U.S. GOVERNMENT ACCOUNTABILITY OFFICE
441 G St. N.W.
Washington, DC 20548

November 15, 2017

The Honorable Michael Crapo
Chairman
The Honorable Sherrod Brown
Ranking Member
Committee on Banking, Housing, and Urban Affairs
United States Senate

The Honorable Jeb Hensarling
Chairman
The Honorable Maxine Waters
Ranking Member
Committee on Financial Services
House of Representatives

Financial Audit: Federal Housing Finance Agency's Fiscal Years 2017 and 2016 Financial Statements

This report transmits the GAO auditor's report on the results of our audits of the fiscal years 2017 and 2016 financial statements of the Federal Housing Finance Agency (FHFA), which is incorporated in the enclosed *Federal Housing Finance Agency Performance and Accountability Report for Fiscal Year 2017*.

As discussed more fully in the auditor's report that begins on page 54 of the enclosed agency performance and accountability report, we found

- the FHFA financial statements as of and for the fiscal years ended September 30, 2017, and 2016, 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, 2017; and
- no reportable noncompliance for fiscal year 2017 with provisions of applicable laws, regulations, contracts, and grant agreements we tested.

The Housing and Economic Recovery Act of 2008 established FHFA as an independent agency empowered with supervisory and regulatory oversight of the housing-related government-sponsored enterprises: the Federal National Mortgage Association (Fannie Mae), the Federal Home Loan Mortgage Corporation (Freddie Mac), the 11 Federal Home Loan Banks, and the Office of Finance.[1] This act requires FHFA to annually prepare financial statements and requires GAO to audit the agency's financial statements.[2] In accordance with the act, we have audited FHFA's financial statements.

[1]The 11 Federal Home Loan Banks and the Office of Finance, whose primary function is to issue and service all debt securities for the Federal Home Loan Banks, constitute the Federal Home Loan Bank System.

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

We are sending copies of this report to the Chairman of the Federal Housing Finance Oversight Board, the Secretary of the Treasury, the Secretary of Housing and Urban Development, the Chairman of the Securities and Exchange Commission, the Director of the Office of Management and Budget, and other interested parties. In addition, the report is available at no charge on the GAO website at http://www.gao.gov.

If you or your staffs have any questions concerning this report, please contact me at (202) 512-3406 or malenichj@gao.gov. Contact points for our Offices of Congressional Relations and Public Affairs may be found on the last page of this report.

J. Lawrence Malenich
Director
Financial Management and Assurance

Enclosure

(101998)

FY2017

PERFORMANCE & ACCOUNTABILITY REPORT

FHFA'S MISSION, VISION, AND VALUES

MISSION

Ensure that 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.

VISION

A reliable, stable, and liquid housing finance system.

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

AB	Advisory Bulletin
AHP	Affordable Housing Program
AMA	Acquired Member Assets
AMI	Area Median Income
APP	Annual Performance Plan
Bank Act	Federal Home Loan Bank Act
CAMELSO	Capital, Asset quality, Management, Earnings, Liquidity, Sensitivity to market risk, and Operational risk
CFPB	Consumer Financial Protection Bureau
CIP	Community Investment Program
CRT	Credit Risk Transfer
CSP	Common Securitization Platform
CSS	Common Securitization Solutions, LLC
DBR	Division of Federal Home Loan Bank Regulation
DER	Division of Enterprise Regulation
DHMG	Division of Housing Mission and Goals
DOC	Division of Conservatorship
ECIC	Executive Committee on Internal Controls
EIC	Examiner in Charge
Fannie Mae	Federal National Mortgage Association
FHFA	Federal Housing Finance Agency
FHLBanks	Federal Home Loan Banks
FISMA	Federal Information Security Management Act
FMFIA	Federal Managers' Financial Integrity Act
Freddie Mac	Federal Home Loan Mortgage Corporation
GAAP	Generally Accepted Accounting Principles
GAO	U.S. Government Accountability Office
HAMP	Home Affordable Modification Program
HARP	Home Affordable Refinance Program
HMDA	Home Mortgage Disclosure Act
HERA	Housing and Economic Recovery Act of 2008
HPI	House Price Index
HUD	U.S. Department of Housing and Urban Development
LTV	Loan-to-Value
MBS	Mortgage-Backed Securities
MRA	Matters Requiring Attention
MVE	Market Value of Equity
NIST	National Institute of Standards and Technology
NMDB	National Mortgage Database
NPL	Non-Performing Loan
NSI	Neighborhood Stabilization Initiative
OGC	Office of General Counsel
OIG	Office of Inspector General
OMB	Office of Management and Budget
OMWI	Office of Minority and Women Inclusion
PAR	Performance and Accountability Report
PCs	Participation Certificates
PLS	Private-label Mortgage-backed Securities
PSPA	Senior Preferred Stock Purchase Agreement
PVCS	Par Value of Capital Stock
REO	Real Estate Owned
RIF	Risk in Force
ROE	Report of Examination
STACR	Structured Agency Credit Risk
UMBS	Uniform Mortgage-Backed Securities

TABLE OF CONTENTS

MESSAGE FROM THE DIRECTOR

I am pleased to issue the Federal Housing Finance Agency's (FHFA) Performance and Accountability Report for fiscal year (FY) 2017. FHFA was established by the Housing and Economic Recovery Act of 2008 and 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, which includes 11 Federal Home Loan Banks (Banks or FHLBanks) and the Office of Finance. The Agency's mission is to ensure that 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 also served as conservator of Fannie Mae and Freddie Mac (together, the Enterprises).

In FY 2017, FHFA made notable progress on its three strategic goals: 1) ensuring safe and sound regulated entities, 2) ensuring liquidity, stability, and access in housing finance, and 3) managing the Enterprises' ongoing conservatorships.

This report addresses FHFA's activities as regulator of the FHLBank System and as regulator and conservator of Fannie Mae and Freddie Mac from October 1, 2016 through September 30, 2017, and meets the requirements of the Government Performance and Results Modernization Act of 2010. The report also provides the FY 2017 financial statements and analysis for FHFA, which reflect that, for the ninth consecutive year, FHFA received an unmodified audit opinion on its financial statements from the U.S. Government Accountability Office. FHFA has no material internal control weaknesses and the financial and performance data contained in this report are reliable and complete in accordance with Office of Management and Budget Circulars A-123 and A-136.

Sincerely,

MELVIN L. WATT
Director, Federal Housing Finance Agency
November 15, 2017

MANAGEMENT'S DISCUSSION AND ANALYSIS

ABOUT THE FEDERAL HOUSING FINANCE AGENCY

BACKGROUND ON FHFA'S STATUTORY OBLIGATIONS

The Federal Housing Finance Agency (FHFA) was established by the Housing and Economic Recovery Act of 2008 (HERA) and 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, which includes 11 Federal Home Loan Banks (Banks or FHLBanks) and the Office of Finance. The Agency's mission is to ensure that 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 also served as conservator of Fannie Mae and Freddie Mac (together, the Enterprises).

FHFA's Regulatory Oversight of the Federal Home Loan Banks, Fannie Mae and Freddie Mac. As part of the Agency's statutory authority in overseeing the Federal Home Loan Bank System and the Enterprises, the Federal Housing Enterprises Financial Safety and Soundness Act (the Safety and Soundness Act) as amended by HERA, requires FHFA to fulfill the following duties:

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

(B) to 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 statutes; and

(v) the activities of each regulated entity and the manner in which such regulated entity is operated are consistent with the public interest. 12 U.S.C. § 4513(a)(1).

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. Since the Enterprises were placed into conservatorships, the U.S. Department of the Treasury (Treasury Department) has provided essential financial commitments of taxpayer funding under the Senior Preferred Stock Purchase Agreement (PSPAs). Fannie Mae and Freddie Mac have drawn a combined total of $187.5 billion in taxpayer support under the PSPAs to date. As of September 30, 2017, the Enterprises have paid the Treasury Department a total of $275.8 billion in dividends on senior preferred stock. Under the terms of the PSPAs, the Enterprises' dividend payments do not offset the amounts drawn from the Treasury Department. FHFA continues to oversee these 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:

(C)…take such action as may be—

(vi) necessary to put the regulated entity in a sound and solvent condition; and

(vii) appropriate to carry on the business of the regulated entity and preserve and conserve the assets and property of the regulated entity. 12 U.S.C. § 4617(b)(2)(D).

Carrying on 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." 12 U.S.C. § 5220(b)(1).

FHFA, acting as conservator and regulator, must follow the mandates assigned to it by statute and oversee the missions assigned to the Enterprises by their charters until such time as Congress revises those mandates and missions.

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. These mortgages are pooled into mortgage-backed securities (MBS), guaranteed by the Enterprises, and sold to investors. In addition, to reduce their credit risk exposure, the Enterprises routinely sell a portion of their credit risk on newly acquired single-family mortgages in targeted categories to the private sector (see Figure 1). The Enterprises also purchase multifamily mortgages, and each Enterprise uses a different model of credit risk sharing for these purchases. Fannie Mae uses loss-sharing transactions through a delegated underwriting system. Freddie Mac uses a capital markets execution that transfers the bulk of its credit risk.

As previously stated, the Enterprises continue to operate under conservatorships.

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

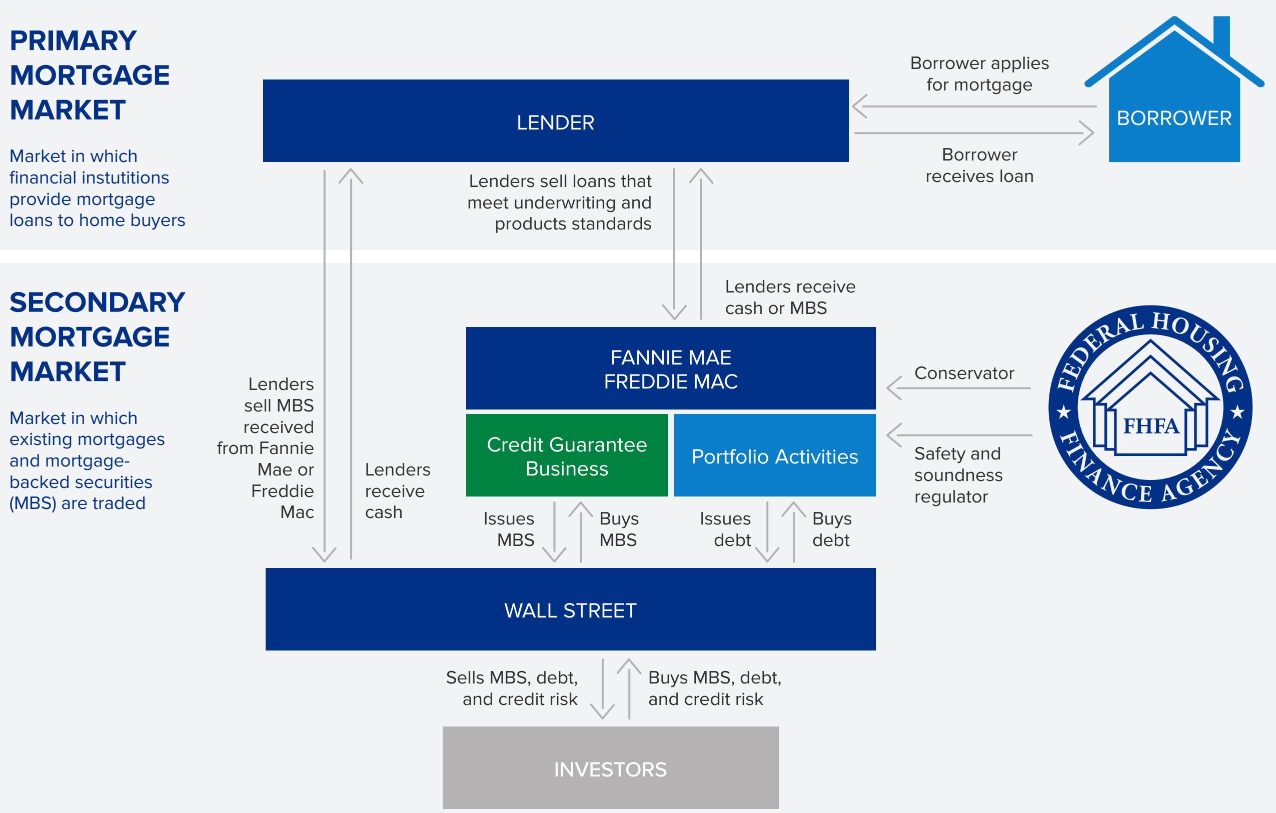
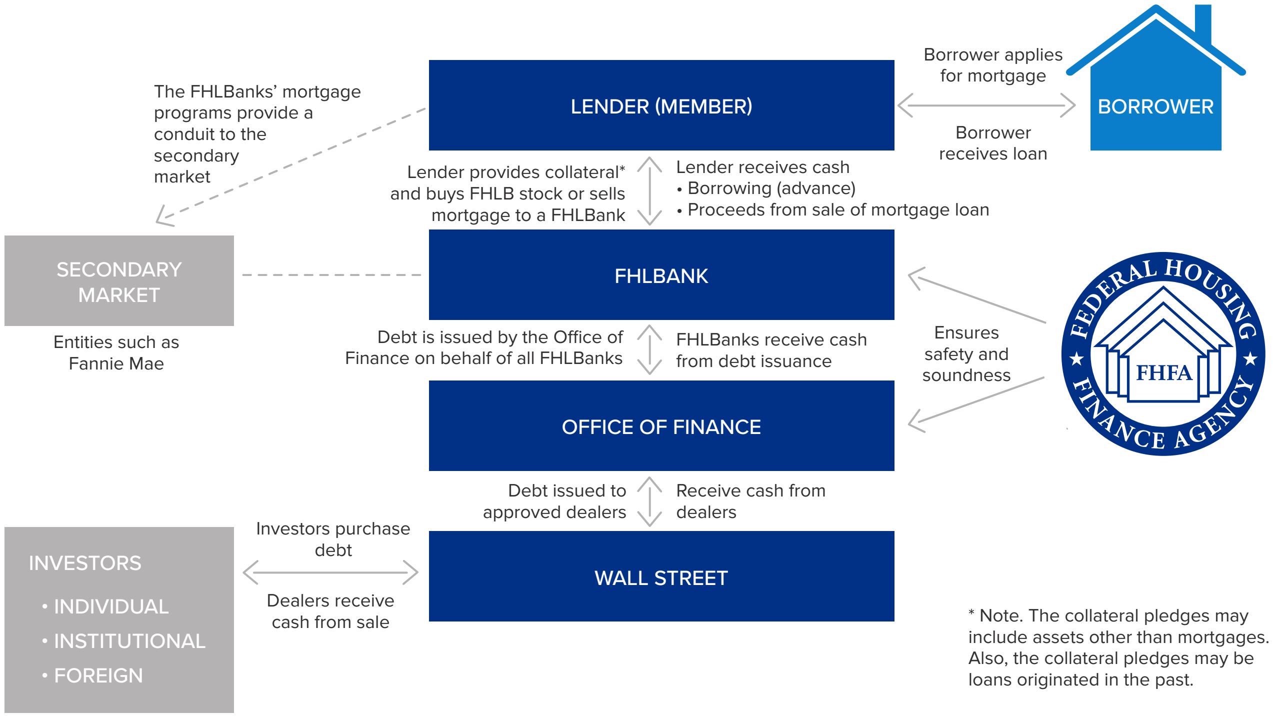


Figure 2: FHFA's Oversight Role – Federal Home Loan Banks & Office of Finance



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, which issues consolidated obligations to fund the FHLBanks. 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 (see Figure 2). These advances increase the available funding for residential mortgages. As of September 30, 2017, there were 7,016 active FHLBank members consisting of commercial banks, thrifts, credit unions, insurance companies and community development financial institutions.

Table 1 illustrates the scope of the regulated entities' involvement in the housing market in FY 2017.

Table 1: Regulated Entities' Business Activity

October 1, 2016 - September 30, 2017
($ in billions)

Enterprise New Business	Single-Family Purchase	$467
	Single-Family Refinance	$448
	Multifamily	$124
	Total:	**$1,039**[a]
FHLBank New Business	On-Balance Sheet Acquired Member Assets (AMA) Mortgages [b,c]	$13
	Off-Balance Sheet Mortgages	$4
FHLBank AMA Mortgages Outstanding		$52
FHLBank Advances Outstanding		$719

a Publicly available 10Ks, 10Qs and Credit Supplement Reports. Numbers may not sum due to rounding.

b Under AMA programs, the FHLBanks acquire and hold (on their balance sheet) conforming and government guaranteed or insured loans.

c AMA mortgages are mortgages purchased by the FHLBanks 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.

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, insurance, technology, accounting, and legal matters.

The Agency operated with a budget of $199.5 million in FY 2017, and ended the fiscal year with 593 employees on board. For FY 2018, FHFA's budget remains flat at $199.8 million. During this same period, FHFA's Office of Inspector General (OIG) operated with a FY 2017 budget of $49.9 million and ended the fiscal year with 130 employees. The OIG's FY 2018 budget remained the same at $49.9 million, which supports 155 positions (see Table 2).

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 described below and shown in Figure 3.

The Office of the Chief Operating Officer oversees the Agency's day-to-day support operations including facilities management, continuity of operations, financial planning and budgeting, contracting, human resource management, information technology, quality assurance, internal and external communications, and audit follow-up functions. The office leads reporting on strategic planning and accountability.

The Division of Enterprise Regulation (DER) is responsible for the supervision of 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, developing and preparing the annual reports of examination, issuing supervision policy and examiner guidance, providing examiner training, and providing accounting guidance and risk analysis. The Division also provides support and advice to the Agency on supervisory issues.

Table 2: FHFA Budget and Staffing Summary

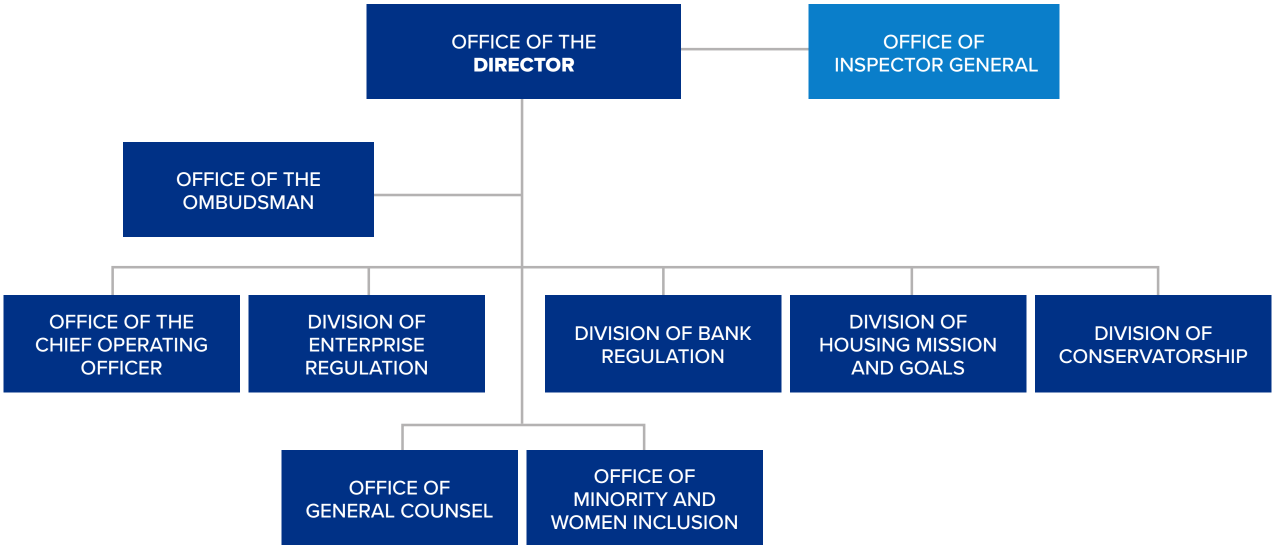
Operating Budgets (in millions)		
	FY 2017 Year End	FY 2018 Budgeted
FHFA	$199.5	$199.8
FHFA OIG	$49.9	$49.9
FHFA Employees (by specialized area)	**As of 9/30/2017**	
	FY 2017 Year End	**FY 2018 Budgeted**
Supervision	262	279
Mission regulation	113	122
Conservatorship	23	26
Legal	41	43
Information Technology	46	48
Congressional and Agency Communications	12	14
Diversity and Inclusion	15	17
Office of the Director	10	10
Other Support Functions	71	74
Total FHFA	593	633
Total FHFA OIG	130	155

FY 2018 staffing numbers are budgeted positions. FY 2017 staffing numbers are on-board positions as of September 30, 2017.

The Division of Federal Home Loan Bank Regulation (DBR) is responsible for supervising the FHLBanks and the Office of Finance to ensure their safe and sound operation. The division oversees and directs all FHLBank examination activities, develops examination findings, and prepares annual examination reports. DBR monitors and assesses the financial condition and performance of the FHLBanks and the Office of Finance 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) on-site examinations and visits 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) is responsible for FHFA's housing policy development and analysis. The division administers housing

Figure 3: FHFA Principal Organization Structure



and regulatory policy, the mission and goals of the Enterprises, and the housing finance and 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. Additionally, the division leads, coordinates, and clarifies Agency and Enterprise activities related to the *2014 Strategic Plan for the Conservatorships of Fannie Mae and Freddie Mac* (*2014 Conservatorship Strategic Plan*).

The Office of General Counsel (OGC) advises and supports the Director and FHFA staff on legal matters related to the functions, activities, and operations of FHFA and the regulated entities. It supports supervision functions, regulations writing, housing mission policy initiatives, and enforcement actions. OGC oversees the bringing or defense of litigation. OGC also manages the Freedom of Information Act and Privacy Act programs. The ethics official advises, counsels, and trains FHFA employees on ethical standards and conflicts of interest and manages the Agency's financial disclosure program.

The Office of Minority and Women Inclusion (OMWI) is responsible for all matters of diversity in employment, management, and business activities at FHFA as well as programs to monitor the inclusion of minorities, women, and individuals with disabilities at the regulated entities. OMWI ensures that FHFA is compliant with Equal Employment Opportunity laws and regulations.

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

The Office of Inspector General (OIG) is responsible for conducting independent audits, evaluations, and investigations to help FHFA achieve its mission and goals and guard against waste, fraud, and abuse. The 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.

