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

November 15, 2018

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 2018 and 2017 Financial Statements

This report transmits the GAO auditor's report on the results of our audits of the fiscal years 2018 and 2017 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 2018*.

As discussed more fully in the auditor's report that begins on page 61 of the enclosed agency performance and accountability report, we found

- the FHFA financial statements as of and for the fiscal years ended September 30, 2018, and 2017, 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, 2018; and
- no reportable noncompliance for fiscal year 2018 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 clarkce@gao.gov. Contact points for our Offices of Congressional Relations and Public Affairs may be found on the last page of this report.

Cheryl E. Clark

Cheryl E. Clark
Director, Financial Management and Assurance

Enclosure

(102555)

PERFORMANCE & ACCOUNTABILITY REPORT

FY 2018

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

AHP	Affordable Housing Program
AMA	On-Balance Sheet Acquired Member Assets
AMI	Area Median Income
APP	Annual Performance Plan
ARRC	Alternative Reference Rates Committee
ASU	Accounting Standards Update
Bank Act	Federal Home Loan Bank Act
CAMELSO	Capital, Asset Quality, Management, Earnings, Liquidity, Sensitivity to Market Risk, and Operational Risk
CAS	Connecticut Avenue Securities
CEAR	Certificate of Excellence in Accountability Reporting
CECL	Current Expected Credit Loss
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
DTA	Deferred Tax Assets
DTS	Duty to Serve
DUS	Delegated Underwriting and Servicing Program
ECIC	Executive Committee on Internal Controls
EEO	Equal Employment Opportunity
Fannie Mae	Federal National Mortgage Association
FHFA	Federal Housing Finance Agency
FHLBanks	Federal Home Loan Banks
FISMA	Federal Information Security Modernization Act of 2014
FMFIA	Federal Managers' Financial Integrity Act
Freddie Mac	Federal Home Loan Mortgage Corporation
FY	Fiscal Year
GAAP	Generally Accepted Accounting Principles
GAO	U.S. Government Accountability Office
HAE	Home Affordability Estimate
HAMP	Home Affordable Modification Program
HARP	Home Affordable Refinance Program
HERA	Housing and Economic Recovery Act of 2008
HPI	House Price Index
IRS	Internal Revenue Service
LEP	Limited English Proficiency
LIBOR	London Interbank Offered Rate
LTV	Loan-to-Value
MBS	Mortgage-Backed Securities
MRA	Matters Requiring Attention
MVE	Market Value of Equity
NIST	National Institute of Standards and Technology
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
PC	Participation Certificate
PLS	Private-Label Mortgage-Backed Security
PSPA	Senior Preferred Stock Purchase Agreement
QC	Quality Control
REMIC	Real Estate Mortgage Investment Conduit
RIF	Risk in Force
ROE	Report of Examination
Safety and Soundness Act	Federal Housing Enterprises Financial Safety and Soundness Act of 1992
SAI	Servicing Alignment Initiative
SEC	Securities and Exchange Commission
SHRP	Structured Agency Credit Risk Home Affordable Refinance Program
SOFR	Secured Overnight Financing Rate
STACR	Structured Agency Credit Risk
TBA	To Be Announced
TCJA	Tax Cuts and Jobs Act
UMBS	Uniform Mortgage-Backed Security
UPB	Unpaid Principal Balance

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FHFA At-A-Glance

The Federal Housing Finance Agency (FHFA) is responsible for the effective supervision, regulation, and housing mission oversight of Fannie Mae, Freddie Mac, the 11 Federal Home Loan Banks (FHLBanks), and the Office of Finance, together the "regulated entities." Our mission is to ensure these 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.

FHFA conducts annual on-site examinations and ongoing supervision of each regulated entity to identify existing and emerging risks, evaluate the overall effectiveness of each entity's risk management systems and controls, and assess compliance with laws and regulations.

FHFA STRATEGIC GOALS

1 ENSURE SAFE AND SOUND REGULATED ENTITIES

2 ENSURE LIQUIDITY, STABILITY, AND ACCESS IN HOUSING FINANCE

3 MANAGE THE ENTERPRISES' ONGOING CONSERVATORSHIPS

Freddie Mac **Fannie Mae**

Federal Home Loan Bank System

Together, Fannie Mae, Freddie Mac, and the FHLBank System provide more than $6.2 trillion in funding for the U.S. mortgage markets and financial institutions.

Recent Highlights

- Improving access to credit for mortgage-ready borrowers with limited English proficiency (LEP) by developing a multi-year language access plan and launching Mortgage Translations – a central repository of mortgage related translated documents and resources – to improve the ability of LEP borrowers to understand and participate in all facets of the mortgage life cycle.
- Guiding industry adoption of the new Uniform Mortgage-Backed Security planned for June 2019.
- Working with Fannie Mae and Freddie Mac to serve the manufactured housing, affordable housing preservation, and rural housing markets through the Duty to Serve program.
- Increasing transparency in, and understanding of, the housing finance market by distributing a variety of data sets including an indicator of single-family house price trends called the House Price Index, as well as the Monthly Interest Rate Survey, the Public Use Databases, Conforming Loan Limits, and quarterly files of Federal Home Loan Bank Members.
- Introduced the Mortgage Assistance Application to simplify and align documentation requirements for distressed borrowers.
- Issued a proposed regulation on the FHLBanks' Affordable Housing Program (AHP) which provides the Banks additional authority to allocate their AHP funds.
- Expanded the Neighborhood Stabilization Initiative to 30 markets in 16 states.
- Issued a proposed regulation on capital requirements for Fannie Mae and Freddie Mac which implements a new framework for risk-based capital requirements, and a revised minimum leverage capital requirement.
- Continued oversight of Enterprise Credit Risk Transfer (CRT) programs which, through June 2018, have transferred a portion of credit risk on approximately $2.5 trillion of unpaid principal balance.

MESSAGE FROM THE DIRECTOR

I am pleased to issue the Federal Housing Finance Agency's (FHFA) Performance and Accountability Report for fiscal year (FY) 2018. 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).

During FY 2018, the Enterprises marked their 10th anniversary under the conservatorship of FHFA. This has been a conservatorship of unprecedented scope, duration and complexity. FHFA has worked to appropriately manage and oversee the Enterprises under these unprecedented circumstances, and FHFA's efforts, along with those of the Enterprises, have yielded substantial improvements to the U.S. housing finance system and reforms to Fannie Mae and Freddie Mac.

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, 2017 through September 30, 2018, and meets the requirements of the Government Performance and Results Modernization Act of 2010. This report describes FHFA's efforts in FY 2018 to make progress on the Agency's 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. The report also provides the FY 2018 financial statements and analysis for FHFA, which reflect that, for the 10th consecutive audit, 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, 2018

MANAGEMENT'S DISCUSSION AND ANALYSIS

ARCHITECTURAL STYLE

BROWNSTONE

In architectural terms, "brownstone" refers to a terraced house (row house) built of brown sandstone, many of which are to be found in New York City on the Upper West Side and in the Park Slope, Prospect Heights and Bedford-Stuyvesant neighborhoods. Boston's Back Bay is also known for its elegant brownstone houses, once single family homes for wealthy residents, now often converted into flats or condominiums. Stylistically, the brownstone represents an eclectic mix of Romanesque, Renaissance Revival and other European influences. Brown sandstone is the common element, a less costly material than marble, yet offering a look of dignity and affluence that appealed to middle class city dwellers of the 19th century.

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, together the "regulated entities."[1] 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 FHLBank System and the Enterprises, the Federal Housing Enterprises Financial Safety and Soundness Act of 1992 (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 $191.4 billion in taxpayer support under the PSPAs to date. As of September 30, 2018, the Enterprises have paid the Treasury Department a total of $285.8 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:

(D) …take such action as may be—

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

(ii) appropriate to carry on the business of the regulated entity and preserve and conserve the

[1] The Office of Finance is not a "regulated entity" as the term is defined by statute (see 12 U.S.C. 4502(20)). However, for convenience, references to the "regulated entities" in this report should be read to also apply to the Office of Finance unless otherwise noted.

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), which are 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

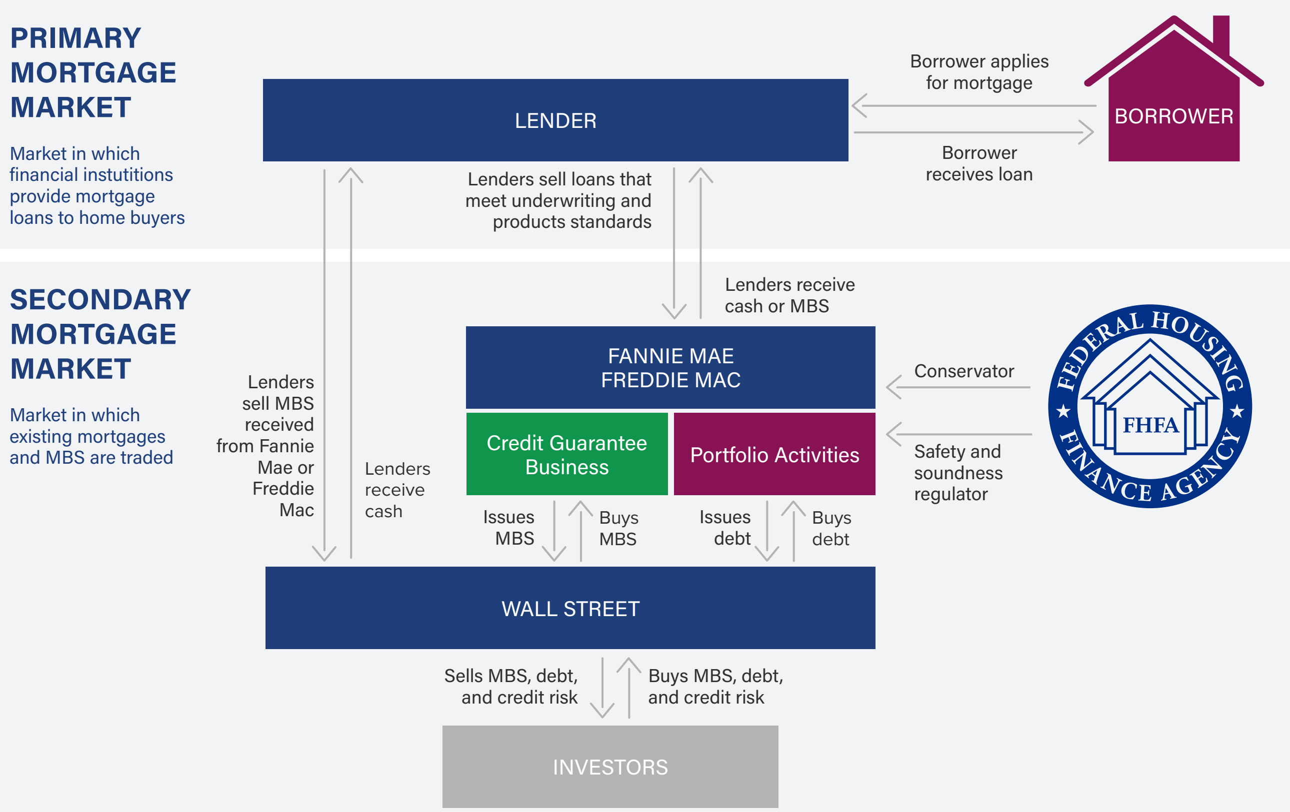
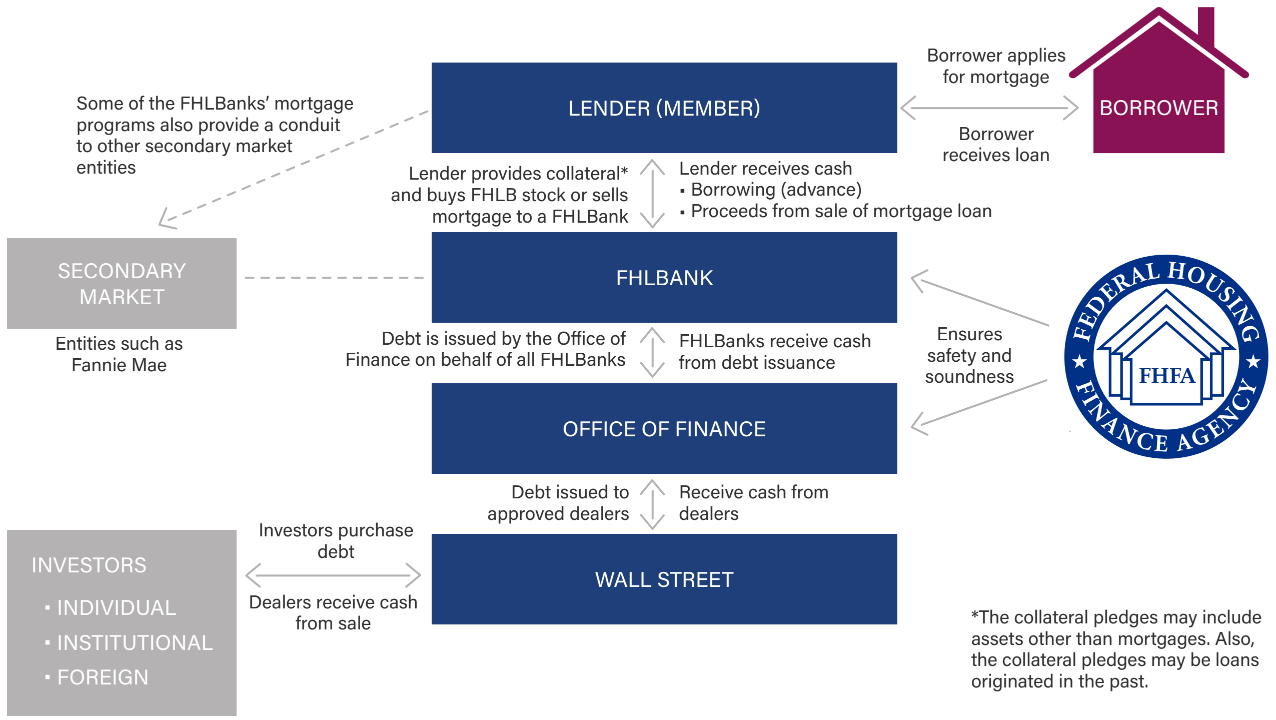


Figure 2: FHFA's Oversight Role – Federal Home Loan Banks and Office of Finance



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, 2018, there were 6,898 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 for calendar year 2017 and calendar year 2018 through the third quarter.

Table 1: Regulated Entities' Business Activity

($ in billions)

		Jan – Dec 2017	Jan – Sep 2018
Enterprise New Business	Single-Family Purchase	478	378
	Single-Family Refinance	368	199
	Multifamily	139	91
	Total:	985[a]	668
FHLBank New Business[b]	On-Balance Sheet Acquired Member Assets (AMA) Mortgages	12	11
	Off-Balance Sheet Mortgages	4	2
FHLBank AMA Mortgages Outstanding[c]		54	60
FHLBank Advances Outstanding[c]		732	706

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. 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.

c As of end of period.

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 $199.8 million in fiscal year (FY) 2018, and ended the fiscal year with 600 employees on board. For FY 2019, FHFA's budget is $208.8 million. FHFA's Office of Inspector General (OIG) operated with a FY 2018 budget of $49.9 million and ended the fiscal year with 126 employees. The OIG's FY 2019 budget remains the same at $49.9 million, which supports 155 positions (see Table 2).

Table 2: FHFA Budget and Staffing Summary

Operating Budgets (in millions)		
	FY 2018 Year End	FY 2019 Budgeted
FHFA	$199.8	$208.8
FHFA OIG	$49.9	$49.9
FHFA Employees (by specialized area)	**As of 9/30/2018**	
	FY 2018 Year End	FY 2019 Budgeted
Supervision	264	285
Mission Regulation	119	126
Conservatorship	19	21
Legal	40	43
Information Technology	47	49
Congressional and Agency Communications	13	15
Diversity and Inclusion Mission	16	19
Office of the Director	9	9
Other Support Functions	73	81
Total FHFA	600	648
Total FHFA OIG	126	155

FY 2019 staffing numbers are budgeted positions. FY 2018 staffing numbers are on-board positions as of September 30, 2018.

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.

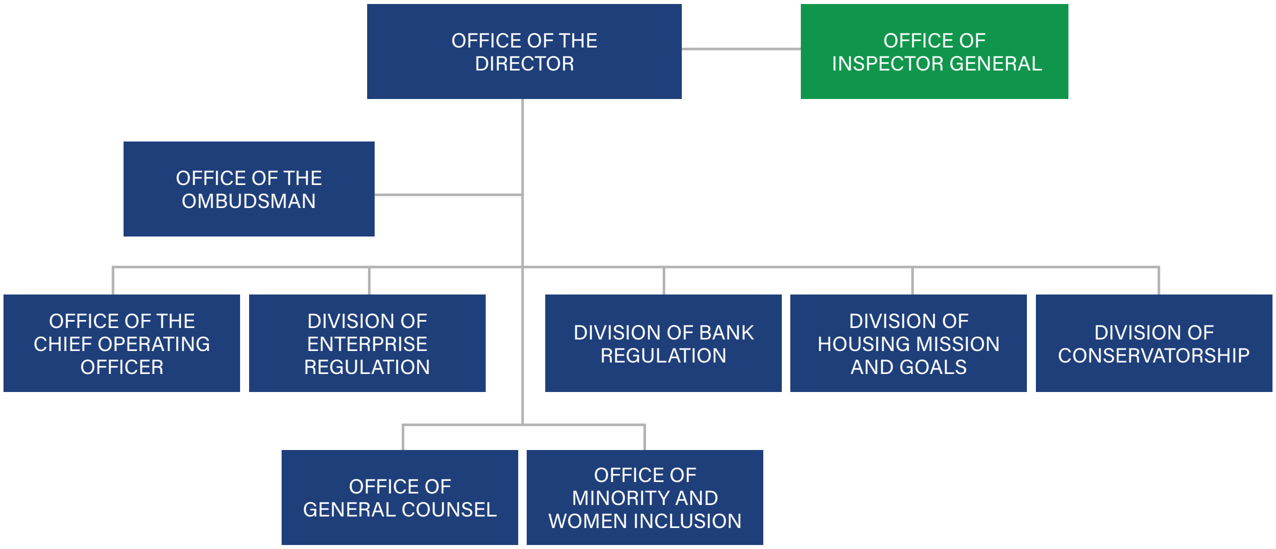
The Office of the Chief Operating Officer oversees the Agency's day-to-day support operations including facilities management, continuity of operations, financial planning and budgeting, contracting, human resource management, information technology, quality assurance, internal and external communications,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

The Division of Enterprise Regulation (DER) supervises the Enterprises and evaluates the safety and soundness of their operations. DER contributes to the achievement of FHFA's strategic and performance goals through planning and executing risk-based examinations of the Enterprises, developing and preparing the annual reports of examination (ROEs), 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.

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

Figure 3: FHFA Principal Organization Structure



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

The Office of the Ombudsman considers and adjudicates complaints and appeals from any regulated entity, 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 conducts 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.

[2] https://www.fhfa.gov/AboutUs/Reports/Pages/2014-Conservatorships-Strategic-Plan.aspx

Performance Summary

Strategic and Performance Goals

FHFA's strategic goals are presented in Figure 4. The performance measures associated with these strategic goals are presented on pages 27-30. Validation and verification activities to confirm that performance results are reported accurately are described on page 47.

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.

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

STRATEGIC GOAL 1:

Ensure Safe and Sound Regulated Entities.

PERFORMANCE GOALS:

1.1 Assess the safety and soundness of regulated entity operations

1.2 Identify risks to the regulated entities and set expectations for strong risk management

1.3 Require timely remediation of risk management weaknesses

STRATEGIC GOAL 2:

Ensure Liquidity, Stability, and Access in Housing Finance.

PERFORMANCE GOALS:

2.1 Ensure liquidity in mortgage markets

2.2 Promote stability in the nation's housing finance markets

2.3 Expand access to housing finance for qualified financial institutions of all sizes in all geographic locations and for qualified borrowers

STRATEGIC GOAL 3:

Manage the Enterprises' Ongoing Conservatorships.

PERFORMANCE GOALS:

3.1 Preserve and conserve assets

3.2 Reduce taxpayer risk from Enterprise operations

3.3 Build, implement, and operate a new single-family securitization infrastructure and implement the Single Security Initiative

FHFA'S STRATEGIC PLAN: FISCAL YEARS 2018-2022

In January 2018, FHFA published its new strategic plan for fiscal years 2018-2022, which reflects the Agency's priorities as regulator of the FHLBanks and as regulator and conservator of the Enterprises. In September 2017, FHFA requested input on the draft Agency strategic plan in accordance with the Government Performance and Results Modernization Act of 2010. FHFA's Strategic Plan sets forth three goals for the Agency: 1. Ensure Safe and Sound Regulated Entities, 2. Ensure Liquidity, Stability and Access in Housing Finance, and 3. Manage the Enterprises' Ongoing Conservatorships.

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 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 2018, FHFA carried out examinations of the Enterprises and the FHLBanks[3]. 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 risk-based examination plans. FHFA maintains on-site examination teams at each Enterprise to conduct targeted examinations and ongoing monitoring throughout the year across various areas of risk. 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 off-site and on-site review and monitoring. Examinations and ongoing supervision adhere to annually established supervisory strategies and examination plans for each FHLBank and the Office of Finance.

