CAPITAL LEVEL	**24,993**
CORE CAPITAL	**36,328**
SURPLUS/(DEFICIENCY)	**11,335**

Note: Totals may not add due to rounding.

FEDERAL HOME LOAN MORTGAGE CORPORATION
Critical Capital Level
December 31, 2005

SUMMARY

(Dollars in millions)

COMPONENTS OF THE CRITICAL CAPITAL LEVEL	
ON-BALANCE SHEET ASSETS	10,001
OFF-BALANCE SHEET OBLIGATIONS	2,773
CRITICAL CAPITAL LEVEL	**12,774**
CORE CAPITAL	**36,328**
SURPLUS/(DEFICIENCY)	**23,555**

Note: Totals may not add due to rounding.

FEDERAL HOME LOAN MORTGAGE CORPORATION
Risk-Based Capital Level
December 31, 2005

SUMMARY

(Dollars in millions)

STRESS TEST SCENARIO RESULTS	
UP-RATE SCENARIO	7,594
DOWN-RATE SCENARIO	11,282
RISK-BASED CAPITAL LEVEL	**11,282**
TOTAL CAPITAL	**36,781**
SURPLUS/(DEFICIENCY)	**25,499**

Note: Totals may not add due to rounding.

FEDERAL HOME LOAN MORTGAGE CORPORATION
Qualifying Subordinated Debt
December 31, 2005

SUMMARY

(Dollars in millions)

QUALIFYING SUBORDINATED DEBT PLUS TOTAL CAPITAL RESULTS (1, 2)	
TOTAL CAPITAL	36,781
TOTAL QUALIFYING SUBORDINATED DEBT	5,481
TOTAL CAPITAL AND QUALIFYING SUBORDINATED DEBT	**42,262**
CAPITAL REQUIREMENT FOR 4.0% OF ON-BALANCE SHEET ASSETS AND 0.45% OF NET MBS/PCs OUTSTANDING	**36,610**
SURPLUS (DEFICIENCY)	**5,652**

1. Totals may not add due to rounding
2. Qualifying Subordinated Debt is defined as subordinated debt that contains the interest deferral feature. The interest deferral requires the deferral of interest payments for up to 5 years if:
   a) The corporation's core capital falls below 125% of critical capital, or
   b) The corporation's core capital falls below minimum capital AND, pursuant to the corporation's request, the Secretary of the Treasury exercised discretionary authority to purchase the company's obligations under Section 306(c) of the Freddie Mac Charter Act and Section 304(c) of the Fannie Mae Charter Act

OFFICE OF FEDERAL HOUSING ENTERPRISE OVERSIGHT
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OFFICE OF THE DIRECTOR

March 31, 2006

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

Re: Fannie Mae Final Capital Classification at December 31, 2005

Dear Congressman Frank:

Section 1364 of the Federal Housing Enterprises Financial Safety and Soundness Act of 1992 and 12 C.F.R. § 1777.21 require that the Office of Federal Housing Enterprise Oversight (OFHEO) determine the capital classification of the Federal National Mortgage Association (Fannie Mae) not less than quarterly. On February 28, 2006, OFHEO issued a notice of proposed action indicating its intention to classify Fannie Mae as adequately capitalized at December 31, 2005, and requesting that Fannie Mae notify OFHEO by March 28, 2006, whether it intended to accept the classification or provide a response. Fannie Mae responded that it took no exception to the proposed capital classification.

Based on capital requirements in effect for the fourth quarter of 2005, OFHEO hereby provides notice that Fannie Mae is classified as adequately capitalized at December 31, 2005. The final capital classification is based on Fannie Mae's best estimates of its financial condition, as certified and represented as true and correct by Fannie Mae's management, but remains subject to revision during Fannie Mae's re-audit and accounting restatement process.

As indicated in the enclosures, at December 31, 2005, Fannie Mae's adjusted minimum capital requirement was $28.463 billion, its adjusted critical capital requirement was $14.643 billion, and its risk-based capital requirement was $12.636 billion. Thus, Fannie Mae's adjusted core capital of $38.135 billion at December 31, 2005 exceeded the minimum capital requirement by $ 9.673 billion and the critical capital requirement by $23.492 billion. Fannie Mae's total capital of $39.204 billion at December 31, 2005, exceeded the risk-based capital requirement by $26.568 billion.

Separately, OFHEO determined that Fannie Mae's total capital and qualifying subordinated debt exceeded the requirements outlined in the agreement dated September 1, 2005.

Further, Fannie Mae has maintained a capital surplus in accordance with the Agreement dated September 27, 2004; the Supplement to Agreement, dated March 7, 2005 (enforcement agreements); and the approved Capital Restoration Plan, dated February 10, 2005 (Capital Restoration Plan). The final capital classification does not alter or amend the existing enforcement agreements or the Capital Restoration Plan.

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

Sincerely,

Stephen A. Blumenthal
Acting Director

Enclosures

FEDERAL NATIONAL MORTGAGE ASSOCIATION
Minimum, Critical and Risk Based Capital Levels
December 31, 2005

SUMMARY

(Dollars in millions)

COMPONENTS OF THE MINIMUM CAPITAL LEVEL	
MINIMUM CAPITAL LEVEL - Adjusted	28,463
CORE CAPITAL - Adjusted	38,135
ESTIMATED SURPLUS/(DEFICIENCY)	9,673

COMPONENTS OF THE CRITICAL CAPITAL LEVEL	
CRITICAL CAPITAL LEVEL - Adjusted	14,643
CORE CAPITAL - Adjusted	38,135
ESTIMATED SURPLUS/(DEFICIENCY)	23,492

STRESS TEST SCENARIO RESULTS	
UP-RATE SCENARIO	12,636
DOWN-RATE SCENARIO	6,030
RISK-BASED CAPITAL LEVEL	12,636
TOTAL CAPITAL	39,204
SURPLUS/(DEFICIENCY)	26,568

Note: Totals may not add due to rounding.

FEDERAL NATIONAL MORTGAGE ASSOCIATION
Qualifying Subordinated Debt
December 31, 2005

SUMMARY

(Dollars in millions)

QUALIFYING SUBORDINATED DEBT PLUS TOTAL CAPITAL RESULTS (1, 2)	
TOTAL CAPITAL	39,204
TOTAL QUALIFYING SUBORDINATED DEBT	8,753
TOTAL CAPITAL AND QUALIFYING SUBORDINATED DEBT	**47,957**
CAPITAL REQUIREMENT FOR 4.0% OF ON-BALANCE SHEET ASSETS AND 0.45% OF NET MBS/PCs OUTSTANDING	**41,051**
SURPLUS (DEFICIENCY)	**6,906**

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OFFICE OF FEDERAL HOUSING ENTERPRISE OVERSIGHT
1700 G STREET NW WASHINGTON DC 20552 (202) 414-3801

OFFICE OF THE DIRECTOR

March 31, 2006

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

Re: Freddie Mac Final Capital Classification at December 31, 2005

Dear Mr. Chairman:

Section 1364 of the Federal Housing Enterprises Financial Safety and Soundness Act of 1992 and 12 C.F.R. § 1777.21 require that the Office of Federal Housing Enterprise Oversight (OFHEO) determine the capital classification of the Federal Home Loan Mortgage Corporation (Freddie Mac) not less than quarterly. On February 28, 2006, OFHEO issued a notice of proposed action indicating its intention to classify Freddie Mac as adequately capitalized at December 31, 2005, and requesting that Freddie Mac notify OFHEO by March 28, 2006, whether it intended to accept the classification or provide a response. Freddie Mac responded that it took no exception to the proposed capital classification.

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

Sincerely,

Stephen A. Blumenthal
Acting Director

Enclosures

FEDERAL HOME LOAN MORTGAGE CORPORATION
Minimum Capital Level
December 31, 2005

SUMMARY

(Dollars in millions)

COMPONENTS OF THE MINIMUM CAPITAL LEVEL	
ON-BALANCE SHEET ASSETS	20,001
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FEDERAL HOME LOAN MORTGAGE CORPORATION
Critical Capital Level
December 31, 2005

SUMMARY

(Dollars in millions)

COMPONENTS OF THE CRITICAL CAPITAL LEVEL	
ON-BALANCE SHEET ASSETS	10,001
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FEDERAL HOME LOAN MORTGAGE CORPORATION
Risk-Based Capital Level
December 31, 2005

SUMMARY

(Dollars in millions)

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FEDERAL HOME LOAN MORTGAGE CORPORATION
Qualifying Subordinated Debt
December 31, 2005

SUMMARY

(Dollars in millions)

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OFFICE OF FEDERAL HOUSING ENTERPRISE OVERSIGHT
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OFFICE OF THE DIRECTOR

March 31, 2006

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

Re: Fannie Mae Final Capital Classification at December 31, 2005

Dear Mr. Chairman:

Section 1364 of the Federal Housing Enterprises Financial Safety and Soundness Act of 1992 and 12 C.F.R. § 1777.21 require that the Office of Federal Housing Enterprise Oversight (OFHEO) determine the capital classification of the Federal National Mortgage Association (Fannie Mae) not less than quarterly. On February 28, 2006, OFHEO issued a notice of proposed action indicating its intention to classify Fannie Mae as adequately capitalized at December 31, 2005, and requesting that Fannie Mae notify OFHEO by March 28, 2006, whether it intended to accept the classification or provide a response. Fannie Mae responded that it took no exception to the proposed capital classification.

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

Sincerely,

Stephen A. Blumenthal
Acting Director

Enclosures

FEDERAL NATIONAL MORTGAGE ASSOCIATION
Minimum, Critical and Risk Based Capital Levels
December 31, 2005

SUMMARY

(Dollars in millions)

COMPONENTS OF THE MINIMUM CAPITAL LEVEL	
MINIMUM CAPITAL LEVEL - Adjusted	**28,463**
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FEDERAL NATIONAL MORTGAGE ASSOCIATION
Qualifying Subordinated Debt
December 31, 2005

SUMMARY

(Dollars in millions)

QUALIFYING SUBORDINATED DEBT PLUS TOTAL CAPITAL RESULTS (1, 2)	
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United States Senate
COMMITTEE ON BANKING, HOUSING, AND URBAN AFFAIRS
WASHINGTON, DC 20510-6075

June 7, 2006

James B. Lockhart III
Acting Director
Office of Federal Housing Enterprise Oversight
1700 G St., NW
4th Floor
Washington, D.C. 20552

Dear Mr. Lockhart:

On behalf of the Committee on Banking, Housing, and Urban Affairs, I am writing to confirm that you will testify before the full Committee on your nomination by President Bush to serve as Director of the Office of Federal Housing Enterprise Oversight. The hearing will be on Thursday, June 8, 2006 at 10:00 a.m. in Room 538 of the Dirksen Senate Office Building.

For purposes of the Committee Record and printing, your written statement should be submitted in electronic form by email to john_east@banking.senate.gov. Please send your written statement in WordPerfect (or other comparable program) format and typed double spaced. Also, two ORIGINAL copies of the statement must be included for the printers, along with 73 copies for the use of Committee members and staff. Your statement should be sent no later than 24 hours prior to the hearing.

If you have any questions regarding this hearing, please have your staff contact John East at (202) 224-6512.

Sincerely,

Richard Shelby

Richard C. Shelby
Chairman

United States Senate
COMMITTEE ON BANKING, HOUSING, AND URBAN AFFAIRS
WASHINGTON, DC 20510-6075

June 8, 2006

James B. Lockhart III
Acting Director
Office of Federal Housing Enterprise Oversight
1700 G St., NW
4th Floor
Washington, D.C. 20552

Dear Mr. Lockhart:

On behalf of the Committee on Banking, Housing, and Urban Affairs, I am writing to invite you to testify before the full Committee at our hearing "The OFHEO Report on the Special Examination of Fannie Mae." The hearing will take place at 10:00 a.m. on Thursday, June 15 in Room 538 of the Dirksen Senate Office Building.

For purposes of the Committee Record and printing, your written statement should be submitted in electronic form by email to john_east@banking.senate.gov. Please send your written statement in WordPerfect (or other comparable program) format and typed double spaced. Also, two ORIGINAL copies of the statement must be included for the printers, along with 73 copies for the use of Committee members and staff. Your statement should be sent no later than 24 hours prior to the hearing.

If you have any questions regarding this hearing, please have your staff contact John East at (202) 224-6512.

Sincerely,

Richard Shelby

Richard C. Shelby
Chairman

United States Senate

COMMITTEE ON BANKING, HOUSING, AND URBAN AFFAIRS
WASHINGTON, DC 20510-6075

received 7/5 [illegible]
to [illegible]
cc: [illegible]

June 28, 2006

The Honorable James Lockhart
Office of Federal Housing Enterprise Oversight
1700 G Street NW
4th Floor
Washington, DC 20552

Dear Director Lockhart:

Thank you for testifying June 15th at the Committee on Banking, Housing, and Urban Affairs. In order to complete the hearing record, we would appreciate your answers to the enclosed questions as soon as possible.

Please set forth the question, then your answer to it, and single-space both question and answer. Please do not use all capitals.

Send your reply to Ms. Elizabeth Hackett, the Committee's Deputy Chief Clerk. She will transmit copies to the appropriate offices, including the Committee's publications office. Due to current procedures regarding Senate mail, it is recommended that you send replies **via e-mailed Word or WordPerfect attachment** to Liz_Hackett@banking.senate.gov.

If you have any questions about this letter, please contact Ms. Hackett at (202) 224-7391.

Sincerely,

Richard Shelby

Richard Shelby
Chairman

EAH/kc

RESPONSES TO WRITTEN QUESTIONS FOR THE SENATE BANKING COMMITTEE JUNE 15, 2006 HEARING ON "THE OFHEO REPORT OF THE SPECIAL EXAMINATION OF FANNIE MAE" FROM JAMES B. LOCKHART III

From Senator Hagel

1. Former Federal Reserve Chairman Greenspan and Treasury Secretary Snow testified before this Committee about the need for GSE reform and specifically warned about the systemic risks posed by the GSEs large portfolios that stand at about $1.5 trillion.

Given the level of fraud and mismanagement outlined in the recent OFHEO report on Fannie and a previous report on Freddie, how concerned are you about the ability of the GSEs to manage these large portfolios?

The Senate Banking Committee passed a GSE reform bill last July that gives the GSE regulator the ability to limit the portfolios based on their systemic risk and anchor them to their mission. Former OFHEO Director Armando Falcon recently wrote an op-ed arguing that this is critical authority the new regulator must have.

In your opinion, how critical is this authority?

First, as OFHEO's special examination reports on the two Enterprises and our most recent regular annual examination reports in our 2006 Report to Congress have made clear, both Enterprises have had and continue to face major controls and systems problems, areas critical to managing their very large asset portfolios. They each have literally years of work ahead of them to expand, strengthen, and rebuild the infrastructure they must have. Even after the Enterprises rectify their current unsatisfactory conditions, operational risks associated with their asset portfolios promise to remain considerable because of the size of the portfolios and the complexities of managing the interest rate risks involved.

Second, the interest rate and operational risks to the Enterprises created by the portfolios are accompanied by significant systemic risks affecting others. The Enterprises' size and importance to mortgage markets means that their problems could become broad housing finance issues. Their interdependencies with other institutions that hold their debt securities or are derivatives counterparties mean that that their problems could become broad financial market issues. Their high leverage and the lack of market discipline on their debt yields make their mortgage holdings more precarious than for less leveraged firms subject to normal market discipline. In view of these risks, I think it is critical that the new regulator Congress creates for the Enterprises should receive guidance from Congress on what assets can be held by the Enterprises and the authority to set limits based on safety and soundness and systemic risk.

Reducing the portfolios will not, as some have claimed, cause mortgage market turmoil while just transferring the systemic risk elsewhere. Over the past two years, the

Enterprises' agency mortgage-backed securities (MBS) portfolios shrank by more than $280 billion without market disruption. In many cases, investors replace Fannie Mae and Freddie Mac direct debt with higher yield MBS guaranteed by them. The new investors will generally be less leveraged than the Enterprises and often better able to take the risk of long-term mortgage assets, which might lessen the need to utilize the derivative markets, as well.

