OFFICE OF FEDERAL HOUSING ENTERPRISE OVERSIGHT

Report 2008 to Congress

OF FEDERAL HOUSIN

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OFFICE OF FEDERAL HOUSING ENTERPRISE OVERSIGHT

1700 G Street, NW • Washington, DC 20552
202.414.3801

Office of the Director

April 15, 2008

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 2008 Report to Congress from the Office of Federal Housing Enterprise Oversight (OFHEO), which provides the findings of OFHEO's 2007 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 third to Congress. Last year was a very eventful and challenging year for Fannie Mae and Freddie Mac and the housing markets that they serve. To a large extent, the Enterprises rose to those challenges.

For the first time in four years, the Enterprises filed their annual financial statements on a timely basis. Significant progress was made in the remediation process, but OFHEO concludes that both companies remain classified as significant supervisory concerns. The primary reason for this classification has changed from previous years. The extraordinary declines in the housing and mortgage markets have greatly increased their credit and interest rate risks, which have put additional pressure on their credit management, interest-rate risk management and financial modeling processes. As you will read in this report, they have made reasonable progress in these areas as well as in governance, internal controls, systems, and operational risk management; still, they both, to a varying extent, have significant further work to finalize their remediation efforts and test those improvements.

Despite large losses in the second half of the year, the Enterprises were able to fulfill their key mission of providing stability and liquidity to the conventional conforming loan market. Their support of the mortgage market grew by 15 percent in 2007 versus 8 percent growth in 2006, to a total of $5.0 trillion in guaranteed mortgage-backed securities outstanding and mortgage investments. Their market share of total mortgage originations grew from 37.4 percent in 2006 to 75.6 percent by the fourth quarter of 2007. There is increasing pressure for Fannie Mae and Freddie Mac to do even more to support the mortgage market, which is problematic in absence of GSE reform legislation to strengthen the regulatory process.

In 2007, as measured by OFHEO's monthly purchase-only House Price Index (HPI), house prices fell 1.6 percent. Other indexes had much larger price drops and all the major indexes show the decline in house prices is continuing. Unsold house inventories have reached a very high 10 months while single-family housing starts and permits have fallen 57 percent and 61 percent from their peaks. Defaults and serious delinquencies have risen rapidly with subprime serious delinquencies in the fourth quarter of 2007 reaching 14.4 percent.

In last year's report, I wrote that a key indicator of remediation progress at the two Enterprises would be the timely filing of their annual reports with the Securities and Exchange Commission (SEC), with a clean audit opinion based upon a controls-based audit. In February 2008, Fannie Mae achieved that goal and Freddie Mac produced timely financial statements with a clean audit opinion. Freddie Mac expects to register with the SEC this summer. Per OFHEO's agreement with the companies, the caps on their portfolios were removed at the time of the annual report filing. Prior to that, in September 2007, OFHEO had loosened those caps in order to enable the Enterprises to fulfill their commitments to refinance borrowers out of subprime mortgages.

The Enterprises' 2007 financial statements reported combined fourth quarter losses of $6.0 billion resulting in annual losses of $5.1 billion. In order to ensure adequate capital, they raised over $15 billion of preferred stock in the last four months of the year and cut their dividends.

OFHEO believes that to better fulfill their mission of providing stability, liquidity and affordability to the housing market the Enterprises need to raise additional capital. Therefore, in mid-March, we reached an agreement with Fannie Mae and Freddie Mac to lower the "OFHEO-directed" 30 percent additional capital requirement to 20 percent and, in return, both companies agreed to raise significant capital. OFHEO still believes that a stronger GSE regulator is needed to ensure their ability to fulfill their mission and help restore confidence to the mortgage market. In the March agreement both Fannie Mae and Freddie Mac agreed that a "world-class regulatory structure" is needed and "renewed a shared commitment to work for comprehensive GSE reform legislation." The time to act on the legislation is now.

The challenges of 2007 are still present this year. The problems in the housing markets are continuing. OFHEO expects that Fannie Mae's and Freddie Mac's Consent Agreements will be lifted in the near-term and all major internal control issues should be remediated this year. It is my hope with the completion of their remediation efforts, significant additional capital and an enhanced regulatory regime we will end 2008 with the stakeholders in the nation's housing finance system much stronger than today.

Sincerely,

James B. Lockhart III Director

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Executive Summary of the Annual Examinations of the Enterprises

OFHEO's supervisory activities over the past year focused on corporate governance, credit risk, market risk, operational risk, earnings, capital and the Enterprises' business infrastructures. The following paragraphs summarize the Reports of Examination which are included in full later in this report.

Fannie Mae and Freddie Mac made progress in remediating many of their operational issues including timely filing of their financial statements. However, they remain significant supervisory concerns. They both experienced poor financial performance in 2007 largely due to the rapid deterioration in credit performance associated with house price declines and disruption of the mortgage markets. Market value declines in derivatives caused by falling long-term interest rates also generated substantial losses. While the Enterprises have made progress in improving internal controls, both companies—and especially Freddie Mac—still have weaknesses to address.

Risk and Risk Management

The weakening of Enterprise underwriting standards and the contractual impediments to guarantee fee increases as market conditions worsened contributed to poor financial performance. The Enterprises also experienced substantial deterioration in the market values of their subprime- and Alternative A (Alt-A)-backed private-label securities portfolios, although the portfolios remained overwhelmingly AAA-rated and have not recorded substantial impairment losses. The credit quality of the Enterprises' principal counterparties—seller-servicers, derivative issuers and mortgage insurance companies—also deteriorated, increasing counterparty risk. Both Enterprises have taken steps to better manage credit risk, modifying risk management and business practices, but continuing house price declines and market turmoil will impact 2008 results.

OFHEO found interest-rate risk management at both Enterprises generally to be satisfactory, although Fannie Mae's risk management strategy is somewhat aggressive in light of higher and increasing credit-related losses. OFHEO identified shortcomings with certain risk measurement systems at both Enterprises. Liquidity risk management was satisfactory at both Enterprises.

Both Enterprises significantly improved their model risk management in 2007, but rapidly changing market conditions significantly increased model risk, particularly for credit and prepayment models. Given the lack of historical precedent for current conditions and the fact that models are estimated based on historical experience, Enterprise models have become less reliable and require greater management judgment, increasing the potential for error in pricing and other metrics.

Accounting and Internal Controls

Key among the accounting tasks facing the Enterprises in 2007 were 1) returning to timely financial reporting, 2) addressing material weaknesses in disclosure and financial reporting controls and 3) responding to new standards from the Financial Accounting Standards Board.

These tasks were made particularly challenging by the Enterprises' deteriorating financial performance. Despite that, they generally accomplished their objectives, notably by the timely February 2008 publication of their 2007 financial statements. Fannie Mae is now current with its Securities and Exchange Commission (SEC) filings. Freddie Mac returned to quarterly financial reporting in 2007 and is commencing the registration process with the SEC.

Internal control issues remain at both Enterprises. In 2007 Fannie Mae's management attained several milestones fundamental to achieving satisfactory controls in nearly all areas of the Enterprise. Still, several projects are not yet complete, many improvements are recent, and time is required to determine whether they will be sustained. Internal controls are still not fully effective at Freddie Mac. While progress was made in 2007 to remediate weaknesses related to financial reporting, continued efforts are necessary, and control improvements require testing/validation to evidence full effectiveness and sustainability.

Capital

Consistent with requirements of the Federal Housing Enterprises Financial Safety and Soundness Act of 1992, OFHEO classified both Enterprises as adequately capitalized for year-end 2006 and all four quarters of 2007. Given the losses the Enterprises sustained in 2007, the regulatory core capital of each declined at an accelerating pace through the year, with Freddie Mac failing to meet the OFHEO-directed capital requirement at the end of November (without year-end accounting adjustments). To ensure ongoing capital adequacy, both took aggressive action in the latter part of the year, including reducing dividends and issuing preferred stock, as well as controlling growth and actively managing balance sheet composition. Improved capital planning and income forecasting are necessary to ensure that the Enterprises' capital needs are comprehensively assessed and capital maintained at an adequate level.

Year in Review

Acceleration of Housing Market Deterioration

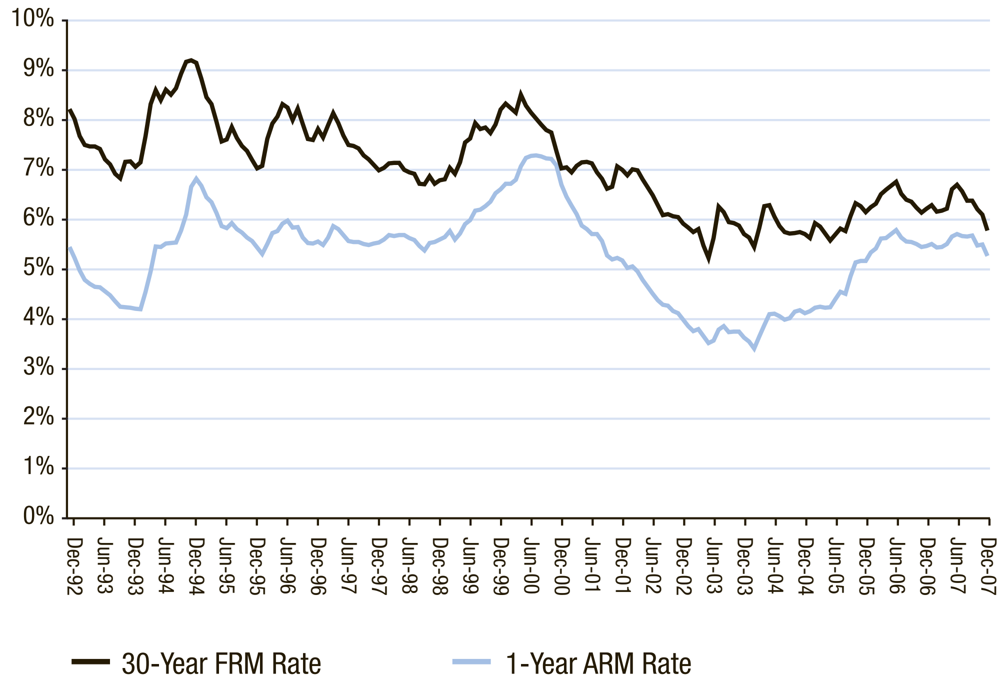
The weakness in the housing sector that began in 2006 got much worse in 2007. While housing markets had been a source of strength for the economy during the economic expansion that began in 2001, by year-end 2007 housing threatened to lead the economy into recession. After dropping 13 percent during 2006, residential fixed investment (spending on purchases of new homes and renovations) plummeted 19 percent in 2007. The economy as a whole continued to grow, however, expanding 2.5 percent, little changed from growth of 2.6 percent in 2006. However, the effects of the housing contraction spread through the economy more broadly by last year's fourth quarter, when growth slowed sharply. Inflation, as measured by the Consumer Price Index (CPI), increased markedly in 2007 to 4.1 percent, the highest rate since 1990, from 2.6 percent the year before. Rising energy and food prices were key contributors. Core inflation, which excludes energy and food prices, edged down in 2007, to 2.4 percent compared with 2.6 percent the year before. Partly in response to conditions in the housing sector, labor market conditions deteriorated somewhat. The national unemployment rate increased gradually in 2007, rising to 5.0 percent in December, up from 4.4 percent one year earlier.

The Federal Reserve left the Federal Funds target rate unchanged during the first half of 2007. However, in the second half unstable credit market conditions associated with deteriorating housing markets, as well as weakening economic conditions, caused the Federal Reserve to lower the Federal Funds rate in steps by 100 basis points. At the end of the year, that rate was 4.25 percent, the lowest level since January 2006. Short-term interest rates responded to the Federal Reserve's actions and anticipated further rate cuts. The one-year Constant Maturity Treasury (CMT) yield fell from a high of 5.12 percent in January to 3.34 percent at the end of the year. Long-term interest rates rose modestly in the first half of 2007, with the yield on the 10-year CMT peaking in June at 5.26 percent, and declined thereafter, with the 10-year CMT ending the year at 4.04 percent or 67 basis points lower than at the end of 2006. Because short-term interest rates fell more than long-term rates, the Treasury yield curve, which started the year inverted, steepened. The yield spread between the 2- and 10-year CMT increased from a negative 15 basis points in January to a positive 99 basis points at the end of the year.

Mortgage interest rates typically follow the trend of long-term Treasury issues. According to Freddie Mac's Primary Mortgage Market Survey (PMMS), the average 30-year fixed-rate mortgage (FRM) commitment rate rose by about 50 basis points in the first half of 2007, reaching a high of 6.74 percent in June. Rates declined gradually thereafter, to a low of 5.96 percent on December 7, and ended the year at 6.17 percent. That was just one basis point lower than at year-end 2006. For the year, the 30-year FRM commitment rate averaged 6.34 percent, just 7 basis points below the average rate for 2006. The average commitment rate on one-year Treasury-indexed adjustable-rate mortgages (ARMs) increased through July before easing somewhat. For the year, the one-year ARM commitment rate averaged 5.56 percent, just 2 basis points higher than the year before (Chart 1).

Chart 1

Mortgage Interest Rates

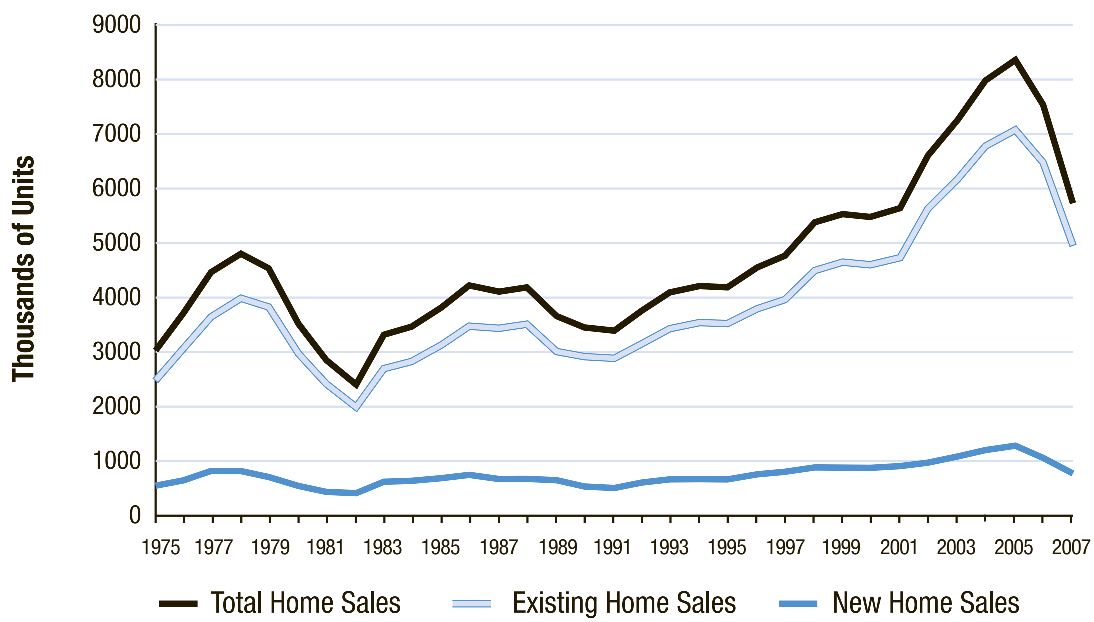


Source: Freddie Mac

Single-family housing starts declined for the second consecutive year, falling 29 percent to 1.078 million units. That was the biggest percentage decline on record and the lowest level since 1992. Similarly, home sales dropped sharply in 2007. Sales of new homes fell 26 percent to 776,000 units, the lowest volume since 1996. Sales of existing homes slid 13 percent to 5.7 million units, the lowest level since 2002 (Chart 2). The declines in housing starts and home sales reflected the credit tightening resulting from the collapse of the subprime segment of the mortgage market in the second half of the year.

Chart 2

Home Sales



Source: National Association of Realtors and Bureau of the Census

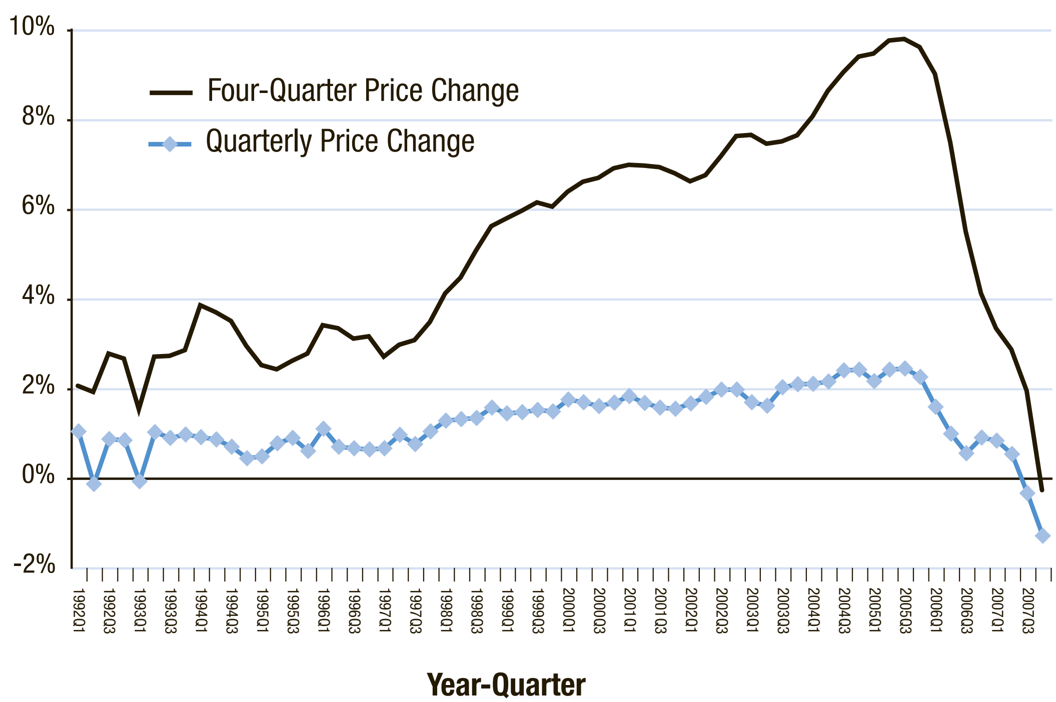
One of the few bright spots in the struggling U.S. housing sector in 2007 was an increase in housing affordability, as measured by the National Association of Realtors' composite housing affordability index. That index rose 5.4 percent in 2007 to 111.8. The higher index mainly reflects a decline in the median price of existing single-family homes in 2007.

The national homeownership rate declined from 68.9 percent at the end of the fourth quarter of 2006 to 67.8 percent one year later—the lowest level since the second quarter of 2002. A high volume of home foreclosures in 2007 likely contributed to that decline. With the rise in home foreclosures and tighter mortgage credit came a slight improvement in the rental vacancy rate, which fell from 9.8 percent at the end of the fourth quarter of 2006 to 9.6 percent one year later.

A large inventory of unsold homes put downward pressure on property values.

Sharp Slowdown in House Price Appreciation

A sharp deceleration of house price appreciation in 2007 provided further evidence of weakness in the housing sector. A large inventory of unsold homes put downward pressure on property values. Nationwide, house prices, as measured by OFHEO's quarterly seasonally-adjusted purchase-only House Price Index (HPI), rose 0.8 percent and 0.5 percent, respectively, in the first two quarters and then declined 0.3 percent in the third—the first drop in that index since the first quarter of 1993. That trend accelerated in the fourth quarter, when the purchase-only index fell 1.3 percent. Over the year ending with the fourth quarter, home values, as measured by the purchase-only index, declined 0.3 percent on average, after the 4.1 percent growth over the same period a year earlier (Chart 3).



Source: OFHEO

Chart 3

OFHEO House Price Index History for USA (Seasonally-Adjusted Price Change Measured in Purchase-Only Index)

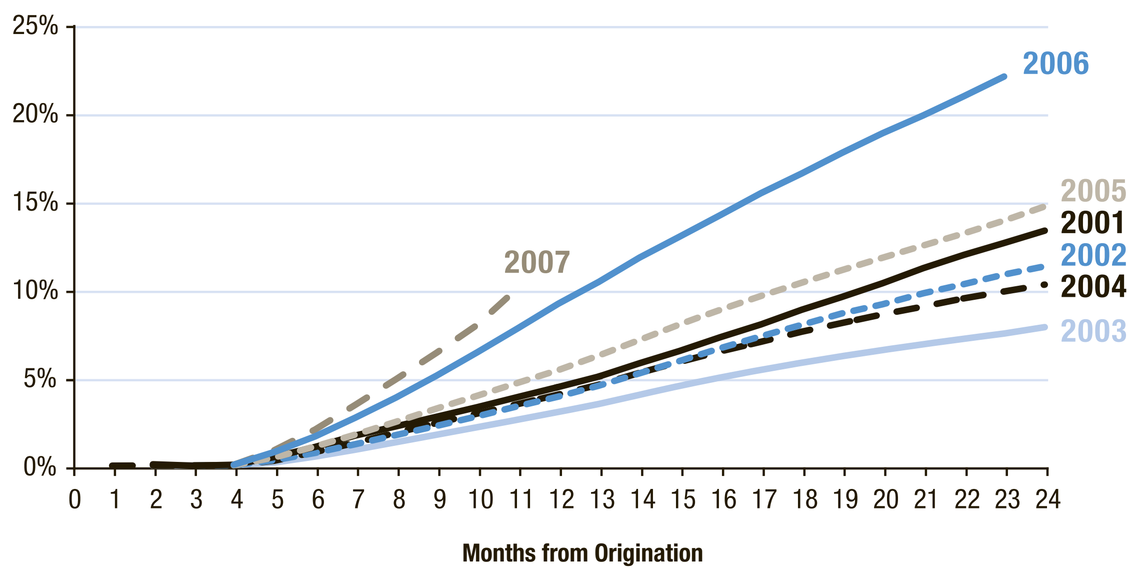
OFHEO's seasonally-adjusted purchase-only HPI showed considerable variation in regional house price trends in 2007. House prices declined on average in four of the nine Census Divisions. The Pacific and East North Central Census Divisions showed the largest drops, with prices falling 3.3 percent and 2.3 percent, respectively, from the fourth quarter of 2006 to the fourth quarter of 2007. The West South Central and East South Central Divisions experienced the largest increases, with appreciation rates of 3.3 percent and 2.4 percent, respectively, over the same period. The trends in those two divisions reflected the recovery of house values from the aftermath of Hurricane Katrina (map on page 7).

Illiquidity in the Secondary Markets for Subprime and Nontraditional Mortgages

The rapid growth in subprime and nontraditional mortgage lending from 2001 through 2006 was accompanied by a steady deterioration of underwriting standards, as typically occurs in a credit boom. In late 2006 and 2007, rising delinquency and default rates on recently-originated subprime mortgages (Chart 4) spurred growing investor awareness of the extent of poor underwriting in subprime lending. In the second half of 2007, that awareness led to a virtual collapse of the primary and secondary markets for subprime and nontraditional mortgages and contributed to disruptions in broader financial markets.

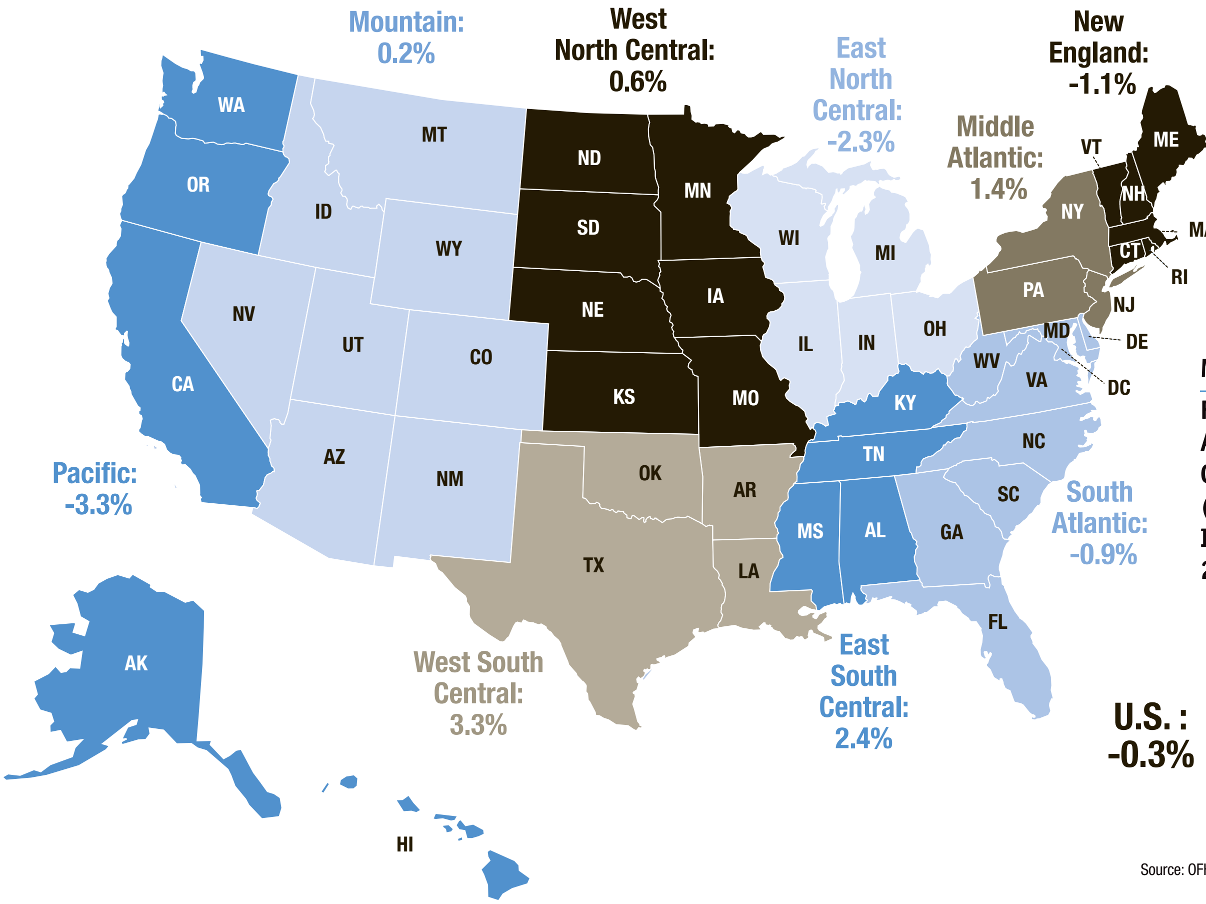
Chart 4

Share of Subprime Mortgages Seriously Delinquent or in Foreclosure, Origination Years 2001–2007



Note: Reflects 30-year fixed-rate and 2/28 hybrid adjustable-rate mortgages with borrower credit scores at origination of less than 660.

Source: OFHEO, based on data from First American LoanPerformance.com



Map 1

Four-Quarter Appreciation by Census Division (Purchase-Only Index), 2006Q4–2007Q4

Source: OFHEO

In March 2007 the Mortgage Bankers Association reported that delinquencies of subprime mortgages had risen sharply in the fourth quarter of 2006. That report led a broad spectrum of investors to become aware of serious performance problems in the subprime and Alt-A segments of the market. The resulting sell-off in mid-March of financial stocks exposed to subprime and nontraditional mortgages signaled to the public and policy makers that the problems in those segments might impose sufficient losses on financial institutions to affect the supply of credit and real economic activity.

In June, credit rating agencies began to reconsider their ratings on private-label securities (PLS) backed by subprime mortgages and collateralized debt obligations (CDOs)[1] exposed to such securities. In response, financial markets began to reassess the market value of mortgage-related securities. Falling prices for subprime PLS and CDOs collateralized by them quickly began to impose large market-value losses on investors.

At the end of July growing fears about exposures to U.S. subprime mortgages began to spread beyond U.S. banks and specialized mortgage lenders. Debt markets began to reprice the credit risk of all types of instruments backed by subprime loans. In late July, losses incurred by an asset-backed commercial paper (ABCP) conduit that held subprime mortgages led

[1] A CDO is a corporate entity constructed to hold a portfolio of fixed-income assets, often PLS mortgage-backed securities, and sell rights to the cash flows from those assets, and the associated risks, to investors. The credit risk of the collateral is allocated among different tranches; senior tranches (rated AAA), subordinated tranches (AA to B) and equity tranches (unrated). Losses are applied in reverse order of seniority, so that junior tranches offer higher coupon rates to compensate for higher risk.

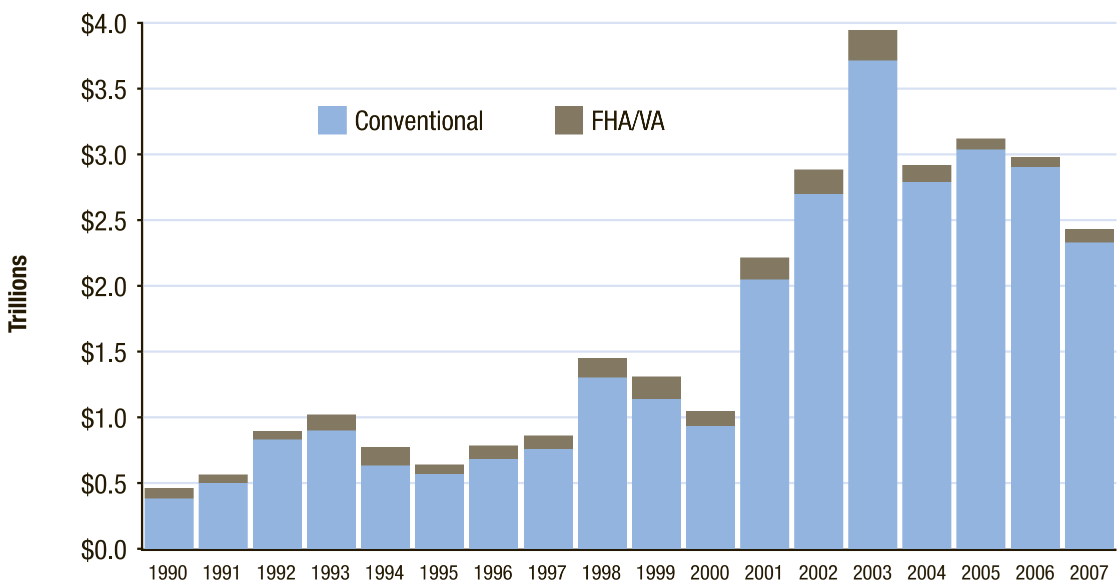
investors globally to spurn the ABCP market, forcing financial institutions to scramble to tap bank credit lines and seek alternative sources of funding. In mid-August there was a broad, global reduction in the supply of credit for securities backed by subprime mortgages. Uncertainty about the decline in value of subprime collateral backing specific PLS and CDOs led liquidity in the markets for those securities to become extremely scarce overnight.

With investors refusing to purchase PLS backed by subprime mortgages as of mid-August, only $29.7 billion of subprime PLS were issued in the third quarter of 2007, down 64.1 percent from already deflated levels for the second quarter. The fourth quarter was worse, with only $11.9 billion of subprime PLS issued. Many major issuers failed to securitize any subprime loans during the third and fourth quarters.