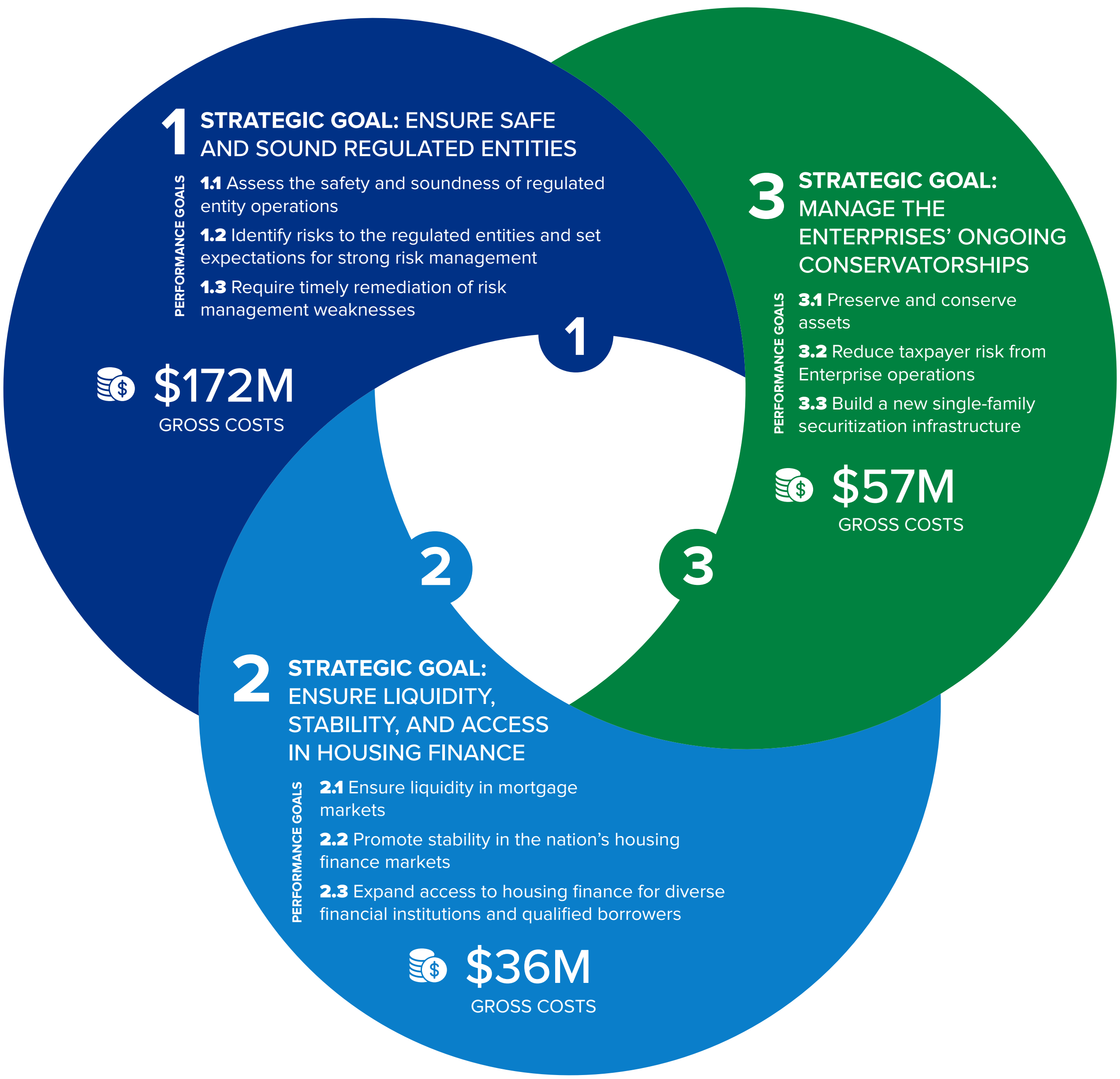
PERFORMANCE SUMMARY

STRATEGIC AND PERFORMANCE GOALS

In November 2014, FHFA published its FY 2015 – FY 2019 Strategic Plan,[1] which set out three strategic and nine performance goals for the Agency. The goals are presented in Figure 4. The performance measures associated with these strategic goals are presented on pages 22-23.

1 In FY 2017, FHFA developed a Strategic Plan for FY 2018 – 2022 to fulfill the Agency's obligation. The new strategic plan was released for public input on September 27, 2017, and the comment period closed on October 27, 2017.

Figure 4: FHFA's Strategic and Performance Goals with Resource Allocation



ALLOCATING RESOURCES TO STRATEGIC GOALS

FHFA tracks program costs to the strategic goals outlined in FHFA's Strategic Plan. Figure 4 reflects the actual gross costs expended on each strategic goal.

PERFORMANCE HIGHLIGHTS BY STRATEGIC GOAL

STRATEGIC GOAL 1: ENSURE SAFE AND SOUND REGULATED ENTITIES

1. Supervision of the Regulated Entities

FHFA's mission is to ensure that 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. 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. FHFA supervision staff identify existing and potential risks, evaluate the overall integrity and effectiveness of the entities' systems and controls, determine compliance with laws and regulations, and assess safety and soundness.

In FY 2017, FHFA carried out examinations of both the Enterprises and the FHLBanks.[2] For the Enterprises, FHFA conducted on-site examinations, ongoing risk analysis, and off-site review and monitoring of Fannie Mae and Freddie Mac through its supervisory program. As in previous years, FHFA conducted examinations in accordance with approved 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. For the FHLBanks, FHFA maintained its schedule of annual, on-site examinations at each FHLBank and the Office of Finance, conducted ongoing risk analysis, and performed offsite and onsite review and monitoring. Examinations and ongoing supervision adhere to annually established supervisory strategies and examination plans for each FHLBank and the Office of Finance.

For examination work at each Enterprise and FHLBank, an Examiner-in-Charge leads examination activity. An on-site team, in coordination with other subject matter experts, carries out 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.

For each regulated entity, FHFA prepares an annual Report of Examination (ROE),[3] which identifies weaknesses and includes composite and component ratings as set forth in the Capital, Asset quality, Management, Earnings, Liquidity, Sensitivity to market risk, and Operational risk (CAMELSO) rating system. In FY 2017, FHFA delivered ROEs to the Enterprises (March 2017) and to the FHLBanks according to FHFA's examination schedule. Each regulated entity's ROE is delivered to its board of directors and management.

FHFA communicates supervisory standards to the regulated entities that establish expectations for strong risk management and require remediation of identified deficiencies. Where there are significant supervisory concerns or violations of law or regulation by one of the regulated entities, FHFA issues Matters Requiring Attention (MRAs) that require the board of directors and/or management to take corrective action to address deficiencies and violations. 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, which are discussed in greater detail in the following pages.

2. Financial Condition of the Enterprises[4]

The financial condition of the Enterprises continues to improve. They have strengthened their underwriting and eligibility standards for

2 Section 1317(a) of the Federal Housing Enterprises Financial Safety and Soundness Act of 1992 (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 Federal Home Loan Bank Act (Bank Act), as amended, 12 USC § 1440.

3 FHFA does this under the authority given to the Agency in Section 1317(a) of the Safety and Soundness Act (12 USC § 4517(a)).

4 Unless otherwise stated, the Enterprises' financial results are for FHFA's fiscal year, from October 1 to September 30. The reported financial results may not match the Enterprises' public statements, as the Enterprises' fiscal year runs January 1 to December 31.

loans that they acquired since 2008. Certain higher-risk mortgage products, such as no-income documentation or interest-only mortgages, have been eliminated from the Enterprises' new guarantees. As a result, they have seen improvement in the credit quality of their single-family guarantee book of business. The Enterprises' ownership of single-family seriously delinquent loans, defined as loans that are more than 90 days overdue, is declining. There were approximately 321,000 seriously delinquent loans as of September 30, 2016 and approximately 265,000 seriously delinquent loans as of September 30, 2017, a decline of 17 percent. Further, the number of homes the Enterprises own through foreclosure declined to approximately 38,000 properties at the end of the third quarter of 2017, a 30 percent reduction compared with approximately 54,000 properties at the end of the third quarter of 2016.

Below is a summary of the Enterprises' financial results through September 30, 2017.

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. The Enterprises' earnings are also subject to market volatility as the value of the Enterprises' assets are subject to change with price fluctuations in the housing market. Given the large size of the Enterprises' guarantee portfolios, small changes in home prices and interest rates may have a significant impact on financial performance.

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 have the impact of reducing 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 are constrained by the PSPAs from building capital while they remain in conservatorship. The capital reserves for each Enterprise for 2017 are $600 million and are scheduled to decline to zero by January 1, 2018. As the capital reserve amount under the PSPAs declines to zero, the prospect of a quarterly loss resulting in a draw against the funding commitment available from the Treasury Department will increase.

Table 3: Summary of First Three Quarters of 2017 and Full Year 2016 Financial Results—Enterprises (in $Billions)

	Fannie Mae				Freddie Mac			
	2017			2016 Annual	2017			2016 Annual
	Q1	Q2	Q3		Q1	Q2	Q3	
Net Income (Loss)	$2.8	$3.2	$3.0	$12.3	$2.2	$1.7	$4.7	$7.8
Comprehensive Income (Loss)*	$2.8	$3.1	$3.0	$11.7	$2.2	$2.0	$4.7	$7.1

* 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.

Current Expected Credit Loss Model

In June 2016, the Financial Accounting Standards Board issued Accounting Standards Update (ASU) 2016-13, which requires significant changes to how companies record their loan loss reserves in the financial statements. The ASU becomes effective on January 1, 2020, and companies can elect to adopt the standards early on January 1, 2019.

Under the new rule, from the time companies first originate or purchase loans and debt securities held for long-term investments, they must reserve funds to cover credit losses expected over the life of these assets. Under the current rule, companies 1) record a loss reserve only when it is probable that losses have been incurred and 2) measure the loss at the amount incurred to date. The ASU is intended to provide sufficient reserves on the books of financial institutions in the event of a financial crisis. Companies will set aside a larger amount of funds sooner to cover for expected future credit losses, which will be reflected in institutions' financial statements. FHFA is monitoring the implementation of this ASU at the Enterprises and the FHLBanks.

3. Financial Condition of the FHLBanks[5]

The financial condition and performance of the FHLBanks was strong during the 12-month period ending September 30, 2017. All 11 FHLBanks were profitable, earning a combined $3.4 billion on $4.3 billion of net interest income after provision for credit losses.

During the last fiscal year ending September 30, 2017, the FHLBanks recaptured $250 million of losses previously taken as credit-based other-than-temporary impairments and earned a combined $257 million from litigation settlements primarily related to private-label MBS holdings. The FHLBanks of San Francisco and Des Moines received the majority of the settlements at $177 million and $60 million, respectively. Total other income was $931 million, in part related to derivatives and hedging gains of certain advances. Operating expenses totaled $1 billion for fiscal year 2017.

Member demand for FHLBank advances increased $30.8 billion over the past fiscal year, resulting in $719.4 billion of advances outstanding at September 30, 2017. Advances made up 66 percent of total FHLBank System assets. Mortgages purchased from Bank members totaled $52.2 billion, or 5 percent of total FHLBank System assets.

Other assets primarily include liquidity investments, including cash, along with MBS. Combined, other assets were $322.7 billion and represented 29 percent of total FHLBank System assets. Of the total, liquidity and cash represented $141.0 billion, while total MBS was $140.2 billion. Most of the MBS portfolio was agency MBS, with only $9.5 billion, or 1 percent of assets, 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 trillion as of September 30, 2017, of which discount notes were 40 percent. At the end of the third calendar quarter of 2017, 75 percent of total consolidated obligations had a remaining time to contractual maturity of less than one year.

Table 4, Summary of First Three Quarters of 2017 and Full Year 2016 Financial Results for the FHLBanks, provides a summary of the FHLBanks' financial results through September 30, 2017.

5 Unless otherwise specified, FHLBank financial results are for FHFA's fiscal year, from October 1 to September 30. The reported financial results may not match the FHLBanks' public statements, as the FHLBanks fiscal year runs January 1 to December 31.

Table 4: Summary of First Three Quarters of 2017 and Full Year 2016 Financial Results—FHLBanks (in $Millions)

	Net Income (Loss)			
	2017			2016 Annual
	Q1	Q2	Q3	
FHLBank of Boston	$37.4	$39.4	$45.6	$173.2
FHLBank of New York	$69.6	$130.9	$133.7	$401.2
FHLBank of Pittsburgh	$86.8	$88.0	$83.9	$260.0
FHLBank of Atlanta	$75.4	$85.2	$95.5	$278.2
FHLBank of Cincinnati	$65.2	$86.6	$77.7	$268.2
FHLBank of Indianapolis	$31.6	$37.7	$40.7	$113.0
FHLBank of Chicago	$72.6	$79.9	$76.3	$327.0
FHLBank of Des Moines	$139.5	$130.7	$132.1	$649.4
FHLBank of Dallas	$35.1	$43.8	$40.0	$79.4
FHLBank of Topeka	$53.7	$45.6	$49.5	$161.8
FHLBank of San Francisco	$148.1	$80.3	$80.8	$712.2
FHLBank System	$815.1	$848.0	$856.0	$3,423.6

All FHLBanks met regulatory capital requirements during the fiscal year and had robust capital-to-asset ratios. The System had $56.0 billion in regulatory capital, or 5.1 percent of total assets. In fiscal year 2017, the FHLBanks' increased retained earnings to $17.7 billion, the highest level in the FHLBanks' history. The FHLBanks' primary business of making advances to members continued to operate with no credit losses as it has for the entire existence of the FHLBank System.

Because the FHLBanks' capital stock is redeemable at par, the market value of each FHLBank's equity should equal or exceed the par value of its capital stock, allowing members to make such redemptions safely and equitably. The market value of equity to par value of its capital stock ratio exceeded 1.0 for all FHLBanks as of September 30, 2017 with the lowest ratio for any individual FHLBank being 1.2.

4. Acquired Member Asset Final Rule (FHLBanks)

On December 19, 2016, FHFA published a final rule[6] reorganizing and relocating[7] the regulation governing Acquired Member Assets (AMA) programs at the FHLBanks. Under AMA programs, the FHLBanks acquire and hold (on their balance sheet) conforming and government-guaranteed or insured loans. The structure of the AMA programs requires the FHLBanks to manage the interest-rate risk while the participating member manages a substantial portion of the other risks associated with originating the mortgage, including much of the credit risk.

The final rule removes and replaces all references to, and requirements based on, ratings issued by Nationally Recognized Statistical Rating Organizations in compliance with the Dodd-Frank Wall Street Reform and Consumer Protection Act

6 https://www.fhfa.gov/SupervisionRegulation/Rules/Pages/Acquired-Member-Assets-Final-Rule.aspx

7 The regulation governing the AMA program was formerly part of the Federal Housing Finance Board's regulations. FHFA has moved the regulations affecting the FHLBanks to FHFA's section of the Code of Federal Regulations. The regulations governing the AMA program were formerly at 12 CFR Part 955 and are now located at 12 CFR Part 1268.

of 2010. The final rule provides a Bank greater flexibility in choosing a model to estimate the credit enhancement required for AMA loans; adds a provision allowing a Bank to authorize the transfer of mortgage servicing rights on AMA loans to any institution, including a nonmember of the FHLBank System; and allows the Banks to acquire mortgage loans that exceed the conforming loan limits if they are guaranteed or insured by a department or agency of the U.S. government.

The final rule also requires Banks to establish financial and operational standards that insurers must meet to be qualified to provide insurance on AMA loans. However, it excludes a proposed provision that would have eliminated the use of private, loan-level, supplemental mortgage insurance in the member credit enhancement structure required by the AMA regulation. Finally, the final rule deletes some obsolete provisions from the previous regulation.

5. Risk Management Guidance Issued to the Regulated Entities

In FY 2017, FHFA issued the following advisory bulletins:

- Advisory Bulletin AB 2016-05 (*Internal Audit Governance and Function)* was released on October 7, 2016. This advisory bulletin applies to Fannie Mae, Freddie Mac, the FHLBanks, and the Office of Finance. The advisory bulletin communicates FHFA's expectations for Audit Committee Oversight of the Internal Audit Function; Internal Audit Independence and Objectivity; and Internal Audit Attributes and Operations.
- Advisory Bulletin AB 2017-01 (*Classifications of Adverse Examination Findings)* was released on March 13, 2017. This advisory bulletin establishes classifications of adverse examination findings at Fannie Mae, Freddie Mac, the FHLBanks, and the Office of Finance. Adverse examination findings typically involve risk management deficiencies, increases in risk exposures, or violations of laws, regulations, or orders that affect the performance or condition of a regulated entity or the Office of Finance. It also establishes a hierarchy for findings that informs the regulated entities and the Office of Finance of their severity, identifies priorities for remediation, and guides FHFA in the development of supervisory strategies.
- Advisory Bulletin AB 2017-02 (*Information Security Management)* was released on September 28, 2017. This advisory bulletin provides FHFA guidance on information security management for supporting a safe and sound operational environment and promoting the resilience of Fannie Mae, Freddie Mac, the FHLBanks, and the Office of Finance. The advisory bulletin articulates FHFA's expectations for the regulated entities and the Office of Finance to protect their information technology environments using a risk-based approach to determine the appropriate activities to include in a comprehensive information security management program.

Supervisory Guidance to the Regulated Entities and the Office of Finance

Advisory bulletins are one way FHFA provides guidance to Fannie Mae, Freddie Mac, and/or the FHLBank System on specific supervisory issues.

Advisory bulletins may be issued specifically to Fannie Mae and Freddie Mac, specifically to the FHLBank System, or to all FHFA regulated entities and the Office of Finance, depending on the subject matter. FHFA directly notifies the regulated entities when it issues new advisory bulletins and also posts them on FHFA's website.[8]

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

1. Duty to Serve

FHFA works with the Enterprises to support liquidity and access across different market segments of creditworthy homebuyers and affordable rental housing. One aspect of housing finance access is implementing the Duty to Serve provisions included in HERA, which requires the Enterprises to provide leadership in facilitating a secondary market to improve the distribution of mortgage financing for very low-, low-, and moderate-income families in three specified underserved markets: manufactured housing, affordable housing preservation, and rural housing.

8 https://www.fhfa.gov/SupervisionRegulation/AdvisoryBulletins

The final rule, published in December 2016, establishes the following categories for activities eligible for Duty to Serve credit:

- For the **manufactured housing** market, the final rule provides eligibility for Duty to Serve credit for Enterprise activity supporting manufactured homes titled as real property, manufactured homes titled as personal property (also known as chattel), and blanket loans for certain categories of manufactured housing communities.
- For the **affordable housing preservation** market, the final rule provides eligibility for Duty to Serve credit for Enterprise activity supporting the preservation of affordable rental housing and affordable homeownership opportunities. These categories include Enterprise activities under the programs specified in the Safety and Soundness Act, as well as activities supporting small multifamily rental properties, energy efficiency improvements on multifamily rental and single-family first-lien properties, shared equity homeownership programs, purchase or rehabilitation of certain distressed properties, and activities under the U.S. Department of Housing and Urban Development's (HUD's) Choice Neighborhoods Initiative and Rental Assistance Demonstration program.
- For the **rural housing** market, the final rule provides eligibility for Duty to Serve credit for Enterprise activity supporting housing in high-needs rural regions and for high-needs rural populations, financing of housing by small rural financial institutions, and activities related to small multifamily rental properties in rural areas.

Throughout 2017, FHFA and the Enterprises have undertaken efforts to implement the Duty to Serve final rule. In late January and early February, FHFA held a series of public listening sessions on the Duty to Serve program at the Federal Reserve Banks of Chicago and San Francisco, at FHFA, and through an online webinar. FHFA posted draft Evaluation Guidance for public input on January 13, 2017, with an opportunity for public feedback through June 2017. The Enterprises posted the first drafts of their Underserved Markets Plans (Plans) on May 8, and FHFA provided an opportunity for public feedback on the draft Plans through July 10, 2017. FHFA is working with the Enterprises to finalize their Plans for a non-objection review by FHFA, and the Agency expects these Plans will go into effect on January 1, 2018. FHFA will publish the Enterprises' final Plans and FHFA's updated Evaluation Guidance in 2017.

FHFA will evaluate and rate the Enterprises' performance annually, according to the established Plans using a three-step evaluation process that is detailed in FHFA's Evaluation Guidance. First, FHFA will perform a review to determine the extent to which the Enterprise has achieved the objectives it identified in its Plan. Second, FHFA will evaluate each Enterprise's performance under its Plan from an impact perspective, assessing the extent to which objectives achieved meaningful impact in the underserved market. Third, FHFA may award extra Duty to Serve credit for eligible residential economic diversity activities undertaken by the Enterprise, as well as for other eligible extra credit activities.

FHFA will award a final rating of Fails, Minimally Passing, Low Satisfactory, High Satisfactory, or Exceeds to the Enterprise, based on the impact of the review findings and extra credit assessments. FHFA will report the overall ratings results to Congress annually.

2. Housing Goals: The Enterprises and Affordable Housing

Under HERA, FHFA is required to establish annual housing goals for mortgages purchased by the Enterprises. These include separate goals and subgoals for single-family home purchase, single-family refinance, and multifamily mortgages. FHFA published a final rule establishing housing goals for the Enterprises for 2015 through 2017, which set identical benchmarks for both Enterprises in all categories and established goals, for the first time, for rental units affordable to low-income families in small (5- to 50-unit) multifamily properties.

For each of the single-family goals there is a pre-set benchmark level (e.g., 24 percent of home purchase mortgages for low-income families in 2016) and also a retrospective comparison with the corresponding goal-qualifying share of conventional, conforming mortgages originated in the primary mortgage market during the year. The retrospective measure is based on FHFA's analysis of Home Mortgage Disclosure Act (HMDA) data for the year.

An Enterprise passes a goal if its performance exceeds either the pre-set benchmark or the retrospective market measure. Due to the lack of data on the affordability of rental units financed in the mortgage market, there is no market comparison for the multifamily goals. As a result, multifamily goals performance is only compared with the pre-set benchmark levels.

On October 10, 2017, FHFA notified the Enterprises of their preliminary performance figures. Table 5, Enterprises' Housing Goals and Performance for 2016, shows FHFA's preliminary determinations for the Enterprises' housing goals performance in 2016 relative to FHFA's pre-set benchmarks and retrospective market measures.

On July 7, 2017, FHFA published a proposed rule[9] in the Federal Register that would establish new housing goals for the Enterprises for 2018 through 2020, with a comment deadline of September 5, 2017. The Agency plans to finalize the new goals in FY 2018.

3. Housing Goals: The FHLBanks and Affordable Housing

Also under HERA, FHFA is required to establish annual housing goals for mortgages purchased by the FHLBanks. Under FHFA's FHLBank housing goals regulation, each FHLBank is subject to housing goals if its purchases of qualified whole mortgages through its AMA programs exceed an annual volume threshold of $2.5 billion. All FHLBanks purchased mortgages through AMA programs in 2016, and two FHLBanks exceeded the volume threshold in 2016—Cincinnati and Indianapolis. The Indianapolis FHLBank also exceeded the volume threshold in 2015.

For each FHLBank that is subject to the housing goals in a given year, FHFA undertakes an evaluation to determine that FHLBank's housing goals performance. For each housing goal, this involves determining whether the percentage share of the FHLBank's applicable AMA purchases met or exceeded a retrospective market comparison figure using HMDA data. FHFA will evaluate 2016 HMDA data to assess the Indianapolis and Cincinnati FHLBanks' performance on the housing goals in 2016. Based on its evaluation of 2015 HMDA data, FHFA determined that the Indianapolis FHLBank did not meet its housing goals in 2015. FHFA is in the process of evaluating alternatives to the current FHLBank housing goals requirement that would provide FHLBanks with advance notice of, and greater certainty about, each year's housing goals expectations. Because of this ongoing evaluation, FHFA has informed the FHLBanks that FHFA will not require the submission of a housing plan by any FHLBank based on housing goals performance in 2015 or 2016, even if FHFA determines that the FHLBank did not meet one or more of the 2015 or 2016 housing goals.

