



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

OFFICE OF THE DIRECTOR

March 30, 2007

Honorable Barney Frank
Chairman
Committee on Financial Services
House of Representatives
Washington, D.C. 20515

Re: Notice of Final Freddie Mac Capital Classification at December 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 February 27, 2007, OFHEO issued a notice of proposed action indicating its intention to classify Freddie Mac as adequately capitalized at December 31, 2006, and requesting that Freddie Mac notify OFHEO by March 29, 2007, 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 2006, OFHEO hereby provides notice that Freddie Mac is classified as adequately capitalized at December 31, 2006. The final capital classification is based on Freddie Mac's financial results, as certified and represented as true and correct by Freddie Mac's management, and consistent with the 2006 information statement and annual report issued on March 23, 2007.

As indicated in the enclosures, at December 31, 2006, Freddie Mac's OFHEO-directed capital requirement was \$33.597 billion, its statutory minimum capital requirement was \$25.844 billion, its critical capital requirement was \$13.237 billion, and its risk-based capital requirement was \$15.320 billion. Thus, Freddie Mac's core capital of \$36.170 billion at December 31, 2006, exceeded the OFHEO-directed capital requirement by \$2.573 billion and the critical capital requirement by \$22.933 billion. Freddie Mac's total capital of \$36.742 billion at December 31, 2006, exceeded the risk-based capital requirement by \$21.422 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,

A handwritten signature in black ink, appearing to read "J. Lockhart III". The signature is written in a cursive style with a large initial "J" and "L".

James B. Lockhart III
Director

Enclosures

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

SUMMARY

(Dollars in millions)

COMPONENTS OF THE MINIMUM CAPITAL LEVEL	
ON-BALANCE SHEET ASSETS	20,164
OFF-BALANCE SHEET OBLIGATIONS	
MBS and Equivalents	4,981
Commitments	525
OTHER OFF-BALANCE SHEET OBLIGATIONS	
Interest Rate and Foreign Exchange Rate Contracts	96
Sold Portfolio Remittances Pending	13
Other Off-Balance Sheet Obligations	65
MINIMUM CAPITAL - Statutory Requirement	25,844
MINIMUM CAPITAL - OFHEO-directed Requirement	33,597
CORE CAPITAL	36,170
SURPLUS (DEFICIENCY) (based on OFHEO-directed Requirement)	2,573

Note: Totals may not add due to rounding.

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

SUMMARY

(Dollars in millions)

COMPONENTS OF THE CRITICAL CAPITAL LEVEL	
ON-BALANCE SHEET ASSETS	10,082
OFF-BALANCE SHEET OBLIGATIONS	3,156
CRITICAL CAPITAL LEVEL	13,237
CORE CAPITAL	36,170
SURPLUS (DEFICIENCY)	22,933

Note: Totals may not add due to rounding.

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

SUMMARY

(Dollars in millions)

STRESS TEST SCENARIO RESULTS	
UP-RATE SCENARIO	15,320
DOWN-RATE SCENARIO	12,934
RISK-BASED CAPITAL LEVEL	15,320
TOTAL CAPITAL	36,742
SURPLUS (DEFICIENCY)	21,422

Note: Totals may not add due to rounding.

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

SUMMARY

(Dollars in millions)

QUALIFYING SUBORDINATED DEBT PLUS TOTAL CAPITAL RESULTS (1, 2)	
TOTAL CAPITAL	36,584
TOTAL QUALIFYING SUBORDINATED DEBT	6,018
TOTAL CAPITAL AND QUALIFYING SUBORDINATED DEBT	42,602
CAPITAL REQUIREMENT FOR 4.0% OF ON-BALANCE SHEET ASSETS AND 0.45% OF NET MBS/PCs OUTSTANDING	37,576
SURPLUS (DEFICIENCY)	5,026

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



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Based on capital requirements in effect for the fourth quarter of 2006, OFHEO hereby provides notice that Fannie Mae is classified as adequately capitalized at December 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 December 31, 2006, Fannie Mae's adjusted¹ OFHEO-directed capital requirement was \$38.131 billion, its adjusted statutory minimum capital requirement was \$29.332 billion, its adjusted critical capital requirement was \$15.134 billion, and its risk-based capital requirement was \$26.870 billion. Thus, Fannie Mae's adjusted core capital of \$42.295 billion at December 31, 2006, exceeded the OFHEO-directed capital requirement by \$4.163 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 \$27.161 billion. Fannie Mae's total capital of \$43.046 billion at December 31, 2006, exceeded the risk-based capital requirement by \$16.176 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 December 31, 2006.

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

Sincerely,


James B. Lockhart III
Director

Enclosures

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

SUMMARY

(Dollars in millions)

COMPONENTS OF THE MINIMUM CAPITAL LEVEL	
MINIMUM CAPITAL LEVEL - Adjusted, Statutory Requirement	29,332
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CORE CAPITAL - Adjusted	42,295
SURPLUS (DEFICIENCY) (based on OFHEO-directed Requirement)	4,163

COMPONENTS OF THE CRITICAL CAPITAL LEVEL	
CRITICAL CAPITAL LEVEL - Adjusted	15,134
CORE CAPITAL - Adjusted	42,295
ESTIMATED SURPLUS (DEFICIENCY)	27,161

STRESS TEST SCENARIO RESULTS	
UP-RATE SCENARIO	26,870
DOWN-RATE SCENARIO	9,134
RISK-BASED CAPITAL LEVEL	26,870
TOTAL CAPITAL	43,046
SURPLUS (DEFICIENCY)	16,176

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FEDERAL NATIONAL MORTGAGE ASSOCIATION
Qualifying Subordinated Debt
December 31, 2006

SUMMARY

(Dollars in millions)

QUALIFYING SUBORDINATED DEBT PLUS TOTAL CAPITAL RESULTS (1, 2)	
TOTAL CAPITAL	43,046
TOTAL QUALIFYING SUBORDINATED DEBT	7,660
TOTAL CAPITAL AND QUALIFYING SUBORDINATED DEBT	50,705
CAPITAL REQUIREMENT FOR 4.0% OF ON-BALANCE SHEET ASSETS AND 0.45% OF NET MBS/PCs OUTSTANDING	41,798
SURPLUS (DEFICIENCY)	8,908

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Minimum, Critical and Risk Based Capital Levels
December 31, 2006

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Qualifying Subordinated Debt
December 31, 2006

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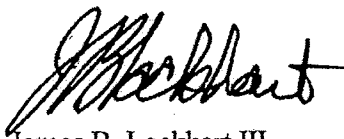
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TOTAL CAPITAL AND QUALIFYING SUBORDINATED DEBT		50,705
CAPITAL REQUIREMENT FOR 4.0% OF ON-BALANCE SHEET ASSETS AND 0.45% OF NET MBS/PCs OUTSTANDING		41,798
SURPLUS (DEFICIENCY)		8,908

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

March 30, 2007

Honorable Spencer Bachus
Ranking Minority Member
Committee on Financial Services
House of Representatives
Washington, DC 20515

Re: Notice of Final Fannie Mae Capital Classification at December 31, 2006

Dear Congressman Bachus:

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 March 7, 2007, OFHEO issued a notice of proposed action indicating its intention to classify Fannie Mae as adequately capitalized at December 31, 2006, and requesting that Fannie Mae notify OFHEO by March 29, 2007, 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 2006, OFHEO hereby provides notice that Fannie Mae is classified as adequately capitalized at December 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 December 31, 2006, Fannie Mae's adjusted¹ OFHEO-directed capital requirement was \$38.131 billion, its adjusted statutory minimum capital requirement was \$29.332 billion, its adjusted critical capital requirement was \$15.134 billion, and its risk-based capital requirement was \$26.870 billion. Thus, Fannie Mae's adjusted core capital of \$42.295 billion at December 31, 2006, exceeded the OFHEO-directed capital requirement by \$4.163 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 \$27.161 billion. Fannie Mae's total capital of \$43.046 billion at December 31, 2006, exceeded the risk-based capital requirement by \$16.176 billion.

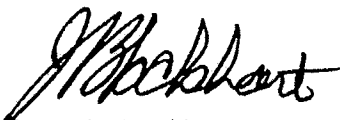
Further, Fannie Mae has maintained a capital surplus throughout the quarter in accordance with the Capital Restoration Plan, approved February 17, 2005, and the Consent Order dated May 23, 2006. The final capital classification does not alter or amend the Capital Plan or the Consent Order.

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 December 31, 2006.

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

Sincerely,



James B. Lockhart III
Director

Enclosures

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

SUMMARY

(Dollars in millions)

COMPONENTS OF THE MINIMUM CAPITAL LEVEL	
MINIMUM CAPITAL LEVEL - Adjusted, Statutory Requirement	29,332
MINIMUM CAPITAL LEVEL - Adjusted, OFHEO-directed Requirement	38,131
CORE CAPITAL - Adjusted	42,295
SURPLUS (DEFICIENCY) (based on OFHEO-directed Requirement)	4,163

COMPONENTS OF THE CRITICAL CAPITAL LEVEL	
CRITICAL CAPITAL LEVEL - Adjusted	15,134
CORE CAPITAL - Adjusted	42,295
ESTIMATED SURPLUS (DEFICIENCY)	27,161

STRESS TEST SCENARIO RESULTS	
UP-RATE SCENARIO	26,870
DOWN-RATE SCENARIO	9,134
RISK-BASED CAPITAL LEVEL	26,870
TOTAL CAPITAL	43,046
SURPLUS (DEFICIENCY)	16,176

Note: Totals may not add due to rounding.

