Office of Federal Housing Enterprise Oversight (OFHEO)

NEWS RELEASE

FOR IMMEDIATE RELEASE
April 10, 2007

CONTACT: Corinne Russell (202) 414-6921
Stefanie Mullin (202) 414-6376
www.ofheo.gov

OFHEO Releases Annual Report to Congress

WASHINGTON, DC — James B. Lockhart, Director of the Office of Federal Housing Enterprise Oversight (OFHEO) today released OFHEO's 2007 Report to Congress, detailing the agency's annual examination conclusions and regulatory oversight of government-sponsored enterprises (GSEs), Fannie Mae and Freddie Mac for the year 2006. The report concludes that both Enterprises "remain a significant supervisory concern."

"While both Enterprises made progress in correcting their problems, especially in systems, controls and financial reporting, it has taken much more time and money to correct than the GSEs or OFHEO expected," said Lockhart. "A key indicator of a successful remediation will be the timely filing of annual and quarterly financial statements by each company with a clean audit opinion based on a controls-based audit. I am pleased to report that both companies are working hard to achieve this goal, but they still have much to do."

In addition to the annual reports of examination for Fannie Mae and Freddie Mac, the report includes a review and summary of related topics, including:

- Financial performance of the GSEs
- OFHEO supervisory actions
- Remediation efforts
- Executive compensation
- OFHEO legislative recommendations
- OFHEO research and publications
- Accounting environment at the GSEs
- Historical data tables for the Enterprises

The full report is available at /media/annualreports/OFHEOReporttoCongress07.pdf. To request a printed copy, please send an e-mail to ofheoinquiries@ofheo.gov or call 202.414.6922.

NOTE: Scroll to report below...

###

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

Report to Congress

2007

OFFICE OF FEDERAL HOUSING ENTERPRISE OVERSIGHT
OFHEO
1993

OFFICE OF FEDERAL HOUSING ENTERPRISE OVERSIGHT

1700 G Street, NW • Washington, DC 20552

202.414.3800

March 30, 2007

Honorable Christopher Dodd
Chairman
Committee on Banking, Housing,
and Urban Affairs
United States Senate
Washington, D.C. 20510

Honorable Richard Shelby
Ranking Member
Committee on Banking, Housing,
and Urban Affairs
United States Senate
Washington, D.C. 20510

Honorable Barney Frank
Chairman
Committee on Financial Services
United States House of Representatives
Washington, D.C. 20515

Honorable Spencer Bachus
Ranking Member
Committee on Financial Services
United States House of Representatives
Washington, D.C. 20515

Dear Chairmen and Ranking Members:

I am pleased to transmit the 2007 Report to the Congress from the Office of Federal Housing Enterprise Oversight (OFHEO), which provides the findings of OFHEO's 2006 annual examinations. This report meets the statutory requirements of 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 OFHEO and do not necessarily represent those of the President or the Secretary of Housing and Urban Development.

This report is my second one to the Congress. We accelerated the publication by over two months from previous years and plan to continue our efforts to provide more transparent and timely reportings.

Since the last report, OFHEO published a new five-year strategic plan that contains three strategic goals in support of the agency's mission, to ensure the safe and sound operation of Fannie Mae and Freddie Mac. These goals are:

1. Enhance supervision to ensure the Enterprises operate in a safe and sound manner, are adequately capitalized and comply with legal requirements;
2. Provide support for statutory reforms to strengthen our regulatory powers; and
3. Continue to support the national policy of an efficient secondary mortgage market which promotes homeownership and affordable housing.

The 2006 annual examinations of both Fannie Mae and Freddie Mac, contained in this report, detail the current condition of both Enterprises. OFHEO concludes that both companies remain a significant supervisory concern. OFHEO also concludes that in 2006 both companies made progress in correcting their problems, especially in systems, controls and financial reporting. Nonetheless, it has taken much more time and money to correct them than either the Enterprises or OFHEO

expected. Both companies are complying with a 30 percent additional capital requirement due to operational risk problems, and both are subject to specific limits on the growth of their portfolios. Despite these constraints necessitated by their operational weaknesses, their support of the mortgage market grew by 8 percent in 2006 to $4.3 trillion as their guaranteed mortgage-backed securities (MBS) outstanding grew at double-digit rates.

A key indicator to OFHEO of a successful remediation will be the timely filing of annual and quarterly financial statements by each company with the Securities and Exchange Commission (SEC) with a clean audit opinion based upon a controls-based audit. I am pleased to report that both companies are working hard to achieve this goal, but they still have much to do.

As part of our second strategic goal, OFHEO has been working with the Congress and the Administration on legislation to reform the regulatory oversight of the housing government-sponsored enterprises (GSEs). I am pleased that the House Financial Services Committee has drafted, debated and passed out of committee a strong reform bill that strikes a balanced approach to needed statutory reforms. H.R. 1427 provides the basic building blocks of a strong, bank-like regulator for the GSEs. Those building blocks are:

- Strong enforcement powers similar to those of federal banking regulators;
- Strengthened housing GSE oversight as a result of combining OFHEO with the Federal Housing Finance Board (FHFB);
- Combining safety and soundness authority with mission authority in a single regulator;
- Full regulatory independence by being out of the appropriations process;
- Full authority over capital; and
- Ability to regulate the Enterprises' portfolios.

Now is the time for action on this important issue. OFHEO looks forward to continuing to assist the Congress and the Administration as the legislative process moves forward.

One of the ways in which OFHEO expands the national discussion of housing and homeownership is through its analysis of mortgage market developments and Enterprise activities. OFHEO's quarterly House Price Index (HPI) and related products provide important information about the state of the housing markets. As measured by the HPI, the nation's housing and mortgage markets experienced a marked deceleration in home prices in 2006. After two years of double-digit rates of appreciation nationally, house prices increased at a more moderate pace, 5.9 percent, from the fourth quarter of 2005 to the fourth quarter of 2006. That was the lowest appreciation rate since 1999.

This year will be one of challenges for the housing markets. OFHEO is working with the Enterprises to provide guidance on subprime and non-traditional mortgages. It should also be a year of significant progress as Fannie Mae and Freddie Mac accelerate their remediation programs. It is my hope that an enhanced new regulatory regime, as proposed by the Congress and the Administration, will be enacted to benefit OFHEO and all of the stakeholders in the nation's housing finance system.

Sincerely,

James B. Lockhart III

James B. Lockhart III
Director

Table of Contents

Year in Review 1
Housing Sector Retreats After Years of Solid Performance 1
Financial Performance of the Enterprises in 2006 5

Supervisory Actions in 2006 8
Enforcement 8
Compliance 9
Other Supervisory Actions 12

Report of Annual Examination of Federal National Mortgage Association/Fannie Mae 14
Examination Authority and Scope 14
Examination Conclusions 14
Matters Requiring Board Attention 15
Board and Management Supervision 16
Operations 19
Asset Quality and Credit Risk Management 23
Liquidity 27
Sensitivity to Market Risk 27
Earnings 28
Capital 29

Report of Annual Examination of Federal Home Loan Mortgage Corporation/Freddie Mac 31
Examination Authority and Scope 31
Examination Conclusions 31
Matters Requiring Board Attention 32
Board and Management Supervision 33
Operations 35
Asset Quality and Credit Risk Management 38
Liquidity 41
Sensitivity to Market Risk 41
Earnings 43
Capital 43

Accounting 45
The Changing Accounting Model 45
Past Accounting 46
Future State 50
Fair Value Implementation 51

Regulations and Guidances 53
Regulations 53
Guidances 53

OFHEO Research and Publications 56
Report of the Special Examination of Fannie Mae 56
Research Products 57
Conforming Loan Limit 58
House Price Index 58
OFHEO Performance and Program Assessment 60

OFHEO's Financial Operations 61
OFHEO's Budget 61
Unqualified Audit Opinion in Fiscal Year 2006 61

Charts
Chart 1: Mortgage Interest Rates 1
Chart 2: Home Sales 2
Chart 3: Enterprise Mortgage Asset Portfolios 6
Chart 4: Enterprise Net MBS Outstanding 6
Chart 5: Status of Consent Order (as of 12/31/06) 11
Chart 6: Net Income 49
Chart 7: Net Income Post-Restatement 49
Chart 8: House Price Appreciation 59

Maps
OFHEO House Price Index Percentage Growth by Census Division Fourth Quarter 2005 - Fourth Quarter 2006 4
OFHEO House Price Index Percentage Growth by State Fourth Quarter 2005 - Fourth Quarter 2006 59

Tables
Table 1: Articles of the May 23, 2006 Consent Order 8
Table 2: Consent Order Status Terminology 10
Table 3: Status of Consent Order (as of 12/31/06) 11
Table 4: Fannie Mae Minimum Capital Requirements, 2006 30
Table 5: Freddie Mac Minimum Capital Requirements, 2006 44
Historical Data Tables - Table of Contents 62

Year in Review

Housing Sector Retreats After Years of Solid Performance

The U.S. economy grew 3.1 percent over the course of 2006. It was the fourth consecutive year with more than 3 percent growth. The major contributors to the increase in real gross domestic product (GDP) in 2006 were personal consumption expenditures and nonresidential investments. Housing, which for several years had been a major contributor to real GDP, was a major drain on real GDP in 2006. Inflation, as measured by the Consumer Price Index, declined in 2006 to 2.5 percent, compared with 3.4 percent the year before. Labor market conditions continued to improve. The national unemployment rate declined to 4.6 percent, down from 5.1 percent the year before. That was the lowest level since 2000.

The Federal Reserve continued its tightening policy during the first half of 2006, but left rates unchanged in the second half of the year as inflationary pressures waned. The Federal Funds target rate ended the year at 5.25 percent, 100 basis points higher than at the start of the year and the highest level since 2001. Short-term yields increased as a result of the actions of the Federal Reserve. The one-year Constant Maturity Treasury (CMT) yield rose consistently during the first seven months of the year (more than 70 basis points), and peaked at 5.22 percent in July. Long-term interest rates behaved in a similar manner, but more moderately as the 10-year CMT yield peaked in May at 5.11 percent, and fell later in the year. Throughout 2006, the yield curve was relatively flat.

Mortgage interest rates followed the trend of long-term Treasury issues. According to

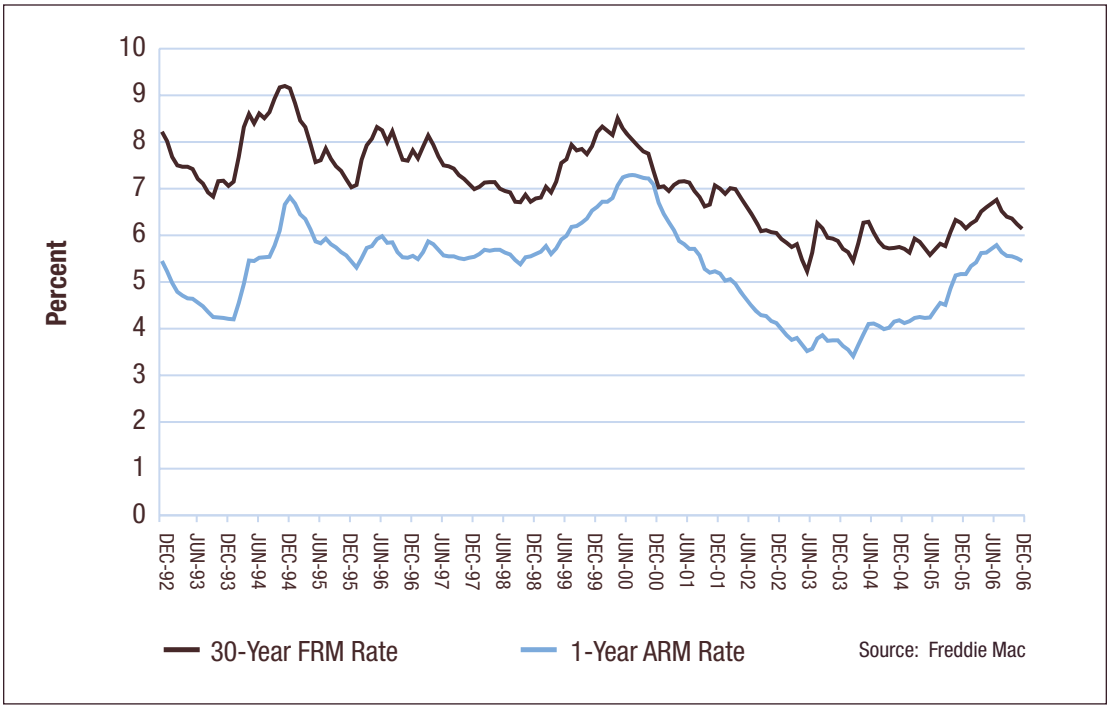
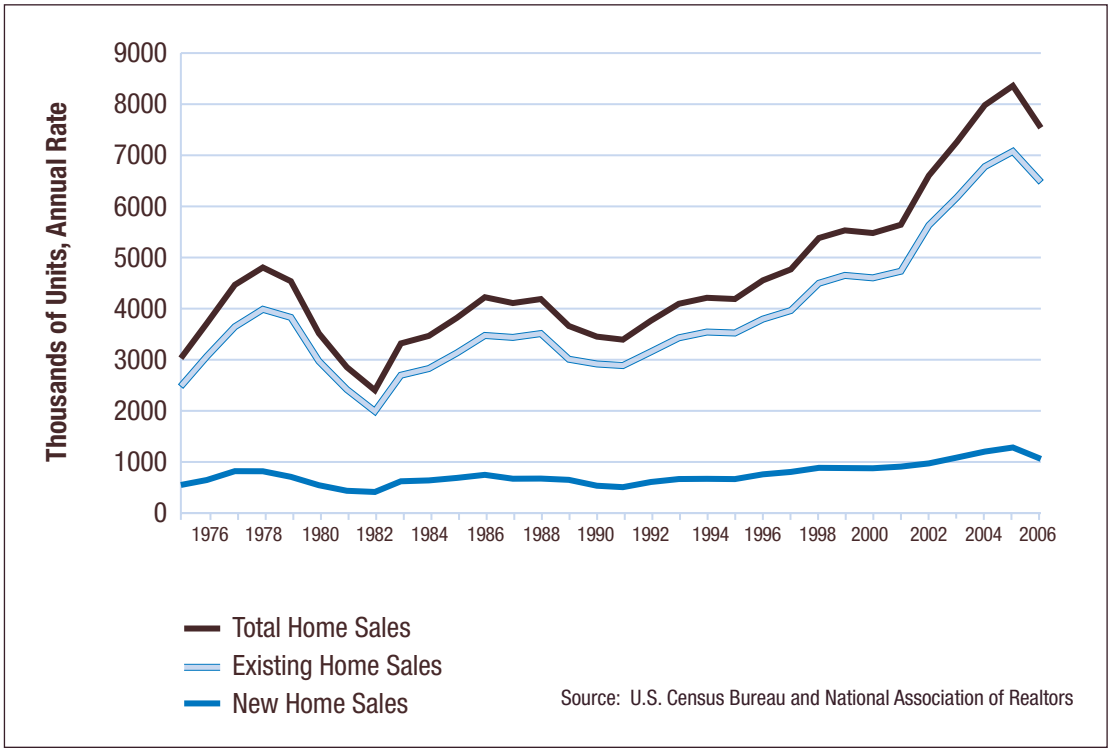


Chart 1 - Mortgage Interest Rates

Freddie Mac's Primary Mortgage Market Survey (PMMS), the average 30-year fixed-rate mortgage (FRM) commitment interest rate rose consistently until reaching a high of 6.76 percent in July. That was the highest level in four years. Rates declined in each successive month, to a low of 6.14 percent in December compared to 5.17 percent in December of 2005. For the year, the 30-year FRM commitment interest rate averaged 6.41 percent, 54 basis points above the average rate for 2005. The average commitment rate on one-year Treasury-indexed adjustable-rate mortgages (ARMs), following short-term rates, increased through July, before easing somewhat. For the year, the one-year ARM averaged 5.54 percent, 105 basis points higher than the year before (Chart 1).

Rising mortgage interest rates helped to cause activity in the housing sector to contract in 2006. Single-family housing starts declined sharply, by about 14 percent to 1.5 billion

Chart 2 - Home Sales



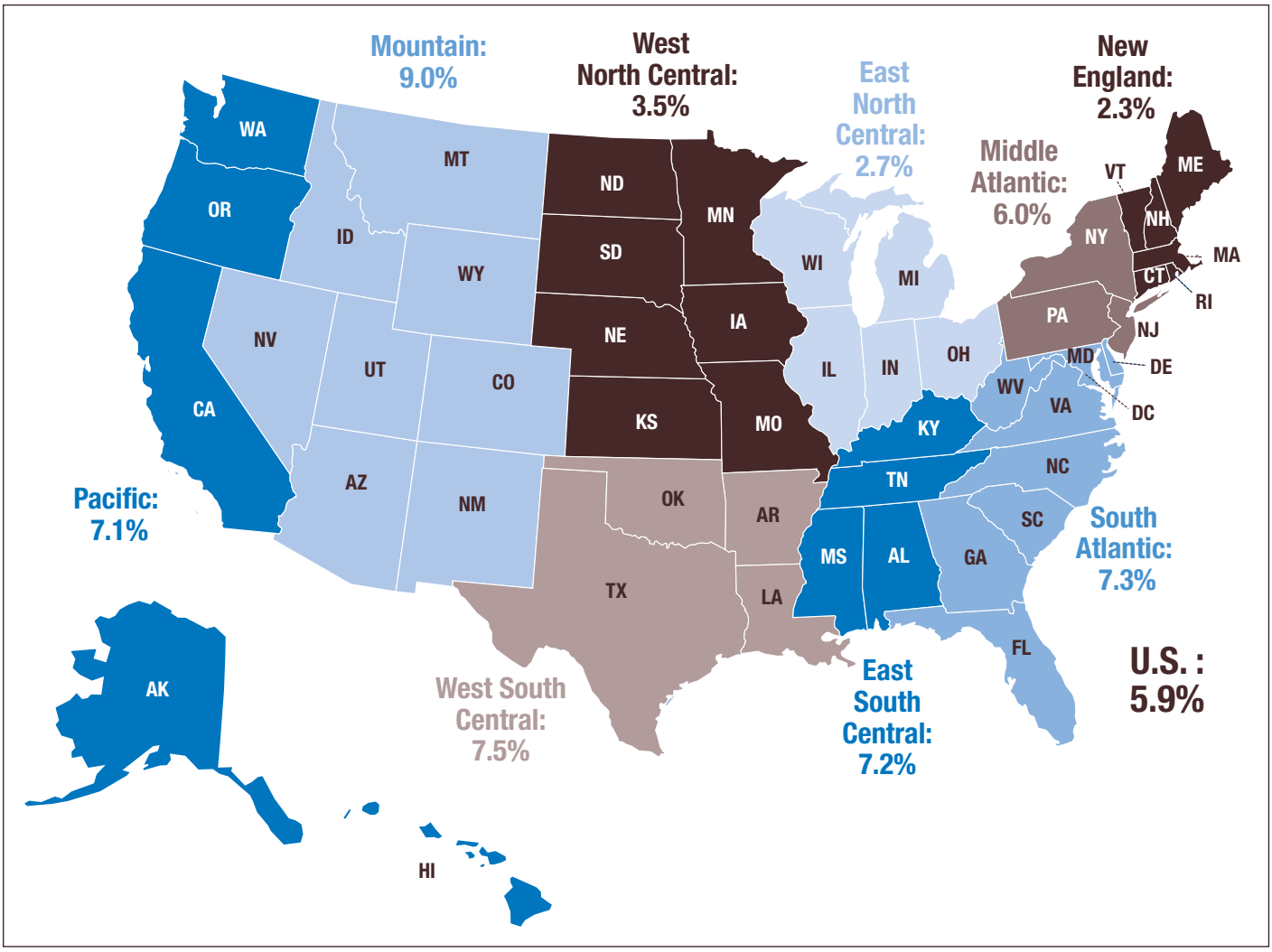
units. That was the lowest level since 2002. Housing inventory rose during most of the year as home sales declined. Sales of new single-family homes were down more than 17 percent, the largest decline since 1990. Sales of existing single-family homes declined 8.5 percent, the largest decline since 1982. Those sales combined totaled 7.5 million units, 9.8 percent below the 2005 level (Chart 2).

Following the pattern of home sales, according to *Inside Mortgage Finance*, originations of single-family mortgages fell about 4.5 percent in 2006, to $2.98 trillion. However, that was the second highest volume ever. The decline was concentrated in ARM products which had flooded the market in recent years and which became less attractive as interest rates rose and the spread between FRMs and ARMs narrowed. The share of refinance originations was also down 14.4 percent to $1.3 trillion, but remained strong given the rise in interest rates. Some ARM borrowers, whose mortgage rates reset, refinanced into FRMs.

A further indication of the cooling housing market was the decline in house price appreciation. While U.S. home prices rose throughout 2006, the rate of appreciation slowed as the demand for housing declined. After two successive years of double-digit rates of appreciation nationally, house prices as measured by OFHEO's quarterly House Price Index increased at a more moderate pace, 5.9 percent from the fourth quarter of 2005 to the fourth quarter of 2006. That was the lowest rate of appreciation since 1999 when prices rose 5.1 percent. All but one of the nine Census Divisions (West South Central) showed a decline in the rate of price appreciation. In absolute terms, the Pacific Census Division showed the greatest deceleration, with appreciation declining from 19.7 percent from the fourth quarter 2004 to the fourth quarter of 2005, to 7.1 percent from the fourth quarter of 2005 to the fourth quarter of 2006. However, in relative terms, the New England Census Division showed the greatest decline in appreciation over the same time period, falling approximately 77 percent, to 2.3 percent, which was lower than the rate of inflation (Map on page 4).

The National Association of Realtors' composite housing affordability index fell 5.1 percent in 2006, to 106.1. The lower affordability index reflects the increase in mortgage interest rates which caused the average mortgage payment to increase 8.8 percent more than offsetting the 3.2 percent growth in median family income. Continued high home prices in 2006 may have contributed to a slight decline in the homeownership rate, from 69.0 percent as of the end of the fourth quarter 2005, to 68.9 percent one year later. However, that rate was just slightly below the record level set in 2004 (69.2 percent). After declining slightly in 2005, the rental vacancy rate rose slightly in 2006, from 9.6 percent at the end of the fourth quarter 2005 to 9.8 percent one year later.

OFHEO House Price Index Percentage Growth by Census Division
Fourth Quarter 2005 - Fourth Quarter 2006



Financial Performance of the Enterprises in 2006

Fannie Mae and Freddie Mac both continued to work on issues related to their accounting, systems and internal control problems in 2006 and some progress was made. Fannie Mae made progress in its restatement efforts with the December release of its 2004 10-K reflecting restated financials for 2002, 2003 and 2004 financial results. As a result of the restatement, Fannie Mae recorded a decrease in retained earnings of $6.3 billion. Financial statements for 2005 are planned for release in 2007. Freddie Mac released 2005 results in May 2006. Although the Enterprise did not issue quarterly reports in 2006, it released 2006 results in March 2007 and is working toward returning to quarterly public reporting later in 2007.

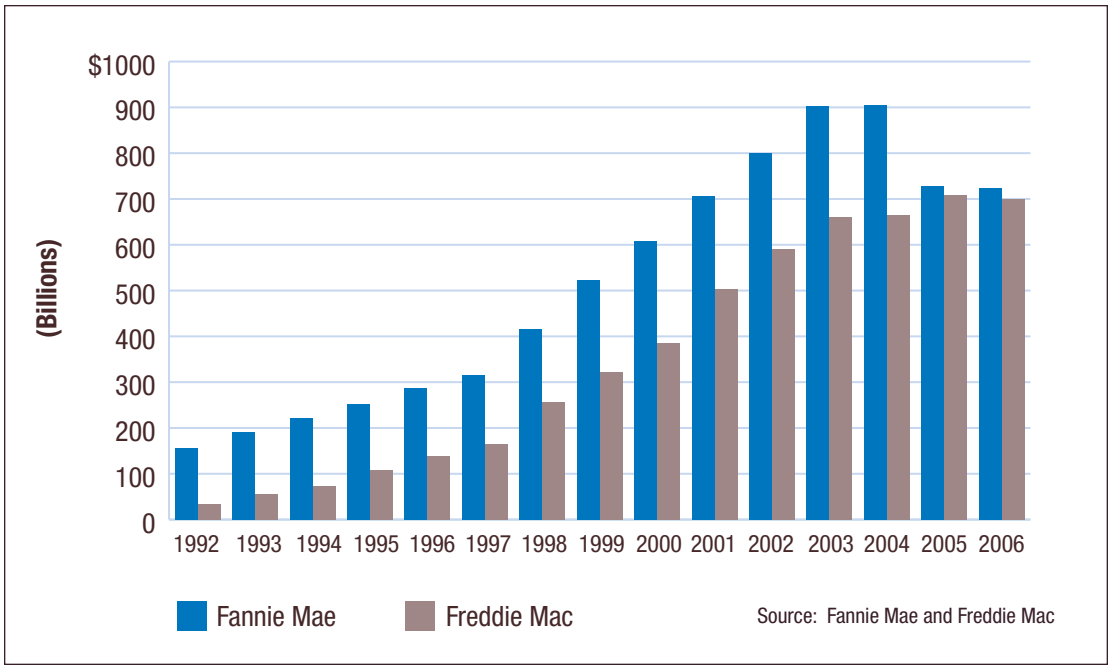
In May 2006, Fannie Mae agreed to a Consent Order with OFHEO to, among other things, limit the growth of its portfolio mortgage assets to the level held as of December 31, 2005 ($727.7 billion), until OFHEO approves an increase. Fannie Mae also paid a $400 million fine to the government as part of the Consent Order settlement. In August 2006, in response to OFHEO's recommendation, Freddie Mac announced that it had volunteered to limit the annual growth of its mortgage portfolio assets to no more than one-half percent each quarter above the level at June 30, 2006 ($710.3 billion) until reaching a maximum of 2 percent. Freddie Mac agreed to keep the voluntary growth limit in place until it returned to producing and publicly releasing quarterly financial statements prepared in conformity with Generally Accepted Accounting Principles (GAAP).

The limits on portfolio growth and continued competition for mortgage assets (which compressed spreads and limited investment opportunities) resulted in a slight shrinkage in the mortgage portfolio assets of both Enterprises in 2006 (Chart 3). That was the second consecutive annual decline in Fannie Mae's mortgage portfolio, but the first annual decline experienced at Freddie Mac since 1987.

While the lack of asset growth and continued competitive pressures from other mortgage investors and securitizers limited the performance of their retained portfolios, both Fannie Mae and Freddie Mac increased their guarantee business at healthy rates in 2006 and, based on available information, both were profitable and their combined books of business grew 8 percent.

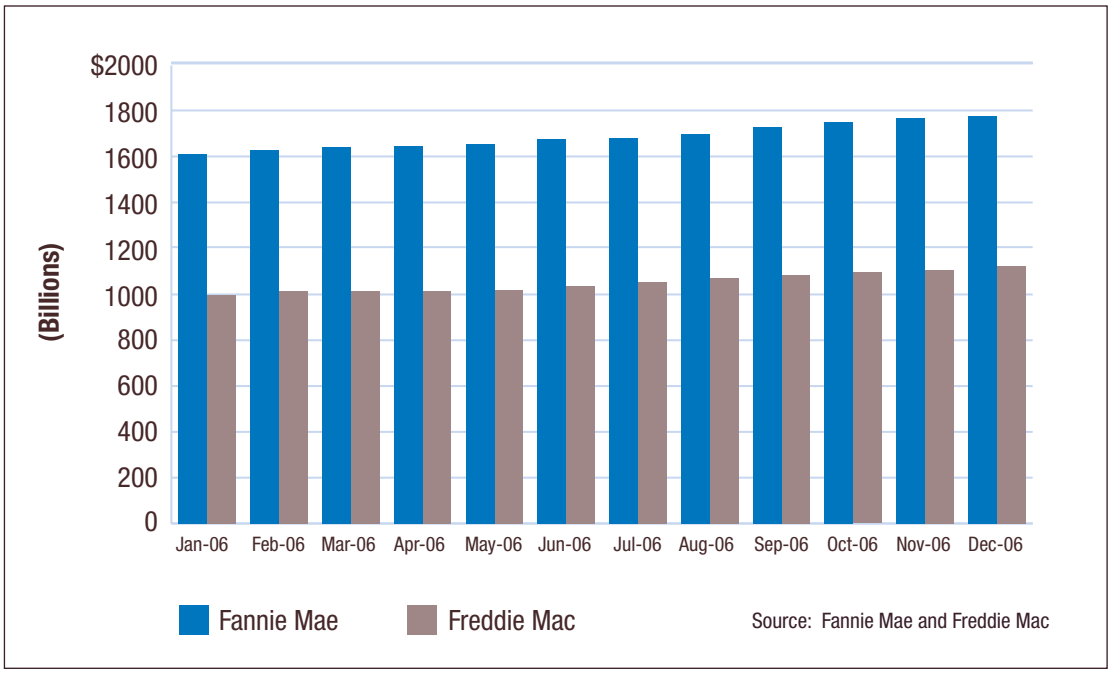
In 2006, Fannie Mae's net MBS outstanding increased by 11.4 percent, compared to 13.9 percent the prior year. Although net issuance of MBS declined by 5.6 percent, the decline was more than offset by a slowing of prepayments and declines of purchases of its own MBS. The Enterprise's total book of mortgage business increased 7.7 percent, compared with less than 1 percent of the year before, to $2.53 trillion.

Chart 3 - Enterprise Mortgage Asset Portfolios



Although Freddie Mac's MBS issuance volume declined about 10 percent in 2006, the decline was more than offset by the decreases in purchases of MBS into their own portfolio and the decline in liquidations. As a result, the Enterprise's outstanding MBS increased 15.2 percent in 2006 compared to 14.3 percent the year before to $1.12 trillion. Freddie Mac's outstanding MBS represents 63 percent of Fannie Mae's outstanding MBS. Freddie Mac's total book of business also grew 8.4 percent, down from 11.9 percent the year before.

Chart 4 - Enterprise Net MBS Outstanding



Both Fannie Mae and Freddie Mac reported that they were profitable in 2006. After declining for three consecutive years, net income at Freddie Mac, measured in accordance with GAAP, rose about 4 percent in 2006, to $2.2 billion. That increase occurred despite the sharp decline in net interest income ($1.1 billion) which was driven by a continued decline in the net interest margin. The net interest margin was 18 basis points lower than in the previous year. The higher net income booked in 2006 reflects higher guarantee fee income, increased gains on early debt retirement, lower mark-to-market losses on derivatives and the guarantee asset, and a decrease in tax expenses. Freddie Mac also reported higher fair value earnings for 2006, $2.5 billion compared to about $1.0 billion the year before. Freddie Mac's GAAP and fair value results support the conclusion that its business remains economically sound.

Although Fannie Mae is a Securities and Exchange Commission (SEC) registrant, unlike Freddie Mac, continued remedial accounting work has prevented it from releasing GAAP earnings for 2006. However, estimated financial information provided by Fannie Mae for the quarterly capital report, based on the application of accounting policies currently under review, indicates that the Enterprise achieved a reasonable degree of profitability. That was achieved despite continued high administrative expenses associated with the restatement, upgrades to systems, attendant staffing requirements, and restrictions on the growth of the retained mortgage portfolio.

GAAP earnings as reported by Freddie Mac and as estimated by Fannie Mae continue to exhibit high levels of volatility from quarter-to-quarter and year-to-year. Both Enterprises had a loss in the third quarter last year and Freddie Mac did in the fourth quarter as well. These losses reflect, in part, GAAP's requirements to mark some balance sheet items to market, but not others, which creates difficulties in interpretation. In the case of Freddie Mac, those results also reflect the accounting for the guarantee asset and liability associated with its guarantee business.

Credit risk at both Fannie Mae and Freddie Mac remained low in 2006, but was increasing at year-end. At Freddie Mac, the single-family delinquency rate, which rose in the fourth quarter of 2005 following hurricanes Katrina and Rita, declined during most of 2006 and ended the year at 0.53 percent, 16 basis points lower than the year-end 2005 level. The experience at Fannie Mae was similar. The Enterprise's single-family delinquency rate at year-end was 0.65 percent, 14 basis points lower than at the end of the previous year.

With low interest rate volatility in 2006, interest rate risk was moderate-to-low at both Fannie Mae and Freddie Mac during most of the year. The duration gap at both Enterprises averaged zero months, and the portfolio market value sensitivity (PMVS) at Freddie Mac averaged one percent.

