FEDERAL HOUSING FINANCE AGENCY

2011 Report to Congress

FHFA • REPORT TO CONGRESS • 2011

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June 13, 2012

Honorable Tim Johnson
Chairman
Committee on Banking, Housing,
and Urban Affairs
United States Senate
Washington, D.C. 20510

Honorable Richard C. Shelby
Ranking Member
Committee on Banking, Housing,
and Urban Affairs
United States Senate
Washington, D.C. 20510

Honorable Spencer Bachus
Chairman
Committee on Financial Services
United States House of Representatives
Washington, D.C. 20515

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

Dear Chairmen and Ranking Members:

I am pleased to transmit the Federal Housing Finance Agency's (FHFA's) Report to Congress, which presents the findings of the agency's 2011 examinations of Fannie Mae and Freddie Mac (Enterprises), the 12 Federal Home Loan Banks (FHLBanks), and the FHLBanks' Office of Finance. This report meets the 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).

FHFA is an independent regulatory agency, and the views in this report are its own.

This annual report also meets FHFA's obligation under Section 1305 of the Dodd-Frank Wall Street Reform and Consumer Protection Act to report to Congress on the agency's plans to "continue to support and maintain the nation's vital housing industry, while at the same time guaranteeing that the American taxpayer will not suffer unnecessary losses."

This report demonstrates that FHFA continued to meet its obligations during 2011 as conservator by:

- supporting the nation's housing industry;
- ensuring the regulated entities operate in a safe and sound manner;
- assisting homeowners in trouble;
- providing stability and liquidity to the secondary market for mortgages; and
- promoting access to mortgage credit throughout the nation.

During 2011, FHFA continued to serve as regulator and conservator of Fannie Mae and Freddie Mac while supervising and regulating the 12 Federal Home Loan Banks and the FHLBanks' joint Office of Finance to promote their safety and soundness and fulfillment of their housing mission.

Enterprises

Since being placed in conservatorship in 2008, both Fannie Mae and Freddie Mac received composite examination ratings reflecting critical supervisory concerns. These ratings result from continuing credit losses in 2011 from loans originated during 2005 through 2007, as well as forecasted losses yet to be realized from loans originated during that time period.

The examination findings in this report identify key challenges facing each company, including the ongoing stress in the nation's housing markets, the challenging economic environment, and the uncertain future facing the Enterprises. FHFA and the Enterprises are also challenged by planned actions to build a new infrastructure for the secondary mortgage market, contract the Enterprises' dominant presence in the marketplace while simplifying and shrinking their operations, and maintaining foreclosure prevention activities and mortgage credit availability. However, management and the boards were responsive throughout 2011 to FHFA's findings and challenges and took appropriate steps to begin resolving identified issues.

Federal Home Loan Banks

Section 20 of the Federal Home Loan Bank Act (12 USC 1440) requires FHFA to examine each Federal Home Loan Bank at least annually. The financial condition and performance of the FHLBanks in terms of return on assets and return on equity remained fairly stable in 2011 compared to 2010, but performance continued to be affected by declines in advance balances, pay down of higher-yielding investments, and exposure to private-label mortgage-backed securities (MBS). Net income and most key financial ratios decreased modestly in 2011 compared to 2010. However, credit-related impairment charges on the FHLBanks' private-label MBS were less in 2011 than 2010.

All FHLBanks recorded positive annual earnings in 2011. Two FHLBanks recorded losses in individual quarters, but in some cases these losses reflect transitory accounting effects. At year end, all FHLBanks exceeded the minimum statutory capital requirement of 4 percent of total assets and their risk-based capital requirements. The FHLBanks ended 2011 with total assets of $766.4 billion, down from $878.3 billion at the end of 2010.

I am proud of FHFA's dedicated staff, which has continued to carry out the agency's mission with true perseverance during this sustained period of extraordinary financial stress, complex regulatory and seemingly conflicting responsibilities, and uncertainty about the future.

Yours truly,

Edward J. DeMarco

Edward J. DeMarco
Acting Director, Federal Housing Finance Agency

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.

FHFA's annual *Report to Congress* provides a detailed review of the issues described above for Fannie Mae and Freddie Mac (the Enterprises) and the Federal Home Loan Banks (FHLBanks).

Enterprises

The Enterprises continue to operate under conservatorship, as they have since 2008. The U.S. Department of the Treasury supports the Enterprises financially through the Senior Preferred Stock Purchase Agreements that were established when the Enterprises entered conservatorship. In 2011, the Enterprises' draws under preferred stock agreements totaled $33.6 billion, which was an increase over the 2010 draws of $28 billion. Of the $33.6 billion drawn in 2011, $16.1 billion was used to fund dividend payments back to Treasury. The losses that led to the additional $17.5 billion of draws under the preferred stock agreements resulted from business decisions made by the Enterprises before being placed in conservatorship.

Each Enterprise has and will continue to realize credit losses from mortgages originated in the several years prior to conservatorship. While these past business decisions cannot be undone, each Enterprise, under the oversight and guidance of FHFA as conservator and regulator, is actively seeking ways to minimize these losses.

Given that the Enterprises have depleted all of their shareholders' equity and are operating with financial support from the Treasury, when considering safety and soundness, it is important to consider the risks associated with the Enterprises' operations since being placed into conservatorship. Since the Enterprises were placed into conservatorship, in compliance with FHFA guidelines to ensure conservation of assets and minimization of future loss, the Enterprises have improved their underwriting standards.

The credit quality of new single-family guarantees in 2011 remained high. Higher-risk mortgages, such as no-income documentation or interest-only mortgages have largely been eliminated. The average loan-to-value ratio of mortgages acquired in 2011 remained at or below 70 percent, which was approximately 5 percentage points below the levels prior to conservatorship. Average FICO* credit scores on new guarantees in 2011 remained in the mid-700s, which was roughly 35 to 45 points higher than before conservatorship.

The conservatorships of the Enterprises, combined with Treasury's financial support, has stabilized the Enterprises' financial condition but not restored them to a sound financial condition. The ongoing stress in the housing market, overall economic environment, and human capital management continue to pose significant challenges to the Enterprises.

The most significant risks continuing to face the Enterprises are credit risk from the preconservatorship book of business and operational risk. Credit risk will remain a key priority for both Enterprises because of the deterioration in underwriting standards in the years before conservatorship and ongoing stress in housing markets.Operational risk remains a focus because of challenges related to legacy systems and concerns about human capital and key person dependencies.

The Enterprises' management teams and the boards have been responsive throughout 2011 to FHFA findings and are taking appropriate steps to resolve identified issues. The Enterprises have made progress in addressing material operational deficiencies in 2011, in particular, the Enterprises made progress in improving enterprise-wide risk management. However, risk related to reliance on processes based on antiquated or manual systems could be heightened by employee turnover. If turnover remains high at the Enterprises, it limits the flexibility to address new initiatives or supervisory or regulatory requirements. These issues contributed to a material weakness in internal controls over financial reporting at one of the Enterprises in 2011.

Consistent with their statutory missions, the Enterprises have maintained an ongoing significant presence in the secondary mortgage market since their conservatorships, which has ensured that mortgage credit remains available. Both Enterprises also continue to play an important role in efforts to limit preventable foreclosures, both to mitigate Enterprise losses and enhance stability in housing markets and local communities. These efforts are essential to improving the financial profile of the Enterprises. Although down from 2010, the Enterprises completed 666,000 foreclosure alternative actions in 2011, including 322,000 loan modifications. Since conservatorship, the Enterprises have completed 2.1 million foreclosure alternative actions, including nearly 1.1 million loan modifications.

The Enterprises cannot remain in conservatorship permanently, and expanding private sector participation is essential for the long-term health of the mortgage market. In early 2012, FHFA released the *FHFA Strategic Plan for Enterprise Conservatorships*. The plan is designed to guide the Enterprises' activities and to provide a framework for policymakers to build from as they consider approaches to housing finance reform.

* FICO stands for Fair Isaac Corporation, which produces the most widely used credit score model.

The plan has three components: build, contract, and maintain. The build component involves developing approaches for our nation's mortgage finance infrastructure that can be used across any path that policymakers choose for housing finance reform. The contract component, through increases in pricing and risk sharing transactions, is designed to reduce the Enterprises' risk profile and increase opportunities in the private sector for absorbing credit risk in the mortgage market. The maintain component preserves the important role the Enterprises are currently undertaking in mitigating credit losses from the legacy book and providing foreclosure prevention assistance to borrowers (see pages 111 through 124).

Directing the Enterprises' operations in conservatorship presents its own set of challenges for FHFA. In particular, it is critical that the Enterprises have adequate human resources to maintain operations and minimize losses in the face of uncertainty regarding the long term prospects of the Enterprises' operations and charters.

FHLBanks

As of December 31, 2011, all 12 FHLBanks exceeded the minimum leverage ratio by having at least 4 percent capital-to-assets. The weighted average regulatory capital to assets ratio for the FHLBank System was 6.9 percent in 2011, compared to 6.5 percent in 2010. All the FHLBanks were profitable for the year. The FHLBanks' advance business continues to operate with no credit losses. In contrast, the quality of the FHLBanks' investments in private-label mortgage-backed securities (MBS) remains a significant concern. Although private-label MBS remains a supervisory area of heightened attention, exposure to such securities dropped by 20 percent from year-end 2010, as did the credit charges associated with those securities.

Through 2011, two FHLBanks were under an FHFA enforcement action. The FHLBank of Seattle, as a result of deterioration in the value of its private-label MBS, and other issues principally related to its capitalization, entered into a consent order with FHFA in 2010. The consent order provides for a stabilization period for the FHLBank to meet financial thresholds related to retained earnings, securities impairments, and market value before it can resume certain activities, including the paying of dividends and the repurchase or redemption of its capital stock.

The FHLBank of Chicago had operated under a consent order to cease and desist since October 2007. This consent order required the FHLBank to implement new market risk management policies and practices acceptable to FHFA and to suspend dividend payments and stock repurchases and redemptions. The FHLBank of Chicago made considerable progress in addressing these concerns in 2010 and 2011and satisfied the requirements for revised market risk management practices. In addition, effective January 1, 2012, the FHLBank of Chicago became the last FHLBank to convert its capital structure to comply with statutory requirements enacted as part of the Gramm-Leach-Bliley Act of 1999. Following these improvements and a board resolution at the FHLBank to restrict certain activities and allow others only with FHFA approval, FHFA removed the consent order to cease and desist in early 2012.

In 2011, the FHLBanks satisfied their obligations to the Resolution Funding Corporation (REFCORP), a vehicle for financing the resolution of failing thrifts employed during the thrift crisis of the late 1980s. Also in 2011, the FHLBanks coordinated a modification of their capital plans and created restricted capital accounts at each FHLBank to support the joint and several liability features inherent in FHLBank consolidated obligations. The portions of FHLBank income that had previously been directed towards satisfying REFCORP obligations are now directed into these restricted capital accounts, which the FHLBanks may not use to pay dividends.

The overall scale of the FHLBanks' advance operations continued to decline in 2011, reaching $418 billion at year-end 2011, down from $479 billion at year-end 2010. Investments in private-label MBS have adversely affected the overall operations of some FHLBanks, reducing their ability to repurchase or redeem stock as the FHLBank shrinks. However, FHFA has taken action where needed to address this problem at certain FHLBanks and is closely monitoring the other FHLBanks.

Even in a declining advance environment, the FHLBanks met their mission of providing liquidity to their members. Advance funding declines when members have less need for liquidity or nondeposit funding, which is the case in today's market conditions. The FHLBanks' Affordable Housing Program (AHP) continues to be a source of funds to support local affordable housing initiatives funded by member institutions with $189 million in AHP funds provided in 2011.

Edward DeMarco
Chairman
Federal Housing Finance Oversight Board

Timothy F. Geithner
Secretary
U.S. Department of the Treasury

Shaun Donovan
Secretary
U.S. Department of Housing and Urban Development

Mary L. Schapiro
Chairman
Securities and Exchange Commission

FHFA 2011 Report to Congress

Contents

Figures List

Conservatorship of the Enterprises

Since the Federal Housing Finance Agency (FHFA) established the conservatorships of Fannie Mae and Freddie Mac[1] (the Enterprises) in 2008, we have focused on three key goals:

1. Mitigating Enterprise losses, which ultimately accrue to taxpayers;
2. Ensuring families have access to mortgages to buy a home or refinance an existing mortgage; and
3. Offering borrowers in trouble on their mortgage an opportunity to modify their loan or other options to avoid foreclosure.

By the time the conservatorships were established, the private mortgage securitization market had already practically vanished, and there were no other effective secondary market mechanisms in place. Ensuring the Enterprises' continued operations was critical for most Americans to be able to obtain a mortgage or refinance their existing mortgage.

Since late 2008, a combination of government-led actions ensured the secondary mortgage market kept functioning, including the

- Treasury Department's financial backstop of the Enterprises' debt and mortgage-backed securities (MBS) holders;
- MBS purchases by the Treasury and the Federal Reserve;
- actions of FHFA and the Enterprises to support the secondary mortgage market; and
- rapid growth of the Federal Housing Administration's (FHA's) market presence.

Although underwriting terms have been tightened, credit has remained available and more than 10 million Americans have refinanced their mortgages at lower rates.

During these years, the Enterprises undertook a series of efforts to help families avoid foreclosure through loan modification and other programs. These activities reduced credit losses on risky mortgages that had been originated in the years leading up to conservatorship. Since conservatorship, the Enterprises have completed more than two million foreclosure prevention actions, including more than one million loan modifications.

For FHFA and the Enterprises, these efforts directly supported the goals of conservatorship—preserving and conserving Enterprise assets. During 2011, FHFA

A Brief History of the Conservatorships

On September 6, 2008, using the power it had been granted just six weeks before in the Housing and Economic Recovery Act of 2008 (HERA), the legislation that created the agency, FHFA placed Fannie Mae and Freddie Mac into conservatorships. The purpose of the conservatorships was to preserve and conserve each Enterprise's assets and property and restore the Enterprises to a sound financial condition so they could continue to fulfill their statutory mission of promoting liquidity and efficiency in the nation's housing finance markets.

As conservator, FHFA has the powers of the management, boards, and shareholders of the Enterprises. Although FHFA has broad authority, the focus of the conservatorships is not to manage every aspect of the Enterprises' operations.

At the start of the conservatorships, FHFA made clear the Enterprises would be responsible for continuing normal business activities and day-to-day operations. We oversee safety and soundness as their regulator and have a more active role as conservator.

However, the Enterprises continue to operate as business corporations. For example, they have chief executive officers and boards of directors and must follow the laws and regulations governing financial disclosure, including requirements of the Securities and Exchange Commission. Like other corporate executives, the Enterprises' executive officers are subject to the legal responsibility to use sound and prudent business judgment in the stewardship of their companies.

In February 2012, FHFA sent a strategic plan to Congress for the next phase of the Enterprise conservatorships, which outlined the steps we have taken and will be taking to address challenges and prepare for possible future changes to the nation's housing finance system.

[1] Fannie Mae is the trade name of the Federal National Mortgage Association, chartered in 1938 by an act of Congress. Freddie Mac is the trade name of the Federal Home Loan Mortgage Corporation, chartered by an act of Congress in 1970.

Foreclosure Prevention and Refinance Report[2]

FHFA's *Foreclosure Prevention and Refinance Report* provides information on actions taken by Fannie Mae and Freddie Mac to help delinquent borrowers avoid foreclosure and to enable borrowers to refinance their mortgages. Highlights of the 2011 reports included:

At FHFA's direction, the Enterprises continued to lead the effort to prevent avoidable foreclosures.

Since the start of the first full quarter of the conservatorships, the Enterprises have completed 2.1 million actions to prevent foreclosure.

Approximately half of these actions, 1.1 million in total, have been loan modifications.

