

United States Senate

WASHINGTON, DC 20510

February 25, 2008

James B. Lockhart III
Director, Office of Federal Housing Enterprise Oversight
1700 G Street, NW
Washington, DC 20552

Dear Director Lockhart,

In your testimony before the Senate Banking Committee on February 7, 2008, you indicated that it was your intention to ease the regulatory penalties imposed on Fannie Mae and Freddie Mac in 2006 if the companies filed current, timely and fully audited 2007 financial results. Given that both companies may fulfill the conditions set forth by OFHEO in 2006 as soon as next week, I would like to ask for further clarification on how OFHEO will respond.

As you know, the housing crisis has spread to all corners of the nation and has left virtually no community untouched. It is critical in these times that the GSEs have the flexibility and the incentive to do everything within their mandate to fulfill their critical mission. Since the restrictions imposed on Freddie and Fannie have a direct impact on their flexibility to assist the struggling housing markets, I am interested to learn, in greater detail, what steps OFHEO plans to take when the GSEs become current and timely in their financial filings.

Specifically, I would like to know if OFHEO plans to completely lift the portfolio caps immediately, or phase in a portfolio cap increase over a period of time. I would also like to know if OFHEO plans to substantially ease or eliminate the 30 percent capital surcharge. With such a stringent capital requirement, Fannie and Freddie are limited in their ability to provide the volume of financing needed in these troubled times in the market. If you have decided that you will be keeping the capital surcharge in place even after Fannie and Freddie become timely filers, I would like an explanation as to why you think upholding that restriction outweighs the importance of providing capital relief that could better position the GSEs to provide rescue products for borrowers stuck in unaffordable loans.

I look forward to hearing from you about these important matters, and appreciate your prompt attention to this important issue.

Sincerely,



Charles E. Schumer
United States Senator