



# OFFICE OF FEDERAL HOUSING ENTERPRISE OVERSIGHT



## REPORT TO CONGRESS

June 15, 2004



**OFFICE OF FEDERAL HOUSING ENTERPRISE OVERSIGHT**  
1700 G STREET NW WASHINGTON DC 20552 (202) 414-3800

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June 15, 2004

The Honorable Richard Shelby  
Chairman  
Committee on Banking, Housing, & Urban Affairs  
United States Senate  
Washington, D.C. 20510

The Honorable Michael G. Oxley  
Chairman  
Committee on Financial Services  
United States House of Representatives  
Washington, D.C. 20515

Dear Chairmen:

I am pleased to transmit the 2004 Report to Congress from the Office of Federal Housing Enterprise Oversight (OFHEO). This report has been prepared to meet the statutory requirements in section 1319B of the Federal Housing Enterprises Financial Safety and Soundness Act of 1992 (Title XIII of P.L. 102-550). The views in this report are those of the Director and do not necessarily represent those of the President or the Secretary of Housing and Urban Development.

Pursuant to Section 1319B(a)(3) of the Federal Housing Enterprises Financial Safety and Soundness Act of 1992, the Director of the Office of Federal Housing Enterprise Oversight (OFHEO) shall include any legislative recommendations to enhance the financial safety and soundness of Fannie Mae and Freddie Mac (the Enterprises) in this annual report to Congress. As a general matter, I continue to recommend enhancements to OFHEO's authority, particularly in those areas that would align the safety and soundness authority of the agency more closely to our fellow federal banking agencies. I also believe that permanent funding of OFHEO, outside of the appropriations process, is important to enable the agency to respond quickly should serious problems develop at either of the Enterprises.

I have previously supplied each Committee with specific recommendations in statutory form.

Sincerely,

Armando Falcon, Jr.  
Director

cc: The Honorable Paul S. Sarbanes, Ranking Member, Senate Committee on Banking, Housing, & Urban Affairs  
The Honorable Barney Frank, Ranking Member, House Committee on Financial Services



## Message From the Director

I would like to dedicate the 2004 Report to Congress to the employees of OFHEO. Their expertise and tireless dedication makes this agency a success. This was especially true in 2003, which was a very challenging year. The pace and magnitude of the events of 2003 tested the mettle of each employee, yet they rose to the challenge and got the job done.

In the past year, OFHEO investigated and addressed accounting and management problems at Freddie Mac, initiated an in-depth examination of Fannie Mae's accounting practices, reorganized the examination program, established a new Office of Compliance and an Office of Chief Accountant, and participated in Congressional efforts to strengthen government sponsored enterprise oversight. OFHEO employees accomplished all of this while completing their everyday assignments in an exemplary manner.

As my five year term comes to an end, I feel most privileged for the opportunity to lead such talented public servants. Congress and the nation are indeed fortunate to have such a hard working group fulfilling the mission of OFHEO.

Sincerely,

Armando Falcon, Jr.

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Cover artwork by Jeannine Schroeder. A staff member in the Office of Strategic Planning and Management at OFHEO, Jeannine enjoys painting watercolors in her spare time. Cover design by Amy Lakroune from the Office of External Relations at OFHEO.

## **CHAPTER ONE: YEAR IN REVIEW**

### **HOUSING SECTOR MAIN ENGINE BEHIND ECONOMIC RECOVERY**

The recovery of the overall U.S. economy remained weak in early 2003. Stimulated by continued low interest rates and a strong housing market, economic growth accelerated in the third quarter, increasing at an annual rate of 8.2 percent, the largest since the fourth quarter of 1983. During the year, the economy grew by 4.3 percent, compared to 2.8 percent in 2002. Faster economic growth translated into limited improvement in the nation's unemployment picture. The unemployment rate continued to rise in the first half of the year, peaking in June at 6.3 percent, the highest level in 9 years. By year-end, the rate receded to 5.7 percent, down from 6.0 percent a year earlier, but well above pre-recession levels.

Concerns over the lack of sustainable economic growth prompted the Federal Reserve to lower the Federal Funds target rate in June by 25 basis points to 1.0 percent, the lowest level in 45 years. Fears of deflation helped send yields on longer-term Treasury securities downward briefly during the spring, before evidence of a strengthening economy pushed yields up during the summer. Despite the rise, yields remained low by historical standards. Mortgage commitment interest rates followed the trends of long-term Treasury issues. Mortgage interest rates fell in the first half of the year, to a historic low of 5.23 percent in the month of June, rose sharply in the third quarter, and eased somewhat in the fourth quarter. For the year, mortgage interest rates averaged 5.82 percent, 72 basis points below the average rate for 2002.

Low interest rates continued to have a positive impact on the U.S. housing market. Single-family housing starts totaled 1.50 million units in 2003, up from 1.36 million in 2002. Home sales set new records for the third consecutive year. Combined sales of new and existing homes totaled 7.2 million units in 2003, an increase of 10 percent from 2002's record-setting level of 6.5 million units. Similarly, originations of single-family mortgages reached a new high of \$3.8 trillion in 2003, surpassing the previous record of \$2.7 trillion in 2002 by about 40 percent. The heavy wave of mortgage refinancings was chiefly responsible for the increase in loan-making activity in 2003. Refinancings accounted for more than 60 percent of single-family mortgage originations in the year.

2003 marked the fourth consecutive year in which house prices rose more than 7.5 percent, on average, across the nation. As measured by OFHEO's House Price Index, the average U.S. home price increased 8.13 percent from the fourth quarter of 2002 to the fourth quarter of 2003. This represented an increase of a full percentage point over the average rate for the previous year. Despite rising prices, housing affordability, as measured by the National Association of Realtors, increased for the year due to lower financing costs. Likewise, the homeownership rate improved in 2003, reaching an all-time high of 68.6 percent in the fourth quarter. Conversely, the rental vacancy rate rose to 10.2 percent in the fourth quarter, about a percentage point higher than the same time one year earlier.

## **FINANCIAL PERFORMANCE OF THE ENTERPRISES<sup>1</sup>**

In 2003, the Enterprises experienced a year of solid financial performance, owing to continued low interest rates and a strong housing market. Both Enterprises surpassed their level of mortgage purchase volumes and securitizations set in 2002. Freddie Mac purchased or guaranteed \$826 billion of mortgages in 2003 and issued \$713 billion of new mortgage-backed securities (MBS). Fannie Mae purchased or guaranteed \$1.42 trillion of mortgages and issued \$1.22 trillion of new MBS.

Although mortgage purchase volumes were at record levels, each Enterprise grew its mortgage portfolio more slowly. Fannie Mae grew its mortgage portfolio by 12.6 percent in 2003 compared to 13.1 percent in 2002. Freddie Mac grew its mortgage portfolio by a smaller 9.3 percent in 2003, the lowest rate since 1990. Competition for mortgages and mortgage securities by other investors caused a compression of spreads between yields on new mortgage investments and debt costs, which helped to make portfolio purchases less attractive. The Enterprises generally invest in mortgages or mortgage securities only when yields are sufficient to provide desired levels of returns, after interest and appropriate hedging and rebalancing costs. The combined mortgage portfolios of the Enterprises increased by \$155.5 billion in 2003, to \$1.5 trillion. Their combined total book of business—mortgages securitized and held on the balance sheet—increased by \$456 billion or 14.4 percent to \$3.6 trillion at the end of 2003. This represented 46.9 percent of the estimated \$7.7 trillion of residential mortgage debt outstanding at the end of 2003, up from 46.3 percent the previous year.

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<sup>1</sup> Freddie Mac has not issued financial statements for the year 2003. Therefore, values discussed here may change.



Fannie Mae improved its reported earnings measured in accordance with generally accepted accounting principles (GAAP) in 2003 by 71 percent, to \$7.9 billion. The income reflected, in large part, better market performance of options used in hedging. Core earnings<sup>2</sup> rose 14 percent to \$7.3 billion. Both earnings measures were reduced \$1.5 billion by repurchases of debt at premium prices. Fannie Mae also showed an improvement in fair value net worth, by \$9.5 billion to \$31.6 billion. In light of the ongoing restatement of its financials, GAAP earnings in 2003 for Freddie Mac have not yet been disclosed. However, using data based largely on pre-restatement accounting policies, regulatory core capital<sup>3</sup> improved by \$4.3 billion in the year. Results for both Enterprises partly reflect benefits from the continued steep yield curve, along with short prospective mortgage asset lives, which made possible increased use of relatively inexpensive short-term debt.

Credit-related losses for Fannie Mae, including charge-offs and foreclosed property expense, totaled \$123 million, up from \$87 million in 2002. The Fannie Mae credit loss rate (credit losses as a percentage of total MBS outstanding plus the retained mortgage portfolio) was 0.6 basis points in 2003, up slightly from 0.5 basis points in 2002.

Fannie Mae's estimated exposure to a 5 percent decline in house prices rose consistently last year, from \$596 million at the end of 2002 to \$1,113 million as of December 31, 2003. This represented less than 4 percent of the core capital of the Enterprise.

## **SUPERVISORY ACTIONS**

Enforcement Actions. OFHEO entered into two consent orders in 2003, the first with David Glenn, former Chief Operating Officer of Freddie Mac. By terms of the order, Mr. Glenn agreed to cooperate with OFHEO in its ongoing investigation of Freddie Mac, to forfeit funds that would have been his had he not been discharged and to pay a \$125,000 civil money penalty. OFHEO also entered into a consent order with Freddie Mac for conduct surrounding its restatement and the resulting harm to the Enterprise. Under the terms of the agreement, Freddie Mac agreed to cooperate with OFHEO in its ongoing investigation and to address changes to its corporate culture,

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<sup>2</sup> Core earnings, as defined by Fannie Mae, differ from GAAP earnings by accounting for the time value of purchased options on an amortized cost basis rather than market value.

<sup>3</sup> The sum of common stock, perpetual non-cumulative preferred stock, paid-in capital, and retained earnings.

including enhancement of controls, and to the operation of its board of directors. OFHEO also imposed a \$125 million civil money penalty on Freddie Mac.

OFHEO filed Notices of Charges—triggering an administrative process seeking cease and desist orders—against Leland Brendsel, former Freddie Mac Chief Executive Officer and Chairman, Vaughn Clarke, former Freddie Mac Chief Financial Officer, and the Enterprise. The charges relate to conduct surrounding the restatement of earnings by Freddie Mac. The charges call for the benefits of the individuals to be reduced to those appropriate in a termination for cause—a significant decrease—and for repayment of bonuses. Civil money penalties were also sought against the two former executive officers.

Supervisory Steps. OFHEO, in pursuing its investigation of Freddie Mac, undertook several supervisory actions, including a directive providing for a standstill on payment of termination benefits to certain individuals. Additionally, OFHEO, in pursuing its review of accounting and controls at Fannie Mae, directed that all pertinent documents and materials be held in place pending initiation of a formal review process.

## **RULEMAKING**

Disclosure. On April 7, 2003, OFHEO published a final rule on financial and other disclosures by the Enterprises. The rule reiterated OFHEO's authority to require disclosures and went on to address financial disclosures by companies voluntarily registered with the Securities and Exchange Commission (SEC) under the Securities Exchange Act of 1934. The rule supported voluntary registration by requiring a voluntarily registered Enterprise to conform to rules and regulations of the SEC and to proxy and insider transaction requirements of the 1934 Act.

## **OFHEO ACTIONS ON EXECUTIVE COMPENSATION**

The Federal Housing Enterprises Financial Safety and Soundness Act of 1992 and the Enterprise charter acts charge the Director of OFHEO with supervisory responsibilities in the area of executive compensation. OFHEO's statute requires the Director to prohibit an Enterprise from providing

excessive compensation to executive officers. Specifically, the statute provides that compensation must be reasonable and comparable with compensation paid by other similar businesses to executives having similar duties and responsibilities. “Similar businesses” include publicly held financial institutions or major financial services companies.

Additionally, the Enterprise charter acts require the companies to obtain the prior approval of OFHEO’s Director before entering into or changing termination agreements with their executive officers. The charter acts also provide that the Director of OFHEO may not approve any such agreement unless the Director determines that the benefits provided thereunder are comparable to benefits provided under such agreements for officers of other public and private entities involved in financial services and housing interests who have comparable duties and responsibilities.

During 2003, OFHEO approved eight termination agreements and disapproved one. At year-end 2003, four termination agreements were under review. On December 19, 2003, OFHEO issued Notices of Charges against former Freddie Mac Chairman Leland Brendsel and former CFO Vaughn Clarke. The charges seek an enforcement order requiring that they (1) forfeit claims to substantial severance benefits, in excess of those that would be paid for a “termination for cause,” (2) pay a civil money penalty, and (3) return bonuses they received for 2000 and 2001.

## **OFHEO RESEARCH AND PUBLICATIONS**

During 2003, OFHEO continued research and analysis on a range of topics. While some reports are for internal use only, where possible, OFHEO continued its practice of publishing reports that serve to better inform the public about issues affecting the Enterprises and the secondary mortgage market. OFHEO continued to focus research plans and activities on achieving the strategic objectives of the agency. In February, 2003, OFHEO published a report, “Systemic Risk: Fannie Mae, Freddie Mac and the Role of OFHEO.” OFHEO also released the Report of the Special Examination of Freddie Mac in December, 2003. The research paper, “The Single-Family Mortgage Industry in the Internet Era: Technology Developments and Market Structure,” was completed and published in 2004.

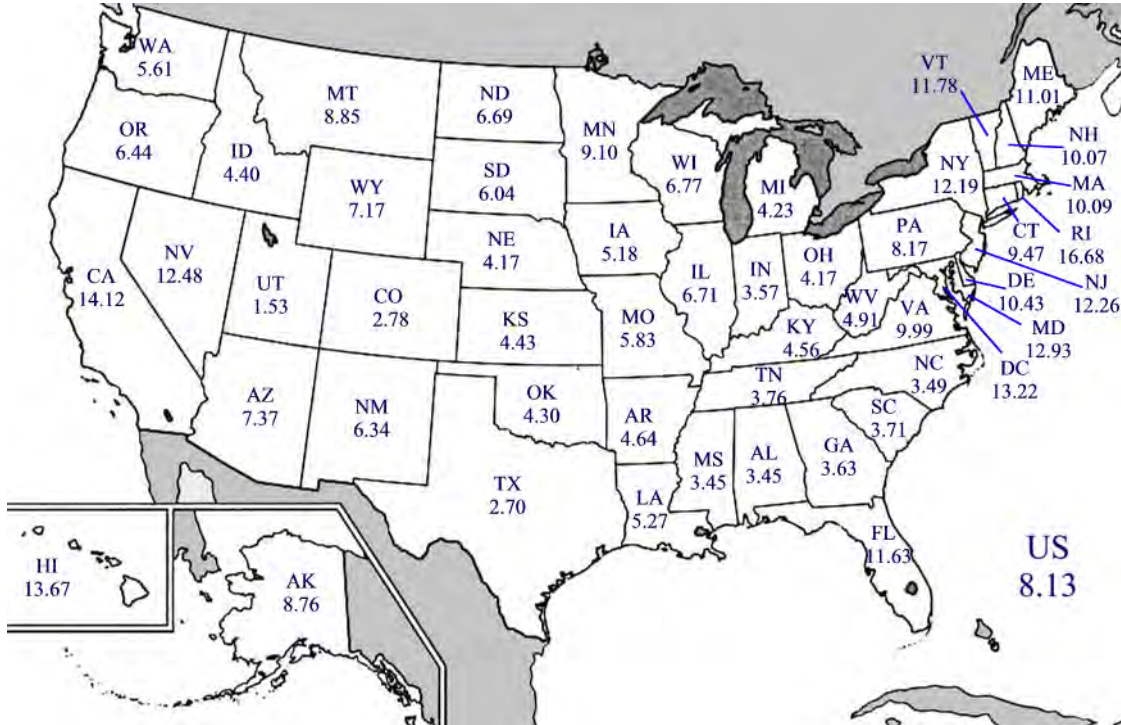
OFHEO published six staff working papers in 2003, continuing the working paper series begun in 2002. Several of these papers continue research on house prices and subprime mortgages while others covered issues related to equity option markets, earnings management, the market discipline of Fannie Mae and Freddie Mac, aggregation bias and the repeat sales price index, housing supply elasticity, and loss distributions of subprime and prime mortgages. These working papers, as well as OFHEO research papers and reports, are available on the OFHEO web site at [www.ofheo.gov](http://www.ofheo.gov). OFHEO researchers also presented papers and led discussions at professional and industry conferences on topics such as house prices, systemic risk, and the performance of prime and non-prime mortgages.

On March 11, 2003, OFHEO conducted its first symposium, on “House Prices in the U.S. Economy.” This symposium was open to the public and discussed the impact of changes in house prices on the U.S. economy. OFHEO staff research was presented at the symposium along with presentations from industry, government and academic experts on house price sustainability, the housing markets in the next decade and implications of house price movements for affordable housing and homeownership.

OFHEO contributed its expertise in working with other Federal agencies during the course of 2003. OFHEO worked with the SEC and the U.S. Department of Treasury on the joint staff report, “Enhancing Disclosure in the Mortgage-Backed Securities Markets,” issued in February, 2003. In addition, OFHEO worked with the World Bank on several projects to assist foreign governments with expertise on developing and regulating mortgage markets, including France, South Korea, Russia, and Colombia.

OFHEO continued quarterly publication of its House Price Index (HPI), which uses Enterprise data to calculate changes in house prices for the nation as a whole, the nine Census Divisions, the 50 states and the District of Columbia, and 331 Metropolitan Statistical Areas. The HPI is based on over 26.5 million repeat transactions over 29 years. OFHEO developed the HPI as a key input for its risk-based capital stress test. It is now regularly reported by media organizations throughout the nation and used by researchers to analyze house price behavior.

**OFHEO HOUSE PRICE INDEX**  
**U.S. MAP**  
Fourth Quarter 2002 – Fourth Quarter 2003



## **CHAPTER TWO: REPORT OF CONDITION**

### **INTRODUCTION**

#### **OFHEO'S SUPERVISORY ACTIVITIES**

The supervisory activities of OFHEO include an annual risk-based examination program, special investigative reviews, and assessments of capital adequacy. The examination program is designed to ensure the ongoing financial safety and soundness of Fannie Mae and Freddie Mac. The examination program assesses the appropriateness and effectiveness of the policies and processes of the Enterprises for risk management, and assesses the financial performance of the companies. Using a risk-based approach allows OFHEO to recognize the unique operations of each Enterprise while applying uniform safety and soundness standards throughout the year. This aspect of the examination program's design ensures that OFHEO is responsive to changes at the Enterprises.

OFHEO's risk-based examinations apply methodology similar to that used by the safety and soundness regulators for large and complex banks. Historically, examination activities conducted by depository regulators rely on transaction-testing procedures to determine an institution's financial condition and to verify adherence to internal policies, procedures, and controls. Depository regulators have subsequently determined that transaction testing alone is insufficient for ensuring the continued safe and sound operation of the institutions they supervise. Evolving financial markets for newly developed instruments enable institutions to restructure the risk exposures of their portfolio. In response to this evolution in markets, the depository regulators direct more examination resources toward evaluating institutional performance as a function of the effectiveness of risk management processes. This risk-based approach has emphasized that institutions must have effective processes in place to identify, measure, monitor, and control risk exposures.

In recent years, OFHEO has been conducting risk-based examinations that parallel those examination activities conducted by the depository regulators for large and complex banks with an emphasis on evaluating risk management processes. OFHEO's risk-based examinations have included transactional testing to the extent that staffing resources have permitted. OFHEO is increasing its capacity to do transactional testing and modifying its supervisory program. Accordingly, OFHEO plans to double the size of the examination staff by 2005 in part to increase

its capacity to do on-site examinations. The recent creation of the Office of the Chief Accountant and the Office of Compliance at OFHEO will also allow the agency to increase its transactional testing and verification. In the future, areas identified during the annual risk-based examinations that warrant more in-depth examination will be referred to the Office of Compliance. Assisting compliance in its work will be the Office of the Chief Accountant. The Office of the Chief Accountant was designed to develop policy on safety and soundness issues related to accounting and financial reporting and to monitor accounting issues related to the Enterprises. The Office of Compliance was structured to perform exhaustive investigation and verification of anomalies and issues that arise, using investigative and forensic techniques in discharging its work.

At year-end 2003 there were 40 full-time equivalents (FTEs) dedicated to conducting the annual risk-based examinations of Fannie Mae and Freddie Mac. By the year 2005, the combined staffing of the three offices (the Office of Examinations, the Office of Compliance, and the Office of Chief Accountant) is projected to employ 106 FTEs.

OFHEO took steps during 2003 to strengthen capital oversight by moving beyond standard quantitative assessments. Increased sensitivity analysis and enhanced supervision of the capital management processes improved Enterprise oversight. OFHEO continued ongoing and regular meetings with the Enterprises, increased data validation efforts, and development of greater understanding of risk management techniques. OFHEO also published an update to its stress test code in April 2003 incorporating enhancements to the regulation. In the fourth quarter of 2003, OFHEO reorganized the Office of Capital Supervision, expanding its analysis and research capacity. These efforts will focus on exploring and developing alternative measurements of risks at the Enterprises, various “what if” analysis, and other tools to expand OFHEO’s assessment of capital adequacy. The reorganization also directs more staff resources to supervising and monitoring the capital management processes at each GSE, while continuing to enhance and expand the existing risk-based capital (RBC) stress test model.

The annual examination, together with OFHEO’s capital adequacy regulation framework and other supervisory program activities, informs the Director’s judgment about the appropriateness of the balance of risk and capital at each Enterprise and the financial safety and soundness of each Enterprise.

## EXAMINATION FRAMEWORK

In exercising OFHEO's examination authority, proprietary information is gathered and the financial condition of the Enterprises is monitored as is compliance with internal policies and procedures, and compliance with the policies, guiding standards and practices of OFHEO. A key product of OFHEO examination activities, like the federal banking agencies, is the formation of supervisory opinion about the overall financial condition "and safety and soundness" of each Enterprise. The federal depository regulators (the Federal Reserve, the FDIC, the OCC, the OTS, and the NCUA) use the CAMELS methodology as a convenient summary for an institution's financial condition and risk profile at the time of the examination. OFHEO has chosen to use the CAMELS framework for reporting the results and conclusions of the annual examinations and other supervisory activities in this report.

CAMELS is an acronym referring to six components of the condition of the Enterprises that have been evaluated through OFHEO's supervisory programs. The six areas evaluated were: **C**apital Adequacy, **A**sset Quality, **M**anagement, **E**arnings, **L**iquidity, and **S**ensitivity to market and interest rate risks. OFHEO applies a similar means of evaluating the six component areas of the CAMELS as the depository regulators. Specific narratives for Fannie Mae and Freddie Mac below provide more information about the evaluative criteria for each component area.

Given the differences in specific supervisory findings for each Enterprise, the following conclusions for the CAMELS components highlight different aspects of Enterprise risk management practices. The narrative commentaries for Fannie Mae and Freddie Mac are a report to Congress on OFHEO's supervisory program activities. The commentaries reflect the types of information gathered and the judgments rendered through the supervisory activities that are used by the Director for his determination about the financial condition and safety and soundness of the Enterprises.

Capital Adequacy – The Enterprises are expected to maintain capital commensurate with their risks and the ability of management to identify, measure, monitor, and control those risks. The effect of credit, market, and other risks on the company's financial condition is considered when evaluating the adequacy of capital. A determination of the capital adequacy of an Enterprise is based on, but not limited to, an assessment of the following evaluation factors:



- the Enterprises performance under regulatory capital requirements<sup>5</sup>
- the level and quality of capital and the overall financial condition of the institution
- the ability of management to address emerging needs for additional capital
- the nature, trend, and volume of problem assets, and the adequacy of allowances for loan losses and other valuation reserves
- balance-sheet composition, including the nature and amount of intangible assets, market risk, concentration risk, and risks associated with nontraditional activities
- risk exposure represented by off balance sheet activities
- the quality and strength of earnings, and the reasonableness of dividends
- prospects and plans for growth, as well as past experience in managing growth
- access to capital markets and other sources of capital

Asset Quality – The determination about asset quality reflects the quantity of existing and potential credit risk associated with the loan and investment portfolios, other real estate owned, other assets, and off balance sheet transactions. Management’s demonstrated performance in identifying, measuring, monitoring, and controlling risk is also reflected in this determination. Included in the evaluation of asset quality is a consideration of the adequacy of the allowance for loan losses and a consideration of the exposure of the Enterprise to counterparty, issuer, or borrower default under contractual agreements. Also considered are factors that may affect the value or marketability of the assets of the Enterprise. A determination of the asset quality of an Enterprise is based on, but not limited to, an assessment of the following evaluation factors:

- the adequacy of underwriting standards, soundness of credit-administration practices, and appropriateness of risk-identification practices
- the level, distribution, severity, and trend of problem, classified, nonaccrual, restructured, delinquent, and nonperforming assets for both on and off balance sheet transactions
- the adequacy of the allowance for loan losses and other asset valuation reserves
- the credit risk arising from or reduced by off balance sheet transactions, such as unfunded commitments, credit derivatives, and other possible credit facilities
- the diversification and quality of the loan and investment portfolios
- the presence of undue asset concentrations
- the adequacy of investment policies, procedures, and practices
- the ability of management to properly administer its assets, including the timely identification and collection of problem assets
- the adequacy of internal controls and management information systems
- the volume and nature of credit-documentation exceptions

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<sup>5</sup> For a description of the regulatory capital requirements, refer to the 2003 Supervisory Report of Condition for each Enterprise.

Management – The capacity of the board of directors and management, in their respective roles, to identify, measure, monitor, and control the risks of the activities of the Enterprises, and to ensure the safe, sound, and efficient operation of the company in compliance with applicable laws and regulations is considered in this component. Generally, directors need not be actively involved in day-to-day operations; however, they must provide clear guidance regarding acceptable risk-exposure levels and ensure that appropriate policies, procedures, and practices have been established. Senior management is responsible for developing and implementing policies, procedures, and practices that translate the board’s goals, objectives, and risk limits into prudent operating standards.

Given the nature and scope of Enterprise activities, their management practices need to be comprehensive for the array of risks present in their business. Sound management practices include: active oversight by the board of directors and management; competent personnel; adequate policies, processes, and controls; maintenance of an appropriate audit program and internal control environment; and effective risk-monitoring and management information systems.

The capacity and performance of management and the board of directors is evaluated based on, but not limited to, an assessment of the following factors:

- the level and quality of oversight and support of the activities of an Enterprise by the board of directors and management
- the ability of the board of directors and management, in their respective roles, to plan for and respond to risks that may arise from changing business conditions or the initiation of new activities or products
- the adequacy of and conformance with appropriate internal policies and controls addressing the operations and risks of significant activities
- the accuracy, timeliness, and effectiveness of management information and risk-monitoring systems appropriate for the size, complexity, and risk profile of the Enterprise
- the adequacy of audits and internal controls to promote effective operations and reliable financial and regulatory reporting; safeguard assets; and ensure compliance with laws, regulations, and internal policies
- compliance with laws and regulations
- responsiveness to recommendations from auditors and supervisory authorities
- management depth and succession
- the extent that the board of directors and management are affected by or susceptible to dominant influence or concentration of authority
- reasonableness of compensation policies and avoidance of self-dealing
- demonstrated willingness to serve the legitimate needs of its mission

- the overall performance of the Enterprise and its risk profile

Earnings – The earnings evaluation reflects not only the quantity and trend of earnings but also factors that may affect the sustainability or quality of earnings. The quantity as well as the quality of earnings can be affected by excessive or inadequately managed credit risk that may result in losses and require additions to the allowance for loan losses. High levels of market risk may unduly expose the earnings of the Enterprise to volatility in interest rates. The quality of earnings may also be diminished by undue reliance on extraordinary gains, nonrecurring events or favorable tax effects. Future earnings may be adversely affected by an inability to forecast or control funding and operating expenses, improperly executed or ill-advised business strategies, or poorly managed or uncontrolled exposure to other risks.

An evaluation of the earnings of an Enterprise is based on, but not limited to, an assessment of the following factors:

- the level of earnings, including trends and stability
- the ability to provide for adequate capital through retained earnings
- the quality and sources of earnings
- the level of expenses in relation to operations
- the adequacy of the budgeting systems, forecasting processes, and management information systems in general
- the adequacy of provisions to maintain the allowance for loan losses and other valuation allowances
- the exposure of earnings to market risk such as interest-rate and price risks

Liquidity – The liquidity evaluation reflects not only the current level and prospective sources of liquidity when compared to the funding needs of the Enterprises but also the funds-management practices related to the size, complexity, and risk profile of these institutions. In general, the funds-management practices are evaluated to ensure that an Enterprise is able to meet its financial obligations in a timely manner and accomplish its mission. The practices should reflect the ability of the Enterprise to manage unplanned changes in funding sources, as well as react to changes in market conditions that affect the ability to quickly liquidate assets with minimal loss. In addition, the funds-management practices should ensure that liquidity is aligned with business and portfolio management strategies to maintain profitability.

An evaluation of the liquidity of an Enterprise is based on, but not limited to, an assessment of the following factors:

- the adequacy of liquidity sources compared with present and future needs and the ability of the Enterprise to meet liquidity needs without adversely affecting its operations or financial condition
- the availability of assets readily convertible to cash without undue loss
- access to debt and other capital markets, including an understanding of rating agency evaluations of creditworthiness for the Enterprise
- the level of diversification of funding sources
- the balance between portfolio assets, funding instruments, and hedging actions that mitigates the exposure to the unmatched volatility of cash flows for sources and uses
- the trends and stability of funding sources
- the ability to perform and accomplish bulk asset dispositions
- the quality and volume of available collateral
- the capability of management to properly identify, measure, monitor, and control the liquidity position of the Enterprise, including the effectiveness of funds-management strategies, liquidity policies, management information systems, and contingency funding plans

Sensitivity – The sensitivity to market risk evaluates the degree to which changes in interest rates, foreign-exchange rates, and other market prices can adversely affect the earnings or economic capital of the Enterprise. When evaluating this component, consideration is given to management’s ability to identify, measure, monitor, and control market risk; the scope and complexity of its business activities; and the adequacy of its capital and earnings in relation to the level of market-risk exposure.

An evaluation of the sensitivity of the Enterprise to market risk is based on, but not limited to, an assessment of the following factors:

- the sensitivity of the earnings of the Enterprise or the economic value of its capital to adverse changes in interest rates, foreign-exchange rates, or other market prices
- the ability of management to identify, measure, monitor, and control exposure to market risk given the size, complexity, and risk profile of the Enterprise
- the nature and complexity of interest-rate risk exposure arising from its portfolio management activities

During 2003, both Enterprises were determined to be financially sound through the various supervisory activities conducted by OFHEO; including the ongoing examination program, special examination and investigative activities, executive compensation reviews, and the activities involved

with capital supervision. The following results and conclusions of OFHEO's supervision of Fannie Mae and Freddie Mac are presented using the CAMELS outline described above.

# FANNIE MAE

## 2003 SUPERVISORY REPORT OF CONDITION

### CAPITAL

Capital provides the means by which the Enterprises withstand adverse economic conditions or situations. OFHEO through its Office of Capital Supervision (OCS) monitors and assesses the capital position of Fannie Mae on an ongoing basis. OFHEO's capital authority is promulgated in the 1992 Act through the establishment of two quantitative assessments of capital – minimum and risk-based. During 2003, these quantitative capital measurement tools, along with results of examinations and OFHEO special examinations, provided the basis for OFHEO's capital supervision of Fannie Mae.

As defined by statute, OFHEO has several measurement tools it uses as a basis for capital classification.

- The **minimum** capital level represents the essential amount of capital needed to protect an Enterprise against broad categories of business risk. The minimum capital level represents an absolute floor, related to the level of Enterprise assets and obligations, below which capital should not dip. The minimum capital level is a ratio-based quantitative measure defined as 2.5 percent of assets plus 0.45 percent of adjusted off balance sheet obligations.

An Enterprise meets its minimum capital level requirement if its core capital — common stock; perpetual non-cumulative preferred stock; paid in capital; and retained earnings — equals or exceeds minimum capital.

- The **critical** capital level is the amount of core capital below which an Enterprise must be classified as critically undercapitalized and generally must be placed in conservatorship. Critical capital levels are computed as one-half of the portion of the minimum capital level requirement associated with on-balance-sheet assets plus five-ninths of the portion of the minimum capital level requirement associated with off balance sheet obligations.
- OFHEO's **risk-based** capital regulation meets the specific requirements of the 1992 Act. OFHEO's stress test simulates a financial performance of an Enterprise over a 10-year period under severe economic conditions. Key aspects of the severe economic conditions used in the stress test are defined specifically in the 1992 Act. These conditions include high levels of mortgage defaults, with associated losses and large, sustained movements in interest rates, both increasing (up-rate scenario) and decreasing (down-rate scenario).

The 10-year stress test is used to measure the risk of the overall portfolio of each Enterprise. The stress test determines the amount of total capital — core capital plus a general allowance for loan

losses less specific reserves — that an Enterprise must hold to absorb projected losses flowing from future adverse interest-rate and credit-risk conditions. The risk-based capital standard is based on stress test results calculated for the two statutorily prescribed interest rate scenarios, one in which 10-year Treasury yields rise 75 percent (up-rate scenario) and another in which they fall 50 percent (down-rate scenario). Changes in both scenarios are generally capped at 600 basis points. The risk-based capital level for an Enterprise is the amount of total capital that would enable it to survive the stress test in whichever scenario (up-rate or down-rate) is more adverse for that Enterprise, plus 30 percent of that amount to cover unspecified management and operations risk.

OFHEO uses a detailed computer model to simulate the cash flows of Enterprise associated with mortgages and other financial assets and obligations under the severe economic conditions. The modeling of incoming and outgoing cash flows captures the risks embedded in those financial assets and obligations and the benefits of the hedges each Enterprise has set in place.

Risk-based capital ensures a healthy relationship between the level of risk undertaken at a particular time by an Enterprise, and the level of capital it must hold. As a far more risk-sensitive measure, the risk-based requirement is designed to expose hidden weaknesses in an Enterprise that seems financially sound under normal conditions using more traditional capital measures.

In addition to the consideration of the performance of the Enterprise relative to the regulatory capital requirements, OFHEO also makes qualitative judgments about capital in determining overall capital adequacy. These other factors include the overall financial condition of the Enterprise in relation to the capital level and the ability of the Enterprise to access other sources of capital and address emerging needs, the composition of balance sheet and off balance sheet activities, growth, the quality of earnings, and asset quality.

Each quarter, OFHEO calculates a minimum capital level requirement, which includes both a “minimum” and a lower “critical” level, and a risk-based capital requirement for each Enterprise. Since September 30, 2002 the Enterprises are required to meet or exceed both the minimum and risk-based capital requirements to be classified as “adequately capitalized.”

An Enterprise that met the minimum capital level requirements, but did not achieve the risk-based capital requirements would be classified as “undercapitalized.” An Enterprise that did not meet the minimum capital level requirements would be classified as “significantly undercapitalized.” An Enterprise holding less than the critical capital requirement would be classified as “critically undercapitalized.” Failure to achieve the requirements would trigger a range of regulatory responses, depending upon the capital classification.

The quantitative analysis generated through the minimum and risk-based capital calculations is supplemented by sensitivity analysis of the risk-based capital requirement, conclusions reached from examinations and other special investigations, discussions and assessments of capital management practices, and research and analysis of risks and exposures at the Enterprise.

The risk-based capital stress test assesses the ability of an Enterprise to withstand the two statutorily-defined scenarios involving interest rate and credit stress. The relative magnitude of the risk-based capital requirement in the two stress test scenarios provides an indication of the relative ability of an Enterprise to withstand severe rate increases and severe rate decreases, however the results of the two scenarios are not sufficient to fully determine whether an Enterprise is adequately protected for changes in interest rates. OFHEO analyzes the sensitivity of the risk-based capital requirement to a wider range of interest rate scenarios to further assess the ability of an Enterprise to withstand prolonged interest rate stress. Furthermore, OFHEO analyzes the sensitivity of the risk-based capital requirement to other variables to further assess the ability of an Enterprise to withstand other types of stress.

After taking into account all relevant conclusions, OFHEO proposes a capital classification in writing to each Enterprise each quarter. Each Enterprise has the opportunity to review and comment on its proposed classification. After reviewing comments from the Enterprise, OFHEO determines the final capital classification and releases the classification to the public.

