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Statement of J. Timothy Howard

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Before the House Subcommittee on Capital Markets, Insurance, and GSEs

March 27, 2001

Thank you, Chairman Baker. Fannie Mae welcomes the opportunity to review with the Subcommittee our implementation of the voluntary safety and soundness initiatives that we announced last October with you, Congressman Kanjorski, and other Members of Congress. My name is Timothy Howard, and I am Executive Vice President and Chief Financial Officer at Fannie Mae and a member of our Office of the Chairman. I joined Fannie Mae in 1982 and have served as CFO since 1990. In this position, I am responsible for all of Fannie Mae's financial activities, including strategic and business planning, investor relations, corporate accounting, capital markets activities, and the asset acquisition, liability issuance, and interest rate risk management of the company's mortgage investment portfolio.

I would first like to take a few minutes to commend you and the other Members of this Subcommittee for your stewardship of a housing finance system that has helped so many Americans achieve the dream of homeownership. The U.S. housing finance system today is strong, vibrant, safe, sound, and serves consumers better than ever. It is also the best system in the world in putting people in homes with the mortgages they prefer at rates they can afford. This is due in no small part to the careful scrutiny, sound judgement and constructive action of Congress over the years.

Last year, in particular, the Subcommittee examined a wide range of issues related to the housing finance system and Fannie Mae's role in that system. The Subcommittee posed important questions regarding our safety and soundness, and we were pleased to have the opportunity to discuss our risk management practices and other aspects of our business both in this hearing room and in other meetings with you, your staff, and other policymakers. And while we are among the best managers of mortgage risk in the world, these discussions made it clear that there were additional measures we could put in place that would assure you that our safety and soundness protections are at the forefront of evolving world practices.

To formulate these measures we turned to the experts: the reports and studies of the Basel Committee on Banking Supervision, the Office of Federal Housing Enterprise Oversight (OFHEO), the Federal Reserve, and other policymakers and market participants who analyze risk in the financial markets.

After a comprehensive review of these recommendations, Fannie Mae and Freddie Mac, in conjunction with policymakers, crafted a set of proposals designed to place the two companies at the leading edge of safety and soundness practices. These proposals, which we announced with you last October, include commitments to issue subordinated debt, obtain an annual credit rating, enhance our liquidity planning, disclose more information about interest rate risk and credit risk sensitivity, and implement and disclose the results of an interim risk-based capital standard. Taken together, these initiatives will give investors and policymakers more information about Fannie Mae's risk exposure -- and confidence that Fannie Mae can manage that exposure -- than they can get from any other financial institution.

I want to emphasize that these voluntary initiatives are a layer of safety and soundness protection *in addition to* the cutting-edge regulatory regime that Congress constructed in the Federal Housing Enterprises Financial Safety and Soundness Act of 1992. That regime includes a rigorous on-site examination program, minimum capital levels, and a strict risk-based capital test designed to ensure that Fannie Mae is adequately capitalized to withstand a severe economic shock for ten years.

Of course, safety and soundness are not ends in themselves. Fannie Mae is a mission-driven company, chartered by Congress to provide liquidity in the U.S. housing finance system and expand affordable housing. Despite misguided statements to the contrary, we do not believe the national housing market is "saturated." Precisely because Fannie Mae's ability to fulfill our mission is so critical to our nation's support for homeownership, we recognize that we must be at the vanguard of safety and soundness protections.

Mr. Chairman, the homeownership rate in America stands today at a record 67.5 percent, but the gap between whites and minorities is frankly alarming. Seventy-four percent of white Americans own their homes, but that figure is less than 50 percent for minorities. Fannie Mae and Freddie Mac, mortgage lenders, mortgage insurers, and the rest of the housing finance industry have a great deal of work to do, and Fannie Mae is proud to be part of the solution. Together with our existing capital and supervisory regime and our state-of-the-art risk management practices, the initiatives we announced in October were designed to assure policymakers and investors that Fannie Mae is fully prepared to help close that gap.