The fear of exposure to residential mortgage credit risk spilled over into the markets for PLS backed by Alt-A and jumbo mortgages. Investors became less willing to invest in any mortgage-related securities not guaranteed by Fannie Mae, Freddie Mac or Ginnie Mae. Only $38.2 billion of Alt-A and $40.3 billion of jumbo PLS were issued in the third quarter of 2007, down 62.2 and 33.5 percent, respectively, from the second quarter of 2007. The fourth quarter 2007 issuance volume of Alt-A and jumbo PLS was worse than the third quarter, with only $13.6 billion of Alt-A and $19.3 billion of jumbo PLS issued. The Enterprises' combined share of all mortgage-backed securities (MBS) issuances rose from less than 50 percent in the second quarter of 2007 to more than 75 percent in the fourth quarter.

Chart 5

Single-Family Mortgage Originations



Source: National Association of Realtors and Bureau of the Census

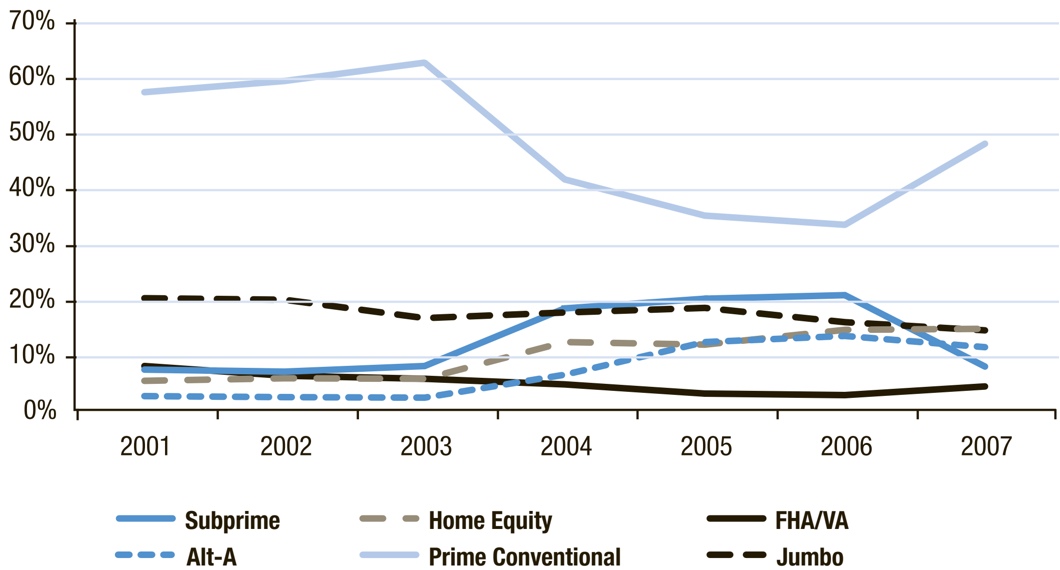
Reduction in Single-Family Mortgage Originations

Flat or declining house prices and illiquidity in the secondary markets for subprime and nontraditional mortgages contributed to a reduction in single-family mortgage lending in 2007. According to *Inside B&C Lending*, originations of single-family mortgages fell for the second consecutive year, by 18.5 percent to $2.4 trillion, the lowest volume since 2001 (Chart 5).

A sharply lower volume of subprime originations accounted for much of that decline. In response to the lack of secondary market liquidity after mid-August 2007, lenders virtually stopped making subprime mortgages. In the third quarter of the year, subprime lending totaled $28 billion, down 50 percent from the previous quarter. Most of that production occurred in July. In the fourth quarter, subprime lending totaled $13.5 billion and represented only 3 percent of total single-family originations. For the year, the subprime segment of the market accounted for 7.8 percent of total originations, down from 20.6 percent during 2006 (Chart 6).

Chart 6

Single-Family Mortgage Originations by Market Segment, 2001–2007



Source: Inside Mortgage Finance Publications

The declines in Alt-A and jumbo originations in 2007 were less pronounced. Alt-A lending comprised 6 percent of single-family originations in the fourth quarter of 2007, down from 14 percent in the first quarter. For the year, Alt-A lending comprised 11 percent of single-family originations, down from 13 percent in 2006. Jumbo originations accounted for 10 percent of total single-family lending in the fourth quarter, down from 16 percent in the second quarter and in 2006.

Financial Performance of the Enterprises in 2007

Overview

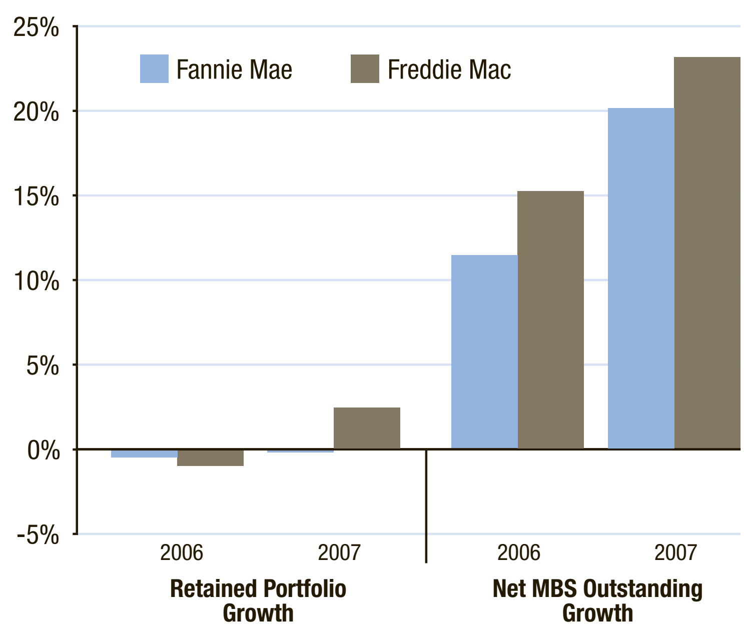
In 2007, a confluence of factors—turmoil in the housing and mortgage markets, loss of liquidity in the credit markets, and volatility in the capital markets adversely impacted the financial performance of financial institutions in general, and in particular, the financial performance of institutions with significant exposure to mortgage markets. The Enterprises' financial results suffered along with the results of other financial institutions. Both Enterprises were unprofitable in 2007—Freddie Mac's first annual net loss ever, and Fannie Mae's first since 1985.

Business Volumes

During 2007, both Enterprises were operating under agreements with OFHEO to limit growth of mortgage assets. Internal capital constraints emerged during the year that limited expansion of each Enterprise's mortgage assets despite additional flexibility granted by OFHEO in September. In the second half of the year the Enterprises increased sales of assets and limited purchases in order to conserve capital. Annual growth of the mortgage asset portfolios in 2007 was negative 0.1 percent for Fannie Mae and 2.4 percent for Freddie Mac, compared to 2006 growth of negative 0.4 percent and negative 0.9 percent, respectively (Chart 7).

Chart 7

Enterprise Growth in Business Volumes



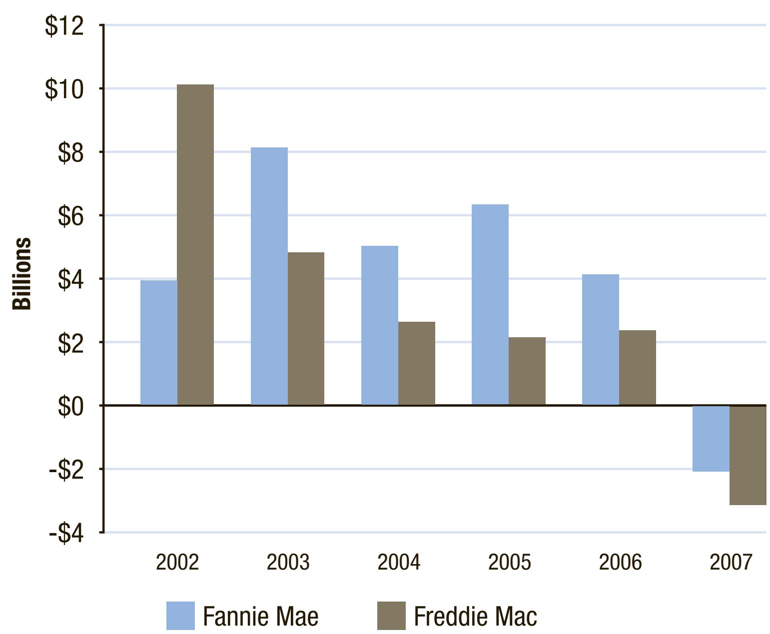
Sources: Fannie Mae and Freddie Mac

Both Enterprises increased their guarantee businesses significantly as the market turmoil reduced the presence of other industry participants and resulted in higher market share for the Enterprises in the second half of the year. In 2007, Fannie Mae's MBS issuance increased by 30.7 percent and liquidations and the Enterprise's purchases of its own MBS slowed. As a result, Fannie Mae's net MBS outstanding increased by 20.1 percent, compared to 11.4 percent the prior year (Chart 7). Freddie Mac's MBS issuance increased by 30.8 percent, liquidations slowed, and the Enterprise's purchases of its own MBS increased. As a result, Freddie Mac's net MBS outstanding increased by 23.1 percent, compared to 15.2 percent the prior year.

Buoyed by growth of the guarantee business, the overall book of mortgage business for both Enterprises grew at a healthy pace. Fannie Mae's total book of mortgage business increased 14.3 percent, compared with 7.7 percent the year before, to $2.9 trillion. Freddie Mac's total book of mortgage business increased 15.1 percent, compared with 8.4 percent the year before, to $2.1 trillion. Total mortgage debt outstanding increased by 7.0 percent in 2007. As a result, the Enterprises' market share of total single-family mortgage originations grew from 37.4 percent in 2006 to 54.5 percent in 2007, reaching 75.6 percent in the fourth quarter.

Earnings

Both Enterprises reported net losses in 2007. Fannie Mae reported a net loss of $2.1 billion, whereas Freddie Mac reported a net loss of $3.1 billion. The Enterprises' profitability was adversely affected by: substantially higher credit-related expenses and market valuation losses on some assets (stemming from expectations of higher future default costs), higher allowances for loan losses, and declines in the market prices of mortgage assets. In 2007, credit-related expenses, market valuation losses on delinquent loans purchased out of trusts and losses on certain guarantee contracts, increased by $5.2 billion at Fannie Mae and $6.0 billion at Freddie Mac, compared to 2006.



Sources: Fannie Mae and Freddie Mac

Chart 8

Enterprise Net Income

Profitability was also adversely affected by significantly higher market valuation losses on derivatives stemming from substantial declines in swap interest rates. In 2007, market valuation losses on derivatives increased by $2.6 billion at Fannie Mae and $3.2 billion at Freddie Mac, compared to 2006.

Lower net interest income from continued declines in net interest margins driven by a higher cost of debt, also contributed to the decline in earnings. In 2007, net interest income decreased by $2.2 billion at Fannie Mae and $0.3 billion at Freddie Mac, compared to 2006. Higher guarantee fee income partially offset these items. In 2007, guarantee fee income increased by $0.8 billion at Fannie Mae and $0.2 billion at Freddie Mac, compared to 2006.

Generally accepted accounting principles (GAAP) earnings continue to exhibit high levels of volatility from quarter-to-quarter and year-to-year. Both Enterprises reported net losses in the second half of the year. Freddie Mac also reported a net loss in the first quarter. These losses reflect, in part, GAAP requirements to report changes in the market values of certain assets and liabilities, but not others, in earnings.

The net losses through the third quarter and further declines in long-term interest rates in October and November depleted capital sufficiently for management at both Enterprises to take action to conserve capital by selling assets, issuing substantial amounts of preferred stock and reducing the common stock dividend. In 2007, Fannie Mae and Freddie Mac issued $8.9 billion and $8.6 billion, respectively, of preferred stock. In Fannie Mae's case, $1.1 billion of preferred stock was also redeemed during the year. In Freddie Mac's case, $6.5 billion of preferred stock was issued specifically to bolster capital. The remaining portion replaced higher-cost preferred stock or was issued as part of a $1 billion common stock buyback program. In November 2007, Freddie Mac announced its intent to reduce its common stock dividend by 50 percent effective in the fourth quarter of 2007. In December 2007, Fannie Mae announced its intent to reduce its common stock dividend by 30 percent beginning with the first quarter of 2008.

Fair Value Financial Performance

Financial performance measured from a fair value perspective suffered far more than under GAAP. Sharp increases in mortgage defaults and foreclosures elevated investors' fears about the future performance of mortgages and private-label securities backed by mortgages. The fair value of the Enterprises' assets and obligations was significantly affected. Particularly affected were the value of securities backed by subprime and Alt-A loans, the value of seriously delinquent loans repurchased from Enterprise security pools and the value of the Enterprises' "guarantee obligations," the present value of costs of fulfilling their obligations on their MBS guarantees. The fair value of net assets (equity) declined by $7.9 billion at Fannie Mae and by $19.2 billion at Freddie Mac. The fair value of net assets (equity) attributable to common stockholders at Fannie Mae and Freddie Mac declined by $14.2 billion and $25.7 billion, respectively, excluding the preferred issuance mentioned earlier.

Credit Risk

The credit quality of the Enterprises' assets deteriorated during the year, particularly assets purchased in 2006 and 2007, which generally had higher-risk characteristics than assets acquired in prior years, reflecting weaker underwriting standards prevalent in the market.

Indicators of credit performance increased significantly during the year at both Enterprises, driven by the deterioration in the housing market, declines in home prices and overall weakness in the economy, particularly in the Midwest. The single-family serious delinquency rate rose 33 basis points at Fannie Mae to 0.98 percent and 23 basis points at Freddie Mac to 0.65 percent. The credit loss ratio at Fannie Mae (excluding losses related to changes in the fair value of delinquent loans purchased out of trusts) increased from 2.2 basis points the prior year to 5.3 basis points. Freddie Mac's credit loss ratio measured on a similar basis likewise increased from 1.4 basis points in 2006 to 3.0 basis points in 2007.

Interest Rate Risk

Interest rate volatility was high during the year relative to 2006, and some indicators of interest rate risk increased at both Enterprises. Both Enterprises historically disclosed the maximum percentage change in pretax net portfolio market value caused by a 50 basis point change in rates. Significant widening in option-adjusted spreads during the year reduced pretax net portfolio market value significantly at both Enterprises. Starting in December 2007, both Enterprises disclosed the maximum dollar change in pretax portfolio market value caused by a 50 basis point change in rates. For December 2007, Fannie Mae and Freddie Mac estimated decreases in pretax portfolio market value caused by a 50 basis point change in rates of $900 million and $385 million, respectively. The sensitivity of portfolio market value to changes in the level and slope of interest rates increased in the latter part of the year at both Enterprises. Freddie Mac's duration gap stayed at zero months during the year; Fannie Mae's increased to two months in the latter part of the year.

Capital

Each Enterprise's continued high operational risk in 2007 caused OFHEO to continue to require both Enterprises to maintain 30 percent higher core capital than their regulatory minimum capital levels. At year-end, Fannie Mae's core capital of $45.4 billion exceeded its OFHEO-directed capital requirement by $3.9 billion and amounted to a 9.3 percent surplus, whereas Freddie Mac's capital of $37.9 billion exceeded its OFHEO-directed requirement by $3.5 billion and amounted to a 10.0 percent surplus above the OFHEO-directed minimum capital requirements. OFHEO classified both Enterprises as adequately capitalized for all quarters in 2007.

Report of Annual Examination of Fannie Mae (Federal National Mortgage Association)

Examination Authority and Scope

The OFHEO annual examination program assesses Fannie Mae's financial safety and soundness and overall risk management practices. OFHEO uses a "CAMELSO" methodology (Capital Adequacy, Asset Quality, Management, Earnings, Liquidity, Sensitivity to Market Risk and Operations) similar to that adopted by the federal depository institution regulators to report examination results and conclusions to the Board of Directors and to Congress. OFHEO assesses both institutions using standards that are absolute in nature and are not dependent on the relative performance of other financial institutions.

OFHEO's examination activities are risk based, focusing on credit, market and operational risks including those highlighted in the 2006 Consent Order. Consistent with the CAMELSO rating approach, this report covers management including the Board of Directors, Enterprise risk management, internal audit compliance and accounting. It then covers Asset quality and credit risk, Operational risk, Sensitivity to interest rate risk, Liquidity, Earnings and Capital adequacy.

Examination Conclusions

The Enterprise remains a significant supervisory concern.

The Enterprise remains a significant supervisory concern, primarily due to poor financial performance and the quantity of credit risk resulting from the continued market deterioration and its dominant, adverse impact on current and future earnings. During 2007, management achieved several milestones and implemented fundamental satisfactory controls in nearly all areas of the Enterprise. However, several projects are in progress but not yet complete, and many of the improvements are relatively new and require time to ensure sustainability. A critical goal of issuing timely financial statements was achieved with Fannie Mae's issuance of its 2007 financial statement in February 2008.

Financial Performance

Financial results in 2007 were poor. Significant GAAP and fair value losses are linked to the rapid deterioration in credit performance, declines in long-term interest rates and derivative losses. The purchase of loans with weak underwriting, guarantee-fee pricing constraints, house price declines and dislocation in the mortgage markets have adversely affected financial results, flexibility and the overall strength of the Enterprise. Losses reduced capital levels, requiring the Enterprise to issue additional preferred stock, modify risk management and business practices, reduce dividends, control growth and actively manage balance sheet composition. Improved capital planning and income forecasting are necessary to ensure that capital needs are fully assessed and capital levels are maintained at an adequate level.

Asset Quality

The quantity of credit risk was high and increasing. The deterioration of asset quality that began in the second half of 2006 generated significant adverse trends for the Enterprise in 2007. To address deteriorating market conditions, management has made significant changes to better manage credit risk, including tightened underwriting standards, increased pricing, improved practices to control loan losses and decreased servicer exposure. Despite improved practices, losses may significantly increase because of market conditions. Counterparties, which represent a significant exposure to Fannie Mae, may be unable or unwilling to honor obligations should their financial strength continue to decline.

Internal Controls

Management's efforts during 2007 established fundamental controls for nearly all functions and substantially improved the management of performance, risks and operations. Fannie Mae achieved milestones in financial reporting, controls over data, systems and processes, and other major projects demonstrating a proven record of success in planning, prioritizing, monitoring and controlling projects. However, significant time and effort are still needed to complete the numerous remaining projects to improve efficiency and the quality of controls. Controls are often manually intensive, and full correction in some controls cannot be achieved until further progress is made in systems upgrades.

Areas requiring significant effort to complete credit model development, economic capital development, data standardization and architecture, Housing and Community Development (HCD) operations and risk measurement, and strengthened forecasting or scenarios for earnings and strategic planning. Systems issues impact the timeliness and accuracy of some activities and some performance and risk metrics used in reports. Model quality impacts the underwriting and pricing of mortgage loans. Many of these limitations impede the optimization of performance and risk management and generate an expensive control structure. The completion of the process to issue timely financial statements and progress throughout the Enterprise in controls, communication, reporting, staffing, infrastructure, organizational structure, and risk measurement and management has built the foundation for accelerated progress in the future.

Fannie Mae has (1) a qualified and active Board of Directors and a management program that is largely completed; (2) operations with fundamental controls in most areas, but with deficiencies that continue to impact the speed of expansion into new products and some areas of risk and performance management; (3) improved credit risk pricing, underwriting and management but a significant deterioration in asset quality; (4) an interest-rate risk program in the lower range of satisfactory due to systems capacity limitations that impede the daily production of some reports, and an aggressive level of interest rate risk in light of high credit-related losses; (5) satisfactory liquidity management, but the need to set a position floor for high-quality nonmortgage assets; and (6) adequate regulatory capital levels.

Future earnings could be materially impacted by significant credit losses and continued deterioration in credit quality, as well as the volatility and levels of interest rates. Structural and economic issues in the mortgage markets and the Enterprise's goal to expand activities in higher-risk products heighten the importance of developing or completing several systems and credit models, interest-rate risk measurement systems and economic capital models to better quantify risks and performance and strengthen financial performance measurement and attribution analysis.

Matters Requiring Attention

The following key matters highlighted in this report require strong management and Board oversight:

- **Credit Risk Management.** All aspects of credit risk should be proactively and aggressively managed, including: Changes to credit limits, underwriting standards and pricing to control the quality of products and the appropriate compensation for risk; completion of revised front- and back-end analytics, infrastructure and staffing; progress in credit model development, and hiring sufficient staff for model development; effectiveness and operational capacity for controlling loan losses; level of counterparty risk and effectiveness of counterparty risk measurement and exposure mitigation strategies; and adequacy of capital levels and actions in light of high and increasing credit exposure and losses.
- **Financial Performance and Capital Planning.** Strategic plans and actions should be aligned to create a coherent risk profile for the Enterprise in terms of credit, operational, pricing, models, interest rate and capital level risks. Forecasting and scenario analyses must be strengthened for earnings, capital and other areas, and should incorporate a broader range of market events.
- **Risk Oversight Functions.** The significant number of projects to improve or optimize risk and performance measurement, controls, data, reports, efficiency and competitiveness should be completed. The project to measure economic capital, including market (interest rate), credit and operational risks, should be completed in a timely manner.
- **Infrastructure and Internal Controls.** The infrastructure project focusing on internal controls should be completed with sufficient data, information technology policies, controls, models, reports and personnel in place.
- **Public Disclosures.** Public disclosures should clearly communicate significant financial and accounting issues, trends and changes.

Management and Board Supervision

Board of Directors and Management

The Board structure and independence are satisfactory, and members bring the expertise necessary for evaluation and oversight of Fannie Mae's activities. Communication remains satisfactory, with regular and ad hoc management presentations.

The Board continued improvements in its operations during the year through revised policies, strengthened expertise and better reports from and communication with the business units and independent oversight functions. Board activity included an engaged oversight of financial statements published this year, review and approval of policies and strategic plans, monitoring of internal and external audit activities, and policing itself in terms of independence and expertise.

Corporate policies were reviewed and revised on schedule and were largely satisfactory. Many policy components were significantly strengthened, such as the new interest-rate risk limit structure that controls Fannie Mae's specific risk profile. The corporate credit risk and liquidity policies are satisfactory, but are expected to be strengthened in 2008.

Management's supervision program has progressed significantly. Many areas have been satisfactorily or adequately addressed and include implementing controls that are compliant with Sarbanes-Oxley requirements; conducting risk control self assessments in high-risk areas beyond financial statements to assess the risk profiles and identify deficiencies; establishing controls for information technology (IT) processes; and re-engineering or replacing antiquated systems. However, several projects and corrective actions are in varying stages of progress. The correction of data standardization is in an early stage, and the development of some credit models to address recent loan products and market events is lagging. The completion in late 2007 of a process to produce timely financial statements allowed management to shift its emphasis and resources to other critical projects. Remaining issues or deficiencies in the areas of operations, controls, communication and information used in managing risk and performance are in varying stages of completion.

The expertise of management and staff has been significantly improved. Management and many key staff positions have been filled by external hires with strong skills or by moving personnel to positions that better fit their skill sets. However, several staff positions in control and risk management functions are unfilled. Control and risk management deficiencies were often mitigated by efforts from the Chief Risk Officer (CRO) division during early 2007, but were appropriately moved to the strengthened business unit functions by midyear 2007. The number of contractors and personnel was reduced by 28 percent during 2007.

Enterprise Risk Management

The CRO division infrastructure was largely completed during 2007, and remaining issues are in the process of correction. Four separate teams covering credit, market, operational and model validation are staffed with qualified personnel, but two key management vacancies in market risk have remained open for an extended period. Model validation is amply staffed.

The business unit risk officer function was strengthened. Independence in metrics and report was improved, but information and risk measurement independence will not be fully resolved until the CRO division has the ability to run systems and models independently.

The CRO division developed a strong risk oversight function during 2007 and remained a key driver in the improvement of business unit risk controls and management. The CRO demonstrated appropriate authority through active influence over business unit risk levels and practices, policy and limit development, exception reviews, and transaction review and prevention where appropriate. The CRO division appropriately continued its training and assistance for business units to strengthen their controls, reports and risk management. CRO independence significantly improved during 2007. In addition, the development of models and risk measurement methodology for economic capital, including operational risk, has progressed, but is incomplete.

Counterparty risk and oversight of that risk increased significantly during 2007, but the oversight requires further strengthening. The CRO division developed a Comprehensive Plan to measure, monitor and control counterparty risks, and accelerated corrective actions due to deterioration in the credit environment. Limits and reports are in place, and counterparty stress tests and other analysis were strengthened and made consistent with industry standards in the fourth quarter of 2007. Accuracy in the aggregation of risks by counterparty is maintained with a manual process that addresses limitations in the RiskNet application.

Internal Audit

The Internal Audit program continued to improve during 2007. Internal Audit met program goals and deadlines during the year and successfully integrated audit activities with the external auditor. An independent review determined Internal Audit's compliance with industry standards for quality assurance and automated data analysis.

The use of automation in individual audits was increased by 70 percent, which has allowed for larger sample sizes and strengthened independence from business unit analysis and reports. Summary reports for the Board and management satisfactorily highlight issues and root causes. Audits in 2007 appropriately focused on controls in business processes. The external auditor relied on several internal audits in 2007 and has identified many audits for potential reliance in 2008.

Compliance

The Compliance and Ethics division (C&E) made substantial progress in building its organizational structure and initiating programs to meet its function. C&E includes the following groups: Enterprise Compliance, Ethics, Investigations, Anti-fraud and Privacy, and Regulatory Affairs. Compliance with the May 23, 2006, Consent Order remained one of Fannie Mae's highest priorities. The established Program Management Office within the C&E continued to ensure coordination and consistent execution of remediation and reporting efforts.

Major accomplishments within C&E included the redesign of the Enterprise Compliance

Program to apply a risk-based approach. Compliance Risk Assessments were completed for the Capital Markets, Housing and Community Development and Single-Family businesses. A Chief Privacy Officer was appointed and a privacy strategic program plan was established. An Enterprise anti-fraud framework was established to assist the businesses in assessing and addressing fraud risk. Investigations implemented a new case management system, which eliminated the case backlogs. As mandated in the Consent Order, the Corporate Policies and Procedures Repository was established to provide employees, contractors and regulators with access to all Fannie Mae-approved policies, standards, procedures, guidelines and supporting documentation.

Accounting

During 2007, the Enterprise responded to accounting challenges, including material weaknesses in disclosure and financial reporting controls, timely filing of financial reports with the SEC, the issuance of new accounting standards by the Financial Accounting Standards Board and deteriorating credit markets. Fannie Mae management generally met these challenges well during the year.

OFHEO's assessment of Fannie Mae's work in the accounting area is ongoing. OFHEO is developing accounting guidance, especially for the new standards including fair value, which are designed to encourage consistent, transparent and economically faithful reporting.

Significant issues which OFHEO has been reviewing are:

Reported Material Weaknesses. In its 2006 annual report filed on Form 10K, management reported that the Enterprise did not maintain effective internal control over financial reporting as of December 31, 2006. Fannie Mae reported in its 2007 annual report that its material weaknesses had been remediated. During 2008, OFHEO will evaluate the Enterprise's remediation efforts. Also during 2008, OFHEO will review the significant progress made by the Enterprise in implementing Section 404 of the Sarbanes-Oxley Act.

SEC Registration and Reporting. Fannie Mae, a SEC registrant, is now current on the filing of its financial statements with the filing in November of third quarter reports on Form 10Q and its 2007 annual report on Form 10K with the SEC in February 2008. Going forward, OFHEO will continue to monitor improvement of Fannie Mae's accounting and disclosure infrastructure, which supports the timely filing of the Enterprise's financial statements.

Accounting Policies. Fannie Mae's management has completed an evaluation of the Enterprise's accounting policies and has provided OFHEO with most of the supporting documents responsive to the requirements of OFHEO's *Accounting Guidance*. To assess Fannie Mae's design and implementation of its accounting policies, OFHEO performed several targeted reviews during the year, including securities, which have become impaired in value (FAS 115); the fair value option (FAS 159); and credit loss reserves (FAS 5).

Impaired Securities Accounting. In OFHEO's review of the Enterprise's accounting policy on impairments, OFHEO concluded that the policy was in accord with the applicable GAAP requirements. Also, OFHEO reviewed the implementation of the Enterprise's impairment accounting policy and concluded that the Enterprise had properly and faithfully implemented it. In light of the current conditions in the credit markets, OFHEO will continue to monitor the Enterprise's implementation of its impairment accounting policies in the coming year.

Fair Value Option Implementation. OFHEO reviewed the Enterprise's implementation of FAS 159, *The Fair Value Option for Financial Assets and Financial Liabilities.* Preliminary conclusions are that the Enterprise has documented its election appropriately, although the accounting policy to implement the new standard needs to be fleshed out with more guidance for the line accounting staff. During 2008 OFHEO will review the policies developed for the ongoing application of the standard. Fannie Mae elected fair value accounting for only approximately 6.4 percent of its assets, in addition to the 7.2 percent in its trading portfolio. A broader election may be possible and beneficial.

Reserves for Credit Losses. OFHEO began a review of the Enterprise's approach to the calculation of its reserves for credit losses. OFHEO has been generally satisfied that Fannie Mae's application of the standard is providing adequate reserves and related loss recognition. OFHEO will continue to study the reserve computations of the Enterprises as the credit situation continues to evolve during 2008.

Asset Quality and Credit Risk Management

The quantity of credit risk is high and increasing. The deterioration of asset credit quality generated significant adverse trends for the Enterprise in 2007, which may continue in 2008. During the past several years, Fannie Mae relaxed its underwriting standards, but not as much as many other market players. Many of the recent credit losses resulted from these relaxed underwriting standards. To address deteriorating market conditions, management has made significant changes to better manage credit risk, including tightened underwriting standards, increased pricing, improved loss control practices and decreased exposure to distressed servicers. Key challenges to address in 2008 are helping to reduce foreclosures, disposing of Real Estate Owned (REO) and managing exposures to services and mortgage insurers.

Single-Family Business

Loans booked in the last few years have shown relatively unchanged profile characteristics in terms of FICO®, loan-to-value, and level of credit enhancement. However, Fannie Mae increased its exposure to nontraditional mortgages and risk layering. Asset credit quality deterioration in the Single-Family (SF) business accelerated during the second half of 2007, with losses exacerbated by both higher volume and loss severity in defaulted loans. In response, management increased the combined allowance for single-family loan losses and reserves for guarantee losses to $3.3 billion at year-end 2007, with a $2.8 billion provision in the fourth quarter of 2007. The serious delinquency rate was 0.98 percent at year-end 2007 versus 0.65 percent at year-end 2006, an increase of 51 percent. REO increased 34 percent during 2007. Realized losses in 2007 were $644 million or 1.4 percent of core capital, a 63 percent increase over 2006 at $394 million or 0.9 percent.

In 2007, changes to existing underwriting standards for nontraditional mortgage and subprime products were made to address OFHEO's directive. Single-Family also developed HomeStay, which helped distressed borrowers through initiatives such as loan modifications and credit counseling. Underwriting standards were tightened and guarantee and other fees were increased for specific higher-risk loans as well as all loans guaranteed by SF, but several of these increases did not become effective until March 2008.