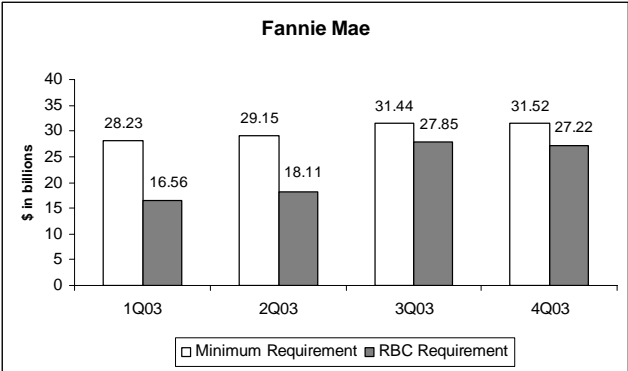
For all four quarters in 2003, Fannie Mae exceeded its minimum and risk-based capital requirements. Based upon these quantitative results, OFHEO’s ongoing analysis of financial and stress-test results, the conclusions of examination and other investigative activities, and discussions with management, OFHEO concludes that Fannie Mae was adequately capitalized. OFHEO also concludes that



Fannie Mae’s ability to address emerging capital needs and appropriately manage the capital position was sound. OFHEO, however, reserves the right to require prior period restatements when results of supervisory activities warrant.

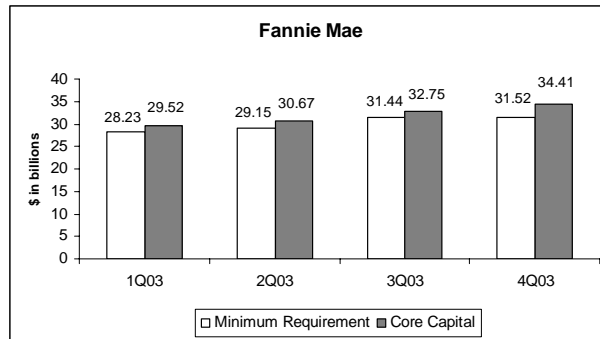
Fannie Mae exceeded its capital requirements in each of the four quarters in 2003 by adapting its portfolios to a changing economic environment. In 2003, interest rates fell during the first two quarters, rose sharply in the third quarter, and remained relatively flat in the fourth quarter. Fannie Mae modified its portfolio to accommodate fluctuating interest rates during the year consistent with its risk management policies and procedures.

### Minimum and Risk-Based Capital Requirements



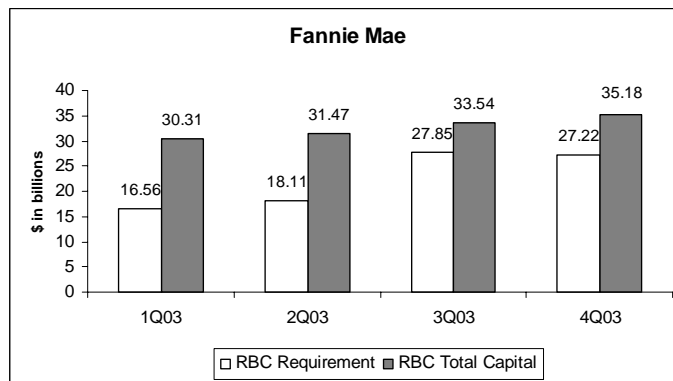
The minimum capital level requirement increased each quarter for Fannie Mae, a function of growth in balance sheet assets and off balance sheet obligations. The minimum capital level requirement exceeded the risk-based capital requirement in all four quarters, and therefore represents the binding capital requirement.

## Minimum Capital Results



Fannie Mae held core capital in excess of its minimum capital level requirements during 2003. For Fannie Mae, core capital increased steadily throughout the year. The increase in core capital at Fannie Mae resulted primarily from an increase in retained earnings.

## Risk-Based Capital Results



In 2003, total capital exceeded the risk-based capital requirement by \$5.0 billion or more for Fannie Mae. The growth in total capital closely tracked the growth in core capital as loss reserves were essentially unchanged.

## ASSET QUALITY

During the course of each annual examination cycle, examiners from OFHEO's Office of Examination evaluate the mortgage credit risk management practices of the Enterprise for the

single-family and multifamily lines of business. OFHEO evaluates a variety of factors that determine the quality of credit risk management, including the management reporting framework; the development and implementation of credit policy, underwriting and servicing standards; and strategies and practices for managing exposures to seller/servicer and mortgage insurer counterparties. In addition, OFHEO regularly reviews mortgage acquisitions, mortgage portfolio risk profiles and performance measures, seller/servicer performance, and default management and loss mitigation activities. In sum, OFHEO reviews the structure of the Enterprise for managing mortgage credit risk, and, through selected sampling and targeted reviews as staffing permits, evaluates whether the practices of the Enterprise meet safety and soundness standards and adequately protect the Enterprise from the risk of loss resulting from borrower or counterparty default. Based on OFHEO's examination activities to date, it is the overall conclusion of OFHEO that Fannie Mae has strong asset quality and prudent credit risk management practices. Although OFHEO considers Enterprise asset quality and credit risk management practices to be sound, these and other subjects are the focus of an ongoing and more intensive examination. OFHEO's overall conclusion notwithstanding, OFHEO has directed operating management's attention to specific aspects of credit risk management and identified opportunities to improve existing practice.

Management of credit risk comports with applicable safety and soundness standards; however, the credit risk examiners suggested certain enhancements to Enterprise practices. The enhancements pertained to internal reporting practices for certain nontraditional products and other portfolio-level metrics. In the area of counterparty risk management, OFHEO suggested that counterparty risk management practices be enhanced to allow for an evaluation by Enterprise personnel of consumer complaints filed against approved seller/servicers doing business with the Enterprise. OFHEO also made recommendations regarding certain enhancements to the systems and data collection practices of the Enterprise used to monitor and track exposures to counterparties. Finally, OFHEO encouraged management's continued involvement in the ongoing industry efforts to reduce mortgage fraud by adopting a means for identifying troublesome third party originators.

In the area of new products, new programs, or initiatives, OFHEO suggested modest enhancements to the internal information reporting practices. Those enhancements pertain to the financial strength, performance, strengths, weaknesses, needs, and business opportunities of approved seller/servicer counterparties; and to credit enhancement and risk transfer techniques.

The determination about asset quality reflects the quantity of existing and potential credit risk associated with the loan and investment portfolios, other real estate owned, other assets, and off balance sheet transactions. The demonstrated performance of management in identifying, measuring, monitoring, and controlling risk is also reflected in this determination. Included in the evaluation of asset quality is a consideration of the adequacy of the allowance for loan losses and a consideration of the exposure of the Enterprise to counterparty, issuer, or borrower default under contractual agreements. Also considered are factors that may affect the value or marketability of the assets of the Enterprise. A determination of the asset quality of an Enterprise is based on, but not limited to, an assessment of the following evaluation factors:

- the adequacy of underwriting standards, soundness of credit-administration practices, and appropriateness of risk-identification practices
- the level, distribution, severity, and trend of problem, classified, nonaccrual, restructured, delinquent, and nonperforming assets for both on and off balance sheet transactions
- the adequacy of the allowance for loan losses and other asset valuation reserves
- the credit risk arising from or reduced by off balance sheet transactions, such as unfunded commitments, credit derivatives, and other possible credit facilities
- the diversification and quality of the loan and investment portfolios
- the presence of undue asset concentrations
- the adequacy of investment policies, procedures, and practices
- the ability of management to properly administer its assets, including the timely identification and collection of problem assets
- the adequacy of internal controls and management information systems
- the volume and nature of credit-documentation exceptions

Asset quality is reflected in asset performance, and both the single-family mortgage and multifamily mortgage portfolios exhibited reasonable performance during the examination period, which took place during a period of economic recovery. The examiners monitor and analyze a variety of quantitative and qualitative features affecting credit risk management and credit performance. Through its analyses, OFHEO identifies sectors of the credit process for further examination. There are a variety of public and non-public indicators that are tracked and evaluated in the OFHEO's analysis. Among the key publicly-reported measures of performance for the single-family portfolio OFHEO evaluates are: serious delinquency, credit loss ratio, credit-related losses, trends in real estate owned (REO), and geographic concentrations. OFHEO further evaluates a collection of proprietary performance measures, analyses and internal strategic assessments. In considering these public and non-public materials, examiners consider those factors in tandem with their own

independent analyses and the results of their focused testing. From this collective work and using a variety of sources, OFHEO renders its conclusion on asset quality and credit risk management.

Single-family. Although OFHEO considers the single-family underwriting and servicing standards of Fannie Mae to be sound, OFHEO is closely monitoring the increased inventory of REO observed in the single family book of business (up 38 percent from 2002 levels), and the corresponding increase in credit-related losses (up 61 percent from 2002 levels) observed in 2003. In contrast, serious delinquency has increased moderately (from 0.57 percent in 2002 to 0.60 percent in 2003), and the credit loss ratio (credit losses relative to the average single-family mortgage credit book of business) has remained relatively stable over the past 12 quarters. As a consequence, OFHEO found that the increase in REO and credit-related losses is explained by a combination of factors that includes portfolio growth and the portfolio of higher risk loans of the Enterprise, and is not attributable to deteriorating underwriting standards or the fundamental credit quality. With regard to higher risk loans, the Enterprise purchases loans to borrowers with credit scores below 660,<sup>6</sup> but limits this segment of the book of business. As of year-end 2003, 16 percent of the book of business of the Enterprise was comprised of loans to borrowers with credit scores below 660, compared with 17 percent and 16 percent for the years 2002 and 2001, respectively.

Multifamily. The multifamily portfolio has been adversely impacted by economic conditions that have contributed to increased vacancy rates, reduced net operating income, and increased delinquencies. Serious delinquency at year-end 2003 was 0.27 percent, up from 0.05 percent in 2002; but at the same level as year-end 2001. The increase in serious delinquency in 2003 was the result of two additional loans becoming delinquent. Credit-related losses actually decreased \$7 million from 2002 to 2003, but are up \$7 million over 2001 levels; and the credit loss ratio has fluctuated between 0.012 percent at year-end 2003, 0.022 percent at year-end 2002, and 0.007 percent at year-end 2001. The multifamily market may continue to experience economic disturbance in 2004, and credit losses in the multifamily book of business may increase as well.

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<sup>6</sup> For reference, OFHEO uses the 660 credit score as the separation point between the traditional book of business and the “subprime” book of business of the Enterprise. This threshold is consistent with the FFIEC joint statement on subprime lending, and Standard & Poor’s published criteria for subprime securitizations. OFHEO recognizes that Fannie Mae does not rely on a specific credit score threshold for purposes of managing mortgage credit risk.

Manufactured housing ABS investment portfolio. During 2003, OFHEO continued to monitor the manufactured housing asset-backed securities portfolio of the Enterprise and the impact of rating agency downgrades on many of the securities in the portfolio. The primary focus of examiners during the annual examination has been on the efforts of the Enterprise to assess: (1) the servicing practices applied to the loans in this portfolio; (2) the nature and condition of the collateral securing the loans in the securities; and (3) the internal cash-flow, valuations, and related analyses used to manage this portfolio. OFHEO's special examination of Fannie Mae, currently in progress, is examining accounting and internal controls for financial reporting, as well as valuation practices in connection with manufactured housing. OFHEO's objectives are to ensure that: (1) Fannie Mae is appropriately evaluating and managing its risk exposures with respect to this portfolio; (2) processes for determining market values and estimating fair values are sound; and (3) other-than-temporary impairments are appropriately assessed, recorded, and disclosed on a timely basis.

## **MANAGEMENT**

During the course of each annual examination cycle, OFHEO evaluates management of the Enterprises in accordance with OFHEO's regulations, guidance policies, and standards of prudence and safe and sound practices. While there were some significant management changes, these changes took place in an orderly manner and the management structure of Fannie Mae remains stable.

Based on annual examination work conducted in 2003, OFHEO concludes that the overall management of operational risk by the Enterprise comports with applicable safety and soundness standards; however, OFHEO suggested certain enhancements to Enterprise practice. In the area of the effectiveness of policies, procedures and processes to ensure that data, information, and computing resources are secure and accessed only by authorized users, OFHEO concluded that the Enterprise had identified, and corrected, a weakness in its security review process. In the area of the effectiveness of processes for communicating data and information, examiners identified two opportunities for improvement regarding the intranet of the Enterprise in communicating information internally. The Enterprise has implemented both of the recommendations.

In 2004, OFHEO initiated a special examination of accounting policies and practices at Fannie Mae. The scope of this review includes accounting policies and internal controls at the Enterprise, with an

emphasis on identification of any control weaknesses or unusual transactions. When completed this review may well illuminate the adequacy of Fannie Mae's internal controls, including the role of management and the board of directors in fashioning and overseeing implementation of relevant policies and practices. Pending completion of that examination an assessment of management must be deferred.

OFHEO has proposed new standards for corporate governance. This proposal to amend the existing regulation would separate the CEO and Chairman of the Board positions at the Enterprises, establish term and age limits for the Board of Directors, and set other standards and requirements for the conduct and operations of the management and Boards of the Enterprises.

The proposed changes stem, in part, from the findings and recommendations of OFHEO's special examination of accounting and management problems at Freddie Mac. If adopted, some of the changes would, however, affect the management and Board of Directors of Fannie Mae.

The major requirements proposed in this rule include:

- Separating CEO and Chairman functions
- Limiting Directors to ten years of service or an age limit of 72
- Enhancing information flows to the Boards of Directors
- Requiring audit partner rotation every five years and auditor rotation every ten years
- Requiring the Board and its Committees to meet more frequently
- Additional rules for the independence of Board members
- Requiring "appropriate and reasonable" compensation that looks to legal compliance and organizational stability and not just to earnings
- Requiring, at a minimum of every three years, a review of codes of conduct
- Requiring the Boards of Directors to remain informed of the companies' growth plans and resources to manage risks.

## **EARNINGS**

OFHEO assesses Fannie Mae earnings by analyzing the magnitude, trends, sources, and quality of earnings with particular attention to factors that may cause earnings to change in the future. Potentially important factors include such considerations as the risk characteristics of existing positions, market trends, the effects of accounting choices, the effects of unusual economic conditions, and changes in fair value net worth. OFHEO also reviews management systems, practices, and strategies for controlling costs, projecting earnings, and anticipating and responding to

market developments. From these perspectives, Fannie Mae's reported earnings were strong in 2003.

The reported earnings of the Enterprise, certified by their outside auditors as being prepared in accordance with generally accepted accounting principles (GAAP), rose 71 percent, to a record high \$7.9 billion in 2003. GAAP earnings have been more volatile since the adoption of FAS 133, however, a clear upward trend persists. Fannie Mae's core earnings<sup>7</sup> rose 14 percent in 2003 to \$7.3 billion. Core return on equity (ROE) was 26 percent in 2003, similar to results for the last five years. Fannie Mae's fair value balance sheet provides similar information on its performance. In 2003, the fair value balance sheet of the Enterprise showed a \$9.5 billion increase in the net fair value of assets (or fair value of shareholders' equity), to \$31.6 billion. Coupled with capital payouts (dividends plus net share repurchases), fair value gains exceeded \$11 billion in 2003.

A thirty percent increase in total revenues was the impetus behind Fannie Mae's improved GAAP earnings in 2003. Higher net interest income provided the bulk of the revenue gain of the Enterprise in the year. Net interest income under GAAP grew by 28 percent in 2003, driven by 14 percent growth in the average interest-earning assets of the Enterprise. Guarantee fee income also contributed to Fannie Mae's improved profits. This income increased by one-third to a record \$2.4 billion driven by a higher average guarantee fee rate and higher MBS outstanding. The average guarantee fee rate increased more than a basis point to 20.2 basis points in 2003.

Administrative expenses increased 20 percent for the second consecutive year, to \$1.5 billion. The ratio of administrative expenses (administrative expenses divided by average net mortgage portfolio and average outstanding MBS) was 0.072 percent in 2003, unchanged from 2002, and only slightly higher than the ratio for 2001.

Credit losses and credit risk indicators remained low for Fannie Mae in the year. Credit-related losses, including charge-offs and foreclosed property expenses, totaled \$123 million, up from \$57 million in 2002. The Enterprise credit loss rate (credit losses as a percentage of total mortgage-

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<sup>7</sup> Core earnings, as defined by Fannie Mae, differ from GAAP earnings by accounting for the time value of purchased options on an amortized cost basis rather than market value.



backed securities outstanding plus the retained mortgage portfolio) was 0.6 basis points in 2003, up slightly from 2002.

A number of perhaps non-recurring factors had unusual effects on Fannie Mae's 2003 performance. Several were tied to the behavior of market interest rates, which declined in 2002, and continued to decline in early 2003. Short-term rates remained low while long-term rates fell sharply in the spring, then rebounded to levels above those at the beginning of the year. These changes increased the aggregate time value of purchased options, which are reflected in GAAP earnings. The lower core earnings figure deletes those interest rate effects. The interest rate declines, especially in the spring, set off a major refinancing boom. Fannie Mae was able to exercise its options to call debt and enter into receive-fixed swaps faster than homeowners exercised their options to prepay loans. As a result, Fannie Mae's funding costs fell more rapidly than its asset earning yields. Its funding also shifted toward shorter-term debt as the likelihood of prepayments rose, allowing it to benefit significantly from the particularly low short-term interest rates. These benefits were offset, in large part, by Fannie Mae's decision during the year to repurchase portions of its previously issued long-term debt at premium prices, creating after-tax losses of \$1.5 billion. Refinancings also generated exceptional volumes of securitization and technology fees, which rose by \$271 million, after tax, from the previous year. The rise in guarantee fees also reflected faster amortization of pre-paid fees.

Fannie Mae's fair value balance sheet benefited from interest rate changes. Spreads narrowed, on balance, over the course of the year between current market yields on Fannie Mae assets and yields on Fannie Mae debt. That caused asset values to rise relative to debt values. To the extent it is a buy-and-hold investor, Fannie Mae's future profitability does not benefit from such a change. Indeed, narrow spreads later in the year reduced profitable opportunities to expand its asset portfolio. Most of the increase in fair value net assets, however, reflected retained economic earnings.

## **LIQUIDITY**

During the course of each annual examination cycle, OFHEO evaluates liquidity management at the Enterprises in accordance with OFHEO's regulations and guidance policies, and standards of prudence and safe and sound practices. Foremost in OFHEO's assessment was a determination as

to the level of risk to the earnings of the Enterprise and capital that arose from its ongoing ability to meet obligations (contractual, market or business) without incurring unacceptable losses. Although subject to the findings and conclusions of the special examination currently underway, OFHEO's overall assessment included three primary conclusions: (1) Fannie Mae has policies and procedures governing its management of liquidity risk, (2) Fannie Mae demonstrated reliable access to sufficient sources of funds on cost-effective terms to remain liquid and meet its obligations throughout 2003, and (3) Fannie Mae continues to evolve and refine its liquidity contingency plan with strategies and implementation procedures for event management that includes procedures under adverse market scenarios.

Fannie Mae has policies and procedures that detail the nature of its liquidity risk and how that risk is managed. Investment guidelines are regularly reviewed by the Enterprise and updated as part of its management of liquidity. OFHEO concluded that the risk management process for liquidity possessed the management information systems, the necessary risk limits, the internal business controls and the management reports that were appropriate to the task. Management was assessed by OFHEO as effective in identifying and quantifying access to asset and liability liquidity, recognizing vulnerabilities and forming strategies to address those key vulnerabilities. The examination concluded that the mix and volume of business flows, along with the introduction of new initiatives, were evaluated by management within a context that considered liquidity and sensitivity factors.

Effective liquidity management requires active consideration of the various sources for liquidity in planning and the strategic deployment of the tactical plans. Asset liquidity is equally important to effective liquidity management as managing the funding activities of the firm. Fannie Mae's management of asset liquidity (from its retained portfolio cash flows) is enhanced by the holdings in an asset liquidity portfolio. Enhancing asset liquidity, Fannie Mae manages a Liquidity Investment Portfolio (LIP).

The LIP policy and procedures were updated in 2003 and provide a detailed description of portfolio objectives and guidelines. The internal reporting requirements from the LIP policy provide a picture of the risk attributes for this portfolio. Examiners concluded the investment criteria, the investment

practices and the management practices for the LIP reflected prudence in governing liquidity risk and adhere with operating policies and procedures.

The LIP is limited to 15 percent of total assets. Within the LIP, there are subsidiary guidelines with respect to credit, maturity, and issuer diversification. Additionally, there are security-specific guidelines relating to various types of bank debt, corporate debt, repurchase agreements, money market funds, and asset-backed securities, among other investment instruments. Maximum limits are also in place to prevent the purchase of more than 10 to 20 percent of a particular issue, and these limits are dependent upon the type of security, maturity, and credit rating. Under its liquidity management policy, the Enterprise maintains sufficient levels of liquid assets to cover three months of obligations assuming no access to public debt markets for that period of time. Fannie Mae also maintains at least five percent of on-balance sheet assets in liquid non-mortgage investments.

OFHEO reviewed LIP activity during 2003 for the purpose of assessing portfolio composition and trading activity; duration gap management; credit profile/credit watch securities; and system and operational changes in the liquidity management process. The investments in the LIP are consistent with the approved strategies, goals and policies of the Enterprise and with applicable OFHEO policy guidance on non-mortgage liquidity investments. During 2003, management of the LIP was successful in maintaining strong credit quality and limiting the amount of losses in a volatile market environment.

Fannie Mae has made a number of changes to the systems used to manage the LIP and has updated operating procedures for the portfolio. The final approved operating procedures for the LIP were completed in January 2003 and reviewed by OFHEO. In addressing their mark-to-market process, Fannie Mae utilized an independent third party to provide marks. The ongoing special examination of Fannie Mae will examine this subject in greater depth, supplement the annual examination work, and deepen OFHEO's understanding of the portfolio pricing practices of the Enterprise and internal controls for the LIP.

Liability liquidity is an important component of Fannie Mae's management of liquidity risk. Financing obtained in the international debt market enables Fannie Mae to operate its business model. Debt issuance activities conducted in 2003 were sizeable and subject to active scrutiny and

continuing market pressure. Fannie Mae was successful in obtaining cost-effective funding across the yield curve and from a diverse base of investor demographics. Concentration management for its financing activities was successful in 2003 and the Enterprise continued to make active use of derivatives. Within the derivatives market, Fannie Mae actively uses swaptions to execute its funding strategies. Continuing access to the swaptions market and the liquidity of this market are important considerations in evaluating the liquidity of the Enterprise. The combination of tactics employed in the financing strategies enabled Fannie Mae to meet its liquidity obligations and maintain its desired balance sheet symmetry.

The year 2003 was not without challenges. There was substantial volatility in interest rates and markets throughout the year, and there was a challenging business environment, particularly in the second-half of 2003. The convergence of a series of factors resulted in an increase to the cost of Fannie Mae's financing activities and risk management activities. However, these increased costs did not adversely impact earnings and capitalization of Fannie Mae from a safety and soundness perspective.

Also critical to liability liquidity for Fannie Mae, is the rating of their debt instruments by recognized rating agencies. The rating agencies did not take, or indicate that they were intending to take, actions to downgrade or otherwise alter existing ratings of the debt instruments of the Enterprise.

Effective liquidity management requires the maintenance of a comprehensive contingency funding plan (CFP). The CFP of Fannie Mae incorporates the components outlined by authoritative sources for an effective plan. The plan includes the use of timely data (actual and projected), management's estimates and projections, and strategic and tactical plans under various scenarios and stress environments.

Critical to the effective management of liquidity by Fannie Mae is obtaining quality information in a timely manner. The data and information component is an area requiring continuous evolution and enhancements. There were a variety of changes and enhancements noted by OFHEO during the last examination cycle.

In 2003, the database used by Fannie Mae for short-term forecasting, float income projections, and portfolio inventory analysis was enhanced. The enhanced database allows for a more robust set of analytical tools, and OFHEO believes this has improved the effectiveness of liquidity management of the Enterprise. Short-term portfolio forecasting has been operational since the first quarter of 2003, and this feature provides the ability to project for the current month and the following three months portfolio ending balances, average balances, and net interest income. It also allows for scenario analysis to be incorporated in the projections. The functionality for float interest income projection has been available since mid-2003. This feature allows management to analyze returns the Enterprise receives on the MBS principal and interest float. Portfolio inventory analysis was added to the database during the third quarter of 2003, and gives the Enterprise the ability to sort the portfolio in multiple ways to review asset types and returns. Duration gap calculation enhancements for LIP were also added in 2003, and allow for credit spread duration analysis using various credit spread scenarios. For 2004, management expects to further enhance the database by adding trade entry and additional automated compliance features.

Senior management at the Treasurer's office of the Enterprise has primary responsibility for liquidity management and is responsible for ensuring compliance with procedures and controls for all related processes and tasks. The internal and external auditors review the process employed by management annually. Internal audit has specialists who focus on control issues for debt issuance processes and the LIP. Examiners evaluated and tested, to the extent resources permitted, certain work performed by internal and external auditors. The special examination of Fannie Mae now being conducted will examine this area in greater depth.

## **SENSITIVITY**

Inherent in Fannie Mae's business model as a financial intermediary is the role of accepting and managing financial risks. One such risk is the exposure of its earnings and capital to movements in interest rates. OFHEO evaluates interest rate risk arising from differences between the timing of rate changes and the timing of cash flows (repricing risk); from changing rate relationships among yield curves that affect the activities (basis risk) of the Enterprise; from changing rate relationships across the spectrum of maturities (yield curve risk); and from interest rate related options embedded in the products (option risk) of the Enterprise. Furthermore, in conjunction with evaluating the

effects of movements in interest rates, OFHEO evaluated the impact of hedging strategies and products employed by the Enterprise that altered one or more features of the interest rate risk portfolio. It is the movements in interest rates in combination with the hedging strategies employed by the Enterprise that affect the reported financial performance and the underlying economic value of its portfolio.

In 2003, volatility in the debt market affected the interest rate risk position of Fannie Mae. Management was required to respond by rebalancing its exposure to that volatility. During the 2003 examination, OFHEO focused on the risk management policies and practices (the process) of Fannie Mae and the effects this had on its risk profile and whether the quantity of interest rate risk being assumed by management posed a supervisory concern. Routine examination activities were augmented by testing, to the extent resources permitted, in specific areas affecting interest rate risk management.

The examination methodologies employed by OFHEO are consistent with the principles outlined in the joint policy statement on interest rate risk of the federal banking agencies. OFHEO evaluates rate sensitivity by considering the ability of management to identify, measure, monitor, and control sensitivity exposure; the size of the Enterprise; the nature and complexity of its activities; and the overall financial performance in relation to the level of sensitivity exposure. Specific work was conducted in five key areas to evaluate Fannie Mae's risk management for interest rate sensitivity, and to ascertain whether (1) There are clear lines of responsibility and authority for: identifying the potential interest rate risk that arose from the existing activities and products along with a process to incorporate new initiatives; establishing and maintaining an interest rate risk measurement system; formulating and executing strategies; and authorizing exceptions; (2) There is an effective measurement system for interest rate risk that identifies and quantifies the major sources of interest rate risk in a timely manner; (3) There is an effective monitoring and reporting system with reporting formats and flows that are consistent in form and content with the level of oversight being exercised and for the nature of the risk profile; and the monitoring and reporting system includes an appropriate flow of information to executive management and the Board of Directors on the levels of interest rate risk being assumed and compliance with policies, procedures and internal controls; (4) There are meaningful risk limits and controls that present clearly: the amount and type of risk that can be taken; the thresholds for rebalancing; and the appropriate symmetry between risk

parameters and risk capacity; (5) There are effective business controls in place that complement an effective risk management framework. In addition to the controls, there must be adequate resources to support risk monitoring, audit and any other control functions that provide the appropriate separation of duties and responsibilities and the timely and accurate reporting of relevant information.

In 2002, OFHEO took prompt supervisory action in response to duration gap problems that were developing at Fannie Mae. In 2003, OFHEO concluded that action. In the remainder of the year, the sensitivity exposure of Fannie Mae was adequately managed and the effects of interest rate movements on financial performance and underlying economic value were within safety and soundness tolerances.

In forming conclusions about the quality of risk management activities, OFHEO evaluated, among other things, use of a wide variety of measures by management to gauge the sensitivity of the Enterprise to interest rate exposure, and whether management's rebalancing actions were consistent with the measures and the defined tactical strategies. Examples of the routine metrics evaluated and tested by examiners and that are employed by management for rebalancing decisions were measures for duration gap, duration gap sensitivity, as well the sensitivity of the market value of the Enterprise to parallel shifts in the yield curve, and in the shape of the yield curve and prepayment speeds. OFHEO evaluated other measures employed by management in managing the sensitivity position such as: net interest income at risk, market value at risk, economic value of equity, and enhanced economic value at risk. Fannie Mae's management also assesses the sensitivity of its earnings to defined movements in interest rates. The sensitivity impacts on specific cash flows are measured using stochastic tools that generate multiple interest rate paths, and provide management probabilistic estimates of sensitivity. Management routinely evaluates the impact of events or alternative environments on the market risk sensitivity of the Enterprise, and runs various scenarios to evaluate the sensitivity of the Enterprise to prepayments, changes in yield curves and interest rate environments. These scenario analyses include deterministic rate risk shocks to the level of interest rate risk and to the shape of the yield curve. OFHEO evaluates the above mentioned tools, the information produced by them and the impact of the analysis and strategic decisions reached. In addition, OFHEO considered how management monitors, and tracks its assessments of the sensitivity of credit and market losses to economic changes.

Near the end of the 2003 examination, OFHEO commenced a special examination of Fannie Mae. The scope of the special examination includes an in-depth review of several aspects of interest rate risk management. Included in the scope are derivative valuations/model validation practices; asset-liability management and risk measurement; hedging decision review; credit reserve estimations; and an assessment of the internal controls of the Enterprise covering valuation and risk measurement practices. The results and conclusions of the special examination will supplement the agency's annual examination work, deepen OFHEO's understanding of the risk management practices of the Enterprise, and enhance OFHEO's ability to reach accurate assessments of the adequacy of the internal controls and practices of the Enterprise.

As indicated above, a financial risk for Fannie Mae is the exposure of its earnings and capital to movements in interest rates. Accordingly, OFHEO analyzes the sensitivity of the risk-based capital requirement to a wider range of interest rate scenarios and other variables to further assess the ability of an Enterprise to withstand the stresses they impose.



# FREDDIE MAC

## 2003 SUPERVISORY REPORT OF CONDITION

During 2003, in addition to OFHEO's ongoing examination and capital supervision efforts, OFHEO initiated a special examination of Freddie Mac. This special examination is referenced throughout this Report of Condition, and the report of the special examination is available on OFHEO's web site<sup>8</sup>.

### CAPITAL

Capital provides the means by which the Enterprise withstands adverse economic conditions or situations. OFHEO through its Office of Capital Supervision (OCS) monitors and assesses the capital position of Freddie Mac on an ongoing basis. OFHEO's capital authority is promulgated in the 1992 Act through the establishment of two quantitative assessments of capital – minimum and risk-based. During 2003, these quantitative capital measurement tools, along with results of examinations and OFHEO special examinations, provided the basis for OFHEO's capital supervision of Freddie Mac.

As defined by statute, OFHEO has several measurement tools it uses as a basis for capital classification.

- **The *minimum*** capital level represents the essential amount of capital needed to protect an Enterprise against broad categories of business risk. The minimum capital level represents an absolute floor, related to the level of Enterprise assets and obligations, below which capital should not dip. The minimum capital level is a ratio-based quantitative measure defined as 2.5 percent of assets plus 0.45 percent of adjusted off balance sheet obligations.

An Enterprise meets its minimum capital level requirement if its core capital — common stock; perpetual non-cumulative preferred stock; paid in capital; and retained earnings — equals or exceeds minimum capital.

- The ***critical*** capital level is the amount of core capital below which an Enterprise must be classified as critically undercapitalized and generally must be placed in conservatorship. Critical capital levels are computed as one-half of the portion of the minimum capital level requirement associated with on-balance-sheet assets plus five-ninths of the portion of the minimum capital level requirement associated with off balance sheet obligations.

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<sup>8</sup> See <http://www.ofheo.gov/media/pdf/specialreport122003.pdf>.

- OFHEO's *risk-based* capital regulation meets the specific requirements of the 1992 Act. OFHEO's stress test simulates the financial performance of an Enterprise over a 10-year period under severe economic conditions. Key aspects of the severe economic conditions used in the stress test are defined specifically in the 1992 Act. These conditions include high levels of mortgage defaults, with associated losses and large, sustained movements in interest rates, both increasing (up-rate scenario) and decreasing (down-rate scenario).

The 10-year stress test is used to measure the risk of the overall portfolio of each Enterprise. The stress test determines the amount of total capital — core capital plus a general allowance for loan losses less specific reserves — that an Enterprise must hold to absorb projected losses flowing from future adverse interest-rate and credit-risk conditions. The risk-based capital standard is based on stress test results calculated for the two statutorily prescribed interest rate scenarios, one in which 10-year Treasury yields rise 75 percent (up-rate scenario) and another in which they fall 50 percent (down-rate scenario). Changes in both scenarios are generally capped at 600 basis points. The risk-based capital level for an Enterprise is the amount of total capital that would enable it to survive the stress test in whichever scenario (up-rate or down-rate) is more adverse for that Enterprise, plus 30 percent of that amount to cover unspecified management and operations risk.

OFHEO uses a detailed computer model to simulate cash flows for each Enterprise associated with mortgages and other financial assets and obligations under the severe economic conditions. The modeling of incoming and outgoing cash flows captures the risks embedded in those financial assets and obligations and the benefits of the hedges each Enterprise has set in place.

Risk-based capital ensures a healthy relationship between the level of risk undertaken at a particular time by an Enterprise, and the level of capital it must hold. As a far more risk-sensitive measure, the risk-based requirement is designed to expose hidden weaknesses in an Enterprise that seems financially sound under normal conditions using more traditional capital measures.

In addition to the consideration of the performance of the Enterprise relative to the regulatory capital requirements, OFHEO also makes qualitative judgments about capital in determining overall capital adequacy. These other factors include the overall financial condition of the Enterprise in relation to the capital level and the ability of the Enterprise to access other sources of capital and address emerging needs, the composition of balance sheet and off balance sheet activities, growth, the quality of earnings, and asset quality.

Each quarter, OFHEO calculates a minimum capital level requirement, which includes both a “minimum” and a lower “critical” level, and a risk-based capital requirement for each Enterprise. Since September 30, 2002 the Enterprises are required to meet or exceed both the minimum and risk-based capital requirements to be classified as “adequately capitalized.”

An Enterprise that met the minimum capital level requirements, but did not achieve the risk-based capital level requirements would be classified as “undercapitalized.” An Enterprise that did not meet the minimum capital level requirements would be classified as “significantly undercapitalized.” An Enterprise holding less than the critical capital level requirement would be classified as “critically undercapitalized.” Failure to achieve the requirements would trigger a range of regulatory responses, depending upon the capital classification.

The quantitative analysis generated through the minimum and risk-based capital calculations is supplemented by sensitivity analysis of the risk-based capital requirement, conclusions reached from examinations and other special investigations, discussions and assessments of capital management practices, and research and analysis of risks and exposures at the Enterprise.

The risk-based capital stress test assesses the ability of an Enterprise to withstand the two statutorily-defined scenarios involving interest rate and credit stress. The relative magnitude of the risk-based capital requirement in the two stress test scenarios provides an indication of the relative ability of an Enterprise to withstand severe rate increases and severe rate decreases, however the results of the two scenarios are not sufficient to fully determine whether an Enterprise is adequately protected for changes in interest rates. OFHEO analyzes the sensitivity of the risk-based capital requirement to a wider range of interest rate scenarios to further assess the ability of an Enterprise to withstand prolonged interest rate stress. Furthermore, OFHEO analyzes the sensitivity of the risk-based capital requirement to other variables to further assess the ability of an Enterprise to withstand other types of stress.

After taking into account all relevant conclusions, OFHEO proposes a capital classification in writing to each Enterprise each quarter. Each Enterprise has the opportunity to review and

comment on its proposed classification. After reviewing comments from the Enterprise, OFHEO determines the final capital classification and releases the classification to the public.

While Freddie Mac has submitted minimum and risk-based capital results to OFHEO, they have not as yet published 2003 financials, therefore, the capital results are subject to restatement. The cumulative effect of the 2002 and prior year adjustments are reflected in the fourth quarter, 2003 results, but are not included in the earlier quarter results. Based on disclosures and discussions with Freddie Mac management, OFHEO is not aware of changes that will impact the capital classification conclusions issued in 2003 for Freddie Mac.

During 2003 and into early 2004, OFHEO took unprecedented steps in the supervision of Freddie Mac. Specifically, with respect to capital supervision, when OFHEO's special examination revealed significant operational weaknesses and risks at Freddie Mac, the agency took immediate action to direct Freddie Mac to increase its capital surplus over historic quantitative ratios. OFHEO directed Freddie Mac to maintain capital surpluses approximating 30% over the required minimum capital surplus beginning January 30, 2004 and until such time as timely financial statements are issued and operational risks decrease. OFHEO's directive further requires that Freddie Mac seek OFHEO pre-approval for capital deployment initiatives to ensure the mandated surplus is maintained until the risks are minimized. OFHEO monitors Freddie Mac's core capital on a weekly basis. As of May 31, 2004, Freddie Mac has remained in compliance with this capital directive.