2. *The OFHEO report states that "by deliberately and intentionally manipulating accounting to hit earnings targets, (Fannie's) senior management maximized the bonuses and other executive compensation they received, at the expense of shareholders."*

Specifically, which senior management benefited from these bonuses? How much did they make? Is OFHEO going to ask that this money be returned?

Who specifically directed the accounting manipulation? Who was aware of it? What was the specific role of then Chief Operating Officer Daniel Mudd, former Chief Executive Officer Franklin Raines and former Chief Financial Officer Timothy Howard?

As described in Chapter V of our report, Fannie Mae employees at and above the level of Director (here, Director being a managerial level below Vice President, not a member of the Board) participated in the Annual Incentive Plan (AIP), which was directly tied to growth in earnings per share ("EPS"). For the years 1998-2001, the range of funding of the AIP bonus was 50 percent of a target amount for minimum corporate EPS achievement to 150 percent of a target amount for maximum achievement. Beginning in 2002, the Board tightened the funding range to 75 percent for minimum achievement of EPS goals and 125 percent for maximum achievement. By 2002, AIP bonus award eligibility included the Chief Executive Officer (CEO), two Vice-Chairs, six Executive Vice Presidents, 35 Senior Vice Presidents, 117 Vice Presidents, and 495 Directors.

In addition to AIP, senior executives benefited from the Performance Share Plan (PSP), which included financial goals tied directly to EPS on a rolling three-year basis. On top of this, virtually all employees were awarded "EPS Challenge Grants," the award of which was based upon doubling EPS from $3.23 at the end of 1998 to $6.46 at the end of 2003.

Shown below is a table from our report showing the compensation of the five highest-paid Fannie Mae executives from 1998 through 2003. Note that the compensation shown for bonus, PSP, and the EPS Grants was directly tied to EPS goals.

	1998	1999	2000	2001	2002	2003	Totals
Franklin Raines							
Salary	$526,154	$945,000	$992,250	$992,250	$992,250	$992,250	$5,440,154
Bonus	1,109,589	1,890,000	2,480,625	3,125,650	3,300,000	4,180,365	$16,086,229
PSP	794,873	1,329,448	4,588,616	6,803,068	7,233,679	11,621,280	$32,370,964
	4,052,484	4,358,406	5,829,071	7,945,648	6,680,395	3,006,895	$31,872,899

Options							
EPS Grant						4,358,515	$4,358,515
Total	$6,483,100	$8,522,854	$13,890,562	$18,866,616	$18,206,324	$24,159,305	**$90,128,761**
Timothy Howard							
Salary	$395,000	$414,800	$435,540	$463,315	$498,614	$645,865	$2,853,134
Bonus	493,750	518,500	544,425	694,983	781,250	1,176,145	$4,209,053
PSP	909,196	860,464	2,088,542	1,987,119	1,947,368	3,470,578	$11,263,267
Options	938,912	1,154,593	2,035,589	2,166,427	1,749,995	2,491,974	$10,537,490
EPS Grant						1,292,085	$1,292,085
Total	$2,736,858	$2,948,357	$5,104,096	$5,311,844	$4,977,227	$9,046,647	**$30,155,029**
Jamie Gorelick							
Salary	$567,000	$595,400	$625,170	$656,429	$689,124	n/a	$3,133,123
Bonus	779,625	818,675	859,609	1,083,109	911,250	n/a	$4,452,268
PSP	1,055,217	1,292,693	2,458,528	2,591,060	3,049,012	n/a	$10,446,510
Options	1,444,397	1,975,501	2,516,927	2,498,108	n/a	n/a	$8,434,933
EPS Grant							
Total	$3,846,239	$4,682,269	$6,460,234	$6,828,706	$4,649,386		**$26,466,834**
Daniel Mudd							
Salary	n/a	n/a	$537,063	$656,429	$689,124	$714,063	$2,596,679
Bonus	n/a	n/a	735,130	1,083,109	911,250	1,288,189	$4,017,678
PSP	n/a	n/a	414,090	1,188,846	2,339,702	4,674,015	$8,616,653
Options	n/a	n/a	2,516,927	2,498,108	1,776,933	2,355,030	$9,146,998
EPS Grant						1,928,049	$1,928,049
Total			$4,203,210	$5,426,492	$5,717,009	$10,959,346	**$26,306,057**
Robert Levin							
Salary	$395,000	$414,800	$435,540	$457,317	$480,092	$576,706	$2,759,455
Bonus	493,750	518,500	544,425	686,028	575,000	801,237	$3,618,940
PSP	909,196	860,464	2,088,542	1,987,119	1,947,368	2,706,381	$10,499,070
Options	938,912	1,154,593	1,218,212	1,281,658	1,552,496	2,240,652	$8,386,523
EPS Grant						1,154,635	$1,154,635
Total	$2,736,858	$2,948,357	$4,286,719	$4,412,122	$4,554,956	$7,479,611	**$26,418,623**

In the consent order executed by Fannie Mae and accepted by the Director of OFHEO on May 23, 2006, the Enterprise agreed to conduct reviews of current employees, as well as Board members, mentioned in the OFHEO report. The report based on this review will include the Enterprise's plans to seek restitution, disgorgement, or other remedies to recover funds from individuals. OFHEO will review this report and take enforcement actions, if necessary, with respect to these matters. As part of the consent order, Fannie Mae has agreed to review the possibility of pursuing former executives to disgorge their bonuses.

The Report of the Special Examination of Fannie Mae cites instances where management directed accounting decisions that did not comply with GAAP and that allowed management to maximize their bonus compensation. For example, in January 1999, Chairman and CEO Franklin Raines approved a recommendation made by the Chief Financial Officer (CFO) (Tim Howard) and the Controller (Leanne Spencer) to defer the recognition of $200 million in amortization expense. This deferral, along with other accounting decisions made at that time relating to provisions for loan losses and the recognition of low-income housing tax credits, allowed management to meet the EPS threshold for maximum bonuses.

In addition to Fannie Mae management, personnel from KPMG, including Julie Theobald, Ken Russell and Eric Smith, were aware in January 1999 that amortization expense was understated by about $200 million. KPMG posted an audit difference for that amount, but then waived it, stating that it was immaterial. However, the expense deferral *was* material, as it allowed management to meet its 1998 earnings targets and achieve maximum AIP bonus payouts.

Ms. Theobald told OFHEO examiners that the $200 million expense deferral was disclosed to Audit Committee Chair Thomas Gerrity, but this was done in early February 1999 – more than two weeks after Fannie Mae's mid-January public release of its 1998 earnings. The appropriate time for KPMG to advise Gerrity about the expense deferral would have been *before* the 1998 earnings release.

The desire to minimize earnings volatility was well known throughout the ranks of senior management. For example, in a November 4, 2001 memorandum from Ms. Spencer to Mr. Raines entitled "Update on Earnings," Ms. Spencer provided information on earnings management and "smoothing ideas." Ms. Spencer also described to Mr. Raines plans to "pull the earnings down" to $6.30 EPS in the following year (2002), with an indication that CFO Howard had asked the Senior Vice President for Portfolio Strategy, Peter Niculescu, for ideas on how to accomplish that. In part, this strategy to push earnings out of 2002 to future periods was accomplished through the use of income-shifting REMICs, which had no substantive economic purpose, but which altered the recognition of book income, allowing management to smooth earnings. This strategy to shift income was presented in a November 2001 Quarterly Business Review, which was attended by Messrs. Raines, Mudd, and Howard, among others.

The process used by Fannie Mae for amortizing deferred premiums and discounts relating to mortgages and MBS was a key component of the earnings management process. Had management complied with SFAS 91, which prescribes the rules for these activities, Fannie Mae would have recognized significantly more earnings volatility than they actually did. A former employee of Fannie Mae, Roger Barnes, alerted management to significant accounting and control problems relating to amortization, including Messrs. Raines and Howard, as well as the head of the Office of Auditing (Sam Rajappa) and management in the Controller's Office, including Leanne Spencer, Janet Pennewell, and Mary Lewers. Problems with Fannie Mae's amortization accounting were also raised by Michelle Skinner in an informal employee meeting chaired by Daniel Mudd, who was then Chief Operating Officer. As the OFHEO Report describes, Mr. Mudd failed to adequately follow-up on the concerns raised by Ms. Skinner.

3. The OFHEO report states that Fannie Mae lobbyists "worked to insure that the agency (OFHEO) was poorly funded" and "used longstanding relationships with Congressional staff... to interfere with OFHEO's special examination" of Fannie Mae.

Specifically, explain this in more detail. How did Fannie lobbyists interfere with your investigation?

Please comment on Fannie's lobbying effort to generate the HUD Inspector General's fourth investigation of OFHEO.

Who specifically directed Fannie Mae lobbyists to do this? Who specifically was aware of this? What was the role of Mudd, Raines and Howard?

Your report states the Board was notified by a Fannie employee of the HUD Inspector General's results. What was the Board's role in all of this? Were they aware of what was going on? Why were they notified?

The aggressive policy of Fannie Mae toward its regulator was, in part, developed by its Government and Industry Relations unit, which was led by Thomas Donilon and involved Government and Industry Relations employees, William Maloni and Duane Duncan, during the period reviewed for the Special Examination. What began as aggressive lobbying later became a systematic attempt to undermine the work of the Special Examination. This strategy manifested itself in several ways:

1. Working with Senate Appropriations staff, Fannie Mae sought to attack former OFHEO Director Falcon and the agency through the generation of a Department of Housing and Urban Development (HUD) Inspector General (IG) examination investigating travel and employee salaries in the OFHEO legislative/external office. An e-mail from Duane Duncan to Donilon dated October 27, 2002 describes these efforts. It is noteworthy that OFHEO was not asked for this information directly. Evidence discovered during the exam shows a company policy of generating HUD IG investigations, with the implication of possible wrongdoing, in an effort to undermine the reputation and credibility of the agency.

2. Documentary evidence demonstrates continuous efforts between Fannie Mae and congressional staff to establish percentage guidelines to govern agency use of appropriated funds, which was seen as a way to divert funds from the Special Examination.

3. Working with staff of the VA-HUD Subcommittee of the Appropriations Committee of the U.S. Senate, Fannie Mae was able to get language inserted into

an appropriations bill that would have withheld $10 million from OFHEO appropriations until a new director was appointed to replace Armando Falcon, who, as the Director of OFHEO, initiated the Special Examination of Fannie Mae.

4. A fourth effort, resulting from extensive interaction between a Fannie Mae lobbyist and congressional staff, was the initiation of a HUD IG examination to determine if OFHEO was spending an appropriate percentage of its budget on examinations. The HUD IG concluded that OFHEO met the appropriate requirements and was comparable to other federal financial regulators in its allocation of funds and staff. However, key OFHEO resources were diverted for almost ten months while complying with the requirements of the examination.

5. Again, working with congressional staff, Fannie Mae lobbyists succeeded in initiating another HUD IG examination (the "fourth") to investigate whether the leadership of OFHEO had, as part of their personal political agenda, overstated accounting problems of Fannie Mae. In sworn testimony, Duane Duncan, head of Government and Industry Relations at Fannie Mae, admitted that Fannie Mae had initiated the HUD IG examination in an effort order to discredit the findings of the Special Examination and the agency.

In a sworn interview with OFHEO examiners, Duane Duncan testified that it was the desire of Fannie Mae senior management that the report of the HUD IG's fourth investigation to discredit the agency and Special Examination be made public. Mr. Duncan received direction from his superiors during meetings of the External Affairs Committee, which met each Monday. Franklin Raines, Thomas Donilon, Timothy Howard, and sometimes Daniel Mudd attended those meetings, with Mr. Raines and Mr. Donilon deciding what positions Fannie Mae would take on any given issue. Mr. Duncan implemented the decisions made at those meetings. Mr. Duncan also met with Mr. Donilon at the end of each workday in order for Mr. Donilon to manage the implementation of the decisions.

The management of Fannie Mae wanted the report of the HUD IG's investigation published, even though it was nonpublic and legally restricted information. Accordingly, the Enterprise began a campaign to enlist support for the release of the report. Fannie Mae eventually succeeded in getting the document published on a congressional website for one hour, during which time management downloaded the report for further dissemination, including to its Board of Directors, analysts, and congressional staff. Thus, management succeeded in its efforts to distract attention from its multi-billion dollar accounting errors by creating a large volume of publicity about OFHEO.

In an interview with lawyers from Paul, Weiss (counsel to the Board of Directors), Ken Duberstein, a director on the Board of Fannie Mae, said that he recalled Mr. Raines saying that the HUD IG report would undermine OFHEO and that Mr. Raines could obtain an early release copy of the report. According to Mr. Duberstein, he told Mr. Raines that such an approach could backfire and that Mr. Raines should stay away from any such approaches.

4. The OFHEO report states that the "Board contributed to those problems by failing to be sufficiently informed and to act independently of its chairman, Franklin Raines, and other senior executives; by failing to exercise the requisite oversight over the Enterprise's operations; and by failing to discover or ensure the correction of a wide variety of unsafe and unsound practices.

"The Board's failures continued in the wake of revelations of accounting problems and improper earnings management at Freddie Mac and other high profile firms, the initiation of OFHEO's special examination, and credible allegations of improper earnings management made by an employee of the Enterprise's Office of the Controller."

Can you give specific examples of the Board's failures? Explain also the "credible allegations of improper earnings management" made by a Fannie employee.

The Fannie Mae Board of Directors failed in numerous ways that put the safety and soundness of the Enterprise at risk. Among other things, the Board:

- failed to stay informed about Fannie Mae corporate strategy, major plans of action, and risk policy;
- approved an executive compensation program that created incentives to manipulate earnings;
- failed to provide delegations of authority to management that reflected the current size and complexity of the Enterprise;
- failed to ensure the effective operation of its own Audit and Compensation Committees;
- failed to act as a check on the authority of Chairman and CEO Franklin Raines;
- failed to initiate an independent inquiry into Fannie Mae's accounting following the announcement of Freddie Mac's restatement and subsequent investigation; and
- failed to properly look into the allegations of Roger Barnes.

In August 2003, Roger Barnes, a former Manager in Fannie Mae's Controllers' Office, approached the Office of Auditing to raise concerns regarding Fannie Mae's accounting practices related to SFAS 91. By that time, the Baker Botts report had been released detailing accounting manipulations at Freddie Mac. OFHEO had also announced plans to commence a special investigation of Fannie Mae's accounting practices. Against that backdrop, Mr. Barnes questioned the propriety of amortization accounting, and asserted his belief that amortization amounts recorded in the financial statements were manipulated in order for them to "agree" with forecasted amortization expenses. Such actions would constitute inappropriate earnings management. The Office of Auditing was responsible for investigating those allegations. In the September 2004 Report of Findings to Date, Special Examination of Fannie Mae, OFHEO found that the Office conducted a hurried investigation into Mr. Barnes' allegations that culminated in the head of the Office of Auditing certifying GAAP compliance to the Board of Directors.

Fannie Mae rushed into a severance agreement with Mr. Barnes on November 3, 2003. Given its responsibilities for regulatory compliance and investigation of complaints related to accounting, internal controls, and auditing matters, the Audit Committee was required to ensure a timely, thorough, and independent investigation into Mr. Barnes' allegations. The allegations, and subsequent settlement agreement, should have raised the concern of every member of the Audit Committee, especially when considered against the background of the recently released Baker Botts report on Freddie Mac's internal investigation and the initiation of the OFHEO Special Examination.

The Audit Committee failed to make further inquiries or convene a special investigation after being informed at the November 17, 2003 Audit Committee meeting that Fannie Mae had reached a settlement with Mr. Barnes. The news of the settlement was received by the Audit Committee just three days after the Committee had been convened in order to discuss certification of the third quarter financial statements. Fannie Mae settled the case before bringing the matter to the Audit Committee and elected to postpone discussion of the matter until after the financial statements had been certified. Given that OFHEO had just announced a Special Examination of Fannie Mae's accounting practices, the allegations made by Mr. Barnes warranted further investigation. At a minimum, the Audit Committee had an obligation to ensure that the matter be disclosed to OFHEO. Instead, the matter was ignored until February 2004, when it was reviewed as part of the Special Examination.