Of course, these new voluntary initiatives are only valuable to the extent that we implement them thoroughly and assiduously. And that is why we committed to you, Mr. Chairman, that we would implement all of these initiatives within the first quarter of 2001. Implementation on such an aggressive schedule was not a simple proposition. Each initiative required the work of teams of people at the highest levels of the company, in several cases creating financial structures and disclosures that have little precedent among financial institutions.

I am pleased to report to you and to the rest of the Subcommittee today that we now have put all of the initiatives in place. We issued our first $1.5 billion of subordinated debt in January. We received a stand-alone credit rating in February. In early March, we put in place our liquidity plan. And yesterday we disclosed our credit risk and interest rate risk sensitivities and the results of our interim risk-based capital test. I would like to describe how we have implemented each of these initiatives, and note where we have gone beyond the announcement of last October.

Subordinated Debt. The October announcement included a pledge to issue publicly traded and externally rated subordinated debt. We included subordinated debt because it offers real benefits to the market and policymakers:

- It is an important way to crystallize the views of thousands of investors into a clear signal to policymakers as to how investors view the company's financial condition.

- It provides an incentive for subordinated debt holders to monitor our risk position very carefully. Because the terms of the subordinated debt require the suspension of interest in the event of severe financial difficulty, significant shifts in the yield of Fannie Mae subordinated debt will signal to regulators and others that the company may have increased its risk position.

- It serves as an additional cushion of capital on top of Fannie Mae's required equity capital as defined by its statutorily required minimum levels and its risk-based capital stress test.

On January 23, 2001, Fannie Mae announced the inaugural issue of its Subordinated Benchmark Notes program: $1.5 billion of securities with a maturity of 10 years.[1] We also signaled our intention, consistent with our commitment in October, to continue to issue such Notes quarterly during 2001 and on at least a semi-annual basis thereafter. We expect that by 2003, we will have $12 to $15 billion in subordinated debt outstanding, with an average maturity of five years.

The securities received a Aa2 rating from Moody's Investors Service and a AA- rating from Standard and Poor's (S&P). The rating agencies rated the subordinated debt separate and apart from Fannie Mae's relationship with the federal government. In assigning its AA- rating, S&P stressed that it did not regard the Subordinated Notes as being backed by the government. They wrote: "Unlike Standard & Poor's triple-'A' rating on the senior obligations of Fannie Mae, which incorporates implied government support, the rating on the subordinated debt assumes that the government would not intervene to prevent payment default on the instrument."[2] Moody's said that "the debt ratings assigned to the GSEs have the exact same meaning as those assigned to all other firms in the USA and elsewhere. They express Moody's opinion of the ultimate credit risks of a particular debt instrument taking into consideration all relevant factors."[3]

By the terms of the subordinated debt Fannie Mae issued, interest payments will be automatically suspended if certain capital tripwires are activated and, should the company ever experience difficulties, holders of subordinated debt securities will stand in line behind senior debt creditors and MBS investors before they can recover their principal. Unlike other subordinated debt issues, the interest deferral cannot be delayed by Fannie Mae or by any other party if the defined conditions occur. For these reasons, a consensus of market analysts agreed that Fannie Mae subordinated debt would be regarded by the market as different from its senior debt and would trade at a discount to our senior debt. This has proven to be the case.

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[1] Fannie Mae, News Release, January 23, 2001 (www.fanniemae.com/news/pressreleases/1110.html).

[2] Standard and Poor's CreditWire, Rating Assigned to Fannie Mae Subordinated Benchmark Notes, Jan. 24, 2001.

[3] *Fannie Mae and Freddie Mac Subordinated Debt Rating Rationale*, Moody's Investor Services Special Comment, Mar. 2000, at 3.