SF made significant progress during 2007, with improvements noted in many risk management functions. SF's build-out out of the risk management structure is nearly complete but needs additional time to fully implement. Deficiencies continue in such areas as model development, reports and staffing in some areas of credit loss management. However, most projects are largely complete, with nearly all scheduled for completion before year-end 2008. Management implemented a comprehensive business transformation strategy in the first quarter of 2007, which focused on strengthening the risk management framework in such areas as reports, risk measurement, policy and limits, delegations of authority, and operational efficiency and controls.

Housing and Community Development—Multifamily Business

The multifamily portfolio continued to be strong in 2007 with a low and stable delinquency rate at 0.08 percent of the total portfolio. Credit-related expenses were $9 million or 0.02 percent of capital, compared to $5 million or 0.012 percent during 2006.

Deficiencies or inefficiencies in HCD stem from fragmented systems and manual processes, as well as issues in risk identification, measurement, management and controls, which are being satisfactorily addressed in pending projects. Data accuracy relies on a manually intensive process that reconciles data among numerous single-purpose systems. This process is repeatable, and meets the fundamental requirements necessary to conduct business. Issues outstanding at year-end 2007:

- Fundamental controls are in place for systems and data quality which meet Sarbanes-Oxley requirements and reports now provide information needed to adequately manage performance and activities, but require strengthening in other areas.
- Systems and tools used to link risk and pricing are deficient, requiring a higher level of judgment in pricing.
- The Credit Review function was significantly improved but remains incomplete and understaffed. The revised *Delegated Underwriting and Services Guide* was introduced before Credit Review was fully implemented.

- HCD made significant progress in addressing deficiencies in technology, controls, reports, credit review, asset management and risk rating of loans, with several milestones achieved by year-end 2007. However, significant efforts will be needed to fully address all issues and inefficiencies. The CRO division, HCD management, and a dedicated information technology (IT) project manager coordinated to establish controls and implement a program to address deficiencies in risk ratings, and quality control over both underwriting and credit loss management.

Retained Mortgage Portfolios

In the retained portfolio, asset quality is satisfactory and improving. Product default losses are controlled by collateral, insurance and/or first loss coverage. Losses from impaired value totaled about $890 million and were predominantly from manufactured housing securities. All private-label-securities (PLS) were rated AAA at origination except for a small (0.5 percent) pilot program that started and ended in 2007. Traditional single-family fixed-rate mortgages and securities collateralized by them represent about 44 percent of the portfolio. Fixed-rate product represents about 70 percent, with the remainder composed of ARMs, floaters, hybrids, and multifamily product subprime and Atl-A. PLS and CMBS are about 13 percent of the portfolio and are mostly comprised of floating-rate product. About 40 percent of the Enterprise's portfolio is its own or Freddie Mac MBS.

Systems enhancements during 2007 improved management's ability to analyze and proactively manage the portfolio. Weekly and daily reports now contain significantly more granularity and provide data on product subsectors of the portfolio. However, accounting and operational constraints impede active management of whole loans, potentially impacting return optimization. Although some improvements were made to the Portfolio Pooling System (PPS), there are still portions of the whole loan portfolio that cannot be readily securitized due to remaining system constraints. Changes to PPS are in progress to improve its securitization capabilities during 2008.

PLS management has improved significantly with revised policies, pre- and post-purchase analytics and timely management reports. However, 20 percent of the PLS purchased from the beginning of 2006 through midyear 2007 did not comply with policy concerning unapproved or terminated counterparties, indicating a control deficiency.

Enterprise Counterparties

Risk from counterparties and counterparty concentration represent a significant exposure to the Enterprise. Risks from servicers and mortgage and bond insurers increased because of recent market events that have contributed to bankruptcies for some industry players and an overall deterioration of counterparty financial strength. The top 10 servicers processed 74 percent of the single-family mortgage credit book of business at year-end 2007. Mortgage insurers also represent a significant level of counterparty risk to the Enterprise and are facing financial difficulties.

Counterparty risk management significantly improved during 2007, with many projects accelerated in late 2007 to help address increased exposure from recent market events. Best practices were implemented for several troubled counterparties in response to the mortgage crisis. The Chief Risk Officer (CRO) division expects to implement many of these same risk mitigant controls and techniques for all counterparties over time. The counterparty risk management function was centralized in the CRO division, consolidating the review and approval process and eliminating the previous fragmentation of separate approvals within each business unit.

Counterparty management deficiencies are centered in risk measurement and aggregation, deficient staff levels and risk management controls that will take time to fully develop and implement. The CRO division developed but has not yet fully implemented its plan to measure, monitor and control counterparty risks.

The new counterparty risk management program includes regular financial statement analysis, on-site visits and stress tests with scenarios more conservative than those used by rating companies. In addition, new controls reduce exposure to distressed servicers through collateral and/or frequent collection of mortgage payments, servicer commitments to accept loan processing transferred from distressed servicers and the reduction of as-soon-as-pooled funding in the latter part of 2007. Although collection of losses on loans covered by "reps and warrants" contracts has improved, this area represents a potentially increasing servicer exposure should the financial strength of some servicers deteriorate further.

Operations and Operational Risk Management

During 2007, management built an effective infrastructure approach to implement or strengthen controls. Controls were significantly improved, achieving by year-end 2007 adequate controls over operations processes, IT and data used in financial statements and many areas in capital markets. Data assessments completed by the Enterprise and a consultant indicate that overall data quality and controls are adequate. These efforts were completed in late 2007, but OFHEO could not verify this before year-end 2007. Many controls remain manually intensive and generate a higher potential for error, but prevented excessive problems or losses during 2007. New controls implemented during 2007 for such areas as financial statements and improved automation for some systems have been shown to be reliable for up to two quarters, but need additional time before sustainability is proven.

The strength of internal controls ranges from satisfactory to adequate. During 2007, management made substantial progress in addressing internal controls and other operational weaknesses. Some controls are manual but achieved management's objectives, as validated by testing for Sarbanes-Oxley requirements and other monitoring programs. Controls are generally satisfactory for processes with little dependence on systems. However, controls that rely on systems or automation are sometimes less than optimal. Many of the work-around solutions are successful but are redundant and/or require many people to complete processes. Operational controls and efficiencies should improve over the next two years as systems are revised or replaced.

[M]anagement made substantial progress in addressing internal controls and other operational weaknesses.

Major areas of improvement or accomplishments include:

- Management demonstrated its ability to successfully plan, monitor, control, and complete a high volume of large and complex projects or initiatives.
- The Restatement, Catch Up and Get Current projects were satisfactorily controlled and completed, using end-to-end work streams and strong project management. Completion of financial records met the monthly 11-day close deadline without significant difficulties during the fourth quarter of 2007. The integration of Get Current and production operations and databases was successfully completed.
- The Sarbanes-Oxley review is not complete, but areas reviewed indicate that controls for the financial statements are satisfactory but inefficient. The failure rate in such testing is less than five percent, which is consistent with Sarbanes-Oxley compliant companies.

Information Technology

Technology established an effective organizational structure and governance program that implemented Information Technology (IT) controls and provided a foundation for further improvements in controls, efficiency and value. Plans were prioritized and standardized and addressed necessary application and systems changes through 2010. These changes will correct recognized deficiencies in an inflexible and expensive architecture, which includes silo applications, poor system integration, obsolete technology and an overreliance on end user computing applications. Dedicated project managers coordinated with business units to ensure that projects remained on track and met business requirements. The IT Executive Board, comprised of executive management from the business units, provides centralized prioritization and approval of all major expenditures in IT and other projects Enterprise-wide. Resources remained strained throughout 2007 due to the cumulative effect of maintaining normal business operations while completing financial statement remediation and addressing operational deficiencies.

Technology successfully remediated internal control weaknesses, reduced the cost and complexity of the technology environment, and improved financial and operational discipline. Major multi-year initiatives are underway to re-engineer or replace several legacy applications, and streamline the technology infrastructure. Eight of the top 10 remediation initiatives are on track, with delays in two caused by additional work needed to complete projects for the timely filing of financial statements by year-end 2007.

Legacy applications provide stable performance for traditional loan products and portfolio transactions, but adversely affect the content and timeliness of performance and risk management information in nontraditional areas. The IT infrastructure remains complex but now provides satisfactory reliability, as no major operational incidents or IT outages occurred during 2007. Pervasive access control issues were remediated by third quarter 2007. Adequate controls over IT are in place, and will improve over the next few years as systems are revised or replaced. Operational effectiveness is monitored through monthly metrics reports.

Business continuity and crisis management are well-controlled. Recovery plans satisfactorily address redundant data, systems and locations. A tertiary site is out of region and meets the more stringent industry standards established after September 11, 2001.

Data

Enterprise Data established a comprehensive data governance and management framework and addressed data issues for financial statements with the implementation of the Accounting Data Warehouse. In addition, data quality improvements were made to support Capital Markets risk management with the build-out of the Financial Data Warehouse and the Portfolio Data Service, which supports the Total Return Infrastructure. Efforts appropriately focused on ensuring that data used in financial statements and interest-rate risk management were accurate, complete and timely. Projects supporting remediation of data issues in other areas of the company are in the early stages.

Enterprise Data completed the first phase of an Enterprise-wide critical data inventory and quality assessment. Work to date indicates that the majority of the data meets the needs of the business and trusted sources contain sufficient critical data needed for the operation of the business. However, numerous unintegrated databases are in use throughout the Enterprise. In many cases, significant resources are needed to manually reconcile related data in multiple databases to ensure consistency and reasonable accuracy in the numbers used to manage risk, performance and operations. Enterprise Data has launched a multiyear project to set data standards and consolidate data in fewer databases.

Internal Controls

Operations has established an effective infrastructure and completed much of the program to identify, control, monitor and report operations risks. Adequate controls have been implemented over most processes. These controls are the best possible in the current systems environment, but cannot fully mitigate risks until key systems and applications re-engineering or replacement is complete. Controls are better in Capital Markets Operations, but of lower quality in operations overseeing Housing and Community Development and Single-Family operations. Management recognizes deficiencies in mortgage-backed security trust compliance and expects to begin corrective actions during 2008. Pricing methodology improvements for use in financial statements met 2007 goals, with efforts to provide real-time pricing continuing into 2008. Final prices for financial reporting are verified by Independent Price Verification, with disputes resolved by the Chief Financial Officer. There were no disputes in 2007.

Inherent model risk increased significantly during 2007 as a result of deterioration in the credit and housing markets.

Model Risk

Model risk increased significantly during 2007 as a result of deterioration in the credit and housing markets, which rapidly changed conditions and increased uncertainty in projections made by credit and prepayment models. The changes in conditions have increased the potential for error in key model results for credit risk and pricing as well as other metrics. These potential errors could impact decisions in managing credit and interest rate risk, which could further decrease earnings.

Fannie Mae's model development group, Business Analytics and Decisions, appropriately focused resources on developing financial reporting models for the Get Current project. However, the resource focus on financial reporting models coupled with continued vacancies of critical staff caused delays in the development and implementation of production models that represent high to moderate risk.

The model risk management program significantly improved during 2007. The control structure is well designed, and full implementation of the program is nearly complete, with only minor program deficiencies remaining. However, revisions of some models used for credit risk pricing guarantee fees and performance were delayed. Model revisions are expected to accelerate in 2008 once staffing is increased and developers released from the Get Current project return to work on production models.

Sensitivity to Interest Rate Risk

The overall program for interest rate risk (IR Risk) is in the low range of satisfactory. Risk management activities, reports and communication are satisfactory. However, the risk management strategy, exposure levels and some limits are aggressive in light of higher and increasing credit-related losses. Interim milestones in systems and data upgrades achieved during 2007 significantly improved the accuracy of IR Risk measurement, increasing the accuracy of management decisions in controlling IR Risk. However, Capital Markets uses a risk measurement system with capacity issues that impede the consistent daily production of the significantly increased number of scenarios that management and the CRO division desire.

The portfolios and related funding unhedged by derivatives represent a high level of risk. Hedged interest rate risk is moderate in terms of capital exposure but represents a potentially significant impact to already depressed earnings. In addition, the widened spread between the fair value of assets and liabilities had relatively little impact on actual cash flows during 2007 but significantly reduced the net fair value of the Enterprise.

The reliance on delta hedging and the level of the convexity limit can contribute to a potentially higher level of volatility in both economic and GAAP earnings. Delta hedging is used to hedge the portfolio's duration and convexity through the active purchase and sale of swaps in an attempt to replicate the performance of swaptions. This reliance could require access to significant amounts of swaps during a period of major market stress that could impede rebalancing efforts.

Management appropriately measures the IR Risk from the retained portfolios and funding, but does not include IR Risk for the entire Enterprise within its regular, internal IR Risk management reporting process. The current measurement covers the retained portfolios and related funding but does not include the cash flows from the guarantee fee business or expenses. The integration of all accounts would allow management and the Board to understand the full impact of IR Risk to economic earnings and capital. Improvements to models, data and assumptions implemented near the end of 2007 significantly improved the accuracy of IR Risk measurement, increasing the effectiveness of management decisions in controlling IR Risk.

The Board and management policy limits provide a comprehensive risk control structure. In 2007, the Board approved the Market Risk Limit policy that defines responsibilities and provides a set of limit types that satisfactorily control and communicate Fannie Mae's IR Risk profile. The Board limit structure provides limits for Value-at-Risk convexity, spread sensitivity and market value of equity sensitivity to larger rate shocks. The management policy has sublimits for each of the Board limits. In addition, management policy has five additional limits to formally control the components of IR Risk. The Chief Risk Officer division revised management's market risk policy in late 2007 to better address roles and responsibilities, and escalation practices when limits are exceeded.

Management continues a program of satisfactory risk management practices, and communication of IR Risk. Risk is controlled and communicated through daily or weekly meetings with management and risk committees. Board and management reports provide an effective portrayal of the risk profile for major sources of IR Risk by showing limit compliance, scenario analysis, and other risk information. Management's analysis, awareness and communication of risks were strengthened in late 2007 when risk measurement accuracy improved and variances between daily risk measurements became more traceable.

Liquidity

Liquidity risk is low due to satisfactory asset liquidity relative to net cash needs and effective management. Fannie Mae is further enhancing policy, reports and operations to strengthen controls and communication. Liquidity is satisfactorily managed, with liquidity issues appropriately escalated through key management, the Chief Risk Officer and committees on the basis of set triggers. Revised corporate policies and corporate-level liquidity risk limits were approved in early 2007. The policies and limits provide guidance for responsibilities, short-term funding, credit quality standards for Liquid Investment Portfolio (LIP) securities and the use of a severe scenario, which assumes no new debt issuance for 90 days.

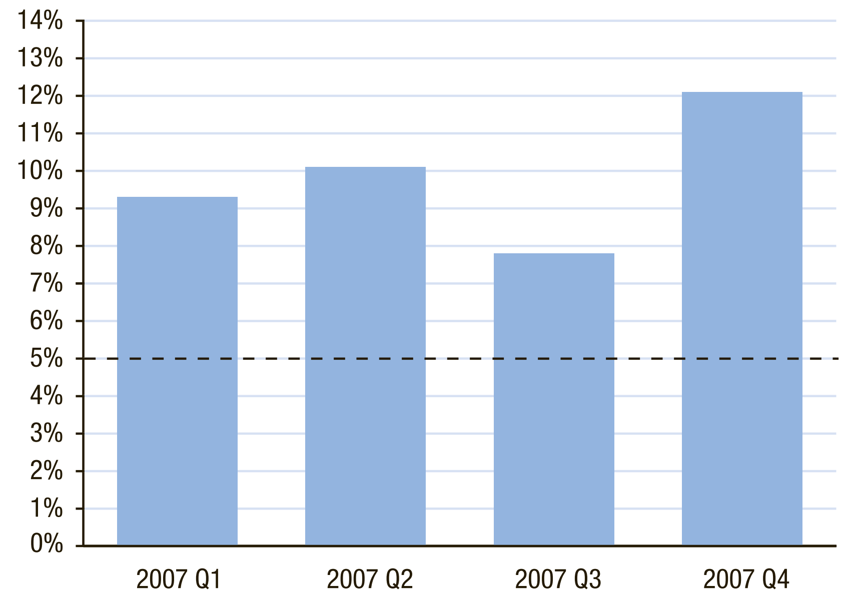
The LIP and the more liquid securities in the retained mortgage portfolio provide sufficient coverage of the Enterprise's net cash needs within 90 days at about 1.3 times at year-end 2007 using conservative values for the securities. However, coverage from assets that quickly generate funds during stress events declined for the year ending December 31, 2007. Agency mortgage-backed securities readily accepted by the market for sale or repo during stress events declined during 2007, while less liquid securities and whole loans increased.

Size

The LIP was primarily comprised of bank deposits, with longer-term securities comprised of corporate and asset-backed securities in late 2007. At year-end 2007, 62 percent, or $57.8 billion, of the LIP consisted of high-quality, short-term securities with a rating of P-1. The remaining $35.6 billion represent 21 percent AAA, 7 percent AA and 10 percent A-rated securities in the total portfolio.

Chart 9

Fannie Mae Liquid Assets as a Percentage of Total Assets



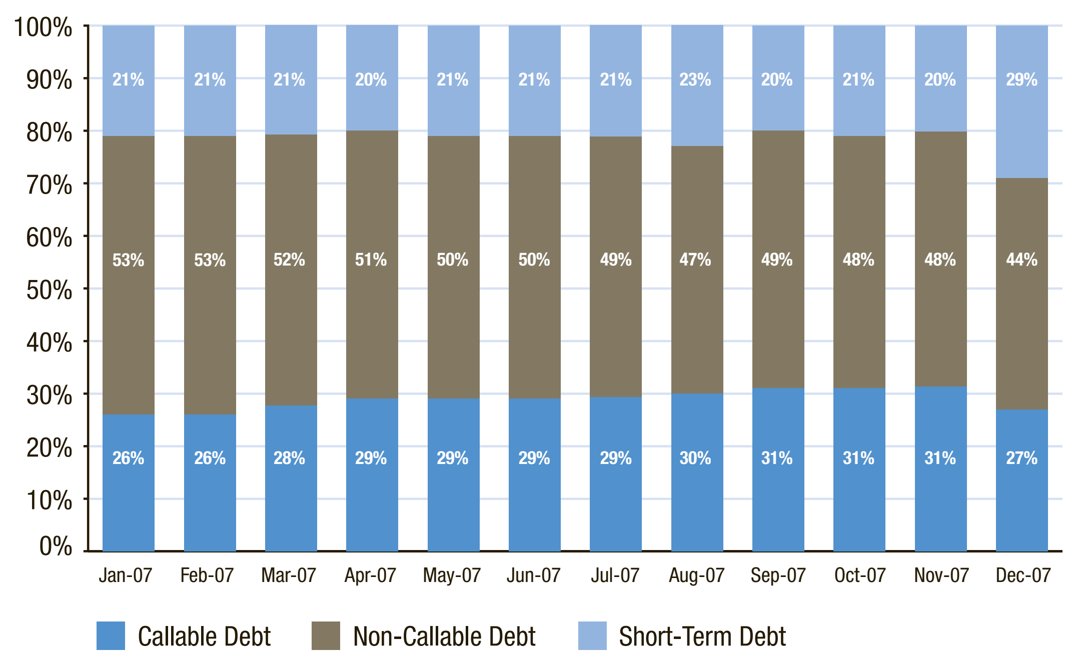
Source: Fannie Mae

Credit Quality

The LIP provided at least two weeks' coverage of 90-day net cash flows throughout 2007, and remained above five percent of portfolio assets except for a few weeks near year-end. However, the outstanding balances in the LIP varied significantly. Assets in the LIP declined 57 percent from August 2007 to slightly below the five percent at $35 billion ($5 billion in short-term securities, $30 billion in long-term) in November 2007, but increased to $93 billion by year-end (Chart 9).

Chart 10

Fannie Mae Funding Composition



Source: Fannie Mae

Debt composition was stable through the year until the fourth quarter of 2007, when rates decreased significantly and Fannie Mae exercised its calls on callable debt. This long-term debt was replaced by short-term discount notes. Discount notes outstanding that mature in less than 12 months also increased as excess capital was deployed in the LIP in December (Chart 10).

Earnings

Financial performance was poor in 2007. A confluence of market and Enterprise-specific factors—deterioration in the housing and credit markets, substantial declines in interest rates in the second half of the year and replacement of lower-cost maturing debt—resulted in Fannie Mae reporting a GAAP net loss of $2.1 billion. Fannie Mae had not reported an annual net loss since 1985.

Pretax income declined by $9.3 billion from 2006 as a result of substantially higher credit-related expenses, higher losses on derivatives and lower net interest income, partially offset by higher guarantee fees and lower administrative expenses.

- Credit-related expenses and valuation losses increased by $5.2 billion as follows (Chart 11): Provisions for credit losses increased $2.8 billion (excluding fair value losses on delinquent loans purchased out of trusts), driven by higher reserves for loan losses and higher net charge-offs from overall weakness in the housing markets; unprecedented mark-to-market losses on delinquent loans purchased out of trusts were $1.4 billion (Statement of Position [SOP] 03-3 fair value losses), driven by substantial declines in market prices for such loans; losses on credit guarantee contracts increased $1.0 billion, driven by higher expectations of future default costs; and Real Estate Owned (REO) foreclosure expenses increased $0.3 billion, driven by higher REO volumes and declining sales prices on foreclosed properties.

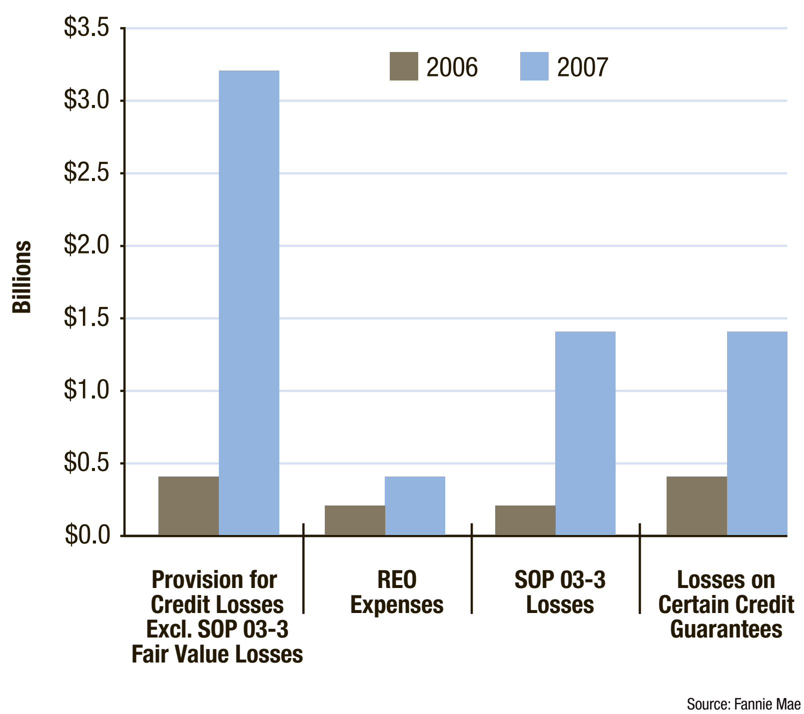


Chart 11

Fannie Mae Credit-Related Expenses and Valuation Losses

- Losses on derivatives increased by $2.6 billion as the impact of declines in interest rates was reflected in lower market values for the derivatives portfolio. Potentially offsetting changes in the value of assets and debt are generally not recognized under GAAP unless fair valued under FAS 159 or hedge accounting is applied.
- Net interest income decreased by $2.2 billion, reflecting the impact of short-term liability rollover and maturing long-term debt being replaced by higher-cost debt.
- Guarantee fee income increased by $0.8 billion, driven by strong growth in the volume of MBS and guarantees of 15.2 percent, and an increase in the average effective guarantee fee rate.
- Administrative expenses decreased by $0.4 billion, driven by reductions in staffing and consulting expenses.

Fannie Mae hit a milestone by returning to current quarterly financial reporting for the first time since the second quarter of 2004.

The net loss in the third quarter and further declines in October and November depleted capital sufficiently for management to take action by selling assets, issuing preferred stock, reducing the common stock dividend and implementing other changes to business practices to reduce losses and expenses.

Fair Value Financial Performance

Financial performance measured from a fair value perspective also suffered considerably. Despite raising a net $7.8 billion in preferred stock, the fair value of net assets declined by $7.9 billion to $35.8 billion in 2007, as substantial increases in option-adjusted spreads reduced the value of mortgage assets, and weakening in the housing and credit markets increased expectations of future default costs. The fair value of net assets attributable to common stockholders declined by $14.3 billion to $20.4 billion.

Capital

OFHEO 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. In 2007, Fannie Mae remained subject to an OFHEO-directed capital requirement imposed by the formal Agreement of September 2004, of a 30 percent surplus over the statutory minimum requirement. That requirement was met throughout 2007.

OFHEO classified Fannie Mae as adequately capitalized for year-end 2006 and for all four quarters in 2007. Fannie Mae's capital classifications are consistent with publicly disclosed financial data through the fourth quarter of 2007. As of the third quarter of 2007, Fannie Mae hit a milestone by returning to current quarterly financial reporting for the first time since the second quarter of 2004. The capital classifications, unlike those cited in the 2006 Report of Examination, are no longer based upon estimates provided by management but on publicly certified financial statements. While OFHEO classified Fannie Mae as adequately capitalized during these periods, and risk to capital increased dramatically during 2007, primarily because of market and credit risks, which directly impacted capital through reduced current and future earnings.

Fannie Mae's core capital surplus as a percentage of the OFHEO-directed requirement declined through 2007, with the most significant declines occurring during the latter half of the year. This decline, a result of market and credit-related losses, led the Enterprise to take aggressive steps during the third and fourth quarters to issue $1 billion and $7.9 billion, respectively, in preferred stock to ensure ongoing capital adequacy. Growth in MBS during the year also impacted the capital requirement. Additional capital actions included a 30 percent reduction of the common stock dividends. The OFHEO-directed capital surplus over the OFHEO-directed capital requirement at year-end 2007 equaled 9.3 percent, versus 9.9 percent at year-end 2006.

Chart 12 shows Fannie Mae's core capital surplus over the OFHEO-directed requirement during the last five quarters. Prior to the issuance of the preferred stock in December 2007, the surplus fell from its $3.8 billion peak (9.9 percent) in the fourth quarter of 2006 to $2.3 billion (5.9 percent) as of September 30, 2007. Prudently, Fannie Mae took action to significantly increase its capital base in the fourth quarter of 2007. As a result, in December 2007, capital exceeded the statutory minimum requirement by $13.5 billion.

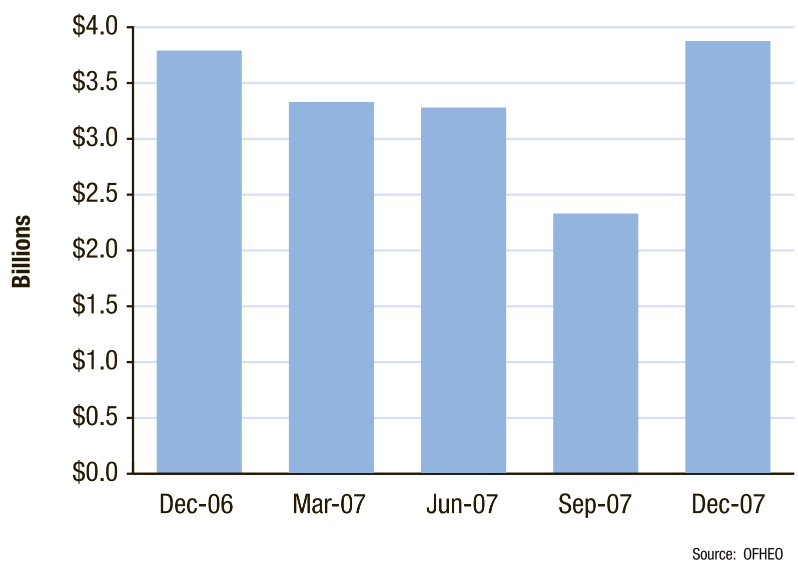


Chart 12

Fannie Mae's Core Capital Surplus

During 2007, Fannie Mae's risk-based capital (RBC) requirement was not the binding factor used by OFHEO for the quarterly capital classifications (Table 1). The RBC requirement fluctuated during the year but ended higher in the third and fourth quarters, primarily because of rising credit losses projected by the RBC model. Fannie Mae needs to develop a more effective approach for measuring economic capital.

Table 1

Fannie Mae RBC Requirements in 2007 (Billions)

	1Q	2Q	3Q	4Q
Total Capital	$42.6	$43.6	$43.1	$48.7
Requirement	$20.5	$10.2	$24.7	$24.7
Surplus	$22.1	$33.3	$18.4	$24.0

Improvements occurred during 2007 in the quarterly Capital Plan. Management increased the detail within the plan regarding stock issuance and dividend payout strategies, more thoroughly incorporating additional capital metrics, which include excess capital based upon the regulatory requirements, GAAP capital, and capital management and corporate governance processes. Continued attention to income projections, realistic stress scenarios and the accuracy and reliability of the projections is necessary in order to ensure timely and prudent capital actions.

Report of Annual Examination of Freddie Mac (Federal Home Loan Mortgage Corporation)

Examination Authority and Scope

This Report of Examination contains the results and conclusions of OFHEO's 2007 annual examination of the Federal Home Loan Mortgage Corporation (Freddie Mac) 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 uses a CAMELSO methodology similar to that adopted by the federal depository institution regulators to report examination results and conclusions to the Board of Directors and to Congress.

OFHEO's examination activities are risk based, focusing on credit, market and operational risks, including those highlighted in the 2003 Consent Order. Consistent with the CAMELSO rating approach, this report covers management including the Board of Directors, Enterprise risk management, internal audit and accounting. It then covers Asset quality and credit risk, Operational risk, Sensitivity to interest rate risk, Liquidity, Earnings and Capital adequacy.

The Enterprise remains a significant supervisory concern.

Examination Conclusions

The Enterprise remains a significant supervisory concern due to poor financial performance, deteriorating credit quality and internal control weaknesses. Concerted efforts by the Board and management will be necessary to improve financial performance, mitigate credit weaknesses and complete the internal controls remediation effort. Capital planning, enhancing credit governance and strengthening systems capabilities deserve continued Board and management attention. A critical goal of issuing timely financial statements was achieved with Freddie Mac's issuance of 2007 financial statement in February 2008.

Financial Performance

Financial results in 2007 were poor. Significant GAAP and fair value losses are linked to the rapid deterioration in credit performance, declines in long-term interest rates and derivative losses. The purchase of loans with weak underwriting, guarantee-fee pricing constraints, house price declines and dislocation in the mortgage markets have impacted financial results, flexibility and the overall strength of the Enterprise. Losses reduced capital levels, requiring the Enterprise to issue additional preferred stock, modify risk management and business practices, reduce dividends, control growth and actively manage balance sheet composition. Improved capital planning and income forecasting are necessary to ensure that capital needs are fully assessed and capital levels are maintained at an adequate level.

Asset Quality

Asset quality has deteriorated and overall credit risk has increased. Deterioration in credit quality reflects both market developments and management's strategic decision to purchase and guarantee certain single-family mortgages originated in 2006 and 2007 with higher-risk characteristics. In addition, mortgage credit declines resulted in substantial deterioration in the fair value of the subprime and Alt-A and AAA securities portfolios. Counterparty credit risk has increased. Management information systems have not kept pace with the deterioration in credit quality. Credit management responsibilities and accountabilities can be defined more clearly within the Enterprise risk management function and the business area governance structure. Designation of an Enterprise-wide Chief Credit Officer is recommended to ensure that an executive has direct authority and responsibility for the credit strategy and credit results of the Enterprise. Improved credit pricing and underwriting practices are being implemented.