FEDERAL NATIONAL MORTGAGE ASSOCIATION
Qualifying Subordinated Debt
December 31, 2006

SUMMARY

(Dollars in millions)

QUALIFYING SUBORDINATED DEBT PLUS TOTAL CAPITAL RESULTS (1, 2)	
TOTAL CAPITAL	43,046
TOTAL QUALIFYING SUBORDINATED DEBT	7,660
TOTAL CAPITAL AND QUALIFYING SUBORDINATED DEBT	50,705
CAPITAL REQUIREMENT FOR 4.0% OF ON-BALANCE SHEET ASSETS AND 0.45% OF NET MBS/PCs OUTSTANDING	41,798
SURPLUS (DEFICIENCY)	8,908

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

March 30, 2007

Honorable Spencer Bachus
Ranking Minority Member
Committee on Financial Services
House of Representatives
Washington, DC 20515

Re: Notice of Final Freddie Mac Capital Classification at December 31, 2006

Dear Congressman Bachus:

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 27, 2007, OFHEO issued a notice of proposed action indicating its intention to classify Freddie Mac as adequately capitalized at December 31, 2006, and requesting that Freddie Mac notify OFHEO by March 29, 2007, 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 2006, OFHEO hereby provides notice that Freddie Mac is classified as adequately capitalized at December 31, 2006. The final capital classification is based on Freddie Mac's financial results, as certified and represented as true and correct by Freddie Mac's management, and consistent with the 2006 information statement and annual report issued on March 23, 2007.


As indicated in the enclosures, at December 31, 2006, Freddie Mac's OFHEO-directed capital requirement was \$33.597 billion, its statutory minimum capital requirement was \$25.844 billion, its critical capital requirement was \$13.237 billion, and its risk-based capital requirement was \$15.320 billion. Thus, Freddie Mac's core capital of \$36.170 billion at December 31, 2006, exceeded the OFHEO-directed capital requirement by \$2.573 billion and the critical capital requirement by \$22.933 billion. Freddie Mac's total capital of \$36.742 billion at December 31, 2006, exceeded the risk-based capital requirement by \$21.422 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
Director

Enclosures

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

SUMMARY

(Dollars in millions)

COMPONENTS OF THE MINIMUM CAPITAL LEVEL	
ON-BALANCE SHEET ASSETS	20,164
OFF-BALANCE SHEET OBLIGATIONS	
MBS and Equivalents	4,981
Commitments	525
OTHER OFF-BALANCE SHEET OBLIGATIONS	
Interest Rate and Foreign Exchange Rate Contracts	96
Sold Portfolio Remittances Pending	13
Other Off-Balance Sheet Obligations	65
MINIMUM CAPITAL - Statutory Requirement	25,844
MINIMUM CAPITAL - OFHEO-directed Requirement	33,597
CORE CAPITAL	36,170
SURPLUS (DEFICIENCY) (based on OFHEO-directed Requirement)	2,573

Note: Totals may not add due to rounding.

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

SUMMARY

(Dollars in millions)

COMPONENTS OF THE CRITICAL CAPITAL LEVEL	
ON-BALANCE SHEET ASSETS	10,082
OFF-BALANCE SHEET OBLIGATIONS	3,156
CRITICAL CAPITAL LEVEL	13,237
CORE CAPITAL	36,170
SURPLUS (DEFICIENCY)	22,933

Note: Totals may not add due to rounding.

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

SUMMARY

(Dollars in millions)

STRESS TEST SCENARIO RESULTS	
UP-RATE SCENARIO	15,320
DOWN-RATE SCENARIO	12,934
RISK-BASED CAPITAL LEVEL	15,320
TOTAL CAPITAL	36,742
SURPLUS (DEFICIENCY)	21,422

Note: Totals may not add due to rounding.

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

SUMMARY

(Dollars in millions)

QUALIFYING SUBORDINATED DEBT PLUS TOTAL CAPITAL RESULTS	(1, 2)	
TOTAL CAPITAL		36,584
TOTAL QUALIFYING SUBORDINATED DEBT		6,018
TOTAL CAPITAL AND QUALIFYING SUBORDINATED DEBT		42,602
CAPITAL REQUIREMENT FOR 4.0% OF ON-BALANCE SHEET ASSETS AND 0.45% OF NET MBS/PCs OUTSTANDING		37,576
SURPLUS (DEFICIENCY)		5,026

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

United States Senate

WASHINGTON, DC 20510

April 2, 2007

Mr. Daniel H. Mudd
Chief Executive Officer
Fannie Mae
3900 Wisconsin Avenue, NW
Washington, DC 20016-2892

Dear Mr. Mudd:

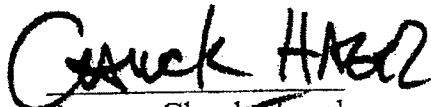
As you know, in July 2002, Fannie Mae reached an agreement with the U.S. Department of Treasury, the Office of Management and Budget (OMB), the Securities and Exchange Commission (SEC), and the Office of Federal Housing Enterprise Oversight (OFHEO) to register its common stock and start filing financial reports with the SEC. At the time, SEC Chairman Harvey Pitt said this agreement was "irrevocable without SEC approval."

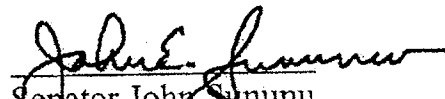
According to a letter from OFHEO Director James Lockhart, Fannie Mae has registered with the SEC but has still not filed financial statements for 2005 and 2006. What is the reason for this non-compliance? Please provide us with a specific timeline as to when Fannie Mae will be current and timely with its SEC reporting.

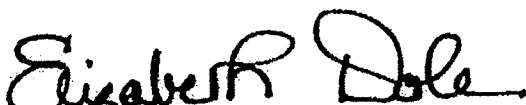
We understand that Fannie Mae's special exemption from having to delist from the stock exchange will end this year. We are very concerned that this exemption sends the wrong message to our capital markets. Do you anticipate being current and timely with Fannie Mae's SEC reporting before December 31, 2007? Have you had any discussions with the stock exchange or the SEC about getting a further extension?

We would appreciate your timely response to these concerns and questions. Thank you.

Sincerely,


Senator Chuck Hagel


Senator John Sununu


Senator Elizabeth Dole

MELVIN L. WATT
12TH DISTRICT
NORTH CAROLINA



COMMITTEES
FINANCIAL SERVICES
CHAIRMAN, SUBCOMMITTEE ON
OVERSIGHT AND INVESTIGATIONS
SUBCOMMITTEE ON FINANCIAL
INSTITUTIONS AND CONSUMER CREDIT

JUDICIARY
SUBCOMMITTEE ON THE CONSTITUTION,
CIVIL RIGHTS AND CIVIL LIBERTIES
SUBCOMMITTEE ON COURTS,
THE INTERNET AND INTELLECTUAL PROPERTY
SUBCOMMITTEE ON COMMERCIAL AND
ADMINISTRATIVE LAW

Congress of the United States
House of Representatives
Washington, DC 20515-3312

*copy to
PB of
AIG
to place
more
JKS
JED*

FAX COVER SHEET

Date: 4/13/07 Time: 4:15pm

To: ~~Seanne Hanley~~ Veronica Williams for Mr. James Lockhart

Fax#: (202) 414-3823 Telephone#: _____

From: Mel Watt Hilary West

- Danielle Owen
- Keith Kelly
- Laura Hooper
- Jason Everett
- Corey Little
- Alyssa Gowens
- Greg Melus
- Intern _____

Number of Pages (Including cover sheet): 3

Comments: Letter to Mr. Lockhart from Rep. Watt -
Follow up from 3/15/07 GSE hearing.

Action Requested: Urgent
 Call After Review
 Review/Fax Response
 Other

PLEASE RESPOND TO:

2236 RAYBURN HOUSE OFFICE BUILDING
WASHINGTON, DC 20515-3312
(202) 225-1510
FAX: (202) 225-1512
no12.public@roll.house.gov
http://www.house.gov/watt

1230 WEST MOREHEAD STREET
SUITE 308
CHARLOTTE, NC 28208-6214
(704) 344-9950
FAX: (704) 344-9971

301 SOUTH GREENE STREET
SUITE 210
GREENSBORO, NC 27401
(336) 276-9950
FAX: (336) 379-9951

MELVIN L. WATT
12TH DISTRICT
NORTH CAROLINA



COMMITTEES
FINANCIAL SERVICES
JUDICIARY

Congress of the United States
House of Representatives
Washington, DC 20515-3312

April 13, 2007

The Honorable James B. Lockhart, III
Director
Office of Federal Housing Enterprise Oversight
1700 G Street, NW
Washington, D.C. 20552

Dear Mr. Lockhart,

I write to follow up on testimony you gave on GSE reform before the House Committee on Financial Services on March 15, 2007. At the Committee hearing, I asked you a series of questions and expressed concern about White House interference in OFHEO's independent evaluations.