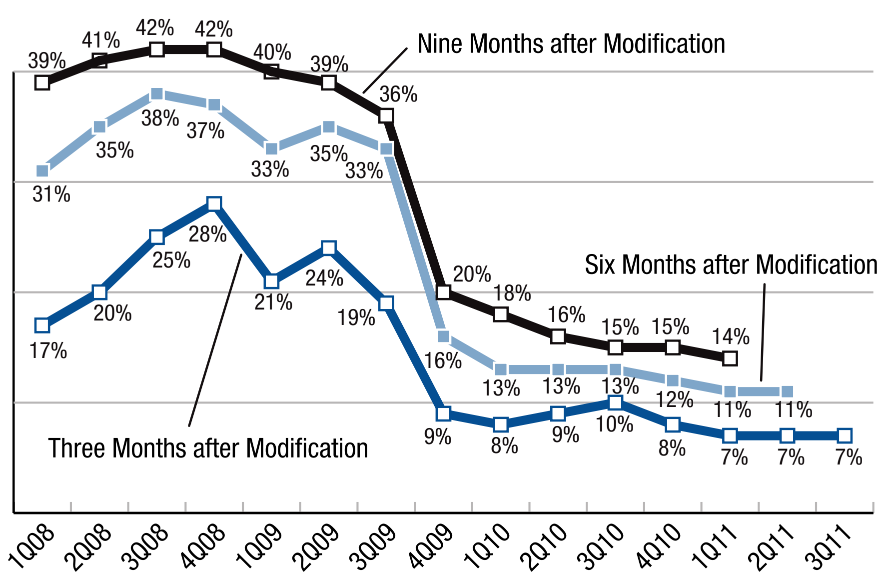
Figure1. Completed Foreclosure Prevention Actions

	Full Year 2010	Full Year 2011	Conservatorship to Date[a]
Home Retention Actions			
Repayment Plans	185,954	181,558	523,181
Forbearance Plans	63,024	34,423	124,790
Charge-Offs in Lieu	3,118	2,263	7,901
HomeSaver Advance (Fannie)	5,191	-	70,178
Loan Modifications	**575,022**	**322,108**	**1,084,554**
Total	832,309	540,352	1,810,604
Nonforeclosure—Home Forfeiture Actions			
Short Sales	107,953	115,237	284,829
Deeds in Lieu	6,043	10,231	19,785
Total	113,996	125,468	304,614
Total Foreclosure Prevention Actions	**946,305**	**665,820**	**2,115,218**

[a] *Since the first full quarter in conservatorship (fourth quarter of 2008).*

The vast majority of borrowers who received loan modifications in 2010 continued to make their mortgage payments in 2011. Fewer than 20 percent had missed two or more payments after nine months.

Figure 2. Enterprises Modified Loans 60-Plus Days Redelinquency Rates



Sources: Fannie Mae and Freddie Mac

[2] The *Foreclosure Prevention and Refinance Report* is transmitted to Congress as the *Federal Property Managers Report*.

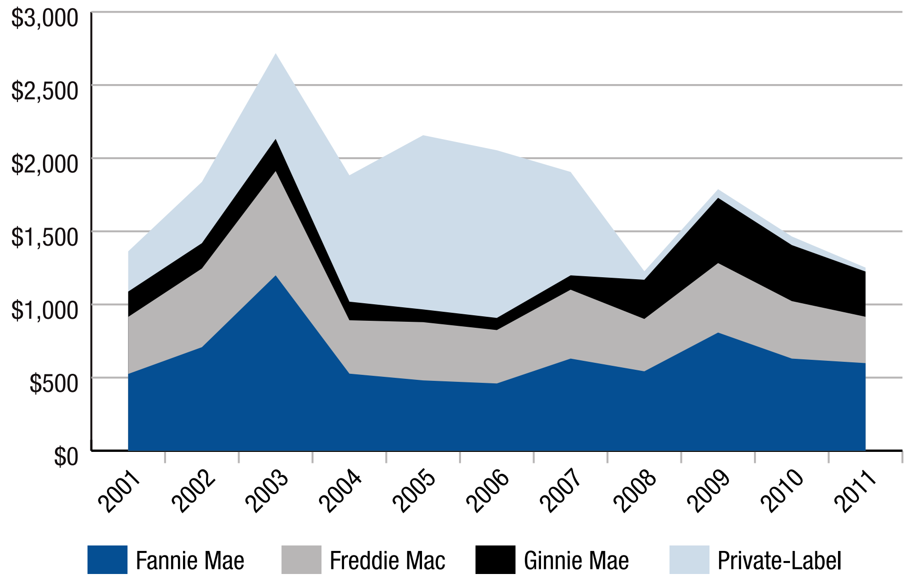
Conservator's Report

FHFA's *Conservator's Report* provides an overview of key aspects of the financial condition of Fannie Mae and Freddie Mac during conservatorship. Highlights of the 2011 report included:

At FHFA's direction, Fannie Mae and Freddie Mac continued to provide critical support for the secondary mortgage market in 2011.

Together the Enterprises guaranteed roughly $100 billion per month in new mortgage production, representing about three of every four mortgages being originated.

Figure 3. MBS Issuance Volume ($ in billions)[a]



Sources: Inside Mortgage Finance, Inside MBS & ABS, and Enterprises' monthly volume summaries

[a] Figures exclude mortgage-backed securities issued backed by assets previously held in the Enterprises' portfolios.

The credit quality of new single-family business remained high in 2011.

The average FICO credit score was over 750 at both Enterprises. FICO stands for Fair Isaac Corporation, which created the most widely used standard of credit scoring.

The Enterprises continued to depend on taxpayer support.

At year-end 2011, cumulative combined Treasury draws totaled $187.5 billion. The "Single-Family Credit Guarantee" segment has been the largest contributor to charges against capital.

Figure 4. Characteristics of New Single-Family Business[a]

	Fannie Mae				Freddie Mac			
	2008	**2009**	**2010**	**2011**	**2008**	**2009**	**2010**	**2011**
Average Credit Score	738	761	762	762	734	756	755	755
Credit Score <620 % of Total	3%	0%	0%	0%	3%	1%	1%	1%
Average Loan-to-Value	72%	67%	68%	69%	71%	67%	69%	70%

Sources: Enterprises' forms 10-K and credit supplements to Securities and Exchange Commission disclosures

[a] New business is defined as issuance of mortgage-backed securities plus purchases of whole loans. Excludes purchases of mortgage-related securities.

Capital Changes: January 1, 2008 — December 31, 2011

	Fannie Mae	**Freddie Mac**	**Combined**	
Available Capital	$51	$27	$78	
Capital Change				
Single-Family Segment	($141)	($74)	($215)	81%
Multifamily Segment	(5)	14	9	-3%
Investments Segment	9	(7)	2	-1%
Accounting Adjustment/Other	(10)	(15)	(25)	9%
Senior Preferred Dividends	(20)	(17)	(36)	14%
Total Capital Change	($167)	($98)	($266)	100%
Capital Deficit	($116)	($71)	($187)	
Treasury Senior Preferred Draw	**$116.1**	**$71.3**	**$187.5**	

Sources: Fannie Mae segment earnings per Fannie Mae Securities and Exchange Commission disclosures for the relevant time periods
Note: Freddie Mac's 2008 and 2009 comprehensive income (loss) by segment reflect revised methodology effective January 1, 2010.

Photo courtesy http://cardoza.house.gov

Meg Burns, FHFA's Senior Associate Director of the Office of Housing and Regulatory Policy (left), and officials from Fannie Mae and Freddie Mac briefed the Housing Stabilization Task Force of the Democratic caucus on servicing alignment efforts on June 14, 2011.

and the Enterprises took a number of important steps to accomplish the goals of conservatorship.

To carry out its conservatorship responsibilities, FHFA regularly works with executive management of the Enterprises and their boards to continue transitioning the Enterprises to the next phase of conservatorship. Throughout 2011, we directed the boards of Fannie Mae and Freddie Mac to focus on 1) providing ongoing support for the market; 2) minimizing losses on the mortgages already on their books; and 3) limiting their risk exposure on the new books of business.

FHFA also took a number of additional actions in 2011, including working with the Enterprises to fund alternative disposition strategies for real estate owned (REO) inventory, directing enhanced industry efforts on servicing alignment, and laying the groundwork for new servicing compensation practices.

2011 Conservatorship Activities

Servicing Alignment and Joint Servicing Compensation Initiatives

In April 2011, FHFA announced the Servicing Alignment Initiative to respond to concerns about servicing delinquent mortgages.

Under this initiative, we instructed the Enterprises to establish a single, consistent set of procedures for servicing Enterprise mortgages using a highly targeted approach to refocus servicers' resources and attention on moving all borrowers into alternatives to foreclosure quickly, efficiently, and aggressively.

The updated framework, which went into effect on October 1, 2011, requires early borrower outreach, streamlines documentation requirements, simplifies mortgage modification terms and requirements, and establishes a schedule of performance-based incentive payments and penalties aimed at ensuring that servicers review foreclosure alternatives in a timely manner. Developed in consultation with federal banking agencies and state attorneys general, the new requirements could serve as the basis for establishing broad national mortgage servicing standards.

Under the Joint Servicing Compensation Initiative, we directed the Enterprises to work with FHFA and the Department of Housing and Urban Development (HUD) to consider alternatives for future mortgage servicing structures and servicing compensation for their single-family mortgage loans.

The primary objectives of this initiative are to improve service for borrowers, reduce financial risk to servicers, and provide flexibility for guarantors to better manage nonperforming loans while promoting continued liquidity in the mortgage securities market. Other goals, such as evaluating whether changes in servicing compensation could lead to enhanced competition in the market for originations and servicing, also have broadly guided the initiative.

To promote an informed discussion of issues related to these initiatives, FHFA published an "Issues and Background" document in February 2011. FHFA also sponsored a series of sessions with interested stakeholders, including mortgage industry participants, consumer groups, investors, and other regulators and government agencies.

We developed and discussed several concept proposals based on the input we received from these groups. We chose two of the proposals and published a discussion paper for public comment in September 2011. One proposal would establish a reserve account within the current servicing compensation structure. The other proposal would create a new fee-for-service compensation structure that would replace the fixed-fee approach.

Initiative participants began reviewing and evaluating comments in early 2012. We anticipate more development of this work during 2012.

Home Affordable Refinancing Program

In October 2011, FHFA announced several changes to the Home Affordable Refinancing Program (HARP) to make refinancing accessible to more households with mortgages owned or guaranteed by the Enterprises.

Program changes included:

- eliminating or reducing certain risk-based fees;
- removing the 125 percent loan-to-value ceiling;
- waiving certain representations and warranties;
- eliminating the need for certain property appraisals;
- improving the process for carrying over mortgage insurance coverage; and
- extending the end date to December 31, 2013.

Lenders and mortgage insurance companies agreed to remove their own restrictions and overlays and offer the program as set out by the Enterprises. This level of cooperation across the industry was unprecedented, and already many of the largest lenders are seeing tremendous borrower interest, which we anticipate will increase HARP volume throughout 2012 and 2013.

Seller/Servicer Contract Harmonization

In June 2011, to address deficiencies in the servicing and delivery process, FHFA began a project to harmonize Enterprise seller-servicer contracts. The overall goal of the project is consistent contract enforcement.

The project will identify areas where the Enterprises can improve contracts with seller-servicers. The improvements will ensure contracts reflect viable business relationships and are actively managed to maximize both seller-servicer and portfolio performance and economic return for the Enterprises.

The Enterprises discussed possible areas of consistency with FHFA and will pursue harmonization under the broad categories of enforcement, performance, and adjudicated fraud information sharing and penalties.

Enterprise Refinance Activity

Fannie Mae and Freddie Mac are at the forefront of the nation's refinance activity for current borrowers.

Since April 1, 2009, the Enterprises have completed more than 10 million mortgage refinances, 75 percent of all refinance originations in that period.

Fannie Mae and Freddie Mac own or guarantee the mortgages of fewer than half of "underwater" borrowers, compared to their 60 percent share of total mortgages serviced. Underwater means borrowers owe more on their mortgages than their property is worth.

However, Fannie Mae and Freddie Mac are the only institutions that currently operate a large-scale refinancing program for underwater borrowers.

Since the beginning of the Home Affordable Refinance Program (HARP), the Enterprises have completed more than one million HARP refinances. Fannie Mae and Freddie Mac have also completed 1.9 million streamlined refinances that expedited the refinance process for borrowers.

Uniform Mortgage Data Program and Loan-Level Disclosures Initiative

In May 2010, FHFA directed the Enterprises to develop uniform standards for data reporting on mortgage loans and appraisals. The Uniform Mortgage Data Program will improve the consistency, quality, and uniformity of data collected in the early stages of the mortgage loan process.

Using standard terms, definitions, and industry standard data reporting protocols, the program will decrease costs for originators and appraisers and reduce repurchase risk, while helping to improve service to consumers.

In 2011, the Enterprises developed, tested, and partially implemented initial components of the Uniform Mortgage Data Program. In 2012, FHFA expects all initial components to be in place, and we have begun plans for future enhancements to the program. We anticipate the Uniform Mortgage Data Program to be the foundation of a number of improvements in the mortgage finance industry.

In 2012, FHFA and the Enterprises plan to begin work on an initiative to establish a system that provides loan-level disclosures on Enterprise MBS at origination and throughout the life of the securities. This level of transparency will enable investors to efficiently measure and price mortgage credit risk.

REO Disposition Initiative

In 2011, FHFA began exploring new approaches to the problem of the Enterprises' growing inventories of foreclosed properties, known as real estate owned, or REO. The Enterprises' REO portfolios are now stable, and their individual retail sales are nearly at market values for the properties.

But as more nonperforming loans move through the foreclosure process, more houses become part of REO inventories and demand for homes in some troubled markets remains weak, the Enterprises and FHFA must consider alternative disposition strategies. In many of these markets, demand for rental housing is strong, yet neither company is structured to be a landlord, especially not on a large scale.

In August 2011, FHFA launched the REO Initiative by publishing a Request for Information to solicit ideas for approaches to help sell current and future REOs, improve loss recoveries in comparison to individual retail REO sales, help stabilize neighborhoods and local home values, and expand the supply of rental housing where feasible and appropriate. FHFA worked with the Treasury Department, the Federal Reserve, the Federal Deposit Insurance Corporation, and HUD in the effort, taking into consideration broad government interest in REO disposition, including the disposition of properties owned by FHA.

We received more than 4,000 comments from a wide range of market participants, stakeholders, community groups and industry observers with specific suggestions for improving market conditions in the disposition of REO properties. Many respondents also demonstrated their technical and financial capability to engage in large-scale transactions with the Enterprises and FHA.

On February 27, 2012, FHFA launched the first pilot for bulk REO property sales in Atlanta, Chicago, Las Vegas, Los Angeles, Phoenix, and parts of Florida, some of the areas most affected by the national housing finance crisis. Under this pilot, prequalified investors will be able to submit applications to demonstrate their financial capacity, property management experience, and specific plans for purchasing groups of Fannie Mae foreclosed properties with the requirement to rent the purchased properties for a specified number of years. The pilot program includes approximately 2,500 properties.

This is just the first step in addressing downward pressure on home values in many markets with high volumes of foreclosed properties. Moving some of these properties from the for-sale market to the rental market will help to address a fundamental supply/demand imbalance and help stabilize neighborhoods.

Other Supervisory Actions Associated with Conservatorship

Risk Sharing

In 2011, FHFA engaged both Enterprises in discussions on how to shift mortgage credit risk from the Enterprises to the private sector. Specifically, we are considering alternative security structures and more intensive mortgage insurance proposals.

One goal is to determine the level of guarantee fee necessary to entice private sector investors to take on the credit risk the Enterprises now assume. Understanding how the private sector would price mortgage credit risk will inform policy makers as they consider alternative designs for the future state of the secondary mortgage market.

A second and related goal is to engage private sector capital in covering some of that credit risk. Bringing private sector capital in to share risk would be a way to decrease the level of government involvement via the Enterprises in the mortgage market.

FHFA included measures relating to these initiatives in the conservatorship scorecard published in March 2012. We will use the scorecard to evaluate Enterprise performance. The goal is to complete development work and begin entering into transactions in 2012. Our goal is to have transactions occur on a regular schedule, possibly quarterly, in the future.

Executive Compensation

As conservator of Fannie Mae and Freddie Mac, FHFA must ensure the Enterprises have the tools needed to attract and retain qualified personnel to carry out the work needed to manage $5.2 trillion of residential mortgages and protect the taxpayers' investment. However, the uncertain future of the companies is taking its toll on staffing levels and already showing signs of affecting management. For example, Freddie Mac's 2011 10-K filing reported a new material weakness in financial reporting because of increased employee turnover in the information technology area, which contributed to ineffective oversight of certain controls. Retaining qualified employees is an issue facing both Enterprises.

FHFA's 2012 conservatorship scorecard establishes the objectives and goals for the executive leaders at each Enterprise. In addition, FHFA has restructured the executive compensation plan for the Enterprises in 2012. The plan includes sharp reductions in pay for the chief executive officer positions.

The new plan includes a retention feature and reductions for missed performance and eliminates the incentive plans that had been in place since the beginning of conservatorship. It decreases Enterprise pay while keeping it reasonably competitive and consists of cash base salary, delivered biweekly or semimonthly, and deferred base salary delivered after a one-year deferral.

The performance feature of the plan is directly linked to the conservatorship scorecard.

Before the agency released the scorecard, the chief executive officers of each Enterprise had announced their resignations once the companies found replacements. FHFA intends to fill the positions with a total annual compensation of less than $1 million, in recognition of the increasing public service aspects of the job. The new chief executive officer of Freddie Mac, Donald H. Layton, began May 21, 2012.

As conservator of Fannie Mae and Freddie Mac, FHFA must ensure the Enterprises have the tools needed to attract and retain qualified personnel to carry out the work needed to manage $5.2 trillion of residential mortgages and protect the taxpayers' investment. However, the uncertain future of the companies is taking its toll on staffing levels and already showing signs of affecting management.

These changes represent a 63 percent reduction in total compensation from preconservatorship levels for the top 15 executives at each Enterprise and a reduction of 74 percent for the top 5 executives. By early 2012, the Enterprises had reduced the number of executives by one-fourth from the preconservatorship level of 91 to 70, with more than 80 percent of the executives at both Enterprises paid less than the market median.