Because of the continued high state of operational risk, OFHEO continued to require both Enterprises to maintain core capital 30 percent higher than their regulatory minimum capital levels in 2006. At year-end, Freddie Mac's capital of $36.2 billion exceeded its requirement by $2.6 billion and amounted to 4.5 percent of its assets.

As a result of the restated financial results for 2002 and 2003, OFHEO reclassified Fannie Mae as significantly undercapitalized throughout 2002, 2003 and 2004. During 2006, Fannie Mae raised its core capital to $42.3 billion, $4.2 billion above the OFHEO-directed requirement.

Supervisory Actions in 2006

Enforcement

Consent Orders

FANNIE MAE

On May 23, 2006, OFHEO and Fannie Mae entered into a Consent Order to settle matters related to accounting, internal control and other failures at the Enterprise that led to a restatement of earnings and significant losses to the Enterprise. OFHEO had previously entered into agreements with the Enterprise, but the Consent Order superseded these agreements and avoided the need for enforcement actions against the Enterprise. Fannie Mae paid $400 million to the government as part of the Order and agreed to numerous remedial steps. In addition to overseeing compliance with the Consent Order, OFHEO initiated administrative actions against certain separated senior officers for harm caused due to their conduct.

Table 1: Articles of the May 23, 2006 Consent Order

ARTICLE	DESCRIPTION
I.	Corporate Governance (16 issues)
II.	Board of Directors (7 issues)
III.	Capital Plans and Limitations on Certain Corporate Actions (5 issues)
IV.	Internal Controls (18 Issues)
V.	Accounting (8 issues)
VI.	Personnel (9 issues)
VII.	Compensation (4 issues)
VIII.	Reports, Data and Disclosures (4 issues)
IX.	Cooperation (6 issues)
X.	Reports to OFHEO (1 issue)
XI.	Penalty (2 issues)
XII.	Previous Agreements (1 issue)

FREDDIE MAC

OFHEO continued its oversight of the remediation efforts at Freddie Mac, also covered by a Consent Order dated December 9, 2003.

Litigation

FANNIE MAE

On December 18, 2006, OFHEO initiated an administrative action against former Fannie Mae executives Franklin Raines, J. Timothy Howard and Leanne Spencer, seeking affirmative relief and civil money penalties for allegedly improper and unlawful conduct. Hearings are scheduled for early 2008.

OFHEO has been subpoenaed in a shareholder litigation case before a District of Columbia District Court against Fannie Mae and its former executives Franklin Raines, J. Timothy Howard and Leanne Spencer. The various subpoenas require OFHEO to review upwards of 21 million pages of documents and other materials. The District Court judge established a schedule and process for production of these materials.

FREDDIE MAC

OFHEO continued its administrative action against former Freddie Mac executives Leland Brendsel and Vaughn Clarke. OFHEO responded to production motions and requests, including assembling of and reviewing for responsiveness and privilege, in excess of one million pages of documents. Hearings are scheduled for the fall of 2007.

Compliance

Consent Orders

FANNIE MAE

OFHEO published its Report of the Special Examination of Fannie Mae on May 23, 2006. At the same time, OFHEO entered into a Consent Order with the Enterprise requiring extensive remediation by the Enterprise and limitations on corporate activities. Based upon evidence established during OFHEO's Special Examination and in the interests of compliance and cooperation, Fannie Mae signed the Consent Order with OFHEO.

The May 23, 2006 Order commits Fannie Mae to a significant number of remedial steps, including halting growth in its retained mortgage portfolio; reviewing current and former employees for disciplinary actions and possible restitution; implementing plans to resolve accounting, internal control, corporate governance and risk management weaknesses; maintaining the capital surplus requirement; agreeing to oversight by OFHEO of senior officer appointments; and committing to cooperate with OFHEO on any enforcement actions. Fannie Mae agreed to pay a $400 million penalty to the government.[1]

The Consent Order is organized into 12 Articles, as shown in Table 1, having a total of 81 separate requirements. These requirements were developed by OFHEO to correct or eliminate specific deficiencies revealed during the Special Examination of Fannie Mae.

A previous agreement, entered into between OFHEO and Fannie Mae dated September 27, 2004 and a "Supplement to the Agreement of September 27, 2004" dated March 7, 2005, were also rolled into the May 23, 2006 Order.

Consent Order Oversight. As required by Section 1 of Article 1 of the May 23, 2006 Order, Fannie Mae had to prepare an annual compliance plan that detailed how the company would satisfy its obligations under the Order. On September 19, 2006, Fannie Mae's Board of Directors reviewed and approved the plan which was subsequently provided to OFHEO. The plan called for the establishment of a centralized program management office (PMO), to ensure coordination and consistent execution of remediation and reporting efforts. The PMO was placed under the leadership of Fannie Mae's Chief Compliance Officer who has served as the primary liaison with OFHEO. Each of the 81 issues contained in the Order was assigned to various OFHEO

[1] http://www.ofheo.gov/media/pdf/settlementrelease.pdf

management officials. These individuals, designated Executive Sponsors, are responsible for ensuring that Fannie Mae is in compliance with each Order requirement.

The 2006 Compliance Plan submitted to OFHEO was determined to be comprehensive and to reflect Fannie Mae management's commitment to fulfill the requirements of the Consent Order. Since the Order has been in place, Fannie Mae's Office of Compliance and Ethics has provided OFHEO management bi-weekly status and tracking reports and has conducted bi-weekly status meetings with OFHEO's Office of Compliance. The two offices have worked cooperatively to ensure that all parties understand the intent of each Order item and to facilitate timely completion.

Implementation Status of Consent Order. Fannie Mae has dedicated extensive resources and taken significant actions toward achieving compliance with the Consent Order. OFHEO finds the Enterprise to be working diligently to improve Fannie Mae's corporate culture and business operations.

As of December 31, 2006, Fannie Mae has been fully responsive to all deadlines established by the Order. For the purpose of characterizing Fannie Mae's current implementation status of the Order, OFHEO utilizes the following categories in describing each of the 81 issues:

Table 2: Consent Order Status Terminology

CONSENT ORDER STATUS		DEFINITION
IN COMPLIANCE	Full Compliance	Fannie Mae has fully complied with the intent of the Order and no further actions are required.
	Ongoing Compliance	Fannie Mae has complied with the requirements of the Order, however, one or both of the following actions are still required: 1) The implementation of planned actions must still be validated by OFHEO. 2) Periodic reports are still required.
IN PROCESS		Fannie Mae is working toward achieving compliance with an issue, however, it has not provided an official response to OFHEO as the issue is not yet due.
PENDING REVIEW		Fannie Mae has provided an official response to OFHEO, however, one or more of the following actions has occurred: 1) OFHEO officials are currently reviewing materials submitted by Fannie Mae as its official response. 2) OFHEO has requested additional supporting documentation from Fannie Mae. 3) OFHEO has taken a position that Fannie Mae has not met the intent of the Order and both parties are working together to reach an agreement.
NON-COMPLIANCE		OFHEO has taken a position that Fannie Mae has not met the intent of the Order.

As of December 31, 2006, the implementation status of the May 23, 2006 Consent Order is as follows:

54	In Compliance
	(20 in Full Compliance) (34 in Ongoing Compliance)
9	In Process
18	Pending Review by OFHEO
0	Not in Compliance

Table 3: Status of Consent Order (as of 12/31/06)

The following chart illustrates the December 31, 2006 implementation status as distributed by the 12 Articles of the Order.

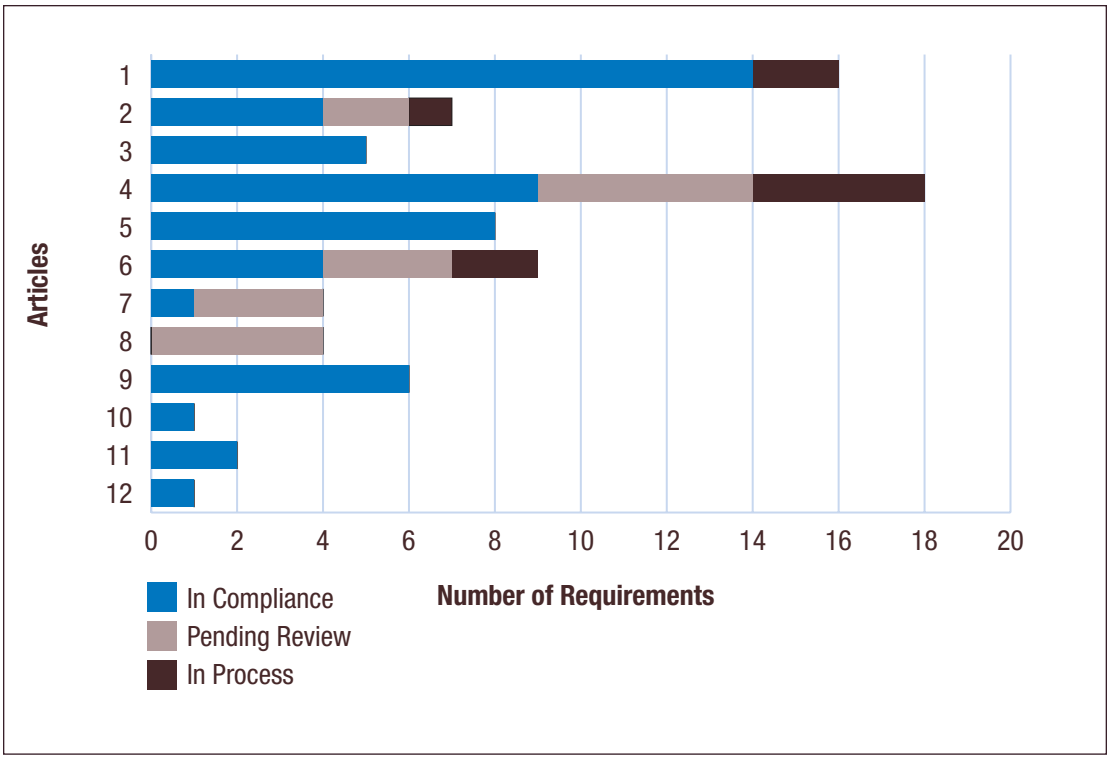


Chart 5 - Status of Consent Order (as of 12/31/06)

Next Phase. As of December 31, 2006, OFHEO recognizes that Fannie Mae has complied with 67 percent of the Order requirements. Approximately 22 percent of the Order issues submitted to OFHEO by Fannie Mae are pending review. In some cases, OFHEO has requested Fannie Mae provide additional supporting documentation or provide alternative solutions. Fannie Mae management has been receptive and cooperative with OFHEO management in developing solutions to satisfy the intent of the Order.

Of the issues designated to be in compliance, OFHEO has determined that Fannie Mae is in full compliance with 25 percent of the Order requirements and in ongoing compliance with an additional 42 percent of the Order requirements. Those designated to be in ongoing compliance with the Order generally fall into two categories. Many of the issues require Fannie Mae to submit quarterly, annual and other periodic statements or plans for specified or indefinite time periods. These issues will continue to be monitored and evaluated as necessary. Other issues required the submission of various action plans for approval by OFHEO. These plans have various implementation dates that will require an independent evaluation and validation by OFHEO examiners in the future.

FREDDIE MAC

Freddie Mac is in satisfactory compliance with the Consent Order dated December 9, 2003, but one provision that remains open is the separation of the CEO and Chairman of the Board positions. The Board of Directors submitted a two-year transition plan to OFHEO in late 2006 that addresses this matter. OFHEO continues to monitor management's progress against a comprehensive plan to address key issues highlighted by the Consent Order, including strengthening internal controls, developing a risk management oversight program, improving the internal accounting function, augmenting the internal audit program and striving to make positive changes to the corporate culture.

Other Supervisory Actions

Other Agreements

In September 2005, both Fannie Mae and Freddie Mac entered into an agreement with OFHEO on matters pertaining to subordinated debt, public disclosure of credit and interest-rate risks and liquidity management.

Freddie Mac has implemented actions to meet the requirements in the September 2005 Agreement. During 2007, Freddie Mac will expedite the quarterly credit risk assessment disclosure.

Fannie Mae has implemented actions to meet the requirements in the September 2005 Agreement, and continues to improve its compliance by strengthening its liquidity contingency tests and expediting its interest-rate risk disclosures. The Enterprise expects to begin making interest-rate risk disclosures for 25 and 50 basis point yield curve moves with information for the second quarter of 2007.

Executive Compensation

OFHEO's enabling statute and the Enterprise charter acts charge the Director of OFHEO with oversight responsibility in the area of executive compensation. OFHEO's statute requires the Director to prohibit an Enterprise from providing excessive compensation to any executive officer. 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.

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 Director may not approve any such agreement unless the Director determines that the benefits provided 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.

In addition to the requirements noted above, the Fannie Mae Capital Restoration Plan approved by OFHEO on February 17, 2005 requires that the Enterprise obtain OFHEO's prior approval for all payment of bonuses or other non-salary cash or stock-based awards to executive officers.

OFHEO's corporate governance regulation includes several requirements in the area of executive compensation. Specifically, the rule:

- Requires reasonable and appropriate compensation for directors, officers and employees, highlighting the need to avoid compensation incentives that excessively focus on short-term earnings;
- Requires that compensation programs consider risk management, compliance with the law and operational stability in addition to earnings; and
- Requires reimbursement by a senior officer if an accounting restatement is required under certain circumstances.

In 2006, OFHEO reviewed and rendered decisions on 21 requests for approval of compensation actions from Fannie Mae and Freddie Mac. These actions involved new hires, promotions, separation agreements, bonuses and other non-salary compensation. Seven of these 21 actions were taken pursuant to the guidelines set forth in Fannie Mae's February 2005 Capital Restoration Plan, which require approval of bonuses and long-term incentive awards to executive officers.[2]

[2] Subsequently in early 2007, as part of its review of issues raised by OFHEO's Report of the Special Examination (May 2006), the Enterprise acted to eliminate bonus payments to certain executives and to take disciplinary action against a number of individuals.

Report of Annual Examination of Federal National Mortgage Association/Fannie Mae

Examination Authority and Scope

Examination Authority and Reporting Convention

This Report of Examination contains the results and conclusions of OFHEO's 2006 annual examination of the Federal National Mortgage Association ("Fannie Mae" or the "Enterprise") performed under section 1317(a) of the Federal Housing Enterprises Financial Safety and Soundness Act of 1992 (12 USC § 4517(a)). The OFHEO annual examination program assesses the Enterprise's financial safety and soundness and overall risk management practices. OFHEO utilizes a "CAMELSO" methodology (**C**apital Adequacy, **A**sset Quality, **M**anagement, **E**arnings, **L**iquidity, **S**ensitivity to Market Risk, and **O**perations), similar to that adopted by the federal depository institution regulators, to report examination results and conclusions to the Board of Directors and to Congress.

2006 Examination Scope

OFHEO's examination activities focused on: supervision provided by senior management, enterprise risk management and internal audit, corporate governance functions, internal controls, information technology, credit risk management, accounting practices and compliance with the requirements of the September 2005 Agreement and the May 2006 Consent Order. OFHEO supervisory activities also included reviews of asset quality, counterparty concentration risk management, market and interest-rate risk management practices, earnings performance, capital adequacy and liquidity.

Fannie Mae remains a significant supervisory concern.

Examination Conclusions

The Enterprise remains a significant supervisory concern. Although progress has been made in correcting deficiencies, significant issues remain and are centered in data, systems, controls and risk measurement and management. Data and systems limitations have generated extensive deficiencies, the inability to measure several risks with the highest degree of accuracy and the inability to establish controls that meet industry standards in many areas. These limitations, coupled with incomplete metrics, adversely impact report accuracy and meaningfulness, impeding communication and the management of operations, risk and performance. Risk management deficiencies are most acute in the Housing and Community Development business unit and the management of counterparty exposure aggregation. Some limits in corporate policies

need strengthening and the development of many management policies and written procedures is in the initial stages. Several necessary positions in risk management and in model development and validation have been difficult to fill due to external factors.

Management has devoted substantial effort to address the Enterprise's deficiencies, but corrective programs are in varying stages of completion and many are in their initial stages. Financial statements for the years 2002 through 2004 were completed, but substantial work remains to complete years 2005 and 2006 and become a current filer. Significant progress has been made in initiatives needed to launch corrective programs in such areas as corporate policies, organizational structure, personnel numbers and expertise, risk measurement, and controls that correct or partially mitigate many deficiencies. In addition, the independent oversight functions have appropriate expertise and authority and have been key drivers in addressing control and risk management issues in the business units. Management has demonstrated its ability to plan, prioritize, monitor and control major projects. These efforts have built the foundation for future progress.

The Enterprise has: (1) a qualified and active Board of Directors and senior management team with a supervisory program that is incomplete but improving; (2) operations with significant control deficiencies that adversely impact risk management and expansion into new products; (3) weaknesses in several areas of credit-risk management but strong asset quality; (4) a minimally satisfactory interest-rate risk management program with deficiencies in interest-rate risk measurement; (5) satisfactory management of liquidity; (6) fair earnings; and (7) adequate regulatory capital. Current and future earnings are adversely impacted by declining net interest margins and competitive pressures. Structural and economic issues in the mortgage markets and the Enterprise's desire to expand activities in higher-risk products heighten the importance of developing economic capital measures to better quantify risks and performance, as well as stronger financial performance measurement and attribution analysis.

Matters Requiring Board Attention

Key matters highlighted in this report requiring strong Board oversight are:

- ***Project Management.*** Monitor project management for operations, information technology, internal control and measurement of risk and performance. Evaluate the enterprise-wide plan for the prioritization and coordination of projects, and the impact and reason for delays. Ensure interim processes and controls are completed and regularly audited until long-term, sustainable solutions for data and systems are finalized. Ensure appropriate project management in all key areas of change.
- ***Management Communications.*** Ensure appropriate management completes its formal structure for decision protocol and the escalation of issues; business unit risk management; optimized pricing and measurement of risks and performance; and the coordination and rationalization of activities among the business units.

- ***Interest Rate Risk.*** Approve strengthened corporate limits for interest rate risk. Ensure business unit policies and written procedures are completed and that all policies and limits are periodically updated and incorporated into business practices.
- ***Management Reporting.*** Ensure management improves the reporting of risks, performance, and operational issues through the use of accurate information and enterprise-wide and business unit metrics and summary reports for the Board and senior management that highlight key information and issues.
- ***Infrastructure.*** Ensure management has completed an infrastructure that has sufficient data, information technology systems, controls, reports and personnel in place before the Enterprise significantly engages in new products.
- ***Internal Controls.*** Monitor management's progress toward remediating the significant number of internal control deficiencies to enable the release of accurate and timely financial statements. This remediation should permit a return to controls-based auditing and ensure a sustainable control environment for financial reporting.

Board and Management Supervision

Board of Directors

The Board improved its structure and operations during the year through better policies, strengthened organizational structure and expertise and better information flow with the business units and independent oversight functions. Continued oversight by the Board is needed to ensure the appropriate planning, prioritization, control and completion of the myriad projects and changes in progress. Risk and performance metrics are incomplete, preventing or impeding effective and standardized communication.

Corporate policies were approved around year-end 2005 and were largely satisfactory. The Board's annual review is expected to result in needed improvements in some limits, such as strengthened interest-rate risk limits.

The Board's structure was strengthened through a revised committee structure and increased Board independence. The charters were rewritten for all six committees. The two new committees address risk management, and technology and operations. Independence was improved with independent directors on the Compliance Committee, and the separation of the positions for CEO and Chairman of the Board in 2005. Six new Board members brought needed expertise in accounting, finance and business operations.

Communication was improved through more accurate and complete management presentations, candid information from independent oversight functions and improved

reports in areas such as internal audit and interest rate risk. However, communication will remain impaired until management, the Housing and Community Finance Committee and the Risk Policy and Capital Committee complete the development of corporate metrics for risk, performance and operations.

Management and Human Resources

Management's supervision program is incomplete, and uncorrected deficiencies continue to adversely impact or impede effective supervision and decision making for the Enterprise. Management made significant progress in building a program that will allow for improvement in the future, but many programs and corrective actions are in their initial stages.

Deficiencies in management are centered in controls, communication and information used in managing risk, performance and operations.

Deficiencies in management are centered in controls, communication and information used in managing risk, performance and operations. Corporate policies are largely complete but some corporate limits need strengthening, and management policies and written procedures are in varying stages of completion. Communication has improved, but the inadequate escalation of a few issues indicated continued weaknesses in the information flow from middle management. Issues in data and systems coupled with varying quality in report content and format impact the quality and meaningfulness of many summary and executive management reports. The issues in reports and metrics impede a comprehensive understanding of all key issues by all executive management and the optimization of risk and performance management.

During the year, some business activities were poorly managed or little progress was made on projects. The lack of a satisfactory vendor management program coupled with the large increase in vendors fostered excessive costs. Aggregated counterparty credit risk was improperly reported, reducing the effectiveness in managing counterparty risk. Significant efforts failed to generate a complete program to correct deficiencies in the Acquisitions, Development and Construction (ADC) program during 2006 due to the magnitude of necessary changes. Although management expended significant efforts to correct these deficiencies once the issues were discovered or understood, much work remains to be done.

In several areas, management has made significant progress in addressing deficiencies in controls and building a structure and programs which will allow for future improvements. Corrective projects were initiated for major deficiencies in all business lines. Critical projects were satisfactorily planned and prioritized and addressed both interim solutions as well as long-term programs to address the Enterprise's deficiencies. However, progress varied widely due to the focus and resource demands needed to address financial reporting and disclosure issues. Efforts appropriately focused on the restatement project, accounting policies and control issues in the Controller department, but delayed several critical but lower-priority projects needed for current production.

Major progress was made in several areas, which include:

- Revising and implementing new organizational structures for management committees, business units and independent oversight, and providing independent oversight with appropriate authority.
- Significantly improving the coordination and communication among business units as well as new and long-time personnel. Improving accountability for management and staff.
- Improving Board-level risk policies and limits.
- Hiring management and staff who bring needed expertise in industry standards.
- Remediating the identified Sarbanes-Oxley control deficiencies.
- Formalizing the delegations of authority for Senior Vice Presidents and higher-level executives, which was complete at year-end 2006.
- Initiating quality control programs, such as the pilot leading to corporate-wide use of Lean Six Sigma Concept.

Management has substantially improved the number and expertise of management and staff. Personnel numbers have increased by about 18 percent over the past two years, with the increase focused on staff to strengthen controls, governance and risk management. Over 35 percent of senior management positions and 53 percent of all officer positions are filled with outside hires. Management continues its efforts to fill vacancies, which are centered in model development and validation and in risk management in Housing and Community Development. Delays in hiring have largely been due to external factors.

Enterprise Risk Management

The Chief Risk Officer (CRO) division was substantially improved during 2006, and the function accelerated improvements during the last half of 2005 as the permanent management team was hired. The CRO is addressing issues associated with the newness of the function, which include insufficient staffing levels and independent metrics, reports and risk measurement. Risk officers in the business units monitor risk and coordinate risk management with the CRO division, Internal Audit and the Compliance and Ethics division, but improvements are needed in expertise and time devoted to risk management.

The CRO division has been instrumental in improving business unit controls and standards, and introducing discipline and formal limits and approval processes for controlling risks and activities. Management and staff are technically strong and worked with the business units to incorporate industry standards or best practices into their policies, operations and risk management. The independence of the CRO division will remain compromised until its work in building out the business units' programs is complete and it has access to reports that are produced independent from the business units.

Audit

During 2006, OFHEO did not rely on completed audits to support examination activities but will evaluate the appropriateness of reliance on Internal Audit work in 2007. The Audit department exhibited weakness during most of the year due to a program with deficiencies or inefficiencies in policies, quality and numbers of management and staff and its programs for managing the audits and the department's administration. However, Audit management's significant efforts and continual improvements throughout the year addressed the department's deficiencies, culminating in a satisfactory program at year-end 2006.

The Audit department exhibited deficiencies throughout its program that stemmed from former management. The new Chief Audit Executive developed a program that prioritized and corrected the issues. Major accomplishments include appropriate independence and authority, satisfactory risk assessment methodology applied to a sufficiently granular audit universe, meaningful communication and reports for the Board and business unit management, the build out of the audit management team and efforts that have significantly contributed to the improvement of business unit controls and standards.

Operations

Operational risk is high and controls are weak but improvements were made in 2006. Poor or manually-intensive controls for many processes continue to represent moderate to significant deficiencies throughout the Enterprise. Manual controls have reasonably addressed several significant deficiencies but many cannot be fully corrected for years until improved and integrated systems fully automate processes.

Control issues noted during 2006 include:

- Controls in many areas are manually intensive and/or do not meet industry standards primarily due to systems deficiencies. Many corrective actions provide the best controls possible in the current systems environment, but cannot fully mitigate the risks in reconciliations, report accuracy and segregation of duties. Some mitigating controls have not been proven sustainable. Material weaknesses exist in systems access controls.
- Management policies and written procedures used to communicate and standardize controls are incomplete. Metrics for risk, performance and operations are being developed but additional work is needed to define the metrics before this project can be completed.
- Many reports are not meaningful due to deficiencies in accuracy, timeliness or report content. Summary or executive management reports do not provide or highlight all needed information. In addition, the Chief Risk Officer division does not have access to reports produced independently of the business units.

Management has devoted substantial effort to improve controls, but corrective programs are in varying stages of planning and implementation. Management has established the foundation for programs that have addressed several deficiencies and has plans to improve operational processes and controls and Information Technology (IT) data and systems over time. Significant progress has been made in initiatives needed to launch the corrective programs in such areas as policies, staffing and organizational structure. In addition, management has demonstrated its ability to plan, prioritize, monitor and control projects. Deficiencies in vendor management were addressed with actions that focused on both the specific issue and the root cause to address its impact on other Enterprise activities.

Major areas of improvement or accomplishments include:

- The restatement project was satisfactorily planned, implemented and controlled using end-to-end work streams, which will help in completing the 2005 and 2006 financial statements. Many deficiencies in controls for Sarbanes-Oxley requirements have been addressed. However, significant work remains to rework restatement operations into catch-up and get-current operations, incorporate accounting functions that comply with Generally Accepted Accounting Principles (GAAP), and then integrate with existing production operations.
- By late 2006, operations were centralized in an independent business unit, Technology, Data, and Operations (TDO). TDO has been reorganized and new management is developing plans to address deficiencies in operations IT.
- Corporate policy for operations is complete, but management policies and written procedures will require substantial effort to complete.
- The CRO, Internal Audit, Chief Compliance Officer and the Sarbanes-Oxley review function are building and coordinating independent oversight of operational activities.
- Many issues in end-user computing were satisfactorily addressed and controlled.
- Controls in Treasury operations were improved to reasonably mitigate deficiencies identified in wire transfer segregation of duties.

Information Technology

Most of the Enterprise's back-end and accounting applications are aging platforms and legacy business applications. That has significantly contributed to an ineffective internal control environment. The systems are able to provide stable performance for traditional loan product transactions, but this is due to the significant level of support provided by experienced teams that can address production challenges. Systems limitations have contributed to the inability to establish segregation of duties controls that meet industry standards and to deficiencies in conducting and controlling accounting and transaction processing and reconciliation. Data repository and platform deficiencies impact the ability to produce accurate and timely performance and risk information for internal use and external disclosures. Significant work remains to integrate restatement, catch-up and

get-current operations and GAAP-compliant accounting functions with current production operations.

Resources remained strained throughout 2006 due to the cumulative effect of maintaining normal business operations and improvements while also addressing inconsistent data repositories, legacy platforms and applications that are unable to meet changing business, market and regulatory requirements. As work on past financial statements is completed, employees will devote more time to other critical assignments and their regular jobs and consultants will be released. However, the plan to transfer knowledge to employees as consultants leave is not complete. As management properly continues to reduce administrative expenses, care should be taken to ensure adequate resources are available to continue the improvements in this area.

Business continuity and crisis management are well controlled with recovery plans and redundant data, systems and locations.

Management's efforts have improved but not fully addressed deficiencies, and programs are in varying stages of improvement:

- By late 2006, the management of the Enterprise's technology and business operations was centralized in an independent business unit. TDO, this new business unit, has been reorganized and has new management.
- TDO has developed comprehensive plans to address or mitigate control deficiencies and data quality, but many aspects of these plans have not been finalized or fully implemented. New TDO management is reviewing plans for integrating data management requirements with data center architecture plans. Full implementation of the plans will take years.
- All data used in the restatement were scrubbed for quality, but not all data used within Fannie Mae have been scrubbed. Unscrubbed data are used internally in some areas such as interest-rate risk measurement, creating some level of inaccuracy in model results. Management expects data used for financial reporting will be made accurate as financial statements are timely filed. Other data will take more than one year to correct.
- Aggressive but achievable plans for many IT projects were executed primarily by contractors that doubled the IT staff. Deficiencies in contractor selection and management led to inefficiencies and adverse events. Management began improving the process after these events.
- Projects to develop systems for Servicer and Investor Reporting (SIR), Federal Reserve Daylight Overdraft requirements and the segregation of funds used to make payments on debt and MBS were well planned, appropriately integrating IT and business unit interests. However, the SIR project suffered several delays due to restatement staffing requirements.

. . . management initiated a stronger program to address its data issues and revise the plan to evaluate and improve IT throughout the Enterprise.

In late 2006, management initiated a stronger program to address its data issues and revise the plan to evaluate and improve IT throughout the Enterprise. Management expects major progress in improving both data and IT during 2007.

Compliance

The new Compliance and Ethics division made substantial progress in building its organizational structure and initiating programs to meet its function. However, significant work remains in completing its projects and coordinating an efficient program with the business units. Major accomplishments include: coordinating with the Board and management compliance committees; completing the employee code of conduct; coordinating Consent Order compliance; and making substantial progress in formalizing delegations of authority, standardizing policies and procedures, establishing a centralized policy repository and improving regulatory protocol with OFHEO.

Accounting

Management has completed an evaluation of the Enterprise's accounting policies, and has provided OFHEO with some of the documents required to comply with OFHEO's accounting guidance. However, significant risks remain in that Fannie Mae is currently not producing timely quarterly and annual financial reports. The current financial reporting environment has proven stable enough to produce financial statements related to the restatement, but the Enterprise is not currently under the tight reporting timeframes that would be required of a timely filer and therefore it remains to be seen if the processes it is developing are robust enough to handle the task.

Fannie Mae made progress in 2006 toward returning to timely financial reporting by completing the restatement of 2002, 2003 and select 2004 information. The Deloitte & Touche report accompanying the restatement disclaimed an opinion on management's assessment of the effectiveness of the company's internal control over financial reporting as of December 31, 2004, because of a scope limitation. The Enterprise's external auditor's report also expressed an adverse opinion on the effectiveness of the Enterprise's internal control over financial reporting as of December 31, 2004, because of material weaknesses and the effects of a scope limitation. Deloitte & Touche issued an unqualified opinion on Fannie Mae's 2004 financial statement.

The Enterprise has begun effecting change in its control environment, which is the foundation for all other components of internal control. However, a significant number of control deficiencies still remain. Given the control deficiencies that are applicable to the financial statements, remediation efforts remain a critical concern. The Enterprise has made significant progress on the implementation of Section 404 of the Sarbanes-Oxley Act of 2002 (SOX); however, the Enterprise's SOX remediation is still in progress. The Enterprise is making significant progress toward closing its pervasive high- and medium-ranked 2005 deficiencies; nevertheless, remediation of some control deficiencies remains incomplete.

Model Risk

The significant shift in business unit and Chief Risk Officer (CRO) resources to the restatement has appropriately focused efforts on developing and validating financial reporting models, which represent many of the Enterprise's highest-risk models. However, this shift caused significant delays in developing, implementing and/or validating other models that represent high to moderate risk. Validation work has been expedited with an incomplete CRO staff coupled with the use of consultants. Management plans to transition model development staff from restatement and catch-up efforts as their work is completed, which should allow the results of their work on current production models to be in effect by late 2007. However, the results from several models cannot achieve the highest degree of accuracy until TDO addresses the Enterprise's data quality issues.

Significant progress has been made toward the development of a revised model risk management program. The program design is satisfactory, but work remains in implementing a fully functional program. Organizational structure and processes redesigned include model development, operation, independent validation, documentation and other controls. Corporate policies are satisfactory and written procedures are incomplete but in progress. The model inventory is complete, and progress was made in independently validating key models and some types of documentation. Program implementation has been slowed by restatement and catch-up efforts and the need for additional qualified developers in the Business Analytics and Decisions department.

Asset Quality and Credit Risk Management

The overall asset quality is strong with all loan and security portfolios exhibiting favorable quality and performance throughout 2006. Credit risk increased slightly from growth in sub-prime and other non-traditional products, but currently represents a low impact to earnings and capital. Credit risk from sub-prime and non-traditional loans, and securities collateralized by them is maintained at low levels through underwriting standards, credit enhancements and/or position limits. Counterparty credit risk represents significant exposure for the Enterprise.