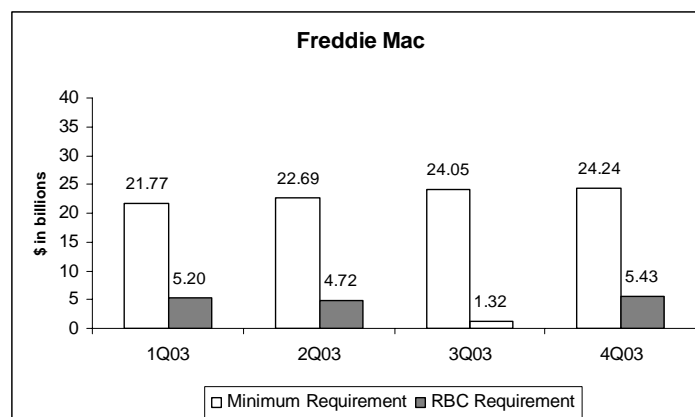
For all four quarters in 2003, Freddie Mac exceeded its minimum and risk-based capital requirements. Based upon these quantitative results, OFHEO's ongoing analysis of financial and stress-test results, weekly monitoring of capital positions and Freddie Mac's methodology for maintaining appropriate capital surpluses, the conclusions of examination and other investigative activities, and discussions with management, OFHEO concludes that Freddie Mac was adequately capitalized. OFHEO also concludes that Freddie Mac's ability to address emerging capital needs and appropriately manage the capital position was sound.

Freddie Mac exceeded its capital requirements in each of the four quarters in 2003 by adapting its portfolios to a changing economic environment. In 2003, interest rates fell during the first two quarters, rose sharply in the third quarter, and remained relatively flat in the fourth quarter. Freddie

Mac modified its portfolios to accommodate fluctuating interest rates during the year consistent with its risk management policies and procedures.

## Quantitative Results of Capital Adequacy for Freddie Mac<sup>9</sup>

### Minimum and Risk-Based Capital Requirements

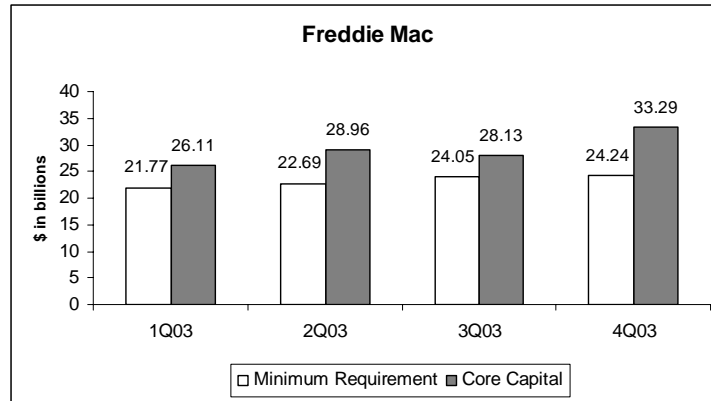


The minimum capital level requirement increased each quarter for Freddie Mac, a function of growth in balance sheet assets and off balance sheet obligations. The minimum capital level requirement exceeded the risk-based capital requirement in all four quarters, and therefore represents the binding capital requirement.

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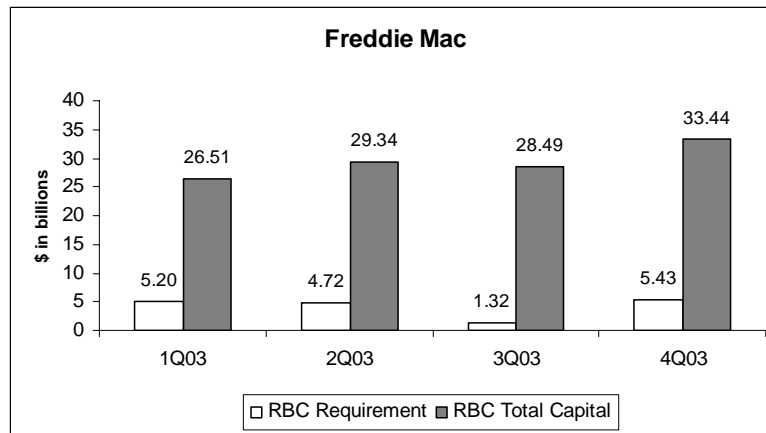
<sup>9</sup> Freddie Mac's fourth quarter results capture the cumulative adjustments of Freddie Mac's financial restatement. The first, second, and third quarters of 2003 do not reflect restated results. Freddie Mac has not yet published financials for 2003; thus these numbers for all quarters are subject to restatement.

## Minimum Capital Results



Freddie Mac held core capital in excess of its minimum capital level requirements during 2003. For Freddie Mac, core capital increased every quarter except the third quarter. The increase in core capital resulted primarily from an increase in retained earnings.

## Risk-Based Capital Results



In 2003, total capital exceeded the risk-based capital requirement by \$21.3 billion or more. The growth in total capital closely tracked growth in core capital as loss reserves were essentially unchanged. Similar to core capital, total capital increased each quarter relative to the previous quarter with the exception of Freddie Mac's third quarter 2003 results where total capital decreased slightly, but was well above the risk-based capital requirement.

## ASSET QUALITY

During the course of each annual examination cycle, OFHEO evaluates mortgage credit risk management practices of the Enterprise for the single-family and multifamily lines of business. OFHEO evaluates a variety of factors that determine the quality of credit risk management, including the management reporting framework; the development and implementation of credit policy, underwriting and servicing standards; and strategies and practices for managing exposures to seller/servicer and mortgage insurer counterparties. In addition, OFHEO regularly reviews mortgage acquisitions, mortgage portfolio risk profiles and performance measures, seller/servicer performance, and default management and loss mitigation activities. In sum, OFHEO reviews the structure of the Enterprise for managing mortgage credit risk, and, through selected sampling and targeted reviews as staffing permits, evaluates whether the practices of the Enterprise meet safety and soundness standards and adequately protect the Enterprise from the risk of loss resulting from borrower or counterparty default. Based on OFHEO's examination activities to date, it is the overall conclusion of OFHEO that Freddie Mac has strong asset quality and prudent credit risk management practices. OFHEO has directed the attention of management to specific aspects of credit risk management and identified opportunities to improve existing practices. Those enhancements relate to: quality control reporting statistics for post-purchase loan review activities and performance; enhancements to certain counterparty risk management and risk oversight practices for seller/servicers; and continued participation in the industry efforts to reduce mortgage fraud through the adoption of a means for identifying troublesome third party originators.

The determination about asset quality reflects the quantity of existing and potential credit risk associated with the loan and investment portfolios, other real estate owned, other assets, and off balance sheet transactions. The demonstrated performance of management in identifying, measuring, monitoring, and controlling risk is also reflected in this determination. Included in the evaluation of asset quality is a consideration of the adequacy of the allowance for loan losses and a consideration of the exposure of the Enterprise to counterparty, issuer, or borrower default under contractual agreements. Also considered are factors that may affect the value or marketability of the assets of the Enterprise. A determination of the asset quality of an Enterprise is based on, but not limited to, an assessment of the following evaluation factors:

- the adequacy of underwriting standards, soundness of credit-administration practices, and appropriateness of risk-identification practices

- the level, distribution, severity, and trend of problem, classified, nonaccrual, restructured, delinquent, and nonperforming assets for both on and off balance sheet transactions
- the adequacy of the allowance for loan losses and other asset valuation reserves
- the credit risk arising from or reduced by off balance sheet transactions, such as unfunded commitments, credit derivatives, and other possible credit facilities
- the diversification and quality of the loan and investment portfolios
- the presence of undue asset concentrations
- the adequacy of investment policies, procedures, and practices
- the ability of management to properly administer its assets, including the timely identification and collection of problem assets
- the adequacy of internal controls and management information systems
- the volume and nature of credit-documentation exceptions

Asset quality is reflected in asset performance, and both the single-family mortgage and multifamily mortgage portfolios exhibited reasonable performance during the examination period, which took place during a period of economic recovery. OFHEO monitors and analyzes a variety of quantitative and qualitative features affecting credit risk management and credit performance. Through its analyses, OFHEO identifies sectors of the credit process for further examination. There are a variety of public and non-public indicators that are tracked and evaluated in the OFHEO's analysis. Among the key publicly-reported measures of performance for the single-family portfolio OFHEO evaluates are: serious delinquency, credit loss ratio, credit-related losses, trends in real estate owned, and geographic concentrations. OFHEO further evaluates a collection of proprietary performance measures, analyses and internal strategic assessments. In considering these public and non-public materials, OFHEO considers those factors in tandem with their own independent analyses and the results of their focused testing. From this collective work and using a variety of sources, OFHEO renders its conclusion on asset quality and credit risk management.

Single-family. Although OFHEO considers the single-family underwriting and servicing standards of the Enterprise to be sound, OFHEO personnel are closely monitoring the increased inventory of real estate owned (REO) observed in the single-family book of business. REO inventories have grown from 7,222 properties at the year-end of 2002, to approximately 9,500 at year-end 2003. Serious delinquency has also increased, from 0.77 percent in 2002 to 0.86 percent in 2003. Moreover, single-family credit losses increased from \$75 million at year-end 2002 to approximately



\$119 million 2003<sup>10</sup>. The increase in REO and credit losses may be explained by a combination of factors, such as portfolio growth and the portfolio of higher risk loans of the Enterprise.

Multifamily. The multifamily portfolio has been adversely impacted by economic conditions that have contributed to increased vacancy rates and reduced net operating income, however, management estimates that serious delinquency was 0.05 at year-end 2003, down from 0.13 percent in 2002 and 0.15 in 2001. Management estimates that credit-related losses for 2003 were \$10.3 million, most of which were attributable to one multifamily property. Expectations are for the multifamily market to continue to experience economic disturbance and for serious delinquency and credit losses in the multifamily book of business to increase.

## **MANAGEMENT**

OFHEO conducted a special examination of the events leading to the public announcement on June 9, 2003, of the termination, resignation, and retirement of the three principal executive officers of Freddie Mac. The special examination was ordered to supplement an ongoing OFHEO examination of the financial condition of the Enterprise and the decision of Freddie Mac to restate its financial reports for 2000, 2001, and 2002. OFHEO released a report on the special examination detailing a pattern of inappropriate conduct and improper management of earnings that led to the restatement and management restructuring by the company.

Freddie Mac agreed to implement corrective measures and pay a civil money penalty of \$125 million as part of a consent order with OFHEO. The order sets forth specific actions for the Enterprise to implement that relate to:

- The Board of Directors and Senior Management
- Internal Controls
- Internal Audit
- Internal Accounting
- Risk Management Transactions
- Oversight and Reporting

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<sup>10</sup> The credit loss figure for 2003 presented here is based on management's internal estimates, and may differ from the credit loss figure the Enterprise reports publicly when it issues audited financial statements for 2003. Likewise, the REO inventory figure is based on management's internal estimates.

The Board of Directors of Freddie Mac has elected a new chairman and hired a number of senior executives as its new management team. As this new management of Freddie Mac has been in place only a short time, OFHEO will defer assessment of their performance.

As the result of its ongoing examination of Freddie Mac, OFHEO made recommendations for certain enhancements to Enterprise policies and practices. In the area of data center operations, OFHEO concluded that management has appropriate operating policies and procedures to protect data processing assets from intentional or inadvertent mishaps; however, OFHEO also concluded that it would be prudent for management to revise and update certain policies. OFHEO highlighted the importance of maintaining sufficient information technology capacity to meet increasing systems and business demands in evaluating operational risk. For example, management has identified a variety of systems enhancements that are necessary to resolve the internal control problems over financial reporting that have impaired the ability to produce timely financial statements. In the area of information security, OFHEO observed the continuing improvement to the information security policy and the enhancement of controls and internal communications among business areas.

In the area of business continuity planning (BCP), the Enterprise conducted extensive testing during 2003; however, OFHEO concluded it should perform additional examination work to evaluate the ability of the Enterprise to conduct an all-inclusive business process recovery exercise. OFHEO also concluded that, although the Enterprise has a comprehensive, corporate-wide business continuity plan, it would be prudent for management to develop additional supporting guidelines. Finally, OFHEO observed that the business impact analysis (BIA) of the Enterprise, which assesses potential customer and financial losses that could arise from a BCP event, was not completed in 2003 as planned. Management has represented that the BIA will be completed during 2004.

## **EARNINGS**

OFHEO assesses Freddie Mac earnings by analyzing the magnitude, trends, sources, and quality of earnings with particular attention to factors that may cause earnings to change in the future. Potentially important factors include such considerations as the risk characteristics of existing positions, market trends, the effects of accounting choices, the effects of unusual economic conditions, and changes in fair value net worth. OFHEO also reviews management systems,

practices, and strategies for controlling costs, projecting earnings, and anticipating and responding to market developments.

Freddie Mac has been unable to produce financial statements consistent with GAAP for 2003 and does not expect to do so until June 30, 2004. Based primarily on accounting policies it used prior to its restatements of income for 2002 and prior years, many of which were not consistent with GAAP, Freddie Mac has reported to OFHEO that retained earnings rose \$4.3 billion in 2003. Combined with dividends paid, that implies earnings of \$5.2 billion for the year. Due to the breadth and nature of accounting changes adopted last year, this earnings estimate is subject to significant change. However, based on analysis of internal reports of business activities and results, as well as risk positions taken during the year and their relationships with actual interest rate movements, OFHEO concludes that the underlying economics of the firm are sound and were substantially profitable in 2003. Freddie Mac's investment business benefited from opportunities to fund portions of its asset portfolio with short-term debt at very low interest rates. Its guarantee business suffered from poor market performance of its guaranteed mortgage securities during much of the year, owing to evidence of relatively high prepayment risks.

## **LIQUIDITY**

During the course of each annual examination cycle, OFHEO evaluates liquidity management at the Enterprises in accordance with OFHEO's regulations and guidance, and standards of prudence and safe and sound practices. Foremost in OFHEO's assessment was a determination of the level of risk to the earnings of the Enterprise and capital that arose from its ongoing ability to meet obligations (contractual, market or business) without incurring unacceptable levels of losses. OFHEO's overall assessment included three primary conclusions: (1) Freddie Mac has formal policies and procedures governing its management of liquidity risk, (2) Freddie Mac demonstrated consistent access to funding sources and maintained positive spreads throughout 2003 (this access was demonstrated during a challenging and highly unusual operating environment for Freddie Mac), and (3) aspects of Freddie Mac's contingency funding plans for event management were tested in 2003 with successful results – and this contingency plan and its strategies are continuing to be revised and strengthened.

Freddie Mac has policies and procedures that adequately detail the nature of liquidity risk and how that risk is managed. The Liquidity and Contingency Investment Policy of the Enterprise clearly defines the portfolio objectives and the investment requirements and restrictions. The Liquidity and Contingency Desk procedures were updated in 2003, and include trade execution, cash forecasting, liquidity reporting and repurchase agreement monitoring. Risk limits for managing liquidity are clearly defined in the policies and procedures of the Enterprise, as are lines of authority. There is a limit of 10 percent of total on and off balance sheet assets for the Liquidity and Contingency Portfolio. Within the Liquidity and Contingency Portfolio, there are appropriate guidelines with respect to credit, maturity, and issuer diversification. Authorities for initiating transactions relating to non-mortgage investments, derivatives, and debt issues are clearly specified and delineated.

The types of investments in the Liquidity and Contingency Portfolio appear consistent with the documented goals and strategies of the Enterprise. The stated objectives of the portfolio include: a source of asset liquidity, an asset liquidity portfolio with favorable credit quality, investments that are profitable, an additional means of managing interest rate sensitivity, and added flexibility in managing capital reserves. The written policy identifies authorized investments and minimum credit ratings; and Freddie Mac has an appropriate internal control structure for liquidity management.<sup>11</sup> Transactions are monitored for compliance with established authorizations and limits.

The corporate plans and strategic initiatives of the Enterprise require the maintenance of adequate liquidity to achieve those plans and fulfill the initiatives. Management forecasts are regularly prepared addressing the necessary levels for the Liquidity and Contingency Portfolio. Incorporated in these management forecasts are alternative scenarios to address the potential for changes to the supply of mortgage purchase opportunities. The Enterprise maintains sufficient levels of liquid assets to cover three months of obligations assuming no access to public debt markets for that period of time. Another metric employed by Freddie Mac is the maintenance of at least five percent of on-balance sheet assets being comprised of liquid non-mortgage investments. The 90-day liquidity position is evaluated daily and reported on the Daily Liquidity Commitment Report and reported to the Chief Financial Officer at the Capital Management Meeting. Management regularly

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<sup>11</sup> Note: OFHEO's special examination of Freddie Mac identified material weaknesses in internal controls in other areas of Enterprise operations, including accounting and financial reporting; however, OFHEO did not identify similar internal control weaknesses in the area of liquidity management.

evaluates its ability to liquidate a position quickly and cost-effectively when considering derivatives transactions. Derivative transactions are not initiated with counterparties rated below “A,” and management actively uses collateral to manage the risk in derivatives and with derivative counterparties.

Liability liquidity is an important component of Freddie Mac’s management of liquidity risk. Financing obtained in the international debt market enables Freddie Mac to operate its business model. Debt issuance activities conducted in 2003 were sizeable and they were subjected to scrutiny from numerous market participants. There was a challenging operating environment for the Enterprises in 2003, including a series of events that were specific to Freddie Mac. Throughout the examination cycle, Freddie Mac was successful in obtaining reasonable funding across the yield curve and from a diverse base of debt investors. Concentration management for financing activities of Freddie Mac was successful and the company was able to access the derivatives market to execute its funding plans without adversely affecting the management of the portfolio’s sensitivity positions. Freddie Mac actively uses swaptions to execute its funding strategies; continuing access to the swaptions market and the liquidity of this market are important considerations in evaluating the ability of the Enterprise to meet its liquidity needs. The combination of tactics employed in the financing strategies enabled Freddie Mac to meet its liquidity obligations and maintain its desired balance sheet symmetry.

There was substantial volatility in interest rates and markets throughout the examination period. The convergence of a series of factors resulted in an increase to the cost of Freddie Mac’s financing activities and risk management activities. These increased costs did not adversely impact Freddie Mac’s business model, earnings, or capitalization from a safety and soundness perspective.

Also critical to liability liquidity for Freddie Mac is the rating of its debt instruments by recognized rating agencies. The rating agencies did not take, or indicate that they were intending to take, actions to downgrade or otherwise alter existing ratings of the debt instruments of the Enterprise.

Effective liquidity management requires the maintenance of a comprehensive contingency funding plan (CFP). The CFP of Freddie Mac incorporates the components outlined by authoritative sources for an effective plan. The plan includes the use of timely data (actual and projected),

management's estimates and projections, and strategic and tactical plans under various scenarios and stress environments. Events occurring at Freddie Mac in 2003 activated elements of the CFP, and the results were favorable. The CFP continues to be enhanced and updated.

Critical to the effective management of liquidity is obtaining quality management information in a timely manner. The data and information component is an area requiring continuous evolution and enhancements. OFHEO found management information and reports for liquidity management and debt issuance activities to be timely and accurate.

The internal and external auditors review the process employed by management to ensure compliance with procedures and controls for all the related processes and tasks. Within the internal audit group there are individuals assigned to focus on control issues for debt issuance processes and the Liquidity and Contingency Portfolio. OFHEO evaluated and tested, to the extent resources permitted, certain work performed by internal and external auditors.

In the review of management reporting for liquidity management, OFHEO concluded that daily, weekly, and monthly reports for debt issuance and non-mortgage investments are timely and accurate. However during sampling activities, OFHEO identified inaccuracies in the monthly liquidity reporting of the Enterprise, and concluded that the errors had occurred over the span of several months. The cause of the inaccuracies was an error in the computation of the liquidity and contingency balance; and the result of the computational error was an understatement of the level of the liquidity of the Enterprise as a percentage of total assets. The error was attributable to a reallocation of the accounting personnel to assist in the reaudit process of the Enterprise, and to shortcomings in certain internal controls over the information that appears in the reports. Management has responded by implementing new controls adopted to avoid recurrence of the reporting errors and anomalies identified through OFHEO's sampling activities. Although certain internal monthly reports contained errors (and were subsequently corrected), OFHEO concluded that those errors did not impact the daily and weekly reports on which Enterprise personnel rely to conduct liquidity management activities.

OFHEO evaluated the overall effectiveness of the methodology of the Enterprise for quantifying and monitoring liquidity and how management routinely evaluates the impact of events or

alternative environments and develops appropriate contingency plans. OFHEO concluded that management needs to update its contingency plan. The Enterprise was planning to update the contingency plan in 2003 to assess its underlying assumptions and to provide for additional stress testing and sensitivity analysis; however, those plans were postponed and have been rescheduled for 2004.

## **SENSITIVITY**

Inherent in Freddie Mac's business model as a financial intermediary is the role of accepting and managing financial risks. One such financial risk is the exposure of its earnings and capital to movements in interest rates. OFHEO examines interest rate risk arising from differences between the timing of rate changes and the timing of cash flows (repricing risk); from changing rate relationships among yield curves that affect the activities (basis risk) of the Enterprise; from changing rate relationships across the spectrum of maturities (yield curve risk); and from interest rate related options embedded in the products (option risk) of the Enterprise. In tandem with evaluating the effects of movements in interest rates, OFHEO evaluated the impact of hedging strategies and products employed by the Enterprise that altered one or more features of the interest rate risk position. It is the movements in interest rates in combination with the hedging activities employed by the Enterprise that regularly affect the reported financial performance of the firm and these same factors affect the underlying economic value.

In 2003, frequent volatility in the debt market affected Freddie Mac's interest rate risk position. Management was required to respond by rebalancing its exposure to that volatility. During the 2003 examination, OFHEO focused on the risk management policies and practices (i.e., the process) of Freddie Mac and the effects it had on its risk profile and whether the quantity of interest rate risk being assumed by management posed a supervisory concern. The annual examination activities were augmented by testing, to the extent resources permitted, in specific areas affecting interest rate risk management.

The annual examination methodologies employed by OFHEO are consistent with the principles that are outlined in the joint policy statement on interest rate risk of the federal banking agencies. OFHEO evaluates rate sensitivity by considering the ability of management to identify, measure, monitor, and control sensitivity exposure; the size of the Enterprise; the nature and complexity of its

activities; and the overall financial performance in relation to the level of sensitivity exposure. Specific work was conducted in five key areas to evaluate Freddie Mac's risk management for rate sensitivity: (1) There are clear lines of responsibility and authority for: identifying the potential interest rate risk that arose from the existing activities and products along with a process to incorporate new initiatives; establishing and maintaining an interest rate risk measurement system; formulating and executing strategies; and authorizing exceptions; (2) There is an effective measurement system for interest rate risk that identifies and quantifies the major source of interest rate risk in a timely manner; (3) There is an effective monitoring and reporting system with reporting formats and flows that are consistent in form and content with the level of oversight being exercised and for the nature of the risk profile. The monitoring and reporting system includes an appropriate flow of information to executive management and the Board of Directors on the levels of interest rate risk being assumed and compliance with policies, procedures and internal controls; (4) There are meaningful risk limits and controls that present clearly: the amount and type of risk that can be taken; the thresholds for rebalancing; and the appropriate symmetry between risk parameters and risk capacity; (5) There are effective business controls in place that complement an effective risk management framework. In addition to the controls, there must be adequate resources to support risk monitoring, audit and any other control functions that provide the appropriate separation of duties and responsibilities and the timely and accurate reporting of relevant information.

Based on OFHEO's review during the annual examination of the risk management activities and positions in 2003, OFHEO concluded that Freddie Mac's sensitivity exposure was adequately controlled and the attendant financial performance and the underlying economic value were not adversely affected from a safety and soundness perspective. Risk management activities were considered effective in managing the sensitivity position during a volatile operating environment.

Freddie Mac's management relies on a wide variety of measures to gauge and measure the firm's sensitivity to interest rates. For example, management measures duration gap and portfolio market value sensitivity, as well the sensitivity of the market value of the Enterprise to parallel shifts in the yield curve, and in the shape of the yield curve and prepayment speeds. Management evaluates other measures and also assesses the sensitivity of earnings to defined movements in interest rates.



Freddie Mac also assesses the sensitivity of its earnings using stochastic tools that generate multiple interest rate paths and provide management probabilistic estimates of sensitivity.

Management also routinely evaluates the impact of events or alternative environments on the market risk sensitivity of the Enterprise and runs various scenarios to evaluate the sensitivity of the Enterprise to prepayments, changes in yield curves and interest rate environments. These scenario analyses include deterministic rate risk shocks to the level of interest rate risk and to the shape of the yield curve. Moreover, management monitors and reports its assessments of the sensitivity of credit and market losses to economic changes.

The Enterprise is in the process of implementing changes to its overall governance and reporting, and it is revising policies and procedures to address control-related issues. Management is addressing staffing inadequacies in the mortgage portfolio management group. These staffing issues became more pronounced during the second-half of 2003 in line with a number of events that transpired. Management is also addressing the prior communications failures between Funding & Investment and the New Products Group and the development of comprehensive procedures, monitoring infrastructure, and automated reporting processes to account for REMIC sales in the available-for-sale activities. The OFHEO examination plans for 2004 will review controls in place to address these issues.

As indicated above, a financial risk for Freddie Mac is the exposure of its earnings and capital to movements in interest rates. Accordingly, OFHEO analyzes the sensitivity of the risk-based capital requirement to a wider range of interest rate scenarios and other variables to further assess the ability of an Enterprise to withstand the stresses.

The overall management of interest risk and liquidity risk comports with applicable safety and soundness standards; however, OFHEO suggested certain enhancements to Enterprise practices. In the area of internal controls, OFHEO noted that management had identified several major control issues relating to the mortgage portfolio management unit. OFHEO concluded that mitigating controls are in place to address these issues and that management has identified strategies to address them. In the area of the overall effectiveness of technology and controls supporting the interest rate risk management function, OFHEO noted that key management vacancies resulting from, or related

to, the events that led to the need of the Enterprise to restate its financial statements, are being filled by personnel with the appropriate expertise. OFHEO concluded that enhancements are underway to ensure the continued integrity of data used in interest rate risk and portfolio management models. In the area of separation of responsibilities between the strategy, analytics, and execution functions, OFHEO concluded that certain activities of senior management personnel previously overseeing the activities of the Market Risk Oversight (MRO) unit had compromised the role of the MRO given that they engaged in activities that were incompatible with the MRO's oversight and independent control function. OFHEO concluded that management must institute a structure that does not blur the role of risk advisor and risk manager. Enterprise management is addressing this finding and related matters in conjunction with its remediation plan and its efforts to achieve and maintain compliance with the consent order entered into with OFHEO during 2003.

## **CHAPTER THREE: FINANCING OFHEO'S OPERATIONS**

### **OFHEO'S BUDGET**

The business operations of OFHEO are not financed by taxpayer funds. However, the annual operating budget is subject to the Federal appropriations process and is constrained by the amount appropriated by Congress and signed into law by the President. The amounts provided for by the appropriations process are collected from Fannie Mae and Freddie Mac in the form of an annual assessment.

OFHEO Director Armando Falcon has repeatedly stated that the lengthy appropriations process does not allow OFHEO the flexibility necessary to address evolving or dynamic issues at the Enterprises before those issues raise safety and soundness concerns or impact the funding of the housing market. Legislation proposed by the Administration seeks authority for OFHEO to be funded in the same manner as all other financial safety and soundness regulators. OFHEO's operations would remain subject to the oversight of Congress but its budget would be free from the unpredictability of the annual appropriations process.

The lack of flexibility provided OFHEO in the appropriations process was demonstrated last year when additional funds were required to respond quickly to the events unfolding at Freddie Mac. It took seven months for OFHEO to receive additional funds needed to pursue a special examination of Freddie Mac. The Director was forced to shift resources away from annual examination and oversight activities in order to quickly respond to the crisis.

Four months into Fiscal Year 2004, OFHEO received its full budget request of \$39,915,000. This will fund existing activities and provide resources to strengthen examination, compliance, accounting oversight and capital review and adequacy programs. It may not be sufficient to fund necessary special examination activities identified after the budget was formulated and enacted by Congress. The Director is monitoring the financial position of OFHEO closely and will re-direct funds if necessary.

On May 6, 2004, President Bush submitted to the Congress a legislative proposal that continued to support the transfer of all resources available to OFHEO to a new, strengthened housing government-sponsored enterprise regulator in the Department of the Treasury, outside of the appropriations process. Absent legislative change, however, OFHEO will continue to be subject to the appropriations process

and will need additional funds for Fiscal Year 2005. The Administration supports OFHEO's anticipated expenses for regulating Fannie Mae and Freddie Mac in FY 2005, estimated at \$59,208,753, per the submission of May 6, 2004.

### **OFHEO CONTINUES TO RECEIVE UNQUALIFIED AUDIT OPINION IN FY 2003**

In conjunction with the government's goal of improved accountability, OFHEO prepared financial statements for fiscal year 2003 and subjected these statements and underlying processes to an independent audit. The certified public accounting firm of Dembo, Jones, Healy, Pennington and Marshall audited the statements. The firm issued an unqualified audit opinion on OFHEO fiscal year 2003 financial statements, found no material weaknesses in internal controls, or instances of non-compliance with laws and regulations. The complete audit report follows.

**OFFICE OF FEDERAL HOUSING  
ENTERPRISE OVERSIGHT**

**FINANCIAL REPORT**

**September 30, 2003**

# Office of Federal Housing Enterprise Oversight

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# OFFICE OF FEDERAL HOUSING ENTERPRISE OVERSIGHT

## FISCAL YEAR 2003 MANAGEMENT'S DISCUSSION AND ANALYSIS

### MISSION STATEMENT

*OFHEO promotes housing and a strong economy by ensuring the safety and soundness of Fannie Mae and Freddie Mac and fostering the strength and vitality of the nation's housing finance system.*

### OVERVIEW

The Office of Federal Housing Enterprise Oversight (OFHEO) was established by Title XIII of the Housing and Community Development Act of 1992, Public Law Number 102-550, known as the Federal Housing Enterprises Financial Safety and Soundness Act of 1992 (1992 Act). OFHEO is an independent office within the Department of Housing and Urban Development (HUD) with responsibility for examining and regulating the Federal Home Loan Mortgage Corporation (Freddie Mac) and the Federal National Mortgage Association (Fannie Mae) (collectively, the Enterprises) and ensuring that they are adequately capitalized.

A Director appointed by the President and confirmed by the Senate for a five-year term heads OFHEO. In October 1999, Armando Falcon, Jr. was sworn in as the second Director. Under Director Falcon's continued leadership, OFHEO effectively regulated the Enterprises in FY 2003, determining quarterly that the Enterprises were adequately capitalized and met significant supervisory challenges at Freddie Mac.

#### *Meeting the Supervisory Challenges of 2003*

In January 2003, OFHEO began a heightened focus on the forensic review of selected accounting issues raised by Freddie Mac's auditor. Key officials from OFHEO met with the Freddie Mac Board and its Audit Committee in March to discuss the reaudit and restatement process and to urge the completion of the restatement process. While Freddie Mac and the auditor had more than 500 individuals working on the restatement process, in May, OFHEO observed slippage in the restatement schedule. In early June, OFHEO learned troubling information regarding the conduct and integrity of management matters related to the restatement process. Consequently, on June 7, Director Falcon ordered a special investigative team to review the events leading to the restatement of financial condition at Freddie Mac and the resignation or termination of the chief executive, financial, and operating officers at the Enterprise.

During the first quarter of FY 2004, OFHEO initiated enforcement actions against the former Freddie Mac Chairman, and the former Chief Financial Officer. OFHEO also collected over \$125 million in civil money penalties from Freddie Mac and other corporate executives involved in the accounting and management lapses at Freddie Mac. The civil money penalties are not available to OFHEO to offset the additional costs of supervision or to fund normal oversight functions.

Director Falcon also restructured the office enhancing the focus on compliance and accounting issues at the Enterprises. In concert with the realignment of the office, the Director continued to strengthen the supervisory activities by developing a management plan to increase staff assigned to supervisory activities over the next two years.



These additional resources are required to keep pace with the tremendous growth in the size and complexity of the Enterprises' operations, and to provide needed depth in the examination of the Enterprises' core credit, market and interest rate risk areas. The additional resources also provide the capacity to expand the scope and depth of the examination program to include new and emerging activities including accounting practices, risk management methods, operational risk and risk-based Capital compliance. At the present time, the Director's ability to accomplish the staffing plan is largely contingent on the executive office and congressional budget deliberative processes.

### *Supervision of a Dynamic, Growing and Complex Environment*

Since OFHEO began operations in 1993, Fannie Mae and Freddie Mac have more than tripled in size and shifted their business strategy from primarily guaranteeing mortgage-backed securities to principally managing asset portfolios of mortgages and mortgage securities. To fund the growth of their mortgage asset portfolios, the Enterprises have rapidly increased their outstanding debt, developed innovative debt instruments—including instruments denominated in foreign currencies—and established a program of regular issuances that frequently are viewed by market participants as alternatives to investing in U.S. Treasury securities. To minimize their funding costs and manage the interest rate risk inherent in financing fixed-rate mortgages with debt, the Enterprises have become among the most important end users of interest rate derivatives. The notional amount of the derivatives contracts of the Enterprises increased from \$72 billion at year-end 1993 to over \$1.7 trillion on December 31, 2003, an increase of nearly twenty-four-fold. The Enterprises have also expanded the range of mortgages they purchase, buying loans with higher loan-to-value ratios, subprime mortgages, loans to low-risk borrowers who choose to provide limited documentation, and more mortgages secured by multifamily properties. Those changes have required increasingly complex and sophisticated risk management and accounting by Fannie Mae and Freddie Mac and corresponding changes in OFHEO's supervision.

In order to effectively supervise these large, complex companies, OFHEO must have the capability to make timely assessments on the consequences of further growth and innovation by Fannie Mae and Freddie Mac, and the flexibility to deploy adequate resources to supervisory issues at the time that they are needed. In order to do so, OFHEO must have the authority to add resources and shift existing resources contemporaneously with business developments impacting the Enterprises. OFHEO also must share a commitment to technology that will permit the Office to leverage the expertise and skills of its staff. Consequently, the Director's multi-year budget strategy includes enhancements to OFHEO computing capacity, the integration of commercial automated analytic tools to enhance OFHEO risk assessment capabilities and phased expansion of human capital through 2005, particularly in the examination area.

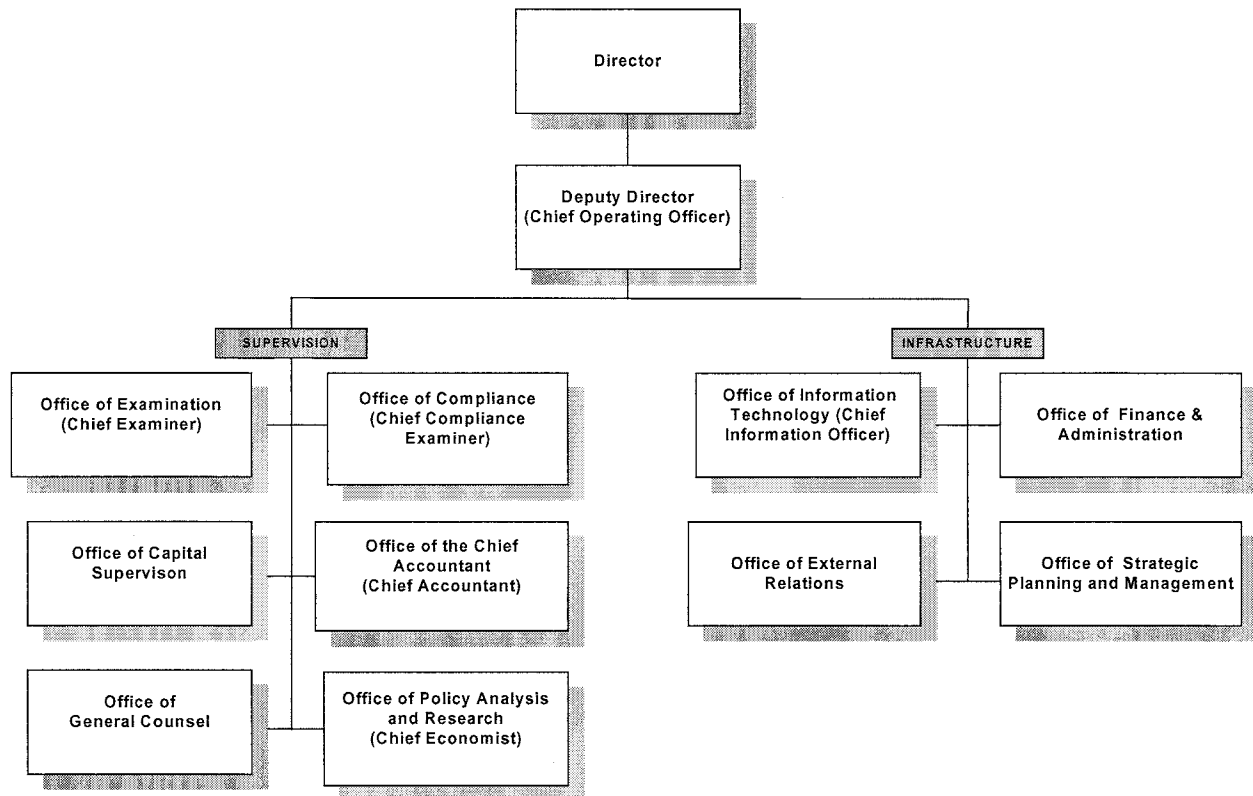
## **THE DIRECTOR FINE TUNED THE MANAGEMENT STRUCTURE**

In order to ensure a focused, risk-based supervisory program, the Director added two new offices to the management structure. The new offices are the Office of Compliance and Chief Accountant's Office. These two offices augment the activities performed by the Office of Examination and strengthen internal capability to examine compliance and accounting treatment issues at the Enterprises.





