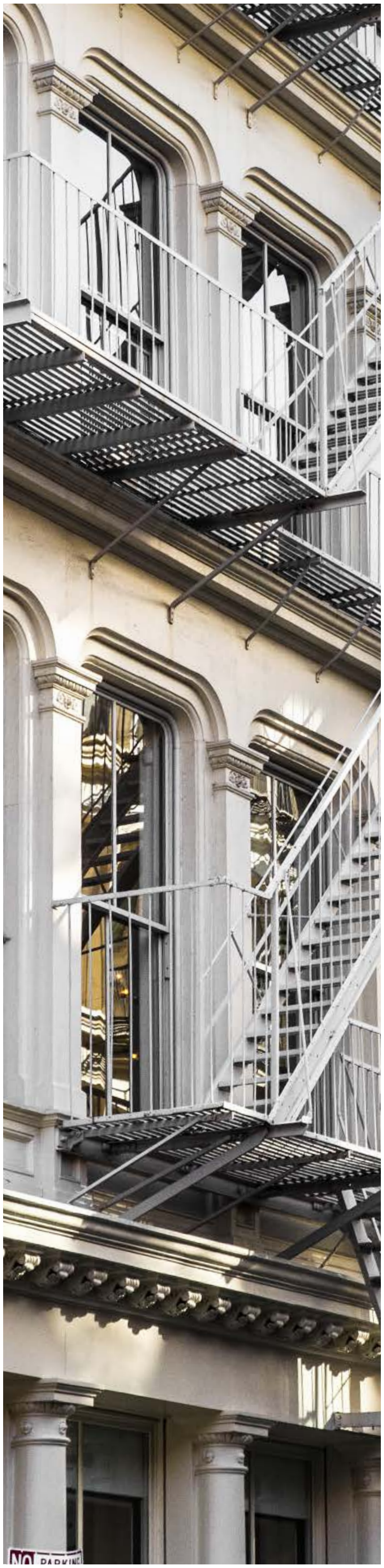

FEDERAL HOUSING FINANCE AGENCY FHFA

REPORT

FY 2019 PERFORMANCE AND ACCOUNTABILITY

FHFA'S MISSION, VISION, AND VALUES

MISSION

FHFA's current mission is to ensure the regulated entities operate in a safe and sound manner so that they serve as a reliable source of liquidity and funding for housing finance and community investment. The mission will be revised and enhanced with the publication of a new Agency Strategic Plan in early 2020 which will advance the current priorities that:

1) Cement FHFA as a world-class regulator to ensure that the Enterprises operate in a safe and sound manner.
2) Prepare the Enterprises to responsibly exit conservatorship by calibrating their risk to match their capital.
3) Foster competitive, liquid, efficient, and resilient (CLEAR) national housing finance markets.

VISION

FHFA's current vision is a reliable, stable, and liquid housing finance system. That vision will endure and likely expand in our new Strategic Plan to include language about a more competitive secondary mortgage market – in which the same rules and regulations apply equally to all. Competition will more effectively deliver market-affordable prices, foster innovation, and promote long-term efficiency by ensuring that mismanaged and inefficient firms do not survive and that no institution is "too big to fail."

VALUES

RESPECT

We strive to act with respect for each other, share information and resources, work together in teams, and collaborate to solve problems.

EXCELLENCE

We aspire to excel in every aspect of our work and to seek better ways to accomplish our mission and goals.

INTEGRITY

We are committed to the highest ethical and professional standards to inspire trust and confidence in our work.

DIVERSITY

We seek to promote diversity in our employment and business practices and those of our regulated entities.

LIST OF ABBREVIATIONS

Abbreviation	Description
AAWG	A-123 Assessment Working Group
AHP	Affordable Housing Program
AMA	Acquired Member Assets
AMI	Area Median Income
ARM	Adjustable Rate Mortgage
ARRC	Alternative Reference Rates Committee
Bank Act	Federal Home Loan Bank Act
CAMELSO	Capital, Asset Quality, Management, Earnings, Liquidity, Sensitivity to Market Risk, and Operational Risk
CCTV	Closed-circuit television
CEAR	Certificate of Excellence in Accountability Reporting
CFPB	Consumer Financial Protection Bureau
CICA	Community Investment Cash Advance
CIP	Community Investment Program
CIRT	Credit Insurance Risk Transfer
CLEAR	Competitive, Liquid, Efficient, and Resilient
CRT	Credit Risk Transfer
CSP	Common Securitization Platform
CSRS	Civil Service Retirement System
CSS	Common Securitization Solutions, LLC
DBR	Division of Federal Home Loan Bank Regulation
DER	Division of Enterprise Regulation
DFAST	Dodd-Frank Act Stress Test
DHMG	Division of Housing Mission and Goals
DOC	Division of Conservatorship
Dodd-Frank Act	Dodd-Frank Wall Street Reform and Consumer Protection Act of 2010
DTS	Duty to Serve
ECIC	Executive Committee on Internal Controls
EEO	Equal Employment Opportunity
ERM	Enterprise Risk Management
Fannie Mae	Federal National Mortgage Association
FBWT	Fund Balance with Treasury
FEVS	Office of Personnel Management's Federal Employee Viewpoint Survey
FHA	Federal Housing Administration
FHFA	Federal Housing Finance Agency
FHLBank	Federal Home Loan Bank
FISMA	Federal Information Security Modernization Act
FMFIA	Federal Managers' Financial Integrity Act

Abbreviation	Description
Freddie Mac	Federal Home Loan Mortgage Corporation
GAAP	Generally Accepted Accounting Principles
GAO	U.S. Government Accountability Office
HARP®	Home Affordable Refinance Program
HERA	Housing and Economic Recovery Act of 2008
HPI	House Price Index
HUD	U.S. Department of Housing and Urban Development
IT	Information Technology
LEP	Limited English Proficiency
LIBOR	London Interbank Offered Rate
LTV	Loan-to-Value
MBS	Mortgage-Backed Security
MRA	Matter Requiring Attention
MSR	Mortgage Servicing Rights
MVE	Market Value of Equity
MWOB	Minority- and Women-Owned Business
NMDB®	National Mortgage Database
NSI	Neighborhood Stabilization Initiative
NSMO	National Survey of Mortgage Originations
OF	Office of Finance (of the Federal Home Loan Bank System)
OIG	Office of Inspector General
OMB	Office of Management and Budget
OMWI	Office of Minority and Women Inclusion
PAR	Performance and Accountability Report
Partnership	Partnership for Public Service
PSPA	Senior Preferred Stock Purchase Agreement
PVCS	Par Value of Capital Stock
QC	Quality Control
RMWG	Risk Management Working Group
ROE	Report of Examination
Safety and Soundness Act	Federal Housing Enterprises Financial Safety and Soundness Act of 1992
SOFR	Secured Overnight Financing Rate
SSI	Single Security Initiative
TBA	To-Be-Announced
Treasury	U.S. Department of the Treasury
UMBS	Uniform Mortgage-Backed Security
UPB	Unpaid Principal Balance
URLA	Uniform Residential Loan Application

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MESSAGE FROM THE DIRECTOR

This FY 2019 Performance and Accountability Report provides the financial statements and analysis for the Federal Housing Finance Agency (FHFA), and it assesses the performance of FHFA as regulator of the FHLBank System and as regulator and conservator of the Federal National Mortgage Association (Fannie Mae) and the Federal Home Loan Mortgage Corporation (Freddie Mac) – together, the "Enterprises." The report meets the requirements of the Government Performance and Results Modernization Act of 2010, and its financial and performance data are reliable and complete in accordance with Office of Management and Budget Circulars A-123 and A-136.

I was sworn in as FHFA Director more than six months into the fiscal year that is covered by this report (October 1, 2018 – September 30, 2019) and more than 14 months after the publication of the strategic goals that form the basis of this report's performance assessment (January 29, 2018). As such, during the approximately five months of my tenure that is included in this report, I focused on meeting the existing goals while also beginning to transition the Agency and its regulated entities toward new goals that I believe are necessary to enable FHFA to fulfill its statutory responsibilities. We will be releasing a new FHFA Strategic Plan in early 2020 that will reflect and advance the three priorities that have guided the Agency during the first six months of my tenure:

1) Cementing FHFA as a world-class regulator to ensure that the Enterprises operate in a safe and sound manner.

2) Preparing the Enterprises to responsibly exit conservatorship by calibrating their risk to match their capital.

3) Fostering competitive, liquid, efficient, and resilient national housing finance markets.

These priorities are well aligned with the housing finance reform plans released by the U.S. Department of the Treasury (Treasury) and the U.S. Department of Housing and Urban Development (HUD). Together, these plans aim to build a more resilient housing finance system that protects taxpayers and provides for access to sustainable mortgage funding.

Statute directs the FHFA Director to release the Enterprises from conservatorship. Therefore, ending the Enterprise conservatorships is one of my top priorities first and foremost because it is what the statute requires.

A precondition for responsibly ending the conservatorships is that the Enterprises must be well-regulated and well-capitalized, so that once they exit, they never have to return.

To achieve this, FHFA has executed several important steps over the past six months to strengthen the Agency and improve the resilience of our nation's mortgage finance system. Many of these actions are highlighted in this report.

This report demonstrates that FHFA performed well under the existing strategic goals, finding that the Agency has no material internal control weaknesses. For the 11th consecutive audit, FHFA received an unmodified audit opinion on its financial statements from the U.S. Government Accountability Office. This strong performance is a testament to the dedicated, hardworking, and professional staff of FHFA. Now is the time to build on this foundation by implementing and advocating for changes that create a more resilient housing finance system that protects taxpayers, serves borrowers and renters, and ensures the stable mortgage access upon which affordable housing depends.

Sincerely,

MARK A. CALABRIA
Director, Federal Housing Finance Agency
November 19, 2019

MANAGEMENT'S DISCUSSION AND ANALYSIS

About the Federal Housing Finance Agency

Background on FHFA's Statutory Obligations

The Federal Housing Finance Agency (FHFA) is responsible for the effective supervision, regulation, and housing mission oversight of the Federal National Mortgage Association (Fannie Mae), the Federal Home Loan Mortgage Corporation (Freddie Mac), and the Federal Home Loan Bank System.[1] FHFA was established by the Housing and Economic Recovery Act of 2008 (HERA).[2] The Agency's mission is to ensure that Fannie Mae, Freddie Mac, and the Federal Home Loan Banks (FHLBanks), (together, "the regulated entities"), operate in a safe and sound manner so that they serve as a reliable source of liquidity and funding for housing finance and community investment. Since 2008, FHFA has served as conservator of Fannie Mae and Freddie Mac (the Enterprises). FHFA, acting as conservator and regulator, follows mandates assigned to it by statute and oversees the missions assigned to the Enterprises by their charters.

FHFA's Regulatory Oversight of the FHLBanks, Fannie Mae, and Freddie Mac. As part of the Agency's statutory authority in overseeing the FHLBank system and the Enterprises, the Federal Housing Enterprises Financial Safety and Soundness Act of 1992 (Safety and Soundness Act),[3] as amended by HERA, requires FHFA to fulfill the following duties:

(A) oversee the prudential operations of each regulated entity; and

(B) ensure that:

(i) each regulated entity operates in a safe and sound manner, including maintenance of adequate capital and internal controls;

(ii) the operations and activities of each regulated entity foster liquid, efficient, competitive, and resilient national housing finance markets (including activities relating to mortgages on housing for low- and moderate-income families involving a reasonable economic return that may be less than the return earned on other activities);

(iii) each regulated entity complies with this chapter and the rules, regulations, guidelines, and orders issued under this chapter and the authorizing statutes;

(iv) each regulated entity carries out its statutory mission only through activities that are authorized under and consistent with this chapter and the authorizing statues; and

(v) the activities of each regulated entity and the manner in which such regulated entity is operated are consistent with the public interest.[4]

FHFA's supervisory program is designed to promote safe and sound operations of the regulated entities. The supervisory program employs a risk-based approach to supervisory examinations, prioritizing examination activities based on the risk a given practice poses to a regulated entity's safe and sound operation or to its compliance with applicable laws and regulations. As regulator of Fannie Mae, Freddie Mac, and the FHLBanks, FHFA issues rules, policy guidance documents, and regulatory orders as appropriate.

FHFA's Role as Conservator of Fannie Mae and Freddie Mac. As part of HERA, Congress granted the Director of FHFA the discretionary authority to appoint FHFA as conservator or receiver of Fannie Mae, Freddie Mac, or any of the FHLBanks, upon determining that specified criteria had been met. On September 6, 2008, FHFA exercised this authority and placed Fannie Mae and Freddie Mac into conservatorships. FHFA's authority as both conservator and regulator of the Enterprises is based upon statutory mandates, which include the following conservatorship authorities granted by HERA:

(D) …take such action as may be---

(i) Necessary to put the regulated entity in a sound and solvent condition; and

[1] The Federal Home Loan Bank System includes the 11 FHLBanks and the Office of Finance, a joint office of the FHLBanks.

[2] P.L. 110-289 (2008).

[3] U.S.C. 4501 *et seq.* (P.L. 102-550 (1992)).

[4] U.S.C. § 4513(a)(1).

(ii) Appropriate to carry on the business of the regulated entity and preserve and conserve the assets and property of the regulated entity.[5]

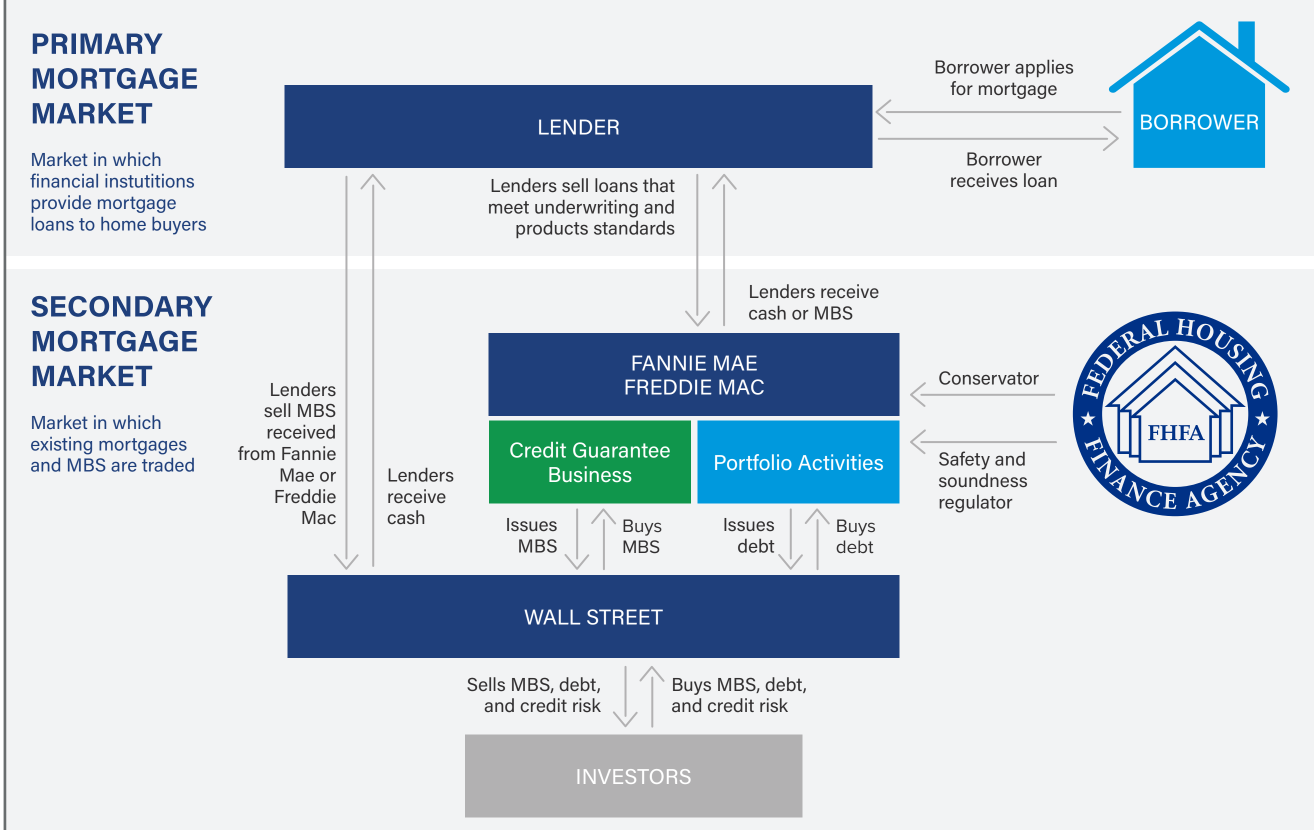
Continuing the business of the Enterprises in conservatorships also incorporates the above-referenced responsibilities that are enumerated in 12 U.S.C. § 4513(a)(1). Additionally, under the Emergency Economic Stabilization Act of 2008, FHFA has a statutory responsibility in its capacity as conservator to "implement a plan that seeks to maximize assistance for homeowners and use its authority to encourage the servicers of the underlying mortgages, and considering net present value to the taxpayer, to take advantage of…available programs to minimize foreclosures."[6]

Background on the Regulated Entities

THE ENTERPRISES

Fannie Mae and Freddie Mac were created by Congress in 1938 and 1970, respectively, to provide stability and liquidity in the secondary market for home mortgages. The Enterprises purchase single-family mortgages that lenders have already made to borrowers. As shown in Figure 1, most of these mortgages are pooled into mortgage-backed securities (MBS), which are guaranteed by the Enterprises and sold to investors. The Enterprises guarantee the payment of principal and interest on the underlying mortgages and charge lenders a guarantee fee for assuming the credit risk associated with the purchased mortgages. As previously stated, the Enterprises continue to operate under conservatorships.

Figure 1: FHFA's Oversight Role – Fannie Mae and Freddie Mac



[5] 12 U.S.C. § 4617(b)(2)(D).

[6] 12 U.S.C. § 5220(b)(1).

THE FEDERAL HOME LOAN BANKS

Congress passed the Federal Home Loan Bank Act (Bank Act) in 1932 to establish the FHLBank System and reinvigorate a housing market devastated by the Great Depression. The FHLBank System includes 11 district FHLBanks, each serving a designated geographic area of the United States, and the Office of Finance (OF), which issues consolidated obligations[7] to fund the FHLBanks' operations. The FHLBanks are member-owned cooperatives that provide a reliable source of liquidity to member financial institutions by making loans, known as advances, to member institutions and housing associates (see Figure 2). These advances increase the available funding for residential mortgages. The FHLBanks secure these advances with eligible collateral, consisting primarily of single-family mortgages, multifamily mortgages, government and agency securities, and commercial real estate loans. Some FHLBanks also purchase mortgage loans directly from their members through Acquired Member Assistance (AMA) programs. As of September 30, 2019, there were 6,788 active FHLBank members, consisting of commercial banks, credit unions, thrifts, insurance companies, and community development financial institutions.

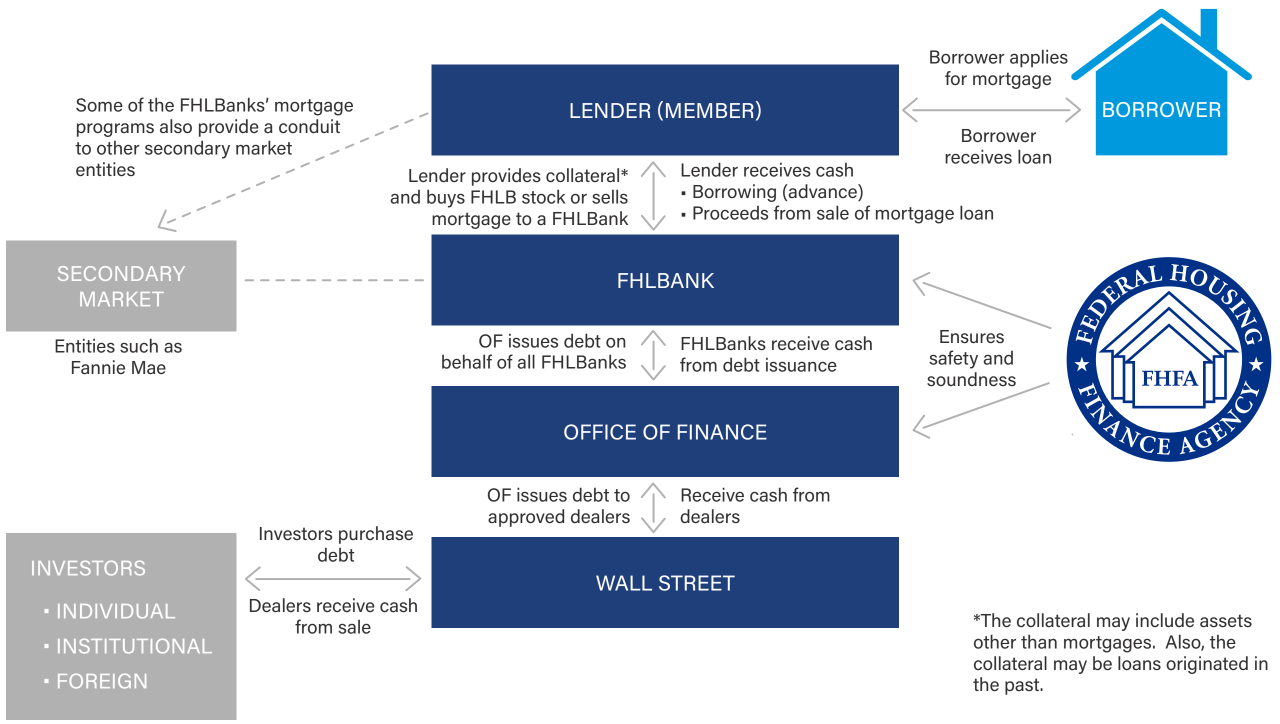
Table 1 illustrates the scope of the regulated entities' involvement in the housing market for calendar year 2018 and calendar year 2019 through the third quarter.

Table 1: Regulated Entities' Business Activity
(dollars in billions)

		Jan – Dec 2018	Jan – Sep 2019
Enterprise New Business	Single-Family Purchase	$503	$426
	Single-Family Refinance	$252	$287
	Multifamily	$143	$113
	TOTAL	$898[a]	$826[a]
FHLBank New Business[b]	On-Balance Sheet Acquired Member Assets (AMA) Mortgages	$15	$14
	Off-Balance Sheet Mortgages	$3	$2
FHLBank AMA Mortgages Outstanding[c]		$63	$70
FHLBank Advances Outstanding[c]		$729	$659

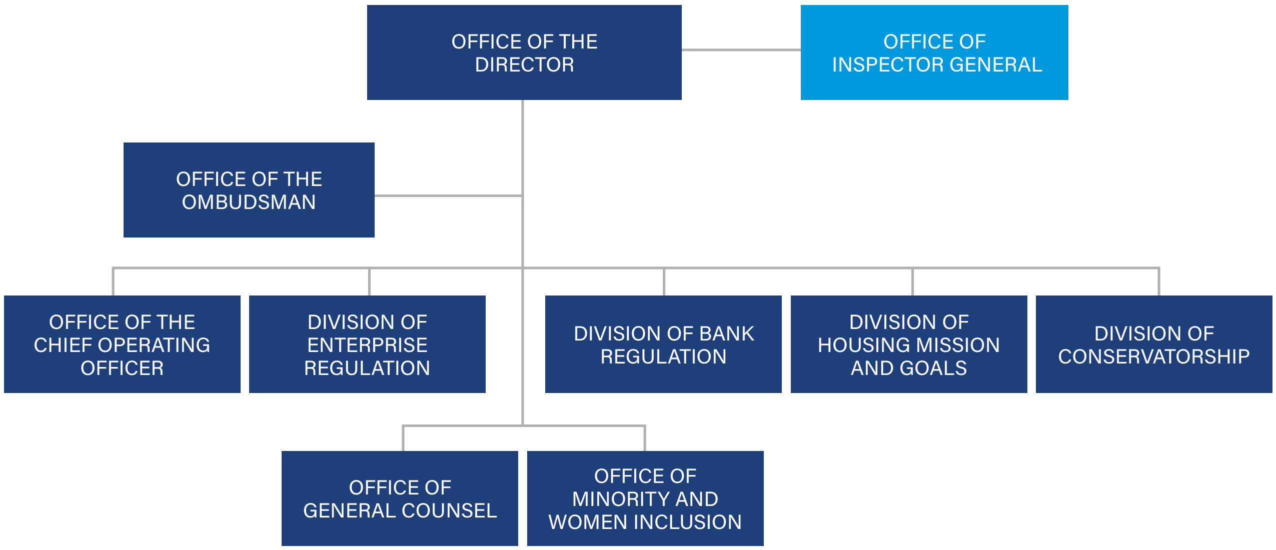
[a] Publicly available 10-K and 10-Q financial reports submitted by public companies to the U.S. Securities and Exchange Commission and Credit Supplement Reports.
[b] Under AMA programs, the FHLBanks acquire conforming and government guaranteed or insured loans. AMA mortgages are mortgages purchased by the FHLBanks generally as investments to hold on their books. Off-balance sheet mortgages are mortgages that the FHLBanks pass through directly to third-party investors or securitization.
[c] As of end of period.

Figure 2: FHFA's Oversight Role – Federal Home Loan Banks and Office of Finance



[7] Consolidated obligations refer to the joint obligations of the 11 FHLBanks and are debt instruments sold to the public through OF, but that are not guaranteed by the U.S. government.

Figure 3: FHFA Principal Organization Structure



FHFA Organization

FHFA is an independent government agency with a workforce that includes highly skilled examiners, economists, financial and policy analysts, attorneys, and subject matter experts in banking, housing, insurance, technology, accounting, and legal matters.

The Director sets the course for the Agency to achieve its mission, and the Agency's divisions and offices work together to meet the Agency's strategic goals. FHFA's principal organizational units are shown in Figure 3.

The Office of the Director provides overall leadership and strategic direction for the Agency. The Office of Congressional and Agency Communications resides in the Office of the Director and is responsible for all external and internal communications.

The Office of the Chief Operating Officer oversees the Agency's day-to-day support operations, including facilities management, continuity of operations (COOP), financial planning and budgeting, contracting, human resource management, information technology, quality assurance, program management, and audit follow-up functions. The office also leads Agency strategic planning and performance management and reporting efforts. These responsibilities reside in the Office of Budget and Financial Management, the Office of Technology and Information Management, the Office of Human Resources Management, the Office of Enterprise Program Management, and the Office of Facilities Operations Management.

The Division of Enterprise Regulation (DER) supervises the Enterprises and evaluates the safety and soundness of their operations. DER contributes to the achievement of FHFA's strategic and performance goals through planning and executing risk-based examinations of the Enterprises with continuous onsite supervision of enterprise risk management, developing and preparing the annual reports of examination (ROEs), issuing guidance to the regulated entities and examiners, providing examiner training, and providing accounting guidance and risk analysis.

The Division of Federal Home Loan Bank Regulation (DBR) supervises the FHLBanks and OF to ensure their safe and sound operation. The division oversees and directs all FHLBank examination activities, develops examination findings, and prepares ROEs. DBR monitors and assesses the financial condition and performance of the FHLBanks and OF and tests their compliance with laws and regulations through annual on-site examinations, periodic visits, and off-site monitoring and analysis. The division establishes supervisory policy and regulation for the FHLBanks and conducts FHLBank-focused research. DBR also conducts Affordable Housing Program (AHP) examinations at each FHLBank annually to promote compliance with program regulations and to evaluate the effectiveness of each FHLBank's AHP.

The Division of Housing Mission and Goals (DHMG) develops and analyzes FHFA's housing policy. The division administers housing and regulatory policy, the mission and goals of the Enterprises, and the housing finance, community, and economic development mission of the FHLBanks. DHMG also oversees and coordinates FHFA activities that involve data analyses and analysis affecting housing finance and financial markets in support of FHFA's mission and the Director's responsibilities as a member of the Federal Housing Finance Oversight Board, the Financial Stability Oversight Board, and the Financial Stability Oversight Council.

The Division of Conservatorship (DOC) assists the FHFA Director, as conservator, in carrying out conservatorship obligations. DOC facilitates communications between the Enterprises and FHFA as conservator to ensure the prompt identification of emerging issues and their timely resolution. DOC also works with the Enterprises' boards and senior management to establish priorities and milestones for accomplishing the goals of the conservatorships. In addition, the division leads, coordinates, and clarifies Agency and Enterprise activities related to the Agency's strategic plan for managing those conservatorships. For the period covered by this report, FY 2019, the active plan was *The 2014 Strategic Plan for the Conservatorships of Fannie Mae and Freddie Mac*.[8] In October 2019, FHFA issued *The 2019 Strategic Plan for the Conservatorships of Fannie Mae and Freddie Mac*,[9] which will guide management of the conservatorships going forward.

The Office of Minority and Women Inclusion (OMWI) leads the Agency's efforts to advance diversity and inclusion among its workforce and senior level management and also supervises and examines the regulated entities' diversity and inclusion programs. OMWI is responsible for increasing the participation of minority- and women-owned businesses in Agency programs and contracts, including standards for coordinating technical assistance to such businesses, assessing the diversity policies and practices of the regulated entities, and evaluating the good faith efforts of Agency contractors and subcontractors. In addition, the Office is responsible for developing internal Equal Employment Opportunity (EEO) standards that address the racial, ethnic, and gender diversity of the Agency's workforce. OMWI also ensures that FHFA is compliant with EEO laws and regulations.

The Office of the Ombudsman considers and adjudicates complaints and appeals from any regulated entity, OF, or any person who has a business relationship with a regulated entity or OF, concerning any matter relating to FHFA's regulation and supervision. Neither FHFA nor any of its employees may retaliate against a regulated entity, OF, or a person for submitting a complaint or an appeal to the Office of the Ombudsman.

The Office of Inspector General (OIG) conducts independent audits, evaluations, and investigations to help FHFA achieve its mission and goals and guard against waste, fraud, and abuse. OIG informs the Director, Congress, and the public of any problems or deficiencies relating to programs and operations. OIG activities assist FHFA staff and program participants by ensuring the effectiveness, efficiency, and integrity of FHFA's programs and operations.

Table 2: FHFA Staffing Summary

FHFA Employees (by specialized area)	As of 9/30/2019	
	FY 2019 Year End[a]	FY 2020 Budgeted[b]
Office of the Director	25	31
Office of the Ombudsman*	0	0
Office of the Chief Operating Officer	122	130
Division of Enterprise Regulation	155	179
Division of Federal Home Loan Bank Regulation	114	122
Division of Housing Mission and Goals	119	127
Division of Convervatorship	18	20
Office of General Counsel	41	43
Office of Minority and Women Inclusion	15	23
TOTAL FHFA	609	675
TOTAL FHFA OIG	122	155

[a] *FY 2019 staffing numbers are on-board positions as of September 30, 2019.*
[b] *FY 2020 staffing numbers are budgeted positions.*
* *The duties of this position are being filled by a senior advisor to the Director.*

[8] https://www.fhfa.gov/AboutUs/Reports/ReportDocuments/2014StrategicPlan05132014Final.pdf.

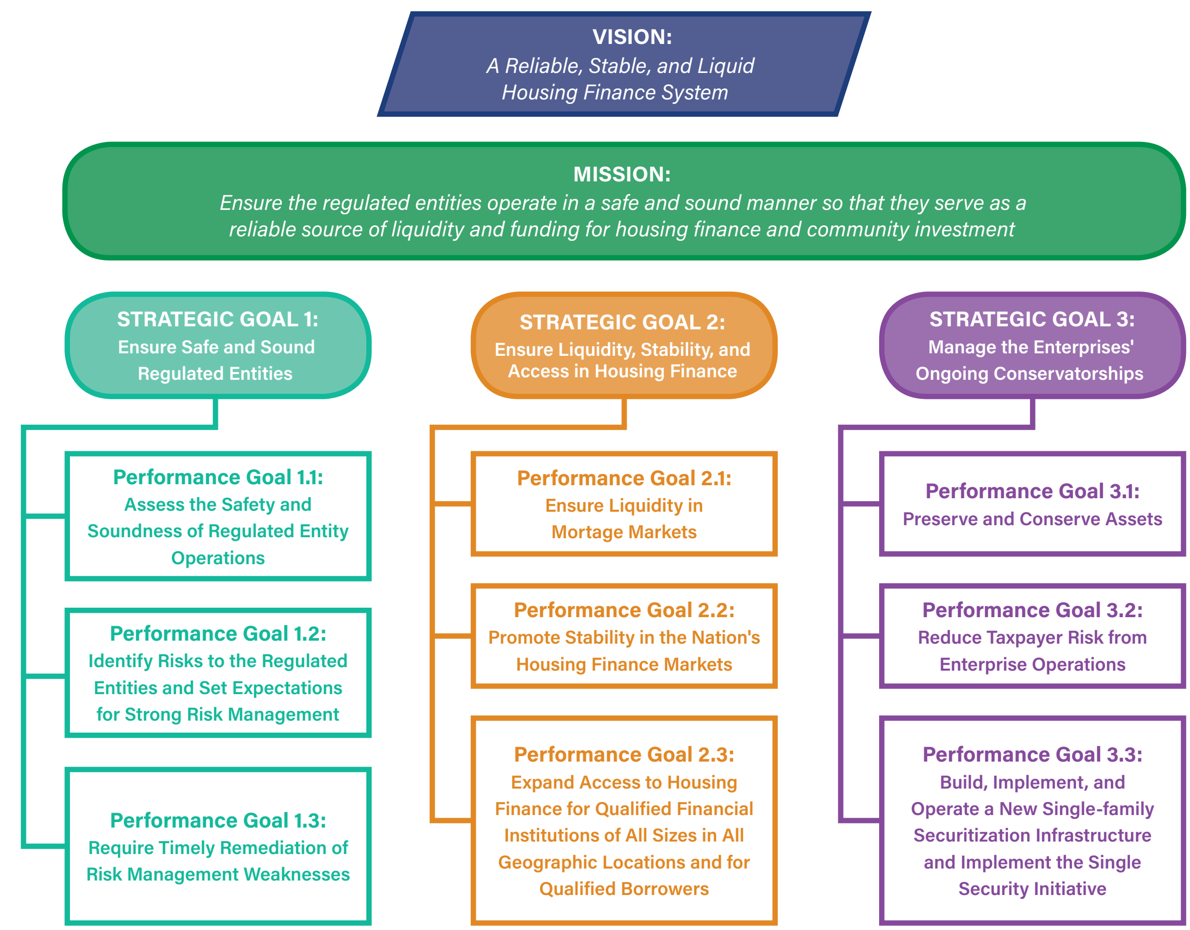
[9] https://www.fhfa.gov/AboutUs/Reports/ReportDocuments/2019-Strategic-Plan.pdf.

Performance Summary

Strategic and Performance Goals

FHFA's strategic plan provides the foundation for Agency planning, budgeting, operations, and reporting. The Agency's strategic plan establishes the long-term strategic goals to achieve FHFA's mission and the performance goals to achieve those strategic goals. It also identifies planned means and strategies to achieve the performance goals. Key elements from FHFA's 2018-2022 Strategic Plan[10] are presented in Figure 4, including the Agency's vision and mission, as well as the three strategic goals and their corresponding performance goals that were in effect during FY 2019, the time period covered by this report. (An additional resource management element, not shown here, is identified in the Annual Performance Plan for FY 2019[11] and contributes to achievement of all three strategic goals.) The performance measures associated with the performance and resource management goals are presented on pages 36-70. Validation and verification activities conducted to confirm that performance results are reported accurately are described on page 35.

Figure 4: FHFA'S FY 2018-2022 Strategic Plan: Vision, Mission, and Goals



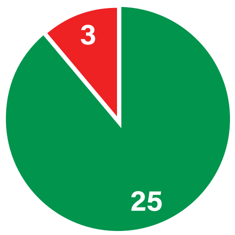
[10] https://www.fhfa.gov/AboutUs/Reports/ReportDocuments/StratPlan_Final_1292018.pdf. FHFA is currently in the process of developing an updated Agency strategic plan, which is expected to be completed during FY 2020.

[11] https://www.fhfa.gov/AboutUs/Reports/ReportDocuments/FY2019_APP.pdf.

Performance Snapshot

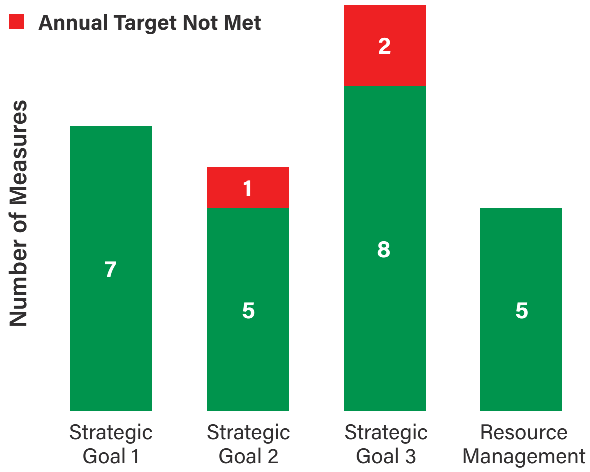
In FHFA's FY 2019 Annual Performance Plan, FHFA identified a total of 28 performance measures to monitor progress toward achieving the Agency's strategic goals and performance goals, as well as selected aspects of resource management. FHFA met the FY 2019 annual performance targets for 25 of the performance measures (89 percent) and did not meet the targets for 3 of the measures (11 percent). The overall results indicate progress toward achieving FHFA's goals and mission.

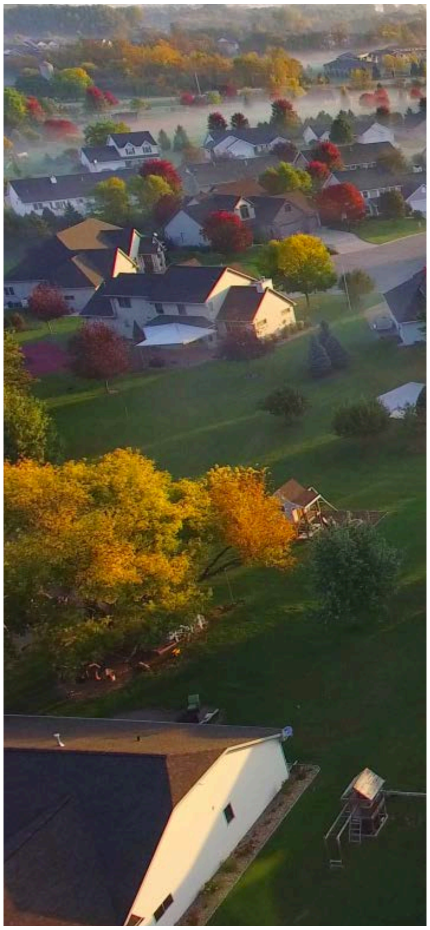
Figure 5: Snapshot of FY 2019 Performance Measure Results

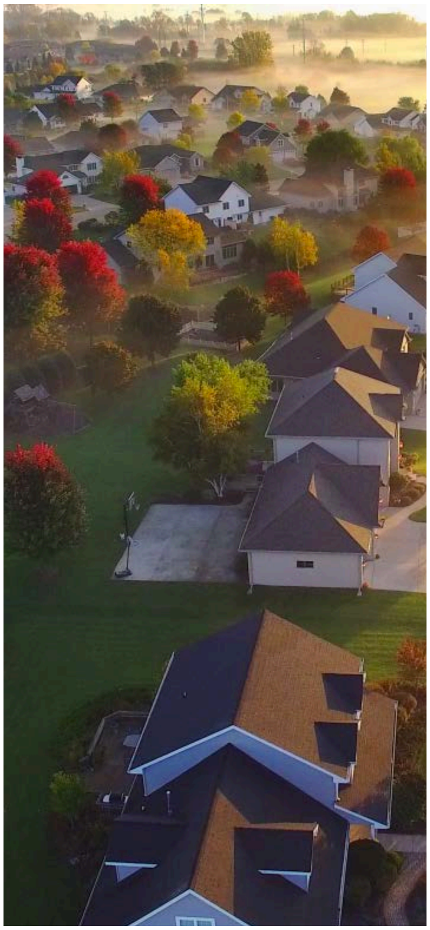


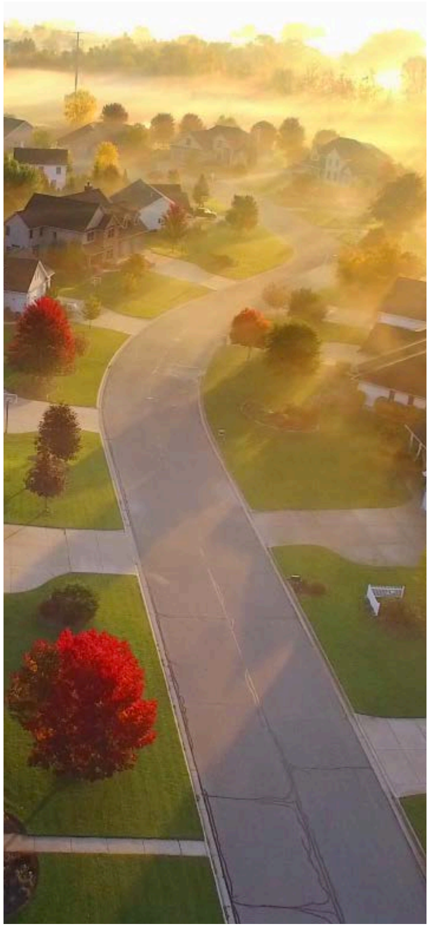
FY 2019 results for the performance measures are shown organized by strategic goal or resource management area in Figure 6.

Figure 6: FY 2019 Performance Measure Results by Goal Area









Summary of Performance Measures and Results

Table 3 presents a summary of performance results for FHFA's FY 2019 Performance Measures, including performance data for prior years FYs 2014-2018, where available.