Specifically, I asked you to assure me that there are not emails or any other correspondence reflecting contact between OFHEO and the White House with respect to financial evaluations or reports that OFHEO has issued or in the shaping of reactions to proposed legislation. I also asked whether at any point and in violation of any of the non-disclosure provisions under 18 U.S.C. Section 1905, or any other statute that you are aware of, OFHEO released any information that it should not have. In responding to both questions, you stated you have only been in your position of OFHEO Director for nine months, and, accordingly, were unable to speak on time periods prior to your time of service. You committed, however, to go back and review and to report your findings and provide copies of notes, correspondence, telephone records, etc. that would allow us to make an independent evaluation of your findings.

Almost 30 days have elapsed since the Committee hearing. Before the hearing record is closed, I want to reaffirm your commitment to answer the questions I posed to you and to provide all related documentation. In preparing your response, please review the time period of January 2000 to present. In addition to your written response, please provide copies of any documents reflecting contact between OFHEO and the White House with respect to GSE regulation, as well as any documents indicating that OFHEO released any information in violation of 18 U.S.C. Section 1905.

PLEASE RESPOND TO:

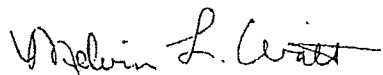
2236 RAYBURN HOUSE OFFICE BUILDING
WASHINGTON, DC 20515-3312
(202) 225-1510
FAX: (202) 225-1512
nc12.public@mail.house.gov

1230 WEST MOREHEAD STREET
SUITE 306
CHARLOTTE, NC 28208-5214
(704) 344-9950
FAX: (704) 344-9971

301 SOUTH GREENE STREET
SUITE 210
GREENSBORO, NC 27401
(336) 275-8850
FAX: (336) 370-0951

As you stated at the hearing, having been an independent regulator in three government jobs, you understand the importance of independence. I am a very hardy supporter of a strong and independent regulator. I hope we can work together to achieve this goal. Your attention to this matter is greatly appreciated.

Sincerely,

A handwritten signature in cursive script that reads "Melvin L. Watt". The signature is written in dark ink and is positioned above the typed name.

Melvin L. Watt

MLW/hcw

*** FAX TX REPORT ***

TRANSMISSION OK

JOB NO.	0615
DESTINATION ADDRESS	92254254
PSWD/SUBADDRESS	
DESTINATION ID	
ST. TIME	05/03 10:38
USAGE T	03' 21
PGS.	28
RESULT	OK



1700 G STREET, NW, WASHINGTON, DC 20552
 (202) 414-3800 FAX: (202) 414-3823
 FAX TRANSMITTAL

To: Terrie Allison	Date: May 3, 2007
Office of: Committee on Financial Service	Time: 10:14 AM
Facsimile Number: 202.225.4254	
From: James B. Lockhart III	Telephone No.: 202.414.3801
Office of:	Page 1 of 28
Notes/Comments:	

Transcript corrections



1700 G STREET, NW, WASHINGTON, DC 20552
(202) 414-3800 FAX: (202) 414-3823
FAX TRANSMITTAL

To: **Terrie Allison**

Date: **May 3, 2007**

Office of: **Committee on Financial Service**

Time: **10:14 AM**

Facsimile Number: **202.225.4254**

From: **James B. Lockhart III**

Telephone No.: **202.414.3801**

Office of:

Page **1** of **29 28**

Notes/Comments:

Transcript corrections

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1 | Diversified Reporting Services, Inc.

2 | HBA074000

3 | HEARING ON LEGISLATIVE PROPOSALS ON
4 | GOVERNMENT-SPONSORED ENTERPRISE REFORM

5 | Thursday, March 15, 2007

6 | U.S. House of Representatives,
7 | Committee on Financial Services,
8 | Washington, D.C.

9 | The committee met, pursuant to notice, at 10:04 a.m., in
10 | Room 2128, Rayburn House Office Building, Hon. Barney Frank
11 | [chairman of the committee], presiding.

12 | Present: Representatives Frank, Bachus, Kanjorski,
13 | Waters, Maloney, Watt, Meeks, Moore of Kansas, Hinojosa,
14 | Clay, Lynch, Miller of North Carolina, Scott, Cleaver, Bean,
15 | Davis, Sires, Hodes, Ellison, Perlmutter, Murphy, Donnelly,
16 | Baker, Royce, Gillmor, Biggert, Shays, Miller of California,
17 | Hensarling, Garrett, Pearce, Neugebauer, Campbell, Bachmann,
18 | and Roskam.

975 STATEMENT OF JAMES B. LOCKHART III

976 Mr. LOCKHART. Chairman Frank, Ranking Member Bachus,
977 members of the Committee, and certainly Congressman Shays,
978 thank you for inviting me here today to discuss the very
979 important issue of GSE reform and H.R. 1427.

980 I am grateful to you for your hard work in reaching what
981 I believe is a balanced approach to needed reforms. It is
982 time for action.

983 Housing and home ownership are critical components of
984 the American dream and the American economy. Together, the
985 12 Federal Home Loan Banks, Fannie Mae and Freddie Mac, are
986 involved in 46 percent of the total mortgage debt outstanding
987 in this country. Their total debt and guaranteed MBS of \$5.4
988 trillion is larger than the public debt of the United States.

989 Like all financial institutions, the housing GSEs face a
990 full range of risk, including market, credit and operational
991 risk, only on a larger and more concentrated scale. ✓

992 Fannie Mae, Freddie Mac and several of the Federal Home
993 Loan Banks have experienced serious difficulties handling
994 those risks in the past.

995 Current remediation efforts will help reduce but not
996 eliminate those risks. OFHEO will be making its annual
997 report to Congress in early April. It will show that Fannie

998 Mae and Freddie Mac are making progress but still have many
999 problems to correct.

1000 Their, and frankly OFHEO's performance, fell far short
1001 of what Congress expected. In my view, the most important
1002 lesson learned is the compelling need for legislation.

1003 The new regulator must ensure that the GSEs operate in a
1004 safe and sound manner and support affordable housing and ~~a~~ *the*
1005 liquidity and *✓* a stability of the mortgage market. *✓*

1006 The new regulator must also understand the GSEs'
1007 accountability to their shareholders to earn a fair return,
1008 and that the GSEs are not subject to the normal market
1009 disciplines.

1010 I am very pleased that there is a general consensus that
1011 the new GSE regulator's authorities should be similar to
1012 those of bank regulators. Reform must be built on this bank
1013 regulator model.

1014 The new regulator must have regulatory, supervisory and
1015 enforcement powers equivalent to the bank regulators,
1016 including receivership powers. Receivership powers provide
1017 one way to prevent problems in one financial institution from
1018 spilling over to others, and might enhance market discipline.

1019 As Controller General David Walker said, and I quote,
1020 "A single housing GSE regulator will be more objective,
1021 efficient, effective, and prominent than the two separate
1022 bodies."

1023 It is critical that the new regulator respect the
1024 differences and the similarities of the enterprises and the
1025 banks. Just like the bank regulators, the new GSE regulator
1026 needs to have both safety and soundness powers, as well as
1027 HUD's mission and new product authorities. ✓

1028 It also needs independent litigating and budgeting
1029 authority. OFHEO is the only safety and soundness regulator
1030 that must be congressionally appropriated. Without relief
1031 from the continuing resolution, planned resources and
1032 critical supervisory areas will have to be cut this year.

1033 Minimum capital rules are lower than other financial
1034 institutions, and the risk based capital rule must be
1035 modernized. The regulator needs authority to adjust both the
1036 minimum and risk based capital requirements through an open
1037 rule making process, supplemented by the ability to respond
1038 quickly to changing conditions.

1039 From 1990 to 2005, Fannie Mae's and Freddie Mac's
1040 portfolio's grew out of control. They grew tenfold^{to} over \$1.4
1041 trillion. Over half their portfolio's are invested in their
1042 own MBS^y, and less than 30 percent meet HUD's affordability^{le}
1043 housing goals. ✓

1044 H.R. 1427 provides specific guidelines to the regulator
1045 of using an open rule making process to better focus the
1046 portfolio's on their missions while considering the risk. ✓
1047 This process needs to consider their ongoing support of the

1048 mortgage market.

1049 Last year, in 2006, despite the growth restrictions we
1050 have on ^{their} our portfolio's and stiff competition, their total
1051 book of business including their ^{guaranteed} ~~unrestricted~~ MBS issue, grew
1052 eight percent. _{↑ stet}

1053 It is time to move forward on legislation to create a
1054 new stronger GSE regulator, and assure the safety and
1055 soundness of the housing GSEs and their full dedication to
1056 their important mission of supporting the liquidity and
1057 stability of the mortgage market and affordable housing.

1058 Thank you.

1059 [The statement of Mr. Lockhart follows:]

1060 *****INSERT*****

1462 | we have certainly pointed that out to them.

1463 | Ms. WATERS. Could you be specific about one of the
1464 | remediation means or one area of remediation that you have
1465 | been involved with that has changed the way they operate in
1466 | any appreciable way?

1467 | Mr. LOCKHART. We certainly have a whole series of
1468 | different areas we have been involved with.

1469 | Ms. WATERS. Just give me one.