CAMELSO RATING SYSTEM

Pursuant to FHFA's Advisory Bulletin AB 2012-03, FHFA Examination Rating System, FHFA applies the CAMELSO rating system to report its supervisory views. The FHFA examination rating system is a risk-focused rating system under which each of the regulated entities and the Office of Finance is assigned a composite rating based on an evaluation of various aspects of its operations. Specifically, the composite rating of a FHLBank or an Enterprise is based on an evaluation and rating of seven components: **C**apital, **A**sset quality, **M**anagement, **E**arnings, **L**iquidity, **S**ensitivity to market risk, and **O**perational risk. The composite rating of the Office of Finance is based primarily on an evaluation of two components: Management and Operational risk.

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

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

An Examiner-in-Charge leads examination activity at each Enterprise and FHLBank. 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 ROE[4], 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 2018, FHFA delivered ROEs to the Enterprises (March and April 2018) 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 expectations for strong risk management and requires remediation of identified deficiencies. Where there are significant supervisory concerns or violations of law or regulation at one of the regulated entities, FHFA issues Matters Requiring Attention (MRAs) that require the board of directors and/or management to take corrective action to address critical supervisory matters or deficiencies. In response to an MRA, the entity commits to remediating the identified risk management concern(s). FHFA also issues written guidance in the form of advisory bulletins to the regulated entities regarding particular supervisory topics, which are discussed in greater detail on pages 14-15.

2. Financial Condition of the Enterprises[5]

The financial condition of the Enterprises remained stable. Underwriting and eligibility standards remain stronger for loans acquired since 2008. The Enterprises' ownership of single-family seriously delinquent loans, defined as loans that are more than 90 days overdue, continues to decline, though both Enterprises' single-family portfolios experienced temporary negative consequences in certain geographical areas associated with the 2017 hurricanes. Though both Enterprises' single-family portfolios experienced temporary negative consequences in certain geographical areas associated with the 2017 hurricanes. There were approximately 265,000 seriously delinquent loans as of September 30, 2017 and approximately 219,182 seriously delinquent loans as of September 30, 2018, a decline of 17 percent. Further, the number of homes the Enterprises own through foreclosure declined to approximately 28,000 properties at the end of the third quarter of 2018, a 26 percent reduction compared with approximately 38,000 properties at the end of the third quarter of 2017. Both Enterprises increased the acquisition of loans with high debt-to-income and loan-to-value ratios and will therefore need to maintain diligence in underwriting, credit administration, and risk management practices to ensure identification, monitoring, and management of related credit risks.

Table 3 contains a summary of the Enterprises' financial results through September 30, 2018.

Table 3: Summary of FIrst Three Quarters of 2018 and Full Calendar Year 2017 Financial Results—Enterprises (in $Billions)

	Fannie Mae					Freddie Mac			
	2018			2017 Annual		2018			2017 Annual
	Q1	Q2	Q3			Q1	Q2	Q3	
Net Income (Loss)	$4.3	$4.5	$4.0	$2.5		$2.9	$2.5	$2.7	$5.6
Comprehensive Income (Loss)*	$3.9	$4.5	$4.0	$2.3		$2.2	$2.4	$2.6	$5.6

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

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

[5] 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.

On December 22, 2017, the Tax Cuts and Jobs Act (TCJA) became law reducing the statutory corporate tax rate from 35 percent to 21 percent. While the TCJA was not effective until January 1, 2018, generally accepted accounting principles (GAAP) require companies to re-measure their deferred tax assets (DTA) at the reduced rate in the period in which the legislation is enacted. As a result, Fannie Mae and Freddie Mac recorded one-time federal income tax provision expenses of approximately $9.9 billion and $5.4 billion, respectively, in the fourth quarter of 2017. Although the tax provision expense resulted in a large reduction of net income in 2017, the Enterprises expect their future earnings to benefit from the lower federal corporate income tax rate.

The Enterprises have two primary sources of revenue: 1) guarantee fees on mortgages held by consolidated trusts holding Enterprise MBS; and 2) the difference between the interest income earned on the assets in the Enterprises' retained mortgage portfolios[6] and the interest expense paid on the debt that funds those assets. In 2018, as in prior years, the Enterprises earned a greater proportion of net income from guarantee fees than from interest income. This is primarily driven by the impact of guarantee fee increases and the reduction of the retained portfolios in accordance with the requirements of the PSPA between the Treasury Department and the Enterprises.

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

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

The Enterprises are constrained by the PSPAs from building capital while they remain in conservatorship. Pursuant to the Third Amendment to the PSPAs on August 17, 2012, the fixed 10 percent dividend on senior preferred stock was replaced, effective January 1, 2013, with a sweep of net worth that exceeded a "Capital Reserve Amount," which was established at $3.0 billion in 2013 with mandated declines of $600 million each subsequent year. Accordingly, the capital reserve for 2017 was $600 million and would have declined to zero on January 1, 2018.

However, in December 2017, FHFA entered into a letter agreement with the Treasury Department on behalf of the Enterprises to reinstate the $3.0 billion Capital Reserve Amount under the PSPA for each Enterprise. Beginning in the fourth quarter of 2017, under the terms of the letter agreement, each Enterprise will only declare and make dividend payments beyond the $3.0 billion Capital Reserve Amount.

As previously noted, each Enterprise had to re-measure its DTA due to the TCJA's reduction in the statutory corporate tax rate and record a one-time federal income tax provision expense in the fourth quarter of 2017. As a result of the income tax provision expense, each Enterprise had a net worth deficit as of December 31, 2017. Consequently, in the first quarter of 2018, FHFA submitted a request to the Treasury Department on behalf of Fannie Mae for $3.7 billion and on behalf of Freddie Mac for $0.3 billion to eliminate their net worth deficits.

While each Enterprise has a Capital Reserve Amount of $3.0 billion as of September 30, 2018, earnings will continue to be highly sensitive to fluctuations in macroeconomic conditions, housing prices, and interest rates. For example, given the large size of the Enterprises' guarantee portfolios, small changes in home prices may have a significant impact on financial performance. In addition, the continued

[6] Fannie Mae defines this as the mortgage-related assets it owns and Freddie Mac as its mortgage-related investments portfolio.

reduction in the retained portfolios as well as initiatives such as credit risk transfer transactions could reduce revenue and increase the likelihood of negative net worth in future quarters.

3. Financial Condition of the FHLBanks[7]

The financial condition and performance of the FHLBanks was strong during the first three quarters of 2018. All 11 FHLBanks were profitable, earning a combined $2.8 billion on $3.9 billion of net interest income after provision for credit losses. The FHLBanks recaptured $168 million of losses through interest income previously taken as credit-based other-than-temporary impairments.

Also during the first nine months of 2018, the System earned a total of $122 million in other income, most notably: $96 million in letters of credit fee income; $32 million from the sale of the private-label MBS portfolio at the Federal Home Loan Bank of Indianapolis in the second quarter of 2018; and $14 million from litigation settlement gains primarily related to private-label MBS holdings (mostly received by the FHLBank of Boston). These gains were partially offset by a loss of $67 million from marked-to-market effects on income. Operating expenses totaled $824 million for the year through September 30, 2018.

Member demand for FHLBank advances decreased $25.5 billion year-to-date, resulting in $706.0 billion of advances outstanding at September 30, 2018. Advances made up 65 percent of total FHLBank System assets. The balance of mortgages purchased from Bank members totaled $60.1 billion, or six percent of total FHLBank System assets.

The remaining assets are primarily investments, which include liquidity and MBS. Combined, investments were $319.2 billion and represented 29 percent of total FHLBank System assets. Of the total, liquidity and cash represented $135.4 billion, while total MBS was $142.6 billion. Most of the MBS portfolio was agency MBS, with only $7.3 billion, or less than one percent of total assets, composed of private-label MBS.

ADVANCES

The FHLBanks are member-owned cooperatives that provide a reliable source of liquidity to member financial institutions by making loans, known as advances, to member institutions and housing associates. The FHLBanks secure these advances with eligible collateral, which consists primarily of single-family mortgages, multifamily mortgages, government and agency securities, and commercial real estate loans.

Aggregate consolidated obligations, which is the debt issued jointly and used by each FHLBank to fund its operations, totaled $1.02 trillion as of September 30, 2018 by par value, of which discount notes were 40 percent. At the end of the third quarter of 2018, 77 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 2018 and Full Calendar Year 2017 Financial Results for the FHLBanks, provides a summary of the FHLBanks' financial results through September 30, 2018.

Table 4: Summary of First Three Quarters of 2018 and Full Calendar Year 2017 Financial Results—FHLBanks (in $Millions)

	Net Income (Loss)			
	2018			2017 Annual
	Q1	Q2	Q3	
FHLBank of Boston	$55	$53	$65	$190
FHLBank of New York	$126	$155	$156	$479
FHLBank of Pittsburgh	$79	$92	$98	$340
FHLBank of Atlanta	$114	$107	$106	$349
FHLBank of Cincinnati	$83	$85	$92	$314
FHLBank of Indianapolis	$48	$69	$39	$156
FHLBank of Chicago	$74	$85	$78	$317
FHLBank of Des Moines	$118	$129	$114	$518
FHLBank of Dallas	$42	$49	$50	$150
FHLBank of Topeka	$40	$46	$42	$197
FHLBank of San Francisco	$81	$104	$103	$376
FHLBank System	$860	$972	$942	$3,387

Numbers may not add due to rounding.

[7] 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.

All FHLBanks met regulatory capital requirements during the first three quarters of 2018 and had robust capital-to-asset ratios. The System had $57.8 billion in regulatory capital, or 53 percent of total assets. At September 30, 2018, the FHLBanks retained earnings were $19.3 billion, the highest level in the FHLBanks' history. The FHLBanks' primary business of making advances to members continued to operate with no credit losses to a member 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 ratios of market value of equity (MVE) to par value of capital stock exceeded 1.0 for all FHLBanks as of September 30, 2018 with the lowest ratio for any individual FHLBank at 1.2.

4. Risk Management Guidance Issued to the Regulated Entities

In FY 2018, FHFA issued the following advisory bulletins:

Advisory Bulletin AB 2017-03[8] (Acquired Member Asset Price Risk Governance) was issued on November 21, 2017. This advisory bulletin outlines FHFA's supervisory expectations for FHLBank Acquired Member Asset price risk governance. It sets forth that an FHLBank should: (1) estimate expected spread to funding; (2) establish minimum expected spreads; (3) adopt total portfolio and acquisition limits; (4) create controls; and (5) conduct board and management committee education and reporting.

Advisory Bulletin AB 2018-01[9] (Scenario Determination for Market Risk Models Used for Risk-Based Capital) was issued on February 7, 2018. FHFA's risk-based capital regulation requires the FHLBanks to model market risk using historically-based market risk scenarios that meet certain minimum requirements. The Agency revisited the requirements for generating the market risk scenarios and determined that a new approach would increase the accuracy of the FHLBanks' estimates of the market value of the portfolio at risk.

Advisory Bulletin AB 2018-02[10] (FHLBank Use of Models and Methodologies for Internal Assessments for Mortgage Asset Credit Risk) was issued on April 26, 2018. This advisory bulletin provides guidance for FHLBank use of models and methodologies to assess credit risk associated with mortgage assets, including AMA mortgage pools, MBS, and collateralized mortgage obligations. The guidance describes minimally acceptable criteria in selecting a mortgage asset credit risk model and the associated input of a macroeconomic stress scenario to be used in assessing mortgage asset credit risk.

Advisory Bulletin AB 2018-03[11] (Advances Pricing) was issued on August 6, 2018. This advisory bulletin provides guidance to the FHLBanks on the methods a FHLBank may use to demonstrate and document its compliance with the minimum advance pricing requirements set forth in regulations.

Advisory Bulletin AB 2018-04[12] (Cloud Computing Risk Management) was issued on August 15, 2018. This advisory bulletin provides guidance to the regulated entities, Common Securitization Solutions, LLC (CSS), and the Office of Finance to assess and manage risks associated with third-party cloud providers using a risk-based approach to determine the appropriate activities to include in a program. The advisory bulletin describes four key areas of cloud computing risk management by the regulated entities: governance, third-party cloud provider management, information security, and business continuity cloud provider management.

Advisory Bulletin AB 2018-05[13] (Oversight of Multifamily Seller/Servicer Relationships) was issued on August 15, 2018. This advisory bulletin outlines supervisory expectations to the Enterprises for performing prudent due diligence, ongoing monitoring activities, and effective management of multifamily seller/servicers; provides emphasis on an independent review process by Enterprise Risk Management to validate and challenge analyses and recommendations made by the multifamily business unit; and applies to recent single-family rental

[8] https://www.fhfa.gov/SupervisionRegulation/AdvisoryBulletins/Pages/Acquired-Member-Asset-Price-Risk-Governance.aspx

[9] https://www.fhfa.gov/SupervisionRegulation/AdvisoryBulletins/Pages/Scenario-Determination-for-Market-Risk-Models-Used-for-Risk-Based-Capital.aspx

[10] https://www.fhfa.gov/SupervisionRegulation/AdvisoryBulletins/Pages/FHLBank-Use-of-Models-and-Methodologies-for-Internal-Assessments-for-Mortgage-Asset-Credit-Risk.aspx

[11] https://www.fhfa.gov/SupervisionRegulation/AdvisoryBulletins/Pages/AB-Advances-Pricing.aspx

[12] https://www.fhfa.gov/SupervisionRegulation/AdvisoryBulletins/Pages/Cloud-Computing-Risk-Management.aspx

[13] https://www.fhfa.gov/SupervisionRegulation/AdvisoryBulletins/Pages/Oversight-of-Multifamily-SellerServicer-Relationships.aspx

securitization transactions that are managed by the multifamily divisions of the Enterprises.

Advisory Bulletin AB 2018-06[14] (Liquidity Risk Management) was issued on August 22, 2018. This advisory bulletin summarizes the principles of sound liquidity risk management and FHFA's supervisory expectations applicable to the Enterprises. FHFA expects the Enterprises to use liquidity metrics that are commensurate with their funds management strategies and to provide a comprehensive view of their liquidity risk to ensure that sufficient funds are available at a reasonable cost to meet potential demands.

Advisory Bulletin AB 2018-07[15] (FHLBank Liquidity Guidance) was issued on August 27, 2018. This advisory bulletin provides guidance for maintaining sufficient amounts of liquidity that will enable FHLBanks to provide advances and fund letters of credit for members during a sustained capital markets disruption.

Advisory Bulletin AB 2018-08[16] (Oversight of Third-Party Provider Relationships) was issued on September 28, 2018. This advisory bulletin provides guidance to the regulated entities on assessing and managing risks associated with third-party relationships. The guidance outlines a risk-based approach to third-party provider risk management. The advisory bulletin describes five life cycle phases of third-party provider risk management: risk assessment; due diligence in third-party provider selection; contract negotiation; ongoing monitoring; and termination. The advisory bulletin also articulates supervisory expectations for the responsibilities of the board and senior management, policies, procedures, internal standards, and reporting.

Advisory Bulletin AB 2018-09[17] (Interest Rate Risk Management) was issued on September 28, 2018. This advisory bulletin provides guidance to the regulated entities on the principles they should follow to identify, measure, monitor, and control the risk that changes in interest rates may adversely affect financial condition and performance.

ADVISORY BULLETINS

FHFA has statutory responsibility to ensure the safe and sound operations of the regulated entities and the Office of Finance. Advisory bulletins describe FHFA supervisory expectations for safe and sound operations in particular areas and are used in FHFA examinations of the regulated entities and the Office of Finance.

5. Proposed Capital Requirements for Fannie Mae and Freddie Mac

On June 16, 2018, FHFA issued a Notice of Proposed Rulemaking seeking comments on Enterprise capital requirements. FHFA is proposing a new framework for risk-based capital requirements and a revised minimum leverage capital requirement for the Enterprises. FHFA suspended regulatory capital requirements after placing the Enterprises into conservatorships in September 2008. While the capital requirements in this rule would also be suspended while the Enterprises remain in conservatorship, FHFA believes it is appropriate to communicate the Agency's views as a financial regulator about capital adequacy and to allow market participants and all stakeholders to comment on the proposed capital requirements.

FHFA extended the public comment period due to the high level of interest in the proposed rule and requests from multiple stakeholders for more time to evaluate it. The previous deadline for comments was September 17, 2018. The new deadline is November 16, 2018.

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

1. Access to Credit and Affordable Housing: Fannie Mae and Freddie Mac

- **Scorecard Initiatives to Promote Access to Credit**
  Since 2016, FHFA's annual Scorecard for Fannie Mae, Freddie Mac, and Common Securitization Solutions has called for Fannie Mae and Freddie

[14] https://www.fhfa.gov/SupervisionRegulation/AdvisoryBulletins/Pages/Liquidity-Risk-Management.aspx
[15] https://www.fhfa.gov/SupervisionRegulation/AdvisoryBulletins/Pages/Federal-Home-Loan-Bank-Liquidity-Guidance.aspx
[16] https://www.fhfa.gov/SupervisionRegulation/AdvisoryBulletins/Pages/Oversight-of-Third-Party-Provider-Relationships.aspx
[17] https://www.fhfa.gov/SupervisionRegulation/AdvisoryBulletins/Pages/Interest-Rate-Risk-Management_2018-09.aspx

Mac to identify opportunities to improve access to credit in a safe and sound manner, including by researching and evaluating ideas to test and implement in the marketplace via pilots. In FY 2018, FHFA worked with the Enterprises to develop, oversee, and assess a number of access-to-credit related pilots.

Pilots provide an opportunity to assess whether different approaches are valid ways to responsibly support access to credit. They do this by enabling FHFA and the Enterprises to gauge interest or demand for an Enterprise product or policy, learn more about new or unique markets, develop systems and processes, and confront unexpected challenges as they arise. Following each pilot, FHFA and the Enterprise evaluate whether the pilot was successful, and subsequently decide whether the Enterprise should adopt a new strategy or participate in a given market or activity going forward.

- **Summary of Final Housing Goals Rule**
In February 2018, FHFA issued a final rule on the housing goals for Fannie Mae and Freddie Mac for 2018 through 2020. The Safety and Soundness Act requires FHFA to establish annual housing goals for mortgages purchased by the Enterprises. The housing goals include separate categories for single-family and multifamily mortgages on housing that is affordable to low-income and very low-income families, among other categories.

The final rule establishes the benchmark levels for each of the housing goals and subgoals for 2018 through 2020. In addition, the final rule makes a number of clarifying and conforming changes, including revisions to the requirements for the housing plan that an Enterprise may be required

Table 5: Enterprises' Housing Goals and Performance for 2017

Housing Goal/Subgoal Category	2017 Benchmark	2017 Market Performance	2017 Enterprise Performance[a]	FHFA Preliminary Determination of 2017 Housing Goal Performance
Single-Family Goals (%)[b]				
Low-income home purchase goal	24%	24.3%	Fannie Mae: 25.5% Freddie Mac: 23.2%	Fannie Mae: Met Freddie Mac: Not Met
Very low-income home purchase goal	6%	5.9%	Fannie Mae: 5.9% Freddie Mac: 5.7%	Fannie Mae: Met Freddie Mac: Not Met
Low-income areas home purchase subgoal	14%	17.1%	Fannie Mae: 18.3% Freddie Mac: 16.4%	Fannie Mae: Met Freddie Mac: Met
Low-income refinance goal	21%	25.4%	Fannie Mae: 24.8% Freddie Mac: 24.8%	Fannie Mae: Met Freddie Mac: Met
Multifamily Goals (Units)[c]				
Low-income multifamily goal	300,000 units	N/A	Fannie Mae: 401,145 units Freddie Mac: 408,096 units	Fannie Mae: Met Freddie Mac: Met
Very low-income multifamily subgoal	60,000 units	N/A	Fannie Mae: 82,674 units Freddie Mac: 92,274 units	Fannie Mae: Met Freddie Mac: Met
Small property: low-income subgoal	10,000 units	N/A	Fannie Mae: 12,043 units Freddie Mac: 39,743 units	Fannie Mae: Met Freddie Mac: Met

a Preliminary official results as determined by FHFA in October 2018. Final official results will be determined in late-2018.

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 subgoal for low-income area home purchase mortgages 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 2017.

c Low-income multifamily units are those affordable to families with incomes no greater than 80 percent of AMI. Very low-income multifamily 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.

to submit to FHFA in response to a failure to achieve one or more of the housing goals or subgoals. The final rule was effective March 14, 2018.[18]

Table 5 summarizes the Enterprises' housing goals and performance for 2017.

FHFA DISASTER RESPONSE ACTIVITIES

In August and September 2017, three major storms, hurricanes Harvey, Irma, and Maria struck the United States and its Caribbean territories of Puerto Rico and the Virgin Islands. These storms and their aftermath required significant coordination, monitoring, and policy changes to support the unique circumstances facing impacted borrowers. The Enterprises, in coordination with FHFA, implemented a number of policy changes to the existing suite of aligned disaster assistance offerings. These included a new disaster modification, revisions to insurance disbursement policies, and property inspection procedures aimed at addressing the specific needs of borrowers affected by the three hurricanes. Additionally, FHFA developed templates for the Enterprises' disaster reporting and conducted joint meetings with other federal agencies to share information on response activities.