The prices at which our subordinated debt has traded indicate that the market is behaving consistently with analyst expectations. The Note was initially priced at 98 basis points over the 10-year U.S. Treasury and 22 basis points over the November 2010 Fannie Mae Benchmark Note. Approximately $250 million traded during the course of the day at spreads as tight as 17 basis points to Fannie Mae's 10-year senior note before closing the day at 18.5 basis points. Since issuance, our subordinated debt has traded in large size, with pricing ranging from 18 to 28 basis points higher in yield than our senior debt. Our subordinated debt is actively quoted on Telerate page 544, giving investors real price transparency. In terms of spread, it is useful to compare Fannie Mae's subordinated debt issuance to that of the largest bank holding companies (BHCs). As of March 23, the three largest BHCs had subordinated debt that traded at spreads of 5 to 25 basis points to their senior debt.

Moody's summarized the beneficial results from subordinated debt, emphasizing the difference between it and Fannie Mae's and Freddie Mac's senior securities:

> *The subordinated debt issued by Freddie Mac and Fannie Mae will, in combination with common and preferred equity, improve senior debtholders' position in the highly unlikely event of a liquidation or similar event. This should help to alleviate concerns about the systemic risks from GSE failure and help to provide an early warning signal to the marketplace in times of stress…. The GSEs' proposed subordinated debt also would not benefit from the same degree of implied support that senior enjoys and could face mandatory interest payment suspension.*[4]

With the unique features of this subordinated debt and the liquid market that we expect to develop, Fannie Mae has created a new class of fixed-income assets for investors. Our planned, regular, and large-size issuances of subordinated debt also validate the idea of a dynamic and active subordinate debt market as a means of market discipline. Fannie Mae expects that the market will use its collective expertise in measuring our risk profile, capital adequacy and financial health each time we bring new issue of Subordinated Benchmark Notes to market, as well as in ongoing trading in the secondary market. In doing so, Subordinated Benchmark Notes will truly be the "canary in a coal mine" that is crucial to establishing Fannie Mae at the forefront of financial institutions globally in adhering to the highest standards of market discipline.

As Morgan Stanley wrote recently,

> *"Spreads between the Subordinated Benchmark Notes and its senior Benchmark Notes will provide a real time indicator of investors' perceptions of the adequacy of Fannie Mae's capital relative to the risks it faces. Going forward Fannie Mae will have an additional yardstick with which to gauge the success of its capital policies. In striving to keep these spreads stable, Fannie Mae will have an incentive to communicate more extensively about the risks it faces and how it manages its capital in relation to these risks. This increased transparency to*

[4] *New Freddie Mac and Fannie Mae "Open Book" Policy: A Positive Credit Development*, Moody's Investor Services Special Comment, Oct. 2000, at 4.

which Fannie Mae is already committed will enable investors to better assess Fannie Mae's risk and the adequacy of its capital."[5]

Annual Rating. A second initiative we announced in October was that we would obtain an annual rating from a nationally recognized statistical rating organization of the company's "risk-to-the-government" or independent financial strength, and that we would disclose this rating to the public.

On February 27, 2001, S&P assigned a AA- "risk to the government" rating to Fannie Mae. Only five commercial bank holding companies, and no thrifts, have a rating this high on their senior debt. This rating, according to S&P, "refers to the inherent default risk of a federally-related entity operating under its authorizing legislation, but without assuming an infusion of cash from the government." S&P incorporates into the rating such criteria as an evaluation of Fannie Mae's business fundamentals, including the company's competitive position, evaluation of management and its strategies, and examination of relevant financial measures.

At Fannie Mae's request, S&P's "risk to the government" rating will be maintained on a continuous, "surveillance" basis. This goes beyond the annual rating that Fannie Mae committed to obtain last October. Under a surveillance rating, S&P will continuously monitor our financial position and change the rating -- with an accompanying press release -- if our risk posture changes.

In summarizing its analysis of Fannie Mae's credit strength, S&P wrote:

Fannie Mae has demonstrated consistently good operating performance over a sustained period of time, testifying to its ability to manage the risks inherent in holding a portfolio of mortgage loans and the strength of its franchise as one of two government sponsored mortgage guaranty agencies. It has successfully weathered changing conditions in the demand for mortgage guaranties, several regional housing market declines, and changing interest rate environments. Asset quality is very strong, and the risk profile of its portfolio of mortgages remains very low. Capitalization has been stable, and is expected to remain so given the regulated nature of the company.