1470 | Mr. LOCKHART. Certainly the accounting, ^{and} the risk
1471 | management. They have hired new risk management teams. We
1472 | have been working with the risk management teams, market
1473 | credit and especially operational risk management teams, and
1474 | working with them to improve.

1475 | Ms. WATERS. Can you tell me why you think the way the
1476 | Board is constructed for the GSEs needs to be changed?

1477 | Mr. LOCKHART. At the moment, both Fannie and Freddie's
1478 | Boards do not have any presidentially appointed directors.
1479 | To me, the Boards are working very effectively at the moment.

1480 | The process is that they have head hunters that go out
1481 | and really get very high quality people. We vet them to make
1482 | sure that we think they are acceptable, and then they are
1483 | voted in by the shareholders.

1484 | These ~~the~~ Boards are working extremely hard at these two
1485 | companies, given the amount of remediation to do, and we
1486 | think it is an effective governance structure.

1487 Ms. WATERS. You think that for the future, the Boards
1488 should have and keep the presidential appointees?

1489 Mr. LOCKHART. I do not think it is necessary and there
1490 are some conflicts of interest with presidential appointees,
1491 and ~~effectively~~ to me, the more reasonable structure is to
1492 have directors elected by the shareholders.

1493 Ms. WATERS. Can you tell me why you believe that you
1494 need not to be reviewed and come under the appropriations
1495 process?

1496 Mr. LOCKHART. The appropriations process is a very
1497 cumbersome process for an agency that has to respond quickly
1498 to problems. We have been in existence for about 15 years, *for*
1499 13 of them, we have had a continuing resolution. That makes
1500 it very hard to plan.

1501 At the moment, we are ^{at} ~~in~~ last year's budgeted amount of
1502 \$60 million. We asked for \$67.5 million. ^{UGH} ~~Most~~ of that is
1503 going to the litigation that we really have no control over,
1504 but we have to respond to the judges.

1505 Ms. WATERS. Is that not true of all the agencies of
1506 government that have to go through the appropriations
1507 process?

1508 Mr. LOCKHART. Many of them have similar issues, but I do
1509 not think the same. I think the better analogy is to all the
1510 bank and financial regulators, which do not have to go
1511 through the appropriations process.

1537 think you made a statement that we did not have an African
1538 American in management. We actually do.

1539 Ms. WATERS. You found one?

1540 Mr. LOCKHART. She is very, very talented, ^{and} came off Wall
1541 Street.

1542 Ms. WATERS. I know, I just said you found one. You have
1543 one? O-n-e.

1544 Mr. LOCKHART. One; yes.

1545 Ms. WATERS. Thank you.

1546 The CHAIRMAN. The gentlewoman from Illinois.

1547 Mrs. BIGGERT. Thank you, Mr. Chairman. I would like to
1548 go back to the affordable housing fund section of the bill.
1549 As I said in my opening statement that HUD has the
1550 responsibility of establishing a formula to allocate funds to
1551 the states and to the tribes. And then they would determine
1552 which organizations receive the funds. Mr. Cornick, the
1553 funds then go to the states, what normally would the states
1554 do if that is the administration that goes to--the funds
1555 would go to the states?

1556 Mr. CORNICK. Right, but under the Home Program, under
1557 the Home Program--well, we have a couple. The Home Program
1558 works off of participating jurisdictions. The CDBG program
1559 works off of states as well as off entitlement communities,
1560 et cetera. And so we have a couple of different methods that
1561 substantial sums of HUD money are funneled out to the

1662 I want to get on to the record here if I can.

1663 First of all, Mr. Lockhart, you are familiar with
1664 something called Operation Noriega, have you ever heard that
1665 term before?

1666 Mr. LOCKHART: No, I am not sure I have.

1667 Mr. WATT: Okay. There were reports circulated that
1668 somebody in the White House had more than a passing interest
1669 in how this new regulatory framework got formulated and may
1670 have had pretty aggressive interest in the reports that were
1671 done evaluating the GSEs performance. I also serve on
1672 Judiciary, and we have seen over the last couple of weeks
1673 revelations about the administration being engaged in things,
1674 I mean the White House itself being engaged in things we
1675 thought were in many respects much, much more independent.
1676 Can each of the three witnesses give me assurances today that
1677 there is not emails, paper trails, interference from the
1678 White House, either in the reports that OFHEO has issued up
1679 to this point, the financial evaluations or reports, or in
1680 the shaping of reactions to the legislation here or
1681 legislation in general? Mr. Lockhart first.

1682 Mr. LOCKHART: Certainly, I am an independent regulator.
1683 In fact, I have been an independent regulator in three jobs
1684 in the government, so I understand independence, ^{(at the} ~~of the~~ PBGC
1685 and Social Security, ^{as well as OFHEO)} and I think it is very important, to
1686 have

1687 Mr. WATT. You agree with me then that it would be
1688 inappropriate for somebody in the White House to be
1689 interfering in an independent regulator's evaluation of
1690 conduct?

1691 Mr. LOCKHART. I agree with that and certainly in my nine
1692 months there, there has not even been a hint of that.

1693 Mr. WATT. I think this would go back prior to your nine
1694 months there so I am seeking your assurance that that kind of
1695 inappropriate activity has not taken place to your knowledge
1696 prior to your nine months there, I want you to speak beyond
1697 your nine months there, Mr. Lockhart?

1698 Mr. LOCKHART. Well, again, I can tell you the most
1699 important report we put out since I have been there is the
1700 special examination of Fannie Mae.

1701 Mr. WATT. I am talking about conduct that may have
1702 occurred prior to your being there, Mr. Lockhart. You are
1703 here on behalf of the agency, I am asking you about whether
1704 you have any knowledge of any emails, any correspondence
1705 whatsoever that may have even come close to the line about
1706 shaping the reports that OFHEO has issued?

1707 Mr. LOCKHART. No, I ^{do}~~am~~ not.

1708 Mr. WATT. Okay. And, Mr. Steel, Mr. Cornick, do you
1709 have any?

1710 Mr. STEEL. No, sir.

1711 Mr. CORNICK. Absolutely not.

1737 | companies, we put out a quarterly capital report, which has
1738 | information on them, and we are required by law to put this
1739 | annual report to Congress that has information ⁱⁿ on it, which
1740 | is somewhat different than the other regulators. ✓

1741 | Mr. WATT. And can I get your commitment to go back and
1742 | review those prior disclosures so that we can be assured that
1743 | this independence and this stronger regulation is accompanied
1744 | by responsibility that is transparent also?

1745 | Mr. LOCKHART. I certainly believe in that, and we will
1746 | certainly look at that. I think it is very, very important
1747 | for a regulator not to be political.

1748 | Mr. WATT. Can I just ask him to do one other thing, I
1749 | want to ask him a question, to take a closer look at the
1750 | provisions of 18 U.S.C., Section 1905 and see whether there
1751 | might need to be some clarification in this bill that we are
1752 | considering that makes those responsibilities of OFHEO more
1753 | concrete and transparent so the public has confidence not
1754 | only in what the GSEs are doing but in what this stronger,
1755 | more independent, more public and powerful regulator is
1756 | doing?

1757 | Mr. LOCKHART. I certainly will look at that. I have
1758 | just been told that is the Trade Secrets Act you are talking
1759 | about, that cite there, and certainly we will look at it.

1760 | Mr. WATT. I think this goes well beyond trade secrets
1761 | the way I read this.

2137 way to becoming law.

2138 The question I have for Mr. Lockhart is the legislation
2139 we are considering today, sir, charges the new director with
2140 developing standards by which the enterprises' portfolio
2141 holdings "will be deemed to be consistent with" their
2142 mission and safe and sound operations, as you read this
2143 language, do you believe it would permit the director to set
2144 quantitative standards, that is standards to prescribe a
2145 specific level or range for the portfolio holdings or does it
2146 contemplate standards that are more qualitative in nature?
2147 What sort of considerations should the director take into
2148 account in assuring the safety and soundness of the GSEs?

2149 Mr. LOCKHART. I think the legislation could set
2150 quantitative, or at least ranges, as well as qualitative
2151 standards. Certainly, I think the legislation ^{it} gives very
2152 good guidance to the regulator ⁱⁿ that it should be looking
2153 at the liquidity of the market and the entities, it should be
2154 looking at the stability of the marketplace, it should make
2155 sure that they are able to securitize ^{mortgages} securities, which is
2156 their biggest business, and also they should consider the
2157 risk and very importantly affordable housing. ~~And so I think~~
2158 ~~what would happen is it is asked~~ ^{The legislation requires} that the regulator has to
2159 put the regulation out in about 180 days. I would hope that
2160 it could even be done quicker, and that there could be a
2161 really good dialogue about the various factors going forward.

2212 Mr. GARRETT. Okay.

2213 Mr. CORNICK. Moving to Work at HUD, that is a
2214 demonstration program that I believe has a 10 year history.

2215 Mr. GARRETT. And then expired and did not morph into
2216 something else?

2217 Mr. CORNICK. It continues to be reauthorized or
2218 authorized through the appropriations process.

2219 Mr. GARRETT. Okay, so that is an example where we had a
2220 temporary program, it was supposed to be temporary--

2221 Mr. CORNICK. Actually, it has always been a
2222 demonstration, it has never grown into a full-fledged
2223 authorized stand-alone program.