- **Language Access – Multiyear Plans and Clearinghouse**
  During FY 2018, FHFA, Fannie Mae, and Freddie Mac released a Language Access Multi-Year Plan. To carry out one of the milestones in this plan, FHFA worked with the Enterprises during 2018 towards the creation of a Mortgage Translations clearinghouse for borrowers with limited English proficiency (LEP). The clearinghouse will serve as a centralized repository of translated mortgage documents, borrower education materials, and a glossary of terms associated with the mortgage process. Gathering translated documents in a centralized location for use by loan originators, servicers and other market participants is intended to make the mortgage process more efficient, while also helping assure that borrowers understand their obligations. In addition, the Mortgage Translations clearinghouse will assist potential LEP borrowers with mortgage education and explanation of mortgage-related terms to help reduce barriers to gaining sustainable homeownership. The first phase of the clearinghouse was launched on October 15, 2018 at www.FHFA.gov/MortgageTranslations and includes resources in Spanish – the language most commonly spoken by LEP households in the U.S. – to be followed over the next two years by Chinese, Vietnamese, Korean, and Tagalog. In FY 2019, FHFA hopes to expand the website into a stand-alone site with its own domain name.

- **Duty to Serve Implementation and Plan Modifications**
  The Duty to Serve (DTS) statute requires the Enterprises to serve three specified underserved markets: manufactured housing, affordable housing preservation, and rural housing. FHFA's regulation requires the Enterprises to adopt three-year Underserved Markets Plans to increase the liquidity of mortgage investments and improve the distribution of investment capital available for mortgage financing in a safe and sound manner for residential properties that serve very low-, low-, and moderate-income families in these three specified underserved markets.

  After a public input period that allowed stakeholders to provide feedback on the Enterprises' proposed Plans, FHFA issued a Non-Objection to the Enterprises' revised Plans in December 2017, with the Plans going into effect on January 1, 2018.

  Throughout 2018, FHFA has monitored the Enterprises' progress in implementing the respective Plans. On October 3, 2018, FHFA released a request for input as part of FHFA's process for reviewing the Enterprises' proposed modifications to these Plans. FHFA will review the full set of proposed modifications submitted to FHFA by the Enterprises and will publish those modifications, if approved, in December 2018.

[18] https://www.fhfa.gov/SupervisionRegulation/Rules/Pages/2018-2020-Enteprise-Housing-Goals.aspx

2. Diversity and Inclusion

To support the regulated entities' diversity and inclusion efforts, in FY 2018 FHFA:

- Provided support and served in an advisory capacity to the FHLBanks' Diversity Task Force, which consists of FHLBanks' board member financial institutions.
- Translated FHFA's National Mortgage Database, American Survey of Mortgage Borrowers, into Spanish. The survey seeks to identify the experiences encountered by Hispanic borrowers in obtaining a mortgage; and
- Provided training and technical assistance to the regulated entities and the Office of Finance on the new Minority and Women Inclusion regulatory requirements at 12 CFR 1223.20. This rule assures a sole point of accountability of the regulated entities' OMWI officers and ensures a unified diversity and inclusion strategy integrated across each regulated entity.

3. Federal Home Loan Bank Affordable Housing Program

FHFA issued a proposed rule to amend aspects of FHFA's regulation on the FHLBank AHP on March 14, 2018. The rulemaking moves toward a long-term Agency goal of working to streamline administration of the AHP, and to provide the Banks with more control over the allocation of AHP funds, while ensuring continued integrity and transparency in the way the Banks manage AHP funds. The Agency extended the original comment period from 60 to 90 days, making comments due on June 12, 2018. The proposal generated 393 public comments, which FHFA is reviewing as it works to issue a final rule in 2018. Figure 5, the FHLBanks' AHP Statutory Contributions since 1990, shows the trend in available funds to support the Affordable Housing Program over the past 28 years.

4. Preserving Homeownership

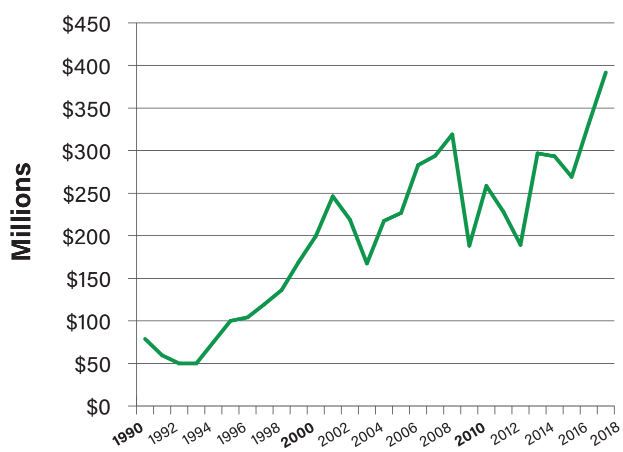
During 2018, FHFA worked with the Enterprises to finalize changes to the loss mitigation options for borrowers including repayment plans, forbearance plans, short sales, and deeds in lieu of foreclosure. These home retention and foreclosure alternative programs both reflect a post-crisis loss mitigation environment and ensure that the Enterprises have proven approaches for helping keep borrowers in their homes throughout different economic cycles.

HOME AFFORDABILITY ESTIMATE

FHFA Working Paper 18-04[19] offers a new home affordability estimate (HAE) that focuses on the share of housing stock that is affordable to certain households in the U.S. The methodology considers affordability as it relates to funds available for down payments, initial monthly housing-related payments, and future projections of household income and costs.

The HAE builds upon existing industry statistics in two ways. First, existing affordability indexes make certain assumptions for one or more of those funding factors allowing for observation of actual investment and expense values. Second, existing industry statistics consider "typical" families that earn the median household income level. The HAE is sufficiently more flexible for evaluating families at different places in the income distribution. This paper discusses the assumptions and processes for creating the HAE indexes; compares the national time series for very low-income, low-income, and median-income families; and then documents trends across metropolitan areas.

Figure 5: FHLBanks' AHP Statutory Contributions since 1990



[19] https://www.fhfa.gov/PolicyProgramsResearch/Research/Pages/wp1804.aspx

PRESERVING HOMEOWNERSHIP IN THE WAKE OF THE 2008 FINANCIAL CRISIS

The 2008 financial crisis presented unprecedented challenges as large numbers of struggling homeowners became seriously delinquent and foreclosure rates climbed to records not seen since the Great Depression. Homeowners nationwide faced declining home values and unemployment while servicers did not have effective solutions to assist distressed homeowners who wished to avoid foreclosure. In 2009, Making Home Affordable was established to provide foreclosure alternatives to homeowners impacted by the financial crisis. Home Affordable Modification Program (HAMP) provided borrowers with lower monthly payments through a standardized loan modification. Home Affordable Refinance Program (HARP) provided an option to refinance for borrowers who lacked the equity traditionally required to qualify, allowing eligible borrowers to lower their payments by refinancing into a lower interest rate mortgage.

In 2010, FHFA directed the Enterprises to discuss existing and possible new practices to mitigate losses and develop consistent requirements for servicing non-performing loans, and help borrowers avoid foreclosure whenever possible. This Servicing Alignment Initiative (SAI), originally implemented in 2011, set standards that aligned the Enterprises and focused servicers' attention on contacting and assisting homeowners immediately following delinquency. By aligning the Enterprises' suite of loss mitigation solutions and designing solutions based on best practices (such as the Streamlined Modification for borrowers 90 days or more delinquent), the Enterprises provided leadership to the industry and standards for effective loss mitigation. Through SAI, FHFA and the Enterprises developed servicing rules that aligned four key areas: borrower contact, delinquency management, loan modifications, and servicer incentives and compensatory fees. Since implementing SAI, FHFA and the Enterprises continued to improve and build upon their policy objectives to ensure their suite of loss mitigation offerings was responsive to borrower needs, incorporate streamlined processes, and refine eligibility parameters.

In 2016, anticipating the expiration of HAMP and HARP at the end of 2017 and 2018, respectively, FHFA directed the Enterprises to begin developing their post-crisis loss mitigation programs built around key tenets learned from the crisis, including accessibility, affordability, sustainability, and transparency. With these tenets in mind, the Enterprises announced in December 2016 their post-crisis modification, Flex Modification, the successor to HAMP, and Standard and Streamlined Modification, which became mandatory in October 2017. A companion to Flex Modification, which targets deep payment reduction while minimizing credit losses and conserving and preserving the Enterprises' assets, was the new Mortgage Assistance Application that streamlined the documentation requirements for both borrowers and servicers. Additionally, in 2017, the Enterprises announced a new streamlined refinance program for borrowers with high-Loan-to-Value (LTV) ratios allowing current borrowers with high-LTV loans an opportunity to refinance. This new streamlined refinance program applies to borrowers with loans originated as of October 1, 2017, and the program does not have an expiration date as was the case with HARP. Lastly, in 2017, FHFA required the Enterprises to evaluate and begin implementing potential changes to the remaining loss mitigation options for borrowers that include repayment plans, forbearance plans, short sales, and deeds in lieu of foreclosure, to reflect the key principles developed for post-crisis loss mitigation.

As of August 31, 2018, the Enterprises have completed 4.2 million foreclosure prevention actions since the start of conservatorships in September 2008. Around 2.3 million have been permanent loan modifications, and more than 1.3 million have been other forms of assistance that allowed troubled homeowners to stay in their homes. In addition, 689,440 of the actions have been short sales and deeds in lieu that resulted in borrowers leaving their homes without going through the foreclosure process.

STRATEGIC GOAL 3: MANAGE THE ENTERPRISES' ONGOING CONSERVATORSHIPS

1. Common Securitization Platform and the Single Security Initiative

The Common Securitization Platform (CSP) and the Single Security Initiative are significant, multiyear, interrelated projects that remain ongoing priorities of FHFA during conservatorship of the Enterprises. The Enterprises will use the CSP as the operational and technical platform through which they will issue and administer a common, single MBS, to be known as the Uniform Mortgage-Backed Security (UMBS). The 2018 Scorecard calls for the Enterprises and, CSS, a joint venture between the Enterprises, to continue to work with each other and FHFA to implement the Single Security Initiative on the CSP. In March 2018, FHFA announced that June 3, 2019 is the target date for implementing Release 2 of the CSP and initial issuance of UMBS by each Enterprise.

The June 3, 2019 implementation date provided sufficient time for CSS and the Enterprises to complete development and testing of the CSP software and to thoroughly validate operational processes, controls, and governance processes. CSS has continued to develop and test the CSP Release 2 software. As of September 30, 2018, CSS and the Enterprises were conducting tri-party end-to-end testing, using the CSP test environment to simulate actual operational processing using real data in near real time. They were also testing commingled resecuritizations in this environment. This is the last testing phase before the beginning of parallel operations to ensure that the CSP delivers the same results as current Enterprise operations in real time. CSS and the Enterprises are on track to meet the June 3, 2019 implementation date.

The successful transition of the To-Be-Announced (TBA) market to trading UMBS 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 a meeting of the Enterprises' Industry Advisory Group and numerous meetings with trade associations, dealers, investors, seller-servicers, financial market utilities, vendors, and other market participants. As implementation approaches, the Enterprises have accelerated and intensified their engagement with market participants, including market readiness surveys and sponsorship and participation in industry conferences, tabletop exercises for industry participants, outreach to foreign investors, and webinars. In conjunction with the outreach activities, FHFA and the Enterprises have developed a monthly newsletter, a Market Adoption Playbook, a sample Implementation Schedule, vendor readiness timeliness and other materials related to the Single Security Initiative implementation, all of which have been published on Enterprise websites.[20]

To communicate progress and align expectations, FHFA developed a timeline of key achievements and upcoming milestones with targeted completion dates as shown in Figure 6. FHFA updates the timeline as the project milestones are met or revised.

In response to concerns about regulatory issues expressed by market participants, the Enterprises have reached out to and received guidance from the Securities and Exchange Commission (SEC) and the Internal Revenue Service (IRS) for guidance on certain accounting and tax issues related to the Single Security Initiative and related to the exchange of legacy Freddie Mac securities for the new UMBS, including the tax treatment of a one-time "make-whole" payment to compensate investors for a change in the timing of monthly cash flows. SEC has opined that the exchange of Freddie Mac legacy securities for UMBS will be deemed a minor modification of an existing security. Additionally, IRS has issued a ruling indicating that the exchange would not be treated as a taxable exchange of property. The IRS guidance did not address the tax treatment of the make-whole payment. Freddie Mac announced that it will treat the make-whole payment as a tax-free adjustment to the security basis but encouraged investors to consult with their own tax advisors.[21]

In response to a request from the Enterprises, the IRS has also published guidance concerning the application of concentration limits that apply to certain investors.[22]

[20] CSP and Single Security Initiative information posted by Freddie Mac may be found at: http://www.freddiemac.com/mbs/single-security/ and Fannie Mae may be found at: http://www.fanniemae.com/portal/funding-the-market/single-security/index.html

[21] See http://www.freddiemac.com/mbs/docs/float_compensation.pdf

[22] See https://www.irs.gov/pub/irs-drop/rp-18-54.pdf

Figure 6: Single Security Initiative/CSP Timeline

2012

February 21
FHFA issues "*A Strategic Plan for Enterprise Conservatorships*," announcing the goal of building a new securitization platform.

October 4
FHFA issues "*Building a New Infrastructure for the Secondary Mortgage Market*," a white paper providing a detailed description of the new securitization platform (including scope, functionality, and design principles) and seeking industry input.

2013

April 30
FHFA issues "*A Progress Report on the Common Securitization Infrastructure*," reflecting feedback received from the October 2012 white paper.

October 7
Fannie Mae and Freddie Mac establish *Common Securitization Solutions, LLC* (CSS), the joint venture to build and operate the Common Securitization Platform (CSP).

November 25
FHFA issues "*A Progress Report on the Implementation of FHFA's Strategic Plan for Enterprise Conservatorships*," indicating that CSP development and testing had begun.

2014

May 13
FHFA issues "*The 2014 Strategic Plan for the Conservatorship of Fannie Mae and Freddie Mac*," affirming ongoing development of the CSP and announcing development of the Single Security.

August 12
FHFA issues "*Request for Input: Proposed Single Security Structure*," outlining the proposed structure for the Single Security and seeking industry feedback.

November 3
Fannie Mae and Freddie Mac *announce* revisions to the governance structure and operating agreement of CSS and appointment of the first Chief Executive Officer of CSS.

2015

March 16
FHFA issues a *Progress Report* detailing continued CSP development of testing.

May 15
FHFA issues "*An Update on the Structure of the Single Security*," detailing changes to the structure of the Single Security in response to feedback received from the August 2014 Request for Input.

September 15
FHFA issues "*An Update on the Common Securitization Platform*," providing descriptions of the CSP functions, modules, development and testing; the status of the CSS; and announcing that Fannie Mae and Freddie Mac are planning two releases of the CSP software.

2016

February 19
Freddie Mac and CSS complete system-to-system testing for Release 1 (first use of CSP software).

March 3
FHFA issues the "*2015 Scorecard Progress Report*" detailing continued CSP development and testing.

July 7
Fannie Mae and Freddie Mac "*An Update on Implementation of the Single Security and the Common Securitization Platform*," detailing the progress made and expected milestones.

July 11
Fannie Mae and *Freddie Mac* publish final Single Security features and disclosures for Release 2.

July 26
Freddie Mac and CSS complete end-to-end testing for Release 1.

November 18
Freddie Mac and CSS complete operational and production readiness for Release 1.

Freddie Mac and CSS complete parallel activities for Release 1.

December 8
FHFA *Announces* Successful Implementation of Release 1 of the Common Securitization Platform.

2017

March 23
FHFA issues "*An Update on the Implementation of the Single Security and the Common Securitization Platform*," providing details of the successful implementation of Release 1 of the CSP, the timeframe for Release 2, costs related to the CSP and CSS and steps to ensure alignment between the Enterprises to facilitate the Single Security Initiative.

August 28
Freddie Mac implements aligned investor disclosures in support of the Single Security Initiative.

September 6
Fannie Mae and Freddie Mac publish the *Market Adoption Playbook* (updated May 2018) identifying possible actions that market participants should consider taking to ensure a smooth transition to the issuance of, and TBA trading in, the new Uniform Mortgage-Backed Securities.

December 4, 2017
FHFA issues "*An Update on the Single Security Initiative and the Common Securitization PLatform*" detailing activity and progress on the development of the CSP and implementation of the Single Security Initiative (SSI). This Update also describes outreach by the Enterprises and FHFA to inform and engage market participants as they prepare for SSI implementation.

2018

March 23
Fannie Mae, Freddie Mac, and CSS complete key application development for Release 2.

Fannie Mae, Freddie Mac, and CSS complete system-to-system testing for Release 2.

March 28
FHFA *Announces* June 2019 Implementation of the New Uniform Mortgage-Backed Security (UMBS).

May 22
FHFA issues the first quarterly *Prepayment Monitoring Report*, providing transparency into FHFA monitoring of the prepayments rates of Fannie Mae and Freddie Mac 30-year, TBA-eligible mortgage-backed securities.

Expected in 2018
Fannie Mae, Freddie Mac, and CSS complete pre-parallel testing for Release 2.

2019

Expected in 2019
Fannie Mae, Freddie Mac, and CSS complete operational/production readiness for Release 2.

Fannie Mae, Freddie Mac, and CSS complete parallel activities for Release 2.

Freddie Mac implementation of Freddie Mac Legacy PC Exchange Portal.

Fannie Mae and Freddie Mac begin issuing the new UMBS using CSS and Release 2 of the CSP.

UNIFORM MORTGAGE-BACKED SECURITIES

FHFA is working with the Enterprises and CSS to develop the UMBS as part of the Single Security Initiative to enhance liquidity to the secondary mortgage market and to reduce costs to Freddie Mac and U.S. taxpayers.

Currently, each Enterprise issues its own proprietary type of MBS. Fannie Mae MBS and Freddie Mac Mortgage PCs have unique features and trade as distinct securities in the secondary mortgage market. Fannie Mae has outstanding roughly $2.3 trillion in estimated tradeable TBA-eligible MBS. Freddie Mac has outstanding roughly $1.3 trillion in estimated tradeable TBA-eligible MBS.

Freddie Mac, at times, has spent as much as $400 million dollars per annum in market adjusted pricing that was attributable to Freddie Mac's MBS being less liquid than Fannie Mae's MBS. Those amounts have declined in recent periods, but could rise again depending on market conditions.

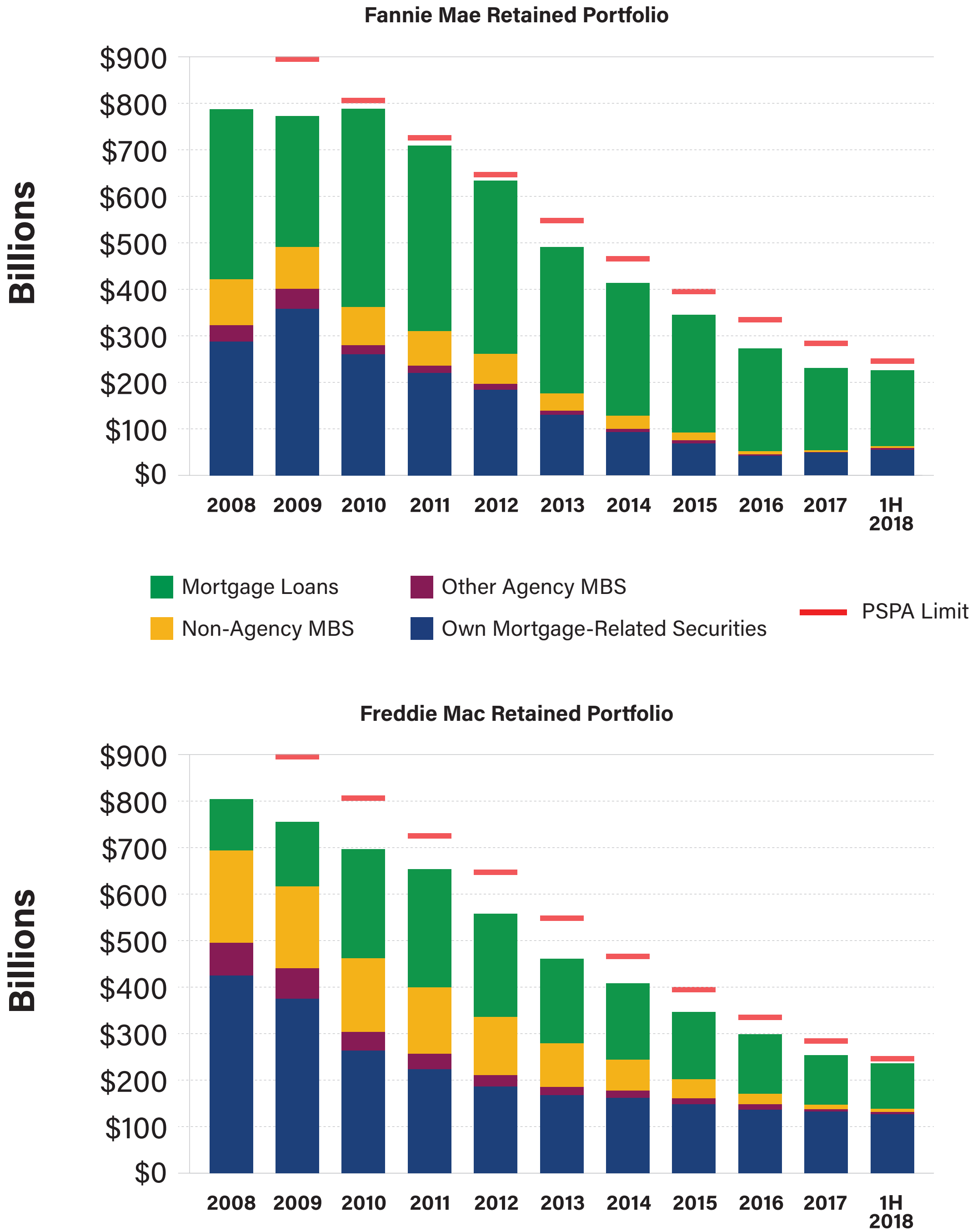
FHFA believes that combining the two markets into a single UMBS market will increase the tradeable supply of existing TBA-eligible MBS and thereby enhance liquidity in the housing finance market. The UMBS will share common features and disclosures and may be issued and guaranteed by either Enterprise. FHFA has worked with the Enterprises to develop the UMBS so that this new security can trade in one, common, and equally liquid secondary mortgage market regardless of which Enterprise is the issuer. 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 and has issued a proposed rule that would codify in federal regulation alignment requirements to assure market participants that, regardless of which Enterprise is the issuer, UMBS will be sufficiently similar to trade in one integrated secondary mortgage market.