Internal Controls

Internal controls are not fully effective. While tangible progress has been made during 2007 to remediate internal control weaknesses related to financial reporting, continued efforts are necessary. Control improvements require testing and validation to evidence full effectiveness and sustainability. The Enterprise returned to quarterly financial reporting and is commencing the registration process with the Securities and Exchange Commission (SEC).

Freddie Mac has (1) a qualified and active Board of Directors (the Board); (2) a senior management team that needs to be expanded as it resolves internal controls weaknesses, returns to timely financial reporting and must now address deteriorating credit quality, and (3) effective management of interest rate and liquidity risks. It has met mandatory target capital surplus in all but one month of 2007. During 2007, efforts to improve the risk management capabilities across the Enterprise continued. Near-term earnings prospects remain under significant pressure due to the deterioration in credit markets. Structural and economic issues in the mortgage markets continue to heighten the importance of further developing economic capital measures to better quantify risks and assess financial performance returns. Recognizing the importance of preserving capital in such an environment, management decisions over stock repurchases, dividends, investment, financing and accounting policies still should be focused on business fundamentals and economic risk-adjusted returns.

Matters Requiring Attention

The following key matters highlighted in this report require strong management and Board oversight:

- **Financial performance, analytics and metrics.** Enterprise priorities, business practices and risk management functions should be properly aligned. Enterprise plans and strategies supported by realistic earnings projections, capital projections and effective risk management practices require continued attention.
- **Credit risk management.** Oversight of credit quality and portfolio trends should be strengthened, including monitoring underwriting and pricing changes and enhancing portfolio management practices. Forming an Enterprise credit committee and appointing a Chief Credit Officer would enhance the credit governance structure.
- **Internal controls.** Management should continue its progress toward remediating 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.
- **Risk oversight functions.** The Board must continue to support risk and control oversight functions and the implementation of the risk control self-assessment process. Enterprise Risk Management should complete the project to measure economic capital.
- **Governance.** The Board must fill open Board vacancies, ensure that proper succession plans are in place, fill the roles of chief executive officer (CEO) and chief operating officer, and separate the chairman and CEO positions. It must also ensure that SEC registration takes place as planned and that public disclosures are comprehensive and clear.

Management and Board Supervision

Board of Directors and Management

The Board is aware of its oversight responsibilities and has appropriate access to management and independent advisors. The Board meets regularly in accordance with the New York Stock Exchange listing standards and OFHEO's corporate governance regulations. OFHEO met with the Freddie Mac Board twice during the year and several times with Board Committees. The Board's committee structure is aligned with key business and risk areas. With the exception of the chairman and CEO, all current directors are independent. Term limits and age restrictions are in effect. The Board currently operates with 11 directors, 2 fewer than its Charter mandate of 13. During 2008 and 2009 there will be additional planned turnover on the Board, including the lead director and a committee chair.

The Board has been slow to fill the vacancy created by the departure of the former president and chief operating officer (announced May 1, 2007) and to separate the chairman and CEO positions as required in the Consent agreement of December 9, 2003. In addition, there is a lack of sufficient executive management depth in certain areas of the organization. A succession plan, developed by management and presented to the Board during the second half of 2007, has appropriately identified the need to focus continued attention on developing leadership skills and increasing executive management depth. Management should implement the plan.

The deterioration in overall credit has stressed the existing credit governance structure. The implementation of an Enterprise credit committee and designation of a Chief Credit Officer responsible for the Enterprise's credit strategy and credit results would augment and strengthen the credit governance structure.

The Enterprise has made considerable progress over the past two years in reducing voluntary attrition. Voluntary staff turnover has declined year over year. Turnover in the one- to three-year levels has improved, although it remains higher than desired in areas such as Finance, Internal Audit and parts of Operations and Technology. Reliance on consultants and contingent workers has been reduced, enhanced controls around the job posting process have been instituted and an employee headcount cap was put in place in mid-August 2007. These measures should help control overall staff-related costs that began in 2004. The Employee Performance Management process has been revamped with an emphasis on pay-for-performance and risk management accountability objectives.

Enterprise Risk Management

The Enterprise risk framework includes the Board's Governance, Nominating and Risk Oversight Committee (GNROC) and other relevant committees, the Enterprise Risk Management Committee (ERMC) and the Enterprise Risk Oversight (ERO) group. The GNROC provides risk oversight. GNROC members are made aware of Enterprise risks and risk management practices both through briefings to GNROC by ERO and through participation on other Board committees. The ERMC is composed of representatives from all business lines and key support areas and provides reports to the GNROC. In 2007, specific topics and issues reviewed by the ERMC included untested mortgage products, interagency guidance, the liquidity assessment methodology, the new products process, model governance, multifamily loan review, the Comprehensive Plan, counterparty risk watch list and surveillance, SF corporate credit policy, Guarantee Asset/Guarantee Obligation valuations and house price forecasts.

ERO implemented a risk dashboard to monitor and report on the quantity and direction of top Enterprise risks and enhanced its standard monthly reporting package. ERO provides satisfactory reports to the Board's GNROC, Finance and Capital Deployment Committee and Audit Committee. In addition, ERO assisted in the ongoing development of a revised economic capital framework, which OFHEO will monitor and review as it is implemented. Concerted efforts were made to improve counterparty surveillance and reporting, better integrate risk management activities with the planning process, implement the redesigned risk controls self-assessment process, collect operational loss data and build out root-cause analysis capabilities. ERO plans to further strengthen the capability of the group to independently produce risk metrics.

Internal Audit

Although OFHEO is unable to rely fully on internal audit, during 2007 the internal audit function continued to develop and improve. Of particular importance, progress during the year was noted in the following areas:

- Development of a comprehensive financial audit universe and associated risk assessment
- Expansion of the audit finance team including a Vice President
- Improved audit report quality with findings clearly communicated and specific actions agreed upon
- Reliance by OFHEO on internal audit's evaluation of new systems initiatives
- Increased coordination between internal and external audit

The Audit Committee actively oversees the internal audit function. The Audit Committee met 13 times during 2007. 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.

While the 2007 audit plan appropriately devoted significant resources to supporting the Comprehensive Plan, internal audit did not adhere to a normal rotation cycle. As work on the Comprehensive Plan continues, internal audit is not expected to return to a normal rotation cycle in 2008. The inability to complete a full rotation cycle for several years and the fact that management's internal control self-identification process remains in the implementation phase increase the risk that control weaknesses may not be identified in a timely manner.

The General Auditor is well-qualified, and OFHEO will continue to monitor internal audit's overall effectiveness. This is especially important in light of the significant amount of work internal audit has yet to complete on the Comprehensive Plan as well as several other significant corporate initiatives in a deteriorating credit environment and a period of poor earnings performance.

Compliance

The Corporate Compliance Division continued to improve its effectiveness in supporting management's continuous commitment to instill a culture of compliance with statutory, regulatory and management requirements that govern business activities. The Corporate Compliance Division includes the following line of business compliance oversight functions: Investment and Capital Markets and the Sourcing and Mission Compliance teams. The Compliance Division also has responsibility for ethics, regulatory examinations, antifraud and privacy.

The Corporate Compliance Division has completed key compliance risk assessments and has been diligent in remediating the identified weaknesses through various means, such as developing written supervisory procedures and a robust compliance training program. As this risk assessment framework evolves, management is developing common definitions and implementing a standard risk-rating system for compliance risk assessments. The division has made significant progress in improving the Enterprise's overall communications with OFHEO.

Freddie Mac is not yet registered with the SEC.

Accounting

During 2007, the Enterprise responded to various accounting challenges: Material weaknesses in disclosure and financial reporting controls; achieving timely publication of financial reports (i.e., within SEC-required time frames, although Freddie Mac is not yet registered with the SEC); the issuance of new accounting standards by the Financial Accounting Standards Board; and later in the year, deteriorating credit markets. OFHEO found certain issues in the Enterprise's selection and implementation of accounting standards, which raise concerns regarding the quality of capital and will need further review. To systematically address the recent new fair value accounting standards, OFHEO is developing accounting guidance. The guidance is being designed to foster a consistent, transparent and economically faithful implementation of the standards for both Enterprises.

Following are some of the more significant issues OFHEO is reviewing at the Enterprise:

Reported Material Weaknesses. On March 23, 2007, Freddie Mac published its annual report with audited financial statements for the fiscal year ended December 31, 2006. Management reported that it had not completed its evaluation of internal controls over financial reporting. Based on the persistence of some material weaknesses on December 31, 2006, management of the Enterprise concluded that its internal controls over financial reporting were not effective as of that date. Progress was made during 2007. The 2007 annual report indicates either that all material weaknesses have been remediated or that remediation activities have been implemented which, if successfully tested for sustainability, would lead to full remediation of all material weaknesses. Therefore, during 2008, the Enterprise will have to test the sustainability of the new controls and address various significant deficiencies through continued improvement in the accounting and financial reporting infrastructure.

SEC Registration. Freddie Mac has announced its intention to register as a public company with the SEC. It made progress toward that goal with policy and operational changes during 2007 that increase the likelihood of application for registration by mid-2008. The Enterprise has significantly reduced the time it takes to produce financial statements. With the issuance of its 2007 Annual Information Statement, Freddie Mac has demonstrated that it can meet the annual financial reporting time frames required to be a public company registered with the SEC.

Accounting Policies. Management continues to develop and update its accounting policies. However, OFHEO's reviews concluded that further work will be required to develop complete accounting policies and procedures for Freddie Mac to meet the standards articulated in OFHEO's *Accounting Guidance*. During the past year, to assess Freddie Mac's design and implementation of its accounting policies, OFHEO performed several targeted reviews: securities that have become impaired in value (FAS 115); the fair value option (FAS 159); and credit loss reserves (FAS 5), as discussed below.

Impaired Securities Accounting. During 2006 and the beginning of 2007, OFHEO reviewed Freddie Mac's accounting policies and procedures for impairments in the values of its investment securities. OFHEO's findings, issued in mid-2007, were that we believed Freddie Mac's policies were appropriate as written. However, OFHEO identified that Freddie Mac's actual evaluation of securities for impairment did not appear to be consistent with its written policy, though consistent with GAAP. OFHEO will continue to monitor the Enterprise's implementation of its impairment accounting policies in the coming year to ensure safe and sound operations.

Fair Value Option Implementation. Pursuant to FAS 159, *The Fair Value Option for Financial Assets and Financial Liabilities,* as of January 1, 2008, Freddie Mac reported a transition gain, under the fair value option election, of approximately $1 billion, which OFHEO notes provided an immediate boost to Freddie Mac's regulatory capital. Most of the transition gain is due to the election of securities for the change to fair value accounting, which carried an unrealized gain rather than losses in accumulated other comprehensive income. Going forward, subsequent to December 31, 2007, Freddie Mac will continue to have the option of selecting fair value accounting (FAS 159) as it purchases securities and issues debt. During the coming year, OFHEO plans to further study Freddie Mac's application of the fair value option.

Reserves for Credit Losses. OFHEO began a limited review of the Enterprise's approach to the calculation of its reserves for credit losses. Freddie Mac's applications for providing adequate reserves and related loss recognition in the income statement are generally satisfactory, but issues were identified related to how the Enterprise has adapted its reserve calculation methodologies to the unique credit environment that came about in the latter part of 2007. OFHEO will continue to study the reserve computations of the Enterprise as the credit situation continues to evolve during 2008.

Asset Quality and Credit Risk Management

Credit risk is a supervisory concern. Asset quality has deteriorated and overall credit risk has increased. Increased credit risk is noted in the single-family guarantee portfolio, counterparties, nonagency asset-backed securities portfolio and the multifamily business. The credit governance structure and some management information systems have not kept pace with the deterioration in credit quality. Key issues are as follows:

- Deterioration in credit quality reflects market developments, pursuit of housing mission goals and management's strategic decision to purchase and guarantee certain single-family mortgages originated in 2006 and 2007 with higher-risk characteristics, including interest-only products, loans with secondary financing, mortgages with FICO scores less than 660 and loans with higher loan-to-value ratios. Evidence of increased risk layering has also appeared. Contract provisions precluded simultaneously increasing pricing commensurate with the increased risk.
- Substantial fair value declines in the value of the nonagency private-label securities (PLS) portfolio occurred during 2007. While the Enterprise believes present subordination levels protect it from immediate loss of principal and interest, the subprime mortgages underlying these securities are experiencing high delinquency, foreclosures and severity rates. Weakness in the financial strength of bond insurers providing additional loss protection is also evident.
- The rapid dislocation in the credit markets has also impacted the financial strength of a number of major counterparties, including seller/servicers, mortgage and bond insurers, and other financial counterparties.
- The increased credit risk has caused operational risk to increase with the volume of current and forecasted loan workouts, foreclosures and Real Estate Owned (REO) properties.
- Multifamily credit quality remains satisfactory. However, a relaxation and then tightening of underwriting standards occurred in 2007.

Single-Family

Throughout 2007 and at a level much higher than management's plan, the Enterprise continued to purchase and guarantee higher-risk mortgages. These purchases have performed more poorly than expected. The performance can be attributed to mortgages with high loan-to-value ratios, nonowner-occupied properties, low FICO® scores, high debt-to-income ratios, limited or no documentation and underwriting through non-Freddie Mac lending systems. Evidence of risk layering is apparent, as a large number of loans share multiple risk attributes.

A small number of large sellers have delivered a disproportionate amount of the poor-performing loans. Reduced returns are driven primarily by an inability to adjust pricing, the decline in house prices and increases in expected default costs. Delinquencies continue to rise and loss severities are increasing.

The credit guarantee business grew faster than planned—18 percent versus 11 percent—and exceeded overall mortgage debt originations as Freddie Mac was providing liquidity to the market. New higher-risk business coupled with declining house prices are reflected in deteriorating performance metrics—increasing serious delinquency rates, transition rates and loss severity rates—triggering increases to credit loss forecasts, provisions and reserves. Total credit-related costs increased sharply during 2007. The allowance/reserve for losses rose from 4.0 basis points of the total credit Book of Business at the end of 2006 to 15.5 basis points at the end of 2007.

The other major credit costs are losses on seriously delinquent loans purchased from security pools under AICPA Statement of Position (SOP) 03-3 and losses on pools priced so that the initial guarantee obligation exceeded the guarantee asset ("certain credit guarantees" or Day 1 losses). Both SOP 03-3 and Day 1 losses increased substantially during 2007 due to an increased volume of serious delinquencies (120 days) coupled with a steep decline in the market prices for delinquent loans during the second half of 2007. Increased Day 1 losses were driven by sharp increases in the guarantee obligation.

Loans with FICO® scores less than 620 have increased from 3.7 percent at December 31, 2006, to 4.2 percent at year-end 2007. The serious delinquency rate for December 2007 was 65 basis points (bps) versus 42 bps at year-end 2006. The overall level of 90-day delinquencies and the transition rates from 90 days delinquent to foreclosure are also increasing. December 2007 REO inventory was at 14,394 versus 8,785 at December 31, 2006—a 64 percent increase year-over-year, primarily caused by weak economic conditions in the North Central region and house price declines in Western (California and Arizona) and Southeast (Florida) regions.

Management took positive actions to address increasing credit risk and external market events. During 2007, the Enterprise issued a statement on its efforts to comply with the subprime and nontraditional mortgage guidances, bulletins and industry letters to tighten underwriting guidelines specific to initial interest mortgages, declining markets and condominium units. From August through December, four bulletins and industry letters were issued announcing pricing changes to postsettlement delivery fees. They are expected to provide positive return on equity impact; however, changes will not be fully implemented and begin to be reflected in the financials until after the second quarter of 2008. Changes are being made to the loss mitigation business model to delegate more activities to servicers with validation by Enterprise personnel, along with the steps to expand outsourcing capabilities for nonperforming loan areas.

As a result of a higher credit risk profile, operational risks related to personnel, technology and reporting are emerging. The Quality Control (QC) department is under increasing pressure. The inventory of nonperforming loans and early payment defaults is increasing substantially. System deficiencies have been outstanding per a 2005 audit report. Improved functionality is necessary for QC process improvement efficiencies and for meaningful risk management reporting. The Servicing and Asset Management unit will also be stressed by increased inflows to foreclosure, the volume of loans being considered for a workout and the increased inflows to and longer marketing times for REO properties. To handle this workload, management plans to outsource nonperforming loan functions.

Multifamily

Credit quality of the multifamily mortgage and Commercial Mortgage-Backed Securities (CMBS) portfolios remains satisfactory, however, risk is increasing. The portfolios are reasonably diversified by geography and borrower. Delinquencies and historical losses are well controlled. Consistent with management's plan, the Enterprise purchased and guaranteed higher-risk multifamily mortgages. Current purchases have a large interest-only component. There was expansion of the delegated underwriting program into product areas with higher operational risk and higher credit risk attributes (nonstabilized and construction properties). CMBS are also performing reasonably well, with low delinquencies and adequate levels of credit subordination.

Although absorption rates are positive and vacancy rates remained low, management took positive actions to address increasing credit risk and changing external markets. The Enterprise set operating limits for geographic concentration. In addition, Multifamily developed and implemented a risk rating system and risk-based transaction approval process. Finally, Multifamily developed and deployed an underwriting refinance test that takes into account forward-looking capitalization rates. During 2007, internal loan review results of the Multifamily business indicate improvements. Underwriting quality is acceptable and consistent with the policies.

Retained Mortgage Portfolios/Asset-Backed Mortgage Securities

During 2007, asset-backed mortgage securities (ABS), especially those backed by subprime mortgages, experienced a significant decline in fair market values caused by spread widening. As a result of the same widening in credit spreads, the commercial mortgage-backed securities (CMBS) portfolio also experienced sharp price declines during the year. At year-end, the asset-backed securities market continued to experience limited market liquidity with wider than historical bid-ask spreads. Management continues to closely monitor delinquencies, prepayment speeds and loss severities to stress-test cash flow models.

Despite the worsening performance of the underlying mortgage pools, a majority of the subprime ABS book continues to accrue additional subordination levels. As of year-end, the estimated subordination is 33 percent (including monoline bond insurer wraps). However, some bonds have performed worse than the aggregate portfolio. Some of these bonds within the portfolio have been downgraded and are on the internal watch list. Table 2 summarizes current delinquencies and subordination levels for the subprime ABS portfolio as of year-end.

While present subordination levels protect the Enterprise from immediate losses, worsening performance of the underlying mortgages and weakness in the U.S. housing markets remain a significant concern. Most of the bond insurers have been recently downgraded or put on negative watch. Their ability to honor their financial guarantees is uncertain. This uncertainty increases the credit concern associated with this portfolio.

Table 2

Subprime Asset-Backed Securities Portfolio

(As of 12/31/2007)

PORTFOLIO	UPB ($bn)	SUBORDINATION (with MONOLINE INSURANCE)	60+ DELINQUENCIES AS % OF UPB
Subprime 1st Lien	$100.3	35.8%	21.0%
Closed-End 2nd Lien	$1.0	77.4%	7.1%
Alt-A	$25.1	16.2%	7.5%
MTA- ARMs	$21.1	23.2%	7.2%
HELOC	$4.5	100.0%	8.2%
TOTAL	$152.0	33.0%	16.4%

MTA – Moving Treasury Average
ARMs – Adjustable Rate Mortgage
UPB – Unpaid Principal balance
HELOC – Home Equity Line of Credit

Source: Freddie Mac

Enterprise Counterparties

Counterparty credit risk continues to increase. Counterparty exposures are material. A significant deterioration in the financial condition of a top counterparty could adversely impact the Enterprise.

Within the Credit Risk Oversight group, Counterparty Credit Risk Management (CCRM) provides satisfactory oversight of aggregate counterparty risks and exposures at the Enterprise level for all counterparties. During 2007, counterparties were particularly stressed as a result of higher than anticipated write-downs and increased provisions caused by subprime mortgage exposures, weaker revenues, reduced margins and unprofitable secondary market executions. The top 10 servicers process approximately 80 percent of the servicing book. Mortgage insurance companies also represent a very large level of counterparty risk for the Enterprise and are facing financial difficulties.

CCRM continued intense monitoring through the watch list and surveillance framework. CCRM improved management reporting with inclusion of several reports in the ERMC's standard report set. Specific plans and/or actions to mitigate counterparty losses were developed or updated, which included expanding the ability to retrieve loan files and servicing tapes from seller/servicers during periods of financial stress, limiting exposures, restricting business activities, seizing the counterparty's portfolio, stress-testing counterparties' balance sheets and exposures, monitoring internal ratings, requiring collateral requirements, terminating riskier contract terms and negotiating buyout protection from credit enhancement providers.

Operations and Operational Risk Management

Operational risk management requires improvement. Internal controls related to financial reporting, while substantially improved, are not considered fully effective. During 2007, measurable progress to improve internal controls related to financial reporting and the technology environment has been achieved. During the year, management documented the majority of key financial controls and procedures related to financial disclosures, designed new controls and simplified several accounting processes. At year-end, management had not completed operational effectiveness testing of internal controls, provided sufficient evidence of sustainability or fully implemented the management self-assessment process.

The Enterprise must build on the progress achieved in 2007 with continued focus on the completion of the interrelated components of the Comprehensive Plan. The level of anticipated change and manual processes associated with efforts and activities to improve controls, improve reporting timeliness and implement a number of accounting policy changes will continue to stress the internal control environment.

The Comprehensive Plan, developed to address the controls weaknesses, is a multifaceted plan intended to accomplish the following:

- Remediate known control weaknesses
- Document the business control designs through the end-to-end (E2E) process design review
- Remediate and document information technology general controls (ITGC)
- Implement automation improvements to enable a return to timely financial reporting

Operating management changes associated with ITGC documentation and remediation, E2E business design review and the Finance Internal Control Organization contributed significantly to the progress achieved in 2007. Senior management established the Finance Internal Control Organization in late 2006 to manage the Comprehensive Plan and to ensure that the Enterprise establishes a sustainable internal control environment to meet the requirements of Sarbanes-Oxley.

The status of individual components of the Comprehensive Plan activities at year-end 2007 is as follows:

- **Material Weaknesses and Significant Deficiencies.** Progress toward the remediation of material weaknesses and significant deficiencies has been made. Management plans independent testing of these controls and the issuance of an opinion on their effectiveness at year-end 2008.
- **E2E Business Process Design Review.** Documenting controls over financial reporting is nearing completion. Management's full assessment of the control design

has not been completed. Controls have not been tested for effectiveness. Control documentation, remediation and validation activities will continue through 2008.

- **ITGC.** Controls are implemented and effectiveness testing by management has been completed. Independent reviews of the control design are in process. Both independent and management testing of internal control effectiveness are planned through 2008. A new systems development life cycle framework has been developed and is being implemented. Compensating controls are being relied upon until the life cycle methodology is fully deployed.
- **Timely Financial Reporting.** Continued improvements in reporting process timelines have been made during 2007. Additional efforts are necessary to achieve SEC timelines and evidence sustainability.

Information Technology

Risk in the corporate computing environment remains elevated. During 2007, management showed measurable progress in delivering and implementing several financial systems upgrades. The investment accounting systems (Eagle and the enhanced portfolio subledger) were deployed. Eagle became the system of record on January 1, 2008. Although delayed, the deployment of Summit (debt and derivatives accounting) is planned during the first quarter of 2008. Phoenix (loan and amortization accounting) is planned for deployment in the second quarter of 2008. These delays are not the first for these systems, and their recurrence continues to impede the establishment of fully effective operational controls in these areas. Management is actively managing the development of each of these systems and continues to rely on compensating controls.

In addition to hiring a new executive vice president, a number of other changes and reorganizations occurred in Freddie Mac Operations and Technology in 2007. Improvements related to these changes are evidenced in several major projects and remediation efforts, such as End-User Computer (EUC) applications, Information Security, Business Continuity Planning and system implementation.

Management continues to work on strengthening its systems development life cycle methodology in order to implement major automation projects in a timely and well-controlled manner. This process cannot be fully validated until a sufficient number of systems implementations have complied with the revised process. A large number of EUC applications exist. The full implementation of three major systems should substantially reduce the number of EUCs during 2008. While progress to improve data quality has commenced with the identification of critical financial data elements, considerable work remains to complete the architecture and supporting infrastructure.

Management has made progress with the development and implementation of a comprehensive, Enterprise-wide business continuity planning (BCP) governance process. A vice president was hired to head the BCP effort. Progress to establish an out-of-region data center continues.

Model Risk

Model risk remains high due to the wide application of models used in business decisions and financial reporting and the rapid deterioration in the mortgage markets. The rapid change in the credit conditions in the mortgage markets has increased model risk, as models have become less reliable and require adjustment when the internal and economic conditions are outside of historical experience. Models are estimated using selected historical experience as a guide. When no historical experience exists to provide insight for model builders, models may fail to produce accurate projections or may require greater management judgment. Such circumstances test management's ability to adapt models and revise associated assumptions about the future rapidly and accurately.

Model risk management requires improvement, although considerable progress was made during 2007. Corporate policies and oversight procedures were strengthened and control processes have been enhanced. Management reports provide timely warning of model performance outside of normal ranges. The results from the improved process highlight the need for consistent, effective model oversight and change controls.

Sensitivity to Interest Rate Risk

Interest rate risk management is satisfactory, although certain metrics traditionally relied upon by the Enterprise to measure and report exposures were not mathematically robust or informative in light of the dramatic decline in the Enterprise's fair value of equity. The year presented significant Enterprise-wide challenges, with unprecedented widening of spreads and extreme volatilities. The year's events highlight the need to reassess the continued robustness of certain qualitative and quantitative aspects of the Enterprise's risk management framework. Management successfully monitored, controlled and reported on the Enterprise's sensitivity to interest rate risk in a manner commensurate with the nature and complexity of the Enterprise's activities and under very challenging market and business conditions.

During 2007, the fair market value of portfolio assets, liabilities and capital came under significant pressure resulting from extraordinary changes in market rates, spreads and volatility. Management maintained interest-rate risk exposures at low levels throughout most of 2007, although exposures increased in the fourth quarter, ending the year at a moderate level. Management used financial derivatives, including swaps, options and futures, as well as derivatives embedded in debt instruments (e.g., callable debt) to maintain interest-rate risk exposures within desired risk ranges and keep exposures generally stable. The notional value of derivative counterparty party exposure grew from $758 billion at December 31, 2006, to $1.3 trillion at year-end 2007 as a result of increased hedging activities associated with high interest rate volatility.

Mortgage-debt option-adjusted spread (OAS) widening, caused by credit and liquidity concerns, resulted in a more than $23 billion decline in fair value of net assets attributable to common stockholders, before capital allocation. Management does not hedge this risk as there are limited actions an Enterprise can take to hedge this risk given its business model and size. Management plans to hold these assets to maturity, and absent permanent impairment, expects not to be exposed to this risk.

The Board-approved 2007 asset/liability management policy and plan were formally documented and were designed to guide management in maintaining interest-rate risk exposures within prudent and reasonable ranges and limits to minimize the need to engage in dramatic and expensive rebalancing activities. The Board revisits policies and limits annually. Several senior management committees and subcommittees, as well as the independent Market Risk Oversight group, within the Enterprise Risk Management group perform ongoing daily oversight and monitoring of Enterprise exposures relative to established expected positions, management limits and Board limits. Established escalation and communication plans are in place in the event expected positions or limits are breached.

Management reports provide the information necessary to inform and support decision-making at appropriate levels of the organization. Risk measurement is performed both in-house and through an outside service provider (BlackRock Solutions) and is reported daily.

Management conducts daily sensitivity analyses and stress tests. The Enterprise's market value of portfolio equity (excluding the guarantee fee business) has become significantly more sensitive to rate changes compared to 2006. The market value of equity is relatively protected against small changes in rates but vulnerable to sudden, significant changes in rates. The Enterprise also conducts a variety of stress tests to estimate maximum expected market value loss with 99 percent confidence. While exposure to interest rate risk was satisfactorily controlled through the year, the usefulness of the principal measure, Portfolio Market Value Sensitivity, diminished as the market value of common shareholder equity plummeted. Management revised the measure to focus on the absolute dollar amount of exposure.

It is of concern that revisions to key metrics used for internal management and external disclosure purposes were not foreseen in a timely fashion. While best practices support metrics being regularly re-evaluated for their robustness and continued suitability during highly volatile periods, interest-rate risk measurement is not an exact science, and implementing revisions during fast-moving events may address current issues but may not result in well-tested or sustainable enhancements to measurement metrics.

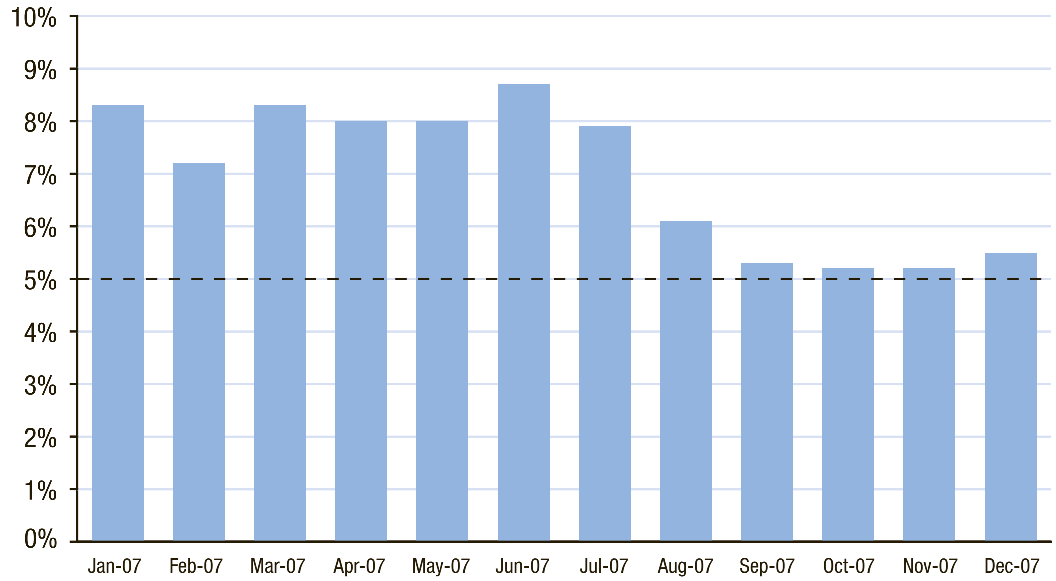
Escalation procedures operated as designed. On occasion, management as well as the oversight function sought to remedy breaches of limits by readily proposing revisions to risk limit, metrics and reporting.

Liquidity

Liquidity management is satisfactory. Adequate guidance exists for the types and credit quality of investments suitable for inclusion in the Liquidity and Contingency portfolio. Management is able to effectively forecast liquidity needs and has adequate policies and procedures in place for forecasting short- and long-term liquidity needs. The Enterprise has access to sufficiently diversified funding sources to meet present and anticipated liquidity needs. Management has an adequate framework to effectively identify, measure, monitor, and control the Enterprise's liquidity position.

