



**Office of Federal Housing Enterprise Oversight
(OFHEO)**

NEWS RELEASE

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**OFHEO PROVIDES FLEXIBILITY ON FANNIE MAE,
FREDDIE MAC MORTGAGE PORTFOLIOS**

Washington, DC – OFHEO Director James B. Lockhart announced today that OFHEO is providing Fannie Mae and Freddie Mac with additional flexibility in managing their mortgage portfolios to comply with the portfolio caps agreed to last year.

"These changes will make it easier for the Enterprises to manage market-based fluctuations in their portfolios and reduce the need to keep large cushions below the portfolio caps," said Lockhart. "It will also make it easier for OFHEO to monitor compliance with the portfolio caps. Both companies have indicated that this portfolio flexibility, combined with their securitization capabilities, asset sales, and the monthly runoff of their portfolios, should allow them to provide greater assistance to subprime borrowers and others who may have difficulty refinancing their existing mortgages in the current environment," Lockhart said.

The temporary investment caps on their mortgage portfolios were established in May and July of last year because of both Enterprises' operational, systems, financial reporting, risk management and internal control shortcomings. They have made progress in remediating some of these issues, including the publication by Fannie Mae of its 2006 financial statements and Freddie Mac of its second quarter 2007 financials, though neither was done in a timely fashion. Both companies have indicated they expect to produce audited, timely, annual financial statements for 2007 in February of 2008.

OFHEO has decided that it would not be prudent at this time to allow any major increases in the portfolio levels because the remediation process is not finished, many safety and soundness issues are not yet resolved, and the criteria in the Fannie Mae consent agreement and Freddie Mac's voluntary agreement have not been met.

"Given our ongoing significant supervisory concerns, OFHEO will closely monitor the implementation of these portfolio cap flexibilities and will require the Enterprises to report regularly on the resulting changes and risks inherent in their portfolios," Lockhart said.

With the ongoing concerns about the subprime mortgage market, both Fannie Mae and Freddie Mac have announced commitments to purchase tens of billions of dollars of subprime mortgages over the next several years. The portfolio cap flexibility plus their ongoing ability to securitize mortgages, sell assets, and replace maturing assets, will enhance each Enterprise's ability to purchase or securitize, over the next six months up to \$20 billion or more of 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.

OFHEO expects Fannie Mae's and Freddie Mac's Chief Risk Officers and other senior executives to continue to closely monitor the Enterprises' investment activities, as will OFHEO's Office of Supervision, to ensure the activities meet sound credit underwriting and other safety and soundness standards. These standards include the recently implemented Interagency Guidance on Nontraditional Mortgage Product Risks and Statement on Subprime Mortgage Lending.

The specific flexibilities are as follows:

1. Change the portfolio measure from a GAAP number as reported on the balance sheet to Unpaid Principal Balance (UPB), which the Enterprises use in their publicly released monthly summaries. Under present market conditions, the GAAP value can fluctuate widely and we have concluded this adds unnecessary complexity for the Enterprises in managing to the portfolio cap. UPB, which reflects the original principal balance of mortgages and securities less repayments, is not subject to daily market fluctuations.
2. Set the new UPB portfolio cap at \$735 billion on July 1, 2007 and apply it to the third quarter. On that date, the GAAP measured cap was \$728.1 billion for Freddie Mac and \$727.7 billion for Fannie Mae. (UPB often exceeds the GAAP value for the Enterprises. Due to market fluctuations over the first seven months of 2007, this difference has ranged from \$0.1 billion to \$9.4 billion.)
3. Allow Fannie Mae the same moderate increases that Freddie Mac has under its voluntary agreement of 2 percent annual growth and not more than 0.5 percent per quarter. This change for Fannie Mae would be effective Oct. 1, 2007, for the fourth quarter.
4. For the fourth quarter of 2007, the quarterly growth limit of 0.5 percent would be doubled to 1.0 percent, although the 2 percent per annum cap would remain in place.
5. The size of the portfolio used to determine compliance with the portfolio cap will no longer be the closing values at quarter end but rather an average of monthly closing values. The average will start at a specified amount in July 2007 and will build to a twelve-month moving average.
6. Frequent reporting on market conditions, portfolio sizes and new purchases will be required, including a monthly report on the

Enterprises' purchases of subprime and other mortgages to borrowers with lower credit scores and multi-family housing mortgages in relationship to the \$20 billion level.

7. OFHEO examiners will ensure the Enterprises continue to have adequate capital to use this new flexibility and continue to adhere to their internal guidelines and limits on liquidity. OFHEO will also continue to monitor the increased credit and interest rate risk associated with current market conditions.

The combination of these changes should allow the Enterprises more flexibility in managing their portfolios and eliminate the need for a large cushion. This added flexibility will be especially helpful in making multi-billion dollar bulk purchases of subprime and multi-family housing mortgages and fulfilling the Enterprises' commitments to purchase subprime mortgages to help borrowers avoid foreclosure and support affordable housing.

As OFHEO has repeatedly stated, the current portfolio limits are due to ongoing safety and soundness issues at each Enterprise. Some of these safety and soundness issues arose, in part, because of rapid portfolio growth in the past. Pending legislation would provide the Enterprises' new regulator with clarified authorities and direction with respect to setting and enforcing portfolio size and growth as an ongoing matter, based upon their mission and safe and sound operations.

"OFHEO continues to believe that a more permanent solution to the portfolio limit question requires both congressional guidance and strengthened supervisory authorities," said Lockhart.

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OFHEO's mission is to promote housing and a strong national housing finance system by ensuring the safety and soundness of Fannie Mae and Freddie Mac.