FEDERAL HOUSING FINANCE AGENCY

Report to Congress

2008

FEDERAL

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May 18, 2009

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Washington, D.C. 20510

Honorable Richard Shelby
Ranking Member
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Honorable Barney Frank
Chairman
Committee on Financial Services
United States House of Representatives
Washington, D.C. 20515

Honorable Spencer Bachus
Ranking Member
Committee on Financial Services
United States House of Representatives
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Dear Chairmen and Ranking Members:

I am pleased to transmit the Federal Housing Finance Agency's (FHFA) first Report to Congress, which presents the findings of the agency's 2008 annual examinations of Fannie Mae and Freddie Mac (Enterprises), the 12 Federal Home Loan Banks (FHLBanks), and the Office of Finance. This report meets the statutory requirements of the Federal Housing Enterprises Financial Safety and Soundness Act of 1992, as amended by the Housing and Economic Recovery Act of 2008 (HERA). The views in this report are those of FHFA and do not necessarily represent those of the President.

Although this is my first report as Director of FHFA, I previously submitted three reports as the Director of the Office of Federal Housing Enterprise Oversight (OFHEO). In each of these reports, I called for regulatory reform of Fannie Mae and Freddie Mac, including greater authority over the Enterprises' capital requirements and portfolio size.

In July of 2008, the Federal Housing Finance Agency was created by HERA after years of debate and discussion by Congress. Unfortunately, the legislation came too late to prevent the over-leveraging of the Enterprises. Even with OFHEO's extra capital requirements and portfolio restraints, the Enterprises legally held total mortgage credit over 90 times the second quarter shareholders' equity. HERA importantly gave the Treasury Department the ability to fund the housing government-sponsored enterprises (GSEs), if needed. HERA also created an Oversight Board for FHFA, which has had three meetings as required. The members include the Secretary of the Treasury, the Secretary of Housing and Urban Development, the Chairman of the Securities and Exchange Commission and myself.

We publish this report at a time of unprecedented challenges for the GSEs, the United States' economy and the housing and financial markets. The recession that began in December 2007 continued throughout 2008 and worsened in the fourth quarter. In this turbulent environment, FHFA's mission is even more critical—to promote a stable and liquid mortgage market, affordable housing and community investment through safety and soundness oversight of Fannie Mae, Freddie Mac and the Federal Home Loan Banks.

Throughout 2007 and 2008, OFHEO encouraged the Enterprises to conserve and raise additional capital to fulfill their mission as the risks in the mortgage market grew. By the summer of 2008, FHFA had serious concerns about safety and soundness weaknesses at the Enterprises related to credit risk, earnings outlook, capitalization, and the substantial deterioration in the market for their equity, debt, and mortgage-backed securities (MBS). The Enterprises' capital was threatened by increasing credit losses in their guaranteed and investment mortgage portfolios, which totaled $5.2 trillion at year-end. In particular, their private-label MBS holdings, which represented 19 percent of their investments, deteriorated rapidly. Working closely with the Treasury Secretary and the Chairman of the Federal Reserve, I decided there was no other choice than to put Fannie Mae and Freddie Mac into conservatorship if they were going to be able to continue to fulfill their mission of providing stability, liquidity, and affordability to the market. If we had not put the Enterprises in conservatorship, we believe the downward spiral in the economy would have accelerated, because the Enterprises would have had to pull back dramatically from the housing market.

Despite their large losses in 2008, the Enterprises did make strides in fulfilling their key mission of providing stability and liquidity to the conventional conforming loan market and keeping people in their homes through loan modifications and workouts. Their support of the mortgage market grew by 5.6 percent in 2008 versus 14 percent growth in 2007, to a total of $5.2 trillion in guaranteed mortgage-backed securities outstanding and mortgage investments. Their market share of total mortgage originations grew from 37 percent in 2006 to 54 percent in 2007 and 73 percent in 2008. The effective guarantee provided by the Treasury's Senior Preferred Stock facility, plus the Federal Reserve's and Treasury's other facilities have brought mortgage rates down dramatically since the conservatorship. A major challenge going forward will be replenishing their senior management teams and retaining experienced personnel.

The Federal Home Loan Banks play an important role in the mortgage market by providing secured advances to banks, credit unions, and insurance companies. Federal Home Loan Bank advances crossed the trillion dollar mark in October. At year-end, the Federal Home Loan Banks had almost $1.4 trillion in assets. Although only 5 percent of these assets are in originally triple-A private-label mortgage-backed securities, they have presented significant continuing challenges to several Federal Home Loan Banks.

The challenges of the last few years in the financial markets are slowly abating, but the problems in the housing markets continue. It is my hope that all market participants, the government, and the GSEs, will be creative and work together to help the United States economy and housing market recover. The new Financial Stability Plan and the Making Home Affordable mortgage modification and refinancing plans are all extremely important next steps to recovery for the housing markets and the U.S. economy.

FHFA will continue to be very aggressive in finalizing regulations implementing HERA. We look forward to working with you in developing a counter-cyclical, post-conservatorship structure for the Enterprises based upon a well defined mission, sound insurance principles, clear demarcation of private and public sector, and strong regulatory oversight.

James B. Lockhart III

James B. Lockhart III
Director, Federal Housing Finance Agency

FHFA Report to Congress

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Federal Housing Finance Oversight Board Assessment

Section 1103 of the Housing and Economic Recovery Act (HERA) of 2008 requires that the Federal Housing Finance Agency (FHFA) Director's Annual Report to Congress include an assessment of the Federal Housing Finance Oversight Board or any of its members with respect to:

- The safety and soundness of the regulated entities;
- Any material deficiencies in the conduct of the operations of the regulated entities;
- The overall operational status of the regulated entities; and
- An evaluation of the performance of the regulated entities in carrying out their respective missions.

Each of these items is described below with separate sections for Fannie Mae and Freddie Mac (Enterprises) and the Federal Home Loan Banks (FHLBanks).

The Enterprises

Safety and Soundness

Substantial deterioration in housing markets throughout 2008, and volatility and liquidity problems in financial markets through much of the year, led to sizeable credit and market losses at the Enterprises, depletion of their capital, and an inability of the Enterprises to raise new capital and to access debt markets in their customary way. The housing market problems led to Congress' final passage of HERA in July.

Significant safety and soundness issues and risk that the Enterprises would be unable to fulfill their missions led to FHFA placing each Enterprise into conservatorship in September 2008. The FHFA staff and the staff at each Enterprise have been, and continue to be, working hard to restore safety and soundness to these institutions, however, the consequences of the size and credit characteristics of their mortgage books of business create substantial uncertainty as to the form of the ultimate resolution of the conservatorships.

In HERA, Congress gave the Treasury Department substantial authorities to provide financial support to the housing government sponsored enterprises (GSEs). The Treasury Department has exercised these authorities in establishing three facilities to support the ongoing business operations of the Enterprises and to provide confidence to investors in the Enterprises' debt and mortgage-backed securities.

The first facility is a Senior Preferred Stock Purchase Agreement with each Enterprise (initial commitment of $100 billion) to ensure that they maintain a positive net worth. In February 2009, the Treasury Department, with the support of FHFA, announced a doubling of the financial support available under the Senior Preferred Stock Purchase Agreements to $200 billion per company. While neither Enterprise was near the initial $100 billion commitment level, given disclosures on preliminary loss estimates for the last quarter of 2008, the increased financial commitment helped to maintain confidence in the Enterprises. To date, the Enterprises have drawn about $60 billion on this combined $400 billion commitment.

The second facility is the GSE Mortgage Backed Securities (GSE MBS) Purchase Program, which

was established to purchase GSE MBS at the discretion of the Secretary of the Treasury based on developments in the capital markets and housing markets. Through February 2009, the Treasury Department has purchased more than $100 billion of GSE MBS. In addition, utilizing its separate authorities, the Federal Reserve has established programs to purchase $200 billion of Enterprise and FHLBank debt and $1.25 trillion of GSE and Ginnie Mae MBS. Through March 2009, the Federal Reserve has purchased $300 billion of GSE MBS and $40 billion in Enterprise debt.

The third facility is the Government Sponsored Enterprise Credit Facility (GSE Credit Facility). This credit facility is designed to provide short-term secured funding to the Enterprises and the FHLBanks. To date, there have not been any borrowings under this facility.

The combined actions of the Treasury Department and the Federal Reserve ensure that the Enterprises have significant access to capital. In particular, the Treasury Department has given investors in the Enterprises' debt and mortgage-backed securities confidence that Treasury will provide extraordinary support, if necessary, under the terms of the Senior Preferred Stock Purchase Agreement.

Each Enterprise continues to be a critical player in the functioning of the nation's mortgage market, and their combined share of mortgages originated in the second half of 2008 was 73 percent, up from 67 percent in the second half of 2007 and 37 percent in 2006. While the underlying quality of the Enterprises' credit book is better than the average for all prime conforming mortgages in the country, the sheer size of the Enterprises' credit book will present significant challenges as the financial and housing market turmoil continues to unfold.

The circumstances of conservatorship, with the Treasury Department's Senior Preferred Stock Purchase Agreement, also renders traditional measures of capital and capital adequacy not relevant. As reported by the Enterprises in their year-end financial statements, each company has depleted all of its shareholders' equity, with the negative balance in those accounts being offset by the Treasury Department's Senior Preferred Stock investment. Under the terms of the Senior Preferred Stock Purchase Agreement, this support will continue indefinitely into the future subject to the commitment limit.

Since being placed into conservatorship, each Enterprise has made strides in remediating various areas of weakness and in stabilizing their funding and operations. Still, the companies must continue to make progress in remediating material deficiencies and restoring sound operational systems, business practices, risk management, and accounting and control systems.

Material Deficiencies

The reports of examination describe the scope and depth of material deficiencies in the operations of the Enterprises. Since September, new senior management at each company has worked with FHFA to establish and implement a comprehensive remediation program. Performance targets established for senior managers at each Enterprise are tied to successful remediation efforts. In 2009, FHFA as conservator and regulator is continuing to work with each Enterprise to ensure they remediate the financial and operational deficiencies identified by FHFA's regulatory examinations and by internal and external audit activities.

Significant vacancies at the executive level represent a material deficiency at Freddie Mac. Freddie Mac is operating with an interim Chief Executive Officer, no Chief Operating Officer, and an Acting Chief Financial Officer. The Freddie Mac Board of Directors is working to fill these and other key positions. At Fannie Mae, vacancies for several senior positions (General Counsel, Chief Risk Officer, and Chief Technology Officer) were recently filled after being slowed by compensation issues. In addition, there are many senior vice president and vice president level vacancies.

Operational Status

Since being placed into conservatorship, the Enterprises have each maintained an ongoing presence in the secondary mortgage market. Their combined share of single-family originations, which peaked at 81 percent in the second quarter of 2008, fell slightly in the second half of the year as the activity of Federal Housing Administration (FHA) expanded, but still exceeded 75 percent in the fourth quarter. The Enterprises, though, face numerous, significant challenges to their operations, including:

- remediating the operational, financial, and risk management weaknesses that led to conservatorship;
- building and retaining staff and infrastructure;
- modeling credit risk in this uncertain environment;
- mitigating credit losses, including through loan modifications;
- pricing mortgage products given market uncertainties, modeling difficulties, and the uncertainties of operating in conservatorship;
- buying / guaranteeing mortgages with greater than 80 percent loan-to-value, due to declining house prices and constraints on the availability of private mortgage insurance; and
- providing for mission and public policy objectives of housing market stability, mortgage availability and mortgage affordability.

Beyond these challenges, the Treasury Department has contracted with each Enterprise to act as financial agent for the federal government in implementing the Administration's Making Home Affordable program. Fannie Mae is working with mortgage servicers to implement Home Affordable Modifications, designed to avoid preventable foreclosures for homeowners willing and able to continue making their mortgage payments if those payments are made more affordable. Freddie Mac's role is overseeing the servicers' compliance with program terms and conditions. Both Enterprises also have undertaken a Home Affordable Refinance initiative to enable homeowners with a mortgage owned or guaranteed by an Enterprise who are current on their mortgage to refinance to a lower rate. This program should assist millions of homeowners who otherwise would have difficulty refinancing due to declining house prices and lack of private mortgage insurance.

Both programs have been launched and will be an important part of the Enterprises' business – and mission – activities this year. The goals of the Enterprises participation in this program are to stabilize housing markets while improving the credit position of their respective books of business. Given the Enterprises' substantial market position, with more that $5 trillion in mortgages owned and guaranteed, activities that promote responsible homeownership, reduce preventable foreclosures, and stabilize house prices should help reduce future losses.

Conservatorship cannot be a permanent state for the Enterprises, but getting out of conservatorship awaits a housing market recovery and will likely involve Congressional action. Many observers have warned for years of the weaknesses in the GSE model. Regrettably, those warnings proved true. How Congress chooses to fix or replace the GSE model will guide the future operations of the Enterprises.

Mission

Concern for the Enterprises fulfilling their mission was a key reason for placing the Enterprises into conservatorship. The Treasury Department facilities established at that time were designed to ensure that each Enterprise continued to operate to provide stability, liquidity, and affordability to the secondary mortgage market.

The conservatorships are being operated as Congress originally intended the companies to operate—as private businesses operating with an important public purpose. Still, the current situation poses certain challenges for the Enterprises and the conservator that may not be present in normal times. For instance, assigning economic capital to various business activities and product lines is complicated both by models that have failed to capture the depth and severity of the current mortgage crisis and by the absence of actual private capital at risk. These factors also complicate pricing decisions as model error has been, and may continue to be, very high.

At the same time, the use of taxpayer funds to stabilize the Enterprises demands both the protection of that capital in the business and the assurance that the Enterprises are operating to meet the public purposes for which they were created. In the current mortgage crisis, public policy has focused the Enterprises on mortgage availability, mortgage affordability, and foreclosure mitigation. The Enterprises have been playing an important role in assisting the federal government in foreclosure mitigation activities. Loan modifications undertaken for their own books of business are both critical to mitigating credit losses on those books and meeting the Enterprises' public purposes.

With respect to 2008 housing goals, Fannie Mae failed to meet all but one if its overall housing goals and home purchase subgoals. Freddie Mac missed all of them. Both Enterprises met their multifamily subgoals. As provided for by Congress, FHFA is reconsidering the appropriateness of the goal levels for 2009 in light of this experience and the current state of the mortgage market. Going forward, the housing goals need to be made more responsive to actual market conditions and promote sustainable mortgage options for low- and moderate-income families and neighborhoods.

Consistent with its responsibilities, FHFA suspended Enterprise contributions to the Housing Trust Fund in view of the Enterprises' losses and required draws on the Treasury Department's Senior Preferred Stock Purchase facility.

The FHLBanks

Safety and Soundness

HERA granted the Treasury Department the authority to support the FHLBanks as well as the Enterprises. However, the FHLBanks have access only to the GSE Credit Facility, and they have not used that facility. To date, the FHLBanks have continued to fund themselves in the marketplace. The Federal Reserve has purchased a modest amount—$17 billion through April 2009—of FHLBank System debt.

As financial markets seized in 2007 and 2008, the FHLBanks played a critical role in providing liquidity (advances) to their members, with advances growing to more than $1 trillion at September 30, 2008. The FHLBanks' advance business continues to be a safe and sound business, with no credit losses. During the year, the capital structure of the System ensured that member capital investments in their FHLBanks increased as advances outstanding grew.

In contrast, the quality of the FHLBanks' investments in private-label mortgage-backed securities was revealed to be far worse than their initial triple-A credit ratings would have suggested. By the end of 2008, six FHLBanks had voluntarily or by regulatory requirement ceased paying dividends and repurchasing member stock as means

for conserving capital. With continued uncertainty surrounding the true economic value of private-label mortgage-backed securities, such investments will continue to raise varying degrees of safety and soundness concerns, depending on the particular circumstances of the FHLBank, including the composition of the mortgages underlying the investments and the strength of the FHLBank's retained earnings.

Overall, the FHLBank System with its joint and several liability for System debt remains safe and sound, but the actual and potential losses associated with these private-label securities is a cause for safety and soundness concerns at certain FHLBanks. While recent changes to accounting rules announced by the Financial Accounting Standards Board may result in improved accounting measurement of financial condition and a stronger regulatory capital position at some of the FHLBanks, the governance and credit risk management issues raised by these investments are serious concerns for the affected FHLBanks to address.

Material Deficiencies

Since October 2007, the FHLBank of Chicago has operated under a consent order to cease and desist first established with the Federal Housing Finance Board. The consent order suspended dividend payments and capital repurchases and redemptions and required the FHLBank to address supervisory concerns identified by the Finance Board. While the FHLBank's management has taken positive steps towards remediation, continued deterioration of the FHLBank's private-label mortgage-backed securities portfolio, funding risks associated with its Mortgage Partnership Finance Program, and overall weakness in financial condition remain material deficiencies.

Private-label mortgage-backed security investments are also a key contributor to certain financial or risk management weaknesses at other FHLBanks. The FHLBank of Pittsburgh has risks associated with these investments, which has weakened the FHLBank's earnings stability and capital adequacy. The FHLBank of Seattle reported material weaknesses in its 2008 10-K due to inadequate controls associated with the accounting and management of its securities portfolio. The FHLBank of Seattle also failed to meet its risk-based capital requirement at year-end. As part of the remedy to this situation, Seattle cannot pay dividends or redeem stock. In all, six FHLBanks reported losses in the fourth quarter of 2009 and three FHLBanks (Boston, Chicago, and Seattle) reported losses for the year, principally due to impairments of private-label mortgage-backed securities. Eight FHLBanks reported other-than-temporary impairments on private-label mortgage-backed security investments, for a total of $2 billion.

Operational Status

In 2008, the FHLBanks operations served the liquidity function Congress created for them. This has been particularly so since the mortgage crisis began in the summer of 2007, and was especially true during the critical liquidity stresses in financial markets in the early autumn of 2008. Although several members, including some large ones, became troubled in 2008, the advance business remains free of credit losses.

However, as described above, dividend payments and capital redemptions and repurchases at some FHLBanks have been hampered by the significant deterioration in value of the private-label mortgage-backed securities portfolios. Improvements in the FHLBank System's financial reporting controls/systems along with remediating weakness at certain FHLBanks will be critical issues to address in 2009.

Mission

Despite market turmoil in late 2008, the FHLBanks met their essential public purpose of providing liquidity to their members. For the first time ever, System advances exceeded $1 trillion at September 30, 2008, although they have declined more than 20 percent since then.

The FHLBanks' Affordable Housing Program (AHP) continues to be a source of funds to support local affordable housing initiatives being funded by member institutions. However, the decline in FHLBank income in 2008 will reduce the amount of AHP funding the FHLBanks will award in 2009. HERA provided that AHP Affordable Housing funds may be used to support loan modification activities. Through an interim final rule implementing this temporary authority, FHLBanks may subsidize closing costs or further buy-down principal in Hope for Homeowners mortgages through FHA. The final rule, which is under review, will expand the program to other loan modification efforts.

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Year In Review

Economic Recession and Deepening Financial Crisis

The recession that began in December 2007 continued throughout 2008 and worsened in the fourth quarter. Lower interest rates and the boost in consumer spending provided by a federal fiscal stimulus package enacted in February had masked the economic decline during the first half of the year. The shrinking housing sector continued to be a major drag on GDP. Spending on purchases of new homes and renovations (known as residential fixed investment) fell for the third consecutive year, dropping 22.2 percent. The economic downturn spread from housing to other industries, as evidenced by declines in vehicle and retail sales and industrial production.

Inflation accelerated in the first half of the year, as measured by the Consumer Price Index (CPI), driven by rising energy and food prices. However, energy prices declined in the third and fourth quarters as global economic growth slowed and demand for oil fell, which helped dampen inflation and caused the CPI to fall in the fourth quarter. The United States lost approximately three million jobs in 2008, and the unemployment rate rose from 4.9 percent in December of 2007 to 7.2 percent one year later, the highest rate since January 1993. The nation's bleak unemployment picture, loss of equity in homes and investments, and tight credit markets caused consumer confidence to plummet and led many to curb spending.

Financial market distress continued throughout 2008 and worsened in mid-September. Continuing declines in asset values in mortgage and equity markets, tight credit conditions, and provisioning for credit losses led to growing concerns about the solvency and liquidity of important financial institutions. Those factors eventually led to the sale of Bear Stearns in March, and conservatorships for Fannie Mae and Freddie Mac, the bankruptcy of Lehman Brothers, and the rescue of AIG in September. The fate of those institutions and general uncertainty about future losses intensified concerns about credit and liquidity risks and resulted in a sharp reduction in market liquidity, evidenced by widening risk spreads. During the early part of October, the spread between the three-month London Interbank Offered Rate (LIBOR) and the three-month Treasury bill rate rose to almost twice its level at an earlier stage of the crisis in August 2007 (see Figure 1).

Concerns about fragile conditions in financial markets led the Federal Reserve to continue the policy of monetary easing begun in mid-2007. The federal funds target rate was lowered 225 basis points in the first four months of 2008 to 2.0 percent. The economy briefly showed signs of improving during the summer, but despite fiscal stimulus financial markets continued to deteriorate, both in the United States and abroad. Short-term funding markets froze. In October, the Federal Reserve collaborated with other central banks to cut interest rates. The federal funds target rate was lowered an additional 100 basis points in October and even further in December to a target range of zero to 25 basis points. In addition, the Federal Reserve announced or introduced several unprecedented programs designed to increase liquidity in specific credit markets and ease lending terms for specific types of institutions. Those included lending facilities for primary dealers, depository institutions, bank holding companies, eligible commercial paper issuers, and special-purpose vehicles established to purchase unsecured asset-backed commercial paper and to finance the purchase of money market instruments from eligible investors.

Because of growing safety and soundness issues at both Fannie Mae and Freddie Mac (Enterprises), on September 6, 2008, the Federal Housing Finance Agency (FHFA), with the concurrence of the Secretary of the Treasury and the Chairman of the Board of Governors of the Federal Reserve System, placed each Enterprise in conservatorship. In conjunction with that action, Treasury initiated individual agreements with Fannie Mae and Freddie Mac to purchase senior preferred

Figure 1 • Spread Between Three-Month LIBOR and Treasury Bill Rate

Sources: Bloomberg Financial LP and Federal Reserve Board

stock and established special facilities to purchase mortgage-backed securities (MBS) guaranteed by the Enterprises and debt issued by the three housing government-sponsored enterprises (GSEs)—Fannie Mae and Freddie Mac, and the Federal Home Loan Banks (FHLBanks). Those actions were taken to enable the Enterprises to continue to fulfill their mission of providing liquidity and stability to mortgage markets. The Treasury support for the Enterprises in conservatorship is discussed in more detail below.

On November 25, the Federal Reserve announced a program to purchase up to $100 billion in debt securities issued by the housing GSEs and up to $500 billion in MBS guaranteed by the Enterprises and Ginnie Mae. The goal of those purchases is to reduce the cost of mortgages and increase the availability of credit for home purchases. Purchases of GSE debt in particular were intended to lower the spreads between the yields of those obligations and Treasury debt, which had widened to historic highs. Prior to that action, the Emergency Economic Stabilization Act (EESA), enacted in October, had authorized the Treasury to establish a $700 billion Troubled Assets Relief Program (TARP) to help stabilize financial markets and support financial institutions. By the end of 2008, the Federal Reserve had purchased $15 billion in GSE debt securities. The Federal Reserve began purchasing Enterprise and Ginnie Mae MBS in early January 2009 and had bought $333.2 billion of those securities through April 8, 2009, more than one-half of the total purchase commitment.

Signs of improvement in some credit market indicators followed the Federal Reserve and Treasury actions in the fourth quarter of 2008, especially in the latter part of the quarter. For instance, the spread between three-month LIBOR and the three-month Treasury bill rate, which had reached 458 basis points on October 10, narrowed to 132 basis points by the end of the year, a level below its 2007 peak but still much higher than its average of about 38 basis points from 2000 through mid-2007. The one-year Constant Maturity Treasury (CMT) yield fell from a high of 3.17 percent in January to a low of 0.34 percent in December 2008. Long-term interest rates rose modestly in the first half of 2008. The yield on the 10-year CMT peaked in June at 4.27 percent,

declined thereafter, and ended the year at 2.25 percent or 179 basis points lower than at the end of 2007. Because short-term interest rates fell more than long-term rates, the Treasury yield curve steepened over the course of the year.

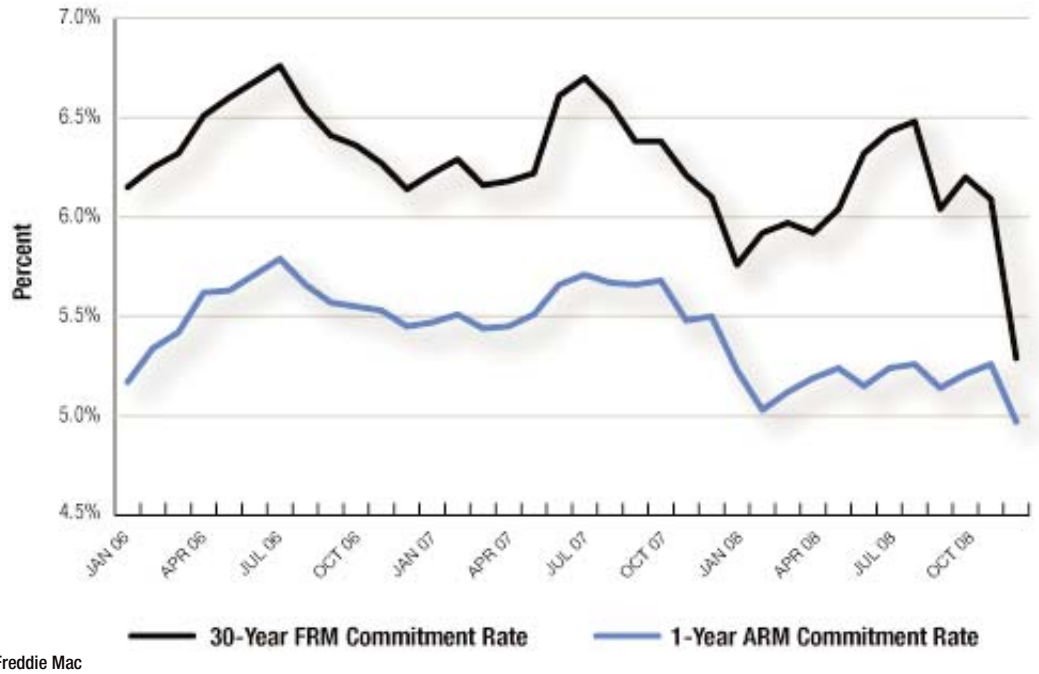
Mortgage interest rates, which generally follow the trend of long-term Treasury rates, were volatile in 2008, especially during the first nine months of the year, due in part to uncertainty about the stability of Fannie Mae and Freddie Mac. According to Freddie Mac's Primary Mortgage Market Survey (PMMS), the average 30-year fixed-rate mortgage (FRM) commitment rate reached a high of 6.63 percent in July but then fluctuated. Mortgage rates declined after the establishment of conservatorships for Fannie Mae and Freddie Mac, rose after the bankruptcy of Lehman Brothers and the rescue of AIG, and declined sharply after the Federal Reserve announced it would purchase GSE debt securities and MBS. The 30-year FRM commitment rate fell in the final weeks of the year to a record low at year-end 2008, 107 basis points lower than at year-end 2007. During 2008, the 30-year FRM commitment rate averaged 6.03 percent, 31 basis points below the average for 2007. Likewise, the average commitment rate on one-year Treasury-indexed adjustable-rate mortgages (ARMs) increased through July, then decreased toward the end of the year. For the year, the one-year ARM commitment rate averaged 5.17 percent, 39 basis points lower than the year before (see Figure 2).

Deteriorating Housing and Mortgage Markets

Conditions in housing and mortgage markets deteriorated sharply throughout 2008, especially in the fourth quarter. House prices continued to fall, with many areas experiencing record rates of decline. Significant inventories of unsold homes, increasing foreclosures, and tightening credit conditions put downward pressure on prices, even in areas that suffered substantial price declines in 2007.

As measured in FHFA's national seasonally adjusted, purchase-only house price index (HPI), home prices fell 8.2 percent between the fourth quarters of 2007 and 2008—the largest decrease in the period covered by the index (1991–2008). That decline contrasts sharply with the modest

Figure 2 • Mortgage Commitment Rates



Source: Freddie Mac

Figure 3 • FHFA House Price Index History for United States

Seasonally Adjusted Price Change Measured in Purchase-Only Index

Source: Federal Housing Finance Agency

national decrease over the prior four-quarter period, when United States prices fell only 0.7 percent. Quarterly price changes were negative in all four quarters, with seasonally adjusted declines ranging between 1.4 percent and 3.4 percent (see Figure 3). The largest quarterly price drop in 2008 occurred in the fourth quarter.

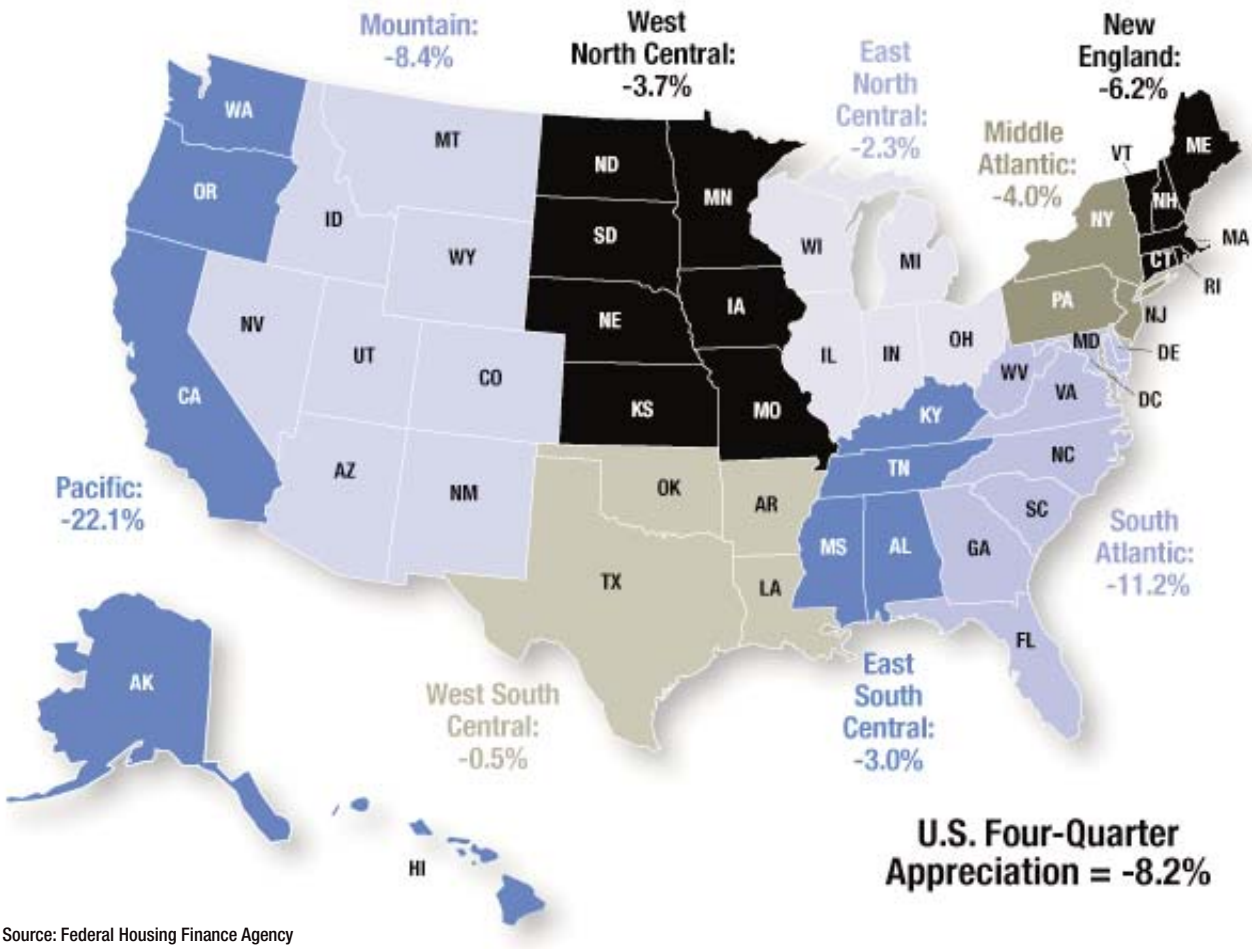
Although home values fell throughout the country, there were vast differences in the magnitude of regional price declines. The West Coast states, Alaska, and Hawaii, which make up the Pacific Census Division, suffered the worst house price decreases (see Figure 4). Prices fell 22.1 percent between the fourth quarters of 2007 and 2008 in those states, adding to the 4.8 percent decline in the prior four-quarter period. Conditions in California were particularly weak, with homes in that state experiencing an average price decline of 25.5 percent.

The Mountain and South Atlantic Census Divisions saw price declines of 8.4 and 11.2 percent, respectively. As with the Pacific Division, substantial variation existed across states within those divisions. In the Mountain Census Division, for example, Arizona and Nevada markets were much softer than markets in other states. Florida house prices sustained by far the greatest declines in the South Atlantic Division.

While its aggregate price decline was not as great as in some other areas, the East North Central Division (comprising Michigan, Wisconsin, Illinois, Indiana, and Ohio) is notable because, unlike other divisions, it experienced substantial price declines without having seen significant price increases during the housing boom early in this decade. Particularly high unemployment and rising foreclosures caused prices to fall from relatively modest levels in that division.

Falling home prices caused equity in homes to decline sharply in 2008. The resetting of the interest rates on poorly underwritten ARMs originated in recent years, deteriorating household balance sheets, rising unemployment, continued credit tightening, and the deepening recession contributed to increases in mortgage delinquency and home foreclosure rates as well as sharply

Figure 4 • Four-Quarter Price Change in Purchase-Only Index By Census Division; Period Ending Fourth Quarter 2008



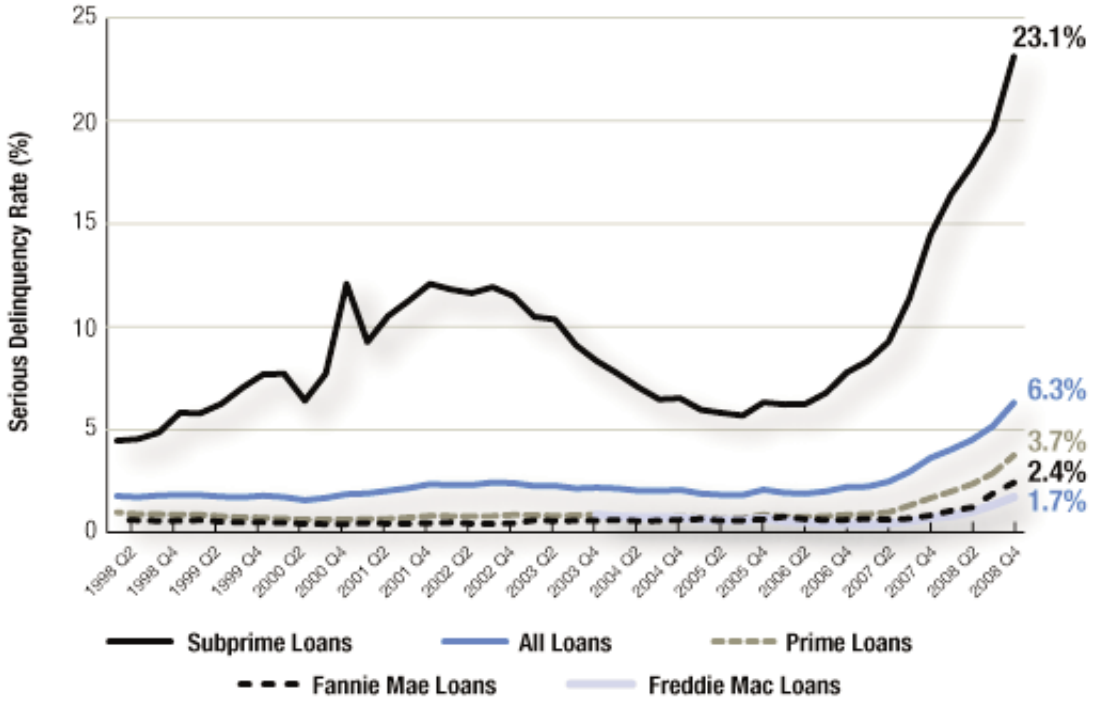
Source: Federal Housing Finance Agency

lower housing starts and sales and mortgage lending activity.

According to the Mortgage Bankers Association's (MBA's) National Delinquency Survey, the percentage of single-family mortgages that were seriously delinquent (past due 90 days or more or in foreclosure) increased rapidly in 2008 (see Figure 5). The serious delinquency rate for all loans rose 268 basis points to 6.3 percent from the fourth quarter of 2007 to the fourth quarter of 2008. The delinquency rate for prime loans increased from 167 basis points in the final quarter of 2007 to 3.7 percent one year later. By contrast, the serious delinquency rate for subprime mortgages continued in double-digit rates, rising 867 basis points from the fourth quarter of 2007 to 23.1 percent at the end of the fourth quarter of 2008. Serious delinquencies of loans owned or guaranteed by Fannie Mae and Freddie Mac also increased, but remained much lower than the rate for all prime mortgages at 2.4 percent and 1.7 percent, respectively.

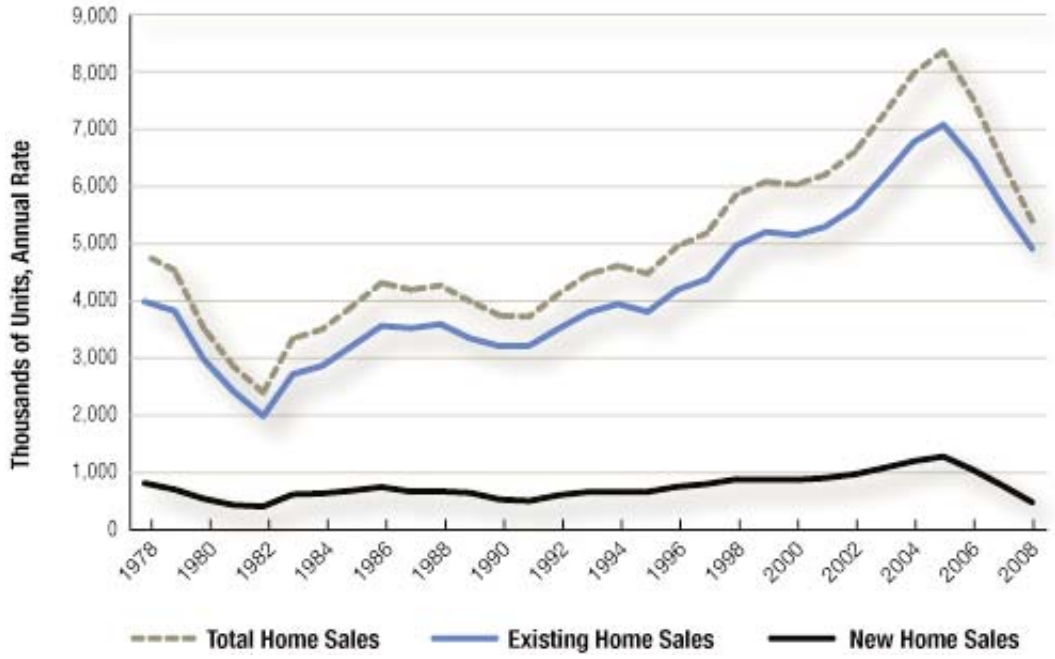
Home foreclosures continued to rise in 2008, with California and Florida experiencing the largest increases. More than one percent of all loans went into foreclosure in each quarter of 2008. However, foreclosures slowed toward the end of the year as a result of various foreclosure moratorium programs initiated by the states, the Enterprises, and other financial institutions. At

Figure 5 • Serious Delinquency Rates, 1998–2008



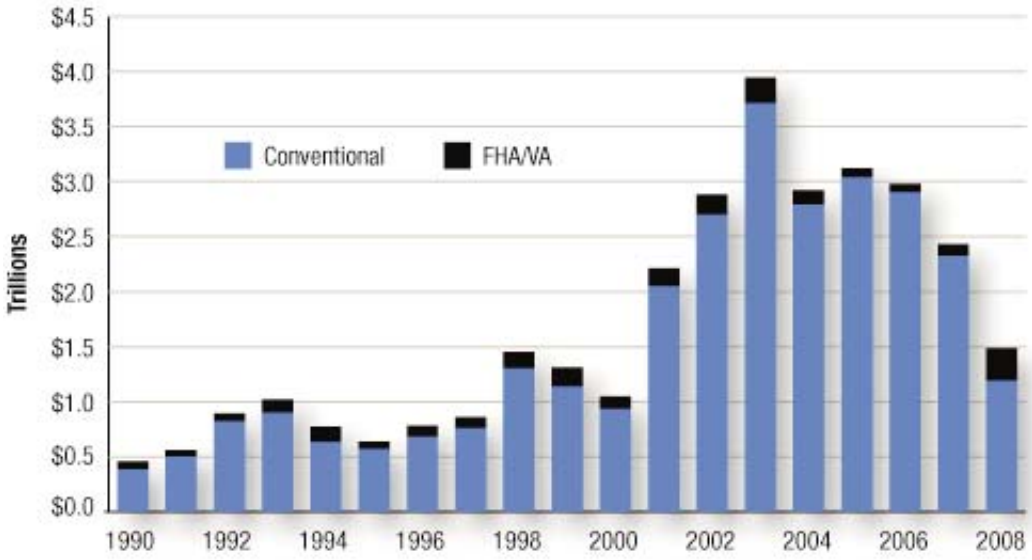
Source: Fannie Mae, Freddie Mac, and Mortgage Bankers Association

Figure 6 • Home Sales



Source: National Association of Realtors and U.S. Census Bureau

Figure 7 • Single-Family Mortgage Originations



Source: *Inside Mortgage Finance Publications*

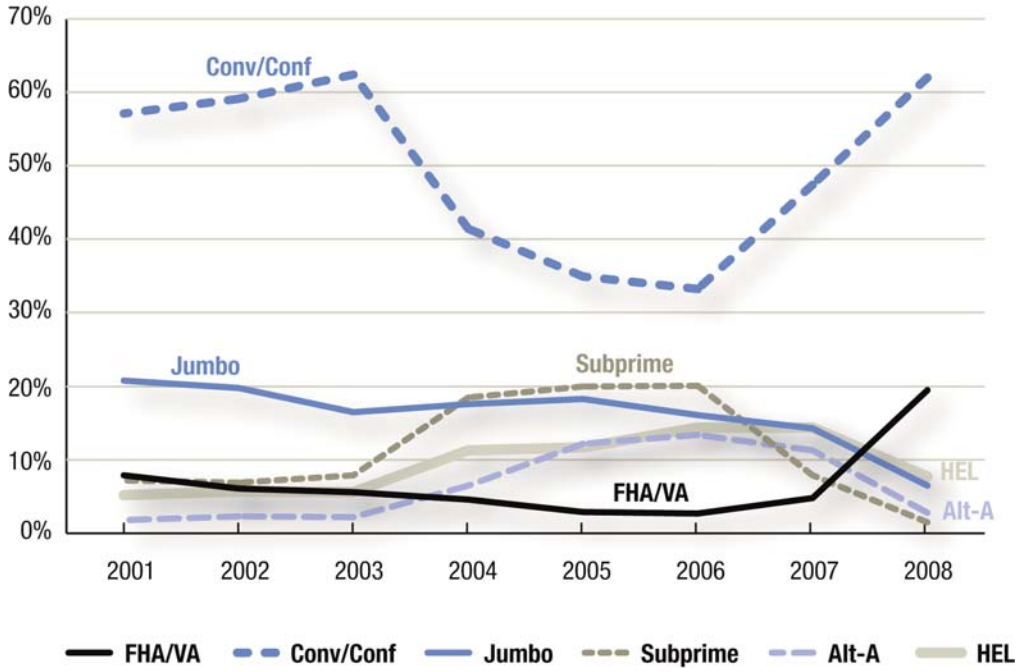
the end of the fourth quarter, 3.3 percent of all loans were in the process of foreclosure, up from 2.0 percent one year earlier.

Single-family housing starts declined for the third consecutive year, falling 40.7 percent to 639,500 units—the biggest percentage decline ever recorded. Home sales also dropped sharply, despite lower prices and generally low mortgage interest rates. Sales of new homes posted their third consecutive double-digit decline, falling 37.5 percent to 485,000 units, the lowest volume since 1982. Sales of existing homes slid 13.1 percent to 4.9 million units, the lowest level since 1997 (see Figure 6).

Falling house prices, tightening credit market conditions, and the recession contributed to a further decline in single-family mortgage lending in 2008. According to *Inside Mortgage Finance*, originations of single-family mortgages fell 38.9 percent—the third consecutive annual decline—reaching an eight-year low of $1.485 trillion. That was slightly more than one-third of the record volume of originations in 2003 (see Figure 7).

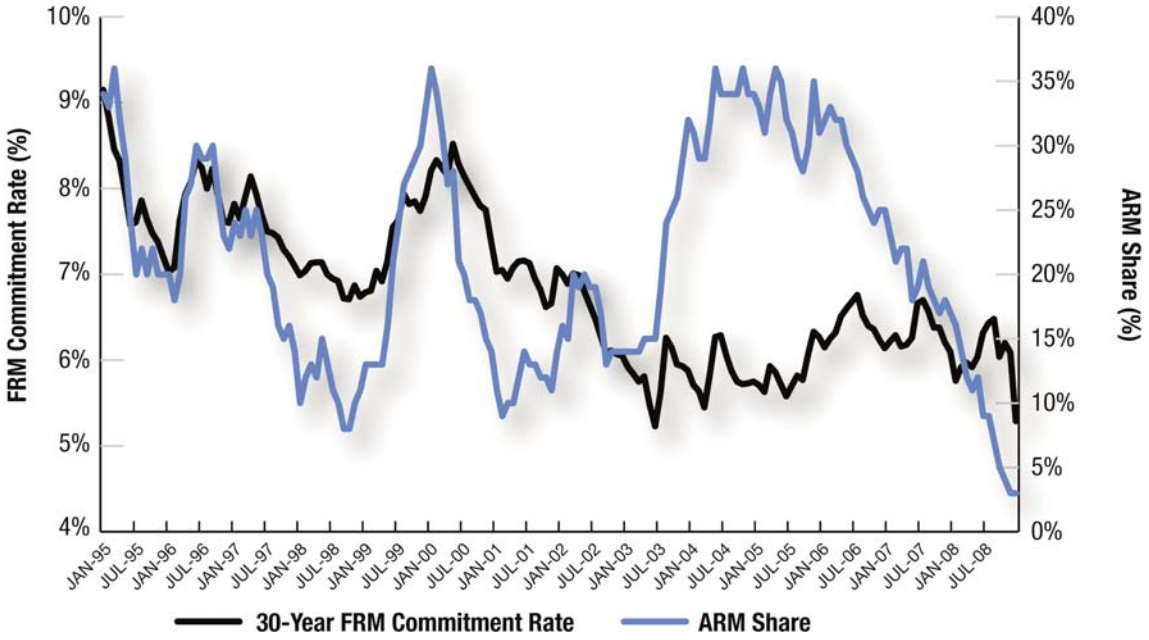
The mix of single-family mortgages originated changed significantly in 2008, a reflection of the collapse of nontraditional lending. Whereas activity in the subprime sector had dominated in the early part of the decade, subprime lending all but dried up in 2008. Similarly, there was not much Alternative-A (Alt-A) lending. By contrast, mortgages insured by the Federal Housing Administration (FHA) increased substantially. Total FHA endorsements (insurance policies) increased more than threefold to $253.1 billion. Those endorsements represented 17 percent of single-family mortgages originated in 2008, up from 3.3 percent in 2007. An increase in the FHA loan limit, which made FHA financing available to more borrowers, was one of the factors that contributed to the increased popularity of FHA insurance. The Department of Veterans Affairs' (VA's) share of originations also increased. Mortgages insured or guaranteed by VA and FHA accounted for 19.5 percent of single-family mortgages originated in 2008, compared with 4.8 percent in 2007 and 2.7 percent the year before. The volume of conventional conforming mortgages originated in 2008 declined by 20 percent. However, the conventional conforming share of total single-family lending increased to 62 percent, compared with 47.4 percent the year before. That change reflects significantly lower volumes

Figure 8 • Single-Family Mortgage Originations by Market Segment



Source: *Inside Mortgage Finance Publications*

Figure 9 • ARM Share of Conventional Nonjumbo Single-Family Loan Applications and Commitment Rates on 30-Year Fixed-Rate Mortgages



Source: Freddie Mac's Primary Mortgage Market Survey

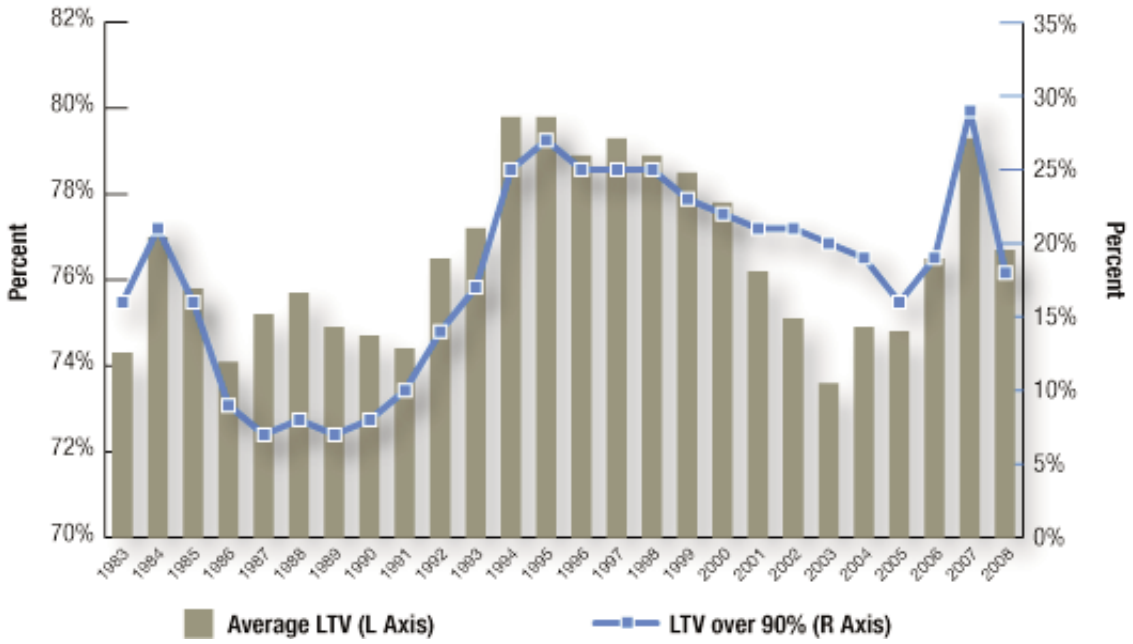
of jumbo, subprime, and Alt-A lending (see Figure 8).

Applications for single-family mortgages with adjustable rates declined sharply in 2008. According to Freddie Mac's PMMS, single-family ARM applications dipped to three percent in December, the lowest share since the Enterprise began its survey and far below the peak months in 2005, 2004, 2000, and 1995 of 36 percent. The PMMS indicates that the ARM share of conventional nonjumbo single-family loan applications was 9 percent in 2008, down from 20 percent in 2007 (see Figure 9). Refinancings accounted for about 50 percent of single-family mortgages originated in 2008, but many borrowers who refinanced their resetting ARMs chose to convert those mortgages into FRMs. Narrowing spreads between FRMs and ARMs gave borrowers an incentive to lock in fixed rates.

