



# OFFICE OF FEDERAL HOUSING ENTERPRISE OVERSIGHT

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

## OFFICE OF THE DIRECTOR

November 6, 2007

The Honorable Carl Levin  
269 Senate Russell Office Building  
U.S. Senate  
Washington, DC 20510

Dear Senator Levin:

Thank you for your letter asking OFHEO to explore ways to support the role the two housing government-sponsored enterprises (GSEs), Fannie Mae and Freddie Mac (the Enterprises), can play in stabilizing the current situation in the secondary mortgage market. I concur with your view that these two Enterprises have a critical mission of providing liquidity, stability and affordability to the housing market.

With respect to your concerns about portfolio caps, the current portfolio limitations set forth by OFHEO are in place as a direct result of very serious safety and soundness problems at each Enterprise. Both Enterprises have made progress in remediating the very significant 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 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 a key reason that they were able to fulfill their mission was the portfolio constraints, extra capital requirements and strong emphasis on prudent risk management imposed by OFHEO over the last 3 years.

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, over the next 6 months up to \$20 billion or more of subprime mortgages, refinanced mortgages for borrowers with lower credit scores, and affordable multi-family housing mortgages. The Enterprises also can be more aggressive in marketing rescue products to financial institutions and in creating new products to meet this need. These efforts should assist lenders in helping some subprime borrowers avoid foreclosure. We also required at that time each Enterprise to report to us monthly with regard to mortgage purchases in relationship to the \$20 billion level.

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."

As you may know, legislation is now pending in the Senate (S. 2169) and House (H.R. 3838) that would increase for 6 months the portfolio caps applicable to the Enterprises. 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). 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.

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, 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 the Enterprises have enough flexibility to fulfill their missions. 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, 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. I understand that the Enterprises share some of these concerns.

In my view, legislation increasing portfolios 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 safely meet. 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 would be happy to meet with you to discuss this and related matters, including OFHEO's continued need and support of legislation to enhance the current GSE regulatory environment.

Sincerely,



James B. Lockhart III  
Director



# OFFICE OF FEDERAL HOUSING ENTERPRISE OVERSIGHT

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

## OFFICE OF THE DIRECTOR

November 15, 2007

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

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

Dear Chairman Dodd and Ranking Member Shelby:

It is my understanding that S.2346 could be brought up as soon as today under a unanimous consent request. This bill would temporarily lift the portfolio caps on Fannie Mae and Freddie Mac. OFHEO, as the regulator of these two companies, opposes this legislation as it is not in the best interest of the safety and soundness of the Enterprises. The bill is also unnecessary, difficult to enforce and counterproductive to the important goal of achieving comprehensive GSE regulatory reform. This bill is particularly ill-advised during a period when the two Enterprises have not yet completed all of the items identified in their respective consent orders and are facing rapidly increasing credit risks. What is needed now, especially, in light of mortgage conditions is comprehensive GSE reform legislation to ensure that they can continue to support the conforming mortgage market and to prevent the recurrence of their past problems.

This 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. This proposed 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."

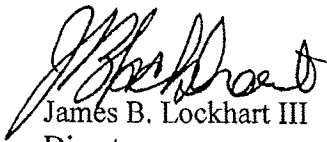
It is important to recognize that the subprime related portion of the legislation can be achieved by the Enterprises today, if it is prudent and possible, without any further increase in the size of their mortgage portfolios. Given the new portfolio cap flexibility, portfolio maturities and sales and 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 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 portfolios 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. The House has passed on a bi-partisan basis this crucial legislation (H.R. 1427) I look forward to continued work with you on enactment of comprehensive GSE reform.

Sincerely,



James B. Lockhart III  
Director



## OFFICE OF FEDERAL HOUSING ENTERPRISE OVERSIGHT

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

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### OFFICE OF THE DIRECTOR

December 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 September 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 November 26, 2007, OFHEO issued a notice of proposed action indicating its intention to classify Fannie Mae as adequately capitalized at September 30, 2007, and requesting that Fannie Mae notify OFHEO by December 27, 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 third quarter of 2007, OFHEO hereby provides notice that Fannie Mae is classified as adequately capitalized at September 30, 2007. The final capital classification is based on Fannie Mae's financial results, as certified and represented as true and correct by Fannie Mae's management, and consistent with the company's financial statements issued on November 9, 2007.

As indicated in the enclosures, at September 30, 2007, Fannie Mae's OFHEO-directed minimum capital requirement was \$39.393 billion, its statutory minimum capital requirement was \$30.303 billion, its critical capital requirement was \$15.682 billion, and its risk-based capital requirement was \$24.676 billion. Thus, Fannie Mae's core capital of \$41.713 billion at September 30, 2007, exceeded the OFHEO-directed minimum capital requirement by \$2.319 billion and the critical capital requirement by \$26.031 billion. Fannie Mae's total capital of \$43.053 billion at September

30, 2007, exceeded the risk-based capital requirement by \$18.377 billion.