From Senator Crapo

Fannie Mae signed a consent agreement on May 23, 2006, with the Office of Federal Housing Enterprise Oversight agreeing to cap its retained mortgage related portfolio to $727 billion, its level on December 31, 2005.

1. Using Fannie Mae's $727 billion portfolio as a model, what would Fannie Mae's portfolio size be with the limits of S.190? Please include an explanation of the assumptions that you used to arrive at this number?

S.190 would restrict mortgage and mortgage securities to those held for the purpose of securitization, those that are not readily securitized, and those held solely for the purpose of supporting the guarantee business. More than half of Fannie Mae's mortgage asset portfolio at the end of last year comprised securities already guaranteed by Fannie Mae, or by Freddie Mac or Ginnie Mae. Those would not generally be permitted. The remaining $355 billion is roughly divided between private label MBS (11%) and whole mortgages (35%), and a large portion do not qualify under HUD's rules as supporting affordable housing. More work would be necessary to determine how much would be permitted under S. 190, but a strict reading of the language might qualify only a small portion.

2. *What are the public policy benefits and risks of the two different portfolio sizes?*

Enterprise asset portfolios can contribute to the availability of funding for affordable housing and to the stability and liquidity of the secondary market for mortgages and the market for mortgage securities. These benefits, however, could still be achieved with much smaller portfolios, while risks would be greatly reduced.

The major portion of the Enterprises' public policy benefits stem from their guarantee business. By guaranteeing securities backed by pools of mortgages, they make use of their GSE status to make mortgage investments more desirable to a wider range of investors. That lowers mortgage interest rates on conforming loans, with estimates of the effects ranging from 2 to 25 basis points. Purchasing mortgage securities for their asset portfolios has little effect, in general, because it simply substitutes one type of debt for another, with Enterprise borrowings replacing mortgages and MBS. This is especially true when an Enterprise acquires mortgage securities already guaranteed by an Enterprise. Much the same is true when an Enterprise buys and holds mortgage loans that it could easily securitize. However, the Enterprises also buy mortgages and hold them for a short time while they are securitizing them.

Assessing the effects of the remainder is more complex because Enterprise acquisition of these assets not only withdraws them from the debt market, but it also replaces them with Enterprise debt. This category includes Enterprise purchases of private label securities backed by subprime loans, manufactured housing, and municipal revenue bonds. The magnitude of benefits for loans in these categories is uncertain, as is the extent to which they could be maintained if the Enterprises did not retain the securities on their balance sheets, but instead guaranteed the securities and resold them. As for stability and liquidity, an active trading capability coupled with a small inventory of securities backed by the ability to expand rapidly to cope with market liquidity emergencies should serve those purposes.

While the benefits of the Enterprises' large asset portfolios are limited, the risks are quite significant. Mortgages, especially fixed-rate mortgages, have complex and difficult to anticipate payment patterns requiring extensive hedging activities. The interest rate risk in its portfolio caused massive losses to Fannie Mae in the early 1980s and more recently in 2002, and the operational risk in their portfolios has caused serious problems for both Enterprises in recent years. Because of their size and importance to housing finance markets, counterparties, and holders of their securities; and because of their high leverage ratios, the lack of market discipline, and lack of bankruptcy or receivership provisions, these institutions also entail significant systemic risk that stems to a large degree from their asset portfolios. Weighing the benefits and the risks, it seems clear that Enterprise mortgage portfolios should be much smaller without affecting their missions of affordable housing, stability and liquidity.

From Senator Martinez

1. In your testimony today you stated that the OFHEO report details an arrogant and unethical corporate culture at Fannie Mae from 1998 to 2004. You also stated that "perhaps the best written record of this culture is a memo from the Chief Operating Officer Dan Mudd to the CEO two months after OFHEO's interim report. In that memo Mudd was discussing the need to change and wrote: ***"[t]he old political reality was that we always won, we took no prisoners, and we faced little organized political opposition…We used to, by virtue of our peculiarity, be able to write, or have written, rules that worked for us. We now operate in a world where we will have to be 'normal'."*** *Given your selections of this memo as the best example of what went wrong at Fannie Mae, to what degree was Dan Mudd responsible for what happened at Fannie Mae? How should he be held accountable?*

Mr. Mudd was Chief Operating Officer at Fannie Mae from February 2000 through December 2004, when he was elevated to CEO upon the resignation of Mr. Raines. Mr. Mudd, in addition to broad responsibilities for ensuring that Fannie Mae had an adequate operating infrastructure, also had responsibilities to monitor the profit and loss statements of the business units reporting to him. We now know through the Special Examination that the accounting policies used by these business units were seriously deficient, particularly as they relate to the impairment of mortgage assets. The finite insurance transactions discussed in our report, which involved little or no transfer of risk, affected business units reporting to Mr. Mudd. Mr. Mudd also chaired Quarterly Business Review meetings, during which senior executives sometimes presented strategies relating to income shifting.

Given these circumstances, plus the problems noted in our report regarding the lack of appropriate action by Mr. Mudd when accounting concerns were raised to him by Michelle Skinner, we think it is appropriate for the Board to include Mr. Mudd in its review of current employees with respect to possible disgorgement of compensation. OFHEO will assess the results of the Board's review upon completion.

2. How confident are you with Fannie (and Freddie's) most current financial reporting? When will each company complete their accounting restatements?

OFHEO is not satisfied with the Enterprises' current reporting given the control weaknesses that have been found to date. Both companies are devoting significant resources to improve their financial reporting capabilities and they are making progress towards having audited financial statements. Much work and testing remains to be done.

OFHEO and the Enterprises' external auditors are engaged and are carefully monitoring the remediation of the financial reporting process. Both Enterprises are implementing major new systems and processes to facilitate more timely and accurate financial reporting. OFHEO must remain vigilant as the introduction of new systems, processes and personnel can initially increase the risk of operational errors.

Currently Freddie Mac has completed its financial restatement, however they have not yet returned to timely financial reporting. Their objective is to return to quarterly reporting with the release of full-year 2006 financial results. After that, they will begin the process of registering their common stock with the SEC. Fannie Mae is still in the process of completing its financial restatement for the years 2002 – 2004, and they expect to be complete by the end of 2006.

3. Fannie is required to continue maintaining a 30% capital surplus, as part of its capital restoration plan. Under what conditions may you decide that this requirement should be modified or expire?

The 30% capital surplus is required due to operational weaknesses at Fannie Mae, including accounting and internal control deficiencies. Until such weaknesses are demonstratively corrected to OFHEO's satisfaction, and assuming no other safety and soundness issues emerge, the surplus will stay in place. OFHEO evaluates capital on an ongoing basis, assessing existing and emerging issues, to determine the adequacy of Fannie Mae's capital. At this time, it is therefore not possible to predict when the capital surplus requirement may be modified. As you know, the pending legislation gives OFHEO more flexibility in setting both minimum capital and risk-based capital requirements. Operational risk will be a component of each.

4. Fannie Mae is required to report to you whether any former officers should be terminated. What action could OFHEO take against these individuals.

Fannie Mae must report to OFHEO whether the company will seek damages or other remedies against former officers. If the company fails to taken action, OFHEO has available, under a two year statute of limitations, the ability to seek restitution, disgorgement or reimbursement of such individuals as well as civil money penalties that could exceed any actual damages. As noted in comments transmitted to the Banking Committee on the legislation, the procedures for (and, thereby, the effectiveness of) OFHEO's current remedies would be improved by the pending legislation.

5. Freddie Mac has announced that its accounting restatement will be further delayed. What is the status of Freddie Mac's compliance with its written agreement with OFHEO and the company's outlook from your standpoint?

As noted previously, Freddie Mac now has completed its financial restatement, but is not yet a timely filer of financial statements. The Enterprise is currently in compliance with the Agreement, and they continue to work to improve their governance and operational issues. Specific plans has been executed by the Enterprise but it may take several years to implement them.

6. The Chairman of the Board and CEO positions, held jointly by Franklin Raines, have been separated and Chairman Stephen Ashley appears to have cast the non-executive chairman roll as an independent check on the CEO. What are the benefits of those changes in structure and practices and what is your assessment of Ashley's performance?

OFHEO determined that in the instance of both Fannie Mae and Freddie Mac the position of Chairman of the Board and CEO should be separated. This has been effectuated with Fannie Mae and we are working with Freddie Mac to do the same. Such separation of positions has been adopted by a growing number of public companies. The Enterprises hold unique positions, including a public mission, and the need for Board oversight of that mission is enhanced with separation of the two positions. Further, where both companies need to focus their energies on remediation—a primary responsibility of management—the separation permits a more efficient use of personnel.

7. The report states "the goal of senior management was straightforward: to force OFHEO to rely on the Enterprise for information and expertise to such a degree that Fannie Mae would essentially regulate itself." Would you agree that Fannie Mae sought to oversee OFHEO, instead of the other way around?

As a matter of corporate policy, Fannie Mae sought to circumvent, constrain, and undercut OFHEO. Some of the techniques used by Fannie Mae included personal attacks on the competence, integrity, and motivation of officers at the agency, limiting the budget of the agency through the appropriations process, and creating conflicts with other independent and Executive Branch regulatory agencies. Further, after the initiation of the Special Examination, Fannie Mae undertook a concerted effort to limit and interfere with the examination by working with legislators and their staff to generate repeated IG investigations. This was done in order to divert agency resources and attention away from the Special Examination, to disparage the agency and its officers, and to restrict the use of appropriated funds.

8. Were efforts to generate interagency conflict, between OFHEO and HUD, SEC, OMB, and others, made at Fannie Mae's highest levels, and if so by whom?

The practice of opposing, circumscribing, and constraining its regulator became a firmly established practice at Fannie Mae. One method Fannie Mae employed to accomplish this involved creating conflict between OFHEO and other agencies whenever OFHEO attempted to craft regulations or take other regulatory actions. For example, correspondence between Fannie Mae's outside counsel (WilmerHale) and Ann Kappler, who was Fannie Mae's General Counsel at the time, reveal efforts to contact the Secretary of HUD and the HUD General Counsel in order to convince them of a "legal flaw" in the then-proposed OFHEO risk-based capital rule, which then would provide justification to "kick the legal issue to Justice for resolution." This would allow the dispute to be seen as one between OFHEO and another regulatory agency, not between Fannie Mae and its regulator.

Other correspondence reveal efforts on the part of Fannie Mae to scuttle OFHEO's then-proposed corporate governance regulations by supporting arguments that the SEC and the Stock Exchanges – not OFHEO – had the legal authority to do rulemaking in this area. Further, when the OFHEO Special Examination of Fannie Mae commenced, correspondence describes a call to the General Counsel of the SEC from Fannie Mae's General Counsel, who stated that "[w]e do not believe that OFHEO has authority to opine on GAAP, or to order us to restate our financial statements. We would like to reach an understanding with the Commission on this matter."

9. It is my understanding that the size and aggressiveness of the company's lobbying and grass roots activities have been substantially reduced. Can you give me more specifics about in-house and external activities in terms of personnel, costs, and approach?

Fannie Mae, in the consent order issued by OFHEO, is required to conduct a review of and develop enhanced internal controls for the operation of the Government and Industry Relations office. The purpose is to have adequate supervision in place to assure control by the Enterprise of this operation such that the mission and positions taken by the Enterprise are subject to control and review. As part of the review, we will secure information on expenses, broadly defined, as well as costs and controls.

10. Did you evaluate the role of Fannie Mae's Community Business Centers, formerly known as Partnership Offices, in community or political activities?

Fannie Mae CEO Daniel Mudd announced changes to the partnership offices and changes to the name, mission and role in political matters. OFHEO will be examining these functions and will be able to provide additional information. By way of background, I would note the following points.

Although an evaluation of the Partnership Offices was not a primary focus of the Special Examination, many of the documents that we reviewed indicate that a primary factor in deciding where Partnership Offices would be located was the perceived need to build relationships with key members of Congress. Rob Levin, currently Executive Vice President and Chief Business Officer of Fannie Mae, testified to the nature of so-called "affinity" contacts in particular Partnership Offices, and that Fannie Mae staff would be "aware of" relationships with members of Congress and other government officials when making decisions regarding Partnership Offices.

received 7/5 ke
to Joanne
cc: Peter

United States Senate

COMMITTEE ON BANKING, HOUSING, AND URBAN AFFAIRS
WASHINGTON, DC 20510-6075

June 28, 2006

The Honorable James Lockhart
Office of Federal Housing Enterprise Oversight
1700 G Street NW
4th Floor
Washington, DC 20552

Dear Director Lockhart:

Thank you for testifying June 15th at the Committee on Banking, Housing, and Urban Affairs. In order to complete the hearing record, we would appreciate your answers to the enclosed questions as soon as possible.

Please set forth the question, then your answer to it, and single-space both question and answer. Please do not use all capitals.

Send your reply to Ms. Elizabeth Hackett, the Committee's Deputy Chief Clerk. She will transmit copies to the appropriate offices, including the Committee's publications office. Due to current procedures regarding Senate mail, it is recommended that you send replies **via e-mailed Word or WordPerfect attachment** to Liz_Hackett@banking.senate.gov.

If you have any questions about this letter, please contact Ms. Hackett at (202) 224-7391.

Sincerely,

Richard Shelby

Richard Shelby
Chairman

EAH/kc

OFFICE OF FEDERAL HOUSING ENTERPRISE OVERSIGHT
1700 G STREET NW WASHINGTON DC 20552 (202) 414-3801

OFFICE OF THE DIRECTOR

June 30, 2006

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

Re: Fannie Mae Final Capital Classification at March 31, 2006

Dear Congressman Frank:

Section 1364 of the Federal Housing Enterprises Financial Safety and Soundness Act of 1992 and 12 C.F.R. § 1777.21 require that the Office of Federal Housing Enterprise Oversight (OFHEO) determine the capital classification of the Federal National Mortgage Association (Fannie Mae) not less than quarterly. On May 30, 2006, OFHEO issued a notice of proposed action indicating its intention to classify Fannie Mae as adequately capitalized at March 31, 2006, and requesting that Fannie Mae notify OFHEO by June 27, 2006, whether it intended to accept the classification or provide a response. Fannie Mae responded that it took no exception to the proposed capital classification.

Based on capital requirements in effect for the first quarter of 2006, OFHEO hereby provides notice that Fannie Mae is classified as adequately capitalized at March 31, 2006. The final capital classification is based on Fannie Mae's best estimates of its financial condition, as certified and represented as true and correct by Fannie Mae's management, but remains subject to revision during Fannie Mae's re-audit and accounting restatement process.

As indicated in the enclosures, at March 31, 2006, Fannie Mae's adjusted[1] OFHEO-directed minimum capital requirement was $37.320 billion, its adjusted statutory minimum capital requirement was $28.708 billion, its adjusted critical capital requirement was $14.779 billion, and its risk-based capital requirement was $17.533 billion. Thus, Fannie Mae's adjusted core capital of $40.333 billion at March 31, 2006, exceeded the OFHEO-directed minimum capital requirement by $3.013 billion and the critical capital requirement by $25.553 billion. Fannie Mae's total capital of $41.174 billion at March 31, 2006, exceeded the risk-based capital requirement by $23.641 billion.

[1] The term "adjusted" reflects that Fannie Mae's minimum capital submissions adjust book capital based upon estimated accounting change impacts.

Separately, OFHEO determined that Fannie Mae's total capital and qualifying subordinated debt exceeded the requirements outlined in the agreement dated September 1, 2005.

Further, Fannie Mae has maintained a capital surplus throughout the quarter in accordance with the Consent Order dated May 23, 2006, and the Capital Restoration Plan, approved February 17, 2005. The final capital classification does not alter or amend these agreements.