OFHEO continues to be located at a single site at 1700 G Street NW in the District of Columbia. The Director and Deputy Director carry out the mission through the coordinated efforts of ten offices. These offices are: (1) Examination, (2) Compliance, (3) Capital Supervision, (4) Chief Accountant, (5) General Counsel, (6) Policy Analysis and Research, (7) Information Technology, (8) Finance and Administration, (9) External Relations, and (10) Strategic Planning and Management.



## HUMAN CAPITAL AND BUDGET FLEXIBILITY ARE KEY TO EFFECTIVE REGULATION

Since OFHEO was created, it has remained a small, lean organization charged with the huge job of overseeing two very large and complex financial institutions. To put the regulatory environment into perspective, the FY 2003 operating budget for OFHEO was set at an all time high of \$30 million. This compares to Fannie Mae's and Freddie Mac's combined assets and off-balance sheet mortgage backed securities of over \$3.9 trillion at the end of calendar year 2003. OFHEO has been tasked to manage and distribute its limited resources to oversee all aspects of the diverse business processes performed by Freddie Mac and Fannie Mae.

The serious accounting and management problems identified at Freddie Mac during FY 2003 required OFHEO to continue to do its annual examination activities plus conduct a comprehensive examination of the events at



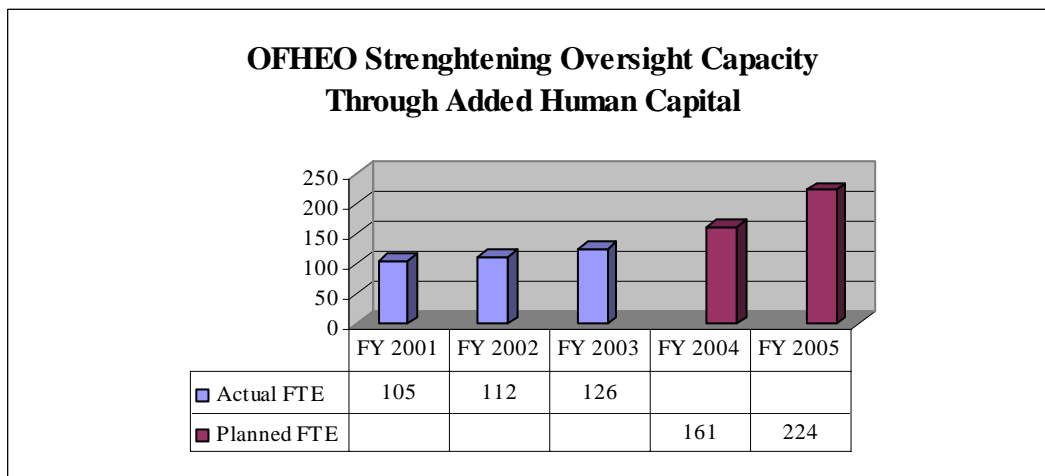
Freddie Mac that led to its financial restatement process. Freddie Mac was able to quickly augment its existing staff with 500 contractors to work on the restatement process. In stark contrast, it took nearly seven months to appropriate OFHEO additional money to cover the cost of the special Freddie Mac examination.

Because OFHEO is required by law to seek its budgetary resources through the appropriations process, it first has to request and justify resources from the Office of Management and Budget (OMB), the President’s financial management body. Once OMB completes its review and approves the request, OFHEO then must seek the resources from the Congress. It took nearly seven months to complete the appropriations process to get additional funds for the Freddie Mac investigation. The seven months required for executive and congressional budget deliberation was a critical time in the life of the Freddie Mac investigation. Consequently, the OFHEO Director was forced to divert existing staff from other work and reallocate financial resources in order to continue the investigative work at Freddie Mac, draft the investigative report and pursue the appropriate action against the corporation and responsible officers.

Director Falcon has repeatedly voiced concern about the potential impacts of the current funding strategy and has asked both OMB and Congress to remove OFHEO from the appropriations process. He is concerned that the appropriations process constrains OFHEO’s ability to respond appropriately to new unanticipated developments that could impair the financial safety and soundness of the Enterprises and prohibit the Enterprises from performing their important public missions.

Since Director Falcon’s tenure began, he has strengthened the oversight capability of the office by adding staff and has refocused its examinations to target key risk areas at the Enterprises. At the beginning of FY 2003, OFHEO began enforcement of the Risk-Based Capital Rule and continued examination and oversight of the Enterprises. OFHEO utilized 126 full time equivalent (FTE) work years during FY 2003, up from 112 FTE in FY 2002. OFHEO had planned to more aggressively add staff in FY 2003, but had to delay hiring in the early part of the year due to budget uncertainty for FY 2003 and 2004.

In June 2003, the office initiated the investigation at Freddie Mac requiring staff and resources devoted specifically to that investigation. The Director immediately shifted resources within the Office, potentially creating areas of vulnerability in other programs. Depending on the outcome of legislation that would remove OFHEO from the appropriations process and budget availability, the Director plans to continue to add staff throughout FY 2004 and FY 2005.



## **OFHEO IS NOT FINANCED BY TAXES**

While the budget is currently subject to the annual congressional appropriations process, it is not funded by tax dollars. Fannie Mae and Freddie Mac bear the full cost of OFHEO operations through an annual assessment based on the annual operating budget as appropriated. Each Enterprise pays a pro rata share of the annual assessment. The combined assets and off-balance sheet obligations of each Enterprise determine the pro rata shares. OFHEO receives the annual assessment in semi-annual payments each fiscal year. By statute, these payments are due to OFHEO October 1, and April 1, of each fiscal year, excluding years when the Enterprises must also pay based on temporary funding resolutions.

## **OFHEO NEEDS INCREASED BUDGET FLEXIBILITY**

The President's FY 2003 and 2004 budgets contain an administrative provision that would provide direct funding to OFHEO eliminating the appropriations requirement. Without passage of this provision, OFHEO, unlike other federal financial regulators, must submit a request for an annual operating budget to the OMB and the Congress. This process diminishes the efficiency and effectiveness of OFHEO programs by requiring the office to predict in advance the resources that it may need to respond to external events that will not arise for over two years. OFHEO is subject to OMB review of its budget proposal and OMB guidance for the President's Budget. In order to support the President's Budget, the OFHEO Director may seek fewer resources from the Congress than was included in the OMB Budget Request.

In addition, OFHEO has no operating funds for a fiscal year until appropriation legislation is enacted by Congress and signed by the President. The OFHEO budget is bundled with the Department of Veterans Affairs (VA), HUD, and a variety of independent agencies such as the National Science Foundation. When the Congress and the Administration are unable to reach timely budget agreements, it results in OFHEO not having a budget until after the fiscal year has commenced. Due to budget uncertainty in FY 2003, OFHEO slowed hiring during the fourth quarter of 2002 and in 2003. When the 2003 fiscal year began on October 1, 2002, OFHEO had not received Congressional approval of its budget. Consequently, OFHEO had to operate under Continuing Resolutions at the FY 2002 level, \$3 million less than the pending FY 2003 budget. Four months into the year, OFHEO was still subject to restricted funding under the Continuing Resolutions. The appropriations process forces OFHEO to trim operations until large, unrelated budget issues are resolved between the executive and legislative branches.

Director Falcon has spoken with Congressional staff and urged them provide OFHEO with additional flexibility to provide the assurance that OFHEO can quickly and effectively respond to important issues, such as Freddie Mac's restatement of income. The key to having this flexibility is permanent funding outside the appropriations process. Removal from the appropriations process would put OFHEO on par with bank and thrift regulatory agencies and would allow the office to operate more efficiently and effectively. Congress and OMB would still exercise vigorous oversight of OFHEO activities.

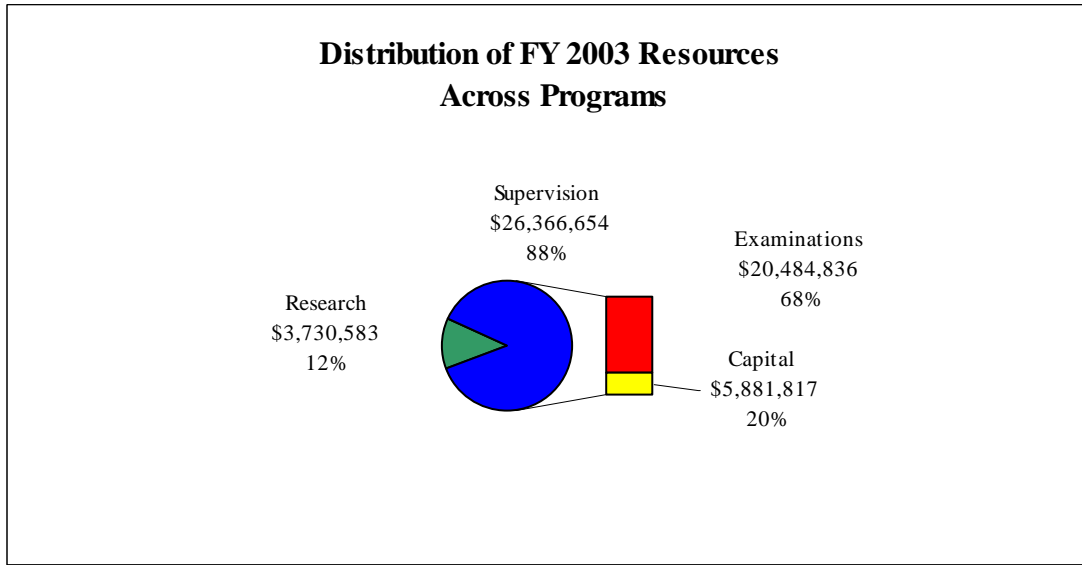
## **KEY FINANCIAL INFORMATION**

In FY 2003, Congress appropriated OFHEO \$30 million for salaries and operating expenses. Due to reimbursable agreements and recovery of prior year obligations, OFHEO had \$30,097,237 available for obligation during FY 2003. Obligations represent monies awarded to specific contractors, payroll costs, and other expenses such as equipment purchases and employee travel costs for the fiscal year. All but \$1,815 was

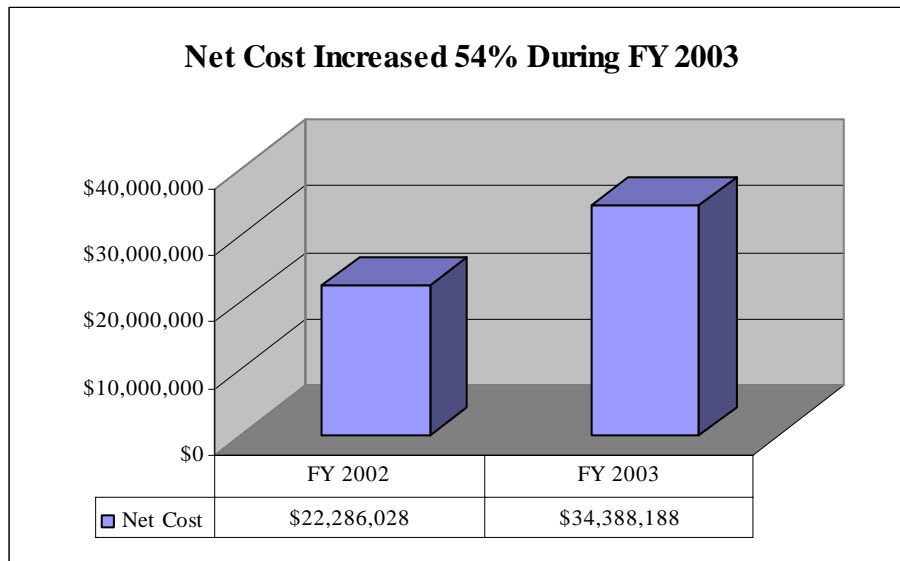


obligated for the year ended September 30, 2003. As required by law, the \$1,815 has been credited against the FY 2004 assessment payments paid by the Enterprises.

Of the \$30 million obligated during FY 2003, 88% or \$26.4 million was obligated for supervision programs including administrative, management and legal support. Supervision includes examination, compliance, accounting policy oversight and capital review and adequacy. The balance of funds was obligated for activities supporting economic research related to housing finance activities and for information disseminated to the public such as the quarterly House Price Index.



The net cost of operations of OFHEO rose during FY 2003 by 54% or \$12.1 million. Net cost includes payments made during FY 2003 regardless of obligating fiscal year. The increase represents an increase in human capital (compensation, benefits and expenses to support higher staffing levels), depreciation expense (Risk-Based Capital Software) and contract services for the Freddie Mac investigation.



## FINANCIAL MANAGEMENT ACHIEVEMENTS AND IMPROVEMENTS

### Financial Statement Audit

The OFHEO continues to receive *unqualified audit opinions* on its financial statements, internal control, and compliance with laws and regulations.

### Federal Managers' Financial Integrity Act (FMFIA)

In letters dated December 19, 2003, Director Falcon advised the President and the Congress that OFHEO complied with FMFIA as of the end of FY 2003 (September 30, 2003). During FY 2003, OFHEO's managers continued to monitor internal controls and reported on the effectiveness of controls to the Director. No reportable material weaknesses were identified.

### Compliance with Prompt Payment Act

The Prompt Payment Act requires Federal agencies to make timely payments to vendors and improve the cash management practices of the government by taking discounts when they are justified. This means that OFHEO must pay its bills within a narrow window of time – not too early and not late.

In FY 2003, OFHEO improved upon its already good performance for prompt payment of bills. During FY 2003, the dollar amount subject to prompt payment, decreased by 21% over FY 2002, from \$8.2 million to \$6.5 million. The amount of interest penalty paid decreased nearly 78% in FY 2003 from \$2,188, paid in FY 2002, to \$479.

### Federal Financial Management Information Act (FFMIA) of 1996

The FFMIA codified in law certain financial management system requirements that were already in place by Executive Branch policies and added one new requirement. The Act established new requirements for auditors to report on agency compliance with system requirements and for agency heads and agency management to correct deficiencies within a reasonable time.

OFHEO selected off-the-shelf software certified by the Joint Financial Management Improvement Program (JFMIP) as meeting the minimum requirements established for Federal Government financial systems. The new software will be used to streamline administrative processes that result in financial events that must be recorded in the office's core accounting ledgers. The new software will be implemented in phases beginning in FY 2005. During FY 2004, the office is developing the software for internal use, creating electronic interfaces as necessary, testing the new system in parallel with the current financial system and training users.

OFHEO will continue to use service agreements with other Federal agencies when appropriate and cost effective. The National Finance Center (NFC), operated by the Department of Agriculture, will continue to provide payroll systems and services. OFHEO intends to convert to one of the three E-Travel software packages mandated by the General Services Administration through an interagency agreement. The E-Travel software interfaces directly into the new financial system currently being implemented at OFHEO.



## LIMITATIONS OF THE FINANCIAL STATEMENTS

While OFHEO is not specifically covered by the requirements in the CFO Act, the office has prepared financial statements to report the financial position and results of operations of OFHEO, pursuant to the requirements of 31 U.S.C. 3515(b). The statements have been prepared from the books and records of OFHEO in the format prescribed by OMB. These statements supplement the periodic financial reports used to monitor and control budgetary resources that were prepared from the same books and records. The statements should be read with the understanding that they are for a component of the U.S. Government and an entity of the Department of Housing and Urban Development in its consolidated financial statements.

The following principal statements present the financial position of OFHEO, an independent office within HUD, as of September 30, 2003, and September 30, 2002. The statements are in conformity with the instructions provided for federal entities by the OMB and comply with Statements of Federal Financial Accounting Standards effective as of September 30, 2003.

## OFHEO ACHIEVES KEY PERFORMANCE GOALS IN FY 2003

The OFHEO FY 2003 Annual Performance Plan continued to carry out objectives of OFHEO outlined in the FY 2000-2005 Strategic Plan:

- Ensure the Enterprises comply with safety and soundness standards, are adequately capitalized, and comply with other legal requirements.
- Enhance public understanding of the nation's housing finance system.
- Contribute to Federal efforts to promote efficient and effective financial markets and home ownership.

Through the FY 2003 Annual Performance Plan, OFHEO set its performance goals for the year and outlined means and strategies to achieve them. Highlights of the goals and accomplishments that relate to each of these strategic objectives are described below. In accordance with the Government Performance and Results Act and subsequent amendments, the FY 2003 Annual Performance Report contains a more detailed description of the performance of OFHEO.

## ACCOMPLISHMENTS OF OFHEO

At the end of this dynamic year, the major criteria for achieving the OFHEO mission have been satisfied. OFHEO classified the Enterprises as adequately capitalized for each quarter of FY 2003, determined through examinations for calendar year 2002 that they were financially sound, and initiated calendar year 2003 examinations of the Enterprises. However, as the events of FY 2003 progressed, OFHEO identified unsafe and unsound practices at Freddie Mac and took action.

In January 2003, Freddie Mac announced a delay in the completion of its 2002 financial audit, its intent to reaudit prior years and to restate its financial results. The Board of Directors of Freddie Mac began an inquiry of the related circumstances. In June 2003, as Freddie Mac announced the abrupt departure of three of its principal officers, the Director of OFHEO ordered a special examination of the conditions and activities that led to the accounting failures and management changes, required OFHEO review and approval of the Board's



remediation plan, and ordered the Enterprises to withhold compensation from the departing executives pending approval by OFHEO. While its review is ongoing, OFHEO issued a Report of the Special Examination in early FY 2004. The report found that Freddie Mac disregarded accounting rules, internal controls, and disclosure standards; that senior executives' compensation plans contributed to the accounting and management problems; and that the Board of Directors failed to execute adequate oversight. The report also made a series of recommendations to the Director, which he accepted.

In order to undertake a special examination of Freddie Mac, OFHEO was forced to redirect many of its staff and resources. The Director set priorities and reallocated resources away from some planned activities. OFHEO kept most of its activities on track and was able to achieve most of its planned performance goals.

To streamline its performance plan, for FY 2003, OFHEO had established eight performance goals to achieve its three strategic objectives (down from 18 performance goals in FY 2002). OFHEO also established a crosscutting Resource Management Strategy with three performance goals. OFHEO achieved six of its eight FY 2003 performance goals directed at its strategic objectives, and achieved one of the three resource management goals. OFHEO results were close to its targets for each of the other unmet goals.

During FY 2003, in accordance with the Government Performance and Results Act, OFHEO also revised its Strategic Plan, developing a long-term plan for FY 2003-2008. The new Strategic Plan reaffirms the mission of OFHEO and the main goals and objectives of the prior Strategic Plan.

*Strategic Objective 1: Ensure the Enterprises comply with safety and soundness standards, are adequately capitalized, and comply with other legal requirements.*

During FY 2003, OFHEO completed its CY 2002 annual risk-based examinations and initiated its FY 2003 annual examinations. Through these examinations for calendar year 2002, OFHEO determined that both Enterprises were financially sound. However, during FY 2003 OFHEO also initiated a Special Examination of Freddie Mac, identified unsafe and unsound practices, and required remedial action.

As in prior years, before conducting the annual examinations, the Office established and shared with the Enterprises safety and soundness standards that reflect various components of risk and risk management. Each quarter OFHEO updated the risk profile for each Enterprise and revised the examination strategies as necessary. The examination process and results are described in more detail in the OFHEO 2003 Report to Congress. Both 2002 examinations were completed on schedule and both Enterprises responded appropriately to examination issues. OFHEO issued a report of the Special Examination of Freddie Mac in December 2003, and the special examination is ongoing. In FY 2003, OFHEO also took steps to initiate a similar special examination of Fannie Mae in FY 2004.

During FY 2003, the Enterprises met applicable capital standards quarterly, and OFHEO met its goal in this area. For each quarter, OFHEO applied the minimum and risk-based capital standards to the financial position of each Enterprise and determined that they met the standards. The minimum capital standard was binding for both Enterprises in each quarter.

After public comment, OFHEO also made several adjustments and technical corrections to the risk-based capital regulation in FY 2003, including one change related to FAS 133. OFHEO continued research and analysis of issues related to risk and capital. In future years, OFHEO will continue to review possible changes to the risk-based and minimum capital standards and will seek public comments on any proposed amendments.



During FY 2003, OFHEO continued to monitor the Enterprises' compliance with applicable laws. As a result of the special examination, OFHEO determined that Freddie Mac operated with practices that were unsafe and unsound. However, the Enterprises met OFHEO expectations in their resolution of compliance issues. In April 2003, OFHEO strengthened its regulatory infrastructure by issuing a final regulation that, at a minimum, requires public disclosures by the Enterprises of information consistent with the Securities Exchange Act of 1934.

OFHEO accomplished its performance goals in these areas.

*Strategic Objective 2: Enhance public understanding of the nation's housing finance system.*

OFHEO continued to provide information and analysis to the public and the housing finance community. Early in FY 2003, OFHEO published jointly with the Department of the Treasury and the Securities and Exchange Commission, a staff report titled, "Enhancing Disclosure in the Mortgage-Backed Securities Markets", which evaluated current disclosure practices and considered disclosure enhancements to assist investors. In February 2003, OFHEO issued a report on systemic risk, including the impact of the Enterprises on the nation's housing and finance markets, the nation's economy and the role of OFHEO in reducing systemic risk. The Director of OFHEO spoke at industry meetings on these issues, and testified before Congress on issues related to the Freddie Mac restatement, the OFHEO special examination and the alternative legislative proposals to make changes to strengthen the regulation of the Enterprises.

The events of FY 2003 related to the Freddie Mac financial restatement and management changes were serious, but they served to educate the public in more depth and breadth about the types of transactions and the complexity of the business of the Enterprises.

OFHEO also continued to increase the transparency of its own analysis and operations. With its revised web site, the office increased accessibility and added new features. OFHEO continued to enhance the analysis accompanying its quarterly announcements of the Enterprises' capital levels, to provide analytical information about the components of the Enterprises' holdings that affected the risk-based capital calculations and the changes from quarter to quarter. OFHEO also continued to make available to the public the treatment of new activities in the risk-based capital calculation. OFHEO provided timely responses to Congress and the public, answering 95% of public inquiries within 7 days. OFHEO hosted a symposium on "House Prices in the U.S. Economy", providing a forum for broad discussion.

In mid-FY 2003, OFHEO modified its research agenda, but its plans were still too ambitious. The Office completed a significant part, but not all of the planned accomplishments. The June developments related to Freddie Mac required a significant shift of research resources to the special examination. Coupled with data and software limitations that emerged late in the year, OFHEO was not able to complete its revised research agenda. In the future, OFHEO expects to measure its performance in this area by targeting the highest priority projects.

OFHEO met one of its performance goals in this area, nearly met a second, and made substantial progress toward the third.

*Strategic Objective 3: Contribute to Federal efforts to promote efficient and effective financial markets and homeownership.*





OFHEO continued work with the other Federal financial regulators, the Office of Management and Budget, the Treasury Department, the Council of Economic Advisors, the Justice Department, the General Accounting Office and the Department of Housing and Urban Development on a variety of issues. These include the Freddie Mac restatement, corporate and MBS disclosure, fair lending and credit scoring, supervision and examination practices, standards for Internet banking, risk management techniques and other issues related to non-mortgage investments, and planning, performance management and performance measurement. OFHEO continues to lead an interagency working group on Communications and Coordination for the Financial and Banking Information Infrastructure Committee, a standing committee of the President's Critical Infrastructure Protection Board. OFHEO worked with the Treasury and the SEC on the joint staff report on of disclosure related to mortgage-backed securities, and with the Small Business Administration in revising its Loan Guaranty subsidy model.

OFHEO achieved its performance goals in this area.

Resource Management Strategy: Manage OFHEO resources effectively to enable the Office to fulfill its mission.

The OFHEO workforce, information systems, and internal controls form the critical foundation for achieving all of its strategic objectives. OFHEO identified three crosscutting performance goals as indicative of an effective support infrastructure. To maintain a high-caliber workforce, OFHEO updated individual development plans for 95% of the staff. OFHEO also accomplished all but three of the projects in the IT 5-year Strategic Plan. OFHEO received an unqualified audit opinion on its financial statements, and its independent review of information security found no material weaknesses. The HUD Inspector General issued a report with two findings related to oversight of travel expenditures and implementation of a space utilization policy, which OFHEO has addressed.

OFHEO achieved one of the performance goals in this area, nearly met a second, and made substantial progress toward the third.

### *FY 2004 and the Future*

For the next several years, the OFHEO Strategic Plan, revised for FY 2003-2008, provides a framework for the Office Annual Performance Plans and budgets, and the operations of OFHEO. The Strategic Plan continues to reflect the congressional mandate of OFHEO to ensure the safety and soundness of Fannie Mae and Freddie Mac and emphasizes the need to foster the strength and vitality of the nation's housing finance system. OFHEO will continue to review issues related to accounting and internal controls, compliance, and management and Board oversight at Freddie Mac, and will also initiate a similar review of Fannie Mae in FY 2004. When Freddie Mac restates its FY 2003 financial information, OFHEO will also review its quarterly capital classifications.





Dembo, Jones, Healy, Pennington & Marshall, P.C.

Certified Public Accountants and Consultants

### Independent Auditors' Opinion on the Financial Statements

Mr. Armando Falcon  
Director  
Office of Federal Housing Enterprise Oversight

We have audited the accompanying balance sheets of the Office of Federal Housing Enterprise Oversight (OFHEO) as of September 30, 2003 and 2002, and the related statements of net cost, changes in net position, budgetary resources, and financing for the fiscal years then ended. These financial statements are the responsibility of OFHEO's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and Office of Management and Budget (OMB) Bulletin No. 01-02, "Audit Requirements for Federal Financial Statements." These standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Office of Federal Housing Enterprise Oversight as of September 30, 2003 and 2002, and its net costs; changes in net position; budgetary resources; and financing activities for the years then ended in conformity with accounting principles generally accepted in the United States of America.

The Management Discussion and Analysis (MD&A) and the Required Supplemental Information (RSI) sections are not required parts of the basic financial statements of the Office of Federal Housing Enterprise Oversight but are supplementary information required by the Federal Accounting Standards Advisory Board and OMB Bulletin No. 01-09, "Form and Content of Agency Financial Statements". We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the MD&A and the RSI. However, we did not audit the information and, accordingly, express no opinion on it.

In accordance with *Governmental Auditing Standards*, we have also issued a report dated February 9, 2004, on our consideration of the Office of Federal Housing Enterprise Oversight's internal control over financial reporting and a report dated February 9, 2004 on its compliance with certain provisions of laws and regulations. These reports are an integral part of an audit performed in accordance with *Government Auditing Standards*, and, in considering the results of the audits, these reports should be read in conjunction with this report.

While this report is intended solely for the information and use of the management of the Office of Federal Housing Enterprise Oversight, OMB and Congress, it is also a matter of public record, and its distribution is, therefore, not restricted.

*Dambo, Jones, Healy, Bennington & Marshall, P.C.*

*February 9, 2004*



Dembo, Jones, Healy, Pennington & Marshall, P.C.

Certified Public Accountants and Consultants

## Report of Independent Auditors on Internal Control

Mr. Armando Falcon  
Director  
Office of Federal Housing Enterprise Oversight

We have audited the accompanying balance sheets of the Office of Federal Housing Enterprise Oversight (OFHEO) as of September 30, 2003 and 2002, and the related statements of net cost, changes in net position, budgetary resources, and financing for the fiscal years then ended, and have issued our report thereon dated February 9, 2004. We conducted our audits in accordance with: auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and Office of Management and Budget (OMB) Bulletin No. 01-02, "Audit Requirements for Federal Financial Statements."

In planning and performing our audits, we considered the Office of Federal Housing Enterprise Oversight's internal control over financial reporting by obtaining an understanding of OFHEO's internal control, determined whether internal controls had been placed in operation, assessed control risk, and performed tests of controls in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements. We limited our internal control testing to those controls necessary to achieve the objectives described in OMB Bulletin No. 01-02. We did not test all internal controls relevant to operating objectives as broadly defined by the Federal Managers' Financial Integrity Act of 1982, such as those controls relevant to ensuring efficient operations. The objective of our audits was not to provide assurance on internal control. Consequently, we do not provide an opinion on internal control.

Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be reportable conditions. Under standards issued by the American Institute of Certified Public Accountants, reportable conditions are matters coming to our attention relating to significant deficiencies in the design or operation of the internal control that, in our judgment, could adversely affect the OFHEO's ability to record, process, summarize, and report financial data consistent with the assertions by management in the financial statements. Material weaknesses are reportable conditions in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Because of inherent limitations in internal controls, misstatements, losses, or noncompliance may nevertheless occur and not be detected. However, we noted no matters involving the internal control and its operation that we considered to be material weaknesses as defined above. However, we noted other matters involving the internal control over financial reporting, which we have reported to management of the Office of Federal Housing Enterprise Oversight in a separate letter dated February 9, 2004.

Finally, with respect to internal control related to performance measures reported in the annual performance plan, we obtained an understanding of the design of significant internal controls relating to the existence and completeness assertions, as required by OMB Bulletin No. 01-02. Our procedures were not designed to provide assurance on internal control over reported performance measures, and, accordingly, we do not provide an opinion on such controls.

While this report is intended solely for the information and use of the management of the Office of Federal Housing Enterprise Oversight, OMB and Congress, it is also a matter of public record, and its distribution is, therefore, not restricted.

*Domko, Jones, Healy, Pennington & Marshall, P.C.*

*February 9, 2004*



Dembo, Jones, Healy, Pennington & Marshall, P.C.

Certified Public Accountants and Consultants

## **Report of Independent Auditors on Compliance with Laws and Regulations**

Mr. Armando Falcon  
Director  
Office of Federal Housing Enterprise Oversight

We have audited the accompanying balance sheets of the Office of Federal Housing Enterprise Oversight (OFHEO) as of September 30, 2003 and 2002, and the related statements of net cost, changes in net position, budgetary resources, and financing for the fiscal years then ended, and have issued our report thereon dated February 9, 2004. We conducted our audits in accordance with: auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and, Office of Management and Budget (OMB) Bulletin No. 01-02, "Audit Requirements for Federal Financial Statements."

The management of the Office of Federal Housing Enterprise Oversight is responsible for complying with laws and regulations applicable to OFHEO. As part of obtaining reasonable assurance about whether OFHEO's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws and regulations, noncompliance with which could have a direct and material effect on the determination of financial statement amounts and certain other laws and regulations specified in OMB Bulletin No. 01-02, including the requirements referred to in the Federal Financial Management Improvement Act (FFMIA) of 1996. We limited our tests of compliance to these provisions and we did not test compliance with all laws and regulations applicable to the Office of Federal Housing Enterprise Oversight.

The results of our tests of compliance with the laws and regulations described in the preceding paragraph exclusive of FFMIA disclosed no instances of noncompliance that are required to be reported under *Government Auditing Standards* or OMB Bulletin No. 01-02. OMB Bulletin No. 01-09, "Form and Content of Agency Financial Statements", defines the form and content of financial statements of the executive departments and agencies listed in the attachment to the Bulletin. The Office of Federal Housing Enterprise Oversight is not required to follow OMB Bulletin No. 01-09 but has voluntarily adopted the Bulletin's requirements.

Under FFMIA, we are required to report whether OFHEO's financial management systems substantially comply with the Federal financial management systems requirements, applicable Federal accounting standards, and the United States Government Standard General Ledger at the transaction level. To meet this requirement, we performed tests of compliance with FFMIA section 803(a) requirements.

The results of our tests disclosed no instances in which OFHEO's financial management systems did not substantially comply with the three requirements discussed in the preceding paragraph.

Providing an opinion on compliance with certain provisions of laws and regulations was not an objective of our audits and, accordingly, we do not express such an opinion.

While this report is intended solely for the information and use of the management of the Office of Federal Housing Enterprise Oversight, OMB and Congress, it is also a matter of public record, and its distribution is, therefore, not restricted.