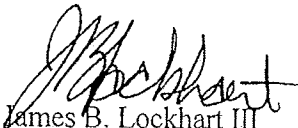
Further, Fannie Mae has maintained a capital surplus throughout the quarter in accordance with the Capital Restoration Plan, approved February 17, 2005, and the Consent Order dated May 23, 2006. The final capital classification does not alter or amend the Capital Plan or the Consent Order.

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 September 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 Capital Level**  
**September 30, 2007**

**SUMMARY**

(Dollars in millions)

<b>COMPONENTS OF THE MINIMUM CAPITAL LEVEL</b>	
<b>ON-BALANCE SHEET ASSETS</b>	<b>20,759</b>
<b>OFF-BALANCE SHEET OBLIGATIONS</b>	
MBS and Equivalents	9,015
Commitments	256
<b>OTHER OFF-BALANCE SHEET OBLIGATIONS</b>	
Interest Rate and Foreign Exchange Rate Contracts	107
Other Off-Balance Sheet Obligations	165
<b>MINIMUM CAPITAL LEVEL - Statutory Requirement</b>	<b>30,303</b>
<b>MINIMUM CAPITAL LEVEL - OFHEO Directed Requirement</b>	<b>39,393</b>
<b>CORE CAPITAL</b>	<b>41,713</b>
<b>SURPLUS/(DEFICIENCY)</b>	<b>2,319</b>

Note: Totals may not add due to rounding.

FEDERAL NATIONAL MORTGAGE ASSOCIATION  
Critical Capital Level  
September 30, 2007

SUMMARY

(Dollars in millions)

COMPONENTS OF THE CRITICAL CAPITAL LEVEL	
ON-BALANCE SHEET ASSETS	10,379
OFF-BALANCE SHEET OBLIGATIONS	5,302
CRITICAL CAPITAL LEVEL	15,682
CORE CAPITAL	41,713
SURPLUS/(DEFICIENCY)	26,031

Note: Totals may not add due to rounding.

**FEDERAL NATIONAL MORTGAGE ASSOCIATION**  
**Risk-Based Capital Level**  
**September 30, 2007**

**SUMMARY**

(Dollars in millions)

<b>STRESS TEST SCENARIO RESULTS</b>	
<b>UP-RATE SCENARIO</b>	10,602
<b>DOWN-RATE SCENARIO</b>	24,676
<b>RISK-BASED CAPITAL LEVEL</b>	24,676
<b>TOTAL CAPITAL</b>	43,053
<b>SURPLUS/(DEFICIENCY)</b>	18,377

Note: Totals may not add due to rounding.

**FEDERAL NATIONAL MORTGAGE ASSOCIATION**  
**Qualifying Subordinated Debt**  
**September 30, 2007**

**SUMMARY**

(Dollars in millions)

<b>QUALIFYING SUBORDINATED DEBT PLUS TOTAL CAPITAL RESULTS (1, 2)</b>	
<b>TOTAL CAPITAL</b>	43,053
<b>TOTAL QUALIFYING SUBORDINATED DEBT</b>	6,485
<b>TOTAL CAPITAL AND QUALIFYING SUBORDINATED DEBT</b>	49,538
<b>CAPITAL REQUIREMENT FOR 4.0% OF ON-BALANCE SHEET ASSETS AND 0.45% OF NET MBS/PCs OUTSTANDING</b>	42,607
<b>SURPLUS (DEFICIENCY)</b>	6,931

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**

December 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 September 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 Home Loan Mortgage Corporation (Freddie Mac) not less than quarterly. On November 26, 2007, OFHEO issued a notice of proposed action indicating its intention to classify Freddie Mac as adequately capitalized at September 30, 2007, and requesting that Freddie Mac notify OFHEO by December 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 third quarter of 2007, OFHEO hereby provides notice that Freddie Mac is classified as adequately capitalized at September 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 third quarter 2007 financial statements and the Information Statement supplement issued by Freddie Mac on November 20, 2007.

As indicated in the enclosures, at September 30, 2007, Freddie Mac's OFHEO-directed minimum capital requirement was \$34.048 billion, its statutory minimum capital requirement was \$26.190 billion, its critical capital requirement was \$13.461 billion, and its risk-based capital requirement was \$11.316 billion. Thus, Freddie Mac's core capital of \$34.643 billion at September 30, 2007, exceeded the OFHEO-directed minimum capital requirement by \$0.596 billion and the critical capital requirement by \$21.182 billion. Freddie Mac's total capital of \$36.394 billion at September 30, 2007, exceeded the risk-based capital requirement by \$25.078 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 September 30, 2007.