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

Sincerely,

James B. Lockhart
Director

Enclosures

FEDERAL NATIONAL MORTGAGE ASSOCIATION
Minimum, Critical and Risk Based Capital Levels
March 31, 2006

<u>SUMMARY</u>

(Dollars in millions)

COMPONENTS OF THE MINIMUM CAPITAL LEVEL	
MINIMUM CAPITAL LEVEL - Adjusted, Statutory Requirement	28,708
MINIMUM CAPITAL LEVEL - Adjusted, OFHEO-directed Requirement	37,320
CORE CAPITAL - Adjusted	40,333
SURPLUS (DEFICIENCY) (based on OFHEO-directed Requirement)	3,013

COMPONENTS OF THE CRITICAL CAPITAL LEVEL	
CRITICAL CAPITAL LEVEL - Adjusted	14,779
CORE CAPITAL - Adjusted	40,333
ESTIMATED SURPLUS (DEFICIENCY)	25,553

STRESS TEST SCENARIO RESULTS	
UP-RATE SCENARIO	17,533
DOWN-RATE SCENARIO	10,529
RISK-BASED CAPITAL LEVEL	17,533
TOTAL CAPITAL	41,174
SURPLUS (DEFICIENCY)	23,641

Note: Totals may not add due to rounding.

FEDERAL NATIONAL MORTGAGE ASSOCIATION
Qualifying Subordinated Debt
March 31, 2006

SUMMARY

(Dollars in millions)

QUALIFYING SUBORDINATED DEBT PLUS TOTAL CAPITAL RESULTS (1, 2)	
TOTAL CAPITAL	41,174
TOTAL QUALIFYING SUBORDINATED DEBT	7,855
TOTAL CAPITAL AND QUALIFYING SUBORDINATED DEBT	49,029
CAPITAL REQUIREMENT FOR 4.0% OF ON-BALANCE SHEET ASSETS AND 0.45% OF NET MBS/PCs OUTSTANDING	41,288
SURPLUS (DEFICIENCY)	7,741

1. Totals may not add due to rounding
2. Qualifying Subordinated Debt is defined as subordinated debt that contains the interest deferral feature. The interest deferral requires the deferral of interest payments for up to 5 years if:
   a) The corporation's core capital falls below 125% of critical capital, or
   b) The corporation's core capital falls below minimum capital AND, pursuant to the corporation's request, the Secretary of the Treasury exercised discretionary authority to purchase the company's obligations under Section 306(c) of the Freddie Mac Charter Act and Section 304(c) of the Fannie Mae Charter Act

OFFICE OF FEDERAL HOUSING ENTERPRISE OVERSIGHT
1700 G STREET NW WASHINGTON DC 20552 (202) 414-3801

OFFICE OF THE DIRECTOR

June 30, 2006

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

Re: Freddie Mac Final Capital Classification at March 31, 2006

Dear Congressman Frank:

Section 1364 of the Federal Housing Enterprises Financial Safety and Soundness Act of 1992 and 12 C.F.R. § 1777.21 require that the Office of Federal Housing Enterprise Oversight (OFHEO) determine the capital classification of the Federal Home Loan Mortgage Corporation (Freddie Mac) not less than quarterly. On May 30, 2006, OFHEO issued a notice of proposed action indicating its intention to classify Freddie Mac as adequately capitalized at March 31, 2006, and requesting that Freddie Mac notify OFHEO by June 27, 2006, whether it intended to accept the classification or provide a response. Freddie Mac responded that it took no exception to the proposed capital classification.

Based on capital requirements in effect for the first quarter of 2006, OFHEO hereby provides notice that Freddie Mac is classified as adequately capitalized at March 31, 2006. The final capital classification is based on Freddie Mac's best estimates of its financial condition, as certified and represented as true and correct by Freddie Mac's management, but remains subject to revision during Freddie Mac's ongoing audit, management reviews, and control assessments.

As indicated in the enclosures, at March 31, 2006, Freddie Mac's OFHEO-directed minimum capital requirement was $33.150 billion, its statutory minimum capital requirement was $25.500 billion, its critical capital requirement was $13.037 billion, and its risk-based capital requirement was $11.935 billion. Thus, Freddie Mac's core capital of $37.165 billion at March 31, 2006, exceeded the OFHEO-directed minimum capital requirement by $4.015 billion and the critical capital requirement by $24.128 billion. Freddie Mac's total capital of $37.624 billion at March 31, 2006, exceeded the risk-based capital requirement by $25.689 billion.

Separately, OFHEO determined that Freddie Mac's total capital and qualifying subordinated debt exceeded the requirements outlined in the agreement dated September 1, 2005.

Further, Freddie Mac has maintained a capital surplus in accordance with the capital directive issued by OFHEO on January 28, 2004. The final capital classification does not alter or amend the capital directive.

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

Sincerely,

James B. Lockhart
Director

Enclosures

FEDERAL HOME LOAN MORTGAGE CORPORATION
Minimum Capital Level
March 31, 2006

SUMMARY

(Dollars in millions)

COMPONENTS OF THE MINIMUM CAPITAL LEVEL	
ON-BALANCE SHEET ASSETS	20,337
OFF-BALANCE SHEET OBLIGATIONS	
MBS and Equivalents	4,495
Commitments	494
OTHER OFF-BALANCE SHEET OBLIGATIONS	
Interest Rate and Foreign Exchange Rate Contracts	98
Sold Portfolio Remittances Pending	10
Other Off-Balance Sheet Obligations	66
MINIMUM CAPITAL - Statutory Requirement	**25,500**
MINIMUM CAPITAL - OFHEO-directed Requirement	**33,150**
CORE CAPITAL	**37,165**
SURPLUS (DEFICIENCY) (based on OFHEO-directed Requirement)	**4,015**

Note: Totals may not add due to rounding.

FEDERAL HOME LOAN MORTGAGE CORPORATION
Critical Capital Level
March 31, 2006

SUMMARY

(Dollars in millions)

COMPONENTS OF THE CRITICAL CAPITAL LEVEL	
ON-BALANCE SHEET ASSETS	10,169
OFF-BALANCE SHEET OBLIGATIONS	2,868
CRITICAL CAPITAL LEVEL	13,037
CORE CAPITAL	37,165
SURPLUS (DEFICIENCY)	24,128

Note: Totals may not add due to rounding.

FEDERAL HOME LOAN MORTGAGE CORPORATION
Risk-Based Capital Level
March 31, 2006

SUMMARY

(Dollars in millions)

STRESS TEST SCENARIO RESULTS	
UP-RATE SCENARIO	8,801
DOWN-RATE SCENARIO	11,935
RISK-BASED CAPITAL LEVEL	11,935
TOTAL CAPITAL	**37,624**
SURPLUS (DEFICIENCY)	25,689

Note: Totals may not add due to rounding.

FEDERAL HOME LOAN MORTGAGE CORPORATION
Qualifying Subordinated Debt
March 31, 2006

SUMMARY

(Dollars in millions)

QUALIFYING SUBORDINATED DEBT PLUS TOTAL CAPITAL RESULTS (1, 2)	
TOTAL CAPITAL	37,624
TOTAL QUALIFYING SUBORDINATED DEBT	5,086
TOTAL CAPITAL AND QUALIFYING SUBORDINATED DEBT	42,710
CAPITAL REQUIREMENT FOR 4.0% OF ON-BALANCE SHEET ASSETS AND 0.45% OF NET MBS/PCs OUTSTANDING	37,344
SURPLUS (DEFICIENCY)	5,366

1. Totals may not add due to rounding
2. Qualifying Subordinated Debt is defined as subordinated debt that contains the interest deferral feature. The interest deferral requires the deferral of interest payments for up to 5 years if:
   a) The corporation's core capital falls below 125% of critical capital, or
   b) The corporation's core capital falls below minimum capital AND, pursuant to the corporation's request, the Secretary of the Treasury exercised discretionary authority to purchase the company's obligations under Section 306(c) of the Freddie Mac Charter Act and Section 304(c) of the Fannie Mae Charter Act

OFFICE OF FEDERAL HOUSING ENTERPRISE OVERSIGHT
1700 G STREET NW WASHINGTON DC 20552 (202) 414-3801

OFFICE OF THE DIRECTOR

June 30, 2006

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

Re: Fannie Mae Final Capital Classification at March 31, 2006

Dear Mr. Chairman:

Section 1364 of the Federal Housing Enterprises Financial Safety and Soundness Act of 1992 and 12 C.F.R. § 1777.21 require that the Office of Federal Housing Enterprise Oversight (OFHEO) determine the capital classification of the Federal National Mortgage Association (Fannie Mae) not less than quarterly. On May 30, 2006, OFHEO issued a notice of proposed action indicating its intention to classify Fannie Mae as adequately capitalized at March 31, 2006, and requesting that Fannie Mae notify OFHEO by June 27, 2006, whether it intended to accept the classification or provide a response. Fannie Mae responded that it took no exception to the proposed capital classification.

Based on capital requirements in effect for the first quarter of 2006, OFHEO hereby provides notice that Fannie Mae is classified as adequately capitalized at March 31, 2006. The final capital classification is based on Fannie Mae's best estimates of its financial condition, as certified and represented as true and correct by Fannie Mae's management, but remains subject to revision during Fannie Mae's re-audit and accounting restatement process.

As indicated in the enclosures, at March 31, 2006, Fannie Mae's adjusted[1] OFHEO-directed minimum capital requirement was $37.320 billion, its adjusted statutory minimum capital requirement was $28.708 billion, its adjusted critical capital requirement was $14.779 billion, and its risk-based capital requirement was $17.533 billion. Thus, Fannie Mae's adjusted core capital of $40.333 billion at March 31, 2006, exceeded the OFHEO-directed minimum capital requirement by $3.013 billion and the critical capital requirement by $25.553 billion. Fannie Mae's total capital of $41.174 billion at March 31, 2006, exceeded the risk-based capital requirement by $23.641 billion.

[1] The term "adjusted" reflects that Fannie Mae's minimum capital submissions adjust book capital based upon estimated accounting change impacts.

Separately, OFHEO determined that Fannie Mae's total capital and qualifying subordinated debt exceeded the requirements outlined in the agreement dated September 1, 2005.

Further, Fannie Mae has maintained a capital surplus throughout the quarter in accordance with the Consent Order dated May 23, 2006, and the Capital Restoration Plan, approved February 17, 2005. The final capital classification does not alter or amend these agreements.

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

Sincerely,

JBLockhart

James B. Lockhart
Director

Enclosures

FEDERAL NATIONAL MORTGAGE ASSOCIATION
Minimum, Critical and Risk Based Capital Levels
March 31, 2006

SUMMARY

(Dollars in millions)

COMPONENTS OF THE MINIMUM CAPITAL LEVEL	
MINIMUM CAPITAL LEVEL - Adjusted, Statutory Requirement	28,708
MINIMUM CAPITAL LEVEL - Adjusted, OFHEO-directed Requirement	37,320
CORE CAPITAL - Adjusted	40,333
SURPLUS (DEFICIENCY) (based on OFHEO-directed Requirement)	3,013

COMPONENTS OF THE CRITICAL CAPITAL LEVEL	
CRITICAL CAPITAL LEVEL - Adjusted	14,779
CORE CAPITAL - Adjusted	40,333
ESTIMATED SURPLUS (DEFICIENCY)	25,553

STRESS TEST SCENARIO RESULTS	
UP-RATE SCENARIO	17,533
DOWN-RATE SCENARIO	10,529
RISK-BASED CAPITAL LEVEL	17,533
TOTAL CAPITAL	41,174
SURPLUS (DEFICIENCY)	23,641

Note: Totals may not add due to rounding.

FEDERAL NATIONAL MORTGAGE ASSOCIATION
Qualifying Subordinated Debt
March 31, 2006

SUMMARY

(Dollars in millions)

QUALIFYING SUBORDINATED DEBT PLUS TOTAL CAPITAL RESULTS (1, 2)	
TOTAL CAPITAL	41,174
TOTAL QUALIFYING SUBORDINATED DEBT	7,855
TOTAL CAPITAL AND QUALIFYING SUBORDINATED DEBT	**49,029**
CAPITAL REQUIREMENT FOR 4.0% OF ON-BALANCE SHEET ASSETS AND 0.45% OF NET MBS/PCs OUTSTANDING	41,288
SURPLUS (DEFICIENCY)	7,741

1. Totals may not add due to rounding
2. Qualifying Subordinated Debt is defined as subordinated debt that contains the interest deferral feature. The interest deferral requires the deferral of interest payments for up to 5 years if:
   a) The corporation's core capital falls below 125% of critical capital, or
   b) The corporation's core capital falls below minimum capital AND, pursuant to the corporation's request, the Secretary of the Treasury exercised discretionary authority to purchase the company's obligations under Section 306(c) of the Freddie Mac Charter Act and Section 304(c) of the Fannie Mae Charter Act

OFFICE OF FEDERAL HOUSING ENTERPRISE OVERSIGHT
1700 G STREET NW WASHINGTON DC 20552 (202) 414-3801

OFFICE OF THE DIRECTOR

June 30, 2006

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

Re: Freddie Mac Final Capital Classification at March 31, 2006

Dear Mr. Chairman:

Section 1364 of the Federal Housing Enterprises Financial Safety and Soundness Act of 1992 and 12 C.F.R. § 1777.21 require that the Office of Federal Housing Enterprise Oversight (OFHEO) determine the capital classification of the Federal Home Loan Mortgage Corporation (Freddie Mac) not less than quarterly. On May 30, 2006, OFHEO issued a notice of proposed action indicating its intention to classify Freddie Mac as adequately capitalized at March 31, 2006, and requesting that Freddie Mac notify OFHEO by June 27, 2006, whether it intended to accept the classification or provide a response. Freddie Mac responded that it took no exception to the proposed capital classification.

Based on capital requirements in effect for the first quarter of 2006, OFHEO hereby provides notice that Freddie Mac is classified as adequately capitalized at March 31, 2006. The final capital classification is based on Freddie Mac's best estimates of its financial condition, as certified and represented as true and correct by Freddie Mac's management, but remains subject to revision during Freddie Mac's ongoing audit, management reviews, and control assessments.

As indicated in the enclosures, at March 31, 2006, Freddie Mac's OFHEO-directed minimum capital requirement was $33.150 billion, its statutory minimum capital requirement was $25.500 billion, its critical capital requirement was $13.037 billion, and its risk-based capital requirement was $11.935 billion. Thus, Freddie Mac's core capital of $37.165 billion at March 31, 2006, exceeded the OFHEO-directed minimum capital requirement by $4.015 billion and the critical capital requirement by $24.128 billion. Freddie Mac's total capital of $37.624 billion at March 31, 2006, exceeded the risk-based capital requirement by $25.689 billion.

Separately, OFHEO determined that Freddie Mac's total capital and qualifying subordinated debt exceeded the requirements outlined in the agreement dated September 1, 2005.

Further, Freddie Mac has maintained a capital surplus in accordance with the capital directive issued by OFHEO on January 28, 2004. The final capital classification does not alter or amend the capital directive.

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

Sincerely,

JBLockhart

James B. Lockhart
Director

Enclosures

FEDERAL HOME LOAN MORTGAGE CORPORATION
Minimum Capital Level
March 31, 2006

SUMMARY

(Dollars in millions)

COMPONENTS OF THE MINIMUM CAPITAL LEVEL	
ON-BALANCE SHEET ASSETS	20,337
OFF-BALANCE SHEET OBLIGATIONS	
MBS and Equivalents	4,495
Commitments	494
OTHER OFF-BALANCE SHEET OBLIGATIONS	
Interest Rate and Foreign Exchange Rate Contracts	98
Sold Portfolio Remittances Pending	10
Other Off-Balance Sheet Obligations	66
MINIMUM CAPITAL - Statutory Requirement	**25,500**
MINIMUM CAPITAL - OFHEO-directed Requirement	**33,150**
CORE CAPITAL	**37,165**
SURPLUS (DEFICIENCY) (based on OFHEO-directed Requirement)	4,015

Note: Totals may not add due to rounding.

FEDERAL HOME LOAN MORTGAGE CORPORATION
Critical Capital Level
March 31, 2006

SUMMARY

(Dollars in millions)

COMPONENTS OF THE CRITICAL CAPITAL LEVEL	
ON-BALANCE SHEET ASSETS	10,169
OFF-BALANCE SHEET OBLIGATIONS	2,868
CRITICAL CAPITAL LEVEL	13,037
CORE CAPITAL	**37,165**
SURPLUS (DEFICIENCY)	**24,128**

Note: Totals may not add due to rounding.