2. Retained Portfolios

During conservatorship, each Enterprise has been required to reduce the overall size of its retained portfolio and to limit its ongoing use of the portfolio to support core activities of its single-family and multifamily businesses. FHFA has required the Enterprises to develop plans to reduce their retained portfolios and meet the annual cap imposed by the PSPA between the Enterprise and the Treasury Department and the $250 billion PSPA cap applicable on December 31, 2018.

In 2017, Fannie Mae and Freddie Mac reduced their retained mortgage investment portfolios appropriately and, as a result, each Enterprise met the December 31, 2017 PSPA retained portfolio cap limit of $288 billion. The PSPA retained portfolio cap requires the Enterprises to wind down their portfolios by 15 percent each year until they reach $250 billion by the end of 2018. As of December 31, 2017, Fannie Mae's retained portfolio balance was $253 billion, and Freddie Mac's was $231 billion. Figure 7 shows the Enterprises' retained portfolio reductions from 2008 to 2018. Both Enterprises are also now below the $250 billion cap for year-end 2018.

Figure 7: Enterprises' Retained Portfolio Reduction 2008 – 2018



Source: Fannie Mae and Freddie Mac

3. Legal Actions: The Nomura Case

FHFA's most recent legal action as conservator for the Enterprises was the Nomura case. The Nomura case was tried in the United States District Court for the Southern District of New York in March 2015 and a favorable decision resulted in which the court ordered rescission of the bonds for over $806 million, plus attorneys' fees. Nomura appealed that verdict. Arguments were held before the U.S. Court of Appeals for the Second Circuit in November 2016. On September 28, 2017, the Second Circuit affirmed the trial court's verdict in its entirety. The Second Circuit subsequently denied rehearing the case. Nomura and certain individual defendants petitioned the U.S. Supreme Court for a writ of certiorari on March 12, 2018. The U.S. Supreme Court denied the petition on June 25, 2018, and the verdict has been paid.

FHFA RECOVERS $25 BILLION FOR TAXPAYERS

In 2011, FHFA, as conservator for the Enterprises, pursuant to its duty to preserve and conserve Enterprise assets, filed lawsuits against 18 financial institutions, certain of their officers, and various unaffiliated lead underwriters. The suits alleged violations of federal and state securities laws and common law in the sale of residential Private-Label Mortgage-Backed Securities (PLS) to the Enterprises. The 18 complaints reflected FHFA's conclusion that significant portions of the losses that Fannie Mae and Freddie Mac incurred on PLS were attributable to misrepresentations and other improper actions by the firms and individuals named as defendants in the lawsuits. As of June 2018, all of these matters were successfully settled. FHFA has collected approximately $25 billion in recoversies for the Enterprises in connection with the 18 PLS lawsuits.

4. Real Estate Mortgage Investment Conduit Structure for CRTs

In 2017, both Enterprises announced plans for a proposed new CRT structure under which CRT debt issuance transactions would be issued from a bankruptcy-remote trust that qualifies as a Real Estate Mortgage Investment Conduit (REMIC), instead of the Enterprises issuing the notes. This structure would be made possible by the Enterprises taking a REMIC tax election on the underlying single-family loans that are then securitized into MBS. CRT transactions under the new bankruptcy-remote trust structure would eliminate timing mismatch of the CRT coverage between the accounting recognition of credit losses and the accounting recognition of the benefit to the Enterprises. By qualifying as a REMIC, the proposed structure is expected to be more attractive to domestic real estate investment trusts and foreign investors.

Effective May 1, 2018, Fannie Mae began making a REMIC tax election on a majority of single-family mortgages that are securitized into MBS. Fannie Mae is aggregating mortgages with the intent to issue a Connecticut Avenue Securities (CAS) REMIC credit risk transfer transaction in the fourth quarter of 2018, subject to market conditions.

Effective July 2018, Freddie Mac began making a REMIC tax election on a majority of loans securitized into participation certificates (PCs). Freddie Mac does not intend to issue a REMIC transaction until early 2019.

CREDIT RISK SHARING TRANSACTIONS

SINGLE-FAMILY—In 2012, FHFA initiated a strategic plan to develop a program of credit risk transfer intended to reduce the Enterprises' overall risk and, therefore, the risk they pose to taxpayers. In 2017, the Enterprises transferred risk on $689 billon of unpaid principal balance (UPB) with a total Risk in Force (RIF) of $20.6 billion. Debt issuances, which include Freddie Mac's Structured Agency Credit Risk (STACR) and Fannie Mae's Connecticut Avenue Securities (CAS), accounted for 69 percent of RIF. The Enterprises' insurance/reinsurance products, Agency Credit Insurance Structure, for Freddie Mac, and Credit Insurance Risk Transfer, for Fannie Mae, accounted for 22 percent of RIF. From the beginning of the Enterprises' Single-Family CRT programs in 2013 through the end of June 2018, Fannie Mae and Freddie Mac have transferred a portion of credit risk on $2.5 trillion of UPB, with a combined RIF of about $81 billion, or 3.2 percent of UPB. Credit risk transfer is now a regular part of the Enterprises' business. The Enterprises are currently transferring a meaningful portion of credit risk on at least 90 percent of the UPB of newly acquired single-family mortgages in loan categories targeted for risk transfer. These loan categories include: non-HARP and non-high LTV refinance, fixed-rate mortgages with terms greater than 20 years and LTVs above 60 percent. These loans constitute about half of all Enterprise single-family loan acquisitions. FHFA will continue to encourage the Enterprises to engage in meaningful credit risk transfer transactions through specific goals in the annual Conservatorship Scorecard and by working closely with Enterprise staff to develop and evaluate credit risk transfer structures.

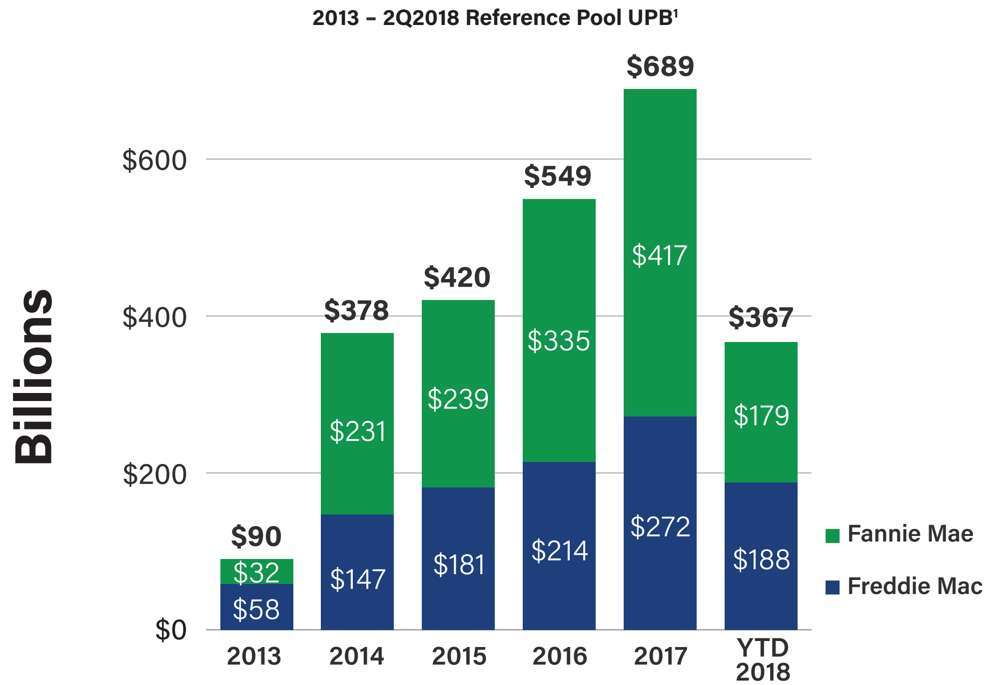
In 2017, Freddie Mac expanded its STACR program to a new series of STACR debt notes, called STACR HARP (SHRP). SHRP notes are backed by loans that meet HARP eligibility criteria and have mark to market LTV ratios between 60 and 150 percent, allowing Freddie Mac to transfer risk on some of its most seasoned loans. Both Enterprises also executed front-end CRT transactions transferring risk at the time the mortgages were acquired with forward commitments and utilizing reinsurers and affiliates of mortgage insurance companies. Figure 8 shows single-family mortgage CRT activity from 2013 to the second quarter of 2018.

MULTIFAMILY—Transferring credit risk to the private sector is also an integral part of the multifamily business model for both Enterprises. In 2017, over 99 percent of the targeted multifamily new acquisitions by the Enterprises involved a transfer of credit risk to private capital.

In Fannie Mae's multifamily program - known as the Delegated Underwriting and Servicing Program (DUS) - lenders share in loan-level credit losses in two ways: 1) they bear losses up to the first five percent of the UPB of the loan and share in remaining losses up to a prescribed limit, or 2) they share up to one-third of the losses on a pro rata basis. In 2017, Fannie Mae transferred a portion of credit risk on over $65.8 billion of its multifamily production through the DUS program. Fannie Mae also completed a non-DUS multifamily CRT transaction during 2017 in which it transferred to the reinsurance industry a portion of the credit risk it retained from DUS transactions on approximately $8.1 billion of loans. Fannie Mae plans to continue to engage in additional non-DUS multifamily CRT transactions.

Since 2010, Freddie Mac has securitized senior-subordinate notes through its K-Deals to transfer credit risk on nearly 90 percent of the UPB of its multifamily loan acquisitions. K-Deals transfer most of the credit risk to investors through subordinated bonds that are structured to absorb expected and unexpected credit risk. In addition, in 2017 Freddie Mac continued to pursue other approaches to transfer credit risk on the remainder of its multifamily mortgages, including the Whole Loan Invesetment Fund, a vehicle to transfer risk on hard to securitize loans. The first Whole Loan transaction transferred credit risk on loans with $591 million of UPB. Additionally, Freddie Mac engaged in Multifamily Aggregation Risk Transfer Certificates (KT Certificates), which transferred a portion of the credit risk associated with multifamily mortgage loans awaiting securitization in Freddie Mac K-Deals. Freddie Mac executed two guaranteed structured pass-through KT Certificates in 2017, transferring to investors a portion of the credit risk on multifamily loans with UPB of $2 billion. Freddie Mac also completed a Structured Credit Risk Notes transaction in 2017, which transferred a portion of the credit risk on multifamily loans with UPB of $1 billion.

Figure 8: Enterprises' Single-Family Credit Risk Transfer Activity 2013 – 2Q2018



[1] The UPB shown in the table is 100 percent of each associated reference pool at issuance.

RESOURCE MANAGEMENT

1. Diversity and Inclusion Initiatives

FHFA has continued to develop and issue guidance documents on advancing diversity to include minorities, women, and individuals with disabilities, as well as more 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 2018, these activities included:

- Hosting a Joint OMWI Technical Assistance Conference in San Antonio, Texas that provided training to over 200 minority- and women-owned businesses on how to obtain federal contracts and other financial awards, as required by The Dodd–Frank Wall Street Reform and Consumer Protection Act;
- Continuing to expand FHFA's network of potential minority- and women-owned business vendors that are interested in doing business with FHFA through diversity supplier outreach and engagement efforts across the United States;
- Sponsoring Diversity and Inclusion Training at FHFA's Annual Management Conference that focused on harassment in the workplace.
- Holding an OMWI Open House to increase awareness among FHFA employees of the roles and responsibilities of OMWI in its efforts to advance diversity and inclusion within FHFA and at the regulated entities.
- Hosting FHFA's first Industry Day to help ensure a diverse and competitive supplier base, and provide economic opportunities to the minority- and women-owned businesses that win those contracts; and
- Implementing a Good Faith Effort policy and review process to determine whether contractors and subcontractors are ensuring the fair inclusion of women and minorities in their workforce.

2. Audit of the FHFA Financial Statements

On November 15, 2018, FHFA received an unmodified audit opinion on its FY 2018 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 10th consecutive unmodified audit opinion that FHFA has earned. The audited financial statements are presented beginning on page 61.

3. Federal Information Security Modernization Act of 2014

In October 2018, FHFA received a Federal Information Security Modernization Act of 2014 (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.

4. Certificate of Excellence in Accountability Reporting Award

The Association of Government Accountants (an independent, nonprofit, non-governmental organization) awarded FHFA the Certificate of Excellence in Accountability Reporting (CEAR) Award for its FY 2017 Performance and Accountability Report (PAR). This is the 10th 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.

Summary of Performance Measures

For FY 2018, FHFA identified 25 measures to help evaluate and assess its progress toward the goals stated in its Fiscal Years 2018–2022 Strategic Plan. As shown in Table 6, FHFA met 22 of 25 performance measures. For a detailed examination of the measures, please refer to the Performance Section on pages 44-57. FHFA also publishes its performance information online.[23]

Table 6: Summary of Performance Measures

	Strategic Goal 1: Ensure Safe and Sound Regulated Entities	FY 2018 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 the commencement of examinations for each of the FHLBanks and prior to January 31 for the Enterprises	Met
1.1.2	Deputy Director will approve reports of examination for regulated entities within 90 days of completing examination work for each of the FHLBanks and by March 31 for the Enterprises	Not 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

[23] https://www.performance.gov/

Table 6: Summary of Performance Measures		
1.1.5	Ensure that documentation for completed targeted examinations of the Enterprises is in place and consistent with the Division of Enterprise Regulation 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 FHLBanks and Enterprises on counterparty risk management	Met
Performance Goal 1.3: Require Timely Remediation of Risk Management Weaknesses		
1.3.1	FHFA determines that the regulated entities have satisfactorily addressed safety and soundness Matters Requiring Attention in accordance with agreed upon remediation plans and timeframes	Not Met
	Strategic Goal 2: Ensure Liquidity, Stability, and Access in Housing Finance	FY 2018 Results
Performance Goal 2.1: Ensure Liquidity in Mortgage Markets		
2.1.1	Require the Enterprises to conduct at least one access-to-credit pilot program	Met
Performance Goal 2.2: Promote Stability in the Nation's Housing Finance Markets		
2.2.1	Continue publication of 12 monthly and 4 quarterly FHFA House Price Indices	Met
Performance Goal 2.3: Expand access to housing finance for qualified financial institutions of all sizes in all geographic locations and for qualified borrowers		
2.3.1	FHFA will conduct diversity and inclusion examinations of the Enterprises and the FHLBanks	Met
2.3.2	Issue final rule for Enterprise housing goals for 2018 – 2020	Met
2.3.3	Issue final rule for Federal Home Loan Bank Affordable Housing Program	Not Met

Table 6: Summary of Performance Measures		
	Strategic Goal 3: Manage the Enterprises' Ongoing Conservatorships	FY 2018 Results
Performance Goal 3.1: Preserve and Conserve Assets		
3.1.1	Maintain a qualified board of directors and chief executive officer for each Enterprise to oversee the implementation of conservator objectives	Met
3.1.2	2018 Conservatorship Scorecard for Fannie Mae, Freddie Mac, and Common Securitization Solutions provided to the Enterprises	Met
3.1.3	Conservator decisions on Enterprises' administrative expenses for Calendar Year 2018	Met
3.1.4	Monitor and rate the Enterprises' performance against current Scorecard objectives	Met
3.1.5	Provide timely responses on items submitted to FHFA for conservator decision	Met
Performance Goal 3.2: Reduce Taxpayer Risk from Enterprise Operations		
3.2.1	Oversee reduction in retained portfolios consistent with the Senior Preferred Stock Purchase Agreement target of $288.4 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
Performance Goal 3.3: Build, Implement, and Operate a New Single-Family Securitization Infrastructure and Implement the Single Security Initiative		
3.3.1	Issue a progress report on the state of the Single Security Initiative and the Common Securitization Platform	Met
3.3.2	Enterprise and Common Securitization Solutions (CSS) completion of system-to-system testing of CSS, which is required for implementation of the Single Security Initiative	Met

Table 6: Summary of Performance Measures		
	Resource Management	FY 2018 Results
RM1	FHFA's financial statements' audit receives an unmodified opinion with no material weaknesses and a Federal Information Security Modernization Act of 2014 audit that identifies no significant deficiencies	Met
RM2	Increase the dollar amount of FHFA contracts awarded to minority- and women-owned businesses consistent with legal standards	Met
RM3	Fill active and approved fiscal year 2018 FHFA vacancies	Met

Summary of Key Performance Indicators

One way 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 five key performance indicators shown in Table 7 to measure how well the Agency is meeting its FY 2018 performance measures and the key mission objectives described in the FY 2018 Annual Performance Plan (APP).

Table 7: FY 2018 Key Performance Indicators

	Strategic Goal 1: Ensure Safe and Sound Regulated Entities	FY 18 Results
Performance Goal 1.1: Assess the Safety and Soundness of Regulated Entity Operations		
1.1.2	Deputy Director will approve reports of examination for regulated entities within 90 days of completing examination work for each of the FHLBanks and by March 31 for the Enterprises	Not 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	**FY 18 Results**
Performance Goal 2.1: Ensure Liquidity in Mortgage Markets		
2.3.2	Issue final rule for Enterprise housing goals for 2018 – 2020	Met
	Strategic Goal 3: Manage the Enterprises' Ongoing Conservatorships	**FY 18 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, Implement, and Operate a New Single-Family Securitization Infrastructure and Implement the Single Security Initiative		
3.3.2	Enterprise and Common Securitization Solutions (CSS) completion of system-to-system testing of CSS, which is required for implementation of the Single Security Initiative	Met

Looking Ahead to FY 2019

Highlighted below are some of the ongoing efforts that FHFA will focus on in FY 2019 to fulfill the Agency's statutory responsibilities to ensure the safe and sound operations of the regulated entities and ensure a liquid and efficient national housing finance market.

1. 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 2019, 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.

Two areas of focus for FHFA in FY 2019 include the replacement of the London Interbank Offered Rate (LIBOR) and the ongoing implementation of the current expected credit loss model (CECL).

- **LIBOR Replacement**

The LIBOR is an interest rate benchmark widely used in global markets. There are estimated to be more than $200 trillion of financial contracts such as loans, derivatives, bonds and floating rate notes, short-term instruments, and securitizations referencing U.S. dollar LIBOR. Fannie Mae, Freddie Mac, and the FHLBanks all regularly engage in financial instruments that reference LIBOR.

In 2017, the head of the United Kingdom's Financial Conduct Authority, which oversees and regulates the production of LIBOR, issued warnings that LIBOR may not be sustained past 2021. In the U.S., the Alternative Reference Rates Committee (ARRC), consisting of major financial sector firms and trade associations, was convened to select an alternative and more robust reference rate. In June 2017, the ARRC selected the Secured Overnight Financing Rate (SOFR) as the alternative to the U.S. dollar LIBOR. The Federal Reserve began publishing SOFR in April 2018, and the Chicago Mercantile Exchange began hosting trading in three-month SOFR futures in May 2018.

In 2018, the ARRC was reconstituted to help facilitate the voluntary adoption of SOFR. The FHLBanks, Fannie Mae, and Freddie Mac were added as members of the ARRC in 2018 and have been participating in a number of ARRC working groups. FHFA was selected to serve as an ex officio member of the ARRC in 2018.

FHFA is working with its regulated entities on a number of fronts as they monitor exposure to LIBOR and develop transition plans to lower their exposure in a safe and sound manner as the SOFR market develops. On July 26, 2018, Fannie Mae issued the market's first-ever floating rate notes with prices linked to SOFR.

- **CECL Implementation**

In June 2016, the Financial Accounting Standards Board issued Accounting Standards Update (ASU) 2016-13[24] that requires significant changes to how companies record their loan loss reserves in the financial statements. The ASU is effective on January 1, 2020 with the election to early adopt 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 record a loss reserve only when it is probable that losses have been incurred and 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. Under the new ASU, companies will set aside a larger amount of funds to cover for expected future credit losses, which will be reflected in institutions' financial statements. FHFA is monitoring the implementation of the ASU at its regulated entities.

[24] https://www.fasb.org/jsp/FASB/Document_C/DocumentPage?cid=1176168232528&acceptedDisclaimer=true

2. 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. Now in their 11th year, the conservatorships are unprecedented in their size, complexity, and duration.

FHFA will continue to set the strategic direction of Fannie Mae and Freddie Mac. FHFA plans to publish its 2019 Scorecard in December 2018. In conjunction with FHFA's 2014 Conservatorship Strategic Plan, the annual Scorecard sets out FHFA's conservatorship expectations for the Enterprises.

FHFA has announced June 3, 2019 as the target date for implementing Release 2 of the CSP and initial issuance by each Enterprise of a new UMBS. Upon implementation, both Enterprises will use the CSP as the operational and technical platform through which they issue and administer their UMBS.