Chart 13

Freddie Mac Liquidity Portfolios as a Percentage of Total Assets



Source: Freddie Mac

Size

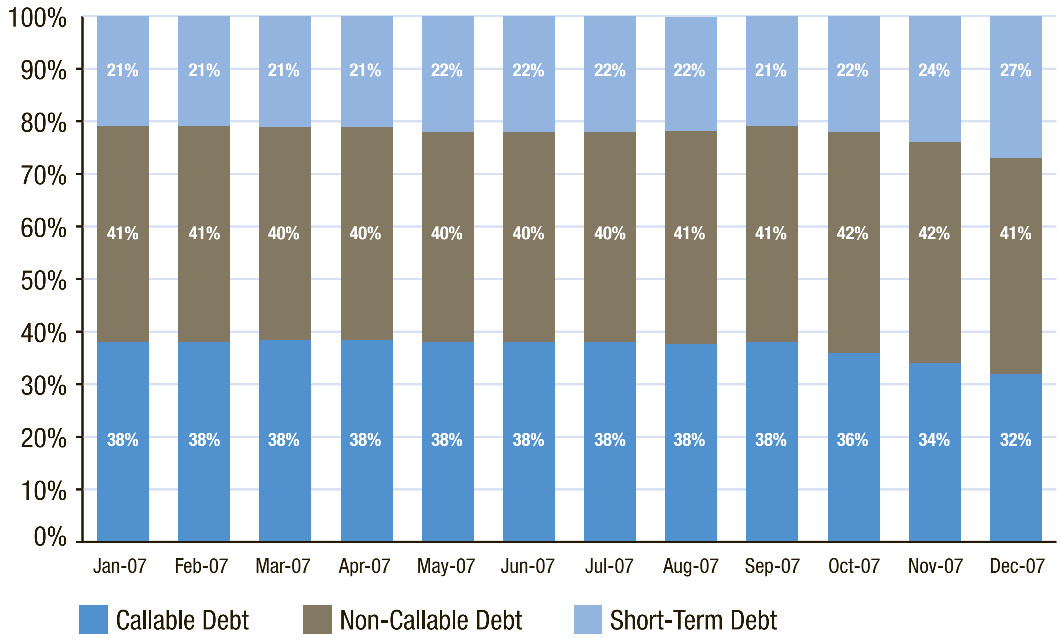
During 2007, the Liquidity and Contingency (L&C) portfolio balance declined from a high of $71.3 billion in June to a low of $40.0 billion in November. As a percentage of on-balance-sheet assets this brought the November L&C balance to just over the Board's five percent minimum limit, from a high of about nine percent in June. The reduction was a result of management's deliberate decision to buttress available capital depleted by rising credit losses.

Credit Quality

During the year, roughly 80 percent of average daily balances of the L&C portfolio represented assets rated AA or better. However, the proportion of AA to single-A rated securities has fluctuated significantly in recent months, with double-A rated assets experiencing a decrease accompanied by an increase in the percentage of single-A rates securities. AA-rated assets declined from a high of about 34 percent in August 2007 to a low of 18 percent in November. During the same period, single-A rated assets increased from 20 percent to over 30 percent of total average L&C balances. Daily marks indicate that the aggregate liquidity portfolio maintained a tight par price range throughout the year. At year-end, management selected several balance sheet categories for inclusion under "fair value option," which did not include the liquidity portfolio. OFHEO is encouraging management to adopt fair value accounting for its liquidity portfolio so that it can be tapped without affecting equity.

Funding Liquidity

The Enterprise maintains sufficiently diversified sources of funds to meet present and anticipated liquidity needs. Management maintained a stable proportion of short- to long-term funding throughout the first three quarters of the year. As volatility increased significantly during the fourth quarter and optionality became increasingly expensive, there was a noticeable planned shift in the composition of short-term funding, with an increased reliance on discount notes and corresponding decreased reliance on callable debt (Chart 14).



Source: Freddie Mac

Chart 14

Freddie Mac Funding Composition

Policies and Procedures

The liquidity management policies, procedures and a contingency plan identify authorized investments, exposure limit rules and independent review requirements. Procedures define what constitutes a liquidity event and the escalation steps to be followed during such an event. Risk limits are in place to ensure sufficient liquidity levels. Management evaluates limits and pertinent metrics daily, weekly and monthly and conducts regular stress tests of the liquidity and contingency portfolio. Overall reporting is satisfactory. OFHEO is reviewing proposed changes to the liquidity portfolio policy. The Market Risk Oversight (MRO) group regularly monitors exposures relative to risk limits.

Earnings

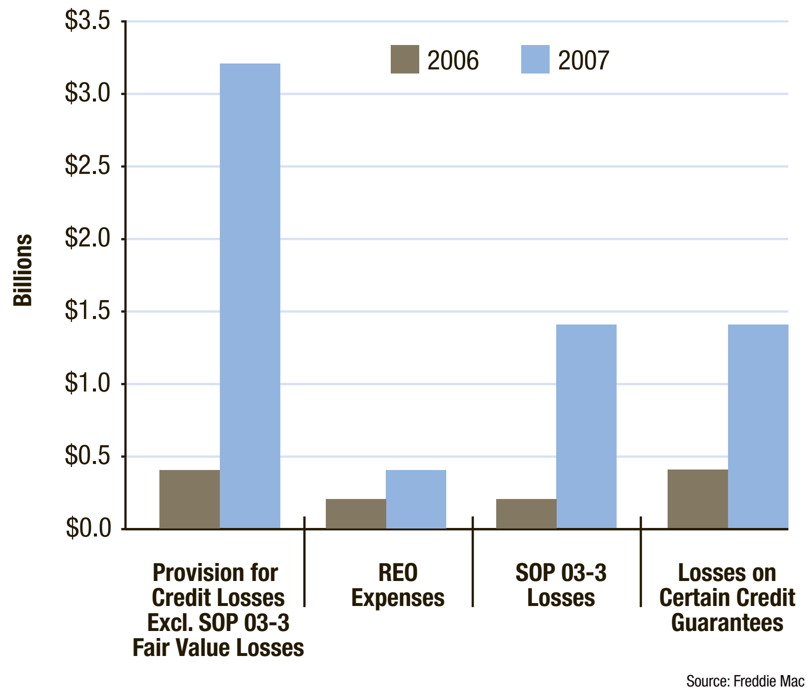
Financial performance in 2007 was poor. A confluence of market and Enterprise-specific factors—deterioration in the housing and credit markets, substantial declines in interest rates in the second half of the year and replacement of lower-cost maturing debt—resulted in the Enterprise reporting a GAAP net loss of $3.1 billion. Freddie Mac has never before reported an annual net loss.

Pretax income declined by $8.3 billion from year-end 2006 as a result of substantially higher credit-related expenses and valuation losses, higher losses on derivatives and lower net interest income, partially offset by higher guarantee fees and higher amortization income from the guarantee obligation.

- Credit-related expenses and valuation losses increased by $6.0 billion from 2006 as follows (Chart 15): Provisions for credit losses increased $2.6 billion, driven by higher reserves for loan losses; unprecedented mark-to-market losses on delinquent loans purchased out of trusts were $1.9 billion, driven by substantial declines in market prices for such loans; losses on certain credit guarantees increased $1.6 billion, driven by higher expectations of future default costs; and REO/foreclosure expenses increased $0.1 billion, driven by higher REO volumes.

Chart 15

Freddie Mac Credit-Related Expenses and Valuation Losses



- Losses on derivatives increased by $3.4 billion as the impact of declines in interest rates was reflected in lower market values for the derivatives portfolio. Potentially offsetting changes in the value of assets and debt are generally not recognized under GAAP.
- Net interest income decreased by $0.3 billion, reflecting the impact of maturing short-term and long-term debt being replaced by higher-cost debt.
- Guarantee fee income increased by $0.2 billion, driven by strong growth in the volume of Participation Certificates (PCs) and structured securities of 13 percent.
- Income from amortization of the Guarantee Obligation increased by $0.4 billion because of higher expected default costs as well as higher average balance of PCs and structured securities.

- Losses on the guarantee asset increased by $0.5 billion, mainly due to higher return on investment caused by an increase in gross cash flow driven by higher volume.

The net loss in the third quarter and further declines in October and November depleted capital sufficiently for management to take action by selling assets, issuing preferred stock and reducing the common stock dividend.

Fair Value Financial Performance

Financial performance measured from a fair value perspective also suffered considerably. The fair value of net assets declined by $19.2 billion to $12.6 billion in 2007, despite $6.5 billion of new preferred stock issuances, as substantial increases in option-adjusted spreads reduced the value of mortgage assets and weakening in the housing and credit markets increased expectations of future default costs. The fair value of net assets attributable to common stockholders declined by $25.7 billion to $0.3 billion.

Capital

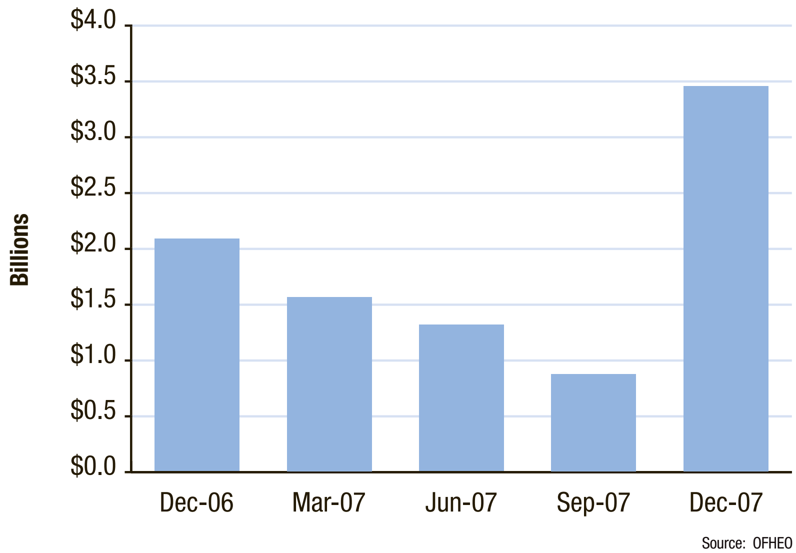
OFHEO formally classifies capital adequacy quarterly in accordance with Subtitle B of the Federal Housing Enterprises Financial Safety and Soundness Act of 1992 and with the requirements set forth in OFHEO's minimum and risk-based capital regulations. The Enterprise is required by federal statute to meet both minimum and risk-based capital standards to be classified as adequately capitalized. Freddie Mac remains subject to an OFHEO-directed capital requirement imposed by a letter dated January 28, 2004, which required a 30 percent surplus over the statutory minimum requirement.

OFHEO classified Freddie Mac as adequately capitalized for year-end 2006 and all four quarters of 2007. Since the year-end 2006 classification, Freddie Mac's capital classification was consistent with publicly released financial statements by the Enterprise, representing continued progress in becoming timely and accurate in their financial reporting. The capital classifications, unlike those cited in the 2006 Report of Examination, are no longer based on estimates provided by management but on publicly certified financial statements. While OFHEO classified Freddie Mac as adequately capitalized during these periods and recognizes the financial reporting progress made, the Enterprise has not yet achieved registration status with the SEC. Further, risk to capital has increased dramatically, primarily because of market and credit risks, which directly impacted capital through reduced current and future earnings.

On the basis of restated results in early 2008, Freddie Mac's surplus as a percentage of the OFHEO-directed requirement significantly declined from $2.1 billion, or 6.2 percent, for the fourth of quarter 2006 to $0.9 billion, or 2.6 percent, for the third quarter of 2007. The surplus continued to decline through October and November, with Freddie Mac failing to meet the OFHEO-directed requirement on November 30, 2007, prior to year-end 2007 accounting adjustments. Freddie Mac took action to return to capital compliance by issuing $6 billion in preferred stock in early December 2007. Further erosion of capital in December resulted in a year-end 2007 surplus of $3.5 billion, or 10.0 percent. At year-end 2007 the excess over the statutory minimum requirement was $11.4 billion.

Chart 16

Freddie Mac's Core Capital Surplus



While the decline in capital surplus was primarily the result of dramatically higher credit loss provisioning and continued market volatility, especially in the latter part of the year, during the first part of the year negative earnings, continued dividend payments and growth in MBS contributed to declines in the surplus. Freddie Mac's expensive emergency corrective action in the fourth quarter emphasizes the need for more permanently heightened attention to income forecasting, and more prudent capital management generally. In retrospect, Freddie Mac's common stock buyback in the first half of 2007 and dividend increase were mistimed.

Chart 16 shows Freddie Mac's surplus over the OFHEO-directed requirement over the last five quarters. Fair value measures of equity also have shown marked deterioration over this period. OFHEO does, however, expect that actions taken in late 2007, including efforts to improve capital forecasting and management, confirm Freddie Mac's commitment to maintaining capital surpluses above all capital requirements. Recent changes in accounting methods and policy will also provide some short-term capital relief, but with uncertain longer-term earnings and capital consequences.

During 2007, Freddie Mac's RBC requirement was not the binding factor used by OFHEO for the quarterly classifications. The RBC requirement fluctuated throughout the year with no clear trend (Table 3). The RBC model projected increased credit losses, but these losses were largely offset by interest rate risk management actions and higher guarantee fees. Freddie Mac and OFHEO need to develop a more effective approach to economic risk capital.

Table 3

Freddie Mac RBC Requirements in 2007 (Billions)

	1Q	2Q	3Q	4Q
Total Capital	$36.8	$37.1	$36.4	$40.9
Requirement	$13.8	$18.9	$11.3	$14.1
Surplus	$23.0	$18.2	$25.1	$26.9

Capital Classification and Measurement

The 1992 Act that created OFHEO requires that OFHEO classify the adequacy of the Enterprises' capital not less than quarterly, using two quantitative assessments of capital—minimum and risk-based. From 1993 through 2002, OFHEO classified the Enterprises using the statutorily defined minimum capital requirement. Beginning in 2002, when its risk-based capital regulation became enforceable, OFHEO began classifying the Enterprises on the basis of both the minimum capital and the risk-based capital stress test requirements.

In 2004,[2] both Enterprises became subject to agreements with OFHEO requiring that they meet an OFHEO-directed requirement—a capital surplus of 30 percent over their minimum capital requirement. These agreements followed OFHEO findings of operational, control and financial reporting deficiencies and the restatement of several years of financial results by both Enterprises. The OFHEO-directed requirement has been the binding requirement since 2004.

The capital classification requirements are prescribed in the 1992 Act. An Enterprise is classified as "adequately capitalized" if it complies with the minimum statutory requirement and the risk-based capital requirement. An Enterprise that complies with the minimum capital requirement but not with the risk-based capital requirement would be classified as "undercapitalized." An Enterprise that does not comply with the minimum capital requirement would be classified as "significantly undercapitalized." An Enterprise that holds less than the critical capital requirement which is about 50 percent of the minimum capital requirement would be classified as "critically undercapitalized." Failure to comply with the requirements triggers a range of regulatory responses, depending upon the capital classification of the Enterprise.

History of Enterprise Capital Classification/Reclassification

Because of significant accounting and other deficiencies just noted, the Enterprises had to restate several years of accounting results. In connection with the restatements, the Enterprises were required to resubmit corrected capital positions to OFHEO within three business days of their financial restatement. As of December 31, 2007, both Enterprises were current with their quarterly financial results and had refiled regulatory capital reports, as required by OFHEO, for all past periods. OFHEO's analysis of the effect of specific accounting changes on the Enterprises' risk-based capital requirements confirmed that the minimum capital requirement, or the OFHEO-directed capital requirement, would have remained the higher or binding capital requirement for each restated period. OFHEO determined that more precise risk-based capital results would not have altered its capital classification conclusion, so the Enterprises were not required to resubmit data to determine their exact risk-based capital levels.

[2] Freddie Mac entered into a Supervisory Agreement with OFHEO in January 2004 requiring that it meet a mandatory targeted capital surplus of 30 percent over the statutory minimum capital requirement. Fannie Mae became subject of a formal Agreement in September 2004 requiring that it meet a mandatory targeted capital surplus of 30 percent over the statutory minimum capital requirement. The mandatory targeted capital surplus is referred to as the OFHEO-directed requirement.

Fannie Mae Restatement History

Fannie Mae's restatement resulted in an approximate $4 billion capital shortfall over the regulatory minimum requirement for September 30, 2004. Fannie Mae increased its core capital to restore a capital surplus above the minimum capital requirement through the issuance of $5 billion in preferred stock in late December 2004. Subsequently, Fannie Mae restated capital positions for March 31, 2002, through June 30, 2007, and became a current quarterly financial filer with the SEC for September 30, 2007. Fannie Mae's restatements resulted in a capital classification of "significantly undercapitalized" for all four quarters in 2002, 2003, and 2004. OFHEO has reaffirmed quarterly classifications of "adequately classified" for all quarters from first quarter 2005 through the fourth quarter of 2007. Although Fannie Mae was reclassified as "significantly undercapitalized" for all quarters in 2002, 2003, and 2004, OFHEO did not require additional regulatory action from Fannie Mae, as per the formal Agreement. Fannie Mae had previously developed an approved Capital Restoration Plan and since September 30, 2005, has maintained core capital above the OFHEO-directed requirement.

Freddie Mac Restatement History

The need for Freddie Mac's restatement emerged after its hiring of a new external auditor in 2002 and the identification of significant errors in accounting policies and practices. This resulted in restatement of capital reports for year-end 1999 and 2000, and for each quarter from the first quarter of 2001 through year-end 2007. Beginning in the fourth quarter of 2006 through 2007, Freddie Mac's capital submissions have been consistent with its publicly-released financial results, although the public releases were not timely prior to year-end 2007. Accounting policy changes in 2006 resulted in Freddie Mac again restating financial and capital positions from 2003 forward. For all periods of the restatement, OFHEO reaffirmed Freddie Mac's capital classification as "adequately capitalized." As of year-end 2007, Freddie Mac had not yet registered with the SEC.

During 2007 Freddie Mac failed to maintain core capital above the OFHEO-directed requirement for the month ending November 30, 2007, due to significant market and credit-related losses impacting capital prior to corrective management actions. Freddie Mac issued $6 billion in preferred stock in early December 2007 to restore core capital above the 30 percent threshold, thus re-establishing compliance and capital adequacy in the fourth quarter of 2007.

Core Capital and Shareholders' Equity

OFHEO's 1992 statute defines core capital as the measure of Enterprise capital available to meet the statutory minimum capital requirement. Core capital is also the measure applied against the OFHEO-directed requirement. Core capital is defined as the sum of par or stated value of outstanding common stock, par or stated value of preferred stock, paid-in capital and retained earnings. In 1992, when the OFHEO statute was enacted, GAAP were still largely using a historical cost model and core capital was virtually the same as total shareholders' equity. However, accounting standards introduced since that time have resulted in a combination of historic cost and market values on the balance sheets of the Enterprises.

This "mixed attribute" accounting has, in turn, resulted in shareholders' equity and core capital diverging.

Specifically, shareholders' equity now includes a component commonly called accumulated other comprehensive income (AOCI) that accounts for as yet unrealized gains and losses on certain balance sheet items. Thus, AOCI can either reduce or increase shareholders' equity relative to regulatory core capital.

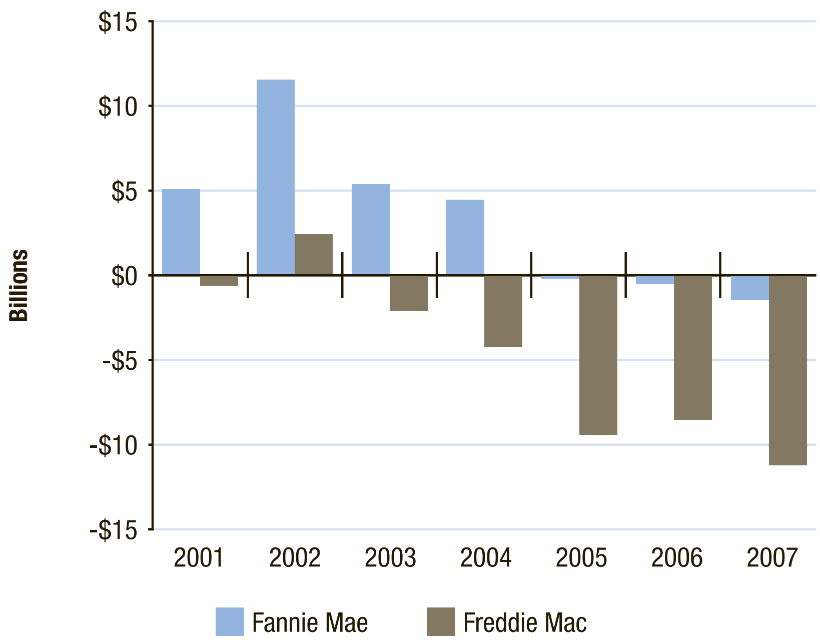
The two Financial Accounting Standards Board (FASB) statements that have the greatest impact on AOCI for the Enterprises are Statement of Financial Standards No. 115, *Accounting for Certain Investments in Debt and Equity Securities* (FAS 115) and Statement of Financial Standards No. 133, *Accounting for Derivative Instruments and Hedging Activities* (FAS 133). FAS 115 requires a company to carry held-to-maturity (HTM) investments at amortized cost; to mark its available-for-sale (AFS) securities to fair value with associated unrealized gains or losses reported in AOCI; and to mark its trading securities to fair value with associated unrealized gains or losses reported in earnings. In order to discourage income manipulation, FAS 115 imposes several restrictions in determining the designation, sale or transfer of securities among categories.

At present, both Enterprises carry the majority of securities as AFS, and therefore their AOCI accounts are large and quite volatile. During 2007, the Enterprises did not opt to account for gains and losses on cash flow hedges under FAS 133, which would tend to offset the volatility arising from changes in the market values of their derivatives. The amount of the differences between shareholders' equity, which includes AOCI, and statutory core capital has changed dramatically over time, and the balances in AOCI vary significantly from period to period as explained below for each company.

Chart 17 shows each Enterprise's AOCI at the end of each year from 2001 through 2007.

Chart 17

AOCI Levels for Both Enterprises



Sources: Fannie Mae and Freddie Mac

A history of Fannie Mae's capital position, capital requirements, and surpluses is presented in Table 9 of the Historical Data Tables. A history of Freddie Mac's capital position, capital requirements and surpluses is presented in Table 18 Historical Data Tables. On a quarterly basis, OFHEO updates the historical charts on its Web site: http://www.ofheo.gov/CapitalRequirements.aspx?Nav=273.

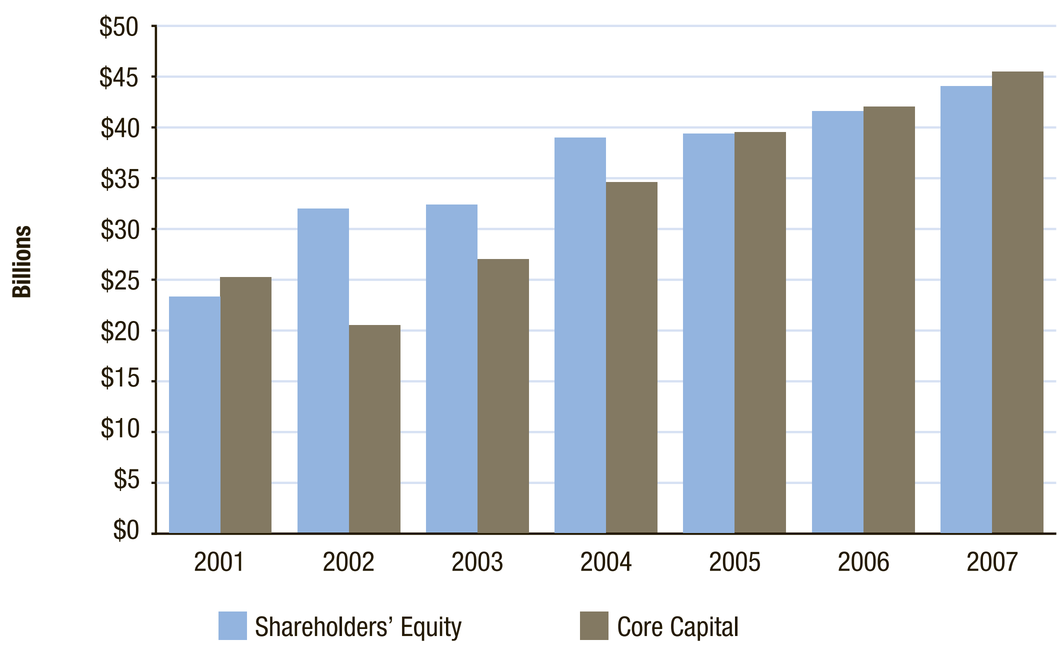
Fannie Mae

From 1994 to 2000, Fannie Mae reported nominal amounts of AOCI. Beginning with the restatement of 2002 financial results, Fannie Mae has reported balances in AOCI ranging from negative $1.4 billion to $11.5 billion, and the AOCI account has changed as much as $6.4 billion in one year. Most of this volatility relates to FAS 115 accounting.

Chart 18 displays the difference in Fannie Mae's core capital and shareholders' equity from 2001 through 2007. Changes reflect the volatility of AOCI.

Chart 18

Fannie Mae Equity and Core Capital



Sources: OFHEO and Fannie Mae

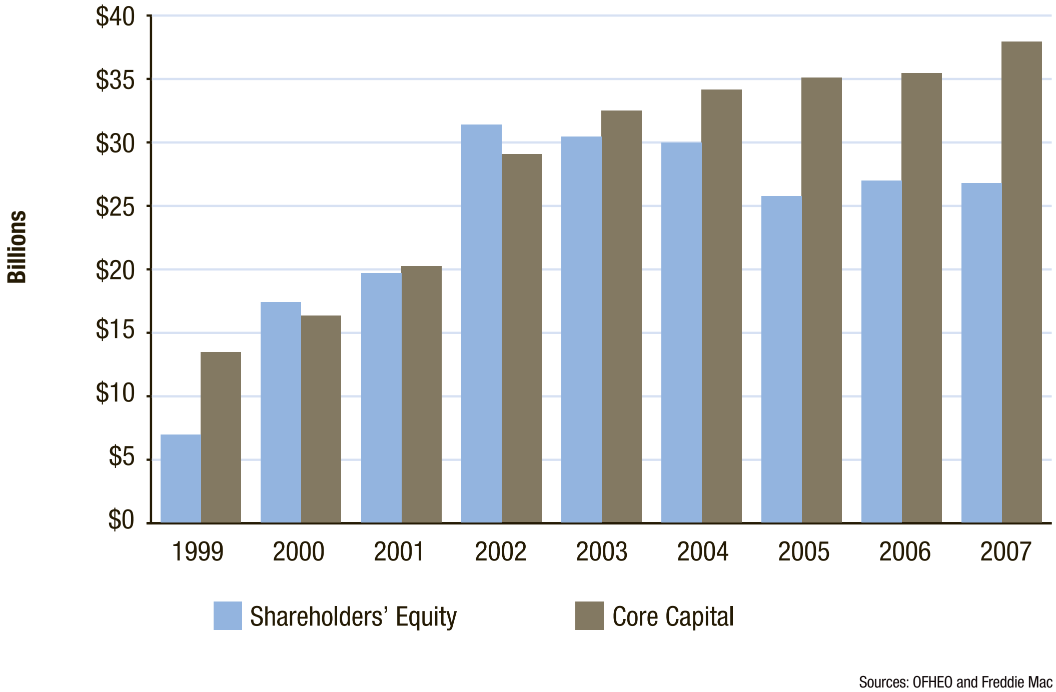


Chart 19

Freddie Mac Equity and Core Capital

Freddie Mac

Similarly, from 1994 to 1998, Freddie Mac reported nominal balances of AOCI. Since 1999, after restating its financial reports, Freddie Mac has reported balances in AOCI ranging from negative $11.1 billion to $2.3 billion, and the AOCI account has changed as much as $7.6 billion in one year.

Freddie Mac's 2005 annual report marked the closing of most of its hedge accounting strategies. For Freddie Mac's closed cash flow hedges, there is a large remaining negative balance in AOCI. Pursuant to GAAP, Freddie Mac is amortizing this balance through earnings. This and the fact that Freddie Mac has a larger available-for-sale portfolio accounts for the differences between the AOCI balances of the two Enterprises.

The volatility and impact of AOCI on core capital versus shareholders' equity for Freddie Mac is seen in Chart 19. Freddie Mac's AOCI balance for FAS 133 will be quite large until the Enterprise has amortized its closed cash flow hedge losses into earnings.

Accounting

OFHEO's 2007 Report to Congress addressed the accounting landscape after a period in which both Enterprises had been found to have lacked adequate controls over financial reporting and misapplied accounting rules to present the image of steady earnings growth. As a result, neither Enterprise was able to produce quarterly financial reports for 2006.

The accounting chapter in last year's report described continuing steps by the FASB to move away from the historical cost model and toward the fair value accounting model through the promulgation of new standards, in particular the adoption of FAS 159, *Fair Value Option*. It described the continuing challenge for the Enterprises of producing meaningful financial statements under current GAAP, which use a mix of historical cost and fair value approaches (so-called "mixed-attribute" accounting).

In 2007 both Enterprises made significant progress toward a return to timely financial reporting. In early 2008, they were able to issue their 2007 annual financial statements within SEC reporting time frames. With the year's upheaval in the financial markets, 2007 also illuminated issues fair value accounting poses to the Enterprises under highly adverse credit conditions and highlighted the effects of some significant accounting differences between the Enterprises. In response, the Enterprises made several accounting and business policy changes to relieve pressure on their earnings and regulatory capital.

Fair Value Accounting

The economic effects of the emerging credit and accompanying liquidity crisis, which resulted in large losses and depleted regulatory capital, led both Enterprises to raise billions of dollars in capital in 2007 by issuing preferred stock. This led the Enterprises to take steps to reduce, within the constraints of GAAP, the recognition of the kinds of fair value changes that had caused such severe problems. Given their common objective of reducing sensitivity of earnings and regulatory capital to fair value changes, the steps they took tended to increase the comparability of their financial information. These changes are discussed below.

Adoption of Fair Value Accounting under FAS 159

Both Enterprises issue GAAP-based financial statements and "fair value-" based supplemental disclosures, which include fair value-based balance sheets. The GAAP-based statements apply a mixed-attribute accounting model. The mixed-attribute model involves limited use of current fair values, while the fair value financial statements are based entirely upon the current fair values of all assets and liabilities. For 2007 the supplemental fair value financial statements of both Enterprises reflected far greater losses than did their respective GAAP-based financial statements. In adopting the fair value option for their GAAP-based financial statements in 2008, neither Enterprise has embraced the opportunity to broadly apply fair value accounting for most assets and liabilities.

Guarantee Obligation Accounting

The impact of credit market conditions on the Enterprises' financial statements also highlighted the effects of some significant differences between their methods for valuing and accounting for the Guarantee Obligation (GO). When they guarantee a mortgage, each Enterprise books a Guarantee Asset (GA)—the fair value of expected guarantee fees—and a GO—the fair value of the obligation they undertake. Under adverse credit conditions the current fair value of the GO rises relative to that of the GA, and to the extent GAAP accounting recognizes those changes, generates immediate losses and erodes capital. Ultimately, recognition of true economic losses cannot be eliminated—only deferred—under GAAP. As discussed below, each Enterprise took steps to avoid current recognition of losses it thought were not truly economic losses in the current period.