*Dombo, Jones, Healy, Bennington & Marshall, P.C.*

*February 9, 2004*

**OFFICE OF FEDERAL HOUSING ENTERPRISE OVERSIGHT  
BALANCE SHEETS  
FOR THE FISCAL PERIODS ENDED  
SEPTEMBER 30, 2003 and 2002**

	2003	2002
<b>ASSETS</b>		
Intragovernmental Assets		
Fund Balance with Treasury - Note 2	\$ 7,269,362	\$ 4,983,580
Accounts Receivable	12,412	12,412
Advances/Prepayments - Note 3	-	118,625
Total Intragovernmental Assets	<u>7,281,774</u>	<u>5,114,617</u>
Property, Plant and Equipment, Net - Note 4	14,991,959	19,826,567
<b>TOTAL ASSETS</b>	<b>\$ 22,273,733</b>	<b>\$ 24,941,184</b>
<b>LIABILITIES</b>		
<b>Liabilities Covered by Budgetary Resources:</b>		
Intragovernmental Liabilities		
Accrued Liabilities	\$ 75,460	\$ 86,949
Total Intragovernmental Liabilities	<u>75,460</u>	<u>86,949</u>
Other Payables and Liabilities		
Accounts Payable	1,682,720	1,147,467
Other Liabilities	649,662	398,607
Total Other Payables and Liabilities	<u>2,332,382</u>	<u>1,546,074</u>
<b>Total Liabilities Covered by Budgetary Resources - Note 5</b>	<b><u>2,407,842</u></b>	<b><u>1,633,023</u></b>
<b>Liabilities Not Covered by Budgetary Resources:</b>		
Governmental		
Accrued Annual Leave	1,089,807	935,119
<b>Total Liabilities Not Covered by Budgetary Resources - Note 6</b>	<b><u>1,089,807</u></b>	<b><u>935,119</u></b>
<b>TOTAL LIABILITIES</b>	<b>\$ 3,497,649</b>	<b>\$ 2,568,142</b>
<b>NET POSITION</b>		
Unexpended Appropriations	\$ 4,710,466	\$ 3,228,855
Cumulative Results of Operations	<u>14,065,618</u>	<u>19,144,187</u>
<b>Total Net Position</b>	<b><u>18,776,084</u></b>	<b><u>22,373,042</u></b>
<b>TOTAL LIABILITIES AND NET POSITION</b>	<b>\$ 22,273,733</b>	<b>\$ 24,941,184</b>

*The accompanying notes are an integral part of these statements.*





**OFFICE OF FEDERAL HOUSING ENTERPRISE OVERSIGHT  
STATEMENTS OF NET COST  
FOR THE FISCAL PERIODS ENDED  
SEPTEMBER 30, 2003 and 2002**

	2003	2002
<b>Program Costs</b>		
Program Costs		
Intragovernmental Costs	\$ 4,105,279	\$ 3,171,039
Less: Earned Revenues	<u>(29,353)</u>	<u>(121,703)</u>
Total Intragovernmental Costs	4,075,926	3,049,336
Public Costs	<u>30,312,262</u>	<u>19,236,692</u>
<b>Total Net Program Costs - Note 8</b>	<b>\$ 34,388,188</b>	<b>\$ 22,286,028</b>
<b>Net Cost of Operations</b>	<b>\$ 34,388,188</b>	<b>\$ 22,286,028</b>

*The accompanying notes are an integral part of these statements.*



**OFFICE OF FEDERAL HOUSING ENTERPRISE OVERSIGHT  
STATEMENTS OF CHANGES IN NET POSITION  
FOR THE FISCAL PERIODS ENDED  
SEPTEMBER 30, 2003 and 2002**

	2003 Cumulative Results of Operations	2003 Unexpended Appropriations	2002 Cumulative Results of Operations	2002 Unexpended Appropriations
<b>Beginning Balance</b>	<b>\$ 19,144,187</b>	<b>\$ 3,228,855</b>	<b>\$ 14,876,567</b>	<b>\$ 2,212,149</b>
<b>Budgetary Financing Sources:</b>				
Appropriations Received	\$ -	\$ 30,000,000	\$ -	\$ 27,000,000
Other Adjustments	-	(1,142)	-	(6,713)
Appropriations Used	28,517,247	(28,517,247)	25,976,581	(25,976,581)
<b>Other Financing Sources:</b>				
Imputed Financing	792,372	-	577,067	-
<b>Total Financing Sources</b>	<b>\$ 29,309,619</b>	<b>\$ 1,481,611</b>	<b>\$ 26,553,648</b>	<b>\$ 1,016,706</b>
<b>Net Cost of Operation</b>	<b>(34,388,188)</b>	<b>-</b>	<b>(22,286,028)</b>	<b>-</b>
<b>Ending Balance - Net Position</b>	<b>\$ 14,065,618</b>	<b>\$ 4,710,466</b>	<b>\$ 19,144,187</b>	<b>\$ 3,228,855</b>

*The accompanying notes are an integral part of these statements.*



**OFFICE OF FEDERAL HOUSING ENTERPRISE OVERSIGHT  
STATEMENTS OF BUDGETARY RESOURCES  
FOR THE FISCAL PERIODS ENDED  
SEPTEMBER 30, 2003 and 2002**

	2003	2002
<b>Budgetary Resources</b>		
Appropriations	\$ 30,000,000	\$ 27,000,000
Unobligated Balance, Beginning of Period	1,142	6,713
Spending Authority from Offsetting Collections:		
Collected	29,353	121,702
Recoveries of Prior Year Obligations - Note 10	67,884	215,885
Permanently not available Pursuant to Public Law 102-550	(1,142)	(6,713)
<b>Total Budgetary Resources</b>	<b>\$ 30,097,237</b>	<b>\$ 27,337,587</b>
<b>Status of Budgetary Resources</b>		
Obligations Incurred - Note 9	\$ 30,095,422	\$ 27,336,445
Unobligated Balance Not Available	1,815	1,142
<b>Total Status of Budgetary Resources</b>	<b>\$ 30,097,237</b>	<b>\$ 27,337,587</b>
<b>Relationship of Obligations to Outlays:</b>		
Obligated Balance, Net - Beginning of Period	4,982,438	4,655,829
Obligation Transfer		
Obligated Balance, Net - End of Period		
Undelivered Orders	(4,859,706)	(3,349,415)
Accounts Payable	(2,407,842)	(1,633,023)
<b>Total Obligated Balance, Net - End of Period</b>	<b>(7,267,548)</b>	<b>(4,982,438)</b>
<b>Outlays</b>		
Disbursements	\$ 27,742,428	\$ 26,793,952
Less: Collections	(29,353)	(121,702)
<b>Net Outlays</b>	<b>\$ 27,713,075</b>	<b>\$ 26,672,250</b>

*The accompanying notes are an integral part of these statements.*



**OFFICE OF FEDERAL HOUSING ENTERPRISE OVERSIGHT  
STATEMENTS OF FINANCING  
FOR THE FISCAL PERIODS ENDED  
SEPTEMBER 30, 2003 and 2002**

	2003	2002
<b>Budgetary Resources Obligated</b>		
Obligations Incurred	\$ 30,095,422	\$ 27,336,445
Less: Spending Authority from Offsetting Collections/Adjustments		
Collections	(29,353)	(121,702)
Recoveries of Prior Year Obligations - Note 10	(67,884)	(215,885)
Obligations Net of Offsetting Collections and Recoveries	\$ 29,998,185	\$ 26,998,858
Exchange Revenue not in Entity's Budget	-	2,871
<b>Net Obligations</b>	\$ 29,998,185	\$ 27,001,729
Other Resources		
Imputed Financing from Costs Absorbed by Others	792,372	577,067
<b>Net Other Resources Used to Finance Activities</b>	792,372	577,067
<b>Total Resources Used to Finance Activities</b>	\$ 30,790,557	\$ 27,578,796
<b>Resources Used to Finance Items not Part of the Net Cost of Operations</b>		
(Increase) Decrease in Goods/Services/Benefits Ordered but not Provided	(1,391,666)	(687,265)
Net Resources That Finance the Acquisition of Assets	(2,331,285)	(5,697,403)
<b>Total Resources Used to Finance Items not Part of the Net Cost of Operations</b>	(3,722,951)	(6,384,668)
Total Resources Used to Finance the Net Cost of Operations	\$ 27,067,606	\$ 21,194,128
<b>Components of the Net Cost of Operations that will Require or Generate Resources in Future Periods</b>		
Increase in Annual Leave Liability	154,689	44,374
<b>Total Components of Net Cost of Operations that will Require or Generate Resources in Future Periods</b>	154,689	44,374
<b>Components Not Requiring or Generating Resources:</b>		
Depreciation and Amortization	7,002,427	1,047,526
<b>Total Components Not Requiring or Generating Resources</b>	7,002,427	1,047,526
<b>Revaluation of Assets and/or Liabilities</b>		
Loss on Disposition of Assets	163,466	-
<b>Total Revaluation of Assets and/or Liabilities</b>	163,466	-
<b>Total Components of Net Cost of Operations that will not Require or Generate Resources in the current Period</b>	7,320,582	1,091,900
<b>Net Cost of Operations</b>	<b>\$ 34,388,188</b>	<b>\$ 22,286,028</b>

*The accompanying notes are an integral part of these statements.*



## NOTES TO FINANCIAL STATEMENTS

### NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

#### *Reporting Entity*

The Office of Federal Housing Enterprise Oversight (OFHEO) was established as an independent office within the Department of Housing and Urban Development (HUD) by the Federal Housing Enterprises Financial Safety and Soundness Act of 1992 (title XIII of P.L. 102-550). OFHEO is responsible for examination of Fannie Mae and Freddie Mac, and determining whether the Enterprises are operating in a financially safe and sound manner and are adequately capitalized.

The accompanying financial statements reflect the activities of OFHEO. OFHEO has only entity activities and the financial statements reflect those activities, which include the appropriation received to conduct operations. OFHEO does not perform custodial activities on behalf of other federal agencies.

#### *Basis of Presentation*

OFHEO is not covered by the Chief Financial Officer's (CFO) Act and is not required to follow the Office of Management and Budget (OMB) Bulletin 01-09. The principal statements were prepared from the official financial records and general ledger of OFHEO in accordance with Generally Accepted Accounting Principles (GAAP) as established through the Federal Accounting Standards Advisory Board (FASAB) standards.

#### *Basis of Accounting*

Transactions are recorded on both an accrual accounting basis and on a budgetary basis. Under the accrual method, revenues are recognized when earned and expenses are recognized when a liability is incurred, without regard to receipt or payment of cash. Budgetary accounting facilitates compliance with legal requirements and controls over the use of Federal funds. OFHEO complies with the U.S. Standard General Ledger and conforms to the hierarchy of the American Institute of Certified Public Accountants (AICPA) through Statement on Auditing Standards (SAS) No. 69, as amended by SAS No.91, *Federal GAAP Hierarchy*, of accounting principles for the Federal Government:

Federal Accounting Standards Advisory Board (FASAB) Statements and Interpretations plus AICPA and Financial Accounting Standards Board (FASB) pronouncements if made applicable to the Federal governmental entities by a FASAB Statement or Interpretation;

FASAB Technical Bulletins and the following pronouncements if specifically made applicable to Federal governmental entities by the AICPA and cleared by the FASAB: AICPA Industry Audit and Accounting Guides and AICPA Statements of Position;

AICPA Accounting Standards Executive Committee (ACSEC) Practice Bulletins if specifically made applicable to Federal governmental entities and cleared by the FASAB and Technical Releases of the Accounting and Auditing Policy Committee of the FASAB;

Implementation guides published by the FASAB staff and practices that are widely recognized and prevalent in the Federal government (OMB Circular A-134); and



## **NOTES TO FINANCIAL STATEMENTS**

### **NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

Accounting policy and procedures established by OFHEO to enhance consistency or to provide guidance in the absence of government-wide standards.

#### ***Funds with the U.S. Treasury***

Each year Congress enacts a “no-year” appropriation to fund OFHEO’s operating costs. The appropriation is paid by an annual assessment from Fannie Mae and Freddie Mac and not with taxpayer funds. OFHEO receives an appropriation warrant from the U.S. Treasury General Fund each year, and fully offsets the General Fund warrant with money collected from the Enterprises.

Law requires that OFHEO return to the Enterprises unobligated funds as of the end of the fiscal year by crediting the next year’s assessment. It is important to understand how the crediting provision functions with the “no year” fund designation. “No year” funds are available for obligation without fiscal year limitation. Rules for “no year” funds essentially removes all statutory limits as to when the funds may be obligated and expended, and funds remain available for their original purpose until expended. When OFHEO closes its books each fiscal year, it accounts for funds not obligated as of the end of that fiscal year (September 30). OFHEO reduces the current year’s (October 1) assessment by the amount of the unobligated balance from the previous year. Consequently, the amount of the annual assessment from the Enterprises is reduced by the credit awarded to the Enterprises for unobligated funds from the prior year.

OFHEO cash receipts and disbursements are processed by the United States Department of the Treasury (Treasury). The funds with Treasury are primarily assessment funds that are available to pay current liabilities and to finance authorized purchase commitments. OFHEO does not have monetary assets held outside OFHEO’s fund balance at Treasury. OFHEO does not maintain an Imprest Fund and does not hold any marketable or non-marketable securities. OFHEO does not operate a direct loan or loan guarantee program.

#### ***Property and Equipment***

OFHEO’s property and equipment is recorded at cost and is depreciated using the straight-line method over the estimated service lives of the assets. Service lives have been established as three years for most computer related systems and up to 20 years for other equipment. Leasehold improvements are depreciated over the remaining term of the lease agreement. OFHEO has an established capitalization threshold of \$5,000 to conform to the materiality approach for the accounting that supports OFHEO’s independent financial statements. Other property items, normal repairs, and maintenance are charged to expense as incurred.

OFHEO has no capitalized leases, no real property holdings, and no heritage assets.

#### ***Advances and Prepayments***

Payments in advance of the receipt of goods and services are recorded as prepaid charges at the time of prepayment and are recognized as expenditures/expenses when the related goods and services are received.



## **NOTES TO FINANCIAL STATEMENTS**

### **NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

#### ***Accounts Receivable***

OFHEO's Accounts Receivable consists of receivables and reimbursements due from others. No account is estimated as uncollectible.

#### ***Liabilities***

Liabilities represent the amount of funds that are likely to be paid by OFHEO as the result of a transaction or event that has already occurred.

OFHEO reports its liabilities under two categories: Liabilities covered by budgetary resources and liabilities not covered by budgetary resources.

Liabilities covered by budgetary resources are liabilities that are funded by a current appropriation or other funding source. Both intragovernmental (payable to other federal entities) and governmental liabilities consist of accounts payable and accrued liabilities. Accounts payable reflect invoices processed for payment during the fiscal year which are yet unpaid as of the end of the fiscal year due to scheduling of payments to reflect prompt payment guidelines. Accrued liabilities consist of both estimates of accounts payable for the value of services received during the fiscal year for which OFHEO had not been billed as of the end of the fiscal year and payroll accruals reflecting payroll costs earned by employees during the fiscal year which are not paid until the next fiscal year.

Liabilities not covered by budgetary resources are liabilities that are not funded by any current appropriation or other funding source. These liabilities consist of accrued annual leave and accrued compensatory time at the end of the fiscal year. Reimbursements owed to the Department of Labor for claims already paid under the Federal Employees Compensation Act would also be reported under this liability category; however, OFHEO has no claims outstanding in fiscal years 2003 and 2002. In addition, a liability for any future claims (future worker's compensation) would be reported in this category. OFHEO's methodology for estimating this future worker's compensation liability determined that the liability would be negligible and therefore no liability is recorded for fiscal years 2003 or 2002.

#### ***Retirement Plans***

OFHEO participates in the retirement plans offered by the Office of Personnel Management (OPM) and does not maintain any private retirement plans. The majority of employees participate in either the Civil Service Retirement System (CSRS) or the Federal Employees Retirement System (FERS).

OFHEO expenses its contributions to the retirement plans of covered employees as the expenses are incurred. OFHEO is reporting imputed financing with respect to retirement plans, health benefits and life insurance pursuant to guidance received from OPM. These costs are paid by OPM and not by OFHEO. Disclosure is intended to provide information regarding the full cost of OFHEO's program in accordance with GAAP.



## NOTES TO FINANCIAL STATEMENTS

### NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

#### *Net Position*

OFHEO's net position is comprised of the following components:

- 1) Undelivered orders and unobligated balances of OFHEO's funds.
- 2) Invested capital represents U.S. Government resources invested in OFHEO's property and equipment. Increases to invested capital are recorded when assets are acquired with direct appropriations, and decreases are recorded as a result of depreciation and disposition of capital assets.
- 3) Future funding requirements represent accumulated annual leave earned but not taken as of the financial statement date. The expense for these accruals is not funded from current assessments, but will be funded from future assessments as the expenses are incurred.
- 4) Prepayments and advances of OFHEO's funds.

### NOTE 2 - FUND BALANCE WITH TREASURY

Fund Balance with Treasury consists of the following as of September 30, 2003 and 2002:

	<u>Obligated</u>	<u>Unobligated</u>		<u>2003</u>	<u>2002</u>
		<u>Available</u>	<u>Unavailable</u>		
General Funds	\$7,267,547		\$1,815	\$7,269,362	\$4,983,580

### NOTE 3 – ADVANCES/PREPAYMENTS

The Advances/Prepayments are payments made to the Office of Thrift Supervision (OTS) for additional occupancy space contracted for in fiscal year 2001 but not to be occupied until fiscal year 2002.

### NOTE 4 - PROPERTY, PLANT AND EQUIPMENT

OFHEO's major asset is the Risk-Based Capital software and associated equipment. The Risk-Based Capital software is used to decide on a quarterly basis the amount of risk-based capital determined by the Director to be required for each Enterprise's adequate capitalization. The final Risk-Based Capital rule, which includes a description of the stress test software, was published in September 2001 and became enforceable in September 2002. The software was put into use for its intended purpose effective October 1, 2002. Therefore, depreciation began as of that date of implementation.





**NOTES TO FINANCIAL STATEMENTS**

**NOTE 4 - PROPERTY, PLANT AND EQUIPMENT (continued)**

Property, Plant and Equipment balances as of September 30, 2003 and 2002 are as follows:

<u>Asset Type</u>	<u>Acquisition Cost</u>	<u>Accumulated Depreciation</u>	<u>2003 Net Book Value</u>	<u>2002 Net Book Value</u>
Equipment	\$ 4,992,283	\$ 2,829,358	\$ 2,162,925	\$ 3,395,603
Leasehold Improvements	3,471,228	683,714	2,787,514	1,368,684
Information Technology Software	<u>15,062,280</u>	<u>5,020,760</u>	<u>10,041,520</u>	<u>15,062,280</u>
Total	\$23,525,791	\$ 8,533,832	\$14,991,959	\$19,826,567

**NOTE 5 – LIABILITIES COVERED BY BUDGETARY RESOURCES**

	<u>2003</u>	<u>2002</u>
Intragovernmental Accrued Accounts Payable	\$ 75,460	\$ 86,949
Other Liabilities	<u>1,682,720</u>	<u>1,147,467</u>
Sub-Total Intragovernmental/Other Liabilities	\$ 1,758,180	\$ 1,234,416
Accrued Payroll and Benefits	<u>649,662</u>	<u>398,607</u>
Liabilities Covered By Budgetary Resources	\$ 2,407,842	\$ 1,633,023

**NOTE 6 – LIABILITIES NOT COVERED BY BUDGETARY RESOURCES**

Liabilities not covered by budgetary resources consist of accrued annual leave and compensatory time earned but not used as of September 30, 2003 and 2002. The accrued leave liability is adjusted as leave is earned and used through out the year. The expense for these accruals will be funded from future assessments as the expenses are incurred. The net change of the accrued leave is reflected in the Statement of Financing.

**NOTE 7 – OPERATING LEASE**

OFHEO has an occupancy lease with the Office of Thrift Supervision (OTS) that covers office space and building services which include utilities, security guards, janitorial services, mail delivery, use of the loading dock, garage parking and building operation and maintenance. The initial term of the lease was for five years beginning in 1993, with the option to renew for three 5-year terms. OFHEO has exercised the second of the three option terms. Total rent expense for years ending September 30, 2003 and 2002 was approximately \$3.0 million and \$2.5 million respectively.



**NOTES TO FINANCIAL STATEMENTS**

**NOTE 7 – OPERATING LEASE (continued)**

OFHEO may terminate the lease agreement in whole or in part. In the event of a termination at OFHEO's discretion, OFHEO would be required to pay two months rent. If either party ceases to exist or merge with another entity by operation of law, either party may terminate the rental agreement. In the event of termination under this provision, neither party is liable for further costs, fees, damages or other monies due to the termination, except for payments through the date of termination.

**NOTE 8 – PROGRAM COSTS**

OFHEO does not have stewardship responsibilities for federal lands. Program Costs represent assessment collections, from Fannie Mae and Freddie Mac, that have been expensed for salaries and operating expenses to support OFHEO during the fiscal years ended September 30, 2003 and 2002. Program Costs are distributed into two categories: Public and Federal. Public costs result from contracts with the private sector for goods or services. Federal costs are a result of OFHEO contracting with other federal agencies for goods and/or services (e.g. purchase of supplies from the General Services Administration).

	<b><u>2003</u></b>	<b><u>2002</u></b>
Intragovernmental Program Costs Paid	\$ 4,029,819	\$ 3,084,090
Less: Earned Revenue	(29,353)	(121,703)
Accrued Accounts Payable Federal	<u>75,460</u>	<u>86,949</u>
Total Federal Program Costs	<u>\$ 4,075,926</u>	<u>\$ 3,049,336</u>
Public Program Costs Paid	\$21,463,669	\$17,041,699
Accrued Accounts Payable Public	1,682,720	1,147,467
Loss on Disposition of Assets	163,446	-
Depreciation Expense	<u>7,002,427</u>	<u>1,047,526</u>
Total Public Program Costs	<u>\$30,312,262</u>	<u>\$19,236,692</u>
Total Program Costs	\$34,388,188	\$22,286,028

**NOTE 9 – APPORTIONMENT CATEGORIES OF OBLIGATIONS INCURRED**

All obligations incurred are characterized as OMB Category B obligations (i.e., not apportioned by fiscal quarter) as reported on the Combined Statement of Budgetary Resources in 2003 and 2002 consisted of the following:

	<b><u>2003</u></b>	<b><u>2002</u></b>
Direct Obligations (Category B)	\$30,066,069	\$27,214,743
Reimbursable Obligations (Category B)	<u>29,353</u>	<u>121,702</u>
Total Obligations Incurred	<u>\$30,095,422</u>	<u>\$27,336,445</u>



## NOTES TO FINANCIAL STATEMENTS

### **NOTE 10 - RECOVERIES OF PRIOR YEAR OBLIGATIONS**

Recoveries of prior year obligations consist of the reappropriation of prior year funds by OMB. OFHEO requested and received the authority to re-obligate these prior year funds in fiscal years 2003 and 2002.

### **NOTE 11 – EXPLANATION OF DIFFERENCES BETWEEN THE STATEMENT OF BUDGETARY RESOURCES AND THE BUDGET OF THE UNITED STATES GOVERNMENT**

The Budget of the United States Government with actual amounts for the year ended September 30, 2003 has not been published as of the issue date of these financial statements.



**OFFICE OF FEDERAL HOUSING ENTERPRISE OVERSIGHT**  
**Required Supplementary Information**  
**Intra-governmental Trading Partners**  
**For The Fiscal Periods Ended**  
**September 30, 2003 And 2002**

Trading Partner Agency	Intra-governmental Assets	
	2003	2002
Department of Treasury <sup>1</sup>	\$ 7,269,362	\$ 4,983,580
National Finance Center <sup>2</sup>	12,412	12,412
Office of Thrift Supervision	-	118,625 <sup>3</sup>
	\$ 7,281,774	\$ 5,114,617

<sup>1</sup> Fund balance with Treasury consists of assessment funds that are available to pay current liabilities and to finance authorized purchase commitments.

<sup>2</sup> During FY 2001 duplicate awards were processed. Employees have issued checks for repayment to the National Finance Center, OFHEO is awaiting the refund from the National Finance Center. Reflected as an Accounts Receivable from the National Finance Center.

<sup>3</sup> During FY 2001 OFHEO rented additional space from OTS: this space was not occupied until FY 2002, therefore, OFHEO reflected this rental payment for additional space as a Prepayment. This is the remaining balance of prepaid rent for fiscal year end September 30, 2002.

Trading Partner Agency	Intra-governmental Liabilities	
	2003	2002
Department of Housing and Urban Development	\$ 71,884	\$ 63,484
Department of Commerce	2,300	4,200
Department of Treasury	705	705
Department of Veteran's Affairs	571	14,860
Office of Thrift Supervision	-	2,500
Office of Personnel Management	-	1,200
	\$ 75,460	\$ 86,949

OFHEO's intra-governmental liabilities consist of accounts payable for the value of services received for which OFHEO had not been billed as of the end of the fiscal year.

*The accompanying notes are an integral part of these statements.*



APPENDIX: HISTORICAL DATA TABLES

Table 1. Fannie Mae Mortgage Purchases

Period	Business Activity (\$ in Millions)			
	Purchases			
	Single-Family (\$)	Multifamily (\$)	Total Mortgages <sup>1</sup> (\$)	Mortgage-Related Securities <sup>2</sup> (\$)
4Q03	214,878	13,236	228,114	31,571
3Q03	392,351	8,800	401,151	200,266
2Q03	391,910	4,662	396,572	82,013
1Q03	322,887	4,180	327,067	94,775
Annual Data				
2003	1,322,026	30,878	1,352,904	408,625
2002	800,316	16,611	816,927	268,934
2001	567,673	19,131	586,804	209,124
2000	227,069	10,377	237,446	129,716
1999	316,136	10,012	326,148	169,905
1998	354,920	11,428	366,348	147,260
1997	159,921	6,534	166,455	50,317
1996	164,456	6,451	170,907	46,743
1995	126,003	4,966	130,969	36,258
1994	158,229	3,839	162,068	25,905
1993	289,826	4,135	293,961	6,606
1992	248,603	2,956	251,559	5,428
1991	133,551	3,204	136,755	3,080
1990	111,007	3,180	114,187	1,451
1989	80,510	4,325	84,835	Not Applicable
1988	64,613	4,170	68,783	Before 1990
1987	73,942	1,733	75,675	
1986	77,223	1,877	79,100	
1985	42,543	1,200	43,743	
1984	27,713	1,106	28,819	
1983	26,339	140	26,479	
1982	25,929	10	25,939	
1981	6,827	2	6,829	
1980	8,074	27	8,101	
1979	10,798	9	10,807	
1978	12,302	3	12,305	
1977	4,650	134	4,784	
1976	3,337	295	3,632	
1975	3,646	674	4,320	
1974	4,746	2,273	7,019	
1973	4,170	2,082	6,252	
1972	2,596	1,268	3,864	
1971	2,742	1,298	4,040	

Source: Fannie Mae

<sup>1</sup> Cash purchases plus securitizations; excludes non-Fannie Mae mortgage-related securities and repurchased Fannie Mae MBS.

<sup>2</sup> Not included in total mortgage purchases. Includes purchases of Fannie Mae MBS for the retained mortgage portfolio.

**Table 1a. Fannie Mae Mortgage Purchases Detail, By Type of Loan - Part 1 Single-Family**

Period	Purchases (\$ in Millions) <sup>1</sup>							
	Single-Family Mortgages							
	Conventional				FHA/VA			Total Single-Family Mortgages (\$)
	Fixed-Rate (\$)	Adjustable-Rate (\$)	Seconds (\$)	Total (\$)	Fixed-Rate (\$)	Adjustable-Rate (\$)	Total (\$)	
4Q03	185,583	28,091	9	213,683	365	830	1,195	214,878
3Q03	356,493	34,707	18	391,218	385	748	1,133	392,351
2Q03	353,623	36,977	50	390,650	329	931	1,260	391,910
1Q03	295,132	26,985	16	322,133	219	535	754	322,887
Annual Data								
2003	1,190,831	126,760	93	1,317,684	1,298	3,044	4,342	1,322,026
2002	730,659	66,772	41	797,472	1,296	1,548	2,844	800,316
2001	534,115	25,648	1,137	560,900	5,671	1,102	6,773	567,673
2000	187,236	33,809	726	221,771	4,378	920	5,298	227,069
1999	293,188	12,138	1,198	306,524	8,529	1,084	9,613	316,137
1998	334,367	14,273	1	348,641	5,768	511	6,279	354,920
1997	136,329	21,095	3	157,427	2,062	432	2,494	159,921
1996	146,154	15,550	3	161,707	2,415	334	2,749	164,456
1995	104,901	17,978	9	122,888	3,009	106	3,115	126,003
1994	139,815	16,340	8	156,163	1,953	113	2,066	158,229
1993	274,402	14,420	29	288,851	855	120	975	289,826
1992	226,332	21,001	136	247,469	1,055	79	1,134	248,603
1991	114,321	17,187	705	132,213	1,300	38	1,338	133,551
1990	95,011	14,528	654	110,193	799	15	814	111,007
1989	60,794	17,692	521	79,007	1,489	14	1,503	80,510
1988	35,767	27,492	433	63,692	823	98	921	64,613
1987	60,434	10,675	139	71,248	2,649	45	2,694	73,942
1986	58,251	7,305	498	66,054	11,155	14	11,169	77,223
1985	29,993	10,736	871	41,600	927	16	943	42,543
1984	17,998	8,049	937	26,984	729	0	729	27,713
1983	18,136	4,853	1,408	24,397	1,942	0	1,942	26,339
1982	19,311	3,210	1,552	24,073	1,856	0	1,856	25,929
1981	4,260	107	176	4,543	2,284	0	2,284	6,827
1980	2,802	0	0	2,802	5,272	0	5,272	8,074
1979	5,410	0	0	5,410	5,388	0	5,388	10,798
1978	5,682	0	0	5,682	6,620	0	6,620	12,302
1977	2,366	0	0	2,366	2,284	0	2,284	4,650
1976	2,513	0	0	2,513	824	0	824	3,337
1975	547	0	0	547	3,099	0	3,099	3,646
1974	1,128	0	0	1,128	3,618	0	3,618	4,746
1973	939	0	0	939	3,231	0	3,231	4,170
1972	55	0	0	55	2,541	0	2,541	2,596
1971	0	0	0	0	2,742	0	2,742	2,742

Source: Fannie Mae

<sup>1</sup> Cash purchases plus securitizations; excludes non-Fannie Mae mortgage-related securities and repurchased Fannie Mae MBS.

**Table 1a. Fannie Mae Mortgage Purchases Detail, By Type of Loan - Part 2 Multifamily**

Period	Purchases (\$ in Millions) <sup>1</sup>				
	Multifamily Mortgages			Total Multifamily Mortgages (\$)	Total Mortgage Purchases (\$)
	Conventional (\$)	FHA/RHS (\$)			
4Q03	5,664	7,572		13,236	228,114
3Q03	5,031	3,769		8,800	401,151
2Q03	3,822	840		4,662	396,572
1Q03	4,131	49		4,180	327,067
Annual Data					
2003	18,648	12,230		30,878	1,352,904
2002	13,950	2,661		16,611	816,927
2001	17,849	1,282		19,131	586,804
2000	9,127	1,250		10,377	237,446
1999	8,858	1,153		10,011	326,148
1998	10,844	584		11,428	366,348
1997	5,936	598		6,534	166,455
1996	6,199	252		6,451	170,907
1995	4,677	289		4,966	130,969
1994	3,620	219		3,839	162,068
1993	3,919	216		4,135	293,961
1992	2,845	111		2,956	251,559
1991	3,183	21		3,204	136,755
1990	3,165	15		3,180	114,187
1989	4,309	16		4,325	84,835
1988	4,149	21		4,170	68,783
1987	1,463	270		1,733	75,675
1986	1,877	0		1,877	79,100
1985	1,200	0		1,200	43,743
1984	1,106	0		1,106	28,819
1983	128	12		140	26,479
1982	0	10		10	25,939
1981	0	2		2	6,829
1980	0	27		27	8,101
1979	0	9		9	10,807
1978	0	3		3	12,305
1977	0	134		134	4,784
1976	0	295		295	3,632
1975	0	674		674	4,320
1974	0	2,273		2,273	7,019
1973	0	2,082		2,082	6,252
1972	0	1,268		1,268	3,864
1971	0	1,298		1,298	4,040

Source: Fannie Mae

<sup>1</sup> Cash purchases plus securitizations; excludes non-Fannie Mae mortgage-related securities and repurchased Fannie Mae MBS.

**Table 1b. Fannie Mae Purchases of Mortgage-Related Securities**

	Purchases (\$ in millions) <sup>1</sup>								
	Enterprise Securities (\$)	Others' Securities						Mortgage Revenue Bonds (\$)	Total Mortgage-Related Securities (\$)
		Freddie Mac (\$)	Ginnie Mae (\$)	Private-Label			Total Private-Label (\$)		
				Home Equity <sup>2</sup> (\$)	Manufactured Housing (\$)	Other (\$)			
4Q03	13,224	3,306	0	10,458	0	2,149	12,607	2,434	31,571
3Q03	176,066	11,836	0	8,162	0	2,331	10,493	1,871	200,266
2Q03	70,483	4,132	0	3,882	0	2,243	6,125	1,273	82,013
1Q03	88,640	681	36	3,267	0	1,484	4,751	667	94,775
Annual Data									
2003	348,413	19,955	36	25,769	0	8,207	33,976	6,245	408,625
2002	245,039	7,957	4,425	5,543	56	1,617	7,216	4,297	268,934
2001	180,582	20,072	333	1,466	Not Available	2,047	3,513	4,624	209,124
2000	104,904	10,171	2,493	Not Available	Before 2002	8,466	8,466	3,682	129,716
1999	125,498	6,861	17,561	Before 2001		16,511	16,511	3,474	169,905
1998	104,728	21,274	2,738			15,721	15,721	2,799	147,260
1997	39,033	2,119	3,508			4,188	4,188	1,469	50,317
1996	41,263	779	2,197			777	777	1,727	46,743
1995	30,432	2,832	20			752	752	2,222	36,258
1994	21,660	571	2,321			0	0	1,353	25,905
1993	6,275	0	0			0	0	331	6,606
1992	4,930	0	0			0	0	498	5,428
1991	2,384	0	0			0	0	696	3,080
1990	977	0	0			0	0	474	1,451

Source: Fannie Mae

<sup>1</sup> Not included in total mortgage purchases. Includes purchases of Fannie Mae MBS for the retained mortgage portfolio.

<sup>2</sup> Purchases incorporate securities specifically identified as home equity or seconds. Other security purchases may include some underlying loans which are home equity or seconds.



**Table 2. Fannie Mae MBS Issuances**

Period	Business Activity (\$ in Millions)			
	MBS Issuances			
	Single-Family MBS (\$)	Multifamily MBS (\$)	Total MBS (\$)	Multiclass MBS <sup>1</sup> (\$)
4Q03	197,527	10,932	208,459	80,340
3Q03	350,326	6,408	356,734	80,001
2Q03	352,683	3,104	355,787	66,412
1Q03	296,025	2,574	298,599	34,166
Annual Data				
2003	1,196,561	23,018	1,219,579	260,919
2002	727,257	12,338	739,595	170,795
2001	514,621	13,801	528,422	139,403
2000	204,066	7,596	211,662	39,544
1999	292,192	8,497	300,689	55,160
1998	315,120	11,028	326,148	84,147
1997	143,615	5,814	149,429	85,415
1996	144,201	5,668	149,869	30,780
1995	106,269	4,187	110,456	9,681
1994	128,385	2,237	130,622	73,365
1993	220,485	959	221,444	210,630
1992	193,187	850	194,037	170,205
1991	111,488	1,415	112,903	112,808
1990	96,006	689	96,695	68,291
1989	66,489	3,275	69,764	41,715
1988	51,120	3,758	54,878	17,005
1987	62,067	1,162	63,229	9,917
1986	60,017	549	60,566	2,400
1985	23,142	507	23,649	Not Issued
1984	13,087	459	13,546	Before 1986
1983	13,214	126	13,340	
1982	13,970	Not Issued	13,970	
1981	717	Before 1983	717	
	Not Available Before 1981		Not Available Before 1981	

Source: Fannie Mae

<sup>1</sup> The majority qualify as Real Estate Mortgage Investment Conduits (REMICs) and are also known as structured securitizations.

**Table 3. Fannie Mae Earnings**

Period	Earnings (\$ in Millions)							
	Net Interest Income <sup>1</sup>	Guarantee Fee Income	Average Guarantee Fee	Administrative Expenses	Credit-Related Expenses <sup>2</sup>	Net Income	Core Net Income <sup>3</sup>	Return on Equity <sup>4</sup>
	(\$)	(\$)	(basis points)	(\$)	(\$)	(\$)	(\$)	(\$)
4Q03	3,211	619	19.5	418	40	2,196	1,770	51.9
3Q03	3,489	613	20.0	347	29	2,666	1,826	63.8
2Q03	3,501	632	21.2	354	23	1,102	1,860	31.3
1Q03	3,368	547	20.3	344	20	1,941	1,850	53.6
Annual Data								
2003	13,569	2,411	20.2	1,463	112	7,905	7,306	49.9
2002	10,566	1,816	19.1	1,219	92	4,619	6,394	30.1
2001	8,090	1,482	19.0	1,017	78	5,894	5,367	39.8
2000	5,674	1,351	19.5	905	94	4,448	4,448	25.6
1999	4,894	1,282	19.3	800	127	3,912	3,912	25.2
1998	4,110	1,229	20.2	708	261	3,418	3,418	25.2
1997	3,949	1,274	22.7	636	375	3,056	3,056	24.6
1996	3,592	1,196	22.4	560	409	2,725	2,725	24.1
1995	3,047	1,086	22.0	546	335	2,144	2,144	20.9
1994	2,823	1,083	22.5	525	378	2,132	2,132	24.3
1993	2,533	961	21.3	443	305	1,873	1,873	25.3
1992	2,058	834	21.2	381	320	1,623	1,623	26.5
1991	1,778	675	21.0	319	370	1,363	1,363	27.7
1990	1,593	536	21.1	286	310	1,173	1,173	33.7
1989	1,191	408	21.3	254	310	807	807	31.1
1988	837	328	21.6	218	365	507	507	25.2
1987	890	263	22.1	197	360	376	376	24
1986	384	175	23.8	175	306	105	105	10
1985	139	112	25.6	142	206	(7)	(7)	(1)
1984	(90)	78	26.2	112	86	(71)	(71)	(7)
1983	(9)	54	26.3	81	48	49	49	5
1982	(464)	16	27.2	60	36	(192)	(192)	(19)
1981	(429)	0	25.0	49	(28)	(206)	(206)	(17)
1980	21	Not Available	Not Available	44	19	14	14	0.9
1979	322	Before 1981	Before 1981	46	35	162	162	11.3
1978	294			39	36	209	209	16.5
1977	251			32	28	165	165	15.3
1976	203			30	25	127	127	13.8
1975	174			27	16	115	115	14.1
1974	142			23	17	107	107	14.7
1973	180			18	12	126	126	20.3
1972	138			13	5	96	96	18.8
1971	49			15	4	61	61	14.4

Source: Fannie Mae

<sup>1</sup> Interest income net of interest expense.

<sup>2</sup> Credit-related expenses include foreclosed property expenses (income) and the provision for losses.

<sup>3</sup> Core net income (referred to as "core business earnings" in the Form 10-K) is presented on a net of tax basis and excludes changes in the time value of purchased options recorded under Statement of Financial Accounting Standards (SFAS) 133 and includes purchased option premiums amortized over the original estimated life of the option and any acceleration of expense related to options extinguished prior to exercise.

<sup>4</sup> Calculated as annualized net income available to common stockholders divided by average common stockholders' equity.

**Table 3a. Fannie Mae Earnings - Reconciliation of Net Income to Core Net Income**

Period	Earnings (\$ in Millions)						
	Net Income (\$)	Remove Purchased Option Income/Expense (\$)	Purchased Option Amortization Expense (\$)	Cumulative Gain on Adoption of FAS 133 (\$)	Tax Effects of Preceding Adjustments (\$)	Core Net Income (\$)	Return on Adjusted Common Equity <sup>1</sup> (%)
4Q03	2,196	133	(789)	0	230	1,770	23.4
3Q03	2,666	(473)	(820)	0	453	1,826	25.4
2Q03	1,102	1,883	(716)	0	(409)	1,860	27.7
1Q03	1,941	625	(764)	0	49	1,850	28.0
Annual Data							
2003	7,905	2,168	(3,090)	0	323	7,306	26.0
2002	4,619	4,545	(1,814)	0	(956)	6,394	26.0
2001	5,894	37	(590)	(258)	284	5,367	25.4
2000	4,448	Not Applicable	Not Applicable	Not Applicable	Not Applicable	4,448	25.2
1999	3,912	Before 2001	Before 2001	Before 2001	Before 2001	3,912	25.0
1998	3,418					3,418	25.2
1997	3,056					3,056	24.6
1996	2,725					2,725	24.1
1995	2,144					2,144	20.9
1994	2,132					2,132	24.3
1993	1,873					1,873	25.3
1992	1,623					1,623	26.5
1991	1,363					1,363	27.7
1990	1,173					1,173	33.7
1989	807					807	31.1
1988	507					507	25.2
1987	376					376	23.5
1986	105					105	9.5
1985	(7)					(7)	(0.7)
1984	(71)					(71)	(7.4)
1983	49					49	5.1
1982	(192)					(192)	(18.9)
1981	(206)					(206)	(17.2)
1980	14					14	0.9
1979	162					162	11.3
1978	209					209	16.5
1977	165					165	15.3
1976	127					127	13.8
1975	115					115	14.1
1974	107					107	14.7
1973	126					126	20.3
1972	96					96	18.8
1971	61					61	14.4

Source: Fannie Mae

<sup>1</sup> Calculated as annualized core net income available to common stockholders divided by average realized common stockholders' equity (common stockholders' equity excluding accumulated other comprehensive income). Beginning in 1999, annualized core net income available to common stockholders has been reduced by issuance costs on preferred stock redemptions in accordance with EITF Topic D42.