9 https://www.fhfa.gov/supervisionregulation/rules/pages/2018-2020-enterprise-housing-goals-proposed-rule.aspx

Table 5: Enterprises' Housing Goals and Performance for 2016

Housing Goal Categories	2016 Benchmark	2016 Market Performance	2016 Enterprise Performance[a]	FHFA Preliminary Determination of 2016 Housing Goals Performance
Single-Family Goals[b]				
Low-income home purchase	24%	22.9%	Fannie Mae: 22.9% Freddie Mac: 23.8%	Fannie Mae: Met Freddie Mac: Met
Very low-income home purchase	6%	5.4%	Fannie Mae: 5.2% Freddie Mac: 5.7%	Fannie Mae: Not Met Freddie Mac: Met
Low-income areas home purchase subgoal	14%	15.9%	Fannie Mae: 16.2% Freddie Mac: 15.6%	Fannie Mae: Met Freddie Mac: Met
Low-income refinance	21%	19.8%	Fannie Mae: 19.5% Freddie Mac: 21.0%	Fannie Mae: Not Met Freddie Mac: Met
Multifamily Goals (Units)[c]				
Low-income Multifamily	300,000	N/A	Fannie Mae: 352,368 Freddie Mac: 406,958	Fannie Mae: Met Freddie Mac: Met
Very low-income Multifamily	60,000	N/A	Fannie Mae: 65,910 Freddie Mac: 73,030	Fannie Mae: Met Freddie Mac: Met
Small Property: Low-Income Units	8,000	N/A	Fannie Mae: 9,312 Freddie Mac: 22,101	Fannie Mae: Met Freddie Mac: Met

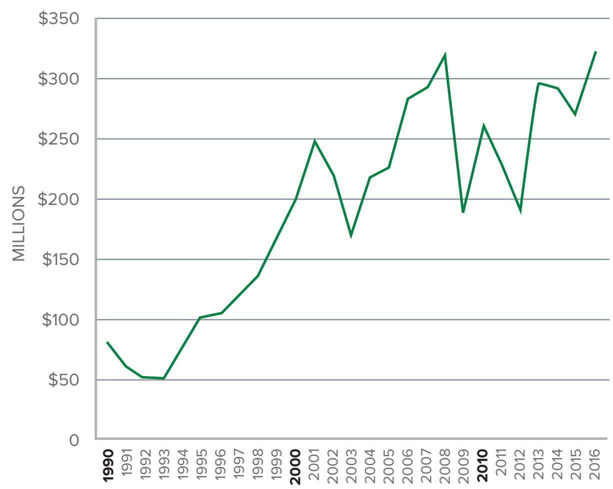
a Preliminary official results as determined by FHFA in October 2017.

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 subgoal 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 subgoal and home purchase mortgages to families with incomes no greater than 100 percent of AMI living in Federally-declared disaster areas. Both Enterprises met this goal in 2016.

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.

Section 10(j) of the Bank Act requires each FHLBank to contribute at least 10 percent of its previous year's net earnings to its Affordable Housing Program (AHP). These funds may be in the form of a grant or a below-cost interest rate on an advance to a member. AHP subsidies must be used to finance homeownership by low- and moderate-income households 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 for households with incomes at or below 50 percent of area median income. Figure 5, the FHLBanks' AHP Statutory Contributions since 1990, shows the trend in available funds to support the Affordable Housing Program over the past 26 years.

Figure 5: The FHLBanks' AHP Statutory Contributions since 1990



4. Preserving Homeownership: Post Home Affordable Refinance Program (HARP) – High Loan-To-Value (LTV) Refinance

In an effort to help struggling homeowners who were current on their mortgage, in 2009 FHFA and the Treasury Department introduced HARP, which offers eligible borrowers an opportunity to refinance to a lower interest rate and a more affordable payment and/or reduce the term of the mortgage to rebuild equity faster. As of August 2017, HARP has helped more than 3.4 million homeowners. FHFA has announced that HARP has been extended through December 31, 2018.

Given the success of HARP in reducing the Enterprises' credit risk and providing liquidity in the mortgage market, the Enterprises assessed options for a long-term streamlined refinance program and announced the High LTV Streamlined Refinance program[10] on August 26, 2016. This program is designed to serve underwater borrowers who are unable to refinance because their LTV exceeds the Enterprises' maximum limits for standard refinances. This program will, therefore, play a similar role as HARP following HARP's expiration.

On August 17, 2017, FHFA announced modifications to the High LTV Streamlined Refinance program, which included establishing an eligibility date, making the program available for loans originated on or after October 1, 2017. The eligibility date is necessary to preserve the objectives of the Enterprises' CRT program, and the Enterprises will modify the structure of future CRT transactions to accommodate the High LTV Streamlined Refinance program by allowing the newly refinanced loans to return to the CRT reference pools in place of loans that prepaid. This will help preserve the credit loss protection on the loans without unwinding the protection paid for through CRT transactions. This change appropriately balances offering assistance to underwater borrowers with protecting taxpayers. The Enterprises plan to begin offering the revised High LTV Streamlined Refinance in late 2018, which aligns with the extension of HARP through the end of 2018.

Helping Neighborhoods Hit by the Housing Downturn

The Neighborhood Stabilization Initiative (NSI) is designed to stabilize neighborhoods hardest hit by the housing downturn. NSI focuses on responsible and effective strategies for disposing of real estate owned (REO) properties. NSI is available in 18 metropolitan statistical areas with high volumes of low-value REO inventory. Through NSI, Fannie Mae and Freddie Mac partner with the National Community Stabilization Trust,[11] a national non-profit organization experienced in stabilization efforts for distressed communities in the NSI. Working together, they leverage their ties to community organizations and local non-profits and work closely with local governments to make timely and informed decisions about the best treatment of individual properties. Throughout 2017, the Enterprises have maintained their focus on NSI as a key strategy for responsibly disposing of REO inventory in a manner that supports community stabilization by facilitating the sale of approximately 3,091 REO properties to community stabilization partners in 18 of the hardest hit metropolitan statistical areas.[12]

10 https://www.fhfa.gov/Media/PublicAffairs/Pages/FHFA-Announces-New-Streamlined-Refinance-Offering-for-High-LTV-Borrowers-HARP-Extended-through-September-2017.aspx

11 http://www.stabilizationtrust.org/

12 A metropolitan statistical area refers to a geographic region of relatively high population density, and connected by economic ties. They are larger than a city, not legally incorporated, and not under a single city or state government. An example of a metropolitan statistical area would be Kansas City and the surrounding area, which is encompassed by two states and includes several cities that are not Kansas City proper.

5. Diversity and Inclusion

In July 2017, FHFA issued a final rule to clarify that the scope of the regulated entities' diversity and inclusion obligations includes all of their business and activities at all levels, including management, employment, and contracting. The final rule requires each regulated entity to strategically plan for implementing its diversity and inclusion program as well as enhance the usefulness of information they report to FHFA on their diversity and inclusion efforts.

Improving Language Access in Mortgage Lending and Servicing

FHFA is working with the Enterprises to assess the impact of language barriers throughout the mortgage life cycle on limited English proficiency borrowers. To better understand these issues, FHFA conducted outreach to industry groups and posted a public request for input seeking feedback on what types of processes will assist borrowers with access to credit in alternative languages.

As part of FHFA's efforts on language access, the Agency recently adopted a new loss mitigation mortgage application. Unlike the previous version, the new application informs borrowers seeking mortgage payment assistance that language services are available. The statement includes a hyperlink to language services offered through HUD-approved counselors.

In October 2017, FHFA announced its decision to add a preferred language question to the redesigned Uniform Residential Loan Application. This question will enable borrowers who prefer to communicate in a language other than English to identify that language. It also provides clear disclosure that the mortgage transaction is likely to be conducted in English and that language resources may not be available.

FHFA's webpage on the Language Access program is available here.[13]

6. Conforming Loan Limits for Fannie Mae, Freddie Mac Single-Family Homes raised for 2017

At the end of 2016, FHFA announced that it was increasing the baseline conforming loan limits for Fannie Mae and Freddie Mac for loans acquired in 2017. For one-unit properties in the contiguous U.S., the limit was increased from $417,000 to $424,100. This was the first increase in the limit since 2006. The limit had not been increased in prior years because of requirements set forth in HERA that govern adjustments in the loan limit. HERA made it clear that, after a period of declining U.S. home prices (such as what was observed in the housing downturn that began in 2007), the baseline loan limit could not rise again until the national average home price returned to its pre-decline level. At the end of 2016, FHFA found that average price levels exceeded pre-decline levels, and thus FHFA raised the loan limit for 2017.

In addition to making adjustments to the baseline loan limit, FHFA also adjusted the conforming loan limits in certain high-cost areas. HERA allows for loan limits to be above the baseline limit in areas where median home values are high and in certain statutorily-defined areas outside of the contiguous U.S. Using updated median home values supplied by HUD, FHFA established new loan limits in high-cost areas for 2017. The new high-cost area limits were up to $636,150 for one-unit properties in the contiguous U.S. As required by statute, in select locations outside of the contiguous U.S., the 2017 limits were higher.

STRATEGIC GOAL 3: MANAGE THE ENTERPRISES' ONGOING CONSERVATORSHIPS

1. Managing the Conservatorships

FHFA has served as conservator of Fannie Mae and Freddie Mac since 2008, and FHFA continues to oversee the conservatorships of the Enterprises. As conservator, FHFA works to fulfill its statutory obligations to ensure safety and soundness of the Enterprises, to preserve and conserve Enterprise assets, to ensure liquidity in the housing finance market, and to satisfy the Enterprises' public purpose missions.

FHFA uses four key approaches to manage the conservatorships of the Enterprises. First, FHFA establishes the overall strategic direction for the Enterprises in the *2014 Conservatorship Strategic Plan* and in annual conservatorship scorecards. Second, FHFA authorizes the Enterprises' boards of directors

13 https://www.fhfa.gov/PolicyProgramsResearch/Policy/Pages/Language-Access.aspx

and senior management to oversee and carry out the day-to-day operations of the companies. Third, FHFA has carved out actions of the Enterprises that require an advance approval by FHFA. Fourth, FHFA oversees and monitors Enterprise activities.

Under this conservatorship approach, FHFA regularly works with executive management of the Enterprises and their boards to ensure that their actions support the goals of the conservatorships. FHFA works with the Enterprises to maintain a full complement of board members and Chief Executive Officers (CEOs) to oversee the implementation of conservator objectives. In FY 2017, FHFA approved one new board member at Fannie Mae.

In its role as conservator, FHFA also approves the Enterprises' administrative expenses. FHFA's budget review ensures that the Enterprises have effective budget formulation and performance monitoring processes, that Enterprise leadership and the boards are appropriately engaged in the decision-making process, and that the Enterprises monitor and provide accurate, appropriate, and timely information to decision makers. FHFA also evaluates the budgets for reasonableness for both core expenditures and for strategic initiatives. In 2016, FHFA approved the Enterprises' planned 2017 administrative expenses.

2. Common Securitization Platform and the Single Security Initiative

Upon implementation in the second quarter of 2019, the Enterprises will use the Common Securitization Platform (CSP) as the operational and technical platform through which they will issue and administer a common, single MBS, to be known as Uniform Mortgage-Backed Securities (UMBS). The 2017 Scorecard calls for the Enterprises and Common Securitization Solutions, LLC (CSS), a joint venture between the Enterprises, to continue to build and test the CSP, implement changes necessary to integrate the Enterprises' related systems and operations with the CSP, and implement the Single Security Initiative on the CSP for both Enterprises in 2019. To implement the Single Security Initiative, the Enterprises and CSS are developing the CSP in two parts:

- Release 1 implements the CSP's Data Acceptance, Issuance Support, and Bond Administration modules for Freddie Mac's existing single-class securities.
- Release 2 will allow both Enterprises to use those modules plus the Disclosure module to perform activities related to their current fixed-rate securities, both single- and multi-class; to issue UMBS and related resecuritizations, including commingled resecuritizations; and to perform activities related to the underlying loans.

Freddie Mac and CSS successfully implemented Release 1 on November 21, 2016. Since then, Freddie Mac has used CSS and the CSP to routinely issue and settle approximately 1,000 new securities—representing about $58 billion in unpaid principal balance—each month, and to perform monthly bond administration functions related to 260,000 securities backed by approximately 9.8 million loans. In May, CSS executed a successful, live-production test of the business continuity plan for the CSP. In August, Freddie Mac began using the aligned disclosures for its existing single-family fixed-rate and adjustable-rate MBS that provide standardized loan-level and pool-level data for all of its mortgage participation certificates (PCs). Fannie Mae and Freddie Mac jointly developed those disclosures in connection with the Single Security Initiative, and both Enterprises will use these disclosures when the Single Security is implemented.

Release 1 has been a large and complex undertaking. Release 2 will entail additional complexity and challenges in that it will require close coordination with many market participants and vendors, as well as close attention to software development and back-office operations. In March, FHFA announced the second quarter of 2019—rather than the last quarter of 2018—as the target timeframe for implementing Release 2. Adjusting the deadline sets the stage for a smooth and successful implementation by providing ample time for development and testing of the CSP software and thorough validation of the controls and governance processes. CSS has continued to develop the CSP Release 2 software and has started system-to-system testing with the Enterprises. In addition, FHFA has worked with the Enterprises to develop processes for the ongoing alignment of Enterprise programs, policies, and practices as part of the Single Security Initiative.

The successful implementation of Release 2 and the transition of the 'to be announced' market to trading

UMBS and Supers[14] requires planning, investment, and work on the part of many market participants. To that end, the Enterprises and FHFA have engaged in extensive industry outreach, including meetings of the Enterprises' Industry Advisory Group and numerous meetings with trade associations, dealers, investors, seller-servicers, financial market utilities, vendors, and other market participants. To communicate progress and align expectations, FHFA developed a Common Securitization Platform and Single Security Timeline[15] of key achievements and upcoming milestones with targeted completion dates. FHFA updates the timeline as the project milestones are met or revised.

In addition, the Enterprises have reached out to the Securities and Exchange Commission and the Internal Revenue Service to request guidance on accounting, tax, and regulatory issues related to the Single Security Initiative. FHFA has also reached out to federal banking and market regulators to ensure awareness of the Initiative and to maintain open communications regarding regulatory or supervisory concerns.

3. Credit Risk Transfer

FHFA's 2016 and 2017 Scorecards set the expectation that the Enterprises would transfer meaningful amounts of credit risk on at least 90 percent of the unpaid principal balance of targeted single-family mortgages acquired in 2015 and 2016, respectively. Targeted loans include mortgages with terms greater than 20 years, non-HARP loans, and a LTV ratio of greater than 60 percent. The Enterprises are also exploring ways to transfer credit risk on other types of single-family and multifamily mortgages outside of this targeted loans category.

From the beginning of the Enterprises' single-family CRT programs in 2013 through March 2017, Fannie Mae and Freddie Mac have transferred a portion of credit risk on $1.6 trillion of Unpaid Principal Balance (UPB), with a combined Risk in Force (RIF) of about $54.2 billion, or 3.4 percent of UPB. Recent CRTs for the Enterprises are presented in Figure 6. An additional $779 billion of UPB and $197 billion of RIF has been transferred to primary mortgage insurers from 2013 through the second quarter of FY 2017. Through CRT and mortgage insurance, the majority of the underlying mortgage credit risk on mortgages targeted for CRT has been transferred to private investors.

In 2017, the Enterprises modified the structure of their debt issuances—Structured Agency Credit Risk (STACR) transactions for Freddie Mac and Connecticut Avenue Securities for Fannie Mae. Under this modification, the Enterprises split the 1 percent first-loss B-bond into two 0.5 percent bonds (B1 and B2). The Enterprises retain the entire 0.5 percent B2 bond of each transaction, which reflects the first 50 basis points of expected losses. This change reflects the market feedback that selling this first-loss position was expensive and not economically sensible for the Enterprises.

14 Single-class resecuritizations of UMBS (to be known as Supers) will be analogous to Fannie Mae Megas and Freddie Mac Giants, which are respectively single-class resecuritizations of Fannie Mae MBS and Freddie Mac PCs. https://www.fhfa.gov/AboutUs/Reports/ReportDocuments/Update-on-Implementation-of-the-Single-Security-and-CSP_March-2017.pdf

15 http://www.fhfa.gov/PolicyProgramsResearch/Policy/Pages/Common-Securitization-Platform-and-Single-Security-Timeline.aspx

Figure 6: Recent Credit Risk Transfers

Fannie Mae	Freddie Mac (We make home possible)
IN CALENDAR YEAR 2016 Fannie Mae transferred a portion of credit risk on **$333 billion UPB,** with a total RIF of **$9.8 billion.**	IN CALENDAR YEAR 2016 Freddie Mac transferred a portion of credit risk on **$215 billion UPB,** with a total RIF of **$8.4 billion.**
IN JANUARY – MARCH OF 2017, Fannie Mae transferred a portion of credit risk on **$108 billion UPB,** with a total RIF of **$3.4 billion.**	IN JANUARY – MARCH OF 2017, Freddie Mac transferred a portion of credit risk on **$65 billion UPB,** with a total RIF of **$2.1 billion.**

4. Retained Portfolios

Fannie Mae and Freddie Mac reduced their retained mortgage investment portfolios appropriately and, as a result, both Enterprises met the December 31, 2016 PSPA retained portfolio cap limit of $339.3 billion at each Enterprise. The PSPA retained portfolio cap requires the Enterprises to wind down their portfolios by 15 percent each year until they reach $250 billion by 2018. As of December 31, 2016, Fannie Mae's retained portfolio balance was $273 billion and Freddie Mac's was $298.3 billion.

5. Settlement with the Royal Bank of Scotland Group

In July 2017, FHFA reached a settlement with Royal Bank of Scotland Group, related companies, and specifically named individuals (collectively, RBS) for approximately $5.5 billion to resolve all claims in FHFA v. The Royal Bank of Scotland Group plc et al., which FHFA brought in 2011 in the United States District Court for the District of Connecticut. Freddie Mac received approximately $4.5 billion in settlement funds, and Fannie Mae received approximately $975 million. This settlement, in conjunction with prior settlements, resolves 17 of the original 18 lawsuits filed by FHFA as conservator that alleged violations of federal and state securities laws in connection with private-label residential MBS purchased by the Enterprises between 2005 and 2007.

FHFA received a favorable verdict after trial in the eighteenth case and that verdict has been affirmed on appeal. In total, there have been settlements and a verdict totaling more than $25 billion from these cases.

RESOURCE MANAGEMENT

1. Audit of the FHFA Financial Statements

On November 15, 2017, FHFA received an unmodified audit opinion on its FY 2017 Financial Statements from the U.S. Government Accountability Office (GAO). An independent financial audit provides reasonable assurance that an agency's financial statements are free from material misstatements. This is the ninth consecutive unmodified audit opinion that FHFA has earned. The audited financial statements are presented beginning on page 62.

2. Federal Information Security Management Act (FISMA)

In October 2017, FHFA received a FISMA Audit report with no material weaknesses or significant deficiencies. FISMA requires each federal agency to develop, document, and implement an agency-wide program to provide information security for the data and information systems that support the operations and assets of the agency, including those provided or managed by another agency, contractor, or other source.

3. Certificate of Excellence in Accountability Reporting (CEAR) Award

The Association of Government Accountants (an independent, nonprofit, non-governmental agency) awarded FHFA the CEAR for its FY 2016 Performance and Accountability Report. This is the ninth consecutive CEAR award FHFA has received. The CEAR award is presented to agencies that have demonstrated excellence in integrating performance and accountability reporting.

Only agencies with unmodified audit opinions on their financial statements, from an independent auditor, are eligible for the award.

4. Diversity and Inclusion Initiatives

FHFA has continued to develop and issue guidance documents on advancing diversity and ensuring the inclusion of minorities, women, and individuals with disabilities; and minority-, women-, and disabled-owned businesses in the business and activities of the regulated entities and the Office of Finance. In addition, FHFA's own activities and operations have led to more effective inclusion of diverse employees at all levels of the Agency, and of diverse vendors in its contracting and procurement. In FY 2017 these activities included:

- Obtaining Paperwork Reduction Act clearance for a Good Faith Efforts contract clause, which holds federal contractors and subcontractors accountable for undertaking appropriate outreach and positive recruitment activities that are reasonably designed to effectively recruit minorities and women;
- Implementing Equal Employment Opportunity Standards;

- Commencing the development of a Diversity and Inclusion Climate Survey to measure the level of engagement of the Agency's employees;
- Increasing FHFA contracting spending with women-, minority-, and disabled-owned businesses; and
- Expanding FHFA network of potential women- and minority-owned vendors that are interested in doing business with FHFA through our diversity supplier outreach and engagement efforts across the United States.

SUMMARY OF PERFORMANCE MEASURES

For FY 2017, FHFA identified 30 measures to help evaluate and assess FHFA's progress toward the goals stated in its Fiscal Years 2015-2019 Strategic Plan.[16] FHFA met 27 of 30 performance measures. For a detailed examination of the measures, please refer to the Performance Section on pages 38-51. FHFA also publishes its performance information here.[17]

16 In FY 2017, FHFA developed a Strategic Plan for FY 2018 – 2022 to fulfill the Agency's obligation.

17 https://www.performance.gov/

Table 6: Summary of Performance Measures

Strategic Goal 1 - Ensure Safe and Sound Regulated Entities	FY17 Results
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 commencement of the examination cycle	Met
1.1.2 - Deputy Director will approve ROEs for regulated entities within 90 days of completing examination work	Met
1.1.3 - Ensure a quarterly market value of equity-to-par ratio greater than or equal to one for each FHLBank	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
1.1.5 - Ensure that documentation for completed targeted examinations of the Enterprises is in place and consistent with the DER Examination guidance	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 Enterprises on cyber risk management to better align existing FHFA guidance with recent regulatory and industry standards	Met
Performance Goal 1.3 - Require Timely Remediation of Risk Management Weaknesses	
1.3.1 - FHFA determines that the regulated entities have satisfactorily addressed MRAs in accordance with agreed upon remediation plans and timeframes	Not Met
Strategic Goal 2 - Ensure Liquidity, Stability, and Access in Housing Finance	**FY17 Results**
Performance Goal 2.1 - Ensure Liquidity in Mortgage Markets	
2.1.1 - Implement a post-HARP refinance product	Met
2.1.2 - Implement a standardized hierarchy of loss mitigation programs that reflect the post- Home Affordable Modification Program (HAMP) environment	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 Housing Price Index (HPI)	Met

Table 6: Summary of Performance Measures (cont'd)	
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 - Issue final Duty to Serve rule requiring the Enterprises to serve three underserved markets—manufactured housing, affordable housing preservation, and rural areas	Met
2.3.2 - Ensure that written Diversity and Inclusion supervisory strategies and examination plans are in place prior to DER and DBR examination cycles	Met
2.3.3 - Incorporate approved conclusion letters into DBR ROEs scheduled	Met
2.3.4 - Issue proposed rule for Enterprise Housing goals for 2018-2020	Met
2.3.5 - Issue proposed rule for FHLB AHP Modernization Regulation	Not Met
Strategic Goal 3 - Manage the Enterprises' Ongoing Conservatorships	**FY17 Results**
Performance Goal 3.1 - Preserve and Conserve Assets	
3.1.1 - Maintain a qualified board of directors and CEO for each Enterprise to oversee the implementation of Conservator objectives	Met
3.1.2 - 2017 Conservatorship Scorecard for Fannie Mae, Freddie Mac, and CSS provided to the Enterprises	Met
3.1.3 - Approve Enterprises' administrative expenses for Calendar Year 2016	Met
3.1.4 - Monitor and rate the Enterprises' performance against current Scorecard objectives	Met
3.1.5 - Provide timely decisions on items submitted to FHFA for conservator approval	Met
Performance Goal 3.2 - Reduce Taxpayer Risk from Enterprise Operations	
3.2.1 - Oversee reduction in retained portfolios consistent with the PSPA target of $339.3 billion	Met
3.2.2 - Require the Enterprises to execute single-family mortgage credit risk sharing transactions	Met
3.2.3 - Require the Enterprises to execute multifamily mortgage credit risk sharing transactions	Met
3.2.4 - Require the Enterprises to continue to responsibly reduce the number of severely-aged delinquent loans held by the Enterprises through national and small geographically concentrated pools	Met
Performance Goal 3.3 - Build a New Single-Family Securitization Infrastructure	
3.3.1 - Freddie Mac and CSS implementation of Release 1 of the CSP, which will allow Freddie Mac to use the Data Acceptance, Issuance Support, and Bond Administration modules to perform activities related to its current single-class, fixed-rate PCs and Giant PCs and certain activities related to the underlying mortgage loans	Met
3.3.2 - Issue a progress report on the state of Single Security and the CSP	Met
3.3.3 - Enterprise and CSS completion of key system testing of CSP Versions 10 and 11, which are required for implementation of the Single Security	Not Met
Resource Management	**FY17 Results**
RM1 - FHFA's financial statements audit receives an unmodified opinion with no material weaknesses and a FISMA audit that identifies no significant deficiencies	Met
RM2 - Increase the percentage of FHFA contracts (in dollar terms) that are obligated to minority- and women-owned businesses consistent with legal standards	Met
RM3 - Fill active and approved FY 2017 FHFA vacancies	Met

SUMMARY OF KEY PERFORMANCE INDICATORS

One way that federal agencies evaluate the success of their programs is by using performance indicators. In addition to identifying measures that are critical to achieving strategic goals and objectives, key performance indicators can also be used to gauge what is deemed important to the management of the Agency.