2224 Mr. GARRETT. So maybe I should have some concern that
2225 even though both sides here believe that it should be
2226 temporary, it may not be.

2227 Mr. LOCKHART. One example would be the Resolution Trust,
2228 which was winding up the S&Ls. I think if you look at the
2229 President's proposals, one of the proposals is actually to
2230 put forward a sunset commission to oversee these kinds of
2231 things to make sure that programs that are no longer
2232 necessary, are no longer working, are being shut down and
2233 ~~they are being~~ ^{that is happening} in this ^{Administration} government.

2234 Mr. GARRETT. That is something that I would totally
2235 agree with and if we have the authority in this committee, I
2236 would encourage the chairman--I do not think we do--to try to

Corporation

✓

2237 | look into sun-setting a number of programs. Going over to a
2238 | second area and that is the portfolios. Back in 1990, the
2239 | portfolio amounts for Fannie and Freddie was \$136 billion.
2240 | By 2003, they were up to \$1.6 trillion.

2241 | And the reason I give 2003 data is because that is what
2242 | I have in front of me because I understand that for both of
2243 | those funds, we do not have total financials until 2004 and
2244 | 2005.

2245 | So my two questions for you are this, will shrinking
2246 | their portfolios reduce systemic risk, (a)? And (b) can you
2247 | really answer any of these questions when it comes to
2248 | systemic risks and the size of their portfolio since we still
2249 | do not even have data that is less than three years old? And
2250 | how do we move forward on any of this until we actually have
2251 | that data?

2252 | Mr. LOCKHART. Well, as the regulator, we do have the
2253 | data, some of it may be still estimates but we do have the
2254 | data, and we are certainly using that from a regulatory
2255 | standpoint. The ~~report~~ portfolios have come down about \$200 ✓
2256 | billion since then and that is because the regulator took
2257 | action and asked them to put up more capital and the response
2258 | was to draw down their portfolios somewhat. Certainly, one
2259 | has to consider the size of the portfolios as part of safety
2260 | and soundness, and I think it is an important issue.

2261 | The other thing about the portfolios, ^{is that} it is just one of ✓

2262 their two businesses, and I think ^{it} ~~this~~ is important to
2263 remember ^{that this} ~~and it~~ is about only a third of their total book of
2264 business and how they help the mortgage market. The other
2265 two-thirds is their guaranteeing of MBS's and those
2266 guarantees have credit risks, just like their portfolio, but
2267 a lot less interest rate risk and operational risk.

2268 Mr. GARRETT. And I think I have time for just more
2269 question. Mr. Steel, you have not suggested any limit on the
2270 amount of the GSE obligations that a bank may hold, that was
2271 an idea proposed by the Clinton Treasury Department I believe
2272 and included in some prior versions of this legislation. Do
2273 you support such?

2274 Mr. STEEL. I think the key push for us has been, and
2275 will be, to have a strong regulator. And if we make the GSEs
2276 to be subject to good regulation with the right balance of
2277 both the size and the capital required, then that is the
2278 right anecdote for dealing with all the issues.

2279 Mr. GARRETT. Okay, thank you.

2280 The CHAIRMAN. The gentleman from Texas.

2281 Mr. HINOJOSA. Thank you, Mr. Chairman. I want to thank
2282 you and Ranking Member Bachus for bringing this important
2283 issue for us to have this hearing on your bill. The outcome
2284 after this important hearing on reform of enterprises and
2285 Federal Home Loan Banks is very important to my congressional
2286 district, as well as to my state of Texas. I wish to ask my

2312 | have input on this and then the strong regulator will apply
2313 | them over time. And that seems like the right prescription
2314 | to go with this situation.

2315 | Mr. HINOJOSA. Well, I am concerned that if you go too
2316 | far that the low-income families in regions like the one I
2317 | represent, where over 40 percent are below the national
2318 | poverty level, would never be able to own their dream home.
2319 | And so I am concerned that you folks just might go a little
2320 | bit too far to the right. And I would ask The Honorable
2321 | Lockhart would you give me your views?

2322 | Mr. LOCKHART. Well, first of all, I think regulatory
2323 | review of new products is not unusual, either in the banking
2324 | or in the ^{insurance} industry. I am more familiar with the insurance
2325 | industry. What is maybe a little different here is the more
2326 | public nature of the reviews, but the regulator will put out
2327 | a regulation, and certainly if there are private parts that
2328 | should not be exposed to the public, that will not be
2329 | exposed.

2330 | But my view, again, is innovation is critical for these
2331 | companies, and I think we have to encourage that. At the
2332 | moment, unfortunately because of their problems, they are not
2333 | really capable of innovating and so what we need to do
2334 | ^{actually} is help get them fixed. And then I think this would
2335 | be a very good process going forward to look at major new
2336 | products.

2387 | more about this as we move forward because if see enough of
2388 | it in the evening news, sometimes it percolates to a hearing,
2389 | you never can tell?

2390 | Mr. LOCKHART. Well, I certainly think that they have
2391 | extremely important role in the secondary market and this
2392 | legislation that is proposed I think will only strengthen
2393 | that role. They not only have a portfolio but, as I said
2394 | earlier, they also are the major providers of securitized
2395 | MBS's that back up the mortgage market. So I think this bill
2396 | will only strengthen them and strengthen their capability.

2397 | Mr. PEARCE. Mr. Cornick, any comments?

2398 | Mr. CORNICK. No, sir.

2399 | Mr. PEARCE. If we could go just a little bit further and
2400 | assess the strength--not just the strength of the market but
2401 | the activity that goes into the secondary market? I come
2402 | from a very poor district, probably \$22,000 to \$25,000 is our
2403 | average income and so secondary markets frankly play a very
2404 | large role in seeing that people in New Mexico get access, so
2405 | what happens if we constrict the secondary markets
2406 | unnecessarily? Are there elements of the business world that
2407 | are going to pick up those loans?

2408 | I think that loan pool right now is about \$700
2409 | million--\$700 billion, excuse me, it is almost a trillion
2410 | dollars to low-incomers and yet you can see it coming from
2411 | the evening news, they think we ought to squeeze that down

2437 Mr. CLAY. Thank you, Mr. Chairman. Thank you for
2438 holding this hearing. Mr. Lockhart, Chairman Frank's
2439 legislation, H.R. 1427, would set the capital levels for
2440 Fannie Mae and Freddie Mac. Congress set the capital levels
2441 in the 1992 legislation as well. While I support giving you
2442 bank-like authority to increase the capital levels when there
2443 is a serious safety and soundness condition, I am very
2444 concerned that you might over-interpret this authority to be
2445 broader and more than we in the Congress intend.

2446 What can you tell the committee today to give us
2447 assurances that we are all on the same page as to what
2448 authority we are giving to the new regulator and how you
2449 would use that authority if you were the new regulator?

2450 Mr. LOCKHART. The legislation gives the regulator,
2451 through an open rule-making process ~~again~~, the ability to
2452 look at not only the minimum capital rules but also the
2453 risk-based capital rules. On the risk-based side, the
2454 present rules ~~which~~ were in that 1992 legislation, ~~and~~ ^{the} the
2455 model that is built out of it is not very effective and we
2456 will definitely be looking to make it more effective.

2457 On the minimum capital side, there is no doubt that
2458 there are limits in place. ^{The minimum capital requirements} They are much ~~smaller~~ ^{lower} than ^{for} any
2459 other financial institution but there is reason for that.
2460 And there are some other reasons that they ~~may~~ ^{are} potentially
2461 should be higher. As you probably know, at the present time,

2462 we have a 30 percent add-on to that given the regulatory
2463 risk, which makes instead of 2.5 percent, 3.25 percent. And
2464 certainly that is a number that we are more comfortable with
2465 at the moment considering the situation.

2466 Mr. CLAY. Let me get some clarification from you, Mr.
2467 Lockhart. On January 19th, the Wall Street Journal Financial
2468 Services Brief read, and I quote, "Fannie Mae OFHEO director
2469 reveals a net loss at Fannie Mae." Did you announce Fannie
2470 Mae's third quarter financial results in mid-January 2007
2471 before Fannie Mae released them to the public and did Fannie
2472 Mae approve your release of this confidential information?

2473 Mr. LOCKHART. We released that information when we put
2474 out the capital report, which is a public document which is
2475 information given to us from Fannie Mae that we are required
2476 to put out quarterly. So we released that in late December.
2477 And through those numbers it showed that Fannie Mae had a
2478 loss for the third quarter. We will ^{put} be capital numbers out
2479 again at the end of this month.

2480 Mr. CLAY. And you are aware of 18 U.S. Code 1905 as far
2481 as not being able to reveal statements of Fannie Mae?

2482 Mr. LOCKHART. I think it was mentioned to me earlier.

2483 Mr. CLAY. Okay, and your response earlier, I may not
2484 have been here?

2485 Mr. LOCKHART. My response is that the information you
2486 are talking about was already out in the public sphere

2562 | portfolio to be about what?

2563 | Mr. LOCKHART. I think the ^{average} overall home mortgage values
2564 | ~~in sort of the averages is like~~ ^{are between} \$130,000 ^{and} \$150,000.

2565 | Mr. BAKER. In most cases that represents a LTV of 70
2566 | percent or less by my calculation?