Table 4. Fannie Mae Balance Sheet

End of Period	Balance Sheet (\$ in Millions)							Mortgage-Backed Securities Outstanding (\$ in Millions)	
	Total Assets <sup>1</sup> (\$)	Total Retained Mortgage Portfolio <sup>2</sup> (\$)	Non-Mortgage Investments <sup>3</sup> (\$)	Debt Outstanding (\$)	Shareholders' Equity <sup>4</sup> (\$)	Core Capital <sup>5</sup> (\$)	Fair Value of Net Assets <sup>6</sup> (\$)	Total MBS Outstanding <sup>7</sup> (\$)	Multiclass MBS Outstanding <sup>8</sup> (\$)
4Q03	1,009,569	901,880	59,493	961,732	22,373	34,405	31,582	1,300,166	405,772
3Q03	1,019,171	921,258	51,319	975,734	17,524	32,752	N/A	1,211,079	426,128
2Q03	923,795	822,806	53,908	884,081	17,364	30,675	N/A	1,237,461	428,286
1Q03	913,264	825,114	46,195	873,920	17,904	29,517	N/A	1,107,520	418,194
<b>Annual Data</b>									
2003	1,009,569	901,880	59,493	961,732	22,373	34,405	31,582	1,300,166	405,772
2002	887,515	801,122	39,293	850,982	16,288	28,079	22,130	1,029,456	401,486
2001	799,948	706,803	65,982	763,467	18,118	25,182	22,675	858,965	392,457
2000	675,224	607,731	52,347	642,682	20,838	20,827	20,677	706,722	334,508
1999	575,308	523,103	37,299	547,619	17,629	17,876	20,525	679,145	335,514
1998	485,146	415,434	58,515	460,291	15,453	15,465	14,885	637,143	361,613
1997	391,673	316,592	64,596	369,774	13,793	13,793	15,982	579,138	388,360
1996	351,041	286,528	56,606	331,270	12,773	12,773	14,556	548,173	339,798
1995	316,550	252,868	57,273	299,174	10,959	10,959	11,037	513,230	353,528
1994	272,508	220,815	46,335	257,230	9,541	9,541	10,924	486,345	378,733
1993	216,979	190,169	21,396	201,112	8,052	8,052	9,126	471,306	381,865
1992	180,978	156,260	19,574	166,300	6,774	Not Applicable	9,096	424,444	312,369
1991	147,072	126,679	9,836	133,937	5,547	Before 1993	Not Available	355,284	224,806
1990	133,113	114,066	9,868	123,403	3,941		Before 1992	288,075	127,278
1989	124,315	107,981	8,338	116,064	2,991			216,512	64,826
1988	112,258	100,099	5,289	105,459	2,260			170,097	26,660
1987	103,459	93,665	3,468	97,057	1,811			135,734	11,359
1986	99,621	94,123	1,775	93,563	1,182			95,568	Not Issued
1985	99,076	94,609	1,466	93,985	1,009			54,552	Before 1987
1984	87,798	84,135	1,840	83,719	918			35,738	
1983	78,383	75,247	1,689	74,594	1,000			25,121	
1982	72,981	69,356	2,430	69,614	953			14,450	
1981	61,578	59,629	1,047	58,551	1,080			717	
1980	57,879	55,589	1,556	54,880	1,457			Not Issued	
1979	51,300	49,777	843	48,424	1,501			Before 1981	
1978	43,506	42,103	834	40,985	1,362				
1977	33,980	33,252	318	31,890	1,173				
1976	32,393	31,775	245	30,565	983				
1975	31,596	30,820	239	29,963	861				
1974	29,671	28,666	466	28,168	772				
1973	24,318	23,589	227	23,003	680				
1972	20,346	19,652	268	19,239	559				
1971	18,591	17,886	349	17,672	460				

Source: Fannie Mae

N/A = not available

<sup>1</sup> Beginning in 1998, the guaranty liability for MBS held in the portfolio is classified as a liability.

<sup>2</sup> Gross retained portfolio net of unamortized purchase premium, discounts and deferred price adjustments, and, beginning in 2002, unrealized gain/loss on available-for-sale securities. The amounts for 1999 through 2002 include certain loans held for investment that were previously classified as non-mortgage investments.

<sup>3</sup> Values for years 1999 through 2003 exclude securities included in new balance sheet line item, "Loans held for securitization and sale", and in the retained mortgage portfolio.

<sup>4</sup> GAAP basis.

<sup>5</sup> The sum of (a) the stated value of common stock, (b) the stated value of outstanding noncumulative perpetual preferred stock, (c) paid-in capital, and (d) retained earnings, less treasury stock.

<sup>6</sup> The valuation of financial instruments is in accordance with GAAP fair value guidelines prescribed by SFAS 107.

<sup>7</sup> Total Fannie Mae MBS outstanding net of Fannie Mae MBS in the retained mortgage portfolio.

<sup>8</sup> The majority qualify as REMICs and are also known as structured securitizations.

**Table 4a. Fannie Mae Total MBS Outstanding Detail - Part 1, Single-Family**

End of Period	Single-Family Mortgages (\$ in Millions)						
	Conventional				FHA/VA		
	Fixed-Rate (\$)	Adjustable-Rate (\$)	Seconds (\$)	Total (\$)	Fixed-Rate (\$)	Adjustable-Rate (\$)	Total (\$)
4Q03	1,074,917	154,019	109	1,229,045	3,499	1,319	4,818
3Q03	1,006,492	141,244	197	1,147,933	3,811	1,383	5,194
2Q03	1,049,017	128,730	246	1,177,993	4,333	1,462	5,795
1Q03	941,100	107,888	270	1,049,258	4,692	1,296	5,988
Annual Data							
2003	1,074,917	154,019	109	1,229,045	3,499	1,319	4,818
2002	879,113	92,485	338	971,936	5,147	1,262	6,409
2001	737,121	62,617	772	800,510	12,246	1,300	13,546
2000	599,999	61,495	1,165	662,659	6,778	1,298	8,076
1999	586,069	51,474	1,212	638,755	7,159	1,010	8,169
1998	545,680	56,903	98	602,681	5,340	587	5,927
1997	483,982	70,106	7	554,095	3,872	213	4,085
1996	460,866	65,682	9	526,557	4,402	191	4,593
1995	431,755	63,436	13	495,204	5,043	91	5,134
1994	415,692	55,780	18	471,490	5,628	0	5,628
1993	405,383	49,987	28	455,398	7,549	0	7,549
1992	360,619	45,718	43	406,380	9,438	0	9,438
1991	290,038	45,110	89	335,237	11,112	0	11,112
1990	225,981	42,443	121	268,545	11,380	0	11,380
1989	Not Available	Not Available	Not Available	Not Available	Not Available	Not Available	Not Available
1988	Before 1990	Before 1990	Before 1990	Before 1990	Before 1990	Before 1990	Before 1990
1987							
1986							
1985							
1984							
1983							
1982							
1981							
1980							

Source: Fannie Mae

**Table 4a. Fannie Mae Total MBS Outstanding Detail - Part 2, Multifamily**

End of Period	Multifamily Mortgages (\$ in Millions)			Total MBS Outstanding <sup>1</sup> (\$)
	Conventional (\$)	FHA/RHS (\$)	Total Multifamily (\$)	
4Q03	65,938	365	66,303	1,300,166
3Q03	57,565	386	57,951	1,211,078
2Q03	53,255	418	53,673	1,237,461
1Q03	51,850	425	52,275	1,107,521
Annual Data				
2003	65,938	365	66,303	1,300,166
2002	50,127	984	51,111	1,029,456
2001	43,728	1,181	44,909	858,965
2000	35,207	780	35,987	706,722
1999	31,518	703	32,221	679,145
1998	28,378	157	28,535	637,143
1997	20,824	134	20,958	579,138
1996	16,912	111	17,023	548,173
1995	12,579	313	12,892	513,230
1994	8,908	319	9,227	486,345
1993	8,034	325	8,359	471,306
1992	8,295	331	8,626	424,444
1991	8,599	336	8,935	355,284
1990	7,807	343	8,150	288,075
1989	Not Available	Not Available	Not Available	216,512
1988	Before 1990	Before 1990	Before 1990	170,097
1987				135,734
1986				95,568
1985				54,552
1984				35,738
1983				25,121
1982				14,450
1981				717
1980				Not Issued Before 1981

Source: Fannie Mae

<sup>1</sup> Total Fannie Mae MBS outstanding net of Fannie Mae MBS in the retained mortgage portfolio.

Table 5. Fannie Mae Retained Mortgage Portfolio Detail

End of Period	(\$ in Millions)					Total Retained Mortgage Portfolio (\$)
	Whole Loans <sup>1,2</sup> (\$)	Fannie Mae Securities <sup>1</sup> (\$)	Other Mortgage-Related Securities <sup>1</sup> (\$)	Unamortized Premiums, Discounts, Deferred Adjustments, and Unrealized Gains/Losses on Available-for-Sale Securities <sup>3</sup> (\$)		
4Q03	234,699	556,880	106,859	3,442		901,880
3Q03	227,658	590,450	99,015	4,135		921,258
2Q03	213,593	512,435	88,886	7,892		822,806
1Q03	197,339	529,954	90,378	7,443		825,114
Annual Data						
2003	234,699	556,880	106,859	3,442		901,880
2002	189,151	508,831	96,168	6,972		801,122
2001	167,388	431,484	110,035	(2,104)		706,803
2000	152,634	351,066	106,551	(2,520)		607,731
1999	149,231	281,714	93,122	(964)		523,103
1998	155,779	197,375	61,361	919		415,434
1997	160,102	130,444	26,132	(86)		316,592
1996	167,891	102,607	16,554	(525)		286,527
1995	171,481	69,729	12,301	(643)		252,868
1994	170,909	43,998	7,150	(1,242)		220,815
1993	163,149	24,219	3,493	(692)		190,169
1992	134,597	20,535	2,987	(1,859)		156,260
1991	109,251	16,700	3,032	(2,304)		126,679
1990	101,797	11,758	3,073	(2,562)		114,066
1989	95,729	11,720	3,272	(2,740)		107,981
1988	92,220	8,153	2,640	(2,914)		100,099
1987	89,618	4,226	2,902	(3,081)		93,665
1986	94,167	1,606	2,060	(3,710)		94,123
1985	97,421	435	793	(4,040)		94,609
1984	87,205	477	427	(3,974)		84,135
1983	77,983	Not Available	273	(3,009)		75,247
1982	71,777	Before 1984	37	(2,458)		69,356
1981	61,411		1	(1,783)		59,629
1980	57,326		1	(1,738)		55,589
1979	51,096		1	(1,320)		49,777
1978	43,315		Not Available	(1,212)		42,103
1977	34,377		Before 1979	(1,125)		33,252
1976	32,937			(1,162)		31,775
1975	31,916			(1,096)		30,820
1974	29,708			(1,042)		28,666
1973	24,459			(870)		23,589
1972	20,326			(674)		19,652
1971	18,515			(629)		17,886

Source: Fannie Mae

<sup>1</sup> Unpaid principal balance.

<sup>2</sup> The balance of whole loans at December 31, 1999 through December 31, 2002 includes certain loans held for investment that were previously classified as nonmortgage investments and excludes loans held for securitization or sale.

<sup>3</sup> Beginning in 2002, include unrealized gains/losses on available-for-sale securities.

**Table 5a. Fannie Mae Retained Mortgage Portfolio Detail - Part 1a, Whole Loans**

End of Period	Whole Loans (\$ in Millions) <sup>1,2</sup>					Total FHA/VA (\$)
	Single-Family					
	Conventional				Total	
	Fixed-Rate <sup>2</sup> (\$)	Adjustable-Rate (\$)	Seconds (\$)	Total (\$)		
4Q03	194,654	13,185	231	208,070	7,063	
3Q03	190,790	12,415	268	203,473	6,504	
2Q03	180,581	10,600	300	191,481	6,045	
1Q03	167,034	9,395	453	176,882	5,653	
Annual Data						
2003	194,654	13,185	231	208,070	7,063	
2002	160,553	9,045	524	170,122	5,458	
2001	140,454	10,410	917	151,781	5,069	
2000	125,786	13,244	480	139,510	4,763	
1999	130,614	6,058	176	136,848	4,472	
1998	135,351	7,633	206	143,190	4,404	
1997	134,543	10,389	268	145,200	4,631	
1996	137,507	12,415	323	150,245	4,739	
1995	137,032	14,756	423	152,211	4,780	
1994	133,882	16,475	537	150,894	4,965	
1993	123,308	19,175	772	143,255	5,305	
1992	91,500	22,637	1,355	115,492	6,097	
1991	69,130	19,763	2,046	90,939	6,962	
1990	61,873	19,558	1,851	83,282	8,524	
1989	55,638	20,751	1,614	78,003	9,450	
1988	53,090	20,004	1,561	74,655	10,480	
1987	55,913	13,702	1,421	71,036	11,652	
1986	Not Available	Not Available	Not Available	Not Available	Not Available	
1985	Before 1987	Before 1987	Before 1987	Before 1987	Before 1987	

Source: Fannie Mae

<sup>1</sup> Unpaid principal balance.

<sup>2</sup> The balance of whole loans at December 31, 1999 through December 31, 2002 includes certain loans held for investment that were previously classified as nonmortgage investments and excludes loans held for securitization or sale.



Table 5a. Fannie Mae Retained Mortgage Portfolio Detail - Part 1b, Whole Loans

End of Period	Whole Loans (\$ in Millions) <sup>1,2</sup>				
	Multifamily			Total	Total Whole Loans
	Conventional	FHA/RHS			
(\$)	(\$)		(\$)	(\$)	
4Q03	18,475	1,091		19,566	234,699
3Q03	16,537	1,144		17,681	227,658
2Q03	14,855	1,212		16,067	213,593
1Q03	13,531	1,273		14,804	197,339
Annual Data					
2003	18,475	1,091		19,566	234,699
2002	12,217	1,354		13,571	189,151
2001	8,987	1,551		10,538	167,388
2000	6,547	1,814		8,361	152,634
1999	5,564	2,347		7,911	149,231
1998	5,590	2,595		8,185	155,779
1997	7,388	2,883		10,271	160,102
1996	9,756	3,151		12,907	167,891
1995	11,175	3,315		14,490	171,481
1994	11,681	3,369		15,050	170,909
1993	11,143	3,446		14,589	163,149
1992	9,407	3,601		13,008	134,597
1991	7,641	3,709		11,350	109,251
1990	6,142	3,849		9,991	101,797
1989	3,926	4,350		8,276	95,729
1988	2,699	4,386		7,085	92,220
1987	2,448	4,482		6,930	89,618
1986	Not Available	Not Available		Not Available	94,167
1985	Before 1987	Before 1987		Before 1987	97,421
1984					87,205
1983					77,983
1982					71,777
1981					61,411
1980					57,326
1979					51,096
1978					43,315
1977					34,377
1976					32,937
1975					31,916
1974					29,708
1973					24,459
1972					20,326
1971					18,515

Source: Fannie Mae

<sup>1</sup> Unpaid principal balance.

<sup>2</sup> The balance of whole loans at December 31, 1999 through December 31, 2002 includes certain loans held for investment that were previously classified as nonmortgage investments and excludes loans held for securitization or sale.

**Table 5a. Fannie Mae Retained Mortgage Portfolio Detail - Part 2a, Mortgage-Related Securities**

End of Period	Mortgage-Related Securities (\$ in Millions) <sup>1</sup>								
	Total Enterprise Securities (\$)	Others' Securities							
		Freddie Mac (\$)	Ginnie Mae (\$)	Home Equity <sup>2</sup> (\$)	Private-Label			Total Private Label (\$)	Total Others' Securities (\$)
					Manufactured Housing (\$)	Other (\$)			
4Q03	556,880	31,152	6,974	29,640	7,604	10,978	48,222	86,348	
3Q03	590,450	30,979	8,434	21,448	8,497	9,965	39,910	79,323	
2Q03	512,435	25,683	10,746	15,032	8,872	9,368	33,272	69,701	
1Q03	529,954	27,683	13,164	12,445	9,225	8,686	30,356	71,203	
Annual Data									
2003	556,880	31,152	6,974	29,640	7,604	10,978	48,222	86,348	
2002	508,831	32,826	15,587	9,992	9,525	8,600	28,117	76,530	
2001	431,484	42,921	19,138	7,571	Not Available	22,008	29,579	91,638	
2000	351,066	33,290	23,768	9,472	Before 2002	24,794	34,266	91,324	
1999	281,714	25,577	23,701	Not Available		31,673	31,673	80,951	
1998	197,375	23,453	8,638	Before 2000		19,585	19,585	51,676	
1997	130,444	5,262	7,696			5,554	5,554	18,512	
1996	102,607	3,623	4,780			1,486	1,486	9,889	
1995	69,729	3,233	2,978			747	747	6,958	
1994	43,998	564	3,182			1	1	3,747	
1993	24,219	Not Available	972			2	2	974	
1992	20,535	Before 1994	168			3	3	171	
1991	16,700		180			93	93	273	
1990	11,758		191			352	352	543	
1989	11,720		202			831	831	1,033	
1988	8,153		26			810	810	836	
1987	4,226		Not Available			1,036	1,036	1,036	
1986	1,606		Before 1988			1,591	1,591	1,591	
1985	435					Not Available	Not Available	Not Available	
1984	477					Before 1986	Before 1986	Before 1986	
1983	Not Available								
1982	Before 1984								

Source: Fannie Mae

<sup>1</sup> Unpaid principal balance.

<sup>2</sup> Balances incorporate securities identified as home equity or seconds. Other securities may include some underlying loans which are home equity or seconds.

Table 5a. Fannie Mae Retained Mortgage Portfolio Detail - Part 2b, Mortgage-Related Securities

End of Period	Mortgage-Related Securities (\$ in Millions)		Unamortized Premiums, Discounts, Deferred Adjustments, and Unrealized Gains/Losses on Available-for-Sale Securities <sup>2</sup>	Total Retained Mortgage Portfolio
	Mortgage Revenue Bonds <sup>1</sup>	Total Mortgage-Related Securities		
	(\$)	(\$)	(\$)	(\$)
4Q03	20,510	663,739	3,442	901,880
3Q03	19,692	689,465	4,135	921,258
2Q03	19,185	601,321	7,892	822,806
1Q03	19,171	620,332	7,443	825,114
Annual Data				
2003	20,510	663,738	3,442	901,880
2002	19,638	604,999	6,972	801,122
2001	18,397	541,519	(2,104)	706,803
2000	15,227	457,617	(2,520)	607,731
1999	12,171	374,836	(964)	523,103
1998	9,685	258,736	919	415,434
1997	7,620	156,576	(86)	316,592
1996	6,665	119,161	(525)	286,527
1995	5,343	82,030	(643)	252,868
1994	3,403	51,148	(1,242)	220,815
1993	2,519	27,712	(692)	190,169
1992	2,816	23,522	(1,859)	156,260
1991	2,759	19,732	(2,304)	126,679
1990	2,530	14,831	(2,562)	114,066
1989	2,239	14,992	(2,740)	107,981
1988	1,804	10,793	(2,914)	100,099
1987	1,866	7,128	(3,081)	93,665
1986	469	Not Available	(3,710)	94,123
1985	Not Available	Before 1987	(4,040)	95,250
1984	Before 1986		(3,974)	84,695
1983			(3,009)	75,782
1982			(2,458)	69,842
1981			(1,783)	59,949
1980			(1,738)	55,878
1979			(1,320)	49,777
1978			(1,212)	42,103
1977			(1,125)	33,252
1976			(1,162)	31,775
1975			(1,096)	30,821
1974			(1,042)	28,665
1973			(870)	23,579
1972			(674)	19,650
1971			(629)	17,886

Source: Fannie Mae

<sup>1</sup> Unpaid principal balance.<sup>2</sup> Beginning in 2002, include unrealized gains/losses on available-for-sale securities.

Table 6. Fannie Mae Financial Derivatives

End of Period	Financial Derivatives - Notional Amount Outstanding (\$ in Millions)						
	Interest Rate Swaps (\$)	Interest Rate Caps, Floors, and Corridors (\$)	Foreign Currency Contracts (\$)	OTC Futures, Options, and Forward Rate Agreements (\$)	Mandatory Mortgage Purchase & Sell Commitments <sup>1</sup> (\$)	Other (\$)	Total (\$)
4Q03	569,884	130,350	4,712	335,650	38,492	0	1,079,088
3Q03	555,132	138,100	5,968	372,850	81,118	0	1,153,168
2Q03	386,573	138,228	7,226	279,366	0	0	811,393
1Q03	288,472	106,393	3,984	278,509	0	0	677,358
Annual Data							
2003	569,884	130,350	4,712	335,650	38,492	0	1,079,088
2002	246,508	122,393	4,019	283,675	Not Applicable	0	656,595
2001	299,953	75,893	8,493	148,800	Before 2003	0	533,139
2000	227,651	33,663	9,511	53,915		0	324,740
1999	192,032	28,950	11,507	41,081		1,400	274,970
1998	142,846	14,500	12,995	13,481		3,735	187,557
1997	149,673	100	9,968	0		1,660	161,401
1996	158,140	300	2,429	0		350	161,219
1995	125,679	300	1,224	29		975	128,207
1994	87,470	360	1,023	0		1,465	90,317
1993	49,458	360	1,023	0		1,425	52,265
1992	24,130	0	1,177	0		1,350	26,658
1991	9,100	0	Not Available	50		1,050	10,200
1990	4,800	0	Before 1992	25		1,700	6,525

Source: Fannie Mae

<sup>1</sup> Effective with the adoption of SFAS 149, mandatory mortgage purchase and sell commitments entered into subsequent to June 30, 2003 are accounted for as derivatives.

**Table 7. Fannie Mae Non-Mortgage Investments**

End of Period	Non-Mortgage Investments (\$ in Millions) <sup>1</sup>					
	Federal Funds and Eurodollars (\$)	Asset Backed Securities (\$)	Repurchase Agreements <sup>2</sup> (\$)	Commercial Paper and Corporate Debt (\$)	Other (\$)	Total (\$)
4Q03	12,575	26,900	111	16,743	3,164	59,493
3Q03	3,286	26,948	4,189	14,971	1,925	51,319
2Q03	5,100	27,576	5,278	14,624	1,330	53,908
1Q03	1,150	24,939	168	18,407	1,531	46,195
Annual Data						
2003	12,575	26,900	111	16,743	3,164	59,493
2002	1,548	22,311	181	14,075	1,178	39,293
2001	16,089	20,937	808	23,805	4,343	65,982
2000	7,539	17,512	87	8,893	18,316	52,347
1999	4,837	19,207	122	1,723	11,410	37,299
1998	7,926	20,993	7,556	5,155	16,885	58,515
1997	19,212	16,639	6,715	11,745	10,285	64,596
1996	21,734	14,635	4,667	6,191	9,379	56,606
1995	19,775	9,905	10,175	8,629	8,789	57,273
1994	17,593	3,796	9,006	7,719	8,221	46,335
1993	4,496	3,557	4,684	0	8,659	21,396
1992	6,587	4,124	3,189	0	5,674	19,574
1991	2,954	2,416	2,195	0	2,271	9,836
1990	5,329	1,780	951	0	1,808	9,868
1989	5,158	1,107	0	0	2,073	8,338
1988	4,125	481	0	0	683	5,289
1987	2,559	25	0	0	884	3,468
1986	1,530	0	0	0	245	1,775
1985	1,391	0	0	0	75	1,466
1984	1,575	0	0	0	265	1,840
1983	1,462	0	0	0	227	1,689
1982	1,799	0	0	0	631	2,430
1981	Not Available	Not Available	Not Available	Not Available	Not Available	1,047
1980	Before 1982	Before 1982	Before 1982	Before 1982	Before 1982	1,556
1979						843
1978						834
1977						318
1976						245
1975						239
1974						466
1973						227
1972						268
1971						349

Source: Fannie Mae

<sup>1</sup> Prior to 1982, the majority of non-mortgage investments were comprised of U.S. government securities and agency securities.

<sup>2</sup> As of 1999, Repurchase Agreements consist primarily of overnight investments that mature daily. Values for 1999 through 2003 exclude securities included in "Loans held for securitization and sale" and the retained mortgage portfolio.

**Table 8. Fannie Mae Asset - Liability Mix**

End of Period	Asset - Liability Ratios			
	Asset Mix		Liability Mix	
	Total Retained Mortgage Portfolio / Total Assets (%)	Non-Mortgage Investments / Total Assets (%)	Callable Debt / Total Effective Long-Term Debt <sup>1</sup> (%)	Total Effective Long-Term Debt / Total Debt <sup>2</sup> (%)
4Q03	89.3	5.9	73.9	72.6
3Q03	90.4	5.0	74.7	71.1
2Q03	89.1	5.8	82.8	65.6
1Q03	90.3	5.1	50.8	79.4
Annual Data				
2003	89.3	5.9	73.9	72.6
2002	90.3	4.4	73.5	76.6
2001	88.4	8.2	48.2	82.2
2000	90.0	7.8	45.4	84.6
1999	90.9	6.5	45.0	87.1
1998	85.6	12.1	42.9	76.4
1997	80.8	16.5	46.4	79.4
1996	81.6	16.1	47.5	80.5
1995	79.9	18.1	48.0	73.9
1994	81.0	17.0	54.6	72.6
1993	87.6	9.9	58.1	80.0
1992	86.3	10.8	48.8	77.9
1991	86.1	6.7	36.0	85.5
1990	85.7	7.4	21.9	82.6
1989	86.9	6.7	10.1	80.1
1988	89.2	4.7	3.6	78.7
1987	90.5	3.4	Not Available	Not Available
1986	94.5	1.8	Before 1988	Before 1988
1985	95.5	1.5		
1984	95.8	2.1		
1983	96.0	2.2		
1982	95.0	3.3		
1981	96.8	1.7		
1980	96.0	2.7		
1979	97.0	1.6		
1978	96.8	1.9		
1977	97.9	0.9		
1976	98.1	0.8		
1975	97.5	0.8		
1974	96.6	1.6		
1973	97.0	1.0		
1972	96.6	1.3		
1971	96.2	1.8		

Source: Fannie Mae

<sup>1</sup> In 1999 through 2003, pay-fixed swaptions are included in callable debt. Previous periods have not been restated.

<sup>2</sup> Total effective long-term debt represents debt with an effective repricing date greater than one year.

**Table 9. Fannie Mae Mortgage Asset Quality**

End of Period	Mortgage Asset Quality					
	Single-Family Delinquency Rate <sup>1</sup> (%)	Multifamily Delinquency Rate <sup>2</sup> (%)	Credit Losses / Total MBS Outstanding Plus Retained Mortgage Portfolio <sup>3</sup> (%)	REO /Total MBS Outstanding Plus Retained Mortgage Portfolio <sup>4</sup> (%)	Credit-Enhanced Outstanding / Total MBS Outstanding Plus Retained Mortgage Portfolio <sup>5</sup> (%)	
4Q03	0.60	0.27	0.01	0.07	24.3	
3Q03	0.58	0.12	0.01	0.06	24.5	
2Q03	0.56	0.13	0.00	0.06	25.7	
1Q03	0.57	0.09	0.00	0.06	27.7	
Annual Data						
2003	0.60	0.27	0.01	0.07	24.3	
2002	0.57	0.05	0.01	0.06	29.6	
2001	0.55	0.27	0.01	0.04	34.2	
2000	0.45	0.07	0.01	0.05	40.4	
1999	0.47	0.11	0.01	0.06	20.9	
1998	0.56	0.23	0.03	0.08	17.5	
1997	0.62	0.37	0.04	0.10	12.8	
1996	0.58	0.68	0.05	0.11	10.5	
1995	0.56	0.81	0.05	0.08	10.6	
1994	0.47	1.21	0.06	0.10	10.2	
1993	0.48	2.34	0.04	0.10	10.6	
1992	0.53	2.65	0.04	0.09	15.6	
1991	0.64	3.62	0.04	0.07	22.0	
1990	0.58	1.70	0.06	0.09	25.9	
1989	0.69	3.20	0.07	0.14	Not Available	
1988	0.88	6.60	0.11	0.15	Before 1990	
1987	1.12	Not Available	0.11	0.18		
1986	1.38	Before 1988	0.12	0.22		
1985	1.48		0.13	0.32		
1984	1.65		0.09	0.33		
1983	1.49		0.05	0.35		
1982	1.41		0.01	0.20		
1981	0.96		0.01	0.13		
1980	0.90		0.01	0.09		
1979	0.56		0.02	0.11		
1978	0.55		0.02	0.18		
1977	0.46		0.02	0.26		
1976	1.58		0.03	0.27		
1975	0.56		0.03	0.51		
1974	0.51		0.02	0.52		
1973	Not Available		0.00	0.61		
1972	Before 1974		0.02	0.98		
1971			0.01	0.59		

Source: Fannie Mae

<sup>1</sup> Beginning with 1998, data include all seriously delinquent conventional loans with and without third-party credit enhancement. Prior to 1998, data include loans for which Fannie Mae has primary risk of loss. Data prior to 1992 include loans in relief or bankruptcy, even if they are less than 90 days delinquent.

<sup>2</sup> Beginning in 1998, data include all loans that are two or more months delinquent. Data prior to 1998 include loans for which Fannie Mae has primary risk of loss.

<sup>3</sup> Credit losses are charge-offs plus real estate owned expense; average balances used to calculate ratios subsequent to 1994; quarterly data are annualized.

<sup>4</sup> Real Estate Owned balances reflect end-of-period amounts. Beginning with 1995, data reflect adoption of SFAS 114.

<sup>5</sup> Beginning in 2000, "credit-enhanced" includes primary mortgage insurance. Prior to 2000, "credit-enhanced" reflects the proportion of the retained mortgage portfolio with additional recourse from a third party to accept some or all of the expected losses on defaulted mortgages.

Table 10. Fannie Mae Capital

End of Period	Capital (\$ in Millions)										
	Minimum Capital Requirement			Risk-Based Capital Requirement				Market Capitalization <sup>6</sup> (\$)	Core Capital / Total Assets (%)	Core Capital / Total MBS Outstanding Plus Total Assets (%)	Common Share Dividend Payout Rate <sup>7</sup> (%)
	Core Capital (\$)	Minimum Capital Requirement <sup>1</sup> (\$)	Minimum Capital Surplus (Deficit) <sup>2</sup> (\$)	Total Capital <sup>3</sup> (\$)	Risk-Based Capital Requirement <sup>4</sup> (\$)	Risk-Based Capital Surplus (Deficit) <sup>5</sup> (\$)					
4Q03	34,405	31,520	2,885	35,182	27,221	7,960	72,838	3.41	1.49	25.3	
3Q03	32,752	31,435	1,316	33,542	27,853	5,689	68,173	3.21	1.47	24.6	
2Q03	30,675	29,147	1,527	31,469	18,114	13,355	65,845	3.32	1.42	20.9	
1Q03	29,517	28,226	1,291	30,309	16,555	13,753	64,106	3.23	1.46	21.2	
Annual Data											
2003	34,405	31,520	2,885	35,182	27,221	7,960	72,838	3.41	1.49	23.0	
2002	28,079	27,203	877	28,871	17,434	11,437	63,612	3.16	1.46	20.9	
2001	25,182	24,182	1,000	25,976	Not Applicable	Not Applicable	79,281	3.15	1.52	23.0	
2000	20,827	20,294	533	21,634	Before 2002	Before 2002	86,643	3.08	1.51	26.0	
1999	17,876	17,770	106	18,677			63,651	3.11	1.42	28.8	
1998	15,465	15,334	131	16,257			75,881	3.19	1.38	29.5	
1997	13,793	12,703	1,090	14,575			59,167	3.52	1.42	29.4	
1996	12,773	11,466	1,307	13,520			39,932	3.64	1.42	30.4	
1995	10,959	10,451	508	11,703			33,812	3.46	1.32	34.6	
1994	9,541	9,416	126	10,368			19,882	3.50	1.26	30.8	
1993	8,052	7,876	176	8,893			21,387	3.71	1.17	26.8	
1992	Not Applicable	Not Applicable	Not Applicable				20,874	Not Applicable	Not Applicable	23.2	
1991	Before 1993	Before 1993	Before 1993				18,836	Before 1993	Before 1993	21.3	
1990							8,490			14.7	
1989							8,092			12.8	
1988							3,992			11.2	
1987							2,401			11.7	
1986							3,006			8.0	
1985							1,904			30.1	
1984							1,012			Not Applicable	
1983							1,514			13.9	
1982							1,603			Not Applicable	
1981							502			Not Applicable	
1980							702			464.2	
1979							Not Available			45.7	
1978							Before 1980			30.3	
1977										31.8	
1976										33.6	
1975										31.8	
1974										29.6	
1973										18.1	
1972										15.2	
1971										18.7	

Source: Fannie Mae and OFHEO

<sup>1</sup> Minimum Capital Requirement in accordance with the Federal Housing Enterprise Financial Safety and Soundness Act of 1992.

<sup>2</sup> The difference between Core Capital and Minimum Capital Requirement.

<sup>3</sup> Total Capital is Core Capital plus the total allowance for loan losses and guaranty liability for MBS, less any specific loss allowances.

<sup>4</sup> The Risk-Based Capital Requirement is the amount of Total Capital that an Enterprise must hold to absorb projected losses flowing from future adverse interest rate and credit risk conditions and is specified by the Federal Housing Enterprise Financial Safety and Soundness Act of 1992.

<sup>5</sup> The difference between Total Capital and the Risk-Based Capital Requirement.

<sup>6</sup> Stock price at the end of the period multiplied by number of outstanding common shares.

<sup>7</sup> Common dividends paid as a percentage of core net income available to common stockholders.



Table 11. Freddie Mac Mortgage Purchases<sup>1,2</sup>

Period	Business Activity (\$ in Millions)			
	Purchases <sup>3</sup>			
	Single-Family (\$)	Multifamily (\$)	Total Mortgages <sup>4</sup> (\$)	Mortgage-Related Securities <sup>5</sup> (\$)
4Q03	N/A	N/A	N/A	N/A
3Q03	N/A	N/A	N/A	N/A
2Q03	N/A	N/A	N/A	N/A
1Q03	N/A	N/A	N/A	N/A
Annual Data				
2003	N/A	N/A	N/A	N/A
2002	547,701	10,654	558,355	284,902
2001	393,155	9,510	402,665	239,435
2000	168,013	6,030	174,043	91,896
1999	232,612	7,181	239,793	101,898
1998	263,490	3,910	267,400	128,446
1997	115,160	2,241	117,401	35,385
1996	122,850	2,229	125,079	36,824
1995	89,971	1,565	91,536	39,292
1994	122,563	847	123,410	19,817
1993	229,051	191	229,242	Not Available
1992	191,099	27	191,126	Before 1994
1991	99,729	236	99,965	
1990	74,180	1,338	75,518	
1989	76,765	1,824	78,589	
1988	42,884	1,191	44,075	
1987	74,824	2,016	76,840	
1986	99,936	3,538	103,474	
1985	42,110	1,902	44,012	
1984	Not Available	Not Available	21,885	
1983	Before 1985	Before 1985	22,952	
1982			23,671	
1981			3,744	
1980			3,690	
1979			5,716	
1978			6,524	
1977			4,124	
1976			1,129	
1975			1,716	
1974			2,185	
1973			1,334	
1972			1,265	
1971			778	

Source: Freddie Mac

N/A = not available

<sup>1</sup> Freddie Mac has not yet released its financial results for 2003. Amounts for that year are not available.

<sup>2</sup> For the periods 2001 and 2002, data are based on restated and revised financial results.

<sup>3</sup> Based on unpaid principal balances and excludes mortgage loans and mortgage-related securities traded, but not yet settled.

<sup>4</sup> Cash purchases plus securitizations; excludes non-Freddie Mac mortgage-related securities and repurchased Freddie Mac MBS.

<sup>5</sup> Not included in total mortgages. Includes purchases of Freddie Mac MBS for the retained mortgage portfolio.