FHFA has identified the following five key performance indictors to measure how well the Agency is meeting its FY 2017 performance measures and the key mission objectives described in the FY 2015–2019 Strategic Plan[18] and the Annual Performance Plan for FY 2017.[19] In FY 2017, FHFA met its five key performance indicators.

18 In FY 2017, FHFA developed a Strategic Plan for FY 2018 – 2022 to fulfill the Agency's obligation.

19 https://www.fhfa.gov/AboutUs/Reports/ReportDocuments/FY_2017_APP.pdf

Table 7: FY 2017 Key Performance Indicators

Strategic Goal 1 - Ensure Safe and Sound Regulated Entities	FY17 Results
Performance Goal 1.1 - Assess the Safety and Soundness of Regulated Entity Operations	
1.1.2 - Deputy Director will approve ROEs for regulated entities within 90 days of completing examination work	Met
1.1.3 - Ensure a quarterly market value of equity-to-par ratio greater than or equal to one for each FHLBank	Met
Strategic Goal 2- Ensure Liquidity, Stability, and Access in Housing Finance	**FY17 Results**
Performance Goal 2.1 - Ensure Liquidity in Mortgage Markets	
2.1.1 - Implement a post-HARP refinance product	Met
Strategic Goal 3 - Manage the Enterprises' Ongoing Conservatorships	**FY17 Results**
Performance Goal 3.2 - Reduce Taxpayer Risk from Enterprise Operations	
3.2.2 - Require the Enterprises to execute single-family mortgage credit risk sharing transactions	Met
Performance Goal 3.3 - Build a New Single-Family Securitization Infrastructure	
3.3.1 - Freddie Mac and CSS implementation of Release 1 of the CSP, which will allow Freddie Mac to use the Data Acceptance, Issuance Support, and Bond Administration modules to perform activities related to its current single-class, fixed-rate PCs and Giant PCs and certain activities related to the underlying mortgage loans	Met

LOOKING AHEAD TO FY 2018

Highlighted below are some of the ongoing efforts that FHFA will focus on in FY 2018 to fulfill the Agency's statutory responsibilities.

1. MANAGING ONGOING CONSERVATORSHIPS OF FANNIE MAE AND FREDDIE MAC

One of FHFA's continuing priorities is managing the ongoing, protracted conservatorships of Fannie Mae and Freddie Mac. The Enterprises have started the tenth year of conservatorships, which have been unprecedented in their size, complexity, and duration. As described earlier in this Report, FHFA uses a four-pronged approach to manage the Enterprises' conservatorships.

As part of this approach, FHFA will continue to set the strategic direction of Fannie Mae and Freddie Mac. FHFA plans to publish its 2018 Scorecard in December 2017. In conjunction with FHFA's *2014 Conservatorship Strategic Plan*, the annual Scorecard sets out FHFA's conservatorship expectations for the Enterprises.

In its role as conservator, FHFA monitors the risks and challenges posed by the ongoing conservatorships, as well as assessing other market and financial factors that could pose risks to the Enterprises. A serious risk to the Enterprises is the Enterprises' declining capital buffer. The Enterprises are parties to PSPAs with the Treasury Department. Under the PSPAs, the Enterprises are provided U.S. taxpayer backing with explicit dollar limits. The PSPA commitment still available to Fannie Mae is $117.6 billion, and the commitment still available to Freddie Mac is $140.5 billion. Additional draws would reduce these commitments and dividend payments do not replenish or increase the commitments under the terms of the PSPAs. Starting in 2013, the PSPAs provided each Enterprise with a capital buffer of $3 billion to protect each Enterprise against making additional draws of taxpayer support in the event of an operating loss in any quarter. The PSPAs provide for reductions of $600 million each year to these capital buffers. On January 1, 2017, each Enterprise's capital buffer declined to $600 million and the capital buffer is scheduled to decline to zero on January 1, 2018.

FHFA continues to encourage Congress to complete the important work of housing finance reform. FHFA has reiterated the urgency of reform and that it is up to Congress to determine what role, if any, the Enterprises will have in the future housing finance system.

2. SUPERVISING THE REGULATED ENTITIES

FHFA's primary responsibility is to ensure the safety and soundness of the regulated entities. To do this, FHFA uses a risk-based approach in its supervision activities. During FY 2018, FHFA will continue to prioritize risk-based supervision of the regulated entities. This approach involves identifying existing and potential risks, evaluating overall integrity and effectiveness of the entities' systems and controls, and determining compliance with laws and regulations. In the normal course of its supervision, FHFA conducts on-site examinations, maintains off-site monitoring programs, performs risk assessments, and directs other supervisory activities.

In executing FHFA's risk-based approach to supervision of the regulated entities, one of FHFA's priorities for FY 2018 is highlighted below.

INFORMATION TECHNOLOGY (IT) AND SECURITY

Financial services regulators, including FHFA, recognize threats to information security and the frequency and sophistication of cyber attacks. Such areas will remain a risk-based focus of supervision activities in FY 2018 in order to examine these evolving concerns.

FHFA will also continue to review and update Agency guidance on IT-related risk management. FHFA released Advisory Bulletin 2017-02 (*Information Security Management*) on September 28, 2017, which articulates supervisory expectations on protecting the availability, integrity, and confidentiality of information in both electronic and physical form. In addition, FHFA issued Advisory Bulletin 2016-04 (*Data Management and Usage*) in FY 2016 that communicated supervisory expectations for the management of data, including expectations for data governance, architecture, quality, and security.

Enterprises: As the Enterprises work to develop and strengthen their IT platforms and execute conservatorship and business initiatives, they are managing significant IT changes. FHFA continues to oversee Enterprise efforts to enhance the resilience of their IT infrastructures. In addition, various operational and technology risks arise in connection with work by the Enterprises and their joint venture, CSS, to complete the CSP. Assessing the quality of IT related risk management at the Enterprises and CSS will be included in FHFA's 2018 examination work.

FHLBanks: Information technology is also a critical component to FHFA's supervision of the FHLBanks. In calendar year 2016, the Agency conducted a survey of information technology operations at the FHLBanks and later reviewed the outcome of that survey off-site and at the FHLBanks during subsequent 2017 examinations. FHFA will use the knowledge gained from these activities to inform new guidance, or to help plan for future supervisory activity. FHFA expects to continue to address information technology at FHLBank examinations in FY 2018.

3. DUTY TO SERVE IMPLEMENTATION

Throughout FY 2017 FHFA continued its efforts with the Enterprises to finalize and implement their Duty to Serve Plans to serve manufactured housing, affordable housing preservation, and rural housing markets. The Enterprises are on track to finalize their Duty to Serve Plans later this year and to begin implementation on January 1, 2018. As the Enterprises implement their Plans in 2018, FHFA will evaluate this program, which is required by statute, including through regular conversations with the Enterprises and stakeholders. FHFA will also work with the Enterprises to implement the data collection and reporting aspects of the Duty to Serve program. In 2019, FHFA will conduct its evaluation of the activities the Enterprises undertake to fulfill their Duty to Serve Plans in 2018.

4. COMMON SECURITIZATION PLATFORM

FY 2018 will be critical for the development of Release 2 of the CSP and the implementation of the Single Security Initiative. The timeline for the CSP and Single Security Initiative calls for CSS to complete software development for Release 2 and, together with the Enterprises, to undertake system-to-system and pre-parallel testing to ensure smooth and timely implementation of Release 2 and the Single Security Initiative in the second quarter of 2019. Another critical component will be the engagement of market participants in planning and implementing their own system and process changes. To encourage and facilitate those changes, the Enterprises and FHFA will continue and intensify their outreach efforts. Those efforts will include engagement with the Industry Advisory Group, trade associations, financial market utilities, and individual firms, as well as the development and dissemination of guides and webinars (see Figure 7). FHFA and the Enterprises will continue to work with other federal financial regulators to provide clarity to market participants with respect to tax, accounting, and other supervisory issues related to the transition to the new securities.

Figure 7: Single Security Initiative Introductory Video for Market Participants

https://youtu.be/r7iUf3cPhNY

FINANCIAL SUMMARY

ANALYSIS OF FINANCIAL STATEMENTS

OVERVIEW

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

FY 2017 FINANCIAL STATEMENTS AUDIT

FHFA received an unmodified opinion from the GAO on its annual financial statements. 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), net cost of operations, changes in net position, and budgetary resources for FY 2017 and FY 2016. Complete financial statements and notes for FY 2017 and FY 2016, along with GAO's audit report, appear on pages 54-84.

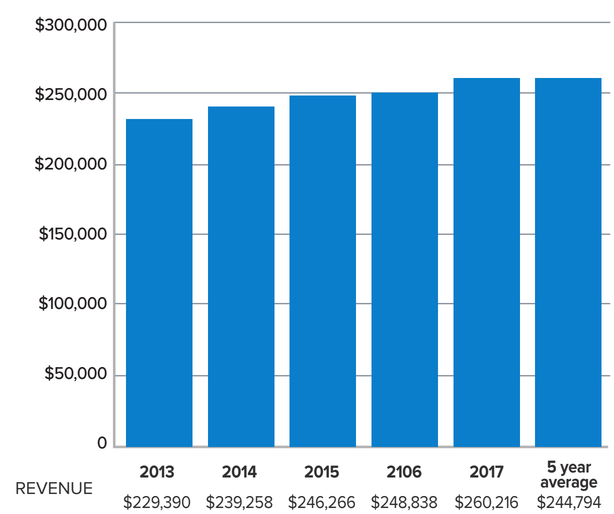
HOW FHFA IS FUNDED

HERA authorizes FHFA to collect annual assessments from the Enterprises and the FHLBanks to cover the costs and expenses of the Agency's operations for supervision of the regulated entities and to maintain a working capital fund.

FHFA determines the total expected costs associated with regulating the Enterprises and the total expected costs associated with regulating the FHLBanks. Then, per FHFA's assessment regulation, 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 FHLBank 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.

Assessments are collected semiannually on October 1 and April 1. FHFA collected assessments of $254.2 million during FY 2017, which included a $46.2 million assessment for costs related to the operations of the FHFA OIG. Assessments account for approximately 98 percent of Agency revenues. Other sources of revenue include reimbursable agreements with other federal agencies, interest on overnight investments, employee reimbursements, and Freedom of Information Act fees. The five-year trend in FHFA's revenue from FY 2013 to FY 2017 is presented in Figure 8.

Figure 8: Trend in Revenue, FY 2013 - FY 2017

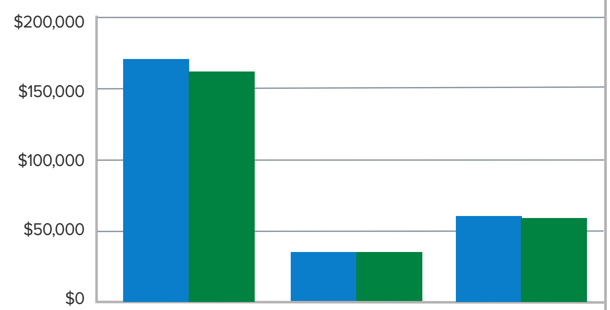


HOW FHFA USES ITS FUNDS

FHFA regulates Freddie Mac, Fannie Mae, 11 FHLBanks and the Office of Finance. In addition, FHFA has been the conservator of the Enterprises since 2008. FHFA tracks program costs to the three strategic goals developed for FHFA's 2015-2019 Strategic Plan. These strategic goals, which include salaries and contracts, 1) ensure safe and sound regulated entities; 2) ensure liquidity, stability, and access in housing finance; and 3) manage the Enterprises' ongoing conservatorships—guide program offices in carrying out FHFA's mission.

FHFA has a Resource Management Strategy, which is 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. FHFA OIG costs are allocated to FHFA's Resource Management Strategy. The distribution of FHFA's gross costs by strategic goal for FY 2017 and FY 2016 is presented in Figure 9.

Figure 9: Gross Costs by Strategic Goal, FY 2017 - FY 2016



	Safety and Soundness	Liquidity, Stability, and Access	Conservatorship
FY2017	$172,404	$35,537	$56,724
FY2016	$163,113	$35,825	$56,040

Safety and Soundness is FHFA's FY 2017 largest program area at $172.4 million or 65 percent of total gross costs as compared to 64 percent in FY 2016. 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 uses a risk-based approach to conducting supervisory examinations, which prioritizes 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. FHFA conducts on-site examinations at the regulated entities, ongoing risk analysis, and off-site review and monitoring. In addition, FHFA communicates supervisory standards to the regulated entities, establishes expectations for strong risk management, identifies risks and requires timely remediation of identified deficiencies.

The next largest program area is Managing the Conservatorships at $56.7 million or 21 percent of total gross costs (FY 2016 total was 22 percent). FHFA is focused on managing the Enterprises' ongoing conservatorships to preserve and conserve the assets of the Enterprises for the benefit of the taxpayers, reduce taxpayer risk from Enterprise operations, and build a new single-family securitization infrastructure for the Enterprises. It should be noted that day-to-day operations are delegated to Enterprise management and their Boards of Directors.

Liquidity, Stability, and Access is the third largest program area at $35.5 million or 14 percent of total gross costs (FY 2016 total was also 14 percent). For both 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. To achieve these goals, FHFA works to ensure liquidity and promote stability in the housing finance markets and expand access to housing finance to all qualified financial institutions and creditworthy borrowers.

FINANCIAL STATEMENT SUMMARY — OVERVIEW OF FINANCIAL POSITION AS OF SEPTEMBER 30

The Balance Sheet presents, at the end of the fiscal year, the recorded value of assets and liabilities retained or managed by FHFA. The difference between the assets and liabilities represents FHFA's net position. From FY 2016 to FY 2017, the balance sheet has remained fairly stable as displayed in Table 8.

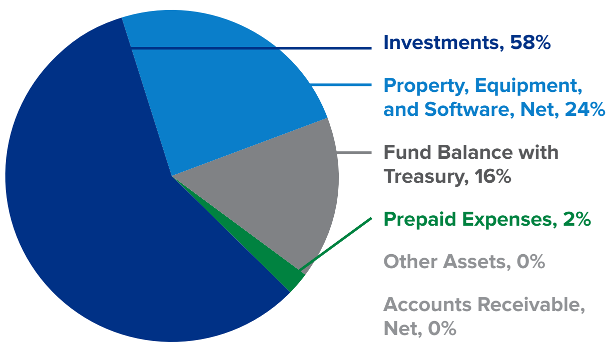
Table 8: FHFA Condensed Balance Sheets
(dollars in thousands)

	FY 2017	FY 2016	Percent Change
Total Assets	$105,338	$106,557	-1%
Total Liabilities	$53,286	$54,647	-2%
Total Net Position	$52,052	$51,910	0%

ASSETS

For FY 2017, key assets include: Investments (58 percent), Property, Equipment and Software, Net (24 percent) and Fund Balance with Treasury (16 percent). FHFA's investment portfolio included semi-annual assessment payments from our regulated entities and a working capital fund. FHFA invested in one-day certificates issued by the Treasury Department to efficiently use idle funds with minimum risk (see Figure 10).

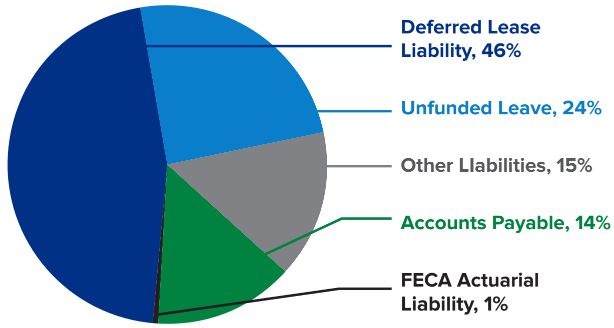
Figure 10: Distribution of Total Assets for FY 2017



LIABILITIES

The major liabilities include Deferred Lease Liability (46 percent) and Unfunded Leave (24 percent). The Deferred Lease Liability consists of deferred rent and the Constitution Center tenant allowance (the unamortized portion of the tenant allowance granted to FHFA at the inception of the lease). 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 lease agreements on the properties at 400 7th Street SW Constitution Center (Washington, D.C.), 1625 Eye Street NW (Washington, D.C.), and 5080 Spectrum Drive (Dallas, Texas). The second largest liability, Unfunded Leave, amounted to approximately $12.9 million (see Figure 11). Unfunded leave is the amount of annual leave earned but not used by FHFA employees.

Figure 11: Distribution of Total Liabilities for FY 2017



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. Generally Accepted Accounting Principles 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.

ANALYSIS OF SYSTEMS, CONTROLS, AND LEGAL COMPLIANCE: MANAGEMENT ASSURANCES

FEDERAL MANAGERS' FINANCIAL INTEGRITY ACT

During FY 2017, FHFA adhered to the internal control requirements of the Federal Managers' Financial Integrity Act (FMFIA) and the guidance provided by OMB Circular A-123. FHFA's Executive Committee on Internal Controls (ECIC) met quarterly to oversee internal controls and provide recommendations to the FHFA Director on the effectiveness of FHFA's internal controls.

Executive Committee on Internal Controls

The purpose of the ECIC is to oversee and monitor the FHFA's internal controls, Enterprise Risk Management practices, and 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 the Federal Managers' Financial Integrity Act.

The ECIC serves as the governance body for the Agency's implementation of the Office of Management and Budget's (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. The 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 assessment teams to assess the internal controls.

During FY 2017, pursuant to the obligations and spirit of OMB Circular A-123, FHFA monitored and assessed the following areas:

Reliability over Financial Reporting
FHFA's Office of Budget and Financial Management (OBFM) 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*[20] (Green Book). Division management officials and OBFM reviewed the completed assessments.

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 OGC 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 OBFM 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, 2017 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 (IG) for Internal Controls and includes members that constitute a senior assessment team that assesses internal controls. The assessment team includes the Associate IGs, Chief Counsel, all Deputy Inspectors General, and the Budget and Finance Director. 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

20 http://www.gao.gov/products/GAO-14-704G

that the IG 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 FHFA OIG, uses the Bureau of the Fiscal Services for its accounting services and its financial management system (FMS) which includes 1) a core accounting 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—Discoverer; and 4) an inventory tracking system. FHFA is responsible for overseeing the Bureau of the Fiscal Services' performance of accounting services for the Agency. A financial oversight document outlines the assignment of activities between FHFA and the Bureau of the Fiscal Services. 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 Safety and Soundness Act Section 1316 (g) (3). FHFA and FHFA OIG also uses the Interior Business Center (a service provider within the Department of Interior) and the National Finance Center (a service provider within the Department of Agriculture), respectively, for its payroll and personnel processing. 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 MANAGEMENT ACT

FISMA requires all federal agencies to develop and implement an agency-wide information security program. FISMA provides a framework to establish and maintain a minimum set of security controls to protect the Agency's information, operations, and assets. In addition, FISMA mandates that agencies undergo an annual independent evaluation of its Information Security Program and practices, as well as an assessment of its compliance with the FISMA requirements. FISMA, which Congress passed in 2002, was updated in 2014.

FHFA OIG contracted with an independent external audit firm to conduct a performance audit of FHFA's Information Security Program and practices as per Generally Accepted Government Auditing Standards. Specifically, the objectives of the audit were to evaluate the effectiveness of FHFA's Information Security Program and practices and respond to the Department of Homeland Security's FY 2017 IG FISMA Reporting Metrics. The audit methodology included testing a subset of FHFA's systems for compliance with selected controls from the National Institute of Standards and Technology's (NIST) Special Publication (SP) 800-53, Revision (Rev.) 4, Security and Privacy Controls for Federal Information Systems and Organizations.

The audit concluded that FHFA's Information Security Program was compliant with the FISMA legislation and applicable Office of Management and Budget guidance and that sampled security controls from NIST SP 800-53 demonstrated operating effectiveness. The report determined that FHFA has sound controls for its Information Security Program. FHFA completed remediation actions to close a multiyear FY 2014 FISMA recommendation.

The FHFA OIG operates its own network, systems, and related information security programs which are separate from those of the Agency. The FHFA OIG conducted an independent evaluation of its information security program. This evaluation was performed by the same independent external audit firm. For the FHFA OIG information security program, the external auditor concluded that the FHFA OIG information security program is compliant with the FISMA legislation and applicable OMB guidance and that sampled security controls demonstrated operating effectiveness. The external auditor noted that FHFA OIG had sound controls for its information security program and had implemented security controls in all seven tested areas as part of the FY 2017 IG FISMA Reporting Metrics. This year's audit resulted in one finding which was quickly addressed without the need for a recommendation. In response to findings noted in the prior-year FISMA audits, the auditor found that FHFA OIG has made positive improvements to its Information Security Program which resolved the two remaining prior year findings.

The independent external auditor concluded that there were no significant deficiencies for the FHFA and FHFA OIG information security programs. The auditor will review and verify corrective actions taken by FHFA and FHFA OIG during the FY 2018 FISMA audits.

CYBERSECURITY ACT OF 2015 AUDIT

The Cybersecurity Act of 2015 directs Inspectors General to evaluate the effectiveness of agencies information security procedures and practices with an emphasis on implementation of privacy controls of covered systems.

Covered systems are federal computer systems that provide access to personally identifiable information (PII). IGs are required to submit a report to the U.S. Congress, which includes the following information collected from the agency:

- A description of the logical access policies and practices used to access a PII system, including whether appropriate standards were followed
- A description and list of the logical access controls and multi-factor authentication used by the agency to govern access to PII systems by privileged users
- A description of policies and procedures followed to detect data exfiltration and maintain an inventory software and licenses on the covered systems
- A description of policies and procedures to ensure that contractors and other entities providing services to the agency implement appropriate data security management practices

The audit methodology included testing a subset of FHFA's systems for compliance with selected controls from the NIST SP 800-53, Rev. 4, *Security and Privacy Controls for Federal Information Systems and Organizations.*

The most recent FY 2016 audit determined that FHFA has satisfied the NIST SP 800-53 required privacy controls for the reviewed systems and has implemented a combination of preventive and detective security controls to protect sensitive information such as PII. The auditors did not issue any audit findings.

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 2017, the dollar amount subject to prompt payment was $72.5 million. The amount of interest penalty paid in FY 2017 was $33.

CHARGE CARD ABUSE PREVENTION

The Government Charge Card Abuse Prevention Act of 2012 requires that agencies establish and maintain safeguards and internal controls for purchase cards, travel cards, integrated cards, and centrally billed accounts.

FHFA, as part of a sound internal control structure, has established controls to prevent waste, fraud and abuse of the government-wide charge card. FHFA provides OMB an annual Charge Card Management Plan, Charge Card Narrative, and Performance Metrics Report. Additionally, FHFA has documented charge card procedures. FHFA OIG completed a review of the program and identified no significant issues.

FHFA AUDITS AND EVALUATIONS

Every year, FHFA receives and responds to numerous evaluations concerning the effectiveness and efficiency of its projects, policies, and programs. These evaluations also focus on program cost, merit, improvements, and consequences, among other topics.