The credit quality of conventional fixed-rate originations improved in 2008 because of tighter underwriting standards and a sharp decline in the volume of subprime, Alt-A, and other nontraditional mortgages. Consequently, the loan-to-value (LTV) ratios of conventional fixed-rate loans improved. According to FHFA's Monthly Interest Rate Survey (MIRS), the average LTV ratio of single-family conventional, purchase-money mortgages, which increased rapidly from 73.6 percent in 2003 to 79.3 percent in 2007, fell to 76.7 percent in 2008. The proportion of such loans with LTV ratios greater than 90 percent dropped sharply from 2007's level of 29 percent—the highest level recorded—to 18 percent in 2008 (see Figure 10).

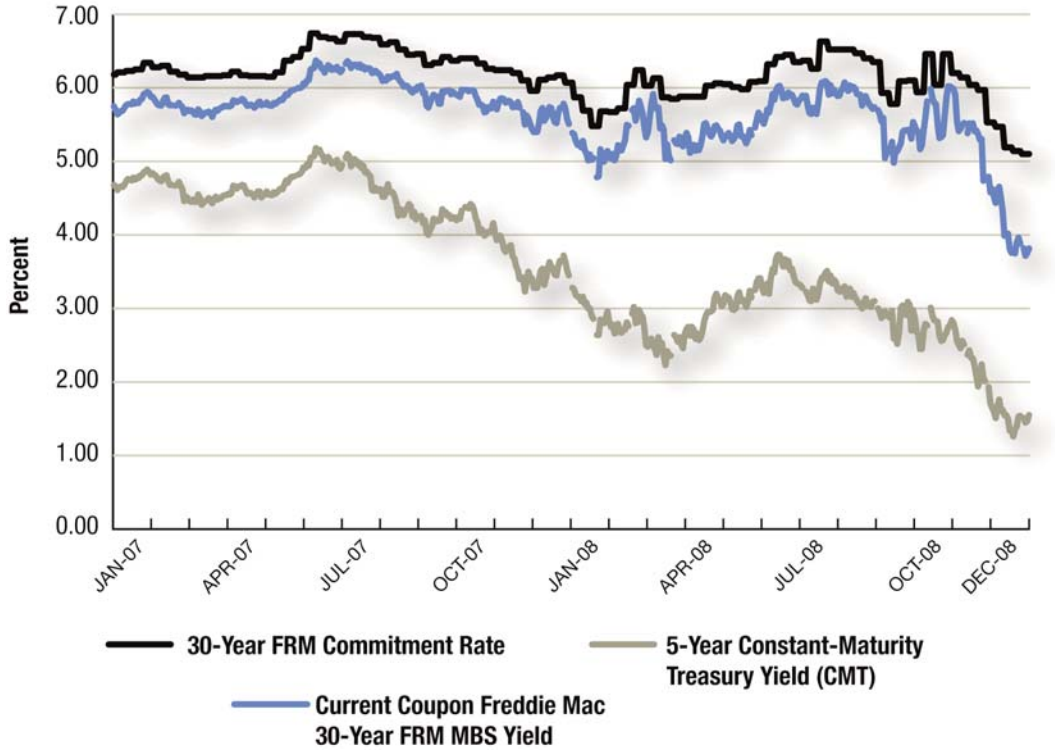
Growing concern about mortgage foreclosures, continuing house price depreciation, the declining economy, and investors' preference for safe, highly liquid debt reduced activity in the secondary mortgage market in 2008. Only $58.2 billion of private-label MBS were issued, compared with $707 billion in 2007 and $1.1 trillion in 2006. Low demand for private-label securities (PLS) and declining performance of collateral underlying

Figure 10 • Loan-to-Value Ratios of Conventional Single-Family Mortgages and Percentage of Originations with Loan-to-Value Greater than 90 Percent



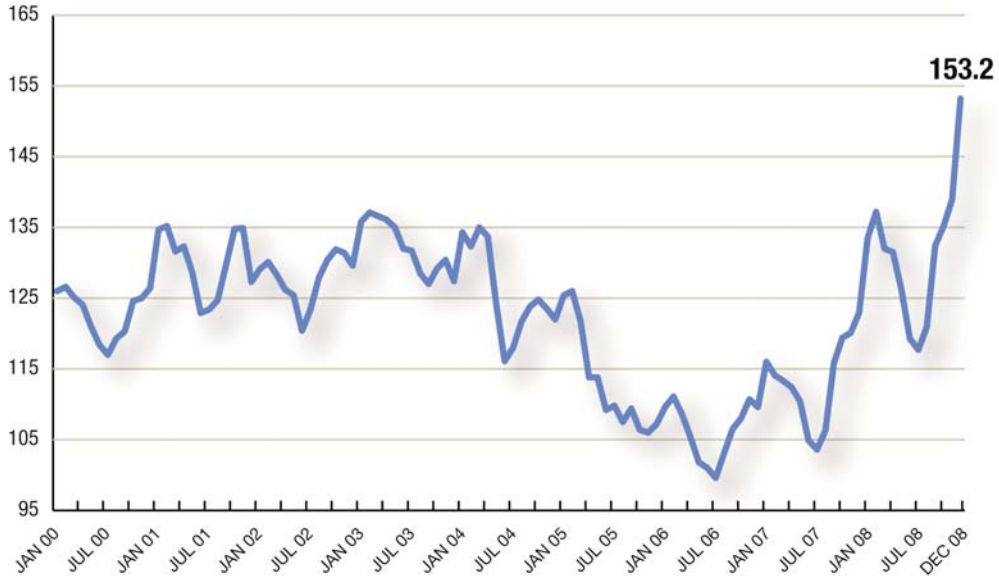
Source: FHFA Monthly Interest Rate Survey

Figure 11 • Mortgage Commitment Rates, MBS Yields and 5-Year Treasury Yields



Sources: Freddie Mac, Federal Reserve

Figure 12 • United States Composite Housing Affordability Index, 2000 – 2008



Source: National Association of Realtors

prior years' issuances depressed prices for those securities in 2008. Enterprise MBS also suffered from price depreciation in 2008 as investors lost confidence in Fannie Mae and Freddie Mac. Foreign investors, in particular, reduced purchases of Enterprise MBS and debt. Capital-starved banks and the Enterprises were unable to increase their purchases to make up for diminished foreign investment, and, in the third quarter, spreads between the yields of Enterprise MBS and Treasuries soared (see Figure 11). Yields of Enterprise MBS dropped after the conservatorships, rose following the bankruptcy of Lehman Brothers, and started a steady decline following the November 25 announcement of the Federal Reserve purchase programs.

Despite the rise in foreclosures in 2008, the homeownership rate and rental and homeowner vacancy rates generally held steady. Another bright spot in the struggling United States housing market in 2008 was an increase in housing affordability, as measured by the National Association of Realtors' composite housing affordability index. That index rose from 123 in December 2007 to 153.2 in December 2008, an increase of 25 percent (see Figure 12). The higher value of the index mainly reflects a further decline in the median price of existing single-family homes in 2008 and lower mortgage interest rates.

Enterprise Conservatorships and Treasury Support

Because of growing safety and soundness issues at both Fannie Mae and Freddie Mac, on September 6, 2008, FHFA placed each Enterprise in conservatorship. Both the Secretary of the Treasury and the Chairman of the Board of Governors of the Federal Reserve System concurred with that decision. In conjunction with placing the Enterprises into conservatorship, Treasury initiated individual agreements to purchase senior preferred stock in Fannie Mae and Freddie Mac. Pursuant to those agreements, Treasury committed to invest up to $100 billion in each Enterprise to ensure each maintains a positive net worth, determined in accordance with generally accepted accounting principles (GAAP).[1]

As compensation for entering into these agreements and to protect taxpayers, Treasury received $1 billion in senior preferred stock and warrants for the purchase of common stock representing 79.9 percent of outstanding common stock from each Enterprise. In addition, the agreements placed some limitations on the Enterprises' business activities. For example, while the agreements do not restrict how each Enterprise can grow its net MBS outstanding (MBS held by others), they do limit the growth of each Enterprise's retained mortgage portfolio to a maximum balance of $850 billion at the end of 2009. Thereafter, the agreements stipulate that the retained mortgage portfolios must shrink by 10 percent per year until each Enterprise's holdings of mortgage assets reach a balance of $250 billion.[2] As of December 31, 2008, Treasury had acquired $14.8 billion of senior preferred stock from Freddie Mac and $1 billion from Fannie Mae.

The Treasury also established two special facilities to purchase Enterprise MBS (the GSE MBS Purchase Facility) and housing GSE debt (the GSE Credit Facility). Loans under the GSE Credit Facility will be short term and will not be made with a maturity date beyond December 31, 2009. All loans will be collateralized by MBS guaranteed by Freddie Mac and Fannie Mae or advances made by the FHLBanks. The interest rate on loans will be based on the daily LIBOR rate for a term similar to that of the loan, plus 50 basis points. The housing GSEs have not made any draws under the GSE Credit Facility. Treasury had purchased $71.6 billion in MBS under the GSE MBS Purchase Facility by the end of December 2008.

[1] In February 2009, the Treasury Department announced amendments to the agreements that would increase the potential investment in senior preferred stock in each Enterprise to $200 billion.

[2] In February 2009, the Treasury Department announced amendments to the agreements that would increase the permitted size of each Enterprise's retained mortgage portfolio to a maximum balance of $900 billion at the end of 2009.

Business Volumes

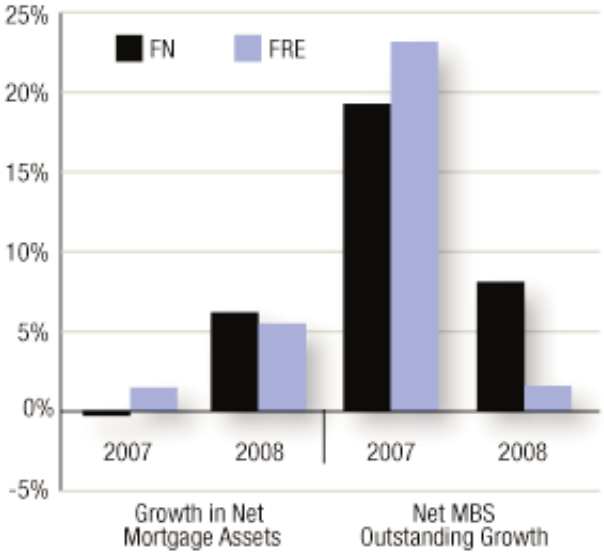
Despite turbulent housing and mortgage markets in 2008, Fannie Mae and Freddie Mac continued to provide substantial liquidity to the secondary mortgage market. Enterprise new business acquisitions (defined to include cash purchases from lenders, swaps of whole loans for MBS, and purchases of MBS) represented over 73 percent of total single-family originations, up from 54 percent in 2007. That growth in market share paralleled the sharp increase in the conventional conforming share of the primary market in 2008.

The Office of Federal Housing Enterprise Oversight (OFHEO), a predecessor to FHFA, lifted limits on the total dollar amount of mortgage assets the Enterprises could hold effective at the end of the first quarter, as they became timely in filing their financial statements. The lifting of the limits and the partial relaxation of capital surcharges before and the suspension of all regulatory capital requirements following the conservatorships paved the way for additional growth in the Enterprises' mortgage asset investments. Both Enterprises grew those investments at a much faster pace than in the recent past. Fannie Mae had not grown its holdings of mortgage assets since 2004, whereas Freddie Mac's holdings of mortgage assets had not shown any appreciable growth since 2005, due to the caps on growth of their mortgage assets agreed to in 2006 (see Figure 13).

The composition of both Enterprises' mortgage investments also changed in 2008. At year-end, Fannie Mae showed a slight increase in its holdings of whole loans—driven by higher volumes of multifamily and FHA/VA loans—and a slight decrease in PLS. Freddie Mac showed a noticeable decline in holdings of PLS offset by a higher volume of whole loans. At year-end, MBS guaranteed by Freddie Mac comprised more than half of its mortgage asset holdings.

Given the 38.9 percent drop in single-family mortgage originations, both Enterprises grew

Figure 13 • Enterprise Growth in Business Volume



Sources: Fannie Mae and Freddie Mac

their credit guarantee businesses at a much slower pace in 2008 than in the previous year. Fannie Mae MBS issuances declined 13.8 percent, while purchases of its own securities increased. For the year, Fannie Mae showed an increase in its net MBS outstanding of 8.1 percent, down from 19.2 percent the year before (see Figure 13). Freddie Mac's MBS issuances decreased as well, by 24 percent, while holdings of its own MBS increased 18.9 percent. For the year, Freddie Mac showed a 1.5 percent increase in its net MBS outstanding, down from growth of 23.1 percent in the prior year.

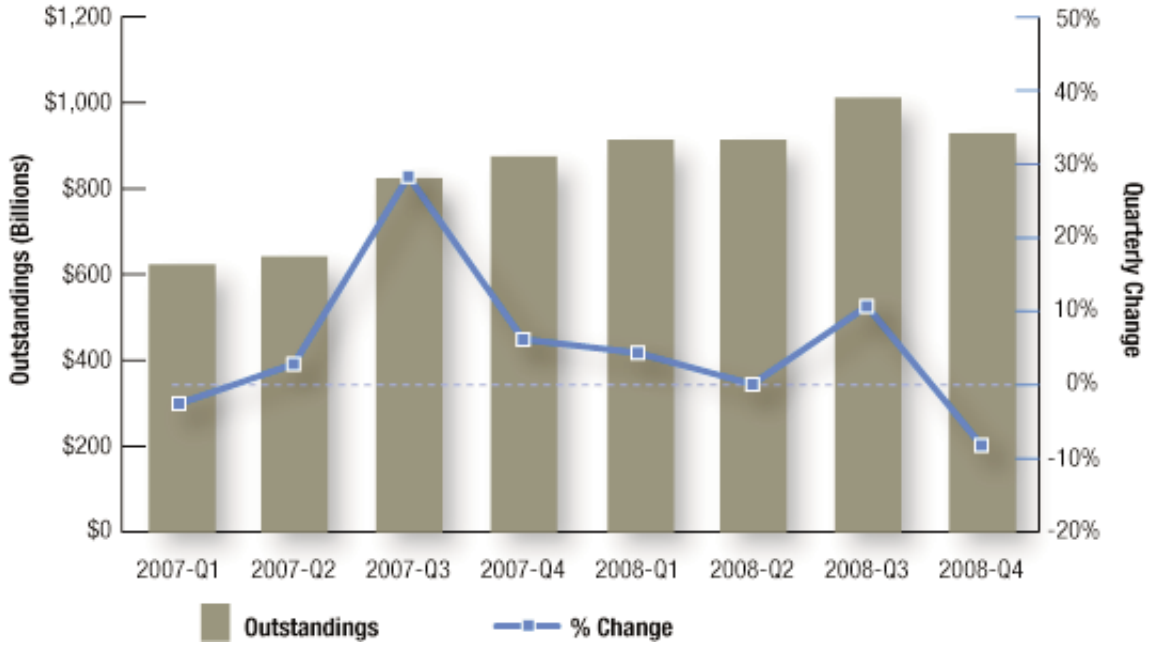
Despite the drop in mortgage originations, each Enterprise's total mortgage book of business—mortgage assets held for investment plus MBS held by others—grew in 2008, albeit at a much slower pace than in 2007. Fannie Mae grew its total book of business by 7.6 percent to $3.1 trillion, as compared with 13.5 percent the previous year. Freddie Mac's total book of business grew 2.9 percent to $2.2 trillion, as compared with 14.8 percent in 2007. Despite their slower growth, the Enterprises' share of the total mortgage market increased. Fannie Mae and Freddie Mac ended

the year holding and guaranteeing the highest level of the nation's outstanding residential mortgage debt since 2003, approximately 43.7 percent.

To help restore liquidity to the secondary mortgage market, in March 2008 the Federal Housing Finance Board, a predecessor to FHFA, authorized the FHLBanks to increase temporarily their holdings of MBS guaranteed by the Enterprises and Ginnie Mae from 300 to 600 percent of capital. At year-end, the FHLBanks held $96 billion of those securities, up from $55 billion one year earlier.

The FHLBanks continued to be a major source of liquidity to their member financial institutions and, thereby, the primary mortgage market in 2008. Advances outstanding reached an all-time high of $1,012 billion (at par) in the third quarter but contracted in the fourth quarter as member institutions drew on other funding sources. Demand for long-term debt issued by the housing GSEs declined and the yields on consolidated obligations issued by the FHLBanks increased, making advances a less attractive source of funding for members (see Figure 14). At the end of 2008, FHLBank advances outstanding totaled $928.6 billion (at par), up 6.1 percent from the end of 2007 and 44.9 percent from the end of 2006.

Figure 14 • Federal Home Loan Bank Advances Outstanding and Quarterly Changes



Source: Office of Finance, Federal Home Loan Bank System

Report of the Annual Examination of Fannie Mae (Federal National Mortgage Association)

Examination Authority and Scope

This Report of Examination contains the results and conclusions of FHFA's 2008 annual examination of the Federal National Mortgage Association (called Fannie Mae, or the Enterprise) performed under section 1317(a) of the Federal Housing Enterprises Financial Safety and Soundness Act of 1992, as amended (12 USC § 4517(a)). FHFA's annual examination program assesses the Enterprise's financial safety and soundness and overall risk management practices. The framework FHFA uses to report examination results and conclusions to the Board of Directors and Congress is known as GSEER, which stands for Governance, Solvency, Earnings, and Enterprise Risk (Enterprise Risk comprises credit, market, and operational risk management).

2008 Examination Scope

In 2008 FHFA dedicated significant resources to analyzing the Enterprise's levels and trends in asset quality and their impact on loan loss reserves, earnings, and capital adequacy. Once the Director appointed FHFA as conservator, examination activities shifted to monitoring rapidly changing market conditions, management actions, and their effect on the Enterprise's risk profile and condition.

Other examination activities during 2008 assessed actions of the Board of Directors, quality of executive management, enterprise-wide risk management and audit functions, accounting estimates and their effect on capital, key model performance, loan delinquency and foreclosure management, counterparty exposure, liquidity and interest rate risk profiles and risk management practices, the internal control environment, and risks in information technology, data quality, and business continuity.

Rating

Fannie Mae's composite rating is *critical concerns*. An Enterprise with critical safety and soundness concerns exhibits severe financial, nonfinancial, operational, or compliance weaknesses. An Enterprise with this rating requires more than normal supervision to ensure deficiencies are addressed. Definitions for all composite ratings can be found in FHFA's *Supervision Handbook* on the agency's Web site www.fhfa.gov.

FHFA communicated to the Enterprise a mid-year rating and it was a contributing factor in the appointment of FHFA as conservator in early September. The appointment of FHFA as conservator, combined with Treasury financial support, Federal Reserve actions, and new management at the Enterprise have stabilized the Enterprise's condition. While the critical concerns rating at year-end reflects the fact that the Enterprise is not currently capable of operating without government assistance, FHFA also acknowledges the strides the Fannie Mae Board, management, and staff have made under conservatorship to help stabilize the Enterprise and maintain its ongoing support of the secondary mortgage market.

Examination Conclusions

The Enterprise exhibits critical safety and soundness concerns primarily owing to the weak housing market exacerbated by weak legislative capital requirements, resulting in severe financial weaknesses that worsened to unprecedented levels during 2008. Certain risk management decisions that occurred before the conservatorship, coupled with continued financial market deterioration, led to net losses and eroded capital. Weakened earnings and market conditions led to difficulties in raising capital and issuing long-term debt, which contributed to the Director's decision to appoint FHFA as conservator.

In prior years, management expanded product eligibility to include nontraditional mortgage products, particularly Alt-A mortgages, and private-label securities containing subprime and Alt-A mortgages. These products have been the source of a disproportionate share of delinquencies, foreclosures, and credit-related expenses. Moreover, the Enterprise did not require originators to fully assess borrower capacity. Certain decisions, including the underestimation of risk associated with these products, coupled with changes in the economy, led to escalating increases in delinquencies, foreclosures, credit-related expenses and losses, and $26 billion of losses from impairments and mark-to-market accounting in the private-label securities portfolio.

Enormous net losses in 2008 resulted from a confluence of events: soaring mark-to-market losses, escalating credit-related expenses, and a large partial valuation allowance for deferred tax assets.

Market illiquidity, combined with aggressive Board and management risk limits, significantly increased risks in market risk management. The lack of significant investor support for the Enterprise long-term debt markets before the conservatorship revealed weaknesses in management's liquidity strategies; the volatile mortgage basis diminished the reliability of hedging decisions. Uncertain model results combined with aggressive limits and hedging strategies led to critical levels of interest rate risk relative to the Enterprise's weak earnings and capital.

Operational risk increased during 2008, but FHFA acknowledges improvements to mitigate risk. The Enterprise has certain manual controls that are a concern, and the operational risk oversight function is incomplete. The business process mapping initiatives have not been consolidated, which limits the enterprise-wide perspective on internal controls. Remediation of issues relating to internal controls and information technology is continuing.

Accounting policies and estimates, which are inherently high risk given current market conditions, continue to raise concerns. These areas include credit and guarantee loss reserves, securities valuation, and deferred tax assets. In addition, some of management's accounting decisions were insufficiently documented.

Financial Performance

Enormous net losses in 2008 resulted from a confluence of events: soaring mark-to-market losses, escalating credit-related expenses, and a large partial valuation allowance for deferred tax assets. The earnings outlook for 2009 is poor. Credit-related expenses and mark-to-market losses are influenced by market conditions that are expected to remain difficult during 2009. Continued poor financial performance could result in additional request for funds from the United States Treasury during 2009.

Asset Quality

During 2008, asset quality continued its precipitous decline begun in 2006. Underwriting decisions in prior years did not require originators to fully assess borrower repayment capacity. Problems from credit losses and related expenses contributed to weakened earnings and a significantly weakened capital base. Specific credit problems were manifested in significant increases in delinquencies, foreclosures, and credit expenses. Weakened counterparties, including mortgage insurers, servicers, and financial guarantors, significantly contributed to the reduction in asset quality of the Enterprise.

Later in 2008, the credit risk models of the Enterprise substantially under-predicted the housing market downturn and the resulting credit losses. During 2008, key credit applications in guarantee fee pricing and automated underwriting were substantially updated, improving performance. In addition, new models were developed to assist in loss mitigation and property disposition. Unfortunately, these improvements came too late, after hundreds of billions of dollars in risky loans had been acquired or guaranteed. While the credit models in place at the beginning of 2008 indicated that guarantee fees did not fully cover estimated credit risk, the more conservative models deployed later in the year sent a stronger message that returns had been inadequate.

The Enterprise will continue to be challenged as it works with servicers in providing assistance to borrowers experiencing payment difficulties. Simultaneously, the Enterprise must also manage and sell an increasing inventory of foreclosed properties while minimizing the negative impact on neighborhoods that foreclosures often pose. Prospects for future asset quality are poor in the short term, as declining economic factors continue to impair the financial capacity of borrowers and counterparties.

Internal Controls

Risks in internal controls, information technology, and the information management environments increased due to the Enterprise's deteriorating financial condition, significant safety and soundness concerns, numerous organizational changes, and the uncertain markets. FHFA acknowledges significant investment and improvements, largely in information technology, to better identify, manage, and mitigate risk. However, despite these improvements, the Enterprise has certain manual controls that require automation. In addition, the operational risk oversight organization, which is not fully developed, needs to be completed. The scale and scope of remediation needed in internal controls and information technology is considerable, requiring multiyear plans to address the deficiencies. These internal and external challenges could delay or derail needed enhancements.

The Enterprise will continue to be challenged as it works with servicers in providing assistance to borrowers experiencing payment difficulties.

FHFA terminated the May 23, 2006, consent order based on the determination that the Enterprise was in compliance with the terms of the order and had put in place methods for facilitating ongoing supervision of remediated items. However, progress in implementing the plan to build out one item—the operational risk function as required by the Director of Supervision's letter dated May 6, 2008—is lagging.

Summary

At year-end 2008, the Enterprise had (1) a new Board and chief executive officer working with the conservator to restore the Enterprise's long-term viability; (2) depleted capital but a substantial backstop from the United States Treasury; (3) poor earnings from unprecedented credit expenses and declines in loan and securities prices; (4) high and increasing credit risk, primarily from declining performance in the single-family business line and concentrations in counterparties; (5) high market risk from aggressive interest rate risk limits and hedging strategies compounded by significant model risk; and (6) high operational risk that can be improved through additional automation of the control environment and a fully developed operational risk oversight function.

Matters Requiring Oversight

The following key matters highlighted in this report require strong management and Board oversight:

Governance

- Work in cooperation with the conservator to continue to recruit and retain qualified senior executive officers to ensure that management is strengthened; ensure appropriate management succession planning and officer accountability.
- Adopt and implement corporate strategies and business plans that reflect the Enterprise's conservatorship status as well as the dramatic changes in the Enterprise's financial condition and the mortgage finance industry.

Credit Risk

- Regularly discuss the allowance for loan losses (ALL) in Board or audit committee meetings. A quarterly ALL report should be provided prior to meetings. The report package should include quantitative and qualitative summary information on levels and trends in the allowance, as well as the dollar impact of key judgments and decisions.
- Revise the private-label securities policy to provide meaningful, enforceable limits with defined oversight roles and responsibilities for the chief risk officer, and develop a risk mitigation plan.
- Ensure that key vacancies are filled, including the positions of credit risk oversight and single-family risk oversight.

Market Risk

- Revise the liquidity management plan for 2009, along with appropriate policies and procedures, to better reflect current market conditions. The plan should address the fact that, under stress, Fannie Mae could not convert its high-quality collateral to cash through repurchase agreements or sales.
- Revise the aggressive interest rate risk limits, particularly the convexity and volatility limits.
- Improve Fannie Mae's analytical capabilities to achieve comprehensive and effective risk measurement, management, and reporting.
- Complete Fannie Mae's plan to securitize its $256 billion single-family whole loan portfolio and its $108 billion multifamily loan portfolio.

Operational Risk

- Monitor progress of developing, documenting, and implementing a robust operational risk oversight framework, including effective key risk indicators, trend analysis, an actionable operational risk profile, and a reliable data collection process. Ensure that management's communication to the Board adheres to operational risk oversight's charter requirements.
- Strengthen staffing levels to allow for the frequent updating of key models for risk, pricing, and loss mitigation/property disposition.
- Improve the controls over the loss forecasting process, and enhance the loss reserving models to make them more comprehensive and less reliant on management judgment.

Governance

The new Board of Directors, the new chief executive officer and management face significant challenges in addressing complex governance issues in the midst of significant industry upheaval. The board and management have demonstrated their willingness to address governance issues in a timely manner. However, the complexity of the issues and other complicating factors may impede or delay their efforts.

Board of Directors

The Board has successfully re-established the committee infrastructure and other processes necessary to fulfill the Board's responsibilities, and has made substantial progress in a short period of time. The Board should also continue to enhance its practices as appropriate to address the heightened demands of the current environment and Enterprise responsibilities.

The Board faces significant challenges in its efforts to strengthen management, given the Enterprise's condition and the business environment. Long-term success requires a strong, stable, and deep management team. Management reports to the Board should highlight matters that deserve Board attention, and should help the Board monitor efforts to remediate supervisory issues.

Management

Since conservatorship, senior management has been evaluating and implementing personnel changes, as well as changes to committee structures and reporting lines. Turnover and vacancies create significant disruption in Enterprise processes and contribute to the uncertainties inherent in the Enterprise's condition. The Enterprise is challenged in its efforts to strengthen management, but the Board and management have made significant progress in filling key positions. However, compensation remains a significant risk factor.

In May 2008, the Director terminated the May 23, 2006, consent order because the Enterprise was in compliance with the terms of the order and implemented methods for ongoing supervision of remediated items in the order. This represented a major milestone for the Enterprise. However, management has not achieved sufficient progress in implementing the plan to build out the Enterprise's operational risk oversight function.

Corporate policy and risk management practices are being revised as necessary to be consistent with the objectives of the conservatorship, guidance received from the conservator, and related Enterprise strategies.

Enterprise Risk Management

New management continues to work on establishing an effective enterprise risk oversight function. However, the Enterprise does not have stable market risk oversight or operational risk oversight functions.

Audit

The audit committee of the Board was re-established and is fully functioning. The reconstituted committee approved a new charter and has been addressing key matters, including the approval of the 2009 audit plan. The internal audit department has the appropriate stature within the Enterprise, is meeting its objectives, and meets applicable professional standards.

Compliance

The audit committee also oversees compliance matters and is fully functioning. The compliance program appears to be functioning effectively based primarily on the compliance division's contribution in the termination of the 2006 consent order.

Accounting

Accounting policies and estimates, which are inherently high risk, especially in the current market conditions, continue to raise concerns. The Enterprise implemented Section 404 of the Sarbanes-Oxley Act. The external auditor conduct-

ed an integrated audit, and was able to rely on some of the work done by internal audit.

During the third quarter of 2008, Fannie Mae met FHFA's expectations in meeting a minimum safety and soundness threshold for the application of Generally Accepted Accounting Principles (GAAP), and consistency in approach between the two Enterprises. In addition, the Enterprise properly implemented FAS 159, *The Fair Value Option for Financial Assets and Financial Liabilities,* as well as FHFA's Fair Value Option guidance issued in April 2008.

FHFA's review of reserves for credit default and guarantee costs revealed the following:

- Accounting policies in this area are in accord with GAAP.
- Management initiated steps to enhance the reserve analysis and reporting process, and improved reporting of the impact of assumptions and decisions on the reserve calculation.
- In the first half of 2008, weaknesses were noted in the process used to calculate reserves, but documentation was improved later in the year. A more conservative approach or enhanced documentation may have been warranted to meet an enhanced safety and soundness standard.
- In 2008, there were large but expected differences between GAAP-based reserves and other measures of credit loss, because reserves follow GAAP guidelines and are calculated differently than total future expected losses. Regular reconciliation of the different measures will inform and enhance the GAAP reserve process.

The Enterprise first established a valuation allowance for the deferred tax assets (DTA) for the third quarter of 2008 of $21.4 billion, which is 82 percent of the $26 billion DTA, because it was not certain it would be able to earn sufficient future taxable income needed to realize the entire DTA. The Securities and Exchange Commission did not object to the Enterprise's method.

A proposed change by FASB to FIN 46(R), *Consolidation of Variable Interest Entities*, would result in the consolidation of $2 trillion in loans, currently in off-balance-sheet trusts. Depending on the implementation date, which is expected to be January 1, 2010, it will be difficult for the Enterprise to implement the proposed amendments in a controlled manner.

Solvency

FHFA's Office of Capital Supervision formally classifies capital adequacy quarterly in accordance with Subtitle B of the Federal Housing Enterprises Financial Safety and Soundness Act of 1992 and with the requirements set forth in FHFA's minimum and risk-based capital regulations. The Enterprise is required by federal statute to meet both minimum and risk-based capital standards to be classified as adequately capitalized. Through the second quarter of 2008, Fannie Mae remained subject to an Office of Federal Housing Enterprise Oversight-directed capital requirement from 2004 that was subsequently modified twice in 2008.

On September 6, 2008, the FHFA Director appointed FHFA conservator for the Enterprise. Subsequently, the Director suspended capital classifications for the conservatorship period. The Director made this determination based on the fact that the purpose of the classifications—prompt corrective action—is moot during conservatorship, and because the capital, or GAAP net worth, position of the Enterprise would be supported by the United States Treasury's Senior Preferred Stock Purchase Agreement. The action to place the Enterprise into conservatorship is supported by the Treasury agreement, which ensures that the Enterprise will maintain a positive net worth through Treasury's commitment to provide up to $200 billion of capital.

FHFA classified Fannie Mae as adequately capitalized for year-end 2007 and the first quarter of 2008. Fannie Mae issued $7.0 billion in preferred stock in December 2007 to bolster its surplus. Although Fannie Mae met all FHFA capital requirements for the second quarter 2008, the Director used his discretionary authority to classify Fannie Mae as undercapitalized for that quarter, citing concern about the sufficiency of capital given the continuing market downturn during July and August. Fannie Mae completed an issuance of common, preferred, and mandatory convertible preferred stock totaling $7.4 billion in May 2008. However, credit losses resulted in rapid depletion of capital throughout the summer. The Enterprise could not raise additional capital, which was a key factor in the decision by the Director to appoint FHFA as conservator for the Enterprise.

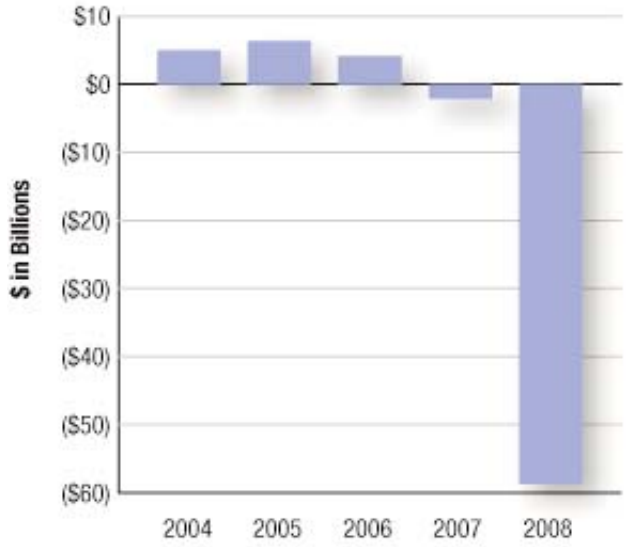
FHFA did not classify Fannie Mae's capital for the third quarter 2008. Fannie Mae maintained positive GAAP net worth throughout the third quarter. Although GAAP net worth remained positive, it deteriorated significantly during the quarter when Fannie Mae recorded a negative deferred tax asset adjustment of $21.4 billion. A draw on the Treasury commitment of $15.2 billion was required to eliminate the negative balance of GAAP net worth at year-end 2008, again owing to continuing significant credit losses and negative mark-to-market adjustments.

Earnings

Fannie Mae reported a historic annual net loss of $58.7 billion. Financial results, which were poor in the first half of the year, dropped to unprecedented levels in the second half of the year, as the downturn in housing, mortgage, and credit markets accelerated.

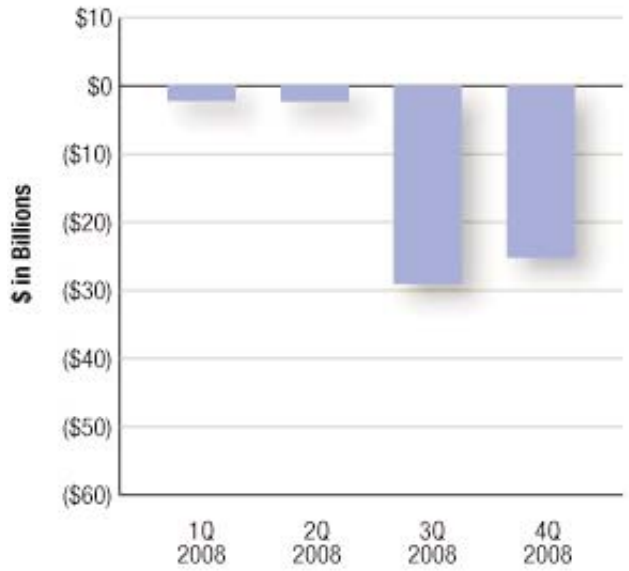
The plunging market adversely affected key market drivers, yielding high mark-to-market losses, credit-related expenses and losses (the provision for credit losses, foreclosed property expense and losses on certain guarantee contracts), and impairments of deferred tax assets in 2008.

Figure 15 • Fannie Mae Annual Earnings



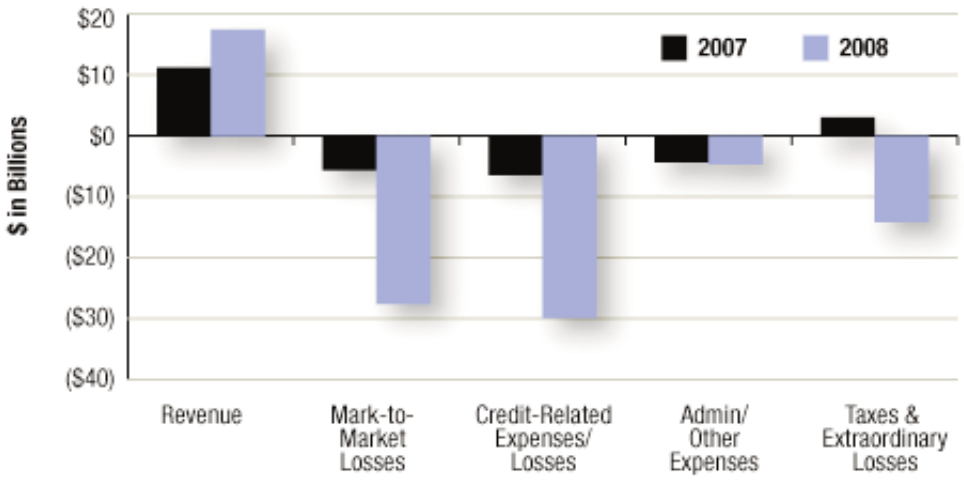
Source: Federal Housing Finance Agency

Figure 16 • Fannie Mae Quarterly Earnings



Source: Federal Housing Finance Agency

Figure 17 • Fannie Mae Annual Earnings Detail



Source: Federal Housing Finance Agency

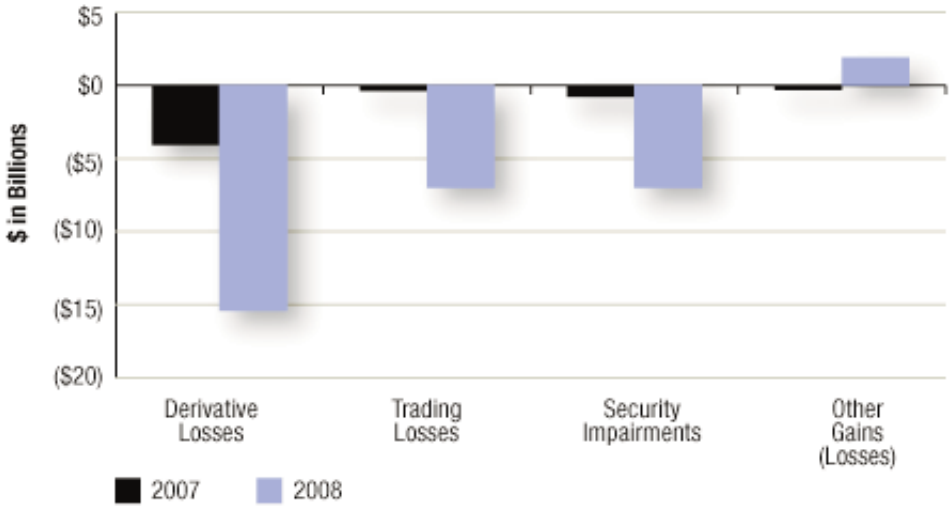
Revenue

Revenue was a bright spot for earnings in 2008 despite the decline in the size of the mortgage market. Fannie Mae reported increases in revenue from both the investment portfolio business and the credit guarantee business.

Net interest income increased to $8.8 billion from $4.6 billion in 2007. The disruption in credit markets that started in mid-2007 increased the cost of long-term funding and resulted in a shift to more short-term debt funding. Beginning in July 2008, extended market turmoil reduced demand for the Enterprises' long-term debt and callable debt. As a result, Fannie Mae substantially increased its reliance on short-term debt funding. Greater reliance on short-term debt at lower borrowing rates decreased the average cost of debt and increased net interest yield during the year.

Guarantee fee income increased to $7.6 billion from $5.1 billion in 2007. Significant decreases in mortgage rates in the second half of the year increased expected prepayments and accelerated recognition of guarantee fee income.

Figure 18 • Fannie Mae Mark-to-Market Losses Detail



Source: Federal Housing Finance Agency

Mark-to-Market Losses

Mark-to-market losses rose in 2008 as market conditions impacted key drivers of losses. Fannie Mae incurred mark-to-market losses of $27.6 billion in earnings in 2008, compared to $5.6 billion of mark-to-market losses in 2007.

Mark-to-market losses on derivatives, which are used to hedge mortgage investments, were substantial in the second half of the year, driven by historic declines in interest rates.

Market values of private-label mortgage-backed securities held by the Enterprise plummeted during the year. Consequently, Fannie Mae incurred substantial trading losses and other-than-temporary impairments on securities. Declining security market valuations also drove a substantial increase in unrealized losses on available-for-sale securities, reported in shareholders' equity but not in earnings. Realized and unrealized losses on nonagency securities totaled $26.3 billion in 2008.

Credit-Related Expenses and Losses

Increasing unemployment rates and declining house prices contributed to higher delinquency and default rates on mortgages, and increased the severity of credit losses. Accordingly, Fannie Mae substantially increased its loan loss reserves during the last half of the year to reflect higher expectations of credit losses.

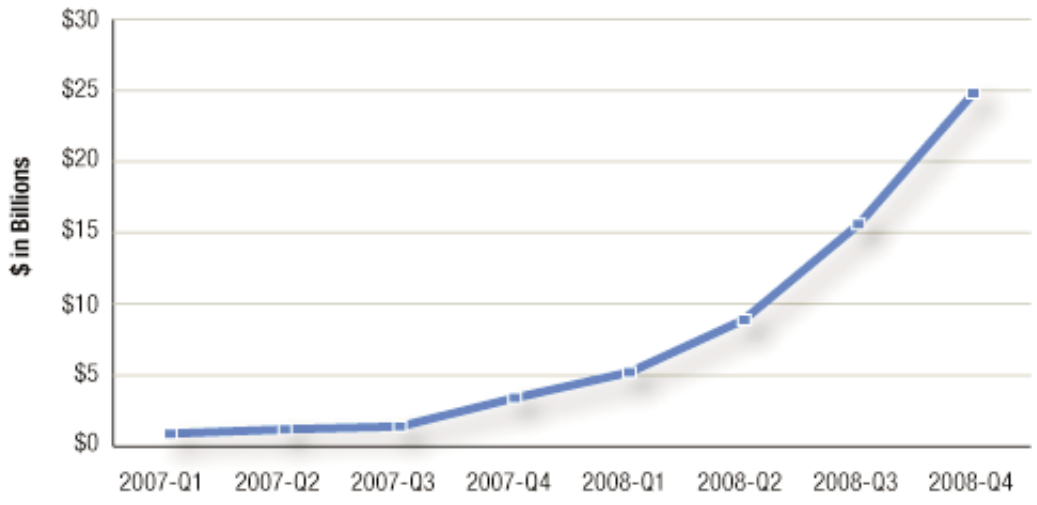
The market downturn resulted in more properties entering foreclosure, which increased foreclosure-related expenses. Credit losses from purchases of delinquent loans increased as the prices of these loans declined.

These factors led to higher credit-related expenses and losses compared to the previous year. Fannie Mae reported credit-related expenses and losses in earnings of $29.8 billion in 2008 compared to $6.4 billion in 2007.

Provision for Federal Income Taxes

In 2007, Fannie Mae recorded a benefit for federal income taxes, which increased earnings. But in 2008, Fannie Mae incurred substantial provisions for federal income because it established a partial valuation allowance for deferred tax assets during the third quarter of 2008. The decision to establish the valuation allowance to reduce deferred tax assets was based on management's conclusion that Fannie Mae was not likely to generate suffi-

Figure 19 • Fannie Mae Credit Loss Reserve



Source: Federal Housing Finance Agency

cient future taxable income to realize the full amount of its deferred tax assets.

Summary

In 2008, high mark-to-market losses, credit-related expenses and losses, impairments of deferred tax assets, and higher unrealized losses on available-for-sale securities depleted shareholders' equity and led Fannie Mae to request $15.2 billion from the Treasury Senior Preferred Stock Purchase Agreement.

Credit Risk Management

The Enterprise experienced rapidly declining credit performance, primarily in the single-family business line. The declining performance affected earnings and capital through increased credit expenses, including large additions to the loan loss reserve, severely weakening the Enterprise.

Many of the Enterprise's recent credit losses are the result of higher-risk lending through the increased acquisition of nontraditional products, particularly Alt-A mortgages. Prudent underwriting and eligibility standards were not in place for these products, and consequently a disproportionate amount of delinquencies, foreclosures, and losses come from these products. Like many other mortgage investors, Fannie Mae did not anticipate the substantial and sustained nationwide decline in house prices and the realized poor creditworthiness of many recent homebuyers. During 2008, both before and after the conservatorship, Fannie Mae took steps to strengthen its underwriting standards to respond to the market.

Counterparty risk is increasing because of the problems faced by mortgage insurers, servicers, and loan originators. Mortgage insurers and financial guarantors experienced rating downgrades and capital erosion that place the viability of many of these companies in jeopardy. In addition, many seller/servicers also experienced capital, liquidity, and operational issues that increase counterparty risk. Several loan originators were financially weak and merged. However, this has resulted in even fewer and larger mortgage originators, which has increased concentration risk for Fannie Mae.

Credit risk management has been responsive to the current crisis, but the effectiveness of its actions begun in 2007 to address the crisis are not yet measurable nor proven sustainable. Credit risk management created avenues for borrowers needing assistance, tightened credit underwriting for new acquisitions, and ceased the acquisition of higher-risk mortgage products. Counterparty risk management identifies exposures from counterparties and takes appropriate actions to protect Fannie Mae's interest. Similarly, management in Housing and Community Development has been responsive to the deterioration in the multifamily business line.

Single-Family Credit

Performance reflected the significant deterioration of the single-family business line in 2008, consistent with the decline of the mortgage market generally. The potential for further earnings deterioration is high due to the large inventory of foreclosed assets coupled with house price depreciation. A significant portion of the delinquent mortgages is credit enhanced, but the companies providing the enhancement are experiencing financial difficulties.

The single-family business continues to address rising delinquencies, losses, foreclosures, and counterparty issues. Management devised programs to assist troubled borrowers, such as the HomeSaver Advance (HSA) program. HSA is showing high redefault rates on the early offerings. Performance on the February through April offerings shows a redefault rate of almost 70 percent, which calls into question the program's assumption that borrowers have the capacity to make payments going forward.

Management is responding to the increase in problem mortgages and the economic downturn

by increasing the loan loss reserve against the single-family book of business. In addition, management is aggressive in developing and promoting loss mitigation strategies aimed at helping troubled borrowers and reducing credit losses. Fannie Mae's management demonstrated leadership in this domain by its work in 2008 on the development and implementation of the Streamlined Modification Program. More recently, Fannie Mae has played a key role in the Making Home Affordable initiative.

Counterparty Credit

Counterparty credit risk is high and increasing. Several counterparties, including mortgage insurers, financial guarantors, and seller/servicers, are facing tremendous volumes of potential claims because of the downturn in single-family credit.

The mortgage insurance industry is troubled with one company in run-off. The condition of the mortgage insurers hinders the mortgage market recovery because of their weakened financial condition and their changes to underwriting standards which limit coverage. Consequently, some borrowers have been unable to refinance high-cost mortgages because of the decline in home prices and the Charter Act requirements for Fannie Mae. Fannie Mae's recent refinance program will help alleviate this problem.

Uncertainty exists with financial guarantors, reflecting problems associated with their concentrated exposure to structured assets and stressed mortgage risk. Accordingly, Fannie Mae wrote down its wrapped portfolio of private-label mortgage-backed securities.

Many seller/servicers are facing operational challenges, including staffing levels to handle increasing volume, and they lack sufficient liquidity and capital reserves to support continued operations and claims-paying ability. Several large seller/servicers received funding from the Troubled Assets Relief Program to boost capital levels. However, institutional failures and mergers raise concern over outstanding representation and warrant claims and the ability to collect on these claims.

Counterparty risk oversight is taking action to better identify counterparty exposure. Fannie Mae's risk measurement database quantifies the outstanding exposure to counterparties by using a conservative approach to risk measurement.

Counterparty credit risk is high and increasing. Several counterparties including mortgage insurers, financial guarantors, and seller/servicers are facing tremendous volumes of potential claims because of the downturn in single-family credit.

The need for business plans governing large relationships is more critical as concentrations to single parties are increasing because of institutional failures and mergers, and the overall strength of several seller/servicers is declining. Counterparty risk management recognizes the large concentrations and is working toward improved concentration management.

Multifamily Credit

Housing and Community Development (HCD) is experiencing the effects of the national economic downturn. While the acquisition profile for HCD is good, the business faces challenges in pricing, the use of Low Income Housing Tax Credits (LIHTC), and acquisitions. Management is responding to the increase in problem credits

and the economic downturn by increasing the loan loss reserve against the HCD book of business.

HCD continues to strengthen its risk management function. Personnel changes and additions strengthened risk management, internal controls, technology, and financial oversight. However, additional improvement is necessary to address deficiencies and inefficiencies in risk identification, measurement, and management. Data and systems deficiencies prevent Fannie Mae from having a strong risk management framework; reporting needs better granularity and accuracy to identify and control the risk. Risk reporting to senior management is still untimely. Management is working to correct these deficiencies.

The disruption in the single-family market affects the current credit environment for multifamily housing. Lenders continue to tighten credit for commercial properties, including multifamily housing. Moreover, there is pressure on available multifamily housing as single-family homeowners displaced by foreclosures seek rental housing. HCD is addressing changing market conditions by developing new or expanding existing products. The division is controlling the risk by ensuring borrowers have sufficient repayment capacity and equity in their projects. While pricing structures are meant to compensate Fannie Mae for the risk incurred, prices often are higher than those of the competition and put Fannie Mae at a competitive disadvantage. Management is challenged to manage and price increasing credit risk while continuing to provide liquidity to the market.

Private-Label Securities

Significant mark-to-market losses in 2008 in the nonagency securities portfolio of more than $26 billion (including accumulated other comprehensive income, trading, and impairment expenses) and continued depreciation of the collateral underlying the private-label securities portfolio are the primary sources of concern.

A combination of continued unprecedented spread widening in mortgage assets along with deteriorating performance in nontraditional, riskier products, including subprime, Alt-A, option ARM and commercial mortgage-backed securities, resulted in significant mark-to-market losses. Most of these securities losses were recorded in the stockholders' equity portion of the balance sheet (i.e., accumulated other comprehensive income).

In 2008, Fannie Mae needed a stronger policy or strategy for unwinding its private-label securities position as prices and performance deteriorated. The deteriorating performance resulted in $19.4 billion of roughly $52 billion in Alt-A, subprime, and option ARM securities as of year-end 2008, almost all of which were rated triple-A at purchase, being downgraded below investment grade. Similar deterioration in the Alt-A, option ARM, and subprime private-label securities portfolio resulted in a cumulative other than temporary impairment of $6.9 billion at year-end 2008. As another measure of poor bond performance, Fannie Mae's private-label securities with original ratings below triple-A (purchased as part of a small pilot program in early 2007) have lost more than 90 percent of their value since their purchase.

Market Risk Management

FHFA conclusions are based on the following: (1) the continued lack of significant investor support for the agency long-term debt market; (2) the extreme volatility of the value of mortgage securities relative to those of other fixed-rate instruments; (3) the unprecedented risk arising from Fannie Mae's market risk models that diminished the reliability of its interest rate risk estimates (a problem throughout the industry); and (4) weaknesses in a significant number of risk management practices.