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

Sincerely,

A handwritten signature in black ink, appearing to read "J. Lockhart", written in a cursive style.

James B. Lockhart III  
Director

Enclosures

**FEDERAL HOME LOAN MORTGAGE CORPORATION**  
**Minimum Capital Level**  
**September 30, 2007**

**SUMMARY**

(Dollars in millions)

<b>COMPONENTS OF THE MINIMUM CAPITAL LEVEL</b>	
<b>ON-BALANCE SHEET ASSETS</b>	19,601
<b>OFF-BALANCE SHEET OBLIGATIONS</b>	
MBS and Equivalents	5,819
Commitments	556
<b>OTHER OFF-BALANCE SHEET OBLIGATIONS</b>	
Interest Rate and Foreign Exchange Rate Contracts	136
Sold Portfolio Remittances Pending	8
Other Off-Balance Sheet Obligations	69
<b>MINIMUM CAPITAL - Statutory Requirement</b>	<b>26,190</b>
<b>MINIMUM CAPITAL - OFHEO-directed Requirement</b>	<b>34,048</b>
<b>CORE CAPITAL</b>	<b>34,643</b>
<b>SURPLUS (DEFICIENCY) (based on OFHEO-directed Requirement)</b>	<b>596</b>

Note: Totals may not add due to rounding.

**FEDERAL HOME LOAN MORTGAGE CORPORATION**  
**Critical Capital Level**  
**September 30, 2007**

**SUMMARY**

(Dollars in millions)

COMPONENTS OF THE CRITICAL CAPITAL LEVEL	
ON-BALANCE SHEET ASSETS	9,801
OFF-BALANCE SHEET OBLIGATIONS	3,661
CRITICAL CAPITAL LEVEL	13,461
CORE CAPITAL	34,643
SURPLUS (DEFICIENCY)	21,182

Note: Totals may not add due to rounding.



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

SUMMARY

(Dollars in millions)

STRESS TEST SCENARIO RESULTS	
UP-RATE SCENARIO	5,916
DOWN-RATE SCENARIO	11,316
RISK-BASED CAPITAL LEVEL	11,316
TOTAL CAPITAL	36,394
SURPLUS (DEFICIENCY)	25,078

Note: Totals may not add due to rounding.

**FEDERAL HOME LOAN MORTGAGE CORPORATION**  
**Qualifying Subordinated Debt**  
**September 30, 2007**

**SUMMARY**

(Dollars in millions)

<b>QUALIFYING SUBORDINATED DEBT PLUS TOTAL CAPITAL RESULTS</b>	<b>(1, 2)</b>
<b>TOTAL CAPITAL</b>	<b>36,438</b>
<b>TOTAL QUALIFYING SUBORDINATED DEBT</b>	<b>4,628</b>
<b>TOTAL CAPITAL AND QUALIFYING SUBORDINATED DEBT</b>	<b>41,066</b>
<b>CAPITAL REQUIREMENT FOR 4.0% OF ON-BALANCE SHEET ASSETS AND 0.45% OF NET MBS/PCs OUTSTANDING</b>	<b>37,609</b>
<b>SURPLUS (DEFICIENCY)</b>	<b>3,456</b>

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

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## OFFICE OF THE DIRECTOR

December 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 September 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 November 26, 2007, OFHEO issued a notice of proposed action indicating its intention to classify Fannie Mae as adequately capitalized at September 30, 2007, and requesting that Fannie Mae notify OFHEO by December 27, 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 third quarter of 2007, OFHEO hereby provides notice that Fannie Mae is classified as adequately capitalized at September 30, 2007. The final capital classification is based on Fannie Mae's financial results, as certified and represented as true and correct by Fannie Mae's management, and consistent with the company's financial statements issued on November 9, 2007.

As indicated in the enclosures, at September 30, 2007, Fannie Mae's OFHEO-directed minimum capital requirement was \$39.393 billion, its statutory minimum capital requirement was \$30.303 billion, its critical capital requirement was \$15.682 billion, and its risk-based capital requirement was \$24.676 billion. Thus, Fannie Mae's core capital of \$41.713 billion at September 30, 2007, exceeded the OFHEO-directed minimum capital requirement by \$2.319 billion and the critical capital requirement by \$26.031 billion. Fannie Mae's total capital of \$43.053 billion at September

30, 2007, exceeded the risk-based capital requirement by \$18.377 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 September 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 Capital Level**  
**September 30, 2007**

**SUMMARY**

(Dollars in millions)

<b>COMPONENTS OF THE MINIMUM CAPITAL LEVEL</b>	
<b>ON-BALANCE SHEET ASSETS</b>	20,759
<b>OFF-BALANCE SHEET OBLIGATIONS</b>	
MBS and Equivalents	9,015
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<b>CORE CAPITAL</b>	<b>41,713</b>
<b>SURPLUS/(DEFICIENCY)</b>	<b>2,319</b>

Note: Totals may not add due to rounding.

