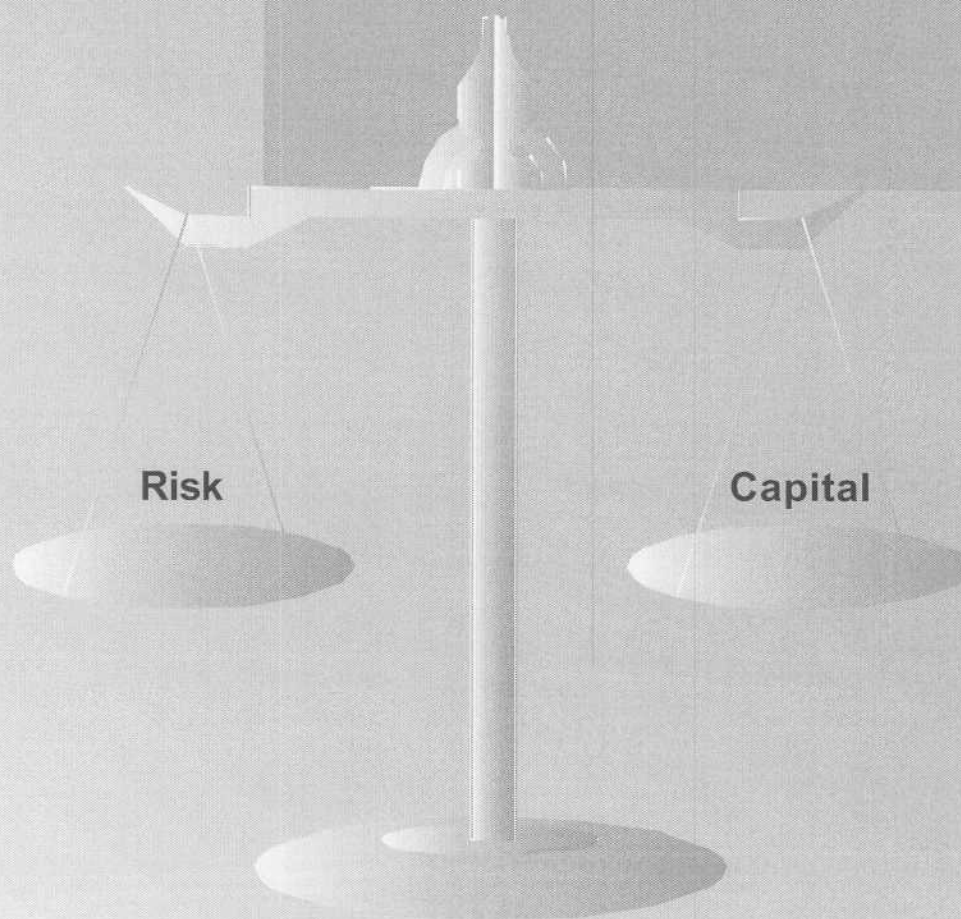


1999 Report to Congress



**Office of Federal Housing
Enterprise Oversight**

BOARD GOVERNANCE

Fannie Mae's Board of Directors discharges its duties and responsibilities in a manner that exceeds safety and soundness standards. The committee structure and frequency of Board and committee meetings are effective in ensuring the Board remains appropriately informed of Fannie Mae's condition, operations, performance, and compliance. The Board has sufficient, well-organized time to carry out its responsibilities. In addition, the Board is appropriately engaged in the development of a strategic direction for Fannie Mae. The Board's processes for holding the executive management team accountable for achieving defined goals and objectives is effective. The process the Board uses for hiring and maintaining a quality executive management team is effective.

1998 EXAMINATION RESULTS AND CONCLUSIONS FOR FREDDIE MAC

In accordance with OFHEO's examination program, the results and conclusions for each category of risk and risk management are reported in relation to safety and soundness standards. The results of the 1998 examination show that in all categories, Freddie Mac exceeds safety and soundness standards. These results reflect the examination work conducted from January through December 1998, and do not necessarily reflect the current condition or operations of the Enterprise.

CREDIT RISK

Freddie Mac's credit risk management and credit risk management framework exceed safety and soundness standards. Management is experienced and competent, and has developed an appropriate set of credit risk management tools to evaluate and manage the credit risk of the assets Freddie Mac purchases and securitizes. Freddie Mac's credit risk management framework provides management with the information to understand the performance characteristics of the risk exposures the Enterprise selects, and the technology to assess actual performance. The expanded use of scoring and default probability technology has enhanced management's ability to more precisely gauge performance within the retained and guaranteed portfolios. The framework effectively positions management to identify credit mortgages that are likely to default, to attempt foreclosure alternatives when appropriate, and to foreclose and take possession of properties expeditiously. Once Freddie Mac owns a property, the framework enables management to effectively repair, market and sell at an acceptable price. The management committee structures, information systems, and reporting practices allow management to effectively monitor developments in credit risk management. Management effectively manages its relationships with the counterparties that service assets, provide mortgage insurance and other forms of credit enhancement, and maintain and enhance credit risk management technology. In addition, Freddie Mac's credit risk profile exceeds safety and soundness standards. Net recoveries (versus charge-offs), reduced credit losses and reduced foreclosed property expenses have resulted in significant reductions in the average loss per foreclosed property.