Credit risk management has improved, but significant deficiencies centered in Housing and Community Development (HCD) and counterparty credit risk management continue to impede its effectiveness. The business units expended substantial effort in correcting deficiencies during 2006, but progress varied significantly among projects and business units. Many of HCD's projects are in their initial stages. Data and systems issues continue to adversely impact report quality in nearly all areas of credit risk. HCD's Risk Office, with oversight from the CRO division, was a key driver in correcting many issues in risk management, with the CRO helping to compensate for insufficient levels of risk management personnel in the business unit. Anti-fraud detection methodologies were improved for both single- and multifamily loans.

Single-Family Business

Asset quality is strong due to a book of business that is mostly comprised of traditional mortgage products. Delinquencies remain low and manageable, with the serious delinquency rate at about 0.61 percent of the book and losses at about 0.016 percent. Losses due to Hurricane Katrina were low and less than originally estimated. Higher-risk products such as interest-only, sub-prime, Alt-A and negative amortization loans are growing, but are currently about 20 percent of the book of business. New initiatives target product growth in some higher-risk products.

Deficiencies remain in policies, staffing and report quality. Many of the policies and written procedures are outdated or incomplete. Additional staff is needed in risk management and some business units, with the deficiency most acute in Single-Family Credit (SFC), which includes the management of counterparties for single-family loans. Systems permit adequate service to clients for traditional loan products, but their deficiencies impact the Enterprise's ability to quickly introduce new products or enhancements. In addition, data and systems deficiencies continue to impact report design, accuracy and functionality. Delegations of authority were approved at higher management levels, but must be completed for management at lower levels.

SFC made progress in addressing the large number of operational, control and risk management deficiencies. In addition, progress has been made in codifying and implementing policies and written procedures. Business processes were significantly improved in the National Underwriting Center and the National Business Center. Loss management at the National Servicing Organization is now satisfactory.

Management completed or significantly improved several functions near the end of 2006. It will require time to determine the effectiveness of the changes. Executive management made progress in addressing issues in accountability and authority. The credit policy and limits for SFC and counterparty were completed at year-end 2006, and the business centers are in the process of completing policies to help standardize their practices. Management is re-engineering the credit-risk management framework to build out processes and formalize authorities. Issues in report accuracy, content and format are being evaluated by SFC. Staff numbers and expertise were improved in SFC, but vacancies remain. The quality assurance function for Product Acquisition Strategy and Support has nearly completed process flows and document procedures for the lender and investor channels. The loan loss reserve methodology used for all of Fannie Mae's mortgage products is reasonable.

Housing & Community Development (HCD) – Multifamily Business

The multifamily portfolio's problem loans had a low impact on earnings during 2006 with serious delinquencies at 0.08 percent of the total portfolio and losses at 0.00006 percent. Losses were unusually low due to higher than expected sale prices of Other Real Estate Owned (REO) properties, workouts in the Gulf Coast hurricane-affected areas and low loss severity levels on defaulted loans.

HCD exhibits numerous deficiencies in controls, reports, policies and written procedures and staff numbers and expertise. Data and systems issues coupled with a low degree of automation adversely impact the efficiency of operations and the accuracy, completeness and timeliness of risk management reports, compromising the ability to manage risks and make business decisions. These deficiencies were material in the Acquisitions, Development and Construction (ADC) program, and the program was closed until program deficiencies are corrected. Staff vacancies remain throughout HCD and are primarily in risk management.

HCD management has developed a remediation plan and has made progress in correcting several of the division's deficiencies, but many projects are in their initial stages of correction and full implementation of the new program will take two to three years. The HCD risk management team, with oversight from the CRO division, has been taking steps that appear likely to ensure HCD's improvements will meet industry standards. HCD's efforts have focused on a complete revision of policies and the organizational structure, and the build-out of the operations and the credit-risk management functions. The entire portfolio was risk-rated by year-end 2005. The Loss Mitigation unit provides improved and expanded coverage for problem assets. The HCD quality-control process was improved and expanded to provide better coverage of HCD loans. Vacancies are being filled, but external factors have slowed progress.

Liquidity and Retained Mortgage Portfolios

The liquidity investment portfolio exhibited high credit quality. In the retained portfolio, asset quality is strong, with product losses controlled by collateral, insurance and/or first loss coverage. Private-label securities are restricted to AAA-rated product until program deficiencies are addressed. Traditional single-family, fixed-rate mortgages and securities collateralized by those mortgages represent about 48 percent of the portfolio and all fixed-rate product represents about 70 percent of the retained portfolio. Adjustable-rate mortgages (ARMs), floaters, hybrids and multifamily product are about 30 percent of the retained portfolio. Private-label securities make up about 10 percent of the portfolio and are mostly comprised of floating-rate product. These categories overlap.

Systems deficiencies affect analysis and proactive management of the portfolio by preventing the generation of reports with sufficient granularity for the product sub-sectors of the portfolio. In addition, accounting and operational constraints for whole loans impedes active management planned in the future and may adversely impact return optimization. Management of private-label securities has improved with revised policies and timely watchlist reports. However, a stronger program is needed before private-label securities rated lower than AAA are purchased. The CRO is a key driver in incorporating industry standards and the use of benchmarks in portfolio management.

Enterprise Counterparties

Risk from counterparties and concentrations in similar types of counterparties represent a significant risk for the Enterprise. The top nine mortgage servicers process 71 percent of the servicing book. The Enterprise's single largest servicing counterparty is Countrywide, which services 21 percent of the $2.1 trillion servicing book and 20 percent of the $90 billion private-label securities portfolio. Mortgage insurers also represent a significant level of counterparty risk for the Enterprise, with the top seven companies providing insurance for 17 percent of the $2.5 trillion book of business.

The CRO and business unit risk managers are correcting program deficiencies.

The business units use basic practices in several aspects of risk management for individual counterparties. Counterparties are evaluated with credit-risk ratings, financial statement analysis and/or on-site visits. Risks from servicers are further managed with on-site reviews of operations and contract compliance as well as monitoring and coordination to address problem loans. Policies provide limits for individual counterparties based on a percentage of capital.

The program to identify, aggregate and communicate counterparty risk is ineffective, but deficiencies are being addressed by an effort led by the CRO.

Program deficiencies include:

- Exposure to individual counterparties is not properly aggregated, creating errors of varying degrees of magnitude. Limits adequately controlled the risk that was actually measured for individual counterparties, however, 15 types of counterparty risk were not captured in the measurement.
- The Risknet system requires manual input, increasing the potential for errors. This proprietary system should be replaced with a vendor system that can provide cost-effective functionality.
- Deficient Board reports do not provide complete or accurate information on aggregated exposure to counterparties.

Poor accountability and communication has contributed to the inconsistent escalation of problems in counterparty risk and other credit risk issues. Management's efforts culminated in formalized delegations of authority and better communication by year-end 2006.

The CRO and business unit risk managers are correcting program deficiencies. The CRO and the newly created Potential Future Exposure Committee have identified previously uncaptured sources of counterparty risk. Improved exposure identification and measurement is underway, and the existing methodology is in use until better methods are established. The CRO began to improve the reports and aggregate and monitor the risks in late 2006.

Liquidity

Liquidity risk is low due to ample asset liquidity relative to net cash needs and management that is effective but requires improvement in minor to moderate issues with limits and operations. Portfolio securities provide strong coverage of Fannie Mae's net cash needs beyond 90 days, with the calculation using conservative values for the portfolio securities. Management has consistently maintained the liquidity investment portfolio in excess of 5 percent of portfolio assets. Asset liquidity places a high reliance on repurchase agreements (repo).

Board policies provide guidance for responsibilities, short-term funding, liquidity investment portfolio credit quality and the use of a severe scenario which assumes no new debt issuance for 90 days. Board and management policies were revised during 2006 to address requirements detailed in examinations and the September 2005 Agreement. The revised policies are expected to be formally approved in 2007.

Processes and controls for obtaining asset liquidity are satisfactory but inefficient and increase the potential for errors. Cash management processes are satisfactory due to recently improved automation of cash forecasting which provides real-time monitoring of receipts and disbursements. However, the new repo funding process is not fully automated or intuitive, and the old system is proven but is only useful for moving large blocks of collateral during stress events. Management implemented processes during the year which largely mitigated the repo operational impediments. Manual controls for wire transfer are adequate, but won't meet industry standards until operations are fully automated. Liquidity operations reorganization and centralization into the independent operations business line was completed near year-end 2006.

Liquidity is satisfactorily managed, with liquidity issues appropriately escalated through key management, the CRO and committees, based on set triggers. Reports used in the day-to-day management of liquidity are satisfactory and include cash flow forecasts, assets available for repo or sale and funding maturity concentrations. Although compliance with the conservative 90-day net funding coverage is analyzed and reported, the analysis could be strengthened with additional, more realistic scenarios.

Sensitivity to Market Risk

Management adequately controls interest rate risk with a minimally satisfactory risk management program that bases decisions on analytical tools and some assumptions and data that require improvement. Operations are generally satisfactory but are inefficient in several areas, and manual controls reduce many key risks until processes are more fully automated. The Board policy satisfactorily addresses responsibilities and provides a limit for interest rate risk. Although risk is managed and reported, the limit structure should be expanded to more formally control and communicate risk tolerance levels. Limits are expected to be fully addressed during 2007, but several issues remain in systems and data and will require up to one year for correction.

Risk management practices control interest rate risk with reasonable accuracy. Data and/or systems deficiencies required manually intensive and inefficient generation of information that introduced some level of uncertainty in interest-rate risk measurement. During 2006, the completed first phase of the Portfolio Data System Project improved risk measurement for debt, automated daily risk reporting and provided an audit trail for assumptions. The Project's targeted completion by year-end 2007 is expected to address many of the data and systems issues and improve risk measurement. However, risk measurement will not achieve the highest degree of accuracy until data quality issues are resolved.

Significant deficiencies in several fundamental controls for Capital Markets operations are being or have recently been corrected or mitigated. However, many deficiencies stemming from systems limitations will require roughly one year to correct due to their prioritization with the restatement and other significant projects and integration with other systems. Operations management has reduced the risk in many critical control deficiencies with mitigating processes. The revision or creation of management policy and written procedures and the creation and retention of documentation should be completed during 2007.

Management continues a program of effective risk management practices and communication of interest rate risk within Capital Markets. Risk is controlled and communicated through daily/weekly meetings of management and risk committees and Board and management reports that provide sufficient information to understand the risk profile. Additional interest-rate risk limits are expected to be added to policies in 2007.

The portfolios and related funding unhedged by derivatives represent a high level of risk. The quantity of risk for the portfolio hedged with derivatives is moderate due to the level of exposure from a significant move in longer-term interest rates. Management appropriately measures the interest rate risk from the retained portfolio and funding, but does not also measure interest rate risk for the entire Enterprise, which would allow management and the Board to understand the full impact of interest rate risk on economic earnings and capital. The current measurement covers the retained portfolio and related funding, but does not include cash flows from the guarantee fee business.

Earnings

Financial information for 2005 and 2006 is unaudited, preliminary and includes estimates subject to revision upon completion and audit of the Enterprise's financial statements for those years. Fannie Mae's most recent publicly-disclosed financial statements are for the year ended December 31, 2004.

Earnings for 2006 were fair. Fannie Mae's core business continues to provide sources of significant recurring earnings. Earnings have been volatile, primarily as a result of mark-to-market changes in the value of the derivatives portfolio. Fannie Mae's earnings have been impacted negatively by limitation of the growth of the retained mortgage portfolio;

a lower net interest margin; and higher administrative expenses as a result of restatement costs, regulatory compliance efforts and higher staff levels and compensation. Growth in the guarantee business partially offset these factors, supported by an annual increase in outstanding MBS of 11.4 percent.

Capital

OFHEO classified Fannie Mae as adequately capitalized for the four quarters of 2006. OFHEO formally classifies capital adequacy quarterly in accordance with Subtitle B of the Federal Housing Enterprises Financial Safety and Soundness Act of 1992 and with the requirements set forth in OFHEO's minimum and risk-based capital regulations. The Enterprise is required by federal statute to meet both minimum and risk-based capital standards to be classified as adequately capitalized. The Enterprise is adequately capitalized and maintains satisfactory cushions above statutory, regulatory and OFHEO-directed capital levels. OFHEO continues to evaluate and monitor the capital surplus, in part due to the evidence of significant operational risk and control weaknesses cited throughout this report. Capital planning processes are satisfactory and assess risks throughout the company, although methods of measurement and analysis can be enhanced.

Fannie Mae remains subject to the requirements imposed by the Consent Order dated May 23, 2006 and the Capital Restoration Plan approved February 17, 2005. The Capital Restoration Plan required Fannie Mae to achieve a 30 percent capital surplus over the minimum capital requirement by September 30, 2005 (OFHEO-directed capital requirement). Fannie Mae is required to maintain a capital surplus above the OFHEO-directed requirement on an ongoing basis. Fannie Mae met the initial September 30, 2005 requirement of 30 percent surplus and it has continued to maintain the surplus throughout 2006. The Consent Order also directed Fannie Mae to limit growth of its portfolio mortgage assets. Fannie Mae has complied with the growth restrictions and appropriately incorporated these restrictions into its capital plan. During 2006, OFHEO emphasized the importance of maintaining the capital surplus in excess of the OFHEO-directed requirement given the lack of timely financial filing by Fannie Mae and the continued operational weaknesses. OFHEO also emphasized the importance of tying future common stock dividend increases with significant achievement of milestones to correct identified weaknesses, including becoming a timely financial statement filer.

On March 30, 2007, OFHEO announced that it had classified Fannie Mae as adequately capitalized as of December 31, 2006. As of that date, the core capital of the Enterprise exceeded its OFHEO-directed capital requirement by $4.163 billion, representing a 10.9 percent surplus over the OFHEO-directed capital requirement. The December 31, 2006 capital results incorporate adjustments for the accounting impacts identified in the company's 2004 SEC Form 10-K, which was filed with the Securities and Exchange Commission on December 6, 2006. OFHEO classified Fannie Mae as adequately capitalized for the preceding three quarters of 2006. Fannie Mae's capital plan describes

how the Enterprise expects to maintain a surplus over the OFHEO-directed capital requirement through a combination of controlled growth and earnings retention.

Table 4 - Fannie Mae Minimum Capital Requirements, 2006

(Dollars in billions)*

	Mar-06	Jun-06	Sep-06	Dec-06
Core Capital	40.333	42.037	42.008	42.295
Statutory Capital Requirement	28.708	29.419	29.010	29.332
OFHEO-directed Capital Requirement	37.320	38.245	37.714	38.131
Surplus (based on OFHEO-directed Requirement)	3.013	3.792	4.294	4.163
Ratio to OFHEO-directed Capital Requirement	8.1%	9.9%	11.4%	10.9%

* Numbers may not add due to rounding

During 2006, Fannie Mae continued to enhance and refine its capital planning processes and produced an acceptable capital plan on a quarterly basis. However, OFHEO communicated a need for enhancements to the capital plan and management initiated action to incorporate those enhancements appropriately and in a timely manner. Inconsistencies in the capital planning process were evident during 2006, highlighting the need to ensure better coordination and communication of corporate capital actions. Weekly management reports, which include current and projected capital trends and actions, provide senior management and the Board with effective tools to manage the capital position above OFHEO-directed requirements. Fannie Mae has conservatively managed the capital cushion during the ongoing financial restatement process to better ensure its ability to respond to unknown risks.

OFHEO's capital classification of Fannie Mae is based on Fannie Mae's best estimate of its financial condition, as certified and represented as true and correct to the best of Fannie Mae management's belief and knowledge. The December 31, 2006 capital classification, even though it incorporates adjustments for the accounting impacts identified in the 2004 10-K, remains subject to revision pending Fannie Mae's submission of audited 2006 financial statements and corresponding regulatory capital reports. First, second and third quarter 2006 capital classifications also remain subject to revision pending the submission of audited 2006 financial statements.

Report of Annual Examination of Federal Home Loan Mortgage Corporation/Freddie Mac

Examination Authority and Scope

Examination Authority and Reporting Convention

This Report of Examination contains the results and conclusions of OFHEO's 2006 annual examination of the Federal Home Loan Mortgage Corporation ("Freddie Mac" or the "Enterprise") performed under section 1317(a) of the Federal Housing Enterprises Financial Safety and Soundness Act of 1992 (12 USC § 4517(a)). The OFHEO annual examination program assesses the Enterprise's financial safety and soundness and overall risk management practices. OFHEO currently utilizes a "CAMELSO" methodology (**C**apital Adequacy, **A**sset Quality, **M**anagement, **E**arnings, **L**iquidity, **S**ensitivity to Market Risk, and **O**perations), similar to that adopted by the federal depository institution regulators, to report examination results and conclusions to the Board of Directors and to Congress.

2006 Examination Scope

OFHEO's examination activities focused on: oversight provided by the Board of Directors and senior management, enterprise risk management activities, corporate governance functions, internal controls, accounting practices, new product development, internal audit and compliance with the requirements of the Consent Order the Enterprise executed on December 9, 2003. OFHEO supervisory activities also included reviews of asset quality, market and interest-rate risk management practices, earnings performance, capital adequacy, information technology and liquidity.

Freddie Mac remains a significant supervisory concern.

Examination Conclusions

The Enterprise remains a significant supervisory concern. While efforts toward improvement are underway, senior management continues to revise plans and re-engineer processes to strengthen internal controls and remediate six material weaknesses and a number of significant deficiencies. Leadership from the Board and senior management is challenged as they strive to reshape the corporate culture, publish accurate and timely financial statements, implement long-term sustainable processes, improve overall governance and risk management capabilities, enhance information technology controls and stabilize the organizational structure.

Intensive efforts by the Board and management have been made to address internal control weaknesses; however, several key initiatives to remediate the control environment have not progressed as planned. Progress throughout 2006 was adversely impacted by the volume and complexity of issues, less than effective project management capabilities, and inconsistent execution in key segments of the comprehensive plan. Long-term resolution of identified issues will continue to require substantial efforts on the part of Enterprise personnel. The Board and management must continue to focus on needed cultural and organizational improvements identified in the internally-prepared, root-cause analysis to ensure historically weak operating practices are strengthened. Improvements to systems capabilities, information processing controls and the successful implementation of re-engineered business processes will be necessary to restore the overall control environment to a satisfactory condition.

The Enterprise has: (1) a qualified and active Board of Directors; (2) a senior management team committed to resolving internal controls weaknesses and returning to timely financial reporting; (3) adequate capital; (4) strong asset quality and credit risk management; (5) effective management of interest rate and liquidity risks; and (6) adequate earnings. During 2006, efforts to improve the risk management capabilities across the Enterprise commenced, and the new governance structure should provide the ability to better manage risk across the organization. Earnings volatility continues and results primarily from mark-to-market gains/losses on the guarantee asset and the elimination of hedge accounting for financial derivatives. Longer-term earnings prospects may be adversely impacted by declining net interest margins and competitive pressures. Structural and economic issues in the mortgage markets heighten the importance of continuously refining economic capital measures to better quantify risks and assess financial performance returns.

Matters Requiring Board Attention

Key matters highlighted in this report requiring strong Board oversight are:

- ***Internal Controls.*** The Board should continue to oversee management's progress toward remediating widespread internal control weaknesses to enable the release of accurate and timely financial statements, permit a return to controls-based auditing and build sustainable internal control governance processes.
- ***Information Technology.*** The Board should ensure that technology-related issues identified in this report are addressed. Key challenges include gaining a deeper understanding of the key application controls, improving general controls, implementing a systems development process, improving contingency planning and developing a sustainable data and architecture strategy.
- ***Credit Risk Management.*** Continued close monitoring of credit portfolio trends is necessary as higher volumes of non-traditional credit products were purchased during 2006. Although these credit products are within current limits, these products exhibit higher than historical credit risk.

- ***Corporate-wide Change Management.*** The Board should continue to monitor management's efforts to: improve capabilities to effectively manage enterprise-wide change programs, gain a more in-depth understanding of the complexity of and resolution strategies for control weaknesses and support an environment that values strong internal controls and risk management functions.
- ***Risk Oversight Functions.*** The Enterprise Risk Management functions and the Internal Audit department made significant strides to strengthen their respective units and define appropriate governance structures. Continued Board support during the ongoing evolution of these functions and the implementation of the risk control self-assessment process will be necessary.

Board and Management Supervision

Board of Directors

The Board actively oversees the affairs of the Enterprise. Board and committee materials are satisfactory. All Board committee charters were reviewed and amended during the year, primarily to clarify and enhance risk management and technology oversight responsibilities. Corporate and divisional policies and procedures regarding financial reporting responsibilities are in place and a quality assurance review for financial information presented to the Board was implemented in 2006. The Board must continue to provide the necessary oversight to ensure that the remediation of the internal control weaknesses and cultural transformation initiatives are effective and that strategic priorities are clearly defined and articulated.

The number of Board and committee meetings held during 2006 met or exceeded the New York Stock Exchange (NYSE) listing standards, OFHEO's corporate governance regulations and Freddie Mac's Corporate Governance Guidelines. All but two of Freddie Mac's directors are independent, and all members of the Audit, Governance, and Compensation committees are independent as required for listed companies. Term limits and age restrictions are in effect. Of the 13 Directors currently serving, one board member exceeded those limits; however, this member was granted a temporary extension and will leave the Board during 2007. OFHEO will continue to monitor the Enterprise's transition plans to separate the positions of Chairman and Chief Executive Officer.

Management and Human Resources

Over the past three years, virtually the entire executive management team has been replaced. This level of change was appropriate to improve corporate governance, replace underperforming employees, strengthen risk oversight functions and foster a culture of accountability. During 2006, the new executive management team made strides to improve communication, instill a sense of accountability and focus efforts on critical issues facing the Enterprise. Despite these efforts, the internally-prepared, root-cause analysis and the conclusions reached during OFHEO's supervisory activities indicate further efforts are required.

Management will be challenged to address:

- Improving capabilities to effectively manage enterprise-wide change programs;
- Gaining a more in-depth understanding of the complexity of and resolution strategies for control weaknesses;
- Supporting an environment that values strong internal controls and risk management functions; and
- Addressing employee workloads and turnover of critical staff.

Progress in the human capital field is evidenced by the filling of all executive management positions, a reduced corporate-wide, voluntary turnover rate and an improved capability to attract external hires. The Enterprise continues to face shortages in staff expertise and efforts are underway to further develop leadership competencies at critical positions. Within certain segments of the Enterprise, limited numbers of subject matter experts are on hand to effectively cover simultaneous high-priority initiatives and baseline projects.

Enterprise Risk Management

The Enterprise Risk Management (ERM) function was substantially enhanced during 2006. The newly implemented governance structure should provide the necessary foundation to ensure the timely identification and communication of current and emerging risks across the Enterprise. All employees currently have a risk management component in their employee performance evaluations and management plans to provide training to foster the risk management culture across the Enterprise. Efforts to more clearly define roles and responsibilities, refine policies and establish appropriate risk limits are also underway.

During 2007, ERM plans to further strengthen the capability of the group to independently produce risk metrics, assist in the development and implementation of an economic capital framework to consistently measure risk and performance and further aggregate financial and non-financial risks. Concerted efforts are also planned to better integrate risk management activities with the planning process, implement the redesigned risk controls, continue a self-assessment process, collect operational loss data, and build out the root-cause analysis capabilities.

Audit

During 2006, OFHEO did not rely on the work of internal audit. Significant progress was made during 2006 to address prior recommendations and conduct pre-implementation reviews of new systems initiatives. During 2006, internal audit management continued progress toward developing a full cycle audit plan, completing and implementing scheduled enhancements in the audit methodology, augmenting staff and further developing a quality assurance program.

The Audit Committee actively oversees the internal audit function. The Audit Committee met 11 times during 2006. The General Auditor has sufficient interaction with the Audit Committee on a regular basis including periodic executive sessions during Audit Committee meetings. The content of reports prepared by the General Auditor for Audit Committee meetings is sufficient.

The General Auditor is qualified and independent. Since the General Auditor's arrival in April 2006, improvement opportunities for internal audit have been identified and enhancements to the internal audit function have started to materialize. The General Auditor appears to have the necessary skills and leadership abilities to effect further needed improvements.

Operations

Operational risk is high and continues to be a primary supervisory concern. Throughout 2006, Freddie Mac was not able to produce accurate and timely quarterly financial statements. All internal control-related material weaknesses and significant deficiencies identified during 2005 or prior years' annual audits remain outstanding. The internal control structure remains fragmented, incomplete, and in some cases, undocumented. In addition, current systems limitations did not permit an effective and reliable quarterly close process. Remediation of control weaknesses including independent testing is required (controls must be complete and documented) before management and OFHEO can opine on the effectiveness of the control structure.

The Comprehensive Plan (the primary project to return the company to timely financial reporting, improve the control environment and permit reliance on internal controls over financial reporting by the external auditor) suffered during 2006 from ineffective planning and inconsistent execution. The original plan was submitted in April 2006 and continues to be revised. Aggressive time schedules, lack of independent quality assurance, inadequate management reporting, cultural issues of responsibility and accountability and project management deficiencies contributed to insufficient progress toward achieving the Plan's overall objectives. Although management and staff have worked hard to mitigate and remediate known control weaknesses, as of December 31, 2006, no remediation activity has been tested and verified to be effective.

Operational risk is high and continues to be a primary supervisory concern.

The Comprehensive Plan includes: remediating known control weaknesses, the end-to-end business process review, close process improvements and information technology general control remediation. Since control weaknesses are widespread and pervasive across the Enterprise, identifying control gaps and remediating most of the known material weaknesses are linked to successful completion of the end-to-end business process review. At the same time, process improvements are needed to achieve a timely, sustainable financial close process compliant with regulatory requirements. In addition, Information Technology General Controls (ITGC) must be operating effectively before management can rely on

automated information without time-consuming substantive review procedures and manual processes. The Comprehensive Plan requires continued Board and executive management involvement to ensure activities are properly sequenced, achieve plan objectives and resolve competition for resources, especially subject matter experts.

During 2006, management and staff completed formal root-cause analyses over eight events that contributed to delays producing the 2005 financial statements. They also began root-cause analyses over project management deficiencies in 2006. These exercises are important aids to understanding cultural issues, control deficiencies and business process failures that can help to limit the risk of recurrence. Management approved permanent staffing for a root-cause/problem analysis function in Operational Risk Oversight to provide an ongoing analysis capability.

Although considerable efforts are under way to remedy weaknesses in internal controls related to financial reporting, additional control weaknesses may exist elsewhere in the Enterprise. Plans to identify, assess and strengthen non-financial controls are commencing. These controls may include, but are not limited to, business continuity planning, business and risk performance measures and operating effectiveness metrics.

Information Technology

Successful resolution of a number of the material weaknesses and significant deficiencies depend on information technology remediation efforts. Weaknesses continue in information technology systems development and delivery, information security, end-user computing systems, data quality, and change management.

The establishment of reliable Information Technology General Controls (ITGC) is necessary to establish the overall control environment. Limited progress in documenting and strengthening ITGC occurred during 2006. Late in 2006, management revised the plan to fully document and commence remediation of these controls. The ITGC project intends to document ITGC under the *Control Objectives for Information and related Technology* (COBIT) framework, verify effectiveness of controls in place and remediate weaknesses. Under the plan, ITGC control gaps will be identified in 2007 with remediation extending into 2008.

The lack of an effective systems development lifecycle methodology contributed to delays with the implementation of strategic technology upgrades and replacements. Throughout 2006, issues surfaced related to implementation of automation projects designed to replace legacy technology systems, improve controls and allow for shortened schedules for the monthly financial close processes. Interim measures to improve systems implementations include the establishment of the Targeted Quality Control function in December 2006. Management plans to adopt a systems development life-cycle methodology during 2007.

Weaknesses in core systems capabilities and slow replacement of legacy systems have required a heavy reliance on end-user computing (EUC), spreadsheets and manual processes in the financial close processes. During 2006, progress was made to inventory and implement EUC's controls; however, final completion of an effective EUC control framework was delayed and is now anticipated to be completed in 2007.

Overall data quality remains a concern. Management has begun developing data quality standards; however, some of the business plans are under development and more detailed plans suggest that efforts to bring the Enterprise into compliance with these plans are resource intensive and may not be scalable for all areas. Also, existing point-to-point systems architecture (existing systems and data infrastructure) compounds the problem related to improving data quality. Development of a long-term plan for systems architecture and improved systems development methodology controls would strengthen the remediation of data quality issues.

Freddie Mac still faces the challenge of becoming a registrant with the Securities and Exchange Commission.

The current business continuity planning needs strengthening. Management has made progress with system recovery capabilities for higher-risk functions through the outsourcing of the settlement and custody functions and the establishment of an out-of-region wire transfer room.

Accounting

Management is nearing completion of its effort to codify and update its significant accounting policies. However, significant work remains to develop complete accounting policies and procedures. Completion of this project will be a necessary step to demonstrate that approved accounting policies are incorporated into automated systems and operational procedures. OFHEO continues to closely monitor the resolution of a number of simplifying accounting assumptions that are used as part of the financial reporting process. Recruiting efforts continue as the Enterprise seeks to attract additional qualified accounting expertise.

The Enterprise still faces the challenge of becoming a registrant with the Securities and Exchange Commission (SEC). Currently, the Enterprise is not subject to the reporting schedules that would be expected of a timely filer, and therefore management must ensure that processes being developed are robust enough to handle this task.

Freddie Mac reported its 2006 financial results on March 23, 2007.

In June 2006, the Enterprise issued its Information Statement and Annual Report to Stockholders for the Fiscal Year ended December 31, 2005. Based on the continued existence of material weaknesses on December 31, 2005, the Enterprise concluded that its internal controls over financial reporting were not effective on December 31, 2005. The external auditors, PricewaterhouseCoopers LLP, did not report on management's assessment of the effectiveness of the Enterprise's internal control over financial reporting as of December 31, 2005, or the effectiveness of the company's internal controls over financial reporting as of December 31, 2005.

Freddie Mac reported its 2006 financial results on March 23, 2007. On that date it published its Annual Report with audited financial statements.

Model Risk

Model risk governance has improved. Further efforts are necessary to upgrade governance practices for model development and enhance the quality of independent model risk oversight.

In 2006, the Enterprise approved new model-related policies that strengthened model risk oversight. A number of significant models implemented over the past decade were not developed under a consistent and controlled development process. Management's progress in harmonizing and implementing procedures and practices with the new policies should improve the model development process throughout the Enterprise.

Independent model risk oversight is provided through the Modeling & Methods (M&M) group. M&M's authorities and scope of responsibility are now articulated in a written charter and policies. M&M is in the process of developing standards to achieve compliance with the newly adopted charter and policies. Once implemented, this group should provide meaningful independent evaluations of the quality of the business units' model development practices, the degree of adherence to corporate policy and professional standards. Efforts have been strengthened to ensure management resolves M&M findings in a timely and complete manner. M&M must continue to assess the sufficiency of staffing and other resources to fulfill its new, more broadly defined responsibilities. Management has exhibited the willingness and has taken steps to address the shortcomings identified and to enhance independent model risk oversight.

Asset Quality and Credit Risk Management

The Enterprise's overall asset quality is strong. All portfolios currently exhibit favorable quality and performance metrics. The Enterprise prudently manages exposures to significant counterparties (e.g., seller/servicers, mortgage insurers and derivatives counterparties) and monitors top seller/servicer and mortgage insurer concentrations.

There are no immediate signs of significant deterioration in credit performance trends; however, expected default costs are increasing. Over the past several years, significant shifts in the mix of mortgage originations and the composition of the retained portfolio have occurred as the market continues to produce mortgages with higher-risk profiles. As the portfolio seasons, adverse changes in house price appreciation, mortgage rates or unemployment levels could negatively impact future performance.

During 2006, the governance structure improved significantly with the creation of the Governance, Nominating and Risk Oversight Committee, the Enterprise Risk Management Committee and the Credit Risk Subcommittee along with Board-approved credit policy and limits, and the delineation of roles, responsibilities and authorities for Credit Risk Oversight and for business line functions.

Underwriting standards and credit administration practices are prudent, although opportunities for improvement were identified. Line management and Enterprise Risk Management are in the process of addressing recommendations related to the

enhancement of business line credit policy and procedure development and implementation, data collection and reporting improvements, staffing issues and segregation of duties.

The Enterprise made concerted efforts to comply with OFHEO's 2005 mortgage fraud reporting regulation and related policy guidance. Recommendations for the Enterprise to augment several processes contained in the policy guidance include reporting of loan-level repurchases, prompt submission of the Mortgage Fraud Information Notice (MFIN), reporting of supplemental or corrected MFINs, and internal controls and procedures.