FHFA's OIG is the primary evaluator of FHFA. FHFA activities are also periodically reviewed by other agencies, including GAO, the U.S. Office of Government Ethics, and the Federal Emergency Management Agency, as well as other offices within FHFA (e.g., Office of Quality Assurance). The OIG also issues an annual assessment of FHFA's Management and Performance Challenges. This is presented in the Other Information section of this PAR, on pages 86–101.

In FY 2017, FHFA responded to 32 OIG reports[21] and 3 GAO reports, which are listed in Table 9.

21 https://fhfaoig.gov/#

Table 9: Audits and Evaluations			
FHFA OIG Reports			
1	AUD-2017-001	Performance Audit of the Agency's Information Security Program Fiscal Year 2016	10/26/2016
2	AUD-2017-002	Performance Audit of the Federal Housing Finance Agency Office of Inspector General's Information Security Program Fiscal Year 2016	10/26/2016
3	EVL-2017-001	FHFA's Use of Inconsistent Criteria Materially Affected its Reporting of Remediation of Serious Deficiencies in its 2015 Performance and Accountability Report	11/9/2016
4	OIG-2017-001	Administrative Investigation of an Anonymous Hotline Complaint Alleging Use of FHFA Vehicles and FHFA Employees in a Manner Inconsistent with Law and Regulation	12/6/2016
5	COM-2017-001	Update on the Status of the Development of the Common Securitization Platform	12/9/2016
6	OIG-2017-002	Fannie Mae Dallas Regional Headquarters Project	12/15/2016
7	OIG-2017-003	Safe and Sound Operation of the Enterprises Cannot Be Assumed Because of Significant Shortcomings in FHFA's Supervision Program for the Enterprises	12/15/2016
8	EVL-2017-002	FHFA's Examinations Have Not Confirmed Compliance by One Enterprise with its Advisory Bulletins Regarding Risk Management of Nonbank Sellers and Servicers	12/21/2016
9	COM-2017-002	Compliance Review of Federal Home Loan Bank Fraud Reporting to FHFA	1/24/2017
10	COM-2017-003	Update on FHFA's Implementation of its Housing Finance Examiner Commission Program	3/22/2017
11	ESR-2017-003	Directives from the Audit Committee of the Freddie Mac Board of Directors Caused Management to Improve its Reporting about Remediation of Serious Deficiencies from October 2015 through September 2016	3/22/2017
12	OIG-2017-004	Administrative Investigation of Hotline Complaints: Conflicts of Interest Issue	3/23/2017
13	OIG-RA-2017-001	Risk Assessment of FHFA's Fiscal Years 2016 and 2015 Government Purchase Card and Travel Card Programs	3/27/2017
14	EVL-2017-004	FHFA's Practice for Rotation of its Examiners Is Inconsistent between its Two Supervisory Divisions	3/28/2017

Table 9: Audits and Evaluations (cont'd)			
FHFA OIG Reports			
15	AUD-2017-003	FHFA's Examination Program for the FHLBanks' Internal Audit Functions Was Adequately Designed and Executed	5/5/2017
16	AUD-2017-004	FHFA Complied with Applicable Improper Payment Requirements During Fiscal Year 2016	5/10/2017
17	AUD-2017-005	FHFA's Processes for General Support System Component Inventory Need Improvement	5/25/2017
18	ESR-2017-005	Closure of OIG Review of FHFA's Supervision of an Enterprise's Remediation of Matters Requiring Attention	6/12/2017
19	AUD-2017-006	NPL Sales: Additional Controls Would Increase Compliance with FHFA's Sales Requirements	7/24/2017
20	COM-2017-004	FHFA's Compliance with its Documentary Standards for Issuing Housing Finance Examiner Commissions	7/25/2017
21	COM-2017-005	FHFA Should Improve its Administration of the Suspended Counterparty Program	7/31/2017
22	EVL-2017-006	The Gap in FHFA's Quality Control Review Program Increases the Risk of Inaccurate Conclusions in its Reports of Examination of Fannie Mae and Freddie Mac	8/17/2017
23	WPR-2017-001	Existing Statutory Capital Requirements for Fannie Mae and Freddie Mac	8/17/2017
24	AUD-2017-007	Performance Audit of the Federal Housing Finance Agency's (FHFA) Privacy Program	8/30/2017
25	WPR-2017-002	Fannie Mae and Freddie Mac in the Multifamily Market	9/7/2017
26	COM-2017-006	Compliance Review of FHFA's Revised Process for Reviewing the Enterprises' Annual Operating Budgets	9/19/2017
27	AUD-2017-008	FHFA's 2015 Report of Examination to Fannie Mae Failed to Follow FHFA's Standards Because it Reported on an Incomplete Targeted Examination of the Enterprise's New Representation and Warranty Framework	9/22/2017
28	AUD-2017-009	FHFA's 2015 and 2016 Supervisory Activities, as Planned, Addressed Identified Risks with Freddie Mac's New Representation and Warranty Framework	9/22/2017
29	AUD-2017-010	FHFA Failed to Complete Non-MRA Supervisory Activities Related to Cybersecurity Risks at Fannie Mae Planned for the 2016 Examination Cycle	9/27/2017
30	AUD-2017-011	FHFA Did Not Complete All Planned Supervisory Activities Related to Cybersecurity Risks at Freddie Mac for the 2016 Examination Cycle	9/27/2017
31	OIG-2017-005	Need for Increased Oversight by FHFA to Ensure Freddie Mac's Policies and Procedures for Resolution of Executive Officer Conflicts of Interest Align with the Responsibilities of the Nominating and Governance Committee of the Freddie Mac Board of Directors	9/27/2017
32	COM-2017-007	Special Report: Update on FHFA's Oversight of Fannie Mae's Build-Out of its Newly Leased Class A Office Space in Midtown Center	9/28/2017
GAO Reports			
1	GAO-17-139R	Federal Housing Finance Agency's Fiscal Years 2016 and 2015 Financial Statements	11/15/2016
2	GAO-17-92	Objectives needed for the Future of Fannie Mae and Freddie Mac After Conservatorships	11/17/2016
3	GAO-17-552R	Opportunities for Improvement in FHFA's Evaluation of Internal Control over Financial Reporting	6/14/2017

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 10, 11, and 12 provide information on final action taken by management on audit reports for FY 2017.

Table 10: Management Report on Final Action on Audits with Disallowed Costs for FY 2017

AUDIT REPORTS		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	2 [1, 2]	$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

1. The FHFA OIG reported questioned costs associated with FHFA's oversight of the budgeted costs for Fannie Mae's Washington D.C. headquarters project (Report No. COM-2016-004). FHFA reviewed the budgeted costs and disagreed with the FHFA OIG's determination. In September 2016, FHFA OIG published an update to the management alert (Report No. COM-2017-007) that revised their calculation of the questioned costs and in response FHFA reiterated its disagreement.

2. The FHFA OIG reported questioned costs associated with FHFA's oversight of the budgeted costs for Fannie Mae's Dallas regional office (Repot No. OIG-2017-002). FHFA reviewed the budgeted costs and disagreed with the FHFA OIG's determination.

Table 11: Management Report on Final Action on Audits with Recommendations to Put Funds to Better Use for FY 2017			
AUDIT REPORTS		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. 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

MANAGEMENT ACTION IN PROCESS

Table 12: Audit Reports without Final Actions but with Management Decisions Over One Year Old for FY 2017		
REPORT NO. AND ISSUE DATE	RECOMMENDATION	MANAGEMENT ACTION
None	None	None

FEDERAL HOUSING FINANCE AGENCY
Office of the Director

October 12, 2017

Federal Managers' Financial Integrity Act
Statement of Assurance
Fiscal Year 2017

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.

FHFA conducted its assessment of internal control over the effectiveness and efficiency of operations 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, non-financial reporting, and compliance with applicable laws and regulations as of September 30, 2017 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, which includes safeguarding of assets and compliance with applicable laws and regulations, using a risk based approach adapted from Appendix A of 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, 2017 were operating effectively and no material weaknesses were found in the design and operation of the 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, 2017.

Sincerely,

Melvin L. Watt

400 7th Street, S.W., Washington, D.C. 20024 • 202-649-3801 • 202-649-1071 (fax)

PERFORMANCE SECTION

The Performance Section provides information on the 30 performance measures established in the Agency's Annual Performance Plan (APP) for FY 2017. These performance measures align with the strategic goals outlined in FHFA's Strategic Plan for Fiscal Years 2015–2019[22] and include three resource management performance measures. Figure 12 outlines the elements of FHFA's approach to performance management.

The Performance Section includes an overview of FHFA's performance planning and validation processes, an overview of the Agency's strategic and performance goals, and a discussion of the outcomes for FHFA's performance measures in FY 2017.

22 In FY 2017, FHFA developed a Strategic Plan for FY 2018 – 2022 to fulfill the Agency's obligation.

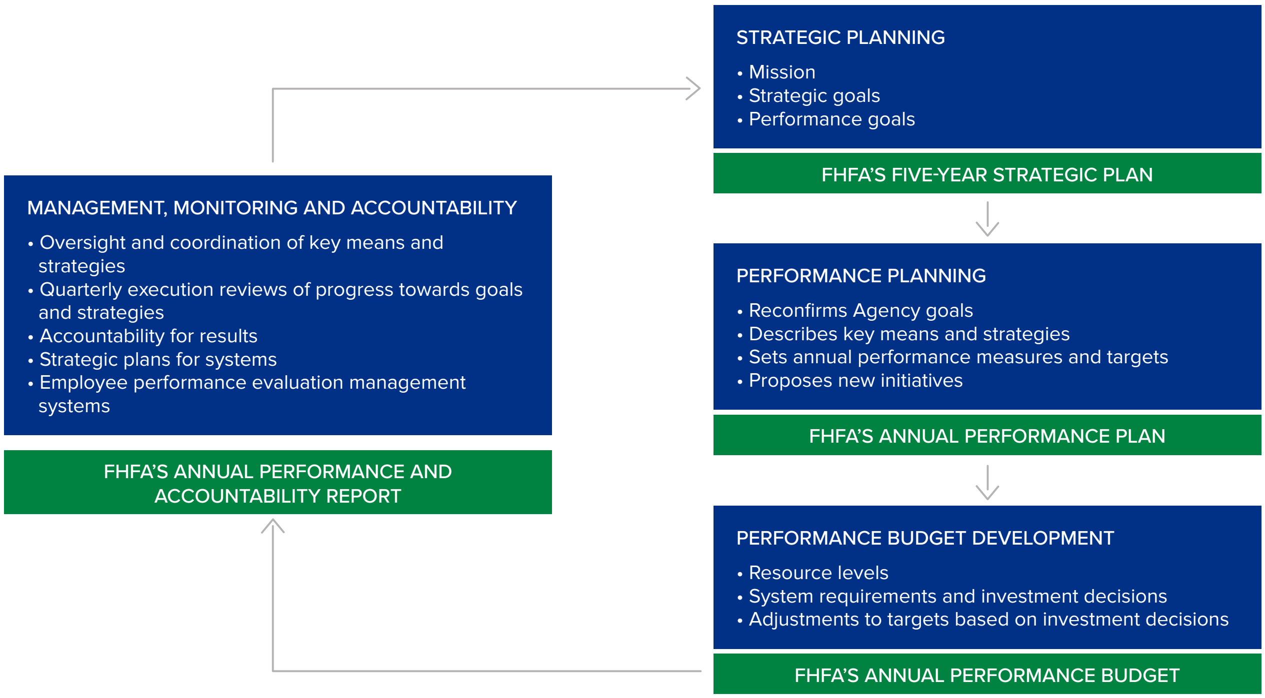
Figure 12: FHFA Performance Management

PERFORMANCE PLANNING AND REVIEWS

The APP sets out performance measures and targets in support of the strategic and performance goals documented in the Strategic Plan. Developing the APP is a collaborative process that includes all FHFA offices and divisions with final approval by the FHFA Director.

During FY 2017, goal leaders submitted quarterly reports on the progress made toward achieving performance measures and targets for which they were accountable. The Agency used these quarterly reports as the basis for developing this section of the PAR. FHFA's leadership reviewed these reports quarterly and analyzed supporting data throughout the year to monitor progress toward achieving planned performance levels. See Figure 13 for an outline of FHFA's performance planning and review process.

Figure 13: FHFA's Performance Planning and Review Process



VALIDATION AND VERIFICATION OF PERFORMANCE DATA

To ensure that the information reported in FHFA's FY 2017 Performance and Accountability Report is complete and reliable, FHFA identifies, verifies, and validates the sources of data used to assess performance measures. Each office or division collects measurement data and reports it in the Agency's performance tracking system. FHFA staff follows documented procedures to verify and validate the data provided to ensure the information provided is accurate and complete. Agency senior executive leadership reviews the reports each quarter.

During the performance tracking cycle, the following data are collected on each performance measure:

- Definition of the performance measure;
- Relevance of the measure;
- Data source;
- Process for calculating or tabulating 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

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 uses a risk-based approach to conduct supervisory examinations that prioritizes examination activities based on the risk a given practice poses to a regulated entity's safe and sound operation or its compliance with applicable laws and regulations.

PERFORMANCE GOAL 1.1: ASSESS THE SAFETY AND SOUNDNESS OF REGULATED ENTITY OPERATIONS

Performance Goal 1.1: Assess the Safety and Soundness of Regulated Entity Operations	FY 2014	FY 2015	FY 2016	FY 2017 Target	FY 2017 Results
1.1.1 Ensure that written risk-based supervisory strategies and examination plans are in place prior to the commencement of the examination cycle	Met	Met	Met	100% of the time	Met
1.1.2 Deputy Director will approve ROEs for regulated entities within 90 days of completing examination work	Met	Not Met	Met	100% 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	100% 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	100% of the time	Met
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	N/A	N/A	N/A	Quality Control Review of 100% of targeted exams	Met

PERFORMANCE RESULTS

Measure 1.1.1

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.

FHFA utilizes a combination of targeted examinations and ongoing monitoring to supervise the Enterprises. Targeted examinations assess a particular area, product, risk, or activity of the Enterprise, and all targeted examinations begin with a request letter and end with a conclusion letter. Ongoing monitoring allows examiners to identify and monitor issues that affect the Enterprise's risk profile and communicate with management in a timely manner regarding any areas of concern. For the purpose of calculating this measure for fiscal year 2017, the commencement of an Enterprise's examination cycle is the issuance of targeted examination request letters following the approval of the Enterprise's supervisory strategy and examination plan. In FY 2017, FHFA held planning meetings in November and December 2016 for the Enterprises. The 2017 supervisory strategies and examination plans, which outline targeted examinations and ongoing monitoring activities for each Enterprise in the coming year, were approved prior to the issuance of 2017 targeted examination request letters.

FHLBanks and the Office of Finance are examined annually, and FHFA's examiners generally begin examinations at three entities per quarter. Examinations at the FHLBanks have a clear beginning and end dates. In FY 2017, supervisory strategies and scope memoranda were in place prior to the start of each FHLBank's annual on-site examination.

Measure 1.1.2

FHFA communicates supervisory results, findings and expectations for remedial action to the Enterprises, the FHLBanks, and the Office of Finance through supervisory correspondence and ROEs.

The ROEs for Fannie Mae and Freddie Mac were approved, finalized, and issued to the Enterprises in March 2017, meeting the target of delivering ROEs within 90 days of completing examination work.

FHFA sends each FHLBank an ROE following its examination. All ROEs sent to the FHLBanks during FY 2017 were approved within the target of 90 days after the respective FHLBanks' examination exit meeting.

Measure 1.1.3

The market value of equity to par value of capital stock ratio provides an indicator of each FHLBank's condition. A ratio of 1.0 or above is desirable as 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 2017, all FHLBanks reported that their respective market value of equity was greater than the par value of their capital stock.

Measure 1.1.4

During each quarter of FY 2017, FHFA determined each FHLBank's capital classification for the prior quarter and communicated it to each 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*. All FHLBanks were adequately capitalized during the fiscal year.

Measure 1.1.5

FHFA staff conducts independent quality control (QC) reviews of supervisory correspondence and supporting documentation. These reviews confirm that written communications of examination conclusions and findings are supported by documented examination work and that the work is consistent with applicable DER guidance for document preparation and management. In FY 2017, QC reviewed 100 percent of documentation for completed targeted examinations and confirmed that the documentation was consistent with guidance.

PERFORMANCE GOAL 1.2: IDENTIFY RISKS TO THE REGULATED ENTITIES AND SET EXPECTATIONS FOR STRONG RISK MANAGEMENT

Performance Goal 1.2: Identify Risks to the Regulated Entities and Set Expectations for Strong Risk Management	FY 2014	FY 2015	FY 2016	FY 2017 Target	FY 2017 Results
1.2.1 Issue guidance to the Enterprises on cyber risk management to better align existing FHFA guidance with recent regulatory and industry standards	N/A	N/A	N/A	FY 2017	Met

PERFORMANCE RESULTS

Measure 1.2.1

On March 15, 2017, FHFA issued the Information Security supplemental guidance module for field testing. It was written in collaboration with examiners and other FHFA subject matter experts. Examination modules and supplemental guidance in "field test" are non-public until final issuance. As a complement, FHFA released Advisory Bulletin AB 2017-02 (*Information Security Management*) on September 28, 2017, which provides FHFA guidance on information security management for supporting a safe and sound operational environment and promoting the resilience of Fannie Mae, Freddie Mac, the FHLBanks, and the Office of Finance. The advisory bulletin articulates supervisory expectations on protecting the availability, integrity, and confidentiality of information in both electronic and physical form.

PERFORMANCE GOAL 1.3: REQUIRE TIMELY REMEDIATION OF RISK MANAGEMENT WEAKNESSES

Performance Goal 1.3: Require Timely Remediation of Risk Management Weaknesses	FY 2014	FY 2015	FY 2016	FY 2017 Target	FY 2017 Results
1.3.1 FHFA determines that the regulated entities have satisfactorily addressed MRAs in accordance with agreed upon remediation plans and timeframes	N/A	Met	Not Met	90% of the time	Not Met

PERFORMANCE RESULTS

Measure 1.3.1

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

The Enterprises begin addressing 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 the remediation plan and submits documentation demonstrating remediation activities to the Enterprises' internal audit function for validation.

When the Enterprises' internal audit function validates completion, FHFA reviews the Enterprises' actions and the internal audit function's validation to determine whether the Enterprise has satisfactorily addressed the MRA pursuant to a non-objected plan and within agreed upon timeframes. This measure's fiscal year target is for FHFA to review and determine that 90 percent of those MRAs that were validated by the Enterprises' internal audit function and were submitted from June 1 of the previous year to May 31 of the current year have been satisfactorily addressed.

In total for the fiscal year, FHFA determined that 100 percent of those MRAs validated by each Enterprises' internal audit functions and reviewed by FHFA had been satisfactorily addressed.

In addition to what is captured in this performance measure and described above, FHFA monitors the status of Enterprise completion of MRAs, including those MRAs not yet forwarded to the Enterprises' internal audit function for validation, in the course of carrying out the Agency's on-site supervisory and examination functions.

For the FHLBanks, FHFA reviews an individual Bank's satisfactory resolution of its MRAs in conjunction with FHFA's annual examination cycle for the FHLBanks. FHFA gathers information about MRA resolution in the course of its annual exam work for that Bank, and determines whether MRAs outstanding prior to the examination were addressed by the FHLBank within agreed upon timeframes or if the FHLBank is sufficiently on track to address them within the established remediation plan.

At FHLBank examinations during FY 2017, FHFA followed up on outstanding MRAs to determine whether the FHLBanks had remediated them or if they were making progress according to their remediation plan. In total for the fiscal year, 88.7 percent of MRAs passed FHFA's assessment, below the target rate of 90 percent. FHFA did not meet this performance goal. In one instance in which a Bank examined in the first quarter of the fiscal year had a remediation rate lower than 90 percent, FHFA reexamined the Bank in the fourth quarter of the fiscal year and determined that all MRAs were successfully remediated. In addition, FHFA provided training to examiners on assessing FHLBank and Office of Finance remediation efforts to ensure examination consistency. FHFA will continue to ensure the FHLBanks address FHFA's concerns communicated through the MRA and overall supervisory process.

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

For both the FHLBank System and the Enterprises, FHFA has the obligation to support liquidity and foreclosure prevention activities in the housing finance market in a safe and sound manner. Achieving that objective involves providing access to responsible mortgage credit across different market segments of creditworthy borrowers, offering sensible and appropriate loss mitigation options when borrowers fall into economic distress, and supporting affordable rental housing options.

PERFORMANCE GOAL 2.1: ENSURE LIQUIDITY IN MORTGAGE MARKETS

Performance Goal 2.1: Ensure Liquidity in Mortgage Markets	FY 2014	FY 2015	FY 2016	FY 2017 Target	FY 2017 Results
2.1.1 Implement a post-HARP refinance product	N/A	N/A	N/A	FY 2017	Met
2.1.2 Implement a standardized hierarchy of loss mitigation programs that reflect the post-HAMP environment	N/A	N/A	N/A	FY 2017	Met

PERFORMANCE RESULTS

Measure 2.1.1

In 2016, the Enterprises' developed a streamlined high LTV program, targeting implementation in FY 2017. As the Enterprises worked toward implementation of this program, they identified concerns and proposed programmatic changes. FHFA reviewed the proposed changes and responded favorably. The Enterprises published the revised programmatic details on September 8, 2017, thereby meeting FHFA's criteria for implementation. Lenders will be able to take loan applications for the new High LTV Streamlined Refi program beginning on November 1, 2018.

Measure 2.1.2

In December 2017, the Enterprises announced the Flex Modification program, which integrates lessons learned and elements of HAMP and the Standard and Streamlined Modification programs into a single program. The Flex Modification program was implemented in October 2017.[23]

23 https://www.fanniemae.com/content/fact_sheet/fanniemae-flex-modification-fact-sheet.pdf
http://www.freddiemac.com/singlefamily/service/flex_modification.html

PERFORMANCE GOAL 2.2: PROMOTE STABILITY IN THE NATION'S HOUSING FINANCE MARKETS

Performance Goal 2.2: Promote Stability in the Nation's Housing Finance Markets	FY 2014	FY 2015	FY 2016	FY 2017 Target	FY 2017 Results
2.2.1 Continue publication of 12 monthly and 4 quarterly FHFA House Price Indices	N/A	Met	Met	FY 2017	Met

PERFORMANCE RESULTS

Measure 2.2.1

FHFA published 12 monthly and 4 quarterly HPI releases during FY 2017. HPI releases are available on the *Plans and Reports*[24] page of FHFA's website.

