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

OFFICE OF THE DIRECTOR

May 24, 2007

Honorable Chuck Hagel
United States Senate
Washington, D.C. 20510

Honorable John Sununu
United States Senate
Washington, D.C. 20510

Dear Senators:

In response to your letter of May 15, 2007, as you know, OFHEO has not released the report provided to us by the Fannie Mae Board detailing its review of individuals mentioned in OFHEO's Report of the Special Examination. The review covered the conduct of current personnel at the Enterprise, not officers who had departed. Subsequent to the report from the Board and after discussions with OFHEO, certain remedial actions were taken and the matter was closed. The only public disclosure related in part to this report was disclosure by Fannie Mae that certain long-term bonus year payments for 2003 and 2004 were not being made to senior executives, some of whom were reviewed in the report.

Respectfully, I must decline to provide the document you as well. I do want to provide you the important reasons why this decision has been made. The type of report involved here is not made public as it contains commercial, financial and private individual information and was received as part of our examination program.

I want to assure you that, should behavior or activities approach the level of a potential crime, we refer the matter to the Justice Department. Also, should conduct or an activity violate a statute under the purview of another regulator, we would refer the matter to that regulator. In the case of Fannie Mae, we have worked closely with the Justice Department, SEC and other federal agencies.

As a safety and soundness regulator, OFHEO must be able to communicate on a regular basis with the Enterprises and to do so with unobstructed access to the most confidential of proprietary, privileged or personal information. In addition, we must take into consideration the strictures of the Trade Secrets Act and, in a report of this type, the rights of individuals under the Privacy Act and claims of privilege by Fannie Mae. Our practice follows that of other financial regulators and is in line with the system of regulation established by Congress for financial companies.

For these reasons, I must decline to provide this information. Please do not hesitate to contact me directly if you wish to discuss this further.

Sincerely,

James B Lockhart III
Director

OFFICE OF FEDERAL HOUSING ENTERPRISE OVERSIGHT
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OFFICE OF THE DIRECTOR

June 28, 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 March 31, 2007

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 29, 2007, OFHEO issued a notice of proposed action indicating its intention to classify Freddie Mac as adequately capitalized at March 31, 2007, and requesting that Freddie Mac notify OFHEO by June 27, 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 first quarter of 2007, OFHEO hereby provides notice that Freddie Mac is classified as adequately capitalized at March 31, 2007. 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 both the first quarter 2007 financial statements and the Information Statement supplement issued on June 14, 2007.

As indicated in the enclosures, at March 31, 2007, Freddie Mac's OFHEO-directed minimum capital requirement was $34.196 billion, its statutory minimum capital requirement was $26.304 billion, its critical capital requirement was $13.484 billion, and its risk-based capital requirement was $13.784 billion. Thus, Freddie Mac's core capital of $36.230 billion at March 31, 2007, exceeded the OFHEO-directed minimum capital requirement by $2.034 billion and the critical capital requirement by $22.746 billion. Freddie Mac's total capital of $36.765 billion at March 31, 2007, exceeded the risk-based capital requirement by $22.981 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.

The enclosures summarize OFHEO's calculation of Freddie Mac's OFHEO-directed, statutory minimum, critical and risk-based capital and total qualifying subordinated debt levels at March 31, 2007.

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
March 31, 2007

SUMMARY

(Dollars in millions)

COMPONENTS OF THE MINIMUM CAPITAL LEVEL	
ON-BALANCE SHEET ASSETS	20,326
OFF-BALANCE SHEET OBLIGATIONS	
MBS and Equivalents	5,233
Commitments	572
OTHER OFF-BALANCE SHEET OBLIGATIONS	
Interest Rate and Foreign Exchange Rate Contracts	102
Sold Portfolio Remittances Pending	11
Other Off-Balance Sheet Obligations	60
MINIMUM CAPITAL - Statutory Requirement	**26,304**
MINIMUM CAPITAL - OFHEO-directed Requirement	**34,196**
CORE CAPITAL	**36,230**
SURPLUS (DEFICIENCY) (based on OFHEO-directed Requirement)	2,034

Note: Totals may not add due to rounding.

FEDERAL HOME LOAN MORTGAGE CORPORATION
Critical Capital Level
March 31, 2007

SUMMARY

(Dollars in millions)

COMPONENTS OF THE CRITICAL CAPITAL LEVEL	
ON-BALANCE SHEET ASSETS	10,163
OFF-BALANCE SHEET OBLIGATIONS	3,321
CRITICAL CAPITAL LEVEL	**13,484**
CORE CAPITAL	**36,230**
SURPLUS (DEFICIENCY)	**22,746**

Note: Totals may not add due to rounding.

FEDERAL HOME LOAN MORTGAGE CORPORATION
Risk-Based Capital Level
March 31, 2007

SUMMARY

(Dollars in millions)

STRESS TEST SCENARIO RESULTS	
UP-RATE SCENARIO	13,784
DOWN-RATE SCENARIO	9,742
RISK-BASED CAPITAL LEVEL	13,784
TOTAL CAPITAL	36,765
SURPLUS (DEFICIENCY)	22,981

Note: Totals may not add due to rounding.

FEDERAL HOME LOAN MORTGAGE CORPORATION
Qualifying Subordinated Debt
March 31, 2007

SUMMARY

(Dollars in millions)

QUALIFYING SUBORDINATED DEBT PLUS TOTAL CAPITAL RESULTS (1, 2)	
TOTAL CAPITAL	36,759
TOTAL QUALIFYING SUBORDINATED DEBT	4,624
TOTAL CAPITAL AND QUALIFYING SUBORDINATED DEBT	**41,383**
CAPITAL REQUIREMENT FOR 4.0% OF ON-BALANCE SHEET ASSETS AND 0.45% OF NET MBS/PCs OUTSTANDING	38,093
SURPLUS (DEFICIENCY)	**3,290**

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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June 28, 2007

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Chairman
Committee on Financial Services
House of Representatives
Washington, DC 20515

Re: Notice of Final Fannie Mae Capital Classification at March 31, 2007

Dear Mr. Chairman:

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Based on capital requirements in effect for the first quarter of 2007, OFHEO hereby provides notice that Fannie Mae is classified as adequately capitalized at March 31, 2007. 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, 2007, Fannie Mae's adjusted[1] OFHEO-directed minimum capital requirement was $38.381 billion, its adjusted statutory minimum capital requirement was $29.524 billion, its adjusted critical capital requirement was $15.247 billion, and its risk-based capital requirement was $20.536 billion. Thus, Fannie Mae's adjusted core capital of $42.277 billion at March 31, 2007, exceeded the OFHEO-directed minimum capital requirement by $3.896 billion and the critical capital requirement by $27.030 billion. Fannie Mae's total capital

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

of $42.627 billion at March 31, 2007, exceeded the risk-based capital requirement by $22.092 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 OFHEO-directed, statutory minimum, critical and risk-based capital and total qualifying subordinated debt levels at March 31, 2007.

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
March 31, 2007

SUMMARY

(Dollars in millions)

COMPONENTS OF THE MINIMUM CAPITAL LEVEL	
MINIMUM CAPITAL LEVEL - Adjusted, Statutory Requirement	29,524
MINIMUM CAPITAL LEVEL - Adjusted, OFHEO-directed Requirement	38,381
CORE CAPITAL - Adjusted	42,277
SURPLUS (DEFICIENCY) (based on OFHEO-directed Requirement)	3,896

COMPONENTS OF THE CRITICAL CAPITAL LEVEL	
CRITICAL CAPITAL LEVEL - Adjusted	15,247
CORE CAPITAL - Adjusted	42,277
ESTIMATED SURPLUS (DEFICIENCY)	27,030

STRESS TEST SCENARIO RESULTS	
UP-RATE SCENARIO	20,536
DOWN-RATE SCENARIO	14,630
RISK-BASED CAPITAL LEVEL	20,536
TOTAL CAPITAL	42,627
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FEDERAL NATIONAL MORTGAGE ASSOCIATION
Qualifying Subordinated Debt
March 31, 2007

SUMMARY

(Dollars in millions)

QUALIFYING SUBORDINATED DEBT PLUS TOTAL CAPITAL RESULTS (1, 2)	
TOTAL CAPITAL	42,986
TOTAL QUALIFYING SUBORDINATED DEBT	7,186
TOTAL CAPITAL AND QUALIFYING SUBORDINATED DEBT	**50,172**
CAPITAL REQUIREMENT FOR 4.0% OF ON-BALANCE SHEET ASSETS AND 0.45% OF NET MBS/PCs OUTSTANDING	**41,940**
SURPLUS (DEFICIENCY)	**8,232**

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Committee on Banking, Housing, and Urban Affairs
United States Senate
Washington, DC 20510

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James B. Lockhart III
Director

Enclosures

FEDERAL HOME LOAN MORTGAGE CORPORATION
Minimum Capital Level
March 31, 2007

SUMMARY

(Dollars in millions)

COMPONENTS OF THE MINIMUM CAPITAL LEVEL	
ON-BALANCE SHEET ASSETS	20,326
OFF-BALANCE SHEET OBLIGATIONS	
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FEDERAL HOME LOAN MORTGAGE CORPORATION
Critical Capital Level
March 31, 2007

SUMMARY

(Dollars in millions)

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FEDERAL HOME LOAN MORTGAGE CORPORATION
Risk-Based Capital Level
March 31, 2007

SUMMARY

(Dollars in millions)

STRESS TEST SCENARIO RESULTS	
UP-RATE SCENARIO	13,784
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FEDERAL HOME LOAN MORTGAGE CORPORATION
Qualifying Subordinated Debt
March 31, 2007

SUMMARY

(Dollars in millions)

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Committee on Banking, Housing, and Urban Affairs
United States Senate
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James B. Lockhart III
Director

Enclosures

FEDERAL NATIONAL MORTGAGE ASSOCIATION
Minimum, Critical and Risk Based Capital Levels
March 31, 2007

SUMMARY

(Dollars in millions)

COMPONENTS OF THE MINIMUM CAPITAL LEVEL	
MINIMUM CAPITAL LEVEL - Adjusted, Statutory Requirement	29,524
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FEDERAL NATIONAL MORTGAGE ASSOCIATION
Qualifying Subordinated Debt
March 31, 2007

SUMMARY

(Dollars in millions)

QUALIFYING SUBORDINATED DEBT PLUS TOTAL CAPITAL RESULTS (1, 2)

TOTAL CAPITAL	42,986
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Committee on Banking, Housing, and Urban Affairs
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Sincerely,

JBLockhart

James B. Lockhart III
Director

Enclosures

FEDERAL HOME LOAN MORTGAGE CORPORATION
Minimum Capital Level
March 31, 2007

SUMMARY

(Dollars in millions)

COMPONENTS OF THE MINIMUM CAPITAL LEVEL	
ON-BALANCE SHEET ASSETS	20,326
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FEDERAL HOME LOAN MORTGAGE CORPORATION
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Risk-Based Capital Level
March 31, 2007

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FEDERAL HOME LOAN MORTGAGE CORPORATION
Qualifying Subordinated Debt
March 31, 2007

SUMMARY

(Dollars in millions)

QUALIFYING SUBORDINATED DEBT PLUS TOTAL CAPITAL RESULTS (1, 2)	
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As indicated in the enclosures, at March 31, 2007, Fannie Mae's adjusted[1] OFHEO-directed minimum capital requirement was $38.381 billion, its adjusted statutory minimum capital requirement was $29.524 billion, its adjusted critical capital requirement was $15.247 billion, and its risk-based capital requirement was $20.536 billion. Thus, Fannie Mae's adjusted core capital of $42.277 billion at March 31, 2007, exceeded the OFHEO-directed minimum capital requirement by $3.896 billion and the critical capital requirement by $27.030 billion. Fannie Mae's total capital

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

of $42.627 billion at March 31, 2007, exceeded the risk-based capital requirement by $22.092 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 OFHEO-directed, statutory minimum, critical and risk-based capital and total qualifying subordinated debt levels at March 31, 2007.