Table 3: Summary of Performance Measures and Results

Performance Measure	FY 2014 Result	FY 2015 Result	FY 2016 Result	FY 2017 Result	FY 2018 Result	FY 2019 Target	FY 2019 Result
STRATEGIC GOAL 1: ENSURE SAFE AND SOUND REGULATED ENTITIES							
Performance Goal 1.1: Assess the Safety and Soundness of Regulated Entity Operations							
1.1.1: Ensure that written risk-based supervisory strategies and examination plans are in place prior to the commencement of examinations for each of the FHLBanks and by January 31 for the Enterprises	MET	MET	MET	MET	MET	100 percent of the time	MET
1.1.2: Approval of reports of examination for regulated entities within 90 days of completing examination work for each of the FHLBanks and by March 31 for the Enterprises	MET	NOT MET	MET	MET	NOT MET	100 percent of the time	MET
1.1.3: Ensure a quarterly Market Value of Equity-to-par ratio greater than or equal to one for each FHLBank	MET	MET	MET	MET	MET	100 percent of the time	MET
1.1.4: Ensure each FHLBank is adequately capitalized and communicate quarterly capital classifications to the FHLBanks by the end of the following quarter	MET	MET	MET	MET	MET	100 percent of the time	MET
1.1.5: Ensure that supervisory correspondence to the Enterprises adheres to division guidance	N/A	N/A	N/A	N/A	N/A	100 percent of the time	MET
Performance Goal 1.2: Identify Risks to the Regulated Entities and Set Expectations for Strong Risk Management							
1.2.1: Issue guidance to the FHLBanks and Enterprises on operational risk management	N/A	N/A	N/A	N/A	N/A	FY 2019	MET
Performance Goal 1.3: Require Timely Remediation of Risk Management Weaknesses							
1.3.1: FHFA determines that the regulated entities have satisfactorily addressed safety and soundness Matters Requiring Attention in accordance with agreed upon remediation plans and timeframes	N/A	MET	NOT MET	NOT MET	NOT MET	90 percent of the time	MET
STRATEGIC GOAL 2: ENSURE LIQUIDITY, STABILITY, AND ACCESS IN HOUSING FINANCE							
Performance Goal 2.1: Ensure Liquidity in Mortgage Markets							
2.1.1: Issue a final Capital Regulation for the Enterprises	N/A	N/A	N/A	N/A	N/A	FY 2019	NOT MET
Performance Goal 2.2: Promote Stability in the Nation's Housing Finance Markets							
2.2.1: Continue publication of 12 monthly and 4 quarterly FHFA House Price Indices	N/A	MET	MET	MET	MET	FY 2019	MET
2.2.2: Continue conducting the quarterly National Survey of Mortgage Originations[12]	N/A	N/A	N/A	N/A	N/A	FY 2019	MET
Performance Goal 2.3: Expand Access to Housing Finance for Qualified Financial Institutions of All Sizes in All Geographic Locations and for Qualified Borrowers							
2.3.1: Conduct diversity and inclusion examinations of the Enterprises and the FHLBanks	N/A	N/A	N/A	N/A	MET	10 examinations during FY 2019	MET
2.3.2: Monitor the Enterprises' performance in Duty to Serve initiatives related to manufactured housing, affordable housing preservation, and rural markets	N/A	N/A	N/A	N/A	N/A	FY 2019	MET
2.3.3: Establish a Mortgage Translations Clearinghouse for borrowers with limited English proficiency	N/A	N/A	N/A	N/A	N/A	FY 2019	MET

[12] Although FHFA has conducted the National Survey of Mortgage Originations (NSMO) since FY 2014, this performance measure was reported on for the first time in FY 2019. The performance measure includes both conducting the quarterly NSMO in conjunction with an annual release of the public use file. The public use file was first released in FY 2019.

Table 3: Summary of Performance Measures and Results							
Performance Measure	FY 2014 Result	FY 2015 Result	FY 2016 Result	FY 2017 Result	FY 2018 Result	FY 2019 Target	**FY 2019 Result**
STRATEGIC GOAL 3: MANAGE THE ENTERPRISES' ONGOING CONSERVATORSHIPS							
Performance Goal 3.1: Preserve and Conserve Assets							
3.1.1: Maintain a qualified board of directors and chief executive officer for each Enterprise to oversee the implementation of conservator objectives	**N/A**	**MET**	**MET**	**MET**	**MET**	95 percent of vacancies filled within 120 days	**MET**
3.1.2: Provide the 2019 Scorecard for Fannie Mae, Freddie Mac, and Common Securitization Solutions to the Enterprises	**N/A**	**MET**	**MET**	**MET**	**MET**	December 31, 2018	**MET**
3.1.3: Communicate conservator decisions on the Enterprises' administrative expenses for Calendar Year 2019	**N/A**	**N/A**	**MET**	**MET**	**MET**	January 31, 2019	**MET**
3.1.4: Monitor and rate the Enterprises' performance against current Scorecard objectives	**N/A**	**N/A**	**N/A**	**MET**	**MET**	Complete quarterly assessment within 30 days of the end of each quarter	**NOT MET**
3.1.5: Provide timely responses on items submitted to FHFA for conservator decision	**N/A**	**N/A**	**N/A**	**MET**	**MET**	95 percent of conservatorship decisions on matters requiring Agency approval are made and communicated within 90 days of receipt[13]	**NOT MET**
Performance Goal 3.2: Reduce Taxpayer Risk from Enterprise Operations							
3.2.1: Oversee reduction in retained portfolios consistent with the Senior Preferred Stock Purchase Agreement target of $250 billion	**MET**	**MET**	**MET**	**MET**	**MET**	December 31, 2018	**MET**
3.2.2: Require the Enterprises to execute single-family mortgage credit risk-sharing transactions	**MET**	**MET**	**MET**	**MET**	**MET**	Transfer a meaningful portion of credit risk on at least 90 percent of the unpaid principal balance of newly acquired single-family mortgages in loan categories targeted for credit risk transfer, subject to FHFA target adjustments as may be necessary to reflect market conditions and economic considerations	**MET**
3.2.3: Require the Enterprises to execute multifamily mortgage credit risk-sharing transactions	**N/A**	**N/A**	**N/A**	**MET**	**MET**	Transfer a meaningful portion of the credit risk on newly acquired multifamily mortgages, subject to FHFA target adjustments as may be necessary to reflect market conditions and economic considerations	**MET**
Performance Goal 3.3: Build, Implement, and Operate a New Single-family Securitization Infrastructure and Implement the Single Security Initiative							
3.3.1: Issue a progress report on the status of the Single Security Initiative and the Common Securitization Platform	**N/A**	**MET**	**MET**	**MET**	**MET**	June 30, 2019	**MET**
3.3.2: The Enterprises and Common Securitization Solutions implement Release 2 of the Common Securitization Platform and begin issuing Uniform Mortgage-Backed Securities	**N/A**	**N/A**	**N/A**	**N/A**	**N/A**	June 3, 2019	**MET**

[13] In fiscal years 2017 and 2018, the performance target for Measure 3.1.5 included a more generous time frame of 120 days for conservatorship decisions to be made.

Table 3: Summary of Performance Measures and Results							
Performance Measure	FY 2014 Result	FY 2015 Result	FY 2016 Result	FY 2017 Result	FY 2018 Result	FY 2019 Target	**FY 2019 Result**
RESOURCE MANAGEMENT: SUPPORTING THE EFFECTIVE OPERATIONS OF THE AGENCY							
RM1: Ensure FHFA's financial statements audit receives an unmodified opinion with no material weaknesses[14]	**MET**	**MET**	**MET**	**MET**	**MET**	100 percent	**MET**
RM2: Ensure FHFA's Federal Information Security Modernization Act (FISMA) audit identifies no significant deficiencies[14]	**MET**	**MET**	**MET**	**MET**	**MET**	100 percent	**MET**
RM3: Ensure FHFA's infrastructure systems are continuously available for use by FHFA staff	**N/A**	**N/A**	**N/A**	**N/A**	**N/A**	99.5 percent of the time	**MET**
RM4: Increase the dollar amount of FHFA contracts awarded to minority- and women-owned businesses consistent with legal standards	**N/A**	**N/A**	**MET**	**MET**	**MET**	Total dollar amount of contracts greater than the five-year average	**MET**
RM5: Staff responses to the Federal Employee Viewpoint Survey reflect that "My work unit has the job-relevant knowledge and skills necessary to accomplish organizational goals"[15]	**N/A**	**N/A**	**N/A**	**N/A**	**N/A**	Positive responses higher than government-wide average	**MET**

Performance Highlights by Strategic Goal

STRATEGIC GOAL 1: ENSURE SAFE AND SOUND REGULATED ENTITIES

FHFA's Strategic Goal 1 is to ensure that Fannie Mae, Freddie Mac, and the FHLBanks operate in a safe and sound manner so that they serve as a reliable source of liquidity and funding for housing finance and community investment. FHFA promotes safe and sound operations of the regulated entities through the Agency's supervisory program. FHFA conducts supervision using a risk-based approach that prioritizes examination activities based on the risk that a given practice poses to a regulated entity's safe and sound operation or its compliance with applicable laws and regulations.

FHFA monitored FY 2019 progress toward Strategic Goal 1 using seven performance measures, as shown in Table 3. The Agency met the FY 2019 performance target for all seven measures, indicating continued progress toward the Strategic Goal of ensuring safe and sound regulated entities. A more in-depth discussion of performance results for Strategic Goal 1 is included in the Performance Section.

Strategic Goal 1 - Selected Highlights

In addition to meeting performance targets for all of the Strategic Goal 1 measures, FHFA achieved several accomplishments in FY 2019 that contributed to progress toward the strategic goal. Notable FY 2019 accomplishments include:

- Financial Condition of the Enterprises and FHLBanks: For the quarter ending September 30, 2019, Fannie Mae reported net income of $4.0 billion ($0.6 billion increase over prior quarter), and Freddie Mac reported net income of $1.7 billion ($0.2 billion increase over prior quarter). Pursuant to the September 2019 letter agreements amending provisions of the Senior Preferred Stock Purchase Agreements (PSPAs), Fannie Mae was able to increase its net worth to $10.3 billion as of September 30, 2019, reducing its leverage ratio to 338:1. Freddie Mac was able to increase its net worth to $6.7 billion as of September 30, 2019, reducing its leverage ration to 325:1. The financial condition and performance of the FHLBanks was sound during the 12-month period ending September 30, 2019. All 11 FHLBanks were profitable. Additional details on the financial condition of the regulated entities can be found on pages 39-41.

[14] Prior to FY 2019, RM1 and RM2 were reported as a combined measure. See Table 20: FY 2018 Performance Measures Changed and Dropped in FY 2019 on page 71.

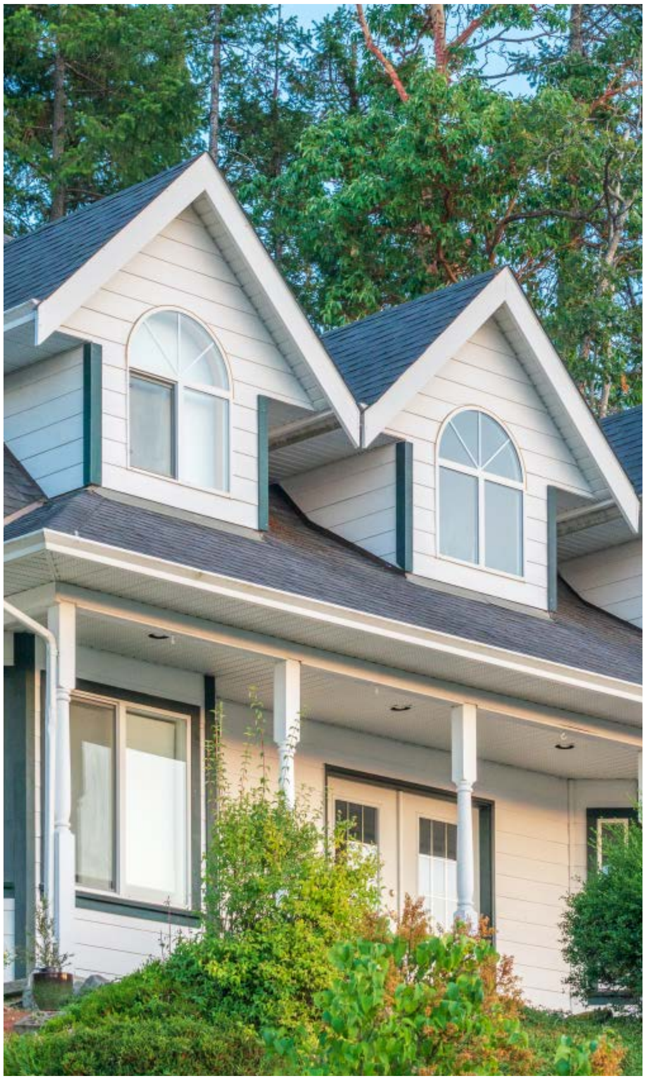
[15] Prior to 2018, the Federal Employee Viewpoint Survey question was framed as *"the [Agency] workforce has the job-relevant knowledge and skills necessary to accomplish organizational goals."*

- Annual Enterprises' Stress Tests: In August 2019, FHFA released the results of the Enterprises' annual stress tests as mandated by the Dodd-Frank Wall Street Reform and Consumer Protection Act of 2010 (Dodd-Frank Act).[16] The Dodd-Frank Act stress test (DFAST) is carried out to determine the level of a regulated entity's capital resiliency during a hypothetical downturn in the economy. The scenarios used and their outcomes are highlighted in the FHFA report, *Dodd-Frank Act Stress Tests Results: Severely Adverse Scenario*.[17] DFAST disclosures help provide transparency to the public about how the Enterprises might perform in postulated adverse economic conditions.

- Supervision and Examination Training: FHFA continued to strengthen supervision in FY 2019 to support high-quality examinations, offsite monitoring, and risk analysis of the regulated entities' operations. FHFA held the annual supervision conference for DBR and DER staff in December 2018. The Agency sponsored internal and external training programs to educate supervision staff on current and emerging risks to the regulated entities. FHFA also continues to strengthen the Housing Finance Examiner commission program. During the fiscal year, 10 FHFA staff completed the Housing Finance Examiner commission program.

- New and Enhanced Supervisory Powers: HERA made FHFA a stronger and more independent regulatory agency, compared to its predecessor, the Office of Federal Housing Enterprise Oversight. FHFA has succeeded in overseeing the Enterprise conservatorships for the past 11 years, but the Agency should be strengthened with additional regulatory and supervisory authorities for an eventual post-conservatorship environment. To ensure the Enterprises remain well-regulated and well-capitalized outside the framework of conservatorship, FHFA's supervisory capacity will need to be on par with that of other independent federal financial regulators. As such, in June 2019, FHFA asked Congress for new and enhanced authority to: (1) grant enterprise charters to new market participants; (2) examine third parties that do business with its regulated entities; and (3) appropriately tailor risk-based capital requirements and leverage limits for the Enterprises and any other future guarantors of mortgage-backed securities.

- Enabling the Enterprises to Build Capital: On September 27, 2019, FHFA and the U.S. Department of the Treasury (Treasury) signed letter agreements modifying the PSPAs. These agreements enabled the Enterprises to collectively retain up to $45 billion in capital reserves. This is a critical first step toward enabling the Enterprises to achieve a sound financial condition.



[16] The Enterprises are required to conduct annual stress tests pursuant to FHFA rule 12 CFR § 1238, which implements section 165(i)(2) of the Dodd-Frank Act.

[17] www.fhfa.gov/AboutUs/Reports/ReportDocuments/2019_DFAST_Severely-Adverse-Scenario.pdf.

SUPERVISION OF THE REGULATED ENTITIES

FHFA's supervisory program is designed to promote safe and sound operations of the regulated entities. FHFA employs a risk-based approach to supervisory examinations that involves identifying existing and emerging risks, evaluating the overall integrity and effectiveness of the entities' risk management systems and controls, and assessing compliance with applicable laws and regulations.

Examinations

In FY 2019, FHFA conducted examinations of the Enterprises and the FHLBanks.[a] An Examiner-in-Charge leads examination activity at each Enterprise and FHLBank. An on-site team, in coordination with other subject matter experts, conducted the examination activities. FHFA also maintains off-site monitoring programs that routinely evaluate data, respond to a wide array of ad hoc and periodic requests, and provide support to on-site examination teams.

Enterprises: In FY 2019, through its supervisory program, FHFA conducted continuous on-site examinations of the Enterprises' risk management and off-site review and monitoring of Fannie Mae, Freddie Mac, and Common Securitization Solutions, LLC (CSS), the joint venture of Fannie Mae and Freddie Mac that owns and operates the Common Securitization Platform (CSP). (For more information on CSS and the CSP, see p. 24.) As in previous years, FHFA conducted examinations in accordance with risk-based examination plans. FHFA maintains on-site examination teams at each Enterprise to conduct targeted examinations and ongoing monitoring throughout the year across various areas of risk.

FHLBanks: During FY 2019, FHFA maintained its schedule of annual, on-site examinations at each FHLBank and OF, conducted risk analyses, and performed off-site and on-site reviews and monitoring. Examinations and ongoing supervision adhere to annually established supervisory strategies and examination plans for each FHLBank and OF.

Reports of Examination (ROEs)

For each regulated entity, FHFA prepares an annual ROE[b] that identifies weaknesses and includes composite and component ratings as set forth in the **C**apital, **A**sset quality, **M**anagement, **E**arnings, **L**iquidity, **S**ensitivity to market risk, and **O**perational risk (CAMELSO) rating system. For FY 2019, FHFA delivered ROEs to the Enterprises in March 2019, and to the FHLBanks according to FHFA's examination schedule.[c] Each regulated entity's ROE is delivered to its board of directors and management.

Supervisory Expectations

FHFA communicates supervisory expectations for strong risk management and requires remediation of identified deficiencies. Where there are significant supervisory concerns or violations of law or regulation at one of the regulated entities, FHFA issues Matters Requiring Attention (MRAs), examination findings that require the board of directors and/or management to take corrective action to address critical supervisory matters or deficiencies. In response to an MRA, the entity commits to remediating the identified risk management concern(s). FHFA also issues written guidance in the form of advisory bulletins to the regulated entities regarding particular supervisory topics, as discussed in greater detail on pages 43-44.

[a] Section 1317(a) of the Safety and Soundness Act, as amended, 12 USC § 4517(a), requires FHFA to conduct annual on-site examinations of the Enterprises and the FHLBanks. Examination of the FHLBanks is also performed pursuant to Section 20 of the Bank Act, as amended, 12 U.S.C. § 1440.

[b] FHFA prepares ROEs under the authority given to the Agency in Section 1317(a) of the Safety and Soundness Act (12 U.S.C. § 4517(a)).

[c] FHFA generally conducts three FHLBank System examinations per quarter.

STRATEGIC GOAL 2: ENSURE LIQUIDITY, STABILITY, AND ACCESS IN HOUSING FINANCE

For both the FHLBank System and the Enterprises, FHFA has the statutory obligation to foster liquid, efficient, competitive, and resilient national housing finance markets, while ensuring that the regulated entities meet their fundamental safety and soundness obligations. FHFA uses a multi-faceted approach to achieve these objectives. FHFA works with the Enterprises to implement risk measurement and risk management guidelines to promote liquidity and stability in the housing finance markets. FHFA monitors and reports on trends in housing and mortgage markets, such as trends in house prices, guarantee fees, and consumer sentiment, to enable FHFA to respond appropriately to developments in the housing finance market and to promote market stability. In addition, FHFA works with the Enterprises to develop and monitor programs that expand access to housing finance to all qualified financial institutions and qualified borrowers. FHFA also oversees the FHLBanks' affordable housing and community investment activities.

During FY 2019, FHFA monitored progress toward Strategic Goal 2 with six performance measures. FHFA met the FY 2019 performance targets for five of the Strategic Goal 2 measures and did not meet the performance target for one measure, as shown in Table 3. A more detailed discussion of performance results for Strategic Goal 2 is included in the Performance Section.

RESEARCH & PUBLICATIONS

FHFA gathers and analyzes comprehensive data on housing markets, providing critical information to guide policy decisions and inform the public. The Agency publishes reports required by statute as well as research papers related to housing and market conditions. FHFA monitors and reports on housing and mortgage market trends, such as house prices, guarantee fees, and consumer sentiment, to enable FHFA to respond appropriately to developments in the housing finance market and to promote market efficiency and stability. The Agency is committed to increasing transparency in housing finance markets, and actively promotes the dissemination of information that will improve the public's understanding of housing finance markets. FHFA publishes a broad measure of single-family house price trends at various geographic levels called the FHFA HPI[a] (House Price Index) and a variety of other housing finance-related data sets, including reports on foreclosure prevention and refinance.[b] FHFA economists and subject matter experts also conduct and publish high-quality research and policy analysis on critical topics impacting the nation's housing finance sector, including trends in house prices, housing market conditions, and mortgage lending activity. The Agency's research and publications are aimed at improving public understanding of the mortgage finance system and enabling the public to make informed decisions based on the best information available.

[a] https://www.fhfa.gov/DataTools/Downloads/Pages/House-Price-Index.aspx.

[b] https://www.fhfa.gov/AboutUs/Reports/ReportDocuments/Aug2019-FPMR-FP-Refi.pdf.

Strategic Goal 2 - Selected Highlights

In addition to meeting performance targets for all but one of the Strategic Goal 2 measures, FHFA achieved several accomplishments in FY 2019 that contributed to progress toward the strategic goal. Notable FY 2019 accomplishments include:

- Alternative Credit Scoring: In December 2018, FHFA invited public comment on the Agency's proposed rulemaking to establish new requirements for validating and approving new credit models for use by the Enterprises. FHFA received and reviewed input from industry, legislators, and other interested parties[18] and published the Final Rule on August 16, 2019. Issuing this Final Rule has been an important step toward ensuring that the Enterprises employ tools that accurately measure risk, so that borrowers have a safe and sound path to sustainable homeownership and taxpayers are protected. A comprehensive fact sheet about the model approval process is available on FHFA's website.[19]

- New Multifamily Caps: The Enterprises play an essential role in multifamily financing, whether for ownership or rental. These units are often an affordable alternative to single-family homes. On September 13, 2019, FHFA revised the Enterprise multifamily loan purchase caps upwards to $100 billion for each Enterprise through year-end 2020. The new caps are substantially larger than the previous caps, which were $35 billion per Enterprise. (The previous caps included a variety of uncapped categories, such as loans to finance energy or water efficiency improvements and loans on targeted affordable housing, which resulted in total multifamily acquisitions exceeding the stated cap of $35 billion.) Importantly, the new $100 billion cap framework increases the levels of the Enterprises' multifamily business that must be mission-driven, affordable housing, to at least 37.5 percent.

- Equitable Market Access for Small Lenders: On September 16, 2019, FHFA issued formal policy guidance to the Enterprises prohibiting volume-based guaranty fee discounts in order to provide a level playing field for small lenders. A central reason for the existence of Fannie Mae and Freddie Mac is to provide small lenders, community banks, and credit unions with access to the secondary market. Small lenders must have access at terms that are equitable with larger entities. In the lead up to the 2008 financial crisis, large financial institutions that controlled substantial market share received significant guaranty fee discounts from the Enterprises because of their volume. These volume-based discounts disadvantaged smaller institutions and drove consolidation that was not healthy for the market. FHFA's formal policy guidance implements the principle of "same rate of the return for the same risks, regardless of size." This principle supports equitable access for small lenders while appropriately allowing for guaranty fees to reflect differences that may exist in the risk profiles between lenders of different size.

- Streamlined Refinancing: As the Home Affordable Refinance Program (HARP®) wound down in December 2018,[20] FHFA continued to work with the Enterprises on alternative programs to serve borrowers with existing high loan-to-value (LTV) loans. The new programs maintain a streamlined application process and offer improved terms to foster sustainability for the homeowner and curtail potential losses to the Enterprises and, ultimately, the taxpayers.

- Enterprises' Affordable Housing Allocations: In April 2019, the Agency authorized release of the Enterprises' affordable housing allocations for calendar year 2018 totaling $376.7 million to expand access to affordable rental housing and sustainable ownership in underserved communities. Funds are used to build and preserve housing as well as to develop related

[18] https://www.fhfa.gov/SupervisionRegulation/Rules/Pages/Comment-List.aspx?RuleID=642.

[19] https://www.fhfa.gov/Media/PublicAffairs/PublicAffairsDocuments/Validation-and-Approval-of-Credit-Score-Models-Final-Rule.pdf.

[20] Through HARP®, which was created by FHFA in 2009, borrowers with little or no equity were able to refinance into more affordable mortgages without new or additional mortgage insurance.

community services. The National Housing Trust Fund[21] was apportioned $244.86 million and the Capital Magnet Fund,[22] $131.84 million. Allocations to the funds are payable subject to statutory conditions set forth in HERA and post-allocation are managed by HUD and Treasury.[23]

- FHFA Data Analytics Tool Patent: In May 2019, FHFA received its first-ever patent from the U.S. Patent and Trademark Office for the invention of a tool that can be used to project credit losses and mortgage prepayments.[24] The "Data Analytics Database and Platform System and Method" is a database system and analytics platform that integrates econometric loan performance models, loan level data, and external economic forecasts to project mortgage cash flows. It presents data for users in a robust and easily accessible format. FHFA staff created the tool to improve the Agency's ability to analyze U.S. housing mortgage data. The information is available to government entities, mortgage providers, and banks to potentially improve understanding of trends in the mortgage industry, identification of appropriate responses to historical data, and forecasts for future requirements, products, and services.
- Increased Public Awareness of FHFA HPI: In August 2019, FHFA began an ongoing effort to inform and educate the public about changes in house prices through the FHFA HPI. This public educational outreach includes the development and publication of a dedicated FHFA website to provide FHFA HPI fact sheets on the fastest and slowest growing metropolitan areas in the United States.[25] Strengthening FHFA's efforts to disseminate the FHFA HPI is a critical public service that provides the American people access to valuable information about developments in the nation's housing markets.

STRATEGIC GOAL 3: MANAGE THE ENTERPRISES' ONGOING CONSERVATORSHIPS

Since 2008, FHFA has served as conservator of Fannie Mae and Freddie Mac. Strategic Goal 3 focuses on managing the Enterprises' conservatorships to preserve and conserve the assets of the Enterprises, reduce taxpayer risk from Enterprise operations, and support the development, implementation, and operation of a single-family securitization infrastructure for the Enterprises.

During FY 2019, FHFA monitored progress toward Strategic Goal 3 using 10 performance measures. FHFA met the FY 2019 performance targets for eight Strategic Goal 3 measures and did not meet the performance targets for two measures, as shown in Table 3. A more detailed discussion of performance results for Strategic Goal 3 is included in the Performance Section.

[21] www.hudexchange.info/programs/htf/.

[22] https://www.cdfifund.gov/programs-training/Programs/cmf/Pages/default.aspx.

[23] 12 U.S.C. § 4567.

[24] Data Analytics Database and Platform System and Method (U.S. Patent No. 10,282,781) by Dunsky *et al.*, issued by U.S. Patent and Trademark Office, May 7, 2019.

[25] https://www.fhfa.gov/DataTools/Downloads/Pages/HPI-MSAs.aspx?utm_medium=email&utm_source=govdelivery.

NEW STRATEGIC PLAN AND SCORECARD FOR THE ENTERPRISES

During FY 2019, FHFA managed its conservatorship obligations consistent with the strategic goals identified in *The 2014 Strategic Plan for the Conservatorships of Fannie Mae and Freddie Mac*.[a]

In October 2019, FHFA published *The 2019 Strategic Plan for the Conservatorships of Fannie Mae and Freddie Mac*[b] which provides a framework for how FHFA intends to guide the Enterprises in accordance with FHFA's statutory authority and responsibility to implement critical reforms, such as restoring capital levels at the Enterprises and ending the conservatorships to produce a stronger and more resilient housing finance system. Premised on a new vision for reform that builds from the current realities of conservatorship toward a better housing finance system, the conservatorships' strategic plan will benefit:

- Taxpayers, by ensuring that the Enterprises should never need another bailout,
- Homeowners, borrowers, and renters, by supporting market stability and ensuring mortgage credit availability for affordable housing through the economic cycle, and
- Investors, by ensuring America's secondary mortgage market is strong and resilient.

FHFA also released a new *2020 Scorecard for the Enterprises and CSS*[c] (Scorecard) in October 2019. The Scorecard aligns tactical priorities and execution at the Enterprises to the conservatorships' strategic plan and will serve as an essential tool in holding the Enterprises accountable for the effective implementation of the conservatorships' strategic plan. The three broad objectives of the new conservatorships' strategic plan and Scorecard are to ensure that the Enterprises:

1) Focus on their core mission responsibilities to foster **C**ompetitive, **L**iquid, **E**fficient, **A**nd **R**esilient (CLEAR) national housing finance markets that support sustainable homeownership and affordable rental housing,
2) Operate in a safe and sound manner appropriate for entities in conservatorships, and
3) Prepare for their eventual exit from the conservatorships.

The Scorecard requires the Enterprises to focus on their core mission responsibilities. This includes fulfilling their housing goals and Duty to Serve Plans with sustainable mortgage programs; ensuring that strong liquidity in the To-Be-Announced (TBA) secondary mortgage market continues by monitoring the Uniform Morgage-Backed Security (UMBS) implementation and taking any additional actions necessary to ensure continued TBA liquidity; and implementing FHFA's final regulation on Credit Score models. The Scorecard will also focus on successfully implementing on-going initiatives related to managing the Multifamily housing funding cap, preparing for an effective transition from LIBOR (London Interbank Offered Rate) to alternative reference rates, continuing to support market participants' needs to serve borrowers with limited English proficiency, and implementing the new Uniform Residential Loan Application (URLA). In addition, the Enterprises are to support actions to level the playing field with other mortgage market participants, including supporting efforts to revise the Consumer Financial Protection Bureau's Qualifying Mortgage standard and assessing additional data that can be made publicly available to support risk transfer activities. They are also to assess opportunities to support state and local efforts to reduce housing production costs and/or lower the cost of providing mortgage finance.

In addition to meeting the above core mission responsibilities, the Enterprises are expected to devote substantial resources to ensuring that they operate in a safe and sound manner. FHFA expects the Enterprises to review their risk profiles across all business activities, with the goal of reducing both the risk and complexity of their businesses, given their conservatorship status and limited capital. In addition, they are to continue to transfer significant credit risk through credit risk transfers (CRTs) to the private market, including undertaking a comprehensive review of the CRT program's costs and benefits. They are also to implement business management and capital planning capabilities to operationalize the conservator capital requirements; continue mortgage servicing efforts that promote stability and readiness for a more challenging market; and focus on core operations and technology management to ensure stability, resiliency, and efficient operations, both within the Enterprises and at their joint venture CSS.

Finally, and perhaps most importantly, under the new Scorecard, the Enterprises are being directed to undertake activities to prepare for a responsible transition out of the conservatorships. This includes the Enterprises working with FHFA to develop the road map and milestones for exiting conservatorship and conducting activities as directed by FHFA arising from recommendations in the reform plans developed by Treasury and HUD. The Enterprises are also to develop and implement strategies that ensure the efficient use of capital targeted to support their core guarantee business with adequate returns to attract the private capital needed; develop a post-conservatorship strategy for CSS; maintain an effective process to ensure that areas identified for improvement by audit and supervisors are remediated in a timely manner; and maintain a sustainable, effective process for fair lending assessment, monitoring, and mitigation to prepare for a transition to post-conservatorship fair lending supervision and oversight.

[a] www.fhfa.gov/AboutUs/Reports/ReportDocuments/2014StrategicPlan05132014Final.pdf.

[b] www.fhfa.gov/AboutUs/Reports/ReportDocuments/2019-Strategic-Plan.pdf.

[c] https://www.fhfa.gov/AboutUs/Reports/ReportDocuments/2020-Scorecard-10282019.pdf.

Strategic Goal 3 - Selected Highlights

In addition to meeting performance targets for most of the Strategic Goal 3 performance measures, FHFA achieved several accomplishments in FY 2019 that contributed to progress in this area. Notable FY 2019 accomplishments include:

- Focusing the Enterprises on Core Mission Responsibilities: One of the Agency's priorities is to focus the Enterprises on their core mission responsibilities, which is to foster competitive, liquid, efficient, and resilient (CLEAR) national housing finance markets. Therefore, FHFA is actively reviewing Enterprise pilots and new programs to ensure that they align with activities core to the Enterprises' guaranty business and statutory mission, mitigate risk, and are essential to end the conservatorships. An example is the Mortgage Servicing Rights (MSR) pilot. MSR essentially allowed the Enterprises to become financiers to non-bank lenders – who in turn used their servicing rights as collateral. In September 2019, FHFA announced the end of the MSR pilot, and the program will wind down responsibly. While the pilot was open to both Enterprises, only Freddie Mac chose to participate.
- Retained Portfolios: By the end of calendar year 2018, both Enterprises had successfully and appropriately reduced the size of their retained portfolios to below the $250 billion cap established in the PSPAs with Treasury. The efforts to reduce retained portfolios reduce taxpayer exposure to credit, asset liquidity, and interest rate risks associated with these portfolios. (More information on retained portfolio reduction can be found on page 61.)
- Uniform Mortgage-Backed Security (UMBS): In March 2019, forward TBA market[26] trading began for the Enterprises' new, common TBA-eligible security for fixed-rate mortgages, the UMBS. This month also marked the consolidation of the formerly distinct markets for each Enterprise's MBS. Settlement of UMBS TBA trades commenced in June, marking the successful completion of FHFA's Single Security Initiative. (More information on the UMBS can be found on page 65.)
- Release 2 of the Common Securitization Platform (CSP) and the Enterprises' Initial Issuance of UMBS through the CSP: On June 3, 2019, both Fannie Mae and Freddie Mac started using Release 2 of the CSP, which is

[26] TBA markets are forward markets for certain MBS.

operated by CSS, for a variety of administrative functions related to single- and multi-class fixed-rate MBS, and commingled Enterprise UMBS.[27] In addition, Fannie Mae uses CSS and the CSP for administration of its adjustable-rate MBS. (More information on the CSP can be found on page 66.)

- Enterprise Retained Earnings: For most of FY 2019, the PSPAs allowed the Enterprises to retain $3 billion each in capital reserves. In September 2019, FHFA and Treasury announced modifications to the PSPAs that will permit the Enterprises to retain more of their earnings and thus build up more capital – an important step toward furthering housing finance reform. The modifications will now allow Fannie Mae to accumulate up to $25 billion for its capital reserves, and Freddie Mac, up to $20 billion. The modifications will also include enhanced protections for taxpayers. (More discussion of Enterprise retained earnings can be found on page 39.)

ENTERPRISE RISK MANAGEMENT

FHFA has been implementing an Enterprise Risk Management (ERM) framework consistent with Office of Management and Budget (OMB) guidance contained in OMB Circular No. A-123, *Management's Responsibility for Enterprise Risk Management and Internal Control.* A cross-functional working group, the Risk Management Working Group (RMWG) was established to gain perspectives from across the Agency. The RMWG includes managers and staff from FHFA's administrative and mission offices and leverages the broad skills and knowledge of Agency staff. Receiving feedback from across the Agency ensures that multiple viewpoints are considered in the risk identification and assessment process.

During the risk identification and assessment process, the RMWG reviews various risk categories (*e.g.*, supervision, human capital, information technology, and financial) and identifies the acceptable level of risk that the Agency can tolerate while still achieving its objectives. The RMWG also discusses the Agency controls that correspond to the various risk categories. After discussing the risk categories within the context of current controls, the RMWG drafts the remaining issues into "If/Then" statements to document the residual risks (*i.e.*, remaining risks after applying existing controls). Each residual risk, response, and responsible party is documented in a risk profile that also includes an impact and likelihood rating and information on risk response to monitor and/or reduce the risk through actions, as well as risk owners.

The Agency's Executive Committee on Internal Controls (ECIC) provides leadership and governance for the ERM activities and risk profiles.

[27] CSS is the joint venture of Fannie Mae and Freddie Mac that owns and operates CSP, the operational and technical platform used by the Enterprises to issue and administer a common MBS.

RESOURCE MANAGEMENT: SUPPORTING THE EFFECTIVE OPERATIONS OF THE AGENCY

FHFA cannot achieve its performance and strategic goals without prudent and effective management of resources to ensure that the right people, funds, security, supplies, physical space, and technology are in place. In addition, achieving FHFA's goals requires communication, collaboration, and coordination by all staff and across all offices and divisions within FHFA.

During FY 2019, FHFA monitored progress toward effective Resource Management using five performance measures. As shown in Table 3, FHFA met the FY 2019 performance targets for all five Resource Management measures, demonstrating effective management and administrative systems that support achievement of the Agency's Strategic Goals. A more detailed discussion of performance results for Resource Management is included in the Performance Section.

Resource Management – Selected Highlights

In addition to meeting performance targets for the Resource Management performance measures, FHFA achieved several accomplishments in FY 2019 that contributed to progress in this area. Notable FY 2019 accomplishments include:

- Clean Audit of FHFA Financial Statements: In November 2019, the Agency received a clean audit on its FY 2019 Financial Statements from the U.S. Government Accountability Office (GAO). The audit resulted in no material weaknesses or significant deficiencies. An independent financial audit provides reasonable assurance that an agency's financial statements are free from material misstatements. FHFA has a record of responsible financial stewardship. This is the 11th consecutive unmodified audit opinion that the Agency has earned. The audited financial statements are presented beginning on page 83.

- Office of Minority and Women Inclusion Strategic Plan: In October 2018, the Agency issued the *FHFA OMWI Strategic Plan for FY2019 – 2021*.[28] The plan was developed to identify strategies to fulfill diversity and inclusion mandates for the Agency included in HERA and the Dodd-Frank Act, as well as to support diversity and inclusion efforts at Fannie Mae, Freddie Mac, and the FHLB System. The OMWI strategic plan aligns with the Agency's overall 2018-2022 Strategic Plan, and particularly contributes to advancing FHFA's Strategic Goal 2.

- Improved Employee Safety: FHFA launched a closed-circuit television (CCTV) program in November 2018. The CCTV implementation adds security coverage for sensitive internal office spaces and provides another layer of physical security protection for all employees. The Agency also provided active shooter response training in FY 2019. Another employee safety initiative conducted during FY 2019 involves Continuity of Operations (COOP) awareness training. FHFA established an annual online training requirement to meet the Federal Emergency Management Agency's Federal Continuity Directive 1 for COOP awareness. The objective of the training is to ensure that all employees and contractors have a general understanding of how FHFA will continue mission essential functions after a disruption of normal operations at the Agency's primary operating location.

- No FEAR Act Training: In 2019, FHFA provided statutorily required No FEAR Act[29] training to more than 600 employees through 18 in-person sessions with online availability. The Agency also filmed an alternative online training video module to provide training to employees who were unable to attend a live session. This training provides employees with tools for maintaining a respectful workplace and knowledge of the rights and protections available to them under federal antidiscrimination, whistleblower protection, and retaliation laws.

[28] https://www.fhfa.gov/AboutUs/Reports/ReportDocuments/FY19-FY21_OMWI_Strategic_Plan.pdf.

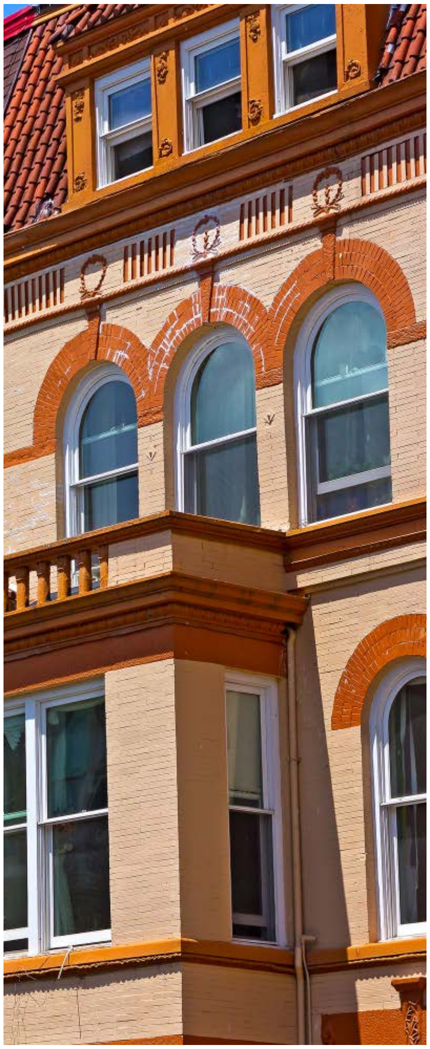
[29] Notification and Federal Employee Antidiscrimination and Retaliation Act of 2002, P.L. 107-174.

FHFA'S DIVERSITY AND INCLUSION POLICY STATEMENT APPROVED

As a government agency, FHFA exists to serve the public and therefore must be able to assist everyone. According to the Office of Personnel Management, diversity and inclusion within an agency increases its capacity to serve a diverse public and incorporate different traditions and ideas. FHFA developed a Diversity and Inclusion policy statement to affirm that diversity, inclusion, equality, and equity will be effectively integrated into the Agency's decision making processes, in all matters and at all levels, in management, employment, and business activities of the Agency. This policy statement further confirms the Agency's commitment to achieve its strategic goals for diversity and inclusion by setting the framework for how FHFA organizes its activities to meet the general requirements of the Dodd-Frank Act.

The core value of diversity and inclusion will guide the Agency in all its efforts to cultivate an environment that promotes this value to its employees and regulated entities, and those who do business with FHFA.

Educating managers and staff on how to work effectively in a diverse environment helps prevent discrimination and promotes inclusiveness. Effectively managing diversity in the workplace can contribute to increased staff retention and productivity. It can also improve the Agency's ability to cope with changes and promote innovation internally. Workforce and supplier diversity, together with EEO, provide a strong foundation for FHFA's efforts to maintain a fair and inclusive workplace and marketplace.



Looking Forward

FHFA has identified the following key management challenges and priorities the Agency is likely to face going forward, as efforts to accomplish the mission continue.

Next Steps for Common Securitization Solutions, LLC (CSS) and the Common Securitization Platform (CSP)

Next steps for CSS and the CSP can be divided between short-term and longer-term objectives. In the short-term, CSS is focusing on ways to enhance CSP efficiency by reducing the need for manual interventions and taking advantage of newer technologies that can reduce cost. These include database consolidation and software designed specifically for cloud-based computing. CSS is evaluating the costs and benefits of several projects, such as redesigning the disclosure module or restructuring the CSP database to reduce processing time. In addition, CSS is continually enhancing the CSP code on a scheduled basis as part of its new production routine.

For the longer-term, CSS is working with the Enterprises and FHFA to identify opportunities to expand the range of services it provides. Such opportunities are expected to arise from the evolution of technologies, financial markets, and business processes at the Enterprises.

The future of CSS and the CSP depends on the direction of housing finance reform taken by the Administration and Congress. CSS and the CSP were designed to accommodate other market participants if policymakers move in that direction. Opening CSS and the CSP to new users will, however, require more, and perhaps significant, work for both CSS and the new users. FHFA will continue its oversight and will work with the Administration, Congress, and other stakeholders as the direction of housing finance reform evolves.

Begin Transition Away from LIBOR

LIBOR is an interest rate benchmark widely used in global markets. There are estimated to be more than $200 trillion of financial contracts such as loans, derivatives, bonds and floating rate notes, short-term instruments, and securitizations referencing U.S. dollar LIBOR. Fannie Mae, Freddie Mac, and the FHLBanks all have financial instruments that reference LIBOR. The Financial Conduct Authority, the United Kingdom-based regulator of LIBOR, has been warning market participants since 2017 that it will stop compelling panel banks to submit LIBOR quotes beginning in 2022.

FHFA serves as an ex officio member of the Alternative Reference Rates Committee (ARRC) established by the Federal Reserve Board and the New York Federal Reserve Bank to facilitate the migration away from LIBOR. FHFA is supervising and assessing its regulated entities as they monitor exposure to LIBOR and develop transition plans to lower their exposure in a safe and sound manner.