With this "risk to the government" rating, Fannie Mae now has outstanding a full range of ratings, including those on senior debt, subordinated debt and preferred stock. This suite of ratings gives investors a clear, comprehensive, and ongoing assessment of Fannie Mae's credit position. And combined with the daily updates to the prices of our subordinated debt, Fannie Mae now has more signals than any other company of how market professionals view the company's risk posture.

Liquidity. The third initiative from the October package that we completed this quarter was an enhancement of Fannie Mae's liquidity management. When we looked at the recommendations from the Basel Committee, we noted -- in addition to market discipline

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[5] Morgan Stanley Product Note on Fannie Mae Subordinated Benchmark Notes, Jan. 2, 2001.

measures -- an emphasis on improved liquidity management. In its February 2000 paper recommending enhanced liquidity management for banks, the Basel Committee noted that:

> *Liquidity, or the ability to fund increases in assets and meet obligations as they come due, is crucial to the ongoing viability of any banking organisation…. Sound liquidity management can reduce the probability of serious problems. Indeed, the importance of liquidity transcends the individual bank, since a liquidity shortfall at a single institution can have system-wide repercussions.*[6]

Based on the discussions of safety and soundness that we had with the Subcommittee and other policymakers last year, Fannie Mae wanted to ensure that we met the very highest standards of liquidity management. As a result, we committed to:

- Maintain three months worth of liquidity, as recommended by the Basel Committee, calculated on the assumption that the company has no access to the public new-issue debt markets during this period;

- Maintain at least five percent of our on-balance sheet assets in a liquid, marketable portfolio of non-mortgage securities; and

- Comply with the 14 principles of sound liquidity management set forth by the Basel Committee in February 2000.[7]

On March 12, 2001, Fannie Mae announced that we had met this commitment. We have a contingency plan in place to ensure that we could meet our funding needs for three months without access to the agency debt markets. We are maintaining more than five percent of our on-balance sheet assets in high-quality, liquid, non-mortgage securities. In fact, Fannie Mae's ratio of liquid assets to total assets was 8.1 percent as of December 31, 2000, and we intend to disclose this ratio to the public on a quarterly basis. And last, our liquidity plan meets the 14 principles for sound liquidity management set forth by the Basel Committee and satisfies our safety and soundness regulator.

We have briefed OFHEO on our liquidity plan, and OFHEO has confirmed that the plan would assure that Fannie Mae could function for three months without access to the new issue debt markets.

These commitments were in addition to a rigorous liquidity program at Fannie Mae. We manage our liquid assets under strict investment guidelines reviewed and approved by our Board of Directors. Under these limits, liquid assets have an explicit goal of zero credit losses. Fannie Mae's typical liquid assets are money market paper and AAA-rated securities. Understandably,

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[6] Basel Comm. on Banking Supervision, *Sound Practices for Managing Liquidity in Banking Organizations*, Consultative Paper No. 69 (Feb. 2000) at 7.

[7] Basel notes that "[t]he relevant time-frame for active liquidity management is generally quite short . . . . Banks which are reliant on short-term funding will concentrate primarily on managing their liquidity in the very short term (say the period out to five days). . . . Other banks (i.e., those that are less dependent on the short term money markets) might actively manage their net funding requirements over a slightly longer period, perhaps one to three months ahead."

the margins on these high quality, liquid investments are significantly lower than those Fannie Mae earns on its mortgage portfolio, but that is the opportunity cost the company pays to maintain a safe cushion of liquidity.

By virtue of the company's sound liquidity practices and its commitment to maintain more than three months worth of liquid assets, Fannie Mae is positioned not only to withstand swings in the markets, but also to provide liquidity to the market when other financial firms withdraw. Thus, for example, during the market turbulence in the second half of 1998, when other investors withdrew from the market, Fannie Mae stepped up its mortgage purchases -- largely by drawing down liquid assets -- which maintained the stability of the mortgage market and kept mortgage rates at historic lows for homebuyers.