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

Sincerely,

JBLockhart

James B. Lockhart III
Director

Enclosures

FEDERAL NATIONAL MORTGAGE ASSOCIATION
Minimum, Critical and Risk Based Capital Levels
March 31, 2007

SUMMARY

(Dollars in millions)

COMPONENTS OF THE MINIMUM CAPITAL LEVEL	
MINIMUM CAPITAL LEVEL - Adjusted, Statutory Requirement	29,524
MINIMUM CAPITAL LEVEL - Adjusted, OFHEO-directed Requirement	38,381
CORE CAPITAL - Adjusted	42,277
SURPLUS (DEFICIENCY) (based on OFHEO-directed Requirement)	3,896

COMPONENTS OF THE CRITICAL CAPITAL LEVEL	
CRITICAL CAPITAL LEVEL - Adjusted	15,247
CORE CAPITAL - Adjusted	42,277
ESTIMATED SURPLUS (DEFICIENCY)	27,030

STRESS TEST SCENARIO RESULTS	
UP-RATE SCENARIO	20,536
DOWN-RATE SCENARIO	14,630
RISK-BASED CAPITAL LEVEL	20,536
TOTAL CAPITAL	42,627
SURPLUS (DEFICIENCY)	22,092

Note: Totals may not add due to rounding.

FEDERAL NATIONAL MORTGAGE ASSOCIATION
Qualifying Subordinated Debt
March 31, 2007

SUMMARY

(Dollars in millions)

QUALIFYING SUBORDINATED DEBT PLUS TOTAL CAPITAL RESULTS (1, 2)	
TOTAL CAPITAL	42,986
TOTAL QUALIFYING SUBORDINATED DEBT	7,186
TOTAL CAPITAL AND QUALIFYING SUBORDINATED DEBT	**50,172**
CAPITAL REQUIREMENT FOR 4.0% OF ON-BALANCE SHEET ASSETS AND 0.45% OF NET MBS/PCs OUTSTANDING	**41,940**
SURPLUS (DEFICIENCY)	8,232

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

CHARLES E. SCHUMER
NEW YORK

COMMITTEES:
BANKING
FINANCE
JUDICIARY
RULES

United States Senate

WASHINGTON, DC 20510

received 8/16/07

August 8, 2007

Ben S. Bernanke
Chairman
The Federal Reserve Board
20th Street and Constitution Avenue, NW
Washington, DC 20551

Henry M. Paulson, Jr.
Secretary of the Treasury
U.S. Department of the Treasury
1500 Pennsylvania Avenue, NW
Washington, D.C. 20220

John C. Dugan
Comptroller of the Currency
Administrator of National Banks
Washington, DC 20219

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

John M. Reich
Director
Office of Thrift Supervision
1700 G. Street, NW
Washington, DC 20552

Christopher Cox
Chairman
Securities and Exchange Commission
100 F Street, NE
Washington, DC 20549

Sheila C. Bair
Chairman
Federal Deposit Insurance Corporation
550 17th Street, NW
Washington, DC 20429

Dear Sirs and Madam:

The Federal Reserve left interest rates unchanged yesterday, and that is a decision that I do not dispute. However, I am concerned that while the Fed's statement acknowledged recent financial volatility and tightening in the credit markets, Federal regulators may be underestimating the real risk that the spillover from the subprime mortgage market could cause significant disruption in the mortgage and consumer credit markets as a whole. This development may cause additional damage to the housing market, and to the entire economy.

I have been hearing from a variety of sources that the spillover to the prime markets is much greater than anticipated and that federal policymakers may not be preparing for any further spread of market deterioration, and I am deeply troubled by these reports. My hope is that the Federal agencies that oversee the financial markets and Congress can work together to limit this damage and protect our economy.

I fear that we may be significantly underestimating the magnitude of risk that remains in the markets. After holding hearings and conducting reports on this market, it seems that we have no clear picture of where the riskiest subprime mortgage-backed securities and derivatives are held, what proportion is likely to default, or what they are likely to be worth. There is also a lack of data on how many pension funds and employee benefit plans have exposure to securities at risk of default, and how this will affect retirement savings across the country.

Moreover, the current round of credit tightening is aggravating the slump in the housing market. I am worried that any inability of home buyers of even sound credit to obtain mortgage financing will cause an accelerating decline in home values as more houses come on the market for resale (either from their owners or as the result of foreclosures). If such a situation develops, we may see severe declines in home prices and negative effects on the macroeconomy. Therefore, I urge you to do whatever is possible to allow mortgages to prime borrowers to continue so that the economy can avert a sharp decline in home prices, and the economic disruptions that would result.

I urge all of the Federal financial regulators to take prudent steps to prevent the situation from deteriorating further and identify any measures necessary to preserve liquidity in the credit market as a whole. Federal regulators should consider devising an action plan—in conjunction with the government sponsored enterprises, such as Fannie Mae and Freddie Mac, and federal agencies, such as the Federal Housing Administration—to help prevent the spike in foreclosures that is anticipated and preserve liquidity in the secondary mortgage market.

In addition, I ask that Federal regulators consider making coordinated use of their persuasive powers with major participants in the mortgage-backed securities and credit derivatives markets; it may be time for the major players to take steps to preserve market liquidity.

Finally, as soon as it is practical, I respectfully ask that federal regulators report to Congress on the extent and consequences of problems in the mortgage and credit markets using the data that they have collected since the first signs of trouble, and if such data is lacking, what is being done by the regulators to gather more information so that we may better understand the extent of the problem.

Sincerely,

Senator Charles E. Schumer
United States Senator

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

OFFICE OF THE DIRECTOR

August 10, 2007

The Honorable Richard C. Shelby
Ranking Minority Member
Committee on Banking, Housing & Urban Affairs
U.S. Senate
110 Hart Senate Office Building
Washington, DC 20510

Dear Senator Shelby:

Enclosed for your information is our reply to Senator Schumer with respect to OFHEO's response to Fannie Mae's request for a 10% increase in their portfolio limits. This letter states that we will keep under active consideration the request, but we are not authorizing any significant changes at this time. It further notes that any needed action would be made for both Enterprises at the same time, consistent with safety and soundness, which is of paramount importance. We continue to reassess that position, especially in the affordable housing area.

I had a good conversation with Chairman Dodd recently and he reiterated his view that GSE reform legislation is a priority in September. In that connection, we look forward to working with your staff as they progress on GSE reform legislation over the August recess and in September.

Sincerely,

JBLockhart

James B. Lockhart III
Director

Enclosure

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

OFFICE OF THE DIRECTOR

August 10, 2007

DELIVERED BY FACSIMILE
AND FIRST CLASS MAIL

The Honorable Charles E. Schumer
United States Senate
313 Hart Senate Office Building
Washington, DC 20510

Dear Senator Schumer:

In your letter of August 7, you raised important questions regarding the liquidity of the U.S. mortgage market and the role Fannie Mae and Freddie Mac are playing, and could be playing, to support that market during this difficult period. OFHEO shares your concern with current market conditions and has been monitoring events on an ongoing basis.

I am pleased to report that, in fact, the Enterprises have provided notable support to the markets consistent with their charter mandates by securitizing and purchasing over $120 billion in mortgages in June alone. In discussions with Enterprise customers and other market participants we have confirmed that the Enterprises have been meeting customer needs. At the same time, I must note that both Fannie Mae and Freddie Mac remain "significant supervisory concerns" after more than three years of remediation efforts.

Present Market Activities

The Enterprises are participating in the mortgage market in two key ways:

First, while there are credit and liquidity issues today in certain segments of the mortgage market, those issues generally are not present in the largest segment of the mortgage market--the prime, conventional, conforming market that Fannie Mae and Freddie Mac traditionally serve. Indeed, the Enterprises have been doing, and are doing an increasingly large volume of securitization business in this market (over half a trillion dollars in the first half of the year), and the market is liquid and actively trading. They are gaining significant market share. We are encouraging them to continue to increase their securitization activities.

There are no caps on the Enterprises' securitization activities. This rapidly growing business makes mortgages more liquid. The Enterprises have more than $3 trillion in outstanding mortgage-backed securities and retained portfolios of about $1.4 trillion. About half of those portfolios are their own mortgage-backed securities that they choose to retain rather than sell. It is also worth noting that, with the same amount of capital, the Enterprises can securitize and guarantee over five times as many mortgages as they can if they retain those mortgages in their portfolios.

Second, the Enterprises recently informed their customers that future Enterprise purchases of non-traditional mortgage products and subprime mortgages must comply with the federal banking agencies' *Guidance on Nontraditional Mortgage Product Risks*. The Enterprises will be notifying them shortly on the *Statement on Subprime Mortgage Lending*. They have also committed to assuring that their future purchases on private label securities are comprised only of loans that satisfy these standards. In that way, and with OFHEO's encouragement, the Enterprises are doing their part to deter the continued use of loan characteristics and products that have a history of harming borrowers.

Safety and Soundness

In Chairman Dodd's statement on turmoil in the subprime market of August 7, he said that "it may be appropriate, consistent with safe and sound practices as determined by the regulator, to ease the temporary regulatory cap on Fannie and Freddie's mortgage portfolio." In May of 2006, OFHEO imposed the portfolio cap on Fannie Mae as part of a consent agreement that included a $400 million fine. The agreement coincided with the release of our Special Examination Report. In July of 2006, Freddie Mac voluntarily agreed to a cap as they too had very significant operational, financial reporting, systems and risk management problems. As we considered a temporary increase in the portfolio caps, a very important consideration remains the safety and soundness of the GSEs.

Four months ago, OFHEO submitted its Annual Report to Congress on the condition of the Enterprises. At that time, we reported that both Enterprises remain "a significant supervisory concern." Since then, each Enterprise has continued to make progress but much work remains to be done. Neither are timely filers of financial reports to the Securities and Exchange Commission (and Freddie Mac is not yet a SEC registrant). Timely filings would give investors the quality and depth of data made available by all other corporations. The continued lack of timely financial reports is a particularly troubling issue in unsettled markets.