Single-Family Business

Management has expanded the Enterprise's purchase and guarantee of higher-risk mortgages. In order to increase market share, meet mission goals, stay competitive and be responsive to sellers' needs, the Enterprise has increased the use of credit policy waivers and exceptions. Untested and alternative market products accounted for approximately 24 percent of 2006 new purchases and currently comprise 11 percent of the total single-family mortgage portfolio. Internal measures of credit quality reflect that the quality of incremental new purchases declined in 2006 as evidenced by a rise in expected default costs.

Current portfolio performance metrics reflect a low level of serious delinquencies and credit losses. Serious delinquencies remain low. The average mark-to-market loan-to-value ratio is estimated at 57 percent. Net credit losses in 2006 totaled $203 million versus $141 million in 2005. The largest segment of net credit losses is attributable to economic conditions in the North Central region. Hurricane Katrina losses continue to be low.

The Enterprise is in the process of updating its single-family credit policy to reflect its current credit risk appetite and corresponding strategies, and the Credit Risk Oversight group has increased its attention to credit policy waivers and exceptions.

Multifamily Business

The multifamily credit portfolio remains sound. With improvements in vacancy levels and rent growth, the market was strong throughout 2006. The multifamily bond-equivalent rating for 2005 and for September 2006 year-to-date purchases was A- versus a 2006 full-year target of BBB+.

December 2006 delinquencies were up and were reported at 0.05 percent at the end of 2006 versus 0.00 percent at the end of 2005. The average mark-to-market debt-coverage ratio was 1.62 versus 1.61 for 2005, and only 15.7 percent of the portfolio had a mark-to-market debt coverage ratio less than 1.15 versus 16.1 percent of the portfolio for 2005. December 2006 net credit losses totaled $3.7 million—0.67 basis points of the active multifamily unpaid principal balance.

Liquidity and Contingency Portfolios

At December 31, 2006, the liquidity and contingency portfolio contained assets with credit-ratings of AAA (50 percent), AA (33 percent), and A (17 percent), exhibiting the high credit quality necessary in a liquidity portfolio. Credit quality of marketable securities in the liquidity and contingency portfolio remained consistently strong with more than 99 percent of the asset-backed securities at AAA and less than 1 percent rated A.

Investment Portfolios

During 2006, the composition of the retained mortgage portfolio (excluding the liquidity portfolio) was stable, with agency products representing approximately 65 percent total unpaid principal balance and non-agency products representing 35 percent. Through June, the unpaid principal balance of the agency securities portfolio grew by approximately 2 percent and non-agency securities grew by approximately 4 percent. This contrasts with 2005 when the non-agency securities portfolio grew by 39 percent for the year.

As of July 1, 2006 the Enterprise initiated a voluntary commitment to limit the growth of the retained mortgage portfolio to 2 percent annually on the basis of Generally Accepted Accounting Principles (GAAP). During the second half of 2006, the market tightened and the Enterprise managed the retained mortgage portfolio to protect against the possibility of market value gains that could result in GAAP growth in excess of the 2 percent annual limitation. The agency securities portfolios declined by approximately 6 percent and the non-agency securities portfolios declined by approximately 4.5 percent.

During 2006, net purchases of non-agency floating-rate securities outweighed net purchases of non-agency and agency fixed-rate and agency floating-rate securities. Non-agency floating-rate securities experienced significantly faster prepayment speeds relative to other securities. The Enterprise purchased higher volumes of non-agency floating-rate securities because of their positive impact on affordable housing goals and the risk/return profile.

As of September 30, 2006, roughly 99 percent of the mortgage asset-backed portfolio was rated AAA, and 98 percent was internally rated as having either excellent or good coverage for current delinquencies.

Enterprise Counterparties

Credit Risk Oversight provides oversight of aggregate counterparty risks and exposures at the Enterprise level for all counterparties and maintains a Counterparty Watch List. All three business lines—Single-family, Multifamily and Investments and Capital Markets—manage their counterparties with a particular focus on each business line's top counterparties. Single-family's ten largest counterparties represent 69 percent of the business' total exposures. Multifamily's ten top customers (seller/servicers) represent approximately 69 percent of the business' portfolio unpaid principal balance with the top customer representing 19 percent of portfolio unpaid principal balance. The ten top borrowers represent 14 percent of portfolio unpaid principal balance with the top borrower representing 4 percent of portfolio unpaid principal balance. At the business

level, Investments and Capital Markets represents roughly 81 percent of the Enterprise's counterparty exposures while Single-family represents 17 percent and Multifamily represents 1 percent. For Investments and Capital Markets, fed funds represent the largest counterparty exposure.

Liquidity

Management adheres to sound practices for managing liquidity. The Enterprise is not vulnerable to funding difficulties at this time, and earnings and capital exposure from the liquidity risk profile is low. The Enterprise has access to sufficient sources of funds to meet present and anticipated liquidity needs.

Management adheres to sound practices for managing liquidity.

Management is able to effectively forecast liquidity needs and sources and to identify, measure, monitor and control the Enterprise's liquidity position. Management has enhanced liquidity management practices during 2006 to better forecast short- and long-term liquidity needs. Liquidity management policies and procedures are being revised to support the enhanced processes. A satisfactory liquidity contingency plan is in place. Management has consistently maintained its liquidity and contingency portfolio at a prudent level, consistent with policy and OFHEO regulations. Risk limits are in place to ensure sufficient liquidity levels, and an independent risk oversight group evaluates limits, exposures and pertinent metrics on a daily, weekly and monthly basis. Management conducts liquidity event testing on a periodic basis, and the results indicate that the Enterprise should be able to withstand severe liquidity events.

During the second quarter of 2006, the short-term investment portfolios in the liquidity and contingency, the working capital and the money market portfolios increased approximately $30 billion, reflecting efforts beginning in May to increase short-term investments in anticipation of the July 20, 2006, Federal Reserve's Payment System Risk Policy change. The second half of 2006 saw the reduction of the $30 billion in short-term investments as the Enterprise gained greater efficiency in managing its daily cash position. The temporary growth of the low-risk, short-term investments was a prudent step in ensuring Freddie Mac's ability to comply with the July Federal Reserve overdraft policy change.

Sensitivity to Market Risk

Overall interest-rate risk exposures are acceptable and management is effective. During 2006, Enterprise management was able to identify, measure, monitor and control the sensitivity to market risk in a manner commensurate with the nature and complexity of the Enterprise's activities. Measures of rate sensitivity gauge the degree to which changes in interest rates can adversely affect the Enterprise's earnings and fair value.

Given the nature of the Enterprise's business, fair value and earnings are highly sensitive to changes in rates and spreads. The Enterprise relies primarily on financial derivatives (in conjunction with callable debt) to maintain interest-rate risk exposures within desired ranges. Financial derivatives instruments are highly sensitive to changes in rates and that volatility is reflected in the Enterprise's financial statements because hedges are marked-to-market through income and most assets and liabilities are not. Sensitivity analyses and stress testing indicate that the Enterprise's market value of equity is adequately protected against sudden significant changes in rates and in spreads between certain rates.

Board-approved asset/liability management (ALM) policies and limits are designed to ensure that management maintains interest-rate risk exposures within prudent boundaries and avoids the need to engage in large rebalancing activity. The Board revisits these policies and limits at least annually, and several senior management committees and subcommittees, as well as an independent market risk oversight group, exercise ongoing oversight and monitoring of Enterprise exposures relative to established limits and thresholds. In addition, two Board committees monitor the Enterprise's results against approved limits and performance objectives. Decision-making authority is formally delegated and effectively communicated within the organization at least annually. Risk measurement is performed both in-house and through an outside service provider. Management reports provide the information necessary to inform and support decision-making at appropriate levels of the organization.

Publicly-reported measures of interest rate risk—Portfolio Market Value Sensitivity (PMVS-Level and PMVS-Yield Curve) and duration gap—reflect that management kept exposures stable and within applicable limits and operating thresholds throughout 2006. PMVS expresses the degree to which the market value of equity is impacted by adverse parallel (50 basis point) and non-parallel shifts (12.5 basis point shifts at the two-year and 10-year points) in the London Interbank Offered Rate (LIBOR) curve. Additional, nonpublic, quantitative measures of interest rate risk, including convexity, vega, key rate duration and basis risk exposure, reflect that management maintained exposures within applicable internal limits/thresholds as well.

In January 2006, OFHEO issued a letter requiring a divestiture plan for certain commercial mortgage-backed securities structures that were not allowed under the Enterprise's charter; management has completed the sale of those securities. Management also remediated several matters pertaining to investments in non-agency home equity asset-backed securities floaters. In addition, the Board and management have augmented oversight of a variety of issues pertaining to the Asset/Liability Management group's position taking on levels of rates, spreads and volatility reported internally under asset liability management returns. The significant and volatile impact these activities have on fair value continue to warrant appropriate scrutiny to ensure that they are properly authorized, measured, monitored/reported and subject to appropriate limits. The Enterprise has committed to reviewing and enhancing its public disclosures to adequately describe the risk-taking activities which are currently grouped and reported within its ALM and hedging functions.

Earnings

Earnings performance for 2006 was fair. GAAP net income during the period 2002 to 2005 ranged from a high of $10.1 billion to a low of $2.1 billion reflecting a steady downward trend since 2002. A similar negative trend is exhibited in the change in fair value of common equity before capital transactions, which declined from $5.6 billion in 2002 to $1.0 billion in 2005. In 2006, net income increased to $2.2 billion from $2.1 billion in 2005.

Earnings have been volatile as a result of mark-to-market gains/losses on the guarantee asset and the derivatives portfolio. Declining interest rates caused mark-to-market losses on both the guarantee asset and the derivatives portfolio during the second half of 2006.

Long-term declines in earnings are due to a number of factors, some of which are recurring and are likely to have a dampening effect on future earnings. Competitive pressures along with a declining net interest margin will likely impact future earnings. A flattening yield curve, increased competition for mortgages and the re-funding of lower-coupon fixed-rate debt that either matured, was called or was repurchased, contributed to the downward pressure on the net interest margin in 2006. Since 2004, the net interest margin has declined by about 60 basis points, to 0.57 percent in the fourth quarter of 2006. If current market conditions continue, Freddie Mac expects the net interest margin to decline in 2007 as lower coupon debt matures. Administrative expenses of approximately $1.6 billion were slightly higher than in 2005.

The core guarantee business continues to provide significant recurring earnings; however, significant sources of revenue are concentrated in several mortgage lenders. Guarantee fee income increased by $0.2 billion in 2006. Guarantee fee growth was supported by an average annual increase in outstanding participation certificates of 15.2 percent. The loan loss reserve increased during 2006 from $414 million to $420 million.

Capital

OFHEO classified Freddie Mac as adequately capitalized for the four quarters of 2006. OFHEO formally classifies capital adequacy quarterly in accordance with Subtitle B of the Federal Housing Enterprises Financial Safety and Soundness Act of 1992 and with the requirements set forth in OFHEO's minimum and risk-based capital regulations. The Enterprise is required by federal statute to meet both minimum and risk-based capital standards to be classified as adequately capitalized. The Enterprise is adequately capitalized and maintains satisfactory cushions above statutory, regulatory and OFHEO-directed capital levels. OFHEO continues to evaluate and monitor the capital surplus, in part due to the evidence of significant operational risk and control weaknesses cited throughout this report. Capital planning processes are satisfactory and assess risks throughout the company, although methods of measurement and analysis can be enhanced.

OFHEO imposed a capital surcharge of 30 percent of the minimum capital requirement in January 2004 due to increased operational risk. OFHEO also concurred with the Enterprise's decision to limit retained mortgage portfolio growth as recommended by OFHEO, further enhancing the capital adequacy of Freddie Mac. During 2006, OFHEO emphasized the importance of maintaining a capital surplus in excess of the OFHEO-directed requirement given the lack of timely financial filing and the continued operational weaknesses. The Enterprise has maintained the surplus above the OFHEO-directed requirement since inception of the agreement. The Enterprise has also remained in compliance with the mortgage portfolio limits and appropriately incorporates these restrictions into its capital plan.

On March 30, 2007, OFHEO announced that it had classified Freddie Mac as adequately capitalized as of December 31, 2006. As of that date, the core capital of the Enterprise exceeded its OFHEO-directed capital requirement by $2.573 billion, representing a 7.7 percent surplus over the OFHEO-directed capital requirement. OFHEO classified Freddie Mac as adequately capitalized for the preceding three quarters of 2006. Freddie Mac's capital plan describes how the Enterprise expects to maintain a surplus over the OFHEO-directed capital requirement through a combination of controlled growth and earnings retention.

Table 5 - Freddie Mac Minimum Capital Requirements, 2006

(Dollars in billions)*

	Mar-06	Jun-06	Sep-06	Dec-06
Core Capital	37.591	38.123	37.035	36.170
Statutory Capital Requirement	25.488	26.484	25.979	25.844
OFHEO-directed Capital Requirement	33.134	34.430	33.773	33.597
Surplus (based on OFHEO-directed Requirement)	4.457	3.693	3.262	2.573
Ratio to OFHEO-directed Capital Requirement	13.5%	10.7%	9.7%	7.7%

* Numbers may not add due to rounding

During 2006, the Enterprise continued to enhance and refine its capital planning processes and produced an acceptable capital plan on a quarterly basis. OFHEO communicated a need for enhancements to the capital plan and management incorporated these enhancements appropriately and in a timely manner. Weekly management reports, which include current and projected capital trends and actions, provide senior management with effective tools to manage the capital position above OFHEO-directed requirements.

During 2006, the Enterprise continued to enhance and refine its capital planning processes and produced an acceptable capital plan on a quarterly basis.

Freddie Mac reported 2006 financial results on March 23, 2007. OFHEO reaffirmed the capital classifications for the first three quarters of 2006 based upon the final accounting and capital data for those respective periods.

Accounting

During 2006, neither Enterprise was able to provide the public with timely financial information. Freddie Mac has been unable to produce timely financials since 2002 and Fannie Mae since 2004. Both Enterprises continued to suffer from problems with accounting systems and internal controls. Fannie Mae is currently working to produce 2005 and 2006 financial information by the second half of this year, while Freddie Mac is working to produce quarterly statements in 2007.

The need to focus on internal control and systems problems continues to inhibit the Enterprises' ability to respond to changes in the market, the economy and accounting standards. To help understand the new challenges facing the Enterprises, it is helpful to review the accounting environment that existed pre-restatement and the difficult lessons learned from the past.

The Changing Accounting Model

Historical cost has long been the predominant valuation model, and accounting standard-setters have used this model as a foundation for standard-setting. However, there has been an ongoing debate within the accounting profession and among financial statement users over the usefulness of financial statements prepared using the historical cost/accrual accounting model versus using a fair value model. Proponents of the historical cost/accrual accounting model argue that historical cost numbers are more reliable and are objectively verifiable and that the proper matching of revenue and expense leads to a more realistic picture of income in the short run. They also argue that fair value injects volatility into earnings that represents liquidation values that are not likely to be realized by a going concern. On the other hand, proponents of fair value argue that fair value—defined as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date—better reflects the economic reality of a firm by showing the volatility that actually exists rather than showing artificially smooth numbers. In the 1980s, a push toward a fair value model emerged from these discussions.

As a result of this debate, in 1986 the Financial Accounting Standards Board (FASB) initiated a project related to Financial Instruments and Off-Balance-Sheet Financing, the purpose of which was to improve the disclosure of the value of financial instruments. In 1987, FASB issued an Exposure Draft on Disclosures about Financial Instruments. After receiving numerous comment letters, FASB concluded that the disclosure issues should be considered in separate phases. The first phase of that project addressed financial instruments with off-balance-sheet credit risk or market risk and all financial instruments with concentration of credit risk. The second phase addressed disclosure of other information about financial instruments.

In 1990, FASB issued Statement of Financial Accounting Standards (SFAS) No. 105, *Disclosure of Information about Financial Instruments with Off-Balance-Sheet Risk and*

Financial Instruments with Concentrations of Credit Risk. SFAS 105 established requirements for all entities to disclose information principally about financial instruments with off-balance-sheet risk of accounting loss. In 1991, FASB issued SFAS 107, *Disclosures about Fair Value of Financial Instruments*, the second phase of its 1986 project. SFAS 107 requires disclosures of the fair value of all financial instruments, both assets and liabilities recognized and not recognized in the statement of financial position. Following the release of SFAS 107 both the debate surrounding fair value and the inclusion of fair value concepts within FASB statements heightened.

Since 1991 the accounting profession has witnessed a shift away from the historical cost model toward the fair value model. Over this 15-year period, the accounting profession has seen a progressive increase in the inclusion of fair value concepts in the accounting literature. At present 68 FASB or Accounting Principles Board pronouncements require or allow fair value measures. It is interesting to note that three of four SFAS issued in 2006 (SFAS 155, *Accounting for Certain Hybrid Financial Instruments*, SFAS 156, *Accounting for Servicing of Financial Assets* and SFAS 157, *Fair Value Measurement*) dealt primarily with fair value. The trend continues in 2007 with the recently issued SFAS 159, *The Fair Value Option for Financial Assets and Financial Liabilities*.

Since 1991 the accounting profession has witnessed a shift away from the historical cost model toward the fair value model.

The challenge that all companies faced over the past 15 years and will continue to face in the future is producing meaningful financial statements that use a mix of historical cost and fair value. This is often referred to as a mixed-attribute accounting model. While FASB has required greater use of fair value measurements in financial statements because it perceives that information to be more relevant to investors and creditors than historical cost information, FASB's gradual approach to adopting a fair value model has resulted in the current mixed-attribute model. Under the current model, some financial instruments are measured based on historical cost, some at amortized cost, some at lower of cost or market and some at fair value. For those instruments measured at fair value, the change in fair value is sometimes recognized in earnings and sometimes in accumulated other comprehensive income (AOCI), which is a component of stockholders equity. This changing accounting landscape has been particularly challenging to the Enterprises.

Past Accounting

The extraordinary financial success and rapid growth of both Enterprises in the 1990s contributed to a belief among management and employees that they were "best in class" and that their heavy emphasis on steady, strong growth in earnings per share could be maintained indefinitely. During this period of rapid growth, the Enterprises tended to focus more on business innovations than back-end accounting systems and the people necessary to implement and maintain them.

When faced with a changing accounting model that might challenge this steady record of earnings growth and the existing accounting systems, both Enterprises chose a path of "creative accounting" rather than adhering to then-issued (fair value) accounting standards that, by their very nature, would reveal the volatility of the Enterprises' business.

The use of inappropriate accounting strategies to achieve steady earnings growth began in the mid-1990s. Both Fannie Mae and Freddie Mac inappropriately applied SFAS 91, *Accounting for Nonrefundable Fees and Cost Associated with Originating or Acquiring Loans and Initial Direct Costs of Leases*, establishing amortization policies that allowed them to avoid current-period volatility. Also during this period, both Enterprises maintained loan loss reserves that were unjustifiably high relative to actual and projected credit losses.

The preoccupation of Fannie Mae and Freddie Mac with steady earnings growth and achieving earnings targets was well established by 1998, when FASB issued SFAS 133 *Accounting for Derivative Instruments and Hedging Activities*, an accounting standard that was certain to inject volatility into the timing of earnings recognition. SFAS 133 requires that derivatives be carried on the balance sheet at fair value. Changes in a derivative's fair value are included in earnings, unless the derivative is designated and qualifies for hedge accounting. Hedge accounting provides a means for a matching of the earnings effect of a derivative and the related designated hedged transaction, thereby mitigating the impact of marking-to-market the derivative.

The accounting framework in SFAS 133 (fair value accounting) brought significant changes to prior accounting practices, which were historical cost/accrual-based. SFAS 133 eliminated the concept of synthetic accounting, a concept that essentially allowed derivatives to be accounted for on an accrual basis together with the related hedge item, in order to "synthetically" replicate a fixed or floating-rate instrument, as applicable. Synthetic accounting was an accounting treatment followed by many entities, including the Enterprises, prior to SFAS 133. Some entities, such as broker-dealers and investment companies, account for most or all of their assets and liabilities at fair value, with changes therein flowing through earnings. When such entities use derivatives to manage risk, they often achieve a natural offset in earnings due to the mark-to-market of both the derivatives and the assets/liabilities that give rise to the risk. The Enterprises, as well as most banks and finance companies, apply a mixed attribute model to accounting for most financial assets and liabilities. Thus the introduction of fair value accounting for derivatives under SFAS 133 had the potential to create significant earnings volatility unless hedge accounting was used.

Both Enterprises faced significant challenges in qualifying for hedge accounting. Due to the extensive documentation and effectiveness calculation requirements, hedge accounting under SFAS 133 was most easily adopted by entities with simple, passive hedging approaches in which hedges are established and allowed to run their course. However, Fannie Mae's and Freddie Mac's hedging approaches were neither simple nor passive. The complexities of funding a large mortgage portfolio and managing the associated interest rate risk necessitated an active, dynamic hedging approach to respond to changing market conditions and portfolio rebalancing requirements. Such an environment adds significant complexity to the administrative and systems requirement

to support hedge accounting. Despite the challenges noted above, the Enterprises had a strong desire to retain the smooth earnings results that had been possible under accrual-based accounting, and neither wanted to invest money in new accounting systems that would be necessary to meet the requirements for hedge accounting under SFAS 133.

During the late 1990s and early 2000s, both Fannie Mae and Freddie Mac spent significant time and resources to develop strategies that would mitigate the earnings volatility created by the changing accounting landscape. While SFAS 133 presented the largest potential for overall earnings volatility, many other accounting changes that were taking place put pressure on the Enterprises' ability to produce steadily increasing earnings. These other changes included revising accounting standards for asset transfers and securitizations (SFAS 140, *Accounting for Transfers and Servicing of Financial Assets and Extinguishment of Liabilities*) and impairments (SFAS 115, *Accounting for Certain Investment in Debt and Equity Securities* and EITF 99-20, *Recognition of Interest Income and Impairment on Purchased and Retained Beneficial Interest in Securitized Financial Assets*). An area of particular concern at both Enterprises was that of "other than temporary impairments." Generally Accepted Accounting Principles (GAAP) require that Interest-Only (IO) securities, financial assets that are particularly sensitive to changes in interest rates, and Buy-Ups (BUs), which are price adjustments the Enterprises pay to increase the guarantee fee rate lenders pay for the Enterprise's guarantee of MBS backed by the lender's mortgages, be recorded at fair value with changes in fair value recorded in earnings if the items are carried as trading securities or in AOCI if they are carried as available-for-sale (AFS) securities. If unrealized losses on the AFS securities were judged to be other than temporary, then an impairment must be recognized through earnings. The Enterprises both incorrectly accounted for IO securities and BUs, masking the earnings volatility that proper accounting would have reflected.

The tone set by then-senior management to produce smooth, steady earnings growth at a time when the changing accounting standards, if applied properly, would have revealed the true volatility of earnings set the stage for financial restatements at both Enterprises. In January 2003 Freddie Mac announced it would restate financial results for the years ended 2000, 2001 and 2002. It did so in November 2003 and has since produced 2003-2005 financial results and just recently produced 2006 results. In December 2004 the SEC concurred with OFHEO examination findings and required Fannie Mae to restate financial results for the years ended 2002, 2003 and 2004. Fannie Mae produced restated results in December 2006 and is currently working to produce 2005 financials. Chart 6 presents the steady earnings growth portrayed by the pre-restatement numbers for both Fannie Mae and Freddie Mac.

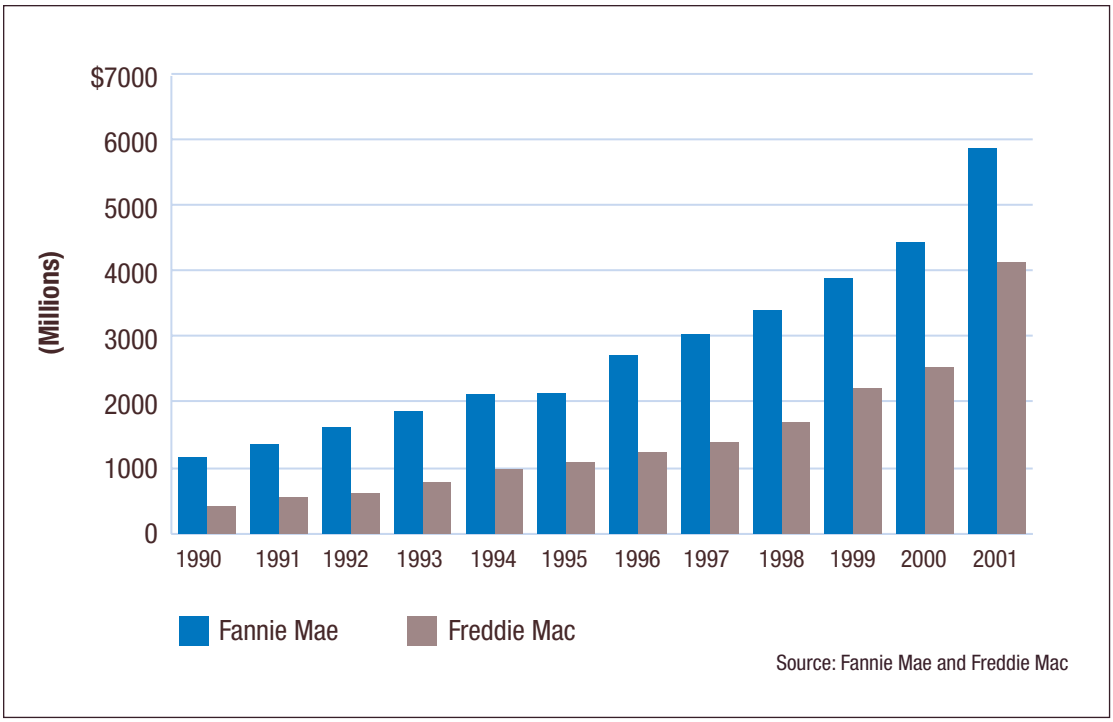


Chart 6 - Net Income

In contrast to the steady growth shown in Chart 6, Chart 7 presents the volatile earnings reflected in the GAAP-compliant restated numbers. As Fannie Mae has not, and does not plan to, restate earnings for 2000 and 2001, those columns are excluded from Chart 7.

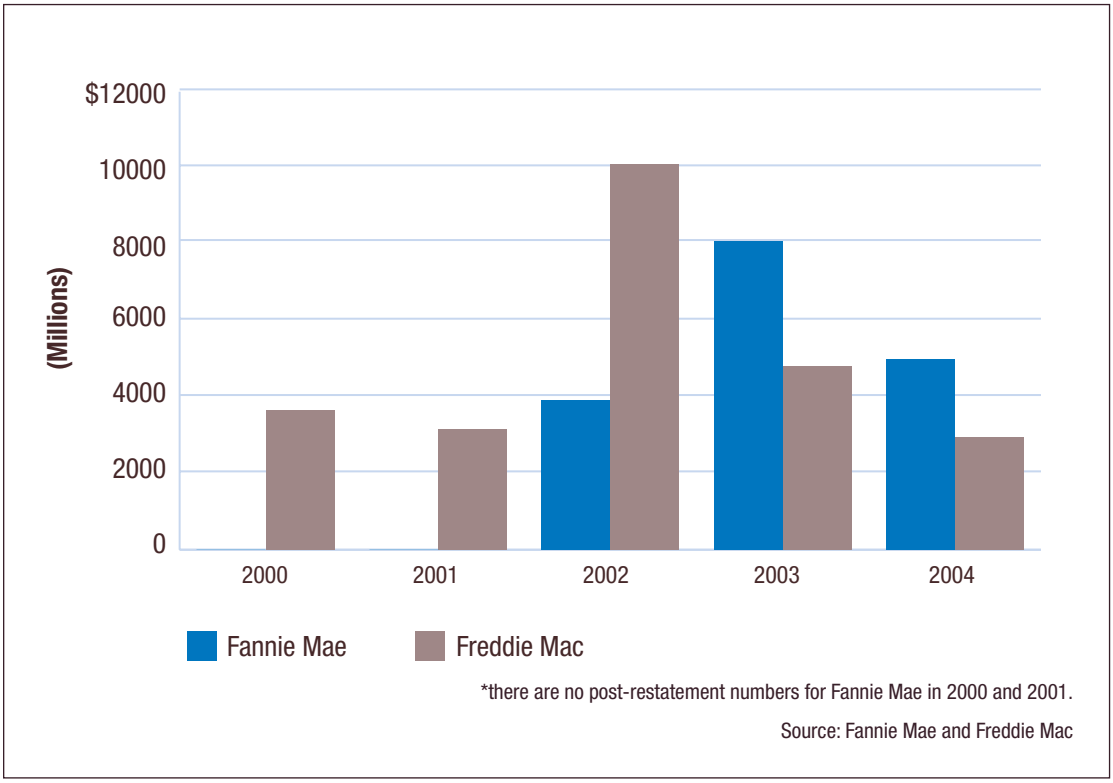


Chart 7 - Net Income Post-Restatement

Future State

Current management at both Enterprises has made progress toward timely filings, establishing GAAP-compliant accounting policies and remediating many control deficiencies. However, both management teams face significant challenges as they move toward timely filing, remediate the remaining control deficiencies and build robust accounting systems while continuing to deal with a changing accounting environment.

Recent Fair Value Standards

As mentioned previously, four recent SFAS issued by FASB dealt primarily with fair value. Three of the four standards (SFAS 155 (2006), SFAS 157 (2006) and SFAS 159 (2007)) have the potential to have significant impact on both Enterprises. SFAS 155, *Accounting for Certain Hybrid Financial Instruments,* requires that certain MBS and other interests in securitized financial assets be analyzed for embedded derivatives. It also provides an election to record financial assets and liabilities at fair value with changes reflected in earnings if they would otherwise be subject to derivatives accounting. The application of this standard provides the potential for additional financial instruments to be carried on the Enterprises' balance sheets at fair value with the change in fair value flowing through earnings. Adoption of this standard will require systems modifications and development at both Enterprises.

SFAS 157, *Fair Value Measurements,* provides guidance for using fair value to measure assets and liabilities by defining fair value. It also establishes a framework for measuring fair value and expands disclosures related to fair value measurements. While SFAS 157 does not require any new fair value measurements, it does require the use of market participant information when it is reasonably available without undue cost and effort. Therefore, the Enterprises will need to determine the availability of market-based information, the cost and effort involved in obtaining this information and the cost of the additional disclosure requirements. Adoption of this standard will also require systems modifications and development at a time when personnel and systems resources are at a premium as the Enterprises work toward becoming timely filers.

SFAS 159, *The Fair Value Option for Financial Assets and Financial Liabilities,* provides entities with an irrevocable election to record financial instruments at fair value on a contract-by-contract basis with changes in fair value recognized in earnings. One goal of this standard is to reduce complexity in accounting and volatility in earnings caused by the mixed-attribute accounting model. This standard has the potential to significantly change the financial statements of both Enterprises by measuring and recording most financial assets and liabilities at fair value. The standard also has the potential to create inconsistency in accounting between the Enterprises should they choose different options in the adoption process. Adoption of this standard could also require systems modifications and development during 2007.

Proposed Standards

Further, while not yet final, other proposed accounting changes have the potential to affect the Enterprises. These include changes regarding derivatives disclosures and a proposed amendment to SFAS 140, *Accounting for Transfers and Servicing of Financial Assets and Extinguishment of Liabilities*.

The proposed derivatives disclosures statement provides guidance on enhanced disclosure requirements related to derivatives. The proposed statement's overall goal is more transparency such that financial statement users could better assess the overall risk of derivatives from both a quantitative and qualitative perspective. Adoption of this standard could also require significant systems modifications and development in 2007.

…other proposed accounting changes have the potential to affect the Enterprises.

Lastly, a proposed amendment to SFAS 140, while still in the deliberative stage, has the potential to prompt significant accounting changes at one or both Enterprises. Depending on its final form, the amendment could dramatically change the way Freddie Mac issues its Participation Certificates and/or it could restrict the use of Qualified Special Purpose Entities, which would have a larger impact on Fannie Mae. A new Exposure Draft of the proposed amendment is scheduled for release in the second quarter of 2007. This Exposure Draft has the potential to have a significant effect on both the measurement and recording of assets and liabilities on the Enterprises' financial statements and to create a need for systems modification and development, all at a time when personnel and systems resources are at a premium.

Fair Value Implementation

In summary, while all entities today still face a mixed-attribute accounting model, at least in the area of financial instruments, FASB has made substantial progress in the move toward fair value. In the 1980s and 1990s when Fannie Mae and Freddie Mac faced the beginning of this changing accounting landscape, they chose to minimize the changes and maintain the status quo through creative accounting that did not adhere to GAAP. This created an environment that led to restatements at both Enterprises.