New Risk Disclosures. Our subordinated debt issuance and annual ratings can serve as excellent signals to policymakers and investors, but the company needs to be at the leading edge of risk disclosures for those signals to be as accurate as possible. The fourth and fifth of our October initiatives that we completed were our new monthly interest rate risk sensitivity disclosures and new quarterly credit risk disclosures.

- **Interest Rate Risk Disclosures**

In October, Fannie Mae committed to disclose on a monthly basis the impact on Fannie Mae's financial condition of a plus or minus 50 basis point instantaneous change in interest rates and an instantaneous 25 basis point shift in the slope of the yield curve in both directions. Yesterday, we made our first monthly interest rate risk disclosure under this commitment to investors and the public. Going beyond the commitment we made in October, Fannie Mae released the two primary measures of interest rate risk that the company uses in managing its interest rate business: portfolio net interest income at risk and effective asset/liability duration gap.

Fannie Mae's net interest income at risk measure will disclose the sensitivity of Fannie Mae's projected net interest income to an immediate 50 basis point increase or decrease in interest rates and a 25 basis point increase or decrease in the slope of yield curve. Net interest income at risk will compare projected net interest income under the more adverse of the interest rate and yield curve scenarios with projected net interest income without the interest rate shocks. We will calculate and disclose our net interest income at risk over both a one- and four-year period. For the four-year disclosure, the net interest income at risk calculation will reflect the percentage difference in cumulative net interest income over the period.

Yesterday, Fannie Mae disclosed that as of February 28, 2001, the company's net interest income at risk from a 50 basis point change in interest rates was 3.0 percent over the next one year, and 2.1 percent over the next four years. The company's net interest income at risk from a 25 basis point change in the slope of the yield curve was 3.2 percent over the next one year, and 5.2 percent over the next four years.

These changes in interest rates and in the slope of the yield curve encompass about 95 percent of the actual changes that are likely to occur. Fannie Mae generally expects its net income at risk measures to range between one and five percent.

In addition, we announced that we would supplement our net interest income at risk disclosure with monthly disclosure of the company's effective asset/liability duration gap. Effective duration is a measure of the sensitivity of a security's value to changes in interest rates, and is commonly used in fixed-income portfolio management. Fannie Mae has successfully used effective duration gap as an internal risk management tool for a number of years, and we report on duration management to our Board of Directors. We also report this information as of year-end in our Annual Report to shareholders.

We announced yesterday that as of February 28, 2001, the effective duration gap of our mortgage portfolio was a negative two months. A negative duration gap indicates that the effective duration of the portfolio's liabilities exceeds the effective duration of its assets by that amount, while a positive duration gap indicates the opposite. Fannie Mae has a target range for its effective duration gap of plus or minus six months. When the portfolio's duration gap moves outside this range -- which it can do if interest rates move quickly or by large amounts -- the company rebalances its assets and liabilities to bring the duration gap back within the target band.

Fannie Mae's interest rate risk disclosures follow the recommendations of the New Basel Accord and the report of the Working Group on Public Disclosure, headed by Walter V. Shipley. Both recommend that risk disclosures be consistent with internal risk management practices. Net interest income at risk and duration gap are the primary portfolio risk measures at Fannie Mae. Basel further proposes that disclosures incorporate expected future activity, and that sophisticated disclosures use multiple simulations of interest rates. Fannie Mae's net interest income at risk measure is based on projected future activity over the next one and four years, and both net interest income at risk and duration gap are calculated using at least three hundred interest rate paths.

- **Credit Risk Disclosures**

We also committed in October to disclose on a quarterly basis the sensitivity of expected credit losses from a five percent drop in property values. On March 26, Fannie Mae released to investors and the public our first quarterly credit risk disclosure under this commitment.

