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GSEs Pass OFHEO Stress Tests; Opponents Not Impressed

NEW YORK, June 27 (LendingIntelligence.com) — Government-sponsored enterprises [Fannie Mae](#) and [Freddie Mac](#) have enough capital in reserve to withstand a prolonged downturn in the housing market, or significant interest rate spikes. That's according to the results of a trial stress test conducted by the GSE's regulator, the [Office of Federal Housing Enterprise Oversight](#).

This initial test is based on first-quarter financials for both GSEs. The real test will come later this year, when OFHEO will monitor third quarter data and release findings in December. Should either of the mega-mortgage purchasers fail to pass that test, OFHEO could require them to take immediate action to address their exposure to risk.

Critics lobbying for increased oversight and disclosure of the GSEs blasted the test.

"Taxpayers should take little comfort in the fact that the results of OFHEO's first test-run shows the GSEs need no more capital under this new rule than they currently are required to hold under the minimum capital requirements set by Congress in 1992," said Mike House, executive director of GSE watchdog [FM Watch](#). "The fact is that both GSEs would need to double their current capital to match the minimum capital required of banks holding the same mortgage-related assets."

Meanwhile, a spokesman for Rep. Richard Baker [R-La.] said the Congressman plans to carefully review the results. Baker has campaigned to tighten regulation of the GSEs.

"The Congressmen will delve into the results when he holdings hearings next month," said a spokesman for Baker. "Even though OHFEO has implemented the testing, it comes almost ten years after it was asked to create such testing and hardly

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closes down the discussion for a much more muscular regulator with greater oversight.”

Both Fannie and Freddie need to pass a minimum capital requirements test, which establishes the amount they must hold in reserve to protect against numerous risk scenarios. OFHEO reported that both GSEs exceeded their minimum capital requirements throughout the first quarter.

OFHEO stated Fannie held a total of \$26.29 billion in capital at the end of the quarter, exceeding its risk-based requirement of \$20.23 billion. Fannie’s capital requirement is \$24.57 billion.

The risk-based capital requirement for Freddie was \$5.68 billion, much below the total capital of \$21.36 billion it held at the end of the quarter, according to OFHEO. Freddie’s capital requirement is \$19.39 billion.

OFHEO’s risk-based capital rule tests the GSE’s against higher numbers of defaults, as would be the case in a severe economic downturn or big interest rate swings in either direction. OFHEO said it will test the GSEs by both standards each quarter, holding them to the higher of the two requirements.

Not surprisingly, both GSEs took this as an opportunity to vigorously refute criticism.

“The risk-based capital rule requires us to maintain capital sufficient to survive an economic downturn more severe than the nation has ever experienced,” Freddie said in a statement.

As for Fannie, a spokesman said, “At a time when it’s important for people to regain confidence in American corporations, it’s a positive that our regulator has taken such an intense look at our business, and shown that we could survive a financial nuclear winter that few other could survive.”

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