FEDERAL HOME LOAN MORTGAGE CORPORATION
Risk-Based Capital Level
March 31, 2006

SUMMARY

(Dollars in millions)

STRESS TEST SCENARIO RESULTS	
UP-RATE SCENARIO	8,801
DOWN-RATE SCENARIO	11,935
RISK-BASED CAPITAL LEVEL	11,935
TOTAL CAPITAL	37,624
SURPLUS (DEFICIENCY)	25,689

Note: Totals may not add due to rounding.

FEDERAL HOME LOAN MORTGAGE CORPORATION
Qualifying Subordinated Debt
March 31, 2006

SUMMARY

(Dollars in millions)

QUALIFYING SUBORDINATED DEBT PLUS TOTAL CAPITAL RESULTS (1, 2)	
TOTAL CAPITAL	37,624
TOTAL QUALIFYING SUBORDINATED DEBT	5,086
TOTAL CAPITAL AND QUALIFYING SUBORDINATED DEBT	42,710
CAPITAL REQUIREMENT FOR 4.0% OF ON-BALANCE SHEET ASSETS AND 0.45% OF NET MBS/PCs OUTSTANDING	37,344
SURPLUS (DEFICIENCY)	5,366

1. Totals may not add due to rounding
2. Qualifying Subordinated Debt is defined as subordinated debt that contains the interest deferral feature. The interest deferral requires the deferral of interest payments for up to 5 years if:
   a) The corporation's core capital falls below 125% of critical capital, or
   b) The corporation's core capital falls below minimum capital AND, pursuant to the corporation's request, the Secretary of the Treasury exercised discretionary authority to purchase the company's obligations under Section 306(c) of the Freddie Mac Charter Act and Section 304(c) of the Fannie Mae Charter Act

OFFICE OF FEDERAL HOUSING ENTERPRISE OVERSIGHT
1700 G STREET NW WASHINGTON DC 20552 (202) 414-3801

OFFICE OF THE DIRECTOR

September 29, 2006

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

Re: Freddie Mac Final Capital Classification at June 30, 2006

Dear Congressman Frank:

Section 1364 of the Federal Housing Enterprises Financial Safety and Soundness Act of 1992 and 12 C.F.R. § 1777.21 require that the Office of Federal Housing Enterprise Oversight (OFHEO) determine the capital classification of the Federal Home Loan Mortgage Corporation (Freddie Mac) not less than quarterly. On August 28, 2006, OFHEO issued a notice of proposed action indicating its intention to classify Freddie Mac as adequately capitalized at June 30, 2006, and requesting that Freddie Mac notify OFHEO by September 28, 2006, whether it intended to accept the classification or provide a response. Freddie Mac responded that it took no exception to the proposed capital classification.

Based on capital requirements in effect for the second quarter of 2006, OFHEO hereby provides notice that Freddie Mac is classified as adequately capitalized at June 30, 2006. The final capital classification is based on Freddie Mac's best estimates of its financial condition, as certified and represented as true and correct by Freddie Mac's management, but remains subject to revision during Freddie Mac's ongoing audit, management reviews, and control assessments.

As indicated in the enclosures, at June 30, 2006, Freddie Mac's OFHEO-directed capital requirement was $34.398 billion, its statutory minimum capital requirement was $26.460 billion, its critical capital requirement was $13.522 billion, and its risk-based capital requirement was $17.024 billion. Thus, Freddie Mac's core capital of $37.139 billion at June 30, 2006, exceeded the OFHEO-directed capital requirement by $2.740 billion and the critical capital requirement by $23.616 billion. Freddie Mac's total capital of $37.504 billion at June 30, 2006, exceeded the risk-based capital requirement by $20.480 billion.

Further, Freddie Mac has maintained a capital surplus throughout the quarter in accordance with the capital directive issued by OFHEO on January 28, 2004. Freddie Mac's surplus as a percent of the

OFHEO-directed requirement decreased from 12.1% to 8.0% due to asset growth. Growth restrictions became effective July 1, 2006. The final capital classification does not alter or amend the capital directive or the agreement on growth restrictions dated July 31, 2006.

Separately, OFHEO determined that Freddie Mac's total capital and qualifying subordinated debt exceeded the requirements outlined in the agreement dated September 1, 2005.

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

Sincerely,

James B. Lockhart, III
Director

Enclosures

FEDERAL HOME LOAN MORTGAGE CORPORATION
Minimum Capital Level
June 30, 2006

SUMMARY

(Dollars in millions)

COMPONENTS OF THE MINIMUM CAPITAL LEVEL	
ON-BALANCE SHEET ASSETS	21,205
OFF-BALANCE SHEET OBLIGATIONS	
MBS and Equivalents	4,597
Commitments	477
OTHER OFF-BALANCE SHEET OBLIGATIONS	
Interest Rate and Foreign Exchange Rate Contracts	108
Sold Portfolio Remittances Pending	10
Other Off-Balance Sheet Obligations	63
MINIMUM CAPITAL - Statutory Requirement	**26,460**
MINIMUM CAPITAL - OFHEO-directed Requirement	**34,398**
CORE CAPITAL	**37,139**
SURPLUS (DEFICIENCY) (based on OFHEO-directed Requirement)	**2,740**

Note: Totals may not add due to rounding.

FEDERAL HOME LOAN MORTGAGE CORPORATION
Critical Capital Level
June 30, 2006

SUMMARY

(Dollars in millions)

COMPONENTS OF THE CRITICAL CAPITAL LEVEL	
ON-BALANCE SHEET ASSETS	10,602
OFF-BALANCE SHEET OBLIGATIONS	2,920
CRITICAL CAPITAL LEVEL	**13,522**
CORE CAPITAL	**37,139**
SURPLUS (DEFICIENCY)	**23,616**

Note: Totals may not add due to rounding.

FEDERAL HOME LOAN MORTGAGE CORPORATION
Risk-Based Capital Level
June 30, 2006

SUMMARY

(Dollars in millions)

STRESS TEST SCENARIO RESULTS	
UP-RATE SCENARIO	10,843
DOWN-RATE SCENARIO	17,024
RISK-BASED CAPITAL LEVEL	**17,024**
TOTAL CAPITAL	**37,504**
SURPLUS (DEFICIENCY)	**20,480**

Note: Totals may not add due to rounding.

FEDERAL HOME LOAN MORTGAGE CORPORATION
Qualifying Subordinated Debt
June 30, 2006

SUMMARY

(Dollars in millions)

QUALIFYING SUBORDINATED DEBT PLUS TOTAL CAPITAL RESULTS (1, 2)	
TOTAL CAPITAL	37,504
TOTAL QUALIFYING SUBORDINATED DEBT	6,317
TOTAL CAPITAL AND QUALIFYING SUBORDINATED DEBT	**43,821**
CAPITAL REQUIREMENT FOR 4.0% OF ON-BALANCE SHEET ASSETS AND 0.45% OF NET MBS/PCs OUTSTANDING	**38,849**
SURPLUS (DEFICIENCY)	**4,972**

1. Totals may not add due to rounding
2. Qualifying Subordinated Debt is defined as subordinated debt that contains the interest deferral feature. The interest deferral requires the deferral of interest payments for up to 5 years if:
   a) The corporation's core capital falls below 125% of critical capital, or
   b) The corporation's core capital falls below minimum capital AND, pursuant to the corporation's request, the Secretary of the Treasury exercised discretionary authority to purchase the company's obligations under Section 306(c) of the Freddie Mac Charter Act and Section 304(c) of the Fannie Mae Charter Act

OFFICE OF FEDERAL HOUSING ENTERPRISE OVERSIGHT
1700 G STREET NW WASHINGTON DC 20552 (202) 414-3801

OFFICE OF THE DIRECTOR

September 29, 2006

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

Re: Fannie Mae Final Capital Classification at June 30, 2006

Dear Congressman Frank:

Section 1364 of the Federal Housing Enterprises Financial Safety and Soundness Act of 1992 and 12 C.F.R. § 1777.21 require that the Office of Federal Housing Enterprise Oversight (OFHEO) determine the capital classification of the Federal National Mortgage Association (Fannie Mae) not less than quarterly. On August 28, 2006, OFHEO issued a notice of proposed action indicating its intention to classify Fannie Mae as adequately capitalized at June 30, 2006, and requesting that Fannie Mae notify OFHEO by September 28, 2006, whether it intended to accept the classification or provide a response. Fannie Mae responded that it took no exception to the proposed capital classification.

Based on capital requirements in effect for the second quarter of 2006, OFHEO hereby provides notice that Fannie Mae is classified as adequately capitalized at June 30, 2006. The final capital classification is based on Fannie Mae's best estimates of its financial condition, as certified and represented as true and correct by Fannie Mae's management, but remains subject to revision during Fannie Mae's re-audit and accounting restatement process.

As indicated in the enclosures, at June 30, 2006, Fannie Mae's adjusted[1] OFHEO-directed capital requirement was $38.245 billion, its adjusted statutory minimum capital requirement was $29.419 billion, its adjusted critical capital requirement was $15.145 billion, and its risk-based capital requirement was $26.330 billion. Thus, Fannie Mae's adjusted core capital of $42.037 billion at June 30, 2006, exceeded the OFHEO-directed capital requirement by $3.792 billion and the critical capital requirement by $26.892 billion. Fannie Mae's total capital of $42.888 billion at June 30, 2006, exceeded the risk-based capital requirement by $16.558 billion.

[1] The term "adjusted" reflects that Fannie Mae's minimum capital submissions adjust book capital based upon estimated accounting change impacts.

Further, Fannie Mae has maintained a capital surplus throughout the quarter in accordance with the Consent Order dated May 23, 2006, and the Capital Restoration Plan, approved February 17, 2005. Fannie Mae's surplus as a percent of the OFHEO-directed requirement increased to 9.9% from the prior quarter's 8.1%. The final capital classification does not alter or amend agreements referenced.

Separately, OFHEO determined that Fannie Mae's total capital and qualifying subordinated debt exceeded the requirements outlined in the agreement dated September 1, 2005.

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

Sincerely,

JBLockhart III

James B. Lockhart, III
Director

Enclosures

FEDERAL NATIONAL MORTGAGE ASSOCIATION
Minimum, Critical and Risk Based Capital Levels
June 30, 2006

SUMMARY

(Dollars in millions)

COMPONENTS OF THE MINIMUM CAPITAL LEVEL	
MINIMUM CAPITAL LEVEL - Adjusted, Statutory Requirement	29,419
MINIMUM CAPITAL LEVEL - Adjusted, OFHEO-directed Requirement	38,245
CORE CAPITAL - Adjusted	42,037
SURPLUS (DEFICIENCY) (based on OFHEO-directed Requirement)	3,792

COMPONENTS OF THE CRITICAL CAPITAL LEVEL	
CRITICAL CAPITAL LEVEL - Adjusted	15,145
CORE CAPITAL - Adjusted	42,037
ESTIMATED SURPLUS (DEFICIENCY)	26,892

STRESS TEST SCENARIO RESULTS	
UP-RATE SCENARIO	18,843
DOWN-RATE SCENARIO	26,330
RISK-BASED CAPITAL LEVEL	26,330
TOTAL CAPITAL	42,888
SURPLUS (DEFICIENCY)	16,558

Note: Totals may not add due to rounding.

FEDERAL NATIONAL MORTGAGE ASSOCIATION
Qualifying Subordinated Debt
June 30, 2006

SUMMARY

(Dollars in millions)

QUALIFYING SUBORDINATED DEBT PLUS TOTAL CAPITAL RESULTS (1, 2)	
TOTAL CAPITAL	42,888
TOTAL QUALIFYING SUBORDINATED DEBT	7,857
TOTAL CAPITAL AND QUALIFYING SUBORDINATED DEBT	50,744
CAPITAL REQUIREMENT FOR 4.0% OF ON-BALANCE SHEET ASSETS AND 0.45% OF NET MBS/PCs OUTSTANDING	42,324
SURPLUS (DEFICIENCY)	8,421

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2. Qualifying Subordinated Debt is defined as subordinated debt that contains the interest deferral feature. The interest deferral requires the deferral of interest payments for up to 5 years if:
   a) The corporation's core capital falls below 125% of critical capital, or
   b) The corporation's core capital falls below minimum capital AND, pursuant to the corporation's request, the Secretary of the Treasury exercised discretionary authority to purchase the company's obligations under Section 306(c) of the Freddie Mac Charter Act and Section 304(c) of the Fannie Mae Charter Act

OFFICE OF FEDERAL HOUSING ENTERPRISE OVERSIGHT
1700 G STREET NW WASHINGTON DC 20552 (202) 414-3801

OFFICE OF THE DIRECTOR

September 29, 2006

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

Re: Freddie Mac Final Capital Classification at June 30, 2006

Dear Mr. Chairman:

Section 1364 of the Federal Housing Enterprises Financial Safety and Soundness Act of 1992 and 12 C.F.R. § 1777.21 require that the Office of Federal Housing Enterprise Oversight (OFHEO) determine the capital classification of the Federal Home Loan Mortgage Corporation (Freddie Mac) not less than quarterly. On August 28, 2006, OFHEO issued a notice of proposed action indicating its intention to classify Freddie Mac as adequately capitalized at June 30, 2006, and requesting that Freddie Mac notify OFHEO by September 28, 2006, whether it intended to accept the classification or provide a response. Freddie Mac responded that it took no exception to the proposed capital classification.

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As indicated in the enclosures, at June 30, 2006, Freddie Mac's OFHEO-directed capital requirement was $34.398 billion, its statutory minimum capital requirement was $26.460 billion, its critical capital requirement was $13.522 billion, and its risk-based capital requirement was $17.024 billion. Thus, Freddie Mac's core capital of $37.139 billion at June 30, 2006, exceeded the OFHEO-directed capital requirement by $2.740 billion and the critical capital requirement by $23.616 billion. Freddie Mac's total capital of $37.504 billion at June 30, 2006, exceeded the risk-based capital requirement by $20.480 billion.

Further, Freddie Mac has maintained a capital surplus throughout the quarter in accordance with the capital directive issued by OFHEO on January 28, 2004. Freddie Mac's surplus as a percent of the

OFHEO-directed requirement decreased from 12.1% to 8.0% due to asset growth. Growth restrictions became effective July 1, 2006. The final capital classification does not alter or amend the capital directive or the agreement on growth restrictions dated July 31, 2006.

Separately, OFHEO determined that Freddie Mac's total capital and qualifying subordinated debt exceeded the requirements outlined in the agreement dated September 1, 2005.

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

Sincerely,

JBLockhart III

James B. Lockhart, III
Director

Enclosures

FEDERAL HOME LOAN MORTGAGE CORPORATION
Minimum Capital Level
June 30, 2006

SUMMARY

(Dollars in millions)

COMPONENTS OF THE MINIMUM CAPITAL LEVEL	
ON-BALANCE SHEET ASSETS	21,205
OFF-BALANCE SHEET OBLIGATIONS	
MBS and Equivalents	4,597
Commitments	477
OTHER OFF-BALANCE SHEET OBLIGATIONS	
Interest Rate and Foreign Exchange Rate Contracts	108
Sold Portfolio Remittances Pending	10
Other Off-Balance Sheet Obligations	63
MINIMUM CAPITAL - Statutory Requirement	**26,460**
MINIMUM CAPITAL - OFHEO-directed Requirement	**34,398**
CORE CAPITAL	**37,139**
SURPLUS (DEFICIENCY) (based on OFHEO-directed Requirement)	**2,740**

Note: Totals may not add due to rounding.

FEDERAL HOME LOAN MORTGAGE CORPORATION
Critical Capital Level
June 30, 2006

SUMMARY

(Dollars in millions)

COMPONENTS OF THE CRITICAL CAPITAL LEVEL	
ON-BALANCE SHEET ASSETS	10,602
OFF-BALANCE SHEET OBLIGATIONS	2,920
CRITICAL CAPITAL LEVEL	**13,522**
CORE CAPITAL	**37,139**
SURPLUS (DEFICIENCY)	**23,616**

Note: Totals may not add due to rounding.

