



OFFICE OF FEDERAL HOUSING ENTERPRISE OVERSIGHT

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OFHEO RELEASES 1999 REPORT TO CONGRESS

*COMPLETION OF PROPOSED RISK-BASED CAPITAL RULE,
RESULTS OF FIRST ANNUAL RISK-BASED EXAMS OF FANNIE MAE AND
FREDDIE MAC, AND OFHEO'S OWN CLEAN AUDIT ARE HIGHLIGHTED*

WASHINGTON - The Office of Federal Housing Enterprise Oversight (OFHEO) today released its 1999 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 the first comprehensive, annual, risk-based examinations of the Enterprises. This report was presented to Chairman Phil Gramm of the Senate Committee on Banking, Housing and Urban Affairs, and Chairman Jim Leach of the House Committee on Banking and Financial Services.

Chapter 1 of the report outlines OFHEO's proposed risk-based capital standard that is currently out for public comment until November 10, 1999. OFHEO's risk-based capital standard utilizes a stress test that incorporates statistical models to project the performance of all the mortgagees held or guaranteed by the Enterprises, along multiple risk dimensions, resulting from statutorily determined credit and interest rate stresses. Mark Kinsey, OFHEO's Acting Director states that "The importance of OFHEO's risk-based capital standard may go beyond that of regulating capital for the Enterprises. It represents a new and innovative models-based approach for determining capital adequacy. It will help to shed light on the many issues surrounding the use of models for determining capital requirements for banks and thrifts."

Chapter 2 outlines the process and results of OFHEO's first comprehensive annual risk-based examination. The examination program assesses the appropriateness and effectiveness of the Enterprises' policies and processes for risk management, and assesses the compa-

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nies' financial performance. The examination program, together with OFHEO's capital adequacy framework, informs the Director's judgment about the appropriateness of the balance of risk and capital at each Enterprise. The results and conclusions from the ten examination program areas are presented in the report together with a detailed discussion of the assessment factors used to determine these results. In summary, the results of the 1998 examinations show that in all ten program areas, Fannie Mae and Freddie Mac exceed safety and soundness standards. In his annual message, **Kinsey states that "Just as important as a strong capital standard is a strong examination program. No amount of capital is adequate if business operations are not conducted in a safe and sound manner."**

The 1999 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. **Chapter 3** presents this comprehensive overview of the financial conditions of the Enterprises. The strong U.S. economy, relatively low interest rates and a booming housing market boosted the Enterprises profits to record levels in 1998. An important feature of this report is also a **statistical appendix** summarizing the financial performance of the Enterprises from 1971 to the present. This section has been expanded by eight additional tables.

In the spirit of the government's goal of improved accountability, OFHEO voluntarily prepared financial statements for FY 1998 and subjected these statements and underlying processes to an independent audit. The certified public accounting firm of Dembo, Jones, Healy, Pennington and Ahalt audited OFHEO statements and issued a clean audit report. A copy of the audit opinion and the associated principal financial statements and notes are included in **Chapter 4** of the report.

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A complete version of the Report is available on OFHEO's website at www.ofheo.gov

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