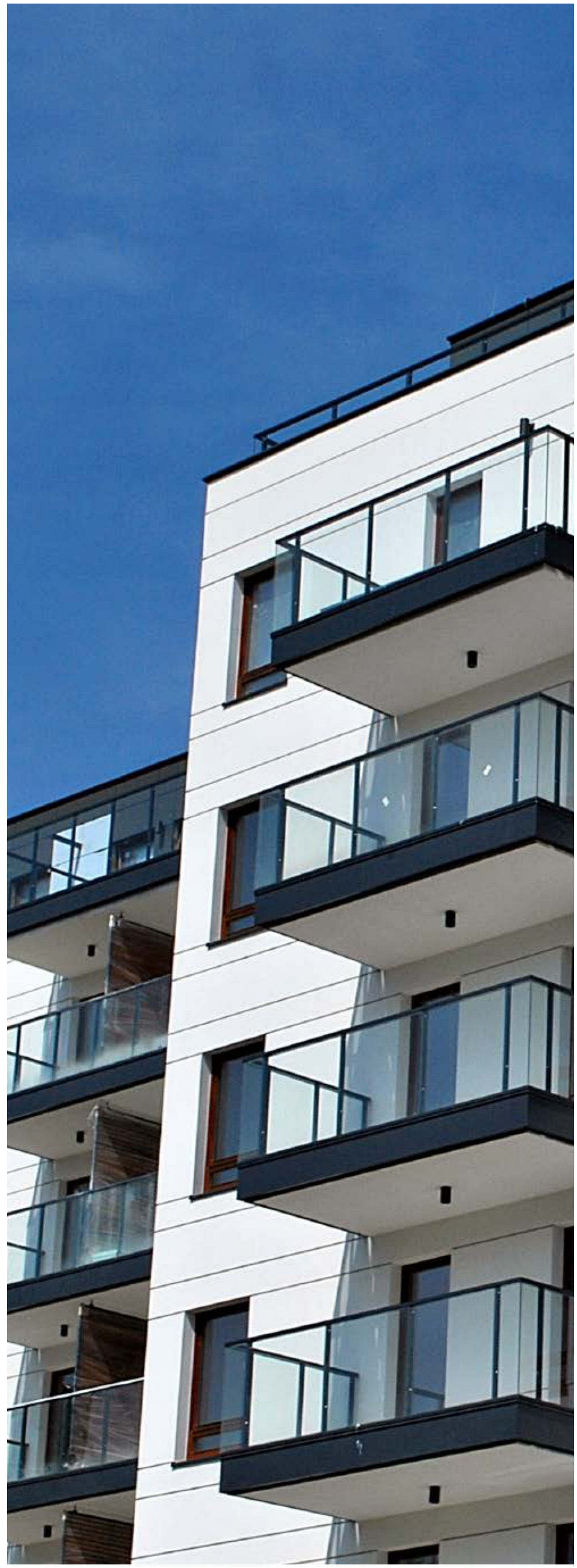
The Secured Overnight Financing Rate (SOFR) is an alternative rate proposed by ARRC as a replacement for LIBOR in the United States. FHFA's regulated entities are now regular issuers of SOFR-indexed debt. FHFA has worked with Fannie Mae and Freddie Mac to develop SOFR-based adjustable rate mortgages (ARM) and to develop more robust "fallback language" for an ARM, describing how a replacement rate would be selected in the event of the failure of an ARM's reference rate. FHFA has instructed the FHLBanks to cease entering new LIBOR-based investments with maturities longer than December 31, 2021. This cessation will begin on January 1, 2020. FHFA has also instructed the FHLBanks to refrain from engaging in other post-2021 LIBOR indexed transactions as of April 1, 2020. In the conservatorships' strategic plan and Scorecard published in October 2019, FHFA instructs the Enterprises to develop products and financial contracts utilizing alternative reference rates, such as SOFR, including for consumer adjustable rate mortgage loans.

Coordinate with the Federal Housing Administration to Address Overlaps

An important mechanism for the Enterprises to match their risk profiles to their capital levels, and thereby prepare to responsibly exit their conservatorships, is addressing overlaps with the Federal Housing Administration (FHA). Thoughtfully addressing these overlaps makes sense for both the Enterprises and FHA because they were created to perform different roles in our housing finance system. FHA exists to support borrowers who would be served poorly – or not at all – by private capital. The Enterprises play an important role in supporting access to credit through low down payment lending and their Duty to Serve programs and Affordable Housing Goals. FHFA expects the Enterprises to continue those activities to ensure that borrowers and lenders continue to have a choice in the market. But Fannie Mae and Freddie Mac have a different model than the fully taxpayer-backed FHA. Enterprise risks must be supported by private capital. Their activities are expected to earn "a reasonable economic return." The Enterprises must be able to withstand an economic downturn and their loans must be sustainable through the cycle.

Conduct a Comprehensive Review of the Credit Risk Transfer (CRT) Program

Credit Risk Transfer will continue to be a component of the Enterprises' approach to risk management. Continuing to transfer risk to private sources of capital both reduces risk to taxpayers and provides a measure of market discipline otherwise lacking under conservatorship. Given the growth and total size of the CRT program, FHFA has directed the Enterprises, through the 2020 Scorecard,[30] to conduct a comprehensive review of the program, including costs and benefits, to better inform future direction. This program is now more than six years old, providing credit enhancement on approximately $3 trillion of Enterprise guaranteed mortgage loans.



[30] www.fhfa.gov/AboutUs/Reports/ReportDocuments/2020-Scorecard-10282019.pdf.

Financial Summary

Analysis of Financial Statements

OVERVIEW

FHFA prepares annual financial statements for the Agency in accordance with U.S. Generally Accepted Accounting Principles (U.S. GAAP) for federal government entities. The FHFA OIG, which is consolidated and combined in FHFA's financial statements, has maintained its own financial records since April 2011. Per HERA, GAO performs an independent audit of the consolidated and combined financial statements.

HOW IS FHFA FINANCED?

HERA authorizes FHFA to collect annual assessments from the Enterprises and the FHLBanks to cover the costs of performing the Agency's statutory responsibilities related to supervision of the regulated entities, its conservatorships, and other responsibilities, and to maintain a working capital fund. FHFA is financed through revenue from assessments and is considered a non-appropriated entity (FHFA does not receive any appropriated funds from Congress). In addition to the collection of assessments, HERA authorizes FHFA to invest the idle portions of the assessments through Treasury.

Annually, FHFA determines the total expected costs associated with regulating the Enterprises and the FHLBanks. The expected costs are shared proportionally among the Enterprises and the FHLBanks in accordance with FHFA's assessment regulation, CFR 1206.6. FHFA issues assessment notices to the regulated entities semi-annually, with the collections occurring October 1 and April 1. In FY 2019, FHFA assessed the entities a total of $273.8 million, including $49.9 million to support the OIG.

Under HERA, FHFA is authorized to retain a working capital fund for unforeseen or emergent requirements, which can be funded through a special assessment to the entities or through retention of unobligated balances at the end of the fiscal year. At the end of FY 2019, the FHFA working capital fund had a balance of $24.4 million.

WHAT IS AN UNMODIFIED OPINION?

FHFA received an unmodified opinion from GAO on its annual financial statements. This means the auditor, GAO, expressed an opinion that FHFA's financial statements are fairly presented in all material aspects in accordance with the applicable financial reporting framework. Included in the unmodified opinion, GAO noted no material weaknesses or significant deficiencies in FHFA's internal controls and cited no instances of reportable noncompliance with applicable laws and regulations it tested.

FHFA'S FINANCIAL STATEMENTS

The principal financial statements present FHFA's financial position (Balance Sheet), Statement of Net Cost of Operations, Statement of Changes in Net Position, and Statement of Budgetary Resources for FY 2019 and FY 2018. GAO's audit report, along with complete financial statements and notes for FY 2019 and FY 2018, appear on pages 75-105.

LIMITATIONS OF THE FINANCIAL STATEMENTS

The principal financial statements have been prepared to report the financial position and results of operations of FHFA, pursuant to the requirements of 31 U.S.C. 3515(b). While the statements have been prepared from the books and records of FHFA in accordance with U.S. GAAP for federal entities and the formats prescribed by the Office of Management and Budget (OMB), the statements are in addition to the financial reports used to monitor and control budgetary resources, which are prepared from the same books and records. The statements should be read with the understanding that they are for a component of the U.S. Government, a sovereign entity.

What is FHFA's Net Position and Net Costs?

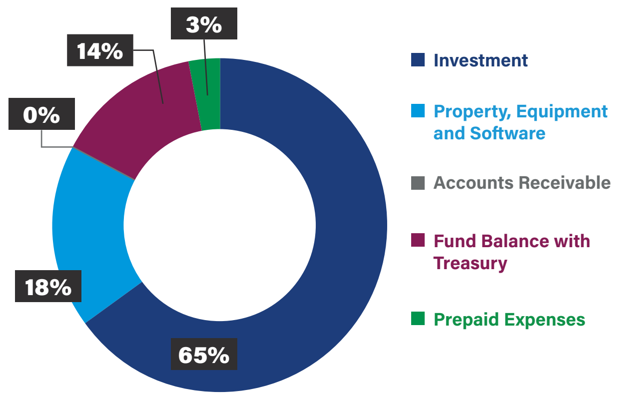
BALANCE SHEET (ASSETS - LIABILITIES = NET POSITION)

The Consolidated Balance Sheet presents, as of September 30, 2019, the recorded value of assets (funding, property, and amounts owed to FHFA), and liabilities (amounts FHFA owes, retained or managed by FHFA). The difference between the assets and liabilities represents FHFA's net position.

ASSETS

For FY 2019, the largest asset groups include: Investments (65 percent); Property, Equipment, and Software, Net (18 percent); and Fund Balance with Treasury (14 percent) as displayed in Figure 7. FHFA's investment portfolio included semi-annual assessment payments from our regulated entities and the working capital fund. FHFA invested in one-day certificates issued by Treasury to efficiently use idle funds with minimum risk.

Figure 7: Distribution of Total Assets for FY 2019

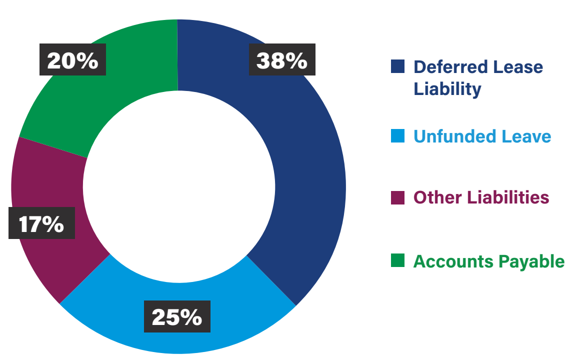


LIABILITIES

FHFA's major liabilities (amounts owed by FHFA to other entities) include Deferred Lease Liability (38 percent); Unfunded Leave (25 percent); and Accounts Payable (20 percent), as displayed in Figure 8. The following details are provided for these amounts:

The largest liability, Deferred Lease Liability, consists of deferred rent and Constitution Center tenant allowance.

Figure 8: Distribution of Total Liabilities for FY 2019



Deferred rent is the difference at year-end between the sum of monthly cash disbursement paid to date for rent and the sum of average monthly rent calculated based on the term of the lease. This determination and recording of deferred rent is applicable to the non-federal lease agreement on the property at 400 7th Street SW, Constitution Center, Washington, D.C. The Constitution Center tenant allowance is the unamortized portion of the tenant allowance granted to FHFA at the inception of the lease.

The second largest category, Unfunded Leave, consists of amounts resulting from accumulated, unused employee leave not covered by currently available funding sources. The third largest liability, Accounts Payable, are amounts owed by FHFA for services and supplies.

NET POSITION

The FHFA's net position (assets-liabilities) increased 19 percent in FY 2019, largely due to the growth in investments of $15.8 million. Most of the Total Asset increase is related to the growth in investments attributable to FHFA's working capital fund. The nine percent change in Total Liabilities is mainly due to the increase of $4.5 million in Accounts Payable. A comparison of the condensed FY 2019 and FY 2018 Balance Sheets is displayed in Table 4. The complete Balance Sheets can be found on page 83.

Table 4: FHFA Condensed Balance Sheets
(dollars in thousands)*

	FY 2019	FY 2018	Percent Change
Total Assets	$109,268	$96,215	14%
Total Liabilities	$57,502	$52,710	9%
Total Net Position	$51,766	$43,505	19%

*Amounts are rounded for presentation purposes.

NET COSTS

The Statement of Net Cost reflects gross cost of operating the Agency, by strategic goal, less related revenues. The Statement of Net Costs represents the full cost of operating FHFA, consolidated with the costs of operating the FHFA OIG. Gross program costs for FY 2019 are $277.9 million, which is an increase of $7.5 million above the FY 2018 gross program costs.

HOW DOES FHFA GENERATE REVENUE?

In accordance with HERA, FHFA collected through the semi-annual assessment process $273.8 million during FY 2019, which included a $49.9 million assessment for costs related to the operations of the FHFA OIG. Assessments account for approximately 99 percent of Agency revenues.

The other one percent of the revenue is generated from sources such as reimbursable agreements with other federal agencies, interest earned on overnight investments, and employee reimbursements.

Revenue for 2019 was nine percent greater than 2018 primarily due to increased earned investment income stemming from the increased funding retained in the working capital fund during the period and higher assessments for legal services related to the Enterprises.

FHFA's summary costs and revenue are reflected in the Statements of Net Cost for FY 2019 and FY 2018 as presented in Table 5.

Table 5: Summarized Costs and Revenue
(dollars in thousands)

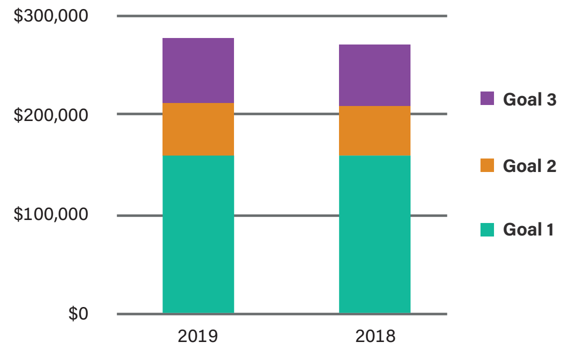
	FY 2019	FY 2018
Costs	$277,854	$270,372
Revenue	($277,444)	($254,150)
Net Cost from Operations	$410	$16,222

HOW DOES FHFA ALIGN COSTS TO STRATEGIC GOALS?

For 2019, FHFA assigned costs to the three strategic goals established by FHFA's 2018-2022 Strategic Plan. These strategic goals are: 1) Ensure safe and sound regulated entities; 2) Ensure liquidity, stability, and access in housing finance; and 3) Manage the Enterprises' ongoing conservatorships.

An additional resource management element, "Supporting the effective operations of the Agency," is identified in FHFA's FY 2019 Annual Performance Plan. Effective and efficient agency-wide services and management and administrative systems are essential to achieve FHFA's mission and strategic goals. Costs attributable to resource management are distributed proportionately to the three strategic goals based on the percentage of direct program costs allocated to each goal to the total direct program costs for the Agency (individual program costs/total direct program costs). FHFA OIG costs are allocated to FHFA's resource management element. The distribution of FHFA's gross costs by strategic goal for FY 2019 and FY 2018 is presented in Figure 9.

Figure 9: Gross Costs by Strategic Goal
FY 2019 — FY 2018
(dollars in thousands)



Safety and Soundness, Goal 1, is FHFA's FY 2019 largest program area at $157.9 million or 57 percent of total gross costs as compared to 59 percent in FY 2018. The next largest program area is Managing the Conservatorships, Goal 3, at $66.6 million or 24 percent of total gross costs (the FY 2018 total was 23 percent). Liquidity, Stability, and Access in Housing Finance, Goal 2, remained the smallest of the three program areas, at $53.4 million or 19 percent of total gross costs, the same percentage as FY 2018.

How Does FHFA Comply with Internal Controls?

FHFA uses systems, controls, and legal compliance to determine Management Assurances. It is through the activities described below that FHFA can state its Management Assurances.

FEDERAL MANAGERS' FINANCIAL INTEGRITY ACT (FMFIA)

During FY 2019, FHFA adhered to the internal control requirements of the FMFIA and the guidance provided by OMB Circular A-123. The ECIC met quarterly to oversee internal controls and provide recommendations to the FHFA Director on the effectiveness of FHFA's internal controls.

During FY 2019, FHFA monitored and assessed the following areas:

Reliability over Financial Reporting

FHFA's Office of Quality Assurance (OQA) assessed the Agency's financial reporting controls using a risk-based approach.

Reliability over Non-Financial Reporting

Assessment teams from FHFA divisions and offices reviewed controls over a sample of reports using guidance from the GAO *Standards for Internal Control in the Federal Government*, GAO 14-704G, (GAO Green Book).[31] Division management officials and staff reviewed the completed assessments.

EXECUTIVE COMMITTEE ON INTERNAL CONTROLS (ECIC)

The purpose of the ECIC is to oversee and monitor FHFA's internal controls, ERM practices, and the audit follow-up process. The ECIC provides recommendations to the FHFA Director regarding assurance statements included in the Agency's Performance Accountability Report as required by FMFIA. The ECIC serves as the governance body for the Agency's implementation of OMB Circular A-123, Management's Responsibility for Enterprise Risk Management and Internal Control (Circular A-123).

OMB Circular A-123 provides guidance to executive agencies on responsibilities for the effectiveness and efficiency of operations, the reliability of reporting, and compliance with relevant laws and regulations.

The Chief Operating Officer is the ECIC Chair and the Chief Financial Officer is the Vice-Chair. ECIC membership consists of senior leadership from FHFA's mission divisions and resource management offices. Membership includes multiple functional areas, so that various viewpoints are raised and considered. The ECIC also coordinates with the divisions and offices to establish teams to assess the internal controls.

Compliance with Laws and Regulations

Assessment teams from FHFA divisions and offices identified the significant laws and regulations that relate to the operations for their respective offices. Assessment teams documented the actions that demonstrated compliance, and the Agency's Office of General Counsel reviewed the submissions.

Effectiveness and Efficiency of Operations

Assessment teams from FHFA divisions and offices reviewed controls over operations using guidance from the GAO Green Book. Division management officials and staff reviewed the completed assessments.

The ECIC reviewed documentation from all four areas. In compliance with the FMFIA requirements, the FHFA Director, on the basis of a recommendation from the ECIC, provided reasonable assurance that internal controls over the effectiveness and efficiency of operations, compliance with applicable laws and regulations, and non-financial and financial reporting as of September 30, 2019, were operating effectively and that no material weaknesses were found in the design or operation of the internal controls.

To ensure compliance with the internal control requirements of FMFIA and the spirit of OMB Circular A-123, the FHFA OIG has maintained an ECIC, which is chaired by the Deputy Inspector General for Internal Controls and includes members that constitute a senior team that assesses internal controls. The assessment team includes the Associate Inspectors General, the Chief Counsel, all Deputy Inspectors General, and the Budget and Finance Directors.

Based on the risk profiles and internal control assessments completed by each FHFA OIG office, which identified no significant issues, the FHFA OIG ECIC members recommended that the Inspector General sign an assurance statement to the FHFA Director recommending an unmodified statement of assurance relative to the three areas assessed by the FHFA OIG: internal control over financial reporting, effectiveness and efficiency of operations, and compliance with laws and regulations.

FEDERAL MANAGEMENT INFORMATION SYSTEMS AND STRATEGY

Section 1316(g)(3) of the Safety and Soundness Act requires FHFA to implement and maintain financial management systems that comply substantially with federal financial management systems requirements, applicable federal accounting standards, and the U.S. Government Standard General Ledger at the transaction level. FHFA, including the FHFA OIG, uses the Bureau of the Fiscal Service for its accounting services and its financial management system (FMS) which includes: 1) a core accounting

[31] https://www.gao.gov/assets/670/665712.pdf.

system—Oracle Federal Financials; 2) four feeder systems—Procurement Request Information System Management, Concur (travel), Invoice Processing Platform (payments), and Citidirect (charge card); 3) a reporting system— Oracle Discoverer/Oracle Business Intelligence; and 4) an inventory tracking system. FHFA is responsible for overseeing the Bureau of the Fiscal Service performance of accounting services for the Agency. A financial oversight document outlines the assignment of activities between FHFA and the Bureau of the Fiscal Service. FMS includes manual and automated procedures and processes from the initiation of a transaction to the issuance of financial reports. FMS meets the requirements of the Safety and Soundness Act Section 1316 (g) (3). FHFA and FHFA OIG also use the Interior Business Center (a service provider within the U.S. Department of Interior) and the National Finance Center (a service provider within the U.S. Department of Agriculture), for payroll and personnel processing, respectively. FHFA has streamlined accounting processes by electronically interfacing data from charge cards, investment activities, the Concur travel system, the procurement system, the Invoice Processing Platform payments system, the Interior Business Center payroll system, and the National Finance Center payroll system to FMS.

FEDERAL INFORMATION SECURITY MODERNIZATION ACT OF 2014

The Federal Information Security Modernization Act of 2014 (FISMA) requires all federal agencies to develop and implement an agency-wide Information Security Program to protect information and systems, including those provided or managed by another agency, contractor, or other source. In addition, FISMA mandates that agencies undergo an annual independent evaluation of Information Security Program and practices, as well as an assessment of compliance with FISMA requirements. FISMA, which Congress passed in 2002, was updated in 2014.

The FHFA OIG contracted with an independent external audit firm to conduct performance audits of FHFA and FHFA OIG's Information Security Program and practices as per U.S. Generally Accepted Government Auditing Standards.

As such, the FHFA OIG conducted an independent evaluation of its information security program using an external audit firm. Two performance audits were performed as the FHFA OIG operates its own network, systems, and related information security programs, which are separate from those of FHFA, the Agency. Specifically, the objectives of the audit were to evaluate the effectiveness of FHFA's and FHFA OIG's Information Security Program and practices and respond to the Department of Homeland Security's FY 2019 Inspector General FISMA Reporting Metrics. The audit methodology included testing a subset of FHFA's systems for compliance with selected controls from National Institute of Standards and Technology Special Publication (SP) 800-53, Revision 4, Security and Privacy Controls for Federal Information Systems and Organizations.[32]

The audit concluded that both FHFA and FHFA OIG's Information Security Program and practices were operating effectively, in compliance with FISMA legislation and applicable OMB guidance. The independent external auditor concluded that there were no significant deficiencies for the FHFA and FHFA OIG information security programs. The auditor reviewed and verified corrective actions taken by FHFA and FHFA OIG during the FY 2018 FISMA audit.

PROMPT PAY

The Prompt Payment Act requires federal agencies to make timely payments to vendors and improve the cash management practices of the government by encouraging the use of discounts when they are justified. This also means that FHFA must pay its bills within a narrow window of time. In FY 2019, the dollar amount subject to prompt payment was $72.9 million. The amount of interest penalty paid in FY 2019 was $11.00.

DIGITAL ACCOUNTABILITY AND TRANSPARENCY ACT OF 2014

FHFA consulted with OMB and Treasury and determined that the Digital Accountability and Transparency Act of 2014 does not apply to FHFA.

32 https://nvlpubs.nist.gov/nistpubs/SpecialPublications/NIST.SP.800-53r4.pdf.

FHFA Statement of Assurance

FEDERAL HOUSING FINANCE AGENCY
Office of the Director

October 15, 2019

Federal Managers' Financial Integrity Act
Statement of Assurance
Fiscal Year 2019

The Federal Housing Finance Agency (FHFA) management is responsible for establishing and maintaining effective internal control and financial management systems that meet the objectives of the Federal Managers' Financial Integrity Act (FMFIA).

FHFA conducted its assessment of internal control over the effectiveness and efficiency of operations, reporting (other than financial reporting), and compliance with applicable laws and regulations in accordance with the Office of Management and Budget's *OMB Circular A-123 - Management's Responsibility for Enterprise Risk Management and Internal Control* (Circular A-123). Based on the results of this evaluation, FHFA can provide reasonable assurance that its internal controls over the effectiveness and efficiency of operations, reporting (other than financial reporting), and compliance with applicable laws and regulations as of September 30, 2019 were operating effectively and that no material weaknesses were found in the design or operation of the internal controls.

In addition, FHFA conducted its assessment of the effectiveness of internal controls over financial reporting, including the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements, using a risk based approach based on criteria established under FMFIA and adapted from Circular A-123. Based on the results of this evaluation, FHFA can provide reasonable assurance that its internal controls over financial reporting as of September 30, 2019 were operating effectively and no material weaknesses were found in the design and operation of internal controls over financial reporting.

FHFA also conducted a review of its financial management system in the spirit of compliance with Appendix D of Circular A-123. Based on the results of this review, FHFA can provide reasonable assurance that its financial management systems substantially complied with the requirements for federal financial management systems as of September 30, 2019.

Sincerely,

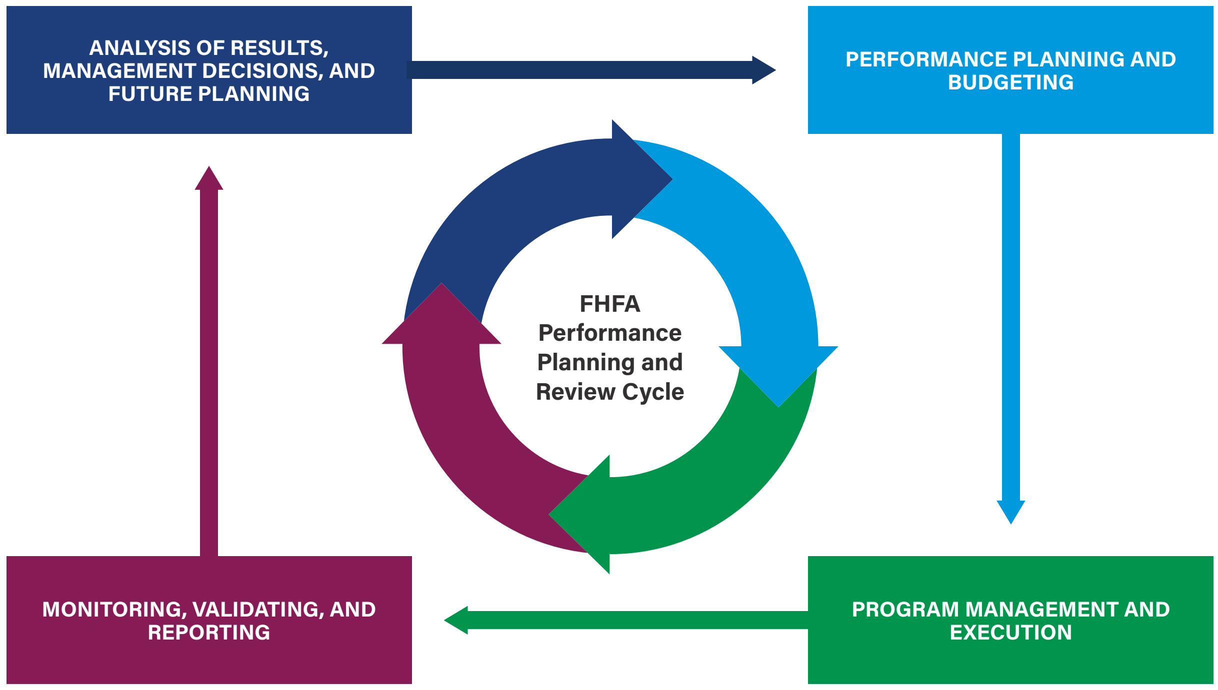
Mark Calabria
Director

PERFORMANCE SECTION

FHFA's Performance Planning and Review Process

This section provides an overview of FHFA's performance planning and review framework and processes. FHFA's performance management process involves a recurring cycle of planning; program management and execution; measurement, monitoring and evaluation, verification and validation of data, and reporting; and analysis of results that then influences management decisions and future planning. Figure 10 illustrates key elements of FHFA's approach to performance management.

Figure 10: FHFA's Performance Management Cycle



The first step in FHFA's performance management process is to develop the Agency's strategic plan, which identifies FHFA's strategic goals (longer-term outcome level results), performance goals (intermediate results that need to be achieved to accomplish the strategic goals), and means and strategies for achieving the performance goals. The strategic plan that forms the basis of this FY 2019 Performance and Accountability Report (PAR) was published on January 29, 2018. The Agency's Annual Performance Plan provides more operational detail on how progress will be made toward the strategic goals and performance goals and identifies performance measures with annual targets to track progress toward the performance goals. FHFA conducts quarterly performance reviews of progress toward annual performance measure targets. Goal leaders submit quarterly data for the performance measures and targets for which they are responsible. Performance data on results are validated and verified, and then reported in the annual PAR. FHFA's senior leadership reviews the quarterly reports to monitor progress toward achieving planned performance and strategic goals. Performance data are reviewed and analyzed throughout the year to monitor the Agency's progress in achieving planned performance levels, and are used to influence management and planning decisions, which feed into the next annual performance planning process. Figure 11 illustrates in more detail FHFA's performance planning and review process.

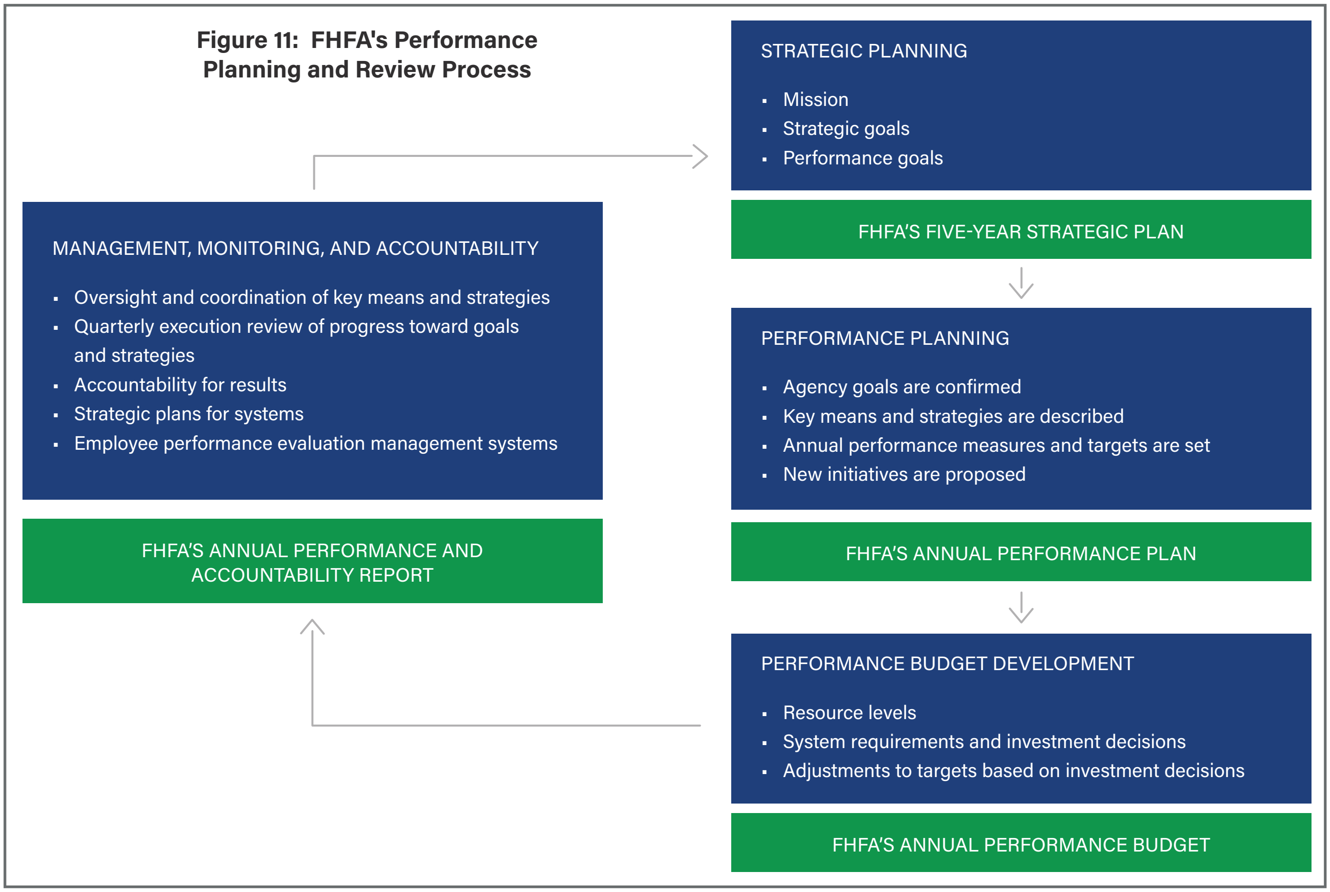


Figure 11: FHFA's Performance Planning and Review Process

Validation and Verification of Performance Data

To ensure that the information reported in FHFA's FY 2019 PAR is complete and reliable, FHFA identifies, verifies, and validates the data for each performance measure. Each office or division collects performance data for its measures and reports the results in the Agency's performance tracking system. FHFA staff follows documented performance tracking and verification procedures to verify and validate the data provided to ensure that the information is accurate and complete. Agency staff reviews the information provided by offices on their performance measures on a quarterly basis, verifying and validating supporting data and documents for completeness, clarity, relevance, and accuracy. This information is discussed at quarterly management review meetings with senior Agency officials.

During the performance tracking cycle, offices provide the following information for each performance measure:

- Definition of the performance measure;
- Relevance of the measure;
- Data source;
- Process for calculating or tabulating the performance data;
- Process for validating and verifying the data;
- Responsible office/division and manager;
- Location of documentation; and
- Data constraints.

Strategic Goal 1: Ensure Safe and Sound Regulated Entities

Strategic Goal 1 encompasses FHFA's work to ensure that Fannie Mae, Freddie Mac, and the FHLBanks operate in a safe and sound manner. As regulator of the FHLBank System and regulator and conservator of the Enterprises, FHFA promotes safe and sound operations at the regulated entities through the Agency's supervisory program. FHFA conducts supervision using a risk-based approach to identify existing and emerging risks to the regulated entities, to evaluate overall effectiveness of each regulated entity's risk management systems and controls, and to assess compliance with laws and regulations applicable to the regulated entity. FHFA conducts ongoing risk analysis, on-site examinations, and off-site review and monitoring of the regulated entities. In addition, FHFA issues written guidance in the form of advisory bulletins to the regulated entities, establishes expectations for strong risk management, identifies risks, and requires timely remediation of identified deficiencies.

Performance Goal 1.1: Assess the Safety and Soundness of Regulated Entity Operations

FHFA's Performance Goal 1.1 is to assess the safety and soundness of regulated entity operations. FHFA assesses the safety and soundness of the regulated entities' operations through annual examinations, targeted examinations, ongoing monitoring, and off-site reviews, as appropriate. FHFA uses a uniform examination rating system to assign ratings to the Enterprises, the FHLBanks, and the Office of Finance (OF). FHFA annually assigns for each regulated entity a composite rating for the overall condition of the entity, and individual component ratings for **C**apital, **A**sset quality, **M**anagement, **E**arnings, **L**iquidity, **S**ensitivity to market risk, and **O**perational risk (CAMELSO).[33]

CAMELSO RATING SYSTEM

Pursuant to FHFA's Advisory Bulletin AB2012-03, *FHFA Examination Rating System*,[a] FHFA applies the CAMELSO rating system to report its supervisory views. The FHFA examination rating system is a risk-focused rating system under which each of the regulated entities and OF is assigned a composite rating based on an evaluation of various aspects of its operations. Specifically, the composite rating of an FHLBank or Enterprise is based on an evaluation and rating of seven individual components of financial condition and risk management:

- **C**apital,
- **A**sset quality,
- **M**anagement,
- **E**arnings,
- **L**iquidity,
- **S**ensitivity to market risk, and
- **O**perational risk.

The composite rating for OF is based primarily on an evaluation of two components: Management and Operational risk.

The composite and component ratings are on a scale from "1" to "5," with a "1" rating indicating the lowest degree of supervisory concern and a "5" the highest. The composite rating is not an arithmetic average of the component ratings. Instead the relative importance of each component is determined on a case-by-case basis, within the parameters established by this rating system. Component ratings may be influenced, augmented, or counterbalanced by other component ratings.

[a] https://www.fhfa.gov/SupervisionRegulation/AdvisoryBulletins/Pages/AB-2012-03-FHFA-EXAMINATION-RATING-SYSTEM.aspx.

[33] For OF, FHFA assigns individual component ratings only for Management and Operational risk.

In FY 2019, FHFA implemented several strategies and activities in support of Performance Goal 1.1. For example, the Agency conducted examination work at each regulated entity in accordance with examination plans, as well as targeted examinations on specific programs or operations, and performed quality control (QC) of examination work. FHFA performed ongoing monitoring and risk analysis and documented annual risk assessments of the Enterprises. FHFA used data submitted to the Agency by the regulated entities as well as data available through other sources, and made the information accessible to examiners and analysts for use in supervision. In order to support and strengthen supervision skills, FHFA held the annual supervision conference, educated supervision staff on current and emerging risks through internal and external training programs, and continued to strengthen the Housing Finance Examiner commissioning program.

To track progress toward Performance Goal 1.1, FHFA monitored five performance measures. As shown in Table 6, FHFA met the FY 2019 performance targets for all five measures, indicating continued progress in assessing the safety and soundness of regulated entity operations.

Table 6: Performance Goal 1.1 – Performance Measures and Results

Performance Goal 1.1: Assess the Safety and Soundness of Regulated Entity Operations

Performance Measure	FY 2014 Result	FY 2015 Result	FY 2016 Result	FY 2017 Result	FY 2018 Result	FY 2019 Target	FY 2019 Result
1.1.1: Ensure that written risk-based supervisory strategies and examination plans are in place prior to the commencement of examinations for each of the FHLBanks and by January 31 for the Enterprises	MET	MET	MET	MET	MET	100 percent of the time	MET
1.1.2: Approval of reports of examination for regulated entities within 90 days of completing examination work for each of the FHLBanks and by March 31 for the Enterprises	MET	NOT MET	MET	MET	NOT MET	100 percent of the time	MET
1.1.3: Ensure a quarterly Market Value of Equity-to-par ratio greater than or equal to one for each FHLBank	MET	MET	MET	MET	MET	100 percent of the time	MET
1.1.4: Ensure each FHLBank is adequately capitalized and communicate quarterly capital classifications to the FHLBanks by the end of the following quarter	MET	MET	MET	MET	MET	100 percent of the time	MET
1.1.5: Ensure that supervisory correspondence to the Enterprises adheres to division guidance	N/A	N/A	N/A	N/A	N/A	100 percent of the time	MET

PERFORMANCE MEASURE 1.1.1:

Ensure that written risk-based supervisory strategies and examination plans are in place prior to the commencement of examinations for each of the FHLBanks and by January 31 for the Enterprises

FHFA developed a supervisory plan for each of the regulated entities based on prior supervisory work and FHFA's assessment of emerging risks and new activities at each entity. Risk-based examinations focus FHFA resources on areas of greatest risk. Risk-based scope and strategy documents communicate important areas of focus to staff and aid in the overall examination planning process. In FY 2019, FHFA made sure that risk-based supervisory strategies and examination plans were in place by the relevant deadlines, meeting the target for this performance measure for both the Enterprises and for the FHLBanks and OF.

- The Enterprises: FHFA examiners located onsite examine each Enterprise on a continuous basis. In FY 2019, FHFA approved supervisory strategies and examination plans, which outline targeted examinations and ongoing monitoring activities for each Enterprise for the coming year, by the target date of January 31.
- FHLBanks and OF: FHFA examines the FHLBanks and OF annually, and FHFA's examiners generally begin examinations at three entities per quarter. Examinations at the FHLBanks have specified beginning and end dates. In FY 2019, FHFA ensured that supervisory strategies and scope memoranda were in place prior to the start of each FHLBank's annual on-site examination.

PERFORMANCE MEASURE 1.1.2:

Approval of reports of examination for regulated entities within 90 days of completing examination work for each of the FHLBanks and by March 31 for the Enterprises

FHFA communicates supervisory results, findings, and expectations for remedial action to the Enterprises, the FHLBanks, and OF through supervisory correspondence and Reports of Examination (ROEs). ROEs summarize key examination findings for the prior year and include ratings assigned in accordance with the CAMELSO ratings framework. In FY 2019, FHFA met the target dates for approving ROEs for the Enterprises as well as the FHLBanks and OF, ensuring timely documentation of FHFA's overall assessment of the safety and soundness of the regulated entities' operations and contributing to achievement of Performance Goal 1.1.

- The Enterprises: FHFA approved the ROEs for Fannie Mae and for Freddie Mac on time (March 29, 2019).
- FHLBanks: During FY 2019, FHFA approved ROEs within the target timeframe of 90 days after examination exit meetings for OF and the FHLBanks.

FINANCIAL CONDITION OF THE ENTERPRISES

Under the Senior Preferred Stock Purchase Agreements (PSPAs) the Enterprises are constrained by their ability to build capital while in conservatorship. Until recently, each Enterprise was limited to a $3.0 billion Capital Reserve Amount under its respective PSPA. On September 30, 2019, the U.S. Department of the Treasury (Treasury) and FHFA agreed to increase the Capital Reserve Amount to $25.0 billion for Fannie Mae[a] and $20.0 billion for Freddie Mac[b] beginning with the July 1, 2019 dividend period. The Enterprises' net worth increased to $10.3 and $6.7 billion for Fannie Mae and Freddie Mac, respectively, by the end of the fiscal year due to the recent letter agreement with Treasury. This significantly improved the Enterprises' leverage ratios; however, their combined ratio remained high at approximately 333:1. In addition to the increase in the Capital Reserve Amount, the letter agreement with Treasury increased the Liquidation Preference by similar amounts.[c]

Both Enterprises have lessened their reliance on portfolio-driven business as a result of a number of factors, including retained portfolio limits in the PSPAs. It is critical that they effectively manage credit risks associated with guaranteed loans. While the Enterprises stopped purchasing certain high-risk loan products after 2008, their acquisition guidelines and underwriting models have permitted acquisitions of loans with one or more risk factors, such as low down payments resulting in high loan-to value (LTV) ratios and high debt-to-income ratios. Additional risk factors are present in mortgages on non-primary residences, as well as refinance transactions where the borrower receives cash. Cash-out refinance transactions increased in recent years, both for single-family and multifamily properties, as a long period of robust home price gains has allowed borrowers to extract equity from mortgaged property. Acquisitions of loans with multiple factors pose increased credit risk to the Enterprises, and in FY 2019 the Enterprises took some steps to mitigate the increased risks posed by these layered risk factors, for example, through improvements to underwriting models. Throughout FY 2019, the Enterprises continued to utilize credit risk transfers to compensate private investors to take on credit risks.

The Enterprises' ownership of seriously delinquent single-family loans, defined as loans that are more than 90 days overdue, continues to decline. There were approximately 219,000 seriously delinquent loans as of September 30, 2018 and approximately 183,000 seriously delinquent loans as of September 30, 2019, a decline of 16 percent. Further, the number of homes the Enterprises own through foreclosure declined to approximately 23,000 properties at the end of the third quarter of 2019, a 17 percent reduction compared with approximately 28,000 properties at the end of the third quarter of 2018. While the serious delinquency rate of Enterprise loans remains low, the share of loan acquisitions with high debt-to-income and LTV ratios has generally been increasing. FHFA is closely monitoring the Enterprises' underwriting, credit administration, and risk management practices to ensure identification, monitoring, and management of related credit risks.

[a] https://www.fhfa.gov/Media/PublicAffairs/PublicAffairsDocuments/9-27-19_FNMA-Capital-Agreement.pdf.

[b] https://www.fhfa.gov/Media/PublicAffairs/PublicAffairsDocuments/9-27-19_FRE-Capital-Agreement.pdf.

[c] The Liquidation Preference, with respect to the Senior Preferred Stock issued to Treasury by the Enterprises, refers to the amount that must be paid to Treasury before investors in more junior classes of preferred or common stock can receive any payment on their stock in the event of liquidation. The amount of Liquidation Preference for the Senior Preferred Stock is specified in the PSPAs and subsequent letter agreements amending certain terms of the PSPAs.

FINANCIAL CONDITION OF THE ENTERPRISES *(continued)*

The Enterprises have two primary sources of revenue: 1) guarantee fees on mortgages held by consolidated trusts holding Enterprise mortgage-backed securities (MBS); and 2) the difference between the interest income earned on the assets in the Enterprises' retained mortgage portfolios and the interest expense paid on the debt that funds those assets. In 2019, as in prior years,[d] the Enterprises earned a greater proportion of net income from guarantee fees than from interest income. This is primarily driven by the impact of guarantee fee increases and reduction in the size of the retained portfolios in accordance with the requirements of the PSPAs between Treasury and the Enterprises.