To implement the Single Security Initiative, the Enterprises and CSS have developed the CSP in two parts. Freddie Mac and CSS successfully implemented Release 1 of the CSP on November 21, 2016. Since then, Freddie Mac has used CSS and the Data Acceptance, Issuance Support, and Bond Administration modules of the CSP to routinely issue and settle approximately 1,000 new securities—representing about $59 billion in UPB—each month, and to perform monthly bond administration functions related to 257,000 securities backed by approximately 10 million loans with approximately $1.7 trillion in unpaid principal outstanding.

The Enterprises and CSS continue to engage in the significant testing required to successfully launch Release 2 of the CSP and Single Security Initiative. Release 2 will allow both Enterprises to use the above-listed 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. With the successful launch of Release 2 on June 3, 2019, CSS and the CSP will be performing bond administration functions for about 900,000 securities backed by nearly 26 million loans.

Successful implementation of these two major initiatives of the conservatorships will mark the culmination of many years of collaboration among the Enterprises, CSS, FHFA, and market participants.

FHFA will continue to responsibly carry out its obligations as regulator and conservator of the Enterprises on these and other initiatives. 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.

3. Duty to Serve Implementation and Evaluation

In 2019, FHFA will have the opportunity to complete its first annual evaluation of the Enterprises' DTS performance. This evaluation will cover the Enterprises' activities to serve each of the three underserved markets identified in the HERA – manufactured housing, affordable housing preservation, and rural housing. The evaluations will be conducted pursuant to FHFA's regulation and Evaluation Guidance.

FHFA has taken a number of steps to prepare for these evaluations, with the objective of establishing processes and schedules to complete these evaluations in a comprehensive and timely manner. During 2019, FHFA will continue to receive information on DTS performance data from both Enterprises on a quarterly basis. FHFA staff will continue to monitor and assess the data results against the objectives established in each Enterprise's Underserved Markets Plan. The Enterprises will submit a 2018 annual report by March 2019.

FHFA will evaluate the Enterprises' performance using the three-step evaluation process detailed in the Agency's Evaluation Guidance. FHFA will award a final rating of Fails, Minimally Passing, Low Satisfactory, High Satisfactory, or Exceeds to the Enterprise for each underserved market, based on the impact of the review findings and extra credit assessments. The Agency will submit its DTS evaluations and ratings to Congress in its Annual Housing Report to Congress in October 2019.

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 2018 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 2018 and FY 2017. Complete financial statements and notes for FY 2018 and FY 2017, along with GAO's audit report, appear on pages 61-89.

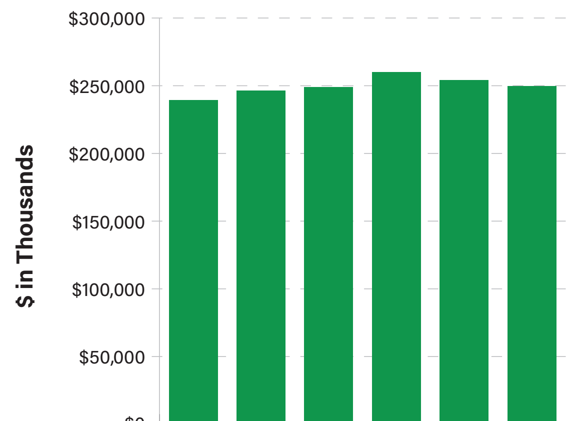
HOW FHFA IS FUNDED

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. 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 $248.3 million during FY 2018, which included a $44.4 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 2014 to FY 2018 is presented in Figure 9.

Figure 9: Trend in Revenue FY 2014 – FY 2018



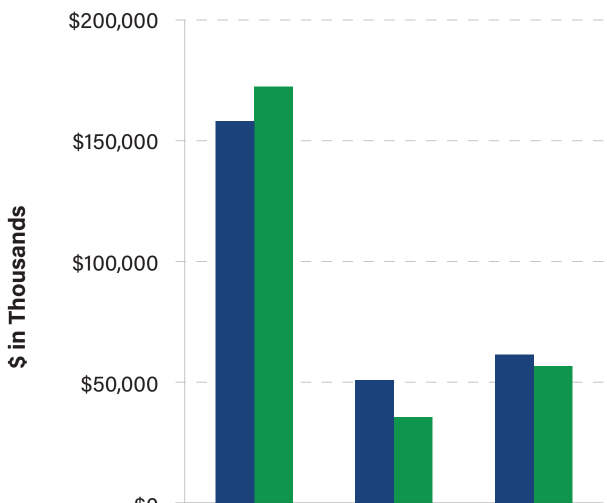
	2014	2015	2016	2017	2018	5 Year Average
Revenue	$239,258	$246,266	$248,838	$260,216	$254,150	$249,746

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 2018-2022 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 and guide program offices in carrying out FHFA's mission.

FHFA has a Resource Management Strategy, the cost of 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 2018 and FY 2017 is presented in Figure 10.

Figure 10: Gross Costs by Strategic Goal FY 2018 – FY 2017



	Safety and Soundness	Liquidity, Stability, and Access	Conservatorship
FY 2018	$158,186	$50,879	$61,307
FY 2017	$172,404	$35,537	$56,724

Safety and Soundness is FHFA's FY 2018 largest program area at $158.2 million or 58 percent of total gross costs as compared to 65 percent in FY 2017. 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, 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 $61.3 million or 23 percent of total gross costs (FY 2017 total was 21 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. FHFA has provided for Enterprise management and the Boards of Directors to perform the functions of day-to-day operations.

Liquidity, Stability, and Access is the third largest program area at $50.9 million or 19 percent of total gross costs (FY 2017 total was 14 percent). For both the FHLBank System and the Enterprises, FHFA has the statutory obligation to foster "liquid, efficient, competitive, and resilient national housing finance markets," while ensuring that the regulated entities meet their fundamental safety and soundness obligations. 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 STATEMENTS 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. A comparison of the FY 2018 and FY 2017 Balance Sheets is displayed in Table 8. Total Net Position decreased 20 percent due to an increase of $3.0 million in Imputed Costs related to increased cost factors and employee salaries, and a decrease of $11.8 million in Net Cost of Operations related to the termination of the Consumer Financial Protection Bureau lease and a reduction in assessments.

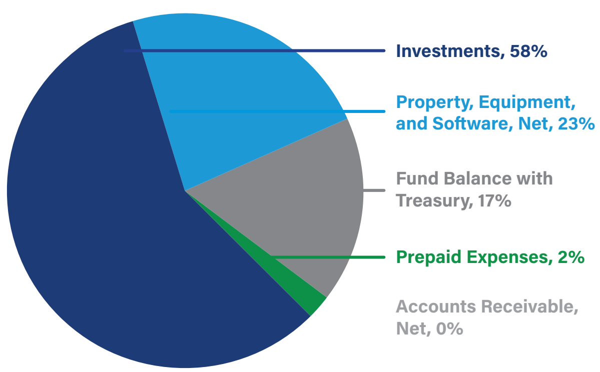
Table 8: FHFA Condensed Balance Sheets
(dollars in thousands)

	FY 2018	FY 2017	Percent Change
Total Assets	$96,215	$105,338	-9%
Total Liabilities	$52,710	$53,286	-1%
Total Net Position	$43,505	$52,052	-20%

ASSETS

For FY 2018, key assets include: Investments (58 percent), Property, Equipment and Software, Net (23 percent) and Fund Balance with Treasury (17 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 11).

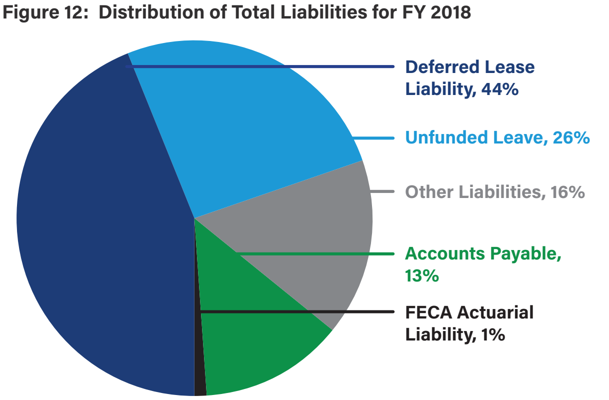
Figure 11: Distribution of Total Assets for FY 2018



LIABILITIES

The major liabilities include Deferred Lease Liability (44 percent) and Unfunded Leave (26 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, TX). The second largest liability, Unfunded Leave, amounted to approximately $13.5 million (see Figure 12). Unfunded leave is the amount of annual leave earned but not used by FHFA employees.

Figure 12: Distribution of Total Liabilities for FY 2018



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 2018, 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 FHFA's internal controls, Enterprise Risk Management practices, and the audit follow-up process. The ECIC provides recommendations to the FHFA Director regarding assurance statements included in the Agency's Performance Accountability Report as required by 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 teams to assess the internal controls.

During FY 2018, 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*[25] (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, 2018 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 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 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 Service 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 Service performance of accounting services for the

[25] http://www.gao.gov/products/GAO-14-704G

Agency. A financial oversight document outlines the assignment of activities between FHFA and the Bureau of the Fiscal Service. FMS includes manual and automated procedures and processes from the initiation of a transaction to the issuance of financial reports. FMS meets the requirements of the Safety and Soundness Act Section 1316 (g) (3). FHFA and FHFA OIG also use the Interior Business Center (a service provider within the 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 MODERNIZATION ACT OF 2014

FISMA requires all federal agencies to develop and implement an agency-wide Information Security Program to protect its information and systems, including those provided or managed by another agency, contractor, or other source. In addition, FISMA mandates that agencies undergo an annual independent evaluation of 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 2018 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 and practices were operating effectively, in compliance with the FISMA legislation and applicable OMB 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 and practices. FHFA completed remediation actions to close prior-year Information Security issues identified in the FY 2017 FHFA Privacy Program audit and ongoing improvement to its Identity and Access Management processes.

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 firm that conducted FHFA's audit. For the FHFA OIG information security program, the external auditor concluded that the FHFA OIG program and practices were operating effectively, in compliance with FISMA, OMB guidance, and NIST guidance and demonstrated effective implementation of security controls in all areas tested as part of the FY 2018 IG FISMA Reporting Metrics. This year's audit resulted in no findings. The external auditor noted that FHFA OIG continued to improve its security program as evidenced by enhancements to its processes and capabilities and the resolution of prior-year issues.

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 during the FY 2019 FISMA audit.

PROMPT PAY

The Prompt Payment Act requires federal agencies to make timely payments to vendors and improve the cash management practices of the government by encouraging the use of discounts when they are justified. This also means that FHFA must pay its bills within a narrow window of time. In FY 2018, the dollar amount subject to prompt payment was $70.2 million. The amount of interest penalty paid in FY 2018 was $0.

DIGITAL ACCOUNTABILITY AND TRANSPARENCY ACT OF 2014

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

FHFA Audits and Evaluations

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

The FHFA 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,[26] 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, which is presented on pages 94-102 of this PAR.

In FY 2018, FHFA responded to a variety of reports including 26 OIG reports and 1 GAO report, which are listed in Table 9.

Table 9: Audits and Evaluations			
FHFA OIG Reports			
1	AUD-2018-001	Performance Audit of the Federal Housing Finance Agency's Information Security Program Fiscal Year 2017	10/17/2017
2	AUD-2018-002	Performance Audit of the Federal Housing Finance Agency Office of Inspector General's information Security Program Fiscal Year 2017	10/17/2017
3	EVL-2018-001	Corporate Governance: Review and Resolutions of Conflicts of Interest Involving Fannie Mae's Senior Executive Officers Highlight the Need for Closer Attention to Governance issues by FHFA	01/31/2018
4	COM-2018-001	Compliance Review of FHFA's Review Process for Transfers of Enterprise Mortgage Servicing Rights	02/06/2018
5	AUD-2018-003	Audit of FHFA's Oversight of Fannie Mae's Compliance with the Required Risk Mitigants of Automated Underwriting Mortgage Insurance, and Homeownership Education for its Purchases of Mortgages with a 97% LTV	03/08/2018
6	AUD-2018-004	Audit of FHFA's Oversight of Freddie Mac's Compliance with the Required Risk Mitigants of Automated Underwriting Mortgage Insurance, and Homeownership Education for its Purchases of Mortgages with a 97% LTV	03/08/2018
7	AUD-2018-005	FHFA Completed its Planned Procedures for a 2015 Representation and Warranty Framework Targeted Examination at Fannie Mae, but Did Not Document a Change to Planned Testing	03/13/2018
8	AUD-2018-006	FHFA Completed its Planned Procedures for a 2016 Representation and Warranty Framework Targeted Examination at Freddie Mac, but the Supporting Workpapers Did Not Sufficiently Document the Examination Work	03/13/2018
9	COM-2018-002	FHFA Should Address the Potential Disparity Between the Statutory Requirements for Fraud Reporting and its Implementing Regulation and Advisory Bulletin	03/23/2018

[26] The Federal Emergency Management Agency works with FHFA's Office of Facilities Operations Management to ensure FHFA is prepared for emergencies both natural and man-made.

Table 9: Audits and Evaluations			
10	COM-2018-003	Update on FHFA's Implementation of its Revised Procedures for Overseeing the Enterprises' Single-Family Mortgage Underwriting Standards and Variances	03/27/2018
11	EVL-2018-002	FHFA Requires the Enterprises' Internal Audit Functions to Validate Remediation of Serious Deficiencies but Provides No Guidance and Imposes No Preconditions on Examiners Use of that Validation Work	03/28/2018
12	EVL-2018-003	FHFA's Adoption of Clear Guidance on the Review of the Enterprises Internal Audit Work When Assessing the Sufficiency of Remediation of Serious Deficiencies Would Assist FHFA Examiners	03/28/2018
13	AUD-2018-007	As Allowed by its Standard, FHFA Closed Three Fannie Mae Cybersecurity MRAs after Independently Determining the Enterprise Completed its Planned Remedial Actions	03/28/2018
14	AUD-2018-008	FHFA Failed to Ensure Freddie Mac's Remedial Plans for a Cybersecurity MRA Addressed All Deficiencies; as Allowed by its Standard, FHFA Closed the MRA after Independently Determining the Enterprise Completed its Planned Remedial Actions	03/28/2018
15	AUD-2018-009	FHFA Complied with Applicable Improper Payment Requirements During Fiscal Year 2017	04/26/2018
16	COM-2018-004	Compliance Review of FHFA's Process for Making Changes to Conservatorship Scorecard Targets	06/20/2018
17	OIG-2018-001	Administrative Review of a Potential Conflict of Interest Matter Involving a Senior Executive Officer at an Enterprise	07/26/2018
18	AUD-2018-010	DBR's Safety and Soundness Quality Control Reviews Were Conducted in Compliance with FHFA's Standard During the 2017 Examination Cycle but DBR's Community Investment Quality Control Reviews Were Not	08/17/2018
19	COM-2018-005	Compliance Review of FHFA's Communication of Serious Deficiencies to the Enterprises' Boards of Directors	09/05/2018
20	COM-2018-006	FHFA's Housing Finance Examiner Commissioning Program: $7.7 Million and Four Years into the Program, the Agency has Fewer Commissioned Examiners	09/06/2018
21	AUD-2018-011	Audit of FHFA's Fiscal Year 2017 Government Purchase Card Program Found Several Deficiencies with Leased Holiday Decorations, and the Need for Greater Attention by Cardholders and Approving Officials to Program Requirements	09/06/2018
22	OIG-2018-004	Consolidation and Relocation of Fannie Mae's Northern Virginia Workforce	09/06/2018
23	EVL-2018-004	FHFA Should Re-evaluate and Revise Fraud Reporting by the Enterprises to Enhance its Utility	09/24/2018
24	AUD-2018-012	Audit of FHFA's Oversight of the Enterprises' Affordable Housing Set-Asides and Allocations	09/24/2018

Table 9: Audits and Evaluations			
25	AUD-2018-013	FHFA Needs to Strengthen Controls over its Employee Transportation Benefits Programs Audit Report	09/25/2018
26	AUD-2018-014	Audit of FHFA's Fiscal Year 2017 Government Travel Card Program: FHFA Needs to Emphasize Certain Program Requirements to Travelers and Approving Officials	09/25/2018
GAO Reports			
1	GAO-18-166R	Financial Audit: Federal Housing Finance Agency's Fiscal Years 2017 and 2016 Financial Statements	11/15/2017

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 2018.

Table 10: Management Report on Final Action on Audits with Disallowed Costs for FY 2018			
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	1[27]	$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

[27] FHFA disagreed with the $7.7 million in questioned costs that OIG cited from their report, *FHFA's Housing Finance Examiner Commissioning Program: $7.7 Million and Four Years into the Program, the Agency has Fewer Commissioned Examiners* (COM-2018-006).

Table 11: Management Report on Final Action on Audits with Recommendations to Put Funds to Better Use for FY 2018			
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	1[28]	$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 2018		
REPORT NO. AND ISSUE DATE	RECOMMENDATION	MANAGEMENT ACTION
Performance Audit of the Federal Housing Finance Agency’s Privacy Program (AUD-2017-007, issued August 30, 2017)	Recommendation 1, Finding 3	Actions are expected to be completed by June 30, 2019.

[28] FHFA disagreed with $776.3 million in funds put to better use that OIG cited from their report, *Consolidation and Relocation of Fannie Mae’s Northern Virginia Workforce* (OIG-2018-004).

FHFA Statement of Assurance

FEDERAL HOUSING FINANCE AGENCY
Office of the Director

October 15, 2018

Federal Managers' Financial Integrity Act
Statement of Assurance
Fiscal Year 2018

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, 2018 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, 2018 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, 2018.

Sincerely,

Melvin L. Watt

Melvin L. Watt

PERFORMANCE SECTION

ARCHITECTURAL STYLE

RANCH

Originating in California in the 1930's, the rambling Ranch Style came to dominate residential building in the 1950's and 60's. The Ranch is an asymmetrical, one-story house with a low-pitched roof and wide overhanging eaves that echo Craftsman and Prairie Styles. Most have traditional detailing like shutters or decorative iron porch roof supports loosely based on English Spanish Colonial precedents. Partially enclosed courtyards or patios are also borrowed from the Spanish Colonial revival. Distinctive features include attached garages, huge picture windows at the front of the house and sliding glass doors at the back leading to a private terrace or deck that replaces the street-oriented front porch or stoop.

The Performance Section provides information on the 25 performance measures established in the Agency's Annual Performance Plan (APP) for FY 2018. These performance measures align with the strategic goals outlined in FHFA's Strategic Plan for Fiscal Years 2018–2022[29] and include three resource management performance measures. Figure 13 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 2018. Further information about federal performance management is available at performance.gov.

Figure 13: 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 2018, 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 part of the basis for developing this section of the PAR. FHFA's senior leadership reviewed these reports quarterly to monitor progress toward achieving planned performance levels. See Figure 14 for an outline of FHFA's performance planning and review process.

[29] https://www.fhfa.gov/AboutUs/Reports/Pages/FHFA's-Strategic-Plan-Fiscal-Years-2018-to-2022-.aspx

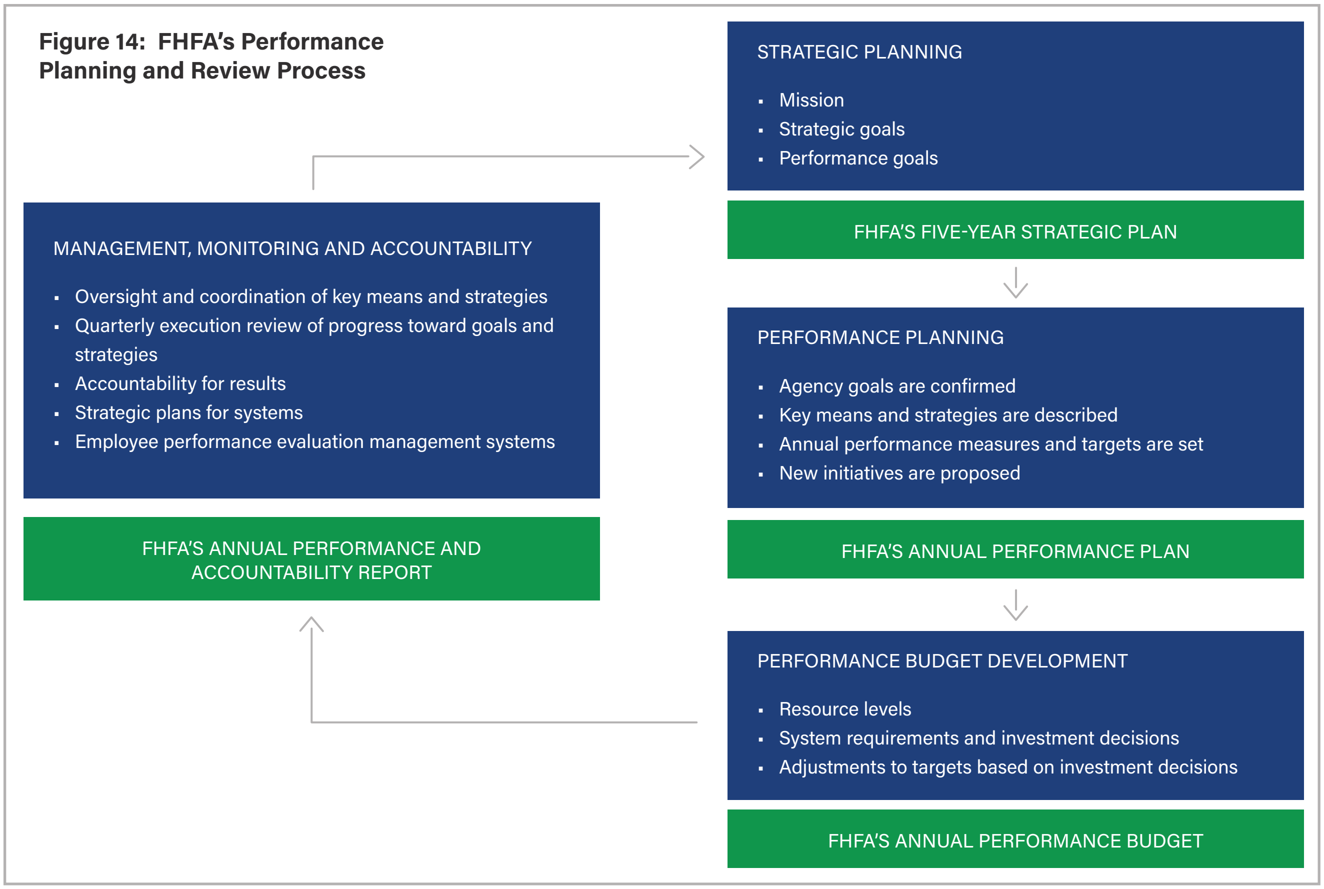


Figure 14: FHFA's Performance Planning and Review Process

Validation and Verification of Performance Data

To ensure that the information reported in FHFA's FY 2018 PAR 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 performance tracking and verification procedures to verify and validate the data provided to ensure the information provided is accurate and complete.