2567 | Mr. LOCKHART. That is correct.

2568 | Mr. BAKER. Which means if it is \$150,000 and the person
2569 | has \$50,000 equity, that is a \$200,000 house securing an
2570 | \$150,000 loan kind of average. So it is not the customary
2571 | first-time home buyer that one might assume that these
2572 | enterprises are principally engaged in. They are funding
2573 | middle America's home ownership opportunities. And when you
2574 | look at their ability to meet the needs of low-income,
2575 | minorities, first-time home buyers, however we choose to
2576 | characterize it, in your view have they met or exceeded the
2577 | traditional market performance or have they lagged behind the
2578 | market?

2579 | Mr. LOCKHART. It is a tough issue to say whether they
2580 | have met the market performance. ~~I think it is an~~ ^{One} issue ^{is} that
2581 | it is hard for them to reach some of the really low income
2582 | ~~affordability.~~ ^{borrowers.}

2583 | Mr. BAKER. And that goes to the risk requirement because
2584 | when they buy sub-primes, they only take Class A's, they do
2585 | not take the higher risk/lower credit score stuff in order to
2586 | minimize their risk so their shareholders know their profit

2662 | authority that they do not know have that this legislation
2663 | would provide?

2664 | Mr. LOCKHART. Well, I think the legislation really does
2665 | make a lot of sense because they do have a lot of ~~the same~~
2666 | similarities. They ~~in fact~~ ^{FHLBs} have portfolios. In fact, they
2667 | ~~had portfolios~~ and two of them got in very big trouble with
2668 | the risk management around those portfolios. So they do have
2669 | some ~~of the~~ very similar ~~type~~ issues going forward. They are
2670 | all housing GSEs, they are all in the marketplace, and it
2671 | really makes a lot of sense to me to have one regulator, as
2672 | Controller General Walker said, that oversees all the housing
2673 | GSEs to try to bring more prominence to the issue and also to
2674 | bring more efficiency and more effective regulating~~x~~

2675 | Mr. SCOTT. Well, how do you see this benefitting the
2676 | marketplace?

2677 | Mr. LOCKHART. Well, I think a more efficient regulator
2678 | will benefit the marketplace. I think going forward that
2679 | Federal Home Loan Banks understand that having a stronger
2680 | regulator will help them retain their shareholders and their
2681 | business.

2682 | Mr. SCOTT. But is not the current regulator doing the
2683 | job now? Where are they failing? I do not see where this
2684 | problem is that it is necessary to take the Federal Home Loan
2685 | folks and put them into this. If there was a problem with
2686 | the current regulator, then I could see that but nowhere has

2687 that been pointed out.

2688 Mr. LOCKHART. Well, there are certainly issues ~~going on~~^o
2689 at the moment around the capital and especially the risk
2690 related to the capital of the Federal Home Loan Banks. And,
2691 as I said, there were certainly several that had some
2692 significant problems.

2693 Mr. SCOTT. All right, well, let me go to another
2694 question I wanted to ask Secretary Steel. We have been on
2695 this issue of GSE reform and last year the reform legislation
2696 died in the final hours of the session. And my question is
2697 is this administration committed, really committed to
2698 negotiating in good faith to quickly finish action on GSE
2699 reform?

2700 Mr. STEEL. I am quite appreciative of that question. I
2701 pledge to you that Treasury, of which I am affiliated, is
2702 committed to that and would like--and is here today in
2703 support of the bill. And I believe, and you can--really in
2704 some ways the question might be better answered by Chairman
2705 Frank as to the commitment and seriousness of intent. And I
2706 pledge to you that is exactly why we are here and that we
2707 have worked hard to get to this place and look forward, as
2708 the expression was used I think the chairman, to getting the
2709 ball over the goal line.

2710 Mr. SCOTT. Well, are there areas that this committee is
2711 considering in this legislation that the administration will

2787 | why an institution's capital requirements might be increased
2788 | to address specific concerns, maybe they are not current,
2789 | they need remediation, they lack appropriate controls, my
2790 | question is in those situations would you support returning
2791 | to the statutory minimum levels once those conditions have
2792 | passed?

2793 | That is the first question. And the second is are there
2794 | any circumstances that you would by regulation permanently
2795 | increase capital levels above Congress' mandated statutory
2796 | minimum capital levels?

2797 | Mr. LOCKHART. ~~If you look at~~ ^T the minimum capital rules,
2798 | ~~which~~ ^T were set 15 years ago, these companies have changed
2799 | pretty dramatically since then, and I think you have to
2800 | re-look at the minimum capital rules. I am not saying they
2801 | have to be increased but I think they need to be re-looked
2802 | at, and particularly I think the operational risk that they
2803 | have so manifest over the last three or four years may mean
2804 | that there may have to be some extra charge; ^T it may not be
2805 | the 30 percent, it could be lower, but going forward I think
2806 | there is such a large operational risk component to these two
2807 | companies, and they are in the process of remediating it but
2808 | it will never go away, so I think it is important as we go
2809 | forward to just re-look at the minimum numbers.

2810 | Ms. BEAN. Let me just come back before I go to Mr.
2811 | Steel. So you are basically not necessarily supporting going

2812 | back to the original levels once the conditions have been
2813 | met?

2814 | Mr. LOCKHART. I am not not supporting it at this point
2815 | but I think it is certainly an issue that we have to look at
2816 | given the large risk that these companies are taking.

2817 | Ms. BEAN. Can you be more specific of what specific
2818 | instance you would make those increased levels permanent?

2819 | Mr. LOCKHART. Well, I think it would be done through, as
2820 | the legislation ^{states} ~~talks about,~~ ^{discussed} through an open rulemaking
2821 | process, ^T and there would be ⁱⁿ that process, ^{obviously} reasons
2822 | for increasing it if that is what we thought was appropriate.

2823 | And then we would go back and forth, and I think we could
2824 | get a lot of input from a lot of different players.

2825 | Ms. BEAN. Okay. Mr. Steel?

2826 | Mr. STEEL. I think really that I approach it in a little
2827 | bit of a different lens but I think maybe to an answer that
2828 | will speak to the question. I think that the regulator
2829 | should be given the right tools and then by dent of the
2830 | transparent rulemaking process, a sense of how people would
2831 | like those tools to be applied and then have the judgment of
2832 | the regulator solve the puzzle. And proscribing in advance
2833 | whether it should be permanent or not permanent, roll-back or
2834 | not roll-back is the wrong strategy. The regulator, as
2835 | developed by the bill, empowered and takes great advice from
2836 | the transparent rulemaking process and then has the

2837 responsibility to apply the right capital relative in a
2838 risk-based approach to the assets.

2839 Ms. BEAN. If I have a couple of seconds, let me ask a
2840 further question to both of you as well. In Chairman Frank's
2841 legislation, H.R. 1427, it charges the new director with
2842 developing standards by which the enterprise's portfolio
2843 holdings would be deemed to be consistent with their mission
2844 and safe and sound operations. Is your reading such that
2845 systemic risk can be interpreted to be a factor or standard
2846 by which the portfolio can be reduced or capped?

2847 Mr. LOCKHART. My reading of systemic risk is it is part
2848 of a regulator's job, it is part of safety and soundness,
2849 that you have to make sure that they do not have a problem
2850 that could spread risk to the rest of the financial system.
2851 And so from that standpoint, yes, if they for some reason had
2852 ~~some stuff~~ ^{assets} in their portfolios that could cause them a
2853 dramatic problem that would spread to the rest of the
2854 financial system, it would have to be considered.

2855 Mr. STEEL. Yes.

2856 Ms. BEAN. Thank you. I yield back.

2857 Mr. LYNCH. [Presiding] Thank you. Does the gentleman
2858 from Colorado have a question?

2859 Mr. PERLMUTTER. Thanks, Mr. Chair. And I will get back
2860 to systemic risk in a second. This is for all three of you,
2861 what do you consider the role of the director to be with

2862 | respect to goals that are going to be established for
2863 | low-income, moderate--low-income, moderate, four-plexes, all
2864 | that sort of stuff? And I am going through this statute just
2865 | as you all are and I am on about page 150, okay, what do you
2866 | consider the role to be, what do you expect to do if we pass
2867 | this legislation?

2868 | Mr. LOCKHART. Well, first of all, it is a well-trodden
2869 | path, ~~if you will,~~ HUD has looked and worked on that for many ✓
2870 | years, and I think they have developed a good program. That
2871 | program would actually be brought over to their new
2872 | regulator; it would be merged into the new regulator. But ✓
2873 | obviously the legislation has different rules and so working
2874 | with the legislation, the new regulator would ~~certainly~~ be ✓
2875 | guided by the legislation and work towards making sure that
2876 | the two enterprises ^{meet} get their affordable housing goals. ✓

2877 | Mr. PERLMUTTER. So on an annual basis you would
2878 | establish goals?

2879 | Mr. LOCKHART. We would establish goals in accordance
2880 | with the proposed legislation, yes.

2881 | Mr. PERLMUTTER. And if we added something about
2882 | energy-efficient mortgages to this legislation, would you
2883 | consider that as being a goal, if we added that as a goal?

2884 | Mr. LOCKHART. I had not really thought about that, I
2885 | would have to get back to you on that one.