FEDERAL HOME LOAN MORTGAGE CORPORATION
Risk-Based Capital Level
June 30, 2006

SUMMARY

(Dollars in millions)

STRESS TEST SCENARIO RESULTS	
UP-RATE SCENARIO	10,843
DOWN-RATE SCENARIO	17,024
RISK-BASED CAPITAL LEVEL	**17,024**
TOTAL CAPITAL	**37,504**
SURPLUS (DEFICIENCY)	20,480

Note: Totals may not add due to rounding.

FEDERAL HOME LOAN MORTGAGE CORPORATION
Qualifying Subordinated Debt
June 30, 2006

SUMMARY

(Dollars in millions)

QUALIFYING SUBORDINATED DEBT PLUS TOTAL CAPITAL RESULTS (1, 2)	
TOTAL CAPITAL	37,504
TOTAL QUALIFYING SUBORDINATED DEBT	6,317
TOTAL CAPITAL AND QUALIFYING SUBORDINATED DEBT	**43,821**
CAPITAL REQUIREMENT FOR 4.0% OF ON-BALANCE SHEET ASSETS AND 0.45% OF NET MBS/PCs OUTSTANDING	38,849
SURPLUS (DEFICIENCY)	4,972

1. Totals may not add due to rounding
2. Qualifying Subordinated Debt is defined as subordinated debt that contains the interest deferral feature. The interest deferral requires the deferral of interest payments for up to 5 years if:
   a) The corporation's core capital falls below 125% of critical capital, or
   b) The corporation's core capital falls below minimum capital AND, pursuant to the corporation's request, the Secretary of the Treasury exercised discretionary authority to purchase the company's obligations under Section 306(c) of the Freddie Mac Charter Act and Section 304(c) of the Fannie Mae Charter Act

OFFICE OF FEDERAL HOUSING ENTERPRISE OVERSIGHT
1700 G STREET NW WASHINGTON DC 20552 (202) 414-3801

OFFICE OF THE DIRECTOR

September 29, 2006

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

Re: Fannie Mae Final Capital Classification at June 30, 2006

Dear Mr. Chairman:

Section 1364 of the Federal Housing Enterprises Financial Safety and Soundness Act of 1992 and 12 C.F.R. § 1777.21 require that the Office of Federal Housing Enterprise Oversight (OFHEO) determine the capital classification of the Federal National Mortgage Association (Fannie Mae) not less than quarterly. On August 28, 2006, OFHEO issued a notice of proposed action indicating its intention to classify Fannie Mae as adequately capitalized at June 30, 2006, and requesting that Fannie Mae notify OFHEO by September 28, 2006, whether it intended to accept the classification or provide a response. Fannie Mae responded that it took no exception to the proposed capital classification.

Based on capital requirements in effect for the second quarter of 2006, OFHEO hereby provides notice that Fannie Mae is classified as adequately capitalized at June 30, 2006. The final capital classification is based on Fannie Mae's best estimates of its financial condition, as certified and represented as true and correct by Fannie Mae's management, but remains subject to revision during Fannie Mae's re-audit and accounting restatement process.

As indicated in the enclosures, at June 30, 2006, Fannie Mae's adjusted[1] OFHEO-directed capital requirement was $38.245 billion, its adjusted statutory minimum capital requirement was $29.419 billion, its adjusted critical capital requirement was $15.145 billion, and its risk-based capital requirement was $26.330 billion. Thus, Fannie Mae's adjusted core capital of $42.037 billion at June 30, 2006, exceeded the OFHEO-directed capital requirement by $3.792 billion and the critical capital requirement by $26.892 billion. Fannie Mae's total capital of $42.888 billion at June 30, 2006, exceeded the risk-based capital requirement by $16.558 billion.

[1] The term "adjusted" reflects that Fannie Mae's minimum capital submissions adjust book capital based upon estimated accounting change impacts.

Further, Fannie Mae has maintained a capital surplus throughout the quarter in accordance with the Consent Order dated May 23, 2006, and the Capital Restoration Plan, approved February 17, 2005. Fannie Mae's surplus as a percent of the OFHEO-directed requirement increased to 9.9% from the prior quarter's 8.1%. The final capital classification does not alter or amend agreements referenced.

Separately, OFHEO determined that Fannie Mae's total capital and qualifying subordinated debt exceeded the requirements outlined in the agreement dated September 1, 2005.

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

Sincerely,

JBLockhart III

James B. Lockhart, III
Director

Enclosures

FEDERAL NATIONAL MORTGAGE ASSOCIATION
Minimum, Critical and Risk Based Capital Levels
June 30, 2006

SUMMARY

(Dollars in millions)

COMPONENTS OF THE MINIMUM CAPITAL LEVEL	
MINIMUM CAPITAL LEVEL - Adjusted, Statutory Requirement	29,419
MINIMUM CAPITAL LEVEL - Adjusted, OFHEO-directed Requirement	38,245
CORE CAPITAL - Adjusted	42,037
SURPLUS (DEFICIENCY) (based on OFHEO-directed Requirement)	3,792

COMPONENTS OF THE CRITICAL CAPITAL LEVEL	
CRITICAL CAPITAL LEVEL - Adjusted	15,145
CORE CAPITAL - Adjusted	42,037
ESTIMATED SURPLUS (DEFICIENCY)	26,892

STRESS TEST SCENARIO RESULTS	
UP-RATE SCENARIO	18,843
DOWN-RATE SCENARIO	26,330
RISK-BASED CAPITAL LEVEL	26,330
TOTAL CAPITAL	42,888
SURPLUS (DEFICIENCY)	16,558

Note: Totals may not add due to rounding.

FEDERAL NATIONAL MORTGAGE ASSOCIATION
Qualifying Subordinated Debt
June 30, 2006

SUMMARY

(Dollars in millions)

QUALIFYING SUBORDINATED DEBT PLUS TOTAL CAPITAL RESULTS (1, 2)	
TOTAL CAPITAL	42,888
TOTAL QUALIFYING SUBORDINATED DEBT	7,857
TOTAL CAPITAL AND QUALIFYING SUBORDINATED DEBT	50,744
CAPITAL REQUIREMENT FOR 4.0% OF ON-BALANCE SHEET ASSETS AND 0.45% OF NET MBS/PCs OUTSTANDING	42,324
SURPLUS (DEFICIENCY)	8,421

1. Totals may not add due to rounding
2. Qualifying Subordinated Debt is defined as subordinated debt that contains the interest deferral feature. The interest deferral requires the deferral of interest payments for up to 5 years if:
   a) The corporation's core capital falls below 125% of critical capital, or
   b) The corporation's core capital falls below minimum capital AND, pursuant to the corporation's request, the Secretary of the Treasury exercised discretionary authority to purchase the company's obligations under Section 306(c) of the Freddie Mac Charter Act and Section 304(c) of the Fannie Mae Charter Act

OFFICE OF FEDERAL HOUSING ENTERPRISE OVERSIGHT
1700 G STREET NW WASHINGTON DC 20552 (202) 414-3801

OFFICE OF THE DIRECTOR

September 29, 2006

The Honorable Christopher Bond
Chairman
Transportation, Treasury, the Judiciary, and
Housing and Urban Development Subcommittee
United States Senate
130 Dirksen Senate Office Building
Washington, DC 20510

Dear Chairman Bond:

I am pleased to transmit the Office of Federal Housing Enterprise Oversight's (OFHEO) Strategic Plan for Fiscal Years 2006-2011. In accordance with the Government Performance and Results Act of 1993, the plan provides direction for implementing OFHEO's important mission: "To promote housing and a strong national housing finance system by ensuring the safety and soundness of Fannie Mae and Freddie Mac." As the safety and soundness regulator of these Enterprises, which are still recovering from accounting, internal controls and management failures, OFHEO is looking to strengthen its framework as an oversight agency through three strategic goals: 1) Enhance supervision to ensure the Enterprises operate in a safe and sound manner, are adequately capitalized and comply with legal requirements; 2) Provide support for statutory reforms to strengthen our regulatory powers; and 3) Continue to support the national policy of an efficient secondary mortgage market which promotes homeownership and affordable housing.

In developing the Strategic Plan, OFHEO sought input in April from stakeholders and the general public through an announcement in the Federal Register and on its web site and posted a draft plan on the site in August for comment. The comments received, as well as input from OFHEO employees, were considered as OFHEO developed the new plan. OFHEO will continue to look to its stakeholders for input and feedback on its plans and goals.

The agency's final Strategic Plan will be available to the public and you on the web site today at www.ofheo.gov. I believe that enhanced supervision and a stronger regulatory regime, as proposed by the Congress and supported by OFHEO and the Bush Administration, will be better for continued homeownership growth, affordable housing, the nation's housing finance system and all the stakeholders of Fannie Mae and Freddie Mac. OFHEO's staff and I look forward to continuing to work with all of our stakeholders as we implement this plan over the next several years.

Sincerely,

James B. Lockhart III
Director

OFFICE OF FEDERAL HOUSING ENTERPRISE OVERSIGHT
1700 G STREET NW WASHINGTON DC 20552 (202) 414-3801

OFFICE OF THE DIRECTOR

September 29, 2006

The Honorable Barney Frank
Ranking Member
Committee on Financial Services
U.S. House of Representatives
2129 Rayburn House Office Building
Washington, DC 20515-6050

Dear Congressman Frank:

I am pleased to transmit the Office of Federal Housing Enterprise Oversight's (OFHEO) Strategic Plan for Fiscal Years 2006-2011. In accordance with the Government Performance and Results Act of 1993, the plan provides direction for implementing OFHEO's important mission: "To promote housing and a strong national housing finance system by ensuring the safety and soundness of Fannie Mae and Freddie Mac." As the safety and soundness regulator of these Enterprises, which are still recovering from accounting, internal controls and management failures, OFHEO is looking to strengthen its framework as an oversight agency through three strategic goals: 1) Enhance supervision to ensure the Enterprises operate in a safe and sound manner, are adequately capitalized and comply with legal requirements; 2) Provide support for statutory reforms to strengthen our regulatory powers; and 3) Continue to support the national policy of an efficient secondary mortgage market which promotes homeownership and affordable housing.

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Sincerely,

James B. Lockhart III
Director

OFFICE OF FEDERAL HOUSING ENTERPRISE OVERSIGHT
1700 G STREET NW WASHINGTON DC 20552 (202) 414-3801

OFFICE OF THE DIRECTOR

September 29, 2006

The Honorable Paul E. Kanjorski
Ranking Member
Capital Markets, Insurance and Government
Sponsored Enterprises Subcommittee
U.S. House of Representatives
2129 Rayburn House Office Building
Washington, DC 20515

Dear Congressman Kanjorski:

I am pleased to transmit the Office of Federal Housing Enterprise Oversight's (OFHEO) Strategic Plan for Fiscal Years 2006-2011. In accordance with the Government Performance and Results Act of 1993, the plan provides direction for implementing OFHEO's important mission: "To promote housing and a strong national housing finance system by ensuring the safety and soundness of Fannie Mae and Freddie Mac." As the safety and soundness regulator of these Enterprises, which are still recovering from accounting, internal controls and management failures, OFHEO is looking to strengthen its framework as an oversight agency through three strategic goals: 1) Enhance supervision to ensure the Enterprises operate in a safe and sound manner, are adequately capitalized and comply with legal requirements; 2) Provide support for statutory reforms to strengthen our regulatory powers; and 3) Continue to support the national policy of an efficient secondary mortgage market which promotes homeownership and affordable housing.

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Sincerely,

James B. Lockhart III
Director

OFFICE OF FEDERAL HOUSING ENTERPRISE OVERSIGHT

1700 G STREET NW WASHINGTON DC 20552 (202) 414-3801

OFFICE OF THE DIRECTOR

September 29, 2006

The Honorable Richard C. Shelby
Chairman
Committee on Banking, Housing,
and Urban Affairs
US Senate
534 Dirksen Senate Office Building
Washington, DC 20510-6075

Dear Chairman Shelby:

I am pleased to transmit the Office of Federal Housing Enterprise Oversight's (OFHEO) Strategic Plan for Fiscal Years 2006-2011. In accordance with the Government Performance and Results Act of 1993, the plan provides direction for implementing OFHEO's important mission: "To promote housing and a strong national housing finance system by ensuring the safety and soundness of Fannie Mae and Freddie Mac." As the safety and soundness regulator of these Enterprises, which are still recovering from accounting, internal controls and management failures, OFHEO is looking to strengthen its framework as an oversight agency through three strategic goals: 1) Enhance supervision to ensure the Enterprises operate in a safe and sound manner, are adequately capitalized and comply with legal requirements; 2) Provide support for statutory reforms to strengthen our regulatory powers; and 3) Continue to support the national policy of an efficient secondary mortgage market which promotes homeownership and affordable housing.

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The agency's final Strategic Plan will be available to the public and you on the web site today at www.ofheo.gov. I believe that enhanced supervision and a stronger regulatory regime, as proposed by the Congress and supported by OFHEO and the Bush Administration, will be better for continued homeownership growth, affordable housing, the nation's housing finance system and all the stakeholders of Fannie Mae and Freddie Mac. OFHEO's staff and I look forward to continuing to work with all of our stakeholders as we implement this plan over the next several years.

Sincerely,

James B. Lockhart III
Director

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

September 14, 2006

The Honorable Richard C. Shelby
Chairman
The Honorable Paul S. Sarbanes
Ranking Member
Committee on Banking, Housing, and Urban Affairs
U.S. Senate
SD-534 Dirksen Senate Office Building
Washington, D.C. 20510

Dear Chairman Shelby and Ranking Member Sarbanes:

As the 109th Congress enters its final weeks, there are a handful of important legislative initiatives on which our respective Committees have spent a great deal of time and effort, but which have yet to be resolved. While the differences between the House and Senate measures are relatively small in most cases, time is not on our side. In our opinion, one of the most urgent of these issues is regulatory reform of the government-sponsored entities, or GSEs.

Accounting violations and corporate mismanagement by the GSEs have brought to light the fact that current GSE regulators lack many of the supervisory and enforcement powers bank regulators can wield. We must remedy this situation by consolidating GSE regulation and providing the tools needed to oversee these large, complex financial institutions. Both H.R. 1461 and S. 190 create a strong independent agency to ensure the GSEs operate in a safe and sound manner and comply with their statutory missions.

We believe firmly that the outstanding differences in the GSE legislative debate are less than ever before and that final agreement can be reached this session. We note with approval the renewed energy brought to the debate by Treasury Secretary Paulson, as well as OFHEO Director Lockhart.

The purpose of this letter is to express our desire to work with you to find creative compromises to achieve our bicameral, bipartisan goal of strengthening GSE oversight and ensuring the stability and accountability of these institutions. This Congress should not close without addressing the serious inadequacies of the current GSE regulatory system.

The Honorable Richard C. Shelby
The Honorable Paul S. Sarbanes
Page 2
September 14, 2006

We, the undersigned members of the House Committee on Financial Services, urge you to act expeditiously in the full Senate so that we may proceed to a conference committee, where we can work together to send this vital legislation to the President this year. We believe we have a unique opportunity to enact robust, comprehensive GSE reform. We pledge our cooperation, our good faith, and our best efforts to achieve this end and urge Senate action.