Lawsuits

In 2011, FHFA filed lawsuits against 18 financial institutions, certain of their officers and directors, and various unaffiliated lead underwriters.

The suits allege violations of both federal securities and state laws in the sale of residential MBS to the Enterprises. We filed the suits in federal or state court in New York and the federal court in Connecticut. The complaints, filed under statutory authority granted by HERA, reflect FHFA's conclusion that the Enterprises incurred losses attributable to misrepresentations and other improper actions by the firms and individuals named in the suits.

The complaints are part of the FHFA's ongoing commitment as conservator to collect money due to the Enterprises because of investments in MBS that did not conform to representations made in offering documents and the failure of defendants to comply with certain underwriting guidelines and standards.

Achieving these strategic goals will fulfill the legal requirements Congress assigned FHFA as conservator and also prepare the foundation for a new, stronger housing finance system in the future. Although that future may not include Fannie Mae and Freddie Mac, at least as they are known today, this important work in conservatorship can be a lasting, positive legacy for the country and its housing system.

We continue to actively pursue legal remedies against the named entities and individuals. Where appropriate and productive, FHFA has and will continue to engage in discussions with relevant counterparties. The complete texts of the filed complaints are on the agency's website at www.fhfa.gov.

Looking to the Future

More than three years into conservatorship, FHFA Acting Director Edward J. DeMarco reassessed the goals of conservatorship in light of the agency's statutory mandate and the fact that the situation surrounding the Enterprises operating in conservatorship is unlike anything the country has experienced in the past.

In February 2012, FHFA sent a strategic plan to Congress for the next phase of the conservatorships of Fannie Mae and Freddie Mac (See pages 111 through 124). This strategic plan outlines the steps FHFA has taken and will be taking to address the challenges of the conservatorships. The plan sets forth three strategic goals for the next phase of conservatorship:

1. **Build**. Build a new infrastructure for the secondary mortgage market.
2. **Contract**. Gradually contract the Enterprises' dominant presence in the marketplace while simplifying and shrinking their operations.
3. **Maintain**. Maintain foreclosure prevention activities and credit availability for new and refinanced mortgages.

Achieving these strategic goals will fulfill the legal requirements Congress assigned FHFA as conservator and also prepare the foundation for a new, stronger housing finance system in the future. Although that future may not include Fannie Mae and Freddie Mac, at least as they are known today, this important work in conservatorship can be a lasting, positive legacy for the country and its housing system.

Properly implemented, the strategic plan should benefit:

- homeowners, by emphasizing foreclosure prevention and credit availability;
- taxpayers, by limiting losses from past activities, simplifying risk management, and reducing future risk exposure;
- market participants, by gradually reducing Enterprises' role in the mortgage market while maintaining market stability and liquidity; and
- lawmakers, by building a foundation to develop new legal frameworks and institutional arrangements for a sound and resilient secondary mortgage market of the future.

The early chapters of the conservatorship story focused on market functioning and loss mitigation. The strategic goals and performance objectives set forth in our conservatorship strategic plan outline for the next chapter of the story, one that focuses in earnest on building a secondary mortgage market infrastructure that will live beyond the Enterprises. This next chapter will also see a gradual reduction in the Enterprises' dominant position in holding mortgage credit risk as private capital is encouraged back into that market.

The final chapter, though, remains the province of lawmakers. Fannie Mae and Freddie Mac were chartered by Congress and by law, only Congress can abolish or modify those charters and set forth a vision for a new secondary market structure.

Congressional Activities

In 2011, FHFA worked with Congress more closely than ever before because of the continuing spotlight on a number of issues surrounding the role of the housing market in the recovery of the national economy. Among FHFA's most important responsibilities as the agency works to fulfill its statutory duties are working with Congress, keeping members informed, and responding to their information needs.

In 2011, FHFA leaders testified at nearly a dozen congressional hearings (see page 10). In addition, agency staff members met and briefed Congress on current FHFA- and Enterprise-related issues, provided technical assistance to members of Congress on proposed legislation, and responded to inquiries from members of Congress on a variety of issues.

Congressional Hearings

FHFA Acting Director Edward J. DeMarco testified before the agency's authorizing committees, the U.S. Senate Committee on Banking, Housing, and Urban Affairs and the U.S. House of Representatives Committee on Financial Services and their subcommittees, throughout the year on topics related to FHFA's role as the Enterprises' conservator and regulator. FHFA leaders also participated in several hearings called by the U.S. House of Representatives Committee on Oversight and Government Reform.

In testimony before FHFA's oversight committees, DeMarco emphasized the need for congressional action to reform the old and build a new secondary mortgage market infrastructure to support the nation's housing market and bring the conservatorships to an end. DeMarco and other FHFA leaders also testified about other FHFA activities including:

- mitigating Enterprise losses, which ultimately accrue to taxpayers;

Photo courtesy c-span.org

FHFA Acting Director Edward J. DeMarco testified about excutive compensation before the U.S. House of Representatives Committee on Oversight and Government Reform in November 2011.

- ensuring families have access to mortgages to buy homes or refinance existing mortgages; and
- offering troubled borrowers an opportunity to modify their loan or other options to avoid foreclosure.

Five of the 2011 hearings addressed transitioning the nation's secondary mortgage market away from the Enterprises and toward the private mortgage credit market. In testimony, DeMarco consistently expressed support for winding down the Enterprises in an orderly manner and pursuing ways to increase private market participation.

In 2011, the House Subcommittee on Capital Markets, Insurance, and Government-Sponsored Enterprises held hearings and mark-ups on a series of 15 bills that would directly affect the Enterprises. DeMarco testified on FHFA's views on these 15 bills in two hearings on March 31, 2011, and on May 25, 2011. Most of these bills were marked up and passed out of the subcommittee. One has also been marked up and passed at the full committee level.

Figure 5. FHFA 2011 Congressional Testimony

Date of Testimony[a]	Committee/Subcommittee	Title of Hearing
February 4, 2011	House Financial Services Subcommittee on Oversight and Investigations	An Analysis of Postconservatorship Legal Expenses for Fannie Mae and Freddie Mac
March 4, 2011	Congressional Oversight Panel (Troubled Assets Relief Program [TARP])	TARP's Impact on Financial Stability
March 31, 2011	House Financial Services Subcommittee on Capital Markets, Insurance, and Government-Sponsored Enterprises	Legislative Proposals: Overhaul of Housing-Related Government-Sponsored Enterprises
April 14, 2011	House Financial Services Subcommittee on Capital Markets, Insurance, and Government-Sponsored Enterprises	Credit Risk Retention Requirements
May 11, 2011	House Committee on Oversight and Government Reform, Subcommittee on TARP, Financial Services and Bailouts of Public and Private Programs	Transparency as an Alternative to Risk Retention
May 25, 2011	House Financial Services Subcommittee on Capital Markets, Insurance, and Government-Sponsored Enterprises	Transparency, Transition, and Taxpayer Protection: More Steps to End the GSE[b] Bailout
November 3, 2011	House Financial Services, Subcommittee on Capital Markets, Insurance, and Government-Sponsored Enterprises	The Private Mortgage Investment Act
November 15, 2011	Senate Committee on Banking, Housing, and Urban Affairs	Oversight of the FHFA
November 16, 2011	House Committee on Oversight and Government Reform	FHFA Oversight of Enterprises Executive Compensation
December 1, 2011	House Financial Services, Subcommittee Oversight and Investigations	FHFA Oversight of Enterprises

[a] *FHFA Chief Economist Patrick J. Lawler testified on behalf of FHFA on March 4, 2011, and April 14, 2011. FHFA Acting Director Edward J. DeMarco testified on behalf of FHFA at the rest of the 2011 hearings.*

[b] *GSE stands for government-sponsored enterprise.*

In several hearings in both the House and Senate, DeMarco gave updates on the current performance and financial condition of the Enterprises, and described how FHFA is carrying out its conservatorship and oversight responsibilities while Congress considers the future of housing finance. FHFA also presented descriptions of key activities the agency and the Enterprises have undertaken in their role of assisting homeowners to avoid foreclosure (see pages 4 through 6 for more on HARP and FHFA's conservatorship initiatives).

DeMarco testified on a panel on February 15, 2011, before the House Financial Services Subcommittee on Oversight and Investigations on the legal expenses of Fannie Mae and Freddie Mac and advancement of legal fees for certain former officers. DeMarco reiterated the agency's position that overturning existing contracts would be inconsistent with standard business practice. However, he stated the Enterprises, operating in conservatorship, need to manage legal expenses effectively and seek to reduce such expenses because they operate with the support of the federal government.

On November 16, 2011, DeMarco discussed FHFA's oversight of the executive compensation structure for the Enterprises before the U.S. House of Representatives Committee on Oversight and Government Reform. He explained how the Enterprises' executive compensation program supports the statutory mandates of the Enterprises in conservatorship, and as conservator, FHFA needs to ensure that the Enterprises' compensation levels can attract and retain people with the skills needed to manage the credit and interest rate risks of $5 trillion worth of mortgage assets and $1 trillion of annual new business that the American taxpayer is supporting.

On March 9, 2012, FHFA announced details of the new 2012 executive compensation programs at Fannie Mae and Freddie Mac. The 2012 pay program reduces top executive pay by nearly 75 percent since conservatorship, eliminates bonuses, and establishes a target for new chief executive officer pay at $500,000 per year. In setting this new compensation framework, the agency has stated that further material reductions or uncertainty around compensation would heighten safety and soundness concerns.

Congressional Briefings

FHFA's Office of Congressional Affairs and Communications worked with experts on staff to update members of Congress and committee staff on key issues and to respond to specific requests for briefings.

FHFA gave more than 100 congressional briefings in 2011 on a range of issues affecting the regulated entities and FHFA. Briefings, especially on constituent issues, often included Fannie Mae and Freddie Mac experts. Topics included:

- Servicing Alignment Initiative
- Real estate owned pilot program
- Guarantee fees
- Principal forgiveness
- Enterprise financial performance and Securities and Exchange Commission filings
- Enterprise repurchase settlements
- Mortgage foreclosure process
- HARP changes and other refinance proposals
- Conservatorship of Fannie Mae and Freddie Mac
- Contaminated drywall
- Qualified residential mortgages proposed rule and state foreclosure processes
- Enterprise portfolios
- Short sales
- Enterprise patents
- Executive compensation
- Conforming loan limits
- Derivative regulations
- Constituent issues

FHFA's Staff Legislative Working Group

The Office of Congressional Affairs and Communications leads the FHFA legislative working group. The group comprises staff members from several key groups within the agency, including the Office of the General Counsel, the Office of Policy Analysis and Research, and the Office of Housing and Regulatory Policy.

In 2011, the group reviewed more than 160 introduced and draft bills to determine any possible effect on FHFA, the agency's regulated entities, or the broader market. The group determined that some of the bills and draft bills reviewed and tracked in 2011 had no or little effect on FHFA's regulated entities. Others would have meant significant changes to and effects on the regulated entities or FHFA.

For example, in the 112th Congress, there have been six bills that proposed major changes to the government-sponsored enterprises (GSEs) or the secondary mortgage market and its regulation. In addition, there have been several bills that proposed simply to eliminate Fannie Mae and Freddie Mac. Though none of these major bills passed out of Congress, FHFA has reviewed each to identify effects on market participants and homeowners and to identify any unintended consequences.

In addition to GSE reform legislation, in 2011 FHFA's staff reviewed and provided feedback to Congress on

2011 Proposed GSE Reform Legislation

1 • H.R. 1182—GSE Bailout Elimination and Taxpayer Protection Act, introduced by Representative Jeb Hensarling (R-Texas) and companion bill S 693 introduced by Senators John McCain (R-Arizona) and Orrin Hatch (R-Utah)

Requires the Director of FHFA to determine the financial viability of each Enterprise within two years of the date of enactment. If an Enterprise is determined to be financially viable, the conservatorship of that Enterprise is terminated and additional requirements become effective, including new capital requirements. Conversely, if an Enterprise is determined not financially viable, the Enterprise is immediately placed into receivership. Additionally, H.R. 1182 seeks to repeal or limit many of the Enterprises' current operational activities, including repealing the Enterprise housing goals, decreasing the portfolio limits of each Enterprise, and requiring the Enterprises to charge a higher guarantee fee. Ultimately, H.R. 1182 requires that the Enterprise charters be repealed no later than 5 years after the date of the enactment and under the direction of the FHFA Director and the Secretary of the Treasury, the Enterprises begin a 10-year process of winding down..

2 • H.R. 1859—Housing Finance Reform Act of 2011, introduced by Representatives John Campbell (R-California) and Gary Peters (D-Michigan)

Requires the Director of FHFA to submit a plan to Congress for winding down the Enterprises within six months of enactment. H.R. 1859 also authorizes FHFA to charter privately capitalized housing finance guarantee associations to replace the secondary mortgage market activities of the Enterprises. Each housing finance guarantee association would be prohibited from originating or servicing mortgages and from speculating on credit, interest rate, and other risks, and would be limited in its investment activities. Each would provide an explicit federal guarantee of the timely payment of principal or interest on specified types of mortgage-related securities. H.R. 1859 also requires the Director of FHFA to place the Enterprises into receivership no later than one year after five or more housing finance guarantee associations, two of which are not special purpose associations, have been chartered.

3 • H.R. 2413—Secondary Market Facility for Residential Mortgages Act of 2011, introduced by Representatives Gary Miller (R-California) and Carolyn McCarthy (D-New York)

Requires the Secretary of the Treasury in consultation with the Director of FHFA to submit a plan to Congress within 6 months of enactment to wind down the Enterprises within a three-year period. H.R. 2413 also establishes the secondary market facility for residential mortgages as an instrument of the federal government. The facility would serve as a limited replacement for the secondary mortgage market activities of the Enterprises. H.R. 2413 also would impose new limits on the type of mortgages and mortgage products the facility may purchase, create an FHFA board to oversee the facility, and establish new requirements for standards relating to underwriting, property valuation, and approval of sellers.

4 • H.R. 3644—Private Mortgage Market Investment Act, introduced by Representative Scott Garrett (R-New Jersey)

Addresses reforms intended to create a sustainable new securitization market to replace the secondary mortgage market activities of the Enterprises. As amended in a subcommittee markup, H.R. 3644 would require FHFA jointly with the Securities and Exchange Commission to set standards for the legal contracts that govern pools of loans sold on the secondary market, including standards related to underwriting, securitization agreements, servicer reporting, documentation of loans, sponsors/issuers, and trustees. The new market would operate without the presence of the Enterprises or any explicit or implicit federal government guarantee. Additionally, H.R. 3644 would repeal the risk-retention requirements imposed by the Dodd-Frank Wall Street Reform and Consumer Protection Act, maintain a "to be announced" market, provide additional measures to ensure transparency in the marketplace, and address certain conflicts between first and secondary lienholders.

5 • S. 1834—Residential Mortgage Market Privatization and Standardization Act of 2011, introduced by Senator Bob Corker (R-Tennessee)

Requires the Director of FHFA to wind down the Enterprises over a 10-year period beginning on the date of enactment by reducing the value of securities guaranteed by the Enterprises by at least 10 percent per year. S. 1834 also proposes a series of reforms with the intent to create a more transparent, uniform, and fully private secondary mortgage market, including establishing a public database for loan level information on mortgages, uniform mortgage underwriting standards, uniform pooling and servicing agreements, and other uniform regulatory practices for the mortgage market. In addition, S. 1834 provides for the development of a market similar to the to-be-announced market for deliverable residential mortgages and the establishment of a single national database for all mortgage title transfers.

6 • S. 1963, Mortgage Finance Act of 2011, introduced by Senator Johnny Isakson (R-Georgia)

Requires the Enterprises to be placed into irrevocable receivership, their charters to be revoked, and FHFA to commence liquidation of the Enterprises no later than 18 months after enactment. S. 1963 also establishes the Mortgage Finance Agency as an independent agency of the federal government that will replace the secondary mortgage market activities of the Enterprises. The Mortgage Finance Agency is authorized to provide an explicit federal guarantee to a defined class of securities issued by approved issuers and backed by mortgages having a specific set of characteristics. S. 1963 also requires the Mortgage Finance Agency to be sold to the private sector within 10 years after enactment. S. 1963 also creates a self-funding catastrophic fund to pay off the guarantee obligations of the Mortgage Finance Agency in case of a future housing collapse draft legislation or amendments on a wide variety of topics, including receivership, refinance programs, executive compensation, principal reduction modifications, mortgage securitization, and disclosures. Not all of the draft bills or amendments were ultimately introduced by a member of Congress.

The working group developed recommendations for DeMarco and the Office of Congressional Affairs and Communications to address issues with or possible improvements to legislation.

The working group also reviewed amendments to legislation being considered on the House or Senate floor that would have an impact on FHFA's regulated entities. If the group needed additional expertise on a particular issue, members worked directly with agency experts and used their feedback in analysis. FHFA also contacted experts at Fannie Mae and Freddie Mac to gain additional insight or information on particular bills or issues.