2886 | Mr. PERLMUTTER. Okay. There has been a lot of

2912 | What is the minimum capital for Fannie Mae and Freddie Mac
2913 | today?

2914 | Mr. LOCKHART. The minimum capital ^{requirement} ~~and assets~~, the one
2915 | comparable to your 5 percent ^{and many banks hold well over 6}
2916 | percent, as you know, is 2.5 percent. They ^{enterprises} also have to hold
2917 | .45 percent or 45 basis points against their mortgage-backed
2918 | security guarantees.

2919 | Mr. PERLMUTTER. And then I heard you say that right now
2920 | because of regulatory risks, you are 30 percent above that?

2921 | Mr. LOCKHART. Right.

2922 | Mr. PERLMUTTER. What is a regulatory risk and does that
2923 | have anything to do with a systemic risk?

2924 | Mr. LOCKHART. The reason for putting on ^{the additional requirement} ~~it~~ was actually
2925 | ~~for~~ operational risk, and it was related to the fact that
2926 | these companies could not produce financial statements, their
2927 | internal controls were not there, the risk management was not
2928 | there, their systems were not there, and they were high risk.
2929 | And so that extra 30 percent was put on which makes, I think
2930 | I said earlier, 3.25 percent.

2931 | Mr. PERLMUTTER. Do you think that the minimum capital
2932 | for these organizations needs to be increased or are you okay
2933 | with that 2.5 percent except for when there is this
2934 | regulatory risk factor?

2935 | Mr. LOCKHART. I think it has to be looked at.

2936 | Mr. PERLMUTTER. That is a good answer, it has to be

2937 | looked at, considered by you as the director or how will that
2938 | minimum capital be determined?

2939 | Mr. LOCKHART. Again, the way we would look at it is as
2940 | we look at other financial institutions, but we more
2941 | ~~particularly~~ ^{we} look at the risk inherent in these two
2942 | companies, and we will go through that process. And if we
2943 | think there needs to be a change, we would go through an open
2944 | rulemaking process and there would be comments on ~~that~~ ^{any proposal} and
2945 | then we would go through the normal process.

2946 | Mr. PERLMUTTER. Okay. This gets more to the systemic
2947 | risk, and I would like you all three to comment on it, but
2948 | somebody said this is a huge problem, there is a systemic
2949 | risk, and I can tell you walking the precincts of Arvada,
2950 | Colorado, regulation, re-regulation of Fannie Mae did not
2951 | come up once. I had a lot of other things that came up a
2952 | number of times but not this. What difference does this bill
2953 | make to a resident of Arvada, Colorado? How is it going to
2954 | save them from something?

2955 | Mr. STEEL. Well, I will start I think if that is okay.
2956 | I think this is a good example, and I am sure you are right
2957 | that this did not come up when you were walking among your
2958 | constituents, but this is the right way of dealing with this
2959 | before it is a problem. We can look at this and Federal
2960 | Reserve chairmen, the last two, have come and talked in this
2961 | group to you about this in the House, and we are completely



OFFICE OF FEDERAL HOUSING ENTERPRISE OVERSIGHT

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

OFFICE OF THE DIRECTOR

April 25, 2007

The Honorable Melvin L. Watt
2236 Rayburn House Office Building
United States House of Representatives
Washington, D.C. 201515-3312

Dear Congressman Watt:

In your letter of April 13, 2007, you asked me to re-assert my responses to the questions you posed to me concerning OFHEO's independence and protection of proprietary or confidential information at the March 15 hearing.

As I said at the hearing, during my tenure the White House has not interfered with any reports OFHEO has issued or the financial evaluations contained in those reports. During my tenure, the key reports were the May 23, 2006 Report of Special Examination of Fannie Mae and the 2006 and 2007 Annual Reports to Congress.

Since you inquired about actions prior to my tenure as Director, I asked the primary examiners who conducted the two special examination reports of Fannie Mae, our associate director for compliance and our chief accountant, whether they had been the object of any interference in their work. They indicated they had not been interfered with either as to the content, direction, or timing of the reports, one issued in September 2004 and the other, as referenced above, in May 2006. Further, they indicated to me that the final reports – as published – reflected what they found, what the evidence revealed and did not diverge from their findings. Also regarding annual examination reports prior to my tenure, I asked the same question of our examiners-in-charge and they also indicated that the reports – which are published in our Annual Report to Congress – reflected what they found, what the evidence revealed and did not diverge from their findings.

One of OFHEO's three strategic goals is to provide support for reform legislation. As such, we have had extensive discussions with members of Congress, members of the Administration, and interested parties. During these discussions, we have welcomed input and given our opinions but there has been no interference by the White House.

As to release of confidential information, I asked our General Counsel, Alfred Pollard, to summarize his knowledge of OFHEO's practices concerning release of information, any possible violations of law, and OFHEO's processes for assuring that information is not improperly released. I have enclosed a copy of that memorandum. You also asked

whether clarification of 18 USC 1905 might be in order. I do not believe so. The strictures of the Trade Secrets Act are well known, have been the subject of court review and are made known throughout the agency as reflected in the enclosed memorandum.

I trust this is responsive to your questions during the hearing. As to other matters raised, it would be beneficial to meet with you to discuss the information you are seeking.

Sincerely,



James B. Lockhart III
Director

Enclosure

cc: The Honorable Barney Frank
Chairman, House Financial Services Committee

The Honorable Spencer Bachus
Ranking Member, House Financial Services Committee



OFFICE OF FEDERAL HOUSING ENTERPRISE OVERSIGHT

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

OFFICE OF THE DIRECTOR

May 7, 2007

The Honorable William Lacy Clay
U.S. House of Representatives
434 Cannon House Office Building
Washington, DC 20515-2501

Dear Congressman Clay:

I am pleased to respond to your questions from the March 15, 2007 hearing on GSE Reform before the House Committee on Financial Services.

Question 1. Controls on Release of Information

I agree that it would be inappropriate for OFHEO to "leak" financial information about an Enterprise to the media. Indeed, any unauthorized release of information at OFHEO could be grounds for adverse personnel actions. To address media communications, OFHEO has strict policies and requires all media contacts to be handled by our Office of External Affairs. OFHEO has no need to "leak" information to the media. Our statute, enacted during crises facing the thrift and banking industries, includes a presumption in favor of disclosure and it is the duty of the Director to determine what information to release. Ultimately, I am responsible for releases of information and our statute and internal rules and guidelines reflect that. As to information printed by the media in 2005, I can confirm that our General Counsel inquired of our staff regarding unauthorized releases of information and he found no instance of such releases.

You asked what controls OFHEO uses to protect against unauthorized releases of information. Relevant controls at OFHEO are as follows:

OFHEO operates under strict rules and procedures, founded in a range of laws, in regards to any release of information from the agency, be such release in response to congressional or external inquiry or upon the decision of the Director. OFHEO maintains, by regulation and internal guidelines, safeguards necessary and appropriate to protect supervisory information. This includes information that OFHEO receives or generates that is nonpublic in nature. Such information may be subject to legal privilege for the agency such as trade secrets and commercial/financial information privilege, investigative privilege, examination privilege, deliberative process privilege or any privilege that generally flows from the statutory exemptions from disclosure under the Freedom of Information Act (FOIA). My experience has been one of vigorous defense by OFHEO of not releasing information when protected by such privileges and to do so only with compelling public interest, judicial order or, as provided in statute, with a determination by the Director to permit such release.

In many cases, OFHEO brings a potential release of information to the attention of an Enterprise for its input and to address any concerns that may be voiced. This procedure is set forth in OFHEO guidelines.

In sum, several federal laws apply. OFHEO has implemented these through regulation, an Employee Nondisclosure Oath for new employees, a guideline on the release of information, procedures for consideration of requests to release information and briefings for separating employees on their ethics obligations after leaving OFHEO including non-disclosure of information. This information is included as part of our annual ethics briefing for employees and is included in information security briefings on data and systems integrity.

The following summarize applicable laws and OFHEO implementing regulations and guidelines:

A. Regulations -- OFHEO by regulation and internal guidelines addresses the protocol for review of information prior to any external release to the public or other government agencies.

1. Release of Information Regulation (12 CFR 1703) prohibits employees from disclosing nonpublic information or releasing documents "[e]xcept as authorized by this part [of the regulation] or otherwise necessary in performing official duties."

2. Privacy Act Regulation (12 CFR 1702) applies requirements of the Privacy Act, 5 USC 552a, to protect personal information held at OFHEO.

B. Guidelines -- OFHEO guidelines provide specific procedures involving senior officers of the agency in review of external releases of information or of publications. Reviews by the Office of General Counsel are required and experienced attorneys are assigned on an ongoing basis to this function.

1. Guideline 105 Releasing Information sets forth OFHEO internal policy and procedures for releasing information to non-OFHEO persons or organizations, in response to their requests for information and applies the strictures of FOIA (5 U.S.C. § 552), the Privacy Act (5 U.S.C. § 552a) and the Trade Secrets Act (18 U.S.C.A. §1905). OFHEO employees are directed to protect vigorously business information in their possession as well as any information they generate for OFHEO.