Liquidity and Funding Risks

The continued lack of depth in the longer-term agency debt market and the need for a more effective liquidity policy that reflects current market

realities drive concerns. Liquidity and funding risks continue to represent a critical risk as the market for Fannie Mae bullet and callable long-term debt deteriorated during 2008 through late November. Market access to long-term debt was virtually closed until the Federal Reserve's announcement that it would purchase up to $100 billion of agency debt securities, subsequently increased in March 2009 to $200 billion.

As a result, Fannie Mae is more exposed to discount note roll-over risk, with short-term debt representing a greater portion of the debt funding mix. The ratio of short-term debt to total debt increased from 39 percent on June 30 to 47 percent at year-end 2008. Also, Fannie Mae stopped efficiently exercising in-the-money options on callable debt during the third quarter of 2008 because of the uncertainty of issuing long-term debt to replace it.

If Fannie Mae could not issue debt and borrow through mortgage repurchase agreements, the Enterprise would be reliant upon the Treasury Department for its GSE credit facility to provide secured funding in an emergency. This facility is scheduled to end at year-end 2009. The Enterprise has tested some of the operations for this facility. However, management cannot completely evaluate the facility operations until a draw from the Treasury Department is effectuated.

Fannie Mae needs to revise its liquidity management plan for 2009, along with appropriate policies and procedures, to reflect current market conditions. At the end of 2008, the liquidity portfolio included corporate bonds and asset backed securities, which are held in a trading account. Since conservatorship, some of these relatively illiquid securities were sold, mitigating some of its concern.

Fannie Mae cannot securitize its $256 billion single-family whole loan portfolio, although it expects to be able to securitize a substantial portion of its portfolio during the first or second quarter of 2009. During the first quarter of 2009, Fannie Mae conducted a successful pilot test of its ability to securitize its existing whole loan portfolio.

Coordination between senior managers of Capital Markets, and Housing and Community Development did not identify significant contingent obligations in variable-rate demand bonds that impacted potential net cash needs. This reporting error was corrected in 2008, but effective communication is still a concern.

Severe credit, market, and liquidity events critically impeded Fannie Mae's modeling and hedging capabilities.

Market Risk Oversight (MRO) needed additional resources to fully oversee liquidity risk and cash management. However, in the first quarter of 2009, Market Risk Oversight hired a director for liquidity risk oversight.

Interest Rate Risk Management

Severe credit, market, and liquidity events critically impeded Fannie Mae's modeling and hedging capabilities. Also, the highly volatile mortgage basis had a profound impact on duration and volatility, making modeling results less reliable and hedging decisions less effective. Nevertheless, Fannie Mae's market risk position was excessive in relation to earnings and capital. Despite aggressive risk limits, Fannie Mae exceeded these limits 11 times during 2008. However, post conservatorship, Fannie Mae became more conservative and lowered its volatility exposure by purchasing a significant amount of long-dated swaptions.

The interest rate risk limits were aggressive, particularly the convexity and volatility limits, given capital and earnings for 2008. Also, MRO resources need to be strengthened for the aggressive limits and challenging market conditions.

Despite improvement to proprietary risk management systems, analytical capabilities fall short of that needed for a comprehensive risk and effective risk measurement, management, and reporting. Market extremes led to calibration issues in the term structure model, misestimating volatility exposure. After conservatorship began, the Enterprise began evaluating the use of third-party proprietary risk analytics and management practices.

MRO must be responsible for generating risk metric reporting and ensuring compliance with market risk limits. Reports must provide adequate information so that the chief risk officer, executive committee and Board can effectively monitor all components of market risk, including daily profit and loss attribution.

Fannie Mae has substantial and increasing derivatives counterparty exposure and must develop and implement a strategy to reduce such exposure. Fannie Mae should continue to explore expanded use of exchanges or central clearing houses for interest rate swaps and swaptions to further mitigate counterparty exposures.

Fannie Mae has yet to effectively address duration estimation issues arising from its $58 billion private-label securities portfolio, which impeded its ability to hedge duration and volatility.

Portfolio Management

The ability to manage the investment portfolio was adversely impacted for a number of reasons including funding pressures, at times the illiquid derivatives markets, and the continual decline in PLS prices limiting portfolio growth to $25 billion post-conservatorship. The accounting treatment, market illiquidity and inability to securitize its whole loan portfolio impede Fannie Mae's ability to actively manage a significant portion of its retained portfolio for risk, return and liquidity.

The reverse mortgage portfolio has liquidity, modeling, and reputational risks, but the credit risk is mitigated by a Federal Housing Administration guarantee. Also, Fannie Mae owns 90 percent of the market share and is the dominant buyer in this market. Fannie Mae should explore the possibility of securitizing the reverse mortgage portfolio, as Ginnie Mae has.

Operational Risk Management

The deteriorating financial condition of the Enterprise, significant safety and soundness concerns, numerous organizational changes, and the uncertain market increase risk to the information technology (IT), internal control, and information management environments. While overall risk increased, Fannie Mae made significant investment and achievements, largely in information technology, to better identify, manage, and mitigate risk. Despite enhancements, the Enterprise relies on manual controls in some areas, and the scale and scope of information technology and internal control remediation that remains is considerable.

Information Technology

Technology has maintained an effective internal control environment while continuing to make progress on multiyear plans for remediating and replacing legacy applications, reduce complexity, and improve IT planning and governance functions. However, successfully managing these initiatives will be challenging.

IT divisions successfully implemented a number of high-profile and critical business unit application development projects, improving processing efficiency, expanding functionality, and reducing complexity. Technology infrastructure and governance projects helped increase capacity. The system development life cycle, incorporated new standards for problem, incident, configuration,

and change management. The technology risk control self-assessment process was enhanced, and role-based access management improved automated internal controls.

Legacy applications and IT infrastructure continued to provide stable performance. No major operational incidents or IT outages occurred in 2008. However, controls did not prevent a contractor from inputting malcode into the network. Fannie Mae identified the malcode through their quality control process, avoiding potentially severe damage. System availability across the major platforms and networks was consistently rated excellent. Operational effectiveness continued to be monitored through monthly reporting. No material weaknesses or significant deficiencies were identified in IT.

Disaster recovery and incident management is well controlled, with recovery plans addressing redundant data, systems, and locations. Management has remediated several of the identified technology issues in credit loss management, and expects to complete remediation in late 2009.

The departure of several managers, and significant staff reductions across several technology divisions, resulted in a new, consolidated technology division, which realigned the application development, risk management, and governance functions. Also, a consultant assessed the operations and technology environment and cost structure in late 2008 to identify opportunities to improve the efficiency and effectiveness of Technology and Enterprise Operations.

Data Quality

Fannie Mae made some progress in 2007 to improve data quality measurement by leveraging its successes in returning to timely financial reporting. However, progress lagged in 2008, when resources were diverted away as other projects were viewed as higher priorities. Policies and standards were approved in early 2009. Only when processes can be integrated into well-designed applications within an evolving, robust, and flexible architecture will efforts move from mitigation to remediation.

Certain business processes and internal controls remain manually intensive. Enterprise Operations has reduced the level of key person dependence, but the concern still exists at the manager level.

Internal Controls

Risks to the internal control environment have increased with the deteriorating financial condition of the Enterprise, the uncertain market, significant safety and soundness concerns, lower employee morale, and multiple organizational changes. Certain business processes and internal controls remain manually intensive. Enterprise Operations has reduced the level of key person dependence, but the concern still exists at the manager level. Internal controls are largely detective, rather than preventive. Business process mapping exists, but the efforts have not been consolidated to provide a complete Enterprise-wide view on internal controls.

Although there are deficiencies in the internal control environment, Enterprise operations, information technology, the business units continue to improve internal controls. Despite the recent market and internal challenges, Fannie Mae continues to comply with Sarbanes-Oxley Act requirements and manage timely financial reporting.

Operational Risk Oversight

Significant work remains to develop and implement a robust operational risk oversight (ORO) function. Initiatives in development or in process include control self-assessments, key risk indicators, trend analysis, analysis of the operational risk profile, and improved measurement of economic capital.

In mid-2008, ORO announced personnel and organizational changes and proposed enhancements to the original three-year plan, but the new strategy means further delays in completing its oversight program. ORO established its infrastructure and a fundamental program only in the last year. Key second-year goals for risk identification, metrics, and reporting are incomplete. Documentation needs strengthening to summarize the current state of operational risk. ORO should report to the Board quarterly, but reported to the Board only once during 2008.

To enhance the original program design and the Enterprise's assessment of operational risk, ORO is partnering with Lean Six Sigma, Information Technology, Internal Audit and Compliance. However, since the announcement of the integration plans, limited progress has been made.

Model Risk and Management

At the start of 2008, many of Fannie Mae's key credit models had not been recently updated and tended to understate credit risk. During the course of the year, these models were substantially improved. Unfortunately, these improvements came too late, after the Enterprise had already bought or guaranteed hundreds of billions of dollars in risky loans.

Unprecedented conditions in the housing and mortgage markets during the year posed significant challenges to prepayment and interest rate models. Fannie Mae updated key prepayment models several times to attempt to capture shifting borrower behavior. These models performed reasonably well and outperformed some dealer benchmark models in the last half of the year. However, the models continue to produce faster-than-actual prepayment estimates for particular products, highlighting potential issues that need to be researched and addressed.

The credit crisis has highlighted the importance of frequently reevaluating credit valuation models. In early 2008, credit models throughout the industry and at the Enterprise substantially under-predicted credit losses. But during the year, several older key credit models were updated, improving model results. Fannie Mae should strengthen staff levels to help in developing models used in managing the dramatic increase in delinquencies and foreclosures.

Controls and Governance

The Enterprise risk office's responsibility for model risk oversight should be more comprehensive, model risk oversight responsibilities currently focus on independent model validation and should be expanded to better cover other aspects of model risk management. Fannie has made good progress in this area, but the process is not yet fully mature.

Credit-related expenses and losses are defined as the sum of the provision for credit losses, foreclosed property expense, and losses on certain guarantee contracts.

Report of the Annual Examination of Freddie Mac (Federal Home Loan Mortgage Corporation)

Examination Authority and Scope

This Report of Examination contains the results and conclusions of FHFA's 2008 annual examination of the Federal Home Loan Mortgage Corporation (called Freddie Mac, or the Enterprise) performed under section 1317(a) of the Federal Housing Enterprises Financial Safety and Soundness Act of 1992 as amended (12 USC § 4517(a)). FHFA's annual examination program assesses the Enterprise's financial safety and soundness and overall risk management practices. The framework FHFA uses to report examination results and conclusions to the Board of Directors and Congress is known as GSEER, which stands for Governance, Solvency, Earnings, and Enterprise Risk (Enterprise Risk comprises credit, market, and operational risk management).

2008 Examination Scope

In 2008, FHFA dedicated significant resources to analyzing the Enterprise's levels and trends in asset quality and their effect on loan loss reserves, earnings, and capital adequacy. Once the Director appointed FHFA as conservator, examination activities shifted to monitoring rapidly changing market conditions, management actions, and their effect on the Enterprise's risk profile and condition.

Other examination activities during 2008 assessed actions of the Board of Directors, quality of executive management, enterprise-wide risk management and audit functions, accounting estimates and their effect on capital, key model performance, loan delinquency and foreclosure management, counterparty exposure, liquidity and interest rate risk profiles and risk management practices, the internal control environment, and risks in information technology, data quality, and business continuity.

Rating

Freddie Mac's composite rating is *critical concerns.* An Enterprise with critical safety and soundness concerns exhibits severe financial, nonfinancial, operational, or compliance weaknesses. An Enterprise with this rating requires more than normal supervision to ensure deficiencies are addressed. Definitions for all composite ratings can be found in FHFA's *Supervision Handbook* on the agency's Web site www.fhfa.gov.

FHFA communicated to the Enterprise a mid-year rating and it was a contributing factor to the appointment of FHFA as conservator in early September. The appointment of FHFA as conservator, combined with Treasury financial support, Federal Reserve actions, and new management at the Enterprise have stabilized the Enterprise's condition. While the critical concerns rating at year-end reflects the fact that the Enterprise is not currently capable of operating without government assistance, FHFA also acknowledges the strides the Freddie Mac Board, management, and staff have made under conservatorship to help stabilize the Enterprise and maintain its ongoing support of the secondary mortgage market.

Examination Conclusions

The Enterprise exhibits critical safety and soundness concerns primarily owing to the weak housing market, exacerbated by weak legislative capital requirements, resulting in severe financial weaknesses that worsened to unprecedented levels during 2008. Certain risk management decisions prior to the conservatorship, coupled with continued financial market deterioration, contributed to net losses and eroded capital. Weakened earnings and market conditions led to difficulties in raising capital and issuing long-term debt, which contributed to the Director's decision to appoint FHFA as conservator.

In prior years, management expanded product eligibility to include nontraditional mortgage products, particularly Alt-A and interest-only mortgages, and private-label securities containing subprime and Alt-A mortgages. Moreover, the Enterprise did not require originators to fully assess borrower capacity. Certain decisions, coupled with deterioration in the economy and house prices, led to escalating increases in delinquencies, foreclosures, and credit expenses, on top of $53 billion of losses from impairments and mark-to-market accounting in nonagency securities.

Market illiquidity significantly increased risks in market risk management. The lack of significant investor support for the Enterprise long-term debt markets before conservatorship revealed weaknesses in management's liquidity strategies, and the volatility of the mortgage market reduced the reliability of hedging decisions. Uncertain model results led to high realized levels of interest rate risk relative to the Enterprise's common economic capital.

Internal control weaknesses continue to require remediation, and information technology and related architecture require modernization. The Enterprise is largely dependent on a manual internal control environment. Substantial work remains to resolve these issues.

Accounting policies and estimates that are inherently high-risk given current market conditions continue to raise concerns. Under previous management, FHFA found that the Enterprise had taken a less than conservative approach in the application of generally accepted accounting principles (GAAP), which in FHFA's view was not in line with safety and soundness in regard to other than temporary impairment (OTTI) and the implementation of the fair value option.

Financial Performance

Historically large net losses in 2008 resulted from a confluence of significant fair value losses, escalating credit-related expenses, and a large partial valuation allowance for deferred tax assets. The earnings outlook for 2009 is poor. The Enterprise's return to financial health may well require major financial restructuring.

Asset Quality

The Enterprise's credit performance is expected to remain stressed for the next one to two years due to rapidly growing credit losses and the increasing concentrations and exposure to counterparties with declining financial capacity. Management has taken steps to strengthen underwriting standards and other practices to reduce losses. However, these improvements only partially mitigate the increasing losses.

In early 2008, credit risk models substantially under-predicted credit losses. Later in 2008, key credit applications in guarantee fee pricing and automated underwriting were substantially updated, improving performance. Unfortunately, these improvements came too late, after hundreds of billions of dollars in risky loans had already been acquired or guaranteed.

Internal Controls

Risks in internal controls, information technology, and the information management environments increased due to the Enterprise's deteriorating financial condition, significant safety and soundness concerns, key personnel vacancies, and the uncertain markets. Improvements in the internal control structure have reduced the likelihood of operational failures relating to the financial reporting process. Despite these improvements, the Enterprise has certain manual controls that require automation. Reliance and sustainability of the control environment are

challenged by the large number of manual controls. Considerable work remains to improve information technology systems, remediate known control weaknesses, and address issues in the design of internal controls. Correction requires multiyear plans to address the deficiencies. These internal and external challenges could delay or derail needed enhancements.

The external auditor did not express an opinion on the effectiveness of internal controls over financial reporting (ICFR) because the Enterprise was unable to complete its assessment of the effectiveness of ICFR as of year-end 2008. Without an independent opinion, there is uncertainty about the overall control environment at Freddie Mac.

Summary

At year-end 2008, the Enterprise had (1) new management and a new Board working with the conservator to stabilize the Enterprise; (2) depleted capital but a substantial backstop from the United States Treasury; (3) losses from unprecedented credit expenses arising from loan losses and declines in the value of securities; (4) rapidly growing credit losses and the declining financial capacity of counterparties; (5) high market risk from reduced liquidity, interest rate risk limits and significant model risk-leading to the need for on-top adjustments in hedging; and (6) heightened operational risk from growing transaction volumes in defaulted loan processing, combined with recent management and organizational changes.

Matters Requiring Oversight

The following key matters highlighted in this report require strong management and Board oversight:

Governance

- Work in cooperation with the conservator to recruit and retain qualified senior executive officers including, as of March 2009, a CEO to strengthen management and ensure appropriate succession planning.
- Adopt and implement corporate strategies and business plans that reflect the Enterprise's conservatorship status as well as the dramatic changes in the Enterprise's financial condition and the mortgage finance industry.
- Continue to develop a framework for management reporting to the Board that draws attention to internal and external conditions that potentially threaten the achievement of corporate objectives.

Credit Risk

- Ensure that weaknesses in the process for determining single-family loan loss reserves are addressed under the ownership of an independent risk management function.
- Revise private-label securities policies to provide meaningful, enforceable limits with defined oversight roles and responsibilities for the Enterprise risk officer, portfolio, and develop a risk mitigation plan.

Market Risk

- Revise the liquidity management plan, policies, and procedures to better reflect market conditions.
- Improve efficiency and address independence in cash management reporting.
- Reduce the convexity and volatility Board limits and identify an effective replacement denominator for common economic capital that improves the resulting equity-at-risk metric.

Operational Risk

- Oversee progress in improving core systems and architecture, promptly comply with Section 404 of the Sarbanes-Oxley Act, remediate known control weaknesses, address the external auditor's comments on the design of internal controls, and continue to make progress in improving data quality.
- Strengthen staffing levels to allow for the frequent updating of key models for risk and pricing, and the development of loss mitigation/property disposition models.

Governance

The new Board of Directors, the new chief executive officer, and management face significant challenges in addressing complex governance issues in the midst of significant industry upheaval. The Board and management have demonstrated their willingness to address governance issues in a timely manner. However, the complexity of the issues and other complicating factors may impede or delay their efforts.

Board of Directors

The new Board has successfully reestablished the committee infrastructure and other processes necessary to fulfill the Board's responsibilities, and has made substantial progress in a short period of time. The Board should also continue to enhance its practices as appropriate to address the heightened demands of the current environment and Enterprise responsibilities.

The Board faces significant challenges in its efforts to strengthen management, given the Enterprise's condition and the current business environment. Long-term success requires a strong, stable, and deep management team. Reports should highlight matters that deserve Board attention and that also help the Board monitor efforts to remediate supervisory issues, a process that is well under way.

Management

Since conservatorship, senior management has been evaluating and implementing changes to personnel, organizational and committee structures, and reporting lines and practices as part of

the restructuring process. Turnover and vacancies on the scale the Enterprise has experienced create significant disruption in Enterprise processes and contribute to the uncertainties inherent in the Enterprise's condition. The Enterprise is challenged in its efforts to strengthen management given the current environment. Compensation remains a significant risk factor.

Corporate policy and risk management practices are being revised as necessary to be consistent with the objectives of the conservatorship, guidance received from the conservator, and related Enterprise strategies.

Enterprise Risk Management

The risk oversight framework which facilitates an integrated evaluation of each of the Enterprise's main risk areas needs to be strengthened. Separate sections of this report identify examination concerns, such as limit levels and enforcement, exposure measurement, policy development, and staffing.

Audit

The audit committee of the Board was reestablished and is fully functioning. The reconstituted committee approved a new charter, has been addressing key matters, and approved the 2009 audit plan, although there was a change in the head of internal audit. Internal audit has the appropriate stature within the Enterprise, is meeting its objectives, and meets applicable professional standards.

Compliance

The audit committee oversees compliance matters and is fully functioning. The compliance program appears to be effective. The compliance division plays a significant role in remediating the Enterprise's supervisory matters and deficiencies. The chief compliance officer leads the remediation committee, which ensures, in part, that senior management creates and implements action plans to resolve identified deficiencies. The committee has enhanced the level of management discipline in remediating issues.

Accounting

Accounting policies and estimates, which are inherently high risk given current market conditions, continue to raise concerns. The external auditor did not express an opinion on the internal controls for financial reporting (ICFR) because the Enterprise was unable to complete its assessment of the effectiveness of ICFR at year-end 2008. An integrated audit is planned for 2009, as required by the Securities and Exchange Commission (SEC) and Sarbanes-Oxley Act.

During the first half of 2008, FHFA noted the Enterprise's reluctance to recognize declines in value as OTTI despite clear signals from the markets and the rating agencies.[1] FHFA raised significant safety and soundness concerns regarding the Enterprise's implementation and judgments used in its OTTI assessment, including the consistency between its OTTI assessment and written policies. FHFA also found inconsistencies between Fannie Mae's and Freddie Mac's OTTI assessments. To address these findings, FHFA provided the Enterprises with its guidance in this area, and Freddie Mac made significant progress in implementing the standards and addressing issues needing attention.

The Enterprise adopted FAS 159, *The Fair Value Option (FVO) for Financial Assets and Financial Liabilities.* The Enterprise applied it principally to securities with unrealized gains, although the portfolio held securities with many more unrealized losses. A more balanced application of FVO would have produced lower regulatory capital. FHFA finalized a draft FVO guidance for both Enterprises in April 2008 to establish consistency and a minimum threshold for the application of GAAP. Freddie Mac has made progress in complying with the guidance.

[1] The value of a security is impaired when its fair value falls below its carrying value on the books. When this occurs, an assessment must be made to determine whether the impairment is other than temporary. If an impairment is determined to be other than temporary, the decline in value must be recognized by writing the book value down to its fair value through earnings. The process of making the determination is referred to as the OTTI assessment and is carried out at least quarterly for accurate financial reporting purposes.

FHFA's review of reserves for credit default and guarantee costs revealed the following:

- Accounting policies in this area are in accord with GAAP.
- Management initiated steps to enhance the reserve analysis and reporting process, and improved reporting of the impacts of assumptions and decisions on the reserve calculation.
- In the first half of 2008, weaknesses were noted both in the process and judgments used to calculate reserves, given the uncertainties in current market conditions. A more conservative approach is more consistent with safety and soundness.
- In 2008, there were large but expected differences between the GAAP-based reserves and other measures of credit loss because reserves follow GAAP guidelines and are calculated differently than total future expected losses. Regular reconciliation of the different measures will inform and enhance the GAAP reserve process.

The Enterprise first established a valuation allowance of $14.1 billion, or 54 percent of the $26 billion deferred tax assets (DTA), for the third quarter of 2008, because it was not certain it would be able to earn sufficient future taxable income needed to realize DTA. The SEC did not object to the Enterprise's method.

A proposed change by FASB to FIN 46(R), *Consolidation of Variable Interest Entities*, would result in the consolidation of well over a trillion dollars of mortgages in off-balance-sheet trusts. It will be difficult for the Enterprise to meet the expected January 1, 2010 date due to the systems changes required to comply with the proposed amendments in a controlled manner.

Solvency

FHFA's Office of Capital Supervision formally classifies capital adequacy quarterly in accordance with Subtitle B of the Federal Housing Enterprises Financial Safety and Soundness Act of 1992 and with the requirements set forth in FHFA's minimum and risk-based capital regulations. The Enterprise is required by federal statute to meet both minimum and risk-based capital standards to be classified as adequately capitalized. Through the second quarter of 2008, Freddie Mac remained subject to an Office of Federal Housing Enterprise Oversight (OFHEO)-directed capital requirement imposed by a letter of agreement that was subsequently modified in March 2008.

On September 6, 2008, the FHFA Director appointed FHFA as conservator of the Enterprise. Subsequently, the Director suspended capital classifications for the conservatorship period. The Director made this determination based on the fact that the purpose of the classifications—prompt corrective action—is moot during conservatorship, and because the capital, or GAAP net worth, position of the Enterprise would be supported by the United States Treasury's Senior Preferred Stock Purchase Agreement. The action to place the Enterprise into conservatorship is supported by the Treasury agreement, which ensures that the Enterprise will maintain a positive net worth through Treasury's commitment to provide up to $200 billion of capital.

FHFA classified Freddie Mac as adequately capitalized for year-end 2007 and also for the first quarter of 2008. Freddie Mac actually fell below the OFHEO-directed requirement in November 2007, which was 30 percent above the legal requirement, but was able to issue $6 billion of preferred stock in December to come back into compliance before the end of that quarter. Although Freddie Mac met all FHFA capital requirements for the second quarter of 2008, the Director used his discretionary authority to classify Freddie Mac as undercapitalized for that quar-

ter, citing concern about the sufficiency of capital given the continuing mortgage market downturn during July and August.

Freddie Mac had announced its intention to raise additional capital following a March 2008 agreement with FHFA, but by late summer it was clear that the Enterprise's efforts to raise private capital had failed. Risk to capital increased dramatically during this period because of increasing projected credit losses, which directly affected capital through reduced current and future earnings. Freddie Mac's inability to raise capital during the summer of 2008 was a significant contributing factor in the Director's decision to appoint a conservator for the Enterprise.

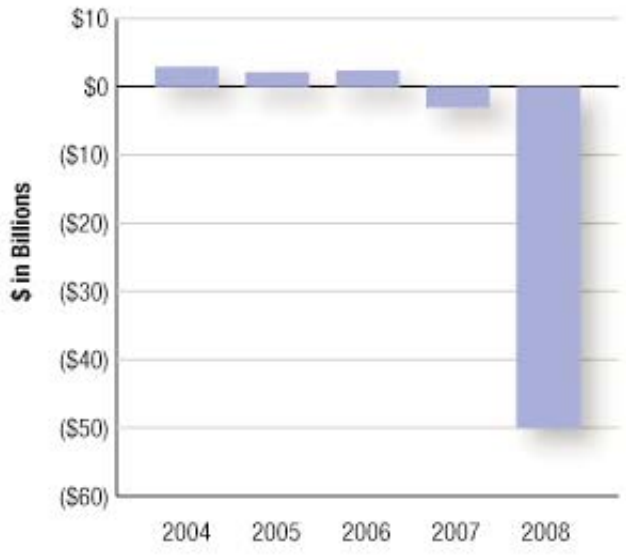
FHFA did not classify Freddie Mac's capital for the third quarter 2008. Under the terms of the Treasury agreement, a draw on the Treasury commitment of $13.8 billion was required in November 2008 to eliminate Freddie Mac's negative balance of GAAP stockholders' equity as of the end of the third quarter. A deferred tax asset partial valuation allowance of $14.1 billion, along with significant credit and mark-to-market losses, accounted for the substantial drop in capital during the third quarter. Another draw on the Treasury commitment of $30.8 billion will be needed to eliminate the negative balance of GAAP stockholders' equity as of year-end, again caused by continuing significant credit losses and negative mark-to-market adjustments, and an additional deferred tax partial valuation adjustment.

Earnings

Freddie Mac reported a historic annual net loss of $50.1 billion. Although poor in the first half of the year, financial results deteriorated even more sharply to record levels in the second half of the year as the downturn in housing, mortgage, and credit markets accelerated.

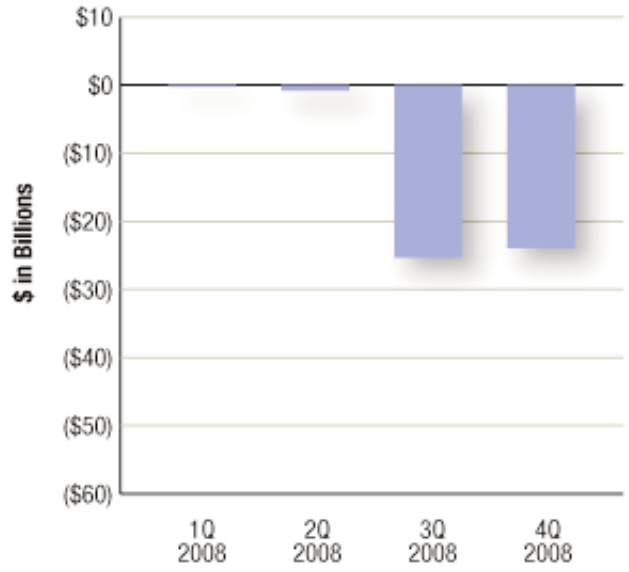
The plunging market adversely affected key market drivers, yielding high mark-to-market losses, credit-related expenses and losses (the provision for credit losses, foreclosed property expense, losses on loans purchased and losses on certain credit guarantees), and high taxes in 2008, as compared to the previous year.

Figure 20 • Freddie Mac Annual Earnings



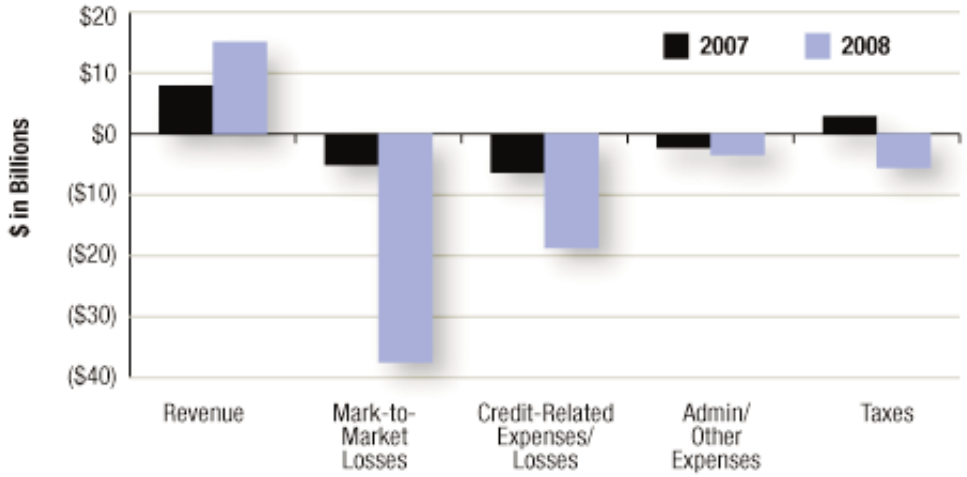
Source: Federal Housing Finance Agency

Figure 21 • Freddie Mac Quarterly Earnings



Source: Federal Housing Finance Agency

Figure 22 • Freddie Mac Annual Earnings Detail



Source: Federal Housing Finance Agency

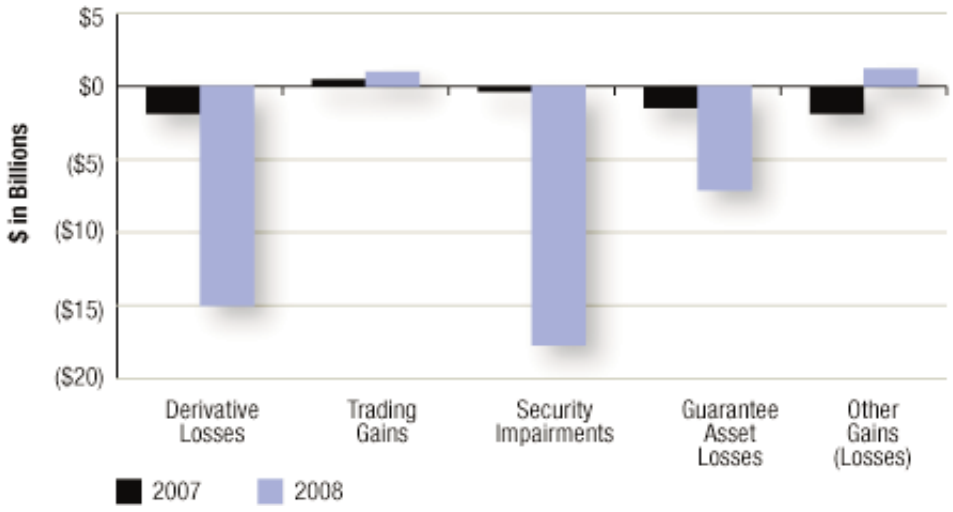
Revenue

Revenue was a bright spot for earnings in 2008 despite the decline in the size of the mortgage market. Freddie Mac reported increases in revenue from both the investment portfolio business and the credit guarantee business.

Net interest income increased to $6.8 billion from $3.1 billion in 2007. Much of this increase can be attributed to a steeper yield curve, as well as increases in the proportion of short-term to long-term funding, along with short-term funding rates that were further below LIBOR than normal.

Management and guarantee income increased to $3.4 billion from $2.6 billion in 2007 primarily due to an increase in the average balance of guaranteed Participation Certificates (PC). In addition, significant decreases in mortgage interest rates in the second half of the year increased expected prepayments, which accelerated the recognition of guarantee income deferred fees. Income flowing from the guarantee obligation more than doubled to $4.8 billion from $1.9 billion as declines in house prices triggered the accelerated of the amortization of the guarantee obligation.

Figure 23 • Freddie Mac Mark-to-Market Losses Detail



Source: Federal Housing Finance Agency

Mark-to-Market Losses

Mark-to-market losses rose in 2008 as market conditions impacted key drivers of losses. Mark-to-market losses grew significantly in 2008, reducing earnings by $37.5 billion in 2008, compared to $5.1 billion in 2007.

Mark-to-market losses on derivatives, which are used to hedge mortgage investments, were substantial in the second half of the year, driven by historic declines in interest rates, which also drove losses on the guarantee asset.

Market values of private-label mortgage-backed securities held by the Enterprise in their retained portfolios plummeted during the year. As a result, Freddie Mac incurred substantial levels of other-than-temporary impairments on these securities. Declining security market values also drove a substantial increase in unrealized losses on available-for-sale securities, reported in shareholders' equity but not in earnings. Realized and unrealized losses on non-agency securities totaled $53.1 billion in 2008.

Credit-Related Expenses and Losses

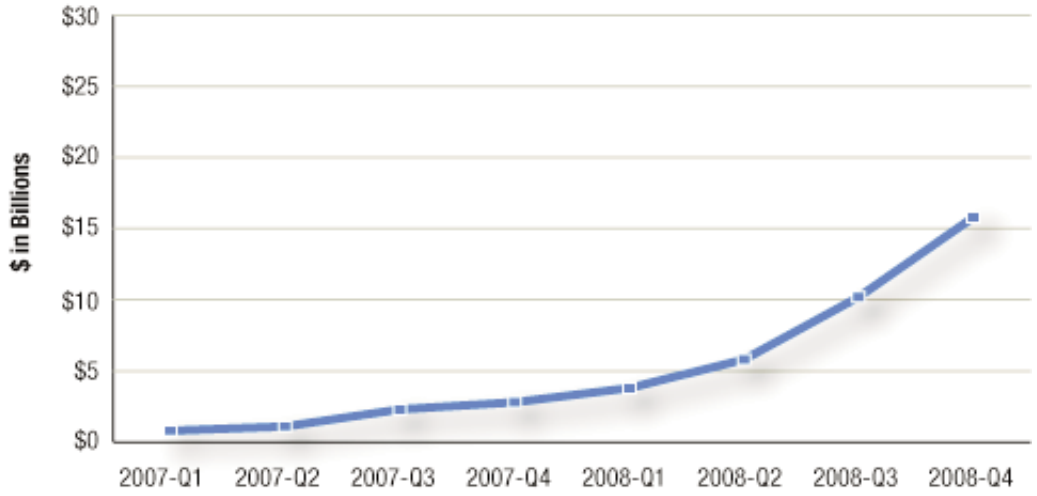
Increasing unemployment rates and declining house prices contributed to higher delinquency and default rates on mortgages and increased the severity of credit losses. Accordingly, Freddie Mac increased its loan loss reserves substantially during the year to reflect higher expectations of credit losses. The provision for loan losses escalated during the last half of the year as a consequence of building the loan loss reserve.

The market downturn resulted in more properties entering foreclosure, increasing foreclosure-related expenses. Credit losses from purchases of delinquent loans increased as the values of the underlying properties dropped. These factors led to much higher credit-related expenses and losses compared to the previous year. Freddie Mac reported credit-related expenses and losses in earnings of $18.7 billion in 2008, compared to $6.4 billion in 2007.

Provision for Federal Income Taxes

In 2007, Freddie Mac recorded a benefit for federal income taxes, which increased earnings. But in 2008, Freddie Mac incurred substantial provisions for federal income taxes because it established a partial valuation allowance for deferred tax assets during the third quarter of 2008. The decision to establish the valuation allowance to reduce deferred tax assets was based on management's

Figure 24 • Freddie Mac Credit Loss Reserve



Source: Federal Housing Finance Agency

conclusion that Freddie Mac was not likely to generate sufficient future taxable income to realize the full amount of its deferred tax assets.

Summary

In 2008, high mark-to-market losses, credit-related expenses and losses, impairments of deferred tax assets, and higher unrealized losses on available-for-sale securities eliminated shareholders' equity and led Freddie Mac to draw $44.6 billion under the Treasury Senior Preferred Stock Purchase Agreement.

Credit Risk Management

The credit function experienced rapidly growing credit losses, which are expected to continue for one to two years. Nonagency securities experienced $53 billion in losses from impairments and mark-to-market accounting at year-end 2008. Also, the weakened financial condition of several counterparties and the consolidation of some seller/servicers continue to increase counterparty concentration and exposure. Like many other mortgage investors, Freddie Mac did not anticipate the substantial and sustained nationwide decline in house prices.

Freddie Mac has taken steps to strengthen underwriting standards and other practices to reduce losses, which include the new chief credit officer position, and the establishment of a corporate credit risk committee, as well as underwriting and pricing changes. However these improvements only partially offset increasing losses from worsening markets.

Freddie Mac is developing a plan to strengthen its credit management reporting, including reporting on portfolio and purchase information, performance results and asset disposition, top counterparty exposure detail, credit loss drilldown, profitability and return analysis, segment earnings, forecasts, and a comparison of actual versus planned performance.

Single-Family Credit

Single-family credit risk is high and continues to increase. Rising levels of housing supply continue to lower house prices, resulting in growing levels of serious delinquencies and real estate owned (REO).

The fourth quarter 2008 credit loss forecast showed sharply rising credit losses over time. During that quarter, management recommended a single-family loss reserve of more than fivefold increase from the same quarter in 2007, reflecting the deterioration in the credit markets. Also, year-over-year serious delinquency rates were nearly two and a half times the previous year's performance level. The 2006 and 2007 book years are significantly contributing to the rising serious delinquency rates, representing about two-thirds of all seriously delinquent loans. Moreover, the 2006 and 2007 book years comprise 71 percent of the losses at year-end 2008. Alt-A mortgages remain leading contributors to serious delinquency rates and credit losses. The portion of the single-family portfolio characterized as Alt-A is responsible for 49 percent of total credit losses at year-end 2008.

Freddie Mac's quality control group (QC) is endeavoring to keep up with the unprecedented volume of nonperforming loans requiring review. The quality control department must combine data from other databases and manual processes to generate quality control reporting. Freddie Mac has taken proactive steps to meet this challenge, including the addition of staff to assist QC in its efforts.

State regulatory changes and conservator requests lengthen foreclosure timelines, and foreclosure laws limit Freddie Mac's ability to dispose of properties, but allow borrowers to stay in their homes. Freddie Mac's risk and credit losses increase as the holding period for nonperforming loans is extended.

Freddie Mac is approving, settling, and booking record levels of mortgage loan workouts and

related foreclosure avoidance activities. Freddie Mac management has been working closely with FHFA, the United States Treasury, the Federal Deposit Insurance Corporation and other constituents to design and implement new initiatives for streamlining modifications and preventing foreclosures.

Freddie Mac's loan loss reserve accounting policies are in accordance with GAAP. However, the surrounding processes for determining the single-family loan loss reserve are a concern.

Counterparty Credit

Counterparty risk has increased as several counterparties face capital and liquidity challenges. Freddie Mac relies on its counterparties for credit enhancements, loan repurchases, portfolio servicing, default asset management, and loss mitigation. Their weakened condition casts doubt on the full collectability of potential obligations, thereby creating an unsafe and unsound condition for transacting business.

The weakened condition of mortgage insurers has hindered the mortgage market recovery. In 2008, the rating agencies significantly downgraded all major mortgage insurers. As of year-end 2008, top MI ratings ranged from A+ to BBB+, below Freddie Mac's type I AA- threshold.

Uncertainty exists over the financial guarantors, reflecting capital adequacy and substantial performance volatility associated with their concentrated exposure to structured assets and stressed mortgage risk. The bankruptcy of Lehman Brothers in September 2008 resulted in Freddie Mac having to write down more than $1 billion of a $1.2 billion short-term unsecured investment with that institution.

Freddie Mac has taken steps to mitigate its counterparty risks by increasing due diligence and risk assessments for high-risk counterparties and decreasing limits when appropriate. Management has recently formed a steering team to identify and raise issues relating to counterparty risk.

Multifamily

Multifamily credit risk and losses increased due to rising capitalization rates and property level expenses, as well as slower rent growth in certain areas. Freddie Mac has begun to address these concerns by strengthening underwriting standards and pricing of multifamily products. Freddie Mac also is developing a loss mitigation plan to address growing delinquencies and real estate owned, and expects to mitigate future losses by raising prices but staying focused on helping the market stay liquid.

Freddie Mac has taken steps to strengthen underwriting standards and other practices to reduce losses, which include the new chief credit officer position, the establishment of a corporate credit risk committee as well as underwriting and pricing changes.

Private-Label Securities

The nonagency securities portfolio experienced significant losses from impairments and mark-to-market accounting of more than $53 billion during 2008 and home price depreciation continued to adversely impact the collateral underlying the private-label portfolio; these are the primary sources of concern. Mark-to-market gains of almost $1 billion were offset by OTTI losses exceeding $17.7 billion, which were recognized in earnings.

Policies for private-label securities and commercial mortgage-backed securities need strengthening to provide more meaningful and enforceable limits and oversight responsibilities for the enterprise risk officer. The enterprise risk officer needs improved authority to force securities sales and limit purchases based on pre-purchase analysis.

Reporting to monitor the portfolio's historical trends and compare it to industry averages is limited, although there was improvement during 2008. Staffing for the credit analysis of private-label residential mortgage-backed securities requires improvement.

Management policy needs expansion to include appropriate escalation procedures to mitigate losses.

Market Risk Management

FHFA conclusions are based on the following: (1) the continued lack of significant investor support for the agency long-term debt market; (2) extreme volatility of the value of mortgage securities relative to those of other fixed-rate instruments; (3) unprecedented model risk arising from Freddie Mac's market risk models that reduced the reliability of its interest rate risk estimates; (4) multiple risk limit exceptions; and (5) weaknesses in a significant number of risk management practices.

Liquidity and Funding Risks

The continued lack of depth in the longer-term agency debt market and the need for a more effective liquidity policy that reflects current market realities drive concerns. Liquidity and funding risks represent a critical risk as the market for Freddie Mac bullet and callable long-term debt deteriorated until late November. Market access to long-term debt was virtually closed until the Federal Reserve's announcement that it would purchase up to $100 billion of agency debt securities.

Freddie Mac is more exposed to discount note roll-over risk with short-term debt representing a greater portion of the debt funding mix. The ratio of short-term debt to total debt increased from 38 percent on June 30 to 52 percent at year-end 2008. Also, Freddie Mac stopped efficiently exercising options on callable debt during the third quarter of 2008 because of the uncertainty over replacing it with long-term debt.

Freddie Mac is reliant upon the Treasury Department for its GSE credit facility for emergency funding. Treasury's support is scheduled to end at year-end 2009. The Enterprise has tested most of the operations but cannot complete the testing of its emergency plan without an actual draw from the Treasury Department.

Freddie Mac needs to revise its liquidity management plan for 2009, along with appropriate policies and procedures, to reflect current market conditions. Cash management reporting is manually intensive and should be independent of the cash investment function and the funding desk. Freddie Mac has improved its cash forecasting processes.

At the end of 2008, Freddie Mac had approximately $9.8 billion of illiquid assets in its liquidity portfolio. These securities are not in a trading account, which adds to FHFA concerns. Most of these securities should not be treated as a source of liquidity, particularly those with a weighted average life longer than one year.

Market Risk Oversight should improve its oversight of liquidity management and reporting to include a clear, specific, and timely process for reviewing and analyzing cash management and liquidity reports.

Interest Rate Risk Management

Severe credit, market, and liquidity events critically impeded Freddie Mac's risk measurement and hedging capabilities. Also, the highly volatile

mortgage basis had a profound impact on duration and volatility, making models and risk measurement results less reliable and hedging decisions less effective. Freddie Mac exceeded its daily market value of equity limits during much of the fourth quarter of 2008, largely driven by declining, or negative, economic common equity estimates.

Freddie Mac needs to revise its liquidity management plan for 2009, along with appropriate policies and procedures, to reflect current market conditions.

Low or negative economic capital during 2008 made interest rate metrics with economic capital in the denominator unreliable. Also, term structure calibration issues resulted in significant volatility exposure measurement errors when short-term interest rates were extremely low and volatile. Until meaningful measures are developed, the Board and management must implement alternative measures, operate with lower risk, and properly manage any interim adjustments or solutions.

Freddie Mac has substantial and increasing derivatives counterparty exposure and must develop and implement a strategy to reduce such exposure. Freddie Mac should also continue to explore expanded use of exchanges and/or central clearinghouses for interest rate swaps and swaptions to further mitigate counterparty exposures.

Portfolio Management

Freddie Mac's ability to manage the investment portfolio was adversely impacted during 2008. Early in 2008, Freddie Mac grew the portfolio significantly, but growth slowed in mid-2008 when Freddie Mac did not raise capital and market conditions made it harder to fund mortgages profitably. After conservatorship began, Freddie Mac increased its portfolio by $50 billion.

Operational Risk Management

Structural, management, and organizational changes have contributed to Freddie Mac's increased operational risk profile. Also, operational risk increased during the year as growing processing volumes for defaulted loans amplified the potential for internal control problems and manual processing errors. However, Freddie Mac achieved certain milestones, including its registration with the SEC.

Information Technology

During 2008, Freddie Mac made improvements in information technology (IT), but significant risks remain. FHFA noted some progress in IT governance processes, functions, and activities during 2008. However, legacy technology systems are inflexible and thus not easily adaptable to support changing business needs. Legacy systems are out-of-date, costly, and time-consuming to support. As a result, Freddie Mac relies on manual processes, work-arounds, and data handoffs to accommodate changing business needs and volume fluctuations. This decreases efficiency and increases the risk of processing errors.

Progress related to several key IT governance processes is as follows:

- Freddie Mac continues to face the challenge of building an effective and sustainable information security program. A key management position

was vacant during the second half of 2008 but filled in January 2009.

- In 2008, Freddie Mac implemented an effective system development life cycle (SDLC) process and launched an internal quality review function to validate that systems under development follow SDLC requirements. However, outside of the operations and technology group, a standard governance process for developing software tools is not used. Some Enterprise functions develop these tools following a well-designed governance process but others do not, resulting in errors that affect decision-making and reporting.

Data Quality

Data quality is a long-standing issue at Freddie Mac. The Enterprise has made efforts to better manage data and measure its quality, but progress has been slow and uneven. In 2007, Freddie Mac began to adopt data management approaches based on industry standards and best practices. The Enterprise continued to build the foundation of a strong data management program in 2008.

The Enterprise is developing the capacity to measure and report on data quality and has taken the first steps in integrating data reviews into the application development process. Progress is real, but several significant issues need to be overcome in order for progress to continue.

Internal Controls

Improvements in the control structure have reduced the likelihood and severity of operational failures in financial reporting processes. Work remains to address operational risks including remediating known control weaknesses, addressing issues in the design of internal controls and updating business processes and control documentation for automation and business process changes.

During 2008, Freddie Mac registered with the SEC. This registration requires Freddie Mac to comply with Section 404 of the Sarbanes-Oxley Act by the end of 2009. To do this, management must remediate existing control weaknesses and test the Enterprise's internal controls and procedures for financial reporting.

Unprecedented conditions in the mortgage market during the year posed significant challenges to prepayment and interest rate models.

The Enterprise was unable to complete a comprehensive management assessment of the effectiveness of internal control over financial reporting as of year-end 2008. Thus, the external auditor did not issue an independent opinion on the internal controls for financial reporting. Delays in completing business process documentation, addressing the external auditor's comments on control designs for business processes, and incomplete remediation of IT general controls all contributed to the decision that an integrated audit was not possible for 2008. Without an independent opinion, there is uncertainty about the Enterprise's overall control environment.

Operational Risk Management Oversight

The operational risk management division satisfactorily informs management about the level and types of operational risks at Freddie Mac. In 2008, Freddie Mac further developed the operational risk program, with particular progress

made on loss data collection, baseline risk assessments, and scenario analyses. However, the resignation of the senior vice president of Enterprise operational risk oversight in the third quarter of 2008 slowed progress on the program.

Model Risk and Management

At the start of 2008, many of Freddie Mac's key credit models had not been recently updated or tended to understate credit risk. During the course of the year, these models were substantially improved. Unfortunately, these improvements came too late, after the Enterprise had already bought or guaranteed hundreds of billions of dollars in risky mortgage products.

Unprecedented conditions in the mortgage market during the year posed significant challenges to prepayment and interest rate models. Freddie Mac updated key prepayment models several times to capture changing borrower behavior. The models performed better as a result of the updates.

Market dislocations challenged interest rate models. The mortgage propagation model did not perform well during the year, exhibiting error well outside management thresholds. Historically low interest rates and extreme volatility also challenged the two-factor term structure model. The model exceeded management performance tracking thresholds for most of the year. An improvement to the current model was implemented near the end of the year, and a new model was deployed in December 2008.

The credit crisis underscores the need to frequently reevaluate credit valuation models. In early 2008, credit models throughout the industry and at the Enterprise substantially under-predicted credit losses. However, during the year management substantially updated key credit applications. Freddie Mac should strengthen staff levels devoted to all phases of credit model development to continue progress.

Controls and Governance

Internal audit's (IA) model audit function needs strengthening in its numbers of individuals with the appropriate skills and backgrounds, to improve its ability to evaluate the reliability of Freddie Mac's independent model validation function. Also, IA activities should include the regular monitoring of model risk exposures or attending senior management meetings covering model risk. IA has committed to addressing these issues in 2009.

Report of Examinations of the Federal Home Loan Banks

Examination Authority and Scope

Section 20 of the Federal Home Loan Bank Act (12 USC 1440) requires examinations of each Federal Home Loan Bank (FHLBank) at least annually. The Federal Housing Finance Agency's Division of FHLBank Regulation is responsible for carrying out the on-site examinations and the ongoing supervision of the FHLBank System. The FHLBank System includes the Office of Finance and 12 Federal Home loan Banks: Atlanta, Boston, Cincinnati, Chicago, Dallas, Des Moines, Indianapolis, New York, Pittsburgh, San Francisco, Seattle, and Topeka. Through its examinations, data analysis, and risk monitoring activities, the division identifies matters requiring corrective action by the FHLBanks and monitors steps taken to correct deficiencies. The examination program is intended to promote the continued safe and sound condition of each FHLBank and the achievement of their housing finance and community investment mission.

In 2008, the Federal Housing Finance Agency (FHFA) examined all FHLBanks and the Office of Finance. On-site comprehensive annual examinations normally take 5 to 15 weeks. In addition, FHFA examiners visit the FHLBanks between examinations. Examiners-in-charge communicate regularly with FHLBank management.

FHFA examiners use a risk-based approach to supervision. Examinations focus on the principal risks at the particular FHLBank and are intended to assess the role of the FHLBank's Board and management in overseeing the FHLBank's activities, to evaluate the quality and effectiveness of risk management at the FHLBank, and to review the FHLBank's financial condition and performance.