24 https://www.fhfa.gov/AboutUs/reportsplans

Improving the Public's Understanding of the HPI

In an effort to increase public awareness of housing markets and improve market transparency, FHFA has created an informational video that describes the data and methodology used for constructing the HPI. At a high level, the video describes the data sources used and the essence of the statistical model employed in estimating the index values. The video can be watched here.[25]

In addition to the methodology video, FHFA has also begun releasing quarterly videos that address recent trends in home values. In these videos, FHFA economists discuss the latest estimates for home price appreciation for the country as a whole, while also providing details about localized price trends. FHFA releases quarterly HPI reports on its website.[26]

25 https://youtu.be/w_106VLsC84

26 https://go.usa.gov/xnTzu

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 Goal 2.3: Expand Access to Housing Finance for Qualified Financial Institutions of all Sizes in All Geographic Locations and for Qualified Borrowers	FY 2014	FY 2015	FY 2016	FY 2017 Target	FY 2017 Results
2.3.1 Issue final Duty to Serve rule requiring the Enterprises to serve three underserved markets—manufactured housing, affordable housing preservation, and rural areas	N/A	N/A	Not Met	FY 2017	Met
2.3.2 Ensure that written Diversity and Inclusion supervisory strategies and examination plans are in place prior to Division of Enterprise Regulation and Division of Bank Regulation examination cycles	N/A	N/A	N/A	100% of the time	Met
2.3.3 Incorporate approved conclusion letters into Division of Bank Regulation Reports of Examination as Scheduled	N/A	N/A	N/A	100% of the time	Met
2.3.4 Issue proposed rule for Enterprise Housing Goals for 2018–2020	N/A	N/A	N/A	FY 2017	Met
2.3.5 Issue proposed rule for Federal Home Loan Bank Affordable Housing Program Modernization Regulation	N/A	N/A	N/A	FY 2017	Not Met

PERFORMANCE RESULTS

Measure 2.3.1

FHFA published the Duty to Serve Rule on December 15, 2016.[27] The rule requires the Enterprises to provide leadership to facilitate a secondary market for mortgages on housing for very low-, low-, and moderate-income families in three underserved markets: manufactured housing, affordable housing preservation, and rural housing.

Measure 2.3.2

As FHFA enters the first year of its examination program for diversity and inclusion in the regulated entities, developing supervisory strategies and examination plans prior to beginning an examination ensures the diversity and inclusion examination program is executed according to the same standards as existing FHFA examination programs. FHFA met this target with documented supervisory strategies and examination plans in place before diversity and inclusion exams began at the regulated entities.

Measure 2.3.3

Consistent with long-standing examination practice, the diversity and inclusion examination program finalizes its exams with conclusion memoranda, which document the findings of the diversity and inclusion examinations at each of the regulated entities. Diversity and inclusion examination conclusion memoranda are included with the respective reports of examination for the regulated entities. In FY 2017, FHFA provided conclusion memoranda at the end of each of the diversity and inclusion examinations the Agency conducted.

Measure 2.3.4

In FY 2017, FHFA issued a proposed rule requiring the Enterprises to dedicate a specific percentage/minimum number of their single-family and multifamily mortgage purchases to low-income borrowers and areas. FHFA published this proposed rule in the Federal Register for comment on July 7, 2017.[28] For more information about these housing goals, see FHFA's 2017 *Annual Housing Report*.[29]

Measure 2.3.5

FHFA did not issue the proposed rule for FHLBanks Affordable Housing Program Modernization Regulation in FY 2017. FHFA expects to publish the proposed rule for comment in FY 2018.

27 https://www.fhfa.gov/PolicyProgramsResearch/Programs/Pages/Duty-To-Serve.aspx

28 https://www.federalregister.gov/documents/2017/07/07/2017-14286/2018-2020-enterprise-housing-goals

29 https://www.fhfa.gov/AboutUs/Reports/Pages/Annual-Housing-Report-2017.aspx

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' ongoing conservatorships to preserve and conserve the assets of the Enterprises for the benefit of taxpayers, reduce taxpayer risk from Enterprise operations, and build a new single-family securitization infrastructure for the Enterprises.

PERFORMANCE GOAL 3.1: PRESERVE AND CONSERVE ASSETS

Performance Goal 3.1: Preserve and Conserve Assets	FY 2014	FY 2015	FY 2016	FY 2017 Target	FY 2017 Results
3.1.1 Maintain a qualified board of directors and CEO for each Enterprise to oversee the implementation of conservator objectives	N/A	Met	Met	95% of vacancies filled within 120 days	Met
3.1.2 2017 Scorecard for Fannie Mae, Freddie Mac, and CSS provided to the Enterprises	N/A	Met	Met	December 31, 2016	Met
3.1.3 Approve Enterprises' administrative expenses for Calendar Year 2017	N/A	N/A	Met	March 31, 2017	Met
3.1.4 Monitor and rate the Enterprises' performance against current Scorecard objectives	N/A	N/A	N/A	Completed within 30 days of the end of each quarter	Met
3.1.5 Provide timely decisions on items submitted to FHFA for conservator approval	N/A	N/A	N/A	95% of conservatorship decisions made and communicated within 120 days of receipt	Met

PERFORMANCE RESULTS

Measure 3.1.1

The Enterprises are required to maintain a minimum of 9 board members and can increase the number up to 13 board members. As defined by FHFA, a board vacancy is created when the number of board members falls below the requirement of nine members. In the first quarter of FY 2017, FHFA approved the appointment of 1 addition to the Fannie Mae Board of Directors bringing the total number of board members to 12. There were no departures or additions to the Freddie Mac Board of Directors in FY 2017. Its board remains at 13 members. There was no change in the Chief Executive Officer at either Enterprise in FY 2017.

Measure 3.1.2

FHFA released the final 2017 Scorecard to the Enterprises, CSS, and the public on December 15, 2016.[30] The annual Scorecard sets goals for the Enterprises and CSS to implement the 2014 Conservatorship Strategic Plan. Providing the Scorecard to the Enterprises and CSS in a timely manner increases the likelihood of achieving milestones for the upcoming year.

Measure 3.1.3

FHFA reviewed and approved Fannie Mae and Freddie Mac's 2017 administrative expenses in December 2016. Approving administrative expenses is one of the responsibilities of conservatorship as defined by the Revised Letters of Instruction, issued in November 2012.

30 https://www.fhfa.gov/Media/PublicAffairs/Pages/FHFA-Releases-2017-Scorecard-for-Fannie-Mae-Freddie-Mac-and-CSS.aspx

Measure 3.1.4

The annual Scorecard sets goals for the Enterprises and CSS to implement the 2014 Conservatorship Strategic Plan. FHFA assesses Enterprise and CSS progress against these goals quarterly, and communicates its evaluation to the Enterprises and CSS. Each quarter, FHFA met its goal of providing quarterly assessments to the Enterprises within 30 days of the end of the quarter.

Measure 3.1.5

In its role as conservator, FHFA authorizes the Enterprises' boards and senior management to oversee and carry out the day-to-day operations of the Enterprises. However, there are certain actions that FHFA has carved out that require conservator decisions before the Enterprises can take action. FHFA has set the expectation that 95 percent of requests for actions that require conservator decision will be made within 120 days of receipt through the Conservatorship Portal. FHFA responded to 97.1 percent of Enterprise requests within 120 days. The requests that were not responded to within 120 days were primarily requests involving complex policy and/or legal issues and requiring additional information from the Enterprises.

To calculate this measure, FHFA counts those decisions that have been communicated back to the Enterprises through the Conservatorship Portal, and calculates the time between receipt and decision. Requested conservator decisions are not included in this measure until they have been made and communicated. Should a decision request arrive in one fiscal year, but FHFA's decision is not made until the next fiscal year, that decision is counted in the fiscal year in which the decision is made and communicated.

PERFORMANCE GOAL 3.2: REDUCE TAXPAYER RISK FROM ENTERPRISE OPERATIONS

Performance Goal 3.2: Reduce Taxpayer Risk from Enterprise Operations	FY 2014	FY 2015	FY 2016	FY 2017 Target	FY 2017 Results
3.2.1 Oversee reduction in retained portfolios consistent with the PSPA target of $339.3 billion	Met	Met	Met	December 31, 2016	Met
3.2.2 Require the Enterprises to execute single-family mortgage credit risk sharing transactions	Met	Met	Met	At least 90% of the unpaid principal balance of newly acquired single-family mortgages in loan categories targeted for CRT	Met
3.2.3 Require the Enterprises to execute multifamily mortgage credit risk sharing transactions	N/A	N/A	N/A	Each Enterprise executes one multifamily CRT transaction	Met
3.2.4 Require the Enterprises to continue to responsibly reduce the number of severely-aged delinquent loans held by the Enterprises through national and small geographically concentrated pools	N/A	N/A	N/A	Each Enterprise meets the targets in the FHFA-approved plans for non-performing loan sales	Met

PERFORMANCE RESULTS

Measure 3.2.1

The objective of this performance measure is to contract the Enterprises' retained portfolios as set forth in the PSPAs with the Treasury Department. The reduction for both Enterprises exceeded the PSPA requirement for calendar year 2016, as both Enterprises had retained portfolio balances below the PSPA 2016 cap of $339.5 billion. As of December 31, 2016, Freddie Mac's retained portfolio balance was $298 billion, and Fannie Mae's retained portfolio balance was $273 billion.

Measure 3.2.2

By requiring the Enterprises to execute single-family mortgage credit risk sharing transactions, FHFA reduces taxpayer risk by increasing the role of private capital in the mortgage market. Under the 2016 Scorecard, FHFA required the Enterprises to transfer a meaningful amount of credit risk on at least 90 percent of the unpaid principal balance of newly acquired single-family mortgages in loan categories targeted for CRT. FHFA determined that both Enterprises exceeded the 90 percent target under the 2016 Scorecard.

Measure 3.2.3

By requiring the Enterprises to execute multifamily mortgage credit risk sharing transactions, FHFA reduces taxpayer risk by increasing the role of private capital in the mortgage market. FHFA required the Enterprises to complete at least one multifamily CRT transaction, and both Enterprises met this measure.

Measure 3.2.4

Under the 2016 Scorecard, FHFA required the Enterprises to continue addressing the non-performing loans (NPLs) in their respective portfolios through NPL sales. FHFA determined that both Enterprises met the 2016 NPL sales volume targets set in their respective 2016 NPL sales plans.

Reducing the Inventory of Non-Performing Loans at the Enterprises

Both Enterprises continue to reduce NPLs held in portfolio responsibly, executing the following NPL transactions in FY 2017:

- In May 2017, Freddie Mac sold $460 million in UPB.
- In April 2017, Fannie Mae sold $1.3 billion in UPB, including a Community Impact Pool of approximately $16.6 million in UPB located in upstate New York and New Jersey.
- In June 2017, Fannie Mae sold $581 million in UPB, including two Community Impact Pools comprised of NPL secured by properties located in upstate New York, New Jersey, and New York City, representing $31.9 million in UPB.

In June 2017, FHFA released its third report providing information about the sale of NPLs by the Enterprises. The report shows that, through December 2016, the Enterprises had sold more than 72,502 NPLs representing a total UPB of $14.2 billion.

- NPLs sold had an average delinquency of 3.4 years and an average current LTV ratio of 97 percent.
- New Jersey, Florida, and New York accounted for nearly half (48 percent) of the NPLs sold.
- The borrower outcomes in the report are based on the 45,446 NPLs that were settled by June 30, 2016 and reported through December 31, 2016. These outcomes reflect the following:
    - Compared to a benchmark of similarly delinquent Enterprise NPLs that were not sold, foreclosures avoided for sold NPLs were higher than the benchmark. Thirty-three percent of NPLs that have been with the new servicers the longest (1,737 NPLs for 20 months) avoided foreclosure, compared to 23 percent of the benchmark NPLs.
    - Eleven percent of the permanent modifications provided arrearage and/or principal forgiveness. The average forgiveness earned per loan was $35,385, with the potential to earn an average forgiveness of $73,695 in total.

PERFORMANCE GOAL 3.3: BUILD A NEW SINGLE-FAMILY SECURITIZATION INFRASTRUCTURE

Performance Goal 3.3: Build a New Single-Family Securitization Infrastructure	FY 2014	FY 2015	FY 2016	FY 2017 Target	FY 2017 Results
3.3.1 Freddie Mac and CSS implementation of Release 1 of the CSP, which will allow Freddie Mac to use the Data Acceptance, Issuance Support, and Bond Administration modules to perform activities related to its current single-class, fixed-rate PCs and Giant PCs, and certain activities related to the underlying mortgage loans	N/A	N/A	N/A	December 31, 2016	Met
3.3.2 Issue a progress report on the status of the Single Security and the CSP	N/A	N/A	Met	June 30, 2017	Met
3.3.3 Enterprise and CSS completion of key system testing of CSP Versions 10 and 11, which are required for implementation of the Single Security	N/A	N/A	N/A	June 30, 2017	Not Met

PERFORMANCE RESULTS

Measure 3.3.1

On December 8, 2016, FHFA announced that Release 1 of the CSP had been implemented successfully the previous month. Freddie Mac is using the CSP for Data Acceptance, Issuance Support, and Bond Administration activities related to current single-class, fixed-rate, MBS. This milestone signals significant progress in finalizing the Single Security Initiative.

Measure 3.3.2

FHFA issued An Update on the Implementation of the Single Security and the Common Securitization Platform on March 23, 2017. This report provides transparency to the public on the Enterprises' progress on this multiyear project.

Measure 3.3.3

The Enterprises and CSS completed Version 10 testing in the first quarter of FY 2017. Testing of Version 11 is underway, but was not completed by the target date of June 30, 2017. FHFA expects the system-to-system testing of Version 11 to be complete by the end of the second quarter of FY 2018.

RESOURCE MANAGEMENT

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

Resource Management: Supporting the Effective Operations of the Agency	FY 2014	FY 2015	FY 2016	FY 2017 Target	FY 2017 Results
RM1 FHFA's financial statements' audit receives an unmodified opinion with no material weaknesses and FISMA audit that identifies no significant deficiencies	Met	Met	Met	100% of the time	Met
RM2 Increase the percentage of FHFA contracts (in dollar terms) that are obligated to minority- and women-owned businesses consistent with legal standards	N/A	N/A	Met	Increase percentage of the dollar value from previous fiscal year	Met
RM3 Fill active and approved FY 2017 FHFA vacancies	N/A	N/A	Met	80% of vacancies at beginning of fiscal year are filled or removed by the end of fiscal year	Met

PERFORMANCE RESULTS

RM1

For FY 2017, FHFA received an unmodified audit opinion with no material weaknesses on its financial statements. The audit opinion certifies that FHFA's financial statements present fairly FHFA's financial position, its net cost of operations, changes in net position, and budgetary resources in accordance with U.S. Generally Accepted Accounting Principles. The annual FISMA audit for FHFA in FY 2017 identified no material weaknesses or significant deficiencies.

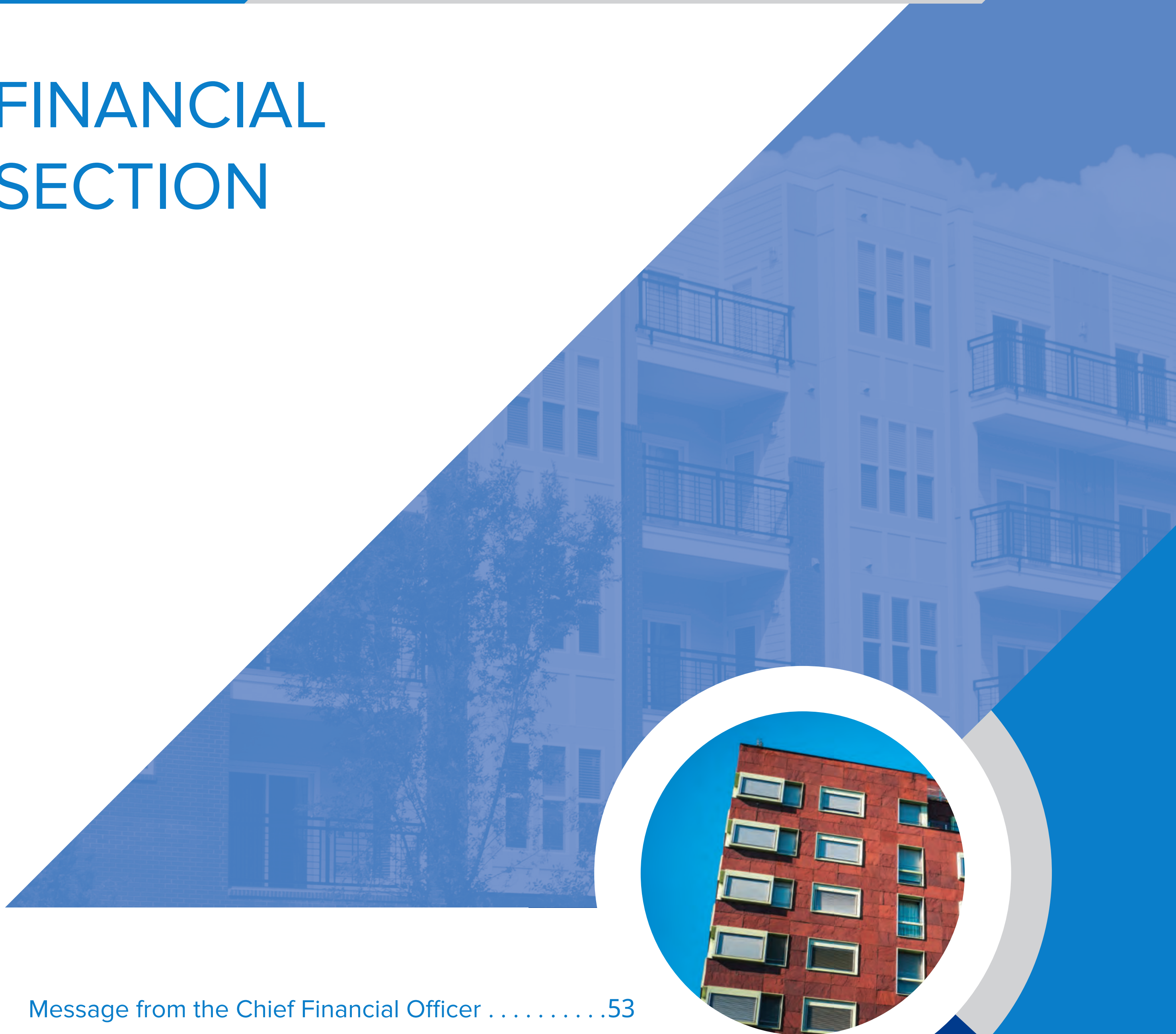
RM2

FHFA achieved the resource management goal of increasing the dollar value of its contracting actions with minority- and women-owned businesses. During FY 2017, the Agency obligated 25.1 percent of its total contracting dollars to minority- and women-owned businesses. In comparison, FHFA obligated 24 percent of its total contracting dollars to minority- and women-owned businesses in FY 2016. This achievement represents an increase in the percentage of the total obligated contracting dollars awarded to minority- and women-owned businesses for FY 2017.

RM3

FHFA had 51 active vacancies at the beginning of FY 2017. Since then, the Agency made 5 vacancies inactive and filled 36 of the remaining 51 original vacancies. With 41 of the 51 active vacancies resolved, FHFA met its target of 80 percent. This measure does not include new vacancies that occurred after the beginning of FY 2017.

FINANCIAL SECTION



MESSAGE FROM THE CHIEF FINANCIAL OFFICER

I am pleased to report that FHFA received an unmodified audit opinion on its FY 2017 financial statements from the Government Accountability Office (GAO). In its financial statements audit report, GAO concluded that 1) FHFA's FY 2017 financial statements are fairly presented in all material respects; 2) FHFA had effective internal control over financial reporting; and 3) there were no reportable instances of noncompliance with the laws, regulations, and contracts it tested. Also, no material weaknesses or significant deficiencies were identified. FHFA has received an unmodified audit opinion every year since its inception in July 2008.

Consistent with guidance from OMB's Circular A-123, Management's Responsibility for Enterprise Risk Management and Internal Control, we developed an initial Agency framework for Enterprise Risk Management to enhance our ability to maintain and assess the effectiveness of our internal controls. This framework focuses both on mission and resource management areas. Going forward, FHFA will build upon this framework to strengthen and enhance our internal controls and ensure our efforts are focused on the most important risks facing the Agency.

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

Sincerely,

Mark Kinsey
Chief Financial Officer
November 15, 2017

INDEPENDENT AUDITOR'S REPORT

GAO 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 2017 and 2016 financial statements of the Federal Housing Finance Agency (FHFA), we found

- the FHFA financial statements as of and for the fiscal years ended September 30, 2017, and 2016, 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, 2017; and
- no reportable noncompliance for fiscal year 2017 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 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, 2017, and 2016; 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, 2017, 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]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.

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, 2017, 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 (CONT'D)

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.

Definitions 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, 2017, and 2016, 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 2017 and 2016 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 $188 billion in direct financial support. Shortly after Fannie Mae and Freddie Mac were placed in conservatorship, the Office of Management and Budget (OMB) and Treasury determined that the assets, liabilities, and activities of these entities would not be

[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.

included in the consolidated financial statements of the federal government or those of Treasury, although Treasury records in its financial statements an asset for its investment in Fannie Mae and Freddie Mac.

In making this determination, OMB and Treasury concluded that because the entities were not listed in the "Federal Programs by Agency and Account" section of the federal government's budget, and because the nature of the conservatorships and the federal government's ownership and control were considered to be temporary, the entities did not meet the conclusive or indicative criteria for inclusion in the consolidated federal government's or Treasury's financial statements.[6] OMB reaffirmed this conclusion with respect to fiscal years 2009 through 2017. FHFA management concurred with this conclusion. Consequently, FHFA did not include the assets, liabilities, and activities of Fannie Mae and Freddie Mac in its fiscal years 2017 and 2016 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, 2017, based on criteria established under FMFIA.

During our fiscal year 2017 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 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.

[6]The conclusive and indicative criteria used in deciding what to include as part of a financial reporting entity are included in Statement of Federal Financial Accounting Concepts No. 2, *Entity and Display*.

[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 (CONT'D)

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 2017 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.

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 reprinted in appendix II.

J. Lawrence Malenich
Director
Financial Management and Assurance

November 8, 2017

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, 2017, 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, 2017, FHFA's internal control over financial reporting was effective.