FEDERAL NATIONAL MORTGAGE ASSOCIATION  
Critical Capital Level  
September 30, 2007

SUMMARY

(Dollars in millions)

COMPONENTS OF THE CRITICAL CAPITAL LEVEL	
ON-BALANCE SHEET ASSETS	10,379
OFF-BALANCE SHEET OBLIGATIONS	5,302
CRITICAL CAPITAL LEVEL	15,682
CORE CAPITAL	41,713
SURPLUS/(DEFICIENCY)	26,031

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**FEDERAL NATIONAL MORTGAGE ASSOCIATION**  
**Risk-Based Capital Level**  
**September 30, 2007**

**SUMMARY**

**(Dollars in millions)**

<b>STRESS TEST SCENARIO RESULTS</b>	
<b>UP-RATE SCENARIO</b>	<b>10,602</b>
<b>DOWN-RATE SCENARIO</b>	<b>24,676</b>
<b>RISK-BASED CAPITAL LEVEL</b>	<b>24,676</b>
<b>TOTAL CAPITAL</b>	<b>43,053</b>
<b>SURPLUS/(DEFICIENCY)</b>	<b>18,377</b>

Note: Totals may not add due to rounding.

**FEDERAL NATIONAL MORTGAGE ASSOCIATION**  
**Qualifying Subordinated Debt**  
**September 30, 2007**

**SUMMARY**

(Dollars in millions)

<b>QUALIFYING SUBORDINATED DEBT PLUS TOTAL CAPITAL RESULTS (1, 2)</b>	
<b>TOTAL CAPITAL</b>	43,053
<b>TOTAL QUALIFYING SUBORDINATED DEBT</b>	6,485
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**OFFICE OF THE DIRECTOR**

December 27, 2007

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Chairman  
Committee on Banking, Housing, and Urban Affairs  
United States Senate  
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**Re: Notice of Final Freddie Mac Capital Classification at September 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 November 26, 2007, OFHEO issued a notice of proposed action indicating its intention to classify Freddie Mac as adequately capitalized at September 30, 2007, and requesting that Freddie Mac notify OFHEO by December 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 third quarter of 2007, OFHEO hereby provides notice that Freddie Mac is classified as adequately capitalized at September 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 third quarter 2007 financial statements and the Information Statement supplement issued by Freddie Mac on November 20, 2007.

As indicated in the enclosures, at September 30, 2007, Freddie Mac's OFHEO-directed minimum capital requirement was \$34.048 billion, its statutory minimum capital requirement was \$26.190 billion, its critical capital requirement was \$13.461 billion, and its risk-based capital requirement was \$11.316 billion. Thus, Freddie Mac's core capital of \$34.643 billion at September 30, 2007, exceeded the OFHEO-directed minimum capital requirement by \$0.596 billion and the critical capital requirement by \$21.182 billion. Freddie Mac's total capital of \$36.394 billion at September 30, 2007, exceeded the risk-based capital requirement by \$25.078 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 September 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**  
**September 30, 2007**

**SUMMARY**

(Dollars in millions)

<b>COMPONENTS OF THE MINIMUM CAPITAL LEVEL</b>	
<b>ON-BALANCE SHEET ASSETS</b>	19,601
<b>OFF-BALANCE SHEET OBLIGATIONS</b>	
MBS and Equivalents	5,819
Commitments	556
<b>OTHER OFF-BALANCE SHEET OBLIGATIONS</b>	
Interest Rate and Foreign Exchange Rate Contracts	136
Sold Portfolio Remittances Pending	8
Other Off-Balance Sheet Obligations	69
<b>MINIMUM CAPITAL - Statutory Requirement</b>	<b>26,190</b>
<b>MINIMUM CAPITAL - OFHEO-directed Requirement</b>	<b>34,048</b>
<b>CORE CAPITAL</b>	<b>34,643</b>
<b>SURPLUS (DEFICIENCY) (based on OFHEO-directed Requirement)</b>	<b>596</b>

Note: Totals may not add due to rounding.

**FEDERAL HOME LOAN MORTGAGE CORPORATION**  
**Critical Capital Level**  
**September 30, 2007**

**SUMMARY**

(Dollars in millions)

<b>COMPONENTS OF THE CRITICAL CAPITAL LEVEL</b>	
<b>ON-BALANCE SHEET ASSETS</b>	<b>9,801</b>
<b>OFF-BALANCE SHEET OBLIGATIONS</b>	<b>3,661</b>
<b>CRITICAL CAPITAL LEVEL</b>	<b>13,461</b>
<b>CORE CAPITAL</b>	<b>34,643</b>
<b>SURPLUS (DEFICIENCY)</b>	<b>21,182</b>

Note: Totals may not add due to rounding.