Congressional Correspondence

In 2011, congressional communications to FHFA substantially exceeded the number received in previous years. FHFA received more than 250 formal communications from congressional offices, either by letters or e-mails, likely because of an increased focus on the Enterprises' operations and the burden on taxpayers, as well as an increased number of homeowners who experienced difficulties in paying their mortgages on time because of the depressed housing market and the overall downturn in the economy.

FHFA's congressional affairs staff tracked all congressional inquiries and responded to them in a timely manner, typically in writing, but sometimes by phone calls to the congressional staff. Inquiries from members generally fell into two categories. The first included casework, which focused on constituents with problems or questions about their mortgages. The second category included policy-oriented inquiries or comments.

Congressional Inquiries About Constituent Problems in 2011
Major problem areas included:
• Loan modifications and foreclosures
• Refinances
• Short sales and deeds in lieu of foreclosure
• Real estate owned (REO) purchases

The number of congressional inquiries related to a variety of policy issues slightly outnumbered the number of casework inquiries.

Policy Inquiries and Comments in 2011
Major issues included:
• Use of down payment as a variable in the definition of qualified residential mortgage
• Executive compensation, bonuses, and legal fees for Enterprise employees
• HARP updates
• Retained Attorney Networks
• REO initiative

FHFA is contemplating next steps to build an infrastructure for the secondary mortgage market consistent with existing policy proposals and which will support any outcome of the leading legislative proposals. FHFA is committed to assisting in that work in all possible ways.

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 2011 annual examination of Fannie Mae, (referred to as 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 summarize 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).

2011 Examination Scope

In 2011, FHFA focused on examining the enterprise risk management framework, board reporting, internal controls, credit risk, and operational risk. FHFA also evaluated the remediation of previously identified matters requiring attention and the board's and management's responses to deficiencies and weaknesses identified by the Enterprise's internal audit department and outside auditors.

FHFA assessed the Enterprise's responses to the continued stress in the mortgage markets and the effect of the stress on the Enterprise's risk profile, performance, and condition, and evaluated the effectiveness of loss mitigation efforts. Finally, FHFA conducted a special review of the Enterprise's retained attorney network. FHFA also evaluated the retained attorney network as a component of Fannie Mae's overall framework for managing default- and foreclosure-related matters

Rating Category	2011 Rating	2010 Rating
Composite	Critical Concerns	Critical Concerns
Governance	Limited Concerns	Significant Concerns
Solvency	Suspended	Suspended
Earnings	Critical Concerns	Critical Concerns
Enterprise Risk		
Credit Risk	Critical Concerns	Critical Concerns
Market Risk	Significant Concerns	Critical Concerns
Operational Risk	Significant Concerns	Critical Concerns
Model Risk	Significant Concerns	Significant Concerns

Rating

For 2011, FHFA assigns Fannie Mae a composite rating of critical concerns. The Enterprise exhibits critical financial weaknesses as evidenced by its poor performance and condition and prospects. Credit risk remains high but is somewhat mitigated by the higher quality of the single-family book of business since 2009. Business operations are vulnerable to disruption, especially by human capital risk, and capital is wholly dependent on the support of the U.S. Treasury.

Examination Conclusions

The conservatorship of Fannie Mae, which began in September 2008, combined with U.S. Treasury financial support and management actions, has stabilized the Enterprise. The ongoing stress in the nation's housing markets, challenging economic environment, and the need to implement the *FHFA Strategic Plan for Enterprise Conservatorships* continue to pose significant challenges.

The most significant risks facing the Enterprise are credit risk, human capital risk, dependence on a legacy infrastructure that needs to be updated, and the requirement to execute the strategic plan for the conservatorships. Management and the board were responsive throughout 2011 to FHFA findings and are taking appropriate steps to resolve identified issues.

Although risk is high, the quality of credit risk management is adequate and the level of risk is decreasing. Our principal concerns are the credit characteristics of the Enterprise's legacy 2005 to 2008 vintage single-family book of business, opportunities to improve multifamily risk management, and continued weak mortgage insurer counterparties.

However, to address these risks and challenges, the Enterprise, in consultation with FHFA as conservator and with conservator approval (as necessary), must continue to:

- Identify and proactively reduce the risk and complexity of its business activities consistent with the *FHFA Strategic Plan for Enterprise Conservatorships.*
- Focus on loss mitigation and foreclosure prevention initiatives and maintain sound underwriting criteria for single-family and multifamily portfolios.
- Support key control functions, such as internal audit, enterprise risk management, and compliance. The board and management also should establish strong project management with a focus on effective controls and robust reporting for new strategic initiatives.
- Minimize losses and draws on the U.S. Treasury consistent with Fannie Mae's mission goals and FHFA's conservatorship strategies.
- Effectively implement the plans submitted to FHFA to resolve matters requiring attention.

Governance

FHFA assigns governance a **limited concerns** rating, an upgrade from the prior examination. The board and management are actively engaged in Fannie Mae's oversight as demonstrated in board package information, regular board meetings, an evolving enterprise risk management function, routine interaction with management, and a wide range of initiatives. In addition, the board is working with FHFA to identify a new president and chief executive officer.

The board should continue to focus on the key risks and issues facing Fannie Mae and should be aware of potential new and emerging risks arising from the strategic plan for the conservatorships and the external environment. In addition, the board should continue to oversee enterprise risk management, strengthen project management and reporting on operations and servicing management, and establish clearer limits on exposure to mortgage insurers.

Solvency

FHFA suspended the solvency (capital) classification for Fannie Mae when conservatorship began in 2008. During conservatorship, any deficit in Fannie Mae's net worth existing at any quarter-end is covered with funding from the U.S. Treasury under the Senior Preferred Stock Purchase Agreement. Fannie Mae's draws for 2011 totaled nearly $26 billion. Of that amount, the Enterprise has paid $9.6 billion back to the Treasury in the form of dividends. Cumulative draws since conservatorship began have totaled approximately $116 billion.

Earnings

FHFA assigns earnings a **critical concerns** rating. Net losses increased in 2011 to $16.9 billion from $14 billion in 2010, primarily driven by high provisions for credit losses. New delinquencies coupled with further declining home prices resulted in a substantial increase in loan loss reserves.

Fannie Mae's loan loss reserve increased $10.6 billion to $76.9 billion in 2011. A steep decline in the level of long-term interest rates during 2011 led to mark-to-market losses on derivatives used for hedging purposes which had a negative effect on earnings.

Credit Risk

FHFA assigns credit risk a critical concerns rating. Although the level of risk is high, the quality of credit risk management is adequate and the level of risk is decreasing. Our principal concerns are the credit characteristics of the Enterprise's legacy 2005 to 2008 vintage single-family book of business, opportunities to improve multifamily risk management, and continued weak mortgage insurer counterparties.

The higher quality of the single-family book of business acquired since 2009, low risk in unsecured federal funds sold, and management's success in loss mitigation alleviate some of our concerns.

Market Risk

FHFA assigns market risk a **significant concerns** rating, an upgrade from the 2010 rating. Risk levels are high, but the quality of market risk management is adequate.

FHFA's concerns arise principally from the increased balance sheet illiquidity arising from the amount of distressed assets and whole loan portfolios, resulting from loss mitigation activities, the need to strengthen attendant risk management practices, and the continued negative effects on earnings from the mark-to-market on derivative contracts used for hedging purposes. However, liquidity and funding risks are low, and the related risk management is adequate.

Photo courtesy Fannie Mae

Fannie Mae headquarters in Washington, D.C.

Operational Risk

FHFA assigns operational risk a **significant concerns** rating, an upgrade from the 2010 examination. The level of risk is high and increasing, but the quality of operational risk management is adequate, although the Enterprise needs to further strengthen project management.

The Enterprise's uncertain future, legacy information technology, manual processes that reduce the Enterprise's flexibility, and the requirement to implement the conservatorship strategic plan keep operational and process risks at elevated levels.

However, the Enterprise improved operational risk management in 2011 by:

- installing new operational risk leadership;
- implementing an operational risk management framework;
- centralizing the operational risk reporting structure;
- enhancing an operational risk management charter; and
- integrating the operational event remediation management office into operational risk management.

Model Risk

FHFA assigns model risk a **significant concerns** rating. The level of model risk is high but stable. The highly volatile overall economic environment, especially in the housing and mortgage markets, has significantly increased model risk for the industry and at Fannie Mae. Models used to estimate crucial variables, such as mortgage prepayment speed, that may have worked well in the past have not worked well in the current economic environment.

Fannie Mae has used "on-top" adjustments[3] to address model results that are clearly inconsistent with historical behavior and likely future behavior of the variables because of the volatile environment.

Retained Attorney Network

FHFA's special review of the Enterprise's retained attorney network identified weaknesses in policies and procedures, training programs, and performance measures for participating law firms.

Affordable Housing Goals for Fannie Mae

Under the Housing and Economic Recovery Act (HERA) and FHFA regulations, Fannie Mae is subject to four single-family affordable housing goals, one single-family housing subgoal, one multifamily special affordable housing goal, and one multifamily housing subgoal. For single-family purchase money mortgages, there are 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 low-income areas housing goal targets mortgages to families in census tracts:

- with tract income no greater than 80 percent of area median income;

Classification	Definition
Low income	Earning no more than 80 percent of area median income
Very low income	Earning no more than 50 percent of area median income

- with tract income and borrower income no greater than 100 percent of area median income, if the tract minority population is at least 30 percent; and
- in federally declared disaster areas if borrower income is no greater than 100 percent of area median income.

There is also a low-income areas subgoal, which excludes the third category.

The statute and regulations also require a low-income, single-family refinance goal, as well as a multifamily special affordable goal for low-income families and a multifamily subgoal for very low-income families.

On September 14, 2010, FHFA published a final rule establishing housing goals for calendar years 2010 and 2011 (see Figure 6).

Figure 6 shows the goals we established for 2010 and 2011 and official figures on Fannie Mae's goal performance in 2010. Numbers are based on our analysis of loan-level data Fannie Mae provided in early 2011. It also shows preliminary figures on goal performance in 2011, based on information Fannie Mae submitted in its March 2012 *Annual Housing Activities Report for 2011*.

The 2010 and 2011 single-family housing goals include both benchmark levels and a comparison with the corresponding figures on the qualifying shares of conventional conforming mortgages in the primary mortgage market in each year. This "look back" procedure is based on FHFA's analysis of data on mortgage originations as reported by lenders in accordance with the Home Mortgage Disclosure Act (HMDA).

If Fannie Mae's performance on a goal falls short of the benchmark, the Enterprise is still deemed to have met the goal if its performance exceeds the corresponding share of mortgages originated in the primary mortgage market, based on FHFA's analysis of HMDA data. These market-based figures are also shown for 2010 in Figure 6. The market-based figures for 2011 will not be available until September 2012.

[3] When model results produce an unacceptable level of uncertainty, management may use actual, observable results to alter model results "on top" to better reflect real market activities.

Fannie Mae's goal performance in 2010 exceeded its low-income multifamily goal and its very low-income multifamily subgoal (see Figure 6). For the single-family goals, Fannie Mae's performance on its low-income areas home purchase goal (24.1 percent) exceeded the benchmark level (24 percent). Performance on the corresponding subgoal (12.4 percent) fell short of the benchmark level (13 percent), but exceeded the market figure (12.1 percent), and performance on the low-income refinance goal (20.9 percent) also exceeded the market figure (20.2 percent).

Fannie Mae's performance in 2010 on the low-income home purchase goal (25.1 percent) and the very low-income home purchase goal (7.2 percent) fell short of both the preset benchmark levels (27 percent and 8 percent) and the market figures (27.2 percent and 8.1 percent).

In December 2011, we notified Fannie Mae of its official goal performance figures for 2010 and also of the market-based figures for the single-family goals for 20l0. FHFA listed the two goals where Fannie Mae's performance fell short of both the benchmark and the market-based levels and explained that we had determined the goals were feasible.

FHFA also informed the Enterprise that it would not have to submit a housing plan under Section 1336 of the Safety and Soundness Act because of the significant changes to the housing goals structure for 2010 and Fannie Mae's continued operation under conservatorship.

HERA also requires Fannie Mae to report on its financing of low-income units in multifamily properties of a limited size. In a September 2010 rule, FHFA defined multifamily properties of a limited size as those containing from 5 to 50 units. Fannie Mae financed 12,460 low-income rental units in small multifamily properties in 2010 and 13,480 such units in 2011.

Figure 6. Fannie Mae Housing Goals and Performance for 2010-2011

Category	2010 11 Benchmarks	2010 Performance & Market		2011 Performance[c]
		Performance[a]	Market[b]	
SINGLE-FAMILY GOALS[d]				
Low-income home purchase goal	27%	25.1%	27.2%	25.8%
Very low-income home purchase goal	8%	7.2%	8.1%	7.6%
Low-income areas home purchase subgoal	13%	12.4%	12.1%	11.6%
Low-income areas home purchase goal[e]	24%	24.1%	24.0%	22.3%
Low-income refinance goal	21%	20.9%	20.2%	23.1%
MULTIFAMILY GOALS (units)				
Low-income home purchase goal	177,750	214,997	N/A	301,224
Very low-income home purchase goal	42,750	53,908	N/A	84,244

Source: Federal Housing Finance Agency

[a] *Official performance in 2010 as determined by FHFA based on analyis of Fannie Mae loan-level data.*

[b] *Qualifying shares of single-family home purchase or refinance conventional conforming mortgages originated in the primary mortgage market based on FHFA analysis of 2010 Home Mortgage Disclosure Act (HMDA) data. FHFA will determine market performance for 2011 later in 2012.*

[c] *Performance as reported by Fannie Mae in its March 2012* Annual Housing Activities Report. *FHFA will determine official performance on all goals after reviewing Fannie Mae loan-level data. Low-income refinance goal for 2010-11 included credit for qualifying permanent loan modifications.*

[d] *Minimum percentages of all dwelling units financed by Fannie Mae's acquisitions of home purchase or refinance mortgages on owner-occupied properties.*

[e] *Includes mortgages to borrowers with incomes no greater than median income in federally declared disaster areas.*

Note: For the single-family goals, if an Enterprise's performance falls short of the benchmark, its performance is also measured against the goal-qualifying share of mortgages originated in the primary mortgage market as determined by FHFA analysis of HMDA data.

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 2011 annual examination of Freddie Mac, (referred to as 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 summarize 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, model, and operational risk management).

2011 Examination Scope

In 2011, we focused on examining the Enterprise's remediation of previously identified matters requiring attention and the board's and management's responses to deficiencies and weaknesses identified by the Enterprise's internal audit department and outside auditors.

Our evaluation of the Enterprise's risk profile focused on governance, credit risk, operational risk, internal controls, enterprise risk management, and financial condition and performance. In addition, our examination activity evaluated the Enterprise's loss mitigation efforts, including a special review of the retained attorney network as a component of Freddie Mac's overall management of default- and foreclosure-related matters.

Rating

For 2011, FHFA assigns Freddie Mac a composite rating of critical concerns. The Enterprise exhibits critical financial weaknesses as evidenced by its poor performance, condition, and prospects. Credit risk remains high. The control structure is weak, human capital risk is elevated, and capital is wholly dependent on the support of the U.S. Treasury.

Examination Conclusions

Rating Category	2011 Rating	2010 Rating
Composite	Critical Concerns	Critical Concerns
Governance	Significant Concerns	Significant Concerns
Solvency	Suspended	Suspended
Earnings	Critical Concerns	Critical Concerns
Enterprise Risk		
Credit Risk	Critical Concerns	Critical Concerns
Market Risk	Significant Concerns	Significant Concerns
Operational Risk	Critical Concerns	Critical Concerns
Model Risk	Significant Concerns	Significant Concerns

The conservatorship of Freddie Mac, which began in September 2008, combined with U.S. Treasury financial support has stabilized the Enterprise but has not restored it to a sound financial condition. The ongoing stress in the nation's housing markets, challenging economic environment, and the need to implement the FHFA *Strategic Plan for Enterprise Conservatorships* continue to pose significant challenges.

The most significant risks facing the Enterprise are credit, operational, and human capital risks, as well as the need to execute the strategic plan for the conservatorships. Management and the board were responsive throughout 2011 to FHFA findings and are taking appropriate steps to resolve identified issues. However, to address these risks and challenges, the Enterprise must continue to:

- Identify and take advantage of opportunities to reduce the risk and complexity of its business activities consistent with the FHFA *Strategic Plan for Enterprise Conservatorships*.
- Develop plans that focus on loss mitigation and foreclosure prevention initiatives and maintain sound underwriting criteria for single-family and multifamily portfolios.
- Support key control functions such as internal audit, enterprise risk management, and compliance. The board and management also should establish strong project management, with a focus on effective controls and robust reporting for new strategic initiatives.
- Minimize losses and draws on the U.S. Treasury consistent with Freddie Mac's mission goals and FHFA's conservatorship strategies.
- Effectively implement the plans submitted to FHFA to resolve matters requiring attention.