Melvin L. Watt
Director

Mark Kinsey
Chief Financial Officer

November 8, 2017

APPENDIX II: FHFA RESPONSE TO AUDITOR'S REPORT

FEDERAL HOUSING FINANCE AGENCY
Office of the Director

November 8, 2017

Mr. J. Lawrence Malenich
Director, Financial Management and Assurance
U.S. Government Accountability Office
441 G Street, NW
Washington, D.C. 20548

Dear Mr. Malenich:

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 2017 and 2016 Financial Statements (GAO-18-166R). This report presents GAO's opinion on the financial statements of the Federal Housing Finance Agency (FHFA) for fiscal years 2017 and 2016. The report also presents GAO's opinion on the effectiveness of FHFA's internal controls as of September 30, 2017, 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 2017 audit. The GAO reported that the statements and notes were presented fairly, in all material respects; FHFA had effective internal controls 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,

Melvin L. Watt

400 7th Street, S.W., Washington, D.C. 20024 • 202-649-3801 • 202-649-1071 (fax)

FEDERAL HOUSING FINANCE AGENCY

Consolidated Balance Sheets

As of September 30, 2017 and 2016

(In Thousands)

	2017	2016
Assets:		
Intragovernmental		
Fund Balance With Treasury - Note 2	$ 17,209	$ 18,383
Investments - Note 3	61,345	59,726
Advances and Prepaid Charges	600	743
Other Assets - Note 6	(73)	1,145
Total Intragovernmental	79,081	79,997
Accounts Receivable - Note 4	58	15
Advances and Prepaid Charges	1,372	1,569
Property, Equipment, and Software, Net - Note 5	24,827	24,976
Total Assets	**$ 105,338**	**$ 106,557**
Liabilities:		
Intragovernmental		
Accounts Payable	$ 569	$ 513
Other Intragovernmental Liabilities - Note 8	2,680	2,554
Total Intragovernmental	3,249	3,067
Accounts Payable	6,894	7,092
Unfunded Leave	12,948	12,403
FECA Actuarial Liability	252	73
Deferred Lease Liabilities	24,432	26,443
Other Liabilities - Note 8	5,511	5,569
Total Liabilities - Note 7	53,286	54,647
Net Position:		
Cumulative Results of Operations	52,052	51,910
Total Net Position	$ 52,052	$ 51,910
Total Liabilities and Net Position	**$ 105,338**	**$ 106,557**

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, 2017 and 2016

(In Thousands)

		2017		2016
Gross Program Costs by Strategic Goal - Note 11:				
Safety and Soundness	$	172,404	$	163,113
Liquidity, Stability, and Access	$	35,537	$	35,825
Conservatorship	$	56,724	$	56,040
Gross Program Costs	$	264,665	$	254,978
Less: Total Earned Revenue not Attributable to Strategic Goals		(260,216)		(248,838)
Net Cost of Operations	**$**	**4,449**	**$**	**6,140**

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, 2017 and 2016

(In Thousands)

	2017	2016
Cumulative Results of Operations:		
Beginning Balance	$ 51,910	$ 52,503
Other Financing Sources:		
Imputed Financing Sources	4,607	5,558
FOIA Collections (Transfer out)	(16)	(11)
Total Financing Sources	4,591	5,547
Net Cost of Operations	(4,449)	(6,140)
Net Change	142	(593)
Cumulative Results of Operations	**$ 52,052**	**$ 51,910**
Net Position	**$ 52,052**	**$ 51,910**

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, 2017 and 2016

(In Thousands)

	2017	2016
Budgetary Resources:		
Unobligated Balance Brought Forward, October 1	$ 22,227	$ 29,671
Recoveries of Prior Year Unpaid Obligations	7,623	10,365
Other Changes in Unobligated Balance	943	429
Unobligated Balance From Prior Year Budget Authority, Net	30,793	40,465
Appropriations	254,864	242,871
Spending Authority From Offsetting Collections	52,804	55,897
Total Budgetary Resources	**$ 338,461**	**$ 339,233**
Status of Budgetary Resources:		
New Obligations and Upward Adjustments (Total) - Note 12	$ 312,195	$ 317,006
Unobligated Balance, End of Year:		
Exempt from Apportionment, Unexpired Accounts	26,266	22,227
Unexpired Unobligated Balance, End of Year	26,266	22,227
Unobligated Balance, End of Year, Total	26,266	22,227
Total Budgetary Resources	**$ 338,461**	**$ 339,233**
Change in Obligated Balance:		
Unpaid Obligations:		
Unpaid Obligations, Brought Forward, October 1	$ 55,898	$ 46,047
New Obligations and Upward Adjustments (Total) - Note 12	312,195	317,006
Outlays, Gross	(308,173)	(296,790)
Recoveries of Prior Year Unpaid Obligations	(7,623)	(10,365)
Unpaid Obligations, End of Year, Gross	**$ 52,297**	**$ 55,898**
Uncollected Payments:		
Uncollected Payments, Federal Sources, Brought Forward, October 1	(16)	(28)
Change in Uncollected Payments, Federal Sources	7	12
Uncollected Payments, Federal Sources, End of Year	(9)	(16)
Obligated Balance, Start of Year, Net	**$ 55,882**	**$ 46,019**
Obligated Balance, End of Year, Net	**$ 52,288**	**$ 55,882**
Budget Authority and Outlays, Net:		
Budget Authority, Gross	$ 307,667	$ 298,769
Actual Offsetting Collections	(53,753)	(56,339)
Change in Uncollected Customer Payments From Federal Sources	7	12
Recoveries of Prior Year Paid Obligations	943	429
Budget Authority, Net	**$ 254,864**	**$ 242,871**
Outlays, Gross	$ 308,173	$ 296,790
Actual Offsetting Collections	(53,753)	(56,339)
Outlays, Net	254,420	240,451
Distributed Offsetting Receipts	(254,864)	(242,871)
Agency Outlays, Net	**$ (444)**	**$ (2,420)**

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, 2017 and 2016

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), and the Office of Finance, all of which are referred to as regulated entities. 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 their 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 conservatorship 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 delegated to Fannie Mae and Freddie Mac 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 conservatorship 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. For FY 2008, OMB and the Treasury Department concluded that Fannie Mae and Freddie Mac did not meet the conclusive or indicative criteria for a federal entity contained in OMB Circular A-136, Financial Reporting Requirements, and Statement of Federal Financial Accounting Concepts No. 2, Entity and Display, because they are not listed in the section of the federal government's budget entitled "Federal Programs by Agency and Account," and because the nature of FHFA's conservatorships over Fannie Mae and Freddie Mac and the federal government's ownership and control of the entities is 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 have not been consolidated into FHFA's financial statements. However, Treasury Department records the value of the federal government's investments in Fannie Mae and Freddie Mac in its financial statements as a General Fund asset.

Both Fannie Mae and Freddie Mac, as represented by FHFA as their Conservator, entered into separate agreements with the Treasury Department known as PSPAs on September 7, 2008. These two PSPAs are identical and have since been amended 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 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. Instead of continuing the circular practice of drawing money from the Treasury Department each quarter in order to pay the dividends owed to the Treasury Department, beginning on January 1, 2013, all of Fannie Mae's and Freddie Mac's future net income/profits above an established threshold will be distributed quarterly to the Treasury Department as dividends. Cumulative draws by Fannie Mae and Freddie Mac on their PSPAs with Treasury total $116.2 and $71.3 (dollars in billions), respectively. These draws are reported in the Treasury Department's financial statements as investments. Neither Fannie Mae nor Freddie Mac has requested a draw since the first quarter of 2012.

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, IMPUTED & OTHER FINANCING SOURCES

Operating revenues of FHFA are obtained through assessments of the regulated entities. The head of the Agency approved the annual budget for FY 2017 and FY 2016 in August 2016 and 2015, 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 entities 30 days prior to the assessment due dates of October 1st and April 1st.

FHFA receives 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 expires on December 31, 2017 for the existing space and May 15, 2018 for the expansion space.

Federal government entities often receive goods and services from other federal government entities without reimbursing the providing entity for all the related costs. In addition, federal government entities also incur costs that are paid in total or in part by other entities. An imputed financing source is recognized by the receiving entity for costs that are paid by other entities. FHFA recognized imputed costs and financing sources in FY 2017 and FY 2016 as prescribed by accounting standards. FHFA recognizes as an imputed financing source the amount of pension and post-retirement benefit expenses for current employees accrued on FHFA's behalf by the Office of Personnel Management (OPM).

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, civil penalty monies 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, civil penalty monies or 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 2017 and FY 2016, 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, civil penalty assessments, and FOIA request fees. 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. Based on historical experience, all receivables are considered collectible and no allowance is provided.

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 and accrued payroll and benefits. 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. Accrued FECA 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 accrued annual 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; the accrued liability for annual 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 9. 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, Employee Level (EL)-13 and above, 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 carryover 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 the employee upon leaving federal service, 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 2017 maximum taxable wage base for Social Security is $127,200.

FHFA expenses its contributions to the retirement plans of covered employees as the expenses are incurred. As discussed in Note 1.D and reflected in the Consolidated Statements of Changes in Net Position and Note 17, 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.

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 2017 and FY 2016. FBWT account balances as of September 30, 2017 and 2016 were as follows (dollars in thousands):

	2017		2016	
Fund Balances:				
Operating Funds	$	17,209	$	18,383
Total	**$**	**17,209**	**$**	**18,383**
Status of Fund Balance with Treasury:				
Unobligated Balance				
Available	$	26,266	$	22,227
Obligated Balance Not Yet Disbursed		52,288		55,882
Investments		(61,345)		(59,726)
Total	**$**	**17,209**	**$**	**18,383**

(See Note 13. Legal Arrangements Affecting Use of Unobligated Balances)

NOTE 3. INVESTMENTS

Investments as of September 30, 2017 consist of the following (dollars in thousands):

	Cost		Amortized (Premium) Discount		Interest Receivable		Investments Net		Market Value Disclosure	
Intragovernmental Securities:										
Non-Marketable Market-Based	$	61,343	$	-	$	2	$	61,345	$	61,345

Investments as of September 30, 2016 consist of the following (dollars in thousands):

	Cost		Amortized (Premium) Discount		Interest Receivable		Investments Net		Market Value Disclosure	
Intragovernmental Securities:										
Non-Marketable Market-Based	$	59,726	$	-	$	-	$	59,726	$	59,726

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, 2017 or 2016. Interest earned on investments was $702 thousand and $199 thousand for FY 2017 and FY 2016, respectively.

NOTE 4. ACCOUNTS RECEIVABLE

Accounts Receivable balances as of September 30, 2017 and 2016 were as follows (dollars in thousands):

	2017	2016
Intragovernmental		
Accounts Receivable	$ -	$ -
Total Intragovernmental Accounts Receivable	**$ -**	**$ -**
With the Public		
Accounts Receivable	$ 58	$ 15
Total Public Accounts Receivable	**$ 58**	**$ 15**
Total Accounts Receivable	**$ 58**	**$ 15**

There are no amounts that are deemed uncollectible as of September 30, 2017 and 2016.

NOTE 5. PROPERTY, EQUIPMENT, AND SOFTWARE, NET

Schedule of Property, Equipment, and Software as of September 30, 2017 (dollars in thousands):

Major Class	Acquisition Cost	Accumulated Amortization/ Depreciation	Net Book Value
Equipment	$ 23,862	$ 22,452	$ 1,410
Leasehold Improvements	34,996	13,118	21,878
Internal-Use Software	1,788	1,788	-
Software-in-Development	-	-	-
Construction-in-Progress	1,539	-	1,539
Total	**$ 62,185**	**$ 37,358**	**$ 24,827**

Schedule of Property, Equipment, and Software as of September 30, 2016 (dollars in thousands):

Major Class	Acquisition Cost		Accumulated Amortization/ Depreciation		Net Book Value	
Equipment	$	23,459	$	22,865	$	594
Leasehold Improvements		34,998		10,743		$24,255
Internal-Use Software		1,788		1,788		-
Software-in-Development		-		-		-
Construction-in-Progress		127		-		127
Total	**$**	**60,372**	**$**	**35,396**	**$**	**24,976**

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. OTHER ASSETS

Other Assets as of September 30, 2017 and 2016 consist of the following (dollars in thousands):

	2017		2016	
Straight Line Sublease	$	(73)	$	1,145
Total Other Assets	**$**	**(73)**	**$**	**1,145**

Other assets consists of a sublease asset to recognize the difference between the cash basis and straight line method of recognizing revenue related to the reimbursable sublease of 1625 Eye Street NW to CFPB. The negative asset value is the result of rent abatements and exercising an early termination option. This sublease asset will liquidate in May 2018. (See Note 9. Leases)

NOTE 7. LIABILITIES COVERED AND NOT COVERED BY BUDGETARY RESOURCES

Liabilities Covered and Not Covered by Budgetary Resources as of September 30, 2017 consist of the following (dollars in thousands):

	Covered	Not-Covered	Total
Intragovernmental Liabilities			
Accounts Payable	$ 569	$ -	$ 569
Other Intragovernmental Liabilities	2,680	-	2,680
Total Intragovernmental Liabilities	**$ 3,249**	**$ -**	**$ 3,249**
Accounts Payable	$ 6,894	$ -	$ 6,894
Unfunded Leave	-	12,948	12,948
FECA Actuarial Liabilities	-	252	252
Deferred Lease Liabilities	-	24,432	24,432
Other Liabilities	5,511	-	5,511
Total Public Liabilities	**$ 12,405**	**$ 37,632**	**$ 50,037**
Total Liabilities	**$ 15,654**	**$ 37,632**	**$ 53,286**

Liabilities Covered and Not Covered by Budgetary Resources as of September 30, 2016 consist of the following (dollars in thousands):

	Covered	Not-Covered	Total
Intragovernmental Liabilities			
Accounts Payable	$ 513	$ -	$ 513
Other Intragovernmental Liabilities	2,554	-	$ 2,554
Total Intragovernmental Liabilities	**$ 3,067**	**$ -**	**$ 3,067**
Accounts Payable	7,092	-	7,092
Unfunded Leave	-	12,403	12,403
FECA Actuarial Liabilities	-	73	73
Deferred Lease Liabilities	-	26,443	26,443
Other Liabilities	5,569	-	5,569
Total Public Liabilities	**$ 12,661**	**$ 38,919**	**$ 51,580**
Total Liabilities	**$ 15,728**	**$ 38,919**	**$ 54,647**

NOTE 8. 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, and withholdings payable. 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, 2017 and September 30, 2016 consist of the following (dollars in thousands):

	2017	2016
Intragovernmental Liabilities		
Funded FECA Liability	$ 39	$ 18
Unemployment Insurance Liability	4	15
Payroll Benefits Payable	1,285	1,222
Advances and Prepayments	1,352	1,299
Total Intragovernmental Other Liabilities	**$ 2,680**	**$ 2,554**
With the Public		
Employer Benefit Contributions	$ 770	$ 724
Withholdings Payable	2	2
Accrued Funded Payroll	4,736	4,843
Employee Related Refunds Due	3	-
Total Public Other Liabilities	**$ 5,511**	**$ 5,569**

NOTE 9. LEASES

Current Operating 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 expires on December 31, 2017 for the existing space and May 15, 2018 for the expansion space. The IAA with CFPB will terminate at the same time as 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, 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 expire on November 30, 2017.

300 N Los Angeles Street

FHFA OIG entered into an Occupancy Agreement (OA) with 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 expire on April 30, 2018.

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 9, 2023.

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.

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 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.

The leases at 300 N Los Angeles Street, 501 E Polk Street, 20 Washington Place, 233 N Michigan Avenue, 650 Capitol Mall, and 111 S 10th Street 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
2018	$ 17,272
2019	17,617
2020	17,971
2021	18,329
2022	6,149
Thereafter	-
Total Future Payments	**$ 77,338**

NOTE 10. COMMITMENTS AND CONTINGENCIES

FHFA did not have any material commitments or contingencies that met disclosure requirements as of September 30, 2017 and 2016.

NOTE 11. 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 $46.2 million transfer from FHFA in FY 2017 and a $49.7 million transfer in FY 2016. FHFA OIG's gross expenses for FY 2017 and FY 2016 were $47.1 million and $46.2 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):

	2017	2016
Safety and Soundness		
Intragovernmental Costs	$ 33,108	$ 34,257
Public Costs	139,296	128,856
Gross Costs	172,404	163,113
Net Safety and Soundness Program Costs	**172,404**	**163,113**
Liquidity, Stability, and Access		
Intragovernmental Costs	7,380	8,305
Public Costs	28,157	27,520
Gross Costs	35,537	35,825
Net Liquidity, Stability, and Access Program Costs	**35,537**	**35,825**
Conservatorship		
Intragovernmental Costs	6,989	3,256
Public Costs	49,735	52,784
Gross Costs	56,724	56,040
Net Conservatorship Program Costs	**56,724**	**56,040**
Total Intragovernmental costs	47,477	45,818
Total Public Costs	217,188	209,160
Total Costs	264,665	254,978
Less: Total Intragovernmental Earned Revenue	6,037	6,156
Less: Total Public Earned Revenue	254,179	242,682
Total Net Cost of Operations	**$ 4,449**	**$ 6,140**

NOTE 12. APPORTIONMENT CATEGORIES OF NEW OBLIGATIONS AND UPWARD ADJUSTMENTS

All new obligations and upward adjustments are characterized as exempt from apportionment (i.e., not apportioned), on the Statement of Budgetary Resources. New obligations and upward adjustments reported in the Statement of Budgetary Resources in FY 2017 and FY 2016 consisted of the following (dollars in thousands):

	2017		2016	
Direct New Obligations and Upward Adjustments Exempt from Apportionment	$	305,554	$	310,754
Reimbursable New Obligations and Upward Adjustments Exempt from Apportionment		$6,641		$6,252
Total New Obligations and Upward Adjustments	**$**	**$312,195**	**$**	**317,006**

NOTE 13. 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, 2017 and 2016, the unobligated balance was $26.3 and $22.2 million, respectively. The portion of the FY 2017 unobligated available balance that will be credited against the regulated entities' April 2018 assessments is $16.3 million with the remaining $10 million retained in the working capital fund. The portion of the FY 2016 unobligated balance that was credited against the regulated entities' April 2017 assessment was $12.2 million with $10 million retained in the working capital fund. (See Note 2. Fund Balance With Treasury)

NOTE 14. 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 2019 President's Budget will include the actual budgetary execution information for FY 2017. The FY 2019 President's Budget is scheduled for publication in February 2018 and can be found at the OMB Website.[31] The 2018 President's Budget, with the "Actual" column completed for 2016, has been reconciled to the FY 2016 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	$ 339,233	$ 317,006	$ 242,871	$ 240,451
Rounding	(233)	(6)	129	549
Budget of the U.S. Government	339,000	317,000	243,000	241,000
Total Unreconciled Difference	**$ -**	**$ -**	**$ -**	**$ -**

NOTE 15. UNDELIVERED ORDERS AT THE END OF THE PERIOD

For the fiscal years ended September 30, 2017 and 2016, budgetary resources obligated for undelivered orders amounted to $40 million and $44 million, respectively.

NOTE 16. 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 and civil penalties assessed against the regulated entities. 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 $200 for the year ended September 30, 2017. Custodial collections totaled $918 for the year ended September 30, 2016. There were no civil penalties assessed or collected in FY 2017 or FY 2016. Custodial collections are transferred to the Treasury General Fund on September 30 and are not reflected in the financial statements of the Agency.

31 http://www.whitehouse.gov/omb

NOTE 17. RECONCILIATION OF NET COST OF OPERATIONS TO BUDGET

FHFA has reconciled its budgetary obligations and non-budgetary resources available to its net cost of operations (dollars in thousands).

	2017	2016
Resources Used to Finance Activities:		
Budgetary Resources Obligated		
New Obligations and Upward Adjustments (Total)	$ 312,195	$ 317,006
Spending Authority from Offsetting Collections and Recoveries	(61,370)	(66,691)
Obligations Net of Offsetting Collections and Recoveries	250,825	250,315
Offsetting Receipts	(254,864)	(242,871)
Net Obligations	(4,039)	7,444
Other Resources		
Imputed Financing from Costs Absorbed by Others	4,607	5,558
Other Resources	(16)	(11)
Net Other Resources Used to Finance Activities	4,591	5,547
Total Resources Used to Finance Activities	**552**	**12,991**
Resources Used to Finance Items Not Part of the of the Net Cost of Operations:		
Change in Budgetary Resources Obligated for Goods, Services and Benefits Ordered But Not Yet Provided	3,811	(9,422)
Resources That Fund Expenses Recognized in Prior Periods	(2,052)	(478)
Resources That Finance the Acquisition of Assets	(1,546)	(898)
Total Resources Used to Finance Items Not Part of the Net Cost of Operations	213	(10,798)
Total Resources Used to Finance the Net Cost of Operations	**765**	**2,193**
Components of the Net Cost of Operations That Will Not Require or Generate Resources in the Current Period:		
Components Requiring or Generating Resources in Future Periods		
Increase in Annual Leave Liability	545	1,116
Other	178	7
Total Components of Net Cost of Operations That Will Require or Generate Resources in Future Periods	723	1,123
Components Not Requiring or Generating Resources		
Depreciation and Amortization	2,961	2,822
Revaluation of Assets or Liabilities	-	-
Other	-	2
Total Components of Net Cost of Operations That Will Not Require or Generate Resources	2,961	2,824
Total Components of Net Cost of Operations That Will Not Require or Generate Resources in the Current Period	3,684	3,947
Net Cost of Operations	**$ 4,449**	**$ 6,140**

OTHER INFORMATION

FY 2016 DISCONTINUED PERFORMANCE MEASURES

GOAL 1: ENSURE SAFE AND SOUND REGULATED ENTITIES

Strategic Goal 1: Ensure Safe and Sound Regulated Entities			
PERFORMANCE GOAL 1.2: ASSESS THE SAFETY AND SOUNDNESS OF REGULATED ENTITY OPERATIONS			
Measures	**FY 2016 Target**	**FY 2016 Results**	**Reason for Discontinuation**
1.2.1 Issue advisory bulletin to Enterprises related to operational risk management	FY 2016	Met	FHFA issued the advisory bulletin to the Enterprises in FY 2016

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

Strategic Goal 2: Ensure Liquidity, Stability, and Access in Housing Finance			
PERFORMANCE GOAL 2.1: ENSURE LIQUIDITY IN MORTGAGE MARKETS			
Measures	**FY 2016 Target**	**FY 2016 Results**	**Reason for Discontinuation**
2.1.1 Require the Enterprises to implement and/or clarify selling and servicer defect remedies including alternatives to repurchase	FY 2016	Met	Fannie Mae and Freddie Mac both published documents clarifying selling and servicer defect remedies, including alternatives to repurchase, in FY 2016
2.1.2 Complete the evaluation of the Enterprises' Independent Dispute Resolution pilots for resolving disputes over alleged defects	FY 2016	Met	FHFA completed the evaluation of the Enterprises' Independent Dispute Resolution pilots in FY 2016
Performance Goal 2.2: Promote Stability in the Nation's Housing Finance Markets			
2.2.1 Complete research projects	As specified on FHFA's approved research agenda	Met	While research projects remain a priority for the Agency, this metric was not an effective indicator regarding the quality of the research projects
Performance Goal 2.3: Expand Access to Housing Finance for Qualified Financial Institutions of All Sizes and in All Geographic Locations and for Qualified Borrowers			
2.3.2 Develop and issue written guidance or a proposed rule to advance diversity and inclusion in the regulated entities' business activities	FY 2016	Met	FHFA developed and issued a proposed rule to advance diversity and inclusion in the regulated entities' business activities in FY 2016

GOAL 3: MANAGE THE ENTERPRISES' ONGOING CONSERVATORSHIPS

Strategic Goal 3: Manage the Enterprises' Ongoing Conservatorships			
PERFORMANCE GOAL 3.3: BUILD A NEW SINGLE-FAMILY SECURITIZATION INFRASTRUCTURE			
Measures	**FY 2016 Target**	**FY 2016 Results**	**Reason for Discontinuation**
3.3.1 Finalize the Single Security structure, including features, disclosure standards, and related requirements by working with the Enterprises and CSS	December 31, 2015	Not Met	FHFA worked with the Enterprises and CSS to finalize the Single Security Structure, and completed the task in June 2016, but not by the target date
3.3.3 Finalize plans for and initiate the key system testing required for implementation of the Single Security by working with the Enterprises and CSS	FY 2016	Met	FHFA finalized the plans for and initiated key system testing to implement the Single Security in collaboration with the Enterprises and CSS in FY 2016

RESOURCE MANAGEMENT

Resource Management: Supporting the Effective Operations of the Agency			
Measures	**FY 2016 Target**	**FY 2016 Results**	**Reason for Discontinuation**
RM 3 Increase diversity in qualified applicant pool for new FHFA employees consistent with legal standards	Establish a baseline	Met	FHFA established a baseline to work from in order to increase diversity in the Agency's qualified applicant pool for new hires in FY 2016

OFFICE OF INSPECTOR GENERAL
Federal Housing Finance Agency
400 7th Street SW, Washington, DC 20219

October 15, 2017

TO: Melvin L. Watt, Director

FROM: Laura S. Wertheimer, Inspector General

SUBJECT: Fiscal Year 2018 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), in which the Office of Inspector General (OIG) for the Federal Housing Finance Agency (FHFA or Agency) identifies serious management and performance challenges facing the Agency and its assessment of those challenges. We recognize that the ongoing uncertainty regarding the future role of Fannie Mae and Freddie Mac (collectively, the Enterprises) in the housing finance system creates an additional challenge.

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 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 conservatorship "in response to a substantial deterioration in the housing markets that severely damaged Fannie Mae and Freddie [Mac's] financial condition and left them unable to fulfill their mission without government intervention."[1] Putting the Enterprises into conservatorships has proven to be far easier than ending them, and the conservatorships have now entered their tenth year.

