

RBC Amend 1 - 52

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**U.S. House of Representatives**  
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 2129 Rappahannock House Office Building  
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TERRY HAINES  
 CHIEF COUNSEL AND STAFF DIRECTOR

February 21, 2002

The Honorable Armando Falcon, Jr.  
 Director  
 Office of Federal Housing Enterprise Oversight  
 1700 G Street, NW  
 Washington, DC 20552



Dear Director Falcon:

I am writing regarding OFHEO's risk-based capital rule for Fannie Mae and Freddie Mac.

Yesterday, you announced that an amendment to the risk-based capital rule has been finalized, following clearance by OMB. It has been sent to the Federal Register for publication in early March. You also stated that the amended rule will be enforceable later this year, beginning September 13, 2002.

Last August, when you testified before the Capital Markets Subcommittee, I urged you to determine and publish, as early as possible in 2002, how Fannie Mae and Freddie Mac fare under the new risk-based capital standard. At the hearing, you committed to publish in early 2002 how the enterprises fare using 4<sup>th</sup> quarter 2001 data. Because of the amendment rulemaking, you altered your commitment and instead will make the release for the 1<sup>st</sup> quarter 2002 and will publish this information in June.

As you are aware, financial markets were quite volatile during the last quarter of 2001. It would be of real value to the Congress to understand how the enterprises were affected during this volatile time period. Since you have delayed quantifying the rule's impact on the enterprises, it would be very instructive to compare the effect of changing economic conditions as well as any rule modifications. Therefore, I request that OFHEO provide the following risk-based capital calculations for each enterprise: (1) for the 4<sup>th</sup> quarter 2001 based on the rule effective last September; (2) for the 4<sup>th</sup> quarter 2001 based on the amended rule; (3) for the 1<sup>st</sup> quarter 2002 based on the rule effective last September; and (4) for the 1<sup>st</sup> quarter 2002 based on the amended rule. This information should be provided by no later than the end of June.

Lastly, what are your plans for enforcement of this rule next September? Is it your intention that OFHEO's calculations for the enterprises using 2<sup>nd</sup> quarter 2002 data will be the

risk-based capital requirements used for initially enforcing the rule? When will OFHEO first announce whether the enterprises comply with their risk-based capital requirements?

I look forward to your response.

Sincerely,



Richard H. Baker  
Chairman, Subcommittee on Capital Markets,  
Insurance and Government Sponsored Enterprises

PAUL E. KANJORSKI  
11TH DISTRICT, PENNSYLVANIA

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DEMOCRATIC WHIP-AT-LARGE

WASHINGTON OFFICE:

353 RAYBURN HOUSE OFFICE BUILDING  
WASHINGTON, DC 20515-3811  
(202) 225-6511

Website: <http://www.house.gov/kanjorski>  
E-mail: [paulkanjorski@mail.house.gov](mailto:paulkanjorski@mail.house.gov)

DISTRICT OFFICES:

THE STEGMAIER BUILDING  
7 NORTH WILKES-BARRE BOULEVARD  
SUITE 400 M  
WILKES-BARRE, PA 18702-5283  
(570) 825-2200

KULPMONT MUNICIPAL BUILDING  
880 SPRUCE STREET  
KULPMONT, PA 17834-1346  
(570) 373-1541

TOLL FREE HELP-LINE  
(800) 222-2346

# Congress of the United States

## Washington, DC 20515-3811

Feb. 21, 2002

Dear Editor:

As a senior Member of the House Financial Services Committee, I read your Feb. 20 editorial entitled "Fannie Mae Enron?" with great interest. As you should know, the business activities of the housing government-sponsored enterprises have already attracted considerable scrutiny in Washington. In fact, the House Capital Markets Subcommittee has held hearings on at least ten days over the past two years looking into virtually every pertinent aspect of the operations of Fannie Mae and Freddie Mac. We expect to hold additional oversight hearings on these enterprises in the near future. The Senate Banking Committee and the House Budget Committee have also conducted their own investigations concerning these companies within the last few years.

The intensive investigations of the Capital Markets Subcommittee resulted in the October 2000 announcement by Freddie Mac and Fannie Mae of six voluntary commitments designed to promote market discipline and increase transparency. These commitments are consistent with the prevailing thinking of the leading minds on risk management. By making these enhanced disclosures, Fannie Mae and Freddie Mac, unlike Enron, have worked to improve the public's awareness about their financial condition and risk management practices. I, however, recognize that Congress needs to continue to carefully monitor these companies.

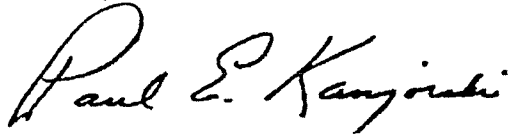
In addition to congressional oversight, OFHEO, the safety and soundness regulator for Fannie Mae and Freddie Mac, is operating increasingly effectively. Although it now appears that Enron may have worked diligently to evade government oversight, Fannie Mae and Freddie Mac have in the last ten years encountered a regulator that has developed and implemented a robust, comprehensive and continuous examination program that works. OFHEO's examination teams review more than 150 separate components of safety and soundness to develop a comprehensive account of financial condition at each government-sponsored enterprise. The agency has also finalized its long-awaited risk-based capital standard to, in its words, "more accurately tie capital to risk than any other current or proposed standard" for any financial institution.

Moreover, as someone who participated in the entire congressional battle to resolve the savings and loan crisis, I am acutely aware of the need to protect taxpayers from risk. We must maintain an appropriate and sufficiently strong supervisory system over the private sector. Accordingly, although the U.S. Government explicitly does not back the debt of Fannie Mae and Freddie Mac, it is in the public's interest that we ensure that Fannie Mae and Freddie Mac continue to operate safely and soundly. That is why I continue to support giving OFHEO the

resources it needs to get the job done and the Bush Administration's recent proposal to remove politics from the development of the agency's annual budget. In the wake of Enron's collapse, I will also continue to develop and support other well-crafted proposals designed to sensibly protect investors and taxpayers.

In closing, we have the secondary mortgage markets and the capital markets that are the envy of the world. Congress must continue to keep a vigilant eye over both systems and enact further reforms as appropriate.

Sincerely,



Paul E. Kanjorski  
Member of Congress

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