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	FY 2018 Target	FY 2018 Results
1.1.1 Ensure that written risk-based supervisory strategies and examination plans are in place prior to the commencement of examinations for each of the FHLBanks and prior to January 31 for the Enterprises	Met	Met	Met	Met	100% of the time	Met
1.1.2 Deputy Director will approve Reports of Examination for regulated entities within 90 days of completing examination work for each of the FHLBanks and by March 31 for the Enterprises	Met	Not Met	Met	Met	100% of the time	Not Met
1.1.3 Ensure a quarterly market value of equity-to-par ratio greater than or equal to one for each FHLBank	Met	Met	Met	Met	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	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 Rregulation examination guidance	N/A	N/A	N/A	Met	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.

The Enterprises are examined on a continuous basis by FHFA examiners located onsite at each Enterprise. In FY 2018, supervisory strategies and examination plans, which outline targeted examinations and ongoing monitoring activities for each Enterprise for the coming year, were approved by January 31.

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 defined beginning and end dates. In FY 2018, 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.

Enterprises: FHFA did not meet this measure's target of approving the ROE for each Enterprise by March 31. The 2017 ROE for Fannie Mae was approved on March 23 and the 2017 ROE for Freddie Mac was approved in April 2018.

FHLBanks: FHFA sends each FHLBank an ROE following its examination. All ROEs sent to the FHLBanks during FY 2018 were approved within the target of 90 days after the respective FHLBank's examination exit meeting.

MEASURE 1.1.3

The market value of equity (MVE) to par value of capital stock (PVCS) 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 2018, all FHLBanks reported that their respective MVE was greater than the par value of their capital stock.

MEASURE 1.1.4

During each quarter of FY 2018, 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, and FHFA communicated the quarterly classifications by the end of the following quarter.

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 2018, QC completed reviews for 100 percent of completed targeted examinations. For FY 2019, FHFA is refining how this measure is calculated.

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	FY 2018 Target	FY 2018 Results
1.2.1 Issue guidance to the FHLBanks and Enterprises on counterparty risk management	N/A	N/A	N/A	N/A	FY 2018	Met

PERFORMANCE RESULTS

MEASURE 1.2.1

FHFA released Advisory Bulletin AB 2018-08 (Oversight of Third-Party Relationships) on September 28, 2018. It articulates the Agency's supervisory expectations for management of risks associated with third-party provider relationships. The advisory bulletin applies to Fannie Mae, Freddie Mac, the FHLBanks, and the Office of Finance.

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	FY 2018 Target	FY 2018 Results
1.3.1 FHFA determines that the regulated entities have satisfactorily addressed safety and soundness Matters Requiring Attention in accordance with agreed upon remediation plans and timeframes	N/A	Met	Not Met	Not Met	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 83 percent of those MRAs validated by each Enterprises' internal audit functions and reviewed by FHFA had been satisfactorily addressed. FHFA did not meet the target for this performance goal.

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 FHLBank.

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 2018, 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, 96 percent of MRAs passed FHFA's assessment, above the target rate of 90 percent.

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	FY 2018 Target	FY 2018 Results
2.1.1 Require the Enterprises to conduct at least one access-to-credit pilot program	N/A	N/A	N/A	N/A	FY 2018	Met

PERFORMANCE RESULTS

MEASURE 2.1.1

Each Enterprise implemented access-to-credit pilots during FY 2018. Fannie Mae conducted a pilot with Loftium and Umpqua Bank to provide down payment funds to borrowers purchasing a primary residence in the Seattle area. In exchange, the borrowers agree to split supplemental income earned from Airbnb by renting out extra bedroom(s) for a set period. Freddie Mac launched a pilot with LoanBeam that uses technology to simplify the processes associated with documenting income, particularly for self-employed borrowers. As of August 31, Loftium had provided down payments to 16 borrowers under Fannie Mae's pilot and Freddie Mac has engaged with a handful of lenders to begin testing the integration with LoanBeam's self-employed technology.

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	FY 2018 Target	FY 2018 Results
2.2.1 Continue publication of 12 monthly and 4 quarterly FHFA House Price Indices	N/A	Met	Met	Met	FY 2018	Met

PERFORMANCE RESULTS

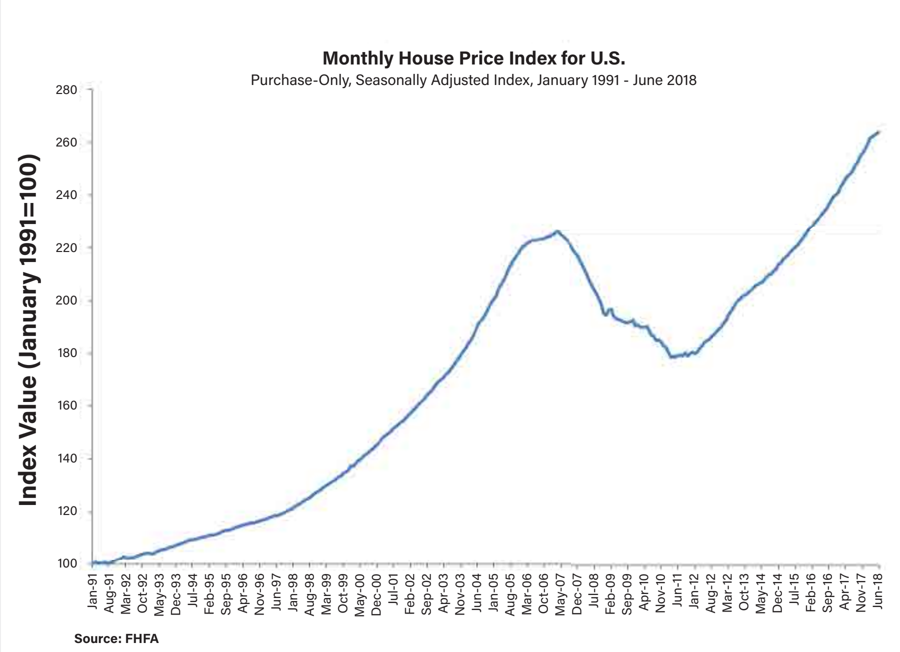
MEASURE 2.2.1

FHFA published 12 monthly and 4 quarterly House Price Index (HPI) releases during FY 2018. HPI releases are available on the Plans and Reports[30] page of FHFA's website.

[30] https://www.fhfa.gov/AboutUs/reportsplans

HOUSE PRICE INDEX SUMMARY

The House Price Index (HPI) is a broad measure of the movement of single-family house prices. It serves as a timely, accurate indicator of house price trends at various geographic levels. The figure to the right shows the HPI from 1991 to 2018.



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	FY 2018 Target	FY 2018 Results
2.3.1 FHFA will conduct diversity and inclusion examinations of the Enterprises and the FHLBanks	N/A	N/A	N/A	N/A	10 examinations during FY 2018	Met
2.3.2 Issue final rule for Enterprise housing goals for 2018 – 2020	N/A	N/A	N/A	N/A	FY 2018	Met
2.3.3 Issue final rule for FHLBanks' Affordable Housing Program	N/A	N/A	N/A	N/A	FY 2018	Not Met

PERFORMANCE RESULTS

MEASURE 2.3.1

FHFA met this target by completing and documenting 14 diversity and inclusion examinations in accordance with FHFA's examination cycle for the Enterprises and the FHLBanks.

MEASURE 2.3.2

FHFA published the Final Rule for Enterprise Housing Goals for 2018 – 2020[31] in the Federal Register on February 12, 2018. FHFA published a summary of this regulation in the press release[32] announcing the Final Rule.

MEASURE 2.3.3

FHFA did not issue a final rule on the FHLBanks' AHP in FY 2018, but anticipates doing so before the end of 2018. FHFA received 394 comments on the proposed rule, which was published on May 14, 2018.

[31] https://www.federalregister.gov/documents/2018/02/12/2018-02649/2018-2020-enterprise-housing-goals

[32] https://www.fhfa.gov/Media/PublicAffairs/Pages/FHFA-Finalizes-2018-2020-Housing-Goals-For-Fannie-Mae-and-Freddie-Mac.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	FY 2018 Target	FY 2018 Results
3.1.1 Maintain a qualified board of directors and chief executive officer for each Enterprise to oversee the implementation of conservator objectives	N/A	Met	Met	Met	95% of vacancies filled within 120 days	Met
3.1.2 2018 Scorecard for Fannie Mae, Freddie Mac, and Common Securitization Solutions provided to the Enterprises	N/A	Met	Met	Met	December 31, 2017	Met
3.1.3 Conservator decisions on Enterprises' administrative expenses for Calendar Year 2018	N/A	N/A	Met	Met	January 31, 2018	Met
3.1.4 Monitor and rate the Enterprises' performance against current Scorecard objectives	N/A	N/A	N/A	Met	Complete quarterly assessment within 30 days of the end of each quarter	Met
3.1.5 Provide timely decisions on items submitted to FHFA for conservator decision	N/A	N/A	N/A	Met	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 for purposes of the PAR, a board vacancy is created when the number of board members falls below the requirement of nine members. For FY 2018, there were no board vacancies as defined above. Nevertheless, in FY 2018, FHFA approved the appointment of two new members to serve on the Freddie Mac board of directors and two new members to serve on the Fannie Mae board of directors. These appointments were not in response to a vacancy, as defined for this measure. However, these appointments did replace two board members at Fannie Mae and two board members at Freddie Mac. With the appointments, Freddie Mac and Fannie Mae ended the fiscal year with 12 and 13 board members, respectively. There were no chief executive officer vacancies this fiscal year.

MEASURE 3.1.2

FHFA released the final 2018 Scorecard[33] to the Enterprises, CSS, and the public on December 21, 2017. 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 2018 administrative expenses in December 2017.

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 act. FHFA has set the expectation that 95 percent of requests for actions that require conservator decision will be made within 120 days of formal submission to FHFA.

FHFA responded to 96.6 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 formally communicated back to the Enterprises 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	FY 2018 Target	FY 2018 Results
3.2.1 Oversee reduction in retained portfolios consistent with the Senior Preferred Stock Purchase Agreement target of $288.4 billion	Met	Met	Met	Met	December 31, 2017	Met
3.2.2 Require the Enterprises to execute single-family mortgage credit risk sharing transactions	Met	Met	Met	Met	At least 90% of the unpaid principal balance of newly acquired single-family mortgages in loan categories targeted for credit risk transfer	Met
3.2.3 Require the Enterprises to execute multifamily mortgage credit risk sharing transactions	N/A	N/A	N/A	Met	Transfer a meaningful portion of credit risk on at least 80 percent of the UPB of newly acquired multifamily mortgages	Met

[33] https://www.fhfa.gov/AboutUs/Reports/ReportDocuments/2018-Scorecard-12212017.pdf

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 2017, as both Enterprises had retained portfolio balances below the PSPA 2017 cap of $288.4 billion. As of December 31, 2017, Freddie Mac's retained portfolio balance was $253.5 billion, and Fannie Mae's retained portfolio balance was $236.3 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 2017 Scorecard, FHFA required the Enterprises to transfer a meaningful amount of credit risk on at least 90 percent of the UPB of newly acquired single-family mortgages in loan categories targeted for CRT. FHFA determined that both Enterprises achieved this objective under the 2017 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. Under the 2017 Scorecard, FHFA required the Enterprises to transfer a meaningful portion of credit risk on at least 80 percent of the UPB of newly acquired multifamily mortgages. During 2017, both Fannie Mae and Freddie Mac met the Scorecard targets for executing multifamily credit risk transfer transactions.

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	FY 2018 Target	FY 2018 Results
3.3.1 Issue a progress report on the state of Single Security Initiative and Common Securitization Platform	N/A	Met	Met	Met	June 30, 2018	Met
3.3.2 Enterprise and Common Securitization Solutions (CSS) completion of system-to-system testing of CSS, which is required for implementation of the Single Security Initiative	N/A	N/A	N/A	N/A	June 30, 2018	Met

PERFORMANCE RESULTS

MEASURE 3.3.1

FHFA issued an *Update on the Implementation of the Single Security Initiative and the CSP* on December 4, 2017. This report provides transparency to the public on the Enterprises' progress on this multiyear project.

MEASURE 3.3.2

The Enterprises and CSS successfully completed system-to-system testing of CSS operations and the CSP in March 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	FY 2018 Target	FY 2018 Results
RM1 FHFA's financial statements audit receives an unmodified opinion with no material weaknesses and Federal Information Security Modernization Act audit that identifies no significant deficiencies	Met	Met	Met	Met	100% of the time	Met
RM2 Increase the dollar amount of FHFA contracts awarded to minority- and women-owned businesses consistent with legal standards	N/A	N/A	Met	Met	Total dollar amount of contracts greater than the five year average	Met
RM3 Fill active and approved FY 2018 FHFA vacancies	N/A	N/A	Met	Met	80% of vacancies at beginning of fiscal year are filled, determined to be inactive, or removed by the end of fiscal year	Met

PERFORMANCE RESULTS

RM1

For FY 2018, FHFA received an unmodified audit opinion with no material weaknesses on its financial statements. The audit opinion certifies that FHFA's financial statements fairly present FHFA's financial position, its net cost of operations, changes in net position, and budgetary resources in accordance with U.S. GAAP. The annual FISMA audit for FHFA in FY 2018 identified no material weaknesses or significant deficiencies.

RM2

FHFA achieved the resource management goal of increasing the total dollar amount of contracts with minority- and women-owned businesses that were greater than the five year average. During FY 2018, the Agency obligated $11.5 million in contract dollars to minority- and women-owned businesses. In comparison, the five year average of contract dollars obligated to minority- and women-owned businesses was $10.2 million.

RM3

FHFA had 41 active vacancies at the beginning of FY 2018. Since then, the Agency made 3 vacancies inactive and filled 36 of the remaining 41 original vacancies. With 39 of the 41 active vacancies resolved, FHFA exceeded its target of 80 percent. This measure does not include new vacancies that occurred after the beginning of FY 2018.

FINANCIAL SECTION

ARCHITECTURAL STYLE

COLONIAL

The colonists who arrived in America from 1600 until 1800 brought with them the building traditions of the Old World. Thus, English colonist used timber framing to build New England cottages, the Dutch favored brick houses with steeply pitched roofs and stepped gables, while the French favored broad, protective porches. Original colonial houses are rare, their forms familiar because English, Dutch, Spanish and French Colonial Styles have re-appeared in revivals in the 19th and 20th centuries. Authentic 17th century buildings occur in limited regions—Dutch Colonial along the Hudson River valley and in New York City (formerly Nieuw Amsterdam), French Colonial along the Mississippi River Valley and English Colonial houses in Massachusetts, Connecticut and Virginia.

Message from the Chief Financial Officer

I am pleased to report that FHFA received an unmodified audit opinion on its FY 2018 financial statements from the Government Accountability Office (GAO). In its financial statements audit report, GAO concluded that 1) FHFA's FY 2018 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.

Last year, I reported that we developed an Enterprise Risk Management (ERM) framework for the Agency. In FY 2018, we began integrating ERM with our budget and performance management processes to ensure that the Agency is focused on the most important risks that could prevent FHFA from achieving its strategic goals and mission. Going forward, we will continue to identify and evaluate existing and emerging risks that could impact the success of the Agency.

We continue to reap the benefits of cross-servicing our payroll and accounting functions, enabling us to focus more of our resources on strengthening and enhancing our internal controls over all of our processes impacting financial reporting.

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

Sincerely,

Mark Kinsey

MARK KINSEY
Chief Financial Officer
November 15, 2018

Independent Auditor's Report

U.S. GOVERNMENT ACCOUNTABILITY OFFICE

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

Independent Auditor's Report

To the Director of the Federal Housing Finance Agency

In our audits of the fiscal years 2018 and 2017 financial statements of the Federal Housing Finance Agency (FHFA), we found

- FHFA's financial statements as of and for the fiscal years ended September 30, 2018, and 2017, 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, 2018; and
- no reportable noncompliance for fiscal year 2018 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, 2018, and 2017; 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, 2018, 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.

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

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

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

Independent Auditor's Report

Management's Responsibility

FHFA management is responsible for (1) the preparation and fair presentation of these financial statements in accordance with U.S. generally accepted accounting principles; (2) preparing, measuring, and presenting the RSI in accordance with U.S. generally accepted accounting principles; (3) preparing and presenting other information included in documents containing the audited financial statements and auditor's report, and ensuring the consistency of that information with the audited financial statements and the RSI; (4) maintaining effective internal control over financial reporting, including the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error; (5) evaluating the effectiveness of internal control over financial reporting based on the criteria established under FMFIA; and (6) its assessment about the effectiveness of internal control over financial reporting as of September 30, 2018, included in the accompanying Management's Report on Internal Control over Financial Reporting in appendix I.

Auditor's Responsibility

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

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

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

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

Independent Auditor's Report

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

Definition and Inherent Limitations of Internal Control over Financial Reporting

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

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

Opinion on Financial Statements

In our opinion, FHFA's financial statements present fairly, in all material respects, FHFA's financial position as of September 30, 2018, and 2017, 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 2018 and 2017 financial statements do not include the assets, liabilities, and activities associated with Fannie Mae and Freddie Mac. In early September 2008, less than 2 months after FHFA's establishment, FHFA placed Fannie Mae and Freddie Mac into conservatorship under the authority of the Federal Housing Enterprises Financial Safety and Soundness Act of 1992, as amended by HERA.[5] FHFA's goal in placing the two entities into conservatorship was to stabilize them with the objective of maintaining normal business operations and restoring safety and soundness. The Department of the Treasury (Treasury) has provided Fannie Mae and Freddie Mac about $191 billion in direct financial support. Following criteria in Statement of

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

Independent Auditor's Report

Federal Financial Accounting Standards No. 47 (SFFAS 47), *Reporting Entity*, which became effective for fiscal year 2018, the Office of Management and Budget (OMB) and Treasury determined that Fannie Mae's and Freddie Mac's assets, liabilities, and activities would not be consolidated into federal reporting entity financial statements. However, the values of the investment in the entities and related activities are presented in Treasury's financial statements.

In making this determination, OMB and Treasury concluded that the entities are owned or controlled by the federal government as a result of regulatory actions, such as organizations in receivership or conservatorship, or other federal government intervention actions. Under such regulatory or other intervention actions, the relationship with the federal government is not expected to be permanent, and these entities are classified as disclosure entities when considering their characteristics taken as a whole.[6] FHFA management concurred with this conclusion, and FHFA did not include Fannie Mae's and Freddie Mac's assets, liabilities, and activities in its fiscal years 2018 and 2017 financial statements. However, as Fannie Mae and Freddie Mac are considered to be disclosure entities, FHFA disclosed certain financial and other information about the entities in the notes to its financial statements. For fiscal year 2017, Fannie Mae and Freddie Mac were not consolidated in the consolidated financial statements of the U.S. government or those of Treasury based on criteria in Statement of Federal Financial Accounting Concepts No. 2 (SFFAC 2), *Entity and Display*.[7] 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, 2018, based on criteria established under FMFIA.

During our fiscal year 2018 audit, we identified deficiencies in FHFA's internal control over financial reporting that we do not consider to be material weaknesses or significant deficiencies.[8] Nonetheless, these deficiencies warrant FHFA management's attention. We have communicated these matters to FHFA management and, where appropriate, will report on them separately.

Other Matters

Required Supplementary Information

U.S. generally accepted accounting principles issued by the Federal Accounting Standards Advisory Board (FASAB) require that the RSI be presented to supplement the financial statements. Although the RSI is not a part of the financial statements, FASAB considers this information to be an essential part of financial reporting for placing the financial statements in appropriate operational, economic, or historical context. We have applied certain limited procedures to the RSI in accordance with U.S. generally accepted government auditing standards, which consisted of inquiries of management about the methods of preparing the RSI and comparing the information for consistency with management's responses to the auditor's

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

[7] SFFAC 2 was amended by SFFAS 47, effective for periods beginning after September 30, 2017.

[8] 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

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.

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.

Management's Responsibility

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

Auditor's Responsibility

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.

Results of Our Tests for Compliance with Laws, Regulations, Contracts, and Grant Agreements

Our tests for compliance with selected provisions of applicable laws, regulations, contracts, and grant agreements disclosed no instances of noncompliance for fiscal year 2018 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.