To calculate our credit risk sensitivity, Fannie Mae uses internal credit models, as recommended by Basel, to project the present value of all future credit losses. We then calculate the present value of losses assuming an immediate five percent decline in the value of all properties securing mortgages owned or guaranteed by Fannie Mae. Following this decline, home prices are assumed to increase at the same long-run rate embedded in the company's credit pricing models. Projected default incidence and loss severity are consistent with the assumed changes in home prices. The sensitivity of future credit losses is the dollar difference between credit losses in the baseline scenario and credit losses assuming the immediate five percentage point home price decline.

Yesterday, we announced that as of December 31, 2000, the company's net sensitivity of future credit losses, taking into account the effect of credit enhancements, was $295 million. This figure reflects a gross credit loss sensitivity of $1,065 million without the effect of credit enhancements, and is net of projected credit risk sharing proceeds of $770 million.

Fannie Mae's current low level of sensitivity to credit losses reflects the quality of our existing book of business, the impact of our loss mitigation techniques, and the effectiveness of our credit enhancement and risk-sharing strategies. While slightly less than 40 percent of Fannie Mae's single family portfolio as of December 31, 2000, was covered by credit enhancements, we project that our credit enhancement counterparties would absorb $770 million, or 72 percent, of the increase in credit losses that would result from a five percent home price shock.

We expect our credit risk sensitivity to vary over time based on a number of factors, including the composition of the company's credit portfolio, recent home price changes, the level of interest rates, and the amount of mortgage insurance and other credit enhancements that reduce Fannie Mae's losses.

Interim Implementation of the Risk-Based Capital Rule. The final component of the October 2000 voluntary initiatives is our commitment to implement on an interim basis the risk-based capital stress test included in the 1992 Act and disclose to the public whether we passed or failed the test. We will run this interim implementation only until the final risk-based capital standard is adopted by OFHEO.

The stress test spelled out in the 1992 Act requires Fannie Mae to hold sufficient capital to withstand an unprecedentedly severe economic and financial shock that extends for ten years, without defaulting on our obligations. The test includes severe adverse interest-rate movements and nationwide depression-level conditions in residential real estate lasting throughout the decade-long period. The required level of current capital is an amount sufficient for Fannie Mae to remain solvent in every quarter throughout the ten-year span of adverse economic conditions plus, for good measure, an additional 30 percent to account for operations risk.

As Fannie Mae Chairman and CEO Frank Raines testified before the Subcommittee last May, the "possibility of these two credit and interest-rate scenarios happening simultaneously is vanishingly small." Very few such companies could survive for ten years the type of environment assumed in Fannie Mae's stress test. Indeed, a study commissioned by Fannie Mae found that the thrift industry would have to boost its capital base by between sixty and ninety percent in order to be able to survive the type of scenario envisioned by Fannie Mae's stress test.[8]

Fannie Mae has run its own internal version of the risk-based capital stress test since 1993, and has built capital and managed its business to remain in compliance with that test. For purposes of the voluntary disclosure, Fannie Mae constructed an interim implementation of the risk-based capital test using OFHEO's Notice of Public Rulemaking 2 (NPR2) as a basis, modified to reflect subsequent changes implemented or suggested both by OFHEO and the company.

OFHEO's NPR2 was published in the *Federal Register* in April 1999, and is extensively documented. Since April 1999, OFHEO has made corrections to NPR2, and the corrections are

[8] Dave Dufresne, *Risk-Based Capital and the Thrift Industry: Implications of Risk-Based Capital Stress Test Requirements* 7 (IPS-Sendero, Feb. 1999).

noted on the OFHEO website. In constructing our interim stress test, Fannie Mae incorporated OFHEO's NPR2 changes along with the changes we recommended in our March 10, 2000, comment letter to OFHEO and other refinements enumerated on our website (www.fanniemae.com). OFHEO has not given us an opinion on our implementation or indication that it supports this or another implementation of the standard.