Market Conditions

We view the market situation as significant, requiring the Enterprises and OFHEO to carefully assess any response to market conditions in light of safety and soundness concerns and in light of what the Enterprises may contribute to ameliorating any market dislocations. Another point to consider is that, although much smaller in percentage terms than many other market participants, the Enterprises have at this point marked-to-market losses on their portfolios. As I noted at the outset, the principal market segment served by the Enterprises is liquid and working. Raising portfolio caps would allow the Enterprises to purchase mortgages in this market segment, but would not respond directly to those segments having the most significant difficulties.

OFHEO maintains a daily dialogue with the Enterprises regarding conditions in the primary and secondary mortgage market. We are also in regular contact with the federal banking agencies and other government agencies exchanging information regarding market conditions and market liquidity. Finally, we are in regular contact with market participants and we carefully analyze daily market data. OFHEO will continue to assess the mortgage market and continue to monitor, as you put it in your letter of August 7, whether "spillover from the subprime mortgage market is threatening the liquidity of the mortgage market as a whole."

Our assessment of market conditions at this moment is that the subprime, Alt-A, and jumbo portions of the mortgage market are having varying degrees of difficulty, and that the conditions driving those difficulties are not the same in each case. Regulators, including OFHEO, and congressional leaders have for months been urging lenders to tighten lending standards in the subprime market and with respect to certain non-traditional mortgage products. While necessary to protect consumers, this tightening has predictably contributed to a shrinking of origination volume. However, the critical point is that the market's current reaction is keyed to deteriorating credit conditions in these market segments that reflect very poor lending decisions and resulting losses to investors and, in many cases, to borrowers.

The Alt-A market with no or limited documentation also is suffering from past shoddy underwriting practices. The market is in the process of assessing the current credit quality of subprime and Alt-A loans and repricing them accordingly. Such market adjustments take time. We are encouraging the Enterprises to develop strategies to better serve the changing subprime and Alt-A markets in a safe and sound manner.

The jumbo market today appears to be going through a temporary adjustment that reflects liquidity more than credit issues. That market segment is beyond the scope of the GSE charters.

OFHEO's Position

In light of the above facts, we issued a letter today to Fannie Mae indicating that we will keep under active consideration its request for an increase in the portfolio caps, but we are not authorizing any changes at this time. I would note that any needed action would be made for both Enterprises at the same time, consistent with safety and soundness. OFHEO takes very seriously the need to ensure the Enterprises' public mission of supporting affordable housing and ensuring stability and liquidity of the secondary mortgage market and to do so in a safe and sound manner. Therefore, we are exploring with each Enterprise ways for them to better support affordable housing, both multi-family and single-family, consistent with their mission.

The Honorable Charles E. Schumer
United States Senate

The market should have confidence that Enterprise securities are trading efficiently in the marketplace. The Enterprises will remain active market participants and OFHEO will continue to closely monitor both the markets and the Enterprises' safety and soundness, and will continue to consider changes as needed to ensure that the current liquidity in Enterprise securities remains. In that way, we also recognize the important role played by the Federal Reserve in providing liquidity to the market, as evidenced by its actions today.

We look forward to working with you, Chairman Dodd, Ranking Member Senator Shelby, and all members of the Senate Banking Committee in the Fall on the much needed GSE reform legislation. Thank you for your communication on this important subject.

Sincerely,

James B. Lockhart
Director

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

OFFICE OF THE DIRECTOR

August 10, 2007

The Honorable Barney Frank
Chairman
Committee on Financial Services
U.S. House of Representatives
2252 Rayburn House Office Building
Washington, DC 20515

Dear Chairman Frank:

Enclosed for your information is our reply to Senator Schumer with respect to OFHEO's response to Fannie Mae's request for a 10% increase in their portfolio limits. This letter states that we will keep under active consideration the request, but we are not authorizing any significant changes at this time. It further notes that any needed action would be made for both Enterprises at the same time, consistent with safety and soundness, which is of paramount importance. We continue to reassess that position, especially in the affordable housing area.

On other fronts, I had a good conversation with Chairman Dodd recently and he reiterated his view that GSE reform legislation is a priority in September. We plan to work with the Committee's staff over August in the hopes that movement on this crucial legislation is enhanced when Congress returns in September.

Sincerely,

James B. Lockhart III
Director

Enclosure

cc: The Honorable Spencer Bachus
Ranking Minority Member
Committee on Financial Services
U.S. House of Representatives
2246 Rayburn House Office Building
Washington, DC 20515

OFHEO

OFFICE OF FEDERAL HOUSING ENTERPRISE OVERSIGHT

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

OFFICE OF THE DIRECTOR

August 10, 2007

The Honorable Christopher J. Dodd
Chairman
Committee on Banking, Housing & Urban Affairs
U.S. Senate
448 Russell Senate Office Building
Washington, DC 20510

Dear Chairman Dodd:

Enclosed for your information is our reply to Senator Schumer with respect to OFHEO's response to Fannie Mae's request for a 10% increase in their portfolio limits. This letter states that we will keep under active consideration the request, but we are not authorizing any significant changes at this time. It further notes that any needed action would be made for both Enterprises at the same time, consistent with safety and soundness, which is of paramount importance. We continue to reassess that position, especially in the affordable housing area.

With respect to the GSE reform legislation, we had a good meeting yesterday with Shawn Maher. We look forward to working with your staff as they progress on GSE reform legislation over the August recess and in September.

Sincerely,

James B. Lockhart III
Director

Enclosure

CHARLES E. SCHUMER
NEW YORK

COMMITTEES:
BANKING
JUDICIARY
RULES
FINANCE

United States Senate

WASHINGTON, DC 20510

August 22, 2007

Ben S. Bernanke
Chairman
The Federal Reserve Board
20th Street and Constitution Avenue, NW
Washington, DC 20551

Henry M. Paulson, Jr.
Secretary of the Treasury
U.S. Department of the Treasury
1500 Pennsylvania Avenue, NW
Washington, DC 20220

John C. Dugan
Comptroller of the Currency
Administrator of National Banks
Washington, DC 20219

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

John M. Reich
Director
Office of Thrift Supervision
1700 G. Street, NW
Washington, DC 20552

Christopher Cox
Chairman
Securities and Exchange Commission
100 F Street, NE
Washington, DC 20549

Sheila C. Bair
Chairman
Federal Deposit Insurance Corporation
550 17th Street, NW
Washington, DC 20429

Alphonso Jackson
Secretary
U.S. Department of Housing and Urban Development
451 7th Street SW
Washington, DC 20410

Dear Sirs and Madam:

The Federal Reserve Bank has taken good steps to restore liquidity to the financial system, but there is still much more that needs to be done to address the risks that we face to our broader economy caused by the ongoing turmoil in the mortgage market. Preserving liquidity is important, but it does not solve the fundamental problem of the weak and worsening conditions in the mortgage market, particularly the subprime mortgage market. Unfortunately, federal regulators have not adequately addressed the seriousness of our mortgage market troubles. Until we deal with the depth and seriousness of the problems in the mortgage market, we will not ease the crisis of confidence in the broader credit markets, no matter what actions are taken to address the credit crunch. It is essential that the Federal agencies overseeing the financial markets use their influence over the major market players to encourage them to engage in a major effort to modify or refinance the loans that have a high probability of defaulting so that the upcoming wave of foreclosures that is anticipated can be abated and market confidence can be restored.

UBS estimates that the interest rates on $339 billion in subprime loans underlying mortgage backed securities will reset between the third quarter of 2007 and the end of 2008. The total volume of subprimes that will reset is even larger. It is widely acknowledged that the loans which are about to reset are already performing poorly, with higher than expected default and foreclosure rates. Therefore the reset process is very likely to contribute to higher foreclosure rates, rates which are already alarming. Just yesterday, we learned that national foreclosure filings are 93 percent higher than they were this time last year.

If increased foreclosures are allowed to proceed unchecked, the ultimate harm will extend well beyond the families who will lose their homes. Regional housing markets in several states are experiencing high vacancy rates and have large inventories of new homes for sale. In these markets, increased foreclosures will put additional downward pressure on housing prices, and this additional pressure could contribute to spiraling price declines and additional foreclosures. The effects on households, neighborhoods, and the broader economy are likely to be severe. In addition, the continued uncertainty about the credit-worthiness of mortgage-backed products, caused in large part by the widespread loss of faith in the integrity and accuracy of credit rating agencies, will continue to spook the financial markets.

Over the past several decades, innovations in the mortgage markets have made it much more difficult for many homeowners to refinance their loans when they need to. Furthermore, the prevalence of unscrupulous lending fueled by the increased appetite for subprime mortgage securitizations has resulted in a growing number of homeowners facing payment shocks as rates reset that could cause them to lose their homes. In order for them to keep their homes, their loans must be modified. Twenty years ago, most of these borrowers could go to the bank that held their mortgage and seek assistance. Today, with their loans sliced and diced into many pieces held by a variety of unaffiliated market participants, there is no one on the scene to help beleaguered homeowners do loan workouts.

However, there is a way out of this mess. According to the Center for Responsible Lending and other sources, up to 40 percent of current subprime borrowers could now qualify for safe, prime, fixed-rate loans. Fannie Mae has estimated that 80 percent of resetting subprime loans could qualify for a fixed rate prime loan. Our ability and willingness to assist these borrowers is going to be essential to our efforts to prevent the further damage to the housing market, credit markets and overall economy that would otherwise result if their loans are not modified or refinanced. Only a concerted effort by market participants, the administration, Congress, the GSEs and nonprofit foreclosure prevention specialists on the ground can reach all of these borrowers, refinance them into safe loans, and head off this looming crisis.

The reality of today's mortgage market calls for new and creative thinking by the regulators. There are many nonprofit groups that are experienced and willing to assist these borrowers, but they are both resource-constrained and need the cooperation of the banks, lenders and loan servicers. In addition, there are still financial institutions, mainly regional banks, that do not sell off their mortgages and thus can readily assist their borrowers by refinancing them into safe, fixed-rate loans. Commitments have also been made by Fannie Mae and Freddie Mac to help refinance homeowners stuck in high interest adjustable mortgages. While the federal government and regulators have largely been reluctant to use these tools to help struggling homeowners in the past, this new type of crisis demands a new type of response. This crisis does not call for a bailout of borrowers, but it does demand a new way of refinancing borrowers who can no longer simply go to their neighborhood banks, as they could have twenty years ago.