In addition, the Enterprises continue to report reduced income due to declining retained portfolios and reduced revenue from the increasing volume of credit risk transfer (CRT) transactions. While both of these activities meet conservatorship objectives for the Enterprises, they also reduce revenue. The terms of the PSPAs require the Enterprises to reduce their retained mortgage portfolios, which reduces the risk of these portfolios. As conservator, FHFA has also required the Enterprises to conduct CRT transactions that reduce risk to taxpayers by sharing credit risk with the private sector.

The Enterprises' earnings could continue to experience volatility in the future as market conditions change. Market volatility could result in fluctuations in the estimated fair value of the financial instruments that are marked to market through earnings. These financial instruments, which include derivatives and certain securities, could fluctuate substantially from period to period because of changes in interest rates, the yield curve, mortgage and credit spreads, and implied volatility. To minimize the impact of interest rate fluctuations and mitigate the volatility in its financial results, Freddie Mac implemented hedge accounting in 2017. While Fannie Mae does not currently use hedge accounting, it is considering implementing hedge accounting in the future.

The Enterprises' earnings will continue to be highly sensitive to fluctuations in macroeconomic conditions, housing prices, and interest rates. For example, given the large size of the Enterprises' guarantee portfolios, small changes in home prices may have a significant impact on financial performance. In addition, the continued reduction in the retained portfolios as well as initiatives such as credit risk transfer transactions could reduce revenue and increase the likelihood of future losses.

Table 7: Enterprise Financial Results Summary of First 3 Quarters of 2019 and Full Year 2018
(dollars in billions)

	Fannie Mae				Freddie Mac			
	2019			2018 Annual	2019			2018 Annual
	Q1	Q2	Q3		Q1	Q2	Q3	
Net Income (Loss)	$2.4	$3.4	$4.0	$16.0	$1.4	$1.5	$1.7	$9.2
Comprehensive Income (Loss)*	$2.4	$3.4	$4.0	$15.6	$1.7	$1.8	$1.8	$8.6

**Comprehensive income is the sum of net income and changes in other comprehensive income, which consists of items excluded from net income on the income statement because they have not been realized. For both Enterprises, the comprehensive income items primarily consist of changes in unrealized gains (losses) in available for sale securities and changes in defined benefit plans. Freddie Mac's other comprehensive income also includes unrealized gains (losses) on cash flow hedging relationships.*

[d] https://www.fhfa.gov/AboutUs/Reports/ReportDocuments/FHFA_2018_Report-to-Congress.pdf.

FINANCIAL CONDITION OF THE FHLBANKS

The financial condition and performance of the FHLBanks was sound during the 12-month period ending September 30, 2019. All 11 FHLBanks were profitable, earning a combined $3.1 billion on $4.8 billion of net interest income after provision for credit losses, but performance was lower than the $3.6 billion and $5.2 billion, respectively, for the prior four-quarter period. The FHLBanks recaptured $197 million of losses through interest income previously taken as credit-based, other-than-temporary impairments. Operating expenses totaled $1.2 billion for the year ended September 30, 2019.

Member demand for FHLBank advances decreased $47.2 billion over the past fiscal year, resulting in $658.8 billion of advances outstanding at September 30, 2019. Advances made up 60.7 percent of total FHLBank System assets. The total FHLBank portfolio balance of mortgages purchased from their members was $69.5 billion, or 6.4 percent of total FHLBank System assets. During the fiscal year ending September 30, 2019, the FHLBanks purchased $18.3 billion of mortgages and collected principal payments of $8.8 billion.

The FHLBanks remaining assets are primarily investments, which include liquid assets,[a] MBS, and other investments. Combined, investments were $352.6 billion and represented 32.5 percent of total FHLBank System assets. Of the total, liquid assets (including cash and Treasury securities) represented $174.6 billion,[b] while total MBS was $145.3 billion. Most of the MBS portfolio was agency MBS (87.9 percent), with only $5.7 billion (4.0 percent) composed of private-label MBS.

Aggregate consolidated obligations, which is the debt issued jointly and used by each FHLBank to fund its operations, totaled $1.01 trillion as of September 30, 2019, of which discount notes were 38.4 percent. Consolidated obligations with a remaining contractual maturity of less than one year composed 77.5 percent of total consolidated obligations. Table 8 provides a summary of the FHLBanks' financial results through September 30, 2019.

Table 8: FHLBanks' Financial Results Summary of First 3 Quarters of 2019 and Full Year 2018
(dollars in millions)

	Net Income (Loss)*			
	2019			2018 Annual
	Q1	Q2	Q3	
FHLBank of Boston	$54	$36	$32	$217
FHLBank of New York	$135	$108	$101	$560
FHLBank of Pittsburgh	$98	$68	$70	$347
FHLBank of Atlanta	$101	$93	$76	$416
FHLBank of Cincinnati	$73	$64	$63	$339
FHLBank of Indianapolis	$33	$35	$26	$195
FHLBank of Chicago	$77	$76	$79	$303
FHLBank of Des Moines	$112	$96	$80	$460
FHLBank of Dallas	$58	$54	$53	$199
FHLBank of Topeka	$53	$32	$48	$170
FHLBank of San Francisco	$104	$49	$61	$360
FHLBank System	$900	$710	$689	$3,566

**Numbers may not add due to rounding.*

[a] Liquid assets primarily include federal funds, reverse repurchase agreements, high quality liquid assets, U.S. Treasury securities, and interest-bearing deposits.

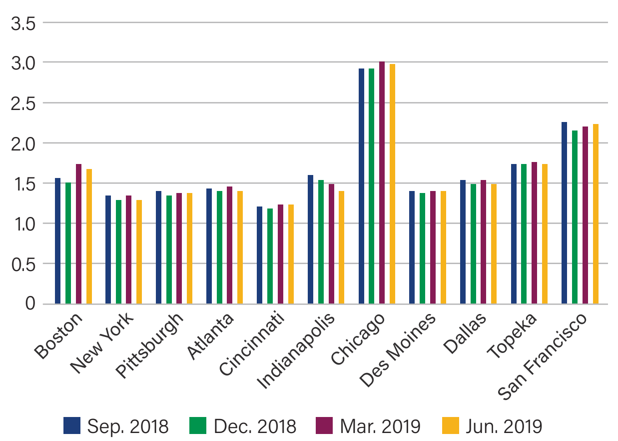
[b] On January 1, 2019, FHFA began counting U.S. Treasury securities towards the FHLBanks liquidity as part of the new FHLBank Liquidity Guidance in Advisory Bulletin 2018-07.

PERFORMANCE MEASURE 1.1.3:

Ensure a quarterly Market Value of Equity-to-par ratio greater than or equal to one for each FHLBank

The market value of equity (MVE) to par value of capital stock (PVCS) ratio is an indicator of each FHLBank's condition. A ratio of one or above is desirable because it reflects an FHLBank's ability to repurchase or redeem its capital stock at par without detriment to the remaining shareholders. For every quarter of FY 2019, all FHLBanks reported that their MVE for the previous quarter was greater than the par value of their capital stock, as shown in Figure 12.

Figure 12: Quarterly MVE to PVCS Ratios



PERFORMANCE MEASURE 1.1.4:

Ensure each FHLBank is adequately capitalized and communicate quarterly capital classifications to the FHLBanks by the end of the following quarter

Capital adequacy is critical for safe and sound FHLBanks. During each quarter of FY 2019, FHFA determined the capital classification for each FHLBank for the prior quarter and communicated it to the Bank. These communications were made via letter and were in accordance with Subpart A of Part 1229 of FHFA's rule, "Capital Classifications and Prompt Corrective Action." For all four quarters tracked during FY 2019, FHFA determined that all FHLBanks were adequately capitalized,[34] and FHFA communicated those quarterly capital classifications to each Bank by the end of the subsequent quarter, meeting the target for this performance measure.

PERFORMANCE MEASURE 1.1.5:

Ensure that supervisory correspondence to the Enterprises adheres to division guidance

FHFA staff conducts independent QC reviews of supervisory correspondence to the Enterprises and supporting documentation. These reviews confirm that written communications of examination conclusions and findings are supported by documented examination work and that examination work performed by examiners is consistent with Division of Enterprise Regulation (DER) examination standards and FHFA guidance for document preparation and management. In FY 2019, FHFA met the target for this performance measure by conducting independent QC reviews of all supervisory correspondence prior to transmission to the Enterprises for all targeted examinations.

Performance Goal 1.2: Identify Risks to the Regulated Entities and Set Expectations for Strong Risk Management

FHFA's Performance Goal 1.2 centers on identifying risks to the regulated entities and setting strong risk management expectations. FHFA's supervisory activities are designed to identify existing and emerging risks to the regulated entities. FHFA develops risk assessments by collecting and analyzing information from various sources, including the regulated entities, and coordinates with other supervisory agencies as needed. FHFA publishes guidance for examiners and management at the regulated entities to clearly articulate supervisory expectations for risk management across all risk types. This includes issuing advisory bulletins on specified topics and including supervisory guidelines for examiners in the Agency's Examination Manual. FHFA also issues additional examination instructions to address emerging issues and provides procedural updates.

FHFA implemented several approaches and activities in FY 2019 to address Performance Goal 1.2. This included reviewing existing FHFA standards for operational risk management and considering relevant operational risk management standards for the financial services industry from other regulatory agencies. FHFA used a collaborative and inclusive review process to consider input from stakeholders prior to finalizing guidance.

[34] "Adequately capitalized" is defined in Subpart A of Part 1229 of FHFA's rule ("Capital Classifications and Prompt Corrective Action" [PCA rule]) and is based on a FHLBank's total capital ratio and leverage ratio exceeding regulatory minimums, and permanent capital exceeding the sum of credit risk, market risk, and operations risk capital requirements.

For Performance Goal 1.2, FHFA monitored one performance measure, as shown in Table 9, and met the FY 2019 target for the measure.

Table 9: Performance Goal 1.2 – Performance Measure and Result

Performance Goal 1.2: Identify Risks to the Regulated Entities and Set Expectations for Strong Risk Management							
Performance Measure	FY 2014 Result	FY 2015 Result	FY 2016 Result	FY 2017 Result	FY 2018 Result	FY 2019 Target	FY 2019 Result
1.2.1: Issue guidance to the FHLBanks and Enterprises on operational risk management	**N/A**	**N/A**	**N/A**	**N/A**	**N/A**	FY 2019	**MET**

PERFORMANCE MEASURE 1.2.1:
Issue guidance to the FHLBanks and Enterprises on operational risk management

Effective management of operational risk is important to the safety and soundness of the FHLBanks, OF, and the Enterprises. FHFA issues written standards to the regulated entities in the form of advisory bulletins. Advisory bulletins describe FHFA supervisory expectations and set standards for effective management by the regulated entities of particular risks. These standards are considered by FHFA examiners when assessing the adequacy of a regulated entity's risk management. FHFA advisory bulletins on operational risk management provide guidance and articulate standards in support of achievement of Performance Goal 1.2 and Strategic Goal 1. FHFA issued four advisory bulletins in FY 2019 as shown in Table 10, meeting the performance target for Performance Measure 1.2.1.

Table 10: Advisory Bulletins Issued by FHFA in FY 2019

Policy Subject	Reference	Date	Description
Advisory Bulletin on *Business Resiliency Management*	AB 2019-01[a]	May 7, 2019	Communicates FHFA's supervisory expectations to the regulated entities on an effective business resiliency management program. Business resiliency management refers to a regulated entity's ability to minimize the impact of disruptions and maintain business operations at predefined levels. An effective business resiliency management program establishes documented strategic processes and procedures that a regulated entity should follow to mitigate and respond to risks in order to continue its business operations.
Advisory Bulletin on *Implementation of Streamlined Monitoring Requirements for Affordable Housing Program Projects Funded by Certain Other Federal Government Rental Housing Programs*	AB 2019-02[b]	May 9, 2019	Identifies four federal government rental housing programs that have monitoring standards and practices that are substantially equivalent to those required under the FHLBanks' Affordable Housing Program (AHP), as well as very low noncompliance rates. Permits FHLBanks to implement streamlined monitoring for AHP projects funded by any of the four programs (U.S. Department of Housing and Urban Development [HUD] Section 202 Program for the Elderly, HUD Section 811 Program for Housing the Disabled, U.S. Department of Agriculture (USDA) Section 514 Farmworker Multifamily Program, and USDA Section 515 Rural Multifamily Program).
Advisory Bulletin on *Capital Stock Management*	AB 2019-03[c]	Aug. 14, 2019	Provides guidance for each FHLBank regarding the manner in which it manages its capital accounts, augmenting existing statutory and regulatory capital requirements. This guidance describes FHFA's supervisory expectations regarding an appropriate level of capital stock that each FHLBank should maintain, expressed as a percentage of assets, in order to help preserve the cooperative nature of the FHLBanks.

Table 10: Advisory Bulletins Issued by FHFA in FY 2019			
Policy Subject	**Reference**	**Date**	**Description**
Advisory Bulletin on *Enterprise Fraud Reporting*	AB 2019-04[d]	Sept. 8, 2019	Will be effective January 1, 2020, when it will rescind and replace AB 2015-02, *Enterprise Fraud Reporting* (which was issued March 26, 2015 and remains in effect through December 31, 2019). Updated advisory bulletin makes minor changes regarding the content and timing of fraud reports submitted to FHFA by the Enterprises. The Housing and Economic Recovery Act of 2008 (HERA) subjects the Enterprises to fraud reporting (12 U.S.C. Section 4642) and requires an Enterprise to submit to FHFA a "timely" report upon discovery that it has purchased or sold a fraudulent loan or financial instrument, or when it suspects a possible fraud related to the purchase or sale of any loan or financial instrument.

[a] https://www.fhfa.gov/SupervisionRegulation/AdvisoryBulletins/Pages/Business-Resiliency-Management.aspx.
[b] https://www.fhfa.gov/SupervisionRegulation/AdvisoryBulletins/Pages/Implementation-of-Streamlined-Monitoring-Requirements-for-Affordable-Housing-Program-Projects.aspx.
[c] https://www.fhfa.gov/SupervisionRegulation/AdvisoryBulletins/Pages/Capital-Stock-Management.aspx.
[d] https://www.fhfa.gov/SupervisionRegulation/AdvisoryBulletins/AdvisoryBulletinDocuments/AB-2019-04_Enterprise-Fraud-Reporting.pdf.

Performance Goal 1.3: Require Timely Remediation of Risk Management Weaknesses

FHFA carefully documents adverse examination findings and conclusions and communicates them to the regulated entities. FHFA uses three categories to classify examination findings: (1) Recommendations, (2) Matters Requiring Attention (MRAs), and (3) Violations. Recommendations identify policies, procedures, or practices that could be improved, while MRAs and violations require the regulated entity to take remedial action. FHFA subsequently assesses the actions taken in response to these supervisory communications through its ongoing supervisory work and assesses the timeliness and effectiveness of the regulated entities' efforts to remediate identified weaknesses.

FHFA's approach to making progress toward Performance Goal 1.3 involved multiple strategies in FY 2019. The Agency communicated examination findings and conclusions to boards of directors for the FHLBanks and to senior management and Audit Committee Chairs for the Enterprises. FHFA staff engaged with regulated entities' management during the course of ongoing monitoring and targeted examinations to discuss identified weaknesses and supervisory expectations for risk management. In accordance with Agency guidance, FHFA issued MRAs for critical supervisory matters or deficiencies, requiring the boards of directors or management to take corrective action. Finally, FHFA monitored, reviewed, and assessed the regulated entities' implementation of corrective actions within agreed-upon timeframes.

As shown in Table 11, FHFA monitored one performance measure for Performance Goal 1.3, and met the FY 2019 target for the measure.

Table 11: Performance Goal 1.3 – Performance Measure and Result							
Performance Goal 1.3: Require Timely Remediation of Risk Management Weaknesses							
Performance Measure	FY 2014 Result	FY 2015 Result	FY 2016 Result	FY 2017 Result	FY 2018 Result	FY 2019 Target	FY 2019 Result
1.3.1: FHFA determines that the regulated entities have satisfactorily addressed safety and soundness Matters Requiring Attention (MRAs) in accordance with agreed upon remediation plans and timeframes	**N/A**	**MET**	**NOT MET**	**NOT MET**	**NOT MET**	90 percent of the time	**MET**

PERFORMANCE MEASURE 1.3.1:

FHFA determines that the regulated entities have satisfactorily addressed safety and soundness Matters Requiring Attention in accordance with agreed upon remediation plans and timeframes

Where there is a significant supervisory concern or violation of law or regulation by one of the regulated entities, FHFA may issue an MRA that requires the entity's board of directors and/or management to take corrective action to address deficiencies and violations. FHFA tracks the remediation of MRAs to ensure that the regulated entity has addressed the supervisory concern or violation of law or regulation. The FY 2019 target for Performance Measure 1.3.1 for both the Enterprises and the FHLBanks was for FHFA to determine that the regulated entities have satisfactorily addressed safety and soundness MRAs in accordance with agreed upon remediation plans and timeframes 90 percent of the time. The 90 percent target was successfully met for the Enterprises, the FHLBanks, and OF, demonstrating progress toward Performance Goal 1.3 (timely remediation of risk management weaknesses).

FHFA follows different processes for the closure of MRAs at the Enterprises and the FHLBanks.

- The Enterprises: The Enterprises begin to address MRAs by submitting proposed remediation plans to FHFA for review and non-objection. Each non-objected remediation plan includes a timeframe for completion, either within the fiscal year the MRA was issued, or beyond. Enterprise management executes the actions required in each remediation plan and submits documentation demonstrating remediation activities to the Enterprise's internal audit function for validation. After the internal validation is complete, FHFA reviews the Enterprise's actions and the internal audit function's validation to determine whether the Enterprise has satisfactorily addressed the MRA pursuant to the plan that FHFA has reviewed and not objected to and within an agreed-upon timeframe. FHFA determined that 90 percent of all the MRAs that were validated by the Enterprises' internal audit functions and submitted for the FY 2019 reporting period had been satisfactorily addressed, meeting the FY 2019 performance target for the Enterprises for performance measure 1.3.1.[35]
- FHLBanks and OF: For each FHLBank and for OF, FHFA reviews that individual entity's satisfactory resolution of its MRAs in conjunction with FHFA's annual examination cycle. FHFA gathers information about MRA resolution in the course of annual exam work and determines whether the Bank or OF addressed MRAs outstanding prior to the examination within agreed upon timeframes, or if it is sufficiently on track to address them within the established remediation plan. At FHLBank and OF examinations conducted during FY 2019, FHFA followed up on outstanding MRAs to determine whether the entities had remediated them or if they were making progress according to their remediation plans. For FY 2019, 97 percent of FHLBank MRAs passed FHFA's assessment, exceeding the Performance Measure 1.3.1 target of 90 percent.

[35] In addition to the MRA tracking included in Performance Measure 1.3.1, FHFA monitors the status of Enterprise completion of MRAs, including those MRAs not yet forwarded to the Enterprises' internal audit function for validation, during the course of Agency on-site supervisory and examination functions.

Strategic Goal 2: Ensure Liquidity, Stability, and Access in Housing Finance

FHFA has the statutory obligation to foster liquid, efficient, competitive, and resilient national housing finance markets, while ensuring that the regulated entities meet their fundamental safety and soundness obligations. Achieving a liquid, healthy housing finance market throughout the country also requires improved access to responsible mortgage credit across different market segments of creditworthy borrowers. FHFA is committed to fair and equitable access to the regulated entities' financial services by qualified institutions and creditworthy borrowers.

Performance Goal 2.1: Ensure Liquidity in Mortgage Markets

FHFA's responsibilities for housing finance market liquidity and safety and soundness are inherently intertwined, and the Agency evaluates policies and takes appropriate action to promote both goals. As both regulator and conservator, FHFA requires the Enterprises, where feasible, to: (1) take actions to improve liquidity in the single-family housing finance market; (2) continue to improve servicing standards and foreclosure prevention actions; and (3) maintain a critical ongoing role in the multifamily sector, particularly for affordable multifamily properties and underserved market segments. As regulator of the FHLBank System under the Federal Housing Enterprises' Financial Safety and Soundness Act of 1992 (Safety and Soundness Act) and the Federal Home Loan Bank Act, FHFA works to ensure that the FHLBanks continue to fulfill their statutory mission of providing a reliable source of liquidity to their member institutions in support of housing finance and community lending.

FHFA implemented several approaches and activities in FY 2019 to make progress toward Performance Goal 2.1. Selected strategies included promoting actions by the Enterprises to maintain liquidity in the single-family secondary market for purchase money and refinance mortgages. FHFA promoted ongoing liquidity in the marketplaces for new mortgages and mortgage refinance activities and continued work on the critical tasks of foreclosure prevention and loss mitigation. FHFA examined FHLBanks' credit and collateral risk management practices and advance terms to ensure consistency with regulation and supervisory expectations, to help ensure that the FHLBanks continued to provide advances in a safe and sound manner in support of member liquidity. FHFA continued to monitor housing markets and conduct independent studies and reports to provide critical information to support liquidity, stability, and access in housing finance markets.

FHFA monitored one performance measure for Performance Goal 2.1. The FY 2019 target for the measure, as shown in Table 12, was not met.

Table 12: Performance Goal 2.1 – Performance Measure and Result

Performance Goal 2.1: Ensure Liquidity in Morgage Markets							
Performance Measure	FY 2014 Result	FY 2015 Result	FY 2016 Result	FY 2017 Result	FY 2018 Result	FY 2019 Target	FY 2019 Result
2.1.1: Issue a final Capital Regulation for the Enterprises	**N/A**	**N/A**	**N/A**	**N/A**	**N/A**	FY 2019	**NOT MET**

PERFORMANCE MEASURE 2.1.1:
Issue a final Capital Regulation for the Enterprises

Since the beginning of the conservatorships, FHFA had suspended the Enterprises' capital requirements. In 2018, however, FHFA proposed a new regulatory capital framework for Fannie Mae and Freddie Mac that included a new framework for risk-based capital requirements and two alternatives for an updated minimum leverage capital requirement. The proposed risk-based framework would provide a granular assessment of credit risk specific to different mortgage loan categories, as well as market risk, operational risk, and going-concern buffer components. A notice of proposed rulemaking was published in the Federal Register for public review on July 17, 2018.

The public comment period was initially scheduled for September 17 and later extended to November 16, 2018. The timeline for finalizing the Enterprise Capital regulation was extended beyond the end of FY 2019 in recognition of the need for additional analysis to respond to the volume of public comments received. Staff will continue to analyze the public comments received and identify approaches to address the comments in the final rule.

Performance Goal 2.2: Promote Stability in the Nation's Housing Finance Markets

FHFA focuses on promoting stability in the housing finance market, both as regulator of the FHLBank System and regulator and conservator of the Enterprises. In support of this goal, FHFA seeks to provide clarity and certainty about the Agency's supervision and conservatorship expectations for the regulated entities and seeks feedback from them. FHFA also seeks public input from market participants and stakeholders on priority issues, and provides notice, as appropriate, when significant policy decisions require market implementation. FHFA also expects the regulated entities to promote stability in housing finance markets by establishing transparent and well-reasoned policies and procedures. As conservator of the Enterprises, FHFA also promotes stability by working to preserve and conserve the Enterprises' assets and business operations. In addition, FHFA encourages the Enterprises and the housing industry to adopt standards and practices that promote market and stakeholder confidence. Finally, FHFA promotes market stability by monitoring and reporting on trends in housing and mortgage markets, such as trends in house prices, guarantee fees, and consumer sentiment.

During FY 2019, FHFA implemented various strategies to promote stability in housing finance markets. Selected efforts included collaborating with other federal regulators to identify and address risk and other emerging issues, through participation on the Financial Stability Oversight Council, the Financial Stability Oversight Board, the Federal Housing Finance Oversight Board, and other interagency bodies. FHFA continued to promote home retention and loss mitigation programs, such as loan modification and refinancing programs, to help reduce the number of defaults and foreclosures and contribute to greater stability in housing markets and neighborhoods. FHFA worked with the Enterprises to reduce the number of severely-aged delinquent loans and real estate owned properties, with a priority on neighborhood stabilization.

FHFA also continued to conduct research, collect and analyze data, and publish important information in FY 2019 on housing and market conditions to inform policy decisions and the public, and promote market efficiency and stability. Selected examples include:

- Continuing regular publication on FHFA's website of monthly and quarterly House Price Index (HPI) information, which provides indications of housing price movements for geographic areas;
- Conducting the nationally representative National Survey of Mortgage Originations (NSMO) every quarter, and publishing public-use NSMO data on FHFA's website at the end of each calendar year;
- Producing and certifying the quarterly update of the National Mortgage Database (NMDB®) and making the data available to FHFA and the Consumer Financial Protection Bureau (CFPB) in a production environment; and
- Continuing to publish the monthly and quarterly FHFA Foreclosure Prevention and Refinance Report, which monitors the Enterprises' foreclosure prevention and refinance activities.

Examples of research publications completed during FY 2019 include:

- FHFA Staff Working Paper 19-01: *The Price of Residential Land for Counties, ZIP Codes, and Census Tracts in the United States*.[36] This paper uses data on the appraised land value from a data set of more than 16 million appraisals to produce annual estimates of the average price of land used in single-family housing. The paper standardizes land values to a per-acre basis, and then spatially interpolates to the universe of single-family homes. The analysis produces three main findings: land prices in most areas increased between 2012 and 2017; land prices tended to rise faster than house prices; and land appreciated most rapidly in areas with relatively high density of structures.

[36] *The Price of Residential Land for Counties, ZIP Codes, and Census Tracts in the United States*, Working Paper 19-01, FHFA, originally published January 2019, updated October 2019. https://www.fhfa.gov/PolicyProgramsResearch/Research/PaperDocuments/wp1901.pdf.

- FHFA Staff Working Paper 19-02: *A Quarter Century of Mortgage Risk*.[37] This paper provides a comprehensive account of the evolution of default risk for newly originated home purchase loans since 1990. The paper brings together several data sources to produce this history, including loan-level data for the entire Enterprise (Fannie Mae and Freddie Mac) book of business. The data track a large number of loan characteristics and a summary measure of risk, the stressed default rate. Among the many results described in the paper is that mortgage risk had already risen in the 1990s, creating one of the factors of the financial crisis well before the actual event. The results also cast doubt on explanations of the crisis that focus on low-credit-score borrowers.

In FY 2019, FHFA tracked progress toward Performance Goal 2.2 using two performance measures, as shown in Table 13. The FY 2019 targets were met for both measures.

Table 13: Performance Goal 2.2 – Performance Measures and Results

Performance Goal 2.2: Promote Stability in the Nation's Housing Finance Markets							
Performance Measure	FY 2014 Result	FY 2015 Result	FY 2016 Result	FY 2017 Result	FY 2018 Result	FY 2019 Target	FY 2019 Result
2.2.1: Continue publication of 12 monthly and 4 quarterly FHFA House Price Indices	N/A	MET	MET	MET	MET	FY 2019	MET
2.2.2: Continue conducting the quarterly National Survey of Mortgage Originations[38]	N/A	N/A	N/A	N/A	N/A	FY 2019	MET

PERFORMANCE MEASURE 2.2.1:
Continue publication of 12 monthly and 4 quarterly FHFA House Price Indices

The statutorily-required FHFA monthly HPI[39] is a broad measure of the movement of single-family house prices, calculated using home sales price information for mortgages sold to, or guaranteed by, Fannie Mae and Freddie Mac. The FHFA HPI serves as a timely, accurate indicator of house price trends at various geographic levels. Because of the breadth of the sample used for the survey, it provides more information than is available in other house price indices. The FHFA HPI provides housing economists with an analytical tool that is useful for estimating changes in the rates of mortgage defaults, prepayments, and housing affordability in specific geographic areas. FHFA HPI data are available at https://www.fhfa.gov/HPI. During FY 2019, FHFA published 12 monthly and 4 quarterly FHFA House Price Indices, meeting the performance target. Figure 13 shows the FHFA HPI from 1991 to 2019.

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[37] *A Quarter Century of Mortgage Risk*, Working Paper 19-02, FHFA, originally published February 2019, updated October 2019. https://www.fhfa.gov/PolicyProgramsResearch/Research/PaperDocuments/wp1902.pdf.

[38] Although FHFA has conducted the NSMO since FY 2014, this performance measure was reported on for the first time in FY 2019. The performance measure includes both conducting the quarterly NSMO in conjunction with an annual release of the public use file. The public use file was first released in FY 2019.

[39] 12 U.S.C. 4542.

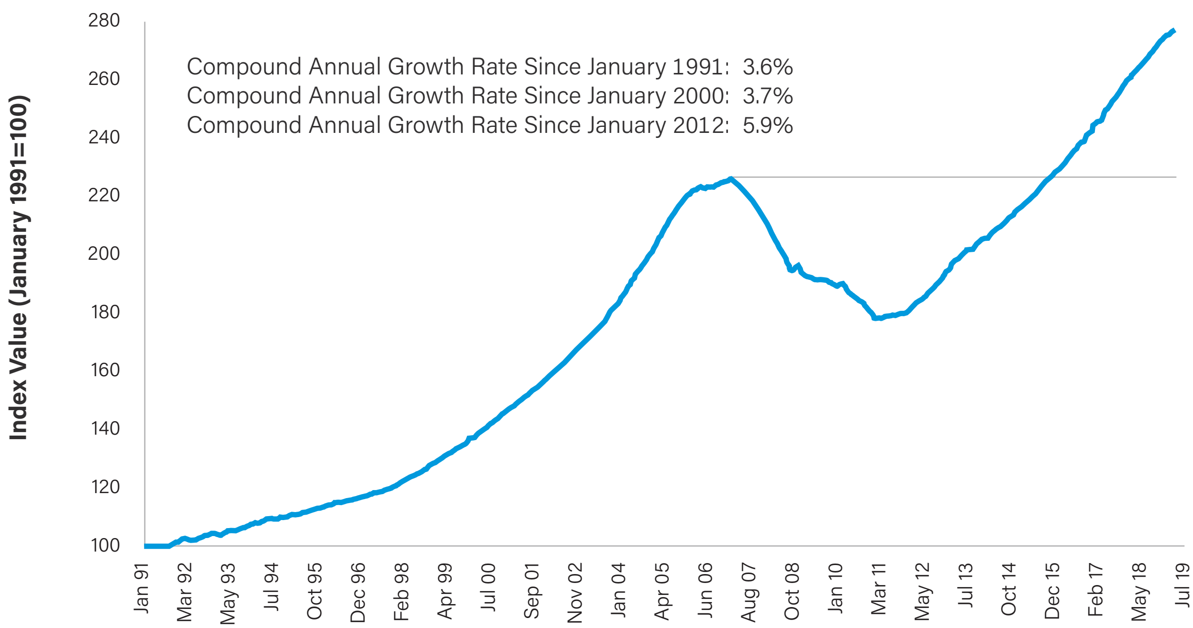
PERFORMANCE MEASURE 2.2.2:
Continue conducting the quarterly National Survey of Mortgage Originations

The NSMO is a quarterly mail survey conducted by FHFA and CFPB that provides insights into borrowers' experiences in getting a residential mortgage. The NSMO is a component of the NMDB® program, described below. The NSMO survey is designed to complement the NMDB® by providing information, particularly related to mortgage shopping, that is not available in the database. The survey is voluntary, and its target universe is newly originated, closed-end, first-lien residential mortgages and their associated borrowers.

The NSMO draws its sample from mortgages that are part of the NMDB®. The NSMO provides unique information about borrowers' experiences getting a mortgage, perceptions of the mortgage market, and future expectations. FHFA and CFPB have been conducting the quarterly NSMO survey since 2014. In FY 2019, FHFA continued the quarterly NSMO survey, meeting the target for Performance Measure 2.2.2. (FHFA began to track the implementation of the quarterly NSMO as an official performance measure beginning with the FY 2019 Annual Performance Plan). FHFA released the first NSMO dataset for public use on November 8, 2018, available on FHFA's website at https://www.fhfa.gov/nsmodata.

Figure 13: Monthly FHFA House Price Index

(Purchase-Only, Seasonally Adjusted Index, January 1991 - July 2019)



Source: FHFA

NATIONAL MORTGAGE DATABASE

The NMDB®, launched in 2012, is the first comprehensive repository of detailed mortgage loan information designed to support policymaking and research efforts and help regulators better understand emerging mortgage and housing market trends. The NMDB® is jointly funded and managed by FHFA and CFPB. The NMDB® is designed to provide comprehensive information about the U.S. mortgage market based on a five percent random sample of residential mortgages. The NMDB® has three primary components:

- The National Mortgage Database;
- The quarterly NSMO; and
- The annual American Survey of Mortgage Borrowers.

The NMDB® enables FHFA to meet the statutory requirements of section 132(c) of the Safety and Soundness Act, as amended by HERA, to conduct a monthly mortgage survey. Specifically, FHFA must, through a survey of the mortgage market, collect data on the characteristics of individual mortgages, including those eligible for purchase by Fannie Mae and Freddie Mac and those that are not, and including subprime and nontraditional mortgages. In addition, FHFA must collect information on the creditworthiness of borrowers, including a determination of whether subprime and nontraditional borrowers would have qualified for prime lending. Detailed information on the NMDB® program can be found at https://www.fhfa.gov/PolicyProgramsResearch/Programs/Pages/National-Mortgage-Database.aspx.

Performance Goal 2.3: Expand Access to Housing Finance for Qualified Financial Institutions of All Sizes in All Geographic Locations and for Qualified Borrowers

Having a liquid housing finance market throughout the country requires active participation by a wide range of lenders, including small lenders and lenders that serve rural areas, as well as state and local Housing Finance Agencies. Additionally, a healthy housing market requires liquidity and access across different borrower market segments to provide homeownership opportunities to creditworthy borrowers, sensible and appropriate loss mitigation options when borrowers fall into economic distress, and affordable rental housing options. Even in liquid markets, and especially during times of market uncertainty, some qualified borrowers and financial institutions may face barriers and disruption in their access to financing. FHFA is committed to fair and equitable access to the regulated entities' financial services for qualified financial institutions and creditworthy eligible borrowers.

FHFA's supervisory role with respect to the regulated entities includes oversight of some entity initiatives related to expanding access to credit and affordable housing. One example is FHFA's role regarding the Enterprises' housing goals. The Safety and Soundness Act requires FHFA to establish annual housing goals for mortgages purchased by the Enterprises. The housing goals include separate categories for single-family and multifamily mortgages on housing that is affordable to low-income and very low-income families, among other categories. FHFA established the most recent housing goals levels for the Enterprises for 2018 through 2020 in a final regulation that became effective March 14, 2018. FHFA evaluates whether the Enterprises have met the various goals.

ENTERPRISE HOUSING GOALS

In February 2018, FHFA issued a final regulation on the housing goals for Fannie Mae and Freddie Mac for 2018 through 2020. In March 2019, the Enterprises submitted their Annual Housing Activity Reports that contained information on their performance on 2018 housing goals. The Enterprises also submitted loan-level data on every mortgage purchased, and FHFA analyzed the data to determine official Enterprise performance figures for 2018. An Enterprise meets a goal if its performance equals or exceeds a pre-set benchmark level or, for single-family goals, the corresponding goal-qualifying share of conventional conforming mortgages originated in the primary mortgage market. FHFA has analyzed Home Mortgage Disclosure Act data to calculate 2018 market performance on the single-family goals. There is no market comparison for the multifamily goals. An Enterprise reaches a goal if its performance equals or exceeds the pre-set benchmark level. Housing goal results are illustrated in Table 14. As indicated, both Enterprises preliminarily met all of their single-family and multifamily goals for 2018.

Table 14: Enterprises' Housing Goals and Performance for 2018

Housing Goal/Subgoal Categories	2018 Benchmark	2018 Market Performance	2018 Enterprise Performance[a]		FHFA Preliminary Determination of 2018 Housing Goals Performance	
Single-Family Goals[b]						
Low-income home purchase goal	24%	25.5%	Fannie Mae: Freddie Mac:	28.2% 25.8%	Fannie Mae: Freddie Mac:	MET MET
Very low-income home purchase goal	6%	6.5%	Fannie Mae: Freddie Mac:	6.7% 6.3%	Fannie Mae: Freddie Mac:	MET MET
Low-income areas home purchase subgoal	14%	18%	Fannie Mae: Freddie Mac:	20.1% 17.3%	Fannie Mae: Freddie Mac:	MET MET
Low-income refinance goal	21%	30.7%	Fannie Mae: Freddie Mac:	31.2% 27.3%	Fannie Mae: Freddie Mac:	MET MET
Multifamily Goals (Units)[c]						
Low-income multifamily goal	315,000 units	N/A	Fannie Mae: Freddie Mac:	421,813 units 474,062 units	Fannie Mae: Freddie Mac:	MET MET
Very low-income multifamily subgoal	60,000 units	N/A	Fannie Mae: Freddie Mac:	80,891 units 105,612 units	Fannie Mae: Freddie Mac:	MET MET
Small property: low-income subgoal	10,000 units	N/A	Fannie Mae: Freddie Mac:	11,890 units 39,353 units	Fannie Mae: Freddie Mac:	MET MET

[a] Preliminary official results as determined by FHFA in October 2019.

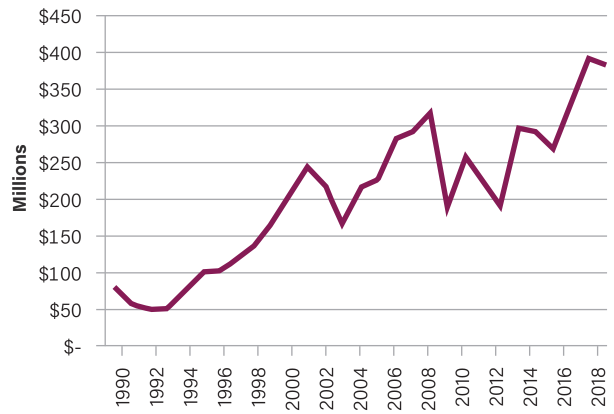
[b] Low-income families are those with incomes no greater than 80 percent of area median income (AMI). Very low-income families are those with incomes no greater than 50 percent of AMI. The low-income areas home purchase sub goal includes mortgages on properties in low-income census tracts and loans to borrowers with incomes no greater than AMI in high-minority census tracts. There is also a low-income areas home purchase goal, which includes the sub goal and home purchase mortgages to families with incomes no greater than 100 percent of AMI living in Federally-declared disaster areas.

[c] Low-income multifamily apartments are those affordable to families with incomes no greater than 80 percent of AMI. Very low-income units are those affordable to families with incomes no greater than 50 percent of AMI. Small multifamily properties are those with 5 to 50 units.

Additional examples of initiatives and programs of the regulated entities related to expanding access to housing finance, along with information on FHFA's role and any 2019 developments, include:

- **Federal Home Loan Bank Affordable Housing Program:** The Bank Act requires each of the 11 FHLBanks to establish an AHP to provide financing for the construction, purchase, or rehabilitation of affordable housing for very low- and low- or moderate-income households. AHP applicants are FHLBank member financial institutions that support an eligible beneficiary by providing subsidized advances or grants. AHP subsidies must be used either to finance homeownership by households with incomes at or below 80 percent of the AMI, or to finance the purchase, construction, or rehabilitation of rental housing in which at least 20 percent of the units will be occupied by, and affordable to, households with incomes at or below 50 percent of the AMI. On November 28, 2018, FHFA issued a final rule amending the AHP regulation, which became effective on December 28, 2018.[40] The rulemaking moves toward a long-term Agency goal of working to streamline administration of the AHP, and to provide the Banks with more control over the allocation of AHP funds. Figure 14 shows trends in the funds available (FHLBanks' contributions) to support the AHP since 1990.

Figure 14: FHLBank's Affordable Housing Program Statutory Contributions since 1990



- **FHLBank Housing Goals:** Under FHFA's FHLBank Housing Goals regulation,[41] the FHLBanks are subject to housing goals requirements for single-family loans purchased by the FHLBanks from their members through their Acquired Member Assets (AMA) programs. The housing goals measure the extent to which FHLBanks' AMA programs serve low- and very low-income families and families residing in low-income areas. For any FHLBank that is subject to the housing goals in a given year, FHFA undertakes an evaluation to determine that Bank's performance on the housing goals. In November 2018, FHFA proposed amendments to the FHLBank housing goals to address limitations in the existing regulation.

- **FHLBank Community Investment Program (CIP) and Community Investment Cash Advance (CICA) Program:** The FHLBanks' support of low-income housing and community development activities also includes the CIP and CICA programs. FHLBank members can finance eligible targeted housing through the CIP, and eligible targeted mixed-use projects[42] and economic development projects through both the CIP and CICA programs.[43] A variety of factors drive FHLBank member demand for these programs, including community needs

[40] 83 CFR 61186 (Nov. 28, 2018).

[41] 12 CFR Part 1281.

[42] Mixed-use projects are projects involving a combination of housing and economic development components, such as commercial or community space. See 12 C.F.R. § 1292.5(b).

[43] For mixed-use projects funded under CICA, income targeting is only required for the economic development portion of the project. For mixed-use projects funded under CIP, both the housing and economic portions of the project must meet the appropriate targeted income levels. See 12 CFR § 1292.5(b).

in FHLBank districts and broader economic dynamics. CIP total advance commitments for both housing and economic projects were almost $3.1 billion in 2018. Total CICA advance commitments were approximately $3.1 billion in 2018.

- **Preserving Homeownership:** During FY 2019, FHFA worked with Fannie Mae and Freddie Mac to chronicle the Neighborhood Stabilization Initiative (NSI) from its inception. The report, which is scheduled to be published in the first quarter of FY 2020, covers lessons learned and best practices observed through the Enterprises' implementation of NSI. The report also clarifies how the Enterprises have utilized lessons learned to improve upon their efforts at neighborhood stabilization.

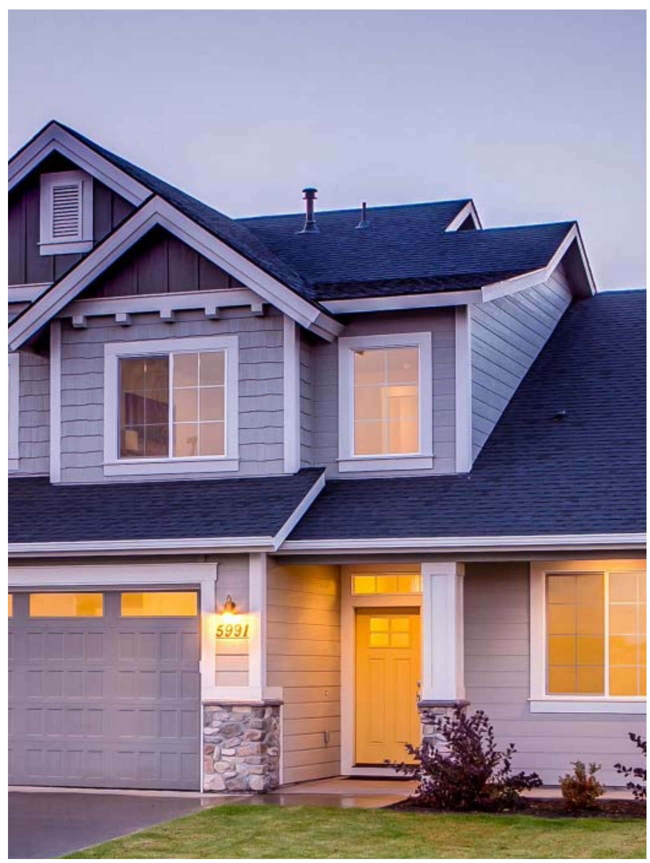
In FY 2019, FHFA tracked progress toward Performance Goal 2.3 with three performance measures. As shown in Table 15, FHFA met the 2019 targets for all three measures.