Fannie Mae will disclose whether it has passed or failed its interim risk-based capital test as of the end of each quarter, and also give an indication of the amount by which its total capital exceeds or falls short of the calculated risk-based requirement.

I am pleased to report to the Subcommittee that we had sufficient capital to pass our interim version of the OFHEO risk-based capital test as of December 31, 2000, and that our capital cushion on that date was between 10 and 30 percent of total capital. We were able to pass the interim risk-based capital test because of the substantial amount of hedging and loss-sharing arrangements in which we engage. Typically between 45 and 50 percent of Fannie Mae's liabilities consist of callable debt or other option-based instruments. Our reliance on mortgage insurance and credit risk sharing arrangements reduce credit risk exposure and allow the company to withstand the stresses in the risk-based capital test.

Fannie Mae's interest rate risk and credit risk disclosures complement the results of our quarterly stress test, which has extremely stringent interest rate and credit condition assumptions over a ten-year period, and far exceed the practices of other financial institutions. In summarizing the value of the package of disclosures to which Fannie Mae and Freddie Mac committed themselves, Moody's stated:

> *These financial disclosure commitments by Fannie Mae and Freddie Mac set new standards not only for them, but also for the global financial market.*
>
> *The provision by Fannie Mae and Freddie Mac of periodic, detailed risk information to the broad market will permit better independent reviews and monitoring of their risk profiles and should substantially reduce the uncertainty about their actual financial health as well as dampen any systemic risks they present.*
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> *The regular disclosure of their interest and credit risk exposure, combined with stress testing of their capital base, should significantly increase market comfort with their risk management disciplines and capital adequacy. The stress test, in particular, will show whether the two GSEs have sufficient capital to withstand very harsh market developments over a long period.*[9]

Conclusion

I very much appreciate the opportunity that you have given us, Mr. Chairman, to come before the Subcommittee to talk about how we are implementing the six voluntary initiatives that we announced with you last October. As I said earlier in this statement, and as you have

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[9] Moody's Investor Service, *Op. Cit.* at 4.

emphasized in your oversight of Fannie Mae and Freddie Mac, our safety and soundness are critical to the housing finance system and to the million of Americans who have yet to achieve the dream of homeownership.

These six new measures, combined with the regulatory mechanisms Congress enacted in 1992, place Fannie Mae at the vanguard of risk management and disclosure practices worldwide, with cutting-edge regulatory discipline bolstered by cutting-edge market discipline.

Fannie Mae has relied on multilayered, redundant risk management practices for the past decade. We now have added multilayered, redundant disclosure and transparency practices, with both a greater quantity and a greater quality of information and disclosure. We now put out more -- and more timely -- information to the public, investors and policymakers than any other financial institution in the world.

If policymakers or investors have a question or concern about how Fannie Mae is doing, there are several ways to find out. They can look at the results of our supervision exams, our capital levels, our stress test results, our external rating reports, our regular reports on how the economy is affecting our business, or changes in the value of our subordinated debt. No financial company in the world will give policymakers and investors more information about its financial condition than Fannie Mae does.

Our implementation of the six voluntary initiatives ensures that Fannie Mae will remain one of the safest, soundest financial institutions in the world. Our subordinated debt rating and our risk-to-the-government rating are among the strongest in the industry. We have more than adequate liquidity to survive for three months assuming no access to the capital markets. We could endure the worst economic shocks in history -- shocks that few other financial institutions could survive -- with significant capital left over.

Mr. Chairman, Congressman Kanjorski, thanks to your leadership and our partnership, our safety and soundness regime is now consistent with the best thinking in the world, and it goes well beyond any government-chartered bank or financial institution today.

Together, we have produced an even safer, sounder Fannie Mae, a stronger U.S. housing finance system, and a better chance for more Americans to own a home. And we have done even more than that. What we have created together in Fannie Mae is nothing less than a new model for financial institutions in America and around the world.

Thank you for inviting Fannie Mae to testify before the Subcommittee today. We look forward to continuing to work with you on these and other important issues.