Therefore, I am urging you to take the following steps to address the problems we face in the mortgage market:

First, I respectfully ask that additional federal resources, including immediately providing any within your discretion, targeted to HUD-certified nonprofit groups currently helping struggling subprime borrowers navigate the complicated nexus of lenders and servicers who control the rights to loan modifications. I cannot stress enough the successes that many nonprofit organizations across the country have had in negotiating for workouts and loan modifications between struggling borrowers and private sector lenders and loan servicers. Senators Sherrod Brown, Bob Casey and I have been working to ensure that the $100 million in foreclosure prevention funding that we have secured in the Senate Committee's 2008 appropriations bill is approved this Fall. As you can appreciate, $100 million will not go far enough to ensure that the nonprofits helping borrowers will get the resources they need to help their increasing case loads. I urge you to ask the administration to come up with quick additional financing.

Second, as mentioned, GSEs like Fannie Mae and Freddie Mac have already made commitments to provide substantial resources for subprime refinancings. I have publicly stated that I will introduce legislation when Congress reconvenes in September to increase the portfolio caps on the GSEs to increase their flexibility to participate in loan modifications with borrowers and lending institutions. I encourage the regulators to act before Congressional action is necessary, and raise these caps to help facilitate more loan modifications.

Finally, I urge you to use your leverage over financial institutions—whether banks, lenders, servicers, or brokerages—to encourage them to match the federal government's efforts to provide funding to nonprofit groups working to prevent foreclosures, and to work with the nonprofits to help borrowers who need of loan modifications. Using your influence over the market players in this regard is an acceptable course of action that is urgently needed in today's world. In the past, the regulators have shown no reluctance to "jawbone" financial institutions to issue more credit. In today's world, the analogous action is asking these same institutions to help accomplish refinancing.

I have sent the attached letter to the largest private sector players in the subprime lending industry requesting that they do everything in their power to modify loans or provide refinancing alternatives for loans held by struggling subprime borrowers and help facilitate others to do so, including supplementing the Senate's efforts to provide foreclosure prevention funding to nonprofit specialists on the ground. I respectfully ask that you make available any additional federal resources and also join me in strongly urging the major market players to take an active role and help struggling borrowers before they lose their homes.

Sincerely,

Chuck Schumer

Charles E. Schumer
United States Senator

Enclosure: Letter to Banks and Lenders

Dear Sirs and Madams:

I have sent the attached letter to the financial market regulators today to urge them to use their resources, authority and influence to bring about major efforts to modify or refinance the subprime loans that have a high probability of defaulting so that the upcoming wave of foreclosures that is anticipated can be abated and market confidence can be restored. The letter asks them to enlist your cooperation, which I hope will be forthcoming.

In addition, so that we can base our legislative responses on fact, I respectfully ask that you respond to the following questions:

1. What efforts have you made to date to modify subprime loans or help struggling subprime borrowers?
2. How many subprime loans have you succeeded in modifying or refinancing over the last twelve months? What percentage does that represent of the total loans you service? What percentage of these modifications extended the initial monthly payment for a period of 60 months or more? What percentage of these modifications extended the initial monthly payment for a period of 36 months or more?
3. How much money have you directed (and over what time period) to HUD-certified nonprofit or community organizations working locally in your markets to prevent foreclosures and help borrowers with loan modifications? What specific activities have you funded with these resources?
4. What percentage of your customer service calls relating to troubled subprime loans have you been able to assist with one-on-one assistance?
5. What language do you provide to your front-line modification staff to ensure that borrowers without legal representation get the same modification as a borrower represented by an attorney or counselor?
6. What steps do you plan to take going forward to limit the number of home foreclosures on loans that you have originated or serviced?
7. What major obstacles remain to refinancing troubled loans that would benefit from policy actions taken by the federal government or legislation in Congress?

It is in all of our interests to take steps to avoid the high financial and social costs of foreclosures. We must use all the tools at our disposal to prevent an impending crisis that will threaten our housing market and our broader economy. I look forward to your prompt response.

Sincerely,

Charles E. Schumer
United States Senator

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

OFFICE OF THE DIRECTOR

September 6, 2007

DELIVERED BY FACSIMILE
AND FIRST CLASS MAIL

The Honorable Charles E. Schumer
United States Senate
313 Hart Senate Office Building
Washington, DC 20510

Dear Senator Schumer:

In your letters of August 8 and August 22, you urged us and other regulators to take whatever steps we could to keep mortgage credit available to prime borrowers and to enable subprime borrowers facing severe upward adjustments of their monthly payments to avoid foreclosure. I want to assure you that we are endeavoring to do so, consistent with our statutory responsibility for ensuring the safety and soundness of Fannie Mae and Freddie Mac.

I share your concern about the large volumes of subprime loans with prospective jumps in monthly payments over the next couple of years. The Office of Federal Housing Enterprise Oversight (OFHEO) continues to encourage Fannie Mae and Freddie Mac to contribute to solutions for affected borrowers. Both Enterprises have regular and special programs that may provide attractive alternatives for some subprime borrowers exposed to payment shock. Most new refinance loans of such borrowers can be securitized in the normal course of business. The portfolio caps are not hindering either Enterprise's ability to help in this area.

We have been working closely with and will continue to work with the Treasury Department and the Department of Housing and Urban Development in the Foreclosure Avoidance Initiative announced by President Bush on Friday. We will also continue to work with both Fannie Mae and Freddie Mac on their subprime refinancing initiatives.

In line with the bank and thrift regulators, we have provided guidance to the Enterprises about the need to curb the poor lending practices that have contributed to the current subprime difficulties. Accordingly, both Enterprises have agreed not to deal with nontraditional or subprime mortgages that are inconsistent with the regulators' guidances. That applies to both purchases and guarantees of such mortgages and to securities backed by such mortgages. These actions -- by OFHEO and by the Enterprises -- not only reinforce those of the bank regulators, but also have helped move the market more quickly toward eliminating these problematic mortgage products from the marketplace and clarifying rules for new and refinancing borrowers.

Our most important regulatory role is to ensure that Fannie Mae and Freddie Mac have the financial soundness and health to promote an active secondary market for mortgage loans to creditworthy borrowers, within the loan limits determined under the rules established by Congress. OFHEO has taken a series of strong supervisory and enforcement actions over the past four years to greatly change the way these two Enterprises manage their operations. They have made some major improvements, not just in accounting policies, but also in systems, controls, and governance throughout their businesses.

As I described in my August10 letter to you, much remains to be done, and that is exemplified by the inability of both Enterprises to produce timely financial statements. However, during this extended remediation period, the Enterprises have continued to serve their secondary market mission. This has been especially important during the past few months, as the market for Enterprise-guaranteed mortgage securities has been comparatively stable and liquid. I have enclosed a "Mortgage Note" that contains an update on the Enterprises' securitization and portfolio activities. Enterprise securitization programs, which totaled almost $100 billion in July, have continued to provide an attractive outlet for the Enterprises' traditional mortgage products.

In addition to their guarantee business, the Enterprises also contribute to market liquidity by buying and selling mortgages and mortgage securities. Significant safety and soundness concerns required us last year to establish caps on each Enterprise's mortgage asset portfolio. We continue to have safety and soundness concerns with both Enterprises that lead us to conclude that the caps should remain. Despite those caps, normal runoff from loan prepayments and amortization give the Enterprises the continued ability to make new asset purchases of $20 to $30 billion each month, a sizeable amount. They also have the ability to sell securities to allow them to purchase new mortgages. Almost half their combined portfolios are invested in Fannie Mae, Freddie Mac and Ginnie Mae MBS.

We recognize the uncertainty in current market conditions and the Enterprises' public mission of promoting a stable and liquid secondary market in a safe and sound manner. We are also focused on their responsibility for promoting affordable housing. Clearly, many parts of the mortgage market remain unsettled. We will continue to follow developments quite closely and reevaluate circumstances, including the caps on mortgage portfolios, as necessary.

Sincerely,

James B. Lockhart
Director

Enclosure

Mortgage Market Note

Portfolio Caps and Conforming Loan Limits

September 5, 2007

There has been confusing commentary on Fannie Mae's and Freddie Mac's role in the secondary mortgage market and how they might contribute to easing the current disruptions. As the regulator of these companies, one role of the Office of Federal Housing Enterprise Oversight (OFHEO) is to enhance public understanding of the secondary mortgage market. To that end, this Note explains the conforming loan limit and the portfolio caps currently in place for Fannie Mae and Freddie Mac.

Specifically, the **conforming loan limit** refers to the maximum principal balance of individual mortgages that Fannie Mae and Freddie Mac may purchase. Set forth in their charters by the Congress, the loan limit is based on year-over-year changes in a house price series published by the Federal Housing Finance Board based on its Mortgage Interest Rate Survey. OFHEO then calculates the maximum amount the conforming loan limit may be based on the increase or decrease calculated by the Finance Board. After OFHEO announces the new maximum amount, Fannie Mae and Freddie Mac then announce whether they will set the conforming loan limit at or below the new maximum. OFHEO does not have the authority to increase the conforming loan limit above that resulting from the calculation.

Portfolio caps refer to limits on the total dollar amount of mortgage assets Fannie Mae and Freddie Mac may hold on their balance sheets. Portfolio caps were put in place in separate agreements between OFHEO and each Enterprise due to safety and soundness concerns. The agreements were established to limit the size of the portfolios (but not to limit Enterprise securitization of mortgages) as the Enterprises remediate existing accounting and internal control issues.
The portfolios are not static. Each month, borrowers make principal payments that reduce their loan balances and some borrowers prepay their mortgages. At the same time, each month the Enterprises are adding new mortgages to their portfolios, within the cap limits.

The following discussion elaborates on these two important topics. Definitions of mortgage terms and an index to relevant documents appear at the end.

Background on Fannie Mae, Freddie Mac, and Their Role in the Mortgage Market

The Federal National Mortgage Association (Fannie Mae) and the Federal Home Loan Mortgage Corporation (Freddie Mac) are government-sponsored enterprises (GSEs or Enterprises) – shareholder-owned companies chartered by the Congress to fulfill a public mission. They operate with certain benefits unavailable to other private firms, but are limited by their federal charters to certain business activities described below. Their charters also include limits on the dollar size of mortgages eligible for Enterprise purchase or guarantee, the minimum down payment required (or alternative credit enhancement), and general guidance with respect to credit quality and underwriting. The Congress created OFHEO in 1992 to oversee Fannie Mae's and Freddie Mac's safety and soundness.

Today, Fannie Mae and Freddie Mac are supporting the liquidity and stability of the mortgage markets by buying, selling, and securitizing more than $100 billion of mortgages per month. Fannie Mae and Freddie Mac report annualized growth rates through July of 12.1 percent and 12.9 percent, respectively, in their total books of business. At the same time, mortgage originations have been declining significantly over the past several quarters; in the second quarter of 2007, single-family originations averaged about $243 billion per month, down 8.8 percent from the second quarter of 2006.