Accounting for Participation Certificate Residuals at Freddie Mac

During the first three quarters of 2007, Freddie Mac reported substantial losses relating to the mortgage-backed securities it had issued Participation Certificates (PCs) held on its own balance sheet. Unlike Fannie Mae, when Freddie Mac purchased its own PCs as investments, it considered the guarantee associated with the PCs "extinguished," leaving itself owning the underlying unguaranteed mortgage securities. This "extinguishment" of the guarantee also resulted in an asset on its balance sheet called PC Residuals, equal to the difference between the current fair value of the GA and the GO for those PCs.

During 2007, a dramatic rise in the fair value of Freddie Mac's GO resulted in large mark-to-fair value losses on PC Residuals. In time for issuance of its financial statements for the year ended December 31, 2007, Freddie Mac obtained SEC approval to eliminate this "extinguishment" accounting, putting it on essentially the same footing as Fannie Mae. The financial statements for the year ended December 31, 2007, and prior years presented in the same report have been restated applying the new method, which will also be used in 2008 and future years.

Day 1 Losses

Losses are recognized on guarantee contracts when at the time of issuance the fair value of the GO exceeds the GA. This is referred to as a Day 1 loss. In addition, all else being equal, a valuation methodology that generates a higher GO will be more likely to result in a Day 1 loss. During 2007, before the Enterprises were able to raise their guarantee fees, large Day 1 losses were recognized in their respective income statements. Freddie Mac's Day 1 losses greatly exceeded Fannie Mae's in 2007, because Freddie Mac's GO valuation methodology is more sensitive to pricing in the private-label mortgage-backed securities market.

Other Valuation Issues

SOP 03-3 Losses

When an Enterprise purchases a seriously delinquent (over 120 days) loan (SDQ) out of its guaranteed security pool, AICPA Statement of Position 03-3 (SOP 03-3), effectively requires the Enterprise to recognize a loss to the extent the then-fair value (i.e., market value) of the loan is less than its par value. In other words, loans purchased out of pools at their par values are immediately marked down to their fair values through a charge against income. Under current market conditions, the fair value of an SDQ loan may be significantly below its par value. Prior to 2007 the financial statement impact of these markdowns was not great, but it grew very large during the last half of 2007.

The recognition of any ultimate economic loss on a guaranteed loan purchased out of a pool cannot be avoided. However, the Enterprises have taken steps to reduce the recognition of fair value declines in advance of ultimate economic losses actually realized or in amounts that might exceed that economic loss. The Enterprises may purchase a delinquent loan from a pool when it becomes 120 days delinquent, but they must purchase it when it has been delinquent for two years. Accordingly, both Enterprises have begun to delay the purchase of SDQ loans out of pools until purchase is required to effect their intended resolution of the SDQ loan normally through loan modification or foreclosure. The Enterprises have assured OFHEO that this will not result in the delay of any actions they would otherwise take to help a homeowner to avoid foreclosure. The reduction or elimination of fair value repurchase losses changes only the timing of the recognition of any ultimate economic losses. Anticipated losses on SDQ loans provided for under the mixed-attribute GAAP accounting model, while not as high as fair value losses in present market conditions, are still recognized through the normal process of reserving for losses on all loans backing guaranteed securities.

Impairments of Investments in Securities

In 2007 the fair values of the Enterprises' holdings of PLS, which are primarily held as Available-for-Sale investments, fell substantially. Under the current mixed-attribute accounting model, both Enterprises generally defer these losses in accumulated other comprehensive income (AOCI). As of December 31, 2007, on a pretax basis Fannie Mae and Freddie Mac had about $4.8 and $15 billion, respectively, of deferred losses pertaining to available-for-sale investment securities. Under current GAAP, a company does not have to recognize these fair value losses through earnings unless it determines the losses are "other than temporary." If the declines in value are considered temporary, the losses are recorded in the equity through AOCI. The deferred losses are not counted against capital in OFHEO's statutory capital calculation.

Under GAAP, determining whether the decline in the value of a security is other than temporary, and should therefore be recognized in earnings, is a process that requires the exercise of significant management judgment based on all available facts and circumstances at a particular point in time. However, GAAP does require a systematic and documented approach to applying this judgment.

In 2007, Fannie Mae and Freddie Mac recognized only $814 and $399 million, respectively, of other-than-temporary impairments. However, if the conditions in the credit markets worsen, the Enterprises may have to recognize losses on some securities which, as of December 31, 2007, were deferred in AOCI. The Enterprises' net income, retained earnings and regulatory capital for OFHEO purposes would be reduced by the amounts of the other-than-temporary declines in values recognized.

FAS 133 Hedge Accounting

Although the Enterprises use derivatives, primarily interest rate swaps, extensively for hedging purposes, their accounting methods in 2007 generally did not recognize the effects of hedge relationships. Gains and losses on the hedging instruments (the derivatives) are recognized currently in income. The hedged items, if classified as available for sale or held to maturity, are recorded at historical values (fair value changes of available-for-sale assets only are deferred in AOCI), which remain little changed from accounting period to accounting period. This results in volatility in earnings and regulatory capital that does not reflect the economics of hedging. FAS 159 provides another approach to match hedging instruments with hedged items, beginning in 2008. This standard allows a company to elect fair value accounting for almost any asset or liability, and thus match the recognition of offsetting gains and losses between instruments in hedge relationships.

Both Enterprises have indicated that they will not broadly apply FAS 159. Instead, Freddie Mac has announced plans to reintroduce hedge accounting under FAS 133. Under FAS 133 a company can identify the risk factor it intends to hedge, which when properly applied can reduce earnings volatility. The use of FAS 133 hedge accounting not only allows companies to offset the gains and losses to the extent of effective hedges of particular risks, but also enables them to avoid or delay reflecting fair value changes related to unhedged risks. This contrasts with the election of FAS 159, which requires the recognition of all fair value changes, regardless of their source, for assets and liabilities for which fair value accounting has been elected. The elections under FAS 159 are irrevocable, while hedge accounting relationships under FAS 133 can be changed.

Under present market conditions, a substantial portion of fair value changes relate to credit spreads. In the past, changes of this nature have generated substantial gains or losses, which will not be recognized as they occur under the mixed-attribute accounting model.

Credit Loss Reserves

Rising mortgage delinquencies and falling house values in 2007 led the Enterprises to dramatically increase their reserves for credit losses. Both Enterprises are subject to the same GAAP standards for determining appropriate loss reserves, which require significant management judgment. The extent of and uncertainty about future credit market deterioration highlighted what appear to have been differences in the policies and judgments applied by each Enterprise. The Enterprises use proprietary loss projection models based on recent experience to establish appropriate credit loss reserve amounts, but recognized that due to changing market conditions and the speed of credit deterioration, the models were not generating sufficiently high reserve amounts. In response, each Enterprise made its own judgmental adjustments, with somewhat different outcomes.

OFHEO will continue to review the different methodologies and management judgments employed in setting loss reserves.

Conclusion

OFHEO continues to believe that fair value is an important measure of Enterprise performance and capital strength, because it reflects market developments in a timely fashion. Fair value accounting is not without its issues, since in periods of extreme market turmoil fair value measurement and the interpretation of fair value results become difficult. On the other hand, the presently-used mixed-attribute accounting model has known drawbacks. Fair value losses on instruments that are not classified as "trading" are not recognized through earnings. Changes in the fair value of liabilities are not recognized at all. Unless FAS 133 hedge accounting is used, changes in the value of derivatives may flow through earnings while changes in the fair value of assets or liabilities that those derivatives hedge may not, causing financial reports not to reflect actual economic results.

At the heart of the process of choosing accounting principles is the question of which mix of choices will provide the most meaningful financial information for the users of the financial statements, as articulated in the Statements of Financial Accounting Concepts issued by the FASB. In this light OFHEO will continue to closely monitor the Enterprises' accounting choices.

Supervisory Actions

Consent Order and Other Supervisory Agreements

On May 23, 2006, OFHEO and Fannie Mae entered into a Consent Order to settle matters related to accounting, internal control and other failures that led to a restatement of financial results and the reporting of significant losses by the Enterprise. The agreement between OFHEO and Fannie Mae dated September 27, 2004, and a Supplement to that dated March 7, 2005 were incorporated into the May 23, 2006 Order. The Consent Order committed Fannie Mae to a significant number of remedial steps and Fannie Mae agreed to pay a $400 million penalty to the government. Fannie Mae made major progress in meeting the 81 requirements in the Consent Order.

Freddie Mac entered into a Consent Order dated December 9, 2003, to settle matters related to accounting and management problems identified in a special examination report. Freddie Mac paid a fine of $125 million. One provision remains open from the Consent Order, requiring separation of the positions of CEO and Chairman of the Board. Senior management submitted a transition plan to OFHEO in June 2007 that addressed this matter. A search committee has been established and efforts are under way to seek a qualified CEO. OFHEO continues to monitor management's progress in key areas highlighted by the Consent Order, including strengthening internal controls, developing a risk management oversight program, building a compliance oversight program, improving the internal accounting function, augmenting the internal audit program and striving to make positive changes to the corporate culture.

In the May 2006 Fannie Mae Consent Order, and in a voluntary agreement with Freddie Mac of June 2007, the government-sponsored enterprises (GSEs) agreed to restrict the growth of their retained mortgage portfolios. In September 2007, OFHEO agreed to give the Enterprises more flexibility to increase their portfolios, in line with the agreements, when they produced timely financial reports. OFHEO lifted the constraints on the retained mortgage portfolios in February 2008.

In January and September 2004, Freddie Mac and Fannie Mae, respectively, entered capital agreements with OFHEO. A key element was that they had to retain capital 30 percent above the minimum capital requirements.

Subsequent Events

On March 19, 2008, OFHEO reached an agreement with the Enterprises to reduce the OFHEO-directed capital requirement from 30 percent to 20 percent. The agreement also included the Enterprises' commitments to raise significant additional capital and to support GSE regulatory reform. At that time, OFHEO announced that Fannie Mae was in full compliance with its Consent Order and Freddie Mac had one open item. As a result, OFHEO expects to lift the Consent Order in the near-term.

Freddie Mac

On November 6, 2007, OFHEO entered into a Consent Order with former Freddie Mac Board Chairman and CEO Leland C. Brendsel that settled OFHEO's administrative enforcement action against him. The Notice of Charges against Mr. Brendsel filed on December 17, 2003, alleged misconduct and unsafe and unsound practices that led to the losses suffered by Freddie Mac. The Notice sought an order to cease and desist, civil money penalties, disgorgement, reimbursement and other relief.

Among other things, the Consent Order required Mr. Brendsel to pay $2.5 million to the U.S. government; disgorge previously paid salary and bonuses of $10.5 million to Freddie Mac; and waive claims against Freddie Mac for additional compensation, valued at more than $3.4 million.

The Consent Order provided that funds disgorged to Freddie Mac will be used to support initiatives and programs that seek to keep distressed homeowners in their homes.

On September 27, 2007, OFHEO entered into a Consent Order with former Freddie Mac Executive Vice President and CFO Vaughn A. Clarke in settlement of charges against Mr. Clarke. The charges against Mr. Clarke included allegations of misconduct and unsafe and unsound practices.

Among other things, the Order imposed a $125,000 civil penalty on Mr. Clarke, and required him to cooperate with OFHEO in any administrative proceedings against other Freddie Mac-related individuals and to forego any bonus not yet paid to him by Freddie Mac. Additionally, Mr. Clarke may not accept employment with Freddie Mac or Fannie Mae without the Director's written permission or accept employment with any federally-regulated financial institution without providing notice of this Order to the institution and its regulators.

OFHEO previously entered into a Consent Order with Freddie Mac and with former President and Chief Operating Officer David Glenn. The Consent Orders with Mr. Brendsel and Mr. Clarke resolve all outstanding enforcement proceedings and related litigation against Freddie Mac and its former officers.

Fannie Mae

On December 18, 2006, OFHEO initiated an administrative action against former Fannie Mae executives Franklin Raines, Timothy Howard and Leanne Spencer, seeking affirmative relief and civil money penalties for allegedly improper and unlawful conduct arising out of matters detailed in part in two special examination reports issued by OFHEO in September 2004 and May 2006. An evidentiary hearing in this action was scheduled on February 7, 2008 to commence in September 2008, before U. S. Administrative Law Judge William B. Moran.

Litigation has also continued in U. S. District Court for the District of Columbia regarding document and deposition subpoenas that have been served upon OFHEO by the executives against whom OFHEO has initiated a separate administrative enforcement action. The subpoenas arise out of consolidated shareholder litigation cases in which these same individuals are among the defendants. OFHEO has argued that the documents sought are not relevant and that the more than $6 million it has been required to spend to produce and prepare privilege logs for the documents was overly burdensome. The District Court rejected these arguments and ordered OFHEO to restore its disaster recovery tapes and search for internal agency emails going back to the mid-1990s. However, a January 22, 2008, order by the District Court holding OFHEO in contempt for not producing privilege logs quickly enough and requiring as a sanction that OFHEO produce privileged documents to defendants' counsel has been stayed by the D.C. Circuit Court of Appeals pending consideration of OFHEO's appeal of the matter. Subsequently, the privilege logs were delivered.

Mr. Howard filed a motion in the U. S. District Court for the District of Columbia and Mr. Raines and Ms. Spencer filed petitions for mandamus in the D.C. Circuit Court of Appeals, all seeking an order moving the administrative action from the administrative forum before Judge Moran into District Court, where it would be tried as part of the multidistrict securities litigation pending in District Court. The Court of Appeals denied the mandamus petitions on April 27, 2007, and the District Court denied the motion on June 13, 2007. The District Court's order has been appealed by Mr. Howard to the D.C. Circuit Court of Appeals.

Other Supervisory Actions

Prompt Supervisory Response

OFHEO's Prompt Supervisory Response and Corrective Action (PSRCA) rule requires the agency to respond to an Enterprise in the event of certain specific developments identified in the rule. One of the developments specified in the PSRCA rule is the event of quarterly GAAP earnings falling below a specified threshold or "trigger"—net income falling below half the average quarterly net income for a four-quarter period during the prior eight quarters.

In the first, third and fourth quarters of 2007, Freddie Mac reported net losses—its net income fell below this trigger under the PSRCA rule. Fannie Mae also reported net losses in the third and fourth quarters of 2007, which triggered the same provision of the PSRCA rule. As a result, OFHEO sent supervisory letters raising and asking the Enterprises to address concerns about the impact of declining net income on capital and related issues. The Enterprises responded to OFHEO as requested.

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 Enterprises to obtain the prior approval of OFHEO's director before entering into or changing termination agreements with their executive officers. No agreement of this kind may be approved unless the director determines that the benefits provided thereunder 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 Enterprises obtain OFHEO's prior approval for all payment of bonuses or other nonsalary cash or stock-based awards to executive officers.

OFHEO's corporate governance rule includes several requirements as follows:

- 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
- Requires reimbursement by a senior officer if an accounting restatement is required under certain circumstances

In 2007, OFHEO issued a revised list of covered officers who are deemed to be "executive officers" for purposes of executive compensation oversight. The agency reviewed and rendered decisions on 28 requests for approval of compensation actions from Fannie Mae and Freddie Mac. These actions involved new hires, promotions, separation agreements, severance benefits, bonuses and other nonsalary compensation.

To assist the agency in meeting its statutory obligations, OFHEO procured the services of a management consulting firm. This firm is charged with conducting an independent study of the compensation and termination benefits programs of the Enterprises. This research will assist OFHEO in considering whether the compensation provided by the Enterprises to their executive officers is reasonable and comparable to that of officers engaged in similar businesses, including other publicly held financial institutions or major financial service companies. The study is scheduled for completion this month.

Regulatory Guidance

On October 4, 2006, the Office of the Comptroller of the Currency, the Board of Governors of the Federal Reserve System, the Federal Deposit Insurance Corporation, the Office of Thrift Supervision and the National Credit Union Administration issued the *Interagency Guidance on Nontraditional Mortgage Product Risks,* and on July 10, 2007, published complementary guidance, the final *Statement on Subprime Mortgage Lending*. These issuances, which focused on certain mortgages with distinct and problematic underwriting criteria, including inadequate borrower income documentation and terms that resulted in payment shock to the borrower, provided guidance intended to protect consumers from unfair, deceptive and other predatory practices and to promote prudent risk management.

At the direction of OFHEO, on July 13, 2007, the Enterprises announced that they would conform their practices to comply with the *Interagency Guidance on Nontraditional Mortgage Product Risks*. These directives were effective for all mortgages sold to the Enterprises with an application date on or after September 13, 2007. In late July 2007, OFHEO cosponsored a "subprime summit" with the other federal financial regulators and helped lead the discussion on applying the regulatory guidances to loans purchased as part of private-label securities transactions. On August 10, 2007, OFHEO directed Fannie Mae and Freddie Mac to apply the principles and practices of the *Statement on Subprime Mortgage Lending* to purchases of subprime loans in the regular flow of business, including bulk purchases. OFHEO also directed that, not later than September 13, 2007, nontraditional and subprime loans purchased as part of private-label securities transactions comply with the *Interagency Guidance on Nontraditional Mortgage Product Risks* and the *Statement on Subprime Mortgage Lending*. Notably, the application of the guidances to private-label securities investments ensures that mortgages financed by the Enterprises in this manner conform to the underwriting provisions of the guidances.

Fannie Mae announced compliance with the *Statement on Subprime Mortgage Lending* on August 15, 2007, and Freddie Mac announced compliance in communications to its seller-servicers and dealers on September 7, 2007. As directed by OFHEO, the Enterprises are taking the necessary quality control steps to ensure the orderly and effective implementation of the guidances. Such actions include changes in their respective automated underwriting systems and are intended to preclude the purchase of noncompliant loans by Fannie Mae and Freddie Mac from regulated as well as unregulated entities. OFHEO examiners will closely monitor nontraditional and subprime guidance implementation in the ongoing examination process.

Requiring conformance with the nontraditional and subprime guidances reinforces the historic and statutory role of Fannie Mae and Freddie Mac in promoting market liquidity through the standardization of mortgage underwriting. Likewise, Enterprise actions bring discipline to otherwise unregulated entities that undertake to make residential mortgages. OFHEO will continue to work with federal and state regulators, and with Fannie Mae and Freddie Mac, to ensure that the essential mortgage credit needs of borrowers are addressed in a consistent manner in conformance with the guidances. Such safe and sound underwriting practices serve the interests of borrowers and lenders in promoting sustained homeownership.

Regulations

On December 5, 2007, OFHEO published in the *Federal Register* for public notice and comment a proposed regulation amending the OFHEO Risk-Based Capital (RBC) regulation. The amendments are intended to enhance the accuracy and transparency of the calculation of the RBC requirement for the Enterprises. The proposed rulemaking also would amend the RBC regulation to change the loss severity equations that understate losses on defaulted single-family conventional and government guaranteed loans. Additionally, the proposal would amend the treatment of Federal Housing Administration insurance in the RBC regulation in order to conform the treatment to current law. The comment period regarding the proposed rulemaking closed on March 4, 2008.

Guidances

OFHEO issued examination guidance PG-08-001, dated January 10, 2008, setting standards for overseeing and evaluating mortgage fraud policies and programs of the Enterprises under 12 C.F.R. 1731 consistent with the safety and soundness responsibilities of OFHEO. The guidance replaced OFHEO examination guidance PG-05-003, issued on July 25, 2005. The new guidance clarifies the definition of mortgage fraud; permits the Enterprises to designate scenarios that rise to a "pattern" of reportable cases of mortgage fraud or possible mortgage fraud, further enhancing their reporting to OFHEO; and revises the time frame and format of reporting to follow the Department of the Treasury's Financial Crimes Enforcement Network requirements.

Notices

On March 23, 2007, OFHEO published in the *Federal Register* a 60-day notice of intent to request approval of information collection from the Office of Management and Budget and request for comment. On September 14, 2007, OFHEO published in the *Federal Register* a 30-day notice of submission of information collection for approval from the Office of Management and Budget and to allow an additional 30 days of public comment from the March 23, 2007, notice. The collection of information is the OFHEO Application for Employment, an online job application form that is also available in paper copy. The collection of information is used to gather data concerning potential new hires for OFHEO, and the information is used to evaluate the qualifications of applicants for a variety of positions.

On October 22, 2007, OFHEO published in the *Federal Register* its notice of availability of statement and request for comments on revised draft examination guidance titled "Conforming Loan Limit Calculations." The published statement provided the conforming loan limit for 2008. The request for additional public comments was a follow-up to OFHEO's June 20, 2007, release on its Web site of a revised examination guidance for holding the conforming loan limit constant, rather than having it decline, should the relevant house price index decline by a *de minimis* amount and affirming that the current $417,000 conforming loan limit will not be reduced in 2008. On March 25, 2008, OFHEO published a Final Guidance on the conforming loan limit. The guidance provides that the limit will not decline below $417,000, but decreases in the limit will accumulate and offset future increases until the accumulated declines are offset. This will provide simplicity and avoid operational issues from market participants.

OFHEO Research And Publications

During 2007, OFHEO continued to focus its research plans and activities on topics that assist the agency in achieving its three strategic goals: (1) enhance supervision to ensure that 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 OFHEO's regulatory powers; and (3) continue to support the national policy of an efficient secondary mortgage market that 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 (HPI). 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, reports and related information are available at www.ofheo.gov. OFHEO employees also presented papers and led discussions at professional and industry conferences on topics related to housing finance and regulation of the Enterprises.

Research Products

OFHEO released several research products during 2007. In June, OFHEO issued four staff working papers. The first, "Securitized Jumbo Mortgages: 1986–2005," uses loan-level data to analyze the characteristics of jumbo mortgages financed through securitization. The second, "Home Improvements and Appreciation Rates Reflected in the OFHEO House Price Index," employs three different techniques to measure the effect of changes in the quality of the housing stock on observed house price appreciation rates. The third and fourth are titled "Subordinated Debt Issuance by Fannie Mae and Freddie Mac" and "Signals from the Markets for Fannie Mae and Freddie Mac Subordinated Debt." The first of those papers examines the usefulness of Enterprise subordinated debt as a source of market discipline, whereas the second investigates whether movements in subordinated debt yields accurately demonstrate market perception of Enterprise risk. In August, OFHEO staff issued a working paper titled "Zero Down Payment Mortgage Default," which uses Federal Housing Administration data to analyze the default rates on loans without a down payment by the borrower.

OFHEO published four other research products during 2007. The first, a research paper published in June and revised in July and titled "A Note on the Differences between the OFHEO and S&P/Case-Shiller House Price Indexes," explores the differences in methodology and underlying data that result in a divergence between the house price appreciation rates reported in the referenced indexes. "Mortgage Markets and the Enterprises in 2006," released in June, reviews developments in the housing sector, activity in the primary and secondary mortgage markets and the financial performance of Fannie Mae and Freddie Mac in 2006. The paper is the most recent in an annual series.

Two other research products were the first in a new series of mortgage market notes aimed at providing background information on select topics related to the mortgage market and the role of the Enterprises and of OFHEO. “Portfolio Caps and Conforming Loan Limits,” published in September, is a primer on the retained portfolio caps and the conforming loan limit. “Historical Trends in the Conforming Loan Limit,” published in October, examines the historical evolution of the conforming loan limit relative to household income, consumer prices and house prices in different regions, states and Metropolitan Statistical Areas (MSAs).

In addition to those research products, OFHEO made public updated estimates of single-family mortgages originated and outstanding and the Enterprises’ combined share of residential mortgage debt outstanding.

House Price Index

OFHEO also continued quarterly publication of its 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 MSAs or Metropolitan Divisions. The HPI is based on an analysis of data from more than 33 million repeat transactions over the past 32 years. OFHEO developed the index as an input for its risk-based capital stress test. The HPI is now regularly reported by media organizations throughout the nation and is used by researchers to analyze house price behavior.

OFHEO’s standard house price indexes are estimated using purchase price data and appraisal valuations from refinance mortgages. Between 2004 and early 2007, however, OFHEO also published a national “purchase-only” index, an index estimated using only sales price data. That index became widely used by the public, and users expressed interest in “purchase-only” indexes for smaller geographic areas (e.g., Census Divisions). To satisfy such demand, in 2007, OFHEO began releasing purchase-only indexes for Census Divisions and states. Data for those indexes were made available for download on OFHEO’s Web site and were periodically cited in HPI analyses. Seasonally adjusted and unadjusted purchase-only indexes were released for each Census Division.

To provide users with information about types of loans used in the calibration of OFHEO’s standard all-transactions indexes, OFHEO also began releasing statistics showing trends in the share of different types of mortgages in the estimation sample. Beginning with the HPI release for the first quarter of 2007, a data table was made available for download that showed the fraction of loans that were for home purchases and refinances. For quarters extending back to 1991, the file reports the share of loans that were for home purchases, rate-term refinances and cash-out refinances. Rate-term refinances are mortgages aimed at changing the mortgage interest rate or the term of the mortgage. Cash-out refinances are those in which the borrower extracts equity from the home and increases the loan balance.

Besides discussing the new purchase-only indexes and those new data on loan purpose, the Highlights articles that accompanied the 2007 HPI releases studied other subjects. The Highlights article provided with the second quarter 2007 HPI release, for example, analyzed monthly house price measures. The article assessed the availability and reliability of existing monthly price metrics and presented a monthly index constructed using data from Fannie Mae and Freddie Mac. The magnitude of index revisions for such measures was analyzed using historical data from the Enterprises. The data results suggested that revisions would not be particularly dramatic for U.S. or Census Division monthly indexes.

The Highlights article associated with the third quarter HPI release studied the correlation between mortgage foreclosures and house price appreciation. The article discussed the bi-directional association between the two, noting that relatively intense foreclosure activity causes and is caused by home price declines. The close association between home value changes and foreclosures was illustrated for states and the 100 largest MSAs. A brief empirical study was then undertaken to determine whether, within select cities, high-foreclosure ZIP Codes had experienced greater price declines than other areas.

OFHEO Performance and Program Assessment

In November, OFHEO published timely its annual Performance and Accountability Report (PAR), which describes OFHEO's accomplishments and how it met its performance goals during fiscal year 2007. The PAR reported that of OFHEO's 34 performance measures, the agency fully achieved 28 and substantially achieved seven, leaving only one not achieved. The PAR also contains OFHEO's audited financial statements for the fiscal year.

Working jointly with the Office of Management and Budget, OFHEO published an update of its progress in accomplishing improvements identified last year through the government-wide Program Assessment Rating Tool (PART). 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.

OFHEO made great strides this past year in making improvements called for in the PART review, completing two of three improvement plan action items. The third action item, enactment of GSE reform legislation, depends on congressional action. The House of Representatives did pass a balanced GSE Reform bill in May 2007. OFHEO continues to be proactive in assisting the Administration and Congress in support of making these changes.

In the last year, OFHEO's accomplishments included the following:

- OFHEO completed the first two action items by developing and rating the Enterprises through bank regulator–like risk measures. OFHEO reported the results in the FY 2007 PAR issued November 15, 2007.
- OFHEO made even further improvements by developing an improved risk rating structure—GSE Enterprise Risk (GSE ER)—and began to apply it to the Enterprises for the third quarter of the calendar year (CY) 2007 assessment. GSE ER stands for Governance, Solvency, Earnings, and the term Enterprise Risk encompasses credit, market and operational risks.
- The revised structure combines the two sets of ratings structures that OFHEO used in 2006 and 2007. OFHEO will use the revised structure in tandem with the prior sets for the CY 2007 examination conclusions as a transition for this year.

The 2006 PART assessment and the current update can be found at the following links:

OFHEO PART assessment released 2006:
http://www.whitehouse.gov/omb/expectmore/summary/10006241.2006.html

PART Assessment detail with new improvement plans and completed actions as of Feb. 2008:
http://www.whitehouse.gov/omb/expectmore/detail/10006241.2006.html

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 semiannual assessments from Fannie Mae and Freddie Mac.

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

OFHEO's FY 2008 budget of $66 million was passed by Congress and signed into law by the President on December 26, 2007. For nearly all of the first quarter of FY 2008, however, OFHEO operated under a Continuing Resolution (CR) at its base FY 2007 level of $60 million. The CR restricted OFHEO's financial flexibility at the same time the agency was engaged in litigation and trial preparation related to an enforcement action against one of the Enterprises as well as trying to fill significant personnel vacancies.

Unqualified Audit Opinion in Fiscal Year 2007

OFHEO received an unqualified audit opinion on its FY 2007 financial statements. This marks the tenth straight year OFHEO has received a clean audit opinion, dating back to 1998, when OFHEO first chose to have its financial statements audited by external auditors. OFHEO's auditor (Dembo, Jones, Healy, Pennington & Marshall, P.C.) identified no material weaknesses in internal controls or instances of noncompliance with laws and regulations.

Historical Data Tables

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Table 1. Fannie Mae Mortgage Purchases

Period	Business Activity ($ in Millions)			
	Purchases[1]			
	Single-Family[2] ($)	Multifamily[2] ($)	Total Mortgages[2] ($)	Mortgage-Related Securities[3] ($)
4Q07	185,676	20,356	206,032	8,985
3Q07	175,811	7,455	183,266	22,939
2Q07	157,342	10,487	167,829	21,775
1Q07	140,537	7,004	147,541	15,537
Annual Data				
2007	659,366	45,302	704,668	69,236
2006	524,379	20,646	545,025	102,666
2005	537,004	21,485	558,489	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 Based on unpaid principal balances and excludes mortgage loans and mortgage-related securities traded, but not yet settled.

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

Period	Purchases ($ in Millions)[1]											
	Single Family Mortgages								Multifamily Mortgages			Total Mortgage Purchases ($)
	Conventional				FHA/VA			Total Single-Family Mortgages ($)	Conventional ($)	FHA/RHS ($)	Total Multi-family Mortgages ($)	
	Fixed-Rate[2] ($)	Adjustable-Rate ($)	Seconds ($)	Total ($)	Fixed-Rate[3] ($)	Adjustable-Rate ($)	Total ($)					
4Q07	166,602	13,073	9	179,684	303	5,689	5,992	185,676	20,356	0	20,356	206,032
3Q07	152,701	20,974	10	173,685	375	1,751	2,126	175,811	7,455	0	7,455	183,266
2Q07	143,258	12,261	9	155,528	64	1,750	1,814	157,342	10,487	0	10,487	167,829
1Q07	120,692	17,825	6	138,523	495	1,519	2,014	140,537	7,004	0	7,004	147,541
Annual Data												
2007	583,253	64,133	34	647,420	1,237	10,709	11,946	659,366	45,302	0	45,302	704,668
2006	429,930	85,313	130	515,373	1,576	7,430	9,006	524,379	20,644	2	20,646	545,025
2005	416,720	111,935	116	528,771	2,285	5,948	8,233	537,004	21,343	142	21,485	558,489
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 Includes Lender-originated MBS issuances and cash purchases. Based on unpaid principal balances and excludes mortgage loans traded, but not yet settled.