Table 15: Performance Goal 2.3 – Performance Measures and Results

Performance Goal 2.3: Expand Access to Housing Finance for Qualified Financial Institutions of All Sizes in All Geographic Locations and for Qualified Borrowers							
Performance Measure	FY 2014 Result	FY 2015 Result	FY 2016 Result	FY 2017 Result	FY 2018 Result	FY 2019 Target	FY 2019 Result
2.3.1: Conduct diversity and inclusion examinations of the Enterprises and the FHLBanks	N/A	N/A	N/A	N/A	MET	10 examinations during FY 2019	MET
2.3.2: Monitor the Enterprises' performance in Duty to Serve initiatives related to manufactured housing, affordable housing preservation, and rural markets	N/A	N/A	N/A	N/A	N/A	FY 2019	MET
2.3.3: Establish a Mortgage Translations Clearinghouse for borrowers with limited English proficiency	N/A	N/A	N/A	N/A	N/A	FY 2019	MET

PERFORMANCE MEASURE 2.3.1:
Conduct diversity and inclusion examinations of the Enterprises and the FHLBanks

The regulated entities have statutory and regulatory requirements for advancing diversity and ensuring inclusion in all of their business activities. The regulated entities have implemented formalized processes to assess and, where appropriate, integrate diversity and inclusion across organizations, programs, and initiatives, and have identified performance-based diversity and inclusion goals. FHFA conducts examinations of the diversity and inclusion programs of the regulated entities and OF to ensure compliance with regulatory requirements, including in the areas of workforce and board diversity, supplier diversity, and capital markets and financial transactions diversity. FHFA executes supervisory strategies that establish areas of focus, sets expectations for the regulated entities to ensure their compliance, and conducts examinations. In FY 2019, FHFA completed 14 examinations of regulated entities' compliance with diversity and inclusion goals and requirements, surpassing the target of 10 examinations.



REVIEW OF DIVERSITY AND INCLUSION EXAMINATION PROGRAM

From December 2018 – April 2019, FHFA's Office of Inspector General (OIG) performed a compliance review to determine whether FHFA's Office of Minority and Women Inclusion (OMWI) designed and developed an Agency diversity and inclusion examination program for the regulated entities as it committed to do in the *OMWI Strategic Plan FY 2016 – FY 2018*.[a] The OIG's review focused specifically on the four strategies under Objective 2.3 in the OMWI Strategic Plan. OIG analyzed OMWI standards and guidelines, OMWI policies and procedures, diversity and inclusion examination materials prepared by OMWI examination staff, and QC documentation. OIG also interviewed OMWI officials to verify completion of the tasks aligned to the four strategies. As a result of this review, OIG determined that OMWI completed the four required tasks. The review, however, revealed a deficiency in the execution of quality controls for reviews of completed examinations. OIG found non-compliance with the requirements that QC reviews precede issuance of final findings memoranda.

[a] https://www.fhfa.gov/AboutUs/Reports/ReportDocuments/OMWI%20Strategic%20Plan%20FY%202016-2018%20Final%20July%2013.pdf.

PERFORMANCE MEASURE 2.3.2:

Monitor the Enterprises' performance in Duty to Serve initiatives related to manufactured housing, affordable housing preservation, and rural markets

The Safety and Soundness Act includes a Duty to Serve (DTS) provision that requires the Enterprises to serve three specified underserved markets.[44] The statute further requires FHFA to issue a regulation to implement the DTS requirements in the statute, and to establish a process for annually evaluating and rating the Enterprises' compliance with their DTS obligations. In accordance with FHFA's regulation, the Enterprises adopted 2018-2020 Underserved Markets Plans that specify the activities the Enterprises intend to take to serve the three underserved markets, and provide quarterly updates to FHFA on their progress in serving the three underserved markets. FHFA monitored the Enterprises' quarterly progress in implementing the Plans throughout FY 2019, meeting the target for Performance Measure 2.3.2.

[44] See 12 U.S.C. § 4565.

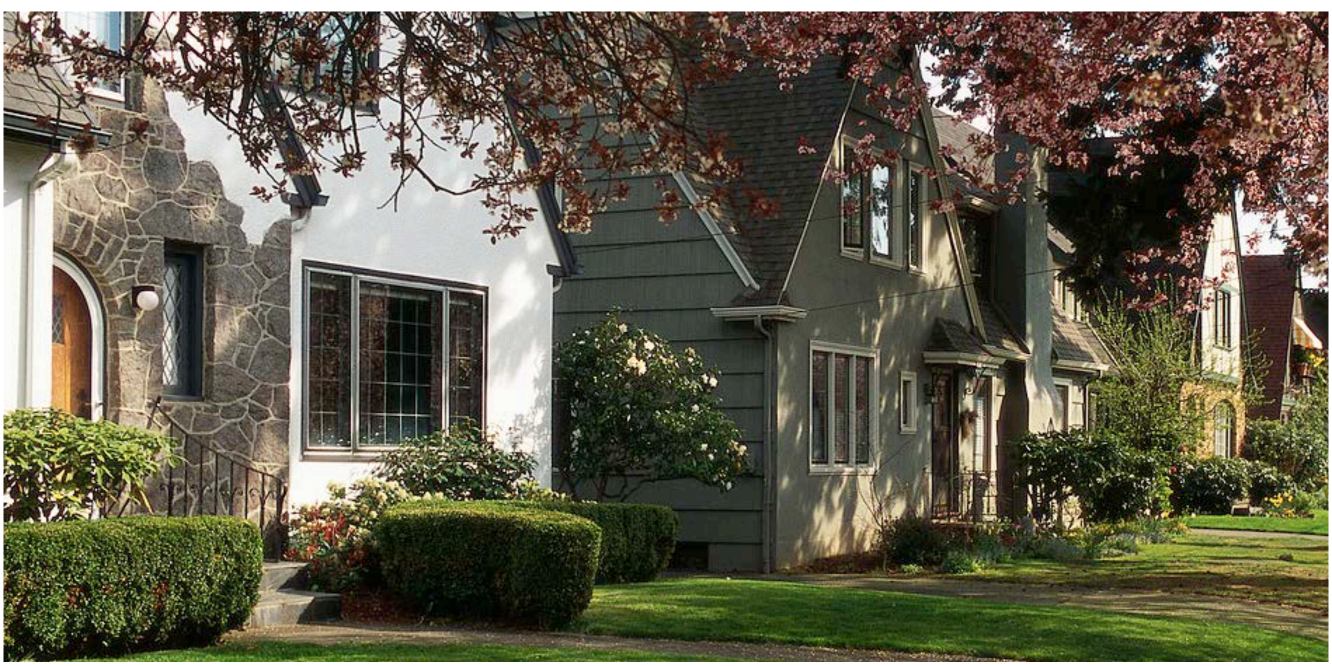
DUTY TO SERVE

The Duty to Serve, authorized by HERA, requires Fannie Mae and Freddie Mac to facilitate a secondary market for mortgages on housing for very low-, low-, and moderate-income families in: manufactured housing, affordable housing preservation, and rural housing. The 2018-2020 Underserved Market Plans describe specific activities each Enterprise undertakes to fulfill its DTS obligations in each underserved market. Throughout 2019, FHFA has monitored and evaluated the Enterprises' progress in implementing their respective Plans.

In March 2019, the Enterprises submitted annual reports detailing their actions and progress toward achieving the objectives in their Plans during 2018. FHFA evaluates and rates each Enterprise's performance under the Plans using a three-part process: 1) a quantitative assessment of whether the Enterprise has achieved its objectives; 2) a qualitative assessment of the Enterprise's impact on affordable housing in the underserved markets; and 3) an assessment of extra credit-eligible activities undertaken by the Enterprise. This assessment results in a determination of whether an Enterprise has complied with its DTS obligations in each market.

The 2018 ratings were published in the Annual Housing Report to Congress on October 30, 2019. FHFA determined that each Enterprise was in compliance with its DTS obligations in each of the three underserved markets. In addition, FHFA found that each Enterprise performed a satisfactory job of increasing the liquidity and distribution of available capital in each of the three underserved markets. Significant challenges exist in these markets and while both Enterprises initiated numerous activities to address these challenges, the first year of DTS activities in many cases has not meaningfully impacted these markets. Due to the difficulty of measuring and rating impact from this single year, FHFA was not able to determine more granular ratings for 2018. Additional information about the Enterprises' 2018 activities is available on the DTS webpage https://www.fhfa.gov/duty-to-serve.

In addition, on October 1, 2019, FHFA released a request for input as part of FHFA's process for reviewing the Enterprises' proposed modifications to these Plans. FHFA will review the full set of proposed modifications submitted to FHFA by the Enterprises and will publish those modifications, if approved, in December 2019.

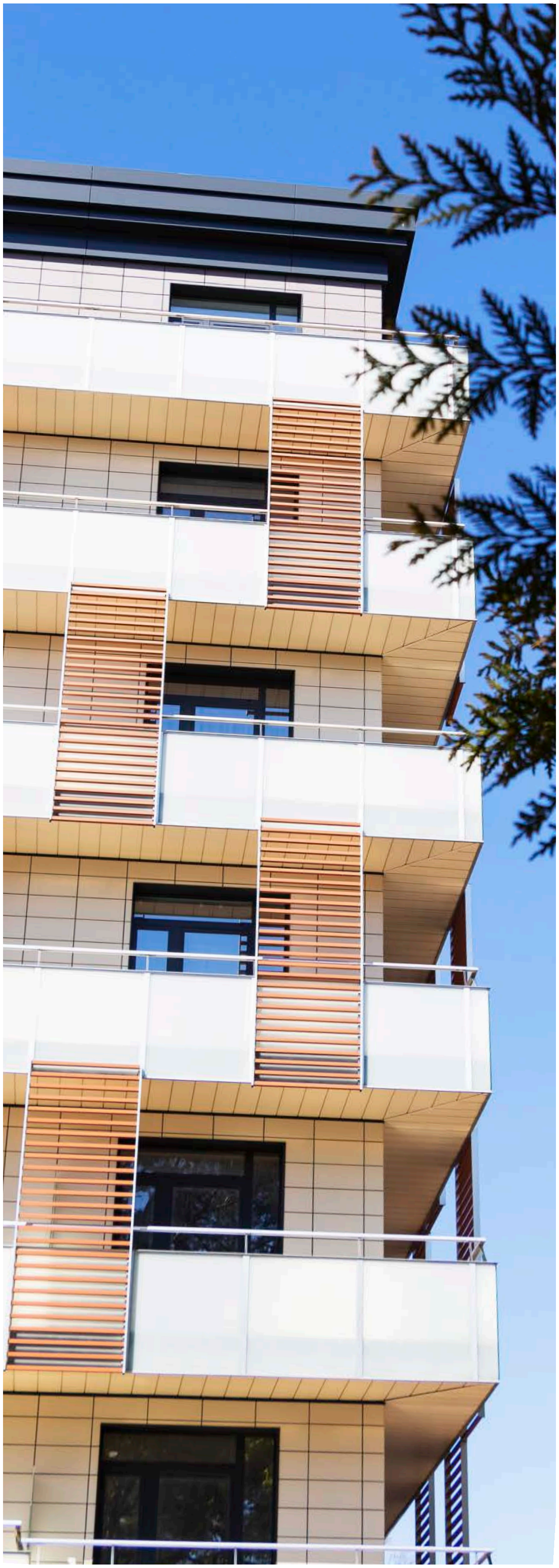


PERFORMANCE MEASURE 2.3.3:
Establish a Mortgage Translations Clearinghouse for borrowers with limited English proficiency

As described below, the Mortgage Translations clearinghouse was developed as part of a Language Access Multi-Year Plan developed by FHFA, Fannie Mae, and Freddie Mac to support mortgage-ready borrowers with limited English proficiency (LEP) to understand and participate in all facets of the mortgage life cycle. The first phase of the clearinghouse was launched on October 15, 2018, meeting the Performance Measure 2.3.3 target of establishing the clearinghouse in FY 2019.

MORTGAGE TRANSLATIONS CLEARINGHOUSE

During FY 2019, FHFA, Fannie Mae, and Freddie Mac continued to make progress on the previously released Language Access Multi-Year Plan. FHFA worked with the Enterprises during FY 2018 and FY 2019 to create the Mortgage Translations clearinghouse for borrowers with LEP. The clearinghouse serves as a centralized repository of translated mortgage documents, borrower education materials, and a glossary of terms associated with the mortgage process. Gathering translated documents in a centralized location for use by loan originators, servicers, and other market participants is intended to make the mortgage process more efficient, while also helping ensure that borrowers understand their obligations. In addition, the Mortgage Translations clearinghouse will assist potential LEP borrowers with mortgage education and explanation of mortgage-related terms to help reduce barriers to sustainable homeownership. The first phase of the clearinghouse launched on October 15, 2018, with resources in Spanish, the language most commonly spoken by LEP households in the United States. On October 23, 2019, FHFA announced the addition of traditional Chinese language resources to the Mortgage Translations clearinghouse. Over the next two years, FHFA plans to add resources in Vietnamese, Korean, and Tagalog to the existing website: www.FHFA.gov/MortgageTranslations.



Strategic Goal 3: Manage the Enterprises' Ongoing Conservatorships

In September 2008, FHFA exercised its authority to place Fannie Mae and Freddie Mac into conservatorships, in response to substantial deterioration in the housing markets that severely damaged each Enterprise's financial condition and left both unable to fulfill their missions without government intervention.[45] Initially, the conservatorships focused on reducing the Enterprises' losses, reducing their operational and credit risk, and stabilizing the mortgage and housing markets. Once the Enterprises returned to profitability, FHFA turned its focus to longer-term issues. FHFA establishes the overall strategic direction for the Enterprises in a strategic plan for the conservatorships of Fannie Mae and Freddie Mac and sets priorities and expectations for the Enterprises and Common Securitization Solutions LLC (CSS) in an annual Scorecard. FHFA Scorecard Progress Reports detail activities of Fannie Mae, Freddie Mac, and CSS throughout the year in furtherance of FHFA's conservatorship goals.

Performance Goal 3.1: Preserve and Conserve Assets

As conservator, FHFA is responsible by law for preserving and conserving the assets of Fannie Mae and Freddie Mac. FHFA employs a number of strategies in support of Performance Goal 3.1. FHFA supports effective management in the Enterprises and provides clear expectations to Enterprise boards and managers. FHFA supports Enterprise efforts to fill vacancies for boards and chief executive officers on a timely basis. FHFA sets goals in the annual Scorecards to implement the strategic plan for the conservatorships of Fannie Mae and Freddie Mac and assesses the performance of the Enterprises and CSS against the Scorecards on a quarterly basis. FHFA responds promptly to matters submitted by the Enterprises for conservator decisions. FHFA also undertakes legal actions that preserve Enterprise assets, protect conservatorship and Agency interests, and recover Enterprise losses.

Table 16: Performance Goal 3.1 – Performance Measures and Results

Performance Goal 3.1: Preserve and Conserve Assets							
Performance Measure	FY 2014 Result	FY 2015 Result	FY 2016 Result	FY 2017 Result	FY 2018 Result	FY 2019 Target	FY 2019 Result
3.1.1: Maintain a qualified board of directors and chief executive officer for each Enterprise to oversee the implementation of conservator objectives	N/A	MET	MET	MET	MET	95 percent of vacancies filled within 120 days	MET
3.1.2: Provide the 2019 Scorecard for Fannie Mae, Freddie Mac, and Common Securitization Solutions to the Enterprises	N/A	MET	MET	MET	MET	December 31, 2018	MET
3.1.3: Communicate conservator decisions on the Enterprises' administrative expenses for Calendar Year 2019	N/A	N/A	MET	MET	MET	January 31, 2019	MET
3.1.4: Monitor and rate the Enterprises' performance against current Scorecard objectives	N/A	N/A	N/A	MET	MET	Complete quarterly assessment within 30 days of the end of each quarter	NOT MET
3.1.5: Provide timely responses on items submitted to FHFA for conservator decision	N/A	N/A	N/A	MET	MET	95 percent of conservatorship decisions on matters requiring Agency approval are made and communicated within 90 days of receipt[46]	NOT MET

[45] The Safety and Soundness Act, as amended by HERA, authorizes FHFA as conservator to "take such action as may be (i) necessary to put the regulated entity in a sound and solvent condition, and (ii) appropriate to carry on the business of the regulated entity and preserve and conserve the assets and property of the regulated entity."

[46] In fiscal years 2017 and 2018, the performance target for Measure 3.1.5 included a more generous time frame of 120 days for conservatorship decisions to be made.

FHFA tracks progress toward Performance Goal 3.1 with five performance measures. As shown in Table 16, FHFA met the FY 2019 performance targets for three of the measures and did not meet the targets for two of the measures.

PERFORMANCE MEASURE 3.1.1:
Maintain a qualified board of directors and chief executive officer for each Enterprise to oversee the implementation of conservator objectives

Board members provide critical leadership to Fannie Mae and Freddie Mac, essential for the Enterprises to be effective and achieve their missions. Each Enterprise is required to maintain a minimum of 9 board members and can increase the number up to 13 board members. This performance measure tracks the percentage of board vacancies that are filled within 120 days, with a vacancy considered as occurring only if the total number of board members for an Enterprise falls below nine. There was some fluctuation over the course of the fiscal year in the number of board members at both Fannie Mae and Freddie Mac. However, neither Enterprise's board experienced a reduction in the number of board members below nine during any of the reporting quarters for FY 2019. Because no vacancies that met the characteristics defined by this performance measure occurred and both Enterprises maintained qualified boards of directors throughout FY 2019, the target for Performance Measure 3.1.1 is considered to have been met.

PERFORMANCE MEASURE 3.1.2:
Provide the 2019 Scorecard for Fannie Mae, Freddie Mac, and Common Securitization Solutions to the Enterprises

FHFA released the *2019 Scorecard for Fannie Mae, Freddie Mac, and Common Securitization Solutions* to the Enterprises, CSS, and the public on December 19, 2018, meeting the FY 2019 target deadline for Performance Measure 3.1.2, which was December 31, 2018. The Scorecard outlines specific conservatorship priorities for the Enterprises and CSS, and furthers the goals outlined in the *2014 Strategic Plan for the Conservatorships of Fannie Mae and Freddie Mac*, which was published in May 2014. Providing the Scorecard prior to the end of the calendar year improves the Enterprises' ability to plan 2019 goals, increases the likelihood of the Enterprises and CSS achieving annual milestones for the year, and contributes to FHFA's sound management of the ongoing Conservatorships (Strategic Goal 3).

PERFORMANCE MEASURE 3.1.3:
Communicate conservator decisions on the Enterprises' administrative expenses for Calendar Year 2019

FHFA reviewed and approved the Enterprises' proposed administrative expenses plans for 2019 and communicated that approval to Fannie Mae and Freddie Mac in December 2018. FHFA met the FY 2019 target deadline for Performance Measure 3.1.3 of January 31, 2019, and fulfilled an important FHFA management responsibility pertaining to the conservatorships.

PERFORMANCE MEASURE 3.1.4:
Monitor and rate the Enterprises' performance against current Scorecard objectives

The annual Conservatorship Scorecard sets goals for the Enterprises and CSS to implement the conservatorships' strategic plan. FHFA assesses the progress of the Enterprises and CSS against the goals contained in the Scorecard each quarter and provides final year-end ratings in December. The target for Performance Measure 3.1.4 is to complete those quarterly assessments within 30 days of the end of the quarter. In FY 2019, FHFA met the targets for the first, third and fourth quarters, but did not meet the second quarter target. The FY 2019 second quarter target pertains to performance of Fannie Mae, Freddie Mac, and CSS during the months of January through March 2019. This time period coincided with a change in FHFA leadership, which resulted in a delay in the delivery to the Enterprises and CSS of FHFA guidance for the calendar year 2019 Scorecard and therefore a delay of the second quarter assessment. Since the second quarter target was not met, the overall FY 2019 performance target for Measure 3.1.4 was not met. Even though the target for the second quarter was not met, FHFA continued to effectively assess the progress of the Enterprises in meeting the Scorecard objectives and met the target in the subsequent quarters.

PERFORMANCE MEASURE 3.1.5:

Provide timely responses on items submitted to FHFA for conservator decision

While FHFA, as conservator, authorizes the boards of directors and senior management of the Enterprises to oversee and carry out the day-to-day operations of the companies, FHFA has identified actions of the Enterprises that require an advance decision by the conservator. FHFA is committed to providing timely responses to the Enterprises on matters that require conservator approval, as shown by the FY 2019 performance target of making and communicating conservatorship decisions for 95 percent of Enterprise approval requests within 90 days of receipt. Over the course of FY 2019, FHFA was able to make and communicate conservatorship decisions within 90 days of receipt for 88.5 percent of requests, which did not meet the Measure 3.1.5 performance target. A total of 13 out of 113 conservatorship decisions were not closed within the 90-day target timeframe. The reasons for the delayed decisions varied. Some involved complex issues that required significant discussions with the Enterprises and within FHFA, including in-depth legal analyses, cross-divisional coordination, and consensus-building around policy decisions. Some issues required conservatorship decisions near the time of the transition in FHFA's Director position and were intentionally delayed until the start of the new Director's tenure. Delaying decisions on a subset of Enterprise requests to allow for the careful consideration of Enterprise proposals was the prudent course of action and helped to ensure that the Enterprises stayed focused on their core business missions.

With the adoption of *The 2019 Strategic Plan for the Conservatorships of Fannie Mae and Freddie Mac* in October of 2019, FHFA will continue to carefully consider any new proposals from the Enterprises and it is highly likely that such reviews will take longer than the established performance target of 90 days. FHFA believes that this is a prudent course of action, given the significant change in the conservatorships' strategic plan. FHFA will be assessing what – if any – changes are appropriate to make to this measure for FY 2020.

Performance Goal 3.2: Reduce Taxpayer Risk from Enterprise Operations

FHFA is focused on introducing additional private capital into the housing finance system to lessen taxpayer risk and reducing the overall risk exposure of Fannie Mae and Freddie Mac. FHFA's objective is to shift risk to private market participants and away from the Enterprises in a responsible way that does not reduce liquidity or adversely impact the availability of mortgage credit. One priority is to have the Enterprises conduct credit risk transfers for their single-family credit guarantee business. FHFA also oversees required reductions in the Enterprises' retained portfolios, which expose them to significant unnecessary risks. FHFA has required the Enterprises to continue to prioritize selling their less liquid portfolio assets, implement plans to meet portfolio reduction goals even under adverse market conditions and in a way consistent with neighborhood stabilization, and develop retained portfolio plans. Another risk reduction priority for FHFA is overseeing appropriate Enterprise counterparty requirements. FHFA provides direction to the Enterprises on strengthening counterparty eligibility standards for mortgage insurers to ensure that mortgage insurers are able to fulfill their intended role of providing private capital, even in adverse market conditions.

FHFA used several means and strategies in support of Performance Goal 3.2 during FY 2019. FHFA provided oversight and direction for the Enterprises' ongoing implementation of their CRT programs, which included setting volume and risk transfer targets for single-family and multifamily mortgage credit risk-sharing programs and holding Enterprise management responsible for meeting those targets. FHFA continued to monitor the Enterprises' CRT transactions and publish the *credit risk transfer progress report*.[47] FHFA also continued to: provide direction and oversight for Enterprise sales of non-performing and re-performing loans, publish a report on Enterprise non-performing loan sales,[48] and explore different types of CRT structures for multifamily mortgages. FHFA also continued to oversee execution of FHFA-approved retained portfolio plans to reduce the size of the Enterprises' legacy retained portfolios.

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47 https://www.fhfa.gov/AboutUs/Reports/ReportDocuments/CRT-Progress-Report-2Q19.pdf.

48 *Enterprise Non-Performing Loan Sales Report: December 2018*. https://www.fhfa.gov/AboutUs/Reports/ReportDocuments/Dec2018_NPL_Sales_Report.pdf.

As shown in Table 17, FHFA demonstrated progress toward Performance Goal 3.2 during FY 2019, meeting the annual targets for all three of the measures used to track reducing taxpayer risk resulting from Enterprise operations.

Table 17: Performance Goal 3.2 – Performance Measures and Results

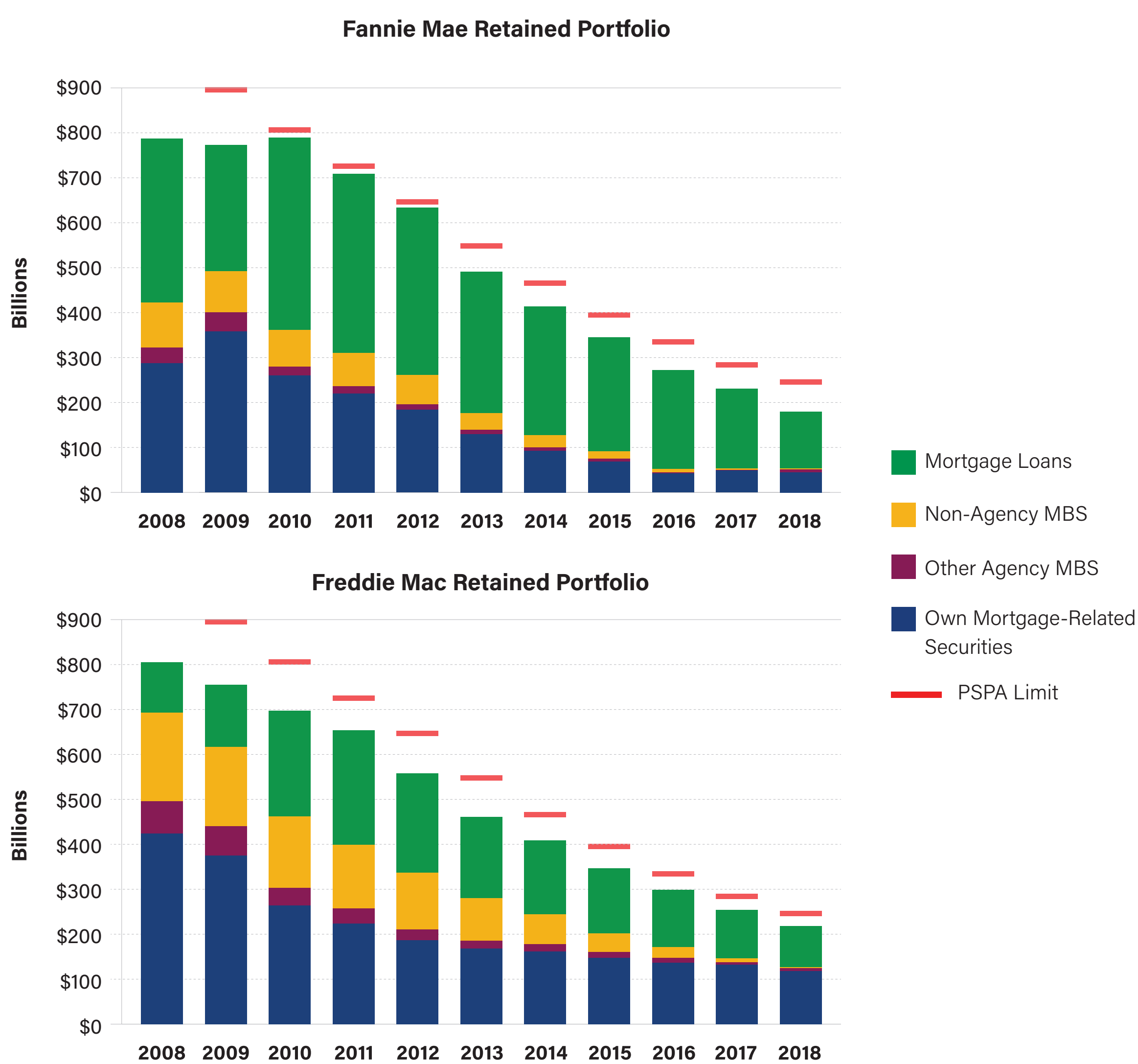
Performance Goal 3.2: Reduce Taxpayer Risk from Enterprise Operations							
Performance Measure	FY 2014 Result	FY 2015 Result	FY 2016 Result	FY 2017 Result	FY 2018 Result	FY 2019 Target	FY 2019 Result
3.2.1: Oversee reduction in retained portfolios consistent with the Senior Preferred Stock Purchase Agreement target of $250 billion	**MET**	**MET**	**MET**	**MET**	**MET**	December 31, 2018	**MET**
3.2.2: Require the Enterprises to execute single-family mortgage credit risk-sharing transactions	**MET**	**MET**	**MET**	**MET**	**MET**	Transfer a meaningful portion of credit risk on at least 90 percent of the unpaid principal balance of newly acquired single-family mortgages in loan categories targeted for credit risk transfer, subject to FHFA target adjustments as may be necessary to reflect market conditions and economic considerations	**MET**
3.2.3: Require the Enterprises to execute multifamily mortgage credit risk-sharing transactions	**N/A**	**N/A**	**N/A**	**MET**	**MET**	Transfer a meaningful portion of the credit risk on newly acquired multifamily mortgages, subject to FHFA target adjustments as may be necessary to reflect market conditions and economic considerations	**MET**

PERFORMANCE MEASURE 3.2.1:

Oversee reduction in retained portfolios consistent with the Senior Preferred Stock Purchase Agreement target of $250 billion

Before the mortgage crisis, the Enterprises accumulated very large portfolios of retained mortgages and mortgage-backed securities (MBS) funded by unsecured debt issued by the Enterprises. The Enterprises' retained portfolios exposed them to significant and unnecessary credit, asset liquidity, and interest rate risks. During conservatorship, each Enterprise has been required to reduce the overall size of its retained portfolio and to limit its ongoing use of the portfolio to support core activities of its single-family and multifamily businesses. Each Enterprise has a PSPA agreement with Treasury that requires it to reduce its portfolio to no more than $250 billion by December 31, 2018. FHFA directed the Enterprises to submit plans to reduce their retained portfolio assets to meet the PSPA cap targets. In calendar year 2018, both Fannie Mae and Freddie Mac successfully reduced their retained mortgage investment portfolios appropriately. As of December 31, 2018, Fannie Mae's retained portfolio balance was $179.1 billion, and Freddie Mac's was $218.1 billion. Each Enterprise reduced its retained portfolio more than required under the PSPA for calendar year 2018, reducing taxpayer risk and ensuring that FHFA's 2019 performance target for Measure 3.2.1 was met. Figure 15 shows the Enterprises' retained portfolio reductions from 2008 to 2018, with year-end 2018 levels for both Enterprises below the $250 billion cap.

Figure 15: Enterprises' Retained Portfolio Reduction, Calendar Years 2008-2018



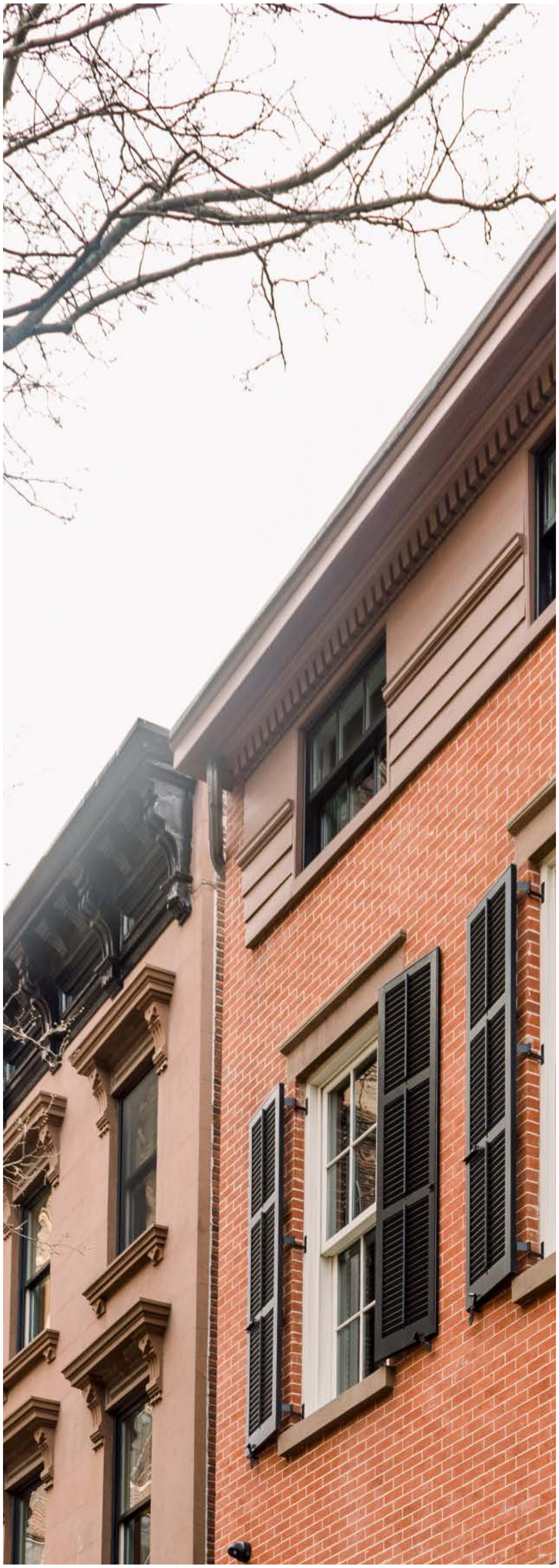
Source: Fannie Mae and Freddie Mac

PERFORMANCE MEASURE 3.2.2:
Require the Enterprises to execute single-family mortgage credit risk-sharing transactions

By requiring the Enterprises to execute single-family mortgage credit risk sharing transactions, FHFA aims to reduce taxpayer risk and increase the role of private capital in the mortgage market. The purpose of Measure 3.2.2 is to assess the Enterprises' continued efforts to reduce taxpayer risk by transferring single-family credit risk to private capital. The measure tracks the percentage of unpaid principal balance (UPB) of newly acquired single-family mortgages in loan categories targeted for CRT at Fannie Mae and Freddie Mac. The loan categories are subject to FHFA target adjustments as may be necessary to reflect market conditions and economic considerations. Measure 3.2.2 is aligned with a corresponding measure included in the 2018 Enterprise Scorecard. Both Enterprises met the FY 2019 performance target for Measure 3.2.2 of transferring a meaningful portion of credit risk on at least 90 percent of the UPB of newly acquired single-family mortgages in loan categories targeted for credit risk transfer, reflecting progress toward Performance Goal 3.2 and reducing taxpayer risk during FY 2019.

PERFORMANCE MEASURE 3.2.3:
Require the Enterprises to execute multifamily mortgage credit risk-sharing transactions

By requiring the Enterprises to execute multifamily mortgage credit risk sharing transactions, FHFA aims to reduce taxpayer risk and increase the role of private capital in the mortgage market. The purpose of Measure 3.2.3 is to assess the Enterprises' continued effort to reduce risk to taxpayers by transferring multifamily credit risk to private capital, subject to FHFA target adjustments as may be necessary to reflect market conditions and economic considerations. Measure 3.2.3 is aligned with corresponding metrics included in the 2018 Enterprise Scorecards. Both Enterprises met the FY 2019 performance target for Measure 3.2.3 of transferring a meaningful portion of the credit risk on newly acquired multifamily mortgages, reflecting progress toward Performance Goal 3.2 and reducing taxpayer risk during FY 2019.



MULTIFAMILY CREDIT RISK TRANSFERS

Transferring credit risk to the private sector is an integral part of the multifamily business model for both Enterprises. The 2018 Enterprise Scorecard directed the Enterprises to continue their current multifamily CRT initiatives and to explore additional CRT opportunities. All of the multifamily new acquisitions by the Enterprises involved a transfer of credit risk to private capital.

Historically, Fannie Mae's primary multifamily risk transfer vehicle has been the Delegated Underwriting and Servicing (DUS) lender risk sharing program. Through the DUS lender risk sharing program, lenders share in loan-level credit losses in one of two ways: 1) they bear losses up to the first five percent of the UPB of the loan and share in remaining losses up to a prescribed limit, or 2) they share up to one-third of the losses on a *pro rata* basis. In 2018, through the DUS program, Fannie Mae transferred a portion of credit risk on virtually all of its multifamily new acquisitions. Additionally, Fannie Mae continued to grow its multifamily Credit Insurance Risk Transfer (CIRT) program, in which Fannie Mae transfers a portion of the credit risk it retains from its DUS lender risk sharing program to a panel of insurers or reinsurers. The multifamily CIRT transactions are pool level policies that cover a specified percentage of aggregate credit risk for a pool of multifamily loans. In 2018, Fannie Mae executed its third and fourth multifamily CIRT transactions since the inception of the program.

Freddie Mac's K Certificate program is its primary multifamily credit risk transfer mechanism. K Certificates transfer most of the credit risk to investors through subordinated bonds that are structured to absorb expected and unexpected credit risk. In addition, Freddie Mac transfers credit risk through a variety of other programs. Freddie Mac transfers credit risk associated with multifamily small balance loans through its SB Certificates. KT Certificates transfer a portion of the credit risk associated with multifamily mortgage loans awaiting securitization in Freddie Mac K Certificates. Freddie Mac also transfers credit risk on hard-to-securitize loans through its Whole Loan Investment Funds. In 2018, Freddie Mac also executed its first multifamily credit risk transfer transaction to reinsurers, the Multifamily Credit Insurance Pool (MCIP) offering. Under this first MCIP structure, Freddie Mac purchased insurance policies that provided first loss credit protection on a pool of seasoned multifamily mortgage loans.

Both Enterprises plan to continue exploring other multifamily credit risk transfer options to complement their primary multifamily credit risk transfer vehicles.

Performance Goal 3.3: Build, Implement, and Operate a New Single-Family Securitization Infrastructure and Implement the Single Security Initiative

The Single Security Initiative (SSI) and the Common Securitization Platform (CSP) were significant, multiyear, interrelated projects that remain ongoing priorities of FHFA during conservatorship of the Enterprises. The *2014 Strategic Plan for the Conservatorships of Fannie Mae and Freddie Mac* included the strategic goal of developing a new securitization infrastructure for the Enterprises for mortgage loans backed by single-family properties. The goal of the SSI was to bring additional liquidity and efficiency to the market by combining the separate Fannie Mae and Freddie Mac "To-Be-Announced" (TBA) markets (forward markets for certain MBS) into one. To achieve this goal, CSS, a joint venture owned by the Enterprises, developed the CSP under FHFA's direction and guidance. The CSP serves as an operational and technical platform that supports the Enterprises' single-family mortgage securitization activities, including the issuance by both Fannie Mae and Freddie Mac of a common MBS known as the Uniform Mortgage-Backed Security (UMBS). By addressing structural and trading disparities, the UMBS will benefit taxpayers and the nation's housing finance system. During FY 2019, FHFA used the following means and strategies for making progress toward Performance Goal 3.3. FHFA oversaw and monitored testing of both Enterprise and CSS systems and operations. FHFA also continued to work with the Enterprises to obtain and appropriately incorporate public and industry input, and to provide updated information to the public about the SSI and the CSP. FHFA, the Enterprises, and CSS worked together to deploy Release 2 of the CSP and to launch the UMBS on June 3, 2019, meeting the previously announced deadline.

As shown in Table 18, FHFA met the FY 2019 performance targets for the two performance measures for Performance Goal 3.3, demonstrating progress in establishing an improved single-family securitization infrastructure.

Table 18: Performance Goal 3.3 – Performance Measures and Results

Performance Goal 3.3: Build, Implement, and Operate a New Single-family Securitization Infrastructure and Implement the Single Security Initiative

Performance Measure	FY 2014 Result	FY 2015 Result	FY 2016 Result	FY 2017 Result	FY 2018 Result	FY 2019 Target	FY 2019 Result
3.3.1: Issue a progress report on the status of the Single Security Initiative and the Common Securitization Platform	N/A	MET	MET	MET	MET	June 30, 2019	MET
3.3.2: The Enterprises and Common Securitization Solutions implement Release 2 of the Common Securitization Platform and begin issuing Uniform Mortgage-Backed Securities	N/A	N/A	N/A	N/A	N/A	June 3, 2019	MET

SUCCESSFUL LAUNCH OF THE UMBS

After years of preparation, March 12, 2019 marked the beginning of trading in the forward TBA market of the Enterprises' new common TBA-eligible security for fixed-rate mortgages, the UMBS. This date also marked the consolidation of the formerly distinct markets for each Enterprise's MBS. June 3, 2019 marked the implementation of Release 2 of the CSP and the Enterprises' initial issuance of UMBS through the CSP. Settlement of UMBS TBA trades also commenced in June.

The initial months of UMBS trading and settlement have been smooth and orderly and have established a well-functioning, consolidated Enterprise TBA market with fungibility of UMBS across issuers. As of September 30, 2019, UMBS trading has totaled over $17 trillion and other measures of market functioning are generally within recent norms, such as the level of total trading in Enterprise MBS on the TBA market, and the rate spreads between 30-year, fixed-rate mortgages and 10-year, constant-maturity Treasuries.

Two other measures that indicate market acceptance of the UMBS and the consolidation of the TBA market for Enterprise MBS focus on the exchange of legacy Freddie Mac MBS (known as participation certificates or PCs) and the re-securitization and commingling of the Enterprises' MBS into second-level securitizations known as Supers. To facilitate the transition to UMBS and to support fungibility of UMBS across the Enterprises' issuances, Freddie Mac established two mechanisms for investors to voluntarily exchange legacy Freddie Mac PCs for "mirror" securities that trade as UMBS. As of September 30, 2019, market participants had exchanged over $200 billion of legacy Freddie Mac securities.

The re-securitization of Freddie Mac and Fannie Mae UMBS into Supers supports fungibility by providing investors a mechanism to commingle or convert securities of one Enterprise into securities issued and guaranteed by the other. As of September 30, 2019, the Enterprises have issued over $90 billion in Supers, of which roughly $80 billion are commingled.

Implementation of Release 2 of the CSP has also been smooth and orderly. Since June 3, 2019, Fannie Mae joined Freddie Mac in using CSS and the CSP to issue all new TBA-eligible MBS and provide bond administration, related disclosures, and tax reporting for approximately 27 million loans and over 985,000 securities, with a UPB of approximately $4.6 trillion. CSS and the CSP have supported the Enterprises' issuance of $393.3 billion in UMBS and $175.5 billion in Supers. In addition, the CSP is providing issuance, bond administration, disclosures, and tax reporting for the Enterprises' multi-class securitizations.

PERFORMANCE MEASURE 3.3.1:

Issue a progress report on the status of the Single Security Initiative and the Common Securitization Platform

The FY 2019 target for Measure 3.3.1 was for FHFA to issue a progress report by June 30, 2019, to inform the public about progress on the SSI and the CSP. FHFA developed the report and published it on FHFA's website on November 13, 2018, accomplishing the target.