In addition to examinations, the FHFA Division of FHLBank Regulation's supervisory program includes off-site monitoring and analysis of the FHLBanks. The off-site monitoring activities include reviews of monthly and quarterly financial information submitted in call reports and available in the FHLBanks' securities filings. The division also monitors the debt issuance activities carried out by the Office of Finance, a joint office of the FHLBanks, and tracks financial market trends. The division reviews FHLBank documents, such as the Board of Directors' packages for each FHLBank, and analyzes responses to a wide array of periodic and ad hoc information and data requests, including an annual survey of FHLBank collateral and collateral management practices and weekly data on the FHLBanks' holdings of private-label mortgage-backed securities (PLS).

Governance

Effective corporate governance at the FHLBanks involves engaged, capable, and experienced directors and senior management; a coherent strategy and business plan; effective and appropriate risk limits and controls; and strong lines of responsibility and accountability. While those attributes exist to a degree among the FHLBanks, our 2008 examinations identified several governance shortcomings. Some FHLBanks paid insufficient attention to the credit risk associated with PLS and relied too heavily on credit ratings in making investment decisions. Many did not adjust their retained earnings targets in response to deterioration in the credit quality of their PLS holdings. Some were slow to adopt policies with respect to the acceptance of subprime or nontraditional mortgage loans as collateral for advances. In some FHLBanks the Board of Directors provided insufficient oversight of hedging programs and did not ensure full separation between risk taking

and risk management, reporting, and control. In a few instances, shortcomings in staffing and resources allocated to the Affordable Housing Program (AHP) reflected Board of Director and management inattention to the program and the information management systems needed to support an effective AHP. A number of FHLBanks allocated insufficient resources to information technology.

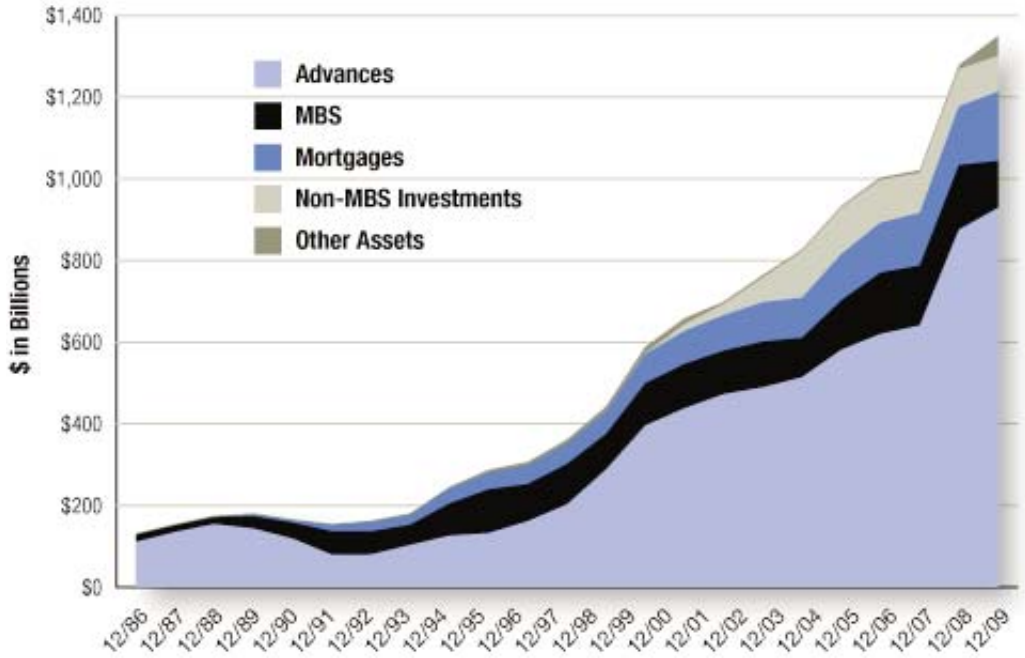
In general, operation of the Boards of Directors of the FHLBanks has improved now that nearly all independent director positions are filled. For several years, most of the independent director positions had been vacant. Formerly, the Federal Housing Finance Board (FHFB) appointed independent directors to each FHLBank's Board of Directors, but the Housing and Economic Recovery Act of 2008 (HERA) requires FHLBank member institutions to elect their own independent directors, subject to certain qualifications standards in FHFA regulations.

Financial Condition and Performance

The financial condition and performance of the FHLBanks deteriorated in 2008, particularly during the fourth quarter, principally because of their exposure to PLS, relatively high legacy funding costs, wider funding spreads, and shorter maturities on debt. Net income declined in 2008, and three FHLBanks recorded a loss for the year. At year-end 2008, all FHLBanks met the minimum statutory leverage capital requirement of 4 percent of total assets.

The FHLBanks ended 2008 with total assets of $1.35 trillion, up from $1.27 trillion at the end of 2007, but down from the record level of $1.43 trillion reached at the end of September 2008. Loans to member institutions (advances) are the largest balance-sheet item, and they were $928.6 billion at year-end, up from $875.1 billion at the end of 2007, but down from the October peak of $1.01 trillion.

Figure 25 • Portfolio Composition of the Federal Home Loan Banks



Source: Federal Housing Finance Agency

Mortgage loans held by the FHLBanks were $87.4 billion at the end of 2008, down from $91.6 billion one year earlier. Mortgage loans have been trending downward since the middle of 2004 when mortgage balances were $115.9 billion. The FHLBanks acquired $7.7 billion of mortgage loans in 2008. Repayments and prepayments were $12.0 billion.

As was the case with Fannie Mae and Freddie Mac, economic conditions in the second half of 2008 adversely affected the funding of the FHLBanks. For several months, the FHLBanks and Enterprises had only limited access to the capital markets in maturities greater than six months. The unsettled financial markets exposed the FHLBanks to basis risk as traditional relationships among interest rates broke down. A combination of basis risk, negative carry on liquidity portfolios, mismatch of timing of resets on interest-rate swaps, and other-than-temporary impairment (OTTI) contributed to six FHLBanks reporting losses in the fourth quarter of 2008.

Figure 26 • Selected Financial Data

(Dollar amounts in millions)

Selected Statement of Condition Data at December 31, 2008	2008	2007	2006	2005	2004
Advances	928,638	875,061	640,681	619,860	581,216
Mortgage loans held for portfolio (net)	87,361	91,610	97,976	105,240	113,922
Investments	305,956	297,058	270,319	266,453	266,451
Total assets	1,349,096	1,271,800	1,015,304	997,387	997,386
Deposits and borrowings	16,696	22,393	20,310	21,758	21,174
Consolidated obligations (net)	1,258,267	1,178,916	934,214	915,901	845,738
Total capital stock	49,551	50,253	42,001	42,043	40,092
Retained earnings	2,979	3,689	3,144	2,600	1,744
Total capital	51,393	53,597	44,986	44,480	41,863
Selected Statement of Income Data for the year ended December 31, 2008	**2008**	**2007**	**2006**	**2005**	**2004**
Total interest income	45,595	57,024	50,541	35,420	21,925
Total interest expense	40,352	52,507	46,248	31,213	17,754
Net interest income	5,243	4,517	4,293	4,207	4,171
Provision (reversal) for credit losses	11	3	(1)	1	(5)
Net interest income after loss provision	5,232	4,514	4,294	4,206	4,176
Total other income (loss)	(2,307)	127	3	(60)	(890)
Total other expense	1,076	792	743	729	612
Affordable Housing Program	188	318	295	282	225
REFCORP	412	704	647	625	505
Total assessments	600	1,022	942	907	730
Cumulative effect of change in accounting principles before assessments				15	50
Net income	1,249	2,827	2,612	2,525	1,994
Selected Other Data for the year ended December 31, 2008	**2008**	**2007**	**2006**	**2005**	**2004**
Cash and stock dividends	1,975	2,282	2,069	1,669	1,348
Weighted average dividend rate	3.80%	5.22%	4.40%	4.06%	3.47%
Return on average equity	2.25%	6.01%	5.80%	5.84%	4.93%
Return on average assets	0.09%	0.26%	0.26%	0.26%	0.23%

Source: Federal Housing Finance Agency

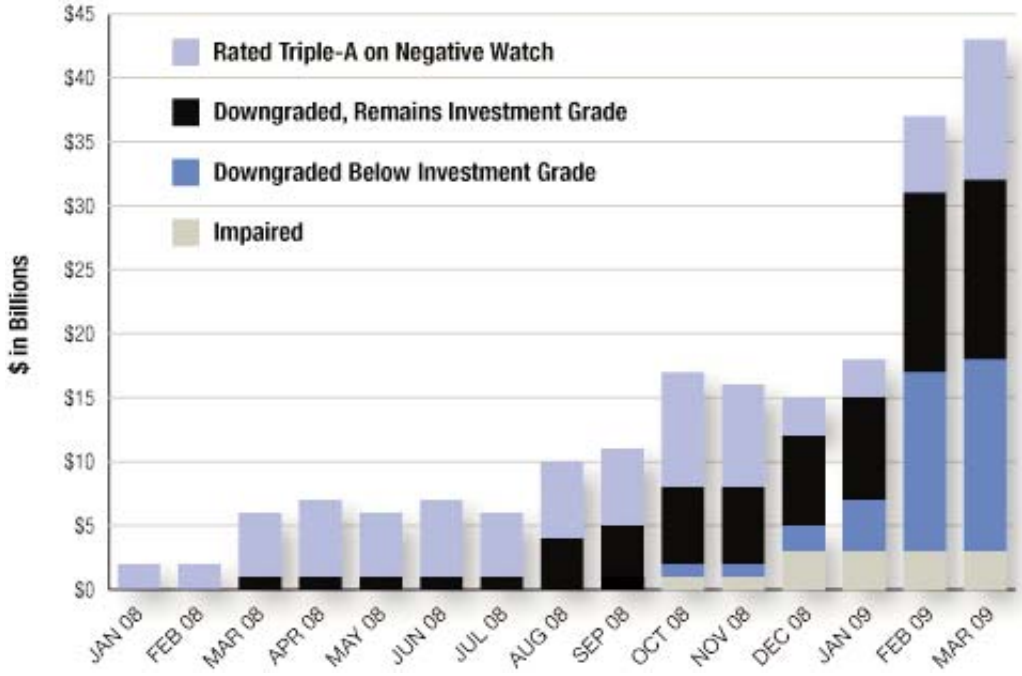
Net income for 2008 was $1.25 billion, down from the 2007 level of $2.83 billion. The largest factor in the income decline was the $1.92 billion in charges related to OTTI on private-label mortgage-backed securities. The return on average assets was 0.09 percent, compared to 0.26 percent in 2007. The net interest spread, which is the difference between the weighted average yield on assets and the weighted average cost of liabilities, increased to 0.23 percent for 2008, up from 0.16 percent in 2007.

Holdings of private-label mortgage-backed securities are currently the most significant factor affecting the financial condition and performance of the FHLBanks. As of December 31, 2008, the FHLBanks held $95.6 billion of agency mortgage-backed securities and $73.1 billion of private-label mortgage-backed securities. During 2008 and continuing in the first quarter of 2009, the quality of the FHLBanks' PLS portfolio deteriorated, as measured by a decline in market value and an increase in the number of bonds downgraded by a Nationally Recognized Statistical Rating Organization (NRSRO).

An FHLBank must hold sufficient regulatory capital to meet the greater of either the leverage capital requirement or risk-based capital requirements. The only exception is the FHLBank of Chicago. The Chicago FHLBank has not converted its capital structure to comply with the Gramm-Leach-Bliley Act of 1999. The Chicago FHLBank is operating under a cease-and-desist order that includes a minimum capital level and a minimum capital-to-assets ratio with which it must comply.

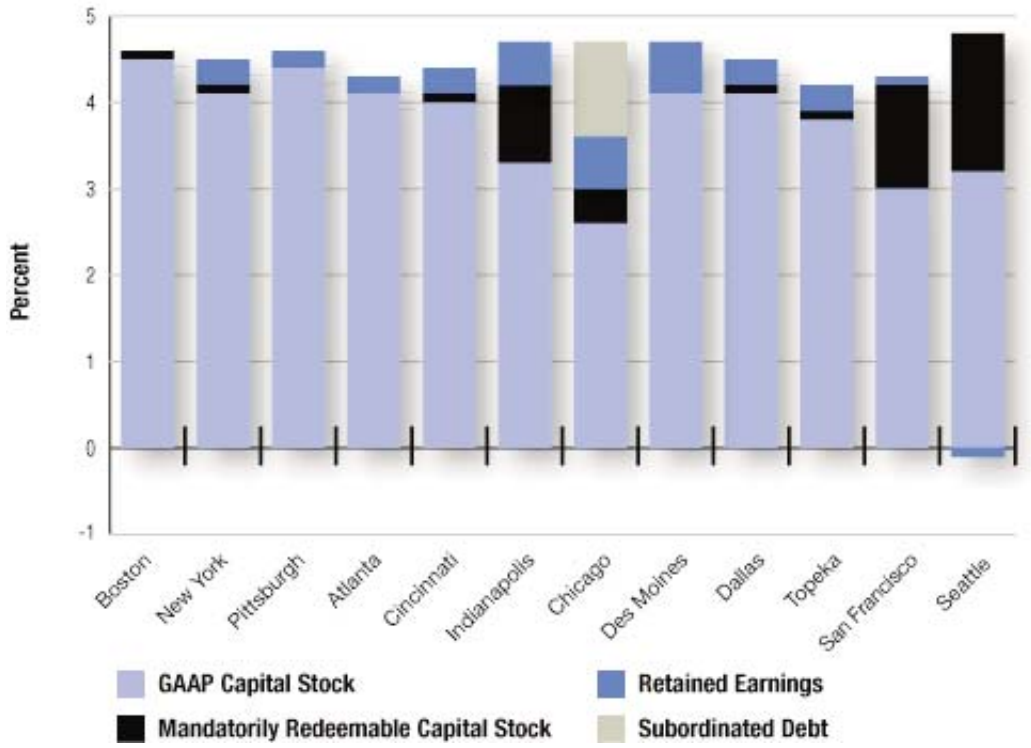
The FHLBanks' regulatory capital generally consists of the amounts paid by member institutions for FHLBank capital stock and the retained earnings of the FHLBank. As of December 31, 2008, all 12 FHLBanks exceeded the minimum leverage ratio by having at least 4 percent capital-to-assets. The FHLBanks' regulatory capital at December 31, 2008, was $58.7 billion, consisting of $49.6 billion of capital stock, $3 billion of retained earnings, and $6.1 billion of mandatorily redeemable capital stock, which arises typically out of capital stock redemption requests by members or any capital stock held by a nonmember, including the

Figure 27 • Ratings Action and Impairments of Private-Label Mortgage-Backed Securities



Source: Federal Housing Finance Agency

Figure 28 • Capital Ratio and Composition as of December 31, 2008



Source: Federal Housing Finance Agency

Federal Deposit Insurance Corporation as a receiver for former members. The weighted average regulatory capital to assets ratio for the FHLBank System was 4.35 percent.

One FHLBank, the FHLBank of Seattle, did not meet its minimum risk-based capital requirement as of December 31, 2008. The FHLBank of Seattle failed to meet it risk-based capital requirement when its required risk-based capital was $2.71 billion and its permanent capital was $2.55 billion. This occurred because OTTI charges reduced total capital and the continued depreciation of its PLS increased its market risk capital requirement. OTTI charges also exhausted the Seattle FHLBank's retained earnings.

Credit Risk Management

Credit risk generally increased among the FHLBanks in 2008 as financial and mortgage market instability affected the value of certain assets, particularly PLS, and led to an increase in financial institution failures, including some FHLBank member institutions. Counterparty risk increased, particularly in conjunction with the bankruptcy of Lehman Brothers.

Several FHLBank members are less credit-worthy than in previous years. The collateral commonly pledged by members—mortgage loans and mortgage-backed assets—has become more difficult to value, heightening the credit risk on advances. FHFA examinations concluded that some FHLBanks need more frequent on-site collateral inspections, more frequent and conservative assessments of member condition, and stronger collateral policies.

Advances carry low credit risk. To obtain an advance, members must pledge eligible collateral with a market value that exceeds the amount of the advance. The FHLBanks either (1) perfect a blanket lien on all or a portion of the member's

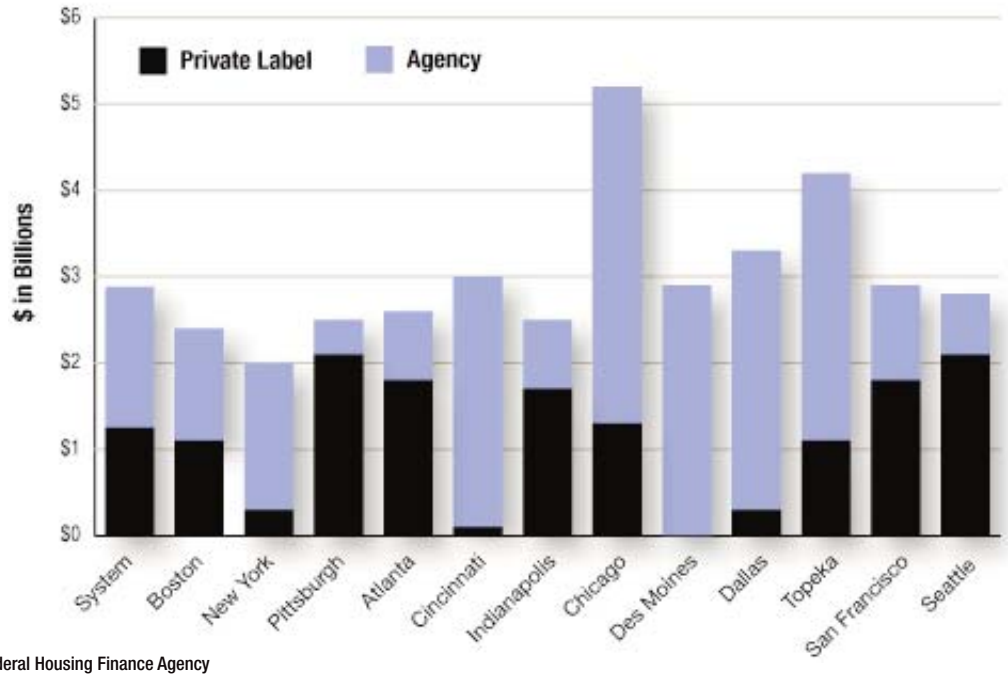
assets, (2) require the member to list specific assets as collateral, or (3) take delivery of the collateral. If a member's financial condition deteriorates, collateral status normally changes from blanket to listing to delivery. Collateral "haircuts" or protective reductions in borrowing capacity relative to the value of the collateral, are typically adjusted depending on the quality of the pledged assets and the financial condition of a member. In addition, most FHLBanks take delivery of all securities pledged as collateral, and most require insurance company and some other members to deliver collateral. Although examinations identified deficiencies in collateral management practices at some FHLBanks, no FHLBank has incurred a loss on an advance to a member institution.

As the credit crisis worsened and the credit worthiness of many financial market participants became suspect, counterparty exposure on derivatives and on unsecured lending (such as federal funds) increased. When Lehman Brothers failed in September 2008, all 12 FHLBanks were in derivative counterparty contracts with Lehman Brothers. The Lehman Brothers failure caused the FHLBanks of Atlanta and New York to incur charges totaling $235 million. The FHLBank of Pittsburgh had exposure of $42 million to Lehman Brothers, which it has not yet written off. The remaining nine FHLBanks were either in a net position of owing money to Lehman Brothers or in possession of sufficient collateral from Lehman Brothers to avoid a loss.

Deterioration in the quality of the FHLBanks' PLS, as measured by adverse rating actions, accelerated in early 2009. Several FHLBanks have sufficient holdings of downgraded or impaired private-label mortgage-backed securities to warrant supervisory concern. As noted above, the FHLBanks held $95.6 billion of agency mortgage-backed securities and $73.1 billion of private-label mortgage-backed securities as of December 31, 2008.

The FHLBanks carry 99.8 percent of their private-label mortgage-backed securities in held-to-maturity accounts. They do not recognize market depreciation unless the impairment is other than temporary. The FHLBanks recognized $1.7 billion in OTTI in the fourth quarter of 2008 and $1.9 billion for the year.

Figure 29 • Mortgage-Backed Securities as a Multiple of Capital



Source: Federal Housing Finance Agency

The FHLBanks have mortgage loan holdings of $87.4 billion. These portfolios do not present significant credit risks. The loans are fixed-rate amortizing loans, well-seasoned, written to traditional underwriting standards, have high credit scores and relatively low loan-to-value ratios, and are credit enhanced either by the member who sold the loan to the FHLBank or by supplemental mortgage insurance. At the end of 2008, only 0.19 percent of these portfolios were on non-accrual status, though that is up from 0.09 percent in 2007. Foreclosures during the fourth quarter of 2008 were $164 million, and net charge-offs were $31,000.

Market Risk Management

Mortgage assets continue to be the greatest source of market risk for the FHLBank System. Mortgage assets are typically longer-dated instruments than most other FHLBank assets, have less predictable cash flows, and, in the case of private-label securities, have experienced the greatest swings in market value. Several FHLBanks are managing declining mortgage portfolios that should ultimately reduce the market risk profiles of the FHLBanks, but which expose them to asset and liability mismatches in the shorter term. Some FHLBanks with significant mortgage holdings hedge the market risk by extensive use of callable bonds, often with American call options, to fund those assets. Other FHLBanks, the FHLBank of Chicago in particular, use a more complicated hedging strategy that involves using interest-rate swaps, swaptions (options to enter into interest-rate swaps), and options. As of 2008, the FHLBanks were parties to interest-rate derivative contracts with a notional value of $1.0 trillion.

The System's market value of equity, which is the market value of the System's assets less the market value of its liabilities, was $49.2 billion at the end of 2007, or 90 percent of the book value of equity. By the end of 2008, the market value of equity fell to $30.5 billion, or 53 percent of the book value of System equity. The majority of the market value shortfall is associated with the decline in the market value attributed to the FHLBanks' private-label mortgage-backed securities portfolios.

Duration of equity, which is one measure of the sensitivity of market value of equity to changes in interest rates, was 5.9 years at the end of 2008. By comparison, duration of equity was 1.9 years at the end of 2007. The year-over-year increase in duration of equity is in part driven by the overall decline in value of mortgage assets—particularly PLS. To the extent that values of PLS have been depressed by illiquidity in the market for their securities, duration of equity may overstate interest rate risk faced by an FHLBank.

Because several FHLBanks are holding PLS valued at low prices relative to par, and because their models assume that prepayments of these mortgage assets would be at par, the market value of PLS and equity would improve should mortgage rates decline and prepayments increase. Even without the presence of heavily discounted PLS, use of duration as the only measure of interest-rate risk potentially masks an unfavorable mismatch between mortgage assets and the liabilities that fund them. Heavily discounted securities make this problem worse. The most severely affected FHLBanks are making adjustments to their market risk modeling to work around this problem when making their market risk management choices, though the issue remains a cause of uncertainty and concern.

Examinations identified concerns about the ability of some FHLBanks to measure and manage market risk. One important concern involves several FHLBanks using hedging strategies that rely on short-term options to limit their exposure to large, immediate changes in interest rates but not to more realistic, gradual movements in rates. Such a strategy can be expensive because the options often expire worthless, leaving the FHLBank exposed to further rate moves or requiring it to purchase replacement options often at higher premiums. FHFA believes this strategy choice stems from FHLBanks' undue concern

about immediate income rather than income over the longer term and a failure either to measure or understand the risks they are taking.

Operational Risk Management

Operational risk is the risk of losses due to failures of integral processes or systems, fraud, or human error, or external events. High levels of operational risk may lead to reporting errors to members, investors, and regulators.

In 2008, the FHLBanks did not suffer operational failures that caused substantial losses apart from the losses or potential losses at three FHLBanks associated with the Lehman Brothers failure. The FHLBanks are large financial institutions with inherent operational risk magnified by manual processes and user-developed applications. They need to employ financial models, enterprise resource systems, and ledger accounting systems under adequate supervision and have appropriate policies or procedures.

Over the past several years, examiners have frequently criticized the number of user-developed applications at the FHLBanks, their critical role in management information systems, and the generally slow pace at some FHLBanks in replacing them with better solutions.

The FHLBanks have addressed certain FHLBank system-level operational risks by adopting procedures to ensure all required payments for principal and interest on consolidated obligations arrive at the Federal Reserve Bank of New York on schedule. All FHLBanks have sufficient business continuity plans and back-up locations. Examiners regularly evaluate these plans.

Finally, affordable housing and community investment activities present the potential for operational risk that could affect an FHLBank's reputation. FHFA's examinations have recently cited concerns about scoring of competitive applications for AHP funding, the slow disbursement of AHP funds, inadequate monitoring of projects receiving AHP funds, and shortcomings in the oversight of the AHP set-aside program.

FHLBanks' Examination Conclusions

FHLBank of Boston

The Boston FHLBank is the seventh largest FHLBank with assets of $80.5 billion as of December 31, 2008. Although the the FHLBank is considered satisfactory overall, examiners cited weaknesses in credit risk and risk management of its private-label securities portfolio, noncompliance with certain regulations and supervisory guidance, and outdated retained earnings assumptions. As financial market conditions deteriorated in the second half of the year, the FHLBank's condition worsened. In December 2008, the FHLBank placed a moratorium on excess stock repurchases and restricted its quarterly dividend payout to preserve capital.

Governance

FHLBank governance is satisfactory, although risk management of the PLS portfolio is insufficient and the retained earnings methodology is outdated. Before 2008, the FHLBank did not update its retained earnings methodology for several years and did not adequately account for the increased level of credit risk in the PLS portfolio in setting its retained earnings target. In 2008, the FHLBank reevaluated its methodology and increased its retained earnings target. Examiners cited a violation for giving one member preferential overnight advance rates and a lack of sufficient procedures, standards, or criteria to justify the price difference.

Financial Condition and Performance

Although the FHLBank's financial condition and performance were adequate when examined, they worsened throughout 2008 and are now considered weak. The FHLBank holds $4.1 billion in PLS and faces significant exposure to losses from OTTI charges. Retained earnings are inadequate and remain well below the FHLBank's target levels.

Credit Risk

The FHLBank's overall level of credit risk is moderate and increasing because of deterioration in the FHLBank's PLS portfolio, 25 percent of which was classified as below investment grade at the end of 2008. There is potential for continued deterioration in this portfolio due to the high volume of nontraditional mortgage collateral originated in 2005 through 2007 and the deteriorating residential real estate environment.

Market Risk

Market risk was not reviewed during the 2008 examination because this area has historically been strongly managed, and there were no changes in management or negative changes in market risk exposure or practices. However, the FHLBank's market-to-book value of equity (MVE/BVE) declined materially during 2008. From year-end 2007 to year-end 2008, the FHLBank's MVE/BVE ratio fell to 50 percent from 96 percent, reflecting a high level of unrealized losses associated with the PLS portfolio. The FHLBank's duration of equity increased, but it remains low in comparison to the rest of the System.

Operational Risk

Operational risk is moderate. The FHLBank has made sufficient progress in correcting previous examination deficiencies, chiefly in the information technology area. However, the Boston FHLBank is exposed to reputational risk from the deteriorating PLS portfolio.

FHLBank of New York

The FHLBank of New York is the third largest FHLBank with total assets of $137.5 billion. The FHLBank has maintained high profitability and relatively low risk despite high levels of market volatility and adverse movements in the agency debt market. The FHLBank's overall condition and performance is satisfactory. Although the quality of certain of its private-label mortgage-backed securities has deteriorated, because total exposure is small, retained earnings are likely sufficient to cover potential losses should market conditions deteriorate further.

Governance

Corporate governance is satisfactory but shows some weaknesses. The FHLBank's Board and management maintained a conservative risk profile. However, the following areas should be strengthened: collateral and member policies and practices, including review of adherence to guidance on nontraditional and subprime mortgage loans; accounting documentation procedures; strategic planning; management committee oversight; and the adequacy of AHP staffing levels and management information systems.

Financial Condition and Performance

The FHLBank's financial condition and performance are satisfactory. It continues to exhibit strong net interest spreads, capital and retained earnings levels, and a conservative market risk profile. However, in the third quarter 2008, the FHLBank recognized losses of $64.4 million associated with the Lehman Brothers bankruptcy, reducing net income for the quarter to $39.8 million. Higher funding costs, a less lucrative asset mix as higher-yielding MBS and option-embedded advances are reduced, and a moderate risk of OTTI in its small PLS portfolio may affect future earnings.

Credit Risk

The level of credit risk is moderate and increasing. The quality of credit risk management is adequate. The FHLBank has low levels of PLS. The credit risk focus is on collateral securing advances. The FHLBank has generally strong collateral policies, but to promote liquidity, the FHLBank accepts some hard-to-price assets as collateral.

Market Risk

The level of market risk is moderate and increasing. The quality of market risk management is satisfactory. The FHLBank's market risk increased during 2008 because of changing interest rates, widening mortgage spreads, and the unsettled funding market. Market risk indexes remain favorable relative to other FHLBanks.

Operational Risk

The level of operational risk is moderate and stable. The quality of operational risk management is satisfactory. Increased transactional, accounting, and regulatory risks are by-products of the current financial crisis. Decreased market liquidity and, in certain cases, reduced access to observable market data could make the pricing of collateral and securities less reliable. Although the FHLBank's internal controls are strong, it lacks integrated systems and relies too heavily on manual controls.

FHLBank of Pittsburgh

The FHLBank of Pittsburgh is the sixth largest FHLBank with assets of $90.8 billion. Chief among the risks to the FHLBank is its $8.5 billion PLS portfolio, which has weakened the FHLBank's earnings stability and capital adequacy. To preserve capital, the FHLBank suspended dividends and capital stock repurchases in December 2008. Substantial fourth quarter OTTI charges on the portfolio led to a $188 million quarterly loss, reducing retained earnings by more than half and nearly eliminating all earnings for the year. As such, its overall condition is less than satisfactory. Further OTTI determinations are possible, which would jeopardize the FHLBank's remaining $170 million retained earnings and could put the FHLBank at risk of failing its risk-based capital test.

Corporate Governance

Governance risk is fair. The FHLBank at times has emphasized short-term earnings and returns to member institutions, rather than moderating longer-term risks and ensuring the FHLBank's financial stability. Its MVE has previously been low, but has recently deteriorated further relative to book value, becoming a significant concern for the FHFA and for the FHLBank.

Financial Condition and Performance

The FHLBank's financial condition and performance are weak due principally to weaknesses in the PLS portfolio. Earnings from the remainder of the FHLBank's assets, which constitute the vast majority of the FHLBank's balance sheet are not sufficient to offset the risks to earnings from potential future losses associated with the PLS portfolio. Retained earnings are inadequate to buffer against those potential future losses. The FHLBank's fourth-quarter loss and prospects of additional losses force the FHLBank to concentrate on capital recovery, which may mean a prolonged period without dividends, with low dividend payouts, or with higher member capital requirements.

Credit Risk

Credit risk management is inadequate, and risk is increasing. Although the FHLBank has increased the amount of resources dedicated to credit analysis of PLS, the risks from this portfolio will likely follow the negative trends of the nation's housing sector. In addition, some member borrowers and some derivative counterparties have also experienced financial weaknesses in recent quarters. The Lehman Brothers failure may still result in charges against income and capital. In response, member and counterparty collateral—in particular mortgage collateral—requires an increased level of scrutiny. The FHLBank has improved its collateral policies, execution systems, and reporting structure to control these risks.

Market Risk

Market risk is high, and market risk management is weak. The decline in the FHLBank's MVE and increase in the FHLBank's overall risk profile require the FHLBank to improve market risk management. The FHLBank needs enhanced internal risk metrics and a more conservative approach in its scenario analyses. The FHLBank's typical market risk measurements, such as duration of equity, are higher than appropriate.

Operational Risk

Operational risk management is fair. The FHLBank depends too heavily on manual processes and spreadsheets. It also needs to better define and report policy exceptions when they occur. In addition, internal risk assessments do not adequately portray operational risks.

FHLBank of Atlanta

The FHLBank of Atlanta is the second largest FHLBank with total assets of $208.6 billion. The FHLBank is considered satisfactory overall, but FHFA is concerned about the FHLBank's risk of loss on its $15.9 billion private-label mortgage-backed securities portfolio. This portfolio has increased credit and market risk at the FHLBank and exposes the FHLBank to OTTI-related income fluctuations, as was particularly evident in the third quarter of 2008. Further deterioration of market conditions will negatively affect the FHLBank's condition and performance.

The FHLBank's permanent capital exceeds its leverage and risk-based capital requirements. Retained earnings decreased during the third quarter of 2008 to absorb the net losses in the quarter but increased again in the fourth quarter. The FHLBank recognizes the need to build retained earnings and capital, and it has temporarily suspended dividends and the repurchase of capital stock.

Governance

Governance is satisfactory and has improved with management changes in the past two years. The FHLBank hired or redeployed six new senior managers, including a new chief executive officer (CEO), in 2007 and 2008. The Board also reorganized the FHLBank, separating the chief risk officer function from the general counsel function. The Board and the CEO have each established new committees to meet regularly and discuss emerging issues.

Financial Condition and Performance

Financial condition and performance is moderate and worsened in 2008. The FHLBank recognized $186 million in OTTI charges related to PLS and $171 million in counterparty losses during 2008. Market conditions also contributed to income volatility through funding and hedging activities.

Credit Risk

Credit risk management is weak but improving. The FHLBank has weak positions in mortgage-backed securities credit, supplemental mortgage insurance credit protection on its mortgage portfolio, and advance collateral. Management experience is limited—the chief credit officer has only been in the position since December 2007. Credit risk exposures to large member institutions are high, with 66 percent of advances going to the top 10 members and 27 percent of advances to Countrywide Bank as of the end of 2008. Bank of America acquired Countrywide Bank in July 2008, reducing the credit risk associated with advances to Countrywide.

Market Risk

Market risk management is adequate, but risk is increasing. The FHLBank separated the risk-monitoring function and the investment risk-taking function and bolstered staffing levels and technical expertise after the 2007 examination. Market risk increased primarily because of widening mortgage option-adjusted spreads and increased valuation of liabilities that contributed to the MVE/BVE decline.

Operational Risk

Operational risk was low, and the quality of operational risk management was adequate when the 2008 examination was conducted early in the year. However, the loss reserves associated with the Lehman Brothers failure reflected operational shortcomings because the FHLBank did not have a third-party fiduciary hold the collateral.

FHLBank of Cincinnati

The FHLBank of Cincinnati is the fourth largest in the System with total assets of $98.2 billion. Cincinnati reported $236 million of net income in 2008, a return on equity of 5.73 percent and a return on assets of 25 basis points. The FHLBank has only $304 million of exposure to PLS. None were purchased since 2003, and NRSROs have not downgraded any of the securities. Overall the FHLBank is considered satisfactory.

Governance

Governance is satisfactory but some improvements are needed. The directors and senior management exhibit a conservative risk tolerance, and the FHLBank did not invest heavily in PLS. The FHLBank exhibits deficiencies in credit risk administration of its advances and inadequate AHP governance. In particular, weaknesses exist in oversight of ongoing AHP projects, reallocation of deobligated funds, management information systems, departmental policies and procedures, and project file organization.

Financial Condition and Performance

Financial condition and performance are satisfactory. Despite a distressed environment, the FHLBank compares favorably to System averages in profitability, capital, and market risk. The FHLBank has an $8.6 billion mortgage portfolio. However, it manages the associated market risk and credit risk adequately.

Credit Risk

Credit risk is moderate but increasing, and the quality of credit risk management needs improvement. The number of members on the FHLBank's watch list has grown since 2007, and this trend will likely continue in 2009. Member assets are concentrated in Ohio institutions. Although Ohio continues to experience a slow economy and high foreclosure rates, weaknesses in larger member institutions stem significantly from activity outside the state.

Market Risk

Market risk is moderate, and the direction of market risk is stable. At the end of 2008, the FHLBank's MVE/BVE ratio was 95 percent. Historically, the FHLBank's market risk metrics compare favorably to System averages. The FHLBank hedges mortgage commitments with to-be-announced mortgage-backed securities, which is a transparent and straightforward strategy relying more on a mix of callable and noncallable debt instead of derivatives. The FHLBank's general strategy is to keep mortgage loan portfolio balances to less than 10 percent of total assets.

Operational Risk

Operational risk is moderate, and risk management is adequate. The FHLBank's internal controls have been effective in detecting and preventing operational problems. Risk is rated moderate because of dependence on legacy programming language and end-user computing, the volume of internal development activity, and needed improvements for the IT security program. Business continuity planning remains adequate.

FHLBank of Indianapolis

The FHLBank of Indianapolis is the smallest FHLBank with $56.9 billion in total assets. Approximately 27 percent of its portfolio consists of mortgage-backed securities and whole loans. This portfolio of high-yield, long-term mortgage assets, combined with other factors, have generated a high profit margin in a low interest-rate environment. The FHLBank has traditionally funded its mortgage assets with a high proportion of callable debt. Although vulnerable to further deterioration in mortgage markets, the FHLBank is considered satisfactory overall.

Governance

Governance is satisfactory, but exhibits weaknesses in succession planning and allocation of resources to enterprise risk management.

Financial Condition and Performance

The FHLBank's financial condition and performance are satisfactory. The 2008 net interest spread was the FHLBank's highest in the most recent four years. The discount note funding advantage, the mortgage portfolio's high yields relative to funding costs, and the liquidity premium for advances all contributed to the increased profit margin. The FHLBank traditionally has returned the benefits of membership in the form of higher dividends rather than through low pricing on advances.

Although the FHLBank did not incur any OTTI charges in 2008, it holds $978 million of PLS subject to some form of rating action, including $454 million rated below investment grade. Those below-investment-grade securities represent a significant risk to future performance. At the end of 2008, the FHLBank's retained earnings were $283 million, and its permanent capital was 182 percent of its required risk-based capital.

Credit Risk

Credit risk is moderate but increasing due to the higher delinquency rates on mortgage assets, advance collateral valuation complexity, counterparty risk, and member financial condition. In addition, the FHLBank holds downgraded PLS that could cause losses in the future.

Market Risk

Market risk is high, and the management of market risk is adequate. The FHLBank analyzes and monitors market risk using a range of metrics on a regular basis. However, the FHLBank's MVE/BVE was 55 percent as of fourth quarter of 2008, reflecting unrealized losses associated with the PLS portfolio and the valuation of its liabilities. This ratio is down dramatically from the 2007 level of 91 percent.

Operational Risk

Operational risk is moderate, and risk management practices are adequate. The increased transactional, accounting, and regulatory risks are by-products of the current financial crisis. Decreased market liquidity that results in data on security prices being derived from models instead of market transactions makes the pricing of securities and collateral less reliable. The FHLBank's information technology reporting needs to improve.

FHLBank of Chicago

The FHLBank of Chicago is the fifth largest FHLBank in the System with assets of $92.1 billion. The FHLBank has been subject to a consent order to cease and desist since October 10, 2007, which prohibits the repurchase of capital stock at the FHLBank absent regulatory approval. In 2008, the FHLBank posted a $118.7 million net income loss and recognized $292 million in OTTI from its private-label securities portfolio. As of year-end 2008, the market value of the the FHLBank's portfolio equity was negative, though the figure fluctuates, particularly with changes in interest rates. Overall, the FHLBank demonstrated some improvement in risk management and cost controls in 2008, but it is considered to be less than satisfactory overall.

The FHLBank of Chicago has the largest mortgage portfolio of any FHLBank. Its mortgage assets were $32.1 billion, or 35 percent of total assets, at year-end. In 2008, advance growth exceeded 25 percent, which may not be sustainable. Mergers involving members of the FHLBank could lead to a further loss of members and membership assets. Two of the largest members recently merged with out-of-district institutions. Pursuant to the cease-and-desist order, the redemption of the capital stock of these and other members is prohibited absent regulatory approval.

Governance

Governance is improving as the Board and senior management display both a greater sense of urgency and increased focus on the critical issues facing the FHLBank. The FHLBank of Chicago's senior management team changed dramatically during 2008, including the appointment of a new CEO. FHFA continues to monitor the results of these staff changes. The FHLBank's Board has increased its attention to risk management issues, but more work is needed, particularly related to the hedging practices and PLS portfolio. Over the long-term, the decision to terminate purchases of mortgages as investments should lower the risk profile of the FHLBank. In the interim, however, challenges continue.

Financial Condition and Performance

The financial condition of the Chicago FHLBank is weak. The FHLBank's net interest margin has declined steadily since the third quarter of 2007 because of higher debt refunding costs and yield adjustments related to prior-period hedging costs. This trend reversed in the third and fourth quarters of 2008 due to lower funding costs and more disciplined portfolio segmentation and funding, but opportunities to improve the trend significantly are limited. Overhead expenses remain excessive, but the FHLBank has made some progress in cutting expenses through outsourcing, preparing to move to new offices, and reengineering certain business practices.

Credit Risk

Credit risk management has improved and the current monitoring processes are satisfactory, but the credit quality of the FHLBank's PLS is weak. As of December 31, 2008, the FHLBank's PLS portfolio totaled $4.2 billion, including approximately $1.5 billion of subprime securities. More than half of the Chicago's FHLBank's PLS portfolio has been downgraded—15 percent below investment grade. The FHLBank now actively manages credit exposures associated with the PLS portfolio. During 2008, the FHLBank stopped purchasing mortgages for investment. Mortgage Partnership Finance (MPF®), the FHLBank's purchase program for whole mortgage loans, has moved to an off-balance-sheet arrangement called MPF Xtra®. The credit quality of these assets remaining on the FHLBank's books is strong.

Market Risk

Market risk remains high, and the hedging and risk management practices remain unresolved. Throughout 2008, the FHLBank's market value position deteriorated significantly. Efforts to maintain market value have not been successful,

because market conditions have been challenging. Because of its funding, the FHLBank is at risk of further losses if mortgage rates fall further and remain low for an extended period of time.

Operational Risk

Operational risk exposure is high. Efforts to streamline and better integrate stand-alone IT applications are ongoing, but as new IT needs arise, the FHLBank often addresses them with end-user applications or other workarounds. These stop-gap measures increase the level of operational risk and require further manual intervention to maintain data integrity. The FHLBank needs to commit additional resources to this area.

FHLBank of Des Moines

The FHLBank of Des Moines is the ninth largest FHLBank with assets of $68.1 billion, and has the System's second largest mortgage loan portfolio of $10.7 billion.

Heightened market risks may cause earnings to be volatile. The FHLBank needs to improve credit risk management, particularly with respect to its insurance company membership segment and to focus on automating its operations. The FHLBank's profitability has been modest for several years, but it holds a relatively small amount of PLS and is not exposed to potential OTTI charges. Overall the FHLBank is considered to be less than satisfactory. The FHLBank has temporarily suspended dividends and excess stock repurchases given the heightened level of risks facing the FHLBank and the FHLBank System.

Governance

Governance is fair. FHFA's principal supervisory concern at this examination related to a failure by both the Board and management to sufficiently identify emerging risks within the credit area, particularly as it relates to insurance companies. However, over the past several years, the Board of Directors continued to build retained earnings despite relatively low financial returns. Consequently, the FHLBank's retained earnings are currently high relative to its assets, providing some protection against member credit risks, market risks, and other potential losses.

Financial Condition and Performance

Financial condition and performance are adequate. The FHLBank does not face the same risk of PLS write-downs as some other FHLBanks, but the FHLBank's high market risk position may lead to additional earnings volatility. The Des Moines FHLBank reported fourth-quarter net income of $2 million, down from $29 million in the fourth quarter of 2007. The decline in earnings was due, in part, to maintaining increased liquidity levels. Full-year net income was $127.4 million, which was up from $101.4 million in 2007.

Credit Risk

The level of credit risk is moderate. The FHLBank has little exposure to PLS. However, some members have pledged high-risk mortgage assets as collateral, testing the FHLBank's collateral policies and systems. Overall, the FHLBank's collateral practices need improvement, especially those for nontraditional collateral.

Market Risk

Market risk is high. The FHLBank's large mortgage holdings, combined with a highly volatile financial market, generate an elevated level of risk as indicated by a high negative convexity. Earnings and market values have been and may continue to be volatile.

Operational Risk

The level of operational risk is moderate. The FHLBank developed its first IT strategic plan in 2007 and refined that plan in 2008. However, user-developed applications continue to be used in key areas where more automated processes are appropriate.

FHLBank of Dallas

The FHLBank of Dallas has $78.9 billion in assets, making it the eighth largest FHLBank. The FHLBank has historically maintained a stable return on capital stock that generally rises and falls with short-term interest rates because the FHLBank attempts to convert a substantial amount of its assets and liabilities to floating-rate instruments. However, large swings in short-term rates and changes in spreads during the latter half of 2008 led to significant earnings volatility in the third and fourth quarters. Nevertheless, the FHLBank is considered satisfactory overall.

Governance

Governance is satisfactory. Senior management and the Board effectively understand, measure, monitor, and control risks. Both tactical and strategic business planning are core strengths for the FHLBank.

Financial Condition and Performance

The FHLBank's financial condition is satisfactory. Fourth quarter 2008 losses and projections of limited income during the first quarter of 2009 are likely to be transitory. The FHLBank does, however, face several challenges that generally reflect overall financial services industry conditions, including mergers of its members, potential future PLS losses, and financial market conditions.

Credit Risk

Credit risk is moderate but increasing. The economy in this FHLBank's district has held up relatively well. Only a few of the FHLBank's members have material exposure to higher-risk markets outside of the district, but some are showing declining financial condition and performance. Still, the value of collateral pledged to secure advances should be more than adequate to protect against credit losses on advances to members.

Residential PLS of $677 million represents less than 6 percent of the FHLBank's total mortgage-backed securities portfolio. The FHLBank stopped purchasing PLS in 2005 because of increasing risk. Nearly all of its residential PLS are rated triple-A by at least one credit rating agency. The FHLBank has not added whole loan mortgages to its portfolio since 2003, which now comprise less than 0.5 percent of total assets. The whole loan mortgages perform well and exhibit little credit risk.

Market Risk

Market risk is moderate. Market risk has increased due to volatility in the financial markets, including extreme fluctuations in the levels of and relationship between short-term interest rates and one- and three-month LIBOR and limited access to long-term funding for the FHLBank System. However, the FHLBank has maintained relatively conservative interest-rate risk management practices. The structure of the FHLBank's balance sheet, the underlying interest-rate risk profile of the balance sheet, and the FHLBank's market risk management strategies have remained stable.

Operational Risk

Operational risk is low. The FHLBank has sound infrastructure with up-to-date and secure systems providing high levels of automation and integration. Operational controls are strong, with effective oversight by both management and internal audit.

FHLBank of Topeka

The FHLBank of Topeka is the tenth largest FHLBank in the System with $58.6 billion in assets. Although adequately capitalized, the FHLBank reported $28 billion in net income for 2008, a sharp decline from the prior year, though the decline was primarily due to accounting adjustments. Overall, the FHLBank is considered satisfactory.

Governance

Governance is satisfactory, although some areas need improvement. The FHLBank has an experienced management team. FHFA's principal concerns are credit and collateral administration and AHP policies and procedures, AHP set-aside program disbursements, and management information systems.

Financial Condition and Performance

Financial condition and performance are satisfactory. Net income was affected by relatively large derivative losses at year-end. The FHLBank also reported $4.8 million in OTTI on PLS. However, the FHLBank currently has adequate retained earnings to absorb anticipated future losses.

Credit Risk

Credit risk is moderate and increasing. The number of members on the FHLBank's watch list has increased since the last examination. Credit risk has also increased from exposure to illiquid and hard-to-price PLS collateral from some members. Collateral policies also need to be updated to reflect declining trends in collateral credit risk and illiquidity in the market for certain types of securities.

The FHLBank's PLS portfolio totals $2.7 billion, with gross unrealized losses of $397 million as of December 31, 2008. The FHLBank stopped buying PLS in early 2006 because of increasing risk. The FHLBank's largest member/borrower, U.S. Central Corporate Federal Credit Union, received a $1 billion capital note from the National Credit Union Administration Board in January 2009 to provide reserve funds to offset anticipated realized losses on some of the credit union's mortgage- and asset-based securities. U.S. Central was subsequently placed in conservatorship, but the FHLBank's collateral position is secure.

Market Risk Management

Market risk is moderate, and market risk management practices are satisfactory. Approximately three-fourths of the FHLBank's balance sheet matures or reprices within one year, which is higher than the FHLBank System average. The short-term nature of the balance sheet can reduce market risk exposure in the near term, but presents other risk management challenges. The FHLBank's MVE/BVE was 91 percent at the close of the third quarter of 2008, compared to a System average of 76 percent. However, at year-end 2008, the FHLBank's MVE had declined to 75 percent, primarily because of declines in mortgage-backed securities values.

Operational Risk Management

Operational risk is moderate. Controls are adequately monitored by management and internal audit. Management has made satisfactory progress in correcting problems found in previous examinations. FHFA noted areas for improvement in information technology governance during the examination.

FHLBank of San Francisco

The FHLBank of San Francisco is the largest FHLBank with assets of $321.2 billion. FHFB has cited the FHLBank for its low level of retained earnings for the past five years. Before 2008, the FHLBank of San Francisco paid out approximately 90 percent of earnings as dividends resulting in a slow increase in retained earnings over that time. By the third quarter of 2008, San Francisco's retained earnings relative to asset size were the lowest of any FHLBank, and retained earnings declined further in the fourth quarter as the FHLBank incurred a net loss due to charges for OTTI of PLS. Overall the FHLBank is considered satisfactory, but its earnings and capital are vulnerable if its large PLS portfolio deteriates further.

The FHLBank of San Francisco's risk profile has increased. Following the OTTI charge taken in the fourth quarter of 2008, its retained earnings are inadequate because of financial volatility, increased counterparty credit risk, and significant PLS exposure. The FHLBank temporarily suspended dividends and capital stock repurchases in the fourth quarter of 2008 to preserve capital.

Potential OTTI losses could be substantial if market conditions continue to deteriorate. The FHLBank will need to extend its suspension of dividends and restrict capital stock repurchases to preserve and ultimately rebuild its retained earnings.

Governance

Governance needs improvement. The FHLBank of San Francisco's Board missed an opportunity to build retained earnings early in 2008 when the FHLBank posted a profit of $240 million in the first quarter and $223 million in the second quarter. In the first half of the year, the FHLBank paid out $400 million in dividends, an average of 5.90 percent, which exceeded the average federal funds rate of 2.63 percent and the FHLBank's dividend benchmark of 3.34 percent. The FHLBank's concentration of large member institutions is among the highest in the System. Credit and collateral resources may be insufficient in light of increasing risk. The FHLBank's enterprise risk management function is not independent from the credit department.

Financial Condition and Performance

Financial condition and performance are fair after deteriorating in 2008. The FHLBank has minimal direct exposure to mortgage loans but significant indirect exposure to the depressed real estate markets of California, Nevada, and Arizona in the form of collateral and PLS. At December 31, 2008, San Francisco held $24.5 billion in PLS—more than 50 percent is backed by hybrid adjustable-rate mortgage loans. The market value of the FHLBank's PLS relative to book value declined significantly during 2008.

Credit Risk

Credit risk is increasing. Exposure to credit risk in the PLS portfolio increased in 2008 and resulted in a $590 million OTTI charge in the fourth quarter. While the San Francisco FHLBank has estimated that its credit losses will be substantially less than the OTTI charge, the portfolio has experienced rating agency downgrades and the FHLBank could potentially face negative cash flow on some securities. Exposures to large member institutions in weakened financial condition and risk from certain nontraditional loan products are high. In some cases, hard-to-price, relatively illiquid nontraditional mortgage collateral secures advances.