2 Includes balloon/reset and energy loans.

3 Includes loans guaranteed by the Rural Housing Service.

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

Period	Purchases ($ in Millions)[1]														
	Fannie Mae Securities				Others' Securities										
	Single-Family				Freddie Mac				Ginnie Mae						
					Single-Family				Single-Family						
	Fixed-Rate ($)	Adjustable-Rate ($)	Multi-family ($)	Total Fannie Mae ($)	Fixed-Rate ($)	Adjustable-Rate ($)	Multi-family ($)	Total Freddie Mac ($)	Fixed-Rate ($)	Adjustable-Rate ($)	Multi-family ($)	Total Ginnie Mae ($)	Total Private-Label ($)	Mortgage Revenue Bonds ($)	Total Mortgage-Related Securities ($)
4Q07	2,888	1,045	12	3,945	794	715	0	1,509	0	27	0	27	3,097	407	8,985
3Q07	8,212	2,292	299	10,803	737	1,109	0	1,846	0	0	0	0	10,049	241	22,939
2Q07	4,544	2,761	65	7,370	390	1,915	0	2,305	0	8	0	8	11,965	127	21,775
1Q07	482	2,179	130	2,791	96	316	0	412	0	0	0	0	12,324	10	15,537
Annual Data															
2007	16,126	8,277	506	24,909	2,017	4,055	0	6,072	0	35	0	35	37,435	785	69,236
2006	23,177	14,826	429	38,432	1,044	5,108	0	6,152	77	0	0	77	57,787	218	102,666
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	4,425	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] Includes purchases of Fannie Mae MBS for the retained mortgage portfolio. Beginning in October 2007, activity does not include transactions recorded as dollar rolls. Based on unpaid principal balances and excludes mortgage-related securities traded, but not yet settled.

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

	Purchases ($ in Millions)[1]								
	Private-Label								
	Single-Family								
		Subprime		Alt-A		Other			
Period	Manufactured Housing ($)	Fixed-Rate ($)	Adjustable-Rate ($)	Fixed-Rate ($)	Adjustable-Rate ($)	Fixed-Rate ($)	Adjustable-Rate ($)	Multifamily ($)	Total Private-Label ($)
4Q07	0	0	972	0	0	0	0	2,125	3,097
3Q07	0	0	2,992	38	1,839	0	178	5,002	10,049
2Q07	0	0	5,854	0	1,690	0	0	4,421	11,965
1Q07	0	343	5,810	0	1,721	0	0	4,450	12,324
Annual Data									
2007	0	343	15,628	38	5,250	0	178	15,998	37,435
2006	0	0	34,876	1,504	10,443	0	1,274	9,690	57,787
2005	0	0	16,344	3,091	12,535	483	8,814	102	41,369
2004	0	176	34,321	6,978	14,826	221	34,124	101	90,747
2003	0	0	15,881	7,734	370	98	9,888	61	34,032
2002	56	0	2,680	1,165	0	815	2,664	36	7,416
2001	Not Available	Not Available	Not Available	Not Available	Not Available	Not Available	Not Available	Not Available	3,513
2000	Before 2002	Before 2002	Before 2002	Before 2002	Before 2002	Before 2002	Before 2002	Before 2002	8,466
1999									16,511
1998									15,721
1997									4,188
1996									777
1995									752
1994									0
1993									0
1992									0
1991									0
1990									0

Source: Fannie Mae

[1] Based on unpaid principal balances and excludes mortgage-related securities traded, but not yet settled.

Table 2. Fannie Mae MBS Issuances[1]

Period	Business Activity ($ in Millions)			
	MBS Issuances[2]			
	Single-Family MBS ($)	Multifamily MBS ($)	Total MBS ($)	Multiclass MBS[3] ($)
4Q07	172,013	4,088	176,101	19,623
3Q07	170,257	947	171,204	26,831
2Q07	148,453	1,426	149,879	36,525
1Q07	131,735	688	132,423	29,584
Annual Data				
2007	622,458	7,149	629,607	112,563
2006	476,161	5,543	481,704	124,856
2005	500,759	9,379	510,138	123,813
2004	545,635	6,847	552,482	94,686
2003	1,196,730	23,336	1,220,066	260,919
2002	731,133	12,497	743,630	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 for 2002, 2003 and 2004 has been restated to reflect changes in accounting policies as described in Fannie Mae's Annual Report on Form 10-K for the year ended December 31, 2004.

2 Lender-originated MBS plus issuances from Fannie Mae's portfolio. Based on unpaid principal balances and excludes mortgage-related securities traded, but not yet settled.

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

Table 3. Fannie Mae Earnings

Period	Earnings ($ in Millions)						
	Net Interest Income[1] ($)	Guarantee Fee Income[2] ($)	Average Guarantee Fee (basis points)	Administrative Expenses ($)	Credit-Related Expenses[3] ($)	Net Income (Loss) ($)	Return on Equity[4] (%)
4Q07	1,136	1,621	28.5	651	2,973	(3,559)	(51.0)
3Q07	1,058	1,232	22.8	660	1,200	(1,399)	(19.4)
2Q07	1,193	1,120	21.5	660	518	1,947	22.6
1Q07	1,194	1,098	21.8	698	321	961	10.1
Annual Data							
2007	4,581	5,071	23.7	2,669	5,012	(2,050)	(8.3)
2006	6,752	4,250	22.2	3,076	783	4,059	11.3
2005	11,505	4,006	22.3	2,115	428	6,347	19.5
2004	18,081	3,784	21.8	1,656	363	4,967	16.6
2003	19,477	3,432	21.9	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	23.5
1986	384	175	23.8	175	306	105	9.5
1985	139	112	25.6	142	206	(7)	(0.7)
1984	(90)	78	26.2	112	86	(71)	(7.4)
1983	(9)	54	26.3	81	48	49	5.1
1982	(464)	16	27.2	60	36	(192)	(18.9)
1981	(429)	0	25.0	49	(28)	(206)	(17.2)
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

[1] Interest income net of interest expense. Beginning November 2006, fees received from the interest earned on cash flows between the date of remittance of mortgage and other payments to Fannie Mae by servicers and the date of distribution of these payments to MBS investors are excluded from "Net Interest Income."

[2] 2003, 2004, and 2005 amounts previously recorded as a component of "Fee and Other Income" in Fannie Mae's consolidated statements of operations have been reclassified as and are reported above as "Guarantee Fee Income" to conform to the current year presentation in Fannie Mae's 2007 10-K.

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

[4] Net income (loss) 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)[2]	
	Total Assets[3] ($)	Total Retained Mortgage Portfolio[4] ($)	Non-Mortgage Investments[5] ($)	Debt Outstanding ($)	Shareholders' Equity ($)	Core Capital[6] ($)	Fair Value of Net Assets ($)	Total MBS Outstanding[7] ($)	Multiclass MBS Outstanding[8] ($)
4Q07	882,547	723,620	86,875	796,299	44,011	45,373	35,799	2,118,909	490,692
3Q07	839,783	724,162	47,331	761,765	39,922	41,713	34,177	2,003,382	489,037
2Q07	857,802	720,011	68,716	780,679	39,670	42,690	N/A	1,907,658	485,430
1Q07	839,464	716,536	65,793	764,944	41,431	41,710	N/A	1,845,531	468,358
Annual Data									
2007	882,547	723,620	86,875	796,299	44,011	45,373	35,799	2,118,909	490,692
2006	843,936	726,434	56,983	767,046	41,506	41,950	43,699	1,777,550	456,970
2005	834,168	736,803	46,016	764,010	39,302	39,433	42,199	1,598,918	412,060
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

N/A = not available

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

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

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

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

5 Data reflect unpaid principal balance net of unamortized purchase premiums, discounts and cost basis adjustments, as well as fair value adjustments and impairments on available for sale securities. Since 2005, advances to lenders are not included. Amounts for periods prior to 2005 may include or consist of advances to lenders. Prior to 1982, the majority of non-mortgage investments consisted of U.S. government securities and agency securities.

6 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) paid-in capital; and (d) retained earnings, less treasury stock. Core capital excludes accumulated other comprehensive income.

7 Unpaid principal balance of Fannie Mae MBS held by third-party investors. The principal balance of resecuritized Fannie Mae MBS is included only once.

8 Beginning in 2006, includes securities guaranteed by Fannie Mae that are backed by Ginnie Mae collateral and 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 ($ in Millions)[2]							Multifamily Mortgages ($ in Millions)[2]			Total MBS Outstanding[3] ($)
	Conventional				FHA/VA						
	Fixed-Rate ($)	Adjustable-Rate ($)	Seconds ($)	Total ($)	Fixed-Rate ($)	Adjustable-Rate ($)	Total ($)	Conventional ($)	FHA/RHS ($)	Total Multi-family ($)	
4Q07	1,850,150	214,245	0	2,064,395	14,982	275	15,257	38,218	1,039	39,257	2,118,909
3Q07	1,725,967	222,766	0	1,948,733	15,418	302	15,720	37,780	1,149	38,929	2,003,382
2Q07	1,628,478	223,100	0	1,851,578	15,845	349	16,194	38,648	1,238	39,886	1,907,658
1Q07	1,555,019	231,790	0	1,786,809	16,778	393	17,171	40,255	1,296	41,551	1,845,531
Annual Data											
2007	1,850,150	214,245	0	2,064,395	14,982	275	15,257	38,218	1,039	39,257	2,118,909
2006	1,484,147	230,667	0	1,714,814	18,615	454	19,069	42,184	1,483	43,667	1,777,550
2005	1,290,354	232,689	0	1,523,043	23,065	668	23,733	50,346	1,796	52,142	1,598,918
2004	1,243,343	75,722	0	1,319,065	31,389	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 accounting policies as described in Fannie Mae's Annual Report on Form 10-K for the year ended December 31, 2004.

2 Unpaid principal balance of Fannie Mae MBS held by third party investors. The principal balance of resecuritized Fannie Mae MBS is included only once.

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

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

($ in Millions)					
End of Period	Whole Loans[2,3] ($)	Fannie Mae Securities[2,4] ($)	Others' Mortgage-Related Securities[2,4] ($)	Unamortized Premiums, Discounts, Deferred Adjustments, and Fair Value Adjustments on Securities[5] ($)	Total Retained Mortgage Portfolio ($)
4Q07	403,577	180,163	144,163	(4,283)	723,620
3Q07	399,420	175,290	153,868	(4,416)	724,162
2Q07	392,690	179,860	154,099	(6,638)	720,011
1Q07	386,372	183,157	148,593	(1,586)	716,536
Annual Data					
2007	403,577	180,163	144,163	(4,283)	723,620
2006	383,045	199,644	146,243	(2,498)	726,434
2005	366,680	234,451	136,758	(1,086)	736,803
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

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

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

3 Beginning with 2002, includes mortgage-related securities that were consolidated as loans as of period end. For 1999, 2000, and 2001, includes certain loans held for investment that were classified as non-mortgage investments.

4 Beginning with 2002, excludes mortgage-related securities that were consolidated as loans as of period end.

5 Beginning in 2002, amounts include fair value adjustments and impairments on mortgage-related securities and securities commitments classified as trading and available-for-sale. Excludes the allowance for loan losses on loans held for investment.

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 ($)	
4Q07	240,090	43,278	261	283,629	28,202	90,931	815	91,746	403,577
3Q07	247,293	51,296	265	298,854	23,101	76,606	859	77,465	399,420
2Q07	249,321	48,903	269	298,493	21,970	71,332	895	72,227	392,690
1Q07	252,806	47,364	276	300,446	21,018	63,980	928	64,908	386,372
Annual Data									
2007	240,090	43,278	261	283,629	28,202	90,931	815	91,746	403,577
2006	255,490	46,820	287	302,597	20,106	59,374	968	60,342	383,045
2005	261,214	38,331	220	299,765	15,036	50,731	1,148	51,879	366,680
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 accounting policies as described in Fannie Mae's Annual Report on Form 10-K for the year ended December 31, 2004.

2 Based on unpaid principal balances and excludes mortgage loans traded, but not yet settled. Beginning with 2002, includes mortgage-related securities that were consolidated as loans as of period end. For 1999, 2000, and 2001 includes certain loans held for investment that were classified as non-mortgage 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 ($)				Others' Securities									
	Single-Family				Freddie Mac				Ginnie Mae					
					Single-Family				Single-Family					
	Fixed-Rate ($)	Adjustable-Rate ($)	Multi-family ($)	Total Fannie Mae ($)	Fixed-Rate ($)	Adjustable-Rate ($)	Multi-family ($)	Total Freddie Mac ($)	Fixed-Rate ($)	Adjustable-Rate ($)	Multi-family ($)	Total Ginnie Mae ($)	Total Private-Label ($)	Total Others' Securities ($)
4Q07	158,863	20,741	559	180,163	16,954	14,425	0	31,379	1,575	34	50	1,659	94,810	127,848
3Q07	168,987	5,777	526	175,290	16,748	14,227	0	30,975	1,637	9	50	1,696	105,041	137,712
2Q07	175,368	3,926	566	179,860	16,988	13,876	0	30,864	1,721	9	56	1,786	105,090	137,740
1Q07	178,373	4,224	560	183,157	16,720	12,592	0	29,312	1,814	0	56	1,870	100,786	131,968
Annual Data														
2007	158,863	20,741	559	180,163	16,954	14,425	0	31,379	1,575	34	50	1,659	94,810	127,848
2006	194,702	4,342	600	199,644	17,304	12,773	0	30,077	1,905	0	56	1,961	97,281	129,319
2005	230,546	3,030	875	234,451	18,850	9,861	0	28,711	2,273	0	57	2,330	86,915	117,956
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 accounting policies as described in Fannie Mae's Annual Report on Form 10-K for the year ended December 31, 2004.

2 Unpaid principal balance. Beginning with 2002, excludes mortgage-related securities that were consolidated as loans as of period end.

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								
	Manufactured Housing ($)	Subprime		Alt-A		Other		Multifamily ($)	Total Private-Label ($)
		Fixed-Rate ($)	Adjustable-Rate ($)	Fixed-Rate ($)	Adjustable-Rate ($)	Fixed-Rate ($)	Adjustable-Rate ($)		
4Q07	3,316	503	31,537	9,221	23,254	319	1,187	25,473	94,810
3Q07	3,449	523	42,307	9,477	24,343	329	1,232	23,381	105,041
2Q07	3,599	598	47,021	17,684	16,068	368	1,228	18,524	105,090
1Q07	3,752	229	46,026	18,648	15,889	385	1,587	14,270	100,786
Annual Data									
2007	3,316	503	31,537	9,221	23,254	319	1,187	25,473	94,810
2006	3,902	242	44,940	19,601	15,522	1,134	2,083	9,857	97,281
2005	4,622	311	27,597	11,403	21,135	1,029	20,775	43	86,915
2004	5,461	1,666	39,897	11,609	14,164	1,536	34,417	59	108,809
2003	6,522	409	16,440	7,579	383	3,824	11,726	96	46,979
2002	9,583	635	3,017	1,574	20	8,342	4,842	144	28,157
2001	10,708	Not Available	Not Available	Not Available	Not Available	Not Available	Not Available	299	29,175
2000	Not Available	Before 2002	Before 2002	Before 2002	Before 2002	Before 2002	Before 2002	Not Available	34,266
1999	Before 2001							Before 2001	31,673
1998									19,585
1997									5,554
1996									1,486
1995									747
1994									1
1993									2
1992									3
1991									93
1990									352
1989									831
1988									810
1987									1,036
1986									1,591
1985									Not Available
1984									Before 1986
1983									

Source: Fannie Mae

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

2 Unpaid principal balance. Beginning with 2002, excludes mortgage-related securities that were consolidated as loans as of period end.

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 Fair Value Adjustments on Securities[3] ($)	Total Retained Mortgage Portfolio ($)
4Q07	16,315	324,326	(4,283)	723,620
3Q07	16,156	329,158	(4,416)	724,162
2Q07	16,359	333,959	(6,638)	720,011
1Q07	16,625	331,750	(1,586)	716,536
Annual Data				
2007	16,315	324,326	(4,283)	723,620
2006	16,924	345,887	(2,498)	726,434
2005	18,802	371,209	(1,086)	736,803
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

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

2 Unpaid principal balance.

3 Beginning in 2002, amounts include fair value adjustments and impairments on mortgage-related securities and securities commitments classified as trading and available-for-sale. Excludes the allowance for loan losses on loans held for investment.

Table 6. Fannie Mae Financial Derivatives[1]

End of Period	Financial Derivatives - Notional Amount Outstanding ($ in Millions)						
	Interest Rate Swaps[2] ($)	Interest Rate Caps, Floors, and Corridors ($)	Foreign Currency Contracts ($)	OTC Futures, Options, and Forward Rate Agreements ($)	Mandatory Mortgage Purchase & Sell Commitments ($)	Other ($)	Total ($)
4Q07	671,274	2,250	2,559	210,381	55,366	0	941,830
3Q07	595,464	2,750	3,642	212,509	84,632	0	898,997
2Q07	560,234	6,250	4,469	215,075	58,956	0	844,984
1Q07	486,470	9,500	4,959	204,075	41,588	0	746,592
Annual Data							
2007	671,274	2,250	2,559	210,381	55,366	0	941,830
2006	516,571	14,000	4,551	210,271	39,928	0	785,321
2005	317,470	33,000	5,645	288,000	39,194	0	683,309
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

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

2 Beginning in 2002, includes MBS options, swap credit enhancements, and forward-starting debt.

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] ($)	Commercial Paper and Corporate Debt[4] ($)	Other[5] ($)	Total ($)
4Q07	43,510	15,511	5,250	13,515	9,089	86,875
3Q07	7,800	20,367	0	18,926	238	47,331
2Q07	16,195	22,239	0	25,594	4,688	68,716
1Q07	13,938	21,218	0	25,778	4,859	65,793
Annual Data						
2007	43,510	15,511	5,250	13,515	9,089	86,875
2006	9,410	18,914	0	27,604	1,055	56,983
2005	8,900	19,190	0	16,979	947	46,016
2004	3,860	25,644	0	16,435	1,829	47,839
2003	12,575	26,862	0	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

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

2 Data reflect unpaid principal balance net of unamortized purchase premium, discounts and cost basis adjustments and fair value adjustments and impairments on available-for-sale securities. Prior to 1982, the majority of non-mortgage investments consisted of U.S. government and agency securities.

3 Since 2005, advances to lenders are not included in the data. Amounts for periods prior to 2005 may include or consist of advances to lenders. Includes tri-party repo.

4 Includes commercial paper, floating-rate notes, taxable auction notes, corporate bonds and auction-rate preferred stock. Starting with 2006, medium-term notes previously reported in Other are included in Commercial Paper.

5 Includes Yankee and domestic CDs.

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 as a Proportion of the Guarantee Book of Business[4, 5] (%)	REO as a Proportion of the Guarantee Book of Business[5, 6] (%)	Credit-Enhanced Outstanding as a Proportion of the Guarantee Book of Business[6, 7] (%)
4Q07	0.98	0.08	0.08	0.13	22.1
3Q07	0.78	0.08	0.05	0.12	21.5
2Q07	0.64	0.09	0.04	0.11	22.7
1Q07	0.62	0.09	0.03	0.10	22.2
Annual Data					
2007	0.98	0.08	0.05	0.13	22.1
2006	0.65	0.08	0.02	0.09	22.3
2005	0.79	0.32	0.01	0.08	21.8
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

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

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 had 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 2002, data includes all loans and securities 60 days or more past due and is calculated based on unpaid principal balance of delinquent multifamily loans owned by Fannie Mae or underlying Fannie Mae guaranteed securities. 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 had primary risk of loss. 2006 data have been updated to reflect new methodology.

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. Beginning in 2005, credit losses exclude the impact of SOP 03-3.

5 Prior to 2005, ratio was based on the mortgage credit book of business, which includes non-Fannie Mae mortgage-related securities held in the retained mortgage portfolio that are not guaranteed. "Guarantee Book of Business" refers to the sum of the unpaid principal balance of (1) mortgage loans held in the retained portfolio; (2) Fannie Mae MBS held in the retained portfolio; (3) Fannie Mae MBS held by third parties; and (4) credit enhancements that Fannie Mae provides on mortgage assets. It excludes non-Fannie Mae mortgage-related securities held in the retained portfolio for which no guarantee is provided.

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

7 Beginning in 2000, "credit-enhanced" is expanded to include primary mortgage insurance. Amounts for periods 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						
	Core Capital ($)	Minimum Capital Requirement[2] ($)	Minimum Capital Surplus (Deficit)[2] ($)	Total Capital[3] ($)	Risk-Based Capital Requirement[4] ($)	Risk-Based Capital Surplus (Deficit)[5] ($)	Market Capitalization[6] ($)	Core Capital/Total Assets (%)	Core Capital/Total MBS Outstanding Plus Total Assets (%)	Common Share Dividend Payout Rate[7] (%)
4Q07	45,373	31,927	13,446	48,658	24,700	23,958	38,946	5.14	1.51	N/A
3Q07	41,713	30,303	11,410	43,053	24,676	18,377	59,215	4.97	1.47	N/A
2Q07	42,690	30,328	12,362	43,798	10,225	33,573	63,598	4.98	1.54	26.8
1Q07	41,710	29,528	12,182	42,575	20,536	22,039	53,117	4.97	1.55	47.2
Annual Data										
2007	45,373	31,927	13,446	48,658	24,700	23,958	38,946	5.14	1.51	N/A
2006	41,950	29,359	12,591	42,703	26,870	15,833	57,735	4.97	1.60	32.4
2005	39,433	28,233	11,200	40,091	12,636	27,455	47,373	4.73	1.62	17.2
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	3.15	1.51	23.0
2000	20,827	20,293	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	1.43	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	9,415	126	10,368			19,882	3.50	1.26	30.8
1993	8,052	7,064	988	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

Sources: Fannie Mae and OFHEO

N/A = not available

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

2 Since the third quarter of 2005, OFHEO has directed Fannie Mae to maintain an additional 30 percent 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 additional 30 percent 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. Information after 2001 reflects restated or most recently reported amounts, rather than amounts originally reported and used by OFHEO to make capital classifications.

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 and Soundness Act of 1992. For 2004 through the second quarter of 2007, the requirements were calculated based on originally reported, not restated or revised, financial results.

5 The difference between Total Capital and the Risk-Based Capital Requirement. For 2004 through the second quarter of 2007, the difference reflects restated and revised Total Capital, rather than Total Capital originally reported by Fannie Mae and used by OFHEO to make capital classifications.

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

7 Common dividends declared during the period divided by net income available to common stockholders for the period.

Table 10. Freddie Mac Mortgage Purchases[1]

Business Activity ($ in Millions)				
Purchases[2]				
Period	Single-Family ($)	Multifamily ($)	Total Mortgages[3] ($)	Mortgage-Related Securities[4] ($)
4Q07	110,407	12,487	122,894	51,384
3Q07	123,074	3,504	126,578	65,717
2Q07	118,308	2,515	120,823	57,816
1Q07	114,277	3,139	117,416	56,122
Annual Data				
2007	466,066	21,645	487,711	231,039
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 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 purchases of non-Freddie Mac MBS as well as Freddie Mac MBS repurchased into the retained mortgage portfolio.

4 Not included in total mortgages. For the period 2002 through the current period, amounts include non-Freddie Mac mortgage-related securities as well as Freddie Mac MBS repurchased into the retained mortgage portfolio. For years prior to 2002, amounts 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			
	Conventional				FHA/VA							
Period	Fixed-Rate[4] ($)	Adjustable-Rate[5] ($)	Seconds ($)	Total ($)	Fixed-Rate ($)	Adjustable-Rate ($)	Total ($)	Total Single-Family Mortgages ($)	Conventional ($)	FHA/RHS ($)	Total Multi-family Mortgages ($)	Total Mortgage Purchases ($)
4Q07	100,410	9,986	0	110,396	11	0	11	110,407	12,487	0	12,487	122,894
3Q07	108,695	14,377	0	123,072	2	0	2	123,074	3,504	0	3,504	126,578
2Q07	93,167	25,123	0	118,290	18	0	18	118,308	2,515	0	2,515	120,823
1Q07	85,488	28,663	0	114,151	126	0	126	114,277	3,139	0	3,139	117,416
						Annual Data						
2007	387,760	78,149	0	465,909	157	0	157	466,066	21,645	0	21,645	487,711
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 financial results.

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

3 Loans purchased from lenders. Excludes purchases of non-Freddie Mac MBS as well as Freddie Mac MBS repurchased into the retained mortgage portfolio.

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 balloon/reset mortgages.

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

Period	Purchases ($ in Millions)[2]														
	Freddie Mac Securities				Others' Securities										
	Single-Family				Fannie Mae				Ginnie Mae						
					Single-Family				Single-Family						
	Fixed-Rate ($)	Adjustable-Rate ($)	Multi-family ($)	Total Freddie Mac ($)	Fixed-Rate ($)	Adjustable-Rate ($)	Multi-family ($)	Total Fannie Mae ($)	Fixed-Rate ($)	Adjustable-Rate ($)	Multi-family ($)	Total Ginnie Mae ($)	Total Private-Label ($)	Mortgage Revenue Bonds ($)	Total Mortgage-Related Securities[3] ($)
4Q07	33,285	2,068	2,283	37,636	91	1,511	0	1,602	0	0	0	0	11,740	406	51,384
3Q07	40,708	6,402	0	47,110	976	4,623	0	5,599	0	0	0	0	12,404	604	65,717
2Q07	21,439	7,799	0	29,238	782	2,738	0	3,520	0	0	0	0	24,500	558	57,816
1Q07	16,544	10,531	0	27,075	321	991	0	1,312	0	0	0	0	27,490	245	56,122
Annual Data															
2007	111,976	26,800	2,283	141,059	2,170	9,863	0	12,033	0	0	0	0	76,134	1,813	231,039
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 financial results.

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

3 For years prior to 2002, amounts exclude 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 ($)	Subprime		Alt-A		Other[3]			
		Fixed-Rate ($)	Adjustable-Rate ($)	Fixed-Rate ($)	Adjustable-Rate ($)	Fixed-Rate ($)	Adjustable-Rate ($)		
4Q07	127	224	6,988	173	1,030	4	0	3,194	11,740
3Q07	0	619	5,173	260	355	4	0	5,993	12,404
2Q07	0	0	14,025	269	3,259	33	0	6,914	24,500
1Q07	0	0	16,638	0	4,662	7	0	6,183	27,490
Annual Data									
2007	127	843	42,824	702	9,306	48	0	22,284	76,134
2006	0	116	74,645	718	29,828	48	0	16,875	122,230
2005	0	Not Available	Not Available	Not Available	Not Available	2,191	162,931	14,840	179,962
2004	0	Before 2006	Before 2006	Before 2006	Before 2006	1,379	108,825	10,878	121,082
2003	0					Not Available	Not Available	Not Available	69,154
2002	318					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 financial results.

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

3 Prior to 2006, includes non-Freddie Mac mortgage-related securities purchased for structured securities as well as non-agency securities purchased into the retained mortgage portfolio (principally backed by subprime or Alt-A loans).

Table 11. Freddie Mac MBS Issuances[1]

Period	Business Activity ($ in Millions)			
	MBS Issuances[2]			
	Single-Family MBS[3] ($)	Multifamily MBS ($)	Total MBS[3] ($)	Multiclass MBS[4] ($)
4Q07	110,395	3,115	113,510	19,323
3Q07	124,901	192	125,093	28,019
2Q07	117,701	307	118,008	60,290
1Q07	114,345	20	114,365	25,689
Annual Data				
2007	467,342	3,634	470,976	133,321
2006	358,184	1,839	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 financial results.

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

3 Includes PCs 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, but excludes resecuritizations of MBS into single-class securities. Amounts are not included in Total MBS Issuances.

Table 12. Freddie Mac Earnings[1]

Period	Earnings ($ in Millions)						
	Net Interest Income ($)	Guarantee Fee Income ($)	Average Guarantee Fee (basis points)	Administrative Expenses ($)	Credit-Related Expenses[2] ($)	Net Income (Loss) ($)	Return on Equity[3] (%)
4Q07	774	698	16.6	401	912	(2,452)	(17.1)
3Q07	761	718	17.7	428	1,423	(1,238)	(7.7)
2Q07	793	591	15.1	442	463	729	3.2
1Q07	771	628	16.7	403	262	(133)	(1.1)
Annual Data							
2007	3,099	2,635	16.6	1,674	3,060	(3,094)	(21.0)
2006	3,412	2,393	17.1	1,641	356	2,327	9.8
2005	4,627	2,076	16.6	1,535	347	2,113	8.1
2004	9,137	1,382	17.5	1,550	140	2,937	9.4
2003	9,498	1,653	23.3	1,181	2	4,816	17.7
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 Before 1972	Not Available Before 1972	Not Available Before 1972	6	5.5

Source: Freddie Mac

1 Due to changes in accounting principles adopted in 2007, certain amounts related to 2005, 2006 and 2007 have been adjusted. For the period 2001 through 2003, data are based on restated financial results.

2 For years 2002 through 2005, 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.

3 Ratio computed as annualized net income (loss) 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 of Net Assets ($)	Total MBS Outstanding ($)	Multiclass MBS Outstanding[6] ($)
4Q07	794,368	710,042	41,663	738,557	26,724	37,867	12,600	1,381,863	526,604
3Q07	786,871	706,080	38,531	726,911	25,483	34,672	23,800	1,308,771	524,347
2Q07	814,118	702,838	69,248	751,441	24,528	35,572	31,900	1,240,813	521,535
1Q07	813,421	711,772	66,099	750,157	28,539	35,503	31,900	1,177,678	495,567
Annual Data									
2007	794,368	710,042	41,663	738,557	26,724	37,867	12,600	1,381,863	526,604
2006	804,910	700,002	68,614	744,341	26,914	35,366	31,800	1,122,761	491,696
2005	806,222	709,503	57,324	748,792	25,691	35,043	30,900	974,200	437,668
2004	795,284	664,582	62,027	731,697	31,416	34,106	30,900	852,270	390,516
2003	803,449	660,531	53,124	739,613	31,487	32,417	27,300	752,164	347,833
2002	752,249	589,899	91,871	665,696	31,330	28,991	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	16,273	Not Available	576,101	309,185
1999	386,684	322,914	34,152	360,711	11,525	13,417	Before 2001	537,883	316,168
1998	321,421	255,670	42,160	287,396	10,835	11,266		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	246,336
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 Available		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 Due to changes in accounting principles adopted in 2007, certain amounts related to 2005, 2006 and 2007 have been adjusted. For the period 2001 through 2003, data are based on restated financial results.

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

3 Excludes "Allowance for loan losses."

4 Based on fair value.

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.

6 Amounts are included in Total MBS Outstanding column.

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[6] ($)
	Conventional								
	Fixed-Rate[3] ($)	Adjustable-Rate[4] ($)	Seconds[5] ($)	Total ($)	Total FHA/VA[5]	Conventional ($)	FHA/RHS ($)	Multifamily Mortgages ($)	
4Q07	1,206,495	161,963	7	1,368,465	4,499	8,899	0	8,899	1,381,863
3Q07	1,136,407	159,459	8	1,295,874	4,553	8,344	0	8,344	1,308,771
2Q07	1,069,429	158,146	8	1,227,583	4,861	8,369	0	8,369	1,240,813
1Q07	1,013,035	151,197	11	1,164,243	5,148	8,287	0	8,287	1,177,678
Annual Data									
2007	1,206,495	161,963	7	1,368,465	4,499	8,899	0	8,899	1,381,863
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 Due to changes in accounting principles adopted in 2007, certain amounts related to 2005, 2006 and 2007 have been adjusted. For the period 2001 through 2003, data are based on restated financial results.