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

**SUMMARY**

(Dollars in millions)

<b>STRESS TEST SCENARIO RESULTS</b>	
<b>UP-RATE SCENARIO</b>	<b>5,916</b>
<b>DOWN-RATE SCENARIO</b>	<b>11,316</b>
<b>RISK-BASED CAPITAL LEVEL</b>	<b>11,316</b>
<b>TOTAL CAPITAL</b>	<b>36,394</b>
<b>SURPLUS (DEFICIENCY)</b>	<b>25,078</b>

Note: Totals may not add due to rounding.

**FEDERAL HOME LOAN MORTGAGE CORPORATION**  
**Qualifying Subordinated Debt**  
**September 30, 2007**

**SUMMARY**

(Dollars in millions)

<b>QUALIFYING SUBORDINATED DEBT PLUS TOTAL CAPITAL RESULTS (1, 2)</b>	
<b>TOTAL CAPITAL</b>	36,438
<b>TOTAL QUALIFYING SUBORDINATED DEBT</b>	4,628
<b>TOTAL CAPITAL AND QUALIFYING SUBORDINATED DEBT</b>	41,066
<b>CAPITAL REQUIREMENT FOR 4.0% OF ON-BALANCE SHEET ASSETS AND 0.45% OF NET MBS/PCs OUTSTANDING</b>	37,609
<b>SURPLUS (DEFICIENCY)</b>	3,456

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**

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**OFFICE OF THE DIRECTOR**

December 27, 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 September 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 November 26, 2007, OFHEO issued a notice of proposed action indicating its intention to classify Freddie Mac as adequately capitalized at September 30, 2007, and requesting that Freddie Mac notify OFHEO by December 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 third quarter of 2007, OFHEO hereby provides notice that Freddie Mac is classified as adequately capitalized at September 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 third quarter 2007 financial statements and the Information Statement supplement issued by Freddie Mac on November 20, 2007.

As indicated in the enclosures, at September 30, 2007, Freddie Mac's OFHEO-directed minimum capital requirement was \$34.048 billion, its statutory minimum capital requirement was \$26.190 billion, its critical capital requirement was \$13.461 billion, and its risk-based capital requirement was \$11.316 billion. Thus, Freddie Mac's core capital of \$34.643 billion at September 30, 2007, exceeded the OFHEO-directed minimum capital requirement by \$0.596 billion and the critical capital requirement by \$21.182 billion. Freddie Mac's total capital of \$36.394 billion at September 30, 2007, exceeded the risk-based capital requirement by \$25.078 billion.

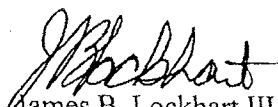
Freddie Mac has maintained a capital surplus in accordance with the capital directive issued by OFHEO on January 28, 2004. The final capital classification does not alter or amend the capital directive.

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 September 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**  
**September 30, 2007**

**SUMMARY**

(Dollars in millions)

<b>COMPONENTS OF THE MINIMUM CAPITAL LEVEL</b>	
<b>ON-BALANCE SHEET ASSETS</b>	19,601
<b>OFF-BALANCE SHEET OBLIGATIONS</b>	
MBS and Equivalents	5,819
Commitments	556
<b>OTHER OFF-BALANCE SHEET OBLIGATIONS</b>	
Interest Rate and Foreign Exchange Rate Contracts	136
Sold Portfolio Remittances Pending	8
Other Off-Balance Sheet Obligations	69
<b>MINIMUM CAPITAL - Statutory Requirement</b>	<b>26,190</b>
<b>MINIMUM CAPITAL - OFHEO-directed Requirement</b>	<b>34,048</b>
<b>CORE CAPITAL</b>	<b>34,643</b>
<b>SURPLUS (DEFICIENCY) (based on OFHEO-directed Requirement)</b>	<b>596</b>

Note: Totals may not add due to rounding.

**FEDERAL HOME LOAN MORTGAGE CORPORATION**  
**Critical Capital Level**  
**September 30, 2007**

**SUMMARY**

(Dollars in millions)

<b>COMPONENTS OF THE CRITICAL CAPITAL LEVEL</b>	
<b>ON-BALANCE SHEET ASSETS</b>	<b>9,801</b>
<b>OFF-BALANCE SHEET OBLIGATIONS</b>	<b>3,661</b>
<b>CRITICAL CAPITAL LEVEL</b>	<b>13,461</b>
<b>CORE CAPITAL</b>	<b>34,643</b>
<b>SURPLUS (DEFICIENCY)</b>	<b>21,182</b>

Note: Totals may not add due to rounding.