Governance

FHFA assigns governance a **significant concerns** rating. Freddie Mac's Enterprise Risk Management structure continues to benefit from a recent redesign being implemented. However, management is finding it difficult to maintain an adequate control structure because of increased employee turnover and reliance on manual processes.

Our supervisory work throughout 2011 noted that the quality of information the board receives has improved. In addition, the board is working with the FHFA to identify a new chief executive officer.

The board should continue to focus on the key risks and issues facing Freddie Mac, including the effect increased employee turnover has on the Enterprise's ability to effectively manage information technology changes and maintain adequate controls over monitoring information security. The board also should be aware of potential new and emerging risks arising in the course of implementing the FHFA *Strategic Plan for Enterprise Conservatorships*.

Freddie Mac's Enterprise Risk Management structure continues to benefit from a recent redesign being implemented. However, management is finding it difficult to maintain an adequate control structure because of increased employee turnover and reliance on manual processes.

Solvency

FHFA suspended the solvency (capital) classification for Freddie Mac when conservatorship began in 2008. During conservatorship, any deficit in Freddie Mac's net worth existing at any quarter-end is covered with funding from the U.S. Treasury under the Senior Preferred Stock Purchase Agreement. Freddie Mac's draws for 2011 totaled nearly $8 billion. Cumulative draws since conservatorship began have totaled approximately $71 billion.

Earnings

FHFA assigns earnings a **critical concerns** rating. Total revenues increased slightly in 2011, and credit-related expenses and mark-to-market losses on derivatives also increased. Derivatives losses were offset partly by interest rate-related gains on assets. The Enterprise recognized a $1 billion loss in trading account securities.

Credit Risk

FHFA assigns credit risk a **critical concerns** rating. Although risk is high, it is decreasing, and the quality of credit risk management is adequate.

Our principal concerns are the credit characteristics of the Enterprise's legacy 2005 to 2008 vintage single-family book of business, underwriting and controls in the multifamily business line, continued weak mortgage insurer counterparties, and the increased concentration of counterparty credit risk. The higher quality of the single-family book of business acquired since 2009, which represents a growing proportion of the total, low risk in unsecured lending, and management's success in loss mitigation alleviate some of our concerns.

Photo courtesy Freddie Mac

Freddie Mac headquarters in McLean, Virginia.

Market Risk

FHFA assigns market risk a **significant concerns** rating. The level of risk is high relative to earnings and capital, but the quality of risk management is adequate.

The retained portfolio's growing proportion of illiquid assets is increasing risk. Our concerns arise principally from the level of distressed assets and whole loan portfolios. These assets are less liquid, causing prepayment modeling difficulties and less reliable interest rate risk metrics.

Human capital risk in the investment and capital markets group and the continued negative effects from the mark-to-market on derivative contracts also present concerns. Liquidity and funding risks are low, and the related risk management is adequate.

Operational Risk

FHFA assigns operational risk a **critical concerns** rating. The level of risk is high and increasing, and the quality of operational risk management needs improvement. Human capital risk and the dependence on legacy operational and information technology infrastructure are among the highest risks facing the Enterprise. Organizational change, key-person dependencies, staff turnover, and the need to implement the FHFA *Strategic Plan for Enterprise Conservatorships* keep operational risk elevated and increase the likelihood of significant operational incidents.

Model Risk

FHFA assigns model risk a **significant concerns** rating. The level of model risk is high but stable. FHFA's concerns include the timeliness of model validations and the release of new and updated models. Models used for estimating important variables do not work well in the current economic environment, which increases model risk. These model difficulties make the delays in developing, validating, and deploying new and updated models all the more significant.

Retained Attorney Network

After a special review, in October 2011 we issued a conservator's directive requiring the Enterprise to phase out the retained attorney network. That directive also required Freddie Mac to work with FHFA and Fannie Mae through the Servicing Alignment Initiative (see page 4) to develop and implement consistent requirements, policies, and processes for default- and foreclosure-related legal services.

Affordable Housing Goals for Freddie Mac

Under the Housing and Economic Recovery Act (HERA) and FHFA regulations, Freddie Mac is subject to four single-family affordable housing goals, one single-family housing subgoal, one multifamily special affordable housing goal, and one multifamily housing subgoal. For single-family purchase money mortgages, there are 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 low-income areas housing goal targets mortgages to families in census tracts:

- with tract income no greater than 80 percent of area median income;
- with tract income and borrower income no greater than 100 percent of area median income, if the tract minority population is at least 30 percent; and
- in federally declared disaster areas if borrower income is no greater than 100 percent of area median income.

There is also a low-income areas subgoal, which excludes the third category.

The statute and regulations also require a low-income, single-family refinance goal, as well as a multifamily special affordable goal for low-income families and a subgoal for very low-income families.

On September 14, 2010, FHFA published a final rule establishing housing goals for calendar years 2010 and 2011 (see Figure 7).

Figure 7 shows the goals FHFA established for 2010 and 2011 and official figures on Freddie Mac's goal performance in 2010. Numbers are based on our analysis of loan-level data Freddie Mac provided in early 2011. It also shows preliminary figures on goal performance in 2011, based on information Freddie Mac submitted in its March 2012 *Annual Housing Activities Report for 2011*.

Classification	Definition
Low income	Earning no more than 80 percent of area median income
Very low income	Earning no more than 50 percent of area median income

The 2010 and 2011 single-family housing goals include both benchmark levels and a comparison with the corresponding figures on the qualifying shares of conventional conforming mortgages in the primary mortgage market in each year. This "look-back" procedure is based on FHFA's analysis of data on mortgage originations as reported by lenders in accordance with the Home Mortgage Disclosure Act (HMDA).

If Freddie Mac's performance on a goal falls short of the benchmark, the Enterprise is still deemed to have met the goal if its performance exceeds the corresponding share of mortgages originated in the primary mortgage market, based on FHFA's analysis of HMDA data. These market-based figures are also shown for 2010 in Figure 7. The market-based figures for 2011 will not be available until the 2011 HMDA data is released in September 2012.

Freddie Mac's goal performance in 2010 exceeded its low-income multifamily goal and its very low-income multifamily subgoal. For the single-family goals, Freddie Mac's performance on its low-income refinance goal (22 percent) exceeded the benchmark level (21 percent).

Freddie Mac's performance in 2010 on the low-income home purchase goal (26.8 percent) and the very low-income home purchase goal (7.9 percent) fell slightly short of both the preset benchmark levels (27 percent and 8 percent) and the market figures (27.2 percent and 8.1 percent) once adjustments were made for certain ineligible mortgages insured by the Federal Housing Administration.

Freddie Mac's performance on the low-income areas goal (23.0 percent) and the corresponding subgoal (10.4 percent) fell short of the preset benchmark levels (24 percent and 13 percent) and also below the market levels for 2010 (24 percent and 12.1 percent).

In December 2011, FHFA notified Freddie Mac of its official goal performance figures for 2010 and also of the market-based figures for the single-family goals for 2010. We listed the low-income areas goal and corresponding subgoal where Freddie Mac's performance fell short of both the benchmark and the market-based levels and explained that we had determined the goals to be feasible.

FHFA also informed the Enterprise that it would not have to submit a housing plan under Section 1336 of the Safety and Soundness Act, because of the significant changes to the housing goals structure for 2010 and Freddie Mac's continued operation under conservatorship.

HERA also requires Freddie Mac to report on its financing of low-income units in multifamily properties of a limited size. In a September 2010 rule, FHFA defined multifamily properties of a limited size as those containing from 5 to 50 units. Freddie Mac financed 459 low-income rental units in small multifamily properties in 2010 and 691 units in 2011.

Figure 7. Freddie Mac Housing Goals and Performance for 2010-2011

Category	2010 11 Benchmarks	2010 Performance & Market		2011 Performance[c]
		Performance[a]	Market[b]	
SINGLE-FAMILY GOALS[d]				
Low-income home purchase goal	27%	26.8%	27.2%	23.2%
Very low-income home purchase goal	8%	7.9%	8.1%	6.6%
Low-income areas home purchase subgoal	13%	10.4%	12.1%	9.2%
Low-income areas home purchase goal[e]	24%	23.0%	24.0%	19.2%
Low-income refinance goal	21%	22.0%	20.2%	23.4%
MULTIFAMILY GOALS (units)				
Low-income home purchase goal	161,250	161,500	NA	229,001
Very low-income home purchase goal	21,000	29,656	NA	35,471

Source: Federal Housing Finance Agency

[a] *Official performance in 2010 as determined by FHFA based on analyis of Freddie Mac loan-level data.*

[b] *Qualifying shares of single-family home purchase or refinance conventional conforming mortgages originated in the primary mortgage market based on FHFA analysis of 2010 Home Mortgage Disclosure Act (HMDA) data. FHFA will determine market performance for 2011 later in 2012.*

[c] *Performance as reported by Freddie Mac in its March 2012* Annual Housing Activities Report. *FHFA will determine official performance on all goals after reviewing Freddie Mac loan-level data. Low-income refinance goal for 2010-11 included credit for qualifying permanent loan modifications.*

[d] *Minimum percentages of all dwelling units financed by Freddie Mac's acquisitions of home purchase or refinance mortgages on owner-occupied properties.*

[e] *Includes mortgages to borrowers with incomes no greater than median income in federally declared disaster areas.*

Note: For the single-family goals, if an Enterprise's performance falls short of the benchmark, its performance is also measured against the goal-qualifying share of mortgages originated in the primary mortgage market as determined by FHFA analysis of HMDA data.

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 each Federal Home Loan Bank (FHLBank) to be examined at least annually. FHFA's Division of FHLBank Regulation is responsible for carrying out on-site examinations and ongoing supervision of the FHLBank System. The FHLBank System includes the Office of Finance and 12 FHLBanks: Boston, New York, Pittsburgh, Atlanta, Cincinnati, Indianapolis, Chicago, Des Moines, Dallas, Topeka, San Francisco, and Seattle.

The Division of FHLBank Regulation's oversight of the operations of the FHLBanks promotes both safe and sound operation and achievement of their housing finance and community investment mission. In 2011, the Federal Housing Finance Agency (FHFA) examined all FHLBanks and the Office of Finance, a joint office of the FHLBanks. An annual examination typically involves six to eight weeks of on-site examination work by a team of examiners, led by an examiner-in-charge and augmented by economists, financial analysts, and accountants.

In addition, FHFA examiners visit the FHLBanks between examinations to follow up on examination findings and discuss emerging issues. The agency has designated a separate examiner-in-charge for each FHLBank and the Office of Finance who serves as the principal point of contact for the management of the assigned FHLBank on examination issues.

FHFA examiners use a risk-based approach to supervision. Risk-based supervision is designed to

- identify existing and potential risks that could adversely affect a regulated entity,
- evaluate the overall integrity and effectiveness of each regulated entity's risk management systems and controls, and
- determine compliance with laws and regulations applicable to the regulated entity.

Examiners communicate weaknesses, recommendations, and any required corrective actions to the FHLBank's board of directors and management. In addition, examiners obtain a commitment from the board and management to correct significant deficiencies in a timely manner and then verify the effectiveness of corrective actions. FHFA examiners collaborate with FHFA analysts, accountants, economists, attorneys, and modelers in carrying out supervision of the FHLBanks. In addition, FHFA's Division of Examination Programs and Support augments the staff of the Division of FHLBank Regulation on some assignments.

The Division of FHLBank Regulation's on-site examination program includes ongoing monitoring and analysis of the FHLBanks. The division's off-site monitoring program includes reviews of monthly and quarterly financial reports and information submitted to FHFA, FHLBank board and committee minutes, data on FHLBank investments in private-label mortgage-backed securities (MBS), and financial statements and reports filed with the Securities and Exchange Commission.

The division also monitors debt issuance activities of the Office of Finance and tracks financial market trends. The division reviews FHLBank documents, such as the board of directors' compensation 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, data on collateral securing advances made to individual insurance company members, and periodic data on the FHLBanks' holdings of private-label MBS.

Governance

Effective corporate governance involves engaged, capable, and experienced directors and senior management, a coherent strategy and business plan, clear lines of responsibility and accountability, and appropriate risk limits and controls. Although the FHLBanks exhibit those qualities in varying degrees, the 2011 examinations identified several corporate governance shortcomings.

Overall, governance practices improved in 2011. The FHLBanks addressed many of the issues from previous exams, such as vacant executive and board positions, operational structures, and strategic planning. However, in 2011, we had concerns about the internal audit policies and procedures at some of the FHLBanks.

The FHLBanks have made improvements in the number of end-user computing applications but some need to continue to reduce reliance on end-user computing. A few of the FHLBanks need to address collateral policies for insurance company members and their model validation practices. FHFA also offered recommendations for improvements to executive compensation programs at selected FHLBanks and identified certain concerns about the administration of the Affordable Housing Program (AHP) at certain FHLBanks.

Financial Condition and Performance

The financial condition and performance of the FHLBanks in terms of return on assets and return on equity remained fairly stable in 2011 compared to 2010, but performance continued to be affected by declines in advance balances, pay down of higher-yielding investments, and exposure to private-label MBS. Net income and most key financial ratios decreased modestly in 2011 compared to 2010. However, credit-related impairment charges on the FHLBanks' private-label MBS were less in 2011 than 2010. All FHLBanks recorded positive annual earnings in 2011. Two FHLBanks recorded losses in individual quarters, but in some cases these losses reflect transitory accounting effects. At year end, all FHLBanks exceeded the minimum statutory capital requirement of 4 percent of total assets and their risk-based capital requirements.

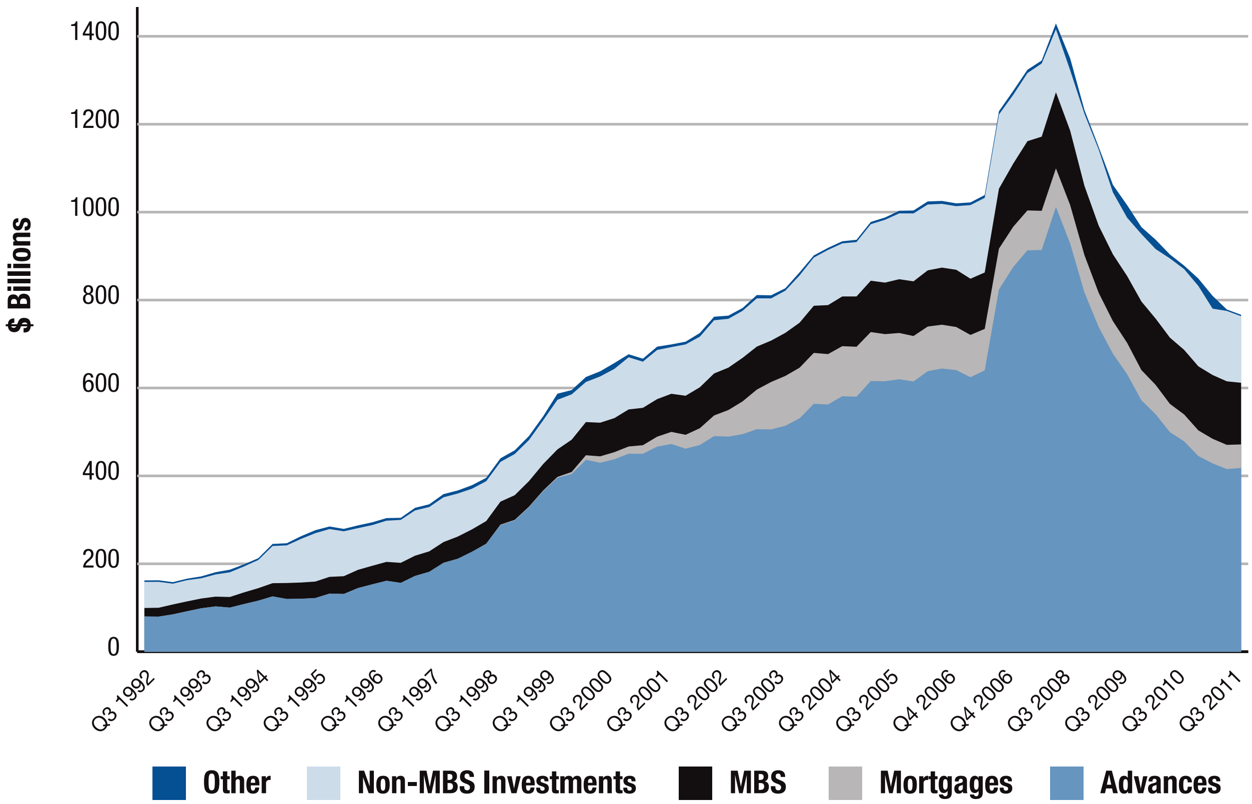
The FHLBanks ended 2011 with total assets of $766.4 billion, down from $878.3 billion at the end of 2010. Declines in advances and total assets were similar in 2011, resulting in little change in the ratio of advances to assets. Advances represented 55 percent of the FHLBanks' balance sheets, continuing as the largest line item, but declined to $418.2 billion at year end. Advances had dropped $594 billion at year-end 2011 from their peak of $1.011 trillion in September 2008. Weak economic conditions in the national economy and high levels of liquidity at member institutions due to strong retail deposit levels and weak loan demand constrained demand for advances in 2011.