2 Based on unpaid principal balances.

3 Includes Rural Housing Service and other federally guaranteed loans.

4 For the period 2001 through the current period, includes MBS with underlying mortgages classified as balloon/reset loans.

5 For the period 2002 through the current period, includes resecuritizations of non-Freddie Mac securities.

6 Represents MBS and structured securities that are held by third parties. Based on unpaid principal balances and excludes mortgage-related securities traded, but not yet settled. For the period 2002 through the current period, amounts include structured securities backed by non-Freddie Mac securities (including Ginnie Mae MBS).

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

($ in Millions)					
End of Period	Whole Loans[2] ($)	Freddie Mac Securities[2] ($)	Others' Mortgage-Related Securities[2] ($)	Unamortized Premiums, Discounts, Deferred Fees, Plus Unrealized Gains/Losses on Available-for-Sale Securities[3] ($)	Total Retained Mortgage Portfolio[4] ($)
4Q07	82,158	356,970	281,685	(10,771)	710,042
3Q07	73,027	356,005	284,132	(7,084)	706,080
2Q07	69,043	351,711	291,382	(9,298)	702,838
1Q07	67,136	358,847	288,471	(2,682)	711,772
Annual Data					
2007	82,158	356,970	281,685	(10,771)	710,042
2006	65,847	354,262	283,850	(3,957)	700,002
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 Due to changes in accounting principles adopted in 2007, certain amounts related to 2006 and 2007 have been adjusted. For the period 2001 through 2003, data are based on restated 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 AFS mortgage-related securities. Amounts prior to 2006 include MBS residuals, at fair value.

4 Excludes "Allowance for loan losses."

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 ($)	
4Q07	21,578	2,700	0	24,278	311	57,566	3	57,569	82,158
3Q07	20,995	2,215	0	23,210	167	49,647	3	49,650	73,027
2Q07	19,584	1,674	0	21,258	176	47,606	3	47,609	69,043
1Q07	18,980	1,330	0	20,310	186	46,637	3	46,640	67,136
Annual Data									
2007	21,578	2,700	0	24,278	311	57,566	3	57,569	82,158
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
						Before 1995		Before 1995	Before 1995

Source: Freddie Mac

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

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

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] ($)				Others' Securities									
	Single-Family				Fannie Mae				Ginnie Mae					
					Single-Family				Single-Family					
	Fixed-Rate ($)	Adjustable-Rate ($)	Multi-family ($)	Total Freddie Mac ($)	Fixed-Rate ($)	Adjustable-Rate ($)	Multi-family ($)	Total Fannie Mae ($)	Fixed-Rate ($)	Adjustable-Rate ($)	Multi-family ($)	Total Ginnie Mae ($)	Total Private-Label ($)	Total Others' Securities ($)
4Q07	269,896	84,415	2,659	356,970	23,140	23,043	922	47,105	537	181	13	731	218,914	266,750
3Q07	270,629	84,999	377	356,005	23,873	22,658	974	47,505	572	191	13	776	221,143	269,424
2Q07	269,378	81,954	379	351,711	23,859	19,175	1,004	44,038	606	204	13	823	232,271	277,132
1Q07	280,357	78,110	380	358,847	25,065	17,586	1,112	43,763	653	218	13	884	229,840	274,487
Annual Data														
2007	269,896	84,415	2,659	356,970	23,140	23,043	922	47,105	537	181	13	731	218,914	266,750
2006	282,052	71,828	382	354,262	25,779	17,441	1,214	44,434	707	231	13	951	224,631	270,016
2005	299,167	61,766	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 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								
	Manufactured Housing ($)	Subprime		Alt-A		Other[3]		Multifamily ($)	Total Private-Label ($)
		Fixed-Rate ($)	Adjustable-Rate ($)	Fixed-Rate ($)	Adjustable-Rate ($)	Fixed-Rate ($)	Adjustable-Rate ($)		
4Q07	1,472	498	100,827	3,762	47,551	N/A	N/A	64,804	218,914
3Q07	1,383	334	104,600	3,720	49,051	N/A	N/A	62,055	221,143
2Q07	1,435	353	118,320	3,597	52,060	N/A	N/A	56,506	232,271
1Q07	1,474	379	120,607	3,507	53,099	N/A	N/A	50,774	229,840
Annual Data									
2007	1,472	498	100,827	3,762	47,551	N/A	N/A	64,804	218,914
2006	1,510	408	121,691	3,683	52,579	N/A	N/A	44,760	224,631
2005	1,680	Not Available	Not Available	Not Available	Not Available	4,749	181,678	43,487	231,594
2004	1,816	Before 2006	Before 2006	Before 2006	Before 2006	8,243	115,168	41,184	166,411
2003	2,085					Not Available	Not Available	Not Available	107,301
2002	2,394					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

N/A = not available

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

2 Based on unpaid principal balances.

3 Prior to 2006, includes securities principally backed by subprime and Alt-A mortgage loans.

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 Fees, Plus Unrealized Gains/Losses on Available-for-Sale Securities[3] ($)	Total Retained Mortgage Portfolio[4] ($)
4Q07	14,935	638,655	(10,771)	710,042
3Q07	14,708	640,137	(7,084)	706,080
2Q07	14,250	643,093	(9,298)	702,838
1Q07	13,984	647,318	(2,682)	711,772
Annual Data				
2007	14,935	638,655	(10,771)	710,042
2006	13,834	638,112	(3,957)	700,002
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 Due to changes in accounting principles adopted in 2007, certain amounts related to 2006 and 2007 have been adjusted. For the period 2001 through 2003, data are based on restated 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. Amounts prior to 2006 include MBS residuals.

4 Excludes "Allowance for loan losses."

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] ($)	Total ($)
4Q07	711,829	0	20,118	313,033	0	196,270	7,667	72,662	1,302	1,322,881
3Q07	663,533	0	23,842	337,595	0	109,848	5,445	62,938	1,153	1,204,354
2Q07	500,057	0	22,709	293,215	1,100	112,000	2,936	59,281	1,072	992,370
1Q07	521,992	0	23,854	252,646	0	95,140	2,568	10,322	984	907,506
Annual Data										
2007	711,829	0	20,118	313,033	0	196,270	7,667	72,662	1,302	1,322,881
2006	440,879	0	29,234	252,022	2,000	20,400	2,605	10,012	957	758,109
2005	341,008	45	37,850	193,502	0	86,252	2,414	21,961	738	683,770
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

N/A = not available

1 Due to changes in accounting principles adopted in 2007, certain amounts related to 2005, 2006 and 2007 have been adjusted. For the period 2001 through 2003, data are based on restated 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] ($)	Total ($)
4Q07	162	16,588	6,400	18,513	0	41,663
3Q07	14,467	18,060	2,800	3,033	171	38,531
2Q07	25,002	32,390	2,500	8,245	1,111	69,248
1Q07	27,503	31,699	6,700	0	197	66,099
Annual Data						
2007	162	16,588	6,400	18,513	0	41,663
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 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] (%)
4Q07	0.65	0.02	0.05	0.08	17.0
3Q07	0.51	0.06	0.03	0.07	16.0
2Q07	0.42	0.05	0.02	0.05	16.0
1Q07	0.40	0.06	0.02	0.05	16.0
Annual Data					
2007	0.65	0.02	0.03	0.08	17.0
2006	0.42	0.06	0.01	0.04	16.0
2005	0.53	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 Due to changes in accounting principles adopted in 2007, certain amounts related to 2005, 2006 and 2007 have been adjusted. For the period 2000 through 2003, data are based on restated 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 2004 are based on the total single-family loans in the retained mortgage portfolio and total MBS outstanding and Structured Securities issued, excluding that portion of Structured Securities that is backed by Ginnie Mae MBS. Rates for years 2005 through the current period are based on the total single-family loans in the retained mortgage portfolio and total MBS outstanding and Structured Securities issued, excluding Structured Transactions and that portion of issued Structured Securities that is backed by Ginnie Mae MBS.

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]						
	Core Capital ($)	Minimum Capital Requirement[2] ($)	Regulatory Capital Surplus (Deficit)[2] ($)	Total Capital[3] ($)	Risk-Based Capital Requirement[4] ($)	Risk-Based Capital Surplus (Deficit)[5] ($)	Market Capitalization[6] ($)	Core Capital/ Total Assets (%)	Core Capital/ Total MBS Outstanding plus Total Assets (%)	Common Share Dividend Payout Rate[7] (%)
4Q07	37,867	26,473	11,394	40,929	14,102	26,827	22,018	4.77	1.74	N/A
3Q07	34,672	26,001	8,671	36,394	11,316	25,078	38,124	4.41	1.65	N/A
2Q07	35,572	26,355	9,217	37,141	18,944	18,197	39,463	4.37	1.73	51.9
1Q07	35,503	26,112	9,391	36,765	13,784	22,981	39,356	4.36	1.78	N/A
Annual Data										
2007	37,867	26,473	11,394	40,929	14,102	26,829	22,018	4.77	1.74	N/A
2006	35,366	25,607	9,758	36,742	15,320	21,422	44,896	4.39	1.83	63.9
2005	35,043	24,791	10,252	36,781	11,282	25,499	45,269	4.35	1.97	56.4
2004	34,106	23,714	10,391	34,691	11,108	23,582	50,898	4.29	2.07	30.7
2003	32,417	23,362	9,054	33,436	5,426	28,010	40,158	4.03	2.08	15.6
2002	28,991	22,340	6,651	24,222	4,743	19,479	40,590	3.85	1.96	6.2
2001	20,181	19,014	1,167	Not Applicable	Not Applicable	Not Applicable	45,473	3.15	1.56	18.9
2000	16,273	14,396	1,876	Before 2002	Before 2002	Before 2002	47,702	3.54	1.57	20.0
1999	13,417	12,352	1,065				32,713	3.47	1.45	20.1
1998	11,266	10,502	764				44,797	3.51	1.41	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

Sources: Freddie Mac and OFHEO

N/A = not available

1 Due to changes in accounting principles adopted in 2007, certain amounts related to 2003 through 2007 have been adjusted. For the period 2001 through 2003, data are based on restated financial results.

2 Since 4Q 2003, OFHEO has directed Freddie Mac to maintain an additional 30 percent 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 percent 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.

Table 19. Combined Purchases[1]

Business Activity ($ in Millions)				
Purchases				
Period	Single-Family ($)	Multifamily ($)	Total Mortgages ($)	Mortgage-Related Securities ($)
4Q07	296,083	32,843	328,926	60,369
3Q07	298,885	10,959	309,844	88,656
2Q07	275,650	13,002	288,652	79,591
1Q07	254,814	10,143	264,957	71,659
Annual Data				
2007	1,125,432	66,947	1,192,379	300,275
2006	875,649	33,677	909,326	343,871
2005	918,677	32,657	951,334	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			
	Conventional				FHA/VA							
Period	Fixed-Rate ($)	Adjustable-Rate ($)	Seconds ($)	Total ($)	Fixed-Rate ($)	Adjustable-Rate ($)	Total ($)	Total Single-Family Mortgages ($)	Conventional ($)	FHA/RHS ($)	Total Multi-family Mortgages ($)	Total Mortgage Purchases ($)
4Q07	267,012	23,059	9	290,080	314	5,689	6,003	296,083	32,843	0	32,843	328,926
3Q07	261,396	35,351	10	296,757	377	1,751	2,128	298,885	10,959	0	10,959	309,844
2Q07	236,425	37,384	9	273,818	82	1,750	1,832	275,650	13,002	0	13,002	288,652
1Q07	206,180	46,488	6	252,674	621	1,519	2,140	254,814	10,143	0	10,143	264,957
Annual Data												
2007	971,013	142,282	34	1,113,329	1,394	10,709	12,103	1,125,432	66,947	0	66,947	1,192,379
2006	702,805	162,762	130	865,697	2,522	7,430	9,952	875,649	33,675	2	33,677	909,326
2005	730,562	179,766	116	910,444	2,285	5,948	8,233	918,677	32,515	142	32,657	951,334
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 Before 1985	Not Available Before 1985	Not Available Before 1985	Not Available Before 1985	Not Available Before 1985	Not Available Before 1985	Not Available Before 1985	Not Available Before 1985	Not Available Before 1985	Not Available Before 1985	Not Available Before 1985	Not Available 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)									
		Others' Securities								
			Private-Label							
	Enterprise Securities ($)	Ginnie Mae ($)	Manufactured Housing ($)	Subprime ($)	Alt-A ($)	Other ($)	Multifamily ($)	Total Private-Label ($)	Mortgage Revenue Bonds ($)	Total Mortgage-Related Securities ($)
4Q07	44,692	27	127	8,184	1,203	4	5,319	14,837	813	60,369
3Q07	65,358	0	0	8,784	2,492	182	10,995	22,453	845	88,656
2Q07	42,433	8	0	19,879	5,218	33	11,335	36,465	685	79,591
1Q07	31,590	0	0	22,791	6,383	7	10,633	39,814	255	71,659
Annual Data										
2007	184,073	35	127	59,638	15,296	226	38,282	113,569	2,598	300,275
2006	160,381	77	0	109,637	42,493	1,322	26,565	180,017	3,396	343,871
2005	161,784	64	0	Not Available	Not Available	Not Available	14,942	221,331	4,628	387,807
2004	179,787	0	0	Before 2006	Before 2006	Before 2006	10,979	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 ($)	Multiclass MBS ($)
4Q07	282,408	7,203	289,611	38,946
3Q07	295,158	1,139	296,297	54,850
2Q07	266,154	1,733	267,887	96,815
1Q07	246,080	708	246,788	55,273
Annual Data				
2007	1,089,800	10,783	1,100,583	245,884
2006	834,345	7,382	841,727	294,252
2005	896,972	11,033	908,005	332,263
2004	906,568	11,022	917,590	310,192
2003	1,902,180	31,673	1,933,853	559,037
2002	1,274,849	16,093	1,290,942	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	Not Issued
1984	Not Available	Not Available	32,230	Before 1986
1983	Before 1985	Before 1985	33,031	
1982			38,139	
1981			4,243	

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 ($)
4Q07	1,910	2,319	1,052	3,885	(6,011)
3Q07	1,819	1,950	1,088	2,623	(2,637)
2Q07	1,986	1,711	1,102	981	2,676
1Q07	1,965	1,726	1,101	583	828
Annual Data					
2007	7,680	7,706	4,343	8,072	(5,144)
2006	10,164	6,643	4,717	1,139	6,386
2005	16,132	6,082	3,650	775	8,460
2004	27,218	5,166	3,206	503	7,904
2003	28,975	5,085	2,635	355	12,897
2002	27,951	4,043	2,562	399	14,004
2001	15,538	2,863	2,041	117	9,052
2000	9,432	2,594	1,730	169	8,114
1999	7,820	2,301	1,455	286	6,135
1998	6,325	2,248	1,286	603	5,118
1997	5,796	2,356	1,131	904	4,451
1996	5,297	2,282	1,000	1,017	3,968
1995	4,443	2,173	941	876	3,235
1994	3,935	2,191	904	803	3,115
1993	3,305	1,970	804	829	2,659
1992	2,753	1,770	710	777	2,245
1991	2,461	1,467	606	789	1,918
1990	2,212	1,190	529	784	1,587
1989	1,708	980	471	588	1,244
1988	1,329	793	412	584	888
1987	1,209	735	347	535	677
1986	683	476	285	426	352
1985	451	300	223	285	201
1984	123	236	183	140	73
1983	116	186	134	94	135
1982	(434)	93	97	62	(132)
1981	(395)	36	79	(12)	(175)
1980	75	Not Available	70	42	48
1979	377	Before 1981	65	55	198
1978	331		53	49	234
1977	282		44	36	186
1976	221		40	24	141
1975	205		37	27	131
1974	184		31	50	112
1973	211		25	27	138
1972	148		18	9	100
1971	59		Not Available	Not Available	67
			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 of Net Assets ($)	
4Q07	1,676,915	1,433,662	128,538	1,534,856	70,735	83,240	48,399	3,500,772
3Q07	1,626,654	1,430,242	85,862	1,488,676	65,405	76,385	57,977	3,312,153
2Q07	1,671,920	1,422,849	137,964	1,532,120	64,198	78,262	N/A	3,148,471
1Q07	1,652,885	1,428,308	131,892	1,515,101	69,970	77,213	N/A	3,023,209
Annual Data								
2007	1,676,915	1,433,662	128,538	1,534,856	70,735	83,240	48,399	3,500,772
2006	1,648,846	1,426,436	125,597	1,511,387	68,420	77,316	75,499	2,900,311
2005	1,640,390	1,446,306	103,340	1,512,802	64,993	74,476	73,099	2,573,118
2004	1,816,218	1,589,776	109,866	1,684,808	70,318	68,620	70,994	2,260,317
2003	1,825,724	1,580,120	112,642	1,700,893	63,755	59,370	55,693	2,052,684
2002	1,656,988	1,410,526	131,247	1,506,989	63,229	49,422	45,030	1,770,248
2001	1,441,048	1,210,116	155,831	1,341,835	37,742	45,363	40,975	1,516,529
2000	1,134,521	993,182	95,868	1,069,581	35,675	37,100	Not Available	1,282,823
1999	961,992	846,017	71,451	908,330	29,154	31,293	Before 2001	1,217,028
1998	806,567	671,104	100,675	747,687	26,288	26,731		1,115,494
1997	586,270	481,135	81,026	542,616	21,314	21,169		1,055,123
1996	524,907	424,354	78,854	488,251	19,504	19,516		1,021,238
1995	453,731	360,574	69,984	419,135	16,822	16,788		972,275
1994	378,707	293,986	64,143	350,509	14,703	14,710		947,001
1993	300,859	246,107	39,621	251,105	12,489	12,489		910,335
1992	240,480	189,889	32,116	195,931	10,344	Not Applicable		831,958
1991	193,932	153,346	19,792	164,199	8,113	Before 1993		714,447
1990	173,692	135,586	21,992	154,344	6,077			604,434
1989	159,777	129,429	19,388	142,211	4,907			489,382
1988	146,610	117,017	19,896	132,341	3,844			396,503
1987	129,133	106,019	13,935	116,604	2,993			348,369
1986	122,850	107,216	Not Available	108,938	2,135			264,754
1985	115,663	108,156	Before 1987	106,732	1,788			154,461
1984	101,576	94,153		94,718	1,524			105,764
1983	87,378	82,732		81,867	1,421			82,841
1982	78,980	74,035		74,605	1,249			57,402
1981	67,904	64,807		64,231	1,330			20,614
1980	63,357	60,595		59,766	1,678			Not Issued
1979	55,948	53,780		52,555	1,739			Before 1981
1978	47,203	45,141		44,201	1,564			
1977	37,481	36,456		35,000	1,350			
1976	37,225	35,950		35,088	1,139			
1975	37,495	35,698		35,572	1,003			
1974	34,572	33,135		32,852	898			
1973	27,191	26,110		25,699	801			
1972	22,118	21,378		20,878	669			
1971	19,629	18,821		18,587	567			

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 ($)
	Conventional								
	Fixed-Rate ($)	Adjustable-Rate ($)	Seconds ($)	Total ($)	Total FHA/VA	Conventional ($)	FHA/RHS ($)	Total Multifamily ($)	
4Q07	3,056,645	376,208	7	3,432,860	19,756	47,117	1,039	48,156	3,500,772
3Q07	2,862,374	382,225	8	3,244,607	20,273	46,124	1,149	47,273	3,312,153
2Q07	2,697,907	381,246	8	3,079,161	21,055	47,017	1,238	48,255	3,148,471
1Q07	2,568,054	382,987	11	2,951,052	22,319	48,542	1,296	49,838	3,023,209
Annual Data									
2007	3,056,645	376,208	7	3,432,860	19,756	47,117	1,039	48,156	3,500,772
2006	2,451,727	372,407	12	2,824,146	24,465	50,217	1,483	51,700	2,900,311
2005	2,126,377	350,446	19	2,476,842	30,022	64,458	1,796	66,254	2,573,118
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									Not Issued
1988									Before 1981
1987									
1986									
1985									
1984									
1983									
1982									
1981									
1980									
1979									
1978									
1977									
1976									
1975									
1974									
1973									
1972									
1971									

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 ($)	Total ($)
4Q07	1,383,103	2,250	22,677	523,414	N/A	N/A	N/A	128,028	1,302	2,264,711
3Q07	1,258,997	2,750	27,484	550,104	N/A	N/A	N/A	147,570	1,153	2,103,351
2Q07	1,060,291	6,250	27,178	508,290	N/A	N/A	N/A	118,237	1,072	1,837,354
1Q07	1,008,462	9,500	28,813	456,721	N/A	N/A	N/A	51,910	984	1,654,098
Annual Data										
2007	1,383,103	2,250	22,677	523,414	N/A	N/A	N/A	128,028	1,302	2,264,711
2006	957,450	14,000	33,785	462,293	N/A	N/A	N/A	49,940	957	1,543,430
2005	658,478	33,045	43,495	481,502	N/A	N/A	N/A	61,155	738	1,367,079
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

1 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 ($)	Total ($)
4Q07	43,672	32,099	11,650	32,028	9,089	128,538
3Q07	22,267	38,427	2,800	21,959	409	85,862
2Q07	41,197	54,629	2,500	33,839	5,799	137,964
1Q07	41,441	52,917	6,700	25,778	5,056	131,892
Annual Data						
2007	43,672	32,099	11,650	32,028	9,089	128,538
2006	29,188	51,036	3,250	38,795	3,328	125,597
2005	18,809	49,768	5,250	22,743	6,770	103,340
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

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			
	Core Capital ($)	Minimum Capital Requirement ($)	Regulatory Capital Surplus (Deficit) ($)	Total Capital ($)	Risk-Based Capital Requirement ($)	Risk-Based Capital Surplus (Deficit) ($)	Market Capitalization ($)
4Q07	83,240	58,400	24,840	89,587	38,802	50,785	60,964
3Q07	76,385	56,304	20,081	79,447	35,992	43,455	97,339
2Q07	78,262	56,683	21,579	80,939	29,169	51,770	103,061
1Q07	77,213	55,640	21,573	79,340	34,320	45,020	92,473
Annual Data							
2007	83,240	58,400	24,840	89,587	38,802	50,787	60,964
2006	77,316	54,966	22,349	79,445	42,190	37,255	102,631
2005	74,476	53,024	21,452	76,872	23,918	52,954	92,642
2004	68,620	55,835	12,784	69,887	21,147	48,739	119,908
2003	59,370	55,178	4,191	60,923	32,647	28,276	112,996
2002	49,422	50,028	(606)	45,053	22,177	22,876	104,202
2001	45,363	43,196	2,167	Not Applicable	Not Applicable	Not Applicable	124,754
2000	37,100	34,688	2,409	Before 2002	Before 2002	Before 2002	134,345
1999	31,293	30,122	1,171				96,364
1998	26,731	25,836	895				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	14,299	411				29,014
1993	12,489	10,846	1,643				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
2008[2]	417,000–729,750	533,850–934,200	645,300–1,129,250	801,950–1,403,400
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 - 1978	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.

2 The Economic Stimulus Act of 2008 allows Fannie Mae and Freddie Mac to raise the conforming loan limits in certain high-cost areas to a maximum of $729,750 for one-unit homes in the continental United States. Higher limits apply to two, three and four-unit homes. Alaska, Hawaii, Guam and the Virgin Islands have higher maximum limits. The limits apply to loans originated between July 1, 2007 and December 31, 2008.

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
2008[1]	271,050	729,750	347,000	934,200	419,400	1,129,250	521,250	1,403,400
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

1 The Economic Stimulus Act of 2008 allowed the Federal Housing Administration (FHA) to increase the single-family insurable limits to a maximum of $729,750 for one-unit homes in the continental United States. Higher limits apply to two, three and four-unit homes.

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 ($)	Adjustable Rate ($)
4Q07	6.2	5.6	6.4	6.2
3Q07	6.5	5.7	6.8	6.5
2Q07	6.3	5.5	6.5	6.3
1Q07	6.2	5.5	6.4	6.3
Annual Data				
2007	6.3	5.6	6.5	6.3
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	7.0
1999	7.4	6.0	7.4	6.5
1998	6.9	5.6	7.2	6.4
1997	7.6	5.6	7.9	6.9
1996	7.8	5.7	8.0	7.0
1995	8.0	6.1	8.3	7.1
1994	8.4	5.3	8.3	6.3
1993	7.3	4.6	7.5	5.8
1992	8.4	5.6	8.5	6.6
1991	9.2	7.1	9.6	8.3
1990	10.1	8.4	10.4	9.2
1989	10.3	8.8	10.6	9.5
1988	10.3	7.9	10.4	8.5
1987	10.2	7.8	10.0	8.5
1986	10.2	8.4	10.6	9.5
1985	12.4	10.0	12.5	11.0
1984	13.9	11.5	13.2	12.0
1983	13.2	Not Available	13.0	12.5
1982	16.1	Before 1984	Not Available	Not Available
1981	16.6		Before 1983	Before 1983
1980	13.8			
1979	11.2			
1978	9.6			
1977	8.8			
1976	8.9			
1975	9.0			
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)	
	One-to-Four-Unit Housing Starts	Multifamily Housing Starts	Total Housing Starts	Sales of New One-to-Four-Unit Homes	Sales of Existing One-to-Four-Unit Homes
4Q07[2]	N/A	302	1,128	656	4,997
3Q07[2]	N/A	275	1,265	730	5,457
2Q07[2]	N/A	263	1,429	855	5,870
1Q07[2]	N/A	259	1,431	853	6,363
Annual Data					
2007	1,078	277	1,355	775	5,652
2006	1,508	293	1,801	1,051	6,478
2005	1,757	311	2,068	1,283	7,076
2004	1,653	303	1,956	1,203	6,778
2003	1,533	315	1,848	1,086	6,175
2002	1,397	308	1,705	973	5,632
2001	1,310	293	1,603	908	5,335
2000	1,270	299	1,569	877	5,174
1999	1,334	307	1,641	880	5,183
1998	1,314	303	1,617	886	4,966
1997	1,178	296	1,474	804	4,371
1996	1,206	271	1,477	757	4,167
1995	1,110	244	1,354	667	3,852
1994	1,234	224	1,457	670	3,886
1993	1,155	133	1,288	666	3,739
1992	1,061	139	1,200	610	3,432
1991	876	138	1,014	509	3,145
1990	932	260	1,193	534	3,186
1989	1,059	318	1,376	650	3,290
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	1,450	906	2,357	718	2,252
1971	1,272	781	2,052	656	2,018

Housing Starts Source and New One-to-Four-Unit Sales Source: Bureau of the Census.

Existing One-to-Four-Unit Sales Source: National Association of Realtors.

N/A = not available

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	West South Central	Mountain	Pacific
4Q07	-0.32	-1.10	1.42	-0.90	-2.33	0.62	2.42	3.35	0.15	-3.34
3Q07	1.94	-0.71	2.19	2.40	-1.22	1.42	3.93	5.30	5.14	1.08
2Q07	2.90	-0.94	2.84	3.19	-0.24	2.11	5.00	5.62	6.73	3.27
1Q07	3.33	-1.21	3.32	3.44	0.08	2.36	5.13	5.81	7.20	4.72
Annual Data										
2007	-0.32	-1.10	1.42	-0.90	-2.33	0.62	2.42	3.35	0.15	-3.34
2006	4.05	-0.93	3.50	4.32	0.27	2.29	6.30	6.61	8.72	6.35
2005	9.55	6.80	10.48	13.31	3.92	4.42	7.33	7.11	15.10	15.93
2004	9.34	10.27	12.37	12.59	4.66	5.96	4.94	4.48	11.61	15.86
2003	7.62	10.43	11.40	8.58	4.64	5.59	4.36	3.24	7.10	13.11
2002	7.62	13.65	12.07	8.08	4.71	6.47	3.33	3.60	5.13	12.66
2001	6.79	12.38	9.95	7.48	4.79	6.92	3.41	3.78	4.95	9.10
2000	6.90	13.05	8.46	6.32	5.20	7.15	2.85	5.76	5.94	9.82
1999	6.05	10.63	7.11	5.49	5.19	5.96	4.10	5.60	5.70	7.00
1998	5.59	8.34	4.56	4.81	5.00	6.58	4.68	5.55	4.72	7.57
1997	3.44	4.87	2.11	3.70	3.59	3.64	2.72	3.03	2.94	4.30
1996	3.08	2.66	1.12	2.96	4.71	4.10	3.83	2.42	3.98	2.14
1995	2.71	0.04	0.03	2.61	5.23	4.45	4.71	2.97	4.62	-0.25
1994	2.90	1.07	-0.56	2.92	4.54	4.18	5.06	2.82	8.76	0.13
1993	2.83	-1.59	0.28	1.92	4.41	6.24	4.92	4.48	9.87	-1.58
1992	2.65	-0.75	1.53	2.14	4.87	3.84	3.80	3.76	6.52	-1.13
1991	2.93	-2.25	1.45	3.15	4.56	3.75	4.03	3.69	4.66	1.33
1990	0.68	-7.75	-2.92	0.36	3.81	0.52	0.80	0.43	1.90	3.03
1989	5.88	0.64	2.31	5.03	6.14	3.26	2.92	2.61	2.77	19.37
1988	5.90	3.72	5.98	7.02	6.74	2.34	2.97	-2.02	0.23	17.51
1987	5.85	13.34	16.27	7.31	7.89	2.51	4.23	-8.57	-2.63	9.52
1986	7.39	21.06	18.23	6.10	7.17	4.10	5.59	-0.45	3.13	7.19
1985	5.99	25.04	14.33	5.45	4.74	4.30	4.59	-1.38	2.06	4.88
1984	5.18	17.85	13.54	4.25	2.70	4.48	3.43	0.02	2.42	5.32
1983	4.11	15.97	9.99	3.23	4.36	4.51	4.16	0.88	-2.79	1.03
1982	1.87	4.24	3.80	3.18	-4.48	-0.41	5.35	5.67	7.49	0.93
1981	4.67	4.90	0.80	7.76	2.20	0.60	0.22	12.00	6.39	5.76
1980	6.82	5.49	10.00	8.16	1.59	4.02	6.96	7.83	6.42	11.19
1979	12.17	11.39	18.35	11.53	9.00	9.17	5.37	13.13	15.27	15.92
1978	13.71	16.37	7.71	12.37	14.46	13.13	12.22	16.87	17.40	15.71
1977	13.57	9.24	9.66	8.33	13.21	15.21	11.27	12.08	18.19	25.62
1976	7.96	2.61	1.70	5.88	8.19	5.01	5.38	8.48	10.41	19.81

[1] Percentage changes based on OFHEO's purchase-only index for 1992 through 2007 and all-transactions index for prior years. Annual data are measured based on fourth-quarter-to-fourth-quarter percentage change. Quarterly data for 2007 reflect changes over the previous four quarters.

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East South Central: Alabama, Kentucky, Mississippi, Tennessee

West South Central: Arkansas, Louisiana, Oklahoma, Texas

Mountain: Arizona, Colorado, Idaho, Montana, New Mexico, Nevada, Utah, Wyoming

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Office of Federal Housing Enterprise Oversight

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Kevin Winkler, *Chief Information Officer*

OFFICE OF FEDERAL HOUSING ENTERPRISE OVERSIGHT

1700 G Street, NW
Washington, DC 20552

202.414.3800

www.ofheo.gov