The current management at Fannie Mae and Freddie Mac face equally challenging changes in the market, the economy and the accounting environment. Both Enterprises provide a year-end fair value balance sheet as a supplemental non-GAAP measure, stating that when used in conjunction with their GAAP financial statements this fair value measurement could serve as a valuable tool for investors. Both Enterprises also identified fair value measurement as a critical accounting policy in their most recently released financial statements, emphasizing the fact that fair value measurement has become a critical component of the current mixed-attribute model. With the newly released SFAS

159, *The Fair Value Option for Financial Assets and Financial Liabilities,* these measurements have the potential to become even more important to the Enterprises.

OFHEO believes fair value is an important measure of available capital because it reflects changes in the fair value of the assets as well as the derivatives and debt used to manage the risk inherent in those assets. By way of contrast, OFHEO's current core capital measure is a mixed-attribute measure. Therefore, OFHEO will be closely monitoring the process used by the Enterprises in adopting SFAS 159 as well as monitoring the measurement process used to produce the supplemental non-GAAP fair value balance sheet.

Regulations and Guidances

Regulations

On October 27, 2006, OFHEO published in the *Federal Register* a final regulation requiring the Enterprises to establish and maintain record retention programs to ensure that complete and accurate records are readily accessible by OFHEO for examination and other supervisory purposes. The regulation also requires the Enterprises to establish internal controls, procedures for holding documents and controlling their production and training programs to ensure the adequacy and effectiveness of the record retention program. In addition, the regulation directs Enterprise management to evaluate the program for its adequacy and effectiveness at least every three years and to report findings to the Boards of Directors and OFHEO.

On December 14, 2006, OFHEO published in the *Federal Register* a final regulation making technical amendments to Appendix A to Subpart B of the OFHEO risk-based capital (RBC) regulation at C.F.R. 1750. The amendments enhance the accuracy and transparency of the calculation of the RBC requirement for the Enterprises and update the RBC regulation to incorporate previously-approved new activities treatments.

Guidances

OFHEO issued examination guidance PG-06-001, dated November 8, 2006, setting forth guidance and standards relating to the **corporate governance** of the Enterprises consistent with the oversight responsibilities of OFHEO under the Federal Housing Enterprises Financial Safety and Soundness Act of 1992 and the OFHEO corporate governance regulation at 12 C.F.R. 1710. The guidance replaces OFHEO examination guidance PG-05-002, issued on May 20, 2005. Except for certain accounting standards, the guidance retains all provisions of the earlier guidance. Among other things, the guidance includes provisions that provide definitions, broadens relevant experience for Board members, and expands the responsibilities of the corporate heads of compliance and internal investigation and the Board of Directors. The guidance also addresses the need to separate the risk management function from the control function of an Enterprise and the establishment of an Enterprise management compliance control coordination committee. Additionally, the guidance indicates that the Enterprises should establish policies and procedures relating to delegations of authority.

OFHEO issued examination guidance PG-06-002, dated November 8, 2006, setting forth OFHEO expectations regarding actions covered by the OFHEO **executive compensation** regulation at 12 C.F.R. 1770 and the OFHEO corporate governance regulation at 12 C.F.R. 1710. The guidance provides standards for Enterprise compensation programs and employment agreements with executive officers and addresses the responsibilities of the

Board of Directors regarding the Compensation Committee. The guidance also provides for certified submission of executive compensation comparability information and the submission of a comparability study every five years.

OFHEO issued examination guidance PG-06-003, dated November 8, 2006, setting forth examination guidance and standards relating to the **accounting practices** of the Enterprises consistent with the oversight responsibilities of OFHEO under the Federal Housing Enterprises Financial Safety and Soundness Act of 1992 and the OFHEO corporate governance regulation at 12 C.F.R. 1710. The guidance addresses elements drawn from earlier corporate governance guidance and provides a stand-alone set of standards for use by the Office of the Chief Accountant of OFHEO. The guidance indicates that the Enterprises should establish and maintain accounting policies and procedures that properly reflect Generally Accepted Accounting Principles (GAAP), and provides for the periodic review of the policies and procedures. The guidance includes a description of the responsibilities of the Board Audit Committee and provides for a change for the lead and concurring/coordinating audit partner and rotation of the external audit firm on a prescribed schedule. Additionally, the guidance provides for an Enterprise to create a system whereby accounting policies are subject to continuous review and are fully disclosed to the Board Audit Committee.

Notices

On February 6, 2006, OFHEO published in the *Federal Register* its notice of intent to establish three new Privacy Act systems of records: the Emergency Contingency Plan and Personnel Locator system, the Mortgage Fraud system and the Computer Systems Activity and Access Records system. The Emergency Contingency Plan and Personnel Locator system will maintain emergency contact information for use in developing and implementing an emergency plan, including a continuity of operations plan. The Mortgage Fraud system will maintain information on mortgage fraud or possible mortgage fraud involving the Enterprises. The Computer Systems Activity and Access Records system will maintain, plan and manage computer system services and will ensure security and proper use of OFHEO electronic information and computer systems and services.

On April 19, 2006, OFHEO published in the *Federal Register* a Notice of Regulatory Review that responded to comments received from the public as to whether existing regulations had become inefficient or burdensome (12 C.F.R. Ch. XVII).

On July 11, 2006, OFHEO published in the *Federal Register* a Notice of Intent to establish a new system of Privacy Act records titled "Telecommunications System." The system will be used to verify telecommunications usage, official and unofficial, of OFHEO, resolve billing discrepancies and prevent and discipline any detected misuse.

On December 5, 2006, OFHEO published in the *Federal Register* a No FEAR Act Notice that provides notice to its employees, former employees and applicants for employment about the rights and remedies available to them under the Federal anti-discrimination and whistleblower protection laws. The notice complies with the requirements of the Notification and Federal Employees Antidiscrimination Retaliation Act, as implemented by the regulations of the Office of Personnel Management.

Memoranda of Understanding

On May 12, 2006, OFHEO and the U.S. Treasury Department's Financial Crimes Enforcement Network (FinCEN) entered into an agreement to facilitate the sharing of information by OFHEO of its examination findings regarding actual or suspected mortgage fraud with FinCEN. FinCEN will include this information in its database of Bank Secrecy Act information which may then be queried by law enforcement officials.

On November 6, 2006, OFHEO and the Office of Thrift Supervision (OTS) entered into an agreement that provides for the sharing of information between the agencies. The Memorandum of Understanding (MOU) is based on statutory authorities of OTS and OFHEO that provide for interagency cooperation and interaction, such as the sharing of proprietary data, in furtherance of their statutory purposes. The uses of data are governed by statutes addressing trade secrets and confidentiality, and each party agreed to maintain the confidentiality of data and information provided by the other party.

On December 11, 2006, OFHEO and the Federal Housing Finance Board (FHFB) entered into an agreement that provides for the sharing of information, practices and resources between the agencies relevant to each agency's supervisory responsibilies. The MOU is based on statutory authorities of FHFB and OFHEO that provide for interagency cooperation and interaction, such as the sharing of proprietary data, in furtherance of their statutory purposes. The MOU also provides for collaboration, cooperation and participation in examinations under certain conditions and sets forth the establishment of working groups to initiate the process of addressing subjects of mutual interest. Each party agreed to maintain the confidentiality of data and information provided by the other party.

OFHEO Research and Publications

During 2006, OFHEO continued to focus its research plans and activities on topics that assist the agency in achieving its three strategic goals, which the agency revised and published in September in its Strategic Plan for Fiscal Years (FY) 2006-2011: 1) enhance supervision to ensure the Enterprises operate in a safe and sound manner, are adequately capitalized and comply with legal requirements; 2) provide support for statutory reforms to strengthen our regulatory powers; and 3) continue to support the national policy of an efficient secondary mortgage market which promotes homeownership and affordable housing.

OFHEO continued to place a priority on research and analysis of issues for its internal use, primarily related to analyzing risk and capital adequacy and improving the House Price Index. OFHEO also continued its practice of publishing reports and papers, and posting information on its web site to better inform interested parties about the issues OFHEO addresses regarding the Enterprises and the secondary mortgage market. The papers and reports are the result of research and analysis accomplished throughout the year. OFHEO research papers and reports are available at www.ofheo.gov. OFHEO researchers also presented papers and led discussions at professional and industry conferences on topics related to housing finance and regulation of the Enterprises.

Report of the Special Examination of Fannie Mae

In May 2006, OFHEO issued its Report of the Special Examination of Fannie Mae. The report was the product of more than two years of in-depth review involving nearly eight million pages of documents.

The report found the following:

- Fannie Mae senior management promoted an image of the Enterprise as one of the lowest-risk financial institutions in the world and as "best in class" in terms of risk management, financial reporting, internal control and corporate governance.
- Fannie Mae reported extremely smooth profit growth and hit announced targets for earnings-per-share precisely each quarter between 1998 and 2004. Those achievements were illusions deliberately and systematically created by the Enterprise's senior management with the aid of inappropriate accounting and improper earnings management.
- During that period, a large number of Fannie Mae's accounting policies and practices did not comply with Generally Accepted Accounting Principles (GAAP). The Enterprise also had serious problems of internal control, financial reporting and corporate governance.

- By deliberately and intentionally manipulating accounting to hit earnings targets, senior management maximized the bonuses and other executive compensation they received, at the expense of shareholders.
- Fannie Mae's Board of Directors contributed to those problems by failing to be sufficiently informed and failing to act independently of its chairman and other senior executives; by failing to exercise the requisite oversight over the Enterprise's operations; and by failing to discover or ensure the correction of a wide variety of unsafe and unsound practices.
- The Board's failures continued in the wake of revelations of accounting problems and improper earnings management at Freddie Mac and other high-profile firms, the initiation of OFHEO's special examination and credible allegations of improper earnings management made by an employee of the Enterprise's Office of the Controller.
- Senior management did not make investments in accounting systems, computer systems, other infrastructure and staffing needed to support a sound internal control system, proper accounting and GAAP-consistent financial reporting. Those failures came at a time when Fannie Mae faced many operational challenges related to its rapid growth and changing accounting and legal requirements.

The report also prescribed corrective actions to ensure the safety and soundness of the Enterprise. Many of these actions were included in a Consent Order of May 23, 2006, which is detailed elsewhere in this report.

Research Products

OFHEO released several research products during 2006. In February, OFHEO issued a staff working paper, "Removing Appraisal Bias from a Repeat-Transactions House Price Index: A Basic Approach." The paper presents a "bias-neutral" approach to house price indices and demonstrates the different results. "Mortgage Markets and the Enterprises in 2005," a research paper released in September 2006, reviewed developments in the housing sector, activity in the primary and secondary mortgage markets and the financial performance of Fannie Mae and Freddie Mac in 2005. The paper is the most recent in an annual series. OFHEO also published an update to the data tables (through the third quarter of 2006), and to the assumptions used in developing the data estimates, in an OFHEO research paper, "Single-Family Mortgages Originated and Outstanding, 1990 - 2004." OFHEO research papers and staff working papers are authored by OFHEO economists and analysts.

In April 2006, OFHEO released an update to the public version of the software used to run the risk-based capital stress test, along with a stylized data set to use in the model. By running the data for this hypothetical firm through the stress test model, the public can better understand the sensitivities and implications of the stress test.

Conforming Loan Limit

Since 2005 OFHEO has calculated and published the maximum conforming loan limit for single-family mortgages purchased by Fannie Mae and Freddie Mac. On November 15, 2006, OFHEO announced procedures to be followed in determining the conforming loan limits for 2007 in the event the Federal Housing Finance Board (FHFB) reported a decrease in house prices from October 2005 to October 2006.

Later in November, OFHEO announced that, effective January 1, 2007, the maximum conforming loan limit for single-family mortgages would remain at the 2006 level of $417,000 for one-unit properties for most of the U.S. In 2007, the conforming loan limits for larger properties are as follows: two-unit mortgages are limited to $533,850; three-unit mortgages: $645,300; and four-unit mortgages: $801,950. The limit in statutorily designated high-cost areas (Alaska, Guam, Hawaii and the U.S. Virgin Islands) is 50 percent higher, for example, $625,500 for a one-unit, single-family mortgage. For second mortgages, the 2007 limit is $208,500 ($312,750 in the designated high-cost areas).

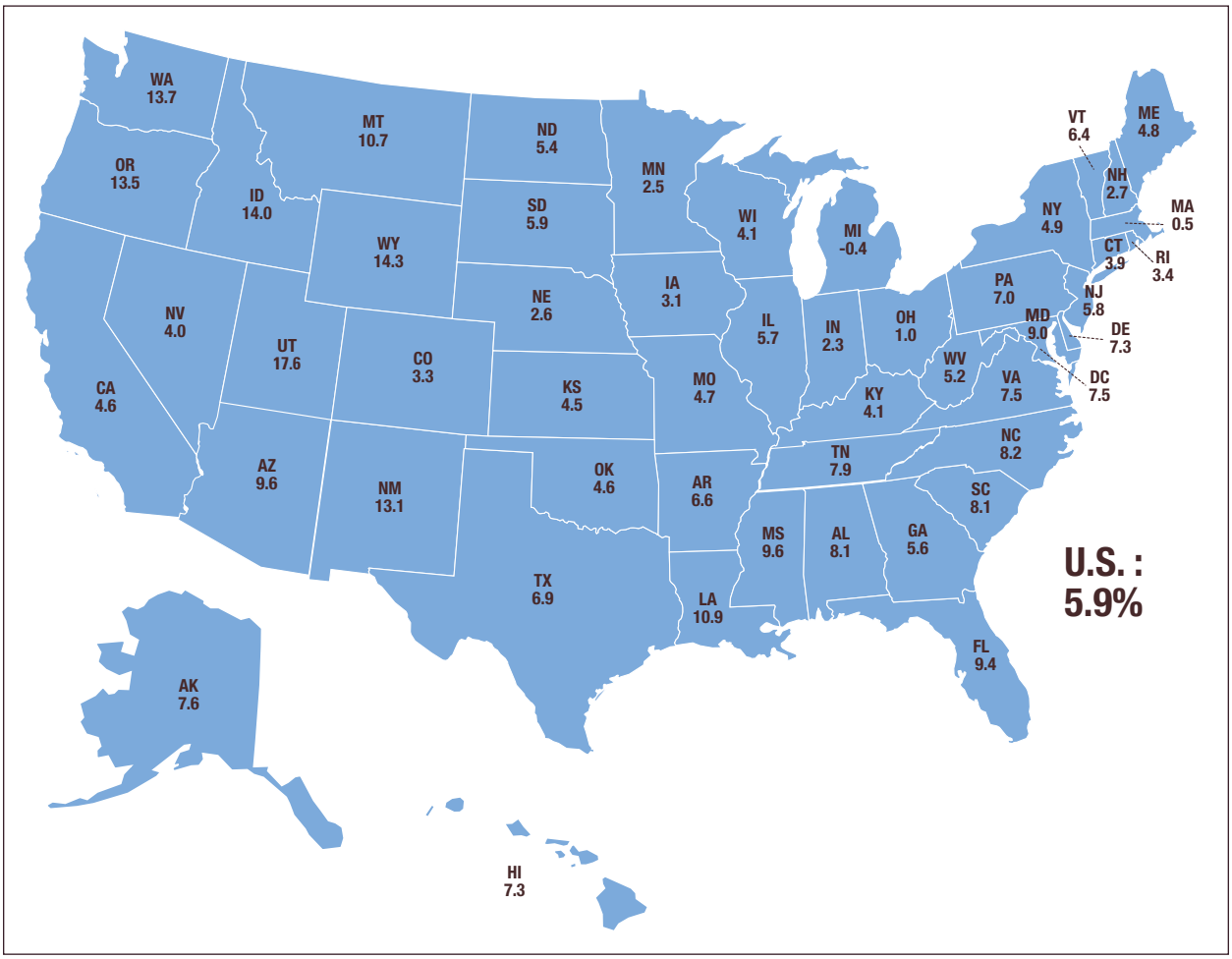
House Price Index

OFHEO also 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, nine Census Divisions, the 50 states and the District of Columbia and 381 Metropolitan Statistical Areas or Metropolitan Divisions. The HPI is based on an analysis of data from over 32 million repeat transactions over the past 32 years. OFHEO developed the index as a key input for its risk-based capital stress test. The HPI is now regularly reported by media organizations throughout the nation and used by researchers to analyze house price behavior (Map on page 59).

Since 2004, OFHEO has compared the HPI, an index that includes mortgages used for both purchases and refinancings, with an index based solely on purchase price data to isolate the effect of refinancing on the overall HPI (see Chart 8). OFHEO also periodically features reports on timely issues in the quarterly HPI report. For example, responding to frequent public requests for rural price indicators, the report covering data through the third quarter of 2006 published a state-by-state review of price trends in rural markets. The analysis compared urban and rural trends and measured the correlation in urban-rural price movements within states.

The report covering data through the second quarter closely analyzed the ongoing deceleration in housing markets. The report found that the deceleration was most extreme in areas of the country that had experienced the greatest home price appreciation during the early part of this decade. Recent price trends were studied in detail for the two states with the greatest appreciation since mid-2004. Monthly house price indexes were calculated for those states and month-to-month appreciation figures were estimated. The

OFHEO House Price Index Percentage Growth by State
Fourth Quarter 2005 - Fourth Quarter 2006



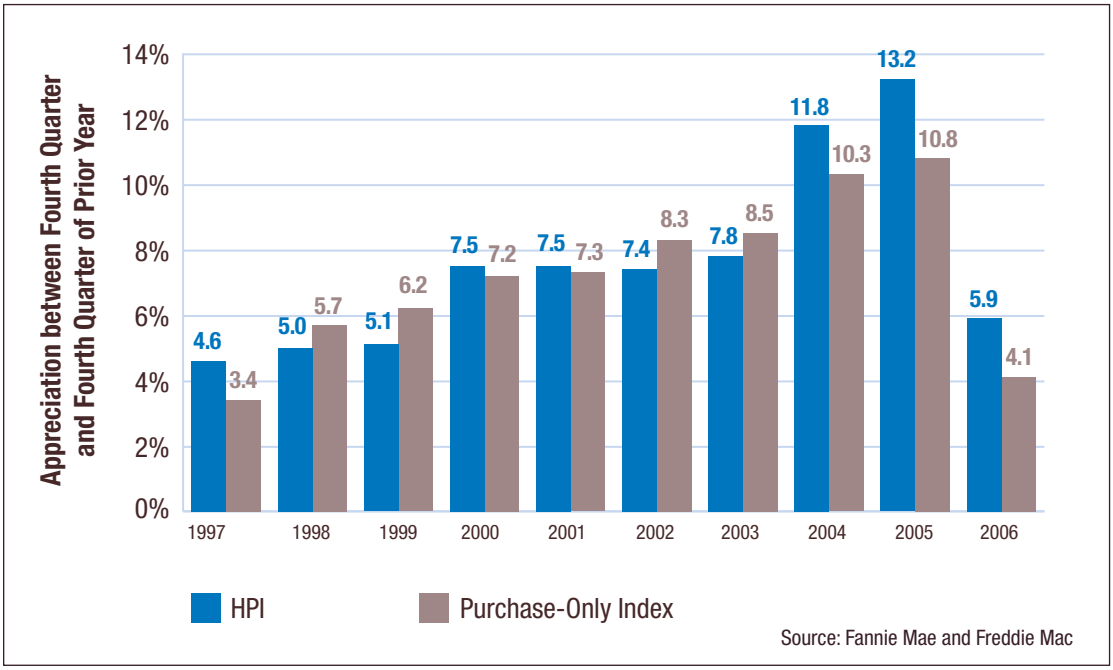


Chart 8 - House Price Appreciation

results revealed that monthly appreciation rates in those states had been in steady decline since early 2005. Earlier reports in 2006 examined the impact of cash-out refinancings on the HPI and the effects of Hurricane Katrina on house prices in areas surrounding those that were hardest hit.

OFHEO Performance and Program Assessment

In November, OFHEO published its annual Performance and Accountability Report (PAR), which describes OFHEO's accomplishments and how OFHEO met its performance goals during Fiscal Year 2006. The PAR also contains OFHEO's audited financial statements for the fiscal year.

Working jointly with the Office of Management and Budget, OFHEO also completed its first Program Assessment Rating Tool (PART) assessment. The PART measures the effectiveness of government programs and develops improvement plans. OFHEO scored as a performing program with a rating of "adequate," the middle of five possible rating categories.

Significant findings included the following:

- In recent years, OFHEO's program has improved its effectiveness in identifying and addressing significant and systemic issues at the Enterprises that need attention.
- The program's effectiveness is restricted by limited statutory authority. OFHEO lacks express powers similar to those of other safety and soundness regulators.
- One of the factors affecting OFHEO's PART rating is that, as of Fiscal Year 2006, OFHEO had not yet implemented certain bank regulator-like risk measures. OFHEO is now using such measures and will report at the end of Fiscal Year 2007 on how the Enterprises performed.
- OFHEO is the only safety and soundness regulator whose funding is subject to the timing and amount approved in an annual appropriations bill. Budget flexibility is critical to ensuring the agency can adapt and respond quickly to changing circumstances at either Enterprise.

OFHEO's Financial Operations

OFHEO's Budget

The business operations of OFHEO are not financed by taxpayer funds. The annual operating budget, however, undergoes the federal budgetary and appropriations process and is constrained by the amount appropriated by Congress and signed into law by the President. The amount provided for by the appropriations process is offset in the federal budget by semi-annual assessments from Fannie Mae and Freddie Mac.

Congress is considering legislation that would transfer all resources available to OFHEO to a new, strengthened housing government-sponsored enterprise regulator, which would operate outside of the appropriations process. Absent legislative change, however, OFHEO will continue to be subject to the appropriations process.

The Administration proposed an FY 2007 budget of $67.6 million, but Congress passed a year-long Continuing Resolution (CR) in mid-February funding OFHEO at its FY 2006 level of $60 million. OFHEO is continuing its efforts to seek $7.6 million in supplemental funding in FY 2007 to cover unbudgeted litigation costs, but is being forced to curb its planned hiring of supervision personnel.

The Administration proposed an FY 2008 budget of $66 million to fund OFHEO's operations. Depending on the final outcome for FY 2007 funding and developments in ongoing administrative and federal court cases, OFHEO may seek to amend upward the FY 2008 request to support unbudgeted requirements for legal services associated with litigation in these cases.

Unqualified Audit Opinion in Fiscal Year 2006

The certified public accounting firm of Dembo, Jones, Healy, Pennington, and Marshall audited OFHEO's FY 2006 financial statements. The firm issued an unqualified audit opinion on those financial statements, issued 45 days after fiscal year-end, and found no material weaknesses in internal controls or instances of non-compliance with applicable laws and regulations. While not required by law, OFHEO voluntarily began obtaining outside audit reviews of its financial statements in FY 1998. 2006 represents the ninth straight year OFHEO has received a clean, unqualified audit opinion.

Historical Data Tables

TABLE OF CONTENTS

Table 1. Fannie Mae Mortgage Purchases 63

Table 1a. Fannie Mae Mortgage Purchases Detail, By Type of Loan 64

Table 1b. Fannie Mae Mortgage-Related Securities - Part 1 65

Table 1b. Fannie Mae Purchases of Mortgage-Related Securities - Part 2, Private-Label Detail 66

Table 2. Fannie Mae MBS Issuances 67

Table 3. Fannie Mae Earnings 68

Table 4. Fannie Mae Balance Sheet.....69

Table 4a. Fannie Mae Total MBS Outstanding Detail ..70

Table 5. Fannie Mae Retained Mortgage Portfolio Detail 71

Table 5a. Fannie Mae Retained Mortgage Portfolio Detail - Whole Loans 72

Table 5b. Fannie Mae Retained Mortgage Portfolio Detail - Part 1, Mortgage-Related Securities.....73

Table 5b. Fannie Mae Retained Mortgage Portfolio Detail - Part 2, Mortgage-Related Securities, Private-Label Detail.....74

Table 5b. Fannie Mae Retained Mortgage Portfolio Detail - Part 3, Mortgage-Related Securities.....75

Table 6. Fannie Mae Financial Derivatives.....76

Table 7. Fannie Mae Non-Mortgage Investments.....77

Table 8. Fannie Mae Mortgage Asset Quality.....78

Table 9. Fannie Mae Capital.....79

Table 10. Freddie Mac Mortgage Purchases 80

Table 10a. Freddie Mac Mortgage Purchases Detail, By Type of Loan 81

Table 10b. Freddie Mac Purchases of Mortgage-Related Securities - Part 1 82

Table 10b. Freddie Mac Purchases of Mortgage-Related Securities - Part 2, Private-Label Detail 83

Table 11. Freddie Mac MBS Issuances.....84

Table 12. Freddie Mac Earnings 85

Table 13. Freddie Mac Balance Sheet 86

Table 13a. Freddie Mac Total MBS Outstanding Detail.....87

Table 14. Freddie Mac Retained Mortgage Portfolio Detail.....88

Table 14a. Freddie Mac Retained Mortgage Portfolio Detail - Whole Loans 89

Table 14b. Freddie Mac Retained Mortgage Portfolio Detail - Part 1, Mortgage-Related Securities 90

Table 14b. Freddie Mac Retained Mortgage Portfolio Detail - Part 2, Mortgage-Related Securities, Private-Label Detail 91

Table 14b. Freddie Mac Retained Mortgage Portfolio Detail - Part 3, Mortgage-Related Securities.....92

Table 15. Freddie Mac Financial Derivatives 93

Table 16. Freddie Mac Non-Mortgage Investments 94

Table 17. Freddie Mac Mortgage Asset Quality 95

Table 18. Freddie Mac Capital 96

Table 19. Combined Purchases 97

Table 19a. Combined Mortgage Purchases Detail, By Type of Loan.....98

Table 19b. Combined Purchases of Mortgage-Related Securities 99

Table 20. Combined MBS Issuances.....100

Table 21. Combined Earnings 101

Table 22. Combined Balance Sheet 102

Table 22a. Combined MBS Outstanding Detail.....103

Table 23. Combined Financial Derivatives 104

Table 24. Combined Non-Mortgage Investments.....105

Table 25. Combined Capital 106

Table 26. Loan Limits.....107

Table 27. Mortgage Interest Rates 108

Table 28. Housing Market Activity.....109

Table 29. Weighted Repeat Sales House Price Index (Annual Data) 110

Table 1. Fannie Mae Mortgage Purchases[1]

Period	Business Activity ($ in millions)[2]			
	Purchases			
	Single-Family ($)	Multifamily ($)	Total Mortgages[2] ($)	Mortgage-Related Securities[3] ($)
4Q06	133,335	5,852	139,187	21,039
3Q06	139,918	4,868	144,786	24,594
2Q06	128,690	4,592	133,282	39,357
1Q06	122,391	5,362	127,753	17,673
Annual Data				
2006	524,334	20,674	545,008	102,663
2005	536,913	21,485	558,398	62,232
2004	588,119	16,386	604,505	176,385
2003	1,322,193	31,196	1,353,389	408,606
2002	804,192	16,772	820,964	268,574
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

1 Information included in the table and footnotes for periods 2005 and 2006 are subject to change pending the preparation and completion of Fannie Mae's 2005 and 2006 financial statements and required audits.

2 Lender-originated MBS issuances and cash purchases.

3 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[1]

Period	Purchases ($ in millions)[2]											
	Single Family Mortgages								Multifamily Mortgages			Total Mortgage Purchases ($)
	Conventional				FHA/VA			Total Single-Family Mortgages ($)				
	Fixed-Rate[3] ($)	Adjustable-Rate ($)	Seconds ($)	Total ($)	Fixed-Rate[4] ($)	Adjustable-Rate ($)	Total ($)		Conventional ($)	FHA/RHS ($)	Total Multi-family Mortgages ($)	
4Q06	115,922	15,469	68	131,459	482	1,394	1,876	133,335	5,579	274	5,852	139,187
3Q06	111,448	27,098	8	138,554	64	1,300	1,364	139,918	4,659	209	4,868	144,786
2Q06	107,255	18,717	25	125,997	371	2,322	2,693	128,690	4,343	249	4,592	133,282
1Q06	95,306	23,983	29	119,318	659	2,414	3,073	122,391	5,028	334	5,362	127,753
Annual Data												
2006	429,931	85,267	130	515,328	1,576	7,430	9,006	524,334	19,609	1,065	20,674	545,008
2005	416,720	111,935	116	528,771	2,194	5,948	8,142	536,913	19,439	2,046	21,485	558,398
2004	527,456	46,772	51	574,279	9,967	3,873	13,840	588,119	13,684	2,702	16,386	604,505
2003	1,236,045	64,980	93	1,301,118	18,032	3,043	21,075	1,322,193	28,071	3,125	31,196	1,353,389
2002	738,177	48,617	40	786,834	15,810	1,548	17,358	804,192	15,089	1,683	16,772	820,964
2001	534,115	25,648	1,137	560,900	5,671	1,102	6,773	567,673	17,849	1,282	19,131	586,804
2000	187,236	33,809	726	221,771	4,378	920	5,298	227,069	9,127	1,250	10,377	237,446
1999	293,188	12,138	1,198	306,524	8,529	1,084	9,613	316,137	8,858	1,153	10,011	326,148
1998	334,367	14,273	1	348,641	5,768	511	6,279	354,920	10,844	584	11,428	366,348
1997	136,329	21,095	3	157,427	2,062	432	2,494	159,921	5,936	598	6,534	166,455
1996	146,154	15,550	3	161,707	2,415	334	2,749	164,456	6,199	252	6,451	170,907
1995	104,901	17,978	9	122,888	3,009	106	3,115	126,003	4,677	289	4,966	130,969
1994	139,815	16,340	8	156,163	1,953	113	2,066	158,229	3,620	219	3,839	162,068
1993	274,402	14,420	29	288,851	855	120	975	289,826	3,919	216	4,135	293,961
1992	226,332	21,001	136	247,469	1,055	79	1,134	248,603	2,845	111	2,956	251,559
1991	114,321	17,187	705	132,213	1,300	38	1,338	133,551	3,183	21	3,204	136,755
1990	95,011	14,528	654	110,193	799	15	814	111,007	3,165	15	3,180	114,187
1989	60,794	17,692	521	79,007	1,489	14	1,503	80,510	4,309	16	4,325	84,835
1988	35,767	27,492	433	63,692	823	98	921	64,613	4,149	21	4,170	68,783
1987	60,434	10,675	139	71,248	2,649	45	2,694	73,942	1,463	270	1,733	75,675
1986	58,251	7,305	498	66,054	11,155	14	11,169	77,223	1,877	0	1,877	79,100
1985	29,993	10,736	871	41,600	927	16	943	42,543	1,200	0	1,200	43,743
1984	17,998	8,049	937	26,984	729	0	729	27,713	1,106	0	1,106	28,819
1983	18,136	4,853	1,408	24,397	1,942	0	1,942	26,339	128	12	140	26,479
1982	19,311	3,210	1,552	24,073	1,856	0	1,856	25,929	0	10	10	25,939
1981	4,260	107	176	4,543	2,284	0	2,284	6,827	0	2	2	6,829
1980	2,802	0	0	2,802	5,272	0	5,272	8,074	0	27	27	8,101
1979	5,410	0	0	5,410	5,388	0	5,388	10,798	0	9	9	10,807
1978	5,682	0	0	5,682	6,620	0	6,620	12,302	0	3	3	12,305
1977	2,366	0	0	2,366	2,284	0	2,284	4,650	0	134	134	4,784
1976	2,513	0	0	2,513	824	0	824	3,337	0	295	295	3,632
1975	547	0	0	547	3,099	0	3,099	3,646	0	674	674	4,320
1974	1,128	0	0	1,128	3,618	0	3,618	4,746	0	2,273	2,273	7,019
1973	939	0	0	939	3,231	0	3,231	4,170	0	2,082	2,082	6,252
1972	55	0	0	55	2,541	0	2,541	2,596	0	1,268	1,268	3,864
1971	0	0	0	0	2,742	0	2,742	2,742	0	1,298	1,298	4,040

Source: Fannie Mae

1 Information included in the table and footnotes for periods 2005 and 2006 are subject to change pending the preparation and completion of Fannie Mae's 2005 and 2006 financial statements and required audits.