Yours truly,

Richard H. Baker

Paul E. Kanjorski

Jim Leach

Bob Ney

Carolyn B. Maloney

Darlene Hooley

Rubén Hinojosa

Frank D. Lucas

Spencer Bachus

Gary G Miller

Jim Ryan

[illegible]

Paul Gillmor

Mike Castle

Vit [illegible]

Judy Biggert

Scott Garrett

Melissa L Bean

Steve Israel

Randy Neugebauer

Al Green

Michael Fitzpatrick

Mark Kennedy

[illegible]

[illegible]

Jim Matheson

Tom Price

Ginny Brown-Waite

[illegible]

[illegible]

[illegible]

[illegible]

[illegible]

[illegible]

Katherine Harris

[illegible]

David Scott

Walter B Jones

Tom Feeney

[illegible]

[illegible]

Patrick McHenry

Debbie Wasserman Schultz

Pat Tiberi

Carolyn McCarthy

Sue Kelly — Donald A Manzullo

Ed Royce — Melvin L Watt

[illegible] — Gary L Ackerman

Michael E. Capuano — Julia Carson

Geoff Davis — Emanuel Cleaver

Steve Pearce — [illegible] Moore

[illegible] Smith — Brad Sherman

The Honorable Richard C. Shelby, Chairman
The Honorable Paul S. Sarbanes, Ranking Member
Senate Banking Committee

Letter Signatories

Page 2:

Congressman Michael G. Oxley, Chairman
Congressman Barney Frank, Ranking Member
Congressman Richard H. Baker
Congressman Paul Kanjorski
Congressman Jim Leach
Congressman Steven C. LaTourette
Congressman Bob Ney
Congresswoman Carolyn Maloney
Congresswoman Darlene Hooley
Congressman Luis V. Gutierrez
Congressman Rubén Hinojosa
Congressman John Campbell
Congressman Frank D. Lucas
Congressman Spencer Bachus

Page 3:

Congressman Gary G. Miller
Congressman Jim Ryun
Congressman Christopher Shays
Congressman Paul Gillmor
Congressman Mike Castle
Congressman Vito Fossella
Congresswoman Judy Biggert
Congressman Scott Garrett
Congresswoman Melissa Bean
Congressman Steve Israel
Congressman Randy Neugebauer
Congressman Al Green
Congressman Michael Fitzpatrick
Congressman Mark Kennedy
Congresswoman Gwen Moore
Congressman J. Gresham Barrett
Congressman Jim Matheson
Congressman Tom Price

Page 4:

Congresswoman Ginny Brown-Waite
Congressman David Scott
Congressman Rick Renzi

Congressman Walter B. Jones, Jr.
Congressman Joe Baca
Congressman Tom Feeney
Congressman Stephen F. Lynch
Congressman Joseph Crowley
Congressman Jim Gerlach
Congresswoman Deborah Pryce
Congressman Artur Davis
Congressman Patrick McHenry
Congressman Harold Ford
Congresswoman Debbie Wasserman Schultz
Congresswoman Katherine Harris
Congressman Patrick Tiberi
Congressman Jeb Hensarling
Congressman Carolyn McCarthy

Page 5:
Congresswoman Sue Kelly
Congressman Donald A. Manzullo
Congressman Ed Royce
Congressman Melvin L. Watt
Congresswoman Nydia Velázquez
Congressman Gary L. Ackerman
Congressman Michael E. Capuano
Congresswoman Julia Carson
Congressman Geoff Davis
Congressman Emanuel Cleaver
Congressman Steve Pearce
Congressman Dennis Moore
Congressman Brad Miller
Congressman Brad Sherman

OFFICE OF FEDERAL HOUSING ENTERPRISE OVERSIGHT
1700 G STREET NW WASHINGTON DC 20552 (202) 414-3801

OFFICE OF THE DIRECTOR

November 15, 2006

The Honorable Richard C. Shelby
Chairman
Committee on Banking, Housing,
and Urban Affairs
US Senate
534 Dirksen Senate Office Building
Washington, DC 20510-6075

Dear Chairman Shelby:

I am pleased to inform you that the Office of Federal Housing Enterprise Oversight's (OFHEO) issued today its Performance and Accountability Report (PAR) for FY 2006. In accordance with the Government Performance and Results Act of 1993, the PAR provides actual performance and progress in achieving the goals in OFHEO's strategic plan and performance budget, and includes the agency's audited financial statements. This year, OFHEO received an unqualified opinion from external auditors on the agency's financial statements for the ninth straight year and substantially achieved our performance goals.

The agency's PAR is directly available on OFHEO's web site, www.ofheo.gov and printed copies are available upon request. My staff and I continue to be available to talk with you if you have any questions. I look forward to working with you.

Sincerely,

James B. Lockhart III
Director

OFFICE OF FEDERAL HOUSING ENTERPRISE OVERSIGHT

1700 G STREET NW WASHINGTON DC 20552 (202) 414-3801

OFFICE OF THE DIRECTOR

November 15, 2006

The Honorable Christopher Bond
Chairman
Transportation, Treasury, the Judiciary, and
Housing and Urban Development Subcommittee
United States Senate
130 Dirksen Senate Office Building
Washington, DC 20510

Dear Chairman Bond:

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The agency's PAR is directly available on OFHEO's web site, www.ofheo.gov and printed copies are available upon request. My staff and I continue to be available to talk with you if you have any questions. I look forward to working with you.

Sincerely,

James B. Lockhart III
Director

OFFICE OF FEDERAL HOUSING ENTERPRISE OVERSIGHT
1700 G STREET NW WASHINGTON DC 20552 (202) 414-3801

OFFICE OF THE DIRECTOR

November 15, 2006

The Honorable Barney Frank
Ranking Member
Committee on Financial Services
U.S. House of Representatives
2129 Rayburn House Office Building
Washington, DC 20515-6050

Dear Congressman Frank:

I am pleased to inform you that the Office of Federal Housing Enterprise Oversight's (OFHEO) issued today its Performance and Accountability Report (PAR) for FY 2006. In accordance with the Government Performance and Results Act of 1993, the PAR provides actual performance and progress in achieving the goals in OFHEO's strategic plan and performance budget, and includes the agency's audited financial statements. This year, OFHEO received an unqualified opinion from external auditors on the agency's financial statements for the ninth straight year and substantially achieved our performance goals.

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Sincerely,

James B. Lockhart III
Director

OFFICE OF FEDERAL HOUSING ENTERPRISE OVERSIGHT
1700 G STREET NW WASHINGTON DC 20552 (202) 414-3801

OFFICE OF THE DIRECTOR

November 15, 2006

The Honorable Paul E. Kanjorski
Ranking Member
Capital Markets, Insurance and Government
Sponsored Enterprises Subcommittee
U.S. House of Representatives
2129 Rayburn House Office Building
Washington, DC 20515

Dear Congressman Kanjorski:

I am pleased to inform you that the Office of Federal Housing Enterprise Oversight's (OFHEO) issued today its Performance and Accountability Report (PAR) for FY 2006. In accordance with the Government Performance and Results Act of 1993, the PAR provides actual performance and progress in achieving the goals in OFHEO's strategic plan and performance budget, and includes the agency's audited financial statements. This year, OFHEO received an unqualified opinion from external auditors on the agency's financial statements for the ninth straight year and substantially achieved our performance goals.

The agency's PAR is directly available on OFHEO's web site, www.ofheo.gov and printed copies are available upon request. My staff and I continue to be available to talk with you if you have any questions. I look forward to working with you.

Sincerely,

James B. Lockhart III
Director

OFFICE OF FEDERAL HOUSING ENTERPRISE OVERSIGHT

1700 G STREET NW WASHINGTON DC 20552 (202) 414-3801

OFFICE OF THE DIRECTOR

December 28, 2006

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

Re: Notice of Final Fannie Mae Capital Reclassification for December 31, 2002, 2003 and 2004

Dear Congressman Frank:

Section 1364 of the Federal Housing Enterprises Financial Safety and Soundness Act of 1992 and 12 C.F.R. § 1777.21 requires that the Office of Federal Housing Enterprise Oversight (OFHEO) determine the capital classification of the Federal National Mortgage Association (Fannie Mae) not less than quarterly. On December 15, 2006, OFHEO issued a notice of proposed action indicating its intention to re-classify Fannie Mae for Q4 2002 and 2003 and re-affirm the existing classification for Q4 2004. OFHEO also requested that Fannie Mae waive the 30-day comment period. Fannie Mae responded on December 22, 2006 indicating no objection to the classifications for Q4 2002 and 2003, requesting that OFHEO consider additional information in regard to affirming the classification for Q4 2004, and formally waiving the 30-day comment period.

OFHEO's conclusion is based upon our review of the minimum capital and critical capital resubmission on December 8, 2006 for the Q4 2002, 2003 and 2004 periods as well as information provided in Fannie Mae's December 22, 2006 response. Based on capital requirements in effect for these time periods, OFHEO hereby provides notice that Fannie Mae is reclassified as significantly undercapitalized at December 31, 2002 and December 31, 2003. Further, OFHEO has determined not to reconsider the original determination to classify Fannie Mae as significantly undercapitalized at December 31, 2004.

The enclosure summarizes OFHEO's calculation of Fannie Mae's minimum and critical capital on December 31, 2002, 2003 and 2004.

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

Sincerely,

James B. Lockhart III

James B. Lockhart III
Director

Enclosure

Enclosures

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

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

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

a. Numbers may not add due to rounding.
b. Restated and resubmitted on December 8, 2006.
c. OFHEO further "adjusted" Fannie Mae's December 31, 2004 capital submission resulting in a total estimated reduction of core capital by $11.1 billion based upon Fannie Mae generated and certified best estimates of the impact of pending accounting adjustments.

OFFICE OF FEDERAL HOUSING ENTERPRISE OVERSIGHT
1700 G STREET NW WASHINGTON DC 20552 (202) 414-3801

OFFICE OF THE DIRECTOR

December 28, 2006

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

Re: Notice of Final Fannie Mae Capital Classification at September 30, 2006

Dear Congressman Frank:

Section 1364 of the Federal Housing Enterprises Financial Safety and Soundness Act of 1992 and 12 C.F.R. § 1777.21 require that the Office of Federal Housing Enterprise Oversight (OFHEO) determine the capital classification of the Federal National Mortgage Association (Fannie Mae) not less than quarterly. On November 24, 2006, OFHEO issued a notice of proposed action indicating its intention to classify Fannie Mae as adequately capitalized at September 30, 2006, and requesting that Fannie Mae notify OFHEO by December 26, 2006, whether it intended to accept the classification or provide a response. Fannie Mae responded that it took no exception to the proposed capital classification. Subsequent to Fannie Mae's issuance of their 2004 10-K on December 6, 2006, Fannie Mae refiled September 30, 2006 minimum capital reports to reflect a roll forward of the 2004 accounting adjustments.

Based on capital requirements in effect for the third quarter of 2006, including the roll forward of the 2004 restatement impacts, OFHEO hereby provides notice that Fannie Mae is classified as adequately capitalized at September 30, 2006. The final capital classification is based on Fannie Mae's best estimates of its financial condition, as certified and represented as true and correct by Fannie Mae's management, but remains subject to revision during Fannie Mae's re-audit and accounting restatement process.

As indicated in the enclosures, at September 30, 2006, Fannie Mae's adjusted[1] OFHEO-directed capital requirement was $37.714 billion, its adjusted statutory minimum capital requirement was $29.010 billion, its adjusted critical capital requirement was $14.959 billion, and its risk-based capital requirement was $22.524 billion. Thus, Fannie Mae's adjusted core capital of $42.008 billion at September 30, 2006, exceeded the OFHEO-directed capital requirement by $4.294 billion

[1] The term "adjusted" reflects that Fannie Mae's minimum capital submissions adjust book capital based upon estimated accounting change impacts.

and the critical capital requirement by $27.049 billion. Fannie Mae's total capital of $41.820[2] billion at September 30, 2006, exceeded the risk-based capital requirement by $19.296 billion.

Further, Fannie Mae has maintained a capital surplus throughout the quarter in accordance with the Capital Restoration Plan, approved February 17, 2005, and the Consent Order dated May 23, 2006. The final capital classification does not alter or amend the Capital Plan or the Consent Order.

Separately, OFHEO determined that Fannie Mae's total capital and qualifying subordinated debt exceeded the requirements outlined in the agreement dated September 1, 2005.

The enclosures summarize OFHEO's calculation of Fannie Mae's minimum, critical and risk-based capital and total qualifying subordinated debt levels at September 30, 2006.

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

Sincerely,

James B. Lockhart III

James B. Lockhart III
Director

Enclosures

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

FEDERAL NATIONAL MORTGAGE ASSOCIATION
Minimum, Critical and Risk Based Capital Levels
September 30, 2006

SUMMARY

(Dollars in millions)

COMPONENTS OF THE MINIMUM CAPITAL LEVEL	
MINIMUM CAPITAL LEVEL - Adjusted, Statutory Requirement	29,010
MINIMUM CAPITAL LEVEL - Adjusted, OFHEO-directed Requirement	37,714
CORE CAPITAL - Adjusted	42,008
SURPLUS (DEFICIENCY) (based on OFHEO-directed Requirement)	4,294

COMPONENTS OF THE CRITICAL CAPITAL LEVEL	
CRITICAL CAPITAL LEVEL - Adjusted	14,959
CORE CAPITAL - Adjusted	42,008
ESTIMATED SURPLUS (DEFICIENCY)	27,049

STRESS TEST SCENARIO RESULTS	
UP-RATE SCENARIO	22,524
DOWN-RATE SCENARIO	16,447
RISK-BASED CAPITAL LEVEL	22,524
TOTAL CAPITAL	41,820
SURPLUS (DEFICIENCY)	19,296

Note: Totals may not add due to rounding.

FEDERAL NATIONAL MORTGAGE ASSOCIATION
Qualifying Subordinated Debt
September 30, 2006

SUMMARY

(Dollars in millions)

QUALIFYING SUBORDINATED DEBT PLUS TOTAL CAPITAL RESULTS (1, 2)	
TOTAL CAPITAL	42,795
TOTAL QUALIFYING SUBORDINATED DEBT	7,658
TOTAL CAPITAL AND QUALIFYING SUBORDINATED DEBT	50,453
CAPITAL REQUIREMENT FOR 4.0% OF ON-BALANCE SHEET ASSETS AND 0.45% OF NET MBS/PCs OUTSTANDING	**41,488**
SURPLUS (DEFICIENCY)	**8,965**

1. Totals may not add due to rounding
2. Qualifying Subordinated Debt is defined as subordinated debt that contains the interest deferral feature. The interest deferral requires the deferral of interest payments for up to 5 years if:
   a) The corporation's core capital falls below 125% of critical capital, or
   b) The corporation's core capital falls below minimum capital AND, pursuant to the corporation's request, the Secretary of the Treasury exercised discretionary authority to purchase the company's obligations under Section 306(c) of the Freddie Mac Charter Act and Section 304(c) of the Fannie Mae Charter Act

OFHEO
OFFICE OF FEDERAL HOUSING ENTERPRISE OVERSIGHT 1993

OFFICE OF FEDERAL HOUSING ENTERPRISE OVERSIGHT
1700 G STREET NW WASHINGTON DC 20552 (202) 414-3801

OFFICE OF THE DIRECTOR

December 28, 2006

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

Re: Notice of Final Freddie Mac Capital Classification at September 30, 2006

Dear Congressman Frank:

Section 1364 of the Federal Housing Enterprises Financial Safety and Soundness Act of 1992 and 12 C.F.R. § 1777.21 require that the Office of Federal Housing Enterprise Oversight (OFHEO) determine the capital classification of the Federal Home Loan Mortgage Corporation (Freddie Mac) not less than quarterly. On November 24, 2006, OFHEO issued a notice of proposed action indicating its intention to classify Freddie Mac as adequately capitalized at September 30, 2006, and requesting that Freddie Mac notify OFHEO by December 26, 2006, whether it intended to accept the classification or provide a response. Freddie Mac responded that it took no exception to the proposed capital classification.

Based on capital requirements in effect for the third quarter of 2006, OFHEO hereby provides notice that Freddie Mac is classified as adequately capitalized at September 30, 2006. The final capital classification is based on Freddie Mac's best estimates of its financial condition, as certified and represented as true and correct by Freddie Mac's management, but remains subject to revision during Freddie Mac's ongoing audit, management reviews, and control assessments.

As indicated in the enclosures, at September 30, 2006, Freddie Mac's OFHEO-directed capital requirement was \$33.765 billion, its statutory minimum capital requirement was \$25.973 billion, its critical capital requirement was \$13.290 billion, and its risk-based capital requirement was \$14.879 billion. Thus, Freddie Mac's core capital of \$36.841 billion at September 30, 2006, exceeded the OFHEO-directed capital requirement by \$3.076 billion and the critical capital requirement by \$23.551 billion. Freddie Mac's total capital of \$37.202 billion at September 30, 2006, exceeded the risk-based capital requirement by \$22.323 billion.

Freddie Mac has maintained a capital surplus in accordance with the capital directive issued by OFHEO on January 28, 2004. The final capital classification does not alter or amend the capital directive.

Separately, OFHEO determined that Freddie Mac's total capital and qualifying subordinated debt exceeded the requirements outlined in the agreement dated September 1, 2005.