FHLBanks held $219.7 billion of investment assets at the end of 2011, down from $334.5 billion one year earlier, or 38 percent of the FHLBanks' balance sheets. Investments can be placed into three broad categories: liquidity investments, MBS investments, and agency securities and other investments. At year-end 2011, the FHLBanks held $90.9 billion of liquidity investments (12 percent of total assets), $60.7 billion of agency and other investments (8 percent of total assets), and $140.2 billion of MBS (18 percent of total assets). As advances have declined as a proportion of the FHLBanks' balance sheet, the proportion of investments has increased.

FHLBanks held $53.4 billion in mortgage loans at the end of 2011, down from $61.2 billion at the end of 2010. Mortgage loans have been trending downward since June 2004, when mortgage balances were $115.9 billion. Currently, mortgage loans make up 7 percent of the FHLBanks' balance sheet.

In 2011, the funding environment for the FHLBanks was favorable as the spread between LIBOR and agency funding rates widened, reflecting financial difficulties in some European countries. LIBOR stands for London Interbank Offered Rate, the rate that international banks charge each other for overnight loans in the London market. At the same time, the amount of FHLBank consolidated obligations outstanding

Figure 8. Portfolio Composition of the Federal Home Loan Banks



Source: Federal Housing Finance Agency

decreased by $103.9 billion during the year due to lower funding needs that reflect the smaller aggregate balance sheet.

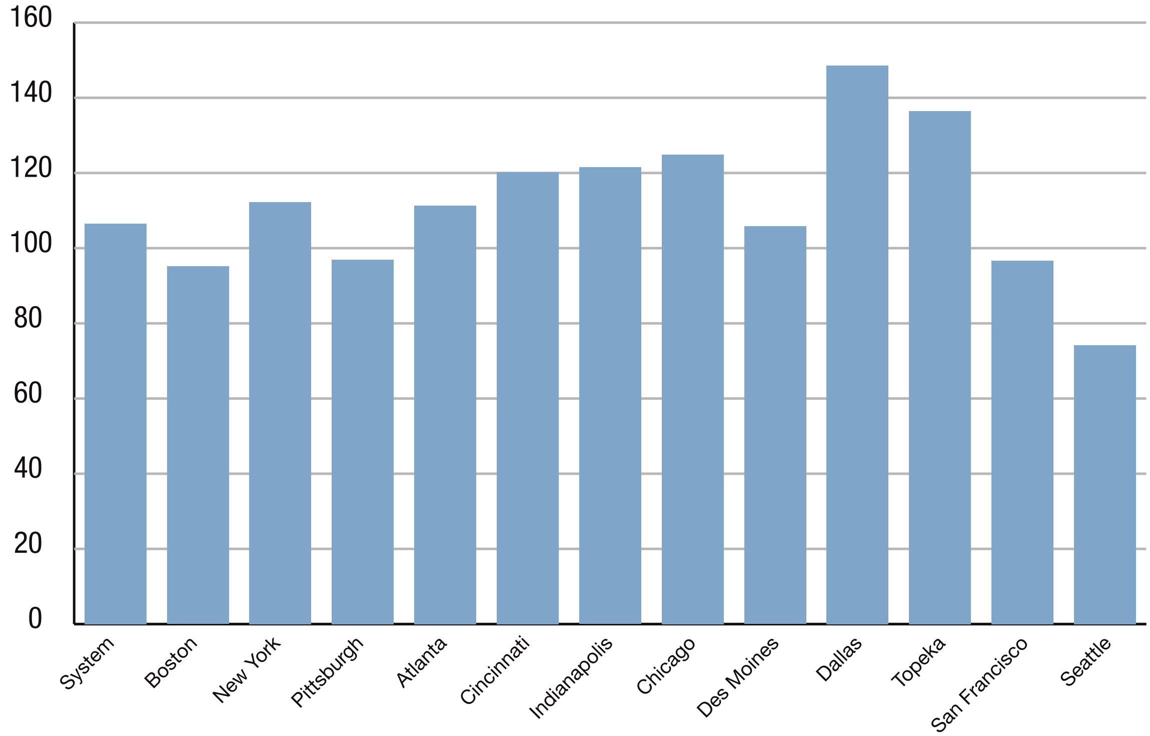
Net income for 2011 was $1.6 billion, down from $2 billion in 2010. The main reasons for the income decrease were the overall decline in the size of the balance sheet, as well as the pay down of higher-yielding investments. The return on average assets was 0.19 percent, compared with 0.21 percent in 2010. The net interest spread, which is the difference between the weighted average yield on assets and the weighted average cost of liabilities, decreased to 0.45 percent for 2011, down from 0.49 percent in 2010.

Mission Orientation of the FHLBanks

Advances are the primary product of the FHLBanks—they provide liquidity to members in accordance with the FHLBanks' mission. Since advance balances peaked in September 2008, the proportion of advances on the FHLBanks' balance sheet has decreased from 71 percent to 55 percent. At the same time, the proportion of investments on the FHLBanks' balance sheet has increased from 23 percent to 38 percent. At year-end 2011, advances were 50 percent or less of total assets at five FHLBanks.

Weak economic conditions in the national economy and the high levels of liquidity at member institutions may limit future demand for FHLBank advances in the near term. The FHLBanks must continue to shrink the size of their balance sheets by limiting investments to maintain a focus on their mission. Current financial market conditions, especially the liquidity of the banking sector, will limit near-term progress in building advances.

Figure 9. Market Value of Equity to Par Value of Capital Stock



Source: Federal Housing Finance Agency

Capital Adequacy

An FHLBank must hold sufficient regulatory capital to meet the greater of the total capital requirement or the risk-based capital requirements. All FHLBanks met these by year-end 2011. The FHLBank of Chicago converted its capital structure to that required by the Gramm-Leach-Bliley Act of 1999. The Chicago FHLBank complies with all regulatory capital requirements. In April 2012, FHFA terminated the cease and desist order the Chicago FHLBank had been operating under since late 2007.

The FHLBanks' regulatory capital generally consists of the amounts paid by member institutions for FHLBank capital stock and the retained earnings of the FHLBank. The regulatory capital of FHLBanks at December 31, 2011, was $52.9 billion, consisting of $35.5 billion of capital stock, $8.5 billion of retained earnings, and $8.8 billion of other regulatory capital, which is principally mandatorily redeemable capital stock arising out of capital stock redemption requests by members or any capital stock held by a nonmember. The weighted average regulatory capital to assets ratio for the FHLBank System was 6.90 percent. As of December 31, 2011, all 12 FHLBanks exceeded the minimum ratio by having more than 4 percent capital-to-assets. All FHLBanks also met all their risk-based capital requirements throughout 2011.

On July 15, 2011, the FHLBanks fully satisfied their statutory obligation to pay 20 percent of their annual net earnings towards the interest payments due on bonds issued by the Resolution Funding Corporation. In anticipation of completing the obligation, the FHLBanks established a joint capital enhancement agreement requiring each FHLBank to transfer 20 percent of its net income each year to a restricted retained earnings account until the FHLBank's account equals

1 percent of its outstanding consolidated obligations. We approved capital plan amendments incorporating the agreement into each FHLBank's capital structure plan.

At the end of 2011, the FHLBanks had 7,768 members—1,044 savings associations, 5,347 commercial banks, 1,121 credit unions, and 256 insurance companies. Approximately two-thirds of members were also FHLBank borrowers.

Figure 10. Summary of Financial Data of the Federal Home Loan Banks

(Dollar amounts in millions)

Selected Statement of Condition Data at December 31	2011	2010	2009	2008	2007
Advances	418,157	478,589	631,159	928,638	875,061
Mortgage loans held for portfolio (net)	53,515	61,191	71,437	87,361	91,610
Investments	271,265	330,470	284,351	305,913	297,058
Total assets	766,086	878,109	1,015,583	1,349,053	1,271,800
Consolidated obligations (net)	697,124	800,998	934,876	1,258,267	1,178,916
Total capital stock	35,542	41,735	44,982	49,551	50,253
Retained earnings	8,577	7,552	6,033	2,936	3,689
Total capital	39,821	43,741	42,809	51,530	53,597
Selected Statement of Income Data for the year ended December 31	**2011**	**2010**	**2009**	**2008**	**2007**
Total interest income	11,408	14,496	20,902	45,595	57,024
Total interest expense	7,304	9,276	15,477	40,352	52,507
Net interest income	4,104	5,220	5,425	5,239	4,517
Provision (reversal) for credit losses	71	58	18	11	3
Net interest income after loss provision	4,033	5,176	5,414	5,232	4,514
Total other income (loss)	(1,035)	(1,422)	(1,779)	(2,350)	127
Total other expense	1,057	932	943	1,076	792
Affordable Housing Program	188	229	258	188	319
Resolution Funding Corporation (REFCORP)	160	498	572	412	704
Total assessments	348	727	830	600	1,022
Net income	1,593	2,081	1,855	1,206	2,827
Selected Other Data for the year ended December 31	**2011**	**2010**	**2009**	**2008**	**2007**
Cash and stock dividends	568	587	641	1,975	2,282
Weighted average dividend rate	1.44%	1.33%	1.38%	3.80%	5.35%
Return on average equity	3.77%	4.82%	3.95%	2.17%	6.01%
Return on average assets	0.19%	0.22%	0.16%	0.09%	0.26%

Sources: Federal Housing Finance Agency and FHLBanks combined financial reports

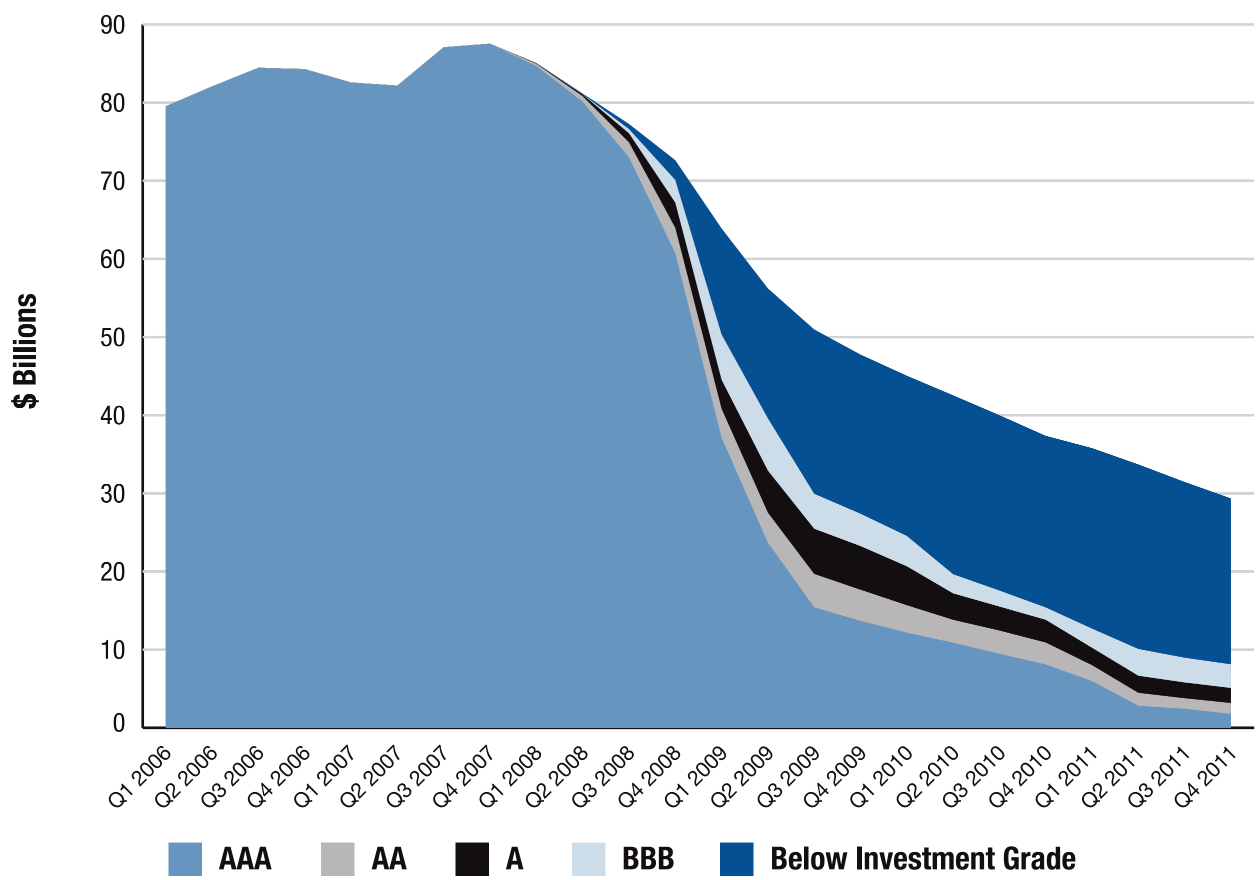
Credit Risk Management

Credit risk is moderate to high, but generally stable, at the individual FHLBanks. With the exception of one FHLBank, examiners judged credit risk management to be adequate, with modest improvements from 2010. Examiners determined that the FHLBanks of Atlanta, Boston, Chicago, Pittsburgh, San Francisco, and Seattle have relatively higher credit risk exposure, principally as a result of exposure to private-label MBS. FHFA examiners characterized the remaining six FHLBanks as having moderate credit risk exposure.

The most significant credit risk associated with the FHLBanks continues to be the private-label MBS portfolios. Credit losses on these securities are highly dependent on the level and direction of housing prices. With improvements in the general economy in 2011, credit losses on private-label MBS declined, but they remain sensitive to any further deterioration of the housing market. The credit exposure to private-label MBS continues to decrease as size of the portfolio decreases due to scheduled principal payments and the sale of some securities.

Credit risk of the advances portfolio is low but has increased over the past several years because of weakening financial health of member institutions. The FHLBanks require members to fully secure advances with eligible collateral before borrowing from the FHLBank. The statutory requirement has had the result that no FHLBank has ever had a credit loss from advances. The quality and value of collateral are fundamental in protecting the FHLBanks from credit losses on advances. The FHLBanks apply a discount to the market value of the collateral, known as a "haircut," based on the FHLBank's assessment of the risk of the asset.

Figure 11. Carrying Value and Ratings of Private-Label MBS



Source: Federal Housing Finance Agency

Some of the FHLBanks need to improve the oversight of advances collateralization, and some need to improve the processes they use for credit model validation. This is particularly true with respect to lending to insurance companies, a growing segment of FHLBank advance business. FHFA views insurance company lending to be riskier than lending to insured depository institutions because each state has its own laws and regulatory framework in place. There are few precedents to help predict how state insurance regulators or state courts would respond to claims by FHLBanks on collateral in the event of an insurance company failure and the treatment could vary from state to state.

The FHLBanks had mortgage holdings of $53.4 billion at the end of 2011, down from $61.2 billion at the end of 2010. The mortgage portfolios do not present significant credit risk for the FHLBanks because of the characteristics of the loans. The mortgage holdings are well-seasoned, fixed-rate, and written to sound underwriting standards to qualified borrowers. The mortgages also are credit-enhanced by either the member that originated the loan or by supplemental mortgage insurance.

Market Risk Management

Mortgage assets continue to be the greatest source of market risk for the FHLBanks. Mortgage assets are typically longer-dated instruments than most other FHLBank assets, have less predictable cash flows, and in the case of private-label MBS, have experienced the greatest swings in market value.

At the end of 2011, FHLBanks held, in book value terms, whole loan mortgages equal to $53.4 billion and mortgage securities equal to $101.2 billion (down from $61.2 billion and $146.9 billion at the end of 2010).

During 2011, the FHLBanks of Topeka and Cincinnati increased their holdings of mortgage assets, both in dollar volume and as a percentage of assets. The FHLBanks of Chicago and Pittsburgh reduced their holdings by both measures. The FHLBanks of Des Moines and Indianapolis reduced their dollar volumes of whole loan mortgages but increased their holdings as a percentage of assets because of declining asset volumes. Although the FHLBanks with declining mortgage portfolios should ultimately face lower market risk, they face potential asset and liability mismatches during the transition. 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 use a more complicated hedging strategy that involves interest-rate swaps, swaptions (options to enter into interest-rate swaps), and options. FHLBanks with floating-rate MBS with embedded rate caps tend to use interest-rate caps (a type of derivative) to hedge these positions.

It is important that the market value of an FHLBank's capital stock equal or exceed the par value of $100 per share because all stock transactions occur at par. The System's market value of equity, which is the estimated market value of the System's assets less the market value of its liabilities, is an important indicator of the FHLBanks' ability to redeem stock at par. Market value of equity had fallen to $30.5 billion, or 54 percent of par stock, at the end of 2008. Since then it has substantially recovered. At the end of 2011, the market value of equity for the System was $46.4 billion, or 106 percent of par stock (see Figure 9). The recovery in the market value of equity to par stock ratio has resulted from several factors:

- improved values of the System's mortgage-related assets as mortgage rates and spreads (mortgage rates less swap rates) were much lower at the end of 2011 relative to the end of 2008;
- slower than expected mortgage prepayments;
- reduced credit spreads (rising prices) on private-label MBS; and
- substantially increased retained earnings.

