



OFFICE OF FEDERAL HOUSING ENTERPRISE OVERSIGHT

NEWS RELEASE

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OFHEO RELEASES 1998 REPORT TO CONGRESS

RISK-BASED CAPITAL STANDARD, NEW EXAMINATION PROGRAM AND RESULTS OF EXAMS OF FANNIE MAE AND FREDDIE MAC ARE HIGHLIGHTED

WASHINGTON - The Office of Federal Housing Enterprise Oversight (OFHEO) today released its 1998 Report to Congress. OFHEO, the financial safety and soundness regulator of Fannie Mae and Freddie Mac (the Enterprises) submitted its annual report to Congress outlining results of examinations of the Enterprises. This report was presented to Chairman Alfonse D'Amato of the Senate Committee on Banking, Housing and Urban Affairs, and Chairman Jim Leach of the House Committee on Banking and Financial Services.

This report also contains an overview of the work surrounding the development of the next generation of capital regulation and the establishment of a risk-based capital standard that will effectively capture both the credit and interest rate risk exposure of the Enterprises. Mark Kinsey, Acting Director of OFHEO stated: "As we move closer to the completion of our proposed regulation on risk-based capital, it's important to describe the nature of a stress test and its usefulness as a regulatory tool. By more closely aligning capital with risk, OFHEO's standard will be well-designed to assure that Fannie Mae and Freddie Mac can continue to fulfill their public mission while maintaining their financial safety and soundness."

In addition, the report also contains a discussion of OFHEO's recently instituted comprehensive, annual, risk-based examination program and the significant principles guiding the OFHEO examination team.

The 1998 report also provides a comprehensive and detailed analysis of developments in the primary and secondary mortgage markets as well as the performance of the Enterprises. A strong economy and a strong housing market proved beneficial to the operations of the Enterprises this past year. An important feature of this report is a statistical appendix summarizing the financial performance of the Enterprises from 1971 to the present.

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SUMMARY RESULTS OF OFHEO EXAMINATIONS

The Information Systems and Technology (IT) Examinations - OFHEO conducted examinations to assess each Enterprise's exposures to risks presented by the use and management of information technology. OFHEO defines IT risk to mean the potential that an event or action may impair an Enterprise's ability to process transactions and information in a timely and accurate manner.

Summary results - Fannie Mae: OFHEO concluded that Fannie Mae's risk management of the IT area is "satisfactory." This designation signifies that the risk management of Fannie Mae's automated environment adheres to appropriate safety and soundness standards. While some issues OFHEO identified warrant the attention of the Board of Directors and senior management, none pose safety and soundness concerns.

Summary results - Freddie Mac: OFHEO concluded that Freddie Mac's risk management of the IT area is "satisfactory." This designation signifies that the risk management of Freddie Mac's automated environment adheres to appropriate safety and soundness standards. While some issues OFHEO identified warrant the attention of the Board of Directors and senior management, none pose safety and soundness concerns.

The Internal Audit/Operations Risk Examinations - The primary objective of this set of examinations was to evaluate the structure, scope of authority, activities, policies, and procedures for the internal audit programs. By evaluating the work of each Enterprise's internal audit department, OFHEO was able to assess the degree to which the Enterprises manage their exposure to operations risk.

Summary results - Fannie Mae: OFHEO concluded that Fannie Mae's internal audit work products are high quality and that audit activities and results generally are well documented. OFHEO did not identify any safety and soundness concerns; however, it suggested a number of enhancements to the internal audit program.

Summary results - Freddie Mac: OFHEO concluded that Freddie Mac's internal audit work products are high quality and that audit activities and results are well documented. OFHEO did not identify any safety and soundness concerns, nor did it identify aspects of the internal audit program that require the board's or senior management's involvement or follow-up.

For copies of OFHEO's 1998 Report to Congress, contact:
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