Conforming Loan Limit

Fannie Mae and Freddie Mac are not allowed by their charters to purchase loans above the conforming loan limit ($417,000 for most single-family properties in both 2006 and 2007). Under present law, the conforming loan limit may only be increased if the average house price goes up from October to October as measured by a Federal Housing Finance Board survey. OFHEO independently calculates the conforming loan limit and assures that changes to the limit made by the Enterprises accord with the statute and are implemented in a safe and sound manner. OFHEO recently issued proposed revisions to its existing guidance on the subject, detailing procedures it will use to provide certainty to the mortgage markets regarding the limit should house prices decline. Under this proposal, no decrease would be required in the conforming loan limit for 2008, regardless of what happens to house prices this year.

In the GSE reform legislation that passed the House of Representatives in May, the conforming loan limit would be increased in some areas where house prices are especially high.

Securitization, Retained Portfolios, and Portfolio Caps

The primary way Fannie Mae and Freddie Mac support the conforming loan market is by guaranteeing mortgage-backed securities (MBS). In a process called securitization, the Enterprises create MBS, securities that are backed by a pool of mortgages, and guarantee payment to MBS investors. The MBS pay principal and interest to investors based on payments made by borrowers on the underlying pool of mortgages. The Enterprises bear and manage the credit risk that borrowers may default on these mortgages; for that risk, the GSEs collect a fee. Thus, payments to investors in Enterprises' MBS are secured, first, by the underlying mortgages and, second, by a corporate guarantee of payment from the issuing Enterprise. The corporate guarantee of payment to MBS investors is the same as the corporate guarantee of repayment to the Enterprises' debt holders.

These MBS, which total over $3.5 trillion today, are actively trading at reasonable prices based on historical norms, despite increased new issue volumes and the present turmoil in other segments of the mortgage market. In recent years, the Enterprises' share of MBS issuance declined as private-label securities, often backed by subprime, Alt-A, and jumbo mortgages, grew rapidly. Most recently, the Enterprises' market share has been increasing and now exceeds 50 percent (Table 1). In July, the Enterprises' share was greater than 60 percent.

Table 1: Gross Issuance of Mortgage-Backed Securities (MBS)					
Date	Total MBS ($ in billions)	Percent of Total		Alt-A and Subprime as Percent of Total	
		Agency	Non-Agency	Alt-A	Subprime
2001	$1,355	81.0	19.7	0.8	6.4
2002	$1,857	77.7	22.3	2.9	6.6
2003	$2,717	78.4	21.6	2.7	7.2
2004	$1,884	54.1	45.9	8.4	19.2
2005	$2,156	44.7	55.3	15.4	21.6
2006	$2,050	44.1	55.9	17.8	21.9
2007 Q1	$537	49.4	50.6	18.0	16.5
2007 Q2	$547	52.8	47.2	18.4	13.7

Source: OFHEO based on data from Inside Mortgage Finance Publications.

The second way the Enterprises support the conforming loan market is through buying mortgages and MBS, holding them in their own portfolios and funding them by issuing debt. These retained portfolios represent 31.1 percent of their book of business. Portfolio holdings chiefly comprise the Enterprise's own MBS, other issuers' private-label MBS, and whole loans. Table 2 shows the Enterprises' retained mortgage portfolios as of July 31, 2007. Actual mortgage loans (whole loans) compose 40 percent of Fannie Mae's retained mortgage portfolio and 10 percent of Freddie Mac's. Thus, 60 percent of Fannie Mae's retained mortgage portfolio, and 90 percent of Freddie Mac's retained mortgage portfolio are comprised of mortgage-backed securities. Combined, the Enterprises own about 18 percent of their own MBS. Almost 50 percent of their portfolios are in liquid agency securities, which are issued by Fannie Mae, Freddie Mac and Ginnie Mae.

Table 2: Enterprises Retained Mortgage Portfolios as of July 31, 2007 (dollars in millions)

	Own MBS	Other Agency MBS	Non-Agency MBS	Whole Loans	Total
Fannie Mae	$277,468	$33,136	$123,922	$295,314	$729,840
Freddie Mac	$365,332	$44,271	$241,780	$69,246	$720,629
Combined	$642,800	$77,407	$365,702	$364,560	$1,450,469
Combined %	44.3%	5.3%	25.2%	25.1%	100%

Sources: Fannie Mae, Monthly Summary, July 2007 and Freddie Mac, Monthly Volume Summary: July 2007.
Notes: Amounts are unpaid principal balances. Other agency MBS includes MBS issued or guaranteed by another Enterprise or by the Government National Mortgage Association (Ginnie Mae). Non-agency MBS are "private-label securities."

As these purchases entail not only credit risk but significant interest rate and operational risks and as Fannie Mae and Freddie Mac still have significant systems, operational, control, and risk management challenges, OFHEO entered into separate agreements last year with Fannie Mae and Freddie Mac to cap their retained mortgage portfolios. The Freddie Mac cap, established by a voluntary agreement between Freddie Mac and OFHEO, allows 2 percent annual growth (0.5 percent quarterly). For the third quarter, the Freddie Mac cap is $728.1 billion.

The fourth quarter's cap will increase to $731.8 billion. Fannie Mae's portfolio cap, established by the May 2006 consent order, is fixed at $727.7 billion. The totals for the two Enterprises' retained portfolios in Table 1 reflect unpaid principal balances and, thus, differ slightly from the actual portfolio balance numbers used to assess compliance with the portfolio caps. Each Enterprise's actual balance reflects its unpaid principal balance adjusted, in accordance with Generally Accepted Accounting Principles (GAAP), to reflect market value adjustments, impairments, the Enterprise's allowance for loan losses, and other such adjustments. Each Enterprise remains in compliance with its respective portfolio cap requirement.

As balances on the whole loans and mortgages underlying MBS held in the portfolios of Fannie Mae and Freddie Mac decline through prepayments and normal loan amortization, the Enterprises in combination have the ability to make $20-30 billion in new portfolio investments each month. Importantly, the portfolio caps do not apply to the Enterprises' off-balance sheet securitization activities except that purchases of those MBS for their own retained portfolios are affected by the cap. Also, the caps apply only to the mortgage portfolios, not to the Enterprises' other assets.

Recent Market Disturbances

Key sources of the current market difficulties have been poor underwriting by lenders, excessive reliance on continued house price appreciation by investors, and highly leveraged borrowing by some homebuyers. Most of these problems have centered in the subprime and "Alt-A" mortgage markets and involve mortgages made to borrowers with impaired credit histories or with limited or no documentation of borrower income. Bank and thrift regulators have issued guidances on non-traditional mortgages and subprime lending to curb these practices, and OFHEO has supported these efforts by requiring the Enterprises to limit their mortgage purchases and guarantees to loans and securities that are consistent with these guidances. At the same time, OFHEO has encouraged the Enterprises to develop and implement safe and sound mortgage products for homeowners currently in unsuitable mortgages.

Credit Quality

Prime Loan – A conventional single-family mortgage made to a borrower with strong credit. Also known as an A loan.

A- (A-Minus) Loan – A conventional single-family mortgage made to a borrower with slightly impaired credit.

Alternative-A (Alt-A) Loan - A conventional single-family mortgage made to a borrower who typically provides limited income or asset verification or no evidence of an employer. Such loans may have other non-standard underwriting.

Subprime Loan - A conventional single-family mortgage made to a borrower with impaired credit.

Loan Type/Size

Conventional Mortgage – A loan that is neither insured nor guaranteed by the federal government (such as by the Federal Housing Administration or the Department of Veterans Affairs).

Conforming Loan – A conventional single-family mortgage with a principal balance eligible for purchase by Fannie Mae and Freddie Mac (in 2007 that limit is $417,000) and that otherwise meets the credit quality standards of the Enterprises.

Jumbo or Non-Conforming Loan – A conventional single-family mortgage with a principal balance exceeding the conforming loan limit (in 2007 that limit is $417,000).

Type of Property Financed

Affordable Housing Loan – A single- or multifamily mortgage that finances units that count toward goals established by the Department of Housing and Urban Development. These goals require each Enterprise to devote specific percentages of their purchases to units in properties that are affordable by low- and moderate-income households or located in targeted geographic areas.

Single-Family Mortgage – A loan secured by a property with 1 to 4 units.

Multi-family Mortgage – A loan secured by a property with 5 or more units. Fannie Mae and Freddie Mac may purchase multi-family mortgages of any size.

Securities

Mortgage-Backed Security (MBS) - A security that represents an undivided interest in a group of mortgages. MBS investors receive pro rata shares of principal and interest payments on the loans backing the securities.

Agency MBS – A MBS guaranteed by Fannie Mae, Freddie Mac, or the Government National Mortgage Association (Ginnie Mae), a government corporation that is part of the U.S. Department of Housing and Urban Development. Unlike MBS guaranteed by Fannie Mae and Freddie Mac, MBS guaranteed by Ginnie Mae are backed by the full faith and credit of the United States.

Private-Label Mortgage-Backed Security (PLS) - A MBS issued by a private entity other than Fannie Mae, Freddie Mac, or Ginnie Mae – a non-Agency MBS.

Residential Mortgage-Backed Security (RMBS, also known as Private-Label or Non-Agency MBS) – A MBS issued by a private entity other than Fannie Mae, Freddie Mac, or Ginnie Mae – a non-Agency MBS.

Commercial Mortgage-Backed Security (CMBS) – A MBS that represents an undivided interest in mortgages made to finance retail, office, industrial, hotel and resort, or multi-family properties.

Real Estate Mortgage Investment Conduit (REMIC) - An investment vehicle that holds residential or commercial mortgages in trust and issues multiple classes of securities representing undivided interests in those mortgages. The securities in each class entitle investors to cash flows structured differently from the payments on the underlying mortgages.

Index to Relevant Documents

Conforming Loan Limit

Current OFHEO Guidance on the Conforming Loan Limit:
http://www.ofheo.gov/media/pdf/ConformingLoanLimitGuidance.pdf

Proposed Changes to the Conforming Loan Limit Guidance:
http://www.ofheo.gov/media/guidance/confloanlimguidance62007.pdf

Public Comments Received on Proposed Changes to Conforming Loan Limit Guidance:
http://www.ofheo.gov/Regulations.aspx?Nav=292

Portfolio Caps

Consent Order with Fannie Mae:
http://www.ofheo.gov/newsroom.aspx?ID=275&q1=0&q2=4
http://www.ofheo.gov/media/pdf/attachsettlement.pdf

Voluntary Agreement with Freddie Mac:
http://www.freddiemac.com/news/pdf/ofheoltr_073106.pdf

August 10, 2007 Statement of OFHEO Director Lockhart on Portfolio Caps:
http://www.ofheo.gov/newsroom.aspx?ID=377&q1=1&q2=0

Nontraditional Mortgages and Subprime Guidance

Statement of Director Lockhart:
http://www.ofheo.gov/newsroom.aspx?ID=370&q1=1&q2=0

OFFICE OF FEDERAL HOUSING ENTERPRISE OVERSIGHT

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

OFFICE OF THE DIRECTOR

September 27, 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 June 30, 2007

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 August 24, 2007, OFHEO issued a notice of proposed action indicating its intention to classify Fannie Mae as adequately capitalized at June 30, 2007, and requesting that Fannie Mae notify OFHEO by September 25, 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 second quarter of 2007, OFHEO hereby provides notice that Fannie Mae is classified as adequately capitalized at June 30, 2007. 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, 2007, Fannie Mae's adjusted[1] OFHEO-directed minimum capital requirement was $39.416 billion, its adjusted statutory minimum capital requirement was $30.320 billion, its adjusted critical capital requirement was $15.665 billion, and its risk-based capital requirement was $10.225 billion. Thus, Fannie Mae's adjusted core capital of $42.375 billion at June 30, 2007, exceeded the OFHEO-directed minimum capital requirement by $2.959 billion and the critical capital requirement by $26.710 billion. Fannie Mae's total capital

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

of $43.578 billion at June 30, 2007, exceeded the risk-based capital requirement by $33.354 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 OFHEO-directed, statutory minimum, critical and risk-based capital and total qualifying subordinated debt levels at June 30, 2007.