Retained earnings, for example, increased from $7.5 billion at the end of 2010 to $8.5 billion at the end of 2011. Additionally, during 2011, the redemption and repurchase of member stock at par by FHLBanks with market value of equity to par stock ratios greater than 1 served to increase the market value of equity to which remaining shares had claim.

Figure 12 shows the sensitivity of the FHLBanks' market value of equity to par stock ratios at the end of 2011 (base case) and for five alternative interest rate scenarios based on model results provided by the FHLBanks. For rate increases at the end of 2011, the assumption was that all market rates increased by the same amount (50, 100, or 200 basis points). For rate decreases, because of the extremely low interest rates on instruments with short maturities, the assumption was that all rates fell by the same amount (50 or 100 basis points) but were restricted from falling below zero.

None of the FHLBanks' ratios, particularly those with low base-case ratios, are very sensitive to parallel changes in market rates of 50 or 100 basis points. The FHLBank of Seattle, for example, estimates that its ratio would fall by only 0.02 (from 0.74 down to 0.72) for rate changes of 100 basis points, though it does estimate a more significant exposure to a less likely 200 basis point rate increase. The largest estimated decline in the ratio for a change of 50 or 100 basis points in either direction is 0.04 for the FHLBank of Dallas. Such a decline for the FHLBank of Dallas, however, would not create severe problems because its market value of equity to par stock ratio is the highest in the System at 1.49.

Uncertainty about private-label MBS adjustments related to market risk metrics, prepayment speeds, and the effects of extremely low interest rates at short maturities all serve to increase model risk.

Figure 12. Market Value of Equity to Par Stock Ratios for Parallel Interest Rate Shocks

FHLBank[a]	100	50	Base Case	50	100	200
Seattle	0.75	0.75	0.74	0.73	0.72	0.69
Boston	0.97	0.96	0.95	0.95	0.95	0.93
San Francisco	1.02	0.99	0.97	0.96	0.95	0.93
Pittsburgh	1.02	0.99	0.97	0.96	0.95	0.92
System	1.10	1.08	1.06	1.06	1.06	1.03
Des Moines	1.02	1.05	1.06	1.07	1.05	0.98
Atlanta	1.16	1.14	1.11	1.11	1.10	1.07
New York	1.18	1.15	1.12	1.12	1.12	1.10
Cincinnati	1.18	1.18	1.20	1.23	1.23	1.21
Indianapolis	1.23	1.22	1.21	1.23	1.23	1.22
Chicago	1.31	1.28	1.25	1.25	1.25	1.25
Topeka	1.39	1.37	1.36	1.38	1.40	1.41
Dallas	1.52	1.50	1.49	1.47	1.45	1.41

Source: Federal Housing Finance Agency

[a] *FHLBanks are listed from lowest to highest base case market value of equity to par stock ratio.*

Operational Risk Management

Operational risk is the risk of losses due to failure of internal processes or systems, fraud, human error, or external events. Although high levels of operational risk may lead to monetary losses, damage to an FHLBank's reputation, or significant reporting errors to members, investors, and FHFA, operational risk at the FHLBanks is low to moderate. In 2011, the FHLBanks did not incur operational failures that caused substantial losses.

The FHLBanks are large, complex financial institutions that require the use of financial models, technological resource systems, and other processes that inherently expose them to operational risks. The FHLBanks' use of manual processes and user-developed applications increase these risks. Past examinations have criticized the number of user-developed applications and the time it has taken to upgrade with better solutions. Although most FHLBanks have progressed in this area, some FHLBanks still present concerns.

The FHLBanks have implemented effective internal controls to detect and prevent operational issues. Each FHLBank has a business continuity plan and a backup location regularly evaluated by examiners.

Affordable housing and community investment activities present the potential for operational risk that could affect an FHLBank's reputation. Generally, the FHLBanks have satisfactory risk management in this area. However, some FHLBanks require upgrades to AHP information technology tools.

FHLBank Examination Conclusions

District 1: The Federal Home Loan Bank of Boston[4]

The FHLBank of Boston is the seventh largest FHLBank with total assets of $50 billion. The overall condition of the FHLBank presents limited supervisory concerns. The key factor affecting Boston's overall condition is a low retained earnings level relative to the credit risk embedded in its private-label MBS portfolio. The FHLBank's earnings were positive in 2011.

The financial condition of the FHLBank of Boston is generally weak when compared with other FHLBanks, especially with respect to retained earnings and credit risk, though its 2011 earnings performance showed some improvement, and several earnings metrics are above System averages. The FHLBank's retained earnings level remains a concern. Boston's retained earnings to total assets ratio of 0.80 percent is up significantly from 0.42 percent at year-end 2010 but still ranks fourth lowest in the System.

Lingering credit losses from private-label MBS continue to potentially constrain the FHLBank of Boston's ability to accumulate retained earnings. The FHLBank's private-label MBS portfolio totals $2.7 billion par value and $1.6 billion in carrying value, or 3 percent of total assets. The portfolio is of poor quality, with 83 percent of the carrying value rated below investment grade. Cumulative credit-related impairment charges totaled $639 million through year-end 2011, with $77 million in realized cash-flow disruptions.

The size of the private-label MBS portfolio, both in dollar terms and as a proportion of assets, has contracted over the last few years but continues to elevate credit risk for the FHLBank of Boston. Net income in 2011 was $160 million, driven by strong net interest income. However, while the FHLBank's core earnings can be attributed in large part to its high net interest spreads, a portion of the FHLBank's 2011 net income came from nonrecurring gains on sales of securities and prepayment fees on advances.

Despite general weakness, the FHLBank of Boston's financial condition and performance have improved in several respects. For example, the FHLBank has reported nine consecutive quarters of positive net income and, after a two-year suspension, resumed dividend payments in the first quarter of 2011. The FHLBank paid dividends averaging an annualized rate of 0.30 percent in 2011 and added $150 million to retained earnings.

Boston's regulatory capital ratio is well above the System average, though this is partly because of the FHLBank's significant excess stock holdings arising from balance-sheet contraction. One positive consequence of the FHLBank's roll-off of advances to its largest borrower and shrinking balance sheet in 2011 was a reduction in the FHLBank's borrower concentration.

Boston continues to improve its corporate governance and in 2011 resolved outstanding concerns related to its investment portfolio. However, in 2011 FHFA identified weaknesses associated with the FHLBank's policies and procedures surrounding its operations and regulatory compliance function. Boston's credit profile remains its largest source of risk because of the possibility of more losses on private-label MBS. Given the corporate governance concerns, potential private-label MBS portfolio losses, and a comparatively low level of retained earnings, Boston continues to warrant heightened supervisory attention.

	Level of Risk	Quality of Management
Market Risk	Moderate	Adequate
Credit Risk	High	Adequate
Operational Risk	Moderate	Adequate
Governance		Needs to Improve

4 The 2011 FHFA examination of the FHLBank of Boston began on September 26, 2011. This report reflects examination conclusions at the time of examination.

District 2: The Federal Home Loan Bank of New York[5]

The FHLBank of New York is the third largest FHLBank with total assets of $97.7 billion. The overall condition of the FHLBank is satisfactory. The key factors affecting New York's overall condition include its relatively high advances concentration, low exposure to private-label MBS, and strong risk-adjusted capital position. Although net income has declined recently, the decline represents a return to historically normal levels from the high levels achieved during the liquidity crisis.

The FHLBank of New York compares favorably with other FHLBanks in terms of financial condition and performance. At $70.9 billion, advances represent 73 percent of total assets, down from 81 percent at year-end 2010 but still the highest ratio in the System.

New York holds the third smallest portfolio of private-label MBS relative to total assets in the System at 0.7 percent. As a result, credit-related losses are less frequent and severe than for most other FHLBanks.

Declining earning assets have put downward pressure on earnings, but New York's profitability remains strong. Net income declined to $245 million in 2011 from $276 million in 2010. Consistently strong and positive income has driven growth in retained earnings, which stand at $746 million, or 0.76 percent of assets. Given the fact that the FHLBank's balance sheet is centered on advances and has low exposure to private-label MBS, this growth in retained earnings represents a relatively strong risk-adjusted capital position.

The FHLBank maintains one of the lowest risk profiles in the System and its overall financial condition and performance remain strong, but we have some concerns about its high concentration of advances to insurance companies and administration of its Affordable Housing Program. Advances outstanding to insurance companies account for 24 percent of New York's total advance portfolio, the fourth highest concentration in the System.

Lending to insurance companies poses a number of unique risks not present in lending to federally insured depository institutions. For example, there is no single federal regulator for insurance companies. They are supervised by state regulators and subject to state insurance codes and regulations.

There is uncertainty about whether a state insurance commissioner would try to void FHLBank claims on collateral in the event of an insurance company failure. Even if ultimately unsuccessful, such a legal challenge could result in a delay in the liquidation of collateral and a loss of market value. Although the FHLBank of New York has taken steps to mitigate the risk of lending to insurance companies, it must continue to monitor and manage these unique risks.

Management must also dedicate sufficient time and resources to addressing analytical deficiencies and ineffective application review procedures in its Affordable Housing Program.

	Level of Risk	Quality of Management
Market Risk	Low	Adequate
Credit Risk	Moderate	Adequate
Operational Risk	Moderate	Adequate
Governance		Adequate

5 The 2011 FHFA examination of the FHLBank of New York began on September 26, 2011. This report reflects examination conclusions at the time of examination.

District 3: The Federal Home Loan Bank of Pittsburgh[6]

The FHLBank of Pittsburgh is the sixth largest FHLBank with total assets of $52 billion. The overall condition of the FHLBank presents supervisory concerns. The key factors affecting Pittsburgh's overall condition include potential for additional credit-related losses on its private-label MBS portfolio, weak earnings, and low retained earnings.

The FHLBank of Pittsburgh is weak compared with other FHLBanks in terms of financial condition and performance. Pittsburgh's advance portfolio grew by 3 percent to $30.6 billion in 2011, with most of the increase due to its largest borrowers. Of all the FHLBanks, Pittsburgh has the second highest percentage of advances outstanding both to its largest borrower and its 10 largest borrowers, increasing concentration risk.

The FHLBank also continues to be exposed to high levels of credit risk from private-label MBS. Its private-label MBS portfolio carrying value is $3.3 billion, or 6 percent of assets—the second highest ratio in the System. To date, 95 percent of the portfolio has been downgraded, and 68 percent is rated below investment grade.

Credit-related losses on this portfolio have substantially reduced earnings. The FHLBank reported net income of $38 million in 2011, the lowest earnings in the System, partly due to $45 million in credit-related impairment charges on the private-label MBS portfolio. Because of the FHLBank's weak earnings, its contributions to retained earnings have been low, and retained earnings are inadequate given the credit risk of its investment portfolio. Pittsburgh's retained earnings-to-assets ratio of 0.84 percent is the fifth lowest in the System. The FHLBank suspended dividend payments and capital stock repurchases in the fourth quarter of 2008. It removed the self-imposed restriction on capital stock repurchases in the third quarter 2010 and has repurchased excess stock each quarter since.

The FHLBank of Pittsburgh also needs to address a number of other areas. The internal audit department continues to be a concern. For the fourth consecutive year, the department has failed to implement a risk-based audit methodology.

Finally, the FHLBank has not demonstrated to our satisfaction that it complies with section 7(j) of the Federal Home Loan Bank Act. Controls are inadequate over transactions with members that have an officer serving on the board of directors and with recipients of Affordable Housing Program funding that have an officer serving on the FHLBank's Affordable Housing Advisory Council.

	Level of Risk	Quality of Management
Market Risk	High	Adequate
Credit Risk	High	Adequate
Operational Risk	Moderate	Adequate
Governance		Needs to Improve

6 The 2011 FHFA examination of the FHLBank of Pittsburgh began on February 28, 2011. This report reflects examination conclusions at the time of examination.

District 4: The Federal Home Loan Bank of Atlanta[7]

The FHLBank of Atlanta is the largest FHLBank with total assets of $125.3 billion. The overall condition of the FHLBank is satisfactory. The key factors affecting Atlanta's overall condition include the FHLBank's strong earnings capacity, its continued increase in retained earnings, and improved risk management, as well as the risk of further credit losses on its private-label MBS portfolio.

Several factors of the financial condition and performance of the FHLBank of Atlanta compare favorably to other FHLBanks. Core earnings have remained sufficient to offset credit losses on the FHLBank's private-label MBS portfolio. This allowed the FHLBank to report a profit of $184 million in 2011, despite $118 million in credit losses during the year.

Atlanta paid a dividend at an annualized rate of 0.79 percent in 2011 and resumed repurchasing excess stock from members. As a result, excess stock was down from a high of 40 percent in the first quarter of 2011 to 19 percent of total regulatory stock at year end.

The FHLBank's strong core earnings allowed retained earnings to increase 29 percent in 2010 and an additional 12 percent in 2011. As total assets have declined and retained earnings have increased, the FHLBank's retained earnings to assets ratio has improved to 1 percent. As retained earnings balances have increased and private-label MBS balances have declined, the FHLBank's market value of equity-to-par value of capital stock ratio has improved to 111 percent.

Despite declines in advance balances, the FHLBank of Atlanta has maintained a relatively strong mission-oriented balance sheet. At year-end 2011, 69 percent of its assets were advances—the second highest ratio in the System.

Though the FHLBank's earnings capacity has remained strong, credit risk associated with its private-label MBS portfolio remains a principal concern. Atlanta's $6.6 billion private-label MBS portfolio accounts for 5.3 percent of total assets but carries outsized risks for the FHLBank. Private-label MBS ratings have continued to decline, with 65 percent of the portfolio rated below investment grade at year-end 2011, compared to 48 percent at year-end 2010. Credit losses slowed in 2011 relative to 2010 but remain uncertain and outside the FHLBank's control. As Atlanta's balance sheet continues to shrink, it may have lower earnings to offset additional losses on private-label MBS assets.

Management has improved risk management with several initiatives to strengthen FHLBank-wide risk assessment. However, the FHLBank could make more improvements to collateral risk management. Atlanta does not have a formal process to document support for decisions to allow members it deems to have the highest risk to maintain control of collateral. In addition, the FHLBank should expand its methodology for determining haircuts (see page 32) for insurance companies that have longer-dated securities pledged as collateral. Atlanta should also be diligent in monitoring practices for unsecured counterparty exposures.

	Level of Risk	Quality of Management
Market Risk	Moderate	Adequate
Credit Risk	High	Adequate
Operational Risk	Moderate	Adequate
Governance		Adequate

7 The 2011 FHFA examination of the FHLBank of Atlanta began on June 27, 2011. This report reflects examination conclusions at the time of examination.

District 5: The Federal Home Loan Bank of Cincinnati[8]

The FHLBank of Cincinnati is the fifth largest FHLBank with total assets of $60.4 billion. The overall condition of the FHLBank is satisfactory. The key factors affecting Cincinnati's overall condition include strong core earnings and low credit risk but weak advance demand and a large balance of investments. The FHLBank also needs to address deficiencies in certain areas of risk management.

The financial condition and performance of the FHLBank of Cincinnati compare favorably with other FHLBanks. Although contraction in the advances portfolio continues, it slowed substantially in 2011. Advances declined by 5.8 percent in 2011 to $28.4 billion. By comparison, advances declined 15.7 percent in 2010.

Cincinnati continues to benefit from minimal exposure to private-label MBS. Although some FHLBanks have struggled with the negative earnings and capital implications of credit losses on private-label securities, Cincinnati has had no impairment charges on its small private-label MBS portfolio. This has allowed the FHLBank to remain profitable and maintain an adequate risk-adjusted capital position even as it continues to pay dividends.

Despite these relative strengths, the FHLBank of Cincinnati faces several challenges going forward. Weak conditions in the housing market continue to weigh on demand for advances. Additionally, the FHLBank carries a large balance of advances outstanding to institutions that formerly were members but are no longer eligible for membership as a result of merger with an out-of-district partner. These former members currently hold $4.8 billion of advances, which represents 17.1 percent of Cincinnati's total advance portfolio. They may allow their outstanding advances to roll off but are now unable to borrow from the FHLBank. These advances will continue to run off over the next several years.

A second concern is associated with relatively high levels of excess capital stock, which give rise to a large investment portfolio as the FHLBank leverages its capital base to generate additional returns. Investments represent 39.7 percent of the FHLBank's total assets, while advances are less than half of total assets. This balance sheet composition raises questions about the housing mission focus of the FHLBank.

The FHLBank of Cincinnati maintains a conservative risk profile and generally adequate risk management processes. But the FHLBank could improve in several areas, including credit and collateral risk management and regulatory compliance management.