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

**SUMMARY**

(Dollars in millions)

STRESS TEST SCENARIO RESULTS	
UP-RATE SCENARIO	5,916
DOWN-RATE SCENARIO	11,316
RISK-BASED CAPITAL LEVEL	11,316
TOTAL CAPITAL	36,394
SURPLUS (DEFICIENCY)	25,078

Note: Totals may not add due to rounding.

**FEDERAL HOME LOAN MORTGAGE CORPORATION**  
**Qualifying Subordinated Debt**  
**September 30, 2007**

**SUMMARY**

(Dollars in millions)

<b>QUALIFYING SUBORDINATED DEBT PLUS TOTAL CAPITAL RESULTS</b> (1, 2)	
<b>TOTAL CAPITAL</b>	36,438
<b>TOTAL QUALIFYING SUBORDINATED DEBT</b>	4,628
<b>TOTAL CAPITAL AND QUALIFYING SUBORDINATED DEBT</b>	41,066
<b>CAPITAL REQUIREMENT FOR 4.0% OF ON-BALANCE SHEET ASSETS AND 0.45% OF NET MBS/PCs OUTSTANDING</b>	37,609
<b>SURPLUS (DEFICIENCY)</b>	3,456

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

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## OFFICE OF THE DIRECTOR

December 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 September 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 November 26, 2007, OFHEO issued a notice of proposed action indicating its intention to classify Fannie Mae as adequately capitalized at September 30, 2007, and requesting that Fannie Mae notify OFHEO by December 27, 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 third quarter of 2007, OFHEO hereby provides notice that Fannie Mae is classified as adequately capitalized at September 30, 2007. The final capital classification is based on Fannie Mae's financial results, as certified and represented as true and correct by Fannie Mae's management, and consistent with the company's financial statements issued on November 9, 2007.

As indicated in the enclosures, at September 30, 2007, Fannie Mae's OFHEO-directed minimum capital requirement was \$39.393 billion, its statutory minimum capital requirement was \$30.303 billion, its critical capital requirement was \$15.682 billion, and its risk-based capital requirement was \$24.676 billion. Thus, Fannie Mae's core capital of \$41.713 billion at September 30, 2007, exceeded the OFHEO-directed minimum capital requirement by \$2.319 billion and the critical capital requirement by \$26.031 billion. Fannie Mae's total capital of \$43.053 billion at September

30, 2007, exceeded the risk-based capital requirement by \$18.377 billion.

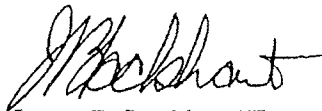
Further, Fannie Mae has maintained a capital surplus throughout the quarter in accordance with the Capital Restoration Plan, approved February 17, 2005, and the Consent Order dated May 23, 2006. The final capital classification does not alter or amend the Capital Plan or the Consent Order.

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 September 30, 2007.

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

Sincerely,

A handwritten signature in black ink, appearing to read "J. Lockhart", written in a cursive style.

James B. Lockhart III  
Director

Enclosures

**FEDERAL NATIONAL MORTGAGE ASSOCIATION**  
**Minimum Capital Level**  
**September 30, 2007**

**SUMMARY**

(Dollars in millions)

<b>COMPONENTS OF THE MINIMUM CAPITAL LEVEL</b>	
<b>ON-BALANCE SHEET ASSETS</b>	<b>20,759</b>
<b>OFF-BALANCE SHEET OBLIGATIONS</b>	
MBS and Equivalents	9,015
Commitments	256
<b>OTHER OFF-BALANCE SHEET OBLIGATIONS</b>	
Interest Rate and Foreign Exchange Rate Contracts	107
Other Off-Balance Sheet Obligations	165
<b>MINIMUM CAPITAL LEVEL - Statutory Requirement</b>	<b>30,303</b>
<b>MINIMUM CAPITAL LEVEL - OFHEO Directed Requirement</b>	<b>39,393</b>
<b>CORE CAPITAL</b>	<b>41,713</b>
<b>SURPLUS/(DEFICIENCY)</b>	<b>2,319</b>

Note: Totals may not add due to rounding.

FEDERAL NATIONAL MORTGAGE ASSOCIATION  
Critical Capital Level  
September 30, 2007

SUMMARY

(Dollars in millions)

COMPONENTS OF THE CRITICAL CAPITAL LEVEL	
ON-BALANCE SHEET ASSETS	10,379
OFF-BALANCE SHEET OBLIGATIONS	5,302
CRITICAL CAPITAL LEVEL	15,682
CORE CAPITAL	41,713
SURPLUS/(DEFICIENCY)	26,031

Note: Totals may not add due to rounding.



**FEDERAL NATIONAL MORTGAGE ASSOCIATION**  
**Risk-Based Capital Level**  
**September 30, 2007**

**SUMMARY**

(Dollars in millions)

STRESS TEST SCENARIO RESULTS	
UP-RATE SCENARIO	10,602
DOWN-RATE SCENARIO	24,676
RISK-BASED CAPITAL LEVEL	24,676
TOTAL CAPITAL	43,053
SURPLUS/(DEFICIENCY)	18,377

Note: Totals may not add due to rounding.