Intended Purpose of Report on Compliance with Laws, Regulations, Contracts, and Grant Agreements

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

Independent Auditor's Report

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 reproduced in appendix II.

Cheryl E. Clark

Cheryl E. Clark
Director
Financial Management and Assurance

November 9, 2018

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, 2018, 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, 2018, FHFA's internal control over financial reporting was effective.

Melvin L. Watt
Director

Mark Kinsey
Chief Financial Officer

November 9, 2018

Appendix II: FHFA Response to Auditor's Report

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

November 9, 2018

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

Dear Ms. Clark:

Thank you for the opportunity to respond to the Government Accountability Office's (GAO) draft audit report titled, Financial Audit: Federal Housing Finance Agency's Fiscal Years 2018 and 2017 Financial Statements (GAO-19-183R). This report presents GAO's opinion on the financial statements of the Federal Housing Finance Agency (FHFA) for fiscal years 2018 and 2017. The report also presents GAO's opinion on the effectiveness of FHFA's internal controls as of September 30, 2018, 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 2018 audit. The GAO reported that the statements and notes were presented fairly, in all material respects; FHFA had effective internal control over financial reporting; and that there were no reportable instances of noncompliance with laws and regulations tested by GAO.

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

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

Sincerely,

Melvin L. Watt
Director

Federal Housing Finance Agency

Consolidated Balance Sheets

As of September 30, 2018 and 2017
(In Thousands)

	2018	2017
Assets:		
Intragovernmental		
Fund Balance With Treasury - Note 2	$ 16,092	$ 17,209
Investments - Note 3	55,606	61,345
Advances and Prepaid Charges	684	600
Other Assets - Note 6	-	(73)
Total Intragovernmental	72,382	79,081
Accounts Receivable - Note 4	13	58
Advances and Prepaid Charges	1,778	1,372
Property, Equipment, and Software, Net - Note 5	22,042	24,827
Total Assets	**$ 96,215**	**$ 105,338**
Liabilities:		
Intragovernmental		
Accounts Payable	$ 630	$ 569
Other Intragovernmental Liabilities - Note 8	2,709	2,680
Total Intragovernmental	3,339	3,249
Accounts Payable	6,437	6,894
Unfunded Leave	13,454	12,948
FECA Actuarial Liability	249	252
Deferred Lease Liabilities	23,387	24,432
Other Liabilities - Note 8	5,844	5,511
Total Liabilities - Note 7	52,710	53,286
Net Position:		
Cumulative Results of Operations	43,505	52,052
Total Net Position	$ 43,505	$ 52,052
Total Liabilities and Net Position	**$ 96,215**	**$ 105,338**

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, 2018 and 2017

(In Thousands)

	2018		2017	
Gross Program Costs by Strategic Goal - Note 11:				
Safety and Soundness	$	158,186	$	172,404
Liquidity, Stability, and Access	$	50,879	$	35,537
Conservatorship	$	61,307	$	56,724
Gross Program Costs	$	270,372	$	264,665
Less: Total Earned Revenue not Attributable to Strategic Goals		(254,150)		(260,216)
Net Cost of Operations	**$**	**16,222**	**$**	**4,449**

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, 2018 and 2017

(In Thousands)

	2018	2017
Cumulative Results of Operations:		
Beginning Balance	$ 52,052	$ 51,910
Adjustments		
Budgetary Financing Sources:		
Other Financing Sources:		
Imputed Financing Sources	7,675	4,607
FOIA Collections (Transfer out)	-	(16)
Total Financing Sources	7,675	4,591
Net Cost of Operations	(16,222)	(4,449)
Net Change	(8,547)	142
Cumulative Results of Operations	**$ 43,505**	**$ 52,052**
Net Position	**$ 43,505**	**$ 52,052**

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, 2018 and 2017

(In Thousands)

	2018	2017
Budgetary Resources:		
Unobligated Balance From Prior Year Budget Authority, Net - Note 12	35,690	30,793
Appropriations - Note 1D	249,994	254,864
Spending Authority From Offsetting Collections	48,482	52,804
Total Budgetary Resources	**$ 334,166**	**$ 338,461**
Memorandum (non-add) Entries:		
Net Adjustments to Unobligated Balance Brought Forward, Oct. 1	(55,156)	(52,856)
Status of Budgetary Resources:		
New Obligations and Upward Adjustments (Total) - Note 13	$ 310,149	$ 312,195
Unobligated Balance, End of Year:		
Exempt from Apportionment, Unexpired Accounts	24,017	26,266
Unexpired Unobligated Balance, End of Year	24,017	26,266
Unobligated Balance, End of Year, Total	24,017	26,266
Total Budgetary Resources	**$ 334,166**	**$ 338,461**
Outlays, Net:		
Outlays, Net	256,856	254,420
Distributed Offsetting Receipts	(249,994)	(254,864)
Agency Outlays, Net	**$ 6,862**	**$ (444)**

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, 2018 and 2017

Note 1. Summary of Significant Accounting Policies

A. REPORTING ENTITY

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

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

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

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

Both Fannie Mae and Freddie Mac, as represented by FHFA as their Conservator, entered into separate agreements with the Treasury Department known as Senior Preferred Stock Purchase Agreements (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. Now, all of Fannie Mae's and Freddie Mac's net income/profits above an established threshold are distributed quarterly to the Treasury Department as dividends. That threshold is currently set at a net worth of $3 billion per Enterprise, by agreement of FHFA and Treasury in December 2017. The 2012 amendment also suspended the periodic commitment fee that was intended to compensate Treasury for its continuing commitment. Treasury last paid draws to Fannie Mae and Freddie Mac, $3.7 billion and $312 million, respectively, on March 30, 2018, as a result of losses suffered in the fourth quarter of 2017. The primary driver of the losses was provisions for federal income taxes in the fourth quarter resulting from the remeasurement of the companies' deferred tax assets due to the Tax Cuts and Jobs Act of 2017. Cumulative draws by Fannie Mae and Freddie Mac on their PSPAs with Treasury total $119.8 and $71.6 (dollars in billions), respectively. These draws are reported in the Treasury Department's financial statements as investments.

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 AND OTHER FINANCING SOURCES

Although our assessments are reported as Appropriations in the Combined Statement of Budgetary Resources, FHFA is not subject to appropriations. Operating revenues of FHFA are obtained through assessments of the regulated entities. The head of the Agency approved the annual budget for FY 2018 and FY 2017 in August 2017 and 2016, 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 expired 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 2018 and FY 2017 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, and Freedom of Information Act (FOIA) request fees. FHFA is not authorized to retain fees and penalties associated with employee administrative billings (corrections to payroll and travel payments) and collections, FOIA fees, and as such, records these as liabilities until transferred to the Treasury General Fund.

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

G. INVESTMENTS

FHFA has the authority to invest in Treasury Department securities with maturities suitable to FHFA's needs. FHFA invests solely in Treasury Department securities. During FY 2018 and FY 2017, FHFA invested in one-day certificates issued by the Treasury Department.

H. ACCOUNTS RECEIVABLE

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

I. PROPERTY, EQUIPMENT, AND SOFTWARE, NET

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

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

Depreciation is calculated using the straight-line method over the estimated useful life of the asset. Applicable standard governmental guidelines regulate the disposal and convertibility of Agency property and equipment. The useful life classifications for capitalized assets are as follows:

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

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

J. ADVANCES AND PREPAID CHARGES

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

K. LIABILITIES

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

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

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

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

Deferred lease liabilities consist of deferred rent and the Constitution Center tenant allowance. Deferred rent is the difference at year-end between the sum of monthly cash disbursements paid to-date for rent and the sum of the average monthly rent calculated based on the term of the lease. Lease costs are based on the straight line method. This determination and recording of deferred rent is applicable to the lease agreements on the properties with non-cancellable lease terms at 400 7th Street SW Constitution Center, 1625 Eye Street NW, and 5080 Spectrum Drive. (See Note 9. Leases)

FHFA entered into a 60 month capital lease for copiers during FY 2018. (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 at or above the EL-13 level, after May 2011 accrue annual leave under this same formula. Some employees who transfer from other federal agencies may also have been authorized to receive credit for private sector time. EL employees may carry-over up to 240 hours of annual leave each year. EL supervisors and managers may carryover up to 480 hours of annual leave each year. The FHFA Leadership Level's equivalent to the Senior Executive Service employees may accrue annual leave consistent with the rules for Senior Executive Service level employees. Accrued annual leave is treated as an unfunded expense with an offsetting liability when earned. The accrued liability is reduced when the annual leave is taken. Any unused annual leave balance is paid to an employee upon leaving federal service and calculated based on the employee's earnings per hour. There is no maximum limit on the amount of sick leave that may be accrued. Upon retirement, any unused sick leave under the Civil Service Retirement System (CSRS) and the Federal Employees Retirement System (FERS) is creditable towards an employee's annuity computation.

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

M. RETIREMENT PLANS

FHFA employees participate in the retirement plans offered by OPM, which consist of CSRS, CSRS Offset, FERS, FERS-Revised Annuity Employee (RAE), or FERS-Further Revised Annuity Employee (FRAE). FERS, RAE, and FRAE are provided under calculations for both regular employees as well as law enforcement employees in the OIG. FHFA remits the employer's share of the required contribution, which is 7.0 percent for CSRS and CSRS Offset, 13.7 percent for FERS, 30.1 percent for FERS Law Enforcement Officer (LEO), 11.9 percent for FERS-RAE and FERS-FRAE, and 28.4 percent for FERS-RAE LEO and FERS-FRAE LEO. Effective January 1, 2014, any employee who begins employment with FHFA with less than five years of prior federal service as of December 31, 2013 is placed under FERS-FRAE. Both CSRS and FERS employees may participate in the federal Thrift Savings Plan (TSP). FERS employees receive an automatic Agency contribution equal to 1.0 percent of pay. FERS employees are automatically enrolled in TSP and 3.0 percent of their pay is deposited into the plan unless they make an election to stop or change the contribution. FHFA matches any FERS employee contribution up to an additional 4.0 percent of pay. For FERS and CSRS Offset participants, FHFA also contributes the employer's share of Social Security. The 2018 maximum taxable wage base for Social Security is $128,400.

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 18, 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 2018 and FY 2017. FBWT account balances as of September 30, 2018 and 2017 were as follows (dollars in thousands):

	2018	2017
Status of Fund Balance with Treasury:		
Unobligated Balance		
Available	$ 24,017	$ 26,266
Obligated Balance Not Yet Disbursed	47,675	52,288
Investments	(55,600)	(61,345)
Total	**$ 16,092**	**$ 17,209**

See Note 14. Legal Arrangements Affecting Use of Unobligated Balances

Note 3. Investments

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

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

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

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, 2018 or 2017. Interest earned on investments was $1.7 million and $702 thousand for FY 2018 and FY 2017, respectively.

Note 4. Accounts Receivable

Accounts Receivable balances as of September 30, 2018 and 2017 were as follows (dollars in thousands):

	2018	2017
Intragovernmental		
Accounts Receivable	$ -	$ -
Total Intragovernmental Accounts Receivable	**$ -**	**$ -**
With the Public		
Accounts Receivable	$ 17	$ 58
Allowance for Uncollectible Accounts Receivable	**$ (4)**	**$ -**
Total Public Accounts Receivable	**$ 13**	**$ 58**
Total Accounts Receivable	**$ 13**	**$ 58**

Note 5. Property, Equipment, and Software, Net

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

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

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	-
Machinery and Equipment Under Capital Lease	-	-	-
Construction-in-Progress	1,539	-	1,539
Total	**$ 62,185**	**$ 37,358**	**$ 24,827**

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, 2018 and 2017 consist of the following (dollars in thousands):

	2018	2017
Straight Line Sublease	$ -	$ (73)
Total Other Assets	**$ -**	**$ (73)**

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

Note 7. Liabilities Covered and Not Covered by Budgetary Resources

There are not any liabilities under the category of not requiring Budgetary Resources. Liabilities Covered and Not Covered by Budgetary Resources as of September 30, 2018 consist of the following (dollars in thousands):

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

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**

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, 2018 and September 30, 2017 consist of the following (dollars in thousands):

	2018		2017	
Intragovernmental Liabilities				
Funded FECA Liability	$	28	$	39
Unemployment Insurance Liability		9		4
Payroll Benefits Payable		1,304		1,285
Advances and Prepayments		1,368		1,352
Total Intragovernmental Other Liabilities	**$**	**2,709**	**$**	**2,680**
With the Public				
Employer Benefit Contributions	$	736	$	770
Withholdings Payable		-		2
Accrued Funded Payroll		4,861		4,736
Employee Related Refunds Due		3		3
Capital Lease Liability		244		
Total Public Other Liabilities	**$**	**5,844**	**$**	**5,511**

Note 9. Leases

Operating Leases

NON-FEDERAL LEASES:

1625 Eye Street NW

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

400 7th Street SW – Constitution Center

FHFA entered into a lease for office space at 400 7th Street SW Constitution Center on January 31, 2011. FHFA took occupancy in January 2012. FHFA does not have the right to terminate the lease for the convenience of the government. FHFA may only exercise a one-time early termination at the end of the 10th year, contingent upon FHFA having less than 400 employees in the Washington D.C. area as of the date that is

20 months prior to the early termination date and representing that it reasonably believes it will have less than 400 employees in the D.C. area as of the termination date. The lease terms of 400 7th Street SW expire on January 31, 2027. In addition, the lease stipulates that FHFA shall pay additional rent for its share of increases in the operating expenses and real estate property taxes.

5080 Spectrum Drive

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

FEDERAL LEASES:

300 N Los Angeles Street

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

501 E Polk Street

FHFA OIG entered into an OA with GSA for office space at 501 E Polk Street, Tampa, FL commencing on August 13, 2013. FHFA OIG took occupancy on August 10, 2013. FHFA OIG has the right to terminate the OA based on the availability of funds or with a four month notice at any point after the first 12 months of occupancy. The OA terms of 501 E Polk Street expire on August 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 – Two Illinois Center expire on November 30, 2020.

650 Capitol Mall

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

111 S 10th Street

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

101 E Park Blvd

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

The leases at 300 N Los Angeles Street, 501 E Polk Street, 20 Washington Place, 233 N Michigan Avenue – Two Illinois Center, 650 Capitol Mall, 111 S 10th Street, and 101 E Park Blvd 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
2019	$ 17,617
2020	17,971
2021	18,329
2022	6,149
Thereafter	-
Total Future Payments	**$ 60,066**

Capital Lease

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

	2018	2017
Summary of Assets Under Capital Lease		
Machinery and Equipment (Copiers)	$ 274	$ -
Accumulated Amortization	30	-
Net Value	**$ 244**	**$ -**

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

Fiscal Year		Amount
2019	$	134
2020		134
2021		134
2022		135
2023		56
Total Future Payments	$	593
Less: Imputed Interest	$	14
Less: Executory Costs		335
Net Capital Lease Liability	$	244
Capital lease liabilities covered by budgetary resources	$	593
Capital lease liabilities not covered by budgetary resources	$	-

Note 10. Commitments and Contingencies

FHFA did not have any material commitments or contingencies that met disclosure requirements as of September 30, 2018 and 2017.

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 $44.4 million transfer from FHFA in FY 2018 and a $46.2 million transfer in FY 2017. FHFA OIG's gross expenses for FY 2018 and FY 2017 were $47.2 million and $47.1 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):

	2018		2017	
Safety and Soundness				
Intragovernmental Costs	$	31,986	$	33,108
Public Costs		126,200		139,296
Gross Safety and Soundness Program Costs		**158,186**		**172,404**
Liquidity, Stability, and Access				
Intragovernmental Costs		11,157		7,380
Public Costs		39,722		28,157
Gross Liquidity, Stability, and Access Program Costs		**50,879**		**35,537**
Conservatorship				
Intragovernmental Costs		6,887		6,989
Public Costs		54,420		49,735
Gross Conservatorship Program Costs		**61,307**		**56,724**
Total Intragovernmental Costs		50,030		47,477
Total Public Costs		220,342		217,188
Gross Program Costs		270,372		264,665
Less: Total Intragovernmental Earned Revenue		5,829		6,037
Less: Total Public Earned Revenue		248,321		254,179
Total Net Cost of Operations	**$**	**16,222**	**$**	**4,449**

Note 12. Net Adjustments to Unobligated Balance Brought Forward, October 1

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

	2018		2017	
Unobligated Balance Brought Forward, October 1	$	26,266	$	22,227
Recoveries of Prior Year Obligations		7,618		7,623
Other Changes in Unobligated Balance		1,806		943
Unobligated Balance from Prior Year Budget Authority, Net	**$**	**35,690**	**$**	**30,793**

Note 13. 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 2018 and FY 2017 consisted of the following (dollars in thousands):

	2018		2017	
Direct New Obligations and Upward Adjustments Exempt from Apportionment	$	306,000	$	305,554
Reimbursable New Obligations and Upward Adjustments Exempt from Apportionment		4,149		6,641
Total New Obligations and Upward Adjustments	**$**	**310,149**	**$**	**312,195**

Note 14. 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, 2018 and 2017, the unobligated balance was $24 million and $26.3 million, respectively. The portion of the FY 2018 unobligated available balance that will be credited against the regulated entities' April 2019 assessments is $14 million with the remaining $10 million retained in the working capital fund. The portion of the FY 2017 unobligated balance that was credited against the regulated entities' April 2018 assessment was $16.3 million with $10 million retained in the working capital fund. (See Note 2. Fund Balance With Treasury)

Note 15. 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 2020 President's Budget will include the actual budgetary execution information for FY 2018. The FY 2020 President's Budget is scheduled for publication in February 2019 and can be found at the OMB Website.[34] The 2019 President's Budget, with the "Actual" column completed for 2017, has been reconciled to the FY 2017 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	$	338,461	$	312,195	$	254,864	$	254,420
Rounding		461		195		136		420
Budget of the U.S. Government		338,000		312,000		255,000		254,000
Total Unreconciled Difference	**$**	**-**	**$**	**-**	**$**	**-**	**$**	**-**

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

Note 16. Undelivered Orders at the End of the Period

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

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

Undelivered Orders balance as of September 30, 2017 (dollars in thousands):

	Federal	Non-Federal
Paid Undelivered Orders	$ 600	$ 1,372
Unpaid Undelivered Orders	3,034	34,960
Total Undelivered Orders	**$ 3,634**	**$ 36,332**

Note 17. Incidental Custodial Collections

FHFA's custodial collections primarily consist of fines and penalties associated with employee administrative billings (corrections to payroll and travel payments) and collections. Custodial collections are reflected in Fund Balance with Treasury during the year. While these collections are considered custodial, they are neither primary to the mission of the Agency nor material to the overall financial statements. FHFA's custodial collections are $15,100 for the year ended September 30, 2018. Custodial collections totaled $200 for the year ended September 30, 2017. Custodial collections are transferred to the Treasury General Fund on September 30 and are not reflected in the financial statements of the Agency.

Note 18. Budget and Accrual Reconciliation

Budgetary and financial accounting information differ. Budgetary accounting is used for planning and control purposes and relates to both the receipt and use of cash, as well as reporting the federal deficit. Financial accounting is intended to provide a picture of the government's financial operations and financial position so it presents information on an accrual basis. The accrual basis includes information about costs arising from the consumption of assets and the incurrent of liabilities. The reconciliation of net outlays, presented on a budgetary basis, and the net cost, presented on an accrual basis, provides an explanation of the relationship between budgetary and financial accounting information. The reconciliation serves not only to identify costs paid for the past and those that will be paid in the future, but also to assure integrity between budgetary and financial accounting. The analysis below illustrates this reconciliation by listing the key differences between net cost and net outlays. FHFA has reconciled its budgetary obligations and non-budgetary resources available to its net cost of operations (dollars in thousands). The reconciliation below reflects early implementation of SFFAS 53 which is effective for FY 2019. A two-year comparison presentation is not required during the first year of implementation.

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

OTHER INFORMATION

ARCHITECTURAL STYLE

MANUFACTURED

Manufactured homes (formerly known as mobile homes) were originally marketed as housing for people requiring mobility. Beginning in the 1950s, these homes began to be used as an inexpensive form of permanent or semi-permanent housing. The term "manufactured home" originated in 1976 with the advent of the Manufactured Home Construction and Safety Standards. Since then, each manufactured home must display a red certification label on the exterior of each transportable section confirming compliance with the code. Modern manufactured homes are built in the controlled environment of a manufacturing plant to ensure quality construction and are transported in one or more sections on a permanent chassis to rural, suburban and urban communities. Today's manufactured housing is an affordable housing choice for more than 22 million people in the U.S. offering state-of-the art amenities and innovative designs at a lower cost of home ownership.

