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December 17, 1999

The Honorable Armando Falcon
Director
Office of Federal Housing Enterprise Oversight
1700 G Street, NW
4th Floor
Washington, DC 20552

Dear Director Falcon:

I am writing to provide you with a brief update of our progress in reviewing OFHEO's proposed risk-based capital standard.

With the March 10, 2000 comment deadline drawing closer, we have been pressing to replicate the model described by OFHEO's rule. As you know, we have devoted significant energy and resources to analyzing and understanding the rule. An important element of this work has been the exchange of information between Fannie Mae and OFHEO. Early on, we asked for the opportunity to talk with the OFHEO staff involved in developing the rule. These conversations have been productive and your staff has been very forthcoming.

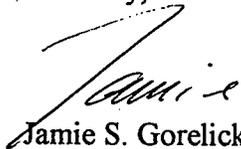
However, despite our more than full-time efforts and despite the helpful discussions that we have had with OFHEO staff, our work is far from done. As I told Mark Kinsey -- and as was reflected in the meetings this week -- we have yet to be able to replicate the results of the risk-based capital proposal. In fact, our efforts at recreating OFHEO's capital estimates are billions off of the June 1997 capital numbers that OFHEO published. We understand that Freddie Mac has not been able to replicate the OFHEO numbers either. The sheer complexity of the proposed rule has resulted in our model -- based upon the proposed rule -- and OFHEO's, based upon the same proposal, producing vastly different numbers. Until we can recreate OFHEO's results reliably and consistently, the regulation we will be commenting on will be our interpretation of the rule -- as expressed in our computer model -- rather than OFHEO's, as OFHEO has not released its model. Thus, we will not be able to comment as meaningfully on the proposal as a rulemaking procedure such as this contemplates.

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We have committed enormous efforts to this project and will continue to do so. However, we now have a choice between preparing comments based upon an incomplete understanding of the rule, on the one hand, or continuing to devote most of our work to understanding the rule's operation at the significant risk that we will be unable to formulate comments before the deadline.

I look forward to a continued dialogue with you and your staff as our work continues and would welcome your thoughts on how to proceed. Thank you for your time and attention.

Sincerely,



Jamie S. Gorelick

JSG:jpw