The report, *An Update on the Single Security Initiative and the Common Securitization Platform*,[49] contained detailed information on the development of the CSP and progress toward the launch of the UMBS. It focused on outreach by the Enterprises and FHFA to inform and prepare market infrastructures and participants for SSI implementation, as well as other activities to reduce or remove challenges to or alleviate concerns of industry stakeholders. The report noted that a smooth transition to the UMBS required planning, investment, and preparation by a wide variety of market participants, including MBS investors, dealers, and institutions approved to sell mortgages to and/or service mortgages purchased by an Enterprise, vendors, and providers of critical infrastructure. The progress report provided information on Enterprise engagement in industry outreach activities, including market readiness surveys, planning and execution exercises for industry participants, investor outreach, and vendor-oriented webinars, as well as outreach and consultations with advisory and industry-sponsored groups.

PERFORMANCE MEASURE 3.3.2:

The Enterprises and Common Securitization Solutions implement Release 2 of the Common Securitization Platform and begin issuing Uniform Mortgage-Backed Securities

The FY 2019 target for Performance Measure 3.3.2 was for the Enterprises and CSS to implement Release 2 of the CSP and issue the UMBS by June 3, 2019. This important milestone was successfully reached on time, marking the completion of the SSI and implementation of the CSP, two major objectives of *The 2014 Strategic Plan for the Conservatorships of Fannie Mae and Freddie Mac*. FHFA issued the Uniform Mortgage-Backed Security Final Rule on March 5, 2019, and it became effective May 6, 2019.[50] In the months preceding the June 3 launch of the new UMBS, the Enterprises and CSS completed testing of systems and procedures for the CSP Release 2. To ease the transition to UMBS, the Enterprises and CSS conducted extensive industry outreach and coordinated with market participants, vendors, and market utilities. The implementation of the UMBS combined the separate Fannie Mae and Freddie Mac TBA markets into one, supporting market liquidity and efficiency and addressing structural issues and trading disparities that will benefit taxpayers and the nation's housing finance system.

[49] https://www.fhfa.gov/AboutUs/Reports/ReportDocuments/Update-on-Implementation-of-the-Single-Security-and-CSP_November-2018.pdf.

[50] RIN-2590-AA94, 12 CFR Part 1248.

Resource Management: Supporting the Effective Operations of the Agency

Managing FHFA's resources successfully is critical to goal and mission achievement. Strategic goals and expected outcomes cannot be achieved without prudent and effective management of resources to ensure that the right people, funds, supplies, physical space, and technology are in place. Achievement of FHFA's goals requires communication, collaboration, and coordination by staff across all offices and divisions within the Agency.

FHFA employs financial, contracting, and performance information to ensure that resources are managed responsibly. Responsive, secure, and efficient information technology (IT) capabilities are also essential to FHFA's ability to accomplish its mission. In addition, the Agency promotes diversity and inclusion in all employment, management, and business activities at FHFA and continues to recruit and develop an adaptive workforce that promotes accountability and continuous learning.

FHFA monitored five performance measures to track progress toward Resource Management objectives in FY 2019, as established in the FY 2019 Annual Performance Plan. As shown in Table 19, FHFA successfully met the FY 2019 performance targets for all five Resource Management performance measures.

Table 19: Resource Management – Performance Measures and Results

RESOURCE MANAGEMENT: SUPPORTING THE EFFECTIVE OPERATIONS OF THE AGENCY							
Performance Measure	FY 2014 Result	FY 2015 Result	FY 2016 Result	FY 2017 Result	FY 2018 Result	FY 2019 Target	FY 2019 Result
RM1: Ensure FHFA's financial statements audit receives an unmodified opinion with no material weaknesses[51]	MET	MET	MET	MET	MET	100 percent	MET
RM2: Ensure FHFA's Federal Information Security Modernization Act (FISMA) audit identifies no significant deficiencies[51]	MET	MET	MET	MET	MET	100 percent	MET
RM3: Ensure FHFA's infrastructure systems are continuously available for use by FHFA staff	N/A	N/A	N/A	N/A	N/A	99.5 percent of the time	MET
RM4: Increase the dollar amount of FHFA contracts awarded to minority- and women-owned businesses consistent with legal standards	N/A	N/A	MET	MET	MET	Total dollar amount of contracts greater than the five-year average	MET
RM5: Staff responses to the Federal Employee Viewpoint Survey reflect that "My work unit has the job-relevant knowledge and skills necessary to accomplish organizational goals"[52]	N/A	N/A	N/A	N/A	N/A	Positive responses higher than government-wide average	MET

[51] Prior to FY 2019, RM1 and RM2 were reported as a combined measure. See Table 20: FY 2018 Performance Measures Changed and Dropped in FY 2019 on page 71.

[52] Prior to 2018, the Federal Employee Viewpoint Survey question was framed as *"the [Agency] workforce has the job-relevant knowledge and skills necessary to accomplish organizational goals."*

PERFORMANCE MEASURE RM 1:
Ensure FHFA's financial statements audit receives an unmodified opinion with no material weaknesses

An unmodified opinion with no material weaknesses is the best possible result for an audit. Achieving this level of performance indicates that proper accounting controls are being used, proper application of accounting standards are being followed, and the financial statements are reliable, accurate, and complete in all material respects. FY 2019 is the 11th consecutive year that FHFA has received an unmodified (clean) opinion.

AWARD FOR ACCOUNTABILITY REPORTING

The Association of Government Accountants (an independent, nonprofit, non-governmental organization) awarded FHFA the Certificate of Excellence in Accountability Reporting (CEAR) Award for its FY 2018 Performance and Accountability Report. This is the 11th consecutive CEAR award FHFA has received. The CEAR award is presented to agencies that have demonstrated excellence in their performance and accountability reporting. Only agencies that have received unmodified audit opinions on their financial statements from an independent auditor are eligible for the award.

PERFORMANCE MEASURE RM 2:
Ensure FHFA's Federal Information Security Modernization Act (FISMA) audit identifies no significant deficiencies

The purpose of this measure is to ensure that effective security and privacy controls are in place to secure FHFA's information and data systems. FISMA requires that federal agencies have an annual independent evaluation performed of their information security programs and practices to determine their effectiveness. The 2019 FISMA audit conducted by OIG of FHFA's information security program identified no material weaknesses or significant deficiencies. This same positive finding about the effectiveness of FHFA's information security program resulted from FISMA audits performed from 2014-2018.

PERFORMANCE MEASURE RM 3:
Ensure FHFA's infrastructure systems are continuously available for use by FHFA staff

FHFA's IT systems support all critical mission functions. The purpose of this measure is to monitor system reliability or stability by tracking the percentage of time that a production IT system is successfully operational. For FY 2019, system availability was 99.9 percent, exceeding the performance target of 99.5 percent.

PERFORMANCE MEASURE RM 4:
Increase the dollar amount of FHFA contracts awarded to minority- and women-owned businesses consistent with legal standards

Section 342 of the Dodd-Frank Wall Street Reform and Consumer Protection Act of 2010 (Dodd-Frank Act) requires the Agency to promote diversity and ensure inclusion in its procurement and contracting. This measure illustrates the progress FHFA has made in providing minorities and women, and the businesses they own, opportunities to compete for Agency contracts. FHFA met the FY 2019 goal of achieving a total dollar amount of contracts with minority- and women-owned businesses (MWOBs) greater than the five-year average. For this year, the Agency obligated $14.4 million in contract dollars to MWOBs. In comparison, the five-year average of contract dollars obligated to MWOBs was $10.8 million.

Figure 16: Obligated FHFA Amounts to MWOB Contracts
(dollars in millions)

CONTRACTOR OUTREACH STANDARDS FINALIZED AND PUBLISHED

FHFA's Contractor Outreach Program Standards were approved in June 2019. The Standards provide the Agency with specific guidelines that facilitate measurement and assessment of the Minority and Women Outreach Program.[a]

The Standards also provide the basis upon which FHFA could form opinions on "the impact of the policies and regulations of the agency on minority-owned and women-owned business…" and make recommendations "to ensure, to the maximum extent possible, the fair inclusion and utilization of minorities, women, and minority-owned and women-owned businesses in all business and activities of the agency at all levels, including in procurement, insurance, and all types of contracts."

The Standards provide flexibility for the Agency in satisfying the Dodd-Frank Act mandate and allow FHFA the discretion to direct its outreach and technical assistance efforts in a more targeted fashion, subject to applicable federal contracting requirements. The Standards also drive Agency collaboration between divisions and offices to work together to identify shared contractor activities, while still maintaining the ability to tailor activities to meet an individual program office's particular needs.

[a] Promotes diversity and inclusion within the Agency's activities.

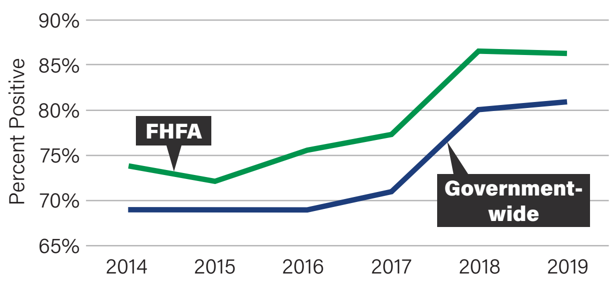
PERFORMANCE MEASURE RM 5:

Staff responses to the Federal Employee Viewpoint Survey reflect that "My work unit has the job-related knowledge and skills necessary to accomplish organizational goals."

The Federal Employees Viewpoint Survey (FEVS) is conducted on an annual basis to measure employees' perceptions of many work issues. The results provide Agency leaders insight into areas where improvements have been made, as well as areas where improvements are needed. Tracking FHFA's response to the question of the Agency workforce having the needed job-relevant knowledge and skills necessary to accomplish organizational goals provides a high-level valuation of core human resources programs such as recruitment, performance management, and training and development. For FY 2019, the performance target for this measure was to achieve a positive response rate higher than the government-wide average. The Agency met the target with a positive response rate of 86 percent, compared to the government-wide positive response rate of 81 percent.

Figure 17: FEVS Results

FEV survey question: *'My work unit has the job-relevant knowledge and skills necessary to accomplish organizational goals.'*



INCREASING EMPLOYEE ENGAGEMENT

In early 2019, FHFA leadership committed to better understanding FHFA's results from the Office of Personnel Management's Federal Employee Viewpoint Survey and improving employee engagement and satisfaction. Prior to the 2019 FEVS survey period, FHFA engaged with the Partnership for Public Service (Partnership) to conduct employee engagement focus groups. All FHFA employees were invited to participate in 1 of the 15 focus groups and to provide candid qualitative feedback to guide FHFA workplace improvement efforts. The Partnership analyzed this feedback and shared its findings, including staff suggestions for addressing key challenges, with FHFA leadership and, via a town hall forum, all FHFA employees.

After the focus groups concluded, FHFA leadership formed an Agency-wide Employee Engagement Committee to develop new programs and initiatives that will improve employee satisfaction, recognition, and engagement. The committee consists of representatives from each FHFA division, as well as supporting staff with expertise in organizational development and communication.

Leading up to and during the 2019 FEVS survey period, FHFA leadership launched a targeted communication strategy to increase FEVS participation rates by strongly encouraging all FHFA employees to let their voices be heard. As a result of this increased focus and communication, FHFA achieved its highest-ever participation rate in the 2019 FEVS, with 88 percent of eligible employees completing the survey, a 16 percent increase over the previous year's participation rate. FHFA leadership, with support from the Partnership, will analyze the Agency's 2019 FEVS data and develop action plans at the Agency level and for each FHFA division. While some divisions have created action plans in previous years, there has never been an action planning effort involving all FHFA divisions. FHFA leadership recognizes that there are diverse challenges in different parts of the organization and is committed to addressing them to improve employee engagement in FY 2020 and beyond.

Changed and Dropped Performance Measures

<table>
<tr><th colspan="3">Table 20: FY 2018 Performance Measures Changed and Dropped in FY 2019</th></tr>
<tr><th colspan="3">FY 2018 Performance Measures Changed in FY 2019</th></tr>
<tr><td colspan="3">Strategic Goal 1: Ensure Safe and Sound Regulated Entities</td></tr>
<tr><td colspan="3">Strategic Goal/Performance Goal</td></tr>
<tr><td colspan="3">Performance Goal 1.2: Identify risks to the regulated entities and set expectations for strong risk management</td></tr>
<tr><td>Language in 2018</td><td>Language in 2019</td><td>Why Changed</td></tr>
<tr><td>1.1.5: Ensure that documentation for completed targeted examinations of the Enterprises is in place and consistent with Division of Enterprise Regulation examination guidance</td><td>Ensure that supervisory correspondence to the Enterprises adheres to division guidance</td><td>For FY 2019, FHFA refined this measure to evaluate whether quality control reviewed all conclusion and remediation letters prior to transmission to the Enterprises.</td></tr>
<tr><td colspan="3">Resource Management: Supporting the Effective Operations of the Agency</td></tr>
<tr><td>Language in 2018</td><td>Language in 2019</td><td>Why Changed</td></tr>
<tr><td rowspan="2">RM1: FHFA's financial statements audit receives an unmodified opinion with no material weaknesses and Federal Information Security Modernization Act audit that identifies no significant deficiencies</td><td>FHFA's financial statements audit receives an unmodified opinion with no material weaknesses</td><td rowspan="2">This measure was split into two to separate the financial statements audit from the IT security-related FISMA audit.</td></tr>
<tr><td>FHFA's Federal Information Security Modernization Act (FISMA) audit identifies no significant deficiencies</td></tr>
</table>

Table 20: FY 2018 Performance Measures Changed and Dropped in FY 2019			
FY 2018 Performance Measures Dropped in FY 2019			
Strategic Goal 1: Ensure Safe and Sound Regulated Entities			
Strategic Goal/Performance Goal	**FY 2018 Target**	**FY 2018 Results**	**Why Dropped**
Performance Goal 1.2: Identify risks to the regulated entities and set expectations for strong risk management			
1.2.1: Issue guidance to the FHLBanks and Enterprises on counterparty risk management	FY 2018	**MET**	On September 28, 2018, Advisory Bulletin AB 2018-08 (Oversight of Third-Party Relationships) was issued.
Strategic Goal 2: Ensure Liquidity, Stability, and Access in Housing Finance			
Strategic Goal/Performance Goal	**FY 2018 Target**	**FY 2018 Results**	**Why Dropped**
Performance Goal 2.1: Ensure liquidity in mortgage markets			
2.1.1: Require the Enterprises to conduct at least one access-to-credit pilot program	FY 2018	**MET**	Each Enterprise implemented access-to-credit pilots during FY 2018. Fannie Mae conducted a pilot with Loftium and Umpqua Bank to provide down payment funds to borrowers purchasing a primary residence in the Seattle area. Freddie Mac launched a pilot with LoanBeam that uses technology to simplify the processes associated with documenting income, particularly for self-employed borrowers.
Performance Goal 2.3: Expand access to housing finance for qualified financial institutions of all sizes in all geographic locations and for qualified borrowers			
2.3.2: Issue final rule for Enterprise housing goals for 2018 – 2020	FY 2018	**MET**	On February 12, 2018, FHFA issued the final rule.
2.3.3: Issue final rule for Federal Home Loan Banks' Affordable Housing Program (AHP)	FY 2018	**NOT MET**	FHFA did not issue a final rule on the FHLBanks' AHP in FY 2018. The final rule was ultimately published on November 20, 2018.
Strategic Goal 3: Manage the Enterprises' Ongoing Conservatorships			
Strategic Goal/Performance Goal	**FY 2018 Target**	**FY 2018 Results**	**Why Dropped**
Performance Goal 3.3: Build, implement, and operate a new single-family securitization infrastructure and implement the Single Security Initiative			
3.3.2: Enterprise and Common Securitization Solutions (CSS) completion of system-to-system testing of CSS, which is required for implementation of the Single Security Initiative	June 30, 2018	**MET**	System-to-system testing of CSS operations and the CSP was successfully completed in March 2018.
Resource Management: Supporting the Effective Operations of the Agency			
Strategic Goal/Performance Goal	**FY 2018 Target**	**FY 2018 Results**	**Why Dropped**
RM3: Fill active and approved fiscal year 2018 FHFA vacancies	80 percent of vacancies at beginning of fiscal year are filled, determined to be inactive, or removed by the end of fiscal year	**MET**	This measure was replaced with a FEVS-related measure that is more outcome focused.

FINANCIAL SECTION

Message from the Chief Financial Officer

I am pleased to report that FHFA received an unmodified (clean) audit opinion on its FY 2019 financial statements from the Government Accountability Office (GAO). FHFA is proud to have received an unmodified (clean) audit opinion every year since its inception in July 2008. I believe that our sustained record of unmodified (clean) opinions on the Agency's financial statements is due to a robust control environment that ensures our internal controls over financial reporting are effective in their design and operation.

Fiscal Year 2019 was a year of transition for the Agency, marked by the expiration of the 5-year term of its Director in January, followed by a Presidentially appointed interim Director, and then followed by a new senate-confirmed permanent Director starting in April 2019. Throughout this change, the Agency continued to operate effectively and efficiently, remaining a responsible steward of its resources.

This year also marked a significant change in the direction of the conservatorships of Fannie Mae and Freddie Mac (the Enterprises). The Director, in his role as conservator, is requiring the Enterprises to support the development and implementation of a responsible transition plan to exit conservatorship. Consistent with this plan, Treasury and FHFA agreed to suspend the profit sweeps to enable the Enterprises to begin to build sufficient capital, a necessary condition for ending conservatorships. FHFA will also begin to prepare for a post-conservatorship environment by strengthening the Agency's regulatory and supervisory capacity to provide well-executed and focused safety and soundness oversight for the Enterprises and the FHLBanks.

I am very proud of our unblemished record of obtaining unmodified (clean) audit opinions on our financial statements. Clean audits represent a sustained Agency-wide focus on the effective management of our financial resources which strengthens the public's confidence in FHFA's important mission.

Sincerely,

Mark Kinsey

MARK KINSEY
Chief Financial Officer
November 19, 2019

Independent Auditor's Report

U.S. GOVERNMENT ACCOUNTABILITY OFFICE

441 G St. N.W.
Washington, DC 20548

Independent Auditor's Report

To the Director of the Federal Housing Finance Agency

In our audits of the fiscal years 2019 and 2018 financial statements of the Federal Housing Finance Agency (FHFA), we found

- FHFA's financial statements as of and for the fiscal years ended September 30, 2019, and 2018, are presented fairly, in all material respects, in accordance with U.S. generally accepted accounting principles;
- FHFA maintained, in all material respects, effective internal control over financial reporting as of September 30, 2019; and
- no reportable noncompliance for fiscal year 2019 with provisions of applicable laws, regulations, contracts, and grant agreements we tested.

The following sections discuss in more detail (1) our report on the financial statements and on internal control over financial reporting, which includes a matter of emphasis paragraph related to the conservatorships of the Federal National Mortgage Association (Fannie Mae) and the Federal Home Loan Mortgage Corporation (Freddie Mac) and the required supplementary information (RSI)[1] and other information included with the financial statements;[2] (2) our report on compliance with laws, regulations, contracts, and grant agreements; and (3) agency comments.

Report on the Financial Statements and on Internal Control over Financial Reporting

In accordance with the Housing and Economic Recovery Act of 2008 (HERA),[3] we have audited FHFA's financial statements. FHFA's financial statements comprise the balance sheets as of September 30, 2019, and 2018; the related statements of net cost, changes in net position, and budgetary resources for the fiscal years then ended; and the related notes to the financial statements. We also have audited FHFA's internal control over financial reporting as of September 30, 2019, based on criteria established under 31 U.S.C. § 3512(c), (d), commonly known as the Federal Managers' Financial Integrity Act (FMFIA).

We conducted our audits in accordance with U.S. generally accepted government auditing standards. We believe that the audit evidence we obtained is sufficient and appropriate to provide a basis for our audit opinions.

[1]The RSI consists of Management's Discussion and Analysis, which is included with the financial statements.

[2]Other information consists of information included with the financial statements, other than the RSI and the auditor's report.

[3]Pub. L. No. 110-289, § 1106, 122 Stat. 2654, 2671 (July 30, 2008), *classified at* 12 U.S.C. § 4516.

Independent Auditor's Report

Management's Responsibility

FHFA management is responsible for (1) the preparation and fair presentation of these financial statements in accordance with U.S. generally accepted accounting principles; (2) preparing, measuring, and presenting the RSI in accordance with U.S. generally accepted accounting principles; (3) preparing and presenting other information included in documents containing the audited financial statements and auditor's report, and ensuring the consistency of that information with the audited financial statements and the RSI; (4) maintaining effective internal control over financial reporting, including the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error; (5) evaluating the effectiveness of internal control over financial reporting based on the criteria established under FMFIA; and (6) its assessment about the effectiveness of internal control over financial reporting as of September 30, 2019, included in the accompanying Management's Report on Internal Control over Financial Reporting in appendix I.

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements and an opinion on FHFA's internal control over financial reporting based on our audits. U.S. generally accepted government auditing standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free from material misstatement, and whether effective internal control over financial reporting was maintained in all material respects. We are also responsible for applying certain limited procedures to the RSI and other information included with the financial statements.

An audit of financial statements involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the auditor's assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances. An audit of financial statements also involves evaluating the appropriateness of the accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

An audit of internal control over financial reporting involves performing procedures to obtain evidence about whether a material weakness exists.[4] The procedures selected depend on the auditor's judgment, including the assessment of the risk that a material weakness exists. An audit of internal control over financial reporting also includes obtaining an understanding of internal control over financial reporting, and evaluating and testing the design and operating effectiveness of internal control over financial reporting based on the assessed risk. Our audit of internal control also considered FHFA's process for evaluating and reporting on internal control over financial reporting based on criteria established under FMFIA. Our audits also included performing such other procedures as we considered necessary in the circumstances.

[4] A material weakness is a deficiency, or combination of deficiencies, in internal control over financial reporting, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected, on a timely basis. A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis.

Independent Auditor's Report

We did not evaluate all internal controls relevant to operating objectives as broadly established under FMFIA, such as those controls relevant to preparing performance information and ensuring efficient operations. We limited our internal control testing to testing controls over financial reporting. Our internal control testing was for the purpose of expressing an opinion on whether effective internal control over financial reporting was maintained, in all material respects. Consequently, our audit may not identify all deficiencies in internal control over financial reporting that are less severe than a material weakness.

Definition and Inherent Limitations of Internal Control over Financial Reporting

An entity's internal control over financial reporting is a process effected by those charged with governance, management, and other personnel, the objectives of which are to provide reasonable assurance that (1) transactions are properly recorded, processed, and summarized to permit the preparation of financial statements in accordance with U.S. generally accepted accounting principles, and assets are safeguarded against loss from unauthorized acquisition, use, or disposition, and (2) transactions are executed in accordance with provisions of applicable laws, including those governing the use of budget authority, regulations, contracts, and grant agreements, noncompliance with which could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent, or detect and correct, misstatements due to fraud or error. We also caution that projecting any evaluation of effectiveness to future periods is subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

Opinion on Financial Statements

In our opinion, FHFA's financial statements present fairly, in all material respects, FHFA's financial position as of September 30, 2019, and 2018, and its net cost of operations, changes in net position, and budgetary resources for the fiscal years then ended in accordance with U.S. generally accepted accounting principles.

Emphasis of Matter

FHFA Reporting Entity

As discussed in note 1A of the financial statements, FHFA's fiscal years 2019 and 2018 financial statements do not include the assets, liabilities, and activities associated with Fannie Mae and Freddie Mac. In early September 2008, less than 2 months after FHFA's establishment, FHFA placed Fannie Mae and Freddie Mac into conservatorship under the authority of the Federal Housing Enterprises Financial Safety and Soundness Act of 1992, as amended by HERA.[5] FHFA's goal in placing the two entities into conservatorship was to stabilize them with the objective of maintaining normal business operations and restoring safety and soundness. The Department of the Treasury (Treasury) has provided Fannie Mae and Freddie Mac about $191 billion in direct financial support. Following criteria in Statement of Federal Financial Accounting Standards No. 47 (SFFAS 47), *Reporting Entity*, the Office of Management and Budget (OMB) and Treasury determined that the assets, liabilities, and

[5]Pub. L. No. 102-550, title XIII, § 1367, 106 Stat. 3672, 3980 (Oct. 28, 1992), *classified as amended at* 12 U.S.C. § 4617.

Independent Auditor's Report

activities of Fannie Mae and Freddie Mac would not be consolidated into federal reporting entity financial statements. However, the values of the investment in the entities and related activities are presented in Treasury's financial statements.

In making this determination, OMB and Treasury concluded that the entities are owned or controlled by the federal government as a result of regulatory actions, such as organizations in receivership or conservatorship, or other federal government intervention actions. Under such regulatory or other intervention actions, the relationship with the federal government is not expected to be permanent, and these entities are classified as disclosure entities when considering their characteristics taken as a whole.[6] FHFA management concurred with this conclusion, and FHFA did not include the assets, liabilities, and activities of Fannie Mae and Freddie Mac in its fiscal years 2019 and 2018 financial statements. However, as Fannie Mae and Freddie Mac are considered to be disclosure entities, FHFA disclosed certain financial and other information about the entities in the notes to its financial statements. Our opinion on FHFA's financial statements is not modified with respect to this matter.

Opinion on Internal Control over Financial Reporting

In our opinion, FHFA maintained, in all material respects, effective internal control over financial reporting as of September 30, 2019, based on criteria established under FMFIA.

During our fiscal year 2019 audit, we identified deficiencies in FHFA's internal control over financial reporting that we do not consider to be material weaknesses or significant deficiencies.[7] Nonetheless, these deficiencies warrant FHFA management's attention. We have communicated these matters to FHFA management and, where appropriate, will report on them separately.

Other Matters

Required Supplementary Information

U.S. generally accepted accounting principles issued by the Federal Accounting Standards Advisory Board (FASAB) require that the RSI be presented to supplement the financial statements. Although the RSI is not a part of the financial statements, FASAB considers this information to be an essential part of financial reporting for placing the financial statements in appropriate operational, economic, or historical context. We have applied certain limited procedures to the RSI in accordance with U.S. generally accepted government auditing standards, which consisted of inquiries of management about the methods of preparing the RSI and comparing the information for consistency with management's responses to the auditor's inquiries, the financial statements, and other knowledge we obtained during the audit of the financial statements, in order to report omissions or material departures from FASAB guidelines, if any, identified by these limited procedures. We did not audit and we do not express an opinion or provide any assurance on the RSI because the limited procedures we applied do not provide sufficient evidence to express an opinion or provide any assurance.

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[6]Disclosure entities are organizations that meet SFFAS 47 criteria for inclusion in the financial statements but not the SFFAS 47 criteria to be consolidated.

[7]A significant deficiency is a deficiency, or combination of deficiencies, in internal control over financial reporting that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Independent Auditor's Report

Other Information

FHFA's other information contains a wide range of information, some of which is not directly related to the financial statements. This information is presented for purposes of additional analysis and is not a required part of the financial statements or the RSI. We read the other information included with the financial statements in order to identify material inconsistencies, if any, with the audited financial statements. Our audit was conducted for the purpose of forming an opinion on FHFA's financial statements. We did not audit and do not express an opinion or provide any assurance on the other information.

Report on Compliance with Laws, Regulations, Contracts, and Grant Agreements

In connection with our audits of FHFA's financial statements, we tested compliance with selected provisions of applicable laws, regulations, contracts, and grant agreements consistent with our auditor's responsibility discussed below. We caution that noncompliance may occur and not be detected by these tests. We performed our tests of compliance in accordance with U.S. generally accepted government auditing standards.

<u>Management's Responsibility</u>

FHFA management is responsible for complying with laws, regulations, contracts, and grant agreements applicable to FHFA.

<u>Auditor's Responsibility</u>

Our responsibility is to test compliance with selected provisions of laws, regulations, contracts, and grant agreements applicable to FHFA that have a direct effect on the determination of material amounts and disclosures in FHFA's financial statements, and perform certain other limited procedures. Accordingly, we did not test compliance with all laws, regulations, contracts, and grant agreements applicable to FHFA.

<u>Results of Our Tests for Compliance with Laws, Regulations, Contracts, and Grant Agreements</u>

Our tests for compliance with selected provisions of applicable laws, regulations, contracts, and grant agreements disclosed no instances of noncompliance for fiscal year 2019 that would be reportable under U.S. generally accepted government auditing standards. However, the objective of our tests was not to provide an opinion on compliance with laws, regulations, contracts, and grant agreements applicable to FHFA. Accordingly, we do not express such an opinion.

<u>Intended Purpose of Report on Compliance with Laws, Regulations, Contracts, and Grant Agreements</u>

The purpose of this report is solely to describe the scope of our testing of compliance with selected provisions of applicable laws, regulations, contracts, and grant agreements, and the results of that testing, and not to provide an opinion on compliance. This report is an integral part of an audit performed in accordance with U.S. generally accepted government auditing standards in considering compliance. Accordingly, this report on compliance with laws, regulations, contracts, and grant agreements is not suitable for any other purpose.

Independent Auditor's Report

Agency Comments

In commenting on a draft of this report, FHFA stated that it was pleased to accept the audit conclusions and that it will continue to work to enhance its internal control and ensure the reliability of its financial reporting, the soundness of its operations, and public confidence in its mission. The complete text of FHFA's response is reproduced in appendix II.

Cheryl E. Clark

Cheryl E. Clark
Director
Financial Management and Assurance

November 12, 2019

Appendix I: Management's Report on Internal Control over Financial Reporting

Federal Housing Finance Agency
Constitution Center
400 7th Street, S.W.
Washington, D.C. 20219
Telephone: (202) 649-3800
Facsimile: (202) 649-1071
www.fhfa.gov

Management's Report on Internal Control over Financial Reporting

The Federal Housing Finance Agency's (FHFA) internal control over financial reporting is a process effected by those charged with governance and management, and by other personnel. The objectives of this process are to provide reasonable assurance that (1) transactions are properly recorded, processed, and summarized to permit the preparation of financial statements in accordance with U.S. generally accepted accounting principles, and assets are safeguarded against loss from unauthorized acquisition, use, or disposition; and (2) transactions are executed in accordance with provisions of applicable laws, including those governing the use of budget authority; regulations; contracts; and grant agreements, noncompliance with which could have a material effect on the financial statements.

FHFA management is responsible for maintaining effective internal control over financial reporting, including the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error. FHFA management evaluated the effectiveness of FHFA's internal control over financial reporting as of September 30, 2019, based on the criteria established under 31 U.S.C. 3512(c), (d) (commonly known as the Federal Managers' Financial Integrity Act).

Based on that evaluation, we conclude that, as of September 30, 2019, FHFA's internal control over financial reporting was effective.

Mark A. Calabria
Director

Mark Kinsey
Chief Financial Officer

November 12, 2019

Appendix II: FHFA Response to Auditor's Report

Federal Housing Finance Agency
Constitution Center
400 7th Street, S.W.
Washington, D.C. 20219
Telephone: (202) 649-3800
Facsimile: (202) 649-1071
www.fhfa.gov

November 12, 2019

Ms. Cheryl E. Clark
Director, Financial Management and Assurance
U.S. Government Accountability Office
441 G Street, NW
Washington, D.C. 20548

Dear Ms. Clark:

Thank you for the opportunity to respond to the Government Accountability Office's (GAO) draft audit report titled, Financial Audit: Federal Housing Finance Agency's Fiscal Years 2019 and 2018 Financial Statements (GAO-20-198R). This report presents GAO's opinion on the financial statements of the Federal Housing Finance Agency (FHFA) for fiscal years 2019 and 2018. The report also presents GAO's opinion on the effectiveness of FHFA's internal controls as of September 30, 2019, and GAO's evaluation of FHFA's compliance with laws and regulations.

I am pleased to accept GAO's unmodified opinion on the FHFA financial statements and to note that there were no material weaknesses or significant deficiencies identified during the fiscal year 2019 audit. The GAO reported that the statements and notes were presented fairly, in all material respects; FHFA had effective internal control over financial reporting; and that there were no reportable instances of noncompliance with laws and regulations tested by GAO.

FHFA will continue to work to enhance our internal controls and ensure the reliability of our financial reporting, soundness of operations, and public confidence in the Agency's mission. We appreciate your support of these efforts. In addition, we would like to acknowledge the dedicated GAO staff that worked with FHFA to meet the reporting deadline for our audited financial statements.

If you have any questions relating to our response, please contact Mark Kinsey, Chief Financial Officer, at (202) 649-3780.

Sincerely,

Mark A. Calabria
Director

Federal Housing Finance Agency

Consolidated Balance Sheets

As of September 30, 2019 and 2018

(In Thousands)

	2019	2018
Assets:		
Intragovernmental		
Fund Balance With Treasury - Note 2	$ 15,825	$ 16,092
Investments - Note 3	71,372	55,606
Advances and Prepaid Charges	657	684
Total Intragovernmental	87,854	72,382
Accounts Receivable - Note 4	53	13
Advances and Prepaid Charges	2,195	1,778
Property, Equipment, and Software, Net - Note 5	19,166	22,042
Total Assets	**$ 109,268**	**$ 96,215**
Liabilities:		
Intragovernmental		
Accounts Payable	$ 666	$ 630
Other Intragovernmental Liabilities - Note 7	3,164	2,709
Total Intragovernmental	3,830	3,339
Accounts Payable	10,895	6,437
Unfunded Leave	14,067	13,454
FECA Actuarial Liability	320	249
Deferred Lease Liabilities	21,923	23,387
Other Liabilities - Note 7	6,467	5,844
Total Liabilities - Note 6	57,502	52,710
Net Position:		
Cumulative Results of Operations	51,766	43,505
Total Net Position	$ 51,766	$ 43,505
Total Liabilities and Net Position	**$ 109,268**	**$ 96,215**

The accompanying notes are an integral part of these financial statements.

Federal Housing Finance Agency

Consolidated Statements of Net Cost

For the Years Ended September 30, 2019 and 2018

(In Thousands)

	2019		2018	
Gross Program Costs by Strategic Goal - Note 10:				
Safety and Soundness	$	157,904	$	158,186
Liquidity, Stability, and Access	$	53,367	$	50,879
Conservatorship	$	66,583	$	61,307
Gross Program Costs	$	277,854	$	270,372
Less: Total Earned Revenue not Attributable to Strategic Goals		(277,444)		(254,150)
Net Cost of Operations	**$**	**410**	**$**	**16,222**

The accompanying notes are an integral part of these financial statements.

Federal Housing Finance Agency

Consolidated Statements of Changes in Net Position

For the Years Ended September 30, 2019 and 2018

(In Thousands)

	2019	2018
Cumulative Results of Operations:		
Beginning Balance	$ 43,505	$ 52,052
Other Financing Sources:		
Imputed Financing Sources	8,671	7,675
Total Financing Sources	8,671	7,675
Net Cost of Operations	(410)	(16,222)
Net Change	8,261	(8,547)
Cumulative Results of Operations	**$ 51,766**	**$ 43,505**
Net Position	**$ 51,766**	**$ 43,505**

The accompanying notes are an integral part of these financial statements.

Federal Housing Finance Agency

Combined Statements of Budgetary Resources

For the Years Ended September 30, 2019 and 2018

(In Thousands)

	2019	2018
Budgetary Resources:		
Unobligated Balance From Prior Year Budget Authority, Net - Note 11	32,968	35,690
Appropriations - Note 1.D	276,570	249,994
Spending Authority From Offsetting Collections	46,483	48,482
Total Budgetary Resources	**$ 356,021**	**$ 334,166**
Status of Budgetary Resources:		
New Obligations and Upward Adjustments (Total)	$ 321,704	$ 310,149
Unobligated Balance, End of Year:		
Exempt from Apportionment, Unexpired Accounts	34,317	24,017
Unexpired Unobligated Balance, End of Year	34,317	24,017
Unobligated Balance, End of Year, Total	34,317	24,017
Total Budgetary Resources	**$ 356,021**	**$ 334,166**
Outlays, Net:		
Outlays, Net (Total)	261,065	256,856
Distributed Offsetting Receipts	(276,570)	(249,994)
Agency Outlays, Net	**$ (15,505)**	**$ 6,862**

The accompanying notes are an integral part of these financial statements.

Federal Housing Finance Agency

Notes to the Financial Statements

For the Years Ended September 30, 2019 and 2018

Note 1. Summary of Significant Accounting Policies

A. REPORTING ENTITY

The Federal Housing Finance Agency (FHFA) was established on July 30, 2008, when the President signed into law the Housing and Economic Recovery Act of 2008 (HERA). FHFA is an independent agency in the Executive branch empowered with supervisory and regulatory oversight of the 11 Federal Home Loan Banks (FHLBanks), Federal National Mortgage Association (Fannie Mae), Federal Home Loan Mortgage Corporation (Freddie Mac) (the FHLBanks and Fannie Mae and Freddie Mac referred to as regulated entities), and the Office of Finance. FHFA is responsible for ensuring that each regulated entity operates in a safe and sound manner, including maintenance of adequate capital and internal control, and carries out its housing and community development finance missions.

HERA provided for an FHFA Office of the Inspector General (FHFA OIG), which has maintained its own Agency Location Code and set of accounting books since April 2011. The Inspector General Act of 1978, as amended, sets forth the functions and authorities of the FHFA OIG. The reporting entity for purposes of financial statements includes FHFA and FHFA OIG.

Under the authority of the Federal Housing Enterprises Financial Safety and Soundness Act of 1992, as amended by HERA, FHFA placed Fannie Mae and Freddie Mac under conservatorships on September 6, 2008 to stabilize the two entities with the objective of maintaining normal business operations and restoring safety and soundness. FHFA, as Conservator, assumed the power of stockholders, boards, and management. FHFA has assigned to Fannie Mae's and Freddie Mac's boards and management certain business and operational authority. FHFA personnel monitor the operations of the Enterprises.

In September 2008, after Fannie Mae and Freddie Mac were placed in conservatorships under FHFA, OMB determined that the assets, liabilities and activities of the companies would not be included in the financial statements of the federal government. OMB and the Treasury Department concluded that Fannie Mae and Freddie Mac did not meet the criteria for a federal entity contained in OMB Circular A-136, Financial Reporting Requirements, and the Statement of Federal Financial Accounting Concepts 2, Entity and Display. This determination was made because Fannie Mae and Freddie Mac were not listed in the section of the federal government's budget entitled "Federal Programs by Agency and Account," because of the nature of FHFA's conservatorships over Fannie Mae and Freddie Mac, and because the federal government's ownership and control of the entities were considered to be temporary. OMB continued to hold this view in the President's budget submissions to Congress. Consequently, the assets, liabilities, and activities of Fannie Mae and Freddie Mac were not consolidated into FHFA's financial statements. However, the Treasury Department recorded the value of the federal government's investments in Fannie Mae and Freddie Mac in its financial statements as a General Fund asset. Under the Statement of Federal Financial Accounting Standards (SFFAS) 47, Reporting Entity, which became effective for FY 2018, Fannie Mae and Freddie Mac will continue to not be consolidated in FHFA's financial statements and will be included as disclosure entities.

Both Fannie Mae and Freddie Mac, acting through FHFA as their Conservator, entered into separate agreements with the Treasury Department known as Senior Preferred Stock Purchase Agreements (SPSPAs) on September 7, 2008 ("original SPSPAs"). The original SPSPAs were substantively identical and have since been amended identically in substance on September 26, 2008, May 6, 2009, December 24, 2009, and August 17, 2012. The PSPAs commit the Treasury Department to provide funding for each Enterprise up to the greater of: 1) $200 billion; or 2) $200 billion plus the cumulative total of draws for each calendar quarter starting in 2010 minus any amount by which the assets of the Enterprise exceed its liabilities on December 31, 2012. This funding is to ensure that each Enterprise maintains a non-negative Net Worth, thereby avoiding a statutory requirement that an Enterprise be put in receivership following an extended period of negative Net Worth. Under the PSPAs, each Enterprise submits a request for any needed draw amount once their financials (to be published in their 10-K or 10-Q) are finalized. The Enterprise also submits a statement certifying compliance with PSPA covenants, which include limits on portfolio size and indebtedness. FHFA, in its role as Conservator, reviews any request for a draw and certifies that the request is available for funding under the agreement. FHFA then sends a letter to the Treasury Department requesting the draw amount prior to the end of the current quarter.

The August 17, 2012 amendment to the SPSPAs ("Third Amendment") changed the dividend owed to the Treasury Department from a fixed 10 percent payable each quarter to a variable amount tied directly to quarterly performance. Under the Third Amendment, Fannie Mae's and Freddie Mac's net income/profits above an established threshold are distributed quarterly to the Treasury Department as dividends. The current threshold was established on September 30, 2019, by letter agreements between the Treasury Department and Fannie Mae and Freddie Mac, acting through FHFA as their Conservator. The letter agreements amended Fannie Mae's and Freddie Mac's respective Certificates of Designation, permitting Fannie Mae and Freddie Mac to retain earnings beyond the $3 billion capital reserves previously allowed. Fannie Mae and Freddie Mac are now permitted to maintain capital reserves of $25 billion and $20 billion, respectively.

On March 27, 2019, a Presidential Memorandum was issued directing the Treasury Department to develop a plan to, among other objectives, end the conservatorships of Fannie Mae and Freddie Mac and reform the nation's housing finance system. On September 5, 2019, the Treasury Department released its Housing Reform Plan, which includes recommendations for legislative and administrative reforms to achieve the goals established in the Presidential Memorandum. FHFA, as an independent agency, is evaluating the Treasury Department's Plan and will work with Congress and the Treasury Department to achieve the common goals of ending the conservatorships and reforming the nation's housing finance system.

B. BASIS OF PRESENTATION

FHFA's principal statements were prepared from its official financial records and general ledger in conformity with U.S. generally accepted accounting principles and follow the presentation guidance established by OMB Circular No. A-136 "Financial Reporting Requirements," as revised. The statements are a requirement of the Government Management Reform Act of 1994, the Accountability of Tax Dollars Act of 2002, and HERA. These financial statements are in addition to the financial reports prepared by FHFA, pursuant to OMB directives, which are used to monitor and control budgetary resources. The financial statements include the activities and transactions of the FHFA OIG. The amounts reported in the financial statements are consolidated totals net of intra-entity transactions, except for the Statement of Budgetary Resources, which is presented on a combined basis. The financial statements have been prepared to report the financial position, net cost of operations, changes in net position, and the status and availability of budgetary resources of FHFA. Unless specified otherwise, all amounts are presented in thousands.

C. BASIS OF ACCOUNTING

The Balance Sheet, Statement of Net Cost, and Statement of Changes in Net Position are prepared using the accrual basis of accounting. Under the accrual basis of accounting, revenues are recognized when earned, and expenses are generally recognized when incurred, without regard to receipt or payment of cash. These principles differ from budgetary accounting and reporting principles, which are used for preparing the Statement of Budgetary Resources. The differences relate primarily to the capitalization and depreciation of property and equipment, as well as the recognition of other assets and liabilities. Budgetary accounting facilitates compliance with legal requirements and controls over the use of funds. FHFA's financial statements conform with U.S. generally accepted accounting principles for federal entities as prescribed by the standards set forth by the Federal Accounting Standards Advisory Board. The Federal Accounting Standards Advisory Board is recognized by the American Institute of Certified Public Accountants as the body designated to establish U.S. generally accepted accounting principles for federal reporting entities. Certain assets, liabilities, earned revenues, and costs have been classified as intragovernmental throughout the financial statements and notes. Intragovernmental is defined as transactions made between two reporting entities within the federal government.