Currently, FHFA serves in a unique role: it is both conservator of and regulator for the Enterprises and regulator for the FHLBanks. Its duties as conservator for the Enterprises, which together own or guarantee more than $5 trillion in mortgages, are fundamentally different from its responsibilities as the supervisor of these entities. FHFA's stakeholders—including the

[1] FHFA, *FHFA as Conservator of Fannie Mae and Freddie Mac* (online at www.fhfa.gov/Conservatorship/Pages/History-of-Fannie-Mae--Freddie-Conservatorships.aspx).

Congress, American taxpayers, and others—expect FHFA, as conservator, to ensure that both Enterprises are effectively governed and employ sound risk management practices; and expect FHFA, as a regulator, to exercise vigilant supervision of its regulated entities to ensure that they operate in a safe and sound manner.

FHFA-OIG believes that, for the foreseeable future, FHFA faces four serious management and performance challenges, described below, all of which carry over from prior years. We believe that these management and performance challenges, if not addressed, could adversely affect FHFA's accomplishment of its mission. Over the past few years, we have issued 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 have proposed recommendations to address them. FHFA has accepted some of our recommendations and declined to accept others. 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. Appendix B to each of our semiannual reports to Congress for the periods ending March 31 and September 30, 2017, sets forth our recommendations, by report, FHFA's response to each recommendation, and the status of each recommendation. For a listing of all our semiannual reports, see https://www.fhfaoig.gov/reports/semiannual. In addition, FHFA-OIG issues, on a regular basis, a Compendium of Open Recommendations, organized by the risks represented by the four serious management and performance challenges identified in this memorandum. See https://www.fhfaoig.gov/Content/Files/compendiumOctober2017.pdf. We do not repeat each of the shortcomings and/or weaknesses identified in our reports, or our recommendations to remediate them, here.

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

As conservator of the Enterprises since September 2008, FHFA has expansive authority to oversee and direct operations of two large, complex financial institutions that dominate the secondary mortgage market and the mortgage securitization sector of the U.S. housing finance industry. Under HERA, FHFA possesses all rights and powers of any stockholder, officer, or director of the Enterprises; is vested with express authority to operate the Enterprises and conduct their business activities; may take actions necessary to put the Enterprises in a sound and solvent condition; and preserves and conserves their assets and property. Given the taxpayers' enormous investment in the Enterprises, the unknown duration of 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.

As conservator of the Enterprises, FHFA owes duties to the U.S. taxpayers, the largest shareholders in the Enterprises, and is charged with ensuring that the Enterprises achieve their statutory purpose. Pursuant to its powers under HERA to take actions "necessary to put [Fannie Mae and Freddie Mac] in a sound and solvent condition" and "appropriate to carry on the business of [Fannie Mae and Freddie Mac]" and "preserve and conserve" their assets, FHFA has delegated authority for many matters, both large and small, to the Enterprises. The Enterprises

2

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).

Our body of work over the past few 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, our findings in these reports show 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 the Agency's expectations of the Enterprises for delegated matters and has not established the accountability standard that it expects the Enterprises to meet for such matters. Our work has identified internal control systems at the Enterprises that fail to provide directors with accurate, timely, and sufficient information to enable them to exercise their oversight duties. Likewise, we have identified a lack of rigor by some directors in overseeing matters for which they are responsible. We have also identified instances in which corporate governance decisions generally reserved to a board of directors have been delegated to management.

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.

Related OIG Reports

- *Fannie Mae Dallas Regional Headquarters Project* (OIG-2017-002, December 15, 2016), online at https://www.fhfaoig.gov/Content/Files/OIG-2017-002.pdf
- *Update on the Status of the Development of the Common Securitization Platform* (COM-2017-001, December 9, 2016), online at https://www.fhfaoig.gov/Content/Files/COM-2017-001_0.pdf
- *Administrative Investigation of Hotline Complaints: Conflicts of Interest Issue* (OIG-2017-004, March 23, 2017), online at https://www.fhfaoig.gov/Content/Files/OIG-2017-004.pdf
- *NPL Sales: Additional Controls Would Increase Compliance with FHFA's Sales Requirements* (AUD-2017-006, July 24, 2017), online at https://www.fhfaoig.gov/Content/Files/AUD-2017-006%20NPL%20Sales%20Additional%20Controls%20Would%20Increase%20Compliance%20with%20FHFA%27s%20Sales%20Requirements.pdf
- *Management Alert: Need for Increased Oversight by FHFA, as Conservator, to Ensure that Freddie Mac's Policies and Procedures for Resolution of Executive Officer Conflicts of Interest Align with the Responsibilities of the Nominating and Governance Committee*

3

of the Freddie Mac Board of Directors (OIG-2017-005, September 27, 2017), online at https://www.fhfaoig.gov/Content/Files/OIG-2017-005%20%28Redacted%29.pdf

- *Special Report: Update on FHFA's Oversight of Fannie Mae's Build-Out of its Newly Leased Class A Office Space in Midtown Center* (COM-2017-007, September 28, 2017), online at https://www.fhfaoig.gov/Content/Files/pw%20DC%20Lease%20Update%209_%2028_2017.pdf
- *Management Alert: Need for Increased Oversight by FHFA, as Conservator of Fannie Mae, of the Projected Costs Associated with Fannie Mae's Headquarters Consolidation and Relocation Project*, (COM-2016-004, June 16, 2016), online at https://www.fhfaoig.gov/Content/Files/COM-2016-004_Revised%209_22_16.pdf

As conservator, FHFA can retain authority to decide specific issues and can, at any time, revoke previously delegated authority. Generally, FHFA has retained authority (or has revoked previously delegated authority) to resolve issues of significant monetary and/or reputational value. FHFA has established written internal review and approval processes for non-delegated matters to ensure that the Agency follows a consistent approach for analyzing and resolving such matters and that the decision-makers are apprised of all relevant facts and considerations. FHFA faces challenges in ensuring that its established processes are followed.

Related OIG Reports

- *Compliance Review of FHFA's Revised Process for Reviewing the Enterprises' Annual Operating Budgets* (COM-2017-006, September 19, 2017), online at https://www.fhfaoig.gov/Content/Files/COM-2017-006_Redacted.pdf
- *FHFA's Exercise of Its Conservatorship Powers to Review and Approve the Enterprises' Annual Operating Budgets Has Not Achieved FHFA's Stated Purpose* (EVL-2015-006, September 30, 2015), online at https://www.fhfaoig.gov/Content/Files/EVL-2015-006.pdf

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

Created by HERA in 2008, FHFA assumed the supervisory responsibilities previously exercised by the Federal Housing Finance Board and the Office of Federal Housing Enterprise Oversight. As supervisor of the Enterprises and the FHLBanks, FHFA is tasked by statute 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 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.

FHFA has long recognized that effective supervision of the entities it regulates is fundamental to ensuring their safety and soundness. In prior management and performance challenges statements, we identified FHFA's supervision of the Enterprises as a critical risk and believe that it continues to be such a risk.

Over the past few years, we have assessed critical elements of DER's supervision program for the Enterprises, including:

- DER's assessment of risks at the Enterprises and documentation of those risks in semiannual risk assessments;
- DER's plan for each annual supervisory cycle, based on the results of its risk assessments, and risk-related changes and updates to that plan;
- DER's planned examination procedures for its supervisory activities, which are designed to identify the objectives of the activity and describe the examination steps to be performed, including sampling and testing;
- DER's communication of its findings from its supervisory activities, including its supervisory concerns, to each Enterprise's board of directors;
- DER's follow-up on efforts by each Enterprise to correct identified deficiencies throughout the remediation period to ensure that remediation is timely and adequate; and
- DER's communication of its examination conclusions, findings, and composite/ component examination ratings after the end of each annual supervisory cycle to each Enterprise's board of directors in a written Report of Examination.

For each element that we assessed, we issued reports setting forth the facts, findings, conclusions, and recommendations on each of these critical elements. Each of these reports identified shortcomings and recommended remedial actions.

Based on our assessments of different elements of DER's supervision program, we identified four recurring themes, which were explained in a roll-up report issued during FY 2017. See OIG, *Safe and Sound Operation of the Enterprises Cannot Be Assumed Because of Significant Shortcomings in FHFA's Supervision Program for the Enterprises* (OIG-2017-003, December 15, 2016), online at www.fhfaoig.gov/Reports/AuditsAndEvaluations. Those themes are:

1. FHFA lacks adequate assurance that DER's supervisory resources are devoted to examining the highest risks of the Enterprises.
2. Many supervisory standards and guidance issued by FHFA and DER lack the rigor of those issued by other federal financial regulators.
3. The flexible and less prescriptive nature of many requirements and guidance promulgated by FHFA and DER has resulted in inconsistent supervisory practices.
4. Where clear requirements and guidance for specific elements of DER's supervisory program exist, DER examiners-in-charge and subordinate examiners have not consistently followed them.

5

In that roll-up report, we cautioned that "[w]ithout prompt and robust Agency attention to address the shortcomings we have identified," the "safe and sound operation of the Enterprises cannot be assumed from FHFA's current supervisory program." The findings from audits, evaluations, and compliance reports completed after issuance of this roll-up report highlight additional shortcomings of FHFA's supervision program for the Enterprises. FHFA must make a heightened and sustained effort to improve its supervision of the Enterprises.

We looked at similar elements of FHFA's supervision program for the FHLBanks and did not identify comparable weaknesses. Like any other federal financial regulator, FHFA faces challenges in appropriately tailoring and keeping current its supervisory approach to the FHLBanks.

Related OIG Reports

- *Safe and Sound Operation of the Enterprises Cannot Be Assumed Because of Significant Shortcomings in FHFA's Supervision Program for the Enterprises* (OIG-2017-003, December 15, 2016), online at https://www.fhfaoig.gov/Content/Files/OIG-2017-003.pdf
- *FHFA's Practice for Rotation of its Examiners Is Inconsistent between its Two Supervisory Divisions* (EVL-2017-004, March 28, 2017), online at https://www.fhfaoig.gov/Content/Files/EVL-2017-004.pdf
- *Update on FHFA's Implementation of its Housing Finance Examiner Commission Program* (COM-2017-003, March 22, 2017), online at https://www.fhfaoig.gov/Content/Files/Update%20on%20HFE%20Program-final.pdf
- *FHFA's 2015 Report of Examination to Fannie Mae Failed to Follow FHFA's Standards Because it Reported on an Incomplete Targeted Examination of the Enterprise's New Representation and Warranty Framework* (AUD-2017-008, September 22, 2017), online at https://www.fhfaoig.gov/Content/Files/AUD-2017-008%20FNM%20RWF%20Examinations%20%28redacted%29.pdf
- *The Gap in FHFA's Quality Control Review Program Increases the Risk of Inaccurate Conclusions in its Reports of Examination of Fannie Mae and Freddie Mac* (EVL-2017-006, August 17, 2017), online at https://www.fhfaoig.gov/Content/Files/EVL-2017-006.pdf
- *FHFA's Examination Program for the FHLBanks' Internal Audit Functions Was Adequately Designed and Executed* (AUD-2017-003, May 5, 2017), online at https://www.fhfaoig.gov/Content/Files/2017%2005%2005%20AUD-2017-003.pdf
- *DBR's Unwritten Procedures and Practices for Oversight of Efforts by Federal Home Loan Banks to Correct Deficiencies Underlying the Most Serious Supervisory Matters Are Inconsistent with the Written Oversight Requirements Promulgated by FHFA* (COM-2016-006, September 30, 2016), online at https://www.fhfaoig.gov/Content/Files/COM-2016-006.pdf

6

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 February 2016, President Obama stated that cybersecurity is one of the most important challenges facing the nation and in May 2017, President Trump issued an executive order to strengthen the cybersecurity of federal networks and critical infrastructure. The Financial Stability Oversight Council, of which FHFA is a member, has identified cybersecurity oversight as an emerging threat for increased regulatory attention. The Council reported that "cybersecurity-related incidents create significant operational risk, impacting critical services in the financial system, and ultimately affecting financial stability and economic health." Treasury Secretary Mnuchin recently testified that "cybersecurity is one of our biggest, biggest risks."

In its 2015 Performance and Accountability Report, FHFA represented that a "key objective of FHFA's supervisory work will continue to be the effective oversight of how each Enterprise manages cyber risks and addresses vulnerabilities." FHFA's program for the 2016 examination cycle for each Enterprise included a range of supervisory activities relating to their management of cybersecurity risks. FHFA completed none of these planned activities for one Enterprise, and did not complete one of its planned activities and deferred another activity to a later examination cycle, during 2016 for the other Enterprise.

As cyberthreats and attacks at financial institutions increase in number and sophistication, FHFA faces challenges in designing and implementing its examination activities for the entities it supervises. As the use of technology continues to become more sophisticated, hiring and training a sufficient number of employees with the expertise needed to conduct detailed examinations of information security systems presents a challenge. FHFA has advised us that it developed an examination module for cybersecurity examinations during 2016. FHFA will be challenged to ensure that: (1) the components in this newly developed examination module remain current; (2) it provides written guidance and training to examiners to aid them in their supervision of information technology issues; (3) it recruits and retains a sufficient complement of examiners with the experience and expertise needed to conduct detailed examinations of information security systems; and (4) completes the supervisory activities it has planned.

Related OIG Reports

- *FHFA Did Not Complete All Planned Supervisory Activities Related to Cybersecurity Risks at Freddie Mac for the 2016 Examination Cycle* (AUD-2017-011, September 27, 2017), online at https://www.fhfaoig.gov/Content/Files/AUD-2017-011%20FRE%20Cyber%20Examinations%20%28redacted%29.pdf
- *FHFA Failed to Complete Non-MRA Supervisory Activities Related to Cybersecurity Risks at Fannie Mae Planned for the 2016 Examination Cycle* (AUD-2017-010, September 27, 2017), online at https://www.fhfaoig.gov/Content/Files/AUD-2017-010%20FNM%20Cyber%20Examinations%20Redacted_Redacted.pdf.

7

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 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, that it must safeguard from unauthorized access or disclosure. 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 FISMA audits are intended to ensure FHFA's compliance with those standards and also to assist FHFA in strengthening protections over its network operations against those who would seek to attack its network.

For Fiscal Year (FY) 2016, an independent public accounting firm under contract with FHFA-OIG concluded that FHFA's information security program was compliant with FISMA and applicable OMB guidance and that sampled security controls demonstrated operating effectiveness. In coordination with the FY 2017 FISMA audit, the same independent public accounting firm under contract with FHFA-OIG also conducted a performance audit of FHFA's Privacy Program to address specific requirements in 42 U.S.C. § 2000ee-2. That performance audit tested FHFA's implementation of access controls for a sample of seven systems containing sensitive information, such as PII. The audit recommended that FHFA (1) enhance System Owner training to include FHFA access control policies, and (2) review all privileged user accounts, obtain authorizations for users where none are currently documented, and remove access for those not authorized. FHFA-OIG intends to follow up on the status of corrective actions as part of the FY 2018 FISMA audit. 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.

Related OIG Reports

- *FHFA's Processes for General Support System Component Inventory Need Improvement* (AUD-2017-005, May 25, 2017), online at https://www.fhfaoig.gov/Content/Files/AUD-2017-005%20FHFA%27s%20Processes%20for%20General%20Supp.pdf
- *Performance Audit of the Federal Housing Finance Agency's Privacy Program* (AUD-2017-007, August 30, 2017), online at https://www.fhfaoig.gov/Content/Files/FY2017%20Privacy%20Audit%20Report%20REVISED.pdf.

Other Reports

- *Annual Report to Congress for Fiscal Year 2016, Federal Information Security Modernization Act of 2014* (March 10, 2017 at page 63), online at www.whitehouse.gov/sites/whitehouse.gov/files/briefing-room/presidential-actions/related-omb-material/fy_2016_fisma_report%20to_congress_official_release_march_10_2017.pdf.

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

The Enterprises rely heavily on counterparties and third parties for a wide array of professional services, including mortgage origination and servicing. 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. FHFA has delegated to the Enterprises the management of their relationships with counterparties and reviews their management largely through its supervisory activities.

Our publicly reportable criminal investigations include alleged fraud by different types 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 oversee the Enterprises' management of risks related to their counterparties.

Related OIG Reports

- *FHFA's Examinations Have Not Confirmed Compliance by One Enterprise with its Advisory Bulletins Regarding Risk Management of Nonbank Sellers and Servicers* (EVL-2017-002, December 21, 2016), online at https://www.fhfaoig.gov/Content/Files/EVL-2017-002.pdf
- *FHFA Should Improve its Administration of the Suspended Counterparty Program* (COM-2017-005, July 31, 2017), online at https://www.fhfaoig.gov/Content/Files/SCP%20Final.pdf
- *FHFA's 2015 Report of Examination to Fannie Mae Failed to Follow FHFA's Standards Because It Reported on an Incomplete Targeted Examination of the Enterprise's New Representation and Warranty Framework* (AUD-2017-008, September 22, 2017), online at https://www.fhfaoig.gov/Content/Files/AUD-2017-008%20FNM%20RWF%20Examinations%20%28redacted%29.pdf
- *FHFA's 2015 and 2016 Supervisory Activities, as Planned, Addressed Identified Risks with Freddie Mac's New Representation and Warranty Framework* (AUD-2017-009, September 22, 2017), online at https://www.fhfaoig.gov/Content/Files/AUD-2017-009%20FRE%20RWF%20Examinations%20%28redacted%29.pdf

9

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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 are 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: Janell Byrd-Chichester, Chief of Staff
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 13: Summary of Financial Statements Audit

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

Table 14: Summary of Management Assurances

Effectiveness of Internal Control over Financial Reporting *(Federal Management Financial Integrity Act Paragraph 2)*						
Statement of Assurance	**Unmodified**					
Material Weakness	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 Weakness	Beginning Balance	New	Resolved	Consolidated	Reassessed	Ending Balance
Total Material Weaknesses	0	0	0	0	0	0

Compliance 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 2017, FHFA OIG reported that FHFA complied with applicable provisions of the Act, as amended, as well as the related OMB guidance during fiscal year 2016.

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 the 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, the Internal Control Group and A-123 Assessment Working Group (AAWG) 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 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
- Travel

FHFA's strategy to prevent fraud risk is through 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 15: Civil Monetary Penalty Adjustment for Inflation

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	2016	$10,982	Federal Register 81 (July 2016): 43028 – 43031.
Safety and Soundness Act - 12 U.S.C. 4636 (b) (2)	Second Tier	2008	2016	$54,910	Federal Register 81 (July 2016): 43028 – 43031.
Safety and Soundness Act - 12 U.S.C. 4636 (b) (3)	Third Tier – Entity affiliated party and regulated entity	2008	2016	$2,196,380	Federal Register 81 (July 2016): 43028 – 43031.

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	2016	$534	Federal Register 81 (July 2016): 43028 – 43031.
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	2016	$154,028	Federal Register 81 (July 2016): 43028 – 43031.

GRANTS OVERSIGHT & NEW EFFICIENCY (GONE) ACT REQUIREMENTS

Table 16: Grants Oversight & New Efficiency (GONE) Act Requirements

Category	2-3 Years	>3-5 Years	>5 Years
Number of Grants/Cooperative Agreements with Zero Dollar Balances	0	0	0
Number of Grants/Cooperative Agreements with Undisbursed Balances	0	0	0
Total Amount of Undisbursed Balances	0	0	0

APPENDIX

GLOSSARY

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

Basis Points—Unit of measure used in finance to denote changes in interest rates. Basis points are commonly used to express changes of less than 1.0 percent. For example, 50 basis points denotes a 0.5 percent shift.

Capitalization—The sum of a firm's or individual's long-term debt, stock and retained earnings.

Collateralize—To secure a financial instrument, such as a loan, with an asset, such as a security or home.

Common Securitization Platform—New software platform that will support the issuance and bond administration of mortgage-backed securities being developed under the direction of FHFA that will replace the Enterprises' current proprietary systems.

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

Comprehensive Income—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.

Consolidated Obligations—A term for the joint obligations of the 11 FHLBanks. Consolidated obligations are debt instruments that are sold to the public through the Office of Finance but are not guaranteed by the U.S. government.

Earnings—Includes adequacy of earnings to build and maintain capital and provide acceptable returns to shareholders, the quality of earnings, earnings projections, the integrity of management information systems, and the soundness of the business model.

Enterprise(s)—Fannie Mae and Freddie Mac.

Foreclosure—A legal process dictated by state law in which the mortgaged property is sold to pay off the mortgage of the defaulting borrower. A foreclosure generally has a greater negative impact on the borrower and on the surrounding neighborhood than foreclosure alternatives such as a short sale.

Governance—Includes policies and controls related to financial and regulatory reporting, leadership effectiveness of the board of directors and enterprise management, compliance, overall risk management, strategy, internal audit, and reputation risk.

Home Affordable Refinance Program (HARP)—A program that enables borrower who have little or no equity but are current on their mortgage to refinance into a lower mortgage payment. The program focuses on mortgages Fannie Mae and Freddie Mac already hold in their portfolios or guarantee through their mortgage-backed securities. It provides unique flexibilities on the level of credit enhancement required on loans with LTV ratios greater than 80 percent.

Loan Modification—A change or changes to the original mortgage terms, such as a change to the product (adjustable-rate or fixed-rate), interest rate, term and maturity date, amortization term, or amortized balance.

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

Private-label Mortgage-backed Securities (PLS)—A residential mortgage-backed security where the underlying loans are not guaranteed by the U.S. government or a government-sponsored agency. The collateral is often referred to as nonconforming loans because the loans usually do not meet all the strict requirements for a government or government agency guarantee.

Reports of Examination (ROE)—During each calendar year, FHFA completes ROEs for each of the 11 FHLBanks and the Office of Finance, and the Enterprises, and presents them to their respective boards of directors.

Risk in Force (RIF)—The sum of the value of the claims an institution expects to receive during the year. RIF helps insurers predict their capital reserve requirements, and plan accordingly.

Secondary Mortgage Market—A market in which mortgages or mortgage-backed securities are acquired by the Enterprises and traded.

Senior Preferred Stock Purchase Agreement (PSPA)—Capital stock owned by the Treasury Department, 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.

LIST OF FIGURES AND TABLES

FIGURES

TABLES

ACKNOWLEDGEMENTS

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FHFA KEY MANAGEMENT OFFICIALS

Melvin L. Watt
Director, FHFA

Janell Byrd-Chichester
Chief of Staff, Interim Ombudsman

Nina Nichols
Deputy Director, Division of Enterprise Regulation

Andre Galeano
Deputy Director, Division of Federal Home Loan Bank Regulation

Sandra Thompson
Deputy Director, Division of Housing Mission and Goals

Bob Ryan
Acting Deputy Director, Division of Conservatorship

Lawrence Stauffer
Acting Chief Operating Officer

Alfred M. Pollard
General Counsel

Sharron P.A. Levine
Director, Office of Minority and Women Inclusion

Megan Moore
Acting Associate Director, Office of Congressional Affairs and Communications

Mark Kinsey
Chief Financial Officer

Kevin Winkler
Chief Information Officer

Laura S. Wertheimer
Inspector General

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Melvin L. Watt
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Secretary of the Treasury

Benjamin S. Carson, Sr.
Secretary of Housing and Urban Development

Jay Clayton
Chairman, Securities and Exchange Commission

CONTACT INFORMATION

We welcome your comments on how we can improve our report. Please provide comments or questions to:

Toni R. Harris
Performance Improvement Officer

202-649-3800
FHFAinfo@fhfa.gov

Federal Housing Finance Agency

400 7th Street, SW
Washington, D.C. 20219
202-649-3800

www.fhfa.gov

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Washington, DC 20548

Strategic Planning and External Liaison

James-Christian Blockwood, Managing Director, spel@gao.gov, (202) 512-4707
U.S. Government Accountability Office, 441 G Street NW, Room 7814, Washington, DC 20548