Market Risk

Market risk is increasing. The FHLBank's MVE/BVE ratio is down dramatically from its high of 102 percent at March 31, 2007. The FHLBank's base-case MVE/BVE ratio was 77 percent as of June 30, 2008, but fell to 46 percent at year-end, reflecting the high level of unrealized losses associated with its PLS portfolio. Traditional duration and convexity measures are similarly off from the FHLBank's historical levels.

Operational Risk

Operational risk is moderate. Operational risk management is satisfactory, but increased transactional, accounting, and regulatory risks are by-products of the current financial crisis. Financial reporting, audit, and operational incident oversight are strong, but the FHLBank's IT systems are aging. There have been vacancies in key IT leadership positions, but the CIO position was filled before year-end 2008.

FHLBank of Seattle

With $58.4 billion in assets, the Seattle FHLBank is the second smallest FHLBank. The FHLBank is considered less than satisfactory overall. FHFA has supervisory concerns about the FHLBank's $5.6 billion PLS portfolio. Risks from weakened housing and financial markets intensified late in 2008 and affected several areas of the FHLBank. Financial performance had otherwise been improving over the past two years from very depressed levels. Following a large fourth quarter loss, the FHLBank's retained earnings became a negative $79 million, the only the FHLBank with negative retained earnings.

The FHLBank suffered losses in two successive quarters because of OTTI charges on PLS. This slowed efforts to build retained earnings and prompted a suspension of dividends in addition to the FHLBank's existing suspension of repurchases of Class B capital stock. Further OTTI charges are possible, and the FHLBank's negative retained earnings at year-end are particularly troubling given the potential for further losses. The FHLBank's risk-based capital requirement has increased substantially as market prices in the FHLBank's PLS portfolio have fallen, which depresses the FHLBank's MVE relative to BVE. At year-end, the FHLBank failed its risk-based capital test, an event that requires the FHLBank to cease repurchases and redemptions of stock and the payment of dividends, at least until the deficiency is corrected.

Governance

Governance is unsatisfactory. The Board of Directors and management did not respond promptly or with appropriate strategies to the elevated credit risks posed by the PLS portfolio. The Board depended too heavily on NRSRO ratings, and its investment choices, policies, and monitoring are poor. The FHLBank's retained earnings policy, which should determine the appropriate level of retained earnings based on the risks to the FHLBank, does not consider PLS impairments in its calculation.

Financial Condition and Performance

The FHLBank's financial condition is weakening. FHLBank returns had generally been improving since 2006. However, core earnings did not cover recent losses from OTTI on PLS, resulting in a significant fourth quarter net loss of $241 million. Earnings probably will not be sufficient to cover additional OTTI should it occur. Future losses could be substantial, and the FHLBank has no retained earnings with which to buffer additional losses. Mergers are adversely affecting the FHLBank's customer base.

Credit Risk

Credit risk is high and increasing. PLS represented 9.6 percent of its assets as of year-end, which was the highest relative exposure in the System. Many of the FHLBank's PLS holdings have been downgraded—in some cases, below investment grade. Counterparty risk also affected the FHLBank—it booked a $4.2 million loss on a swap after the failure of a counterparty.

Market Risk

Market risk is moderate, and the quality of market risk management is adequate. The FHLBank's financial modeling practices are satisfactory. Going forward, the FHLBank needs to expand its market risk parameters, improve its method of valuing advances for regulatory reporting, and establish a process to monitor the profitability of

portfolio segments. Market risk should be closely monitored as financial market volatility continues.

Operational Risk

Operational risk is high, and the quality of operational risk management is weak. The FHLBank's information systems are antiquated and rely heavily on end-user developed applications, which causes control deficiencies and frequent system failures. Shortcomings in information technology have been evident for years. The FHLBank plans to address IT-related problems, but it needs to improve IT governance and planning.

Office of Finance

The Office of Finance, a joint office of the FHLBanks, is charged with issuing and servicing consolidated obligations on behalf of the FHLBanks. No FHLBank may issue debt on its own. Located in Reston, Virginia, the Office of Finance issues consolidated obligations when requested by one or more FHLBanks. It has no portfolio of its own and faces no credit or market risks. The Office of Finance has approximately 75 employees and assesses the FHLBanks for the cost of its operations.

In 2008, the Office of Finance issued $562 billion worth of bonds in 5,346 separate transactions. It issued $2.7 trillion of nonovernight discount notes. Overnight discount notes outstanding averaged $32.4 billion. The Office of Finance prepares and distributes the combined financial reports used in the offerings and sales of consolidated obligations. Overall, operations and management of the Office of Finance are satisfactory.

Governance

Governance is satisfactory. The Office of Finance has effectively met the increasingly challenging demands of raising debt during difficult market conditions. Supervisory activities focus on the increased reliance on discount notes and short-term bonds to refund bond maturities and ensure sufficient System liquidity needs. FHLBank funding alternatives are much more limited than in the past because of the stressed conditions in capital markets. However, the Office of Finance has managed to market the System's debt and meet liquidity goals. In 2008, debt pricing spreads relative to benchmark rates for both the FHLBanks and the Enterprises were much worse than 2007 averages.

The Office of Finance may need to take a stronger role in promoting consistency in accounting practice, PLS valuation, and impairment analysis among the FHLBanks. Because the authority of the Office of Finance is limited, FHFA support will be necessary. However, delays in issuing the FHLBank System's combined financial report in the third and fourth quarter of 2008 bring attention to the shortcomings in the current process. Such delays in the future could affect market perceptions of and interest in the System's consolidated obligations.

Operational Risk

Operational risk is moderate. The Office of Finance has historically met the needs of the FHLBanks by issuing debt at competitive yields and has maintained proper documentation to support debt issuance. The Office of Finance provides market data to each FHLBank in a timely fashion. Internal audit reviews debt issuance activities thoroughly, but no significant finding has been uncovered.

The Office of Finance is highly dependent on information technology to service and issue consolidated obligations, and it has a number of outstanding information technology-related deficiencies, including some that have been unresolved for extended periods. The majority of these deficiencies are considered low risk, but as a group, they could present a higher degree of risk to IT operations.

Director Compensation

The FHLBanks are governed by Boards ranging in size from 14 to 19, all of whom are elected by the member institutions, and a majority of whom are directors or officers of member institutions. The remainder are independent— they are neither directors nor officers of any of the FHLBanks' member institutions. Since 1999, the annual salaries of the FHLBank directors have been subject to statutory caps. For 2008, those caps were $31,232 for a chair, $24,986 for a vice chair, and $18,739 for all other directors. With the enactment of HERA, Congress repealed the statutory caps and authorized the FHLBanks to pay reasonable compensation to their directors. Because the caps were repealed mid-year, the compensation amounts paid by some FHLBanks during 2008 exceeded the amounts that would have been allowed had the caps remained.

In 2008, the chairs and vice chairs at 10 of the 12 FHLBanks earned fees which were at or below the statutory cap. At the Boston FHLBank and the Atlanta FHLBank, the compensation was higher because both FHLBanks revised their compensation limits for all directors after HERA took effect.

The Boston FHLBank set a new compensation limit of $60,000 for all directors on December 12, 2008, and the Atlanta FHLBank set a new limit of $45,000 for all directors on September 1, 2008. These new compensation limits were not previously approved by FHFA, but FHFA is currently developing a regulation that will implement approval authority over compensation of FHLBank directors.

The total fees paid by the 12 FHLBanks to directors during 2008 were $4.3 million, ranging from a low of $197,635 at Chicago to a high of $618,425 at Boston. With the exception of the Boston and Atlanta FHLBanks, a director (excluding chair and vice chair) received on average between $17,178 and $18,508 in compensation during 2008. On average, chairs were paid about 67 percent more and vice chairs were paid about 33 percent more than other FHLBank directors. The chairman of the Board of the Office of Finance was paid $31,232 in 2008. The other Board members of the Office of Finance are bank presidents who receive no additional compensation for their additional duty on the Board of the Office of Finance. (See Figure 30.)

Figure 30 • Director Fees Earned in 2008

	BOS	NYK	PIT	ATL	CIN	IND	CHI	DSM	DAL	TOP	SFR	SEA
Minimum	24,925	2,343	15,000	4,000	17,500	13,300	17,967	4,685	9,370	15,616	11,000	15,000
Maximum	35,825	18,739	18,739	35,889	18,739	18,739	17,967	18,739	18,739	18,739	18,739	21,739
Average	32,380	17,178	17,620	29,904	18,474	17,323	17,967	17,361	17,637	18,499	17,875	18,508

Note: Excludes compensation for the chairs and vice chairs.
Source: Federal Housing Finance Agency

Accounting

Accounting for Financial Assets

The current financial crisis has highlighted the fact that United States generally accepted accounting principles (GAAP) for financial assets and the impairment framework are under stress. Fannie Mae and Freddie Mac (Enterprises), and the Federal Home Loan Banks (FHLBanks) all report financial assets and impairment in accordance with GAAP. Nevertheless, reported performance can differ for similar financial assets because of individual facts and circumstances. Consequently, the comparability of financial reports may be significantly reduced.

Accounting for financial assets follows a mixed attribute model. The accounting framework is based on mixed attribute because companies can account for some financial assets at market, or fair, value while other assets are measured at historical, or amortized, cost.

Fair value accounting measures financial assets at their current market value, with changes in value reflected in earnings. Under fair value accounting, a company's financial performance is influenced by changes in interest rates and market prices for risk-taking. In comparison, the amortized-cost accounting model typically reflects changes in fair value only when it is doubtful that the cost of an asset will be recovered. Earnings measured at amortized cost do not reflect transitory price changes.

An asset's legal form and management intent regarding the investment affect how it will be reported under amortized-cost accounting. These differences can be illustrated by a pool of mortgage loans that can be held either outright or in the legal form of a security.

Mortgage loans are measured differently deped-ing on whether management's intent is to sell the loans or hold them as long-term investments. Held-for-sale loans are reported at the lower of cost or market value, which ever is lower. This means gains are not recorded, but any unrealized loss in fair value of the pool is reported in earnings. Loans that are held for investment are reported at cost. Fair value is not used to measure impairment; rather, impairment is based on probable credit losses inherent in the pool on the reporting date.

If the same pool of loans is structured in mortgage-backed securities, they can be measured three different ways, depending on management intent. Securities designated held-to-maturity are reported at amortized cost. For securities designated available-for-sale, only the balance sheet reflects the securities' fair value. Impairment of held-to-maturity and available-for-sale securities is measured at fair value only if it is probable the investor will not recover the cost of its investment. Securities are routinely measured at fair value through earnings only if they are designated as trading assets.

For this national pool of loans, the impairment trigger points and resultant losses under an amortized-cost regime are different depending on the investment's legal form and management intent. In a fair value regime, form and intent have little or no effect on the accounting. The wide variety of accounting choices, all sanctioned by GAAP, can be seen in financial statements of financial institutions, including the FHLBanks and the Enterprises. The variety of accounting treatments available adds to the challenge of assessing solvency and financial performance.

Standards Setters Would Eliminate Mixed-Attribute Accounting

The long-standing coexistence of the fair value and amortized-cost measurements is seen by accounting standards setters as problematic. More than 20 years ago, the Financial Accounting Standards Board (FASB) began to move toward more widespread use of fair value.

FASB took a big step 10 years ago when it required that all derivatives be accounted for at fair value. Concurrently, it designed hedge accounting to bridge the gap between derivatives and the items they hedge, which are generally assets and liabilities reported at historical cost. More recently, FASB issued a standard that permits companies to voluntarily apply fair value accounting to a broad range of financial assets and liabilities. The fair value option was intended, in part, to simplify hedge accounting. FASB saw the fair value option as an interim step to mandatory fair value measurement for all financial assets and liabilities.

Controversy Over Fair Value Accounting

Fair value accounting has always been controversial because it introduces market volatility into earnings, and valuation issues for illiquid financial assets. It has become more controversial in the current economic climate. Some blame fair value accounting, even with today's limited use, for leading to a downward spiral of writedowns that has caused several bank failures. Many of these critics also view fair value as promoting "procyclical" behavior on the part of banks. That is, over a credit cycle, banks take excessive risks during good times as asset values increase, then they become excessively risk averse during bad times as asset values decrease.

Comprehensive fair value accounting would reduce the impact differences in legal form and management investment intent have on accounting measurements. Proponents of fair value accounting claim it provides the most relevant information regarding the performance of a company's financial instrument portfolio and best represents the solvency of the company itself. Some supporters regard amortized-cost accounting as a means of earnings management, creating rainy day funds, and obscuring problems from investors. In theory, fair value accounting reflects market expectations regarding probability of default and resultant losses, volatility of future losses, risk-reward trade-offs in the current financial environment, and competing returns available to investors for holding alternative investments.

Controversy Over Amortized-Cost Accounting

Historical cost accounting has engendered its own share of controversy. A long-standing issue for prudential supervisors has been loan impairment. Under GAAP, a loss is recognized only when its occurrence is probable, meaning an event that is highly likely to occur rather than a statistically expected outcome. Thus, the loan loss allowance only represents a company's credit loss arising from both identified problem loans and latent problem loans in the portfolio that the company has not identified as such. The assumptions regarding loan performance are supposed to take into account credit characteristics and relevant economic conditions existing on the financial report date. Future events or trends that are expected to continue into the future are generally not permitted to be considered in setting the reserve. The rationale under GAAP is that the reserve should not reflect losses attributable to future events, but rather actual events that have already occurred.

Many financial statement users expect the allowance to adequately cushion a company from predictable, expected losses. Critics have called on standards setters to change the rules to permit the allowance to reflect expected losses over some

time horizon. Banking supervisors see the incurred loss model for loans as another accounting convention that contributes to procyclical behavior. That is, banks must take provisions to build the allowance when the credit cycle is at its worst and the banks are under dire financial distress.

Supporters of the existing rules believe the allowance should reflect the characteristics of the loan portfolio on the date of the financial statements. In their view, an expected-loss approach would amount to rainy day reserves "cookie jar" accounting that obscures the company's actual financial condition and financial performance from investors.

A parallel controversy has erupted over the recognition of securities impairment. Similar to loans, a loss is recognized on available-for-sale or held-to-maturity securities when loss is probable. Once the impairment threshold has been reached, though, impairment is measured as the unrealized loss in affected securities' fair value. The substantial discounts that exist for mortgage-backed securities in the present market cause impairment writedowns to be large. Critics point out that, since impairment is based on fair value, it reflects the illiquidity and higher risk premiums on the asset class in addition to the credit losses inherent in the securities. Consequently, these critics believe the current accounting rules exaggerate the losses they will eventually bear by having invested in the securities.

What many view as a shortcoming to the mixed-attribute accounting model, the incurred loss concept, is common to both securities and whole loans. However, the measurement guidance results in substantially different outcomes. For loans, the reserves are too small, while for securities, the reserves are too large.

Response by FASB

In mid-March 2009, FASB issued for comment changes to fair value measurement and recognizing securities impairment. The change proposed for fair value measurement is in response to views that accounting guidance requires companies to consider transactions by distressed market participants in their own valuations of financial assets. The change proposed for securities impairment would more closely align the rules with how loan losses are measured.

Conclusion

The variety of accounting choices and impairment rules has been illustrated with only mortgage loans. Differences exist for other assets within the mixed-attribute system. The myriad accounting rules surrounding asset impairment negatively affects companies' ability to communicate their financial performance and solvency to investors, creditors, and other stakeholders. Financial transparency would be improved by rationalizing these many different ways of representing impairment.

FASB has seen comprehensive fair value accounting as the solution to these ills. Some proponents of fair value claim it reduces subjective judgments in accounting. Skeptics believe judgment is transferred from accounting decisions to valuation decisions. Furthermore, opponents see fair value accounting as causing rather than merely reflecting financial distress of companies. Given the level of controversy, the path to improving financial reporting for financial assets is uncertain.

Supervisory Actions

Conservatorship

On September 6, 2008, FHFA placed both Fannie Mae and Freddie Mac in conservatorships. Conservatorship is a statutory process designed to restore safety and soundness while carrying on the business of a regulated entity and perserving and conserving its assets and property. It was a significant step, reflecting the economic turmoil in 2008.

FHFA had serious concerns about safety and soundness weaknesses at the Enterprises related to credit risk, earnings outlook and capitalization, and the continued and substantial deterioration in the market for their equity, debt, and mortgage-backed securities (MBS). Their capital was threatened by increasing credit losses in their guaranteed and investment mortgage portfolios. Moreover, the Enterprises were unable to raise capital or issue debt with normal terms, including tenure and amounts. The debt they were able to issue was expensive.

During the months preceding the conservatorship, FHFA, assisted by the Federal Reserve Board and Office of the Comptroller of the Currency, conducted intense supervisory reviews of the deteriorating credit environment and other risks to the Enterprises. These reviews and rising yields on Enterprise debt and MBS relative to other benchmarks confirmed FHFA's concerns. By September, it was clear the agency had to act to ensure Fannie Mae and Freddie Mac could continue to serve their mission and to prevent the risk of a systemic failure.

After consulting with the Chairman of the Board of Governors of the Federal Reserve System and the Secretary of the Treasury, Director Lockhart, using authorities granted by the Housing and Economic Recovery Act of 2008 (HERA), appointed FHFA as conservator of the Enterprises. All lobbying and political contributions by the Enterprises were immediately ordered stopped. New CEOs were selected. Neither departing CEO received a "golden parachute" (severance) payment. The Director also eliminated dividends on all common and preferred stock.

FHFA had serious concerns about safety and soundness weaknesses at the Enterprises related to credit risk, earnings outlook and capitalization, and the continued and substantial deterioration in the market for their equity, debt, and mortgage-backed securities.

As conservator, FHFA is responsible for the overall management of the institutions and may delegate operational and other duties to the Enterprises' directors and officers as deemed appropriate. All existing contracts remain in effect, with the exception of lobbying contracts, which the conservator disaffirmed. Both Enterprises continue to carry on their business under the conservator's oversight. FHFA continues to monitor capital levels, but regulatory capital requirements are not binding during the conservatorship.

The Treasury Department provided liquidity to the Enterprises through three facilities:

- The MBS Purchase Program allows Treasury to purchase Fannie Mae or Freddie Mac MBS directly.
- The Senior Preferred Stock Purchase Agreement allows Treasury to inject up to $200 billion each to the Enterprises in exchange for senior preferred stock to ensure the Enterprises maintain a positive net worth. The original Senior Preferred Stock Facility (September 2008) totaled $100 billion. In February 2009, Treasury announced that the facility would be increased to $200 billion for each Enterprise.This facility supports all past and future senior and subordinated debt and MBS issuances until the terms of the facility are fully satisfied.
- The credit facility allows Treasury to make short-term loans to Fannie Mae, Freddie Mac or the 12 Federal Home Loan Banks using MBS and advances as collateral.

Under the Senior Preferred Stock Purchase Agreement, the Treasury Department allowed each Enterprise to increase its portfolio of mortgages up to $900 billion through 2009 in order to support the troubled mortgage market, before requiring declines of 10 percent per year. Portfolio limits were originally set at $850 billion in September 2008. In February 2009, Treasury announced that the limits would be increased to $900 billion under the Treasury Department's Financial Stability Plan. Each Enterprise can guarantee unrestricted amounts of MBS.

The Enterprises opened for business as usual on September 8, 2008, with FHFA personnel on-site at their headquarters and other key locations to ensure a smooth transition.

Subsequent Events

Since the conservatorships began in September, FHFA has achieved a number of significant accomplishments in its work to stabilize and restore safety and soundness to the Enterprises.

1. **FHFA changed Enterprise management and governance practices.**

   FHFA appointed new CEOs, nonexecutive chairmen, and Boards of Directors to both Enterprises. FHFA also worked with both Enterprises to establish a new Board committee structure, including key changes in charters and responsibilities. In March 2009, Freddie Mac's CEO resigned. The chairman became the interim CEO while a search for a replacement began. The Board then began searching for a replacement. FHFA continues to work with the new CEOs, Board chairmen, and executive leaders to retain key Enterprise staff.

2. **FHFA redirected decisions and refocused the Enterprises on strategic and mission-related goals.**

   On September 12, 2008, FHFA issued a statement supporting continuation of the multifamily activities of the Enterprises. It affirmed the importance of multifamily activities supporting low-income housing tax credits and remarketed mortgage revenue bonds.

   The Enterprises reversed a previously announced 25 basis point across-the-board adverse market charge in favor of a more carefully targeted price adjustment that better aligns prices with relative risk and increases mortgage affordability. FHFA continues to monitor and review proposed credit and pricing changes to ensure these changes are consistent with market conditions and support mission-related activities.

FHFA is actively working with the Enterprises and with stakeholder groups to establish housing goals for 2009 that encourage the Enterprises to assist foreclosure prevention efforts, support important initiatives such as low-income housing tax credits and revenue bonds, and aid congressionally mandated neighborhood stabilization efforts.

3. **FHFA used new statutory authorities to ensure the Enterprises' effective transition to conservatorship. Specifically, FHFA**
   - Oversaw public release of each Enterprise's 2007 and 2008 charitable giving reports.
   - Reviewed charitable contribution plans, internal controls, and associated processes for charitable contributions to eliminate politically related giving.
   - Initiated a quarterly reporting and certification process of charitable giving.
   - Determined it was not in the Enterprises' best interests to begin setting aside money for the Housing Trust and Capital Magnet funds as required by section 1337 of the Federal Housing Enterprises Financial Safety and Soundness Act of 1992, as amended.
   - Worked with the Enterprises to improve accounting consistency.
   - Intervened in a number of legal cases to assert special conservatorship authorities and defenses and minimize liabilities and litigation expenses.
   - Worked with Treasury on Freddie Mac's initial capital draw request in November, as well as both Enterprises' draws following the release of fourth quarter 2008 financial results.
   - Resolved potential legal conflicts between the Treasury agreements, which require payment of dividends to Treasury, and state laws limiting such payments.
   - Provided a process in the absence of audit committees at both Enterprises to produce third quarter financial results.
   - Released the Enterprises from the regulatory capital classification process.

FHFA appointed new CEOs, nonexecutive chairmen, and Boards of Directors to both Enterprises. FHFA also worked with both Enterprises to establish a new Board committee structure, including key changes in charters and responsibilities.

4. **FHFA encouraged Fannie Mae and Freddie Mac to lead foreclosure prevention initiatives. FHFA also worked with the new Administration, the Enterprises, and other industry participants on a plan to address the economic crisis and keep people in their homes.**

   FHFA worked with HOPE NOW, the Treasury Department, the Department of Housing and Urban Development (HUD), the Federal Housing Administration (FHA), and the Enterprises to design and implement the comprehensive Streamlined Modification Program (SMP), which was announced November 11, 2008. SMP is designed to reduce preventable foreclosures by moving struggling homeowners into mortgages they can afford. FHFA also coordinated with the

Enterprises to suspend foreclosures of owner-occupied homes from November 26, 2008, until January 31, 2009, and encouraged both Enterprises to update their tenant eviction and foreclosure sale suspension plans.

FHFA worked with the White House, the Treasury Department, HUD, other regulators, and Fannie Mae and Freddie Mac to develop the Making Home Affordable loan modification program that Treasury announced in March 2009. This program, which streamlines the process for modifying mortgages in danger of default, is a major step forward in reducing preventable foreclosures and stabilizing the housing market. Fannie Mae and Freddie Mac will participate for loans they own or guarantee and as administrators on behalf of the Treasury Department for all other loan modifications under this program.

FHFA began publishing the monthly and quarterly Foreclosure Prevention Report detailing the Enterprises' borrower assistance data and foreclosure prevention activities on the agency's Web site. These reports detail information from more than 3,000 approved servicers on 30.4 million first-lien mortgages.

Under HERA, FHFA became a federal property manager in its role as conservator and began required reporting to Congress in December 2008. As a federal property manager, FHFA will continue to press the Enterprises to accelerate programs to prevent foreclosures.

FHFA also provided directives and guidance to the Enterprises to implement credit risk management changes and pricing decisions and held meetings with various industry representatives to discuss ways to support and strengthen the housing industry. In addition, FHFA and the Enterprises are working with other industry segments to exercise existing authorities under pooling and servicing agreements.

5. **FHFA encouraged the Enterprises to set best practices and be market leaders.**

   Fannie Mae and Freddie Mac have taken a leadership role with all mortgage participants to never let the market abuses from earlier in this decade recur. Actions they have taken include issuing guidance on nontraditional and subprime mortgages, mortgage fraud guidance, and implementing loan level indicators of originators and appraisers to reduce fraud.

   In late December, FHFA announced that Fannie Mae and Freddie Mac would implement a revised Home Valuation Code of Conduct, which became effective May 1, 2009. The code enhances protections for the independence of appraisers while maintaining lenders' ability to address unprofessional appraisal practices and ensure appraisal quality. The code also requires appraisal quality control testing, reporting on appraiser misconduct, and the creation of the Independent Valuation Protection Institute.

Consent Orders and Other Supervisory Agreements

In the May 2006 Fannie Mae consent order, and in a voluntary agreement with Freddie Mac of June 2006, the Enterprises agreed to restrict the growth of their retained mortgage portfolios. In February 2008, the Office of Federal Housing Enterprise Oversight (OFHEO) lifted the constraints on the retained mortgage portfolios per the agreement that OFHEO would do so when they became timely financial filers.

On March 19, 2008, OFHEO also announced that Freddie Mac and Fannie Mae had made substantial strides toward the fulfillment of their consent orders relating to accounting, internal control, and other failures that had led to restating financial results and reporting significant losses. Fannie Mae had consented to remediate the problems and agreed to pay a $400 million penalty to the government. OFHEO reached an

Consent Order Timeline

FEBRUARY 2008 • OFHEO lifts constraints on the retained mortgage portfolios of the Enterprises.

MARCH 2008 • OFHEO announces that the Enterprises have made substantial strides toward fulfilling their respective consent orders.

APRIL 2008 • OFHEO announces consent orders settling administrative enforcement actions against former Fannie Mae executives.

MAY 2008 • OFHEO lifts 2006 consent order with Fannie Mae.

JULY 2008 • FHFB amends an October 2007 cease-and-desist order against the FHLBank of Chicago.

NOVEMBER 2008 • FHFA lifts consent order against Freddie Mac.

agreement with the Enterprises to reduce the OFHEO-directed capital requirement from 30 percent to 20 percent in return for the Enterprises' commitments to raise significant additional capital, to maintain overall capital levels well in excess of regulatory requirements, and to support GSE regulatory reform.

Fannie Mae completed its capital raise on May 19, 2008, with the addition of approximately $7.4 billion in new capital. As a result of this capital raise, Fannie Mae's OFHEO-directed requirement was reduced to 15 percent. Freddie Mac committed to raise an additional $5.5 billion in new capital following their completion of the SEC registration process. Freddie Mac's commitment to raise captial was never fulfilled. Both Enterprises experienced increasing credit losses, resulting in the rapid depletion of their capital during the summer of 2008. Neither Enterprise was able to raise additional private equity, a key factor in the decision to place both Enterprises into conservatorship. Following the conservatorship, the Director suspended capital classifications. Positive net worth is maintained through the Treasury agreement providing support up to $200 billion in capital for each Enterprise.

In April 2008, OFHEO announced three consent orders against former Fannie Mae Board Chairman and CEO Franklin D. Raines, former Chief Financial Officer J. Timothy Howard, and former Controller Leanne Spencer. The orders settled OFHEO's administrative enforcement actions for accounting and internal control problems at Fannie Mae, detailed in the agency's two special examination reports.

On March 19, 2008, OFHEO also announced that Freddie Mac and Fannie Mae had made substantial strides toward the fulfillment of their consent orders relating to accounting, internal control, and other failures that had led to restating financial results and reporting significant losses.

The administrative actions alleged that the former executives had inappropriately managed earnings, failed to put adequate internal controls in place, released misleading financial reports, and operated the accounting function without adequate resources, all of which represented misconduct and unsafe and unsound practices that led to financial losses.

Under the consent orders, the former executives agreed to make payments to the federal government and to surrender and relinquish claims related to stock options. They also agreed not to work at Fannie Mae or receive compensation

from Fannie Mae in the future. Mr. Raines agreed to pay or surrender a total of $24.7 million, Mr. Howard agreed to pay or surrender a total of $6.4 million, and Ms. Spencer agreed to pay a total of $275,000.

On May 6, 2008, the agency lifted its 2006 consent order with Fannie Mae, but continued to require a surplus over minimum capital. In June 2008, OFHEO lowered the directed capital requirement for Fannie Mae to 15 percent above the minimum capital level after the Enterprise successfully raised capital.

On July 23, 2008, the Federal Housing Finance Board, a predecessor of FHFA, amended an October 2007 cease-and-desist order against the FHLBank of Chicago to permit the FHLBank to repurchase capital stock it had issued to support new advances, subject to certain conditions.

Freddie Mac completed its one remaining consent order item, separating the CEO and Chairman of the Board positions, during conservatorship. FHFA lifted the consent order on November 21, 2008.

Other Supervisory Actions

Executive Compensation

The Housing and Economic Recovery Act of 2008 (HERA) granted the Director of FHFA the authority to prohibit and withhold compensation of executive officers of the regulated entities, and to limit and prohibit golden parachutes and indemnification payments by the regulated entities to entity-affiliated parties. HERA also provided the Director with temporary authority to approve, disapprove, or modify the executive compensation of the regulated entities for named executive officers. HERA expanded and clarified prior regulatory controls on executive compensation at the Enterprises and for the first time extended these controls to cover the Federal Home Loan Bank System.

When conservatorship began in September 2008, the Enterprises still needed to be able to attract, retain, and reward skilled officers and other personnel. Working closely with senior officials of the Treasury Department, FHFA designed and implemented an incentive-based retention plan for the Enterprises. Bonuses were not paid for the 2008 performance year.

During 2008, the agency reviewed and decided on 20 requests from the Enterprises regarding compensation actions involving new hires, termination benefits, and other nonsalary compensation. The agency also reviewed annual 2007 performance year compensation recommendations for 32 executive officers at Fannie Mae and 17 officers at Freddie Mac.

Housing Mission and Goals

Affordable Housing Goals

In 2008, Fannie Mae and Freddie Mac (Enterprises) were charged with meeting ambitious housing goals set by the Department of Housing and Urban Development (HUD) in 2004. Previously the Enterprises had missed two home purchase subgoals in 2007, which in April 2008 HUD determined were infeasible. Shortly after the enactment of the Housing and Economic Recovery Act of 2008 (HERA), FHFA began monthly meetings with the Enterprises. During these meetings, FHFA determined that both Enterprises would likely miss most housing goals and subgoals in 2008.

In December 2008, FHFA wrote to the Enterprises requesting detailed reasons for failing to meet certain 2008 affordable housing goals, and the Enterprises responded soon thereafter. Although most affordable housing goals set by HUD for 2008 were unattainable, FHFA expects each Enterprise to develop and implement ambitious plans to support the targeted borrowers and markets.

HERA extended HUD's 2008 housing goals to apply in calendar year 2009, subject to modification by FHFA after review of market conditions. FHFA initiated that review in the fourth quarter of 2008. FHFA has also begun preparations for rulemaking and public comment on substantial statutory revisions to the housing goals scheduled to go into effect in 2010.

HERA requires four single-family goals and one multifamily special affordable goal for 2010. For single-family purchase money mortgages, there will be goals based on three types of families—those who are classified as low- or very low-income and those residing in low-income areas. The statute also requires a low-income, single-family refinance goal, as well as a multifamily special affordable goal for low- and very low-income families.

HERA also requires the Enterprises to provide market leadership in developing loan products and flexible underwriting guidelines to facilitate a secondary market for mortgages for low-, very low-, and moderate-income families with respect to manufactured housing, affordable housing preservation, and rural housing. FHFA must set standards for the evaluation of the Enterprises' duty to serve these markets.

Multifamily mortgages are an important component of affordable housing. Six days after FHFA became conservator of the Enterprises, the agency released a statement to assure market participants that the Enterprises would continue to be a source of underwriting and financing for multifamily loans. Senior FHFA managers and staff have been meeting since August 2008 with stakeholders in the multifamily market to discuss concerns.

Enterprises are also subject to minimum dollar-based special affordable multifamily subgoals—$5.49 billion per year for Fannie Mae and $3.92 billion per year for Freddie Mac. Both Enterprises surpassed these subgoals in 2007 and 2008.

Enterprise Housing Goals

The Federal Housing Enterprises Financial Safety and Soundness Act of 1992 required HUD to set annual housing goals for Fannie Mae and Freddie Mac.

HUD also was required to monitor their performance in achieving these goals and ensure that the Enterprises' business activities complied with charter provisions and met public purposes.

HERA transferred these responsibilities to FHFA. FHFA has initiated a process to ensure the prompt and thorough review of new products and activities by the Enterprises as part of this responsibility.

Figure 31 • Enterprises' Housing Goals and Performance for 2007–2008

	2007 Goal/Subgoal	2007 Performance		2008 Goal/Subgoal	2008 Performance[1]	
Category		Fannie Mae	Freddie Mac		Fannie Mae	Freddie Mac
Overall goals:[2]						
Low-mod income[4]	55%	55.5%	56.1%	56%	53.6%	51.5%
Underserved areas	38%	43.4%	43.1%	39%	39.4%	37.7%
Special affordable[4]	25%	26.8%	25.8%	27%	26.0%	23.0%
Home purchase subgoals:[3]						
Low-mod income[4]	47%	42.1%	43.5%	47%	38.9%	39.4%
Underserved areas[4]	33%	33.4%	33.8%	34%	30.4%	30.2%
Special affordable[4]	18%	15.5%	15.9%	18%	13.6%	15.1%

1 Performance as reported by the Enterprises; official performance will be determined by FHFA after review of Enterprise loan-level data.
2 Minimum percentage of all dwelling units financed by each Enterprise.
3 Minimum percentage of all home purchase mortgages financed.
4 Goal/subgoal declared infeasible for 2008 by FHFA; low-mod income and special affordable home purchase subgoals also declared infeasible for 2007 by HUD.

Foreclosure Prevention

As house prices fell, delinquencies on mortgages tripled, not just on subprime and Alt-A mortgages, but also on prime mortgages. Foreclosures in 2008 increased almost 150 percent over the two previous years.

On November 11, 2008, FHFA Director Lockhart announced a program designed to reduce preventable foreclosures by streamlining loan modifications to get struggling homeowners into mortgages they could afford. The Enterprises, HOPE NOW and its 27 servicer partners, the Department of the Treasury, the Federal Housing Administration (FHA), and FHFA collaborated on the Streamlined Modification Program (SMP) to design a uniform, efficient process approved by key industry participants.

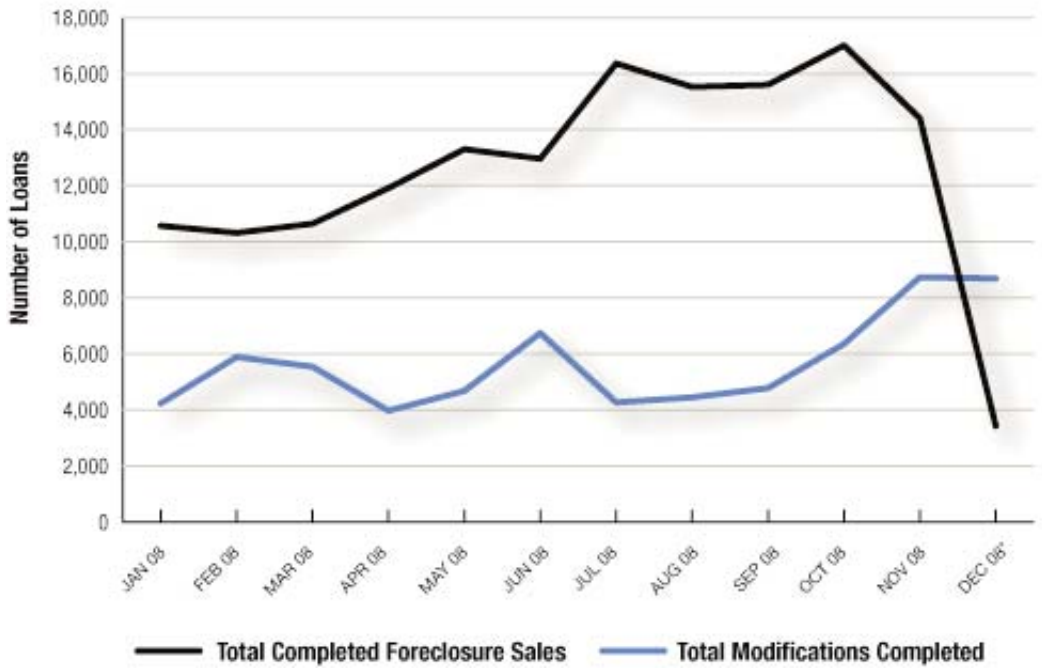
The program targeted the highest-risk borrower who had missed three payments or more, owned and occupied the property as a primary residence, and had not filed for bankruptcy. Seriously delinquent borrowers had to contact their servicers and provide income information. The program fast tracked troubled borrowers into an affordable monthly payment. Affordable was defined as a first mortgage payment, including homeowner association dues, of no more than 38 percent of the household's monthly gross income. This can be achieved by reducing the interest rate, extending the life of the loan, or even deferring payment on part of the principal. Servicers have flexibility in the mix used or whether to customize a process.

Borrowers who participated in SMP were strongly encouraged to seek financial counseling through HUD-approved agencies—particularly if the default was a result financial mismanagement or overextension.

In 2008, FHFA began issuing the monthly and quarterly *Mortgage Metrics Report*, later renamed the *Foreclosure Prevention Report*, which summarizes data provided by Fannie Mae and Freddie Mac and gives a comprehensive view of their efforts to assist borrowers, including forbearance plans, short sales, deeds in lieu, assumptions, and charge-offs in lieu of foreclosure. The report focuses on the delinquencies, loss mitigation actions, and foreclosure data reported by more than 3,000 approved servicers.

Section 110 of the Emergency Economic Stabilization Act of 2008 (EESA) directed federal property managers (FPMs) to develop and implement plans to maximize assistance for home-

Figure 32 • 2008 Enterprise Foreclosures Completed and Loan Modifications



Source: Federal Housing Finance Agency

*The Enterprises each announced moratoriums on foreclosure sales on occupied properties beginning November 26, 2008.

owners and encourage servicers of underlying mortgages to take advantage of programs to minimize foreclosures. As conservator for Fannie Mae and Freddie Mac, FHFA is a designated FPM. Each FPM is required to report to Congress about the number and types of loan modifications and the number of foreclosures during the reporting period. FHFA submitted two federal property manager reports to Congress in 2008.

Homeowner Affordability and Stability Plan

In early 2009, FHFA played a major role in designing the new Administration's Homeowner Affordability and Stability Plan (HASP), which is a major step in reducing preventable foreclosures and stabilizing the housing market.

In the Making Home Affordable refinance initiative, Fannie Mae and Freddie Mac will provide access to low-cost refinancing for responsible homeowners with loans the Enterprises already own or guarantee. This will help up to four to five million homeowners avoid foreclosure and reduce their monthly payments. The Making Home Affordable modification initiative is a comprehensive $75 billion loan modification plan designed to reach up to three to four million at-risk homeowners. This program will be a national standard for loan modifications that will be applied to borrowers uniformly to help homeowners stay in their homes and protect neighborhoods. Incentives built into the program will encourage servicers and lender/investors to restructure loans to achieve lower payments for homeowners and borrowers to stay current on their mortgages.

Fannie Mae and Freddie Mac are essential to the success of the program. They have assumed responsibilities in the implementation and ongoing oversight of the modification and refinancing programs. Given the Enterprises' roles in the industry as leaders in establishing best practices and standards, their involvement brings the necessary accountability that would be required for any federal program supported with taxpayer dollars.

FHLBanks' Targeted Affordable Housing and Community Investment Activities

The Federal Home Loan Banks (FHLBanks) administer three housing and community investment programs: the Affordable Housing Program (AHP), the Community Investment Program (CIP), and the Community Investment Cash Advances (CICA) program. Using these programs, FHLBanks provide financing for targeted community investment projects and expand homeownership and rental opportunities for low- or moderate-income households (80 percent of area median income or below) and middle-income households (115 percent of area median income).

AHP Regulatory Initiatives

In 2008, FHFA approved and implemented initiatives designed to enhance its regulation of AHP, CIP, and CICA programs. These initiatives are:

FHLBank Mortgage Refinancing Authority— HERA amended the Federal Home Loan Bank Act (FHLBank Act) by adding a provision that requires FHFA to allow FHLBanks to use subsidy funds from their AHP homeownership set-aside programs to refinance low- and moderate-income households' first mortgage loans on a primary residence until July 30, 2010. In October 2008, FHFA published an interim final rule that allows an FHLBank to use all or part of its homeownership set-aside allocation (up to 35 percent of its statutory contribution) to assist households that qualify for refinancing under FHA's Hope for Homeowners program when additional subsidy is needed to bring down the household's mortgage debt-to-income ratio to an affordable level.

AHP, CIP, and CICA Program Data Integrity Review— In 2008, FHFA completed its implementation of expanded and enhanced AHP and CICA databases. The new system uses a Web application for FHLBanks to submit data for the AHP competitive and set-aside programs, CIP, and other CICA programs.

January 2008 marked the first time that FHLBanks reported data for all the programs into the new databases. To ensure that the new databases accurately capture and report on the progress of the AHP, CIP, and other CICA programs in 2009, FHFA will conduct on-site data integrity reviews at all 12 FHLBanks. The reviews will validate the 2008 AHP and CICA program data submissions to FHFA and clarify reporting requirements in the agency's data reporting manual.

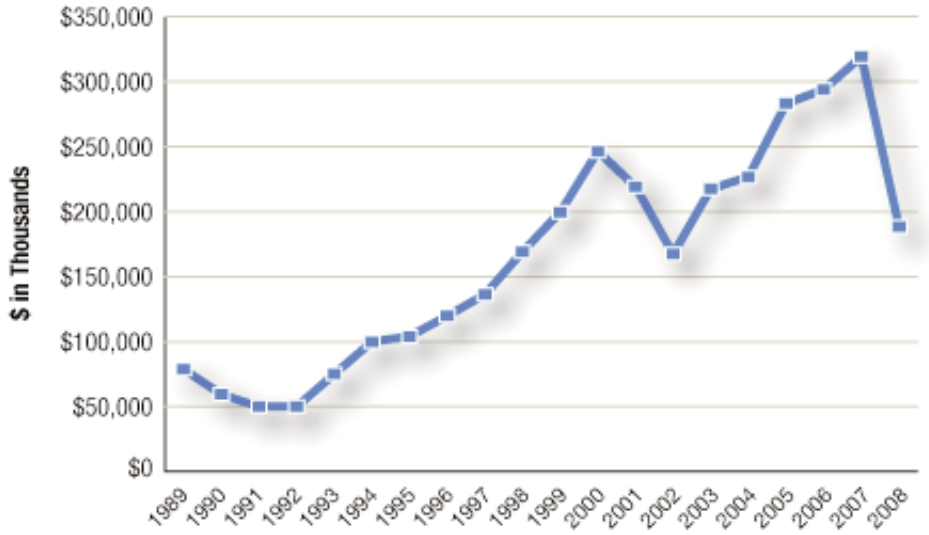
Affordable Housing Program

The FHLBank Act requires each of the 12 FHLBanks to establish an AHP to be used for the construction, purchase or rehabilitation of housing addressing a wide range of needs. AHP funds help subsidize the cost of owner-occupied housing targeted to households with incomes at or below 80 percent of area median income, and rental housing in which at least 20 percent of the units are reserved for households with incomes at or below 50 percent of area median income. The subsidy may be in the form of a grant or a subsidized interest rate on an advance from an FHLBank to a member.

The FHLBank Act requires each FHLBank to contribute annually at least 10 percent of its previous year's net earnings to AHP, subject to a minimum annual combined contribution by the 12 FHLBanks of $100 million. From 1990 to 2008, the FHLBanks contributed more than $3 billion to AHP (see Figure 33). In 2009, FHFA expects approximately $188 million in AHP subsidies to be available nationwide, compared to over $319 million in 2008, a decrease of 41 percent.

In 2008, each FHLBank administered two AHPs, a competitive application program and a homeownership set-aside program. An FHLBank may set aside annually up to the greater of $4.5 million or 35 percent of the FHLBank's annual statutory AHP contribution to assist low- or moderate-income households in purchasing or rehabilitating homes, provided that at least one-third of the FHLBank's aggregate annual set-aside contribution is allocated to first-time homebuyers.

Figure 33 • AHP Statutory Contributions ($ in Thousands)



Source: Federal Housing Finance Agency

Homeownership set-aside programs are voluntary. In 2008, each FHLBank offered at least one set-aside program.

AHP Competitive Application Program

Under the competitive application program, an FHLBank's member financial institutions submit applications to the FHLBank on behalf of one or more sponsors of eligible housing projects. Projects must meet certain statutory and regulatory requirements to be eligible for AHP funding under this program.

AHP Homeownership Set-Aside Program

An FHLBank may establish one or more AHP homeownership set-aside programs. Members obtain the set-aside funds from the FHLBank and use them for grants of up to $15,000 to eligible households. In 2008, a majority of the set-aside disbursements were used for downpayment and closing cost assistance.

Community Investment Program and Community Investment Cash Advances Programs

CIP and other CICA programs offer funding, including low-cost, long-term funding, for members and housing associates to use for financing community investment projects for targeted beneficiaries or targeted income levels. Members may use CICA funds to provide financing through loan originations, loan participations, revolving loan funds, and purchases of low-income housing tax credits and mortgage securities.

In 2008, the FHLBanks made nearly $3 billion in CIP and CICA advances for community investment and mixed-use projects and more than $2 billion in CIP advances for housing. To address the mortgage crisis, some FHLBanks made special CIP advances available to members to assist households facing mortgage delinquency or foreclosure to restructure or refinance their mortgages.

FHLBank Affordable Housing Examination Conclusions

FHFA's Division of Bank Regulation assesses the effectiveness of the FHLBanks' affordable housing and community investment programs, plans, and activities to meet the requirements and goals articulated in the FHLBank Act. Each FHLBank's affordable housing and community investment activities must meet applicable FHFA regulations and be consistent with safety and soundness. Assessment of the affordable housing and community investment activities factors into the examination component ratings for corporate governance and operational risk as well as the overall composite rating for each FHLBank.

An FHLBank's Board must, in conjunction with senior management, ensure the institution's affordable housing and community investment activities effectively support the FHLBank's housing finance mission. When developing and revising an FHLBank's AHP implementation plan, the Board of Directors must consult with its advisory council to ensure the plan sets out priorities to address the district's housing needs.

In 2008, FHFA's Division of Bank Regulation examined affordable housing programs at 11 FHLBanks and in midcycle visited programs with heightened supervisory concerns or program deficiencies. In general, the FHLBanks' affordable housing programs are effective, but some have nominal regulatory compliance issues. A few of the FHLBanks' programs would benefit from strengthened policies and procedures and enhanced automated monitoring and reporting systems. The agency found that management at all the FHLBanks is committed to appropriately solving issues identified.

Regulatory Guidance

Regulations: Enterprises

Risk-Based Capital Amendments

On June 25, 2008, the Office of Federal Housing Enterprise Oversight (OFHEO) published Risk-Based Capital Regulation–Loss Severity Amendments, a final rule in the *Federal Register*. This amendment corrected the loss severity equations that currently understate losses on certain defaulted single-family conventional and government-guaranteed loans and amended treatment of Federal Housing Administration (FHA) insurance to conform to current law. The final amendments, which also addressed comments, became effective June 25, 2008. A correction to the final rule was published July 15, 2008, to insert preamble footnotes that had been omitted in the final publication.

Flood Insurance

On October 10, 2008, the Federal Housing Finance Agency (FHFA) published a proposed rule, Flood Insurance, in the *Federal Register* for public notice and comment. Section 1161(e) of HERA amended section 102(f)(3)(A) of the Flood Disaster Protection Act of 1973, as amended (42 U.S.C. 4012a(f)(3)(a)), by replacing OFHEO with FHFA as the agency responsible for determining compliance of the Enterprises' flood insurance responsibilities. The purpose of the proposed rule was to codify the authority and responsibility of FHFA to oversee and enforce the statutory requirements affecting the operations of the Enterprises under the Flood Disaster Protection Act of 1973, as amended, and to effect congressionally mandated adjustments to the civil money penalties applicable to violations. The comment period ended December 9, 2008. The final rule was published in the *Federal Register* on January 15, 2009.

Regulations: Federal Home Loan Banks

Affordable Housing Programs: Refinancing Mortgages

On April 16, 2008, the Federal Housing Finance Board (FHFB) published a proposed regulation amending its Affordable Housing Program (AHP) regulation in the *Federal Register* for public notice and comment. The purpose of the amendment was to authorize the Federal Home Loan Banks (FHLBanks) to establish AHP homeownership set-aside programs to refinance or restructure eligible households' nontraditional or subprime owner-occupied residential mortgage loans. The impetus for the amendment was a waiver request submitted by the FHLBank of San Francisco. Through Resolution 2008-01, dated January 15, 2008, FHFB approved the waiver request to allow the FHLBank of San Francisco to establish a temporary pilot program to provide direct AHP subsidies to members for the purpose of refinancing or restructuring eligible loans into affordable long-term fixed-rate mortgages.

The rule was not made final, and on October 17, 2008, FHFB published an interim final rule to implement section 1218 of the Housing and Economic Recovery Act of 2008 (HERA) in the *Federal Register*. That section requires FHFA to authorize the FHLBanks until July 30, 2010, to use AHP homeownership set-aside funds to refinance low- or moderate-income households' mortgage loans. The interim final rule relocated the AHP rule from part 951 of the FHFB regulations to part 1291 of the FHFA regulations. FHFA regulation

§1291.6(f) authorizes each FHLBank to establish a program to use AHP direct subsidy to assist in refinancing eligible loans under the FHA's HOPE for Homeowners Program. The regulation allows AHP direct subsidy to reduce the outstanding principal balance of the household's loan or pay FHA-approved loan closing costs.

Annual assessments fund FHFA's costs and expenses, as well as a working capital fund. In addition, the regulation establishes the allocation of the annual assessments, collection procedures, and procedures to adjust the required payment.

Director Eligibility and Elections

On September 26, 2008, FHFA published an interim final rule to implement section 1202 of the Housing and Economic Recovery Act of 2008 (HERA) in the *Federal Register*. Section 1202 revises Section 7 of the Federal Home Loan Bank Act, which governs the eligibility and election of individuals to serve on the Boards of Directors of FHLBanks. In addition, the interim final rule removed part 915 of the FHFB regulations and established part 1261 of the FHFA regulations.

Regulations: Enterprises and Federal Home Loan Banks

Golden Parachute and Indemnification Payments

On November 14, 2008, FHFA published Golden Parachute and Indemnification Payments, a proposed amendment to the interim final rule Part 1231, in the *Federal Register* for public notice and comment. The interim final rule had an effective date of September 16, 2008, but was subsequently amended on September 23, 2008, to rescind portions that addressed indemnification payments. The proposed amendment described prohibited and permissible indemnification payments that a regulated entity could make to an affiliated party in connection with administrative proceedings or civil actions instituted by FHFA. The comment period regarding the proposed amendment closed on December 29, 2008. The final rule was published in the *Federal Register* on January 29, 2009.

Regulations: Agency Operations

Assessments

On September 30, 2008, FHFA published in the *Federal Register* a final rule authorizing annual assessments of its regulated entities. Annual assessments fund FHFA's costs and expenses, as well as a working capital fund. In addition, the regulation establishes the allocation of the annual assessments, collection procedures, and procedures to adjust the required payment.

