

Evaluating the OFHEO Report on Fannie Mae's Accounting

A presentation by

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- Far too much verbiage
 - Excessive quoting from interviews
- **But the report outlines numerous significant accounting and financial reporting problems at Fannie that demand attention and regulatory action**

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 - **Aircraft lease obligations**

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- **Valuation of deferred tax assets**

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 - **How much time, cost to fix?**

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- Determine if executive bonuses improperly paid
- **Determine consequences of false certifications filed by Raines, Howard with 10-Q, 10-K (Rule 13a-14)**

F&F's regulatory capital standards

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 - **1.25% of assets + .25% of MBS and other obligations**

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 - **Higher capital requirements**

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 - Higher capital requirements
 - Growth slowdown
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 - **Other sanctions?**

Fannie's capital position

(dollars in millions)

6-30-04

3-31-04

12-31-03

Core capital

Required minimum capital

Excess of core over minimum

Total capital

Required risk-based capital

Excess of total over req. RBC

Required critical capital

Excess of core cap. over RCC

AOCI (actually AOCL)

Loss on closed hedges in AOCI

Fannie's capital position

(dollars in millions)

	<u>12-31-03</u>
Core capital	34,405
Required minimum capital	<u>31,520</u>
Excess of core over minimum	<u>2,885</u>
Total capital	35,182
Required risk-based capital	<u>27,221</u>
Excess of total over req. RBC	<u>7,960</u>
Required critical capital	16,113
Excess of core cap. over RCC	<u>18,292</u>
AOCI (actually AOCL)	(12,032)
Loss on closed hedges in AOCI	<u>(6,858)</u>

Fannie's capital position

(dollars in millions)

	<u>3-31-04</u>	<u>12-31-03</u>
Core capital	35,701	34,405
Required minimum capital	<u>31,354</u>	<u>31,520</u>
Excess of core over minimum	<u>4,347</u>	<u>2,885</u>
Total capital	36,481	35,182
Required risk-based capital	<u>25,961</u>	<u>27,221</u>
Excess of total over req. RBC	<u>10,520</u>	<u>7,960</u>
Required critical capital	16,041	16,113
Excess of core cap. over RCC	<u>19,660</u>	<u>18,292</u>
AOCI (actually AOCL)	(14,896)	(12,032)
Loss on closed hedges in AOCI	<u>(7,941)</u>	<u>(6,858)</u>

Fannie's capital position

(dollars in millions)

	<u>6-30-04</u>	<u>3-31-04</u>	<u>12-31-03</u>
Core capital	36,115	35,701	34,405
Required minimum capital	<u>31,188</u>	<u>31,354</u>	<u>31,520</u>
Excess of core over minimum	<u>4,927</u>	<u>4,347</u>	<u>2,885</u>
Total capital	36,862	36,481	35,182
Required risk-based capital	N/A	<u>25,961</u>	<u>27,221</u>
Excess of total over req. RBC	N/A	<u>10,520</u>	<u>7,960</u>
Required critical capital	15,957	16,041	16,113
Excess of core cap. over RCC	<u>20,157</u>	<u>19,660</u>	<u>18,292</u>
AOCI (actually AOCL)	(9,994)	(14,896)	(12,032)
Loss on closed hedges in AOCI	<u>(8,528)</u>	<u>(7,941)</u>	<u>(6,858)</u>

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- Residential mortgage market will not be hurt by Fannie’s accounting problems, asset shrinkage
- Raines, Howard, and others will soon leave Fannie
- **Fannie’s problems provide yet another impetus for fundamental GSE reform – privatization**

Thank you!

I welcome your questions