2 Lender-originated MBS issuances and cash purchases.

3 Includes balloons/resets.

4 Includes loans guaranteed by the Rural Housing Service.

Table 1b. Fannie Mae Mortgage-Related Securities - Part 1[1]

Period	Purchases ($ in millions)[2]														
	Fannie Mae Securities				Other Securities										
	Single-Family		Multi-family ($)	Total Fannie Mae ($)	Freddie Mac				Ginnie Mae				Total Private-Label ($)	Mortgage Revenue Bonds ($)	Total Mortgage-Related Securities ($)
					Single-Family		Multi-family ($)	Total Freddie Mac ($)	Single-Family		Multi-family ($)	Total Ginnie Mae ($)			
	Fixed-Rate ($)	Adjustable-Rate ($)			Fixed-Rate ($)	Adjustable-Rate ($)			Fixed-Rate ($)	Adjustable-Rate ($)					
4Q06	4,132	915	81	5,128	217	107	0	324	0	0	0	0	15,573	14	21,039
3Q06	8,775	2,451	226	11,452	518	536	0	1,054	0	0	0	0	12,005	83	24,594
2Q06	9,534	7,806	0	17,340	92	2,736	0	2,828	0	0	0	0	19,147	42	39,357
1Q06	736	3,654	122	4,512	217	1,729	0	1,946	77	0	0	77	11,062	76	17,673
Annual Data															
2006	23,177	14,826	429	38,432	1,044	5,108	0	6,152	77	0	0	77	57,787	215	102,663
2005	8,273	6,344	888	15,505	121	3,449	0	3,570	0	0	0	0	41,369	1,788	62,232
2004	42,300	21,281	1,159	64,740	6,546	8,228	0	14,774	0	0	0	0	90,747	6,124	176,385
2003	341,461	5,842	1,225	348,528	19,340	502	0	19,842	36	0	0	36	34,032	6,168	408,606
2002	238,711	4,219	1,572	244,502	7,856	101	0	7,957	4,425	0	0	4425	7,416	4,273	268,574
2001	Not Available	Not Available	Not Available	180,582	Not Available	Not Available	Not Available	20,072	Not Available	Not Available	Not Available	333	3,513	4,624	209,124
2000	Before 2002	Before 2002	Before 2002	104,904	Before 2002	Before 2002	Before 2002	10,171	Before 2002	Before 2002	Before 2002	2,493	8,466	3,682	129,716
1999				125,498				6,861				17,561	16,511	3,474	169,905
1998				104,728				21,274				2,738	15,721	2,799	147,260
1997				39,033				2,119				3,508	4,188	1,469	50,317
1996				41,263				779				2,197	777	1,727	46,743
1995				30,432				2,832				20	752	2,222	36,258
1994				21,660				571				2,321	0	1,353	25,905
1993				6,275				0				0	0	331	6,606
1992				4,930				0				0	0	498	5,428
1991				2,384				0				0	0	696	3,080
1990				977				0				0	0	474	1,451

Source: Fannie Mae

1 Information included in the table and footnotes for periods 2005 and 2006 are subject to change pending the preparation and completion of Fannie Mae's 2005 and 2006 financial statements and required audits.

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

Table 1b. Fannie Mae Purchases of Mortgage-Related Securities - Part 2, Private-Label Detail[1]

Period	Purchases ($ in millions)[2]					
	Private-Label					
	Single-Family				Multifamily ($)	Total Private-Label ($)
	Manufactured Housing ($)	Other[3]				
		Fixed-Rate ($)	Adjustable-Rate ($)	Total Other ($)		
4Q06	0	0	11,369	11,369	4,204	15,573
3Q06	0	0	10,382	10,382	1,623	12,005
2Q06	0	485	16,520	17,005	2,142	19,147
1Q06	0	1,688	7,653	9,341	1,721	11,062
Annual Data						
2006	0	2,173	45,924	48,097	9,690	57,787
2005	0	3,642	37,625	41,267	102	41,369
2004	0	7,154	83,492	90,646	101	90,747
2003	0	7,832	26,139	33,971	61	34,032
2002	56	1,980	5,344	7,324	36	7,416
2001	Not Available	Not Available	Not Available	3,513	Not Available	3,513
2000	Before 2002	Before 2002	Before 2002	8,466	Before 2002	8,466
1999				16,511		16,511
1998				15,721		15,721
1997				4,188		4,188
1996				777		777
1995				752		752
1994				0		0
1993				0		0
1992				0		0
1991				0		0
1990				0		0

Source: Fannie Mae

1 Information included in the table and footnotes for periods 2005 and 2006 are subject to change pending the preparation and completion of Fannie Mae's 2005 and 2006 financial statements and required audits.

2 Not included in total mortgage purchases.

3 Includes mortgage-related securities collateralized by first lien loans to credit-impaired borrowers and may include some underlying loans which are home equity or second lien.

Table 2. Fannie Mae MBS Issuances[1]

Period	Business Activity ($ in millions)			
	MBS Issuances[2]			
	Single-Family MBS ($)	Multifamily MBS ($)	Total MBS ($)	Multiclass MBS[3] ($)
4Q06	123,303	921	124,224	18,119
3Q06	122,924	1,095	124,019	17,883
2Q06	117,739	1,163	118,902	45,247
1Q06	112,149	2,392	114,541	29,422
Annual Data				
2006	476,115	5,571	481,686	110,671
2005	500,668	9,379	510,047	123,813
2004	545,443	6,854	552,297	94,686
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	

Source: Fannie Mae

1 Information included in the table and footnotes for periods 2005 and 2006 are subject to change pending the preparation and completion of Fannie Mae's 2005 and 2006 financial statements and required audits.

2 Lender-originated MBS plus issuances from Fannie Mae's portfolio.

3 Beginning in 2006, includes Grantor Trusts and REMICs as well as stripped MBS backed by Fannie Mae certificates.

Table 3. Fannie Mae Earnings[1]

Period	Earnings ($ in Millions)						
	Net Interest Income[2] ($)	Guarantee Fee Income ($)	Average Guarantee Fee (basis points)	Administrative Expenses ($)	Credit-Related Expenses[3] ($)	Net Income ($)	Return on Equity[4] ($)
4Q06	N/A	N/A	N/A	N/A	N/A	N/A	N/A
3Q06	N/A	N/A	N/A	N/A	N/A	N/A	N/A
2Q06	N/A	N/A	N/A	N/A	N/A	N/A	N/A
1Q06	N/A	N/A	N/A	N/A	N/A	N/A	N/A
Annual Data							
2006	N/A	N/A	N/A	N/A	N/A	N/A	N/A
2005	N/A	N/A	N/A	N/A	N/A	N/A	N/A
2004	18,081	3,604	20.8	1,656	363	4,967	16.6
2003	19,477	3,281	21.0	1,454	353	8,081	27.6
2002	18,426	2,516	19.3	1,156	273	3,914	15.2
2001	8,090	1,482	19.0	1,017	78	5,894	39.8
2000	5,674	1,351	19.5	905	94	4,448	25.6
1999	4,894	1,282	19.3	800	127	3,912	25.2
1998	4,110	1,229	20.2	708	261	3,418	25.2
1997	3,949	1,274	22.7	636	375	3,056	24.6
1996	3,592	1,196	22.4	560	409	2,725	24.1
1995	3,047	1,086	22.0	546	335	2,144	20.9
1994	2,823	1,083	22.5	525	378	2,132	24.3
1993	2,533	961	21.3	443	305	1,873	25.3
1992	2,058	834	21.2	381	320	1,623	26.5
1991	1,778	675	21.0	319	370	1,363	27.7
1990	1,593	536	21.1	286	310	1,173	33.7
1989	1,191	408	21.3	254	310	807	31.1
1988	837	328	21.6	218	365	507	25.2
1987	890	263	22.1	197	360	376	24
1986	384	175	23.8	175	306	105	10
1985	139	112	25.6	142	206	(7)	(1)
1984	(90)	78	26.2	112	86	(71)	(7)
1983	(9)	54	26.3	81	48	49	5
1982	(464)	16	27.2	60	36	(192)	(19)
1981	(429)	0	25.0	49	(28)	(206)	(17)
1980	21	Not Available	Not Available	44	19	14	0.9
1979	322	Before 1981	Before 1981	46	35	162	11.3
1978	294			39	36	209	16.5
1977	251			32	28	165	15.3
1976	203			30	25	127	13.8
1975	174			27	16	115	14.1
1974	142			23	17	107	14.7
1973	180			18	12	126	20.3
1972	138			13	5	96	18.8
1971	49			15	4	61	14.4

Source: Fannie Mae

N/A = not available

1 Information included for 2002, 2003 and 2004 has been restated to reflect changes in Fannie Mae's accounting policies as described in its Annual Report on Form 10-K for the year ended December 31, 2004.

2 Interest income net of interest expense.

3 Credit-related expenses include the provision for credit losses and foreclosed property expenses (income).

4 Calculated as net income available to common stockholders divided by average outstanding common equity.

Table 4. Fannie Mae Balance Sheet[1]

End of Period	Balance Sheet ($ in Millions)							Mortgage-Backed Securities Outstanding ($ in Millions)	
	Total Assets[2] ($)	Total Retained Mortgage Portfolio[3] ($)	Non-Mortgage Investments[4] ($)	Debt Outstanding ($)	Shareholders' Equity ($)	Core Capital[5] ($)	Fair Value Net Assets ($)	Total MBS Outstanding[6] ($)	Multiclass MBS Outstanding[7] ($)
4Q06	N/A	N/A	N/A	N/A	N/A	42,295	N/A	1,783,928	453,022
3Q06	N/A	N/A	N/A	N/A	N/A	42,008	N/A	1,736,912	449,854
2Q06	N/A	N/A	N/A	N/A	N/A	42,037	N/A	1,683,335	436,983
1Q06	N/A	N/A	N/A	N/A	N/A	40,333	N/A	1,649,384	424,325
Annual Data									
2006	N/A	N/A	N/A	N/A	N/A	42,295	N/A	1,783,928	453,022
2005	N/A	N/A	N/A	N/A	N/A	38,135	N/A	1,598,079	388,905
2004	1,020,934	925,194	47,839	953,111	38,902	34,514	40,094	1,408,047	368,567
2003	1,022,275	919,589	59,518	961,280	32,268	26,953	28,393	1,300,520	398,516
2002	904,739	820,627	39,376	841,293	31,899	20,431	22,130	1,040,439	401,406
2001	799,948	706,347	65,982	763,467	18,118	25,182	22,675	863,445	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 and OFHEO

N/A = not available

1 Information included for 2002, 2003 and 2004 has been restated to reflect changes in Fannie Mae's accounting policies as described in its Annual Report on Form 10-K for the year ended December 31, 2004. Information included in the table and footnotes for periods 2005 and 2006 are subject to change pending the preparation and completion of Fannie Mae's 2005 and 2006 financial statements and required audits.

2 Beginning in 1998, the guaranty liability for Fannie Mae MBS held in the portfolio is classified as a liability.

3 Gross retained portfolio net of unamortized purchase premium, discounts and cost basis adjustments, and, beginning in 2002, fair value adjustments on available-for-sale and trading securities. The amounts for 1999 through 2001 include certain loans held for investment that were previously classified as non-mortgage investments.

4 Data reflects unpaid principal balance net of unamortized purchase premium, discounts and cost basis adjustments and fair value adjustment on available-for-sale securities. Values for years 1999 through 2001 excludes investments designated for securitization and resale. Prior to 1982, the majority of non-mortgage investments consisted of U.S. government securities and agency securities.

5 The sum of (a) the stated value of outstanding common stock (common stock less treasury stock); (b) the stated value of outstanding noncumulative perpetual preferred stock; (c) Fannie Mae's paid-in capital; and (d) retained earnings, less treasury stock. Core capital excludes AOCI.

6 Total Fannie Mae MBS held by third parties. Excludes Fannie Mae MBS in the retained mortgage portfolio. Beginning in 2006, includes securities guaranteed by Fannie Mae that are backed by Ginne Mae collateral.

7 Beginning in 2006, includes Grantor Trusts and REMICs as well as stripped MBS backed by Fannie Mae certificates.

Table 4a. Fannie Mae Total MBS Outstanding Detail[1]

End of Period	Single-Family Mortgages[2] ($ in Millions)							Multifamily Mortgages[2] ($)			Total MBS Outstanding[3] ($)
	Conventional				FHA/VA			Conventional ($)	FHA/RHS ($)	Total Multi-Family ($)	
	Fixed-Rate ($)	Adjustable-Rate ($)	Seconds ($)	Total ($)	Fixed-Rate ($)	Adjustable-Rate ($)	Total ($)				
4Q06	1,487,172	230,333	0	1,717,505	17,428	453	17,881	41,897	6,645	48,542	1,783,928
3Q06	1,430,836	231,374	0	1,662,210	18,160	491	18,651	49,308	6,743	56,051	1,736,912
2Q06	1,381,087	224,219	0	1,605,306	19,487	543	20,030	50,882	7,117	57,999	1,683,335
1Q06	1,338,908	229,698	0	1,568,606	20,636	596	21,232	52,211	7,335	59,546	1,649,384
Annual Data											
2006	1,487,172	230,333	0	1,717,505	17,428	453	17,881	41,897	6,645	48,542	1,783,928
2005	1,297,623	222,928	0	1,520,551	18,528	644	19,172	52,576	5,780	58,356	1,598,079
2004	1,243,343	75,722	0	1,319,065	31,387	949	32,336	47,386	9,260	56,646	1,408,047
2003	1,112,849	87,373	0	1,200,222	36,139	1,268	37,407	53,720	9,171	62,891	1,300,520
2002	875,260	75,430	0	950,690	36,057	1,247	37,304	47,025	5,420	52,445	1,040,439
2001	752,211	60,842	772	813,825	4,519	1,207	5,726	42,713	1,181	43,894	863,445
2000	599,999	61,495	1,165	662,659	6,778	1,298	8,076	35,207	780	35,987	706,722
1999	586,069	51,474	1,212	638,755	7,159	1,010	8,169	31,518	703	32,221	679,145
1998	545,680	56,903	98	602,681	5,340	587	5,927	28,378	157	28,535	637,143
1997	483,982	70,106	7	554,095	3,872	213	4,085	20,824	134	20,958	579,138
1996	460,866	65,682	9	526,557	4,402	191	4,593	16,912	111	17,023	548,173
1995	431,755	63,436	13	495,204	5,043	91	5,134	12,579	313	12,892	513,230
1994	415,692	55,780	18	471,490	5,628	0	5,628	8,908	319	9,227	486,345
1993	405,383	49,987	28	455,398	7,549	0	7,549	8,034	325	8,359	471,306
1992	360,619	45,718	43	406,380	9,438	0	9,438	8,295	331	8,626	424,444
1991	290,038	45,110	89	335,237	11,112	0	11,112	8,599	336	8,935	355,284
1990	225,981	42,443	121	268,545	11,380	0	11,380	7,807	343	8,150	288,075
1989	Not Available	Not Available	Not Available	Not Available	Not Available	Not Available	Not Available	Not Available	Not Available	Not Available	216,512
1988	Before 1990	Before 1990	Before 1990	Before 1990	Before 1990	Before 1990	Before 1990	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

1 Information included for 2002, 2003 and 2004 has been restated to reflect changes in Fannie Mae's accounting policies as described in its Annual Report on Form 10-K for the year ended December 31, 2004. Information included in the table and footnotes for periods 2005 and 2006 are subject to change pending the preparation and completion of Fannie Mae's 2005 and 2006 financial statements and required audits.

2 Unpaid principal balance.

3 Total Fannie Mae MBS held by third parties. Excludes Fannie Mae MBS in the retained mortgage portfolio. Includes guaranteed whole loan REMIC's and Private-label wraps that are not included in Grantor Trusts.

Table 5. Fannie Mae Retained Mortgage Portfolio Detail[1]

($ in millions)					
End of Period	Whole Loans[2,3] ($)	Fannie Mae Securities[2,4] ($)	Other Mortgage-Related Securities[2,4] ($)	Unamortized Premiums, Discounts, Deferred Adjustments, and Unrealized Gains/Losses on Available-for-Sale Securities[5] ($)	Total Retained Mortgage Portfolio ($)
4Q06	279,146	298,756	146,498	N/A	N/A
3Q06	273,732	310,219	141,582	N/A	N/A
2Q06	262,625	325,436	142,849	N/A	N/A
1Q06	258,104	328,206	135,253	N/A	N/A
Annual Data					
2006	279,146	298,756	146,498	N/A	N/A
2005	252,853	341,559	132,980	N/A	N/A
2004	400,157	344,404	172,648	7,985	925,194
2003	397,633	405,922	105,313	10,721	919,589
2002	323,244	380,383	96,152	20,848	820,627
2001	167,405	431,776	109,270	(2,104)	706,347
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)	286,528
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

N/A = not available

1 Information included for 2002, 2003 and 2004 has been restated to reflect changes in Fannie Mae's accounting policies as described in its Annual Report on Form 10-K for the year ended December 31, 2004. Information included in the table and footnotes for periods 2005 and 2006 are subject to change pending the preparation and completion of Fannie Mae's 2005 and 2006 financial statements and required audits.

2 Unpaid principal balance.

3 Includes mortgage-related securities that were consolidated as loans as of December 31, 2004, 2003, and 2002. For 1999, 2000, and 2001 includes certain loans held for investment that were classified as nonmortgage investments.

4 Excludes mortgage-related securities that were consolidated as loans as of December 31, 2004, 2003, and 2002.

5 Beginning in 2002, amounts include fair value adjustments on mortgage-related securities and securities commitments classified as trading and available-for-sale.

Table 5a. Fannie Mae Retained Mortgage Portfolio Detail - Whole Loans[1]

End of Period	Whole Loans ($ in millions)[2]								
	Single-Family					Multifamily			Total Whole Loans ($)
	Conventional								
	Fixed-Rate[3] ($)	Adjustable-Rate ($)	Seconds ($)	Total ($)	Total FHA/VHA[4] ($)	Conventional ($)	FHA/RHS ($)	Total ($)	
4Q06	191,907	18,991	288	211,186	20,023	47,348	589	47,937	279,146
3Q06	192,429	18,144	235	210,808	19,221	43,077	626	43,703	273,732
2Q06	186,183	17,079	242	203,504	18,460	40,000	661	40,661	262,625
1Q06	186,265	16,958	234	203,457	16,807	37,142	697	37,839	258,103
Annual Data									
2006	191,907	18,991	288	211,186	20,023	47,348	589	47,937	279,146
2005	185,086	16,892	218	202,196	14,930	34,991	736	35,727	252,853
2004	307,048	38,350	177	345,575	10,112	43,396	1,074	44,470	400,157
2003	335,812	19,155	233	355,200	7,284	33,945	1,204	35,149	397,633
2002	282,899	12,142	416	295,457	6,404	19,485	1,898	21,383	323,244
2001	140,454	10,427	917	151,798	5,069	8,987	1,551	10,538	167,405
2000	125,786	13,244	480	139,510	4,763	6,547	1,814	8,361	152,634
1999	130,614	6,058	176	136,848	4,472	5,564	2,347	7,911	149,231
1998	135,351	7,633	206	143,190	4,404	5,590	2,595	8,185	155,779
1997	134,543	10,389	268	145,200	4,631	7,388	2,883	10,271	160,102
1996	137,507	12,415	323	150,245	4,739	9,756	3,151	12,907	167,891
1995	137,032	14,756	423	152,211	4,780	11,175	3,315	14,490	171,481
1994	133,882	16,475	537	150,894	4,965	11,681	3,369	15,050	170,909
1993	123,308	19,175	772	143,255	5,305	11,143	3,446	14,589	163,149
1992	91,500	22,637	1,355	115,492	6,097	9,407	3,601	13,008	134,597
1991	69,130	19,763	2,046	90,939	6,962	7,641	3,709	11,350	109,251
1990	61,873	19,558	1,851	83,282	8,524	6,142	3,849	9,991	101,797
1989	55,638	20,751	1,614	78,003	9,450	3,926	4,350	8,276	95,729
1988	53,090	20,004	1,561	74,655	10,480	2,699	4,386	7,085	92,220
1987	55,913	13,702	1,421	71,036	11,652	2,448	4,482	6,930	89,618
1986	Not Available	Not Available	Not Available	Not Available	Not Available	Not Available	Not Available	Not Available	94,167
1985	Before 1987	Before 1987	Before 1987	Before 1987	Before 1987	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

1 Information included for 2002, 2003 and 2004 has been restated to reflect changes in Fannie Mae's accounting policies as described in its Annual Report on Form 10-K for the year ended December 31, 2004. Information included in the table and footnotes for periods 2005 and 2006 are subject to change pending the preparation and completion of Fannie Mae's 2005 and 2006 financial statements and required audits.

2 Unpaid principal balance. Includes mortgage-related securities that were consolidated as loans as of December 31, 2004, 2003, and 2002. For 1999, 2000, and 2001 includes certain loans held for investment that were classified as nonmortgage investments.

3 Includes balloon/reset loans.

4 Includes loans guaranteed by the Rural Housing Service.

Table 5b. Fannie Mae Retained Mortgage Portfolio Detail - Part 1, Mortgage-Related Securities[1]

End of Period	Mortgage-Related Securities ($ in Millions)[2]													
	Fannie Mae Securities ($)				Others' Securities									
	Single-Family		Multi-family ($)	Total Fannie Mae ($)	Freddie Mac				Ginnie Mae				Total Private-Label ($)	Total Others' Securities ($)
	Fixed-Rate ($)	Adjustable-Rate ($)			Single-Family		Multi-family ($)	Total Freddie Mac ($)	Single-Family		Multi-family ($)	Total Ginnie Mae ($)		
					Fixed-Rate ($)	Adjustable-Rate ($)			Fixed-Rate ($)	Adjustable-Rate ($)				
4Q06	256,745	33,976	8,035	298,756	17,304	12,773	0	30,077	1,837	0	56	1,893	97,530	129,500
3Q06	265,822	36,052	8,345	310,219	17,716	13,226	0	30,942	1,935	0	56	1,991	91,245	124,178
2Q06	280,678	36,356	8,402	325,436	17,891	13,362	0	31,253	2,052	0	57	2,109	91,747	125,109
1Q06	288,463	31,022	8,721	328,206	18,448	11,184	0	29,632	2,193	0	57	2,250	85,009	116,891
Annual Data														
2006	256,745	33,976	8,035	298,756	17,304	12,773	0	30,077	1,837	0	56	1,893	97,530	129,500
2005	303,025	29,571	8,963	341,559	18,850	9,861	0	28,711	2,272	0	57	2,329	83,137	114,177
2004	339,138	3,869	1,397	344,404	29,328	8,235	0	37,563	4,131	1	68	4,200	108,809	150,572
2003	400,863	3,149	1,910	405,922	30,356	558	0	30,914	6,993	0	68	7,061	46,979	84,954
2002	373,958	3,827	2,598	380,383	32,617	207	0	32,824	15,436	0	85	15,521	28,157	76,502
2001	417,796	5,648	8,332	431,776	42,516	287	26	42,829	18,779	1	109	18,889	29,175	90,893
2000	Not Available	Not Available	Not Available	351,066	Not Available	Not Available	Not Available	33,290	Not Available	Not Available	Not Available	23,768	34,266	91,324
1999	Before 2001	Before 2001	Before 2001	281,714	Before 2001	Before 2001	Before 2001	25,577	Before 2001	Before 2001	Before 2001	23,701	31,673	80,951
1998				197,375				23,453				8,638	19,585	51,676
1997				130,444				5,262				7,696	5,554	18,512
1996				102,607				3,623				4,780	1,486	9,889
1995				69,729				3,233				2,978	747	6,958
1994				43,998				564				3,182	1	3,747
1993				24,219				Not Available				972	2	974
1992				20,535				Before 1994				168	3	171
1991				16,700								180	93	273
1990				11,758								191	352	543
1989				11,720								202	831	1,033
1988				8,153								26	810	836
1987				4,226								Not Available	1,036	1,036
1986				1,606								Before 1988	1,591	1,591
1985				435									Not Available	Not Available
1984				477									Before 1986	Before 1986
1983				Not available										
				Before 1984										

Source: Fannie Mae

1 Information included for 2002, 2003 and 2004 has been restated to reflect changes in Fannie Mae's accounting policies as described in its Annual Report on Form 10-K for the year ended December 31, 2004. Information included in the table and footnotes for periods 2005 and 2006 are subject to change pending the preparation and completion of Fannie Mae's 2005 and 2006 financial statements and required audits.

2 Unpaid principal balance. Excludes mortgage related securities consolidated to loan at December 31, 2002, 2003 and 2004.

Table 5b. Fannie Mae Retained Mortgage Portfolio Detail - Part 2, Mortgage-Related Securities, Private-Label Detail[1]

End of Period	Mortgage-Related Securities ($ in Millions)[2]					
	Private-Label					
	Single-Family				Multifamily ($)	Total Private-Label ($)
	Manufactured Housing ($)	Other[3]				
		Fixed-Rate ($)	Adjustable-Rate ($)	Total Other ($)		
4Q06	4,589	12,111	70,738	82,849	10,092	97,530
3Q06	4,778	13,212	67,365	80,577	5,890	91,245
2Q06	4,981	14,373	68,121	82,494	4,272	91,747
1Q06	5,200	14,591	63,085	77,676	2,133	85,009
Annual Data						
2006	4,589	12,111	70,738	82,849	10,092	97,530
2005	5,407	13,602	63,713	77,315	415	83,137
2004	5,461	14,811	88,478	103,289	59	108,809
2003	6,522	11,812	28,549	40,361	96	46,979
2002	9,583	10,551	7,879	18,430	144	28,157
2001	10,708	13,432	4,736	18,168	299	29,175
2000	Not Available	Not Available	Not Available	24,794	Not Available	34,266
1999	Before 2001	Before 2001	Before 2001	31,673	Before 2001	31,673
1998				19,585		19,585
1997				5,554		5,554
1996				1,486		1,486
1995				747		747
1994				1		1
1993				2		2
1992				3		3
1991				93		93
1990				352		352
1989				831		831
1988				810		810
1987				1,036		1,036
1986				1,591		1,591
1985				Not Available		Not Available
1984				Before 1986		Before 1986
1983						

Source: Fannie Mae

1 Information included for 2002, 2003 and 2004 has been restated to reflect changes in Fannie Mae's accounting policies as described in its Annual Report on Form 10-K for the year ended December 31, 2004. Information included in the table and footnotes for periods 2005 and 2006 are subject to change pending the preparation and completion of Fannie Mae's 2005 and 2006 financial statements and required audits.

2 Unpaid principal balance. Excludes mortgage related securities consolidated to loan at December 31, 2002, 2003 and 2004.

3 Include mortgage-related securities collateralized by first lien loans to credit-impaired borrowers and may include some underlying loans which are home equity or second lien.

Table 5b. Fannie Mae Retained Mortgage Portfolio Detail - Part 3, Mortgage-Related Securities[1]

End of Period	Mortgage-Related Securities ($ in Millions)		($ in Millions)	
	Mortgage Revenue Bonds[2] ($)	Total Mortgage-Related Securities[2] ($)	Unamortized Premiums, Discounts, Deferred Adjustments, and Unrealized Gains/Losses on Available-for-Sale Securities[3] ($)	Total Retained Mortgage Portfolio ($)
4Q06	16,999	445,254	N/A	N/A
3Q06	17,404	451,801	N/A	N/A
2Q06	17,739	468,285	N/A	N/A
1Q06	18,362	463,459	N/A	N/A
Annual Data				
2006	16,999	445,254	N/A	N/A
2005	18,803	474,540	N/A	N/A
2004	22,076	517,052	7,985	925,194
2003	20,359	511,235	10,721	919,589
2002	19,650	476,535	20,848	820,627
2001	18,377	541,046	(2,104)	706,347
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

N/A = not available

1 Information included for 2002, 2003 and 2004 has been restated to reflect changes in Fannie Mae's accounting policies as described in its Annual Report on Form 10-K for the year ended December 31, 2004. Information included in the table and footnotes for periods 2005 and 2006 are subject to change pending the preparation and completion of Fannie Mae's 2005 and 2006 financial statements and required audits.

2 Unpaid principal balance.

3 Beginning in 2002, amounts include fair value adjustments on mortgage-related securities and securities commitments classified as trading and available-for-sale.

Table 6. Fannie Mae Financial Derivatives[1, 2]

End of Period	Financial Derivatives - Notional Amount Outstanding ($ in Millions)						
	Interest Rate Swaps[3] ($)	Interest Rate Caps, Floors, and Corridors ($)	Foreign Currency Contracts ($)	OTC Futures, Options, and Forward Rate Agreements ($)	Mandatory Mortgage Purchase & Sell Commitments ($)	Other ($)	Total ($)
4Q06	513,952	14,000	4,190	210,271	N/A	0	N/A
3Q06	462,344	18,200	5,932	214,520	N/A	0	N/A
2Q06	432,128	23,400	5,981	241,040	N/A	0	N/A
1Q06	347,649	26,600	4,905	269,780	N/A	0	N/A
Annual Data							
2006	513,952	14,000	4,190	210,271	N/A	0	N/A
2005	306,984	33,000	5,485	298,685	N/A	0	N/A
2004	256,216	104,150	11,453	318,275	40,600	0	730,694
2003	598,288	130,350	5,195	305,175	43,560	0	1,082,568
2002	253,211	122,419	3,932	275,625	Not Available	0	655,187
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

N/A = not available

1 Information included for 2002, 2003 and 2004 has been restated to reflect changes in Fannie Mae's accounting policies as described in its Annual Report on Form 10-K for the year ended December 31, 2004. Information included in the table and footnotes for periods 2005 and 2006 are subject to change pending the preparation and completion of Fannie Mae's 2005 and 2006 financial statements and required audits.

2 Beginning in 2002, derivatives are accounted for on a settlement-date basis. For the periods prior to 2002, derivatives are accounted for on a trade-date basis.

3 Beginning in 2002, includes MBS options, swap credit enhancements and the fair value of mortgage insurance contracts that are accounted for as derivatives.

Table 7. Fannie Mae Non-Mortgage Investments[1]

End of Period	Non-Mortgage Investments ($ in Millions)[2]					
	Federal Funds and Eurodollars ($)	Asset-Backed Securities	Repurchase Agreements[3]	Commercial Paper and Corporate Debt ($)	Other ($)	Total ($)
4Q06	N/A	N/A	N/A	N/A	N/A	N/A
3Q06	N/A	N/A	N/A	N/A	N/A	N/A
2Q06	N/A	N/A	N/A	N/A	N/A	N/A
1Q06	N/A	N/A	N/A	N/A	N/A	N/A
Annual Data						
2006	N/A	N/A	N/A	N/A	N/A	N/A
2005	N/A	N/A	N/A	N/A	N/A	N/A
2004	3,860	25,644	70	16,435	1,829	47,839
2003	12,575	26,862	111	17,700	2,270	59,518
2002	150	22,312	181	14,659	2,074	39,376
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	9	0	0	0	227	236
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

N/A = not available

1 Information included for 2002, 2003 and 2004 has been restated to reflect changes in Fannie Mae's accounting policies as described in its Annual Report on Form 10-K for the year ended December 31, 2004.

2 Data reflects unpaid principal balance net of unamortized purchase premium, discounts and cost basis adjustments and fair value adjustment on available-for-sale securities. Values for years 1999 through 2001 excludes investments designated for securitization and resale. Prior to 1982, the majority of non-mortgage investments consisted of U.S. government securities and agency securities.

3 As of 1999, Repurchase Agreements consist primarily of overnight investments that mature daily.

Table 8. Fannie Mae Mortgage Asset Quality[1]

End of Period	Mortgage Asset Quality				
	Single-Family Delinquency Rate[2] (%)	Multifamily Delinquency Rate[3] (%)	Credit Losses/Total MBS Outstanding plus Retained Mortgage Portfolio[4] (%)	REO/Total MBS Outstanding plus Retained Mortgage Portfolio[5] (%)	Credit-Enhanced Outstanding/Total MBS Outstanding plus Retained Mortgage Portfolio[6] (%)
4Q06	0.65	0.08	N/A	N/A	N/A
3Q06	0.61	0.11	N/A	N/A	N/A
2Q06	0.60	0.19	N/A	N/A	N/A
1Q06	0.67	0.26	N/A	N/A	N/A
Annual Data					
2006	0.65	0.08	N/A	N/A	N/A
2005	0.79	0.27	N/A	N/A	N/A
2004	0.63	0.11	0.01	0.07	20.5
2003	0.60	0.29	0.01	0.06	22.6
2002	0.57	0.08	0.01	0.05	26.8
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

N/A = not available

1 Information included for 2002, 2003 and 2004 has been restated to reflect changes in Fannie Mae's accounting policies as described in its Annual Report on Form 10-K for the year ended December 31, 2004. Information included in the table and footnotes for periods 2005 and 2006 are subject to change pending the preparation and completion of Fannie Mae's 2005 and 2006 financial statements and required audits.

2 Beginning with 1998, data include all seriously delinquent conventional loans with and without primary mortgage insurance and/or credit enhancement. Prior to 1988, data include all seriously delinquent loans for which Fannie Mae has primary risk of loss. Data prior to 1992 include loans in relief or bankruptcy, even if the loans are less than 90 days delinquent.