FOIA

On October 10, 2008, FHFA published a proposed rule, Freedom of Information Act, in the *Federal Register* for public notice and comment. The purpose of the proposed rule was to implement the Freedom of Information Act (FOIA) (5 U.S.C. 552) for FHFA. The proposed rule established procedures for information required to be disclosed under FOIA and procedures to protect business confidential and trade secret information from disclosure as appropriate. The comment period ended November 10, 2008. The final rule was published in the *Federal Register* on January 15, 2009.

Policy Guidance: Enterprises

Mortgage Fraud

On January 10, 2008, OFHEO issued the Policy Guidance Examination of Mortgage Fraud Programs–PG-08-001, which superseded the July 2005 Policy Guidance on Mortgage Fraud Reporting–PG-05-003. The new guidance set standards for examining Enterprise mortgage fraud programs under 12 C.F.R. part 1731, consistent with the safety and soundness responsibilities of OFHEO under the Federal Housing Enterprises Financial Safety and Soundness Act of 1992. The new guidance detailed the standards for overseeing and evaluating policies and programs the Enterprises had developed to minimize mortgage fraud.

Conforming Loan Limit Calculations

On March 31, 2008, OFHEO issued and published in the *Federal Register* the final Examination Guidance Conforming Loan Limit Calculations-EG-08-001 addressing the handling of decreases in the house price data used to set the conforming loan limit, as well as procedures to calculate the limit that determines the size of mortgages eligible for purchase by the Enterprises. OFHEO solicited public comments on this final guidance in two comment periods. On June 20, 2007, OFHEO released on its Web site for public comment a proposed guidance, and on October 22, 2007, OFHEO published in the *Federal Register* for public comment a revised version. Based on comments received, OFHEO issued the final guidance that the conforming loan limit would not decrease from the current level of $417,000 in 2009 and subsequent years. However, the conforming loan limit would not increase until cumulative increases in house prices exceeded cumulative decreases since the $417,000 limit had first been reached. The final guidance also provided for rounding down increases in the conforming loan limit to the nearest $100 instead of $50.

(The guidance) detailed OFHEO's expectations for practices that (1) promoted sound risk management and controls, (2) supported the integrity of regulatory capital measures, and (3) fostered transparent and consistent financial reports by the Enterprises.

Fair Value Accounting Option

On April 21, 2008, OFHEO issued the Examination Guidance Standards for Enterprise Use of the Fair Value Option-PG-08-002, setting forth examination guidance and standards on the Statement of Financial Accounting Standards No. 159 (FAS 159). This guidance outlined standards for OFHEO examiners to apply when overseeing and evaluating the use of the fair value option already adopted by the Enterprises. It detailed OFHEO's expectations for practices that (1) promoted sound risk management and controls, (2) supported the integrity of regulatory capital measures, and (3) fostered transparent and consistent financial reports by the Enterprises. In addition, the guidance specified that OFHEO could require supplemental information for use in assessing how the Enterprises used the fair value option and its impact on their reporting of financial condition.

Policy Guidance: Federal Home Loan Banks

Nontraditional and Subprime Mortgages

On April 12, 2007, FHFB issued Advisory Bulletin 2007-AB-01, Nontraditional and Subprime Residential Mortgage Loans, which required each FHLBank to implement policies and practices to establish risk limits for, and mitigation of, credit exposure on nontraditional and subprime mortgage loans. On July 1, 2008, FHFB issued supplemental guidance with Advisory Bulletin 2008-AB-02, Application of Guidance on Nontraditional and Subprime Residential Mortgage Loans to Specific FHLBank Assets, communicating FHFB's expectation that residential mortgage loans (a) purchased under the FHLBanks' Acquired Member Assets programs, (b) backing private-label MBS in which the FHLBanks invest, or (c) serving as collateral securing advances must conform to the bank regulatory agencies' guidance that emphasizes underwriting requirements and risk management standards.

Expanded Authority to Purchase Mortgage-Backed Securities

On March 24, 2008, the FHFB Board of Directors adopted Resolution 2008-08, temporarily expanding the authority of FHLBanks to purchase mortgage-backed securities (MBS) under certain conditions. The resolution allowed FHLBanks to increase investments in MBS issued by Fannie Mae and Freddie Mac (agency MBS) by an amount equal to three times their existing capital. The resolution permitted FHLBanks to purchase and hold MBS in an amount up to six times their capital, provided that all such purchases be limited to agency MBS once an FHLBank's MBS investments exceeded three times its capital. The authority expires on March 31, 2010. On April 3, 2008, FHFB issued Advisory Bulletin 2008-AB-01, Temporary Increase in Mortgage-Backed Securities Investment Authority, detailing applicable standards for reviewing an FHLBank's notice of intention to exercise the temporary investment authority.

FHFA Research and Publications

During 2008, the Federal Housing Finance Agency (FHFA) and a predecessor, the Office of Federal Housing Enterprise Oversight (OFHEO), focused their research plans and activities on topics that assisted the agencies in achieving their strategic goals. FHFA's three strategic goals were to (1) enhance supervision to ensure that Fannie Mae and Freddie Mac (Enterprises) and the Federal Home Loan Banks (FHLBanks) operate in a safe and sound manner, are adequately capitalized, and comply with legal requirements; (2) promote homeownership and affordable housing and support an efficient secondary mortgage market; and (3) through conservatorship, preserve and conserve the assets and property of Fannie Mae and Freddie Mac and enhance their ability to fulfill their mission.

OFHEO and FHFA placed a priority on research and analysis of issues for their internal use, primarily related to analyzing risk and capital adequacy and improving the House Price Index (HPI). OFHEO and FHFA also published reports and papers and posted information on their Web sites to better inform interested parties about the issues OFHEO addressed and FHFA addresses regarding the Enterprises and the secondary mortgage market. The papers and reports were the result of research and analysis accomplished throughout the year. OFHEO and FHFA research papers, reports, and related information are available at www.fhfa.gov. FHFA researchers also presented papers and led discussions at professional and industry conferences on topics related to housing finance and regulation of the Enterprises.

Research Products

FHFA and OFHEO produced several research products in 2008. In January, OFHEO released a staff working paper, "Real Estate Futures Prices as Predictors of Price Trends," which examines whether real estate futures traded on the Chicago Mercantile Exchange provide unbiased estimates of future home prices. Another staff working paper, "Enterprise Credit Default Swaps and Market Discipline: Preliminary Analysis," was published in July. That paper explores whether the market for credit default swaps contains information pertaining to the Enterprises' default risk beyond the information contained in equity and bond prices.

OFHEO also published three research papers in 2008. The first, "Revisiting the Differences between the OFHEO and S&P/Case-Shiller House Price Indexes: New Explanations," was published in January and attempts to identify the source of divergence between the HPI and the S&P/Case-Shiller index. The next section provides more detail on that paper. "Mortgage Markets and the Enterprises in 2007," released in July, reviews developments in the housing sector, activity in the primary and secondary mortgage markets, and the financial performance of Fannie Mae and Freddie Mac in 2007. The paper is the most recent in an annual series. A third research paper, "Recent Trends in Home Prices: Differences across Mortgage and Borrower Characteristics," was published in August. That paper compares the recent performance of house prices in California across different loan types and borrower credit characteristics.

In addition, in 2008 OFHEO published three mortgage market notes, and FHFA published a fourth note. Those notes are the most recent in a series aimed at providing background information on select topics related to mortgage markets and the role of the Enterprises. The first, "Potential Implications of Increasing the Conforming Loan Limit in High-Cost Areas," published in January, uses data on securitized jumbo mortgages to examine the potential effects

of raising the conforming loan limit in high-cost areas. Two mortgage market notes were published in July: "Fannie Mae and Freddie Mac Capital" and "A Primer on the Secondary Mortgage Market." The first clarifies the various measures of Enterprise capital as well as their capital requirements and classifications, whereas the second gives a broad overview of the secondary market for home mortgages. Finally, in December FHFA released a mortgage market note, "U.S. Treasury Support for Fannie Mae and Freddie Mac," which outlines the various facilities introduced by the Treasury Department to support the Enterprises in conservatorship.

The most significant change to the HPI in 2008 was the addition of monthly indexes…In addition to the monthly house price measures, OFHEO published a series of nonmetro indexes for 48 states in 2008.

FHFA also released data on the Enterprises' foreclosure prevention activities. In September, FHFA released the first of a series of quarterly *Market Metrics Reports*, detailing the Enterprises' delinquencies and foreclosure prevention activities. The quarterly *Market Metrics Reports* were complemented with less detailed monthly *Foreclosure Prevention Reports*, first released in October. In December, FHFA released its first report to Congress on homeowner assistance in accordance with its statutory obligation as a federal property manager. That report outlined the various actions taken by FHFA and the Enterprises under conservatorship to reduce foreclosures.

In addition to those research products, OFHEO and FHFA made public updated estimates of single-family mortgages originated and outstanding and the Enterprises' combined share of residential mortgage debt outstanding. FHFA and a predecessor, the Federal Housing Finance Board (FHFB), also reported a Monthly Interest Rate Survey (MIRS) of purchase-money mortgages.

House Price Index and Related Research

OFHEO and FHFA continued to publish the HPI in 2008. Although the index was relabeled the FHFA HPI late in the year, the data and methodology used in constructing it remained the same. Historical and recent house price information from Fannie Mae and Freddie Mac are used to form repeat-transactions price indexes for 381 metropolitan statistical areas (MSA) or divisions, as well as for every state and the District of Columbia. The index was originally developed as an input for the OFHEO risk-based capital stress test. In addition to being used by FHFA to monitor the capital adequacy of the Enterprises, the index is used by industry participants, financial modelers, members of the media, and the public at large to monitor house price trends and housing market conditions.

The most significant change to the HPI in 2008 was the addition of monthly indexes. In response to strong demand for more frequent and timely house price information, OFHEO initiated public release of monthly indexes in February. The monthly measures, which are released about three or four weeks into each month, are produced for census divisions and the United States as a whole. Downloadable seasonally adjusted and unadjusted monthly indexes are provided to supplement the usual quarterly index.

In addition to the monthly house price measures, OFHEO published a series of nonmetro indexes for 48 states in 2008. Those indexes reflect home price trends in relatively rural counties—counties not in MSAs—and are useful to researchers because house price metrics are difficult to obtain for those areas. The nonmetro indexes also played a critical role in establishing local conforming loan limits under the Economic Stimulus Act of 2008. Under that legislation, because conforming loan limits were set as a function of median home prices in high-cost areas, median home values needed to be estimated for areas across the United States. The Department of Housing and Urban Development, which was tasked with estimating the median values, used the nonmetro indexes in conjunction with other data to calculate median prices for many rural areas.

Beginning with the February 2008 release of the fourth quarter 2007 data, OFHEO made two modest but significant changes in the manner in which the national HPI is calculated. The changes, which were described in the "Highlights" article incorporated in the HPI release, enhanced the weighting system used to construct the national index out of the nine census division indexes. Better measures of the housing stock are now used to weight the census division estimates. Also, a determination was made to set the quarterly change in the national index equal to the weighted change for the census divisions. Previously, the level of the national index was a weighted average of the levels of the census division indexes. That alteration was an improvement because the previous, levels-based weighting system up-weighted areas of the country that experienced greater historical appreciation. The resulting appreciation-related "drift" in weights did not reflect the intent of the original weighting system.

Continuing a trend from prior years, the price declines reflected in the HPI were much more modest in 2008 than declines reflected in other house price measures, particularly indexes reported by S&P/Case-Shiller. In response to the growing divergence, as mentioned above, OFHEO published a research paper, "Revisiting the Differences between the OFHEO and S&P/Case-Shiller House Price Indexes: New Explanations," that discussed reasons for the phenomenon and measured the impact of specific methodological and data differences on the gap between the two measures. The research included a "reconciliation" table that ultimately accounted for a significant portion of the difference. The analysis, which had been originally performed in the summer of 2007 but was enhanced significantly in January 2008, garnered a great deal of attention. In response to public demand, the reconciliation table was updated as new data became available throughout the year.

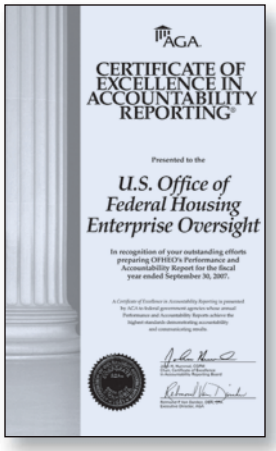
The empirical results in the published reconciliation tables suggested that relatively inexpensive homes financed with nonconforming mortgages were experiencing greater price declines than other homes in the same geographic area. The implied relationship between home financing and observed price changes was surprising and spurred additional OFHEO research, which was published in the summer of 2008. That research confirmed that, for California, homes financed with greater loan-to-value mortgages and whose borrowers had lower FICO scores had seen relatively large price declines in prior quarters.

FHFA Operations and Performance

Performance and Program Assessment

For FY 2008 reporting requirements, the agency was faced with a unique challenge: should it publish one combined annual Performance and Accountability Report (PAR) or three separate reports to cover the agencies affected by enactment of the Housing and Economic Recovery Act (HERA)? Although HERA provided for a year to transfer the staff and resources of Federal Housing Finance Board (FHFB) and Office of Federal Housing Enterprise Oversight (OFHEO) to the Federal Housing Finance Agency (FHFA), that was accomplished in less than three months. FHFA published a combined annual PAR that detailed the yearly performance of the two original agencies and the newly merged entity's first few months.

FHFA has submitted the combined PAR to the Association of Government Accountants for consideration for the Certificate for Excellence in Accountability Reporting for 2008. OFHEO was one of only 17 agencies to win the award for FY 2007.


AGA

CERTIFICATE OF EXCELLENCE IN ACCOUNTABILITY REPORTING®

Presented to the

U.S. Office of Federal Housing Enterprise Oversight

In recognition of your outstanding efforts preparing OFHEO's Performance and Accountability Report for the fiscal year ended September 30, 2007.

In 2008, OFHEO was one of only 17 agencies to win the CEAR award for its FY 2007 Performance and Accountability Report.

During 2008, FHFB and OFHEO both received unqualified opinions on their financial statements. FHFB achieved all of its performance goals in FY 2008, and OFHEO achieved or substantially achieved all but one of its performance goals.

In 2008, OFHEO engaged an independent auditor to perform an Agreed upon Procedures review of the performance information used for 12 key performance measures. The goal of this process was to verify and validate the performance information and to assist FHFA in preparation for an Office of Management and Budget (OMB) Circular A-123 audit. The results of the review indicated no significant issues with regard to the effectiveness of internal controls over the management, monitoring, and tracking processes. In FY 2008, FHFB also evaluated its internal controls in accordance with the requirements of OMB Circular A-123 and found no material weaknesses.

Since FHFA's creation on July 30, 2008, there has been no audit of its internal controls. However, FHFA initiated and achieved significant activities since its inception. Highlights of FHFA's 2008 key activities are as follows:

- Placed both Fannie Mae and Freddie Mac under conservatorship in September 2008 to ensure that they could continue to fulfill their missions.
- Published a "Notice of Establishment" in the *Federal Register* on September 9, 2008, establishing the Federal Housing Finance Agency as the regulator of the 14 housing-related GSEs, outlining the scope of its authority, and referencing the public law and the portion of the United States code that applies to FHFA.
- Authorized increases in the Enterprises' portfolios to encourage purchase of their mortgage-backed securities (MBS).
- Issued an interim final regulation on golden parachutes to GSE executives.
- Released its first *Mortgage Metrics Report* giving a comprehensive view of Fannie Mae's and Freddie Mac's (Enterprises) borrower assistance efforts, including forbearance plans, short sales, deeds in lieu, assumptions, and charge-offs in lieu of foreclosure.
- Transitioned the critical oversight role of the affordable housing program at the Enterprises and the FHLBanks to the new agency.

In 2007, OMB completed its Performance Assessment Rating Tool (PART) assessment of FHFB with a rating of "Result Not Demonstrated." OMB's PART assessment and rating were completed without the active participation of FHFB. FHFB was unable to develop quantifiable performance measures that OMB would consider meaningful without revealing confidential bank examination information. However, FHFB worked during FY 2008 to address issues that affected performance results. FHFB's key accomplishments in 2008 included the following:

- Examined all 12 Federal Home Loan Banks (FHLBanks) and the Office of Finance for safety and soundness and appointed a full slate of public interest directors at each FHLBank.
- Conducted Affordable Housing Program (AHP) examinations at 11 of the 12 FHLBanks. The FHLBank of Chicago did not undergo AHP examination due to safety and soundness issues. Drafted an AHP examination manual and trained AHP examiners to assess FHLBanks' implementation plans.
- Strengthened its supervisory program through more intense integration of its off-site monitoring program and tools into the examination program.
- Formalized the organization of its Office of Supervision into two principal functional areas: Examinations and Off-Site Monitoring and Analysis.
- Ensured that each FHLBank continuously met or exceeded its minimum capital requirements, conducted all planned safety and soundness and affordable housing program examinations, expanded and enhanced AHP data collection, and ensured that the FHLBanks awarded more than $115 million in AHP subsidies.
- Expanded the ability of the FHLBanks to invest in MBS to support the housing market.

During FY 2008, OFHEO continued its efforts under an improvement plan developed to address a 2006 OMB PART rating of "Adequate." OFHEO's key accomplishments in 2008 included the following:

- Achieved passage and enactment of HERA, which created FHFA as a strong regulator of Fannie Mae, Freddie Mac, and the Federal Home Loan Banks.
- Enhanced the oversight and supervision of the Enterprises through the development and implementation of new measures of risk, issuance of new supervision guidance, and revision of the supervision handbook.
- Identified the Enterprises as having significant supervisory concerns citing deteriorating credit conditions in housing as a key factor.
- Released a new monthly HPI for the nation and each of the nine census divisions. This significant achievement provides more timely and detailed information on house prices, which is critical in this challenging market.
- Increased temporarily the conforming loan limit in designated high-cost areas in order to provide liquidity and stability to the jumbo portion of the residential mortgage market, which had been severely affected by the credit problems throughout the economy.
- Took steps to combat appraisal fraud by signing an agreement with the New York Attorney General and OFHEO to strengthen the independence of the appraisal process.

- Began evaluating agency effectiveness at achieving mission by reviewing quality assurance programs at other federal financial regulatory agencies and identifying best practices.

Details of FHFB and OFHEO plans and program assessments are available online at www.ExpectMore.gov and www.fhfa.gov.

Financial Operations

For the first seven months of 2008, OFHEO and FHFB operated independently of each other as separate and distinct federal regulatory agencies. OFHEO regulated Fannie Mae and Freddie Mac, and FHFB regulated the 12 Federal Home Loan Banks.

Although funded through assessments on Fannie Mae and Freddie Mac, OFHEO's budget was determined through the appropriations process. For FY 2008, OFHEO operated with a congressionally approved budget of $66 million. FHFB was funded through assessments on the 12 Federal Home Loan Banks. It operated as a non-appropriated agency, and a governing Board approved its budget. FHFB's FY 2008 budget was $38.7 million.

FHFA: New Agency, New Financial Operations

On July 30, 2008, when the President signed HERA into law, FHFA was created as an independent, non-appropriated regulatory agency responsible for regulating both the Enterprises and the Federal Home Loan Banks. The agency is headed by a Director appointed by the President and confirmed by the Senate. FHFA has an Oversight Board that meets quarterly and testifies before Congress. The Director of FHFA serves as the chairman. The Secretary of Treasury, the Secretary of HUD and the SEC Chairman are the other three members. The Oversight Board is an advisory Board and does not have any management responsibilities.

All of the resources of OFHEO and FHFB were transferred to FHFA on July 30, 2008. As a practical matter, FHFA's FY 2008 budget (August and September 2008) was simply the combined remaining budgets of OFHEO and FHFB. Beginning October 1, 2008, the Director approved a FY 2009 budget for FHFA of $120.8 million. This budget comprised the costs of regulating the Enterprises and the 12 Federal Home Loan Banks, start-up costs for FHFA infrastructure, and the initial phase of funding for a working capital account for the agency.

FHFA immediately began work to transition and unify the administrative functions for the new agency. FHFA contracted with the United States Treasury's Bureau of Public Debt (BPD) to provide the agency with accounting, travel, and charge card services. The transition to BPD is expected to be completed by July 2009. In the interim, FHFA is using the existing accounting systems and infrastructures of both OFHEO and FHFB to operate during the first half of FY 2009.

Unqualified Audit Opinions in FY 2008

Both OFHEO and FHFB received unqualified audit opinions on their FY 2008 financial statements. OFHEO contracted with Dembo, Jones, Healy, Pennington & Marshall, PC, to conduct its audit. FHFB's Office of Inspector General (OIG) audited that agency. No material weaknesses in internal controls or instances of noncompliance with laws or regulations were identified by either the audit firm or OIG. Under HERA, the Government Accountability Office will be responsible for the FY 2009 audit.

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Table 1. Fannie Mae Mortgage Purchases

Period	Business Activity ($ in Millions)			
	Purchases			
	Single-Family[1] ($)	Multifamily[1] ($)	Total Mortgages[1] ($)	Mortgage-Related Securities[2] ($)
4Q08	104,961	6,067	111,028	22,272
3Q08	115,508	9,259	124,767	18,839
2Q08	182,700	11,230	193,930	31,194
1Q08	179,778	7,732	187,510	5,218
Annual Data				
2008	582,947	34,288	617,235	77,523
2007	659,366	45,302	704,668	69,236
2006	524,379	20,646	545,025	102,666
2005	537,004	21,485	558,489	62,232
2004	588,119	16,386	604,505	176,385
2003	1,322,193	31,196	1,353,389	408,606
2002	804,192	16,772	820,964	268,574
2001	567,673	19,131	586,804	209,124
2000	227,069	10,377	237,446	129,716
1999	316,136	10,012	326,148	169,905
1998	354,920	11,428	366,348	147,260
1997	159,921	6,534	166,455	50,317
1996	164,456	6,451	170,907	46,743
1995	126,003	4,966	130,969	36,258
1994	158,229	3,839	162,068	25,905
1993	289,826	4,135	293,961	6,606
1992	248,603	2,956	251,559	5,428
1991	133,551	3,204	136,755	3,080
1990	111,007	3,180	114,187	1,451
1989	80,510	4,325	84,835	Not Applicable
1988	64,613	4,170	68,783	Before 1990
1987	73,942	1,733	75,675	
1986	77,223	1,877	79,100	
1985	42,543	1,200	43,743	
1984	27,713	1,106	28,819	
1983	26,339	140	26,479	
1982	25,929	10	25,939	
1981	6,827	2	6,829	
1980	8,074	27	8,101	
1979	10,798	9	10,807	
1978	12,302	3	12,305	
1977	4,650	134	4,784	
1976	3,337	295	3,632	
1975	3,646	674	4,320	
1974	4,746	2,273	7,019	
1973	4,170	2,082	6,252	
1972	2,596	1,268	3,864	
1971	2,742	1,298	4,040	

Source: Fannie Mae

1 Includes lender-originated MBS issuances, cash purchases, and capitalized interest. Based on unpaid principal balances and excludes mortgage loans and securities traded but not yet settled.

2 Not included in total mortgage purchases. Includes purchases of Fannie Mae MBS held for investment and mortgage-related securities traded but not yet settled. Based on unpaid principal balances. Activity does not include dollar roll transactions.

Table 1a. Fannie Mae Mortgage Purchases Detail, by Type of Loan

Period	Purchases ($ in Millions)[1]											
	Single-Family Mortgages								Multifamily Mortgages			
	Conventional				FHA/VA/RD			Total Single-Family Mortgages ($)				Total Mortgage Purchases ($)
	Fixed-Rate[2] ($)	Adjustable-Rate ($)	Seconds ($)	Total ($)	Fixed-Rate[3] ($)	Adjustable-Rate ($)	Total ($)		Conventional ($)	FHA/RD ($)	Total Multi-family Mortgages ($)	
4Q08	97,694	2,747	0	100,441	319	4,201	4,520	104,961	6,067	0	6,067	111,028
3Q08	100,244	10,605	0	110,849	448	4,211	4,659	115,508	9,259	0	9,259	124,767
2Q08	156,862	21,138	1	178,001	241	4,458	4,699	182,700	11,230	0	11,230	193,930
1Q08	162,873	12,420	5	175,298	166	4,314	4,480	179,778	7,732	0	7,732	187,510
Annual Data												
2008	517,673	46,910	6	564,589	1,174	17,184	18,358	582,947	34,288	0	34,288	617,235
2007	583,253	64,133	34	647,420	1,237	10,709	11,946	659,366	45,302	0	45,302	704,668
2006	429,930	85,313	130	515,373	1,576	7,430	9,006	524,379	20,644	2	20,646	545,025
2005	416,720	111,935	116	528,771	2,285	5,948	8,233	537,004	21,343	142	21,485	558,489
2004	527,456	46,772	51	574,279	9,967	3,873	13,840	588,119	13,684	2,702	16,386	604,505
2003	1,236,045	64,980	93	1,301,118	18,032	3,043	21,075	1,322,193	28,071	3,125	31,196	1,353,389
2002	738,177	48,617	40	786,834	15,810	1,548	17,358	804,192	15,089	1,683	16,772	820,964
2001	534,115	25,648	1,137	560,900	5,671	1,102	6,773	567,673	17,849	1,282	19,131	586,804
2000	187,236	33,809	726	221,771	4,378	920	5,298	227,069	9,127	1,250	10,377	237,446
1999	293,188	12,138	1,198	306,524	8,529	1,084	9,613	316,137	8,858	1,153	10,011	326,148
1998	334,367	14,273	1	348,641	5,768	511	6,279	354,920	10,844	584	11,428	366,348
1997	136,329	21,095	3	157,427	2,062	432	2,494	159,921	5,936	598	6,534	166,455
1996	146,154	15,550	3	161,707	2,415	334	2,749	164,456	6,199	252	6,451	170,907
1995	104,901	17,978	9	122,888	3,009	106	3,115	126,003	4,677	289	4,966	130,969
1994	139,815	16,340	8	156,163	1,953	113	2,066	158,229	3,620	219	3,839	162,068
1993	274,402	14,420	29	288,851	855	120	975	289,826	3,919	216	4,135	293,961
1992	226,332	21,001	136	247,469	1,055	79	1,134	248,603	2,845	111	2,956	251,559
1991	114,321	17,187	705	132,213	1,300	38	1,338	133,551	3,183	21	3,204	136,755
1990	95,011	14,528	654	110,193	799	15	814	111,007	3,165	15	3,180	114,187
1989	60,794	17,692	521	79,007	1,489	14	1,503	80,510	4,309	16	4,325	84,835
1988	35,767	27,492	433	63,692	823	98	921	64,613	4,149	21	4,170	68,783
1987	60,434	10,675	139	71,248	2,649	45	2,694	73,942	1,463	270	1,733	75,675
1986	58,251	7,305	498	66,054	11,155	14	11,169	77,223	1,877	0	1,877	79,100
1985	29,993	10,736	871	41,600	927	16	943	42,543	1,200	0	1,200	43,743
1984	17,998	8,049	937	26,984	729	0	729	27,713	1,106	0	1,106	28,819
1983	18,136	4,853	1,408	24,397	1,942	0	1,942	26,339	128	12	140	26,479
1982	19,311	3,210	1,552	24,073	1,856	0	1,856	25,929	0	10	10	25,939
1981	4,260	107	176	4,543	2,284	0	2,284	6,827	0	2	2	6,829
1980	2,802	0	0	2,802	5,272	0	5,272	8,074	0	27	27	8,101
1979	5,410	0	0	5,410	5,388	0	5,388	10,798	0	9	9	10,807
1978	5,682	0	0	5,682	6,620	0	6,620	12,302	0	3	3	12,305
1977	2,366	0	0	2,366	2,284	0	2,284	4,650	0	134	134	4,784
1976	2,513	0	0	2,513	824	0	824	3,337	0	295	295	3,632
1975	547	0	0	547	3,099	0	3,099	3,646	0	674	674	4,320
1974	1,128	0	0	1,128	3,618	0	3,618	4,746	0	2,273	2,273	7,019
1973	939	0	0	939	3,231	0	3,231	4,170	0	2,082	2,082	6,252
1972	55	0	0	55	2,541	0	2,541	2,596	0	1,268	1,268	3,864
1971	0	0	0	0	2,742	0	2,742	2,742	0	1,298	1,298	4,040

Source: Fannie Mae

1 Includes lender-originated MBS issuances, cash purchases, and capitalized interest. Based on unpaid principal balances; excludes mortgage loans traded but not yet settled.

2 Includes balloon and energy loans.

3 Includes loans guaranteed by USDA Rural Development Programs.

Table 1b. Fannie Mae Purchases of Mortgage-Related Securities – Part 1[1]

Period	Purchases ($ in Millions)														
	Fannie Mae Securities				Others' Securities										
	Single-Family		Multi-family ($)	Total Fannie Mae[2] ($)	Freddie Mac				Ginnie Mae				Total Private-Label ($)	Mortgage Revenue Bonds ($)	Total Mortgage-Related Securities ($)
					Single-Family		Multi-family ($)	Total Freddie Mac ($)	Single-Family		Multi-family ($)	Total Ginnie Mae ($)			
	Fixed Rate[2] ($)	Adjustable-Rate ($)			Fixed-Rate ($)	Adjustable-Rate ($)			Fixed-Rate ($)	Adjustable-Rate ($)					
4Q08	19,719	726	864	21,309	821	143	0	964	0	0	0	0	0	1	22,274
3Q08	14,477	2,822	79	17,378	779	361	0	1,140	0	127	0	127	0	193	18,838
2Q08	22,354	4,456	61	26,871	1,995	1,846	0	3,841	0	1	0	1	456	25	31,194
1Q08	344	2,078	19	2,441	54	818	0	872	0	0	0	0	1,839	65	5,217
Annual Data															
2008	56,894	10,082	1,023	67,999	3,649	3,168	0	6,817	0	128	0	128	2,295	284	77,523
2007	16,126	8,277	506	24,909	2,017	4,055	0	6,072	0	35	0	35	37,435	785	69,236
2006	23,177	14,826	429	38,432	1,044	5,108	0	6,152	77	0	0	77	57,787	218	102,666
2005	8,273	6,344	888	15,505	121	3,449	0	3,570	0	0	0	0	41,369	1,788	62,232
2004	42,300	21,281	1,159	64,740	6,546	8,228	0	14,774	0	0	0	0	90,747	6,124	176,385
2003	341,461	5,842	1,225	348,528	19,340	502	0	19,842	36	0	0	36	34,032	6,168	408,606
2002	238,711	4,219	1,572	244,502	7,856	101	0	7,957	4,425	0	0	4,425	7,416	4,273	268,574
2001	Not Available	Not Available	Not Available	180,582	Not Available	Not Available	Not Available	20,072	Not Available	Not Available	Not Available	333	3,513	4,624	209,124
2000	Before 2002	Before 2002	Before 2002	104,904	Before 2002	Before 2002	Before 2002	10,171	Before 2002	Before 2002	Before 2002	2,493	8,466	3,682	129,716
1999				125,498				6,861				17,561	16,511	3,474	169,905
1998				104,728				21,274				2,738	15,721	2,799	147,260
1997				39,033				2,119				3,508	4,188	1,469	50,317
1996				41,263				779				2,197	777	1,727	46,743
1995				30,432				2,832				20	752	2,222	36,258
1994				21,660				571				2,321	0	1,353	25,905
1993				6,275				0				0	0	331	6,606
1992				4,930				0				0	0	498	5,428
1991				2,384				0				0	0	696	3,080
1990				977				0				0	0	474	1,451

Source: Fannie Mae

1 Includes purchases of Fannie Mae MBS held for investment. Activity does not include dollar roll transactions. Based on unpaid principal balances; excludes mortgage loans and mortgage-related securities traded but not yet settled.

2 Certain amounts previously reported as Fannie Mae fixed-rate securities have been reclassed as private-label securities.

Table 1b. Fannie Mae Purchases of Mortgage-Related Securities, Part 2, Private-Label Detail

Period	Purchases ($ in Millions)[1] Private-Label								
	Single-Family							Multifamily ($)	Total Private-Label ($)
		Subprime		Alt-A		Other			
	Manufactured Housing ($)	Fixed-Rate ($)	Adjustable-Rate ($)	Fixed-Rate ($)	Adjustable-Rate ($)	Fixed-Rate ($)	Adjustable-Rate ($)		
4Q08	0	0	0	0	0	0	0	0	0
3Q08	0	0	0	0	0	0	0	0	0
2Q08	0	0	0	175	0	0	0	281	456
1Q08	0	0	637	0	0	0	987	215	1,839
Annual Data									
2008	0	0	637	175	0	0	987	496	2,295
2007	0	343	15,628	38	5,250	0	178	15,998	37,435
2006	0	0	34,876	1,504	10,443	0	1,274	9,690	57,787
2005	0	0	16,344	3,091	12,535	483	8,814	102	41,369
2004	0	176	34,321	6,978	14,826	221	34,124	101	90,747
2003	0	0	15,881	7,734	370	98	9,888	61	34,032
2002	56	0	2,680	1,165	0	815	2,664	36	7,416
2001	Not Available	Not Available	Not Available	Not Available	Not Available	Not Available	Not Available	Not Available	3,513
2000	Before 2002	Before 2002	Before 2002	Before 2002	Before 2002	Before 2002	Before 2002	Before 2002	8,466
1999									16,511
1998									15,721
1997									4,188
1996									777
1995									752
1994									0
1993									0
1992									0
1991									0
1990									0

Source: Fannie Mae

[1] Based on unpaid principal balances and excludes mortgage loans and mortgage-related securities traded but not yet settled. Certain amounts previously reported for years prior to 2007 have changed as a result of the reclassification of certain securities.

Table 2. Fannie Mae MBS Issuances

Period	Business Activity ($ in Millions)			
	MBS Issuances[1]			
	Single-Family MBS ($)	Multifamily MBS ($)	Total MBS ($)	Multiclass MBS[2] ($)
4Q08	88,154	1,313	89,467	5,314
3Q08	105,745	1,246	106,991	16,386
2Q08	174,743	3,020	177,763	22,406
1Q08	168,309	283	168,592	23,453
Annual Data				
2008	536,951	5,862	542,813	67,559
2007	622,458	7,149	629,607	112,563
2006	476,161	5,543	481,704	124,856
2005	500,759	9,379	510,138	123,813
2004	545,635	6,847	552,482	94,686
2003	1,196,730	23,336	1,220,066	260,919
2002	731,133	12,497	743,630	170,795
2001	514,621	13,801	528,422	139,403
2000	204,066	7,596	211,662	39,544
1999	292,192	8,497	300,689	55,160
1998	315,120	11,028	326,148	84,147
1997	143,615	5,814	149,429	85,415
1996	144,201	5,668	149,869	30,780
1995	106,269	4,187	110,456	9,681
1994	128,385	2,237	130,622	73,365
1993	220,485	959	221,444	210,630
1992	193,187	850	194,037	170,205
1991	111,488	1,415	112,903	112,808
1990	96,006	689	96,695	68,291
1989	66,489	3,275	69,764	41,715
1988	51,120	3,758	54,878	17,005
1987	62,067	1,162	63,229	9,917
1986	60,017	549	60,566	2,400
1985	23,142	507	23,649	Not Issued
1984	13,087	459	13,546	Before 1986
1983	13,214	126	13,340	
1982	13,970	Not Issued	13,970	
1981	717	Before 1983	717	

Source: Fannie Mae

1 Lender-originated MBS plus issuances from Fannie Mae's portfolio. Based on unpaid principal balances and excludes mortgage-related securities traded but not yet settled.

2 Beginning in 2006, includes grantor trusts and REMICs as well as stripped MBS backed by Fannie Mae certificates.

Table 3. Fannie Mae Earnings

Period	Earnings ($ in Millions)						
	Net Interest Income[1] ($)	Guarantee Fee Income ($)	Average Guarantee Fee (basis points)	Administrative Expenses ($)	Credit-Related Expenses[2] ($)	Net Income (Loss) ($)	Return on Equity[3] (%)
4Q08	2,680	2,786	44.0	554	11,976	(25,227)	N/M
3Q08	2,355	1,475	23.6	401	9,241	(28,994)	N/M
2Q08	2,057	1,608	26.3	512	5,349	(2,300)	(50.3)
1Q08	1,690	1,752	29.5	512	3,243	(2,186)	(40.9)
Annual Data							
2008	8,782	7,621	31.0	1,979	29,809	(58,707)	N/M
2007	4,581	5,071	23.7	2,669	5,012	(2,050)	(8.3)
2006	6,752	4,250	22.2	3,076	783	4,059	11.3
2005	11,505	4,006	22.3	2,115	428	6,347	19.5
2004	18,081	3,784	21.8	1,656	363	4,967	16.6
2003	19,477	3,432	21.9	1,454	353	8,081	27.6
2002	18,426	2,516	19.3	1,156	273	3,914	15.2
2001	8,090	1,482	19.0	1,017	78	5,894	39.8
2000	5,674	1,351	19.5	905	94	4,448	25.6
1999	4,894	1,282	19.3	800	127	3,912	25.2
1998	4,110	1,229	20.2	708	261	3,418	25.2
1997	3,949	1,274	22.7	636	375	3,056	24.6
1996	3,592	1,196	22.4	560	409	2,725	24.1
1995	3,047	1,086	22.0	546	335	2,144	20.9
1994	2,823	1,083	22.5	525	378	2,132	24.3
1993	2,533	961	21.3	443	305	1,873	25.3
1992	2,058	834	21.2	381	320	1,623	26.5
1991	1,778	675	21.0	319	370	1,363	27.7
1990	1,593	536	21.1	286	310	1,173	33.7
1989	1,191	408	21.3	254	310	807	31.1
1988	837	328	21.6	218	365	507	25.2
1987	890	263	22.1	197	360	376	23.5
1986	384	175	23.8	175	306	105	9.5
1985	139	112	25.6	142	206	(7)	(0.7)
1984	(90)	78	26.2	112	86	(71)	(7.4)
1983	(9)	54	26.3	81	48	49	5.1
1982	(464)	16	27.2	60	36	(192)	(18.9)
1981	(429)	0	25.0	49	(28)	(206)	(17.2)
1980	21	Not Available	Not Available	44	19	14	0.9
1979	322	Before 1981	Before 1981	46	35	162	11.3
1978	294			39	36	209	16.5
1977	251			32	28	165	15.3
1976	203			30	25	127	13.8
1975	174			27	16	115	14.1
1974	142			23	17	107	14.7
1973	180			18	12	126	20.3
1972	138			13	5	96	18.8
1971	49			15	4	61	14.4

Source: Fannie Mae

N/M = not meaningful

1 Interest income net of interest expense. Beginning November 2006, fees received from the interest earned on cash flows between the date of remittance of mortgage and other payments to Fannie Mae by servicers and the date of distribution of these payments to MBS investors are excluded from net interest income.

2 Credit-related expenses include provision for credit losses and foreclosed property expense (income).

3 Net income (loss) available to common stockholders divided by average outstanding common equity.

Table 4. Fannie Mae Balance Sheet

End of Period	Balance Sheet ($ in Millions)							Mortgage-Backed Securities Outstanding ($ in Millions)	
	Total Assets[1] ($)	Total Mortgage Assets[2] ($)	Nonmortgage Investments[3] ($)	Debt Outstanding ($)	Shareholders' Equity (Deficit) ($)	Core Capital[4] ($)	Fair Value of Net Assets ($)	Total MBS Outstanding[5] ($)	Multiclass MBS Outstanding[6] ($)
4Q08	912,404	767,989	71,550	870,393	(15,314)	(8,641)	(105,150)	2,289,459	481,137
3Q08	896,615	746,496	49,634	831,310	9,276	16,645	(46,422)	2,278,170	491,423
2Q08	885,918	738,964	60,941	799,502	41,226	46,964	12,452	2,252,282	491,738
1Q08	843,227	717,529	52,710	760,340	38,836	42,676	12,210	2,200,958	492,287
Annual Data									
2008	912,404	767,989	71,550	870,393	(15,314)	(8,641)	(105,150)	2,289,459	481,137
2007	882,547	723,620	86,875	796,299	44,011	45,373	35,799	2,118,909	490,692
2006	843,936	726,434	56,983	767,046	41,506	41,950	43,699	1,777,550	456,970
2005	834,168	736,803	46,016	764,010	39,302	39,433	42,199	1,598,918	412,060
2004	1,020,934	925,194	47,839	953,111	38,902	34,514	40,094	1,408,047	368,567
2003	1,022,275	919,589	59,518	961,280	32,268	26,953	28,393	1,300,520	398,516
2002	904,739	820,627	39,376	841,293	31,899	20,431	22,130	1,040,439	401,406
2001	799,948	706,347	65,982	763,467	18,118	25,182	22,675	863,445	392,457
2000	675,224	607,731	52,347	642,682	20,838	20,827	20,677	706,722	334,508
1999	575,308	523,103	37,299	547,619	17,629	17,876	20,525	679,145	335,514
1998	485,146	415,434	58,515	460,291	15,453	15,465	14,885	637,143	361,613
1997	391,673	316,592	64,596	369,774	13,793	13,793	15,982	579,138	388,360
1996	351,041	286,528	56,606	331,270	12,773	12,773	14,556	548,173	339,798
1995	316,550	252,868	57,273	299,174	10,959	10,959	11,037	513,230	353,528
1994	272,508	220,815	46,335	257,230	9,541	9,541	10,924	486,345	378,733
1993	216,979	190,169	21,396	201,112	8,052	8,052	9,126	471,306	381,865
1992	180,978	156,260	19,574	166,300	6,774	Not Applicable	9,096	424,444	312,369
1991	147,072	126,679	9,836	133,937	5,547	Before 1993	Not Available	355,284	224,806
1990	133,113	114,066	9,868	123,403	3,941		Before 1992	288,075	127,278
1989	124,315	107,981	8,338	116,064	2,991			216,512	64,826
1988	112,258	100,099	5,289	105,459	2,260			170,097	26,660
1987	103,459	93,665	3,468	97,057	1,811			135,734	11,359
1986	99,621	94,123	1,775	93,563	1,182			95,568	Not Issued
1985	99,076	94,609	1,466	93,985	1,009			54,552	Before 1987
1984	87,798	84,135	1,840	83,719	918			35,738	
1983	78,383	75,247	1,689	74,594	1,000			25,121	
1982	72,981	69,356	2,430	69,614	953			14,450	
1981	61,578	59,629	1,047	58,551	1,080			717	
1980	57,879	55,589	1,556	54,880	1,457			Not Issued	
1979	51,300	49,777	843	48,424	1,501			Before 1981	
1978	43,506	42,103	834	40,985	1,362				
1977	33,980	33,252	318	31,890	1,173				
1976	32,393	31,775	245	30,565	983				
1975	31,596	30,820	239	29,963	861				
1974	29,671	28,666	466	28,168	772				
1973	24,318	23,589	227	23,003	680				
1972	20,346	19,652	268	19,239	559				
1971	18,591	17,886	349	17,672	460				

Source: Fannie Mae

1 Beginning in 1998, the guaranty liability for Fannie Mae MBS held as investments is classified as a liability.

2 Gross mortgage assets net of unamortized purchase premiums, discounts, and cost basis adjustments and, beginning in 2002, fair value adjustments on available-for-sale and trading securities, as well as impairments on available-for-sale securities. Excludes the allowance for loan losses on loans held for investment. The amounts for 1999 through 2001 include certain loans held for investment that were previously classified as nonmortgage investments.

3 Data reflect unpaid principal balance net of unamortized purchase premiums, discounts, and cost basis adjustments, as well as fair-value adjustments and impairments on available-for-sale and trading securities. Since 2005, advances to lenders are not included. Amounts for periods prior to 2005 may include or consist of advances to lenders. Prior to 1982, the majority of nonmortgage investments consisted of U.S. government securities and agency securities.

4 The sum of (a) the stated value of outstanding common stock (common stock less Treasury stock); (b) the stated value of outstanding noncumulative perpetual preferred stock; (c) paid-in capital; and (d) retained earnings (accumulative deficit), less Treasury stock. Core capital excludes accumulated other comprehensive income (loss).

5 Unpaid principal balance of Fannie Mae MBS held by third-party investors. The principal balance of resecuritized Fannie Mae MBS is included only once.

6 Beginning in 2005, consists of securities guaranteed by Fannie Mae that are backed by Ginnie Mae collateral, grantor trusts, and REMICs, as well as stripped MBS backed by Fannie Mae certificates.

Table 4a. Fannie Mae Total MBS Outstanding Detail

End of Period	Single-Family Mortgages[1] ($ in Millions)							Multifamily Mortgages[1] ($ in Millions)			
	Conventional				FHA/VA						
	Fixed-Rate ($)	Adjustable-Rate ($)	Seconds ($)	Total ($)	Fixed-Rate ($)	Adjustable-Rate ($)	Total ($)	Conventional ($)	FHA/RD ($)	Total Multi-family ($)	Total MBS Outstanding ($)
4Q08	2,035,020	203,206	31	2,238,257	12,903	214	13,117	37,298	787	38,085	2,289,459
3Q08	2,016,198	208,992	33	2,225,223	13,346	224	13,570	38,524	853	39,377	2,278,170
2Q08	1,985,855	212,630	34	2,198,519	13,833	235	14,068	38,762	933	39,695	2,252,282
1Q08	1,936,337	211,790	37	2,148,164	14,439	253	14,692	37,128	974	38,102	2,200,958
Annual Data											
2008	2,035,020	203,206	31	2,238,257	12,903	214	13,117	37,298	787	38,085	2,289,459
2007	1,850,150	214,245	0	2,064,395	14,982	275	15,257	38,218	1,039	39,257	2,118,909
2006	1,484,147	230,667	0	1,714,814	18,615	454	19,069	42,184	1,483	43,667	1,777,550
2005	1,290,354	232,689	0	1,523,043	23,065	668	23,733	50,346	1,796	52,142	1,598,918
2004	1,243,343	75,722	0	1,319,065	31,389	949	32,336	47,386	9,260	56,646	1,408,047
2003	1,112,849	87,373	0	1,200,222	36,139	1,268	37,407	53,720	9,171	62,891	1,300,520
2002	875,260	75,430	0	950,690	36,057	1,247	37,304	47,025	5,420	52,445	1,040,439
2001	752,211	60,842	772	813,825	4,519	1,207	5,726	42,713	1,181	43,894	863,445
2000	599,999	61,495	1,165	662,659	6,778	1,298	8,076	35,207	780	35,987	706,722
1999	586,069	51,474	1,212	638,755	7,159	1,010	8,169	31,518	703	32,221	679,145
1998	545,680	56,903	98	602,681	5,340	587	5,927	28,378	157	28,535	637,143
1997	483,982	70,106	7	554,095	3,872	213	4,085	20,824	134	20,958	579,138
1996	460,866	65,682	9	526,557	4,402	191	4,593	16,912	111	17,023	548,173
1995	431,755	63,436	13	495,204	5,043	91	5,134	12,579	313	12,892	513,230
1994	415,692	55,780	18	471,490	5,628	0	5,628	8,908	319	9,227	486,345
1993	405,383	49,987	28	455,398	7,549	0	7,549	8,034	325	8,359	471,306
1992	360,619	45,718	43	406,380	9,438	0	9,438	8,295	331	8,626	424,444
1991	290,038	45,110	89	335,237	11,112	0	11,112	8,599	336	8,935	355,284
1990	225,981	42,443	121	268,545	11,380	0	11,380	7,807	343	8,150	288,075
1989	Not Available	Not Available	Not Available	Not Available	Not Available	Not Available	Not Available	Not Available	Not Available	Not Available	216,512
1988	Before 1990	Before 1990	Before 1990	Before 1990	Before 1990	Before 1990	Before 1990	Before 1990	Before 1990	Before 1990	170,097
1987											135,734
1986											95,568
1985											54,552
1984											35,738
1983											25,121
1982											14,450
1981											717
1980											Not Issued Before 1981

Source: Fannie Mae

1 Unpaid principal balance of Fannie Mae MBS held by third parties. Includes guaranteed whole loan REMICs and private-label wraps that are not included in grantor trusts. The principal balance or resecuritized Fannie Mae MBS is included only once.

Table 5. Fannie Mae Mortgage Assets Detail

($ in Millions)					
End of Period	Whole Loans[1,2] ($)	Fannie Mae Securities[1,3] ($)	Other Mortgage-Related Securities[1,3,4] ($)	Unamortized Premiums, Discounts, Deferred Adjustments, and Fair Value Adjustments on Securities[5] ($)	Total Mortgage Assets ($)
4Q08	429,493	228,950	133,753	(24,207)	767,989
3Q08	407,671	223,085	136,410	(20,670)	746,496
2Q08	420,992	193,121	140,003	(15,152)	738,964
1Q08	411,838	173,757	141,110	(9,176)	717,529
Annual Data					
2008	429,493	228,950	133,753	(24,207)	767,989
2007	403,577	180,163	144,163	(4,283)	723,620
2006	383,045	199,644	146,243	(2,498)	726,434
2005	366,680	234,451	136,758	(1,086)	736,803
2004	400,157	344,404	172,648	7,985	925,194
2003	397,633	405,922	105,313	10,721	919,589
2002	323,244	380,383	96,152	20,848	820,627
2001	167,405	431,776	109,270	(2,104)	706,347
2000	152,634	351,066	106,551	(2,520)	607,731
1999	149,231	281,714	93,122	(964)	523,103
1998	155,779	197,375	61,361	919	415,434
1997	160,102	130,444	26,132	(86)	316,592
1996	167,891	102,607	16,554	(525)	286,528
1995	171,481	69,729	12,301	(643)	252,868
1994	170,909	43,998	7,150	(1,242)	220,815
1993	163,149	24,219	3,493	(692)	190,169
1992	134,597	20,535	2,987	(1,859)	156,260
1991	109,251	16,700	3,032	(2,304)	126,679
1990	101,797	11,758	3,073	(2,562)	114,066
1989	95,729	11,720	3,272	(2,740)	107,981
1988	92,220	8,153	2,640	(2,914)	100,099
1987	89,618	4,226	2,902	(3,081)	93,665
1986	94,167	1,606	2,060	(3,710)	94,123
1985	97,421	435	793	(4,040)	94,609
1984	87,205	477	427	(3,974)	84,135
1983	77,983	Not Available	273	(3,009)	75,247
1982	71,777	Before 1984	37	(2,458)	69,356
1981	61,411		1	(1,783)	59,629
1980	57,326		1	(1,738)	55,589
1979	51,096		1	(1,320)	49,777
1978	43,315		Not Available	(1,212)	42,103
1977	34,377		Before 1979	(1,125)	33,252
1976	32,937			(1,162)	31,775
1975	31,916			(1,096)	30,820
1974	29,708			(1,042)	28,666
1973	24,459			(870)	23,589
1972	20,326			(674)	19,652
1971	18,515			(629)	17,886

Source: Fannie Mae

1 Unpaid principal balance.

2 Beginning with 2002, includes mortgage-related securities that were consolidated as loans as of period-end. For 1999, 2000, and 2001, includes certain loans held for investment that were classified as nonmortgage investments.

3 Beginning with 2002, excludes mortgage-related securities that were consolidated as loans as of period-end.

4 Includes mortgage revenue bonds.

5 Includes unamortized premiums, discounts, deferred adjustments, and fair value adjustments on securities and loans. Beginning in 2002, amounts include fair value adjustments and impairments on mortgage-related securities and securities commitments classified as trading and available-for-sale. Excludes the allowance for loan losses on loans held for investment.