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
June 30, 2007

SUMMARY

(Dollars in millions)

COMPONENTS OF THE MINIMUM CAPITAL LEVEL	
MINIMUM CAPITAL LEVEL - Adjusted, Statutory Requirement	30,320
MINIMUM CAPITAL LEVEL - Adjusted, OFHEO-directed Requirement	39,416
CORE CAPITAL - Adjusted	42,375
SURPLUS (DEFICIENCY) (based on OFHEO-directed Requirement)	2,959

COMPONENTS OF THE CRITICAL CAPITAL LEVEL	
CRITICAL CAPITAL LEVEL - Adjusted	15,665
CORE CAPITAL - Adjusted	42,375
ESTIMATED SURPLUS (DEFICIENCY)	26,710

STRESS TEST SCENARIO RESULTS	
UP-RATE SCENARIO	4,847
DOWN-RATE SCENARIO	10,225
RISK-BASED CAPITAL LEVEL	10,225
TOTAL CAPITAL [(a)]	43,578
SURPLUS (DEFICIENCY)	33,354

Note: Totals may not add due to rounding.
a. The total capital number does not reconcile to the core capital submissions, because only the latter includes the impact of accounting adjustments made during the month of September.

FEDERAL NATIONAL MORTGAGE ASSOCIATION
Qualifying Subordinated Debt
June 30, 2007

SUMMARY

(Dollars in millions)

QUALIFYING SUBORDINATED DEBT PLUS TOTAL CAPITAL RESULTS (1, 2)	
TOTAL CAPITAL	43,218
TOTAL QUALIFYING SUBORDINATED DEBT	7,187
TOTAL CAPITAL AND QUALIFYING SUBORDINATED DEBT	50,405
CAPITAL REQUIREMENT FOR 4.0% OF ON-BALANCE SHEET ASSETS AND 0.45% OF NET MBS/PCs OUTSTANDING	42,928
SURPLUS (DEFICIENCY)	7,477

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 27, 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 June 30, 2007

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 August 24, 2007, OFHEO issued a notice of proposed action indicating its intention to classify Freddie Mac as adequately capitalized at June 30, 2007, and requesting that Freddie Mac notify OFHEO by September 25, 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 second quarter of 2007, OFHEO hereby provides notice that Freddie Mac is classified as adequately capitalized at June 30, 2007. 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 both the second quarter 2007 financial statements and the Information Statement supplement issued on August 30, 2007.

As indicated in the enclosures, at June 30, 2007, Freddie Mac's OFHEO-directed minimum capital requirement was $34.555 billion, its statutory minimum capital requirement was $26.580 billion, its critical capital requirement was $13.637 billion, and its risk-based capital requirement was $18.944 billion. Thus, Freddie Mac's core capital of $36.334 billion at June 30, 2007, exceeded the OFHEO-directed minimum capital requirement by $1.779 billion and the critical capital requirement by $22.697 billion. Freddie Mac's total capital of $37.141 billion at June 30, 2007, exceeded the risk-based capital requirement by $18.197 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.

The enclosures summarize OFHEO's calculation of Freddie Mac's OFHEO-directed, statutory minimum, critical and risk-based capital and total qualifying subordinated debt levels at June 30, 2007.

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, 2007

SUMMARY

(Dollars in millions)

COMPONENTS OF THE MINIMUM CAPITAL LEVEL	
ON-BALANCE SHEET ASSETS	20,334
OFF-BALANCE SHEET OBLIGATIONS	
MBS and Equivalents	5,519
Commitments	555
OTHER OFF-BALANCE SHEET OBLIGATIONS	
Interest Rate and Foreign Exchange Rate Contracts	102
Sold Portfolio Remittances Pending	11
Other Off-Balance Sheet Obligations	60
MINIMUM CAPITAL - Statutory Requirement	**26,580**
MINIMUM CAPITAL - OFHEO-directed Requirement	**34,555**
CORE CAPITAL	**36,334**
SURPLUS (DEFICIENCY) (based on OFHEO-directed Requirement)	**1,779**

Note: Totals may not add due to rounding.

FEDERAL HOME LOAN MORTGAGE CORPORATION
Critical Capital Level
June 30, 2007

SUMMARY

(Dollars in millions)

COMPONENTS OF THE CRITICAL CAPITAL LEVEL	
ON-BALANCE SHEET ASSETS	10,167
OFF-BALANCE SHEET OBLIGATIONS	3,470
CRITICAL CAPITAL LEVEL	13,637
CORE CAPITAL	36,334
SURPLUS (DEFICIENCY)	22,697

Note: Totals may not add due to rounding.

FEDERAL HOME LOAN MORTGAGE CORPORATION
Risk-Based Capital Level
June 30, 2007

SUMMARY

(Dollars in millions)

STRESS TEST SCENARIO RESULTS	
UP-RATE SCENARIO	7,956
DOWN-RATE SCENARIO	18,944
RISK-BASED CAPITAL LEVEL	**18,944**
TOTAL CAPITAL	37,141
SURPLUS (DEFICIENCY)	18,197

Note: Totals may not add due to rounding.

FEDERAL HOME LOAN MORTGAGE CORPORATION
Qualifying Subordinated Debt
June 30, 2007

SUMMARY

(Dollars in millions)

QUALIFYING SUBORDINATED DEBT PLUS TOTAL CAPITAL RESULTS (1, 2)	
TOTAL CAPITAL	37,141
TOTAL QUALIFYING SUBORDINATED DEBT	4,626
TOTAL CAPITAL AND QUALIFYING SUBORDINATED DEBT	41,767
CAPITAL REQUIREMENT FOR 4.0% OF ON-BALANCE SHEET ASSETS AND 0.45% OF NET MBS/PCs OUTSTANDING	**38,452**
SURPLUS (DEFICIENCY)	**3,315**

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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OFFICE OF THE DIRECTOR

September 27, 2007

Honorable Barney Frank
Chairman
Committee on Financial Services
House of Representatives
Washington, DC 20515

Re: Notice of Final Fannie Mae Capital Classification at June 30, 2007

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 24, 2007, OFHEO issued a notice of proposed action indicating its intention to classify Fannie Mae as adequately capitalized at June 30, 2007, and requesting that Fannie Mae notify OFHEO by September 25, 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 second quarter of 2007, OFHEO hereby provides notice that Fannie Mae is classified as adequately capitalized at June 30, 2007. 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, 2007, Fannie Mae's adjusted[1] OFHEO-directed minimum capital requirement was \$39.416 billion, its adjusted statutory minimum capital requirement was \$30.320 billion, its adjusted critical capital requirement was \$15.665 billion, and its risk-based capital requirement was \$10.225 billion. Thus, Fannie Mae's adjusted core capital of \$42.375 billion at June 30, 2007, exceeded the OFHEO-directed minimum capital requirement by \$2.959 billion and the critical capital requirement by \$26.710 billion. Fannie Mae's total capital

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of $43.578 billion at June 30, 2007, exceeded the risk-based capital requirement by $33.354 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.

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Director

Enclosures

FEDERAL NATIONAL MORTGAGE ASSOCIATION
Minimum, Critical and Risk Based Capital Levels
June 30, 2007

SUMMARY

(Dollars in millions)

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FEDERAL NATIONAL MORTGAGE ASSOCIATION
Qualifying Subordinated Debt
June 30, 2007

SUMMARY

(Dollars in millions)

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September 27, 2007

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House of Representatives
Washington, D.C. 20515

Re: Notice of Final Freddie Mac Capital Classification at June 30, 2007

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 24, 2007, OFHEO issued a notice of proposed action indicating its intention to classify Freddie Mac as adequately capitalized at June 30, 2007, and requesting that Freddie Mac notify OFHEO by September 25, 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 second quarter of 2007, OFHEO hereby provides notice that Freddie Mac is classified as adequately capitalized at June 30, 2007. 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 both the second quarter 2007 financial statements and the Information Statement supplement issued on August 30, 2007.

As indicated in the enclosures, at June 30, 2007, Freddie Mac's OFHEO-directed minimum capital requirement was \$34.555 billion, its statutory minimum capital requirement was \$26.580 billion, its critical capital requirement was \$13.637 billion, and its risk-based capital requirement was \$18.944 billion. Thus, Freddie Mac's core capital of \$36.334 billion at June 30, 2007, exceeded the OFHEO-directed minimum capital requirement by \$1.779 billion and the critical capital requirement by \$22.697 billion. Freddie Mac's total capital of \$37.141 billion at June 30, 2007, exceeded the risk-based capital requirement by \$18.197 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.

The enclosures summarize OFHEO's calculation of Freddie Mac's OFHEO-directed, statutory minimum, critical and risk-based capital and total qualifying subordinated debt levels at June 30, 2007.

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

Sincerely,

JBLockhart

James B. Lockhart III
Director

Enclosures

FEDERAL HOME LOAN MORTGAGE CORPORATION
Minimum Capital Level
June 30, 2007

SUMMARY

(Dollars in millions)

COMPONENTS OF THE MINIMUM CAPITAL LEVEL	
ON-BALANCE SHEET ASSETS	20,334
OFF-BALANCE SHEET OBLIGATIONS	
MBS and Equivalents	5,519
Commitments	555
OTHER OFF-BALANCE SHEET OBLIGATIONS	
Interest Rate and Foreign Exchange Rate Contracts	102
Sold Portfolio Remittances Pending	11
Other Off-Balance Sheet Obligations	60
MINIMUM CAPITAL - Statutory Requirement	**26,580**
MINIMUM CAPITAL - OFHEO-directed Requirement	**34,555**
CORE CAPITAL	**36,334**
SURPLUS (DEFICIENCY) (based on OFHEO-directed Requirement)	**1,779**

Note: Totals may not add due to rounding.