**FEDERAL NATIONAL MORTGAGE ASSOCIATION**  
**Qualifying Subordinated Debt**  
**September 30, 2007**

**SUMMARY**

(Dollars in millions)

QUALIFYING SUBORDINATED DEBT PLUS TOTAL CAPITAL RESULTS <sup>(1, 2)</sup>	
TOTAL CAPITAL	43,053
TOTAL QUALIFYING SUBORDINATED DEBT	6,485
TOTAL CAPITAL AND QUALIFYING SUBORDINATED DEBT	49,538
 CAPITAL REQUIREMENT FOR 4.0% OF ON-BALANCE SHEET ASSETS AND 0.45% OF NET MBS/PCs OUTSTANDING	 42,607
SURPLUS (DEFICIENCY)	6,931

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**

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**OFFICE OF THE DIRECTOR**

December 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 September 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 November 26, 2007, OFHEO issued a notice of proposed action indicating its intention to classify Freddie Mac as adequately capitalized at September 30, 2007, and requesting that Freddie Mac notify OFHEO by December 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 third quarter of 2007, OFHEO hereby provides notice that Freddie Mac is classified as adequately capitalized at September 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 third quarter 2007 financial statements and the Information Statement supplement issued by Freddie Mac on November 20, 2007.

As indicated in the enclosures, at September 30, 2007, Freddie Mac's OFHEO-directed minimum capital requirement was \$34.048 billion, its statutory minimum capital requirement was \$26.190 billion, its critical capital requirement was \$13.461 billion, and its risk-based capital requirement was \$11.316 billion. Thus, Freddie Mac's core capital of \$34.643 billion at September 30, 2007, exceeded the OFHEO-directed minimum capital requirement by \$0.596 billion and the critical capital requirement by \$21.182 billion. Freddie Mac's total capital of \$36.394 billion at September 30, 2007, exceeded the risk-based capital requirement by \$25.078 billion.

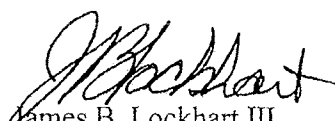
Freddie Mac has maintained a capital surplus in accordance with the capital directive issued by OFHEO on January 28, 2004. The final capital classification does not alter or amend the capital directive.

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 September 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**  
**September 30, 2007**

**SUMMARY**

(Dollars in millions)

<b>COMPONENTS OF THE MINIMUM CAPITAL LEVEL</b>	
<b>ON-BALANCE SHEET ASSETS</b>	19,601
<b>OFF-BALANCE SHEET OBLIGATIONS</b>	
MBS and Equivalents	5,819
Commitments	556
<b>OTHER OFF-BALANCE SHEET OBLIGATIONS</b>	
Interest Rate and Foreign Exchange Rate Contracts	136
Sold Portfolio Remittances Pending	8
Other Off-Balance Sheet Obligations	69
<b>MINIMUM CAPITAL - Statutory Requirement</b>	<b>26,190</b>
<b>MINIMUM CAPITAL - OFHEO-directed Requirement</b>	<b>34,048</b>
<b>CORE CAPITAL</b>	<b>34,643</b>
<b>SURPLUS (DEFICIENCY) (based on OFHEO-directed Requirement)</b>	<b>596</b>

Note: Totals may not add due to rounding.

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

SUMMARY

(Dollars in millions)

COMPONENTS OF THE CRITICAL CAPITAL LEVEL	
ON-BALANCE SHEET ASSETS	9,801
OFF-BALANCE SHEET OBLIGATIONS	3,661
CRITICAL CAPITAL LEVEL	13,461
CORE CAPITAL	34,643
SURPLUS (DEFICIENCY)	21,182

Note: Totals may not add due to rounding.

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

**SUMMARY**

(Dollars in millions)

STRESS TEST SCENARIO RESULTS	
UP-RATE SCENARIO	5,916
DOWN-RATE SCENARIO	11,316
RISK-BASED CAPITAL LEVEL	11,316
TOTAL CAPITAL	36,394
SURPLUS (DEFICIENCY)	25,078

Note: Totals may not add due to rounding.