Table 11a. Freddie Mac Mortgage Purchases Detail, By Type of Loan - Part 1, Single-Family<sup>1,2</sup>

Period	Purchases (\$ in millions) <sup>3,4</sup>									
	Single-Family Mortgages								Total Single-Family Mortgages (\$)	Total Mortgage Purchases (\$)
	Conventional				FHAVA					
	Fixed-Rate (\$)	Adjustable-Rate (\$)	Seconds (\$)	Totals (\$)	Fixed-Rate (\$)	Adjustable-Rate (\$)	Total (\$)			
4Q03	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	
3Q03	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	
2Q03	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	
1Q03	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	
Annual Data										
2003	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	
2002	501,938	44,918	0	546,856	845	0	845	547,701	558,355	
2001	370,661	22,206	0	392,867	288	0	288	393,155	402,665	
2000	145,744	21,201	0	166,945	1,068	0	1,068	168,013	174,043	
1999	224,040	7,443	0	231,483	1,129	0	1,129	232,612	239,793	
1998	256,008	7,384	0	263,392	98	0	98	263,490	267,400	
1997	106,174	8,950	0	115,124	36	0	36	115,160	117,401	
1996	116,316	6,475	0	122,791	59	0	59	122,850	125,079	
1995	75,867	14,099	0	89,966	5	0	5	89,971	91,536	
1994	105,902	16,646	0	122,548	15	0	15	122,563	123,410	
1993	208,322	20,708	1	229,031	20	0	20	229,051	229,242	
1992	175,515	15,512	7	191,034	65	0	65	191,099	191,126	
1991	91,586	7,793	206	99,585	144	0	144	99,729	99,965	
1990	56,806	16,286	686	73,778	402	0	402	74,180	75,518	
1989	57,100	17,835	1,206	76,141	624	0	624	76,765	78,589	
1988	34,737	7,253	59	42,049	835	0	835	42,884	44,075	
1987	69,148	4,779	69	73,996	828	0	828	74,824	76,840	
1986	96,105	2,262	90	98,457	1,479	0	1,479	99,936	103,474	
1985	40,226	605	34	40,865	1,245	0	1,245	42,110	44,012	
1984	Not Available	Not Available	Not Available	Not Available	Not Available	Not Available	Not Available	Not Available	Not Available	
	Before 1985	Before 1985	Before 1985	Before 1985	Before 1985	Before 1985	Before 1985	Before 1985	Before 1985	

Source: Freddie Mac

N/A = not available

<sup>1</sup> Freddie Mac has not yet released its financial results for 2003. Amounts for that year are not available.

<sup>2</sup> For the periods 2001 and 2002, data are based on restated and revised financial results.

<sup>3</sup> Based on unpaid principal balances and excludes mortgage loans and mortgage-related securities traded, but not yet settled.

<sup>4</sup> Cash purchases plus securitizations; excludes non-Freddie Mac mortgage-related securities and repurchased Freddie Mac MBS.

**Table 11a. Freddie Mac Mortgage Purchases Detail, By Type of Loan - Part 2, Multifamily<sup>1,2</sup>**

Period	Purchases (\$ in millions) <sup>3,4</sup>			
	Multifamily Mortgages			Total Mortgage Purchases (\$)
	Conventional (\$)	FHA/ RHS (\$)	Total Multifamily Mortgages (\$)	
4Q03	N/A	N/A	N/A	N/A
3Q03	N/A	N/A	N/A	N/A
2Q03	N/A	N/A	N/A	N/A
1Q03	N/A	N/A	N/A	N/A
Annual Data				
2003	N/A	N/A	N/A	N/A
2002	10,654	0	10,654	558,355
2001	9,507	3	9,510	402,665
2000	6,030	0	6,030	174,043
1999	7,181	0	7,181	239,793
1998	3,910	0	3,910	267,400
1997	2,241	0	2,241	117,401
1996	2,229	0	2,229	125,079
1995	1,565	0	1,565	91,536
1994	847	0	847	123,410
1993	191	0	191	229,242
1992	27	0	27	191,126
1991	236	0	236	99,965
1990	1,338	0	1,338	75,518
1989	1,824	0	1,824	78,589
1988	1,191	0	1,191	44,075
1987	2,016	0	2,016	76,840
1986	3,538	0	3,538	103,474
1985	1,902	0	1,902	44,012
1984	Not Available	Not Available	Not Available	Not Available
	Before 1985	Before 1985	Before 1985	Before 1985

Source: Freddie Mac

N/A = not available

<sup>1</sup> Freddie Mac has not yet released its financial results for 2003. Amounts for that year are not available.

<sup>2</sup> For the periods 2001 and 2002, data are based on restated and revised financial results.

<sup>3</sup> Based on unpaid principal balances and excludes mortgage loans and mortgage-related securities traded, but not yet settled.

<sup>4</sup> Cash purchases plus securitizations; excludes non-Freddie Mac mortgage-related securities and repurchased Freddie Mac MBS.

**Table 11b. Freddie Mac Purchases of Mortgage-Related Securities<sup>1,2</sup>**

Purchases (\$ in Millions) <sup>3</sup>								
Period	Enterprise Securities (\$)	Others' Securities					Mortgage Revenue Bonds (\$)	Total Mortgage-Related Securities (\$)
		Fannie Mae (\$)	Ginnie Mae (\$)	Private-Label				
				Manufactured Housing (\$)	Other <sup>4</sup> (\$)	Total Private-Label (\$)		
4Q03	36,051	N/A	N/A	N/A	N/A	N/A	N/A	N/A
3Q03	120,669	N/A	N/A	N/A	N/A	N/A	N/A	N/A
2Q03	53,294	N/A	N/A	N/A	N/A	N/A	N/A	N/A
1Q03	48,786	N/A	N/A	N/A	N/A	N/A	N/A	N/A
Annual Data								
2003	258,800	N/A	N/A	N/A	N/A	N/A	N/A	N/A
2002	192,817	45,798	820	969	43,635	44,604	863	284,902
2001	157,339	64,508	1,444	0	15,437	15,437	707	239,435
2000	58,516	18,249	3,339	15	10,289	10,304	1,488	91,896
1999	69,219	12,392	3,422	3,293	11,970	15,263	1,602	101,898
1998	107,508	3,126	319	1,630	14,081	15,711	1,782	128,446
1997	31,296	897	326	36	1,458	1,494	1,372	35,385
1996	33,338	Not Available	Not Available	Not Available	Not Available	Not Available	Not Available	36,824
1995	32,534	Before 1997	Before 1997	Before 1997	Before 1997	Before 1997	Before 1997	39,292
1994	19,817							19,817
1993	Not Available							Not Available
	Before 1994							Before 1994

Source: Freddie Mac

N/A = not available

<sup>1</sup> Freddie Mac has not yet released its financial results for 2003. Amounts for that year are not available or are subject to change.

<sup>2</sup> For the periods 2001 and 2002, data are based on restated and revised financial results.

<sup>3</sup> Based on unpaid principal balances and excludes mortgage loans and mortgage-related securities traded, but not yet settled.

<sup>4</sup> Includes Home Equity securities.

Table 12. Freddie Mac MBS Issuances<sup>1, 2</sup>

Period	Business Activity (\$ in Millions)			
	MBS Issuances <sup>3</sup>			
	Single Family MBS (\$)	Multifamily MBS (\$)	Total MBS <sup>4</sup> (\$)	Multiclass MBS <sup>5</sup> (\$)
4Q03	N/A	N/A	142,767	53,218
3Q03	N/A	N/A	245,394	63,291
2Q03	N/A	N/A	176,036	74,471
1Q03	N/A	N/A	149,063	107,138
Annual Data				
2003	N/A	N/A	713,260	298,118
2002	543,451	3,596	547,047	331,672
2001	387,234	2,357	389,591	192,437
2000	165,115	1,786	166,901	48,202
1999	230,986	2,045	233,031	119,565
1998	249,627	937	250,564	135,162
1997	113,758	500	114,258	84,366
1996	118,932	770	119,702	34,145
1995	85,522	355	85,877	15,372
1994	116,901	209	117,110	73,131
1993	208,724	0	208,724	143,336
1992	179,202	5	179,207	131,284
1991	92,479	0	92,479	72,032
1990	71,998	1,817	73,815	40,479
1989	72,931	587	73,518	39,754
1988	39,490	287	39,777	12,985
1987	72,866	2,152	75,018	0
1986	96,798	3,400	100,198	2,233
1985	37,583	1,245	38,828	2,625
1984	Not Available	Not Available	18,684	1,805
1983	Before 1985	Before 1985	19,691	1,685
1982			24,169	Not Issued
1981			3,526	Before 1983
1980			2,526	
1979			4,546	
1978			6,412	
1977			4,657	
1976			1,360	
1975			950	
1974			46	
1973			323	
1972			494	
1971			65	

Source: Freddie Mac

N/A = not available

<sup>1</sup> Freddie Mac has not yet released its financial results for 2003. Amounts for that year are not available or are subject to change.

<sup>2</sup> For the periods 2001 and 2002, data are based on restated and revised financial results.

<sup>3</sup> Based on unpaid principal balances and excludes mortgage loans and mortgage-related securities traded, but not yet settled.

<sup>4</sup> Amounts include single-class MBS and multiclass MBS backed by private-label mortgage-related securities, but exclude securities issued by Freddie Mac that are backed by Ginnie Mae MBS.

<sup>5</sup> The majority qualify as Real Estate Mortgage Investment Conduits (REMICs) and are also known as structured securitizations.

**Table 13. Freddie Mac Earnings** <sup>1,2</sup>

Period	Earnings (\$ in Millions)						
	Net Interest Income (\$)	Guarantee Fee Income (\$)	Average Guarantee Fee (basis points)	Administrative Expenses (\$)	Credit-Related Expenses (\$)	Net Income (\$)	Return on Equity <sup>3</sup> (%)
4Q03	N/A	N/A	N/A	N/A	N/A	N/A	N/A
3Q03	N/A	N/A	N/A	N/A	N/A	N/A	N/A
2Q03	N/A	N/A	N/A	N/A	N/A	N/A	N/A
1Q03	N/A	N/A	N/A	N/A	N/A	N/A	N/A
Annual Data							
2003	N/A	N/A	N/A	N/A	N/A	N/A	N/A
2002	8,886	1,516	22	1,406	115	10,090	47
2001	6,992	1,392	24	1,024	39	3,158	20
2000	3,758	1,252	24	825	75	3,666	39
1999	2,926	1,019	20	655	159	2,223	26
1998	2,215	1,019	21	578	342	1,700	23
1997	1,847	1,082	23	495	529	1,395	23
1996	1,705	1,086	23	440	608	1,243	23
1995	1,396	1,087	24	395	541	1,091	22
1994	1,112	1,108	24	379	425	983	23
1993	772	1,009	24	361	524	786	22
1992	695	936	25	329	457	622	21
1991	683	792	24	287	419	555	24
1990	619	654	22	243	474	414	20
1989	517	572	23	217	278	437	25
1988	492	465	22	194	219	381	28
1987	319	472	24	150	175	301	28
1986	299	301	22	110	120	247	29
1985	312	188	22	81	79	208	30
1984	213	158	25	71	54	144	52
1983	125	132	26	53	46	86	45
1982	30	77	25	37	26	60	22
1981	34	36	20	30	16	31	13
1980	54	23	14	26	23	34	15
1979	55	18	13	19	20	36	16
1978	37	14	15	14	13	25	13
1977	31	9	19	12	8	21	12
1976	18	3	14	10	-1	14	10
1975	31	3	25	10	11	16	12
1974	42	2	26	8	33	5	4
1973	31	2	32	7	15	12	10
1972	10	1	39	5	4	4	4
1971	10	1	Not Available Before 1972	Not Available Before 1972	Not Available Before 1972	6	6

Source: Freddie Mac

N/A = not available

<sup>1</sup> Freddie Mac has not yet released its financial results for 2003. Amounts for that year are not available.

<sup>2</sup> For periods 2000 to 2002, data are based on restated and revised financial results.

<sup>3</sup> Ratio computed as annualized Net income available to common stockholders divided by the simple average of beginning and ending Stockholders' equity, net of Preferred stock (at redemption value).

Table 14. Freddie Mac Balance Sheet <sup>1, 2</sup>

End of Period	Balance Sheet (\$ in Millions)							Mortgage-Backed Securities Outstanding (\$ in Millions) <sup>3</sup>	
	Total Assets (\$)	Retained Mortgage Portfolio <sup>4</sup> (\$)	Non-Mortgage Investments (\$)	Debt Outstanding (\$)	Stockholders' Equity (\$)	Core Capital <sup>5</sup> (\$)	Fair Value of Net Assets <sup>6</sup> (\$)	Total MBS Outstanding <sup>7</sup> (\$)	Multiclass MBS Outstanding <sup>8</sup> (\$)
4Q03	N/A	N/A	N/A	N/A	N/A	N/A	N/A	772,816	N/A
3Q03	N/A	N/A	N/A	N/A	N/A	N/A	N/A	715,406	N/A
2Q03	N/A	N/A	N/A	N/A	N/A	N/A	N/A	726,636	N/A
1Q03	N/A	N/A	N/A	N/A	N/A	N/A	N/A	744,134	N/A
Annual Data									
2003	N/A	N/A	N/A	N/A	N/A	N/A	N/A	772,816	N/A
2002	752,249	589,899	91,871	665,696	31,330	28,990	22,900	749,337	333,285
2001	641,100	503,769	89,849	578,368	19,624	20,181	18,300	653,084	299,652
2000	459,297	385,451	43,521	426,899	14,837	14,380	Not Available	576,101	309,185
1999	386,684	322,914	34,152	360,711	11,525	12,692	Before 2001	537,883	316,168
1998	321,421	255,670	42,160	287,396	10,835	10,715		478,351	260,504
1997	194,597	164,543	16,430	172,842	7,521	7,376		475,985	233,829
1996	173,866	137,826	22,248	156,981	6,731	6,743		473,065	237,939
1995	137,181	107,706	12,711	119,961	5,863	5,829		459,045	246,366
1994	106,199	73,171	17,808	93,279	5,162	5,169		460,656	264,152
1993	83,880	55,938	18,225	49,993	4,437	4,437		439,029	265,178
1992	59,502	33,629	12,542	29,631	3,570	Not Applicable		407,514	218,747
1991	46,860	26,667	9,956	30,262	2,566	Before 1993		359,163	146,978
1990	40,579	21,520	12,124	30,941	2,136			316,359	88,124
1989	35,462	21,448	11,050	26,147	1,916			272,870	52,865
1988	34,352	16,918	14,607	26,882	1,584			226,406	15,621
1987	25,674	12,354	10,467	19,547	1,182			212,635	3,652
1986	23,229	13,093	Not Available	15,375	953			169,186	5,333
1985	16,587	13,547	Before 1987	12,747	779			99,909	5,047
1984	13,778	10,018		10,999	606			70,026	3,214
1983	8,995	7,485		7,273	421			57,720	1,669
1982	5,999	4,679		4,991	296			42,952	Not Issued
1981	6,326	5,178		5,680	250			19,897	Before 1983
1980	5,478	5,006		4,886	221			16,962	
1979	4,648	4,003		4,131	238			15,316	
1978	3,697	3,038		3,216	202			12,017	
1977	3,501	3,204		3,110	177			6,765	
1976	4,832	4,175		4,523	156			2,765	
1975	5,899	4,878		5,609	142			1,643	
1974	4,901	4,469		4,684	126			780	
1973	2,873	2,521		2,696	121			791	
1972	1,772	1,726		1,639	110			444	
1971	1,038	935		915	107			64	

Source: Freddie Mac

N/A = not available

<sup>1</sup> Freddie Mac has not yet released its financial results for 2003. Amounts for that year are not available or are subject to change.

<sup>2</sup> For the periods 2001 and 2002, data are based on restated and revised financial results.

<sup>3</sup> Based on unpaid principal balances and excludes mortgage loans and mortgage-related securities traded, but not yet settled.

<sup>4</sup> Excludes "Reserve for losses on mortgage loans held for investment."

<sup>5</sup> The sum of (a) the stated value of outstanding common stock, (b) the stated value of outstanding noncumulative perpetual preferred stock, (c) paid-in capital, and (d) retained earnings, less treasury stock.

<sup>6</sup> The valuation of financial instruments is in accordance with GAAP fair value guidelines prescribed by SFAS 107.

<sup>7</sup> Total Freddie Mac MBS outstanding net of Freddie Mac MBS held in the retained mortgage portfolio.

<sup>8</sup> Total multiclass MBS outstanding net of repurchased multiclass MBS in the retained mortgage portfolio.

**Table 14a. Freddie Mac Total MBS Outstanding Detail** <sup>1,2</sup>

Period	Single-Family Mortgages (\$ in Millions) <sup>3</sup>					Multifamily Mortgages (\$ in Millions) <sup>3</sup>				Total MBS Outstanding <sup>5</sup> (\$)
	Conventional				Total FHA/VA <sup>4</sup> (\$)	Conventional (\$)	FHA/RHS (\$)	Multifamily Mortgages (\$)		
	Fixed-Rate (\$)	Adjustable-Rate (\$)	Seconds (\$)	Total (\$)						
4Q03	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	772,816
3Q03	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	715,406
2Q03	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	726,636
1Q03	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	744,134
Annual Data										
2003	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	772,816
2002	690,206	36,889	5	727,100	13,507	8,730	0	8,730	749,337	
2001	609,290	22,525	10	631,825	14,127	7,132	0	7,132	653,084	
2000	533,331	36,266	18	569,615	778	5,708	0	5,708	576,101	
1999	499,671	33,094	29	532,794	627	4,462	0	4,462	537,883	
1998	Not Available	Not Available	Not Available	Not Available	Not Available	Not Available	Not Available	Not Available	Not Available	478,351
1997	Before 1999	Before 1999	Before 1999	Before 1999	Before 1999	Before 1999	Before 1999	Before 1999	Before 1999	475,985
1996										473,065
1995										459,045
1994										460,656
1993										439,029
1992										407,514
1991										359,163
1990										316,359
1989										272,870
1988										226,406
1987										212,635
1986										169,186
1985										99,909
1984										70,026
1983										57,720
1982										42,952
1981										19,897
1980										16,962
1979										15,316
1978										12,017
1977										6,765
1976										2,765
1975										1,643
1974										780
1973										791
1972										444
1971										64

Source: Freddie Mac

N/A = not available

<sup>1</sup> Freddie Mac has not yet released its financial results for 2003. Amounts for that year are not available or are subject to change.

<sup>2</sup> For the periods 2001 and 2002, data are based on restated and revised financial results.

<sup>3</sup> Based on unpaid principal balances.

<sup>4</sup> All fixed-rate.

<sup>5</sup> Total Freddie Mac MBS outstanding net of Freddie Mac MBS held in the retained mortgage portfolio.



**Table 15. Freddie Mac Retained Mortgage Portfolio Detail** <sup>1,2</sup>

End of Period	(\$ in Millions)				
	Whole Loans <sup>3</sup> (\$)	Freddie Mac Securities <sup>3,4</sup> (\$)	Other Mortgage-Related Securities <sup>3</sup> (\$)	Unamortized Premiums, Discounts, Deferred Fees, Plus Unrealized Gains/Losses on Available-for-Sale Securities <sup>4</sup> (\$)	Total Retained Mortgage Portfolio <sup>5</sup> (\$)
4Q03	59,776	392,931	191,729	N/A	N/A
3Q03	61,080	389,028	190,932	N/A	N/A
2Q03	65,249	333,066	187,145	N/A	N/A
1Q03	63,858	337,443	167,320	N/A	N/A
Annual Data					
2003	59,776	392,931	191,729	N/A	N/A
2002	63,886	341,287	162,099	22,627	589,899
2001	62,792	308,427	126,420	6,130	503,769
2000	59,240	246,209	80,244	(242)	385,451
1999	56,676	211,198	56,569	(1,529)	322,914
1998	57,084	168,108	29,817	661	255,670
1997	48,454	103,400	Not Available	122	164,543
1996	46,504	81,195	Before 1998	71	137,826
1995	43,753	56,006		282	107,706
1994	Not Available	30,670		Not Available	73,171
1993	Before 1995	15,877		Before 1995	55,938
1992		6,394			33,629
1991		Not Available			26,667
1990		Before 1992			21,520
1989					21,448
1988					16,918
1987					12,354
1986					13,093
1985					13,547
1984					10,018
1983					7,485
1982					4,679
1981					5,178
1980					5,006
1979					4,003
1978					3,038
1977					3,204
1976					4,175
1975					4,878
1974					4,469
1973					2,521
1972					1,726
1971					935
1970					

Source: Freddie Mac

N/A = not available

<sup>1</sup> Freddie Mac has not yet released its financial results for 2003. Amounts for that year are not available or are subject to change.

<sup>2</sup> For the periods 2001 and 2002, data are based on restated and revised financial results.

<sup>3</sup> Based on unpaid principal balances and excludes mortgage loans and mortgage-related securities traded, but not yet settled.

<sup>4</sup> Includes premiums, discounts, deferred fees and other basis adjustments on mortgage loans and mortgage-related securities plus unrealized gains or losses on mortgage-related securities and MBS residuals.

<sup>5</sup> Excludes "Reserve for losses on mortgage loans held for investment."

**Table 15a. Freddie Mac Retained Mortgage Portfolio Detail - Part 1a, Whole Loans <sup>1,2</sup>**

End of Period	Whole Loans (\$ in Millions) <sup>3</sup>					Total FHA/VA (\$)
	Single-Family					
	Conventional					
	Fixed-Rate (\$)	Adjustable-Rate (\$)	Seconds (\$)	Total (\$)		
4Q03	N/A	N/A	N/A	N/A	N/A	
3Q03	N/A	N/A	N/A	N/A	N/A	
2Q03	N/A	N/A	N/A	N/A	N/A	
1Q03	N/A	N/A	N/A	N/A	N/A	
Annual Data						
2003	N/A	N/A	N/A	N/A	N/A	
2002	33,816	1,321	3	35,140	710	
2001	38,267	1,073	5	39,345	964	
2000	39,537	2,125	9	41,671	1,200	
1999	43,210	1,020	14	44,244	77	
1998	47,754	1,220	23	48,997	109	
1997	40,967	1,478	36	42,481	148	
1996	Not Available	Not Available	Not Available	Not Available	Not Available	
1995	Before 1997	Before 1997	Before 1997	Before 1997	Before 1997	

Source: Freddie Mac

N/A = not available

<sup>1</sup> Freddie Mac has not yet released its financial results for 2003. Amounts for that year are not available or are subject to change.

<sup>2</sup> For the periods 2001 and 2002, data are based on restated and revised financial results.

<sup>3</sup> Based on unpaid principal balances.

**Table 15a. Freddie Mac Retained Mortgage Portfolio Detail - Part 1b, Whole Loans<sup>1,2</sup>**

End of Period	Whole Loans (\$ in Millions) <sup>3</sup>				
	Multifamily			Total (\$)	Total Whole Loans (\$)
	Conventional (\$)	FHA/RHS (\$)			
4Q03	N/A	N/A		N/A	59,776
3Q03	N/A	N/A		N/A	61,080
2Q03	N/A	N/A		N/A	65,249
1Q03	N/A	N/A		N/A	63,858
Annual Data					
2003	N/A	N/A		N/A	59,776
2002	28,033	3		28,036	63,886
2001	22,480	3		22,483	62,792
2000	16,369	Not Available		16,369	59,240
1999	12,355	Before 2001		12,355	56,676
1998	7,978			7,978	57,084
1997	5,825			5,825	48,454
1996	4,746			4,746	46,504
1995	3,852			3,852	43,753
1994	Not Available			Not Available	Not Available
1993	Before 1995			Before 1995	Before 1995

Source: Freddie Mac

N/A = not available

<sup>1</sup> Freddie Mac has not yet released its financial results for 2003. Amounts for that year are not available or are subject to change.

<sup>2</sup> For the periods 2001 and 2002, data are based on restated and revised financial results.

<sup>3</sup> Based on unpaid principal balances.

Table 15a. Freddie Mac Retained Mortgage Portfolio Detail - Part 2a, Mortgage-Related Securities<sup>1,2</sup>

End of Period	Mortgage-Related Securities (\$ in Millions)						
	Total Enterprise Securities <sup>3</sup> (\$)	Others' Securities <sup>3</sup>					Total Others' Securities (\$)
		Fannie Mae (\$)	Ginnie Mae (\$)	Private-Label			
				Manufactured Housing (\$)	Other <sup>4</sup> (\$)	Total Private-Label (\$)	
4Q03	392,931	N/A	N/A	N/A	N/A	N/A	N/A
3Q03	389,028	N/A	N/A	N/A	N/A	N/A	N/A
2Q03	333,066	N/A	N/A	N/A	N/A	N/A	N/A
1Q03	337,443	N/A	N/A	N/A	N/A	N/A	N/A
Annual Data							
2003	392,931	N/A	N/A	N/A	N/A	N/A	N/A
2002	341,287	78,829	4,878	2,394	68,358	70,752	154,459
2001	308,427	71,128	5,699	2,462	39,874	42,336	119,163
2000	246,209	28,303	8,991	2,896	33,101	35,997	73,291
1999	211,198	13,245	6,615	4,693	26,326	31,019	50,879
1998	168,108	3,749	4,458	1,711	15,259	16,970	25,177
1997	103,400	Not Available	6,393	Not Available	Not Available	Not Available	Not Available
1996	81,195	Before 1998	7,434	Before 1998	Before 1998	Before 1998	Before 1998
1995	56,006		Not Available				
1994	30,670		Before 1996				
1993	15,877						
1992	6,394						
1991	Not Available						
1990	Before 1992						

Source: Freddie Mac

N/A = not available

<sup>1</sup> Freddie Mac has not yet released its financial results for 2003. Amounts for that year are not available or are subject to change.

<sup>2</sup> For the periods 2001 and 2002, data are based on restated and revised financial results.

<sup>3</sup> Based on unpaid principal balances.

<sup>4</sup> Includes Home Equity securities.

**Table 15a. Freddie Mac Retained Mortgage Portfolio Detail - Part 2b, Mortgage-Related Securities** <sup>1,2</sup>

End of Period	Mortgage-Related Securities (\$ in Millions)			Total Retained Mortgage Portfolio <sup>5</sup>
	Mortgage Revenue Bonds <sup>3</sup>	Unamortized Premiums, Discounts, Deferred Fees, Plus Unrealized Gains/Losses on Available-for-Sale Securities <sup>4</sup>	Total Mortgage-Related Securities <sup>4</sup>	
	(\$)	(\$)	(\$)	
4Q03	N/A	N/A	N/A	N/A
3Q03	N/A	N/A	N/A	N/A
2Q03	N/A	N/A	N/A	N/A
1Q03	N/A	N/A	N/A	N/A
Annual Data				
2003	N/A	N/A	N/A	N/A
2002	7,640	22,627	526,013	589,899
2001	7,257	6,130	440,977	503,769
2000	6,953	(242)	326,211	385,451
1999	5,690	(1,529)	266,238	322,914
1998	4,640	661	198,586	255,670
1997	3,031	122	Not Available	164,543
1996	1,787	71	Before 1998	137,826
1995	Not Available	282		107,706
1994	Before 1996	Not Available		73,171
1993		Before 1995		55,938
1992				33,629
1991				26,667
1990				21,520
1989				21,448
1988				16,918
1987				12,354
1986				13,093
1985				13,547
1984				10,018
1983				7,485
1982				4,679
1981				5,178
1980				5,006
1979				4,003
1978				3,038
1977				3,204
1976				4,175
1975				4,878
1974				4,469
1973				2,521
1972				1,726
1971				935

Source: Freddie Mac

N/A = not available

<sup>1</sup> Freddie Mac has not yet released its financial results for 2003. Amounts for that year are not available or are subject to change.

<sup>2</sup> For the periods 2001 and 2002, data are based on restated and revised financial results.

<sup>3</sup> Based on unpaid principal balances.

<sup>4</sup> Includes premiums, discounts, deferred fees and other basis adjustments on mortgage loans and mortgage-related securities plus unrealized gains or losses on mortgage-related securities and MBS residuals.

<sup>5</sup> Excludes "Reserve for losses on mortgage loans held for investment."

**Table 16. Freddie Mac Financial Derivatives<sup>1,2</sup>**

End of Period	Financial Derivatives - Notional Amount Outstanding (\$ in millions)									
	Interest Rate Swaps (\$)	Interest Rate Caps, Floors, and Corridors (\$)	Foreign Currency Contracts (\$)	OTC Futures, Options, and Forward Rate Agreements (\$)	Treasury-Based Contracts <sup>3</sup> (\$)	Exchange-Traded Futures, Options, and Other Derivatives (\$)	Credit Derivatives <sup>4</sup> (\$)	Commitments <sup>5</sup> (\$)	Other <sup>6</sup> (\$)	Total (\$)
4Q03	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A
3Q03	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A
2Q03	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A
1Q03	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A
Annual Data										
2003	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A
2002	290,096	11,663	43,687	277,869	17,900	210,646	17,301	191,563	117,219	1,177,944
2001	442,771	12,178	23,995	187,486	13,276	358,500	10,984	121,588	0	1,170,778
2000	277,888	12,819	10,208	113,064	2,200	22,517	0	Not Available	35,839	474,535
1999	126,580	19,936	1,097	172,750	8,894	94,987	0	Before 2001	0	424,244
1998	57,555	21,845	1,464	63,000	11,542	157,832	0		0	313,238
1997	54,172	21,995	1,152	6,000	12,228	0	0		0	95,547
1996	46,646	14,095	544	0	651	0	0		0	61,936
1995	45,384	13,055	0	0	24	0	0		0	58,463
1994	21,834	9,003	0	0	0	0	0		0	30,837
1993	17,888	1,500	0	0	0	0	0		0	19,388

Source: Freddie Mac

N/A = not available

<sup>1</sup> Freddie Mac has not yet released its financial results for 2003. Amounts for that year are not available.

<sup>2</sup> For the periods 2001 and 2002, data are based on restated and revised financial results.

<sup>3</sup> 2001 and 2002 amounts are exchange-traded.

<sup>4</sup> Amounts for years prior to 2001 included in "Other."

<sup>5</sup> Commitments to purchase and sell mortgage loans, mortgage-related securities and various debt securities. Amounts for years prior to 2001 included in "Other."

<sup>6</sup> For 2002, consists of a prepayment management agreement.

**Table 17. Freddie Mac Non-Mortgage Investments<sup>1,2</sup>**

End of Period	Non-Mortgage Investments (\$ in Millions)						Total (\$)
	Federal Funds and Eurodollars (\$)	Asset Backed Securities (\$)	Repurchase Agreements (\$)	Commercial Paper and Corporate Debt (\$)	Other <sup>3</sup> (\$)		
4Q03	N/A	N/A	N/A	N/A	N/A	N/A	N/A
3Q03	N/A	N/A	N/A	N/A	N/A	N/A	N/A
2Q03	N/A	N/A	N/A	N/A	N/A	N/A	N/A
1Q03	N/A	N/A	N/A	N/A	N/A	N/A	N/A
Annual Data							
2003	N/A	N/A	N/A	N/A	N/A	N/A	N/A
2002	6,129	34,790	16,914	13,050	20,988		91,871
2001	15,868	26,297	17,632	21,712	8,340		89,849
2000	2,267	19,063	7,488	7,302	7,401		43,521
1999	10,545	10,305	4,961	3,916	4,425		34,152
1998	20,524	7,124	1,756	7,795	4,961		42,160
1997	2,750	2,200	6,982	3,203	1,295		16,430
1996	9,968	2,086	6,440	1,058	2,696		22,248
1995	110	499	9,217	1,201	1,684		12,711
1994	7,260	0	5,913	1,234	3,401		17,808
1993	9,267	0	4,198	1,438	3,322		18,225
1992	5,632	0	4,060	53	2,797		12,542
1991	2,949	0	4,437	0	2,570		9,956
1990	1,112	0	9,063	0	1,949		12,124
1989	3,527	0	5,765	0	1,758		11,050
1988	4,469	0	9,107	0	1,031		14,607
1987	3,177	0	5,859	0	1,431		10,467

Source: Freddie Mac

N/A = not available

<sup>1</sup> Freddie Mac has not yet released its financial results for 2003. Amounts for that year are not available.

<sup>2</sup> For the periods 2001 and 2002, data are based on restated and revised financial results.

<sup>3</sup> Includes non-mortgage related securities classified as trading, debt securities issued by the U.S. Treasury and other U.S. government corporations and agencies, obligations of states and municipalities and preferred stock.

Table 18. Freddie Mac Asset Mix<sup>1,2</sup>

End of Period	Asset Ratios	
	Total Retained Mortgage Portfolio / Total Assets (%)	Non-Mortgage Investments / Total Assets (%)
4Q03	N/A	N/A
3Q03	N/A	N/A
2Q03	N/A	N/A
1Q03	N/A	N/A
Annual Data		
2003	N/A	N/A
2002	78.4	12.2
2001	78.6	14.0
2000	83.9	9.5
1999	83.5	8.8
1998	79.5	13.1
1997	84.6	8.4
1996	79.3	12.8
1995	78.5	9.3
1994	68.9	16.8
1993	66.7	21.7
1992	56.5	21.1
1991	56.9	21.2
1990	53.0	29.9
1989	60.5	31.2
1988	49.2	42.5
1987	48.1	40.8
1986	56.4	Not Available
1985	81.7	Before 1987
1984	72.7	
1983	83.2	
1982	78.0	
1981	81.9	
1980	91.4	
1979	86.1	
1978	82.2	
1977	91.4	
1976	86.1	
1975	82.2	
1974	91.5	
1973	87.7	
1972	97.4	
1971	90.1	

Source: Freddie Mac

N/A = not available

<sup>1</sup> Freddie Mac has not yet released its financial results for 2003. Amounts for that year are not available.

<sup>2</sup> For the periods 2001 and 2002, data are based on restated and revised financial results.



Table 19. Freddie Mac Mortgage Asset Quality<sup>1,2</sup>

End of Period	Mortgage Asset Quality					
	Single-Family Delinquency Rate <sup>3</sup> (%)	Multifamily Delinquency Rate <sup>4</sup> (%)	Credit Losses / Total MBS Outstanding Plus Retained Mortgage Portfolio <sup>3</sup> (%)	REO / Total MBS Outstanding plus Retained Mortgage Portfolio <sup>4</sup> (%)	Credit-Enhanced Outstanding / Total MBS Outstanding plus Retained Mortgage Portfolio <sup>5</sup> (%)	
4Q03	0.86	0.05	N/A	N/A	N/A	N/A
3Q03	0.83	0.01	N/A	N/A	N/A	N/A
2Q03	0.81	0.01	N/A	N/A	N/A	N/A
1Q03	0.81	0.01	N/A	N/A	N/A	N/A
Annual Data						
2003	0.86	0.05	N/A	N/A	N/A	N/A
2002	0.77	0.13	0.01	0.05	27.42	
2001	0.62	0.15	0.00	0.04	34.70	
2000	0.49	0.04	0.01	0.04	31.80	
1999	0.39	0.14	0.02	0.05	29.90	
1998	0.50	0.37	0.04	0.08	27.30	
1997	0.55	0.96	0.08	0.11	15.94	
1996	0.58	1.96	0.10	0.13	9.96	
1995	0.60	2.88	0.11	0.14	9.65	
1994	0.55	3.79	0.08	0.18	7.17	
1993	0.61	5.92	0.11	0.16	5.26	
1992	0.64	6.81	0.09	0.12	Not Available	
1991	0.61	5.42	0.08	0.14	Before 1983	
1990	0.45	2.63	0.08	0.12		
1989	0.38	2.53	0.08	0.09		
1988	0.36	2.24	0.07	0.09		
1987	0.36	1.49	0.07	0.08		
1986	0.42	1.07	Not Available	0.07		
1985	0.42	0.63	Before 1987	0.10		
1984	0.46	0.42		0.15		
1983	0.47	0.58		0.15		
1982	0.54	1.04		0.12		
1981	0.61	Not Available		0.07		
1980	0.44	Before 1982		0.04		
1979	0.31			0.02		
1978	0.21			0.02		
1977	Not Available			0.03		
1976	Before 1978			0.04		
1975				0.03		
1974				0.02		
1973				Not Available		
				Before 1974		

Source: Freddie Mac

N/A = not available

<sup>1</sup> Freddie Mac has not yet released its financial results for 2003. Amounts for that year are not available or are subject to change.

<sup>2</sup> For periods 2000 to 2002 (except for Credit Enhanced Outstanding/Total MBS Outstanding Plus Retained Mortgage Portfolio), data are based on restated and revised financial results.

<sup>3</sup> Based on the number of mortgages 90 days or more delinquent or in foreclosure. 1994-1999 data include only loans for which Freddie Mac has assumed primary default risk.

<sup>4</sup> Pre-1994 calculations included all loans. Rates for 2000 through 2003 are based on the total Single-family mortgage portfolio. Includes delinquencies on mortgage loans where Freddie Mac has transferred primary or full default risk to various third parties as well as multiclass MBS backed by alternative collateral deals.

<sup>5</sup> Based on net carrying value of mortgages 60 days or more delinquent or in foreclosure.