FEDERAL HOME LOAN MORTGAGE CORPORATION
Critical Capital Level
June 30, 2007

SUMMARY

(Dollars in millions)

COMPONENTS OF THE CRITICAL CAPITAL LEVEL	
ON-BALANCE SHEET ASSETS	10,167
OFF-BALANCE SHEET OBLIGATIONS	3,470
CRITICAL CAPITAL LEVEL	**13,637**
CORE CAPITAL	**36,334**
SURPLUS (DEFICIENCY)	**22,697**

Note: Totals may not add due to rounding.

FEDERAL HOME LOAN MORTGAGE CORPORATION
Risk-Based Capital Level
June 30, 2007

SUMMARY

(Dollars in millions)

STRESS TEST SCENARIO RESULTS	
UP-RATE SCENARIO	7,956
DOWN-RATE SCENARIO	18,944
RISK-BASED CAPITAL LEVEL	**18,944**
TOTAL CAPITAL	**37,141**
SURPLUS (DEFICIENCY)	**18,197**

Note: Totals may not add due to rounding.

FEDERAL HOME LOAN MORTGAGE CORPORATION
Qualifying Subordinated Debt
June 30, 2007

SUMMARY

(Dollars in millions)

QUALIFYING SUBORDINATED DEBT PLUS TOTAL CAPITAL RESULTS (1, 2)	
TOTAL CAPITAL	37,141
TOTAL QUALIFYING SUBORDINATED DEBT	4,626
TOTAL CAPITAL AND QUALIFYING SUBORDINATED DEBT	**41,767**
CAPITAL REQUIREMENT FOR 4.0% OF ON-BALANCE SHEET ASSETS AND 0.45% OF NET MBS/PCs OUTSTANDING	**38,452**
SURPLUS (DEFICIENCY)	**3,315**

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 27, 2007

Honorable Christopher Dodd
Chairman
Committee on Banking, Housing, and Urban Affairs
United States Senate
Washington, D.C. 20510

Re: Notice of Final Fannie Mae Capital Classification at June 30, 2007

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 24, 2007, OFHEO issued a notice of proposed action indicating its intention to classify Fannie Mae as adequately capitalized at June 30, 2007, and requesting that Fannie Mae notify OFHEO by September 25, 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 second quarter of 2007, OFHEO hereby provides notice that Fannie Mae is classified as adequately capitalized at June 30, 2007. 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, 2007, Fannie Mae's adjusted[1] OFHEO-directed minimum capital requirement was $39.416 billion, its adjusted statutory minimum capital requirement was $30.320 billion, its adjusted critical capital requirement was $15.665 billion, and its risk-based capital requirement was $10.225 billion. Thus, Fannie Mae's adjusted core capital of $42.375 billion at June 30, 2007, exceeded the OFHEO-directed minimum capital requirement by $2.959 billion and the critical capital requirement by $26.710 billion. Fannie Mae's total capital

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

of $43.578 billion at June 30, 2007, exceeded the risk-based capital requirement by $33.354 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 OFHEO-directed, statutory minimum, critical and risk-based capital and total qualifying subordinated debt levels at June 30, 2007.

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

Sincerely,

JBLockhart

James B. Lockhart III
Director

Enclosures

FEDERAL NATIONAL MORTGAGE ASSOCIATION
Minimum, Critical and Risk Based Capital Levels
June 30, 2007

SUMMARY

(Dollars in millions)

COMPONENTS OF THE MINIMUM CAPITAL LEVEL	
MINIMUM CAPITAL LEVEL - Adjusted, Statutory Requirement	30,320
MINIMUM CAPITAL LEVEL - Adjusted, OFHEO-directed Requirement	39,416
CORE CAPITAL - Adjusted	42,375
SURPLUS (DEFICIENCY) (based on OFHEO-directed Requirement)	2,959

COMPONENTS OF THE CRITICAL CAPITAL LEVEL	
CRITICAL CAPITAL LEVEL - Adjusted	15,665
CORE CAPITAL - Adjusted	42,375
ESTIMATED SURPLUS (DEFICIENCY)	26,710

STRESS TEST SCENARIO RESULTS	
UP-RATE SCENARIO	4,847
DOWN-RATE SCENARIO	10,225
RISK-BASED CAPITAL LEVEL	10,225
TOTAL CAPITAL [a]	43,578
SURPLUS (DEFICIENCY)	33,354

Note: Totals may not add due to rounding.
a. The total capital number does not reconcile to the core capital submissions, because only the latter includes the impact of accounting adjustments made during the month of September.

FEDERAL NATIONAL MORTGAGE ASSOCIATION
Qualifying Subordinated Debt
June 30, 2007

SUMMARY

(Dollars in millions)

QUALIFYING SUBORDINATED DEBT PLUS TOTAL CAPITAL RESULTS (1, 2)	
TOTAL CAPITAL	43,218
TOTAL QUALIFYING SUBORDINATED DEBT	7,187
TOTAL CAPITAL AND QUALIFYING SUBORDINATED DEBT	**50,405**
CAPITAL REQUIREMENT FOR 4.0% OF ON-BALANCE SHEET ASSETS AND 0.45% OF NET MBS/PCs OUTSTANDING	42,928
SURPLUS (DEFICIENCY)	**7,477**

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

OFFICE OF THE DIRECTOR

September 27, 2007

Honorable Christopher Dodd
Chairman
Committee on Banking, Housing, and Urban Affairs
United States Senate
Washington, DC 20510

Re: Notice of Final Freddie Mac Capital Classification at June 30, 2007

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 24, 2007, OFHEO issued a notice of proposed action indicating its intention to classify Freddie Mac as adequately capitalized at June 30, 2007, and requesting that Freddie Mac notify OFHEO by September 25, 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 second quarter of 2007, OFHEO hereby provides notice that Freddie Mac is classified as adequately capitalized at June 30, 2007. 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 both the second quarter 2007 financial statements and the Information Statement supplement issued on August 30, 2007.

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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, 2007

SUMMARY

(Dollars in millions)

COMPONENTS OF THE MINIMUM CAPITAL LEVEL	
ON-BALANCE SHEET ASSETS	20,334
OFF-BALANCE SHEET OBLIGATIONS	
MBS and Equivalents	5,519
Commitments	555
OTHER OFF-BALANCE SHEET OBLIGATIONS	
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SURPLUS (DEFICIENCY) (based on OFHEO-directed Requirement)	**1,779**

Note: Totals may not add due to rounding.

FEDERAL HOME LOAN MORTGAGE CORPORATION
Critical Capital Level
June 30, 2007

SUMMARY

(Dollars in millions)

COMPONENTS OF THE CRITICAL CAPITAL LEVEL	
ON-BALANCE SHEET ASSETS	10,167
OFF-BALANCE SHEET OBLIGATIONS	3,470
CRITICAL CAPITAL LEVEL	13,637
CORE CAPITAL	36,334
SURPLUS (DEFICIENCY)	22,697

Note: Totals may not add due to rounding.

FEDERAL HOME LOAN MORTGAGE CORPORATION
Risk-Based Capital Level
June 30, 2007

SUMMARY

(Dollars in millions)

STRESS TEST SCENARIO RESULTS	
UP-RATE SCENARIO	7,956
DOWN-RATE SCENARIO	18,944
RISK-BASED CAPITAL LEVEL	**18,944**
TOTAL CAPITAL	37,141
SURPLUS (DEFICIENCY)	**18,197**

Note: Totals may not add due to rounding.

FEDERAL HOME LOAN MORTGAGE CORPORATION
Qualifying Subordinated Debt
June 30, 2007

SUMMARY

(Dollars in millions)

QUALIFYING SUBORDINATED DEBT PLUS TOTAL CAPITAL RESULTS (1, 2)	
TOTAL CAPITAL	37,141
TOTAL QUALIFYING SUBORDINATED DEBT	4,626
TOTAL CAPITAL AND QUALIFYING SUBORDINATED DEBT	**41,767**
CAPITAL REQUIREMENT FOR 4.0% OF ON-BALANCE SHEET ASSETS AND 0.45% OF NET MBS/PCs OUTSTANDING	**38,452**
SURPLUS (DEFICIENCY)	3,315

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

OFFICE OF THE DIRECTOR

September 27, 2007

Honorable Richard C. Shelby
Ranking Minority Member
Committee on Banking, Housing, and Urban Affairs
United States Senate
Washington, DC 20510

Re: Notice of Final Fannie Mae Capital Classification at June 30, 2007

Dear Senator Shelby:

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 24, 2007, OFHEO issued a notice of proposed action indicating its intention to classify Fannie Mae as adequately capitalized at June 30, 2007, and requesting that Fannie Mae notify OFHEO by September 25, 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.

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As indicated in the enclosures, at June 30, 2007, Fannie Mae's adjusted[1] OFHEO-directed minimum capital requirement was \$39.416 billion, its adjusted statutory minimum capital requirement was \$30.320 billion, its adjusted critical capital requirement was \$15.665 billion, and its risk-based capital requirement was \$10.225 billion. Thus, Fannie Mae's adjusted core capital of \$42.375 billion at June 30, 2007, exceeded the OFHEO-directed minimum capital requirement by \$2.959 billion and the critical capital requirement by \$26.710 billion. Fannie Mae's total capital

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The enclosures summarize OFHEO's calculation of Fannie Mae's OFHEO-directed, statutory minimum, critical and risk-based capital and total qualifying subordinated debt levels at June 30, 2007.

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

Sincerely,

JBLockhart

James B. Lockhart III
Director

Enclosures

FEDERAL NATIONAL MORTGAGE ASSOCIATION
Minimum, Critical and Risk Based Capital Levels
June 30, 2007

SUMMARY

(Dollars in millions)

COMPONENTS OF THE MINIMUM CAPITAL LEVEL	
MINIMUM CAPITAL LEVEL - Adjusted, Statutory Requirement	30,320
MINIMUM CAPITAL LEVEL - Adjusted, OFHEO-directed Requirement	39,416
CORE CAPITAL - Adjusted	42,375
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FEDERAL NATIONAL MORTGAGE ASSOCIATION
Qualifying Subordinated Debt
June 30, 2007

SUMMARY

(Dollars in millions)

QUALIFYING SUBORDINATED DEBT PLUS TOTAL CAPITAL RESULTS (1, 2)	
TOTAL CAPITAL	43,218
TOTAL QUALIFYING SUBORDINATED DEBT	7,187
TOTAL CAPITAL AND QUALIFYING SUBORDINATED DEBT	**50,405**
CAPITAL REQUIREMENT FOR 4.0% OF ON-BALANCE SHEET ASSETS AND 0.45% OF NET MBS/PCs OUTSTANDING	**42,928**
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OFFICE OF FEDERAL HOUSING ENTERPRISE OVERSIGHT
1700 G STREET NW WASHINGTON DC 20552 (202) 414-3801

OFFICE OF THE DIRECTOR

September 27, 2007

Honorable Richard C. Shelby
Ranking Minority Member
Committee on Banking, Housing, and Urban Affairs
United States Senate
Washington, DC 20510

Re: Notice of Final Freddie Mac Capital Classification at June 30, 2007

Dear Senator Shelby:

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

Sincerely,

JBLockhart

James B. Lockhart III
Director

Enclosures

FEDERAL HOME LOAN MORTGAGE CORPORATION
Minimum Capital Level
June 30, 2007

SUMMARY

(Dollars in millions)

COMPONENTS OF THE MINIMUM CAPITAL LEVEL	
ON-BALANCE SHEET ASSETS	20,334
OFF-BALANCE SHEET OBLIGATIONS	
MBS and Equivalents	5,519
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Note: Totals may not add due to rounding.