**FEDERAL HOME LOAN MORTGAGE CORPORATION**  
**Qualifying Subordinated Debt**  
**September 30, 2007**

**SUMMARY**

(Dollars in millions)

<b>QUALIFYING SUBORDINATED DEBT PLUS TOTAL CAPITAL RESULTS</b> (1, 2)	
<b>TOTAL CAPITAL</b>	36,438
<b>TOTAL QUALIFYING SUBORDINATED DEBT</b>	4,628
<b>TOTAL CAPITAL AND QUALIFYING SUBORDINATED DEBT</b>	41,066
<b>CAPITAL REQUIREMENT FOR 4.0% OF ON-BALANCE SHEET ASSETS AND 0.45% OF NET MBS/PCs OUTSTANDING</b>	37,609
<b>SURPLUS (DEFICIENCY)</b>	3,456

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





# OFFICE OF FEDERAL HOUSING ENTERPRISE OVERSIGHT

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

---

## OFFICE OF THE DIRECTOR

December 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 September 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 November 26, 2007, OFHEO issued a notice of proposed action indicating its intention to classify Fannie Mae as adequately capitalized at September 30, 2007, and requesting that Fannie Mae notify OFHEO by December 27, 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 third quarter of 2007, OFHEO hereby provides notice that Fannie Mae is classified as adequately capitalized at September 30, 2007. The final capital classification is based on Fannie Mae's financial results, as certified and represented as true and correct by Fannie Mae's management, and consistent with the company's financial statements issued on November 9, 2007.

As indicated in the enclosures, at September 30, 2007, Fannie Mae's OFHEO-directed minimum capital requirement was \$39.393 billion, its statutory minimum capital requirement was \$30.303 billion, its critical capital requirement was \$15.682 billion, and its risk-based capital requirement was \$24.676 billion. Thus, Fannie Mae's core capital of \$41.713 billion at September 30, 2007, exceeded the OFHEO-directed minimum capital requirement by \$2.319 billion and the critical capital requirement by \$26.031 billion. Fannie Mae's total capital of \$43.053 billion at September

30, 2007, exceeded the risk-based capital requirement by \$18.377 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 September 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 Capital Level**  
**September 30, 2007**

**SUMMARY**

(Dollars in millions)

<b>COMPONENTS OF THE MINIMUM CAPITAL LEVEL</b>	
<b>ON-BALANCE SHEET ASSETS</b>	20,759
<b>OFF-BALANCE SHEET OBLIGATIONS</b>	
MBS and Equivalents	9,015
Commitments	256
<b>OTHER OFF-BALANCE SHEET OBLIGATIONS</b>	
Interest Rate and Foreign Exchange Rate Contracts	107
Other Off-Balance Sheet Obligations	165
<b>MINIMUM CAPITAL LEVEL - Statutory Requirement</b>	<b>30,303</b>
<b>MINIMUM CAPITAL LEVEL - OFHEO Directed Requirement</b>	<b>39,393</b>
<b>CORE CAPITAL</b>	<b>41,713</b>
<b>SURPLUS/(DEFICIENCY)</b>	<b>2,319</b>

Note: Totals may not add due to rounding.

**FEDERAL NATIONAL MORTGAGE ASSOCIATION**  
**Critical Capital Level**  
**September 30, 2007**

**SUMMARY**

(Dollars in millions)

COMPONENTS OF THE CRITICAL CAPITAL LEVEL	
ON-BALANCE SHEET ASSETS	10,379
OFF-BALANCE SHEET OBLIGATIONS	5,302
CRITICAL CAPITAL LEVEL	15,682
CORE CAPITAL	41,713
SURPLUS/(DEFICIENCY)	26,031

Note: Totals may not add due to rounding.

**FEDERAL NATIONAL MORTGAGE ASSOCIATION**  
**Risk-Based Capital Level**  
**September 30, 2007**

**SUMMARY**

(Dollars in millions)

<b>STRESS TEST SCENARIO RESULTS</b>	
<b>UP-RATE SCENARIO</b>	<b>10,602</b>
<b>DOWN-RATE SCENARIO</b>	<b>24,676</b>
<b>RISK-BASED CAPITAL LEVEL</b>	<b>24,676</b>
<b>TOTAL CAPITAL</b>	<b>43,053</b>
<b>SURPLUS/(DEFICIENCY)</b>	<b>18,377</b>

Note: Totals may not add due to rounding.

**FEDERAL NATIONAL MORTGAGE ASSOCIATION**  
**Qualifying Subordinated Debt**  
**September 30, 2007**

**SUMMARY**

(Dollars in millions)

<b>QUALIFYING SUBORDINATED DEBT PLUS TOTAL CAPITAL RESULTS</b>	(1, 2)	
<b>TOTAL CAPITAL</b>		43,053
<b>TOTAL QUALIFYING SUBORDINATED DEBT</b>		6,485
<b>TOTAL CAPITAL AND QUALIFYING SUBORDINATED DEBT</b>		49,538
<b>CAPITAL REQUIREMENT FOR 4.0% OF ON-BALANCE SHEET ASSETS AND 0.45% OF NET MBS/PCs OUTSTANDING</b>		42,607
<b>SURPLUS (DEFICIENCY)</b>		6,931

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