<sup>6</sup> Credit losses equal to REO operations expense (income) plus Charge-offs, net. Calculated as credit losses (gains) divided by the average total mortgage portfolio, excluding non-Freddie Mac mortgage-related securities and that portion of multiclass MBS that is backed by Ginnie Mae MBS.

<sup>7</sup> Based on the total mortgage portfolio excluding non-Freddie Mac mortgage-related securities and that portion of issued multiclass MBS that is backed by Ginnie Mae MBS.

<sup>8</sup> Includes loans for which the lender or a third party has retained primary default risk by pledging collateral or agreeing to accept losses on loans that default. In many cases, the lender's or third party's risk is limited to a specific level of losses at the time the credit enhancement becomes effective.

Table 20. Freddie Mac Capital<sup>1,2</sup>

End of Period	Capital (\$ in Millions)										
	Minimum Capital Requirement <sup>3</sup>			Risk-Based Capital Requirement				Market Capitalization <sup>9</sup>	Core Capital / Total Assets (%)	Core Capital / Total MBS Outstanding Plus Total Assets (%)	Common Share Dividend Payout Rate <sup>10</sup> (%)
	Core Capital (\$)	Minimum Capital Requirement <sup>4</sup> (\$)	Regulatory Capital Surplus (Deficit) <sup>5</sup> (\$)	Total Capital <sup>6</sup> (\$)	Risk-Based Capital Requirement <sup>7</sup> (\$)	Risk-Based Capital Surplus (Deficit) <sup>8</sup> (\$)					
4Q03	33,285	24,237	9,048	33,436	5,426	28,010	40,158	N/A	N/A	N/A	
3Q03	28,129	24,052	4,077	28,486	1,319	27,168	36,026	N/A	N/A	N/A	
2Q03	28,958	22,688	6,270	29,340	4,720	24,620	34,921	N/A	N/A	N/A	
1Q03	26,107	21,773	4,344	26,512	5,198	21,314	36,518	N/A	N/A	N/A	
Annual Data											
2003	33,285	24,237	9,048	33,436	5,426	28,010	40,158	N/A	N/A	N/A	
2002	28,990	22,339	6,651	24,222	4,743	19,479	40,590	4	2	6	
2001	20,181	19,014	1,167	Not Applicable	Not Applicable	Not Applicable	45,473	3	2	19	
2000	14,380	14,178	202	Before 2002	Before 2002	Before 2002	47,702	3	1	20	
1999	12,692	12,287	405				32,713	3	1	20	
1998	10,715	10,333	382				44,797	3	1	21	
1997	7,376	7,082	294				28,461	4	1	21	
1996	6,743	6,517	226				19,161	4	1	21	
1995	5,829	5,584	245				14,932	4	1	21	
1994	5,169	4,884	285				9,132	5	1	20	
1993	4,437	3,782	655				9,005	5	1	22	
1992	Not Applicable	Not Applicable	Not Applicable				8,721	Not Applicable	Not Applicable	23	
1991	Before 1993	Before 1993	Before 1993				8,247	Before 1993	Before 1993	22	
1990							2,925			23	
1989							4,024			24	
							Not Applicable			Not Available	
							Before 1989			Before 1989	

Source: Freddie Mac and OFHEO

N/A = not available

<sup>1</sup> Freddie Mac has not yet released its financial results for 2003. Amounts for that year are not available or are subject to change.<sup>2</sup> For the periods 2001 and 2002, data are based on restated and revised financial results.<sup>3</sup> Calculations reflect existing general ledger and do not reflect pending 2003 financial statement adjustments. The numbers and calculations for the fourth quarter of 2003 and full year 2003 reflect the increase in capital of approximately \$5 billion from the 2002 restatement process whereas the first three quarters of 2003 do not. To the extent that OFHEO determines necessary, Freddie Mac will resubmit amended reports following release of its 2003 financial statements.<sup>4</sup> Minimum Capital Requirement in accordance with the Federal Housing Enterprise Financial Safety and Soundness Act of 1992.<sup>5</sup> The difference between Core Capital and Minimum Capital Requirement.<sup>6</sup> Total Capital is Core Capital plus the total allowance for loan losses and guaranty liability for MBS, less any specific loss allowances. For 2002 and the first three quarters of 2003, amounts were calculated by OFHEO prior to the restatement of Freddie Mac's 2002 financial results. The fourth quarter of 2003 and full year 2003 total capital calculation includes the increase in capital of approximately \$5 billion from the 2002 restatement process.<sup>7</sup> The Risk-Based Capital Requirement is the amount of Total Capital that an Enterprise must hold to absorb projected losses flowing from future adverse interest rate and credit risk conditions and is specified by the Federal Housing Enterprise Financial Safety and Soundness Act of 1992.<sup>8</sup> The difference between Total Capital and Risk-Based Capital Requirement.<sup>9</sup> Stock price at the end of the period multiplied by number of outstanding common shares.<sup>10</sup> Common dividends paid as a percentage of net income available to common stockholders.

**Table 21. Combined Purchases<sup>1</sup>**

Period	Business Activity (\$ in Millions)				
	Purchases				
	Single-Family (\$)	Multifamily (\$)	Total Mortgages (\$)	Mortgage-Related Securities (\$)	
4Q03	N/A	N/A	N/A	N/A	
3Q03	N/A	N/A	N/A	N/A	
2Q03	N/A	N/A	N/A	N/A	
1Q03	N/A	N/A	N/A	N/A	
Annual Data					
2003	N/A	N/A	N/A	N/A	
2002	1,348,017	27,265	1,375,282	553,836	
2001	960,828	28,641	989,469	448,559	
2000	395,082	16,407	411,489	221,612	
1999	548,748	17,193	565,941	271,803	
1998	618,410	15,338	633,748	275,706	
1997	275,081	8,775	283,856	85,702	
1996	287,306	8,680	295,986	83,567	
1995	215,974	6,531	222,505	75,550	
1994	280,792	4,686	285,478	45,722	
1993	518,877	4,326	523,203	Not Available	
1992	439,702	2,983	442,685	Before 1994	
1991	233,280	3,440	236,720		
1990	185,187	4,518	189,705		
1989	157,275	6,149	163,424		
1988	107,497	5,361	112,858		
1987	148,766	3,749	152,515		
1986	177,159	5,415	182,574		
1985	84,653	3,102	87,755		
1984	Not Available	Not Available	50,704		
1983	Before 1985	Before 1985	49,431		
1982			49,610		
1981			10,573		
1980			11,791		
1979			16,523		
1978			18,829		
1977			8,908		
1976			4,761		
1975			6,036		
1974			9,204		
1973			7,586		
1972			5,129		
1971			4,818		

Sources: Fannie Mae and Freddie Mac

N/A = not available

<sup>1</sup> See notes to Tables 1 and 11.

Table 21a. Combined Mortgage Purchases Detail, By Type of Loan<sup>1</sup>

Period	Purchases (\$ in Millions)												
	Single-Family Mortgages								Multifamily Mortgages				Total Mortgage Purchases (\$)
	Conventional				FHA/VA				Total Single-Family Mortgages (\$)	Conventional (\$)	FHA/RHS (\$)	Total Multifamily Mortgages (\$)	
	Fixed-Rate (\$)	Adjustable-Rate (\$)	Seconds (\$)	Total (\$)	Fixed-Rate (\$)	Adjustable-Rate (\$)	Total (\$)						
4Q03	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A					
3Q03	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A
2Q03	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A
1Q03	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A
Annual Data													
2003	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A
2002	1,232,597	111,690	41	1,344,328	2,141	1,548	3,689	1,348,017	24,604	2,661	27,265	1,375,282	
2001	904,776	47,854	1,137	953,767	5,959	1,102	7,061	960,828	27,356	1,285	28,641	989,469	
2000	332,980	55,010	726	388,716	5,446	920	6,366	395,082	15,157	1,250	16,407	411,489	
1999	517,228	19,581	1,198	538,007	9,658	1,084	10,742	548,749	16,039	1,153	17,192	565,941	
1998	590,375	21,657	1	612,033	5,866	511	6,377	618,410	14,754	584	15,338	633,748	
1997	242,503	30,045	3	272,551	2,098	432	2,530	275,081	8,177	598	8,775	283,856	
1996	262,470	22,025	3	284,498	2,474	334	2,808	287,306	8,428	252	8,680	295,986	
1995	180,768	32,077	9	212,854	3,014	106	3,120	215,974	6,242	289	6,531	222,505	
1994	245,717	32,986	8	278,711	1,968	113	2,081	280,792	4,467	219	4,686	285,478	
1993	482,724	35,128	30	517,882	875	120	995	518,877	4,110	216	4,326	523,203	
1992	401,847	36,513	143	438,503	1,120	79	1,199	439,702	2,872	111	2,983	442,685	
1991	205,907	24,980	911	231,798	1,444	38	1,482	233,280	3,419	21	3,440	236,720	
1990	151,817	30,814	1,340	183,971	1,201	15	1,216	185,187	4,503	15	4,518	189,705	
1989	117,894	35,527	1,727	155,148	2,113	14	2,127	157,275	6,133	16	6,149	163,424	
1988	70,504	34,745	492	105,741	1,658	98	1,756	107,497	5,340	21	5,361	112,858	
1987	129,582	15,454	208	145,244	3,477	45	3,522	148,766	3,479	270	3,749	152,515	
1986	154,356	9,567	588	164,511	12,634	14	12,648	177,159	5,415	-	5,415	182,574	
1985	70,219	11,341	905	82,465	2,172	16	2,188	84,653	3,102	-	3,102	87,755	
	Not Available	Not Available	Not Available	Not Available	Not Available	Not Available	Not Available	Not Available	Not Available	Not Available	Not Available	Not Available	
	Before 1985	Before 1985	Before 1985	Before 1985	Before 1985	Before 1985	Before 1985	Before 1985	Before 1985	Before 1985	Before 1985	Before 1985	

Sources: Fannie Mae and Freddie Mac

N/A = not available

<sup>1</sup> See notes to Tables 1a and 11a.

**Table 21b. Combined Purchases of Mortgage-Related Securities<sup>1</sup>**

Period	Purchases (\$ in millions)						
	Enterprise Securities (\$)	Others' Securities				Mortgage Revenue Bonds (\$)	Total Mortgage-Related Securities (\$)
		Ginnie Mae (\$)	Private Label				
			Manufactured Housing (\$)	Other <sup>2</sup> (\$)	Total Private-Label (\$)		
4Q03	49,275	N/A	N/A	N/A	N/A	N/A	N/A
3Q03	296,735	N/A	N/A	N/A	N/A	N/A	N/A
2Q03	123,777	N/A	N/A	N/A	N/A	N/A	N/A
1Q03	137,426	N/A	N/A	N/A	N/A	N/A	N/A
Annual Data							
2003	607,213	N/A	N/A	N/A	N/A	N/A	N/A
2002	437,856	5,245	1,025	50,795	51,820	5,160	553,836
2001	337,921	1,777	Not Available	18,950	18,950	5,331	448,559
2000	163,420	5,832	Before 2002	Not Available	18,770	5,170	221,612
1999	194,717	20,983		Before 2001	31,774	5,076	271,803
1998	212,236	3,057			31,432	4,581	275,706
1997	70,329	3,834			5,682	2,841	85,702
1996	74,601	Not Available			Not Available	Not Available	83,567
1995	62,966	Before 1997			Before 1997	Before 1997	75,550
1994	41,477						45,722
1993	Not Available						Not Available
1992	Before 1994						Before 1994
1991							
1990							

Sources: Fannie Mae and Freddie Mac

N/A = not available

<sup>1</sup> See notes to Tables 1b and 11b.

<sup>2</sup> The category 'Other' includes home equity purchases by both Enterprises.

**Table 22. Combined MBS Issuances<sup>1</sup>**

Period	Business Activity (\$ in Millions)			
	MBS Issuances			
	Single-Family MBS (\$)	Multifamily MBS (\$)	Total MBS (\$)	Multiclass MBS (\$)
4Q03	N/A	N/A	351,226	133,558
3Q03	N/A	N/A	602,128	143,292
2Q03	N/A	N/A	531,823	140,883
1Q03	N/A	N/A	447,662	141,304
Annual Data				
2003	N/A	N/A	1,932,839	559,037
2002	1,270,708	15,934	1,286,642	502,467
2001	901,855	16,158	918,013	331,840
2000	369,181	9,382	378,563	87,746
1999	523,178	10,542	533,720	174,725
1998	564,747	11,965	576,712	219,309
1997	257,373	6,314	263,687	169,781
1996	263,133	6,438	269,571	64,925
1995	191,791	4,542	196,333	25,053
1994	245,286	2,446	247,732	146,496
1993	429,209	959	430,168	353,966
1992	372,389	855	373,244	301,489
1991	203,967	1,415	205,382	184,840
1990	168,004	2,506	170,510	108,770
1989	139,420	3,862	143,282	81,469
1988	90,610	4,045	94,655	29,990
1987	134,933	3,314	138,247	9,917
1986	156,815	3,949	160,764	4,633
1985	60,725	1,752	62,477	Not Available
1984	Not Available	Not Available	32,230	Before 1986
1983	Before 1985	Before 1985	33,031	
1982			38,139	
1981			4,243	

Sources: Fannie Mae and Freddie Mac

N/A = not available

<sup>1</sup> See notes to Tables 2 and 12.

Table 23. Combined Earnings<sup>1</sup>

Period	Earnings (\$ in Millions)				
	Net Interest Income (\$)	Guarantee Fee Income (\$)	Administrative Expenses (\$)	Credit-Related Expenses (\$)	Net Income (\$)
4Q03	N/A	N/A	N/A	N/A	N/A
3Q03	N/A	N/A	N/A	N/A	N/A
2Q03	N/A	N/A	N/A	N/A	N/A
1Q03	N/A	N/A	N/A	N/A	N/A
Annual Data					
2003	N/A	N/A	N/A	N/A	N/A
2002	19,452	3,332	2,625	207	14,709
2001	15,082	2,874	2,041	117	9,052
2000	9,432	2,603	1,730	169	8,114
1999	7,820	2,301	1,455	286	6,135
1998	6,325	2,248	1,286	603	5,118
1997	5,796	2,356	1,131	904	4,451
1996	5,297	2,282	1,000	1,017	3,968
1995	4,443	2,173	941	876	3,235
1994	3,935	2,191	904	803	3,115
1993	3,305	1,970	804	829	2,659
1992	2,753	1,770	710	777	2,245
1991	2,461	1,467	606	789	1,918
1990	2,212	1,190	529	784	1,587
1989	1,708	980	471	588	1,244
1988	1,329	793	412	584	888
1987	1,209	735	347	535	677
1986	683	476	285	426	352
1985	451	300	223	285	201
1984	123	236	183	140	73
1983	116	186	134	94	135
1982	(434)	93	97	62	(132)
1981	(395)	36	79	(12)	(175)
1980	75	Not Available	70	42	48
1979	377	Before 1981	65	55	198
1978	331		53	49	234
1977	282		44	36	186
1976	221		40	24	141
1975	205		37	27	131
1974	184		31	50	112
1973	211		25	27	138
1972	148		18	9	100
1971	59		Not Available	Not Available	67
			Before 1972	Before 1972	

Sources: Fannie Mae and Freddie Mac

N/A = not available

<sup>1</sup> See notes to Tables 3 and 13.

Table 24. Combined Balance Sheet<sup>1</sup>

End of Period	Balance Sheet (\$ in Millions)							Mortgage-Backed Securities Outstanding (\$ in Millions)
	Total Assets (\$)	Total Retained Mortgage Portfolio (\$)	Non-Mortgage Investments (\$)	Debt Outstanding (\$)	Shareholders' Equity (\$)	Core Capital (\$)	Fair Value of Net Assets (\$)	Total MBS Outstanding (\$)
4Q03	N/A	N/A	N/A	N/A	N/A	N/A	N/A	2,072,982
3Q03	N/A	N/A	N/A	N/A	N/A	N/A	N/A	1,926,485
2Q03	N/A	N/A	N/A	N/A	N/A	N/A	N/A	1,964,097
1Q03	N/A	N/A	N/A	N/A	N/A	N/A	N/A	1,851,654
Annual Data								
2003	N/A	N/A	N/A	N/A	N/A	N/A	N/A	2,072,982
2002	1,639,764	1,391,021	131,164	1,516,678	47,618	57,069	45,030	1,778,793
2001	1,441,048	1,210,572	155,831	1,341,835	37,742	45,363	40,975	1,512,049
2000	1,134,521	993,182	95,868	1,069,581	35,675	35,207	Not Available	1,282,823
1999	961,992	846,017	71,451	908,330	29,154	30,568	Before 2001	1,217,028
1998	806,567	671,104	100,675	747,687	26,288	26,180		1,115,494
1997	586,270	481,135	81,026	542,616	21,314	21,169		1,055,123
1996	524,907	424,354	78,854	488,251	19,504	19,516		1,021,238
1995	453,731	360,574	69,984	419,135	16,822	16,788		972,275
1994	378,707	293,986	64,143	350,509	14,703	14,710		947,001
1993	300,859	246,107	39,621	251,105	12,489	12,489		910,335
1992	240,480	189,889	32,116	195,931	10,344	Not Applicable		831,958
1991	193,932	153,346	19,792	164,199	8,113	Before 1993		714,447
1990	173,692	135,586	21,992	154,344	6,077			604,434
1989	159,777	129,429	19,388	142,211	4,907			489,382
1988	146,610	117,017	19,896	132,341	3,844			396,503
1987	129,133	106,019	13,935	116,604	2,993			348,369
1986	122,850	107,216	Not Available	108,938	2,135			264,754
1985	115,663	108,156	Before 1987	106,732	1,788			154,461
1984	101,576	94,153		94,718	1,524			105,764
1983	87,378	82,732		81,867	1,421			82,841
1982	78,980	74,035		74,605	1,249			57,402
1981	67,904	64,807		64,231	1,330			20,614
1980	63,357	60,595		59,766	1,678			Not Available
1979	55,948	53,780		52,555	1,739			Before 1981
1978	47,203	45,141		44,201	1,564			
1977	37,481	36,456		35,000	1,350			
1976	37,225	35,950		35,088	1,139			
1975	37,495	35,698		35,572	1,003			
1974	34,572	33,135		32,852	898			
1973	27,191	26,110		25,699	801			
1972	22,118	21,378		20,878	669			
1971	19,629	18,821		18,587	567			

Sources: Fannie Mae and Freddie Mac

N/A = not available

<sup>1</sup> See notes to Tables 4 and 14.



Table 24a. Combined MBS Outstanding Detail <sup>1</sup>

End of Period	Single-Family Mortgages (\$ in Millions)				Multifamily Mortgages (\$ in Millions)				Total MBS Outstanding (\$)
	Conventional				Total FHA/VA (\$)	Conventional (\$)	FHA/RHS (\$)	Total Multifamily (\$)	
	Fixed-Rate (\$)	Adjustable-Rate (\$)	Seconds (\$)	Total (\$)					
4Q03	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	2,072,982
3Q03	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	1,926,484
2Q03	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	1,964,097
1Q03	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	1,851,655
Annual Data									
2003	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	2,072,982
2002	1,569,319	129,374	343	1,699,036	19,916	58,857	984	59,841	1,778,793
2001	1,346,411	85,142	782	1,432,335	27,673	50,860	1,181	52,041	1,512,049
2000	1,133,330	97,761	1,183	1,232,274	8,854	40,915	780	41,695	1,282,823
1999	1,085,740	84,568	1,241	1,171,549	8,796	35,980	703	36,683	1,217,028
1998	Not Available	Not Available	Not Available	Not Available	Not Available	Not Available	Not Available	Not Available	1,115,494
1997	Before 1999	Before 1999	Before 1999	Before 1999	Before 1999	Before 1999	Before 1999	Before 1999	1,055,123
1996									1,021,238
1995									972,275
1994									947,001
1993									910,335
1992									831,958
1991									714,447
1990									604,434
1989									489,382
1988									396,503
1987									348,369
1986									264,754
1985									154,461
1984									105,764
1983									82,841
1982									57,402
1981									20,614
1980									Not Issued

Sources: Fannie Mae and Freddie Mac

N/A = not available

<sup>1</sup> See notes to Tables 4a and 14a.

Table 25. Combined Financial Derivatives<sup>1</sup>

Financial Derivatives - Notional Amount Outstanding (\$ in millions)										
End of Period	Interest Rate Swaps (\$)	Interest Rate Caps, Floors, and Corridors (\$)	Foreign Currency Contracts (\$)	OTC Futures, Options, and Forward Rate Agreements (\$)	Treasury-Based Contracts (\$)	Exchange-Traded Futures, Options, and Other Derivatives (\$)	Credit Derivatives (\$)	Commitments (\$)	Other (\$)	Total (\$)
4Q03	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A
3Q03	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A
2Q03	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A
1Q03	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A
Annual Data										
2003	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A
2002	536,604	134,056	47,706	561,544	17,900	210,646	17,301	Not Applicable	117,219	1,834,539
2001	742,724	88,071	32,488	336,286	13,276	358,500	10,984	Before 2003	0	1,703,917
2000	505,539	46,482	19,719	166,979	2,200	22,517	0		35,839	799,275
1999	318,612	48,886	12,604	213,831	8,894	94,987	0		1,400	699,214
1998	200,401	36,345	14,459	76,481	11,542	157,832	0		3,735	500,795
1997	203,845	22,095	11,120	6,000	12,228	0	0		1,660	256,948
1996	204,786	14,395	2,973	0	651	0	0		350	223,155
1995	171,063	13,355	1,224	29	24	0	0		975	186,670
1994	109,304	9,363	1,023	0	0	0	0		1,465	121,154
1993	67,346	1,860	1,023	0	0	0	0		1,425	71,653

Sources: Fannie Mae and Freddie Mac

N/A = not available

<sup>1</sup> See notes to Tables 6 and 16.

**Table 26. Combined Non-Mortgage Investments<sup>1</sup>**

End of Period	Non-Mortgage Investments (\$ in Millions)						Total (\$)
	Federal Funds and Eurodollars (\$)	Asset Backed Securities (\$)	Repurchase Agreements (\$)	Commercial Paper and Corporate Debt (\$)	Other (\$)		
4Q03	N/A	N/A	N/A	N/A	N/A	N/A	N/A
3Q03	N/A	N/A	N/A	N/A	N/A	N/A	N/A
2Q03	N/A	N/A	N/A	N/A	N/A	N/A	N/A
1Q03	N/A	N/A	N/A	N/A	N/A	N/A	N/A
Annual Data							
2003	N/A	N/A	N/A	N/A	N/A	N/A	N/A
2002	7,677	57,101	17,095	27,125	22,166	131,164	
2001	31,957	47,234	18,440	45,517	12,683	155,831	
2000	9,806	36,575	7,575	16,195	25,717	95,868	
1999	15,382	29,512	5,083	5,639	15,835	71,451	
1998	28,450	28,117	9,312	12,950	21,846	100,675	
1997	21,962	18,839	13,697	14,948	11,580	81,026	
1996	31,702	16,721	11,107	7,249	12,075	78,854	
1995	19,885	10,404	19,392	9,830	10,473	69,984	
1994	24,853	3,796	14,919	8,953	11,622	64,143	
1993	13,763	3,557	8,882	1,438	11,981	39,621	
1992	12,219	4,124	7,249	53	8,471	32,116	
1991	5,903	2,416	6,632	0	4,841	19,792	
1990	6,441	1,780	10,014	0	3,757	21,992	
1989	8,685	1,107	5,765	0	3,831	19,388	
1988	8,594	481	9,107	0	1,714	19,896	
1987	5,736	25	5,859	0	2,315	13,935	

Sources: Fannie Mae and Freddie Mac

N/A = not available

<sup>1</sup> See notes to Tables 7 and 17.

Table 27. Combined Capital<sup>1</sup>

End of Period	Capital (\$ in Millions)						
	Minimum Capital Requirement			Risk-Based Capital Requirement			Market Capitalization (\$)
	Core Capital (\$)	Minimum Capital Requirement (\$)	Regulatory Capital Surplus (Deficit) (\$)	Total Capital (\$)	Risk-Based Capital Requirement (\$)	Risk-Based Capital Surplus (Deficit) (\$)	
4Q03	67,690	55,757	11,933	68,618	32,647	35,970	112,996
3Q03	60,881	55,487	5,393	62,028	29,172	32,857	104,199
2Q03	59,633	51,835	7,797	60,809	22,834	37,975	100,766
1Q03	55,624	49,999	5,635	56,821	21,753	35,067	100,624
Annual Data							
2003	67,690	55,757	11,933	68,618	32,647	35,970	112,996
2002	57,069	49,542	7,528	53,093	22,177	30,916	104,202
2001	45,363	43,196	2,167	Not Applicable	Not Applicable	Not Applicable	124,754
2000	35,207	34,472	735	Before 2002	Before 2002	Before 2002	134,345
1999	30,568	30,057	511				96,364
1998	26,180	25,667	513				120,678
1997	21,169	19,785	1,384				87,628
1996	19,516	17,983	1,533				59,093
1995	16,788	16,035	753				48,744
1994	14,710	14,300	411				29,014
1993	12,489	11,658	831				30,392
1992	Not Applicable	Not Applicable	Not Applicable				29,595
1991	Before 1993	Before 1993	Before 1993				27,083
1990							11,415
1989							12,116
							Not Applicable
							Before 1989

Sources: Fannie Mae, Freddie Mac, and OFHEO

N/A = not available

<sup>1</sup> See notes to Tables 10 and 20.

**Table 28. Loan Limits**

Year	Single-Family Conforming Loan Limits <sup>1</sup>			
	1-unit	2-units	3-units	4-units
2004	333,700	427,150	516,300	641,650
2003	322,700	413,100	499,300	620,500
2002	300,700	384,900	465,200	578,150
2001	275,000	351,950	425,400	528,700
2000	252,700	323,400	390,900	485,800
1999	240,000	307,100	371,200	461,350
1998	227,150	290,650	351,300	436,000
1997	214,600	274,550	331,850	412,450
1996	207,000	264,750	320,050	397,800
1995	203,150	259,850	314,100	390,400
1994	203,150	259,850	314,100	390,400
1993	203,150	259,850	314,100	390,400
1992	202,300	258,800	312,800	388,800
1991	191,250	244,650	295,650	367,500
1990	187,450	239,750	289,750	360,150
1989	187,600	239,950	290,000	360,450
1988	168,700	215,800	260,800	324,150
1987	153,100	195,850	236,650	294,150
1986	133,250	170,450	205,950	256,000
1985	115,300	147,500	178,200	221,500
1984	114,000	145,800	176,100	218,900
1983	108,300	138,500	167,200	207,900
1982	107,000	136,800	165,100	205,300
1981	98,500	126,000	152,000	189,000
1980	93,750	120,000	145,000	180,000
1979	67,500	Not Applicable	Not Applicable	Not Applicable
1977 - 1978	60,000	Not Applicable	Not Applicable	Not Applicable
1970 - 1976	33,000	Not Applicable	Not Applicable	Not Applicable

Sources: Department of Housing and Urban Development (HUD), Federal Housing Finance Board, and Freddie Mac

<sup>1</sup> Conforming Loan Limits are 50 percent higher in Alaska, Hawaii, Guam and the U.S. Virgin Islands.

Year	FHA Single-Family Insurable Limits							
	1-Unit		2-Units		3-Units		4-Units	
	Low Cost Area Max	High Cost Area Max	Low Cost Area Max	High Cost Area Max	Low Cost Area Max	High Cost Area Max	Low Cost Area Max	High Cost Area Max
2004	160,176	205,032	371,621	247,824	449,181	307,992	558,236	
2003	154,896	198,288	359,397	239,664	434,391	297,840	539,835	
2002	144,336	184,752	334,863	223,296	404,724	277,512	502,990	
2001	132,000	168,936	306,196	204,192	370,098	253,776	459,969	
2000	121,296	155,232	281,358	187,632	340,083	233,184	422,646	
1999	115,200	147,408	267,177	178,176	322,944	221,448	401,375	
1998	109,032	139,512	252,866	168,624	305,631	209,568	379,842	
1997	81,546	104,310	205,875	126,103	248,888	156,731	309,338	

Source: Federal Housing Administration

**Table 29. Interest Rates on Conventional Single-Family Mortgages**

Period	Average Loan Commitment Rates		Effective Rates on Closed Loans	
	30-Year Fixed Rate (%)	One-Year ARMs (%)	Fixed-Rate (%)	Adjustable Rate (%)
4Q03	5.9	3.7	6.1	5.1
3Q03	6.0	3.7	5.9	4.9
2Q03	5.5	3.7	5.7	4.9
1Q03	5.8	3.9	6.0	5.2
Annual Data				
2003	5.8	3.8	5.9	5.0
2002	6.5	4.6	6.7	5.7
2001	7.0	5.8	7.1	6.4
2000	8.1	7.0	8.3	7.1
1999	7.4	6.0	7.4	6.5
1998	6.9	5.6	7.2	6.5
1997	7.6	5.6	7.9	6.9
1996	7.8	5.7	8.0	7.1
1995	7.9	6.1	8.2	7.1
1994	8.4	5.4	8.2	6.4
1993	7.3	4.6	7.5	5.7
1992	8.4	5.6	8.5	6.6
1991	9.3	7.1	9.7	8.3
1990	10.1	8.4	10.4	9.2
1989	10.3	8.8	10.5	9.4
1988	10.3	7.9	10.4	8.5
1987	10.2	7.8	9.9	8.5
1986	10.2	8.4	10.5	9.4
1985	12.4	10.1	12.4	10.9
1984	13.9	11.5	13.2	12.1
1983	13.2	Not Available	13.0	12.3
1982	16.0	Before 1984	15.2	15.4
1981	16.6		Not Available	Not Available
1980	13.8		Before 1982	Before 1982
1979	11.2			
1978	9.6			
1977	8.9			
1976	8.9			
1975	9.1			
1974	9.2			
1973	8.0			
1972	7.4			
1971	Not Available			
	Before 1972			

Average Commitment Rate Source: Freddie Mac

Effective Rates Source: Federal Housing Finance Board

**Table 30. Housing Market Activity<sup>1</sup>**

Period	Housing Starts (units in thousands)			Home Sales (units in thousands)	
	Single-Family Housing Starts	Multifamily Housing Starts	Total Housing Starts	New Single-Family Home Sales	Existing Single-Family Home Sales
4Q03 <sup>2</sup>	1,688	343	2,031	1,109	6,290
3Q03 <sup>2</sup>	1,561	323	1,884	1,155	6,423
2Q03 <sup>2</sup>	1,444	295	1,739	1,095	5,827
1Q03 <sup>2</sup>	1,441	296	1,737	984	5,867
Annual Data					
2003	1,533	315	1,848	1,085	6,100
2002	1,397	308	1,705	973	5,566
2001	1,310	293	1,603	908	5,296
2000	1,270	299	1,569	877	5,152
1999	1,334	307	1,641	880	5,205
1998	1,314	303	1,617	886	4,970
1997	1,178	296	1,474	804	4,382
1996	1,206	271	1,477	757	4,196
1995	1,110	244	1,354	667	3,812
1994	1,233	224	1,457	670	3,946
1993	1,155	133	1,288	666	3,802
1992	1,061	139	1,200	610	3,520
1991	876	138	1,014	509	3,220
1990	932	260	1,193	534	3,211
1989	1,059	318	1,376	650	3,346
1988	1,140	348	1,488	676	3,594
1987	1,212	409	1,621	671	3,526
1986	1,263	542	1,805	750	3,565
1985	1,166	576	1,742	688	3,214
1984	1,206	544	1,750	639	2,868
1983	1,181	522	1,703	623	2,719
1982	743	320	1,062	412	1,990
1981	797	288	1,084	436	2,419
1980	962	331	1,292	545	2,973
1979	1,316	429	1,745	709	3,827
1978	1,558	462	2,020	817	3,986
1977	1,573	414	1,987	819	3,650
1976	1,248	289	1,538	646	3,064
1975	956	204	1,160	549	2,476
1974	956	382	1,338	519	2,272
1973	1,250	795	2,045	634	2,334
1972	1,451	906	2,357	718	2,252
1971	1,271	781	2,052	656	2,018

Housing Starts Source and New Single-Family Sales Source: Bureau of the Census.

Existing Single-Family Sales Source: National Association of Realtors.

<sup>1</sup> Components may not add to totals due to rounding.

<sup>2</sup> Seasonally adjusted annual rates.

**Table 31. Weighted Repeat Sales House Price Index (Annual Data) <sup>1</sup>**

Period	USA	New England	Mid-Atlantic	South Atlantic	East North Central	West North Central	East South Central	West South Central	Mountain	Pacific
1q04	7.71	9.53	9.36	8.78	4.65	5.87	3.62	3.22	5.46	12.21
4q03	8.13	10.31	11.06	8.49	5.06	6.57	3.90	3.55	5.18	12.29
3q03	5.98	7.79	7.94	6.35	3.57	4.80	3.45	3.36	3.65	8.75
2q03	6.54	8.69	8.61	7.01	3.64	4.85	4.30	4.35	4.24	9.47
1q03	7.29	10.69	9.96	7.52	3.97	5.58	3.85	4.48	4.35	10.82
Annual Data										
2003	8.13	10.31	11.06	8.49	5.06	6.57	3.90	3.55	5.18	12.29
2002	7.65	11.75	10.74	7.64	4.47	6.37	3.51	4.21	4.46	11.12
2001	7.54	10.87	8.86	7.95	5.22	7.28	5.12	5.89	6.45	9.17
2000	7.63	12.45	7.93	6.53	6.09	7.25	3.95	5.11	6.93	11.31
1999	5.29	9.85	5.40	4.41	4.90	6.28	2.53	4.42	4.39	6.04
1998	4.97	6.49	4.02	4.50	4.17	4.80	4.82	4.96	3.96	7.18
1997	4.60	4.60	3.27	4.52	5.20	4.93	4.74	3.88	4.92	5.27
1996	2.58	1.67	0.39	2.22	5.01	4.07	4.03	2.31	4.20	0.93
1995	4.50	4.12	3.15	4.31	6.06	5.25	5.56	4.22	7.50	2.80
1994	0.77	-3.06	-3.25	0.05	4.94	5.32	4.74	1.56	8.98	-3.43
1993	2.02	0.28	1.29	1.89	3.65	3.89	4.06	3.99	7.87	-1.98
1992	1.86	-1.11	1.74	2.10	3.88	2.99	3.30	3.43	5.32	-1.38
1991	2.53	-2.27	1.46	3.03	4.58	3.80	4.12	3.68	4.66	1.30
1990	0.21	-7.70	-2.85	0.20	3.76	0.54	0.73	0.48	1.90	3.04
1989	6.01	0.71	2.25	5.02	6.10	3.18	2.96	2.80	2.80	19.36
1988	6.21	3.61	6.11	6.88	6.67	2.45	2.54	-2.17	0.29	17.47
1987	6.86	13.37	16.16	6.82	8.04	2.45	4.14	-8.64	-2.76	9.60
1986	8.26	21.01	17.95	6.06	7.33	4.19	5.73	-0.47	3.02	7.23
1985	6.67	24.93	14.29	5.45	4.89	4.35	4.77	-1.25	2.42	4.88
1984	5.37	17.60	13.50	4.03	2.75	4.71	3.78	-0.21	2.15	5.16
1983	4.25	16.25	9.97	3.67	4.60	4.46	4.47	0.87	-2.67	1.20
1982	2.22	4.20	4.72	4.37	-4.91	-0.09	3.97	5.93	6.70	0.80
1981	4.38	5.00	0.27	5.71	2.11	-0.04	0.54	11.88	7.19	5.88
1980	6.89	5.97	9.20	8.52	1.64	4.32	7.45	7.53	6.48	11.22
1979	11.98	10.63	16.38	11.56	9.29	8.88	4.82	13.43	15.64	16.30
1978	13.28	17.18	7.30	10.89	13.75	13.09	11.98	17.05	17.24	15.75
1977	13.30	8.07	11.49	8.19	13.12	15.44	10.31	11.63	18.59	25.63
1976	7.51	4.11	1.59	5.03	8.51	5.68	5.34	8.81	9.61	19.95

<sup>1</sup> Data from 1976 - 2003 are measured based on fourth quarter to fourth quarter percentage change.

**Regional Divisions:**

New England: Connecticut, Massachusetts, Maine, New Hampshire, Rhode Island, Vermont

Mid-Atlantic: New Jersey, New York, Pennsylvania

South Atlantic: Washington, D.C., Delaware, Florida, Georgia, Maryland, North Carolina, South Carolina, Virginia, West Virginia

East North Central: Illinois, Indiana, Michigan, Ohio, Wisconsin

West North Central: Iowa, Kansas, Minnesota, Missouri, North Dakota, South Dakota, Nebraska

East South Central: Alabama, Kentucky, Mississippi, Tennessee

West South Central: Arkansas, Louisiana, Oklahoma, Texas

Mountain: Arizona, Colorado, Idaho, Montana, New Mexico, Nevada, Utah, Wyoming

Pacific: Alaska, California, Hawaii, Oregon, Washington