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

Sincerely,

James B. Lockhart III

James B. Lockhart III
Director

Enclosures

FEDERAL HOME LOAN MORTGAGE CORPORATION
Minimum Capital Level
September 30, 2006

SUMMARY

(Dollars in millions)

COMPONENTS OF THE MINIMUM CAPITAL LEVEL	
ON-BALANCE SHEET ASSETS	20,516
OFF-BALANCE SHEET OBLIGATIONS	
MBS and Equivalents	4,807
Commitments	477
OTHER OFF-BALANCE SHEET OBLIGATIONS	
Interest Rate and Foreign Exchange Rate Contracts	99
Sold Portfolio Remittances Pending	9
Other Off-Balance Sheet Obligations	64
MINIMUM CAPITAL - Statutory Requirement	**25,973**
MINIMUM CAPITAL - OFHEO-directed Requirement	**33,765**
CORE CAPITAL	**36,841**
SURPLUS (DEFICIENCY) (based on OFHEO-directed Requirement)	**3,076**

Note: Totals may not add due to rounding.

FEDERAL HOME LOAN MORTGAGE CORPORATION
Critical Capital Level
September 30, 2006

SUMMARY

(Dollars in millions)

COMPONENTS OF THE CRITICAL CAPITAL LEVEL	
ON-BALANCE SHEET ASSETS	10,258
OFF-BALANCE SHEET OBLIGATIONS	3,031
CRITICAL CAPITAL LEVEL	**13,290**
CORE CAPITAL	**36,841**
SURPLUS (DEFICIENCY)	**23,551**

Note: Totals may not add due to rounding.

FEDERAL HOME LOAN MORTGAGE.CORPORATION
Risk-Based Capital Level
September 30, 2006

SUMMARY

(Dollars in millions)

STRESS TEST SCENARIO RESULTS	
UP-RATE SCENARIO	14,879
DOWN-RATE SCENARIO	13,785
RISK-BASED CAPITAL LEVEL	14,879
TOTAL CAPITAL	**37,202**
SURPLUS (DEFICIENCY)	22,323

Note: Totals may not add due to rounding.

FEDERAL HOME LOAN MORTGAGE CORPORATION
Qualifying Subordinated Debt
September 30, 2006

SUMMARY

(Dollars in millions)

QUALIFYING SUBORDINATED DEBT PLUS TOTAL CAPITAL RESULTS (1, 2)	
TOTAL CAPITAL	37,202
TOTAL QUALIFYING SUBORDINATED DEBT	5,323
TOTAL CAPITAL AND QUALIFYING SUBORDINATED DEBT	**42,525**
CAPITAL REQUIREMENT FOR 4.0% OF ON-BALANCE SHEET ASSETS AND 0.45% OF NET MBS/PCs OUTSTANDING	37,956
SURPLUS (DEFICIENCY)	**4,569**

1. Totals may not add due to rounding
2. Qualifying Subordinated Debt is defined as subordinated debt that contains the interest deferral feature. The interest deferral requires the deferral of interest payments for up to 5 years if:
   a) The corporation's core capital falls below 125% of critical capital, or
   b) The corporation's core capital falls below minimum capital AND, pursuant to the corporation's request, the Secretary of the Treasury exercised discretionary authority to purchase the company's obligations under Section 306(c) of the Freddie Mac Charter Act and Section 304(c) of the Fannie Mae Charter Act

OFFICE OF FEDERAL HOUSING ENTERPRISE OVERSIGHT
1700 G STREET NW WASHINGTON DC 20552 (202) 414-3801

OFFICE OF THE DIRECTOR

December 28, 2006

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

Re: Notice of Final Fannie Mae Capital Reclassification for December 31, 2002, 2003 and 2004

Dear Mr. Chairman:

Section 1364 of the Federal Housing Enterprises Financial Safety and Soundness Act of 1992 and 12 C.F.R. § 1777.21 requires that the Office of Federal Housing Enterprise Oversight (OFHEO) determine the capital classification of the Federal National Mortgage Association (Fannie Mae) not less than quarterly. On December 15, 2006, OFHEO issued a notice of proposed action indicating its intention to re-classify Fannie Mae for Q4 2002 and 2003 and re-affirm the existing classification for Q4 2004. OFHEO also requested that Fannie Mae waive the 30-day comment period. Fannie Mae responded on December 22, 2006 indicating no objection to the classifications for Q4 2002 and 2003, requesting that OFHEO consider additional information in regard to affirming the classification for Q4 2004, and formally waiving the 30-day comment period.

OFHEO's conclusion is based upon our review of the minimum capital and critical capital resubmission on December 8, 2006 for the Q4 2002, 2003 and 2004 periods as well as information provided in Fannie Mae's December 22, 2006 response. Based on capital requirements in effect for these time periods, OFHEO hereby provides notice that Fannie Mae is reclassified as significantly undercapitalized at December 31, 2002 and December 31, 2003. Further, OFHEO has determined not to reconsider the original determination to classify Fannie Mae as significantly undercapitalized at December 31, 2004.

The enclosure summarizes OFHEO's calculation of Fannie Mae's minimum and critical capital on December 31, 2002, 2003 and 2004.

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

Sincerely,

James B. Lockhart III

James B. Lockhart III
Director

Enclosure

Enclosures

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

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

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

a. Numbers may not add due to rounding.

b. Restated and resubmitted on December 8, 2006.

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

OFFICE OF FEDERAL HOUSING ENTERPRISE OVERSIGHT
1700 G STREET NW WASHINGTON DC 20552 (202) 414-3801

OFFICE OF THE DIRECTOR

December 28, 2006

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

Re: Notice of Final Fannie Mae Capital Classification at September 30, 2006

Dear Mr. Chairman:

Section 1364 of the Federal Housing Enterprises Financial Safety and Soundness Act of 1992 and 12 C.F.R. § 1777.21 require that the Office of Federal Housing Enterprise Oversight (OFHEO) determine the capital classification of the Federal National Mortgage Association (Fannie Mae) not less than quarterly. On November 24, 2006, OFHEO issued a notice of proposed action indicating its intention to classify Fannie Mae as adequately capitalized at September 30, 2006, and requesting that Fannie Mae notify OFHEO by December 26, 2006, whether it intended to accept the classification or provide a response. Fannie Mae responded that it took no exception to the proposed capital classification. Subsequent to Fannie Mae's issuance of their 2004 10-K on December 6, 2006, Fannie Mae refiled September 30, 2006 minimum capital reports to reflect a roll forward of the 2004 accounting adjustments.

Based on capital requirements in effect for the third quarter of 2006, including the roll forward of the 2004 restatement impacts, OFHEO hereby provides notice that Fannie Mae is classified as adequately capitalized at September 30, 2006. The final capital classification is based on Fannie Mae's best estimates of its financial condition, as certified and represented as true and correct by Fannie Mae's management, but remains subject to revision during Fannie Mae's re-audit and accounting restatement process.

As indicated in the enclosures, at September 30, 2006, Fannie Mae's adjusted[1] OFHEO-directed capital requirement was $37.714 billion, its adjusted statutory minimum capital requirement was $29.010 billion, its adjusted critical capital requirement was $14.959 billion, and its risk-based capital requirement was $22.524 billion. Thus, Fannie Mae's adjusted core capital of $42.008 billion at September 30, 2006, exceeded the OFHEO-directed capital requirement by $4.294 billion

[1] The term "adjusted" reflects that Fannie Mae's minimum capital submissions adjust book capital based upon estimated accounting change impacts.

and the critical capital requirement by $27.049 billion. Fannie Mae's total capital of $41.820[2] billion at September 30, 2006, exceeded the risk-based capital requirement by $19.296 billion.

Further, Fannie Mae has maintained a capital surplus throughout the quarter in accordance with the Capital Restoration Plan, approved February 17, 2005, and the Consent Order dated May 23, 2006. The final capital classification does not alter or amend the Capital Plan or the Consent Order.

Separately, OFHEO determined that Fannie Mae's total capital and qualifying subordinated debt exceeded the requirements outlined in the agreement dated September 1, 2005.

The enclosures summarize OFHEO's calculation of Fannie Mae's minimum, critical and risk-based capital and total qualifying subordinated debt levels at September 30, 2006.

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

Sincerely,

James B. Lockhart III

James B. Lockhart III
Director

Enclosures

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

FEDERAL NATIONAL MORTGAGE ASSOCIATION
Minimum, Critical and Risk Based Capital Levels
September 30, 2006

SUMMARY

(Dollars in millions)

COMPONENTS OF THE MINIMUM CAPITAL LEVEL	
MINIMUM CAPITAL LEVEL - Adjusted, Statutory Requirement	29,010
MINIMUM CAPITAL LEVEL - Adjusted, OFHEO-directed Requirement	37,714
CORE CAPITAL - Adjusted	42,008
SURPLUS (DEFICIENCY) (based on OFHEO-directed Requirement)	4,294

COMPONENTS OF THE CRITICAL CAPITAL LEVEL	
CRITICAL CAPITAL LEVEL - Adjusted	14,959
CORE CAPITAL - Adjusted	42,008
ESTIMATED SURPLUS (DEFICIENCY)	27,049

STRESS TEST SCENARIO RESULTS	
UP-RATE SCENARIO	22,524
DOWN-RATE SCENARIO	16,447
RISK-BASED CAPITAL LEVEL	22,524
TOTAL CAPITAL	41,820
SURPLUS (DEFICIENCY)	19,296

Note: Totals may not add due to rounding.

FEDERAL NATIONAL MORTGAGE ASSOCIATION
Qualifying Subordinated Debt
September 30, 2006

SUMMARY

(Dollars in millions)

QUALIFYING SUBORDINATED DEBT PLUS TOTAL CAPITAL RESULTS (1, 2)	
TOTAL CAPITAL	42,795
TOTAL QUALIFYING SUBORDINATED DEBT	7,658
TOTAL CAPITAL AND QUALIFYING SUBORDINATED DEBT	50,453
CAPITAL REQUIREMENT FOR 4.0% OF ON-BALANCE SHEET ASSETS AND 0.45% OF NET MBS/PCs OUTSTANDING	**41,488**
SURPLUS (DEFICIENCY)	8,965

1. Totals may not add due to rounding
2. Qualifying Subordinated Debt is defined as subordinated debt that contains the interest deferral feature. The interest deferral requires the deferral of interest payments for up to 5 years if:
   a) The corporation's core capital falls below 125% of critical capital, or
   b) The corporation's core capital falls below minimum capital AND, pursuant to the corporation's request, the Secretary of the Treasury exercised discretionary authority to purchase the company's obligations under Section 306(c) of the Freddie Mac Charter Act and Section 304(c) of the Fannie Mae Charter Act

OFFICE OF FEDERAL HOUSING ENTERPRISE OVERSIGHT
1700 G STREET NW WASHINGTON DC 20552 (202) 414-3801

OFFICE OF THE DIRECTOR

December 28, 2006

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

Re: Notice of Final Freddie Mac Capital Classification at September 30, 2006

Dear Mr. Chairman:

Section 1364 of the Federal Housing Enterprises Financial Safety and Soundness Act of 1992 and 12 C.F.R. § 1777.21 require that the Office of Federal Housing Enterprise Oversight (OFHEO) determine the capital classification of the Federal Home Loan Mortgage Corporation (Freddie Mac) not less than quarterly. On November 24, 2006, OFHEO issued a notice of proposed action indicating its intention to classify Freddie Mac as adequately capitalized at September 30, 2006, and requesting that Freddie Mac notify OFHEO by December 26, 2006, whether it intended to accept the classification or provide a response. Freddie Mac responded that it took no exception to the proposed capital classification.

Based on capital requirements in effect for the third quarter of 2006, OFHEO hereby provides notice that Freddie Mac is classified as adequately capitalized at September 30, 2006. The final capital classification is based on Freddie Mac's best estimates of its financial condition, as certified and represented as true and correct by Freddie Mac's management, but remains subject to revision during Freddie Mac's ongoing audit, management reviews, and control assessments.

As indicated in the enclosures, at September 30, 2006, Freddie Mac's OFHEO-directed capital requirement was \$33.765 billion, its statutory minimum capital requirement was \$25.973 billion, its critical capital requirement was \$13.290 billion, and its risk-based capital requirement was \$14.879 billion. Thus, Freddie Mac's core capital of \$36.841 billion at September 30, 2006, exceeded the OFHEO-directed capital requirement by \$3.076 billion and the critical capital requirement by \$23.551 billion. Freddie Mac's total capital of \$37.202 billion at September 30, 2006, exceeded the risk-based capital requirement by \$22.323 billion.

Freddie Mac has maintained a capital surplus in accordance with the capital directive issued by OFHEO on January 28, 2004. The final capital classification does not alter or amend the capital directive.

Separately, OFHEO determined that Freddie Mac's total capital and qualifying subordinated debt exceeded the requirements outlined in the agreement dated September 1, 2005.

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

Sincerely,

James B. Lockhart III

James B. Lockhart III
Director

Enclosures

FEDERAL HOME LOAN MORTGAGE CORPORATION
Minimum Capital Level
September 30, 2006

SUMMARY

(Dollars in millions)

COMPONENTS OF THE MINIMUM CAPITAL LEVEL	
ON-BALANCE SHEET ASSETS	20,516
OFF-BALANCE SHEET OBLIGATIONS	
MBS and Equivalents	4,807
Commitments	477
OTHER OFF-BALANCE SHEET OBLIGATIONS	
Interest Rate and Foreign Exchange Rate Contracts	99
Sold Portfolio Remittances Pending	9
Other Off-Balance Sheet Obligations	64
MINIMUM CAPITAL - Statutory Requirement	**25,973**
MINIMUM CAPITAL - OFHEO-directed Requirement	**33,765**
CORE CAPITAL	**36,841**
SURPLUS (DEFICIENCY) (based on OFHEO-directed Requirement)	**3,076**

Note: Totals may not add due to rounding.

FEDERAL HOME LOAN MORTGAGE CORPORATION
Critical Capital Level
September 30, 2006

<u>SUMMARY</u>

(Dollars in millions)

COMPONENTS OF THE CRITICAL CAPITAL LEVEL	
ON-BALANCE SHEET ASSETS	10,258
OFF-BALANCE SHEET OBLIGATIONS	3,031
CRITICAL CAPITAL LEVEL	**13,290**
CORE CAPITAL	**36,841**
SURPLUS (DEFICIENCY)	**23,551**

Note: Totals may not add due to rounding.

FEDERAL HOME LOAN MORTGAGE CORPORATION
Risk-Based Capital Level
September 30, 2006

SUMMARY

(Dollars in millions)

STRESS TEST SCENARIO RESULTS	
UP-RATE SCENARIO	14,879
DOWN-RATE SCENARIO	13,785
RISK-BASED CAPITAL LEVEL	14,879
TOTAL CAPITAL	37,202
SURPLUS (DEFICIENCY)	22,323

Note: Totals may not add due to rounding.

FEDERAL HOME LOAN MORTGAGE CORPORATION
Qualifying Subordinated Debt
September 30, 2006

SUMMARY

(Dollars in millions)

QUALIFYING SUBORDINATED DEBT PLUS TOTAL CAPITAL RESULTS (1, 2)	
TOTAL CAPITAL	37,202
TOTAL QUALIFYING SUBORDINATED DEBT	5,323
TOTAL CAPITAL AND QUALIFYING SUBORDINATED DEBT	42,525
CAPITAL REQUIREMENT FOR 4.0% OF ON-BALANCE SHEET ASSETS AND 0.45% OF NET MBS/PCs OUTSTANDING	37,956
SURPLUS (DEFICIENCY)	4,569

1. Totals may not add due to rounding
2. Qualifying Subordinated Debt is defined as subordinated debt that contains the interest deferral feature. The interest deferral requires the deferral of interest payments for up to 5 years if:
   a) The corporation's core capital falls below 125% of critical capital, or
   b) The corporation's core capital falls below minimum capital AND, pursuant to the corporation's request, the Secretary of the Treasury exercised discretionary authority to purchase the company's obligations under Section 306(c) of the Freddie Mac Charter Act and Section 304(c) of the Fannie Mae Charter Act