FY 2017 Discontinued Performance Measures

Strategic Goal/Performance Goal	FY 2017 Target	FY 2017 Results	Why Discontinued
Strategic Goal 1: Safe and Sound Regulated Entities			
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	FY 2017	Met	On September 28, 2017, Advisory Bulletin AB 2017-02 (Information Security Management) was issued.
Strategic Goal 2: Ensure Liquidity, Stability, and Access in Housing Finance			
Performance Goal 2.1: Ensure liquidity in mortgage markets			
2.1.1: Implement a post-HARP refinance product	FY 2017	Met	On September 8, 2017, the Enterprises published the revised programmatic details thereby meeting FHFA's criteria for implementation. The Enterprises launched a new High LTV Streamlined Refinance program November 1, 2018.
2.1.2: Implement a standardized hierarchy of loss mitigation programs that reflect the post-HAMP environment	FY 2017	Met	The Flex Modification program was implemented in October 2017.
Performance Goal 2.3: Expand access to housing finance for diverse financial institutions and 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	FY 2017	Met	On December 15, 2016, FHFA issued the Duty To Serve rule.
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	100 percent of the time	Met	FY 2017 was the first year FHFA conducted diversity and inclusion examinations at the regulated entities. Prior to these exams, supervisory strategies and examination plans were developed and documented.
2.3.3: Incorporate approved conclusion letters into Division of Bank Regulation Reports of Examination as scheduled	100 percent of the time	Met	This is a process measure that did not warrant external reporting.
2.3.4: Issue proposed rule for Enterprise Housing Goals for 2018-2020	FY 2017	Met	FHFA published this proposed rule in the Federal Register for comment on July 7, 2017.
2.3.5: Issue proposed rule for Federal Home Loan Bank Affordable Housing Program Modernization Regulation	FY 2017	Not Met	The proposed rule for Federal Home Loan Bank Affordable Housing Program Modernization Regulation was published in March 2018.

Strategic Goal/Performance Goal	FY 2017 Target	FY 2017 Results	Why Discontinued
Strategic Goal 3: Manage the Enterprises' Ongoing Conservatorships			
Performance Goal 3.2: Reduce taxpayer risk from Enterprise operations			
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	Each Enterprise meets the targets in the FHFA-approved plans for non-performing loan sales	Met	Both Enterprises met the 2016 non-performing loan sales volume targets set in their respective 2016 non-performing loan sales plans.
Performance Goal 3.3: Build a new single-family securitization infrastructure			
3.3.1: Freddie Mac and Common Securitization Solutions (CSS) implementation of Release 1 of the Common Securitization Platform (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 Participation Certificates (PCs) and Giant PCs and certain activities related to the underlying mortgage loans	December 31, 2016	Met	Release 1 of the CSP was implemented successfully in November 2016.

Office of Inspector General
Management and Performance Challenges

OFFICE OF INSPECTOR GENERAL

Federal Housing Finance Agency

400 7th Street SW, Washington, DC 20219

October 15, 2018

TO: Melvin L. Watt, Director

FROM: Laura S. Wertheimer, Inspector General

SUBJECT: Fiscal Year 2019 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 (FHFA-OIG) for the Federal Housing Finance Agency (FHFA or Agency) identifies four serious management and performance challenges facing the Agency for Fiscal Year (FY) 2019 and a management concern, and its assessment of those challenges and concern. Both FHFA and FHFA-OIG have acknowledged the difficulties resulting from the ongoing uncertainty regarding the future role of Fannie Mae and Freddie Mac (collectively, the Enterprises) in the housing finance system.

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 each Enterprise's financial condition and left both of them unable to fulfill their missions without government intervention."[1] For the past ten years, FHFA has served as both conservator and supervisor, a dual role that Director Watt has called "extraordinary." Putting the Enterprises into conservatorships has proven to be far easier than ending them, and the conservatorships have now entered their 11th year.

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

As conservator of the Enterprises, which together reported assets of approximately $5.4 trillion as of December 31, 2017, FHFA has the ultimate authority and responsibility for all business, policy, and risk decisions. These business and policy decisions influence and affect the entire mortgage finance industry. As conservator, FHFA must ensure that both Enterprises are effectively governed and employ sound risk management practices.

FHFA is also the supervisor for the Enterprises and for the FHLBanks, which collectively reported roughly $1.1 trillion in assets as of December 31, 2017. FHFA is responsible for conducting examinations of the Enterprises and the FHLBanks to ensure that they operate safely and soundly so that they serve as a reliable source of liquidity and funding for housing finance and community investment.

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

During my tenure as Inspector General, FHFA-OIG has issued 103 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. These 103 reports included 131 recommendations to address identified shortcomings, of which FHFA fully agreed to 105, or 80%. 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 the Congress (SARs) for the periods ending March 31 and September 30, 2018, sets forth our recommendations, by report, FHFA's response to each recommendation, and the status of each recommendation. For a listing of all our SARs, see 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 serious management and performance challenges identified in this memorandum. See www.fhfaoig.gov/reports/compendium_of_recommendations.

Set forth below are the four significant challenges and the management concern we have identified, together with our assessments of those challenges and concern.

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, as conservator, possesses all rights and powers of any stockholder, officer, or director of the Enterprises and is vested with express authority to operate the Enterprises and conduct their business activities. FHFA Director Watt has acknowledged that his statutory responsibilities are to "preserve and conserve" the assets and property of the

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Enterprises while operating them in a manner consonant with the public interest. 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.

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

During my tenure as Inspector General, FHFA-OIG's body of work 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 seeking information from management about the matters for which they are responsible. We have also identified instances in which corporate governance decisions generally reserved to the 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.

Select FHFA-OIG Reports Issued During FY 2018 on Delegated Matters:

- *Corporate Governance: Review and Resolution of Conflicts of Interest Involving Fannie Mae's Senior Executive Officers Highlight the Need for Closer Attention to Governance Issues by FHFA* (EVL-2018-001, January 31, 2018).
- *Administrative Review of a Potential Conflict of Interest Matter Involving a Senior Executive Officer at an Enterprise* (OIG-2018-001, July 26, 2018).
- *Consolidation and Relocation of Fannie Mae's Northern Virginia Workforce* (OIG-2018-004, September 6, 2018).

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

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internal review and approval processes for non-delegated matters, designed to provide a consistent approach for analyzing and resolving such matters and for providing decision-makers with all relevant facts and existing analyses. FHFA faces challenges in ensuring that its established processes are followed.

Select FHFA-OIG Reports Issued During FY 2018 on Non-Delegated Matters:

- *Audit of FHFA's Oversight of the Enterprises' Affordable Housing Set-Asides and Allocations* (AUD-2018-012, September 24, 2018).
- *Consolidation and Relocation of Fannie Mae's Northern Virginia Workforce* (OIG-2018-004, September 6, 2018).
- *Compliance Review of FHFA's Process for Making Changes to Conservatorship Scorecard Targets* (COM-2018-004, June 20, 2018).

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

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.

As FHFA Director Watt has observed, Fannie Mae and Freddie Mac would be Systemically Important Financial Institutions (SIFIs), but for the conservatorships, and are subject to the heightened supervision requirements for SIFIs, except that they are supervised by FHFA, not the Federal Reserve. Because the asset size of the FHLBanks and Office of Finance, together, is a fraction of the asset size of the Enterprises and because the Enterprises are in conservatorship, we determined that the magnitude of risk is significantly greater for the Enterprises. During my tenure at FHFA-OIG, the majority of our work on supervision issues has focused on FHFA's supervision of the Enterprises. 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. 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 FHFA-OIG, *Safe and Sound Operation of the Enterprises Cannot Be Assumed Because of*

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Significant Shortcomings in FHFA's Supervision Program for the Enterprises (OIG-2017-003, December 15, 2016). 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.

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 subsequent audits, evaluations, and compliance reports regarding FHFA's supervision program for the Enterprises identified additional shortcomings. In light of Director Watt's recognition that the Enterprises would be SIFIs, but for the conservatorships, and are subject to the heightened supervision requirements for SIFIs, FHFA must make a heightened and sustained effort to improve its supervision of the Enterprises.

We also looked at elements of FHFA's supervision program for the FHLBanks. While our reports of that work identified some shortcomings, they did not identify significant weaknesses. Like any other federal financial regulator, FHFA faces challenges in appropriately tailoring and keeping current its supervisory approach to the FHLBanks.

Select FHFA-OIG Reports Issued During FY 2018 on Supervision Matters:

- *FHFA Completed its Planned Procedures for a 2016 Representation and Warranty Framework Targeted Examination at Freddie Mac, but the Supporting Workpapers Did Not Sufficiently Document the Examination Work* (AUD-2018-006, March 13, 2018).
- *FHFA Requires the Enterprises' Internal Audit Functions to Validate Remediation of Serious Deficiencies but Provides No Guidance and Imposes No Preconditions on Examiners' Use of that Validation Work* (EVL-2018-002, March 28, 2018).
- *FHFA's Adoption of Clear Guidance on the Review of the Enterprises' Internal Audit Work When Assessing the Sufficiency of Remediation of Serious Deficiencies Would Assist FHFA Examiners* (EVL-2018-003, March 28, 2018).
- *DBR's Safety and Soundness Quality Control Reviews Were Conducted in Compliance with FHFA's Standard During the 2017 Examination Cycle but DBR's Community Investment Quality Control Reviews Were Not* (AUD-2018-010, August 17, 2018).

- *Compliance Review of FHFA's Communication of Serious Deficiencies to the Enterprises' Boards of Directors* (COM-2018-005, September 5, 2018).
- *FHFA's Housing Finance Examiner Commissioning Program: $7.7 Million and Four Years into the Program, the Agency has Fewer Commissioned Examiners* (COM-2018-006, September 6, 2018).

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

Cybersecurity, as defined by the National Institute of Standards and Technology, is "the process of protecting information by preventing, detecting, and responding to attacks." In May 2017, 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 has testified that "cybersecurity is one of our biggest, biggest risks."

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

FHFA advised us that it developed an examination module for cybersecurity examinations during 2016. FHFA will be challenged to ensure that it: (1) fully implements its newly developed examination module; (2) updates the elements of this module, as needed, to reflect any changes in the cybersecurity environment; (3) provides written guidance and training to examiners to aid them in their supervision of information technology issues; (4) recruits and retains, or otherwise contracts for, a sufficient complement of examiners with the experience and expertise needed to conduct detailed examinations of information security systems; and (5) completes the supervisory activities it has planned.

Select FHFA-OIG Reports Issued During FY 2018 on Supervision of Cybersecurity Matters:

- *As Allowed by Its Standard, FHFA Closed Three Fannie Mae Cybersecurity MRAs after Independently Determining the Enterprise Completed its Planned Remedial Actions* (AUD-2018-007, March 28, 2018).
- *FHFA Failed to Ensure Freddie Mac's Remedial Plans for a Cybersecurity MRA Addressed All Deficiencies; as Allowed by its Standard, FHFA Closed the MRA after Independently Determining the Enterprise Completed its Planned Remedial Actions* (AUD-2018-008, March 28, 2018).

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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 annual audits performed pursuant to the Federal Information Security Modernization Act of 2014 (FISMA) are intended to ensure FHFA's compliance with those standards and assist FHFA in strengthening protections over its network operations against those who would seek to attack its network.

For Fiscal Year 2017, an independent public accounting firm under contract with FHFA-OIG determined that FHFA's information security program complied with FISMA and with applicable Office of Management and Budget guidance and that sampled security controls demonstrated operating effectiveness. FHFA, like other federal agencies, faces challenges in enhancing its information security programs, ensuring that its internal and external online collaborative environments are restricted to those with a need to know, and ensuring that its third-party providers meet information security program requirements.

Select FHFA-OIG Report Issued During FY 2018 on FHFA's Internal Controls Over Information Technology:

- *Performance Audit of the Federal Housing Finance Agency's Information Security Program Fiscal Year 2017* (AUD-2018-001, October 17, 2017).

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.

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Our publicly reportable criminal investigations include inquiries into 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 effectively oversee the Enterprises' management of risks related to their counterparties.

Select FHFA-OIG Reports Issued During FY 2018 on FHFA's Oversight of the Enterprises' Relationships with Counterparties and Third Parties:

- *Fannie Mae and Freddie Mac Purchases of Adjustable-Rate Mortgages* (WPR-2018-001, January 4, 2018).
- *Enterprise Counterparties: Mortgage Insurers* (WPR-2018-002, February 16, 2018).
- *Enterprise Counterparties: Custodial Depository Institutions* (WPR-2018-003, March 27, 2018).
- *FHFA Should Address the Potential Disparity Between the Statutory Requirement for Fraud Reporting and its Implementing Regulation and Advisory Bulletin* (COM-2018-002, March 23, 2018).
- *FHFA Should Re-evaluate and Revise Fraud Reporting by the Enterprises to Enhance its Utility* (EVL-2018-004, September 24, 2018).

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

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

In January 2019, there will be a leadership change upon the expiration of Director Watt's term. Key senior positions within FHFA have been filled on an acting capacity for a long period of time (e.g., Chief Operating Officer, Deputy Director of the Division of Conservatorship). Two senior agency officials were found to have violated FHFA's policies regarding leave and work schedules. Our work demonstrates that FHFA is challenged to ensure that its existing controls, including its written policies and procedures, are sufficiently robust, and its personnel are adequately trained on these internal controls and comply fully with them.

Both Enterprises have also announced significant leadership changes. Fannie Mae has stated that its Chief Executive Officer (CEO) will leave Fannie Mae by October 15, 2018, and Freddie Mac has stated that its CEO will depart during 2019. In addition, the terms of a number of Enterprise directors are set to expire by year end 2018.

Changes in leadership can lead to lack of attention to internal controls.

Select FHFA-OIG Reports Issued During FY 2018 on FHFA's Internal Controls over Agency Operations:

- *Audit of FHFA's Fiscal Year 2017 Government Purchase Card Program Found Several Deficiencies with Leased Holiday Decorations, and the Need for Greater Attention by Cardholders and Approving Officials to Program Requirements* (AUD-2018-011, September 6, 2018).
- *Summary of Administrative Inquiry: The Office of Inspector General's Review of Alleged Time and Attendance Fraud by Two Senior Agency Officials* (OIG-2018-005, September 24, 2018).
- *FHFA Needs to Strengthen Controls Over Its Employee Transportation Benefits Programs* (AUD-2018-013, September 25, 2018).
- *Audit of FHFA's Fiscal Year 2017 Government Travel Card Program: FHFA Needs to Emphasize Certain Program Requirements to Travelers and Approving Officials* (AUD-2018-014, September 25, 2018).

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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

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Summary of Financial Statements Audit and Management Assurances

Table 13: Summary of Financial Statements Audit					
Audit Opinion	**Unmodified**				
Restatement	**No**				
Material Weaknesses	Beginning Balance	New	Resolved	Consolidated	Ending Balance
Total Material Weaknesses	0	0	0	0	0

Table 14: Summary of Management Assurances						
Effectiveness of Internal Control Over Financial Reporting *(Federal Management Financial Integrity Act Paragraph 2)*						
Statement of Assurance	**Unmodified**					
Material Weaknesses	Beginning Balance	New	Resolved	Consolidated	Reassessed	Ending Balance
Total Material Weaknesses	0	0	0	0	0	0
Effectiveness of Internal Control Over Operations *(Federal Management Financial Integrity Act Paragraph 2)*						
Statement of Assurance	**Unmodified**					
Material Weaknesses	Beginning Balance	New	Resolved	Consolidated	Reassessed	Ending Balance
Total Material Weaknesses	0	0	0	0	0	0
Conformance with Federal Financial Management System Requirements *(Federal Management Financial Integrity Act Paragraph 4)*						
Statement of Assurance	**Systems conform to financial management system requirements**					
Non-Conformances	Beginning Balance	New	Resolved	Consolidated	Reassessed	Ending Balance
Total Non-Conformances	0	0	0	0	0	0

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

Payment Integrity

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

FHFA, in the spirit of compliance and as part of its sound internal control structure, has established controls to detect and prevent improper vendor payments. FHFA accesses and reviews the exclusions list in the System for Award Management to ensure that potential awardees do not appear on the list prior to awarding contracts. FHFA contracts with the Bureau of the Fiscal Service for accounting services including payments to vendors. The supplier database is compared to the Do Not Pay portal on a daily basis. A copy of the supplier database is sent to the Do Not Pay portal once a week. Additionally, matching results are pulled from the Do Not Pay portal once a week. The matching results are researched and acted on, as appropriate. FHFA has not identified any programs or activities susceptible to significant improper payments that meet the Act's thresholds. In April 2018, FHFA OIG reported that FHFA complied with applicable provisions of the Act, as amended, as well as the related OMB guidance during fiscal year 2017.[35]

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

[35] https://paymentaccuracy.gov

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	2018	$11,390	Federal Register 83 (August 2018): 43965 – 43968.
Safety and Soundness Act - 12 U.S.C. 4636 (b) (2)	Second Tier	2008	2018	$56,947	Federal Register 83 (August 2018): 43965 – 43968.
Safety and Soundness Act - 12 U.S.C. 4636 (b) (4)	Third Tier – Entity affiliated party and regulated entity	2008	2018	$2,277,875	Federal Register 83 (August 2018): 43965 – 43968.

Statutory Authority	Penalty	Year Enacted	Latest Year of Adjustment	Current Penalty Level	Location for Penalty Update Details
Program Fraud Civil Remedies Act - 31 U.S.C. 3802 (a) (1)	Maximum penalty per false claim	2009	2018	$11,181	Federal Register 83 (August 2018): 43965 – 43968.
Program Fraud Civil Remedies Act - 31 U.S.C. 3802 (a) (2)	Maximum penalty per false statement	2009	2018	$11,181	Federal Register 83 (August 2018): 43965 – 43968.

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	2018	$554	Federal Register 83 (August 2018): 43965 – 43968.
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	2018	$159,743	Federal Register 83 (August 2018): 43965 – 43968.

Grants Oversight and New Efficiency (GONE) Act Requirements

Table 16: Grants Oversight and 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.

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

Current Expected Credit Loss (CECL)—A new allowance for loan loss methodology replacing today's "incurred" loss model. The new allowance is based on relevant information about past events, current conditions, and reasonable and supportable forecasts.

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

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.

Deferred Tax Assets (DTA), Net—Future tax benefit arising from differences in the book and tax bases of assets and liabilities, and recognized investment and other tax credits to be realized in future tax periods.

Deed-In-Lieu of Foreclosure—A deed instrument in which a mortgagor (i.e. the borrower) conveys all interest in a real property to the mortgagee (i.e. the lender) to satisfy a loan that is in default and avoid foreclosure proceedings.

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.

Gross Costs—The total cost of acquiring a product.

Home Affordable Modification Program (HAMP)—A program designed to help homeowners avoid foreclosure by modifying loans to a level that is affordable for borrowers right away and sustainable over the long term.

Home Affordable Refinance Program (HARP)—A program that enables borrowers 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.

Mortgage Translations Clearinghouse—A central repository of mortgage related translated documents and resources to improve the ability of limited English proficiency borrowers to understand and participate in all facets of the mortgage life cycle.

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

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

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.

Secured Overnight Financing Rate (SOFR)—An alternate reference rate selected by the Alternative Reference Rates Committee to replace the London Interbank Offered Rate. The Federal Reserve Bank of New York began publishing SOFR on April 3, 2018.

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.

Short Sale—A sale of real estate in which the proceeds from selling the property will fall short of the balance of debt secured by liens against the property, and the property owner cannot afford to repay the liens' full amount and where the lien holders agree to release their lien on the real estate and accept less than the amount owed on the debt.

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

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Acknowledgements

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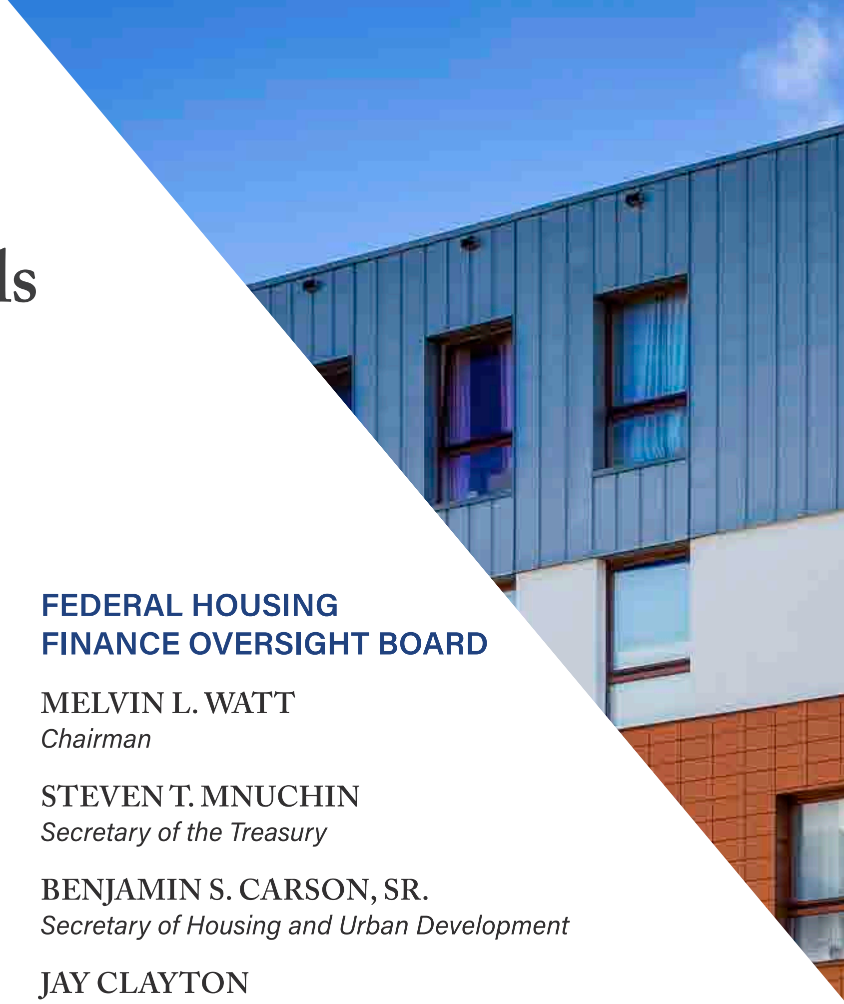

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