D. REVENUES

Although our assessments are reported as Appropriations in the Combined Statement of Budgetary Resources, FHFA is not subject to appropriations. Operating revenues of FHFA are obtained through assessments of the regulated entities. The head of the Agency approved the annual budget for FY 2019 and FY 2018 in August 2018 and 2017, respectively. By law, FHFA is required to charge semi-annual assessments to the entities. Assessments collected shall not exceed the amount sufficient to provide for the reasonable costs associated with overseeing the entities, plus amounts determined by the head of the Agency to be necessary for maintaining a working capital fund.

FHFA develops its annual budget using a 'bottom up' approach. Each office within the Agency is asked to bifurcate their budget request between the amount of resources needed for the regulation of Fannie Mae and Freddie Mac and the resources needed for the regulation of the FHLBanks. The office requests are then aggregated (with overhead costs distributed proportionately) to determine the total expected costs associated with regulating Fannie Mae and Freddie Mac and the total expected costs associated with regulating the FHLBanks. These two totals, along with any expected collection for the working capital fund, comprise the fiscal year budget for the Agency.

FHFA calculates the assessments for each Enterprise by determining the proportion of each Enterprise's assets and off-balance sheet obligations to the total for both Enterprises and then applying each of the Enterprise's proportion (expressed as a percentage) to the total budgeted costs for regulating the Enterprises. FHFA calculates the assessments for each of the FHLBanks by determining each FHLBank's share of minimum required regulatory capital as a percentage of the total minimum capital of all the FHLBanks and applying this percentage to the total budgeted costs for regulating the banks. Assessment letters are sent to the regulated entities 30 days prior to the assessment due dates of October 1st and April 1st.

For FY 2018, FHFA received rental revenues related to an Interagency Agreement with the Consumer Financial Protection Bureau (CFPB) for use of office space leased by FHFA and related services. In FY 2015, CFPB and FHFA extended the term of the lease. FHFA records the rental revenue on a straight line basis. FHFA changed to the straight line method from the cash method when the lease was extended in July 2015. Due to exercising an early termination option, the lease expired on December 31, 2017 for the existing space and May 15, 2018 for the expansion space.

E. USE OF ESTIMATES

The preparation of the accompanying financial statements in accordance with U.S. generally accepted accounting principles requires management to make certain estimates and assumptions that affect the reported amounts of assets, liabilities, revenues, and expenses. Actual results could differ from those estimates. Significant transactions subject to estimates include costs regarding benefit plans for FHFA employees that are administered by the OPM and cost allocations among the programs on the Statement of Net Cost.

F. FUND BALANCE WITH TREASURY

The Treasury Department processes cash receipts and disbursements on FHFA's behalf. Funds held at the Treasury Department are available to pay agency liabilities and finance authorized purchase obligations. FHFA does not maintain cash in commercial bank accounts or foreign currency balances.

During the year, increases to FHFA's Fund Balance with the Treasury Department are comprised of semi-annual assessments, investment interest, collections on reimbursable agreements, employee administrative billing and collections, and Freedom of Information Act (FOIA) request fees. FHFA is not authorized to retain fees and penalties associated with employee administrative billings (corrections to payroll and travel payments) and collections, FOIA fees, and as such, records these as liabilities until transferred to the Treasury General Fund.

HERA provides authority for FHFA to maintain a working capital fund. The working capital fund is defined in FHFA's Assessment Regulation as an account for amounts collected from the regulated entities to establish an operating reserve that is intended to provide for the payment of large or multiyear capital and operating expenditures, as well as unanticipated expenses. The balance in the working capital fund is evaluated annually.

G. INVESTMENTS

FHFA has the authority to invest in Treasury Department securities with maturities suitable to FHFA's needs. FHFA invests solely in Treasury Department securities. During FY 2019 and FY 2018, FHFA invested in one-day certificates issued by the Treasury Department.

H. ACCOUNTS RECEIVABLE

Accounts receivable consists of amounts owed to FHFA by other federal agencies and the public. Amounts due from federal agencies are considered fully collectible and consist of interagency agreements. Accounts receivable from the public include reimbursements from employees, FOIA request fees, and an allowance for uncollectible accounts. An allowance for uncollectible accounts receivable from the public is established when either 1) management determines that collection is unlikely to occur after a review of outstanding accounts and the failure of all collection efforts, or 2) an account for which no allowance has been established is submitted to the Treasury Department for collection, which takes place when it becomes 120 days delinquent. FHFA considers one account to be uncollectible and recorded an allowance. All other receivables are deemed collectible.

I. PROPERTY, EQUIPMENT, AND SOFTWARE, NET

Property, Equipment, and Software is recorded at historical cost. It consists of tangible assets and software. The following are the capitalization thresholds:

Description	Threshold	
Furniture and Equipment	$	50,000
Leasehold Improvements	$	250,000
Software: Internally Developed	$	500,000
Software: Off-the-Shelf	$	500,000
Capitalized Leases	$	250,000

Depreciation is calculated using the straight-line method over the estimated useful life of the asset. Applicable standard governmental guidelines regulate the disposal and convertibility of Agency property and equipment.

The useful life classifications for capitalized assets are as follows:

Description	Useful Life (Years)
Furniture and Equipment	3
Leasehold Improvements	The useful life of the asset or the remaining term of lease at the time of improvement completion, whichever is shorter
Software: Internally Developed	3
Software: Off-the-Shelf	3
Capitalized Leases	Term of lease

FHFA has no real property holdings, stewardship or heritage assets. Other property items and normal repairs and maintenance are charged to expense as incurred.

J. ADVANCES AND PREPAID CHARGES

Advance payments are generally prohibited by law. There are some exceptions, such as reimbursable agreements, subscriptions, and payments to contractors and employees. Payments above $50,000, made in advance of the receipt of goods and services, are recorded as advances or prepaid charges at the time of prepayment and recognized as expenses when the related goods and services are received. Advance payments below $50,000 will be expensed as incurred.

K. LIABILITIES

Liabilities represent the amount of funds that are obligations to be paid by FHFA as the result of a transaction or event that has already occurred.

FHFA reports its liabilities under two categories, Intragovernmental and With the Public. Intragovernmental liabilities represent funds owed to another government agency. Liabilities With the Public represent funds owed to any entity or person that is not a federal agency, including private sector firms and federal employees. Each of these categories may include liabilities that are covered by budgetary resources and liabilities that are not covered by budgetary resources.

Liabilities covered by budgetary resources are liabilities funded by a current appropriation or other funding source. These consist of accounts payable, accrued payroll and benefits, and capital lease liabilities. Accounts payable represents amounts owed to employees for travel related expenses and other entities for goods ordered and received and for services rendered. Accrued payroll and benefits represent payroll costs earned by employees during the fiscal year which are not paid until the next fiscal year. The Department of Labor (DOL) is the central paying agent for all workman compensation claims filed under the Federal Employees' Compensation Act (FECA). FHFA obligates funds for potential FECA claims each fiscal year. The funds remain on the books for two years and three months. Funded FECA liability represents the amount FHFA is to reimburse DOL for claims paid to FHFA employees.

Liabilities not covered by budgetary resources are liabilities that are not funded by any current appropriation or other funding source. These liabilities consist of unfunded leave, deferred lease liabilities, and an estimated actuarial liability for future workers' compensation benefits. Annual leave is earned throughout the fiscal year and is paid when leave is taken by the employee; unfunded leave represents the balance earned but not yet taken.

Deferred lease liabilities consist of deferred rent and the Constitution Center tenant allowance. Deferred rent is the difference at year-end between the sum of monthly cash disbursements paid to-date for rent and the sum of the average monthly rent calculated based on the term of the lease. Lease costs are based on the straight line method. This determination and recording of deferred rent is applicable to the lease agreements on the properties with non-cancellable lease terms at 400 7th Street SW Constitution Center, 1625 Eye Street NW, and 5080 Spectrum Drive. (See Note 8. Leases)

FHFA entered into a 60 month capital lease for copiers during FY 2018. (See Note 8. Leases)

The estimated actuarial liability for future workers' compensation benefits is based on the DOL's FECA actuarial model that takes the amount of benefit payments over the last 12 quarters and calculates the annual average of payments for medical expenses and compensation. This average is then multiplied by the liabilities-to-benefits paid ratios for the whole FECA program. The ratios may vary from year to year as a result of economic assumptions and other factors, but the model calculates a liability approximately 12 times the annual payments.

L. EMPLOYEE LEAVE AND BENEFITS

All full-time FHFA employees are entitled to accrue sick leave at a rate of four hours per pay period. Full-time employees are eligible to earn sick leave immediately upon being hired. Annual leave is accrued based on years of creditable federal service and military service, with the following exceptions: Former Office of Federal Housing Enterprise Oversight employees hired between April 25, 2005 and July 30, 2008 accrue annual leave based on years of creditable federal and military service as well as years of relevant private sector experience (HERA abolished the Office of Federal Housing Enterprise Oversight when FHFA was established in July 2008). Additionally, FHFA employees hired into mission critical positions at or above the EL-13 level, after May 2011 accrue annual leave under this same formula. Some employees who transfer from other federal agencies may also have been authorized to receive credit for private sector time. EL employees may carry-over up to 240 hours of annual leave each year. EL supervisors and managers may carryover up to 480 hours of annual leave each year. The FHFA Leadership Level's equivalent to the Senior Executive Service employees may accrue annual leave consistent with the rules for Senior Executive Service level employees. Accrued annual leave is treated as an unfunded expense with an offsetting liability when earned. The accrued liability is reduced when the annual leave is taken. Any unused annual leave balance is paid to an employee upon leaving federal service and calculated based on the employee's earnings per hour. There is no maximum limit on the amount of sick leave that may be accrued. Upon retirement, any unused sick leave under the Civil Service Retirement System (CSRS) and the Federal Employees Retirement System (FERS) is creditable towards an employee's annuity computation.

Health Benefits and Life Insurance: FHFA, through programs established for all agencies by the federal government, offers its employees health and life insurance coverage through the Federal Employees Health Benefits Program (FEHB) and Federal Employees Group Life Insurance Program. The cost of each is shared by FHFA and its employees. FHFA pays 90 percent of the FEHB premium. In addition, all employees have 1.45 percent of gross earnings withheld to pay for Medicare coverage. High-earning employees pay an additional Medicare tax. The additional Medicare tax is calculated as .9 percent of gross earnings over the threshold amount based on their filing status.

M. RETIREMENT PLANS

FHFA employees participate in the retirement plans offered by OPM, which consist of CSRS, CSRS Offset, FERS, FERS-Revised Annuity Employee (RAE), or FERS-Further Revised Annuity Employee (FRAE).

FERS, RAE, and FRAE are provided under calculations for both regular employees as well as law enforcement employees in the OIG. FHFA remits the employer's share of the required contribution, which is 7.0 percent for CSRS and CSRS Offset, 13.7 percent for FERS, 30.1 percent for FERS Law Enforcement Officer (LEO), 11.9 percent for FERS-RAE and FERS-FRAE, and 28.4 percent for FERS-RAE LEO and FERS-FRAE LEO. Effective January 1, 2014, any employee who begins employment with FHFA with less than five years of prior federal service as of December 31, 2013 is placed under FERS-FRAE. Both CSRS and FERS employees may participate in the federal Thrift Savings Plan (TSP). FERS employees receive an automatic Agency contribution equal to 1.0 percent of pay. FERS employees are automatically enrolled in TSP and 3.0 percent of their pay is deposited into the plan unless they make an election to stop or change the contribution. FHFA matches any FERS employee contribution up to an additional 4.0 percent of pay. For FERS and CSRS Offset participants, FHFA also contributes the employer's share of Social Security. The 2019 maximum taxable wage base for Social Security is $132,900.

FHFA expenses its contributions to the retirement plans of covered employees as the expenses are incurred. As discussed in Note 1.P and reflected in the Consolidated Statements of Changes in Net Position and Note 16, FHFA reports imputed financing costs with respect to retirement plans, health benefits and life insurance pursuant to guidance received from OPM. These costs are paid by OPM and not by FHFA. Disclosure is intended to provide information regarding the full cost of FHFA's program in conformity with U.S. generally accepted accounting principles.

FHFA does not report plan assets, accumulated plan benefits, and related unfunded liabilities, if any, for the retirement plans covering its employees. Reporting these amounts is the responsibility of OPM, as the administrator of these plans.

In addition to the TSP, FHFA offers a supplemental 401(K) plan. All CSRS and FERS employees are eligible to contribute to the 401(K). All eligible employees that participate may contribute up to 10 percent of their bi-weekly salary on a pre-tax basis while FHFA will match contributions up to 3.0 percent of the employee's salary. Qualified employees may participate in the TSP and/or FHFA's 401(K) Savings Plan, up to the Internal Revenue Code limitations established for salary deferral and annual additions.

N. CONTINGENCIES

FHFA recognizes contingent liabilities, in the accompanying Balance Sheet and Statement of Net Cost, when they are both probable and can be reasonably estimated. FHFA discloses contingent liabilities in the notes to the financial statements when a loss from the outcome of future events is more than remote but less than probable or when the liability is probable but cannot be reasonably estimated.

O. CLASSIFIED ACTIVITIES

Accounting standards require all reporting entities to disclose that accounting standards allow certain presentations and disclosures to be modified, if needed, to prevent the disclosure of classified information.

P. INTER-ENTITY COSTS

Goods and services are received from other federal entities at no cost or at a cost less than the full cost to the providing federal entity. Consistent with accounting standards, certain costs of the providing entity that are not fully reimbursed by the component reporting entity are recognized as imputed cost in the Statement of Net Cost, and are offset by imputed revenue in the Statement of Changes in Net Position. Such imputed costs and revenues relate to employee benefits. However, unreimbursed costs of goods and services other than those identified above are not included in our financial statements.

Note 2. Fund Balance with Treasury

Fund Balance with Treasury (FBWT) consists of operating funds and a working capital fund. The unobligated and obligated balances reported in the FBWT may not equal related amounts reported on the Combined Statements of Budgetary Resources. The unobligated and obligated balances reported on the Combined Statements of Budgetary Resources are supported by the FBWT, as well as other budgetary resources that do not affect the FBWT (i.e., unfilled customer orders). The funds in the working capital fund were fully invested during FY 2019 and FY 2018. FBWT account balances as of September 30, 2019 and 2018 were as follows (dollars in thousands):

	2019	2018
Status of Fund Balance with Treasury:		
Unobligated Balance		
Available	$ 34,317	$ 24,017
Obligated Balance Not Yet Disbursed	52,880	47,675
Investments	(71,372)	(55,600)
Total	**$ 15,825**	**$ 16,092**

Note 3. Investments

Investments as of September 30, 2019 consist of the following (dollars in thousands):

	Cost	Amortized (Premium) Discount	Interest Receivable	Investments Net	Market Value Disclosure
Intragovernmental Securities:					
Non-Marketable Market Based	$ 71,372	$ -	$ -	$ 71,372	$ 71,372

Investments as of September 30, 2018 consist of the following (dollars in thousands):

	Cost	Amortized (Premium) Discount	Interest Receivable	Investments Net	Market Value Disclosure
Intragovernmental Securities:					
Non-Marketable Market Based	$ 55,600	$ -	$ 6	$ 55,606	$ 55,606

Non-marketable, market-based securities are Treasury Department notes and bills issued to governmental accounts that are not traded on any securities exchange, but mirror the prices of marketable securities with similar terms. FHFA is currently investing in one-day certificates issued by the Treasury Department. There were no amortized premiums/discounts on investments as of September 30, 2019 or 2018. Interest earned on investments was $2.8 million and $1.7 million for FY 2019 and FY 2018, respectively.

Note 4. Accounts Receivable

Accounts Receivable balances as of September 30, 2019 and 2018 were as follows (dollars in thousands):

	2019	2018
Intragovernmental		
Accounts Receivable	$ -	$ -
Total Intragovernmental Accounts Receivable	**$ -**	**$ -**
With the Public		
Accounts Receivable	$ 57	$ 17
Allowance for Uncollectible Accounts Receivable	**$ (4)**	**$ (4)**
Total Public Accounts Receivable	**$ 53**	**$ 13**
Total Accounts Receivable	**$ 53**	**$ 13**

Note 5. Property, Equipment, and Software, Net

Schedule of Property, Equipment, and Software as of September 30, 2019 (dollars in thousands):

Major Class	Acquisition Cost	Accumulated Amortization/ Depreciation	Net Book Value
Equipment	$ 26,179	$ 24,272	$ 1,907
Leasehold Improvements	34,730	17,716	17,014
Internal-Use Software	1,728	1,728	-
Machinery and Equipment Under Capital Lease	274	83	191
Construction-in-Progress	54	-	54
Total	**$ 62,965**	**$ 43,799**	**$ 19,166**

Schedule of Property, Equipment, and Software as of September 30, 2018 (dollars in thousands):

Major Class	Acquisition Cost	Accumulated Amortization/ Depreciation	Net Book Value
Equipment	$ 24,905	$ 22,787	$ 2,118
Leasehold Improvements	34,996	15,492	19,504
Internal-Use Software	1,728	1,728	-
Machinery and Equipment Under Capital Lease	274	30	244
Construction-in-Progress	176	-	176
Total	**$ 62,079**	**$ 40,037**	**$ 22,042**

The leasehold improvement acquisition cost related to Constitution Center was financed in part by a tenant allowance in the amount of $20.8 million during FY 2012.

Note 6. Liabilities Covered and Not Covered by Budgetary Resources

There are not any liabilities under the category of not requiring Budgetary Resources. Liabilities Covered and Not Covered by Budgetary Resources as of September 30, 2019 consist of the following (dollars in thousands):

	Covered	Not Covered	Total
Intragovernmental Liabilities			
Accounts Payable	$ 666	$ -	$ 666
Other Intragovernmental Liabilities	3,164	-	3,164
Total Intragovernmental Liabilities	**$ 3,830**	**$ -**	**$ 3,830**
Accounts Payable	$ 10,895	$ -	$ 10,895
Unfunded Leave	-	14,067	14,067
FECA Actuarial Liabilities	-	320	320
Deferred Lease Liabilities	-	21,923	21,923
Other Liabilities	6,467	-	6,467
Total Public Liabilities	**$ 17,362**	**$ 36,310**	**$ 53,672**
Total Liabilities	**$ 21,192**	**$ 36,310**	**$ 57,502**

Liabilities Covered and Not Covered by Budgetary Resources as of September 30, 2018 consist of the following (dollars in thousands):

	Covered	Not Covered	Total
Intragovernmental Liabilities			
Accounts Payable	$ 630	$ -	$ 630
Other Intragovernmental Liabilities	2,709	-	2,709
Total Intragovernmental Liabilities	**$ 3,339**	**$ -**	**$ 3,339**
Accounts Payable	$ 6,437	$ -	$ 6,437
Unfunded Leave	-	13,454	13,454
FECA Actuarial Liabilities	-	249	249
Deferred Lease Liabilities	-	23,387	23,387
Other Liabilities	5,844	-	5,844
Total Public Liabilities	**$ 12,281**	**$ 37,090**	**$ 49,371**
Total Liabilities	**$ 15,620**	**$ 37,090**	**$ 52,710**

Note 7. Other Liabilities

Current liabilities are amounts owed by a federal entity as the result of past transactions or events that are payable within the fiscal year following the reporting date. The Other Liabilities for FHFA are comprised of FECA liability, unemployment insurance liability, payroll accruals, payroll benefits payable, employer benefit contributions, advances and prepayments, withholdings payable, employee related refunds due, and capital lease liability. Payroll accruals represent payroll expenses that were incurred prior to year-end but were not paid. All Other Liabilities are considered current liabilities.

Other Liabilities as of September 30, 2019 and September 30, 2018 consist of the following (dollars in thousands):

	2019		2018	
Intragovernmental Liabilities				
Funded FECA Liability	$	37	$	28
Unemployment Insurance Liability		-		9
Payroll Benefits Payable		1,516		1,304
Advances and Prepayments		1,611		1,368
Total Intragovernmental Other Liabilities	**$**	**3,164**	**$**	**2,709**
With the Public				
Employer Benefit Contributions	$	795	$	736
Withholdings Payable		-		-
Accrued Funded Payroll		5,478		4,861
Employee Related Refunds Due		3		3
Capital Lease Liability		191		244
Total Public Other Liabilities	**$**	**6,467**	**$**	**5,844**

Note 8. Leases

Operating Leases

NON-FEDERAL LEASES:

1625 Eye Street NW

FHFA leases office space in Washington, D.C. at 1625 Eye Street NW. The lease terms of 1625 Eye Street were extended for a five year period beginning July 1, 2015 and expire on June 30, 2020. The lease is cancellable with a 12 month notice and no sooner than December 31, 2017. FHFA entered into an Interagency Agreement (IAA) with the CFPB on January 13, 2015 for CFPB's use of space and related services for the term of the lease extension. The IAA also included the transfer of ownership of FHFA's furniture, fixtures, equipment, including information technology equipment, and other supplies remaining at the premises to CFPB. CFPB has occupied the premises since April 1, 2012. The IAA expires on June 30, 2020 in conjunction with FHFA's lease expiration. CFPB will reimburse FHFA for the full cost of the lease expenditures. Due to exercising an early termination option, the lease expired on December 31, 2017 for the existing space and May 15, 2018 for the expansion space. The IAA with CFPB terminated one year after the negotiated lease termination dates.

400 7th Street SW – Constitution Center

FHFA entered into a lease for office space at 400 7th Street SW Constitution Center on January 31, 2011. FHFA took occupancy in January 2012. FHFA does not have the right to terminate the lease for the convenience of the government. FHFA may only exercise a one-time early termination at the end of the 10th year, January 31, 2022, contingent upon FHFA having less than 400 employees in the Washington D.C. area as of the date that is 20 months prior to the early termination date and representing that it reasonably believes it will have less than 400 employees in the D.C. area as of the termination date. The lease terms of 400 7th Street SW expire on January 31, 2027. In addition, the lease stipulates that FHFA shall pay additional rent for its share of increases in the operating expenses and real estate property taxes.

5080 Spectrum Drive

FHFA entered into a lease for office space at 5080 Spectrum Drive in Addison, Texas on April 23, 2012. FHFA took occupancy on August 16, 2012. FHFA does not have the right to terminate the lease for the convenience of the government. FHFA may only exercise a one-time early termination at the end of the 39th month following the commencement date of the lease. The written termination notice must be provided to the landlord nine months prior to the termination date. FHFA did not exercise the option to terminate early. The lease terms of 5080 Spectrum Drive expired on November 30, 2017.

FEDERAL LEASES:

300 N Los Angeles Street

FHFA OIG entered into an Occupancy Agreement (OA) with the General Services Administration (GSA) for office space at 300 N Los Angeles Street, Los Angeles, CA commencing on May 13, 2013. FHFA OIG took occupancy on June 1, 2013. FHFA OIG has the right to terminate the OA based on the availability of funds or with a four month notice at any point after the first 12 months of occupancy. The OA terms of 300 N Los Angeles Street expired on April 30, 2018. FHFA OIG extended the term for 10 years commencing on May 1, 2018. The OA terms of 300 N Los Angeles Street expire on April 30, 2028.

501 E Polk Street

FHFA OIG entered into an OA with GSA for office space at 501 E Polk Street, Tampa, FL commencing on August 13, 2013. FHFA OIG took occupancy on August 10, 2013. FHFA OIG has the right to terminate the OA based on the availability of funds or with a four month notice at any point after the first 12 months of occupancy. The OA terms of 501 E Polk Street expire on August 4, 2028.

20 Washington Place

FHFA OIG entered into an OA with GSA for office space at 20 Washington Place, Newark, NJ commencing on June 12, 2012. FHFA OIG took occupancy on December 10, 2013. FHFA OIG has the right to terminate the OA based on the availability of funds or with a four month notice at any point after the first 12 months of occupancy. The OA terms of 20 Washington Place expire on December 9, 2023. Due to exercising an early termination option, the OA expired on May 31, 2019.

50 Walnut Street

FHFA OIG entered into an OA with GSA for office space at 50 Walnut Street, Newark, NJ commencing on June 1, 2019. FHFA OIG took occupancy on May 29, 2019. FHFA OIG has the right to terminate the OA based on the availability of funds or with a four month notice at any point after the first 12 months of occupancy. The OA terms of 50 Walnut Street expire on February 19, 2020.

970 Broad Street – Peter W. Rodino Federal Building

FHFA OIG entered into an OA with GSA for office space at 970 Broad Street, Newark, NJ commencing on August 29, 2019. It is projected that FHFA OIG will take occupancy on or before October 1, 2020. FHFA OIG has the right to terminate the OA based on the availability of funds or with a four month notice at any point after the first 12 months of occupancy. The OA terms of 970 Broad Street expire on February 28, 2030.

233 N Michigan Avenue – Two Illinois Center

FHFA OIG entered into an OA with GSA for office space at 233 N Michigan Avenue – Two Illinois Center, Chicago, IL commencing on July 11, 2014. FHFA OIG took occupancy on July 21, 2014. FHFA OIG has the right to terminate the OA based on the availability of funds or with a four month notice at any point after the first 12 months of occupancy. The OA terms of 233 N Michigan Avenue – Two Illinois Center expire on November 30, 2020.

650 Capitol Mall

FHFA OIG entered into an OA with GSA for office space at 650 Capitol Mall, Sacramento, CA commencing on February 23, 2015. FHFA OIG took occupancy on March 1, 2015. FHFA OIG has the right to terminate the OA based on the availability of funds or with a four month notice at any point after the first 12 months of occupancy. The OA terms of 650 Capitol Mall expire on February 15, 2025.

111 S 10th Street

FHFA OIG entered into an OA with GSA for office space at 111 S 10th Street, St. Louis, MO commencing on October 1, 2016. FHFA OIG took occupancy on February 1, 2017. FHFA OIG has the right to terminate the OA based on the availability of funds or with a four month notice at any point after the first 12 months of occupancy. The OA terms of 111 S 10th Street expire on January 31, 2027.

101 E Park Blvd

FHFA OIG entered into an OA with GSA for office space at 101 E Park Blvd, Plano, TX commencing on October 11, 2017. FHFA OIG took occupancy on October 11, 2017. FHFA OIG has the right to terminate the OA based on the availability of funds or with a four month notice at any point after the first 12 months of occupancy. The OA terms of 101 E Park Blvd expire on August 17, 2030.

The federal leases contain cancellation clauses; therefore these leases are not included in the minimum future payments table.

The minimum future payments for non-cancellable operating leases with terms longer than one year (400 7th Street SW) are as follows (dollars in thousands):

Fiscal Year	Amount
2020	$ 17,971
2021	18,329
2022	6,149
Thereafter	-
Total Future Payments	**$ 42,449**

Capital Lease

FHFA entered into a non-federal capital lease for 28 copiers located at 400 7th Street SW - Constitution Center on February 1, 2018. The leased equipment is amortized on a straight line basis over five years. The lease was fully funded at its inception. There is no salvage value and the copiers will be returned to the vendor upon termination of the lease. The following is a schedule showing the future minimum lease payments under capital lease by years and the present value of the minimum lease payments as of September 30, 2019 (dollars in thousands). The interest rate related to the lease obligation is 2.5 percent and the maturity date is February 2023.

	2019		2018	
Summary of Assets Under Capital Lease				
Machinery and Equipment (Copiers)	$	274	$	274
Accumulated Amortization		(83)		(30)
Net Value	**$**	**191**	**$**	**244**

The minimum future payments for the capital lease is as follows (dollars in thousands):

Fiscal Year	Amount	
2020	$	134
2021		134
2022		134
2023		56
Total Future Payments	$	458
Less: Imputed Interest	$	(8)
Less: Executory Costs		(259)
Net Capital Lease Liability	$	191
Capital lease liabilities covered by budgetary resources	$	458
Capital lease liabilities not covered by budgetary resources	$	-

Note 9. Commitments and Contingencies

FHFA did not have any material commitments or contingencies that met disclosure requirements as of September 30, 2019 and 2018.

Note 10. Program Costs

Pursuant to HERA, FHFA was established to supervise and regulate the regulated entities. The regulated entities include Freddie Mac, Fannie Mae, the FHLBanks, and the Office of Finance. FHFA tracks program costs to the strategic goals (responsibility segments) developed for FHFA's strategic plan. Strategic Goals 1) Safety and Soundness; 2) Liquidity, Stability, and Access; and 3) Conservatorship, guide program offices to carry out FHFA's vision and mission. FHFA has a Resource Management Strategy, which is distributed proportionately to Strategic Goals 1 – 3 based on the percentage of direct costs of each goal to the total direct costs for FHFA. FHFA OIG costs are allocated to FHFA's Resource Management Strategy. Earned revenue is reported at the total level only.

FHFA's revenue was provided by the regulated entities through assessments. FHFA OIG received their funding through a $45.3 million transfer from FHFA in FY 2019 and a $44.4 million transfer in FY 2018. FHFA OIG's gross expenses for FY 2019 and FY 2018 were $47.0 million and $47.2 million, respectively.

Program costs and revenue are broken out into two categories – "Intragovernmental" and "With the Public." Intragovernmental costs are costs FHFA incurs through contracting with other federal agencies for goods and/or services, such as payroll processing services received from the Department of Agriculture/Department of Interior and imputed financing costs for post-retirement benefits with OPM. With the Public costs are costs FHFA incurs through contracting with the private sector for goods or services, payments for employee salaries, depreciation, annual leave and deferred rent expenses. Intragovernmental revenue is funds collected from reimbursable agreements and investment interest. With the Public revenue is assessment funds collected from the regulated entities and FOIA collections. Intragovernmental expenses relate to the source of goods and services purchased by the agency and not to the classification of related revenue.

Such costs and revenue are summarized as follows (dollars in thousands):

	2019	2018
Safety and Soundness		
Intragovernmental Costs	$ 32,623	$ 31,986
Public Costs	125,281	126,200
Gross Safety and Soundness Program Costs	**157,904**	**158,186**
Liquidity, Stability, and Access		
Intragovernmental Costs	11,784	11,157
Public Costs	41,583	39,722
Gross Liquidity, Stability, and Access Program Costs	**53,367**	**50,879**
Conservatorship		
Intragovernmental Costs	7,264	6,887
Public Costs	59,319	54,420
Gross Conservatorship Program Costs	**66,583**	**61,307**
Total Intragovernmental Costs	51,671	50,030
Total Public Costs	226,183	220,342
Gross Program Costs	277,854	270,372
Less: Total Intragovernmental Earned Revenue	(3,657)	(5,829)
Less: Total Public Earned Revenue	(273,787)	(248,321)
Total Net Cost of Operations	**$ 410**	**$ 16,222**

Note 11. Net Adjustments to Unobligated Balance Brought Forward, October 1

There were no material adjustments to correct amounts in the unobligated balance brought forward, October 1. Below is a reconciliation of the unobligated balance brought forward, October 1 to the unobligated balance from prior year budget authority, net (dollars in thousands):

	2019		2018	
Unobligated Balance Brought Forward, October 1	$	24,017	$	26,266
Recoveries of Prior Year Obligations		8,807		7,618
Other Changes in Unobligated Balance		144		1,806
Unobligated Balance from Prior Year Budget Authority, Net	**$**	**32,968**	**$**	**35,690**

Note 12. Legal Arrangements Affecting Use of Unobligated Balances

HERA requires that any balance that remains unobligated at the end of the fiscal year, except for amounts assessed for contribution to FHFA's working capital fund, must be credited against the next year's assessment to the regulated entities. The Director also has the authority to retain prior year unobligated funds for conservatorship-related activities that were not anticipated during the budget process. As of September 30, 2019 and 2018, the unobligated balance was $34.3 million and $24.0 million, respectively. FHFA will retain the FY 2019 unobligated balance of $34.3 million in the working capital fund during FY 2020. FHFA retained the FY 2018 unobligated balance of $24.0 million in the working capital fund during FY 2019. (See Note 2. Fund Balance With Treasury)

Note 13. Budgetary Resource Comparisons to the Budget of the United States Government

Statement of Federal Financial Accounting Standards No. 7, Accounting for Revenue and Other Financing Sources and Concepts for Reconciling Budgetary and Financial Accounting, calls for explanations of material differences between amounts reported in the Statement of Budgetary Resources and the actual balances published in the Budget of the United States Government (President's Budget). The FY 2021 President's Budget will include the actual budgetary execution information for FY 2019. The FY 2021 President's Budget is scheduled for publication in February 2020 and can be found at the OMB Website.[53] The FY 2020 President's Budget, with the "Actual" column completed for 2018, has been reconciled to the FY 2018 Statement of Budgetary Resources and there were no material differences (dollars in thousands):

	Budgetary Resources		New Obligations and Upward Adjustments		Distributed Offsetting Receipts		Net Outlays	
Combined Statement of Budgetary Resources	$	334,166	$	310,149	$	249,994	$	256,856
Rounding		834		(149)		6		144
Budget of the U.S. Government		335,000		310,000		250,000		257,000
Total Unreconciled Difference	**$**	**-**	**$**	**-**	**$**	**-**	**$**	**-**

[53] http://www.whitehouse.gov/omb.

Note 14. Undelivered Orders at the End of the Period

Undelivered Orders balance as of September 30, 2019 (dollars in thousands):

	Federal	Non-Federal
Paid Undelivered Orders	$ 658	$ 2,195
Unpaid Undelivered Orders	2,803	30,495
Total Undelivered Orders	**$ 3,461**	**$ 32,690**

Undelivered Orders balance as of September 30, 2018 (dollars in thousands):

	Federal	Non-Federal
Paid Undelivered Orders	$ 684	$ 1,778
Unpaid Undelivered Orders	2,147	31,293
Total Undelivered Orders	**$ 2,831**	**$ 33,071**

Note 15. Incidental Custodial Collections

FHFA's custodial collections primarily consist of fines and penalties associated with employee administrative billings (corrections to payroll and travel payments) and collections. Custodial collections are reflected in Fund Balance with Treasury during the year. While these collections are considered custodial, they are neither primary to the mission of the Agency nor material to the overall financial statements. FHFA's custodial collections are $700 for the year ended September 30, 2019. Custodial collections totaled $15,100 for the year ended September 30, 2018. Custodial collections are transferred to the Treasury General Fund on September 30 and are not reflected in the financial statements of the Agency.

Note 16. Budget and Accrual Reconciliation

Budgetary and financial accounting information differ. Budgetary accounting is used for planning and control purposes and relates to both the receipt and use of cash, as well as reporting the federal deficit. Financial accounting is intended to provide a picture of the government's financial operations and financial position, so it presents information on an accrual basis. The accrual basis includes information about costs arising from the consumption of assets and the incurrent of liabilities. The reconciliation of net outlays, presented on a budgetary basis, and the net cost, presented on an accrual basis, provides an explanation of the relationship between budgetary and financial accounting information. The reconciliation serves not only to identify costs paid for the past and those that will be paid in the future, but also to assure integrity between budgetary and financial accounting. The analysis below illustrates this reconciliation by listing the key differences between net cost and net outlays. FHFA has reconciled its budgetary obligations and non-budgetary resources available to its net cost of operations (dollars in thousands).

For the Year Ended September 30, 2019	Intragovernmental	With the Public	Total
Net Cost of Operations	**$ 48,014**	**$ (47,604)**	**$ 410**
Components of Net Operating Cost Not Part of the Net Outlays			
Property, Plant, and Equipment Depreciation		(3,904)	(3,904)
Property, Plant, and Equipment Disposal & Reevaluation		(125)	(125)
Increase/(Decrease) in Assets:			
Accounts Receivable	176	40	216
Other Assets	(26)	417	391
(Increase)/Decrease in Liabilities:			
Accounts Payable	(460)	(4,459)	(4,919)
Salaries and Benefits	(213)	(676)	(889)
Other Liabilities	-	833	833
Other Financing Sources:			
Federal Employee Retirement Benefit Costs Paid by OPM and Imputed to the Agency	(8,671)	-	(8,671)
Total Components of Net Operating Cost Not Part of the Net Outlays	**(9,194)**	**(7,874)**	**(17,068)**
Components of the Net Outlays That Are Not Part of Net Operating Cost			
Acquisition of Capital Assets	-	1,153	1,153
Total Components of the Net Outlays That Are Not Part of Net Operating Cost	**-**	**1,153**	**1,153**
Net Outlays	**$ 38,820**	**$ (54,325)**	**$ (15,505)**
Related Amounts on the Statement of Budgetary Resources			
Outlays, Net, (Total)			$ 261,065
Distributed Offsetting Receipts			$ (276,570)
Outlays, Net			**$ (15,505)**

For the Year Ended September 30, 2018	Intragovernmental	With the Public	Total
Net Cost of Operations	**$ 44,200**	**$ (27,978)**	**$ 16,222**
Components of Net Operating Cost Not Part of the Net Outlays			
Property, Plant, and Equipment Depreciation	-	(3,523)	(3,523)
Property, Plant, and Equipment Disposal & Reevaluation		-	-
Increase/(Decrease) in Assets:			
Accounts Receivable	(25)	(44)	(69)
Other Assets	157	406	563
(Increase)/Decrease in Liabilities:			
Accounts Payable	(81)	457	376
Salaries and Benefits	21	(90)	(69)
Other Liabilities	-	298	298
Other Financing Sources:			
Federal Employee Retirement Benefit Costs Paid by OPM and Imputed to the Agency	(7,674)	-	(7,674)
Total Components of Net Operating Cost Not Part of the Net Outlays	**(7,602)**	**(2,496)**	**(10,098)**
Components of the Net Outlays That Are Not Part of Net Operating Cost			
Acquisition of Capital Assets	-	738	738
Total Components of the Net Outlays That Are Not Part of Net Operating Cost	**-**	**738**	**738**
Net Outlays	**$ 36,598**	**$ (29,736)**	**$ 6,862**
Related Amounts on the Statement of Budgetary Resources			
Outlays, Net, (Total)			$ 256,856
Distributed Offsetting Receipts			$ (249,994)
Outlays, Net			**$ 6,862**

OTHER INFORMATION

Evidence Building

FHFA relies on a range of approaches to collect and analyze performance data and other evidence relevant to Agency programs and the broader housing finance market. FHFA uses data and findings from research, analysis, and assessments to make informed management decisions, drive improvements in program delivery and effectiveness, and update future strategies and program plans.

FHFA program managers and staff collect and analyze data for 28 key performance measures that track progress toward the performance goals in the FY 2019 Annual Performance Plan. Data for these measures are reported at quarterly review meetings with senior management. These sessions provide a forum for managers to review progress toward annual targets for the performance goals. Any areas where progress is not on track to meet targets are identified, and implications for program planning and implementation are discussed.

FHFA monitors and reports on trends in housing and mortgage markets, collecting, analyzing, and publishing comprehensive data useful to guide policy decisions and increase transparency in markets. FHFA economists and policy experts also provide research and policy analysis on specific topics relevant to the housing finance sector, such as trends in house prices and mortgage lending, making important information available to policy makers, industry, and the public.

Data are collected and analyzed to monitor the effectiveness or efficiency of various FHFA management functions and operational systems. For example, the Office of Technology and Information Management (OTIM) continuously monitors data on IT system performance, including data for Performance Measure RM3 in the Resource Management area, (which tracks the percentage of time Agency infrastructure systems are available for use by staff). OTIM is committed to ensuring that effective security and privacy controls are in place to secure FHFA's information systems and data, in compliance with applicable federal laws, regulations, and standards. As described on page 30, FHFA undergoes an annual Federal Information Security Modernization Act (FISMA) audit to determine the effectiveness of the Agency's information security programs and practices. For 2019, the Office of Inspector General (OIG) determined that FHFA's Information Security Program was compliant with FISMA legislation and applicable guidance and provided reasonable assurance of adequate security. In addition, the OIG assessed the maturity of the Information Security Program and found it had achieved an overall *"Managed and Measurable"* maturity level.

As described on page 70, FHFA participates in the Office of Personnel Management's annual Federal Employee Viewpoint Survey (FEVS), which provides important information on employee opinions on workforce, leadership, and jobs, and enables FHFA to compare its results to government-wide data. FHFA analyzes the FEVS data and uses the information to make decisions about program activities relevant to achieving performance goals.

FHFA's Office of Quality Assurance (OQA) promotes high quality work in the Agency's offices and business units by systematically and effectively evaluating their operations against objective quality standards. OQA also assesses the adequacy of offices' policies, procedures, and processes; supervisory and quality controls; and project management, record keeping, communication, and information processes. Examples of OQA reviews include conducting the Agency's annual assessment of internal controls over financial reporting (OMB A-123 Appendix A assessment), as well as reviews of FHFA offices' closing packages related to OIG findings and recommendations conducted to assess the completeness and adequacy of the documentation submitted to support the closing of OIG recommendations. Other recent OQA projects include a review of access principles for the National Mortgage Database, and a review of FHFA's supply management process.

Every year, FHFA receives and responds to numerous performance audits, assessments, and evaluations concerning the effectiveness and efficiency of projects, policies, and programs. The FHFA OIG conducts performance audits, compliance reviews, and evaluations of Agency systems and programs.

The U.S. Government Accountability Office (GAO) conducts an annual financial statements audit of FHFA, and periodically conducts other assessments or reviews of the Agency. OIG also issues an annual assessment of FHFA's Management and Performance Challenges, which is presented on pages 112-122.