3 Beginning in 1998, data include all loans and securities 60 days or more past due and is calculated based on mortgage credit book of business. Data prior to 1998 include loans for which Fannie Mae has primary risk of loss.

4 Credit losses are charge-offs, net of recoveries and foreclosed property expense (income); average balances used to calculate ratios subsequent to 1994; quarterly data are annualized.

5 Real estate owned balances reflect end-of-period amounts. Beginning with 1995, data reflect adoption of SFAS 114.

6 Beginning in 2000, "credit-enhanced" is expanded to include primary mortgage insurance. Prior to 2000, reflect 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 9. Fannie Mae Capital[1]

End of Period	Capital ($ in Millions)									
	Minimum Capital Requirement			Risk-Based Capital Requirement			Market Capitalization[6] ($)	Core Capital/Total Assets (%)	Core Capital/Total MBS Outstanding plus Total Assets (%)	Common Share Dividend Payout Rate[7] (%)
	Core Capital ($)	Minimum Capital Requirement[2] ($)	Minimum Capital Surplus (Deficit)[2] ($)	Total Capital[3] ($)	Risk-Based Capital Requirement[4] ($)	Risk-Based Capital Surplus (Deficit)[5] ($)				
4Q06	42,295	29,332	12,963	43,046	26,870	16,176	57,735	N/A	N/A	N/A
3Q06	42,008	29,010	12,998	41,820	22,524	19,296	54,325	N/A	N/A	N/A
2Q06	42,037	29,419	12,618	42,888	26,330	16,558	46,730	N/A	N/A	N/A
1Q06	40,333	28,708	11,625	41,174	17,533	23,641	49,932	N/A	N/A	N/A
Annual Data										
2006	42,295	29,332	12,963	43,046	26,870	16,176	57,735	N/A	N/A	N/A
2005	38,135	28,463	9,673	39,204	12,636	26,568	47,373	N/A	N/A	N/A
2004	34,514	32,121	2,393	35,196	10,039	25,157	69,010	3.38	1.42	42.1
2003	26,953	31,816	(4,863)	27,487	27,221	266	72,838	2.64	1.16	20.8
2002	20,431	27,688	(7,257)	20,831	17,434	3,397	63,612	2.26	1.05	34.5
2001	25,182	24,182	1,000	25,976	Not Applicable	Not Applicable	79,281	3.09	1.50	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	Not Applicable			20,874	Not Applicable	Not Applicable	23.2
1991	Before 1993	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

N/A = not available

1 Information included for 2002, 2003 and 2004 has been restated to reflect changes in Fannie Mae's accounting policies as described in its Annual Report on Form 10-K for the year ended December 31, 2004. Information included in the table and footnotes for periods 2005 and 2006 are subject to change pending the preparation and completion of Fannie Mae's 2005 and 2006 financial statements and required audits.

2 Since 3Q 2005, OFHEO has directed Fannie Mae to maintain an additional 30% capital in excess of the statutory Minimum Capital Requirement. The Minimum Capital Requirement and Minimum Capital Surplus numbers stated in this chart do not reflect the inclusion of the additional 30% capital requirement. Minimum Capital Surplus is the difference between Core Capital and Minimum Capital Requirement.

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

4 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.

5 The difference between Total Capital and the Risk-Based Capital Requirement.

6 Stock price at the end of the period multiplied by the number of outstanding common shares.

7 Common dividends paid as a percentage of net income available to common stockholders.

Table 10. Freddie Mac Mortgage Purchases[1]

Business Activity ($ in Millions)				
Purchases[2]				
Period	Single-Family ($)	Multifamily ($)	Total Mortgages[3] ($)	Mortgage-Related Securities[4] ($)
4Q06	91,296	3,757	95,053	51,285
3Q06	91,899	2,687	94,586	44,927
2Q06	79,568	3,079	82,647	77,907
1Q06	88,507	3,508	92,015	67,086
Annual Data				
2006	351,270	13,031	364,301	241,205
2005	381,673	11,172	392,845	325,575
2004	354,812	12,712	367,524	223,299
2003	701,483	15,292	716,775	385,078
2002	533,194	10,654	543,848	299,674
2001	384,124	9,510	393,634	248,466
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

1 For the period 2001 through 2003, data are based on restated and revised financial results.

2 Based on unpaid principal balances and excludes mortgage loans and mortgage-related securities traded, but not yet settled.

3 Loans purchased from lenders. Excludes purchased non-Freddie Mac MBS and repurchased Freddie Mac MBS and structured securities.

4 Not included in total mortgages. For the period 2002 through the current period, amounts include non-Freddie Mac mortgage-related securities purchased for structured securities (e.g. alternative structured securities and structured securities backed by Ginnie Mae MBS). For 2001, amounts include alternative structured securities and exclude structured securities backed by Ginnie Mae MBS.

Table 10a. Freddie Mac Mortgage Purchases Detail, By Type of Loan[1]

Purchases ($ in Millions)[2, 3]												
	Single-Family Mortgages								Multifamily Mortgages			Total Mortgage Purchases ($)
	Conventional				FHA/VA			Total Single-Family Mortgages ($)	Conventional ($)	FHA/RHS ($)	Total Multi-family Mortgages ($)	
Period	Fixed-Rate[4] ($)	Adjustable-Rate[5] ($)	Seconds ($)	Total ($)	Fixed-Rate ($)	Adjustable-Rate ($)	Total ($)					
4Q06	67,855	23,311	0	91,166	130	0	130	91,296	3,757	0	3,757	95,053
3Q06	71,153	19,930	0	91,083	816	0	816	91,899	2,687	0	2,687	94,586
2Q06	64,880	14,688	0	79,568	0	0	0	79,568	3,079	0	3,079	82,647
1Q06	68,987	19,520	0	88,507	0	0	0	88,507	3,508	0	3,508	92,015
Annual Data												
2006	272,875	77,449	0	350,324	946	0	946	351,270	13,031	0	13,031	364,301
2005	313,842	67,831	0	381,673	0	0	0	381,673	11,172	0	11,172	392,845
2004	293,830	60,663	0	354,493	319	0	319	354,812	12,712	0	12,712	367,524
2003	617,796	82,270	0	700,066	1,417	0	1,417	701,483	15,292	0	15,292	716,775
2002	468,901	63,448	0	532,349	845	0	845	533,194	10,654	0	10,654	543,848
2001	353,056	30,780	0	383,836	288	0	288	384,124	9,507	3	9,510	393,634
2000	145,744	21,201	0	166,945	1,068	0	1,068	168,013	6,030	0	6,030	174,043
1999	224,040	7,443	0	231,483	1,129	0	1,129	232,612	7,181	0	7,181	239,793
1998	256,008	7,384	0	263,392	98	0	98	263,490	3,910	0	3,910	267,400
1997	106,174	8,950	0	115,124	36	0	36	115,160	2,241	0	2,241	117,401
1996	116,316	6,475	0	122,791	59	0	59	122,850	2,229	0	2,229	125,079
1995	75,867	14,099	0	89,966	5	0	5	89,971	1,565	0	1,565	91,536
1994	105,902	16,646	0	122,548	15	0	15	122,563	847	0	847	123,410
1993	208,322	20,708	1	229,031	20	0	20	229,051	191	0	191	229,242
1992	175,515	15,512	7	191,034	65	0	65	191,099	27	0	27	191,126
1991	91,586	7,793	206	99,585	144	0	144	99,729	236	0	236	99,965
1990	56,806	16,286	686	73,778	402	0	402	74,180	1,338	0	1,338	75,518
1989	57,100	17,835	1,206	76,141	624	0	624	76,765	1,824	0	1,824	78,589
1988	34,737	7,253	59	42,049	835	0	835	42,884	1,191	0	1,191	44,075
1987	69,148	4,779	69	73,996	828	0	828	74,824	2,016	0	2,016	76,840
1986	96,105	2,262	90	98,457	1,479	0	1,479	99,936	3,538	0	3,538	103,474
1985	40,226	605	34	40,865	1,245	0	1,245	42,110	1,902	0	1,902	44,012
1984	Not Available	Not Available	Not Available	Not Available	Not Available	Not Available	Not Available	Not Available	Not Available	Not Available	Not Available	Not Available
1983	Before 1985	Before 1985	Before 1985	Before 1985	Before 1985	Before 1985	Before 1985	Before 1985	Before 1985	Before 1985	Before 1985	Before 1985
1982												
1981												
1980												
1979												
1978												
1977												
1976												
1975												
1974												
1973												
1972												
1971												

Source: Freddie Mac

1 For the period 2001 through 2003, data are based on restated and revised financial results.

2 Based on unpaid principal balances and excludes mortgage loans and mortgage-related securities traded, but not yet settled.

3 Loans purchased from lenders. Excludes purchased non-Freddie Mac MBS and repurchased Freddie Mac MBS and structured securities.

4 For the period 2002 through the current period, includes loans guaranteed by the Rural Housing Service.

5 For the period 2001 through the current period, includes balloons/resets.

Table 10b. Freddie Mac Purchases of Mortgage-Related Securities - Part 1[1]

Period	Purchases ($ in millions)[2]														
	Freddie Mac Securities				Other Securities										
	Single-Family		Multi-family ($)	Total Freddie Mac ($)	Fannie Mae				Ginnie Mae				Total Private-Label ($)	Mortgage Revenue Bonds ($)	Total Mortgage-Related Securities[3] ($)
					Single-Family		Multi-family ($)	Total Fannie Mae ($)	Single-Family		Multi-family ($)	Total Ginnie Mae ($)			
	Fixed-Rate ($)	Adjustable-Rate ($)			Fixed-Rate ($)	Adjustable-Rate ($)			Fixed-Rate ($)	Adjustable-Rate ($)					
4Q06	16,035	4,402	0	20,437	213	1,526	0	1,739	0	0	0	0	28,714	395	51,285
3Q06	11,603	5,434	0	17,037	250	1,940	0	2,190	0	0	0	0	24,660	1,040	44,927
2Q06	31,023	7,800	0	38,823	1,837	3,482	0	5,319	0	0	0	0	32,498	1,267	77,907
1Q06	17,717	9,510	0	27,227	1,959	1,066	0	3,025	0	0	0	0	36,358	476	67,086
Annual Data															
2006	76,378	27,146	0	103,524	4,259	8,014	0	12,273	0	0	0	0	122,230	3,178	241,205
2005	106,682	29,805	0	136,487	2,854	3,368	0	6,222	64	0	0	64	179,962	2,840	325,575
2004	72,147	23,942	146	96,235	756	3,282	0	4,038	0	0	0	0	121,082	1,944	223,299
2003	Not Available Before 2004	Not Available Before 2004	Not Available Before 2004	266,989	Not Available Before 2004	Not Available Before 2004	Not Available Before 2004	47,806	Not Available Before 2004	Not Available Before 2004	Not Available Before 2004	166	69,154	963	385,078
2002				192,817				45,798				820	59,376	863	299,674
2001				157,339				64,508				1,444	24,468	707	248,466
2000				58,516				18,249				3,339	10,304	1,488	91,896
1999				69,219				12,392				3,422	15,263	1,602	101,898
1998				107,508				3,126				319	15,711	1,782	128,446
1997				31,296				897				326	1,494	1,372	35,385
1996				33,338				Not Available Before 1997				Not Available Before 1997	Not Available Before 1997	Not Available Before 1997	36,824
1995				32,534											39,292
1994				19,817											19,817
1993				Not Available Before 1994											Not Available Before 1994

Source: Freddie Mac

1 For the period 2001 through 2003, data are based on restated and revised financial results.

2 Based on unpaid principal balances and excludes mortgage loans and mortgage-related securities traded, but not yet settled.

3 Not included in total mortgages. For years 2002 through the current period, amounts include non-Freddie Mac mortgage-related securities purchased for structured securities (e.g. alternative structured securities and structured securities backed by Ginnie Mae MBS). For 2001, amount includes alternative structured securities and excludes structured securities backed by Ginnie Mae MBS.

Table 10b. Freddie Mac Purchases of Mortgage-Related Securities - Part 2, Private-Label Detail[1]

Period	Purchases ($ in millions)[2]					
	Private-Label					
	Single-Family				Multifamily ($)	Total Private-Label ($)
	Manufactured Housing ($)	Other[3]				
		Fixed-Rate ($)	Adjustable-Rate ($)	Total Other ($)		
4Q06	0	8	23,168	23,176	5,538	28,714
3Q06	0	6	21,696	21,702	2,958	24,660
2Q06	0	734	28,371	29,105	3,393	32,498
1Q06	0	18	32,263	32,281	4,077	36,358
Annual Data						
2006	0	766	105,498	106,264	15,966	122,230
2005	0	2,191	162,931	165,122	14,840	179,962
2004	0	1,379	108,825	110,204	10,878	121,082
2003	0	Not Available	Not Available	Not Available	Not Available	69,154
2002	318	Before 2004	Before 2004	Before 2004	Before 2004	59,376
2001	0					24,468
2000	15					10,304
1999	3,293					15,263
1998	1,630					15,711
1997	36					1,494
1996	Not Available					Not Available
1995	Before 1997					Before 1997
1994						
1993						

Source: Freddie Mac

1 For the period 2001 through 2003, data are based on restated and revised financial results.

2 Based on unpaid principal balances and excludes mortgage loans and mortgage-related securities traded, but not yet settled.

3 Includes home equity securities and non-Freddie Mac mortgage-related securities purchased for structured securities (e.g. alternative structured securities and structured securities backed by Ginnie Mae MBS).

Table 11. Freddie Mac MBS Issuances[1]

Period	Business Activity ($ in millions)			
	MBS Issuances[2]			
	Single-Family MBS[3] ($)	Multifamily MBS ($)	Total MBS[3] ($)	Multiclass MBS[4] ($)
4Q06	91,540	507	92,047	30,956
3Q06	93,266	68	93,334	45,831
2Q06	80,930	43	80,973	47,200
1Q06	93,357	312	93,669	45,409
Annual Data				
2006	359,093	930	360,023	169,396
2005	396,213	1,654	397,867	208,450
2004	360,933	4,175	365,108	215,506
2003	705,450	8,337	713,787	298,118
2002	543,716	3,596	547,312	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

1 For the period 2001 through 2003, data are based on restated and revised financial results.

2 Based on unpaid principal balances and excludes mortgage loans and mortgage-related securities traded, but not yet settled.

3 Includes MBS and structured securities backed by non-Freddie Mac mortgage-related securities. For the period 2002 through the current period, includes structured securities backed by Ginnie Mae MBS. For years prior to 2002, excludes structured securities backed by Ginnie Mae MBS.

4 Includes activity related to multiclass structured securities, primarily Real Estate Mortgage Investment Conduits (REMICs) as well as principal-only strips and other structured securities. These amounts exclude resecuritizations of MBS into single-class securities, but include resecuritization of MBS into multiclass securities.

Table 12. Freddie Mac Earnings[1]

Period	Earnings ($ in Millions)						
	Net Interest Income[2] ($)	Guarantee Fee Income ($)	Average Guarantee Fee (basis points)	Administrative Expenses[2] ($)	Credit-Related Expenses[3] ($)	Net Income ($)	Return on Equity[4] ($)
4Q06	973	443	16.1	697	124	(480)	(9.8)
3Q06	959	427	16.1	604	112	(715)	(14.8)
2Q06	1,172	389	15.3	531	63	1,397	26.8
1Q06	1,131	413	16.5	475	(24)	2,009	36.0
Annual Data							
2006	4,235	1,672	16.0	2,307	275	2,211	8.7
2005	5,370	1,450	15.9	2,306	291	2,130	7.7
2004	9,137	1,382	17.5	1,821	140	2,937	10.2
2003	9,498	1,653	23.3	1,877	2	4,816	17.2
2002	9,525	1,527	22.2	1,406	126	10,090	47.2
2001	7,448	1,381	23.8	1,024	39	3,158	20.2
2000	3,758	1,243	23.7	825	75	3,666	39.0
1999	2,926	1,019	19.8	655	159	2,223	25.5
1998	2,215	1,019	21.4	578	342	1,700	22.6
1997	1,847	1,082	22.9	495	529	1,395	23.1
1996	1,705	1,086	23.4	440	608	1,243	22.6
1995	1,396	1,087	23.8	395	541	1,091	22.1
1994	1,112	1,108	24.4	379	425	983	23.3
1993	772	1,009	23.8	361	524	786	22.3
1992	695	936	24.7	329	457	622	21.2
1991	683	792	23.7	287	419	555	23.6
1990	619	654	22.4	243	474	414	20.4
1989	517	572	23.4	217	278	437	25.0
1988	492	465	21.5	194	219	381	27.5
1987	319	472	24.2	150	175	301	28.2
1986	299	301	22.4	110	120	247	28.5
1985	312	188	22.1	81	79	208	30.0
1984	213	158	24.7	71	54	144	52.0
1983	125	132	26.2	53	46	86	44.5
1982	30	77	24.5	37	26	60	21.9
1981	34	36	19.5	30	16	31	13.1
1980	54	23	14.3	26	23	34	14.7
1979	55	18	13.2	19	20	36	16.2
1978	37	14	14.9	14	13	25	13.4
1977	31	9	18.9	12	8	21	12.4
1976	18	3	13.6	10	(1)	14	9.5
1975	31	3	24.8	10	11	16	11.6
1974	42	2	25.5	8	33	5	4.0
1973	31	2	32.4	7	15	12	9.9
1972	10	1	39.4	5	4	4	3.5
1971	10	1	Not Available	Not Available	Not Available	6	5.5
			Before 1972	Before 1972	Before 1972		

Source: Freddie Mac

1 For the period 2001 through 2003, data are based on restated and revised financial results.

2 For years 2002 through the current period, includes total administrative expenses, realized losses on certain guarantees and other expenses. For years 2001 and 2000, includes salaries and employee benefits, occupancy expenses and other expenses.

3 For years 2002 through the current period, defined as provision for credit losses and real estate-owned operations income/expense. For years 2000 and 2001, include only the provision for credit losses.

4 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 13. Freddie Mac Balance Sheet[1]

End of Period	Balance Sheet ($ in Millions)							Mortgage-Backed Securities Outstanding ($ in Millions)[2]	
	Total Assets ($)	Total Retained Mortgage Portfolio[3] ($)	Non-Mortgage Investments[4] ($)	Debt Outstanding ($)	Shareholders' Equity ($)	Core Capital[5] ($)	Fair Value Net Assets ($)	Total MBS Outstanding ($)	Multiclass MBS Outstanding ($)
4Q06	813,081	700,613	68,614	753,938	28,301	36,170	31,800	1,122,761	491,696
3Q06	827,197	699,789	82,998	769,907	29,031	37,035	32,200	1,083,976	489,004
2Q06	855,654	710,662	95,308	801,434	23,735	38,123	32,100	1,037,229	466,289
1Q06	819,067	708,464	70,428	765,326	25,386	37,591	31,600	1,015,268	452,367
Annual Data									
2006	813,081	700,613	68,614	753,938	28,301	36,170	31,800	1,122,761	491,696
2005	806,222	709,503	57,324	748,792	27,191	35,964	30,900	974,200	437,668
2004	795,284	664,582	62,027	731,697	31,416	35,009	30,900	852,270	390,516
2003	803,449	660,531	53,124	739,613	31,487	32,985	27,300	752,164	347,833
2002	752,249	589,899	91,871	665,696	31,330	28,990	22,900	729,809	392,545
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

1 For the period 2001 through 2003, data are based on restated and revised financial results.

2 Based on unpaid principal balances and excludes mortgage loans and mortgage-related securities traded, but not yet settled. Represents MBS and structured securities that are held by third parties. For years prior to 2002, includes MBS and structured securities in Freddie Mac's cash and investments portfolio.

3 Excludes "Reserve for losses on mortgage loans held-for-investment."

4 Based on fair value. Consists of Freddie Mac's cash and investments portfolio, excluding cash and cash equivalents and mortgage-related securities within that portfolio.

5 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.

Table 13a. Freddie Mac Total MBS Outstanding Detail[1]

End of Period	Single-Family Mortgages ($ in Millions)[2]					Multifamily Mortgages ($ in Millions)[2]			Total MBS Outstanding[7] ($)
	Conventional				Total FHA/VA[6]	Conventional ($)	FHA/RHS ($)	Multifamily Mortgages ($)	
	Fixed-Rate[3] ($)	Adjustable-Rate[4] ($)	Seconds[5] ($)	Total ($)					
4Q06	967,580	141,740	12	1,109,332	5,396	8,033	0	8,033	1,122,761
3Q06	939,456	130,847	10	1,070,313	5,668	7,995	0	7,995	1,083,976
2Q06	894,204	124,275	12	1,018,491	5,291	13,447	0	13,447	1,037,229
1Q06	870,355	125,282	14	995,651	5,720	13,897	0	13,897	1,015,268
Annual Data									
2006	967,580	141,740	12	1,109,332	5,396	8,033	0	8,033	1,122,761
2005	836,023	117,757	19	953,799	6,289	14,112	0	14,112	974,200
2004	736,332	91,474	70	827,876	9,254	15,140	0	15,140	852,270
2003	649,699	74,409	140	724,248	12,157	15,759	0	15,759	752,164
2002	647,603	61,110	5	708,718	12,361	8,730	0	8,730	729,809
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	478,351
1997	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

1 For the period 2001 through 2003, data are based on restated and revised financial results.

2 Based on unpaid principal balances.

3 Includes Rural Housing Service and other federally guaranteed loans, and certain alternative structured securities for the period 2002 through the current period.

4 For the period 2002 through the current period, includes balloons/resets and certain alternative structured securities.

5 For the period 2002 through the current period, includes certain alternative structured securities.

6 For the period 2002 through the current period, includes structured securities backed by Ginnie Mae MBS and certain alternative structured securities.

7 Represents MBS and structured securities that are held by third parties. For the period 2002 through the current period, amounts include structured securities backed by all non-Freddie Mac securities (including Ginnie Mae MBS). For years prior to 2002, also includes MBS and structured securities in Freddie Mac's cash and investments portfolio.

Table 14. Freddie Mac Retained Mortgage Portfolio Detail[1]

($ in millions)					
End of Period	Whole Loans[2] ($)	Fannie Mae Securities[2] ($)	Other Mortgage-Related Securities[2] ($)	Unamortized Premiums, Discounts, Deferred Adjustments, and Unrealized Gains/Losses on Available-for-Sale Securities[3] ($)	Total Retained Mortgage Portfolio[4] ($)
4Q06	65,847	354,262	283,850	(3,346)	700,613
3Q06	64,077	357,278	281,423	(2,989)	699,789
2Q06	63,704	368,455	290,379	(11,876)	710,662
1Q06	62,935	364,609	288,192	(7,272)	708,464
Annual Data					
2006	65,847	354,262	283,850	(3,346)	700,613
2005	61,481	361,324	287,541	(843)	709,503
2004	61,360	356,698	235,203	11,321	664,582
2003	60,270	393,135	192,362	14,764	660,531
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

Source: Freddie Mac

1 For the period 2001 through 2003, data are based on restated and revised financial results.

2 Based on unpaid principal balances and excludes mortgage loans and mortgage-related securities traded, but not yet settled.

3 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, at fair value.

4 Excludes "Reserve for losses on mortgage loans held-for-investment."

Table 14a. Freddie Mac Retained Mortgage Portfolio Detail - Whole Loans[1]

End of Period	Whole Loans ($ in millions)[2]								
	Single-Family					Multifamily			Total Whole Loans ($)
	Conventional								
	Fixed-Rate[3] ($)	Adjustable-Rate ($)	Seconds ($)	Total ($)	Total FHA/VHA ($)	Conventional ($)	FHA/RHS ($)	Total ($)	
4Q06	19,211	1,233	0	20,444	196	45,204	3	45,207	65,847
3Q06	18,715	1,030	0	19,745	209	44,120	3	44,123	64,077
2Q06	18,644	973	0	19,617	223	43,861	3	43,864	63,704
1Q06	19,243	939	0	20,182	237	42,513	3	42,516	62,935
Annual Data									
2006	19,211	1,233	0	20,444	196	45,204	3	45,207	65,847
2005	19,238	903	0	20,141	255	41,082	3	41,085	61,481
2004	22,055	990	0	23,045	344	37,968	3	37,971	61,360
2003	25,889	871	1	26,761	513	32,993	3	32,996	60,270
2002	33,821	1,321	3	35,145	705	28,033	3	28,036	63,886
2001	38,267	1,073	5	39,345	964	22,480	3	22,483	62,792
2000	39,537	2,125	9	41,671	1,200	16,369	Not Available	16,369	59,240
1999	43,210	1,020	14	44,244	77	12,355	Before 2001	12,355	56,676
1998	47,754	1,220	23	48,997	109	7,978		7,978	57,084
1997	40,967	1,478	36	42,481	148	5,825		5,825	48,454
1996	Not Available	Not Available	Not Available	Not Available	Not Available	4,746		4,746	46,504
1995	Before 1997	Before 1997	Before 1997	Before 1997	Before 1997	3,852		3,852	43,753
1994						Not Available		Not Available	Not Available

Source: Freddie Mac

1 For the period 2001 through 2003, data are based on restated and revised financial results.

2 Based on unpaid principal balances.

3 For the period 2001 through the current period, includes loans guaranteed by the Rural Housing Service.

Table 14b. Freddie Mac Retained Mortgage Portfolio Detail - Part 1, Mortgage-Related Securities[1]

End of Period	Mortgage-Related Securities ($ in Millions)[2]													
	Freddie Mac Securities[3] ($)				Others' Securities									
	Single-Family		Multi-family ($)	Total Freddie Mac ($)	Fannie Mae				Ginnie Mae				Total Private-Label ($)	Total Others' Securities ($)
	Fixed-Rate ($)	Adjustable-Rate ($)			Single-Family		Multi-family ($)	Total Fannie Mae ($)	Single-Family		Multi-family ($)	Total Ginnie Mae ($)		
					Fixed-Rate ($)	Adjustable-Rate ($)			Fixed-Rate ($)	Adjustable-Rate ($)				
4Q06	282,052	71,828	382	354,262	25,805	17,640	989	44,434	707	231	13	951	224,631	270,016
3Q06	284,623	72,272	383	357,278	26,797	17,008	1,076	44,881	799	246	13	1,058	221,867	267,806
2Q06	296,312	71,759	384	368,455	28,345	16,047	1,132	45,524	862	262	13	1,137	230,992	277,653
1Q06	296,109	68,115	385	364,609	28,705	13,547	1,245	43,497	937	227	13	1,177	231,841	276,515
Annual Data														
2006	282,052	71,828	382	354,262	25,805	17,640	989	44,434	707	231	13	951	224,631	270,016
2005	299,188	61,745	391	361,324	28,818	13,180	1,335	43,333	1,045	218	30	1,293	231,594	276,220
2004	304,555	51,737	406	356,698	41,828	14,504	1,672	58,004	1,599	81	31	1,711	166,411	226,126
2003	Not Available	Not Available	Not Available	393,135	Not Available	Not Available	Not Available	74,529	Not Available	Not Available	Not Available	2,760	107,301	184,590
2002	Before 2004	Before 2004	Before 2004	341,287	Before 2004	Before 2004	Before 2004	78,829	Before 2004	Before 2004	Before 2004	4,878	70,752	154,459
2001				308,427				71,128				5,699	42,336	119,163
2000				246,209				28,303				8,991	35,997	73,291
1999				211,198				13,245				6,615	31,019	50,879
1998				168,108				3,749				4,458	16,970	25,177
1997				103,400				Not Available				6,393	Not Available	Not Available
1996				81,195				Before 1998				7,434	Before 1998	Before 1998
1995				56,006								Not Available		
1994				30,670								Before 1996		
1993				15,877										
1992				6,394										
1991				Not Available										
				Before 1992										

Source: Freddie Mac

1 For the period 2001 through 2003, data are based on restated and revised financial results.

2 Based on unpaid principal balances.

3 For the period 2001 through the current period, includes structured securities backed by Ginnie Mae MBS which were previously classified as non-Freddie Mac mortgage-related securities.

Table 14b. Freddie Mac Retained Mortgage Portfolio Detail - Part 2, Mortgage-Related Securities, Private-Label Detail[1]

End of Period	Mortgage-Related Securities ($ in Millions)[2]					
	Private-Label					
	Single-Family				Multifamily ($)	Total Private-Label ($)
	Manufactured Housing ($)	Other[3]				
		Fixed-Rate ($)	Adjustable-Rate ($)	Total Other ($)		
4Q06	1,510	4,280	174,081	178,361	44,760	224,631
3Q06	1,550	4,530	176,377	180,907	39,410	221,867
2Q06	1,593	4,835	185,689	190,524	38,875	230,992
1Q06	1,636	4,450	185,595	190,045	40,160	231,841
Annual Data						
2006	1,510	4,280	174,081	178,361	44,760	224,631
2005	1,680	4,749	181,678	186,427	43,487	231,594
2004	1,816	8,243	115,168	123,411	41,184	166,411
2003	2,085	Not Available	Not Available	Not Available	Not Available	107,301
2002	2,394	Before 2004	Before 2004	Before 2004	Before 2004	70,752
2001	2,462					42,336
2000	2,896					35,997
1999	4,693					31,019
1998	1,711					16,970
1997	Not Available					Not Available
1996	Before 1998					Before 1998
1995						
1994						
1993						
1992						
1991						

Source: Freddie Mac

1 For the period 2001 through 2003, data are based on restated and revised financial results.

2 Based on unpaid principal balances.

3 Includes home equity securities.

Table 14b. Freddie Mac Retained Mortgage Portfolio Detail - Part 3, Mortgage-Related Securities[1]

End of Period	Mortgage-Related Securities ($ in Millions)		($ in Millions)	
	Mortgage Revenue Bonds[2] ($)	Total Mortgage-Related Securities[2] ($)	Unamortized Premiums, Discounts, Deferred Adjustments, and Unrealized Gains/Losses on Available-for-Sale Securities[3] ($)	Total Retained Mortgage Portfolio[4] ($)
4Q06	13,834	638,112	(3,346)	700,613
3Q06	13,617	638,701	(2,989)	699,789
2Q06	12,726	658,834	(11,876)	710,662
1Q06	11,677	652,801	(7,272)	708,464
Annual Data				
2006	13,834	638,112	(3,346)	700,613
2005	11,321	648,865	(843)	709,503
2004	9,077	591,901	11,321	664,582
2003	7,772	585,497	14,764	660,531
2002	7,640	503,386	22,627	589,899
2001	7,257	434,847	6,130	503,769
2000	6,953	326,453	(242)	385,451
1999	5,690	267,767	(1,529)	322,914
1998	4,640	197,925	661	255,670
1997	3,031	Not Available	122	164,543
1996	1,787	Before 1998	71	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

1 For the period 2001 through 2003, data are based on restated and revised financial results.

2 Based on unpaid principal balances.

3 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.

4 Excludes "Reserve for losses on mortgage loans held-for-investment."

Table 15. Freddie Mac Financial Derivatives[1]

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[2] ($)	Exchange-Traded Futures, Options and Other Derivatives ($)	Credit Derivatives[3] ($)	Commitments[4] ($)	Other[5] ($)	Total ($)
4Q06	440,879	0	29,234	251,110	2,000	20,400	2,605	10,012	957	757,197
3Q06	412,565	0	35,033	237,734	0	90,000	2,655	13,432	798	792,217
2Q06	418,144	0	35,363	240,276	8,194	95,740	2,701	24,623	771	825,812
1Q06	340,658	7	33,477	199,056	9,194	94,586	2,842	22,545	754	703,119
Annual Data										
2006	440,879	0	29,234	251,110	2,000	20,400	2,605	10,012	957	757,197
2005	341,008	45	37,850	193,104	0	86,252	2,414	21,961	738	683,372
2004	178,739	9,897	56,850	224,204	2,001	127,109	10,926	32,952	114,100	756,778
2003	287,592	11,308	46,512	349,650	8,549	122,619	15,542	89,520	152,579	1,083,871
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	N/A	N/A	35,839	474,535
1999	126,580	19,936	1,097	172,750	8,894	94,987	Not Applicable	Not Applicable	0	424,244
1998	57,555	21,845	1,464	63,000	11,542	157,832	Before 2000	Before 2000	0	313,238
1997	54,172	21,995	1,152	6,000	12,228	0			0	95,547
1996	46,646	14,095	544	0	651	0			0	61,936
1995	45,384	13,055	0	0	24	0			0	58,463
1994	21,834	9,003	0	0	0	0			0	30,837
1993	17,888	1,500	0	0	0	0			0	19,388

Source: Freddie Mac

1 For the period 2001 through 2003, data are based on restated and revised financial results.

2 Amounts for years 2002 through the current period are exchange-traded.

3 Amounts included in "Other" in 2000, not applicable in prior periods.

4 Commitments to purchase and sell mortgage loans and mortgage-related securities. Periods prior to 2004 include commitments to purchase and sell various debt securities.