2. Guideline 108 Obtaining and Documenting Prior Management Approval to Public and/or Present Research establishes internal clearance procedures for approval to externally release research. The guidance includes review by Office of General Counsel to consider any potential use of nonpublic information-- even it is purportedly sanitized by aggregation or is a statistical analysis that arguably could not be inferred or reconstructed by a third party-- to preclude any adverse affect on the agency or Enterprises. Also, the clearance process requires review by senior management for any policy issues or concerns. Research papers cannot

be released externally (for publication, presentation, or third-party peer review) without completion of internal clearance and written authorization of the Director.

3. Guideline 109 Management of Information Policy and Procedures for Release of Information in OFHEO Publications creates a presumption that information received from an Enterprise is to be reviewed prior to any public release.

C. Procedures -- Several items relating to procedure should be of interest to you. First, the Office of General Counsel reviews and determines whether information may be released pursuant to the Director's statutory authorities and implementing rules, *i.e.*, legal standards that either prohibit or permit release (Trade Secrets Act, Privacy Act, FOIA). This review by OGC may include contact directly with the Enterprises for their input or direction to the lead author or their supervisor to contact one or both Enterprises. Second, OFHEO requirements under regulation and guidelines are referenced in the OFHEO Employee Nondisclosure Oath and apply to current and former employees. Third, the Enterprises have been encouraged in their information submissions to characterize information or data as confidential or request confidential treatment where appropriate.

As to current experience, I have no suspicion of leaks and have undertaken a policy of open discussion with the media that seeks to avoid any favoritism or other problems that selective release of information could engender. Where possible, within OFHEO guidelines, we may respond to a reporter's question, however, in general we prefer that information releases are provided contemporaneously to all relevant media outlets.

I see no need for additional statutory or regulatory direction on this matter. Current law, made available to OFHEO employees at all times and embedded in our internal procedures, provide clear guidance as to improper release of information. As the responsible party, I have set a tone for adherence to those statutes. These laws, as you know, contain both disciplinary sanctions including possible removal from federal service and, in certain cases, criminal sanctions.

Question 2. OFHEO Culture

While I cannot speak to OFHEO's "culture" prior to my arrival, I am satisfied that current employees fully understand our responsibilities under law to serve the mission established by Congress for oversight of Fannie Mae and Freddie Mac. My new Deputy Director, the senior management team and I are all committed to maintain high standards of regulatory integrity in private communications with the Enterprises. As to specific actions, I directed staff last year to review all OFHEO internal materials and external communications with the Enterprises or other government agencies to assure that we have appropriate reminders of the confidentiality of our materials and of our communications. That has been put in place with standardized statements in both. This is a daily reminder of our obligations.

It is not OFHEO's mission to assure the value of stock for shareholders or debt for debt holders. Our mission is to assure safe and sound operations so the Enterprises may meet their

congressionally-set obligations. Such oversight, as I have testified, may benefit shareholders in the long run by assuring the Enterprises are on a solid footing. Additionally, OFHEO has acted to increase Enterprise disclosures that provide investors a stronger understanding of the companies and enhances Enterprise access to capital markets to support their mission. This may benefit shareholders and bondholders as well.

The stock price of an Enterprise is not a consideration, except if we believe the information to be released may impact trading in the stock, in which case we would release it before the New York Stock Exchange opens or after it closes in line with stock exchange practices.

Question 3. January Reports of Capital and Profit or Loss

I have reviewed the information released by OFHEO regarding Fannie Mae's capital numbers and gains or losses to the company as well as the relationship of this information to 18 USC 1905. There is no violation of law or regulation as OFHEO's release and commentary on the release fit within our required capital adequacy determination for the Enterprise. When I said on January 18, 2007, that both Enterprises had losses in the third quarter of 2006, I was reflecting information provided in our third quarter capital classification press release of December 28, 2006 (see attached). Freddie Mac, a non-SEC registrant, released their actual third quarter loss information on January 5, 2007.

The press release does indeed show core capital declining by only \$29 million from the second quarter. However, the press release under a section entitled "Third Quarter Capital Results" notes in the second paragraph that "Core capital remained unchanged because the positive \$1.0 billion core capital restatement adjustment was offset by a \$0.8 billion reduction in retained earnings after a dividend payment of \$0.4 billion, and additional ongoing accounting adjustments to core capital of about negative \$0.2 billion." As retained earnings are basically impacted by net profits or losses and payment of dividends, it is easy to calculate that the reduction of \$0.8 billion of retained earnings was caused by \$0.4 billion in dividend payments and \$0.4 billion in losses.

The press release referenced the \$1.0 billion restatement capital increase in the second section of the press release "Effect of 2004 10-K on Core Capital." If we had not referenced the \$1.0 billion number, the previously released restatement number of \$1.9 billion would have led the public to believe that Fannie Mae lost \$1.3 billion instead of the actual loss of \$.4 billion.

Dividend payments may be easily calculated from Fannie Mae's quarterly dividend notification press release even if OFHEO did not refer to dividend amounts in our press release. OFHEO publishes core capital numbers as required under the capital classification process. Therefore, the public may always derive with reasonable accuracy the net income for the Enterprise. The third quarter release was only different or more complicated because of the 2004 10-K restatement effect on core capital. Finally, we share drafts of the financial analysis section of the press release with each Enterprise prior to release to the public. As early as December 14, Fannie Mae was aware of our intent to release information that would allow the public to determine that Fannie Mae lost several hundred million dollars. No comment was offered suggesting a concern with such a release of information.

Next, I would note that 18 USC 1905, as verified by counsel, addresses trade secrets and proprietary information. Disclosure of capital positions are mandated for the Enterprises and once released may be subject to analysis by OFHEO or any other party. My comments addressed information contained in these reports and provided an understandable calculation that any party could have made. No proprietary calculation model was employed. Fundamentally, it is not a "calculation" that 18 U.S.C. 1905 would address in this instance, but rather whether the information on which a calculation was based should be made public. Here, information was properly released.

I trust that these responses provide the information you are seeking. I would be glad to further discuss any of these matters with you.

Sincerely,


James B. Lockhart
Director

Enclosure

cc: The Honorable Barney Frank
Chairman, House Financial Services Committee

The Honorable Spencer Bachus
Ranking Member, House Financial Services Committee



OFFICE OF FEDERAL HOUSING ENTERPRISE OVERSIGHT

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

OFFICE OF THE DIRECTOR

May 10, 2007

The Honorable Edwin G. Perlmutter
U.S. House of Representatives
415 Cannon House Office Building
Washington, DC 20515-5278

Dear Congressman Perlmutter:

I am pleased to respond to your questions from the March 15, 2007 hearing on GSE Reform before the House Committee on Financial Services.


During this hearing, you asked about whether energy-efficient mortgages should be supported by the affordable housing goals established by the GSE regulator under H.R.1427. Improved energy efficiency has long been a national priority, and opportunities for energy savings in housing include greater use of insulation, multi-paned windows, automatic setback thermostats, solar energy systems, reduced window areas, earth sheltering, heat pumps and more efficient appliances, among others.

Both Fannie Mae and Freddie Mac have had energy-efficient mortgage programs for a number of years. These programs broaden their underwriting standards in two ways. First, energy-efficient improvements being made to a property at the time of a loan can be added to the appraised value or purchase price of the house. This allows for the financing of the improvements, with the funds held in escrow until the improvements are complete. Second, the reduced energy costs associated with documented energy saving features of a house may be taken account in assessing a borrower's ability to pay by adding the anticipated monthly savings to the borrower's income for the purpose of determining debt-to-income ratios.

Unfortunately, these programs have met with very little success over the years. The underwriting modifications do not often have a significant effect on the acceptability of a loan, and the cost of obtaining documentation may offset any benefits. Adding a specific goal for loans on energy-efficient properties might boost such programs, as might your amendment to require extra credit for such loans toward meeting other goals. However, designing such a goal could involve significant difficulties. For example, an increased number or percentage of energy-efficient loans might promote a large number of very small improvements or greater expense in documenting existing efficiencies. Problems of this sort may well be surmountable, but the Enterprises past experience in this area should perhaps restrain expectations.

I trust this is responsive to the information you were seeking during the hearing. Please do not hesitate to contact me should you need to further discuss this issue.

Sincerely,



James B. Lockhart III
Director

cc: The Honorable Barney Frank
Chairman, House Financial Services Committee

The Honorable Spencer Bachus
Ranking Member, House Financial Services Committee

United States Senate

WASHINGTON, DC 20510



May 15, 2007

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

Dear Director Lockhart:

The Fannie Mae Board recently produced a report for your agency which details the roles that key Fannie Mae employees played in the accounting and management fraud and failures at Fannie Mae. We ask that you provide the Senate Banking Committee with a copy of this report and request a full briefing of its contents.

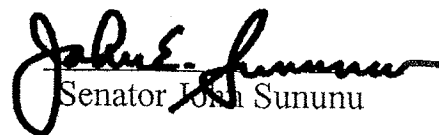
Congress chartered Fannie Mae and Freddie Mac and granted these Government Sponsored Enterprises (GSEs) with special privileges to serve a public housing mission. The Banking Committee has a Congressional oversight responsibility to ensure that this mission is being served and that the American taxpayer's interests are protected.

We look forward to your prompt response to our request.

Thank you.

Sincerely,


Senator Chuck Hagel


Senator John Sununu