Table 5a. Fannie Mae Mortgage Assets Detail – Whole Loans

End of Period	Whole Loans ($ in Millions)[1]								
	Single-Family					Multifamily			Total Whole Loans ($)
	Conventional				Total FHA/VA/RD[3] ($)	Conventional ($)	FHA/RD ($)	Total ($)	
	Fixed-Rate[2] ($)	Adjustable-Rate ($)	Seconds ($)	Total ($)					
4Q08	223,881	44,157	215	268,253	43,799	116,742	699	117,441	429,493
3Q08	209,663	44,873	229	254,765	40,082	112,093	731	112,824	407,671
2Q08	235,234	43,758	241	279,233	36,009	104,997	753	105,750	420,992
1Q08	239,010	42,144	253	281,407	32,051	97,599	781	98,380	411,838
Annual Data									
2008	223,881	44,157	215	268,253	43,799	116,742	699	117,441	429,493
2007	240,090	43,278	261	283,629	28,202	90,931	815	91,746	403,577
2006	255,490	46,820	287	302,597	20,106	59,374	968	60,342	383,045
2005	261,214	38,331	220	299,765	15,036	50,731	1,148	51,879	366,680
2004	307,048	38,350	177	345,575	10,112	43,396	1,074	44,470	400,157
2003	335,812	19,155	233	355,200	7,284	33,945	1,204	35,149	397,633
2002	282,899	12,142	416	295,457	6,404	19,485	1,898	21,383	323,244
2001	140,454	10,427	917	151,798	5,069	8,987	1,551	10,538	167,405
2000	125,786	13,244	480	139,510	4,763	6,547	1,814	8,361	152,634
1999	130,614	6,058	176	136,848	4,472	5,564	2,347	7,911	149,231
1998	135,351	7,633	206	143,190	4,404	5,590	2,595	8,185	155,779
1997	134,543	10,389	268	145,200	4,631	7,388	2,883	10,271	160,102
1996	137,507	12,415	323	150,245	4,739	9,756	3,151	12,907	167,891
1995	137,032	14,756	423	152,211	4,780	11,175	3,315	14,490	171,481
1994	133,882	16,475	537	150,894	4,965	11,681	3,369	15,050	170,909
1993	123,308	19,175	772	143,255	5,305	11,143	3,446	14,589	163,149
1992	91,500	22,637	1,355	115,492	6,097	9,407	3,601	13,008	134,597
1991	69,130	19,763	2,046	90,939	6,962	7,641	3,709	11,350	109,251
1990	61,873	19,558	1,851	83,282	8,524	6,142	3,849	9,991	101,797
1989	55,638	20,751	1,614	78,003	9,450	3,926	4,350	8,276	95,729
1988	53,090	20,004	1,561	74,655	10,480	2,699	4,386	7,085	92,220
1987	55,913	13,702	1,421	71,036	11,652	2,448	4,482	6,930	89,618
1986	Not Available	Not Available	Not Available	Not Available	Not Available	Not Available	Not Available	Not Available	94,167
1985	Before 1987	Before 1987	Before 1987	Before 1987	Before 1987	Before 1987	Before 1987	Before 1987	97,421
1984									87,205
1983									77,983
1982									71,777
1981									61,411
1980									57,326
1979									51,096
1978									43,315
1977									34,377
1976									32,937
1975									31,916
1974									29,708
1973									24,459
1972									20,326
1971									18,515

Source: Fannie Mae

1 Unpaid principal balance. Beginning with 2002, includes mortgage-related securities that were consolidated as loans as of period-end. For 1999, 2000, and 2001, includes certain loans held for investment that were classified as nonmortgage investments.

2 Includes balloon and energy loans.

3 Includes loans guaranteed by USDA Rural Development Programs.

Table 5b. Fannie Mae Mortgage Assets Detail – Part 1, Mortgage-Related Securities

End of Period	Mortgage-Related Securities ($ in Millions)[1]													
	Fannie Mae Securities ($)				Others' Securities									
	Single-Family				Freddie Mac				Ginnie Mae					
					Single-Family				Single-Family					
	Fixed-Rate ($)	Adjustable-Rate ($)	Multi-family ($)	Total Fannie Mae ($)	Fixed-Rate ($)	Adjustable-Rate ($)	Multi-family ($)	Total Freddie Mac ($)	Fixed-Rate ($)	Adjustable-Rate ($)	Multi-family ($)	Total Ginnie Mae ($)	Total Private-Label ($)	Total Others' Securities ($)[2]
4Q08	207,867	20,637	446	228,950	18,420	14,963	0	33,383	1,343	153	21	1,517	83,406	118,306
3Q08	201,358	21,276	451	223,085	18,090	15,394	0	33,484	1,388	155	29	1,572	85,731	120,787
2Q08	171,133	21,531	457	193,121	17,869	15,705	0	33,574	1,445	29	28	1,502	89,139	124,215
1Q08	152,901	20,416	440	173,757	16,487	14,682	0	31,169	1,513	31	50	1,594	92,229	124,992
Annual Data														
2008	207,867	20,637	446	228,950	18,420	14,963	0	33,383	1,343	153	21	1,517	83,406	118,306
2007	158,863	20,741	559	180,163	16,954	14,425	0	31,379	1,575	34	50	1,659	94,810	127,848
2006	194,702	4,342	600	199,644	17,304	12,773	0	30,077	1,905	0	56	1,961	97,281	129,319
2005	230,546	3,030	875	234,451	18,850	9,861	0	28,711	2,273	0	57	2,330	86,915	117,956
2004	339,138	3,869	1,397	344,404	29,328	8,235	0	37,563	4,131	1	68	4,200	108,809	150,572
2003	400,863	3,149	1,910	405,922	30,356	558	0	30,914	6,993	0	68	7,061	46,979	84,954
2002	373,958	3,827	2,598	380,383	32,617	207	0	32,824	15,436	0	85	15,521	28,157	76,502
2001	417,796	5,648	8,332	431,776	42,516	287	26	42,829	18,779	1	109	18,889	29,175	90,893
2000	Not Available	Not Available	Not Available	351,066	Not Available	Not Available	Not Available	33,290	Not Available	Not Available	Not Available	23,768	34,266	91,324
1999	Before 2001	Before 2001	Before 2001	281,714	Before 2001	Before 2001	Before 2001	25,577	Before 2001	Before 2001	Before 2001	23,701	31,673	80,951
1998				197,375				23,453				8,638	19,585	51,676
1997				130,444				5,262				7,696	5,554	18,512
1996				102,607				3,623				4,780	1,486	9,889
1995				69,729				3,233				2,978	747	6,958
1994				43,998				564				3,182	1	3,747
1993				24,219				Not Available				972	2	974
1992				20,535				Before 1994				168	3	171
1991				16,700								180	93	273
1990				11,758								191	352	543
1989				11,720								202	831	1,033
1988				8,153								26	810	836
1987				4,226								Not Available	1,036	1,036
1986				1,606								Before 1988	1,591	1,591
1985				435									Not Available	Not Available
1984				477									Before 1986	Before 1986
1983				Not Available										
				Before 1984										

Source: Fannie Mae

1 Unpaid principal balance. Beginning with 2002, excludes mortgage-related securities that were consolidated as loans as of period-end.

2 Excludes mortgage revenue bonds.

Table 5b. Fannie Mae Mortgage Assets Detail – Part 2, Mortgage-Related Securities, Private-Label Detail

End of Period	Mortgage-Related Securities ($ in Millions)[1]								
	Private-Label								
	Single-Family							Multifamily ($)	Total Private-Label ($)
		Subprime		Alt-A		Other			
	Manufactured Housing ($)	Fixed-Rate ($)	Adjustable-Rate ($)	Fixed-Rate ($)	Adjustable-Rate ($)	Fixed-Rate ($)	Adjustable-Rate ($)		
4Q08	2,840	438	24,113	8,444	19,414	286	2,021	25,850	83,406
3Q08	2,947	454	25,505	8,619	19,988	292	2,050	25,876	85,731
2Q08	3,065	467	27,809	8,829	20,678	301	2,084	25,906	89,139
1Q08	3,193	485	29,898	8,938	21,625	309	2,137	25,644	92,229
Annual Data									
2008	2,840	438	24,113	8,444	19,414	286	2,021	25,850	83,406
2007	3,316	503	31,537	9,221	23,254	319	1,187	25,473	94,810
2006	3,902	242	44,940	19,601	15,522	1,134	2,083	9,857	97,281
2005	4,622	311	27,597	11,403	21,135	1,029	20,775	43	86,915
2004	5,461	1,666	39,897	11,609	14,164	1,536	34,417	59	108,809
2003	6,522	409	16,440	7,579	383	3,824	11,726	96	46,979
2002	9,583	635	3,017	1,574	20	8,342	4,842	144	28,157
2001	10,708	Not Available	Not Available	Not Available	Not Available	Not Available	Not Available	299	29,175
2000	Not Available	Before 2002	Before 2002	Before 2002	Before 2002	Before 2002	Before 2002	Not Available	34,266
1999	Before 2001							Before 2001	31,673
1998									19,585
1997									5,554
1996									1,486
1995									747
1994									1
1993									2
1992									3
1991									93
1990									352
1989									831
1988									810
1987									1,036
1986									1,591
1985									Not Available
1984									Before 1986
1983									

Source: Fannie Mae

[1] Unpaid principal balance. Certain amounts previously reported for years prior to 2007 have changed as a result of reclassification of certain securities.

Table 5b. Fannie Mae Mortgage Assets Detail – Part 3, Mortgage-Related Securities

End of Period	Mortgage-Related Securities ($ in Millions)		($ in Millions)	
	Mortgage Revenue Bonds[1] ($)	Total Mortgage-Related Securities[1] ($)	Unamortized Premiums, Discounts, Deferred Adjustments, and Fair Value Adjustments on Securities[2] ($)	Total Mortgage Assets Portfolio ($)
4Q08	15,447	362,703	(24,207)	767,989
3Q08	15,623	359,495	(20,670)	746,496
2Q08	15,788	333,124	(15,152)	738,964
1Q08	16,118	314,867	(9,176)	717,529
Annual Data				
2008	15,447	362,703	(24,207)	767,989
2007	16,315	324,326	(4,283)	723,620
2006	16,924	345,887	(2,498)	726,434
2005	18,802	371,209	(1,086)	736,803
2004	22,076	517,052	7,985	925,194
2003	20,359	511,235	10,721	919,589
2002	19,650	476,535	20,848	820,627
2001	18,377	541,046	(2,104)	706,347
2000	15,227	457,617	(2,520)	607,731
1999	12,171	374,836	(964)	523,103
1998	9,685	258,736	919	415,434
1997	7,620	156,576	(86)	316,592
1996	6,665	119,161	(525)	286,527
1995	5,343	82,030	(643)	252,868
1994	3,403	51,148	(1,242)	220,815
1993	2,519	27,712	(692)	190,169
1992	2,816	23,522	(1,859)	156,260
1991	2,759	19,732	(2,304)	126,679
1990	2,530	14,831	(2,562)	114,066
1989	2,239	14,992	(2,740)	107,981
1988	1,804	10,793	(2,914)	100,099
1987	1,866	7,128	(3,081)	93,665
1986	469	Not Available	(3,710)	94,123
1985	Not Available	Before 1987	(4,040)	95,250
1984	Before 1986		(3,974)	84,695
1983			(3,009)	75,782
1982			(2,458)	69,842
1981			(1,783)	59,949
1980			(1,738)	55,878
1979			(1,320)	49,777
1978			(1,212)	42,103
1977			(1,125)	33,252
1976			(1,162)	31,775
1975			(1,096)	30,821
1974			(1,042)	28,665
1973			(870)	23,579
1972			(674)	19,650
1971			(629)	17,886

Source: Fannie Mae

1 Unpaid principal balance.

2 Includes unamortized premiums, discounts, deferred adjustments, and fair value adjustments on securities and loans. Beginning in 2002, amounts include fair value adjustments and impairments on mortgage-related securities and securities commitments classified as trading and available-for-sale. Excludes the allowance for loan losses on loans held for investment.

Table 6. Fannie Mae Financial Derivatives

End of Period	Financial Derivatives - Notional Amount Outstanding ($ in Millions)						
	Interest Rate Swaps[1] ($)	Interest Rate Caps, Floors, and Corridors ($)	Foreign Currency Contracts ($)	OTC Futures, Options, and Forward Rate Agreements ($)	Mandatory Mortgage Purchase & Sell Commitments ($)	Other ($)	Total ($)
4Q08	1,023,384	500	1,652	173,060	71,236	0	1,269,832
3Q08	913,946	500	1,980	172,095	83,107	0	1,171,628
2Q08	961,584	750	2,148	177,402	77,019	0	1,218,903
1Q08	871,273	750	1,710	169,280	75,723	0	1,118,736
Annual Data							
2008	1,023,384	500	1,652	173,060	71,236	0	1,269,832
2007	671,274	2,250	2,559	210,381	55,366	0	941,830
2006	516,571	14,000	4,551	210,271	39,928	0	785,321
2005	317,470	33,000	5,645	288,000	39,194	0	683,309
2004	256,216	104,150	11,453	318,275	40,600	0	730,694
2003	598,288	130,350	5,195	305,175	43,560	0	1,082,568
2002	253,211	122,419	3,932	275,625	Not Available	0	655,187
2001	299,953	75,893	8,493	148,800	Before 2003	0	533,139
2000	227,651	33,663	9,511	53,915		0	324,740
1999	192,032	28,950	11,507	41,081		1,400	274,970
1998	142,846	14,500	12,995	13,481		3,735	187,557
1997	149,673	100	9,968	0		1,660	161,401
1996	158,140	300	2,429	0		350	161,219
1995	125,679	300	1,224	29		975	128,207
1994	87,470	360	1,023	0		1,465	90,317
1993	49,458	360	1,023	0		1,425	52,265
1992	24,130	0	1,177	0		1,350	26,658
1991	9,100	0	Not Available	50		1,050	10,200
1990	4,800	0	Before 1992	25		1,700	6,525

Source: Fannie Mae

[1] Beginning in 2002, includes MBS options, swap credit enhancements, and forward-starting debt.

Table 7. Fannie Mae Nonmortgage Investments

End of Period	Nonmortgage Investments ($ in Millions)[1]					
	Federal Funds and Eurodollars ($)	Asset-Backed Securities ($)	Repurchase Agreements[2] ($)	Commercial Paper and Corporate Debt[3] ($)	Other[4] ($)	Total ($)
4Q08	45,910	10,598	8,000	6,037	1,005	71,550
3Q08	22,860	11,929	5,000	7,657	2,188	49,634
2Q08	35,410	12,843	0	10,049	2,639	60,941
1Q08	19,260	14,110	250	12,772	6,318	52,710
Annual Data						
2008	45,910	10,598	8,000	6,037	1,005	71,550
2007	43,510	15,511	5,250	13,515	9,089	86,875
2006	9,410	18,914	0	27,604	1,055	56,983
2005	8,900	19,190	0	16,979	947	46,016
2004	3,860	25,644	0	16,435	1,829	47,839
2003	12,575	26,862	0	17,700	2,270	59,518
2002	150	22,312	181	14,659	2,074	39,376
2001	16,089	20,937	808	23,805	4,343	65,982
2000	7,539	17,512	87	8,893	18,316	52,347
1999	4,837	19,207	122	1,723	11,410	37,299
1998	7,926	20,993	7,556	5,155	16,885	58,515
1997	19,212	16,639	6,715	11,745	10,285	64,596
1996	21,734	14,635	4,667	6,191	9,379	56,606
1995	19,775	9,905	10,175	8,629	8,789	57,273
1994	17,593	3,796	9,006	7,719	8,221	46,335
1993	4,496	3,557	4,684	0	8,659	21,396
1992	6,587	4,124	3,189	0	5,674	19,574
1991	2,954	2,416	2,195	0	2,271	9,836
1990	5,329	1,780	951	0	1,808	9,868
1989	5,158	1,107	0	0	2,073	8,338
1988	4,125	481	0	0	683	5,289
1987	2,559	25	0	0	884	3,468
1986	1,530	0	0	0	245	1,775
1985	1,391	0	0	0	75	1,466
1984	1,575	0	0	0	265	1,840
1983	9	0	0	0	227	236
1982	1,799	0	0	0	631	2,430
1981	Not Available	Not Available	Not Available	Not Available	Not Available	1,047
1980	Before 1982	Before 1982	Before 1982	Before 1982	Before 1982	1,556
1979						843
1978						834
1977						318
1976						245
1975						239
1974						466
1973						227
1972						268
1971						349

Source: Fannie Mae

1 Data reflect unpaid principal balance net of unamortized purchase premium, discounts and cost basis adjustments, and fair value adjustments, and impairments on available-for-sale and trading securities. Prior to 1982, the majority of nonmortgage investments consisted of U.S. government and agency securities.

2 Since 2005, advances to lenders are not included in the data. Amounts for periods prior to 2005 may include or consist of advances to lenders. Includes tri-party repurchase agreements.

3 Includes commercial paper, floating-rate notes, taxable auction notes, corporate bonds and auction-rate preferred stock. Starting with 2006, medium-term notes previously reported in other are included in commercial paper.

4 Includes Yankee and domestic CDs.

Table 8. Fannie Mae Mortgage Asset Quality

End of Period	Mortgage Asset Quality				
	Single-Family Delinquency Rate[1] (%)	Multifamily Delinquency Rate[2] (%)	Credit Losses as a Proportion of the Guarantee Book of Business[3, 4] (%)	REO as a Proportion of the Guarantee Book of Business[4, 5] (%)	Credit-Enhanced Outstanding as a Proportion of the Guarantee Book of Business[5] (%)
4Q08	2.42	0.30	0.07	0.23	21.1
3Q08	1.72	0.16	0.07	0.25	21.8
2Q08	1.36	0.11	0.04	0.21	22.2
1Q08	1.15	0.09	0.03	0.17	22.3
Annual Data					
2008	2.42	0.30	0.23	0.23	21.1
2007	0.98	0.08	0.05	0.13	22.1
2006	0.65	0.08	0.02	0.09	22.3
2005	0.79	0.32	0.01	0.08	21.8
2004	0.63	0.11	0.01	0.07	20.5
2003	0.60	0.29	0.01	0.06	22.6
2002	0.57	0.08	0.01	0.05	26.8
2001	0.55	0.27	0.01	0.04	34.2
2000	0.45	0.07	0.01	0.05	40.4
1999	0.47	0.11	0.01	0.06	20.9
1998	0.56	0.23	0.03	0.08	17.5
1997	0.62	0.37	0.04	0.10	12.8
1996	0.58	0.68	0.05	0.11	10.5
1995	0.56	0.81	0.05	0.08	10.6
1994	0.47	1.21	0.06	0.10	10.2
1993	0.48	2.34	0.04	0.10	10.6
1992	0.53	2.65	0.04	0.09	15.6
1991	0.64	3.62	0.04	0.07	22.0
1990	0.58	1.70	0.06	0.09	25.9
1989	0.69	3.20	0.07	0.14	Not Available
1988	0.88	6.60	0.11	0.15	Before 1990
1987	1.12	Not Available	0.11	0.18	
1986	1.38	Before 1988	0.12	0.22	
1985	1.48		0.13	0.32	
1984	1.65		0.09	0.33	
1983	1.49		0.05	0.35	
1982	1.41		0.01	0.20	
1981	0.96		0.01	0.13	
1980	0.90		0.01	0.09	
1979	0.56		0.02	0.11	
1978	0.55		0.02	0.18	
1977	0.46		0.02	0.26	
1976	1.58		0.03	0.27	
1975	0.56		0.03	0.51	
1974	0.51		0.02	0.52	
1973	Not Available		0.00	0.61	
1972	Before 1974		0.02	0.98	
1971			0.01	0.59	

Source: Fannie Mae

1 Single-family loans are seriously delinquent when the borrower has missed three or more consecutive monthly payments and the loan has not been brought current. Rate is calculated using the number of conventional single-family loans owned and backing Fannie Mae MBS. Includes loans referred to foreclosure proceedings but not yet foreclosed. Prior to 1988, all data included all seriously delinquent loans for which Fannie Mae had primary risk of loss. Beginning with 1998, data include all seriously delinquent conventional loans owned and backing Fannie Mae MBS with and without primary mortgage insurance and/or credit enhancement. Data prior to 1992 include loans and securities in relief or bankruptcy even if the loans were less than 90-days delinquent, calculated based on number of loans.

2 Prior to 1998, data include multifamily loans for which Fannie Mae had primary risk of loss. For years 1998–2002, data include all multifamily loans and securities 60 days or more past due. Rate is calculated using the mortgage credit book of business as the denominator. Beginning in 2002, data include all multifamily loans and securities 60 days or more past due. Rate is calculated using unpaid principal balance of delinquent multifamily loans owned by Fannie Mae or underlying Fannie Mae-guaranteed securities as the denominator.

3 Credit losses are charge-offs, net of recoveries and foreclosed property expense (income); average balances used to calculate ratios subsequent to 1994; quarterly data are annualized. Beginning in 2005, credit losses exclude the impact of SOP-03-3 fair value losses. Beginning in 2008, credit losses exclude the impact of HomeSaver Advance fair value losses.

4 Guarantee book of business refers to the sum of the unpaid principal balance of (1) mortgage loans held as investments; (2) Fannie Mae MBS held as investments; (3) Fannie Mae MBS held by third parties; and (4) credit enhancements that Fannie Mae provides on mortgage assets. It excludes non-Fannie Mae mortgage-related securities held as investments that Fannie Mae does not guarantee. Prior to 2005, ratio was based on the mortgage credit book of business, which includes non-Fannie Mae mortgage-related securities held as investments that are not guaranteed.

5 Beginning in 2000, credit-enhanced is expanded to include primary mortgage insurance. Amounts for periods prior to 2000 reflect proportion of the mortgage assets portfolio with additional recourse from a third party to accept some or all of the expected losses on defaulted mortgages.

Table 9. Fannie Mae Capital[1]

End of Period	Capital ($ in Millions)									
	Minimum Capital Requirement			Risk-Based Capital Requirement						
	Core Capital ($)	Minimum Capital Requirement[2] ($)	Minimum Capital Surplus (Deficit)[2] ($)	Total Capital[3] ($)	Risk-Based Capital Requirement[4] ($)	Risk-Based Capital Surplus (Deficit)[5] ($)	Market Capitalization[6] ($)	Core Capital/Total Assets (%)	Core Capital/Total MBS Outstanding Plus Total Assets (%)	Common Share Dividend Payout Rate[7] (%)
4Q08	(8,641)	33,552	(42,193)	N/A	N/A	N/A	825	(0.95)	(0.27)	N/M
3Q08	16,645	33,024	(16,379)	N/A	N/A	N/A	1,637	1.86	0.52	N/M
2Q08	46,964	32,631	14,334	55,568	36,288	19,280	20,932	5.30	1.50	N/M
1Q08	42,676	31,335	11,341	47,666	23,099	24,567	25,673	5.06	1.40	N/M
Annual Data										
2008	(8,641)	33,552	(42,193)	N/A	N/A	N/A	825	(0.95)	(0.27)	N/M
2007	45,373	31,927	13,446	48,658	24,700	23,958	38,946	5.14	1.51	N/M
2006	41,950	29,359	12,591	42,703	26,870	15,833	57,735	4.97	1.60	32.4
2005	39,433	28,233	11,200	40,091	12,636	27,455	47,373	4.73	1.62	17.2
2004	34,514	32,121	2,393	35,196	10,039	25,157	69,010	3.38	1.42	42.1
2003	26,953	31,816	(4,863)	27,487	27,221	266	72,838	2.64	1.16	20.8
2002	20,431	27,688	(7,257)	20,831	17,434	3,397	63,612	2.26	1.05	34.5
2001	25,182	24,182	1,000	25,976	Not Applicable	Not Applicable	79,281	3.15	1.51	23.0
2000	20,827	20,293	533	21,634	Before 2002	Before 2002	86,643	3.08	1.51	26.0
1999	17,876	17,770	106	18,677			63,651	3.11	1.43	28.8
1998	15,465	15,334	131	16,257			75,881	3.19	1.38	29.5
1997	13,793	12,703	1,090	14,575			59,167	3.52	1.42	29.4
1996	12,773	11,466	1,307	13,520			39,932	3.64	1.42	30.4
1995	10,959	10,451	508	11,703			33,812	3.46	1.32	34.6
1994	9,541	9,415	126	10,368			19,882	3.50	1.26	30.8
1993	8,052	7,064	988	8,893			21,387	3.71	1.17	26.8
1992	Not Applicable	Not Applicable	Not Applicable	Not Applicable			20,874	Not Applicable	Not Applicable	23.2
1991	Before 1993	Before 1993	Before 1993	Before 1993			18,836	Before 1993	Before 1993	21.3
1990							8,490			14.7
1989							8,092			12.8
1988							3,992			11.2
1987							2,401			11.7
1986							3,006			8.0
1985							1,904			30.1
1984							1,012			N/A
1983							1,514			13.9
1982							1,603			N/A
1981							502			N/A
1980							702			464.2
1979							Not Available			45.7
1978							Before 1980			30.3
1977										31.8
1976										33.6
1975										31.8
1974										29.6
1973										18.1
1972										15.2
1971										18.7

Sources: Fannie Mae and FHFA

N/A = not applicable

N/M = not meaningful

1 On October 9, 2008, FHFA suspended capital classifications of Fannie Mae. As of the fourth quarter of 2008, neither the existing statutory nor the FHFA-directed regulatory capital requirements are binding and will not be binding during the conservatorship.

2 Beginning in the third quarter of 2005, Fannie Mae was required to maintain an additional 30 percent capital in excess of the statutory minimum capital requirement. That requirement was reduced to 20 percent as of the first quarter of 2008 and further, to 15 percent as of the second quarter of 2008. The minimum capital requirement and minimum capital surplus numbers stated in this table do not reflect the additional capital requirements. Minimum capital surplus is the difference between core capital and minimum capital requirement.

3 Total capital is core capital plus the total allowance for loan losses and guaranty liability for MBS, less any specific loss allowances. Information after 2001 reflects restated or most recently reported amounts, rather than amounts originally reported and used by FHFA to make capital classifications.

4 Risk-based capital requirement is the amount of total capital that an Enterprise must hold to absorb projected losses flowing from future adverse interest rate and credit risk conditions and is specified by the Federal Housing Enterprise Financial Safety and Soundness Act of 1992. For 2004 through 2006, the requirements were calculated based on originally reported, not restated or revised, financial results.

5 The difference between total capital and the risk-based capital requirement. For 2004 through 2006, the difference reflects restated and revised total capital, rather than total capital originally reported by Fannie Mae and used by FHFA to make capital classifications.

6 Stock price at the end of the period multiplied by the number of outstanding common shares.

7 Common dividends declared during the period divided by net income available to common stockholders for the period.

Table 10. Freddie Mac Mortgage Purchases

Business Activity ($ in Millions)				
Purchases[1]				
Period	Single-Family ($)	Multifamily ($)	Total Mortgages[2] ($)	Mortgage-Related Securities[3] ($)
4Q08	47,664	6,224	53,888	106,677
3Q08	69,434	6,009	75,443	34,137
2Q08	122,865	5,294	128,159	124,907
1Q08	117,622	6,445	124,067	31,893
Annual Data				
2008	357,585	23,972	381,557	297,614
2007	466,066	21,645	487,711	231,039
2006	351,270	13,031	364,301	241,205
2005	381,673	11,172	392,845	325,575
2004	354,812	12,712	367,524	223,299
2003	701,483	15,292	716,775	385,078
2002	533,194	10,654	543,848	299,674
2001	384,124	9,510	393,634	248,466
2000	168,013	6,030	174,043	91,896
1999	232,612	7,181	239,793	101,898
1998	263,490	3,910	267,400	128,446
1997	115,160	2,241	117,401	35,385
1996	122,850	2,229	125,079	36,824
1995	89,971	1,565	91,536	39,292
1994	122,563	847	123,410	19,817
1993	229,051	191	229,242	Not Available
1992	191,099	27	191,126	Before 1994
1991	99,729	236	99,965	
1990	74,180	1,338	75,518	
1989	76,765	1,824	78,589	
1988	42,884	1,191	44,075	
1987	74,824	2,016	76,840	
1986	99,936	3,538	103,474	
1985	42,110	1,902	44,012	
1984	Not Available	Not Available	21,885	
1983	Before 1985	Before 1985	22,952	
1982			23,671	
1981			3,744	
1980			3,690	
1979			5,716	
1978			6,524	
1977			4,124	
1976			1,129	
1975			1,716	
1974			2,185	
1973			1,334	
1972			1,265	
1971			778	

Source: Freddie Mac

1 Based on unpaid principal balances and excludes mortgage loans and mortgage-related securities traded but not yet settled.

2 Consists of loans purchased from lenders. Excludes purchases of non-Freddie Mac MBS as well as Freddie Mac MBS repurchased and held as investments.

3 Not included in total mortgages. For 2002 through the current period, amounts include non-Freddie Mac mortgage-related securities as well as Freddie Mac MBS repurchased and held as investments. For years prior to 2002, amounts exclude structured securities backed by Ginnie Mae MBS. Activity does not include dollar roll transactions.

Table 10a. Freddie Mac Mortgage Purchases Detail, by Type of Loan

Purchases ($ in Millions)[1, 2]												
	Single-Family Mortgages								Multifamily Mortgages			
	Conventional				FHA/VA			Total Single-Family Mortgages ($)				
Period	Fixed-Rate[3] ($)	Adjustable-Rate[4] ($)	Seconds ($)	Total ($)	Fixed-Rate ($)	Adjustable-Rate ($)	Total ($)		Conventional ($)	FHA/RD ($)	Total Multi-Family Mortgages ($)	Total Mortgage Purchases ($)
4Q08	45,681	1,851	0	47,532	132	0	132	47,664	6,224	0	6,224	53,888
3Q08	61,758	7,485	0	69,243	191	0	191	69,434	6,009	0	6,009	75,443
2Q08	110,463	12,188	0	122,651	214	0	214	122,865	5,294	0	5,294	128,159
1Q08	109,104	8,490	0	117,594	28	0	28	117,622	6,445	0	6,445	124,067
Annual Data												
2008	327,006	30,014	0	357,020	565	0	565	357,585	23,972	0	23,972	381,557
2007	387,760	78,149	0	465,909	157	0	157	466,066	21,645	0	21,645	487,711
2006	272,875	77,449	0	350,324	946	0	946	351,270	13,031	0	13,031	364,301
2005	313,842	67,831	0	381,673	0	0	0	381,673	11,172	0	11,172	392,845
2004	293,830	60,663	0	354,493	319	0	319	354,812	12,712	0	12,712	367,524
2003	617,796	82,270	0	700,066	1,417	0	1,417	701,483	15,292	0	15,292	716,775
2002	468,901	63,448	0	532,349	845	0	845	533,194	10,654	0	10,654	543,848
2001	353,056	30,780	0	383,836	288	0	288	384,124	9,507	3	9,510	393,634
2000	145,744	21,201	0	166,945	1,068	0	1,068	168,013	6,030	0	6,030	174,043
1999	224,040	7,443	0	231,483	1,129	0	1,129	232,612	7,181	0	7,181	239,793
1998	256,008	7,384	0	263,392	98	0	98	263,490	3,910	0	3,910	267,400
1997	106,174	8,950	0	115,124	36	0	36	115,160	2,241	0	2,241	117,401
1996	116,316	6,475	0	122,791	59	0	59	122,850	2,229	0	2,229	125,079
1995	75,867	14,099	0	89,966	5	0	5	89,971	1,565	0	1,565	91,536
1994	105,902	16,646	0	122,548	15	0	15	122,563	847	0	847	123,410
1993	208,322	20,708	1	229,031	20	0	20	229,051	191	0	191	229,242
1992	175,515	15,512	7	191,034	65	0	65	191,099	27	0	27	191,126
1991	91,586	7,793	206	99,585	144	0	144	99,729	236	0	236	99,965
1990	56,806	16,286	686	73,778	402	0	402	74,180	1,338	0	1,338	75,518
1989	57,100	17,835	1,206	76,141	624	0	624	76,765	1,824	0	1,824	78,589
1988	34,737	7,253	59	42,049	835	0	835	42,884	1,191	0	1,191	44,075
1987	69,148	4,779	69	73,996	828	0	828	74,824	2,016	0	2,016	76,840
1986	96,105	2,262	90	98,457	1,479	0	1,479	99,936	3,538	0	3,538	103,474
1985	40,226	605	34	40,865	1,245	0	1,245	42,110	1,902	0	1,902	44,012
1984	Not Available	Not Available	Not Available	Not Available	Not Available	Not Available	Not Available	Not Available	Not Available	Not Available	Not Available	Not Available
1983	Before 1985	Before 1985	Before 1985	Before 1985	Before 1985	Before 1985	Before 1985	Before 1985	Before 1985	Before 1985	Before 1985	Before 1985
1982												
1981												
1980												
1979												
1978												
1977												
1976												
1975												
1974												
1973												
1972												
1971												

Source: Freddie Mac

1 Based on unpaid principal balances and excludes mortgage loans and mortgage-related securities traded but not yet settled.

2 Loans purchased from lenders. Excludes purchases of non-Freddie Mac MBS as well as Freddie Mac MBS repurchased and held as investments.

3 For 2002 through the current period, includes loans guaranteed by USDA Rural Development Programs.

4 For 2001 through the current period, includes balloons/reset mortgages.

Table 10b. Freddie Mac Purchases of Mortgage-Related Securities – Part 1

Period	Purchases ($ in Millions)[1]														
	Freddie Mac Securities				Others' Securities										
	Single-Family				Fannie Mae				Ginnie Mae						
					Single-Family				Single-Family						
	Fixed-Rate ($)	Adjustable-Rate ($)	Multi-Family ($)	Total Freddie Mac ($)	Fixed-Rate ($)	Adjustable-Rate ($)	Multi-Family ($)	Total Fannie Mae ($)	Fixed-Rate ($)	Adjustable-Rate ($)	Multi-Family ($)	Total Ginnie Mae ($)	Total Private-Label ($)	Mortgage Revenue Bonds ($)	Total Mortgage-Related Securities[2] ($)
4Q08	81,571	2,938	111	84,620	20,130	1,687	0	21,817	0	0	8	8	240	0	106,677
3Q08	20,032	1,906	0	21,938	11,150	1,023	0	12,173	0	0	0	0	4	22	34,137
2Q08	75,431	15,623	0	91,054	17,082	7,606	0	24,688	0	0	0	0	9,133	32	124,907
1Q08	15,667	5,877	0	21,544	1,180	8,203	0	9,383	0	0	0	0	939	27	31,893
Annual Data															
2008	192,701	26,344	111	219,156	49,542	18,519	0	68,061	0	0	8	8	10,316	81	297,614
2007	111,976	26,800	2,283	141,059	2,170	9,863	0	12,033	0	0	0	0	76,134	1,813	231,039
2006	76,378	27,146	0	103,524	4,259	8,014	0	12,273	0	0	0	0	122,230	3,178	241,205
2005	106,682	29,805	0	136,487	2,854	3,368	0	6,222	64	0	0	64	179,962	2,840	325,575
2004	72,147	23,942	146	96,235	756	3,282	0	4,038	0	0	0	0	121,082	1,944	223,299
2003	Not Available Before 2004	Not Available Before 2004	Not Available Before 2004	266,989	Not Available Before 2004	Not Available Before 2004	Not Available Before 2004	47,806	Not Available Before 2004	Not Available Before 2004	Not Available Before 2004	166	69,154	963	385,078
2002				192,817				45,798				820	59,376	863	299,674
2001				157,339				64,508				1,444	24,468	707	248,466
2000				58,516				18,249				3,339	10,304	1,488	91,896
1999				69,219				12,392				3,422	15,263	1,602	101,898
1998				107,508				3,126				319	15,711	1,782	128,446
1997				31,296				897				326	1,494	1,372	35,385
1996				33,338				Not Available Before 1997				Not Available Before 1997	Not Available Before 1997	Not Available Before 1997	36,824
1995				32,534											39,292
1994				19,817											19,817
1993				Not Available Before 1994											Not Available Before 1994

Source: Freddie Mac

1 Based on unpaid principal balances and excludes mortgage loans and mortgage-related securities traded but not yet settled.

2 For years prior to 2002, amounts exclude structured securities backed by Ginnie Mae MBS.

Table 10b. Freddie Mac Purchases of Mortgage-Related Securities – Part 2, Private-Label Detail

Period	Purchases ($ in Millions)[1]								
	Private-Label								
	Single-Family							Multifamily ($)	Total Private-Label ($)
	Manufactured Housing ($)	Subprime		Alt-A[2]		Other[3]			
		Fixed-Rate ($)	Adjustable-Rate ($)	Fixed-Rate ($)	Adjustable-Rate ($)	Fixed-Rate ($)	Adjustable-Rate ($)		
4Q08	0	0	0	0	0	30	0	209	239
3Q08	0	0	0	0	0	4	0	0	4
2Q08	0	8,139	0	0	0	2	0	992	9,133
1Q08	0	60	46	0	618	0	0	215	939
Annual Data									
2008	0	8,199	46	0	618	36	0	1,416	10,315
2007	127	843	42,824	702	9,306	48	0	22,284	76,134
2006	0	116	74,645	718	29,828	48	0	16,875	122,230
2005	0	Not Available	Not Available	Not Available	Not Available	2,191	162,931	14,840	179,962
2004	0	Before 2006	Before 2006	Before 2006	Before 2006	1,379	108,825	10,878	121,082
2003	0					Not Available	Not Available	Not Available	69,154
2002	318					Before 2004	Before 2004	Before 2004	59,376
2001	0								24,468
2000	15								10,304
1999	3,293								15,263
1998	1,630								15,711
1997	36								1,494
1996	Not Available								Not Available
1995	Before 1997								Before 1997
1994									
1993									

Source: Freddie Mac

1 Based on unpaid principal balances and excludes mortgage loans and mortgage-related securities traded but not yet settled.

2 Includes Alt-A and moving Treasury average (MTA) private-label mortgage-related security purchases.

3 Prior to 2006, includes non-Freddie Mac mortgage-related securities purchased for structured securities as well as non-agency securities purchased and held as investments (principally backed by subprime or Alt-A loans).

Table 11. Freddie Mac MBS Issuances

Period	Business Activity ($ in Millions) MBS Issuances[1]			
	Single-Family MBS[2] ($)	Multifamily MBS ($)	Total MBS[2] ($)	Multiclass MBS[3] ($)
4Q08	43,286	753	44,039	4,079
3Q08	64,934	844	65,778	14,611
2Q08	130,964	1,106	132,070	29,111
1Q08	113,592	2,382	115,974	16,504
Annual Data				
2008	352,776	5,085	357,861	64,305
2007	467,342	3,634	470,976	133,321
2006	358,184	1,839	360,023	169,396
2005	396,213	1,654	397,867	208,450
2004	360,933	4,175	365,108	215,506
2003	705,450	8,337	713,787	298,118
2002	543,716	3,596	547,312	331,672
2001	387,234	2,357	389,591	192,437
2000	165,115	1,786	166,901	48,202
1999	230,986	2,045	233,031	119,565
1998	249,627	937	250,564	135,162
1997	113,758	500	114,258	84,366
1996	118,932	770	119,702	34,145
1995	85,522	355	85,877	15,372
1994	116,901	209	117,110	73,131
1993	208,724	0	208,724	143,336
1992	179,202	5	179,207	131,284
1991	92,479	0	92,479	72,032
1990	71,998	1,817	73,815	40,479
1989	72,931	587	73,518	39,754
1988	39,490	287	39,777	12,985
1987	72,866	2,152	75,018	0
1986	96,798	3,400	100,198	2,233
1985	37,583	1,245	38,828	2,625
1984	Not Available	Not Available	18,684	1,805
1983	Before 1985	Before 1985	19,691	1,685
1982			24,169	Not Issued
1981			3,526	Before 1983
1980			2,526	
1979			4,546	
1978			6,412	
1977			4,657	
1976			1,360	
1975			950	
1974			46	
1973			323	
1972			494	
1971			65	

Source: Freddie Mac

1 Based on unpaid principal balances and excludes mortgage loans and mortgage-related securities traded but not yet settled.

2 Includes MBS and structured securities backed by non-Freddie Mac mortgage-related securities. For 2002 through the current period, includes structured securities backed by Ginnie Mae MBS. For years prior to 2002, excludes structured securities backed by Ginnie Mae MBS.

3 Includes activity related to multi-class structured securities, primarily real estate mortgage investment conduits (REMICs) as well as principal-only strips and other structured securities, but excludes resecuritizations of MBS into single-class securities. Amounts are not included in total MBS issuances.

Table 12. Freddie Mac Earnings

Period	Earnings ($ in Millions)						
	Net Interest Income ($)	Guarantee Fee Income ($)	Average Guarantee Fee (basis points)	Administrative Expenses ($)	Credit-Related Expenses[1] ($)	Net Income (Loss) ($)	Return on Equity[2] (%)
4Q08	2,625	992	21.9	396	7,244	(23,852)	N/M
3Q08	1,844	832	18.4	308	6,035	(25,295)	N/M
2Q08	1,529	757	17.0	404	2,802	(821)	N/M
1Q08	798	789	18.2	397	1,448	(151)	(23.3)
Annual Data							
2008	6,796	3,370	18.9	1,505	17,529	(50,119)	N/M
2007	3,099	2,635	16.6	1,674	3,060	(3,094)	(21.0)
2006	3,412	2,393	17.1	1,641	356	2,327	9.8
2005	4,627	2,076	16.6	1,535	347	2,113	8.1
2004	9,137	1,382	17.5	1,550	140	2,937	9.4
2003	9,498	1,653	23.3	1,181	2	4,816	17.7
2002	9,525	1,527	22.2	1,406	126	10,090	47.2
2001	7,448	1,381	23.8	1,024	39	3,158	20.2
2000	3,758	1,243	23.7	825	75	3,666	39.0
1999	2,926	1,019	19.8	655	159	2,223	25.5
1998	2,215	1,019	21.4	578	342	1,700	22.6
1997	1,847	1,082	22.9	495	529	1,395	23.1
1996	1,705	1,086	23.4	440	608	1,243	22.6
1995	1,396	1,087	23.8	395	541	1,091	22.1
1994	1,112	1,108	24.4	379	425	983	23.3
1993	772	1,009	23.8	361	524	786	22.3
1992	695	936	24.7	329	457	622	21.2
1991	683	792	23.7	287	419	555	23.6
1990	619	654	22.4	243	474	414	20.4
1989	517	572	23.4	217	278	437	25.0
1988	492	465	21.5	194	219	381	27.5
1987	319	472	24.2	150	175	301	28.2
1986	299	301	22.4	110	120	247	28.5
1985	312	188	22.1	81	79	208	30.0
1984	213	158	24.7	71	54	144	52.0
1983	125	132	26.2	53	46	86	44.5
1982	30	77	24.5	37	26	60	21.9
1981	34	36	19.5	30	16	31	13.1
1980	54	23	14.3	26	23	34	14.7
1979	55	18	13.2	19	20	36	16.2
1978	37	14	14.9	14	13	25	13.4
1977	31	9	18.9	12	8	21	12.4
1976	18	3	13.6	10	(1)	14	9.5
1975	31	3	24.8	10	11	16	11.6
1974	42	2	25.5	8	33	5	4.0
1973	31	2	32.4	7	15	12	9.9
1972	10	1	39.4	5	4	4	3.5
1971	10	1	Not Available	Not Available	Not Available	6	5.5
			Before 1972	Before 1972	Before 1972		

Source: Freddie Mac

N/M = not meaningful

1 For years 2002 through 2005, defined as provision for credit losses and real estate-owned operations income/expense. For years 2000 and 2001, include only the provision for credit losses.

2 Ratio computed as annualized net income (loss) available to common stockholders, divided by the simple average of beginning and ending stockholders' equity, net of preferred stock (at redemption value).

Table 13. Freddie Mac Balance Sheet

End of Period	Balance Sheet ($ in Millions)							Mortgage-Backed Securities Outstanding ($ in Millions)[1]	
	Total Assets ($)	Total Mortgage Assets[2] ($)	Non-Mortgage Investments ($)	Debt Outstanding ($)	Shareholders' Equity (Deficit) ($)	Core Capital[3] ($)	Fair Value of Net Assets ($)	Total MBS Outstanding ($)	Multiclass MBS Outstanding[4] ($)
4Q08	850,963	748,746	18,944	843,021	(30,731)	(13,174)	(95,600)	1,402,714	517,475
3Q08	804,390	695,077	18,410	783,950	(13,795)	10,839	(42,400)	1,459,462	515,587
2Q08	879,043	761,328	28,134	835,812	12,948	37,128	(5,600)	1,409,896	513,179
1Q08	802,992	687,940	65,458	759,769	16,024	38,320	(5,200)	1,437,227	520,396
Annual Data									
2008	850,963	748,746	18,944	843,021	(30,731)	(13,174)	(95,600)	1,402,714	517,475
2007	794,368	710,042	41,663	738,557	26,724	37,867	12,600	1,381,863	526,604
2006	804,910	700,002	68,614	744,341	26,914	35,366	31,800	1,122,761	491,696
2005	806,222	709,503	57,324	748,792	25,691	35,043	30,900	974,200	437,668
2004	795,284	664,582	62,027	731,697	31,416	34,106	30,900	852,270	390,516
2003	803,449	660,531	53,124	739,613	31,487	32,417	27,300	752,164	347,833
2002	752,249	589,899	91,871	665,696	31,330	28,991	22,900	729,809	392,545
2001	641,100	503,769	89,849	578,368	19,624	20,181	18,300	653,084	299,652
2000	459,297	385,451	43,521	426,899	14,837	16,273	Not Available	576,101	309,185
1999	386,684	322,914	34,152	360,711	11,525	13,417	Before 2001	537,883	316,168
1998	321,421	255,670	42,160	287,396	10,835	11,266		478,351	260,504
1997	194,597	164,543	16,430	172,842	7,521	7,376		475,985	233,829
1996	173,866	137,826	22,248	156,981	6,731	6,743		473,065	237,939
1995	137,181	107,706	12,711	119,961	5,863	5,829		459,045	246,336
1994	106,199	73,171	17,808	93,279	5,162	5,169		460,656	264,152
1993	83,880	55,938	18,225	49,993	4,437	4,437		439,029	265,178
1992	59,502	33,629	12,542	29,631	3,570	Not Applicable		407,514	218,747
1991	46,860	26,667	9,956	30,262	2,566	Before 1993		359,163	146,978
1990	40,579	21,520	12,124	30,941	2,136			316,359	88,124
1989	35,462	21,448	11,050	26,147	1,916			272,870	52,865
1988	34,352	16,918	14,607	26,882	1,584			226,406	15,621
1987	25,674	12,354	10,467	19,547	1,182			212,635	3,652
1986	23,229	13,093	Not Available	15,375	953			169,186	5,333
1985	16,587	13,547	Before 1987	12,747	779			99,909	5,047
1984	13,778	10,018		10,999	606			70,026	3,214
1983	8,995	7,485		7,273	421			57,720	1,669
1982	5,999	4,679		4,991	296			42,952	Not Issued
1981	6,326	5,178		5,680	250			19,897	Before 1983
1980	5,478	5,006		4,886	221			16,962	
1979	4,648	4,003		4,131	238			15,316	
1978	3,697	3,038		3,216	202			12,017	
1977	3,501	3,204		3,110	177			6,765	
1976	4,832	4,175		4,523	156			2,765	
1975	5,899	4,878		5,609	142			1,643	
1974	4,901	4,469		4,684	126			780	
1973	2,873	2,521		2,696	121			791	
1972	1,772	1,726		1,639	110			444	
1971	1,038	935		915	107			64	

Source: Freddie Mac

1 Based on unpaid principal balances held by third parties, and excludes mortgage loans and mortgage-related securities traded but not yet settled.

2 Excludes allowance for loan losses.

3 The sum of (a) the stated value of outstanding common stock, (b) the stated value of outstanding noncumulative perpetual preferred stock, (c) paid-in capital, and (d) retained earnings (accumulated deficit), less Treasury stock.

4 Amounts are included in total MBS outstanding column.

Table 13a. Freddie Mac Total MBS Outstanding Detail[1]

End of Period	Single-Family Mortgages ($ in Millions)					Multifamily Mortgages ($ in Millions)			($ in Millions)
	Conventional								
	Fixed-Rate[2] ($)	Adjustable-Rate[3] ($)	Seconds[4] ($)	Total ($)	Total FHA/VA[4]	Conventional ($)	FHA/RD ($)	Multifamily Mortgages ($)	Total MBS Outstanding[5] ($)
4Q08	1,242,768	142,262	5	1,385,035	4,083	13,596	0	13,596	1,402,714
3Q08	1,293,612	148,909	5	1,442,526	4,157	12,779	0	12,779	1,459,462
2Q08	1,243,284	150,229	6	1,393,519	4,243	12,134	0	12,134	1,409,896
1Q08	1,265,652	156,106	6	1,421,764	4,278	11,185	0	11,185	1,437,227
Annual Data									
2008	1,242,768	142,262	5	1,385,035	4,083	13,596	0	13,596	1,402,714
2007	1,206,495	161,963	7	1,368,465	4,499	8,899	0	8,899	1,381,863
2006	967,580	141,740	12	1,109,332	5,396	8,033	0	8,033	1,122,761
2005	836,023	117,757	19	953,799	6,289	14,112	0	14,112	974,200
2004	736,332	91,474	70	827,876	9,254	15,140	0	15,140	852,270
2003	649,699	74,409	140	724,248	12,157	15,759	0	15,759	752,164
2002	647,603	61,110	5	708,718	12,361	8,730	0	8,730	729,809
2001	609,290	22,525	10	631,825	14,127	7,132	0	7,132	653,084
2000	533,331	36,266	18	569,615	778	5,708	0	5,708	576,101
1999	499,671	33,094	29	532,794	627	4,462	0	4,462	537,883
1998	Not Available	Not Available	Not Available	Not Available	Not Available	Not Available	Not Available	Not Available	478,351
1997	Before 1999	Before 1999	Before 1999	Before 1999	Before 1999	Before 1999	Before 1999	Before 1999	475,985
1996									473,065
1995									459,045
1994									460,656
1993									439,029
1992									407,514
1991									359,163
1990									316,359
1989									272,870
1988									226,406
1987									212,635
1986									169,186
1985									99,909
1984									70,026
1983									57,720
1982									42,952
1981									19,897
1980									16,962
1979									15,316
1978									12,017
1977									6,765
1976									2,765
1975									1,643
1974									780
1973									791
1972									444
1971									64

Source: Freddie Mac

1 Based on unpaid principal balances.

2 Includes USDA Rural Development Programs and other federally guaranteed loans.

3 For 2001 through the current period, includes MBS with underlying mortgages classified as balloons/reset loans.

4 For 2002 through the current period, includes resecuritizations of non-Freddie Mac securities.

5 For 2002 through the current period, amounts include structured securities backed by non-Freddie Mac securities (including Ginnie Mae MBS). Excludes mortgage loans and mortgage-related securities traded but not yet settled.