5 Includes prepayment management agreement and swap guarantee derivatives.

Table 16. Freddie Mac Non-Mortgage Investments[1]

End of Period	Non-Mortgage Investments ($ in Millions)					
	Federal Funds and Eurodollars ($)	Asset-Backed Securities ($)	Repurchase Agreements ($)	Commercial Paper and Corporate Debt ($)	Other[2] ($)	Total ($)
4Q06	19,778	32,122	3,250	11,191	2,273	68,614
3Q06	14,858	31,939	20,600	11,892	3,709	82,998
2Q06	36,452	30,318	9,367	14,430	4,741	95,308
1Q06	18,195	30,043	5,200	13,435	3,555	70,428
Annual Data						
2006	19,778	32,122	3,250	11,191	2,273	68,614
2005	9,909	30,578	5,250	5,764	5,823	57,324
2004	18,647	21,733	13,550	0	8,097	62,027
2003	7,567	16,648	13,015	5,852	10,042	53,124
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

1 For the period 2001 through 2003, data are based on restated and revised financial results.

2 For 2004 through the current period, amounts include obligations of states and municipalities classified as available-for-sale securities within the cash and investments portfolio. For 2003 and prior periods, includes non-mortgage related securities classified as trading, debt securities issued by the U.S. Treasury and other U.S. government agencies, obligations of states and municipalities and preferred stock.

Table 17. Freddie Mac Mortgage Asset Quality[1]

End of Period	Mortgage Asset Quality				
	Single-Family Delinquency Rate[2] (%)	Multifamily Delinquency Rate[3] (%)	Credit Losses/Average Total Mortgage Portfolio[4] (%)	REO/Total Mortgage Portfolio[5] (%)	Credit-Enhanced[6]/Total Mortgage Portfolio[6] (%)
4Q06	0.53	0.05	0.02	0.04	16.0
3Q06	0.51	0.00	0.02	0.04	16.0
2Q06	0.52	0.01	0.01	0.04	17.0
1Q06	0.59	0.00	0.01	0.04	17.0
Annual Data					
2006	0.53	0.05	0.01	0.04	17.0
2005	0.69	0.00	0.01	0.04	17.0
2004	0.73	0.06	0.01	0.05	19.0
2003	0.86	0.05	0.01	0.06	21.0
2002	0.77	0.13	0.01	0.05	27.4
2001	0.62	0.15	0.01	0.04	34.7
2000	0.49	0.04	0.01	0.04	31.8
1999	0.39	0.14	0.02	0.05	29.9
1998	0.50	0.37	0.04	0.08	27.3
1997	0.55	0.96	0.08	0.11	15.9
1996	0.58	1.96	0.10	0.13	10.0
1995	0.60	2.88	0.11	0.14	9.7
1994	0.55	3.79	0.08	0.18	7.2
1993	0.61	5.92	0.11	0.16	5.3
1992	0.64	6.81	0.09	0.12	Not Available
1991	0.61	5.42	0.08	0.14	Before 1993
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

1 For the period 2000 through 2003, data are based on restated and revised financial results, except for the credit-enhanced share of the total mortgage portfolio in 2000.

2 Based on the number of mortgages 90 days or more delinquent or in foreclosure. Rates for years 2000 through the current period are based on the total single-family loans in the Retained portfolio and Total Guaranteed PCs and Structured Securities issued, excluding that portion of Structured Securities that is backed by Ginnie Mae MBS. Includes delinquencies on mortgage loans where Freddie Mac has transferred primary or full default risk to various third parties as well as structured securities backed by alternative structured securities.

3 Based on net carrying value of mortgages 60 days or more delinquent or in foreclosure.

4 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 structured securities that is backed by Ginnie Mae MBS.

5 Based on the total mortgage portfolio excluding non-Freddie Mac mortgage-related securities and that portion of issued structured securities that is backed by Ginnie Mae MBS.

6 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 18. Freddie Mac Capital[1]

End of Period	Capital ($ in Millions)									
	Minimum Capital Requirement			Risk-Based Capital Requirement[8]			Market Capitalization[6] ($)	Core Capital/ Total Assets (%)	Core Capital/ Total MBS Outstanding plus Total Assets (%)	Common Share Dividend Payout Rate[7] (%)
	Core Capital ($)	Minimum Capital Requirement ($)	Regulatory Capital Surplus (Deficit)[2] ($)	Total Capital[3] ($)	Risk-Based Capital Requirement[4] ($)	Risk-Based Capital Surplus (Deficit)[5] ($)				
4Q06	36,170	25,844	10,326	36,742	15,320	21,422	44,896	4.45	1.87	N/A
3Q06	37,035	25,979	11,056	37,202	14,878	22,234	44,316	4.48	1.94	N/A
2Q06	38,123	26,485	11,638	37,504	17,204	20,480	39,035	4.46	2.01	24.7
1Q06	37,591	25,488	12,103	37,624	11,933	25,691	42,266	4.59	2.05	16.8
Annual Data										
2006	36,170	25,844	10,326	36,742	15,320	21,422	44,896	4.45	1.87	67.7
2005	35,964	25,010	10,954	36,781	11,282	25,499	45,269	4.46	2.02	56.4
2004	35,009	24,131	10,878	34,691	11,108	23,583	50,898	4.40	2.12	30.7
2003	32,985	23,774	9,211	33,436	5,426	28,010	40,158	4.11	2.12	15.6
2002	28,990	22,339	6,651	24,222	4,743	19,479	40,590	3.85	1.96	6.2
2001	20,181	19,014	1,167	Not Available	Not Applicable	Not Applicable	45,473	3.15	1.56	18.9
2000	14,380	14,178	202	Before 2002	Before 2002	Before 2002	47,702	3.13	1.39	20.0
1999	12,692	12,287	405				32,713	3.28	1.37	20.1
1998	10,715	10,333	382				44,797	3.33	1.34	20.7
1997	7,376	7,082	294				28,461	3.79	1.10	21.1
1996	6,743	6,517	226				19,161	3.88	1.04	21.3
1995	5,829	5,584	245				14,932	4.25	0.98	21.1
1994	5,169	4,884	285				9,132	4.87	0.91	20.5
1993	4,437	3,782	655				9,005	5.29	0.85	21.6
1992	Not Applicable	Not Applicable	Not Applicable				8,721	Not Applicable	Not Applicable	23.1
1991	Before 1993	Before 1993	Before 1993				8,247	Before 1993	Before 1993	21.6
1990							2,925			23.2
1989							4,024			24.3
1988							Not Applicable			Not Available
							Before 1989			Before 1989

Source: Freddie Mac and OFHEO

1 For the period 2001 through 2003, data are based on restated and revised financial results.

2 Since 4Q 2003, OFHEO has directed Freddie Mac to maintain an additional 30% capital in excess of the statutory Minimum Capital Requirement. The Minimum Capital Requirement and Minimum Capital Surplus numbers stated in this chart do not reflect the inclusion of the additional 30% capital requirement. Minimum Capital Surplus is the difference between Core Capital and Minimum Capital Requirement.

3 Total capital includes Core Capital and general reserves for mortgage and foreclosure losses.

4 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.

5 The difference between Total Capital and Risk-Based Capital Requirement.

6 Stock price at the end of the period multiplied by the number of outstanding common shares.

7 Common dividends paid as a percentage of net income available to common stockholders. For 3Q06 and 4Q06 net income available to common stockholders was a loss thus this calculation is not applicable.

8 Based on unrevised data. OFHEO determined risk-based capital resubmissions are not required.

Table 19. Combined Purchases[1]

Business Activity ($ in Millions)				
Purchases				
Period	Single-Family ($)	Multifamily ($)	Total Mortgages ($)	Mortgage-Related Securities ($)
4Q06	7,508	4,435	663	12,606
3Q06	262	489	90	841
2Q06	142	676	41	859
1Q06	361	744	94	1,199
Annual Data				
2006	875,604	33,705	909,309	343,868
2005	918,586	32,657	951,243	387,807
2004	942,931	29,098	972,029	399,684
2003	2,023,676	46,488	2,070,164	793,684
2002	1,337,386	27,426	1,364,812	568,248
2001	951,797	28,641	980,438	457,590
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

[1] See notes to Tables 1 and 10.

Table 19a. Combined Mortgage Purchases Detail, By Type of Loan[1]

Purchases ($ in Millions)												
	Single-Family Mortgages								Multifamily Mortgages			Total Mortgage Purchases ($)
	Conventional				FHA/VA			Total Single-Family Mortgages ($)				
Period	Fixed-Rate ($)	Adjustable-Rate ($)	Seconds ($)	Total ($)	Fixed-Rate ($)	Adjustable-Rate ($)	Total ($)		Conventional ($)	FHA/RHS ($)	Total Multi-family Mortgages ($)	
4Q06	183,777	38,780	68	222,625	612	1,394	2,006	224,631	9,336	274	9,609	234,240
3Q06	182,601	47,028	8	229,637	880	1,300	2,180	231,817	7,346	209	7,555	239,372
2Q06	172,135	33,405	25	205,565	371	2,322	2,693	208,258	7,422	249	7,671	215,929
1Q06	164,293	43,503	29	207,825	659	2,414	3,073	210,898	8,536	334	8,870	219,768
Annual Data												
2006	702,806	162,716	130	865,652	2,522	7,430	9,952	875,604	32,640	1,065	33,705	909,309
2005	730,562	179,766	116	910,444	2,194	5,948	8,142	918,586	30,611	2,046	32,657	951,243
2004	821,286	107,435	51	928,772	10,286	3,873	14,159	942,931	26,396	2,702	29,098	972,029
2003	1,853,841	147,250	93	2,001,184	19,449	3,043	22,492	2,023,676	43,363	3,125	46,488	2,070,164
2002	1,207,078	112,065	40	1,319,183	16,655	1,548	18,203	1,337,386	25,743	1,683	27,426	1,364,812
2001	887,171	56,428	1,137	944,736	5,959	1,102	7,061	951,797	27,356	1,285	28,641	980,438
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	0	5,415	182,574
1985	70,219	11,341	905	82,465	2,172	16	2,188	84,653	3,102	0	3,102	87,755
1984	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

[1] See notes to Tables 1a and 10a.

Table 19b. Combined Purchases of Mortgage-Related Securities[1]

Period	Purchases ($ in millions)						
	Enterprise Securities ($)	Other Securities				Mortgage Revenue Bonds ($)	Total Mortgage-Related Securities ($)
		Ginnie Mae ($)	Private-Label				
			Manufactured Housing ($)	Other ($)	Total Private-Label ($)		
4Q06	27,628	0	0	44,287	44,287	409	72,324
3Q06	31,733	0	0	36,665	36,665	1,123	69,521
2Q06	64,310	0	0	51,645	51,645	1,309	117,264
1Q06	36,710	77	0	47,420	47,420	552	84,759
Annual Data							
2006	160,381	77	0	180,017	180,017	3,393	343,868
2005	161,784	64	0	221,331	221,331	4,628	387,807
2004	179,787	0	0	211,829	211,829	8,068	399,684
2003	683,165	202	0	Not Available	103,186	7,131	793,684
2002	491,074	5,245	374	Before 2004	66,792	5,136	568,248
2001	422,501	1,777	Not Available		27,981	5,331	457,590
2000	191,840	5,832	Before 2002		18,770	5,170	221,612
1999	213,970	20,983			31,774	5,076	271,803
1998	236,636	3,057			31,432	4,581	275,706
1997	73,345	3,834			5,682	2,841	85,702
1996	Not Available	Not Available			Not Available	Not Available	83,567
1995	Before 1997	Before 1997			Before 1997	Before 1997	75,550
1994							45,722
1993							Not Available
							Before 1994

Sources: Fannie Mae and Freddie Mac

[1] See notes to Tables 1b and 10b, Parts 1 and 2.

Table 20. Combined MBS Issuances[1]

Period	Business Activity ($ in millions)			
	MBS Issuances			
	Single-Family MBS ($)	Multifamily MBS ($)	Total MBS ($)	Multiclass MBS ($)
4Q06	214,843	1,428	216,271	49,075
3Q06	216,190	1,163	217,353	63,714
2Q06	198,669	1,206	199,875	92,447
1Q06	205,506	2,704	208,210	74,831
Annual Data				
2006	835,208	6,501	841,709	280,067
2005	896,881	11,033	907,914	332,263
2004	906,376	11,029	917,405	310,192
2003	1,902,011	31,355	1,933,366	559,037
2002	1,270,973	15,934	1,286,907	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	2,625
1984	Not Available	Not Available	32,230	1,805
1983	Before 1985	Before 1985	33,031	1,685
1982			38,139	Not Issued
1981			4,243	Before 1983

Sources: Fannie Mae and Freddie Mac

[1] See notes to Tables 2 and 11.

Table 21. Combined Earnings[1]

Period	Earnings ($ in Millions)				
	Net Interest Income ($)	Guarantee Fee Income ($)	Administrative Expenses ($)	Credit-Related Expenses ($)	Net Income ($)
4Q06	N/A	N/A	N/A	N/A	N/A
3Q06	N/A	N/A	N/A	N/A	N/A
2Q06	N/A	N/A	N/A	N/A	N/A
1Q06	N/A	N/A	N/A	N/A	N/A
Annual Data					
2006	N/A	N/A	N/A	N/A	N/A
2005	N/A	N/A	N/A	N/A	N/A
2004	23,451	5,054	3,962	654	7,097
2003	28,614	4,663	3,275	493	11,018
2002	27,924	4,169	3,033	275	8,730
2001	17,615	3,009	2,423	204	15,984
2000	13,122	2,732	1,929	133	7,606
1999	8,652	2,525	1,625	202	7,578
1998	7,036	2,248	1,363	420	5,641
1997	6,164	2,293	1,214	717	4,756
1996	5,439	2,278	1,055	938	4,120
1995	4,752	2,172	986	943	3,387
1994	4,219	2,170	920	919	3,223
1993	3,645	2,069	822	730	2,856
1992	2,830	1,843	742	844	2,409
1991	2,473	1,611	648	827	1,985
1990	2,276	1,328	573	729	1,728
1989	1,810	1,062	497	784	1,221
1988	1,354	900	435	643	944
1987	1,382	728	391	579	757
1986	703	647	325	481	406
1985	438	413	252	326	240
1984	222	266	193	165	137
1983	204	212	152	102	193
1982	(339)	148	113	82	(106)
1981	(399)	77	86	(2)	(146)
1980	55	36	74	35	45
1979	376	23	72	58	196
1978	349	18	58	56	245
1977	288	14	46	41	190
1976	234	9	42	33	148
1975	192	3	37	15	129
1974	173	3	33	28	123
1973	222	2	26	45	131
1972	169	2	20	20	108
1971	59	1	Not Available	Not Available	65
			Before 1972	Before 1972	

Sources: Fannie Mae and Freddie Mac

N/A = not available

[1] See notes to Tables 3 and 12.

Table 22. Combined Balance Sheet[1]

End of Period	Balance Sheet ($ in Millions)							Total Mortgage-Backed Securities Outstanding ($ in Millions)	
	Total Assets ($)	Total Retained Mortgage Portfolio ($)	Non-Mortgage Investments ($)	Debt Outstanding ($)	Shareholders' Equity ($)	Core Capital ($)	Fair Value Net Assets ($)	Total MBS Outstanding ($)	Multiclass MBS Outstanding ($)
4Q06	N/A	N/A	N/A	N/A	N/A	78,465	N/A	2,906,689	944,718
3Q06	N/A	N/A	N/A	N/A	N/A	79,043	N/A	2,820,888	938,858
2Q06	N/A	N/A	N/A	N/A	N/A	80,160	N/A	2,720,564	903,272
1Q06	N/A	N/A	N/A	N/A	N/A	77,924	N/A	2,664,652	876,692
Annual Data									
2006	N/A	N/A	N/A	N/A	N/A	78,465	N/A	2,906,689	944,718
2005	N/A	N/A	N/A	N/A	N/A	74,099	N/A	2,572,279	826,573
2004	1,816,218	1,589,776	109,866	1,684,808	70,318	69,523	70,994	2,260,317	759,083
2003	1,825,724	1,580,120	112,642	1,700,893	63,755	59,938	55,693	2,052,684	746,349
2002	1,656,988	1,410,526	131,247	1,506,989	63,229	49,421	45,030	1,770,248	793,951
2001	1,441,048	1,210,116	155,831	1,341,835	37,742	45,363	40,975	1,516,529	692,109
2000	1,134,521	993,182	95,868	1,069,581	35,675	35,207	Not Available	1,282,823	643,693
1999	961,992	846,017	71,451	908,330	29,154	30,568	Before 2001	1,217,028	651,682
1998	806,567	671,104	100,675	747,687	26,288	26,180		1,115,494	622,117
1997	586,270	481,135	81,026	542,616	21,314	21,169		1,055,123	622,189
1996	524,907	424,354	78,854	488,251	19,504	19,516		1,021,238	577,737
1995	453,731	360,574	69,984	419,135	16,822	16,788		972,275	599,894
1994	378,707	293,986	64,143	350,509	14,703	14,710		947,001	642,885
1993	300,859	246,107	39,621	251,105	12,489	12,489		910,335	647,043
1992	240,480	189,889	32,116	195,931	10,344	Not Applicable		831,958	531,116
1991	193,932	153,346	19,792	164,199	8,113	Before 1993		714,447	371,784
1990	173,692	135,586	21,992	154,344	6,077			604,434	215,402
1989	159,777	129,429	19,388	142,211	4,907			489,382	117,691
1988	146,610	117,017	19,896	132,341	3,844			396,503	42,281
1987	129,133	106,019	13,935	116,604	2,993			348,369	15,011
1986	122,850	107,216	Not Available	108,938	2,135			264,754	5,333
1985	115,663	108,156	Before 1987	106,732	1,788			154,461	5,047
1984	101,576	94,153		94,718	1,524			105,764	3,214
1983	87,378	82,732		81,867	1,421			82,841	1,669
1982	78,980	74,035		74,605	1,249			57,402	Not Issued
1981	67,904	64,807		64,231	1,330			20,614	Before 1983
1980	63,357	60,595		59,766	1,678			16,962	
1979	55,948	53,780		52,555	1,739			15,316	
1978	47,203	45,141		44,201	1,564			12,017	
1977	37,481	36,456		35,000	1,350			6,765	
1976	37,225	35,950		35,088	1,139			2,765	
1975	37,495	35,698		35,572	1,003			1,643	
1974	34,572	33,135		32,852	898			780	
1973	27,191	26,110		25,699	801			791	
1972	22,118	21,378		20,878	669			444	
1971	19,629	18,821		18,587	567			64	

Sources: Fannie Mae and Freddie Mac

N/A = not available

1 See notes to Tables 4 and 13.

Table 22a. Combined MBS Outstanding Detail[1]

End of Period	Single-Family Mortgages ($ in Millions)					Multifamily Mortgages ($ in Millions)			Total MBS Outstanding ($)
	Conventional				Total FHA/VA	Conventional ($)	FHA/RHS ($)	Multifamily Mortgages ($)	
	Fixed-Rate ($)	Adjustable-Rate ($)	Seconds ($)	Total ($)					
4Q06	2,454,752	372,073	12	2,826,837	23,277	49,930	6,645	56,575	2,906,689
3Q06	2,370,292	362,221	10	2,732,523	24,319	57,303	6,743	64,046	2,820,888
2Q06	2,275,291	348,494	12	2,623,797	25,321	64,329	7,117	71,446	2,720,564
1Q06	2,209,263	354,980	14	2,564,257	26,952	66,108	7,335	73,443	2,664,652
Annual Data									
2006	2,454,752	372,073	12	2,826,837	23,277	49,930	6,645	56,575	2,906,689
2005	2,133,646	340,685	19	2,474,350	25,461	66,688	5,780	72,468	2,572,279
2004	1,979,675	167,196	70	2,146,941	41,590	62,526	9,260	71,786	2,260,317
2003	1,762,548	161,782	140	1,924,470	49,564	69,479	9,171	78,650	2,052,684
2002	1,522,863	136,540	5	1,659,408	49,665	55,755	5,420	61,175	1,770,248
2001	1,361,501	83,367	782	1,445,650	19,853	49,845	1,181	51,026	1,516,529
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									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

Sources: Fannie Mae and Freddie Mac

[1] See notes to Tables 4a and 13a.

Table 23. Combined Financial Derivatives[1]

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 ($)	Exchange-Traded Futures, Options and Other Derivatives ($)	Credit Derivatives ($)	Commitments ($)	Other ($)	Total ($)
4Q06	954,831	14,000	33,424	461,381	N/A	N/A	N/A	N/A	957	N/A
3Q06	874,909	18,200	40,965	452,254	N/A	N/A	N/A	N/A	798	N/A
2Q06	850,272	23,400	41,344	481,316	N/A	N/A	N/A	N/A	771	N/A
1Q06	688,307	26,607	38,382	468,836	N/A	N/A	N/A	N/A	754	N/A
Annual Data										
2006	954,831	14,000	33,424	461,381	N/A	N/A	N/A	N/A	957	N/A
2005	647,992	33,045	43,335	491,789	N/A	N/A	N/A	N/A	738	N/A
2004	434,955	114,047	68,303	542,479	N/A	N/A	N/A	73,552	114,100	1,487,472
2003	885,880	141,658	51,707	654,825	N/A	N/A	N/A	133,080	152,579	2,166,439
2002	543,307	134,082	47,619	553,494	N/A	N/A	N/A	Not Available	117,219	1,833,131
2001	742,724	88,071	32,488	336,286	N/A	N/A	N/A	Before 2003	0	1,703,917
2000	505,539	46,482	19,719	166,979	N/A	N/A	N/A		35,839	799,275
1999	318,612	48,886	12,604	213,831	N/A	N/A	N/A		1,400	699,214
1998	200,401	36,345	14,459	76,481	N/A	N/A	N/A		3,735	500,795
1997	203,845	22,095	11,120	6,000	N/A	N/A	N/A		1,660	256,948
1996	204,786	14,395	2,973	0	N/A	N/A	N/A		350	223,155
1995	171,063	13,355	1,224	29	N/A	N/A	N/A		975	186,670
1994	109,304	9,363	1,023	0	N/A	N/A	N/A		1,465	121,154
1993	67,346	1,860	1,023	0	N/A	N/A	N/A		1,425	71,653

Sources: Fannie Mae and Freddie Mac

N/A = not available

See notes to tables 6 and 15.

Table 24. Combined Non-Mortgage Investments[1]

End of Period	Non-Mortgage Investments ($ in Millions)					
	Federal Funds and Eurodollars ($)	Asset-Backed Securities ($)	Repurchase Agreements ($)	Commercial Paper and Corporate Debt ($)	Other ($)	Total ($)
4Q06	N/A	N/A	N/A	N/A	N/A	N/A
3Q06	N/A	N/A	N/A	N/A	N/A	N/A
2Q06	N/A	N/A	N/A	N/A	N/A	N/A
1Q06	N/A	N/A	N/A	N/A	N/A	N/A
Annual Data						
2006	N/A	N/A	N/A	N/A	N/A	N/A
2005	N/A	N/A	N/A	N/A	N/A	N/A
2004	22,507	47,377	13,620	16,435	9,926	109,866
2003	20,142	43,510	13,126	23,552	12,312	112,642
2002	6,279	57,102	17,095	27,709	23,062	131,247
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

1 See notes to Tables 7 and 16.

Table 25. Combined Capital[1]

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) ($)	
4Q06	78,465	55,176	23,289	79,788	42,190	37,588	102,631
3Q06	79,043	54,989	24,054	79,022	37,402	41,620	98,641
2Q06	80,160	55,904	24,256	80,392	43,534	37,038	85,765
1Q06	77,924	54,196	23,728	78,798	29,466	49,332	92,198
Annual Data							
2006	78,465	55,176	23,289	79,788	42,190	37,588	102,631
2005	74,099	53,473	20,627	75,985	23,918	52,067	92,642
2004	69,523	56,252	13,271	69,887	21,147	48,740	119,908
2003	59,938	55,590	4,348	60,923	32,647	28,276	112,996
2002	49,421	50,027	(606)	45,053	22,177	22,876	104,202
2001	45,363	43,196	2,167	Not Available	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

[1] See notes to Tables 9 and 18.

Table 26. Loan Limits

Year	Single-Family Conforming Loan Limits[1]			
	1-unit	2-units	3-units	4-units
2007	417,000	533,850	645,300	801,950
2006	417,000	533,850	645,300	801,950
2005	359,650	460,400	556,500	691,600
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 - 1986	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, Freddie Mac

1 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
2007	200,160	362,790	256,248	464,449	309,744	561,411	384,936	697,696
2006	200,160	362,790	256,248	464,449	309,744	561,411	384,936	697,696
2005	172,632	312,895	220,992	400,548	267,120	484,155	331,968	601,692
2004	160,176	290,319	205,032	371,621	247,824	449,181	307,992	558,236
2003	154,896	280,749	198,288	359,397	239,664	434,391	297,840	539,835
2002	144,336	261,609	184,752	334,863	223,296	404,724	277,512	502,990
2001	132,000	239,250	168,936	306,196	204,192	370,098	253,776	459,969
2000	121,296	219,849	155,232	281,358	187,632	340,083	233,184	422,646
1999	115,200	208,800	147,408	267,177	178,176	322,944	221,448	401,375
1998	109,032	197,621	139,512	252,866	168,624	305,631	209,568	379,842
1997	81,546	170,362	104,310	205,875	126,103	248,888	156,731	309,338

Sources: Federal Housing Administration

Table 27. Mortgage Interest Rates

Period	Average Commitment Rates on Loans		Effective Rates on Closed Loans	
	Conventional		Conventional	
	30-Year Fixed Rate ($)	One-Year ARMs ($)	Fixed Rate ($)	Adjustable Rate ($)
4Q06	6.2	5.5	6.6	6.4
3Q06	6.6	5.7	6.8	6.6
2Q06	6.6	5.7	6.7	6.5
1Q06	6.2	5.3	6.5	6.1
Annual Data				
2006	6.4	5.5	6.6	6.4
2005	5.9	4.5	6.1	5.5
2004	5.8	3.9	6.0	5.2
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 28. Housing Market Activity[1]

Period	Housing Starts (units in thousands)			Home Sales (units in thousands)	
	Single-Family Housing Starts	Multifamily Housing Starts	Total Housing Starts	New Single-Family Housing Starts	Existing Single-Family Home Sales
4Q06[2]	1,235	291	1,562	1,040	6,263
3Q06[2]	1,401	262	1,714	1,007	6,287
2Q06[2]	1,530	293	1,873	1,100	6,627
1Q06[2]	1,747	343	2,123	1,111	6,863
Annual Data					
2006	1,508	293	1,802	1,060	6,478
2005	1,757	311	2,068	1,283	7,076
2004	1,653	304	1,957	1,203	6,778
2003	1,532	315	1,847	1,086	6,183
2002	1,397	308	1,705	973	5,631
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.

1 Components may not add to totals due to rounding.

2 Seasonally adjusted annual rates.

Table 29. Weighted Repeat Sales House Price Index (Annual Data)[1]

Period	USA	New England	Mid-Atlantic	South Atlantic	East North Central	West North Central	East South Central	South Central	Mountain	Pacific
4Q06	5.87	2.26	5.99	7.35	2.68	3.49	7.16	7.47	8.98	7.06
3Q06	7.88	3.49	8.27	9.60	2.99	3.92	7.63	8.01	11.45	11.51
2Q06	10.31	5.49	11.14	13.83	4.13	4.78	8.03	8.02	14.58	14.87
1Q06	12.78	8.46	13.72	17.41	5.40	6.25	8.07	7.94	18.09	18.75
Annual Data										
2006	5.87	2.26	5.99	7.35	2.68	3.49	7.16	7.47	8.98	7.06
2005	13.25	9.79	13.92	18.27	5.99	6.82	7.49	6.78	18.57	19.68
2004	11.81	12.11	12.99	13.85	5.91	6.84	5.21	4.77	11.73	20.95
2003	7.79	10.16	10.62	8.09	4.78	6.12	3.44	3.08	4.96	12.20
2002	7.41	11.78	10.46	7.26	4.34	6.20	3.29	4.03	4.32	10.95
2001	7.53	10.90	8.92	7.91	5.17	7.23	5.04	5.81	6.43	9.26
2000	7.53	12.39	7.84	6.51	5.99	7.22	3.80	5.09	6.91	11.18
1999	5.11	9.66	5.16	4.27	4.90	6.11	2.51	4.31	4.13	5.76
1998	4.98	6.48	4.03	4.58	4.15	4.84	4.89	4.94	4.00	7.18
1997	4.58	4.57	3.25	4.49	5.16	4.90	4.65	3.89	4.86	5.29
1996	2.60	1.63	0.38	2.27	4.98	4.08	4.00	2.33	4.22	1.00
1995	4.53	4.12	3.20	4.29	6.01	5.26	5.57	4.21	7.49	2.85
1994	0.82	-3.19	-3.36	0.10	4.96	5.24	4.70	1.52	8.96	-3.35
1993	2.06	0.26	1.32	1.88	3.65	3.88	4.09	4.01	7.84	-1.96
1992	1.87	-1.12	1.68	2.13	3.89	2.99	3.27	3.39	5.30	-1.38
1991	2.60	-2.26	1.56	3.18	4.57	3.75	4.12	3.69	4.67	1.32
1990	0.25	-7.72	-2.89	0.34	3.78	0.54	0.68	0.40	1.90	3.04
1989	6.04	0.65	2.33	5.09	6.18	3.24	2.92	2.78	2.79	19.36
1988	6.22	3.71	6.08	7.02	6.71	2.37	2.60	-2.14	0.24	17.50
1987	6.78	13.36	16.15	7.18	7.89	2.50	4.25	-8.58	-2.65	9.54
1986	8.15	21.08	18.10	6.25	7.15	4.10	5.63	-0.42	3.12	7.19
1985	6.50	24.98	14.28	5.36	4.78	4.29	4.99	-1.41	2.12	4.90
1984	5.40	17.79	13.42	4.58	2.74	4.60	3.21	-0.01	2.44	5.28
1983	3.96	16.04	9.98	3.34	4.25	4.44	4.06	0.96	-2.66	1.01
1982	2.20	4.30	4.04	3.36	-4.41	-0.41	5.14	5.62	7.11	0.93
1981	4.80	4.88	0.52	7.24	2.28	0.48	0.45	11.92	6.70	5.78
1980	6.83	5.64	10.08	7.89	1.44	4.32	6.79	7.83	6.33	11.22
1979	11.89	10.85	17.40	10.80	9.07	9.04	5.03	13.12	15.54	16.00
1978	13.41	16.96	6.74	11.49	14.24	13.11	11.92	16.99	17.02	15.69
1977	13.40	8.99	10.72	8.15	13.45	15.19	11.50	12.02	18.11	25.65
1976	7.53	2.65	0.85	6.38	8.00	5.25	5.93	8.55	10.08	19.86

[1] Data for 1976-2006 are measured based on fourth-quarter-to-fourth-quarter percentage change.
Quarterly data for 2006 reflect changes over the previous four quarters.
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

Notes

Notes

Office of Federal Housing Enterprise Oversight

KEY MANAGEMENT OFFICIALS

James B. Lockhart III, *Director*

Edward DeMarco, *Deputy Director*

Leonard F. Reid, *Director of Supervision*

Alfred M. Pollard, *General Counsel*

Mark Laponsky, *Executive Director and Chief of Staff*

Peter Brereton, *Associate Director for External Relations*

Wanda DeLeo, *Chief Accountant*

Christopher H. Dickerson, *Chief Compliance Officer*

David Felt, *Deputy General Counsel*

Joanne Hanley, *Associate Director for Congressional Affairs*

Susan S. Jacobs, *Chief Strategic Planning Officer*

John Kerr, *Examiner-in-Charge, Fannie Mae*

Mark Kinsey, *Chief Financial Officer*

Patrick J. Lawler, *Chief Economist*

Thomas A. Loeffler, *Acting Associate Director, Office of Supervison Policy, Systems, and Quality Assurance*

Janet Murphy, *Chief Human Capital Officer*

David Roderer, *Deputy General Counsel*

Isabella Sammons, *Deputy General Counsel*

Scott Smith, *Associate Director for Capital Supervision*

Jeff Spohn, *Examiner-in-Charge, Freddie Mac*

Naa Awaa Tagoe, *Acting Associate Director, Office of Risk Analysis and Financial Performance*

Kevin Winkler, *Chief Information Officer*

OFFICE OF FEDERAL HOUSING
ENTERPRISE OVERSIGHT

1700 G Street, NW
Washington, DC 20552

202.414.3800

www.ofheo.gov