2000 REPORT TO CONGRESS



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INTERNAL CONTROLS

Fannie Mae's internal control framework and the management of that framework exceed safety and soundness standards. Management has an accurate and reliable process for identifying risks to business processes and implementing appropriate controls. Implemented controls properly address risks assessed by management. Management has a reliable process for ensuring the timely resolution of control related issues. Internal Audit appropriately identifies and communicates control deficiencies to management and the Board of Directors. There are established policies and procedures that delineate internal control process and standards for the control environment. Management effectively ensures compliance with established internal controls.

AUDIT CONTROLS

The audit functions exceed safety and soundness standards. The Internal and External Audit functions have the appropriate independence. Auditors performing the work possess appropriate professional proficiency. The scope of audit work performed is appropriate, and the audit work is complete. The management of the Internal Audit department is effective. Executive management and the Board of Directors are appropriately involved with and follow up on identified audit issues. The auditor's risk assessment process is effective. Internal Audit is appropriately involved in new products and new initiatives.

BOARD GOVERNANCE

The Board discharges its duties and responsibilities in a manner that exceeds safety and soundness standards. The Board is appropriately engaged in the development of a strategic direction for the company, and ensures that management appropriately defines the operating parameters and risk tolerances of the Enterprise in a manner consistent with the strategic direction; legal standards; and ethical standards. The Board has an effective process for hiring and maintaining a quality executive management team, and holds the executive management team accountable for achieving the defined goals and objectives. The Board is appropriately informed of the condition, activities and operations of the Enterprise, and has sufficient, well-organized time to carry out its responsibilities.

MANAGEMENT INFORMATION

The framework used to produce timely, accurate and reliable reports exceeds safety and soundness standards. Management and the Board of Directors receive necessary reports on Fannie Mae's performance relative to established goals and objectives. Management reporting provides the levels of management with the necessary information to carry out their responsibilities efficiently and effectively. Management reporting permits management to gauge the quality of their decisions. Information systems are linked to Fannie Mae's overall strategy, and are developed and refined pursuant to a strategic plan. The reports management uses for decision making are reliable. Enterprise strategy, roles and responsibility are effectively communicated. Employees have effective channels of communication to provide feedback, report suspected improprieties and suggest enhancements. Communications across the company are effective.



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to perform scenario analyses are effective. An appropriate separation of duties exists between the strategy and analytics functions and the execution function. There are no adverse trends or anomalies in funding spreads. Liquidity management is appropriately integrated with other management and with financial performance issues.

The information technology infrastructure and surrounding risk management framework exceed safety and soundness standards. Operating processes are in place to ensure secure, effective and efficient data center processing and problem management. There are effective policies and processes in place to ensure that data, information and computing resources are secure and accessed only by authorized users. There are effective policies and processes in place to ensure the timely and appropriate resumption of business in the event of a disaster. Management has an adequate process to ensure information technology plans effectively address business unit and corporate objectives. Effective processes are in place to ensure appropriate controls are implemented. Documentation for system development and maintenance is complete. Freddie Mac has implemented effective processes to ensure data and information are processed accurately and in a timely manner.

The internal control framework and the management of that framework exceed safety and soundness standards. Management has an accurate and reliable process for identifying risks to business processes and implementing appropriate controls. Implemented controls properly address risks assessed by management. Management has a reliable process for ensuring the timely resolution of control related issues. Internal Audit appropriately identifies and communicates control deficiencies to management and the Board of Directors. There are established policies and procedures that delineate internal control process and standards for the control environment. Management effectively ensures compliance with established internal controls.

The audit functions exceed safety and soundness standards. The Internal and External Audit functions have the appropriate independence. Auditors performing the work possess appropriate professional proficiency. The scope of audit work performed is appropriate, and the audit work is complete. The management of the Internal Audit department is effective. Executive management and the Board of Directors are appropriately involved with and follow up on identified audit issues. The auditor's risk assessment process is effective. Internal Audit is appropriately involved in new products and new initiatives.

The Board discharges its duties and responsibilities in a manner that exceeds safety and soundness standards. The Board is appropriately engaged in the development of a strategic direction for the company, and ensures that management appropriately defines the operating parameters and risk tolerances of the Enterprise in a manner consistent with the strategic direction; legal standards; and ethical standards. The Board has an effective process for hiring and maintaining a quality executive management team, and has processes in place designed to hold the executive management team accountable for achieving the defined goals and objectives. The Board of Directors has sufficient, well-organized time to carry out its responsibilities, and is appropriately informed of the condition, activities and operations of the Enterprise.