FEDERAL HOME LOAN MORTGAGE CORPORATION
Critical Capital Level
June 30, 2007

SUMMARY

(Dollars in millions)

COMPONENTS OF THE CRITICAL CAPITAL LEVEL	
ON-BALANCE SHEET ASSETS	10,167
OFF-BALANCE SHEET OBLIGATIONS	3,470
CRITICAL CAPITAL LEVEL	**13,637**
CORE CAPITAL	36,334
SURPLUS (DEFICIENCY)	**22,697**

Note: Totals may not add due to rounding.

FEDERAL HOME LOAN MORTGAGE CORPORATION
Risk-Based Capital Level
June 30, 2007

SUMMARY

(Dollars in millions)

STRESS TEST SCENARIO RESULTS	
UP-RATE SCENARIO	7,956
DOWN-RATE SCENARIO	18,944
RISK-BASED CAPITAL LEVEL	18,944
TOTAL CAPITAL	37,141
SURPLUS (DEFICIENCY)	18,197

Note: Totals may not add due to rounding.

FEDERAL HOME LOAN MORTGAGE CORPORATION
Qualifying Subordinated Debt
June 30, 2007

SUMMARY

(Dollars in millions)

QUALIFYING SUBORDINATED DEBT PLUS TOTAL CAPITAL RESULTS (1, 2)	
TOTAL CAPITAL	37,141
TOTAL QUALIFYING SUBORDINATED DEBT	4,626
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OFFICE OF FEDERAL HOUSING ENTERPRISE OVERSIGHT
1700 G STREET NW WASHINGTON DC 20552 (202) 414-3801

OFFICE OF THE DIRECTOR

October 31, 2007

The Honorable Paul E. Kanjorski
Chairman, Subcommittee on Capital Markets
Insurance and Government Sponsored Enterprises
Committee on Financial Services
U.S. House of Representatives
2188 Rayburn House Office Building
Washington DC 20515-3811

Dear Chairman Kanjorski:

Thank you for your October 24 letter requesting my views on H.R. 3838 and S. 2169. As you know, both bills would increase for 6 months the portfolio caps applicable to Fannie Mae and Freddie Mac (the Enterprises). I believe that it would not be in the best interest of the safety and soundness of the Enterprises to enact this legislation. The legislation is unnecessary, difficult to enforce and sets an unfortunate precedent of overriding a safety and soundness regulator's judgment. It is also counter-productive to the important goal of achieving comprehensive GSE regulatory reform.

As noted in your letter, the legislation would specifically require OFHEO to increase the mortgage portfolio limitations set forth in the Fannie Mae Consent Decree and the Freddie Mac Letter by not less than 10 percent. It would also require that 85 percent of the increase be used to refinance subprime mortgages at risk of foreclosure ($125 billion or approximately $20 billion per month).

The current portfolio limitations are in place as a direct result of serious safety and soundness problems at each Enterprise. Both Enterprises have made progress in remediating the major operational, financial reporting, systems and risk management problems that resulted in the imposition of portfolio caps and other restrictions, but much work remains to be done. They also have growing exposures to credit risk. The legislation would directly contradict the safety and soundness determinations made by OFHEO. I believe that Congress should avoid interfering with a supervisory judgment on an important safety and soundness issue.

The Enterprises' presence in the conventional conforming loan market over the last 3 months has been very important in preventing more problems for the mortgage and overall financial markets. I believe that 3 key reasons that they were able to fulfill their mission were the portfolio constraints, extra capital requirements and strong emphasis on prudent risk management imposed by OFHEO over the last 3 years. I share your concern that this proposed legislative "short-term solution" could produce "long-term detrimental consequences for our financial markets." The right long-term solution is comprehensive GSE reform.

On September 19, we announced several flexibilities to the portfolio limits, consistent with our ongoing safety and soundness concerns and with the Enterprises' mission of providing support and liquidity to the secondary mortgage market. At that time, we said that the portfolio cap flexibility plus the Enterprises' ongoing ability to securitize mortgages, sell assets, and replace maturing assets, would enhance each Enterprise's ability to purchase or securitize subprime mortgages, refinanced mortgages for borrowers with lower credit scores, and affordable multi-family housing mortgages. These efforts should assist lenders in helping some subprime borrowers avoid foreclosure. We also required each Enterprise to report to us monthly their subprime and affordable multi-family activities.

Despite this additional cap flexibility, the Enterprises' own public commitments to offering rescue mortgages, and their issuance of $1.5 billion of preferred stock in September, both Enterprises *reduced* their retained mortgage portfolios in September. Freddie Mac cited as the reason for its $19 billion portfolio reduction "activities to maintain a regulatory capital surplus over the 30 percent mandatory target capital surplus."

It is important to recognize that the subprime related portion of the legislation can be achieved by the Enterprises today, if it is prudent and possible without any further increase in the size of their mortgage portfolios. Given the new portfolio cap flexibility, portfolio maturities and sales and securitizations, on a combined basis, Fannie Mae and Freddie Mac could buy and securitize more than the legislative goal of $125 billion over a 6-month period in subprime rescue mortgages without an increase in the portfolio caps. Using existing capacity, they can address the need for a deliberate process of expanding GSE subprime activities, maintain a strong safety and soundness regime, and address the ongoing requirements for adequate capital, which is required by regulation and desired by market participants. Also by using existing capabilities, the Enterprises would not have to shed the subprime mortgages after 6 months, which could cause a market disruption. Rest assured OFHEO will monitor growth in subprime exposure very closely, with ongoing review of the program's risk management and operations.

As a safety and soundness regulator with concerns about the Enterprises' risk management, systems, accounting, internal controls and growing credit losses due in part to shrinking house prices, OFHEO would be concerned about the rapid and substantial portfolio growth, and the considerable growth in subprime exposure, implied by the pending legislation. I believe that such a change would be imprudent and would

The Honorable Paul E. Kanjorski, Chairman
Subcommittee on Capital Markets, Insurance and
Government Sponsored Enterprises

materially increase credit, market and operational risk for the Enterprises when they are ill-equipped to handle it. It would also add considerable strain to already limited capital resources and higher potential risks to the financial markets.

In conclusion, in my view, legislation increasing the portfolio is unnecessary, unsafe and unsound, and could have the unfortunate effect of appearing to set a target for subprime purchases that the Enterprises may not be able to meet safely. However, the recent mortgage market turmoil has once again shown that we do need legislation for a stronger regulator for the housing GSEs to ensure they can fulfill their critical missions in times of mortgage market turmoil. I appreciate your and the House's bi-partisan support of this crucial legislation (H.R. 1427) and look forward to continued work with you on its enactment.

Sincerely,

JBLockhart

James B. Lockhart III
Director

PAUL E. KANJORSKI
11TH DISTRICT, PENNSYLVANIA

COMMITTEE ON
FINANCIAL SERVICES

CHAIRMAN:
SUBCOMMITTEE ON CAPITAL MARKETS, INSURANCE,
AND GOVERNMENT SPONSORED ENTERPRISES

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October 24, 2007

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

Dear Director Lockhart:

Last week, as you know, two of my congressional colleagues introduced much publicized bills in the House and the Senate to temporarily increase the portfolio caps applicable to Fannie Mae and Freddie Mac.

If enacted into law, H.R. 3838 and S. 2169 would specifically require you to increase the mortgage portfolio limitations set forth in the Fannie Mae Consent Decree and the Freddie Mac Letter by not less than 10 percent. These short-term portfolio cap changes would last six months, and the legislation would require Fannie Mae and Freddie Mac to use at least 85 percent of these portfolio increases to refinance mortgages at risk of foreclosure.

As the Chairman of the House Subcommittee on Capital Markets, Insurance, and Government Sponsored Enterprises, I have a deep interest in and responsibility for ensuring that Fannie Mae and Freddie Mac operate safely and soundly. Moreover, as one of the few remaining Members of Congress who worked within the committee of jurisdiction to resolve the savings and loan crisis in the late 1980s and early 1990s, I want to ensure that Congress does not once again enact a promising short-term solution that ultimately produces long-term detrimental consequences for our financial markets.

Because you serve as the prudential regulator for these two important housing enterprises, I write to request your analysis of the potential policy implications of H.R. 3838 and S. 2169 as to whether these bills could either negatively affect the solvency of the two entities or produce unintended consequences in our housing markets. I would also appreciate learning about any additional thoughts that you may have on these matters, consistent with all applicable law and regulation.

In closing, I look forward to learning your observations on these bills as quickly as possible, but no later than the end of October. Please feel free to contact me directly if you should have any questions about this request.

Sincerely,

Paul E. Kanjorski

Paul E. Kanjorski
Chairman, Subcommittee on Capital Markets,
Insurance and Government Sponsored Enterprises

cc: Chairman Barney Frank
House Financial Services Committee
2129 Rayburn House Office Building

United States Senate

WASHINGTON, DC 20510

[redacted] 11/2007

November 2, 2007

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

Dear Mr. Mudd:

Last month, the Archstone-Smith Trust announced the acquisition of apartment investment and operations company Archstone-Smith by a partnership sponsored by affiliates of Tishman Speyer Real Estate Venture VII, L.P. and Lehman Brothers Holdings, Inc. As part of this transaction, Fannie Mae purchased a $7.1 billion credit facility, which is secured by 105 multifamily properties included in the Archstone-Smith portfolio.

According to Archstone-Smith, the company's portfolio is concentrated in many of the most desirable neighborhoods in the Washington, D.C. metropolitan area, Southern California, the San Francisco Bay area, the New York Metropolitan area, Seattle and Boston. We are concerned that at a time when it is as important as ever that Fannie Mae meet its affordable housing goals, this large transaction does not appear to fulfill the needs of low- and moderate-income families or underserved areas. Please explain how this transaction furthers your mission to promote affordable housing.

Additionally, given the concerns that have been raised related to this transaction, we ask that you provide the addresses of the 105 properties directly affected by your involvement in the Archstone-Smith transaction so that we may assess to what extent these buildings further the company's affordable housing goals.

Congress chartered Fannie Mae to serve an affordable housing mission. As members of the Senate Banking Committee, which has Congressional oversight responsibility in this area, we seek to ensure that this mission is being served and American taxpayers' interests are being protected.

We look forward to your prompt response to our request.

Sincerely,

John E. Sununu
United States Senate

Chuck Hagel
United States Senate

cc: The Honorable James B. Lockhart
The Honorable Alfonso Jackson