Table 14. Freddie Mac Mortgage Assets Detail

($ in Millions)					
End of Period	Whole Loans[1] ($)	Freddie Mac Securities[1] ($)	Other Mortgage-Related Securities[1] ($)	Unamortized Premiums, Discounts, Deferred Fees, Plus Unrealized Gains/Losses on Available-for-Sale Securities[2] ($)	Total Mortgage Assets[3] ($)
4Q08	111,476	424,524	268,762	(56,016)	748,746
3Q08	100,312	374,946	261,618	(41,799)	695,077
2Q08	91,023	413,907	286,868	(30,470)	761,328
1Q08	88,334	346,850	277,278	(24,522)	687,940
Annual Data					
2008	111,476	424,524	268,762	(56,016)	748,746
2007	82,158	356,970	281,685	(10,771)	710,042
2006	65,847	354,262	283,850	(3,957)	700,002
2005	61,481	361,324	287,541	(843)	709,503
2004	61,360	356,698	235,203	11,321	664,582
2003	60,270	393,135	192,362	14,764	660,531
2002	63,886	341,287	162,099	22,627	589,899
2001	62,792	308,427	126,420	6,130	503,769
2000	59,240	246,209	80,244	(242)	385,451
1999	56,676	211,198	56,569	(1,529)	322,914
1998	57,084	168,108	29,817	661	255,670
1997	48,454	103,400	Not Available	122	164,543
1996	46,504	81,195	Before 1998	71	137,826
1995	43,753	56,006		282	107,706
1994	Not Available	30,670		Not Available	73,171
1993	Before 1995	15,877		Before 1995	55,938
1992		6,394			33,629
1991		Not Available			26,667
1990		Before 1992			21,520
1989					21,448
1988					16,918
1987					12,354
1986					13,093
1985					13,547
1984					10,018
1983					7,485
1982					4,679
1981					5,178
1980					5,006
1979					4,003
1978					3,038
1977					3,204
1976					4,175
1975					4,878
1974					4,469
1973					2,521
1972					1,726
1971					935

Source: Freddie Mac

1 Based on unpaid principal balances and excludes mortgage loans and mortgage-related securities traded but not yet settled.

2 Includes premiums, discounts, deferred fees, impairments of unpaid principal balances, and other basis adjustments on mortgage loans and mortgage-related securities, plus unrealized gains or losses on AFS mortgage-related securities. Amounts prior to 2006 include MBS residuals at fair value.

3 Excludes allowance for loan losses.

Table 14a. Freddie Mac Mortgage Assets Detail – Whole Loans

End of Period	Whole Loans ($ in Millions)[1]								
	Single-Family					Multifamily			Total Whole Loans ($)
	Conventional								
	Fixed-Rate[2] ($)	Adjustable-Rate ($)	Seconds ($)	Total ($)	Total FHA/VA ($)	Conventional ($)	FHA/RD ($)	Total ($)	
4Q08	36,071	2,136	0	38,207	548	72,718	3	72,721	111,476
3Q08	29,940	1,586	0	31,526	480	68,303	3	68,306	100,312
2Q08	24,856	1,942	0	26,798	397	63,825	3	63,828	91,023
1Q08	24,842	2,330	0	27,172	324	60,835	3	60,838	88,334
Annual Data									
2008	36,071	2,136	0	38,207	548	72,718	3	72,721	111,476
2007	21,578	2,700	0	24,278	311	57,566	3	57,569	82,158
2006	19,211	1,233	0	20,444	196	45,204	3	45,207	65,847
2005	19,238	903	0	20,141	255	41,082	3	41,085	61,481
2004	22,055	990	0	23,045	344	37,968	3	37,971	61,360
2003	25,889	871	1	26,761	513	32,993	3	32,996	60,270
2002	33,821	1,321	3	35,145	705	28,033	3	28,036	63,886
2001	38,267	1,073	5	39,345	964	22,480	3	22,483	62,792
2000	39,537	2,125	9	41,671	1,200	16,369	Not Available	16,369	59,240
1999	43,210	1,020	14	44,244	77	12,355	Before 2001	12,355	56,676
1998	47,754	1,220	23	48,997	109	7,978		7,978	57,084
1997	40,967	1,478	36	42,481	148	5,825		5,825	48,454
1996	Not Available	Not Available	Not Available	Not Available	Not Available	4,746		4,746	46,504
1995	Before 1997	Before 1997	Before 1997	Before 1997	Before 1997	3,852		3,852	43,753
1994						Not Available Before 1995		Not Available Before 1995	Not Available Before 1995

Source: Freddie Mac

1 Based on unpaid principal balances and excludes mortgage loans traded but not yet settled.

2 For 2001 through the current period, includes loans guaranteed by USDA Rural Development Programs.

Table 14b. Freddie Mac Mortgage Assets Detail – Part 1, Mortgage-Related Securities

End of Period	Mortgage-Related Securities ($ in Millions)[1]													
	Freddie Mac Securities[2] ($)				Others' Securities									
	Single-Family				Fannie Mae				Ginnie Mae					
					Single-Family				Single-Family					
	Fixed-Rate ($)	Adjustable-Rate ($)	Multi-Family ($)	Total Freddie Mac ($)	Fixed-Rate ($)	Adjustable-Rate ($)	Multi-Family ($)	Total Fannie Mae ($)	Fixed-Rate ($)	Adjustable-Rate ($)	Multi-Family ($)	Total Ginnie Mae ($)	Total Private-Label ($)	Total Others' Securities ($)
4Q08	328,965	93,498	2,061	424,524	35,142	34,460	674	70,276	398	152	26	576	185,041	255,893
3Q08	277,927	94,426	2,593	374,946	21,633	34,105	776	56,514	412	157	25	594	191,454	248,562
2Q08	314,483	96,779	2,645	413,907	37,273	35,434	795	73,502	429	163	49	641	199,426	273,569
1Q08	257,795	86,399	2,656	346,850	23,072	29,745	848	53,665	449	172	63	684	208,744	263,093
Annual Data														
2008	328,965	93,498	2,061	424,524	35,142	34,460	674	70,276	398	152	26	576	185,041	255,893
2007	269,896	84,415	2,659	356,970	23,140	23,043	922	47,105	468	181	82	731	218,914	266,750
2006	282,052	71,828	382	354,262	25,779	17,441	1,214	44,434	707	231	13	951	224,631	270,016
2005	299,167	61,766	391	361,324	28,818	13,180	1,335	43,333	1,045	218	30	1,293	231,594	276,220
2004	304,555	51,737	406	356,698	41,828	14,504	1,672	58,004	1,599	81	31	1,711	166,411	226,126
2003	Not Available	Not Available	Not Available	393,135	Not Available	Not Available	Not Available	74,529	Not Available	Not Available	Not Available	2,760	107,301	184,590
2002	Before 2004	Before 2004	Before 2004	341,287	Before 2004	Before 2004	Before 2004	78,829	Before 2004	Before 2004	Before 2004	4,878	70,752	154,459
2001				308,427				71,128				5,699	42,336	119,163
2000				246,209				28,303				8,991	35,997	73,291
1999				211,198				13,245				6,615	31,019	50,879
1998				168,108				3,749				4,458	16,970	25,177
1997				103,400				Not Available				6,393	Not Available	Not Available
1996				81,195				Before 1998				7,434	Before 1998	Before 1998
1995				56,006								Not Available		
1994				30,670								Before 1996		
1993				15,877										
1992				6,394										
1991				Not Available										
				Before 1992										

Source: Freddie Mac

1 Based on unpaid principal balances.

2 For 2001 through the current period, includes structured securities backed by Ginnie Mae MBS which were previously classified as non-Freddie Mac mortgage-related securities.

Table 14b. Freddie Mac Mortgage Assets Detail – Part 2, Mortgage-Related Securities, Private-Label Detail

End of Period	Mortgage-Related Securities ($ in Millions)[1]								
	Private-Label								
	Single-Family							Multifamily ($)	Total Private-Label ($)
	Manufactured Housing ($)	Subprime		Alt-A		Other[2]			
		Fixed-Rate ($)	Adjustable-Rate ($)	Fixed-Rate ($)	Adjustable-Rate ($)	Fixed-Rate ($)	Adjustable-Rate ($)		
4Q08	1,326	438	74,413	3,266	21,801	0	19,606	64,191	185,041
3Q08	1,357	451	79,303	3,354	22,642	0	19,996	64,351	191,454
2Q08	1,393	464	85,160	3,455	23,652	0	20,464	64,838	199,426
1Q08	1,434	479	92,590	3,592	25,041	0	21,107	64,501	208,744
Annual Data									
2008	1,326	438	74,413	3,266	21,801	0	19,606	64,191	185,041
2007	1,472	498	100,827	3,720	26,343	0	21,250	64,804	218,914
2006	1,510	408	121,691	3,626	31,743	0	20,893	44,760	224,631
2005	1,680	Not Available	Not Available	Not Available	Not Available	4,749	181,678	43,487	231,594
2004	1,816	Before 2006	Before 2006	Before 2006	Before 2006	8,243	115,168	41,184	166,411
2003	2,085					Not Available	Not Available	Not Available	107,301
2002	2,394					Before 2004	Before 2004	Before 2004	70,752
2001	2,462								42,336
2000	2,896								35,997
1999	4,693								31,019
1998	1,711								16,970
1997	Not Available								Not Available
1996	Before 1998								Before 1998
1995									
1994									
1993									
1992									
1991									

Source: Freddie Mac

1 Based on unpaid principal balances. Some data have been changed from the 2007 release.

2 Consists of moving Treasury average (MTA) loans. Prior to 2006, includes securities principally backed by subprime and Alt-A mortgage loans.

Table 14b. Freddie Mac Mortgage Assets Detail – Part 3, Mortgage-Related Securities

End of Period	Mortgage-Related Securities ($ in Millions)[1]		($ in Millions)	
	Mortgage Revenue Bonds ($)	Total Mortgage-Related Securities ($)	Unamortized Premiums, Discounts, Deferred Fees, Plus Unrealized Gains/Losses on Available-for-Sale Securities[2] ($)	Total Mortgage Assets[3] ($)
4Q08	12,869	693,286	(56,016)	748,746
3Q08	13,056	636,564	(41,799)	695,077
2Q08	13,299	700,775	(30,470)	761,328
1Q08	14,185	624,128	(24,522)	687,940
Annual Data				
2008	12,869	693,286	(56,016)	748,746
2007	14,935	638,655	(10,771)	710,042
2006	13,834	638,112	(3,957)	700,002
2005	11,321	648,865	(843)	709,503
2004	9,077	591,901	11,321	664,582
2003	7,772	585,497	14,764	660,531
2002	7,640	503,386	22,627	589,899
2001	7,257	434,847	6,130	503,769
2000	6,953	326,453	(242)	385,451
1999	5,690	267,767	(1,529)	322,914
1998	4,640	197,925	661	255,670
1997	3,031	Not Available	122	164,543
1996	1,787	Before 1998	71	137,826
1995	Not Available		282	107,706
1994	Before 1996		Not Available	73,171
1993			Before 1995	55,938
1992				33,629
1991				26,667
1990				21,520
1989				21,448
1988				16,918
1987				12,354
1986				13,093
1985				13,547
1984				10,018
1983				7,485
1982				4,679
1981				5,178
1980				5,006
1979				4,003
1978				3,038
1977				3,204
1976				4,175
1975				4,878
1974				4,469
1973				2,521
1972				1,726
1971				935

Source: Freddie Mac

1 Based on unpaid principal balances.

2 Includes premiums, discounts, deferred fees, impairments of unpaid principal balances, and other basis adjustments on mortgage loans and mortgage-related securities, plus unrealized gains or losses on mortgage-related securities. Amounts prior to 2006 include MBS residuals.

3 Excludes allowance for loan losses.

Table 15. Freddie Mac Financial Derivatives

End of Period	Financial Derivatives – Notional Amount Outstanding ($ in Millions)									
	Interest Rate Swaps ($)	Interest Rate Caps, Floors, and Corridors ($)	Foreign Currency Contracts ($)	OTC Futures, Options, and Forward Rate Agreements ($)	Treasury-Based Contracts[1] ($)	Exchange-Traded Futures, Options and Other Derivatives ($)	Credit Derivatives[2] ($)	Commitments[3] ($)	Other[4] ($)	Total ($)
4Q08	766,158	36,314	12,924	251,426	28,403	106,610	13,631	108,273	3,281	1,327,020
3Q08	864,666	36,404	13,688	257,124	24,856	220,679	12,160	199,811	2,838	1,632,226
2Q08	688,333	35,362	15,353	315,002	52,489	123,137	10,116	63,512	1,723	1,305,027
1Q08	769,685	400	15,441	332,992	5,758	134,160	8,858	77,597	1,414	1,346,305
Annual Data										
2008	766,158	36,314	12,924	251,426	28,403	106,610	13,631	108,273	3,281	1,327,020
2007	711,829	0	20,118	313,033	0	196,270	7,667	72,662	1,302	1,322,881
2006	440,879	0	29,234	252,022	2,000	20,400	2,605	10,012	957	758,109
2005	341,008	45	37,850	193,502	0	86,252	2,414	21,961	738	683,770
2004	178,739	9,897	56,850	224,204	2,001	127,109	10,926	32,952	114,100	756,778
2003	287,592	11,308	46,512	349,650	8,549	122,619	15,542	89,520	152,579	1,083,871
2002	290,096	11,663	43,687	277,869	17,900	210,646	17,301	191,563	117,219	1,177,944
2001	442,771	12,178	23,995	187,486	13,276	358,500	10,984	121,588	0	1,170,778
2000	277,888	12,819	10,208	113,064	2,200	22,517	N/A	N/A	35,839	474,535
1999	126,580	19,936	1,097	172,750	8,894	94,987	Not Applicable	Not Applicable	0	424,244
1998	57,555	21,845	1,464	63,000	11,542	157,832	Before 2000	Before 2000	0	313,238
1997	54,172	21,995	1,152	6,000	12,228	0			0	95,547
1996	46,646	14,095	544	0	651	0			0	61,936
1995	45,384	13,055	0	0	24	0			0	58,463
1994	21,834	9,003	0	0	0	0			0	30,837
1993	17,888	1,500	0	0	0	0			0	19,388

Source: Freddie Mac

1 Amounts for 2002 through the current period include exchange-traded.

2 Amounts included in other in 2000, not applicable in prior periods.

3 Commitments to purchase and sell mortgage loans and mortgage-related securities. Periods prior to 2004 include commitments to purchase and sell various debt securities.

4 Includes prepayment management agreement and swap guarantee derivatives.

Table 16. Freddie Mac Nonmortgage Investments

End of Period	Nonmortgage Investments ($ in Millions)					
	Federal Funds and Eurodollars ($)	Asset-Backed Securities ($)	Repurchase Agreements ($)	Commercial Paper and Corporate Debt ($)	Other[1] ($)	Total ($)
4Q08	0	8,794	10,150	0	0	18,944
3Q08	0	10,410	8,000	0	0	18,410
2Q08	4,015	12,869	11,250	0	0	28,134
1Q08	8,032	15,232	9,200	32,994	0	65,458
Annual Data						
2008	0	8,794	10,150	0	0	18,944
2007	162	16,588	6,400	18,513	0	41,663
2006	19,778	32,122	3,250	11,191	2,273	68,614
2005	9,909	30,578	5,250	5,764	5,823	57,324
2004	18,647	21,733	13,550	0	8,097	62,027
2003	7,567	16,648	13,015	5,852	10,042	53,124
2002	6,129	34,790	16,914	13,050	20,988	91,871
2001	15,868	26,297	17,632	21,712	8,340	89,849
2000	2,267	19,063	7,488	7,302	7,401	43,521
1999	10,545	10,305	4,961	3,916	4,425	34,152
1998	20,524	7,124	1,756	7,795	4,961	42,160
1997	2,750	2,200	6,982	3,203	1,295	16,430
1996	9,968	2,086	6,440	1,058	2,696	22,248
1995	110	499	9,217	1,201	1,684	12,711
1994	7,260	0	5,913	1,234	3,401	17,808
1993	9,267	0	4,198	1,438	3,322	18,225
1992	5,632	0	4,060	53	2,797	12,542
1991	2,949	0	4,437	0	2,570	9,956
1990	1,112	0	9,063	0	1,949	12,124
1989	3,527	0	5,765	0	1,758	11,050
1988	4,469	0	9,107	0	1,031	14,607
1987	3,177	0	5,859	0	1,431	10,467

Source: Freddie Mac

[1] For 2004 through the current period, amounts include obligations of states and municipalities classified as available-for-sale securities within the cash and investments portfolio. For 2003 and prior periods, includes nonmortgage-related securities classified as trading, debt securities issued by the U.S. Treasury and other U.S. government agencies, obligations of states and municipalities, and preferred stock.

Table 17. Freddie Mac Mortgage Asset Quality

End of Period	Mortgage Asset Quality				
	Single-Family Delinquency Rate[1] (%)	Multifamily Delinquency Rate[2] (%)	Credit Losses/Average Total Mortgage Portfolio[3, 4] (%)	REO/Total Mortgage Portfolio (%)	Credit-Enhanced/Total Mortgage Portfolio[5] (%)
4Q08	1.72	0.01	0.24	0.17	18.0
3Q08	1.22	0.01	0.27	0.17	18.0
2Q08	0.93	0.04	0.17	0.13	18.0
1Q08	0.77	0.01	0.12	0.12	17.0
Annual Data					
2008	1.72	0.01	0.20	0.17	18.0
2007	0.65	0.02	0.03	0.08	17.0
2006	0.42	0.06	0.01	0.04	16.0
2005	0.53	0.00	0.01	0.04	17.0
2004	0.73	0.06	0.01	0.05	19.0
2003	0.86	0.05	0.01	0.06	21.0
2002	0.77	0.13	0.01	0.05	27.4
2001	0.62	0.15	0.01	0.04	34.7
2000	0.49	0.04	0.01	0.04	31.8
1999	0.39	0.14	0.02	0.05	29.9
1998	0.50	0.37	0.04	0.08	27.3
1997	0.55	0.96	0.08	0.11	15.9
1996	0.58	1.96	0.10	0.13	10.0
1995	0.60	2.88	0.11	0.14	9.7
1994	0.55	3.79	0.08	0.18	7.2
1993	0.61	5.92	0.11	0.16	5.3
1992	0.64	6.81	0.09	0.12	Not Available
1991	0.61	5.42	0.08	0.14	Before 1993
1990	0.45	2.63	0.08	0.12	
1989	0.38	2.53	0.08	0.09	
1988	0.36	2.24	0.07	0.09	
1987	0.36	1.49	0.07	0.08	
1986	0.42	1.07	Not Available	0.07	
1985	0.42	0.63	Before 1987	0.10	
1984	0.46	0.42		0.15	
1983	0.47	0.58		0.15	
1982	0.54	1.04		0.12	
1981	0.61	Not Available		0.07	
1980	0.44	Before 1982		0.04	
1979	0.31			0.02	
1978	0.21			0.02	
1977	Not Available			0.03	
1976	Before 1978			0.04	
1975				0.03	
1974				0.02	
1973				Not Available	
				Before 1974	

Source: Freddie Mac

1 Based on the number of mortgages 90 days or more delinquent or in foreclosure and excludes modified loans if the borrower is less than 90 days past due under the modifed terms. Rates for years 2000 through 2004 are based on the single-family loans held as Investments and total MBS and structured securities issued, excluding that portion of structured securities backed by Ginnie Mae MBS. Rates for 2005 through the current period are based on single-family loans held as investments and total MBS and structured securities issued, excluding structured transactions and that portion of issued structured securities backed by Ginnie Mae MBS.

2 Rates are based on net carrying value of mortgages 60 days or more delinquent or in foreclosure.

3 Credit losses equal to REO operations expense (income) plus charge-offs, net. Calculated as credit losses divided by total mortgage portfolio, excluding non-Freddie Mac mortgage-related securities and that portion of structured securities backed by Ginnie Mae MBS.

4 Based on the total mortgage portfolio excluding non-Freddie Mac mortgage-related securities and that portion of issued structured securities backed by Ginnie Mae MBS.

5 Credit enhanced includes loans for which the lender or a third party has retained a portion of the primary default risk by pledging collateral or agreeing to accept losses on loans that default. In many cases, the lender's or third party's risk is limited to a specific level of losses at the time the credit enhancement becomes effective.

Table 18. Freddie Mac Capital[1]

End of Period	Capital ($ in Millions)									
	Minimum Capital Requirement			Risk-Based Capital Requirement						
	Core Capital ($)	Minimum Capital Requirement[2] ($)	Regulatory Capital Surplus (Deficit)[2] ($)	Total Capital[3] ($)	Risk-Based Capital Requirement[4] ($)	Risk-Based Capital Surplus (Deficit)[5] ($)	Market Capitalization[6] ($)	Core Capital/ Total Assets (%)	Core Capital/ Total MBS Outstanding plus Total Assets (%)	Common Share Dividend Payout Rate[7] (%)
4Q08	(13,174)	28,200	(41,374)	N/A	N/A	N/A	473	(1.55)	(0.58)	N/M
3Q08	10,839	27,161	(16,322)	N/A	N/A	N/A	1,107	1.35	0.48	N/M
2Q08	37,128	28,710	8,418	42,916	20,139	22,777	10,611	4.22	1.62	N/M
1Q08	38,320	26,937	11,383	42,173	26,060	16,113	16,375	4.77	1.71	N/M
Annual Data										
2008	(13,174)	28,200	(41,374)	N/A	N/A	N/A	473	(1.55)	(0.58)	N/M
2007	37,867	26,473	11,394	40,929	14,102	26,829	22,018	4.77	1.74	N/M
2006	35,366	25,607	9,758	36,742	15,320	21,422	44,896	4.39	1.83	63.9
2005	35,043	24,791	10,252	36,781	11,282	25,499	45,269	4.35	1.97	56.4
2004	34,106	23,714	10,391	34,691	11,108	23,582	50,898	4.29	2.07	30.7
2003	32,417	23,362	9,054	33,436	5,426	28,010	40,158	4.03	2.08	15.6
2002	28,991	22,340	6,651	24,222	4,743	19,479	40,590	3.85	1.96	6.2
2001	20,181	19,014	1,167	Not Applicable	Not Applicable	Not Applicable	45,473	3.15	1.56	18.9
2000	16,273	14,396	1,876	Before 2002	Before 2002	Before 2002	47,702	3.54	1.57	20.0
1999	13,417	12,352	1,065				32,713	3.47	1.45	20.1
1998	11,266	10,502	764				44,797	3.51	1.41	20.7
1997	7,376	7,082	294				28,461	3.79	1.10	21.1
1996	6,743	6,517	226				19,161	3.88	1.04	21.3
1995	5,829	5,584	245				14,932	4.25	0.98	21.1
1994	5,169	4,884	285				9,132	4.87	0.91	20.5
1993	4,437	3,782	655				9,005	5.29	0.85	21.6
1992	Not Applicable	Not Applicable	Not Applicable				8,721	Not Applicable	Not Applicable	23.1
1991	Before 1993	Before 1993	Before 1993				8,247	Before 1993	Before 1993	21.6
1990							2,925			23.2
1989							4,024			24.3
1988							Not Applicable Before 1989			Not Available Before 1989

Sources: Freddie Mac and FHFA

N/A = not applicable

N/M = not meaningful

1 On October 9, 2008, FHFA suspended capital classifications of Freddie Mac. As of the fourth quarter, neither the existing statutory nor the FHFA-directed regulatory capital requirements are binding and will not be binding during the conservatorship.

2 Beginning in the fourth quarter of 2003, FHFA directed Freddie Mac to maintain an additional 30 percent capital in excess of the statutory minimum capital requirement. On March 19, 2008, FHFA announced a reduction in the mandatory target capital surplus from 30 percent to 20 percent above the statutory minimum capital requirements. The minimum capital requirement and minimum capital surplus numbers stated in this table do not reflect the inclusion of the additional capital requirement. Minimum capital surplus is the difference between core capital and the minimum capital requirement.

3 Total capital includes core capital and general reserves for mortgage and foreclosure losses.

4 The risk-based capital requirement is the amount of total capital that an Enterprise must hold to absorb projected losses flowing from future adverse interest rate and credit risk conditions and is specified by the Federal Housing Enterprise Financial Safety and Soundness Act of 1992.

5 The difference between total capital and risk-based capital requirement.

6 Stock price at the end of the period multiplied by the number of outstanding common shares.

7 Common dividends paid as a percentage of net income available to common stockholders.

Table 19. Federal Home Loan Banks Combined Statement of Income

End of Period	($ in Millions)				
	Net Interest Income ($)	Operating Expenses ($)	Affordable Housing Program Assessment ($)	REFCORP Assessment[1] ($)	Net Income ($)
4Q08	N/A	N/A	N/A	N/A	N/A
3Q08	1,422	181	57	118	506
2Q08	1,344	178	87	198	718
1Q08	1,195	181	89	195	697
Annual Data					
2008	N/A	N/A	N/A	N/A	N/A
2007	4,516	714	318	703	2,827
2006	4,293	671	295	647	2,612
2005	4,207	657	282	625	2,525
2004	4,171	547	225	505	1,994
2003	3,877	450	218	490	1,885
2002	3,722	393	168	375	1,507
2001	3,446	364	220	490	1,970
2000	3,313	333	246	553	2,211
1999	2,534	282	199	Not Applicable	2,128
1998	2,116	258	169	Before 2000	1,778
1997	1,772	229	137		1,492
1996	1,584	219	119		1,330
1995	1,401	213	104		1,300
1994	1,230	207	100		1,023
1993	954	197	75		884
1992	736	207	50		850
1991	1,051	264	50		1,159
1990	1,510	279	60		1,468

Source: Federal Home Loan Bank System Office of Finance

N/A = not available

1 Prior to 2000, the Federal Home Loan Banks charged a $300 million annual capital distribution to the Resolution Funding Corporation (REFCORP) directly to retained earnings.

Table 20. Federal Home Loan Banks Combined Balance Sheet

End of Period	($ in Millions)								
	Total Assets ($)	Advances to Members Outstanding ($)	Mortgage Loans Held ($)	Mortgage-Related Securities ($)	Consolidated Obligations ($)	Capital Stock ($)	Retained Earnings ($)	Regulatory Capital[1]	Regulatory Capital/Total Assets
4Q08	N/A	928,638	N/A	N/A	N/A	N/A	N/A	N/A	N/A
3Q08	1,428,742	1,011,695	87,916	173,141	1,322,822	53,687	3,870	62,488	4.37
2Q08	1,344,259	913,897	89,312	168,716	1,249,704	53,248	3,838	58,336	4.34
1Q08	1,322,690	913,104	90,792	157,550	1,217,480	52,573	3,753	57,538	4.35
Annual Data									
2008	N/A	928,638	N/A	N/A	N/A	N/A	N/A	N/A	N/A
2007	1,271,800	875,061	91,610	143,513	1,178,916	50,253	3,689	55,058	4.33
2006	1,016,469	640,681	97,974	130,228	934,214	42,001	3,143	46,247	4.55
2005	997,389	619,860	105,240	122,328	915,901	42,043	2,600	46,102	4.62
2004	924,751	581,216	113,922	124,417	845,738	40,092	1,744	42,990	4.65
2003	822,418	514,037	113,438	97,867	740,721	37,703	1,098	38,801	4.72
2002	763,052	489,338	60,455	96,386	673,383	35,186	716	35,904	4.71
2001	696,254	472,540	27,641	86,730	621,003	33,288	749	34,039	4.89
2000	653,687	437,861	16,149	77,385	591,606	30,537	728	31,266	4.78
1999	583,212	395,747	2,026	62,531	525,419	28,361	654	29,019	4.98
1998	434,002	288,189	966	52,232	376,715	22,287	465	22,756	5.24
1997	348,575	202,265	37	47,072	304,493	18,833	341	19,180	5.50
1996	292,035	161,372	0	42,960	251,316	16,540	336	16,883	5.78
1995	272,661	132,264	0	38,029	231,417	14,850	366	15,213	5.58
1994	239,076	125,893	0	29,967	200,196	13,095	271	13,373	5.59
1993	178,897	103,131	0	22,217	138,741	11,450	317	11,766	6.58
1992	162,134	79,884	0	20,123	114,652	10,102	429	10,531	6.50
1991	154,556	79,065	0	Not Available	108,149	10,200	495	Not Available	Not Available
1990	165,742	117,103	0	Before 1992	118,437	11,104	521	Before 1992	Before 1992

Source: Federal Home Loan Bank System Office of Finance and call reports

N/A = not available

[1] The sum of regulatory capital amounts reported in call reports filed by each Federal Home Loan Bank plus the combining adjustment for Federal Home Loan Bank System retained earnings reported by the Office of Finance.

Table 21. Federal Home Loan Banks Net Income

End of Period	($ in Millions)													
	Atlanta	Boston	Chicago	Cincinnati	Dallas	Des Moines	Indianapolis	New York	Pittsburgh	San Francisco	Seattle	Topeka	Combining Adjustment	System Total
4Q08	75	(274)	0	56	(68)	2	45	45	(188)	(103)	(241)	(63)	N/A	N/A
3Q08	(46)	50	33	66	75	46	48	40	96	101	(19)	20	(3)	506
2Q08	108	52	(74)	65	41	48	48	74	53	223	29	47	3	718
1Q08	117	56	(78)	49	31	31	43	100	58	240	32	24	(6)	697
Annual Data														
2008	254	(116)	(119)	236	79	127	184	259	19	461	(199)	28	N/A	N/A
2007	445	198	111	269	130	101	122	323	237	652	71	150	18	2827
2006	414	196	188	253	122	89	118	285	216	542	26	136	27	2612
2005	344	135	244	220	242	228	153	230	192	369	2	136	30	2525
2004	294	90	365	227	65	100	131	161	119	293	83	93	(27)	1994
2003	207	92	437	171	113	135	134	46	69	323	144	88	(74)	1885
2002	267	76	205	178	(50)	46	81	234	(27)	292	147	58	0	1507
2001	162	113	164	189	114	74	104	285	85	425	178	77	0	1970
2000	298	146	129	193	129	124	127	277	173	377	139	99	0	2211
1999	282	137	131	173	109	132	125	244	184	332	165	90	24	2128
1998	221	116	111	176	99	116	111	186	143	294	154	81	(30)	1778
1997	192	103	99	135	87	110	98	144	110	249	129	65	(29)	1492
1996	165	96	92	116	95	111	80	131	97	219	118	58	(48)	1330
1995	159	92	73	91	91	103	74	136	82	200	87	50	63	1300
1994	120	69	57	68	78	76	71	126	58	196	75	45	(16)	1024
1993	114	57	49	33	39	50	53	117	62	163	122	35	(12)	884
1992	124	52	51	41	26	47	59	141	58	131	93	33	(5)	850
1991	158	88	58	51	38	46	64	156	57	316	58	64	7	1159

Source: Federal Home Loan Bank System Office of Finance and Form 10-Ks for 2008 filed by individual Federal Home Loan Banks.

N/A = not available

Table 22. Federal Home Loan Banks Advances Outstanding

End of Period	($ in Millions)												
	Atlanta	Boston	Chicago	Cincinnati	Dallas	Des Moines	Indianapolis	New York	Pittsburgh	San Francisco	Seattle	Topeka	System Total
4Q08	165,856	56,926	38,140	53,916	60,920	41,897	31,249	109,153	62,153	235,664	36,944	35,820	N/A
3Q08	164,285	63,787	35,469	62,928	68,002	63,897	30,690	103,325	72,493	263,045	46,331	37,443	1,011,695
2Q08	145,046	63,072	34,679	57,520	60,143	46,003	30,161	90,757	66,329	246,008	36,635	37,544	913,897
1Q08	152,105	59,201	32,662	61,719	53,633	47,092	30,605	85,928	73,464	248,425	37,748	30,522	913,104
Annual Data													
2008	165,856	56,926	38,140	53,916	60,920	41,897	31,249	109,153	62,153	235,664	36,944	35,820	N/A
2007	142,867	55,680	30,221	53,310	46,298	40,412	26,770	82,090	68,798	251,034	45,524	32,057	875,061
2006	101,476	37,342	26,179	41,956	41,168	21,855	22,282	59,013	49,335	183,669	27,961	28,445	640,681
2005	101,265	38,068	24,921	40,262	46,457	22,283	25,814	61,902	47,493	162,873	21,435	27,087	619,860
2004	95,867	30,209	24,192	41,301	47,112	27,175	25,231	68,508	38,980	140,254	14,897	27,490	581,216
2003	88,149	26,074	26,443	43,129	40,595	23,272	28,925	63,923	34,662	92,330	19,653	26,882	514,037
2002	82,244	26,931	24,945	40,063	36,869	23,971	28,944	68,926	29,251	81,237	20,036	25,921	489,338
2001	71,818	24,361	21,902	35,223	32,490	20,745	26,399	60,962	29,311	102,255	24,252	22,822	472,540
2000	58,249	21,594	18,462	31,935	30,195	21,158	24,073	52,396	25,946	110,031	26,240	17,582	437,861
1999	45,216	22,488	17,167	28,134	27,034	22,949	19,433	44,409	36,527	90,514	26,284	15,592	395,747
1998	33,561	15,419	14,899	17,873	22,191	18,673	14,388	31,517	26,050	63,990	21,151	8,477	288,189
1997	23,128	12,052	10,369	14,722	13,043	10,559	11,435	19,601	16,979	49,310	15,223	5,844	202,265
1996	16,774	9,655	10,252	10,882	10,085	10,306	9,570	16,486	12,369	39,222	10,850	4,921	161,372
1995	13,920	8,124	8,282	8,287	9,505	11,226	7,926	15,454	9,657	25,664	9,035	5,185	132,264
1994	14,526	8,504	6,675	7,140	8,039	9,819	7,754	14,509	8,475	25,343	8,899	6,212	125,893
1993	11,340	7,208	4,380	4,274	10,470	6,362	6,078	12,162	6,713	23,847	5,889	4,407	103,131
1992	9,301	5,038	2,873	2,415	7,322	3,314	5,657	8,780	3,547	23,110	5,025	3,502	79,884
1991	8,861	5,297	1,773	2,285	4,634	2,380	5,426	11,804	2,770	24,178	5,647	4,011	79,065

Source: Federal Home Loan Bank System Office of Finance, Form 10-Ks for 2008 filed by individual Federal Home Loan Banks and call reports.

N/A = not available

Table 23. Federal Home Loan Banks Regulatory Capital[1]

End of Period	($ in Millions)													
	Atlanta	Boston	Chicago	Cincinnati	Dallas	Des Moines	Indianapolis	New York	Pittsburgh	San Francisco	Seattle	Topeka	Combining Adjustment[2]	System Total
4Q08	8,942	3,658	N/A	4,399	3,530	3,174	2,701	6,112	4,157	13,539	2,687	2,432	N/A	N/A
3Q08	9,096	3,936	3,280	4,418	3,689	4,222	2,644	6,030	4,594	14,793	3,184	2,634	-32	62,488
2Q08	8,338	3,726	3,235	4,277	3,369	3,447	2,578	5,503	4,333	14,258	2,739	2,562	-29	58,336
1Q08	8,469	3,572	3,282	4,134	2,956	3,421	2,481	5,088	4,525	14,554	2,843	2,245	-32	57,538
Annual Data														
2008	8,942	3,658	N/A	4,399	3,530	3,174	2,701	6,112	4,157	13,539	2,687	2,432	N/A	N/A
2007	8,080	3,422	3,343	3,877	2,688	3,125	2,368	5,025	4,303	13,859	2,660	2,334	-26	55,058
2006	6,394	2,542	3,208	4,050	2,598	2,315	2,111	4,025	3,655	10,865	2,303	2,225	-44	46,247
2005	6,225	2,675	4,507	4,130	2,796	2,346	2,349	3,900	3,289	9,698	2,268	1,990	-71	46,102
2004	5,681	2,240	4,793	4,002	2,846	2,453	2,132	4,005	2,791	7,959	2,166	2,023	-101	42,990
2003	5,030	2,490	4,542	3,737	2,666	2,226	1,961	3,765	2,344	5,858	2,456	1,800	-74	38,801
2002	4,577	2,323	3,296	3,613	2,421	1,889	1,935	4,296	1,824	5,687	2,382	1,661	0	35,904
2001	4,165	2,032	2,507	3,240	2,212	1,574	1,753	3,910	1,970	6,814	2,426	1,436	0	34,039
2000	3,649	1,905	1,701	2,841	2,166	1,773	1,581	3,747	2,175	6,292	2,168	1,267	0	31,266
1999	3,433	1,868	1,505	2,407	1,862	2,264	1,446	3,093	2,416	5,438	2,098	1,190	0	29,019
1998	2,427	1,530	1,299	1,952	1,570	1,526	1,179	2,326	1,827	4,435	1,813	894	-24	22,756
1997	2,077	1,344	1,159	1,694	1,338	1,320	1,090	1,881	1,440	3,545	1,495	791	6	19,180
1996	1,846	1,239	1,091	1,377	1,150	1,245	903	1,616	1,230	3,150	1,334	666	35	16,883
1995	1,615	1,201	941	1,128	1,168	1,217	799	1,531	1,030	2,719	1,148	632	83	15,213
1994	1,488	1,091	749	961	944	905	676	1,281	924	2,627	1,094	612	20	13,373
1993	1,423	927	648	692	914	652	584	1,251	740	2,440	934	526	36	11,766
1992	1,333	843	564	563	661	515	548	1,181	566	2,453	782	474	48	10,531
1991	1,367	807	525	517	645	450	515	1,234	492	2,924	652	514	53	10,695

N/A = not available

1 For the Federal Home Loan Bank of Chicago and for all other Banks before 2005, amounts for regulatory capital are from call reports filed by each Federal Home Loan Bank. Except for the Federal Home Loan Bank of Chicago, amounts in 2005, 2006, 2007, and the first three quarters of 2008 are as reported by the Office of Finance. For the fourth quarter of 2008, amounts are from Form 10-Ks filed by individual Federal Home Loan Banks.

2 Combining adjustment for Federal Home Loan Bank System retained earnings reported by the Office of Finance.

Table 24. Loan Limits

Year	Single-Family Conforming Loan Limits[1]			
	One unit	Two units	Three units	Four units
2009[2]	417,000-729,750	533,850-934,200	645,300-1,129,250	801,950-1,403,400
2008[3]	417,000-729,750	533,850-934,200	645,300-1,129,250	801,950-1,403,400
2007	417,000	533,850	645,300	801,950
2006	417,000	533,850	645,300	801,950
2005	359,650	460,400	556,500	691,600
2004	333,700	427,150	516,300	641,650
2003	322,700	413,100	499,300	620,500
2002	300,700	384,900	465,200	578,150
2001	275,000	351,950	425,400	528,700
2000	252,700	323,400	390,900	485,800
1999	240,000	307,100	371,200	461,350
1998	227,150	290,650	351,300	436,600
1997	214,600	274,550	331,850	412,450
1996	207,000	264,750	320,050	397,800
1995	203,150	259,850	314,100	390,400
1994	203,150	259,850	314,100	390,400
1993	203,150	259,850	314,100	390,400
1992	202,300	258,800	312,800	388,800
1991	191,250	244,650	295,650	367,500
5/1/1990 – 12/31/1990	187,450	239,750	289,750	360,150
1989 – 4/30/1990	187,600	239,950	290,000	360,450
1988	168,700	215,800	260,800	324,150
1987	153,100	195,850	236,650	294,150
1986	133,250	170,450	205,950	256,000
1985	115,300	147,500	178,200	221,500
1984	114,000	145,800	176,100	218,900
1983	108,300	138,500	167,200	207,900
1982	107,000	136,800	165,100	205,300
1981	98,500	126,000	152,000	189,000
1980	93,750	120,000	145,000	170,000
10/27/1977 – 1979	75,000	75,000	75,000	75,000
1975 – 10/26/1977	55,000	55,000	55,000	55,000

Sources: Department of Housing and Urban Development (HUD), FHFA, Freddie Mac

1 Conforming loan limits are 50 percent higher in Alaska, Hawaii, Guam, and the U.S. Virgin Islands.

2 Loan limits for mortgages originated in 2009 were initially set under provisions of the Housing and Economic Recovery Act of 2008, which allowed for high-cost area limits of up to $625,500. In February 2009, however, the American Recovery and Reconciliation Act of 2009 restored the $729,750 maximum loan limit for mortgages originated in 2009.

3 The Economic Stimulus Act of 2008 allowed Fannie Mae and Freddie Mac to raise the conforming loan limits in certain high-cost areas to a maximum of $729,750 for one-unit homes in the continental United States. Higher limits applied to two-, three- and four-unit homes. Alaska, Hawaii, Guam and the Virgin Islands have higher maximum limits. The limits applied to loans originated between July 1, 2007, and December 31, 2008.

Year	FHA Single-Family Insurable Limits							
	One unit		Two units		Three units		Four units	
	Low-Cost Area Max	High-Cost Area Max	Low-Cost Area Max	High-Cost Area Max	Low-Cost Area Max	High-Cost Area Max	Low-Cost Area Max	High-Cost Area Max
2009[1]	271,050	729,750	347,000	934,200	419,400	1,129,250	521,250	1,403,400
2008[2]	271,050	729,750	347,000	934,200	419,400	1,129,250	521,250	1,403,400
2007	200,160	362,790	256,248	464,449	309,744	561,411	384,936	697,696
2006	200,160	362,790	256,248	464,449	309,744	561,411	384,936	697,696
2005	172,632	312,895	220,992	400,548	267,120	484,155	331,968	601,692
2004	160,176	290,319	205,032	371,621	247,824	449,181	307,992	558,236
2003	154,896	280,749	198,288	359,397	239,664	434,391	297,840	539,835
2002	144,336	261,609	184,752	334,863	223,296	404,724	277,512	502,990
2001	132,000	239,250	168,936	306,196	204,192	370,098	253,776	459,969
2000	121,296	219,849	155,232	281,358	187,632	340,083	233,184	422,646
1999	115,200	208,800	147,408	267,177	178,176	322,944	221,448	401,375
1998	109,032	197,621	139,512	252,866	168,624	305,631	209,568	379,842
1997	81,546	170,362	104,310	205,875	126,103	248,888	156,731	309,338

Source: Federal Housing Administration

1 Loan limits for mortgages originated in 2009 were initially set under provisions of the Housing and Economic Recovery Act of 2008, which allowed for high-cost area limits of up to $625,500. In February 2009, however, the American Recovery and Reconciliation Act of 2009 restored the $729,750 maximum loan limit for mortgages originated in 2009.

2 The Economic Stimulus Act of 2008 allowed the Federal Housing Administration (FHA) to increase the single-family insurable limits to a maximum of $729,750 for one-unit homes in the continental United States. Higher limits applied to two-, three- and four-unit homes. Alaska, Hawaii, Guam and the Virgin Islands have higher maximum limits. The limits applied to loans originated between July 1, 2007, and December 31, 2008.·

Table 25. Mortgage Interest Rates

Period	Average Commitment Rates on Loans		Effective Rates on Closed Loans	
	Conventional		Conventional	
	30-Year Fixed Rate ($)	One-Year ARMs ($)	Fixed Rate ($)	Adjustable Rate ($)
4Q08	5.9	5.1	6.0	N/A
3Q08	6.3	5.2	6.4	5.9
2Q08	6.1	5.2	6.2	5.7
1Q08	5.9	5.1	6.1	5.7
Annual Data				
2008	6.0	5.2	6.2	N/A
2007	6.3	5.6	6.5	6.3
2006	6.4	5.5	6.6	6.4
2005	5.9	4.5	6.1	5.5
2004	5.8	3.9	6.0	5.2
2003	5.8	3.8	5.9	5.0
2002	6.5	4.6	6.7	5.7
2001	7.0	5.8	7.1	6.4
2000	8.1	7.0	8.3	7.1
1999	7.4	6.0	7.4	6.5
1998	6.9	5.6	7.2	6.5
1997	7.6	5.6	7.9	6.9
1996	7.8	5.7	8.0	7.1
1995	7.9	6.1	8.2	7.1
1994	8.4	5.4	8.2	6.4
1993	7.3	4.6	7.5	5.7
1992	8.4	5.6	8.5	6.6
1991	9.3	7.1	9.7	8.3
1990	10.1	8.4	10.4	9.2
1989	10.3	8.8	10.5	9.4
1988	10.3	7.9	10.4	8.5
1987	10.2	7.8	9.9	8.5
1986	10.2	8.4	10.5	9.4
1985	12.4	10.1	12.4	10.9
1984	13.9	11.5	13.2	12.0
1983	13.2	Not Available	13.0	12.3
1982	16.0	Before 1984	Not Available	Not Available
1981	16.6		Before 1983	Before 1983
1980	13.7			
1979	11.2			
1978	9.6			
1977	8.9			
1976	8.9			
1975	9.1			
1974	9.2			
1973	8.0			
1972	7.4			
1971	Not Available Before 1972			

Source: average commitment rate, Freddie Mac; effective rates source, FHFA

N/A = not available

Table 26. Housing Market Activity[1]

Period	Housing Starts (units in thousands)			Home Sales (units in thousands)	
	One- to Four-Unit Housing Starts	Multifamily Housing Starts	Total Housing Starts	Sales of New One- to Four-Unit Homes	Sales of Existing One- to Four-Unit Homes
4Q08[2]	N/A	186	660	387	4,740
3Q08[2]	N/A	256	876	462	5,007
2Q08[2]	N/A	331	1,025	519	4,900
1Q08[2]	N/A	301	1,053	561	4,927
Annual Data					
2008	640	266	906	485	4,913
2007	1,078	277	1,355	776	5,652
2006	1,508	293	1,801	1,051	6,478
2005	1,757	311	2,068	1,283	7,076
2004	1,653	303	1,956	1,203	6,778
2003	1,533	315	1,848	1,086	6,175
2002	1,397	308	1,705	973	5,632
2001	1,310	293	1,603	908	5,335
2000	1,270	299	1,569	877	5,174
1999	1,334	307	1,641	880	5,183
1998	1,314	303	1,617	886	4,966
1997	1,178	296	1,474	804	4,371
1996	1,206	271	1,477	757	4,167
1995	1,110	244	1,354	667	3,852
1994	1,234	224	1,457	670	3,886
1993	1,155	133	1,288	666	3,739
1992	1,061	139	1,200	610	3,432
1991	876	138	1,014	509	3,145
1990	932	260	1,193	534	3,186
1989	1,059	318	1,376	650	3,290
1988	1,140	348	1,488	676	3,594
1987	1,212	409	1,621	671	3,526
1986	1,263	542	1,805	750	3,565
1985	1,166	576	1,742	688	3,214
1984	1,206	544	1,750	639	2,868
1983	1,181	522	1,703	623	2,719
1982	743	320	1,062	412	1,990
1981	797	288	1,084	436	2,419
1980	962	331	1,292	545	2,973
1979	1,316	429	1,745	709	3,827
1978	1,558	462	2,020	817	3,986
1977	1,573	414	1,987	819	3,650
1976	1,248	289	1,538	646	3,064
1975	956	204	1,160	549	2,476
1974	956	382	1,338	519	2,272
1973	1,250	795	2,045	634	2,334
1972	1,450	906	2,357	718	2,252
1971	1,272	781	2,052	656	2,018

Source: housing starts and new One- to Four-Unit Sales, Bureau of the Census; existing One- to Four-Unit Sales, National Association of Realtors

N/A = not available

1 Components may not add to totals due to rounding.

2 Seasonally adjusted annual rates.

Table 27. Weighted Repeat Sales House Price Index (Annual Data)[1]

Period	USA	New England	Mid-Atlantic	South Atlantic	East North Central	West North Central	East South Central	West South Central	Mountain	Pacific
4Q08	-8.27	-6.22	-4.03	-11.19	-5.89	-3.72	-3.05	-0.51	-8.36	-22.16
3Q08	-6.14	-5.19	-2.35	-7.24	-4.04	-2.67	-1.43	0.55	-6.82	-19.50
2Q08	-4.81	-4.26	-2.05	-5.52	-3.69	-2.09	-0.47	1.56	-4.98	-16.15
1Q08	-3.13	-2.32	-0.15	-3.87	-3.14	-2.13	0.25	1.92	-2.33	-11.47
Annual Data										
2008	-8.27	-6.22	-4.03	-11.19	-5.89	-3.72	-3.05	-0.51	-8.36	-22.16
2007	-0.80	-1.49	1.39	-1.30	-2.62	0.01	2.18	3.25	-0.42	-4.82
2006	3.73	-1.44	3.28	4.03	0.02	2.15	6.13	6.42	8.47	5.57
2005	9.34	6.71	10.18	13.06	3.76	4.30	7.25	6.99	14.69	15.62
2004	9.23	10.21	12.22	12.44	4.61	5.81	4.95	4.42	11.43	15.69
2003	7.56	10.44	11.27	8.51	4.58	5.55	4.27	3.16	7.03	13.12
2002	7.61	13.62	12.06	7.99	4.69	6.49	3.35	3.64	5.10	12.72
2001	6.77	12.34	9.82	7.47	4.75	6.92	3.39	3.74	4.92	9.16
2000	6.91	13.03	8.47	6.30	5.15	7.21	2.84	5.78	5.93	9.94
1999	6.04	10.58	7.09	5.46	5.19	5.89	4.01	5.62	5.71	7.06
1998	5.57	8.34	4.49	4.72	5.02	6.54	4.66	5.59	4.69	7.61
1997	3.42	4.79	2.18	3.53	3.59	3.73	2.72	3.03	2.95	4.32
1996	3.07	2.71	1.03	2.94	4.73	4.02	3.92	2.41	3.97	2.12
1995	2.70	0.06	0.03	2.62	5.27	4.32	4.70	2.94	4.64	-0.26
1994	2.89	1.02	-0.65	2.99	4.48	4.28	4.98	2.83	8.78	0.10
1993	2.83	-1.58	0.34	1.84	4.43	6.34	4.90	4.49	9.85	-1.59
1992	2.63	-0.78	1.54	2.02	4.87	3.81	3.85	3.74	6.52	-1.12
1991	2.93	-2.25	1.50	3.06	4.55	3.73	4.09	3.71	4.66	1.32
1990	0.59	-7.74	-2.90	0.09	3.78	0.54	0.65	0.38	1.85	2.92
1989	5.91	0.67	2.32	5.07	6.12	3.21	3.07	2.63	2.80	19.50
1988	5.85	3.69	6.03	6.91	6.66	2.39	2.58	-1.99	0.19	17.52
1987	5.84	13.38	16.30	7.01	8.10	2.46	4.22	-8.63	-2.60	9.53
1986	7.42	21.04	18.19	6.08	7.35	4.20	5.43	-0.39	3.09	7.19
1985	6.06	25.02	14.25	5.56	4.86	4.28	5.09	-1.37	2.11	4.88
1984	5.13	17.79	13.29	4.14	2.90	4.25	3.46	-0.02	2.27	5.29
1983	4.22	16.04	10.09	3.64	4.55	4.58	3.85	0.89	-2.63	1.02
1982	1.80	4.23	3.90	4.17	-5.40	-0.38	4.46	5.64	7.47	0.95
1981	4.54	4.72	0.73	6.40	2.59	0.42	0.86	12.09	6.30	5.74
1980	6.76	5.69	9.95	8.01	1.35	3.97	7.24	7.75	6.57	11.19
1979	11.99	11.43	17.69	11.27	9.05	9.36	4.30	13.20	15.10	15.93
1978	13.77	16.33	7.82	11.76	14.69	13.21	13.58	16.85	17.41	15.72
1977	13.53	8.90	10.34	7.87	13.12	16.26	9.61	12.06	18.26	25.68
1976	7.87	2.98	0.29	6.03	8.05	5.89	5.00	8.68	10.30	19.93

1 Percentage changes based on FHFA's purchase-only index for 1992 through 2008 and all-transactions index for prior years. Annual data are measured based on fourth-quarter-to-fourth-quarter percentage change. Quarterly data for 2008 reflect changes over the previous four quarters.

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