Table 21: Audits and Evaluations			
FHFA OIG Reports			
1	AUD-2019-001	Performance Audit of the Federal Housing Finance Agency's Information Security Program Fiscal Year 2018	10/24/2018
2	AUD-2019-002	Performance Audit of the Federal Housing Finance Agency, Office of Inspector General's Information Security Program Fiscal Year 2018	10/24/2018
3	OIG-2019-001	Report of Administrative Inquiry into Allegations of Misconduct by the FHFA Director	11/29/2018
4	COM-2019-001	Compliance Review of the Content and Communication of the Federal Housing Finance Agency's Reports of Examination to the Enterprises' Boards of Directors	01/03/2019
5	COM-2019-002	Compliance Review of FHFA's Suspended Counterparty Program	01/25/2019
6	AUD-2019-003	External Penetration Test of FHFA's Network and Systems During 2018	02/11/2019
7	COM-2019-003	Compliance Review of FHFA Assessments of MRA Remediation Plans Submitted by the Enterprises	02/13/2019
8	OIG-2019-002	Management Advisory: Freddie Mac's Reimbursement of a Senior Vice President's Commuting Expenses from 2015 through the Third Quarter of 2018	03/11/2019
9	AUD-2019-004	FHFA's Offboarding Controls over Access Cards, Sensitive IT Assets, and Records Were Not Always Documented or Followed During 2016 and 2017	03/13/2019
10	AUD-2019-005	FHFA's Controls over Post-Employment Restrictions and Financial Disclosure Requirements for Offboarded Employees Were Followed During 2016 and 2017	03/13/2019
11	EVL-2019-001	FHFA's Approval of Senior Executive Succession Planning at Fannie Mae Acted to Circumvent the Congressionally Mandated Cap on CEO Compensation	03/26/2019
12	EVL-2019-002	FHFA's Approval of Senior Executive Succession Planning at Freddie Mac Acted to Circumvent the Congressionally Mandated Cap on CEO Compensation	03/26/2019
13	OIG-2019-004	FHFA Must Strengthen its Controls over the Hiring of Pathways Interns to Prevent the Improper Hiring of Relatives of Agency Employees	03/26/2019
14	AUD-2019-006	Fannie Mae Purchased Single-Family Mortgages, Including those Purchased through Master Agreements, in Accordance with Selected Credit Terms Set Forth in its Selling Guide for 2015-2017	03/27/2019
15	OIG-2019-005	Special Report on the Common Securitization Platform: FHFA Lacked Transparency and Exercised Inadequate Oversight over a $2.13 Billion, Seven-Year Project	03/29/2019
16	COM-2019-004	Compliance Review of DBR's Examinations of Critical Cybersecurity Controls at the Federal Home Loan Banks	05/07/2019
17	AUD-2019-007	FHFA Complied with Applicable Improper Payment Requirements for Fiscal Year 2018	05/16/2019

Table 21: Audits and Evaluations			
FHFA OIG Reports			
18	COM-2019-005	Compliance Review of FHFA's Office of Minority and Women Inclusion	06/24/2019
19	AUD-2019-008	FHFA Conducted BSA/AML Program Examinations of 10 of 11 Federal Home Loan Banks During 2016-2018 in Accordance with its Guidelines, But Failed to Support a Conclusion in the Report of Examination for the Other Bank	07/10/2019
20	COM-2019-006	Compliance Review of FHFA's Risk Assessments of the Enterprises	08/14/2019
21	AUD-2019-009	Audit of the Federal Housing Finance Agency's 2019 Privacy Program	08/28/2019
22	AUD-2019-010	Audit of FHFA's Government Purchase Card Program (October 1, 2018 - March 31, 2019)	08/28/2019
23	OIG-2019-006	Management Advisory: Allegations Related to Fannie Mae Senior Executive Spending on Entertainment, Conferences, and Training (January 2016 through September 2018)	09/04/2019
24	COM-2019-007	Compliance Review of FHFA's Commitment to Evaluate Its Internal Quality Control Reviews Pertaining to Matters Requiring Attention	09/09/2019
25	EVL-2019-003	Five Years After Issuance, Many Examination Modules Remain in Field Test; FHFA Should Establish Timelines and Processes to Ensure Timely Revision of Examiner Guidance	09/10/2019
26	OIG-RA-2019-001	Risk Assessment of FHFA's Government Travel Card Program (July 1, 2018 - June 30, 2019)	09/10/2019
27	AUD-2019-011	FHFA Should Name an Ombudsman and Document the Office of the Ombudsman's Procedures	09/16/2019
28	AUD-2019-012	FHFA's Completion of Planned Targeted Examinations of Fannie Mae Improved from 2016 through 2018, But Timeliness Remained an Issue; With the June 2019 Issuance of the Single Security, FHFA Should Reassess its Supervision Framework for CSS	09/17/2019
29	AUD-2019-013	FHFA's Completion of Planned Targeted Examinations of Freddie Mac Improved from 2016 through 2018, But Timeliness Remained an Issue	09/17/2019
30	EVL-2019-004	FHFA Should Enhance Supervision of its Regulated Entities' Cybersecurity Risk Management by Obtaining Consistent Cybersecurity Incident Data	09/23/2019
31	AUD-2019-014	2019 Internal Penetration Test of FHFA's Network and Systems	09/24/2019
GAO Reports			
1	GAO-19-183R	Federal Housing Finance Agency's Fiscal Years 2018 and 2017 Financial Statements	11/15/2018
2	GAO-19-252	Federal Home Loan Banks: Steps Have Been Taken to Promote Board Diversity, but Challenges Remain	3/20/2019
3	GAO-19-589	Federal Home Loan Banks: Efforts to Promote Workforce, Supplier, and Broker-Dealer Diversity	9/20/2019

Management Report on Final Actions

As required under amended Section 5 of the Inspector General Act of 1978, FHFA must report information on final action taken by management on certain audit reports. Tables 22, 23, and 24 provide information on final action taken by management on audit reports for FY 2019.

Table 22: Management Report on Final Action on Audits with Disallowed Costs for FY 2019

	Audit Report	Number of Reports	Disallowed Costs
A	Management decisions - final action not taken at beginning of period	0	$0
B	Management decisions made during the period	0	$0
C	Total reports pending final action during the period (A and B)	0	$0
D	Final action taken during the period:	0	$0
	1. Recoveries:	0	$0
	(a) Collections and offsets	0	$0
	(b) Other	0	$0
	2. Write-offs	0	$0
	3. Total of 1(a), 1(b), and 2	0	$0
E	Audit reports needing final action at the end of the period	0	$0

Table 23: Management Report on Final Action on Audits with Recommendations to Put Funds to Better Use for FY 2019

	Audit Report	Number of Reports	Funds Put to Better Use
A	Management decisions - final action not taken at beginning of period	0	$0
B	Management decisions made during the period	0	$0
C	Total reports pending final action during the period (A and B)	0	$0
D	Final action taken during the period:	0	$0
	1. Value of recommendations implemented (completed)	0	$0
	2. Value of recommendations that management concluded should not or could not be implemented or completed	0	$0
	3. Total of 1 and 2	0	$0
E	Audit reports needing final action at the end of the period	0	$0

Table 24: Audit Reports without Final Actions but with Management Decisions Over One Year Old for FY 2019

Report No. and Issue Date	Recommendation	Management Action
Corporate Governance: Review and Resolution of Conflicts of Interest Involving Fannie Mae's Senior Executive Officers Highlight the Need for Closer Attention to Governance Issues by FHFA (EVL-2018-001)	Recommendation 5	Actions are expected to be completed by March 31, 2020.

Office of Inspector General Management and Performance Challenges

OFFICE OF INSPECTOR GENERAL

Federal Housing Finance Agency

400 7th Street SW, Washington, DC 20219

October 22, 2019

TO: Mark A. Calabria, Director

FROM: Laura S. Wertheimer, Inspector General

SUBJECT: Fiscal Year 2020 Management and Performance Challenges

We are pleased to provide you with this memorandum, issued pursuant to the Reports Consolidation Act of 2000 (P.L. 106-531).

On September 5, 2019, the Department of the Treasury (Treasury) released its Housing Reform Plan (Treasury Plan). The Treasury Plan outlined possible legislative and administrative actions intended to reform the housing finance system, including specific preconditions for ending the conservatorships of the Enterprises.[1] The Federal Housing Finance Agency (FHFA) has acknowledged that much work must be done before the conservatorships can end. As that work progresses, FHFA should address the four serious management and performance challenges and one management concern summarized below and identified previously by the FHFA Office of Inspector General (OIG).

Overview

FHFA was created in July 2008 by the Housing and Economic Recovery Act of 2008 (HERA) (P.L. 110-289) to serve as regulator of the Enterprises and the Federal Home Loan Banks (FHLBanks). As their regulator, FHFA is charged with overseeing the safety and soundness and statutory missions of these entities. In September 2008, FHFA placed Fannie Mae and Freddie Mac into conservatorships "in response to a substantial deterioration in the housing markets that severely damaged [Fannie Mae's and Freddie Mac's] financial condition and left them unable to fulfill their mission without government intervention."[2] For more than a decade, FHFA has

[1] The Treasury Plan was developed in response to a March 27, 2019 Presidential Memorandum directing the Secretary of the Treasury to develop a plan for administrative and legislative reforms to achieve several housing reform goals.

[2] FHFA, *History of Fannie Mae and Freddie Mac Conservatorships*.

served as the Enterprises' conservator and supervisor. Putting the Enterprises into conservatorships has proven far easier than ending them. The conservatorships have now entered their 12th year.

The Treasury Plan identifies a number of administrative actions to reform the housing finance system but does not establish timelines for their implementation. FHFA has acknowledged that reforming the housing finance system will depend upon the development of:

> [A] responsible plan to end the conservatorships, with a clear road map and mile markers, and to adjust the Treasury share agreements accordingly. . . . And by January [2020], [the] hope and expectation is that [both Treasury and FHFA] will be on the path to a new regime where the [Enterprises] can start to build capital. At that point, the path out of the conservatorships will depend not on the calendar but on Fannie and Freddie meeting the mile markers set out for them.[3]

As their conservator, FHFA is ultimately responsible for all the Enterprises' business, policy, and risk decisions. To fulfill its responsibility, the Agency must ensure that both Enterprises are effectively governed and employ sound risk management practices. The stakes are high: with assets of more than $5.5 trillion as of June 30, 2019, the Enterprises' business and policy decisions both influence and affect the entire mortgage finance industry.

FHFA is also the supervisor for the Enterprises and for the FHLBanks, the latter of which collectively reported approximately $1.1 trillion in assets as of June 30, 2019. Under HERA, FHFA is responsible for conducting examinations of the Enterprises and the FHLBanks to ensure they operate safely and soundly and thereby serve as a reliable source of liquidity and funding for housing finance and community investment.

Based on our body of work, FHFA-OIG holds the view that, for the foreseeable future, FHFA faces four serious management and performance challenges and a management concern, all of which carry over from prior years. From our vantage point, these management and performance challenges, if not addressed, could adversely affect FHFA's accomplishment of its mission.

Since October 2014, FHFA-OIG has issued 139 reports in which we assessed FHFA's progress in addressing elements of each of these challenges. Where we have identified shortcomings and/or weaknesses, we proposed a total of 179 recommendations to address them. FHFA fully agreed to 150 of the 179, or 83.8%. For those recommendations FHFA has accepted, it has either implemented its proposed corrective actions or is in the process of developing and/or implementing them.

FHFA-OIG tracks FHFA's implementation of the recommendations to which it has agreed. FHFA-OIG regularly issues a Compendium of Open Recommendations that identifies both unimplemented and rejected recommendations, organized by the risks presented by the serious

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[3] FHFA, *Prepared Remarks of Dr. Mark A. Calabria, Director of FHFA, at Mortgage Bankers Association National Secondary Market Conference & Expo 2019*.

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management and performance challenges identified in this Memorandum. Our Semiannual Reports to the Congress (SARs), for the periods ending March 31 and September 30, 2019, also set forth our unimplemented open and rejected recommendations.

Below are the four significant challenges and the management concern identified by FHFA-OIG, along with our assessments of each.

Challenge: Improve Oversight of Matters Delegated to the Enterprises and Strengthen Internal Review Processes for Non-Delegated Matters

Under HERA, FHFA, as conservator, possesses all rights and powers of any stockholder, officer, or director of the Enterprises and is vested with express authority to operate the Enterprises and conduct their business activities. The Enterprises are large, complex financial institutions that dominate the secondary mortgage market and the mortgage securitization sector of the U.S. housing finance industry. Given the taxpayers' enormous investment in the Enterprises, the unspecified timeline to end the conservatorships, the Enterprises' critical role in the secondary mortgage market, and their uncertain ability to sustain future profitability, FHFA's administration of the conservatorships remains a major risk.

FHFA has delegated authority to the Enterprises for many matters, both large and small. The Enterprises acknowledge in their public securities filings that their directors serve on behalf of the conservator and exercise their authority as directed by and with the approval, when required, of the conservator. FHFA, as conservator, can revoke delegated authority at any time (and retains authority for certain significant decisions).

FHFA-OIG's body of work over the last five years has found that FHFA has limited its oversight of delegated matters largely to attendance at Enterprise internal management and board meetings as an observer and to discussions with Enterprise managers and directors. Read together, the findings in these reports demonstrate that, for the most part, FHFA, as conservator, has not assessed the reasonableness of Enterprise actions pursuant to delegated authority, including actions taken by the Enterprises to implement conservatorship directives, or the adequacy of director oversight of management actions.

FHFA also has not clearly defined its expectations of the Enterprises for delegated matters, nor has it established the accountability standard that it expects the Enterprises to meet for such matters. Our work identified that internal control systems at the Enterprises were ineffective: they failed to provide directors with accurate, timely, and sufficient information to enable them to exercise their oversight duties. Likewise, we identified a lack of rigor by some directors in seeking information from management about the matters for which they are responsible. We also identified instances in which corporate governance decisions generally reserved to the board of directors have been delegated to management.

Over the past five years, FHFA-OIG's work has found that FHFA has retained authority (or has revoked previously delegated authority) to resolve issues of significant monetary and/or

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reputational value. FHFA has established written internal review and approval processes for non-delegated matters, designed to provide a consistent approach for tracking, analyzing and resolving such matters and for providing decision-makers with all relevant facts and existing analyses. However, as our work during FY 2019 demonstrated, the former FHFA Director overrode those controls when considering both Enterprises' requests for approval of their respective succession plans. As we recognized, the FHFA Director was authorized, under HERA, to override the controls. However, we found that his override created an information vacuum within FHFA's Division of Conservatorship and rendered it unable to execute its responsibilities.

After the Agency received our reports and adopted our recommendations, it advised us that its system for maintaining and monitoring sensitive requests had been modified. Under the new record keeping process for sensitive requests, documents submitted by the Enterprises and internal FHFA records that are associated with such requests would be stored in a separate system with restricted access.

As the Enterprises' conservator, FHFA is ultimately responsible for actions taken by the Enterprises, pursuant to authority it has delegated to them. FHFA's challenge, therefore, is to improve the quality of its oversight of matters it has delegated to the Enterprises for the duration of the conservatorships and ensure that its established processes are followed for non-delegated matters to promote reasoned decision-making.

Select FHFA-OIG Report Issued During FY 2019 on Delegated Matters:

- *Special Report on the Common Securitization Platform: FHFA Lacked Transparency and Exercised Inadequate Oversight over a $2.13 Billion, Seven-Year Project* (OIG-2019-005, March 29, 2019).

Select FHFA-OIG Reports Issued During FY 2019 on Non-Delegated Matters:

- *FHFA's Approval of Senior Executive Succession Planning at Freddie Mac Acted to Circumvent the Congressionally Mandated Cap on CEO Compensation* (EVL-2019-002, March 26, 2019).
- *FHFA's Approval of Senior Executive Succession Planning at Fannie Mae Acted to Circumvent the Congressionally Mandated Cap on CEO Compensation* (EVL-2019-001, March 26, 2019).

Challenge: Upgrade Supervision of the Enterprises and Continue Supervision Efforts of the FHLBanks

As supervisor of the Enterprises and the FHLBanks, FHFA is tasked by HERA to ensure that these entities operate safely and soundly so that they serve as a reliable source of liquidity and funding for housing finance and community investment. Examinations of its regulated entities are fundamental to FHFA's supervisory mission. Within FHFA, the Division of Federal Home

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Loan Bank Regulation (DBR) is responsible for supervision of the FHLBanks, and the Division of Enterprise Regulation (DER) is responsible for supervision of the Enterprises.

The Treasury Plan asserts:

> FHFA has relied primarily on its **conservatorship authorities** to oversee the safety and soundness of the GSEs over the last 11 years. With the end of the conservatorship, FHFA will instead rely on its supervisory and regulatory authorities, which include authorities to conduct examinations of the GSEs. FHFA could determine that it should specify conditions with respect to the hiring and training of examiners or other aspects of the buildout of its supervisory function. (Emphasis added.)

That assertion is at odds with representations made by FHFA in its annual Performance and Accountability Reports in which FHFA invoked its supervisory authority as its basis to ensure safe and sound operation of the Enterprises.[4] According to FHFA, its mission:

> [I]s to ensure that the regulated entities operate in a safe and sound manner so they serve as a reliable source of liquidity and funding for housing finance and community investment. FHFA uses its **supervisory program** to promote safe and sound operations. The supervisory program employs a risk-based approach to supervisory examinations, prioritizing examination activities based on the risk a given practice poses to a regulated entity's safe and sound operation or to its compliance with applicable laws and regulations. (Emphasis added.)

Until the issuance of the Treasury Plan, FHFA has consistently asserted in public statements that it relies on its supervisory authority, not its conservatorship powers, to ensure that the Enterprises operate in a safe and sound manner. During the course of our work, we have repeatedly noted that FHFA administers its supervision program of the Enterprises through DER.

The Treasury Plan contemplates that FHFA intends to "build out" FHFA's existing supervision program of the Enterprises. Further, FHFA has stated that its top priorities include "cement[ing] FHFA as a world-class regulator and [ ] restor[ing] Fannie Mae and Freddie Mac…to safe and sound condition by building capital to match their risk profiles." However, as demonstrated by many of our more than 40 related audits, evaluations, and compliance reports issued since October 2014, FHFA's existing supervision program for the Enterprises is materially deficient and its supervisory guidance falls short of the guidance issued by the Board of Governors of the Federal

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[4] FHFA, *FY2018 Performance and Accountability Report* at 10 (November 15, 2018); see also FHFA, *FY2017 Performance and Accountability Report* at 9 (Nov. 15, 2017), FHFA, *FY2016 Performance and Accountability Report* at 10 (Nov. 15, 2016), and FHFA, *FY2015 Performance and Accountability Report* at 55 (Nov. 16, 2015).

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Reserve System, Office of the Comptroller of the Currency, and Federal Deposit Insurance Corporation.

The shortcomings identified in these reports, coupled with the Agency's repeated failures to address previously identified shortcomings in a timely manner, suggests that significant efforts will be needed to cure previously identified deficiencies and develop and implement a comprehensive and effective supervision program for the Enterprises on par with FHFA's peer financial regulators. Only by undertaking these significant efforts will it be possible to succeed in turning FHFA into "a world-class regulator."

The magnitude of the risk posed by the Enterprises is significantly greater than the magnitude of the risk posed by the FHLBanks and the Office of Finance together because the asset size of the latter is a fraction of the asset size of the former. For that reason, the majority of FHFA-OIG's work on supervision issues has focused on FHFA's supervision of the Enterprises. However, we also looked at elements of FHFA's supervision program for the FHLBanks. While our reports of that work identified some shortcomings, they did not identify significant weaknesses. Like any other federal financial regulator, FHFA faces challenges in appropriately tailoring and keeping current its supervisory approach to the FHLBanks.

Select FHFA-OIG Reports Issued During FY 2019 on Supervision Matters:

- *FHFA's Completion of Planned Targeted Examinations of Freddie Mac Improved from 2016 through 2018, But Timeliness Remained an Issue* (AUD-2019-013, September 17, 2019).
- *FHFA's Completion of Planned Targeted Examinations of Fannie Mae Improved from 2016 through 2018, But Timeliness Remained an Issue; With the June 2019 Issuance of the Single Security, FHFA Should Reassess its Supervision Framework for CSS* (AUD-2019-012, September 17, 2019).
- *Five Years After Issuance, Many Examination Modules Remain in Field Test; FHFA Should Establish Timelines and Processes to Ensure Timely Revision of Examiner Guidance* (EVL-2019-003, September 10, 2019).
- *Compliance Review of FHFA's Commitment to Evaluate Its Internal Quality Control Reviews Pertaining to Matters Requiring Attention* (COM-2019-007, September 9, 2019).
- *FHFA Conducted BSA/AML Program Examinations of 10 of 11 Federal Home Loan Banks During 2016-2018 in Accordance with its Guidelines, But Failed to Support a Conclusion in the Report of Examination for the Other Bank* (AUD-2019-008, July 10, 2019).

Challenge: Enhance Oversight of Cybersecurity at the Regulated Entities and Ensure an Effective Information Security Program at FHFA

Cybersecurity, as defined by the National Institute of Standards and Technology, is "the process of protecting information by preventing, detecting, and responding to attacks." In May 2017,

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President Trump issued an executive order to strengthen the cybersecurity of federal networks and critical infrastructure. The Financial Stability Oversight Council (FSOC), of which FHFA is a member, later reported:

> The financial system's increasing reliance on information technology, particularly across a broader array of interconnected platforms, increases the risk that a cybersecurity event could have severe negative consequences for the provision of financial services. . . . Sustained senior-level attention on cybersecurity risks and their potential systemic implications is necessary.[5]

FHFA's regulated entities are central components of the U.S. financial system and are interconnected with other large financial institutions. As part of their processes to guarantee or purchase mortgage loans, the Enterprises receive, store, and transmit significant information about borrowers, including financial data and personally identifiable information. Both the Enterprises and the FHLBanks have been the targets of cyberattacks. FHFA acknowledges that its regulated entities face significant cybersecurity risks, and the Agency understands its responsibility to provide effective oversight of the Enterprises' management of cybersecurity risks.

As cyberthreats and attacks at financial institutions increase in number and sophistication, FHFA faces challenges in designing and implementing its supervisory activities for the financial institutions it supervises. These supervisory activities may be made increasingly difficult by FHFA's continuing need to attract and retain highly-qualified technical personnel, with expertise and experience sufficient to handle rapid developments in technology.

FHFA issued an examination module for cybersecurity examinations for field testing in 2017, but never finalized it. The Agency advised us that this module continues to be revised. FHFA will be challenged to ensure that it: (1) completes its revised examination module and ensures that it reflects current challenges in the cybersecurity environment; (2) provides written guidance and training to examiners to aid them in their supervision of information technology and information security issues; (3) recruits and retains, or otherwise contracts for, a sufficient complement of examiners with the experience and expertise needed to conduct detailed examinations of information systems; (4) completes the planned supervisory activities in a timely matter; and (5) collects and analyzes sufficient data to understand the cybersecurity threats affecting its regulated entities.

Select FHFA-OIG Reports Issued During FY 2019 on Supervision of Cybersecurity Matters:

- *FHFA Should Enhance Supervision of its Regulated Entities' Cybersecurity Risk Management by Obtaining Consistent Cybersecurity Incident Data* (EVL-2019-004, September 23, 2019).

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[5] FSOC, *2018 Annual Report* at 7 (Updated June 20, 2019).

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- *Compliance Review of DBR's Examinations of Critical Cybersecurity Controls at the Federal Home Loan Banks* (COM-2019-004, May 7, 2019).

FHFA is one of a number of federal agencies involved in a national effort to protect the critical infrastructure of the U.S. financial services sector. Computer networks maintained by federal government agencies have been proven to be a tempting target for disgruntled employees, hackers, and other intruders. Over the past few years, cyber attacks against federal agencies have increased in frequency and severity. As cyber attacks continue to evolve and become more sophisticated and harder to detect, they pose an ongoing challenge for virtually every federal agency to fortify and safeguard its internal systems and operations.

As conservator of and supervisor for the Enterprises and supervisor for the FHLBanks, FHFA collects and manages sensitive information, including personally identifiable information, which it must safeguard from unauthorized access or disclosure. An independent public accounting firm under contract with our office audited FHFA's 2019 privacy program and concluded that FHFA had generally implemented effective privacy and data protection policies and procedures in accordance with law, regulation, and policy.

Equally important is the protection of its computer network operations that are part of the nation's critical financial infrastructure. FHFA is required to design information security programs to protect its computer networks. Our annual audits performed pursuant to the Federal Information Security Modernization Act of 2014 (FISMA) are intended to ensure FHFA's compliance with those standards and assist FHFA in strengthening protections over its network operations against those who would seek to attack its network. For Fiscal Year 2018, an independent public accounting firm under contract with FHFA-OIG determined that FHFA's information security program and practices were operating effectively, in compliance with FISMA, Office of Management and Budget guidance, and sampled security controls selected from National Institute of Standards and Technology Special Publication 800-53, Revision 4, *Security and Privacy Controls for Federal Information Systems and Organizations*.

The annual FISMA audit does not include penetration testing of FHFA's network and systems. So, during the past fiscal year, we performed internal and external penetration tests of FHFA's network and systems to determine whether FHFA's security controls were effective to protect its network and systems against internal and external threats. These audits identified a number of deficiencies. For example, without detection, we were able to access FHFA's internal network and run scans of its servers to search for vulnerabilities. We were also able to collect sensitive information, without detection. The deficiencies identified by these audits, if not remediated, pose serious risk to FHFA's network, systems, and information. FHFA management agreed to the recommendations we made to address the identified deficiencies, and has already taken corrective action on some, but continued management attention and action is required to ensure that FHFA's security controls protect its network and systems against internal and external threats.

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FHFA, like other federal agencies, faces challenges in enhancing its information security programs, ensuring that its internal and external online collaborative environments are restricted to those with a need to know, and ensuring that its third-party providers meet information security program requirements.

Select FHFA-OIG Reports Issued During FY 2019 on FHFA's Internal Controls Over Information Technology:

- *2019 Internal Penetration Test of FHFA's Network and Systems* (AUD-2019-014, September 24, 2019).
- *Audit of the Federal Housing Finance Agency's 2019 Privacy Program* (AUD-2019-009, August 28, 2019).
- *External Penetration Test of FHFA's Network and Systems During 2018* (AUD-2019-003, February 11, 2019).
- *Performance Audit of the Federal Housing Finance Agency's Information Security Program Fiscal Year 2018* (AUD-2019-001, October 24, 2018).

Challenge: Enhance Oversight of the Enterprises' Relationships with Counterparties and Third Parties

The Enterprises rely heavily on counterparties and third parties to properly originate and service the mortgages the Enterprises purchase and third parties to provide operational support for a wide array of professional services. As the Enterprises and FHFA recognize, that reliance exposes the Enterprises to a number of risks, including the risk that a counterparty will not meet its contractual obligations, and the risk that a counterparty will engage in fraudulent conduct. As FSOC has cautioned:

> Reliance by financial institutions on third parties to provide important operational functions has increased over the past several years. With the adoption of fintech innovations and the proliferation of large data sets, some financial institutions have outsourced portions of certain operational functions and data gathering requirements. . . . They are also using outside cloud computing services to supplement existing technology infrastructures for data storage, redundancy, and computational capacity. These services have information and cost benefits, but relying on outside firms for critical data and services also creates risks.[6]

FHFA has delegated to the Enterprises the management of their relationships with counterparties and third parties, and reviews their management largely through its supervisory activities. FHFA has acknowledged that "from a risk perspective there are some key differences between banks and non-banks that we need to address in a responsible way."[7]

[6] *Id.* at 91.
[7] FHFA, *Prepared Remarks of Dr. Mark A. Calabria, Director of FHFA, at 2019 Ginnie Mae Summit.*

Our publicly reportable criminal investigations include inquiries into alleged fraud by a variety of counterparties, including real estate brokers and agents, builders and developers, loan officers and mortgage brokers, and title and escrow companies.

In light of the financial, governance, and reputational risks arising from the Enterprises' relationships with counterparties and third parties, FHFA is challenged to effectively oversee the Enterprises' management of risks related to their counterparties and third parties.

Select FHFA-OIG Reports Issued During FY 2019 on FHFA's Oversight of the Enterprises' Relationships with Counterparties and Third Parties:

- *Compliance Review of FHFA's Suspended Counterparty Program* (COM-2019-002, January 25, 2019).

Management Concern: Sustain and Strengthen Internal Controls Over Agency and Enterprise Operations

FHFA's programs and operations are subject to legal and policy requirements common to federal agencies. Satisfying such requirements necessitates the development and implementation of, and compliance with, effective internal controls within the Agency.

As described in the Government Accountability Office's *Standards for Internal Control in the Federal Government*, "change can often be overlooked or inadequately addressed in the normal course of operations…. Changes in conditions affecting the entity and its environment often require changes to the entity's internal control system, as existing controls may not be effective for meeting objectives or addressing risks under changed conditions…. Further, changing conditions often prompt new risks or changes to existing risks that need to be assessed."

Our work demonstrates that FHFA is challenged to ensure that its existing controls, including its written policies and procedures, are sufficiently robust, and its personnel are adequately trained on these internal controls and comply fully with them.

Both the Agency and the Enterprises have also undergone significant leadership changes. In January 2019, Director Watt ended his term as FHFA Director, and FHFA now has a new Director and a new senior leadership team. Both Enterprises have new Chief Executive Officers. In addition, the terms of a number of Enterprise directors expired by year end 2018; Fannie Mae and Freddie Mac each added three new directors in 2019.

Changes in leadership can lead to a shift in resources away from implementing internal controls to new initiatives.

Select FHFA-OIG Reports Issued During FY 2019 on FHFA's Internal Controls over Agency Operations:

- *FHFA Should Name an Ombudsman and Document the Office of the Ombudsman's Procedures* (AUD-2019-011, September 16, 2019).

- *[FHFA Must Strengthen its Controls over the Hiring of Pathways Interns to Prevent the Improper Hiring of Relatives of Agency Employees]* (OIG-2019-004, March 26, 2019).
- *[FHFA's Offboarding Controls over Access Cards, Sensitive IT Assets, and Records Were Not Always Documented or Followed During 2016 and 2017]* (AUD-2019-004, March 13, 2019).

*****

For the coming year, our audits, evaluations, compliance reviews, and other work will focus on the challenges highlighted in this memorandum. Included in these efforts will be verification testing on closed recommendations to independently determine whether FHFA has implemented in full the corrective actions it represented to us that it intended to take and following up on open recommendations.

cc: Christopher Bosland, Senior Advisor for Regulation
Lawrence Stauffer, Acting Chief Operating Officer
Mark Kinsey, Chief Financial Officer
Alfred Pollard, General Counsel
John Major, Internal Controls and Audit Follow-Up Manager

Summary of Financial Statements Audit and Management Assurances

Table 25: Summary of Financial Statements Audit

Audit Opinion	**Unmodified**				
Restatement	**No**				
Material Weaknesses	Beginning Balance	New	Resolved	Consolidated	Ending Balance
Total Material Weaknesses	0	0	0	0	0

Table 26: Summary of Management Assurances

Effectiveness of Internal Control Over Financial Reporting (Federal Management Financial Integrity Act Paragraph 2)						
Statement of Assurance	**Unmodified**					
Material Weaknesses	Beginning Balance	New	Resolved	Consolidated	Reassessed	Ending Balance
Total Material Weaknesses	0	0	0	0	0	0
Effectiveness of Internal Control Over Operations (Federal Management Financial Integrity Act Paragraph 2)						
Statement of Assurance	**Unmodified**					
Material Weaknesses	Beginning Balance	New	Resolved	Consolidated	Reassessed	Ending Balance
Total Material Weaknesses	0	0	0	0	0	0
Conformance with Federal Financial Management System Requirements (Federal Management Financial Integrity Act Paragraph 4)						
Statement of Assurance	**Systems conform to financial management system requirements**					
Non-Conformances	Beginning Balance	New	Resolved	Consolidated	Reassessed	Ending Balance
Total Non-Conformances	0	0	0	0	0	0

Compliance with Section 803(a) of the Federal Financial Management Improvement Act (Federal Management Financial Integrity Act Paragraph 4)		
	Agency	**Auditor**
1) Federal Financial Management System Requirements	No lack of compliance noted	No lack of compliance noted
2) Applicable Federal Accounting Standards	No lack of compliance noted	No lack of compliance noted
3) USSGL at Transaction Level	No lack of compliance noted	No lack of compliance noted

Payment Integrity

The Improper Payments Information Act, as amended, requires that agencies: (1) review programs and activities' susceptibility to significant improper payments; (2) estimate the amount of annual improper payments for those programs and activities and implement a plan to reduce them; and (3) report the estimated amount of improper payments and the progress to reduce them. The Act defines "significant improper payments" as the gross annual improper payments exceeding either a) both 1.5 percent of program outlays and $10 million of all program or activity payments made during the fiscal year reported, or b) $100 million (regardless of the percentage of total program outlays).

FHFA, in the spirit of compliance and as part of its sound internal control structure, has established controls to detect and prevent improper vendor payments. FHFA accesses and reviews the exclusions list in the System for Award Management to ensure that potential awardees do not appear on the list prior to awarding contracts. FHFA contracts with the Bureau of the Fiscal Service for accounting services including payments to vendors. The supplier database is compared to the Do Not Pay portal on a daily basis. A copy of the supplier database is sent to the Do Not Pay portal once a week. Additionally, matching results are pulled from the Do Not Pay portal once a week. The matching results are researched and acted on, as appropriate. FHFA has not identified any programs or activities susceptible to significant improper payments that meet the Act's thresholds. In May 2019, FHFA OIG reported that FHFA complied with applicable provisions of the Act, as amended, as well as the related OMB guidance during fiscal year 2018.[54]

[54] https://paymentaccuracy.gov.

Fraud Reduction Report

FHFA's approach to fraud prevention and detection begins with the Agency's leadership. The administrative law group led by the Alternate Designated Agency Ethics Official in the Office of General Counsel manages the day-to-day operations of the ethics program that covers both FHFA and FHFA OIG employees. The administrative law group maintains an ethics webpage on the Agency's intranet site and provides guidance on various topics such as whistleblower protections, conflicts of interest, financial disclosures, post-employment, and outside employment. The page contains the Standards of Ethical Conduct for employees of the Executive Branch and Supplemental Standards of Ethical Conduct for employees of FHFA. The administrative law group provides annual ethics training and new hire orientation training for FHFA and FHFA OIG employees. Training includes ways to identify and report potentially fraudulent or fraudulent activities.

Additionally, FHFA has two Agency-wide groups, the Internal Control Group and the A-123 Assessment Working Group (AAWG), which create annual assessments consisting of lists of topics and questions that are administered to each business unit by AAWG. AAWG point of contacts do not perform tasks they are assessing. All results are analyzed and presented to the Executive Committee on Internal Controls.

The analysis of the responses allows the Internal Control Group and AAWG to determine areas vulnerable to fraud and next steps to address them. The risk of fraud is also considered by the Risk Management Working Group as part of the enterprise risk management risk identification process. Fraud Risk Assessment is built into Internal Control over Financial Reporting Risk Assessment and Testing as business units' access to financial transactions is limited to:

- Contracting,
- Inventory/Purchase Requisitions,
- Purchase Cards,
- Payroll, and
- Travel.

FHFA's strategy to prevent fraud risk is based on education, awareness, and ease of reporting. Fraud risk is mitigated by employee background checks, fraud-awareness training, system edit checks, system access, data matching to verify eligibility, segregation of duties, standards of conduct, data monitoring, and transaction limits.

Civil Monetary Penalty Adjustment for Inflation

Table 27: Civil Monetary Penalty Adjustment for Inflation

ENFORCEMENT REGULATIONS:

Statutory Authority	Penalty	Year Enacted	Latest Year of Adjustment	Current Penalty Level	Location for Penalty Update Details
Safety and Soundness Act 12 U.S.C. 4636 (b) (1)	First Tier	2008	2019	$11,677	Federal Register 84 (March 2019) 9702 – 9705
Safety and Soundness Act - 12 U.S.C. 4636 (b) (2)	Second Tier	2008	2019	$58,383	Federal Register 84 (March 2019) 9702 – 9705
Safety and Soundness Act - 12 U.S.C. 4636 (b) (4)	Third Tier – Entity affiliated party and regulated entity	2008	2019	$2,335,323	Federal Register 84 (March 2019) 9702 – 9705

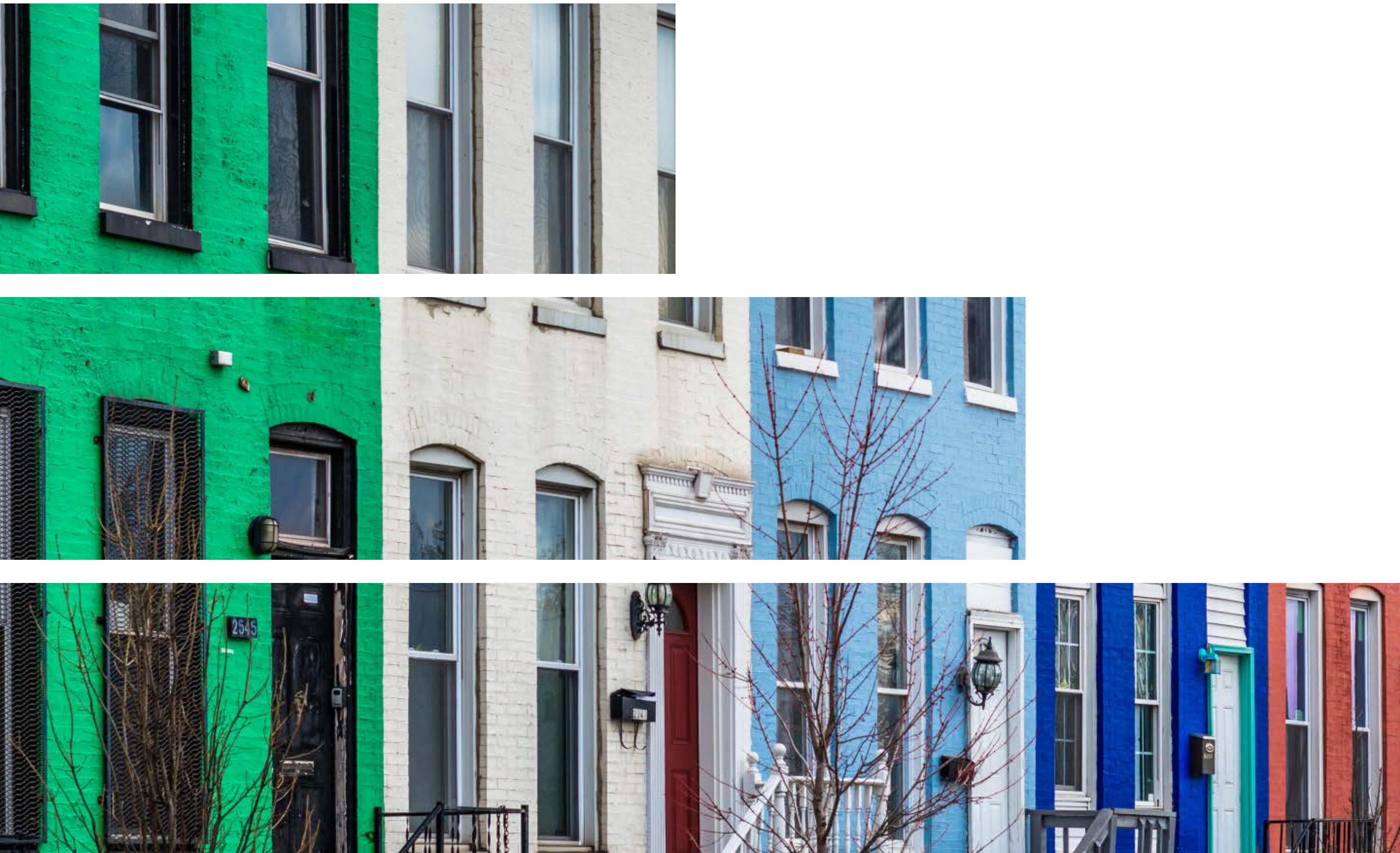
PROGRAM FRAUD CIVIL REMEDIES REGULATION:

Statutory Authority	Penalty	Year Enacted	Latest Year of Adjustment	Current Penalty Level	Location for Penalty Update Details
Program Fraud Civil Remedies Act 31 U.S.C. 3802 (a) (1)	Maximum penalty per false claim	2009	2019	$11,463	Federal Register 84 (March 2019) 9702 – 9705
Program Fraud Civil Remedies Act 31 U.S.C. 3802 (a) (2)	Maximum penalty per false statement	2009	2019	$11,463	Federal Register 84 (March 2019) 9702 – 9705

FLOOD INSURANCE REGULATION:

Statutory Authority	Penalty	Year Enacted	Latest Year of Adjustment	Current Penalty Level	Location for Penalty Update Details
National Flood Insurance Act of 1968 42 U.S.C. 4012a (f) (5)	Maximum penalty per violation	2009	2019	$568	Federal Register 84 (March 2019) 9702 – 9705
National Flood Insurance Act of 1968 42 U.S.C. 4012a (f) (5)	Maximum total penalties assessed against an Enterprise in a calendar year	2009	2019	$163,772	Federal Register 84 (March 2019) 9702 – 9705

APPENDIX



Glossary

Advance – A secured extension of credit or loan from an FHLBank to a member or housing associate.

Capital Magnet Fund – Offers grants that are competitively awarded by the U.S. Department of the Treasury Community Development Financial Institutions Fund to finance affordable housing solutions and community revitalization efforts that benefit low-income people and communities nationwide.

Common Securitization Platform (CSP) – The operational and technical platform used by the Enterprises to issue and administer a common mortgage-backed security.

Common Securitization Solutions, LLC (CSS) – The joint venture of Fannie Mae and Freddie Mac that owns and operates the Common Securitization Platform.

Community Investment Cash Advance (CICA) – CICA programs offer funding for FHLBank members to provide financing for projects that are targeted to certain economic development activities. CICA lending is targeted to specific beneficiaries, including small businesses and certain geographic areas.

Community Investment Program (CIP) – Advances from this FHLBank program finance housing for households with incomes up to 115 percent of the area median income, commercial and economic development activities that benefit low- and moderate-income families, or activities located in low- and moderate-income neighborhoods.

Credit Risk Transfer – The transfer of a portion of mortgage credit risk from the Enterprises to private investors.

Conservatorship – A statutory process designed to stabilize a troubled institution with the objective of maintaining normal business operation and restoring safety and soundness.

Enterprise(s) – Fannie Mae and Freddie Mac.

Home Affordable Refinance Program (HARP®) – A program that enabled borrowers who had little or no equity but were current on their mortgages to refinance into lower mortgage payments. The program, which expired in December 2018, focused on mortgages Fannie Mae and Freddie Mac already held in their portfolios or guaranteed through their mortgage-backed securities. It provided unique flexibilities on the level of credit enhancement required on loans with LTV ratios greater than 80 percent.

Matter Requiring Attention (MRA) – A specific written recommendation made to an Enterprise or FHLBank management for serious supervisory matters that require attention and correction, but that does not include consent order items. Each MRA response requires a due date for correction.

Mortgage-backed Security (MBS) – A type of asset-backed security which is secured by a mortgage or collection of mortgages.

Neighborhood Stabilization Initiative (NSI) – An initiative jointly developed by FHFA and the Enterprises to stabilize neighborhoods that were hardest hit by the housing downturn, and to reduce the inventory of real estate-owned properties held by Fannie Mae and Freddie Mac.

Retained Portfolios – The investment portfolio of mortgage loans and mortgage securities held by the Enterprises that is funded by unsecured debt issued by the Enterprises. The retained portfolio is primarily utilized to support loss mitigation activities, provide liquidity for the mortgage market, and generate income. The retained portfolio does not include liquidity-related investments, such as Treasury securities.

Senior Preferred Stock Purchase Agreement (PSPA) – Capital stock owned by Treasury, which pays specific dividends before preferred stock or common stock dividends. In the event of liquidation, senior preferred stock takes precedence over preferred and common stock.

"To-Be-Announced" (TBA) Markets – Forward markets for certain mortgage-backed securities.

Uniform Mortgage-Backed Security (UMBS) – A single-class MBS backed by fixed-rate mortgage loans on 1-to-4 unit (single-family) properties issued by either Enterprise, which has the same characteristics (such as payment delay, pooling prefixes, and minimum pool submission amounts) regardless of which Enterprise is the issuer. The UMBS was launched June 3, 2019.

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Acknowledgements

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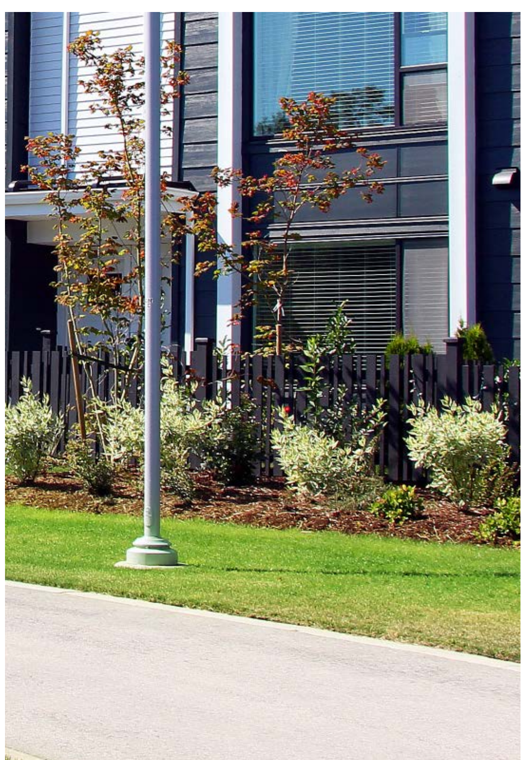

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