Cincinnati's whole loan mortgage portfolio performs much better than industry averages from a credit risk perspective. However, the FHLBank should enhance governance over its process for establishing and calculating a reserve for losses on mortgage loans, which is a concern because of adverse delinquency trends on some of these loans. Administration of the FHLBank's standby bond purchase agreement program also needs improvements, particularly in the areas of credit analysis, pricing, and risk assessment.

In the area of collateral risk management, Cincinnati needs to be vigilant in the untimely completion of on-site collateral reviews. Finally, the FHLBank lacks a single compliance system, which had resulted in a regulatory violation, now corrected, and several practices inconsistent with regulatory guidance. To address this problem, the FHLBank needs to consolidate the compliance systems in place for individual departments into an institution-wide regulatory compliance program.

	Level of Risk	Quality of Management
Market Risk	Moderate	Adequate
Credit Risk	Moderate	Adequate
Operational Risk	Moderate	Adequate
Governance		Adequate

8 The 2011 FHFA examination of the FHLBank of Cincinnati began on February 28, 2011. This report reflects examination conclusions at the time of examination.

District 6: The Federal Home Loan Bank of Indianapolis[9]

The FHLBank of Indianapolis is the ninth largest FHLBank with total assets of $40.4 billion. The overall condition of the FHLBank is satisfactory. The key factors affecting Indianapolis' overall condition include its relatively low proportion of advances, high proportion of mortgages, credit risk from its private-label MBS, and concentration of advances to insurance companies.

The financial condition and performance of the FHLBank of Indianapolis are average among the FHLBanks. Advances increased from $18.3 billion to $18.6 billion at year-end 2010, making Indianapolis one of the two FHLBanks that reported an increase in advances during the year.

Advances represent 46 percent of total assets, up from 41 percent at year-end 2010 but still the third-lowest ratio in the System. Mortgages remained unchanged from year-end 2010 at 15 percent of total assets, the third highest ratio in the System. While maintaining a large mortgage portfolio supplements its low advances in terms of core mission assets, such a large mortgage portfolio heightens market risk due to interest rate and prepayment uncertainties.

The private-label MBS portfolio is shrinking, but it continues to elevate credit risk at Indianapolis. The FHLBank holds $1 billion of private-label MBS, amounting to 3 percent of total assets. The private-label MBS portfolio is small, but more than 70 percent of the carrying value is rated below investment grade. Cumulative credit-related impairment charges on the FHLBank's private-label MBS portfolio totaled $157 million through the end of 2011.

The FHLBank reported net income of $110 million in 2011, essentially unchanged from net income of $111 million in 2010. The FHLBank has reported positive earnings for six consecutive quarters, allowing it to build retained earnings. Retained earnings total $498 million, or 1.23 percent of assets. The retained earnings ratio is above the System average of 1.11 percent, which is appropriate in light of the FHLBank's exposure to further credit losses on its private-label MBS portfolio.

Despite adequate financial performance, there are some concerns about the FHLBank's increasing concentration of lending to insurance companies as well as the weakened financial condition of many of its members. Insurance companies hold 42 percent of total outstanding advances at Indianapolis, the second highest concentration in the System.

Lending to insurance companies carries different risks than lending to other types of members, including questions about how state insurance commissioners or state judges would treat collateral held by secured lenders if an insurance company encountered serious financial difficulties. The FHLBank of Indianapolis has taken steps to mitigate these risks, but it must continue to monitor and manage them.

The FHLBank's membership base is weak because of poor economic conditions in the district. Five members and one nonmember institution failed in 2010, and a number of other members are financially vulnerable. In light of these conditions, Indianapolis has improved its monitoring of member creditworthiness by automating the credit scoring for insurance company members, researching insurance company lending extensively, having a third party review of policies dealing with how much collateral a member should pledge, and increasing staffing in the credit underwriting area.

	Level of Risk	Quality of Management
Market Risk	Moderate	Adequate
Credit Risk	Moderate	Adequate
Operational Risk	Moderate	Adequate
Governance		Adequate

9 The 2011 FHFA examination of the FHLBank of Indianapolis began on February 28, 2011. This report reflects examination conclusions at the time of examination.

District 7: The Federal Home Loan Bank of Chicago[10]

The FHLBank of Chicago is the fourth largest FHLBank with total assets of $71.3 billion. The overall condition of the FHLBank presents limited supervisory concerns. Chicago implemented its capital stock conversion plan at year-end 2011 as mandated by the Gramm-Leach-Bliley Act of 1999. The FHLBank's asset composition is still not sufficiently mission-oriented, and the FHLBank relies on investments and mortgages to generate income. In addition, Chicago has exposure to below-investment-grade private-label MBS.

The profitability of the FHLBank of Chicago compares favorably to other FHLBanks, but its mission-orientation, and credit and market risk levels are unfavorable. Contraction in Chicago's advance portfolio continues as weak conditions in the district constrain demand for advances. Advances make up only 22 percent of its balance sheet, indicating it faces a significant challenge in reestablishing a mission orientation in its balance sheet. The FHLBank holds $15.3 billion in advances, down $3.6 billion, or 19 percent, from year-end 2010.

Since 2008, advances have declined by $22.8 billion, or 60 percent. The FHLBank's investment portfolio totals $41.5 billion, or 58 percent of total assets. The majority of these investments are long-term government-sponsored enterprise MBS and other federally backed longer-term securities. In total, 54 percent of Chicago's balance sheet is whole mortgage loans or MBS, resulting in relatively high market risk. In addition, the FHLBank owns $1.8 billion of private-label MBS, more than 95 percent rated below investment grade, which increases credit risk.

The FHLBank's profitability remains above average. Chicago earned $224 million in 2011 with a 0.28 percent return on assets and a 7.23 percent return on equity. Chicago's regulatory leverage ratio is average at 6.35 percent. In addition, the FHLBank holds $1.3 billion in retained earnings, equal to 1.83 percent of total assets, the highest ratio of retained earnings to assets in the FHLBank System.

The FHLBank of Chicago faces some financial challenges in the future. If the FHLBank of Chicago cannot sufficiently grow its advance base from its currently depressed levels, achieving mission-orientation will require significant downsizing of its balance sheet. The level of downsizing would pose challenges during the transition to the new asset mix and require careful attention to risk management as assets were sold or allowed to run off. And such downsizing could lead to substantial reductions in earnings.

Added concerns include the FHLBank's potential for continued credit losses from its private-label MBS portfolio.

During the past decade, the financial condition of the Chicago FHLBank was been more precarious than currently. In 2007, the FHLBank entered into a cease and desist order with the former Federal Housing Finance Board, one of the predecessor agencies of FHFA. In April 2012, FHFA terminated the cease and desist order because of the FHLBank's improved condition and more stable capital base.

	Level of Risk	Quality of Management
Market Risk	Moderate	Adequate
Credit Risk	High	Adequate
Operational Risk	Moderate	Adequate
Governance		Needs to Improve

10 The 2011 FHFA examination of the FHLBank of Chicago began on June 13, 2011. This report reflects examination conclusions at the time of examination.

District 8: The Federal Home Loan Bank of Des Moines[11]

The FHLBank of Des Moines is the eighth largest FHLBank with total assets of $48.7 billion. The overall condition of the FHLBank is satisfactory. The key factors affecting Des Moines' overall condition include adequate current earnings, declining market risk, moderate credit risk in its advance portfolio, and modest but increased risk in its whole loan mortgage portfolio. The FHLBank is addressing concerns regarding operations management.

The financial condition and performance of the FHLBank of Des Moines are average relative to other FHLBanks. The FHLBank's advances portfolio continues to contract. Advances fell by $2.7 billion, or 9 percent, in 2011 to $26.6 billion. This followed a $6.5 billion, or 18 percent, decline in 2010.

Unlike many other FHLBanks, this FHLBank's advance balances are at a higher level than before the 2007-2008 liquidity crisis. The FHLBank has approximately one-third of its balance sheet exposed to long-term mortgage-related assets, increasing market risk. However, it has minimal exposure to private-label MBS. The FHLBank's profitability is slightly below the System average, and its regulatory capital is more leveraged than other FHLBanks. Des Moines holds $569 million of retained earnings, equal to 1.17 percent of total assets, which is higher than the System average of 1.11 percent.

Des Moines faces several future challenges. Insurance companies hold 49 percent of its outstanding advances. Lending to insurance companies exposes the FHLBank to more credit risk than lending to depositories. In addition, weak conditions in the housing market continue to depress overall demand for advances. As advance demand sags, long-term mortgage assets may increase as a proportion of its total assets, which could increase market risk.

The level of operational risk of the FHLBank is moderate as management progresses on converting to a new core processing system, data governance initiatives, and continuing process improvements. Operational risk has been stable but could increase during the transition to the new system.

	Level of Risk	Quality of Management
Market Risk	Moderate	Adequate
Credit Risk	Moderate	Adequate
Operational Risk	Moderate	Adequate
Governance		Adequate

[11] The 2011 FHFA examination of the FHLBank of Des Moines began on February 28, 2011. This report reflects examination conclusions at the time of examination.

District 9: The Federal Home Loan Bank of Dallas[12]

The FHLBank of Dallas is the eleventh largest FHLBank with total assets of $33.8 billion. The overall condition of the FHLBank is satisfactory. The key factors affecting Dallas' overall condition include a strong capital position and low credit risk, as well as declining advance balances and weak earnings that are partially due to the shrinkage in advances.

The financial condition and performance of the FHLBank of Dallas are mixed. Advances represent 56 percent of total assets, which is slightly greater than the System average of 55 percent, but the FHLBank's advance portfolio declined by 26 percent in 2011 to $18.8 billion. The repayment of advances from some of its largest borrowers that began in late 2008 has significantly affected the FHLBank's advances business.

The FHLBank has a small private-label MBS portfolio of $252 million that has been in a run-off mode since 2006. This is the third lowest exposure in the System and accounts for less than 1 percent of the FHLBank's assets. To date, the FHLBank of Dallas has incurred just $12.7 million of credit-related impairment charges on these securities.

The FHLBank is adequately capitalized. Its retained earnings total $495 million, or 1.46 percent of assets, the third highest retained earnings to assets ratio in the System. However, its contracting balance sheet is pressuring earnings. To support earnings, the FHLBank purchased $4.9 billion of agency debt securities during the second half of 2011. These securities' coupons were either indexed to a floating rate or converted to a floating rate with interest-rate swaps. Dallas earned $48 million in 2011, the second lowest earnings in the System, and paid dividends of $5.1 million.

The main concern for the FHLBank is its shrinking advance business. Advances have declined by 72 percent since reaching an all-time high of $68 billion in the third quarter of 2008. Two of its former largest borrowers have led the decline. Since the third quarter of 2008, advances to these two institutions have declined by $31.3 billion.

Although the FHLBank has had seven different chief risk officers in as many years, which has raised concerns in past FHFA examinations, the current chief risk officer has been in the position and served effectively for more than one year. Our examiners previously have raised concerns about the reporting relationship of this position as well, but the FHLBank adopted a new organizational structure in 2011 to address this concern. The chief risk officer now reports directly to the chief executive officer.

Management also revised its end-user computing policy and changed its procedures. The policy change resulted in an increased number of end-user applications classified as low risk.

The FHLBank amended the collateral transition plans required for two of its members in 2011 because of the type of pledged collateral (subprime private-label MBS) and the net shortfall of eligible collateral. The FHLBank must continue to monitor these two members closely to make sure they adhere to the new strategy and to avoid a problem if collateral coverage deteriorates.

	Level of Risk	Quality of Management
Market Risk	Moderate	Adequate
Credit Risk	Moderate	Adequate
Operational Risk	Moderate	Adequate
Governance		Adequate

12 The 2011 FHFA examination of the FHLBank of Dallas began on June 13, 2011. This report reflects examination conclusions at the time of examination.

District 10: The Federal Home Loan Bank of Topeka[13]

The FHLBank of Topeka is the smallest FHLBank with total assets of $33.2 billion. The overall condition of the FHLBank is satisfactory. The key factors affecting Topeka's overall condition include stable core profitability and low credit risk along with declining advance balances and a changing asset mix.

The financial condition of the FHLBank of Topeka is favorable compared with other FHLBanks. The FHLBank generated modest earnings of $77 million in 2011, while net interest income averaged $58 million per quarter. Net interest income has averaged approximately $60 million per quarter over the last three years.

Topeka holds a small portfolio of private-label MBS consisting largely of prime, seasoned securities. The FHLBank has taken modest credit impairment charges on this portfolio. Stable core income with low credit losses have allowed the FHLBank to accumulate retained earnings and build a strong risk-adjusted capital position. Retained earnings total $401 million, or 1.21 percent of assets.

Although advances continue to decline, the pace of contraction in the portfolio has slowed. Topeka holds 15 percent of its assets in whole loan mortgages, among the highest in the FHLBank System. The FHLBank's management plans to cap the growth in mortgages and balances should level off. Provisions for credit losses associated with these loans have been minimal due to their high credit quality, but mortgages continue to warrant enhanced market and credit risk management.

Despite its financial strengths, Topeka faces several challenges in the future. Total assets are trending downwards because of a combination of declining advances, smaller MBS balances, and reductions in short-term investments. Topeka has begun an initiative to change its balance sheet composition to align with the overall housing mission of the FHLBanks, which will reduce its leverage and risk profile but could also pressure future earnings. In addition, the FHLBank of Topeka continues to experience accounting volatility in earnings due to market value changes in certain derivatives and securities.

The FHLBank has weaknesses in the administration of its Affordable Housing Program, and needs to improve the financial analysis of projects and the program's consistency. Because of a significant amount of advances outstanding to insurance companies, the FHLBank must effectively manage the unique risks related to insurance company lending. The board and management have taken action to put in place prudent limits for unsecured credit exposures, but Topeka must continue to monitor and manage counterparty risk. Finally, the FHLBank needs to take further corrective action to improve oversight of end-user computer applications and model validation and review processes.

	Level of Risk	Quality of Management
Market Risk	Moderate	Adequate
Credit Risk	Moderate	Adequate
Operational Risk	Moderate	Adequate
Governance		Adequate

13 The 2011 FHFA examination of the FHLBank of Topeka began on September 26, 2011. This report reflects examination conclusions at the time of examination.

District 11: The Federal Home Loan Bank of San Francisco[14]

The FHLBank of San Francisco is the second largest FHLBank with total assets of $113.6 billion. The overall condition of the FHLBank presents limited supervisory concerns. The key factors affecting San Francisco's overall condition include high credit risk related to a large private-label MBS portfolio and declining core earnings.

The financial condition and performance of the FHLBank of San Francisco are generally weak when compared with other FHLBanks. San Francisco reported net income of $216 million in 2011, down 46 percent from net income of $399 million in 2010. Credit losses on private-label MBS increased to $412 million in 2011 from $331 million in 2010. The FHLBank holds $11.4 billion of private-label MBS, 78 percent downgraded to below investment grade. This large and generally low-quality MBS portfolio could continue to constrain earnings.

We also have concerns about the composition of earnings and sustainability of the FHLBank's current balance sheet structure. Advances continued a steep decline in 2011, largely due to reductions in borrowing by large members. Advances declined 29 percent in 2011 to $68.2 billion, their lowest level at San Francisco since the fourth quarter of 1998.

The FHLBank prices its advances at tight spreads, which, along with the shape of the yield curve, is a contributing factor driving interest income from advances significantly lower as a proportion of total interest income. In 2011, advances accounted for just 39 percent of total interest income, down from 78 percent in 2007. During the same period, interest income from MBS grew from 10 percent to more than half of total interest income.

Elevated spreads on mortgage assets due to slow prepayment speeds and a favorable refinancing environment for callable debt now account for the majority portion of San Francisco's earnings, allowing it to maintain narrow spreads on its primary business of advances. Mean reversion in mortgage asset spreads could pressure earnings, which are already limited by declining advance income and private-label MBS credit impairment.

In addition to credit risk and financial performance issues, the San Francisco FHLBank is working to improve its risk oversight function. In 2011, the FHLBank took initial enhancement steps, including basic separation of risk taking from risk oversight. Management plans additional risk process improvements for 2012.

	Level of Risk	Quality of Management
Market Risk	Moderate	Adequate
Credit Risk	High	Adequate
Operational Risk	Moderate	Adequate
Governance		Needs to Improve

[14] The 2011 FHFA examination of the FHLBank of San Francisco began on September 26, 2011. This report reflects examination conclusions at the time of examination.

District 12: The Federal Home Loan Bank of Seattle[15]

The FHLBank of Seattle is the tenth largest FHLBank with total assets of $40.2 billion. The overall condition of the FHLBank presents supervisory concerns. The key factors affecting Seattle's overall condition include weak financial condition and low earnings, high credit risk related to private-label MBS, and deficiencies in corporate governance. The FHLBank has been classified as undercapitalized by FHFA since the first quarter of 2009.

Seattle's board of directors appointed a new president and chief executive officer in January 2012. An acting president and several senior officers had managed the FHLBank since October 2010.

The financial condition and performance of the FHLBank of Seattle are weak relative to other FHLBanks. Net income totaled $84 million in 2011, up significantly from $20 million in 2010. However, this increase in earnings was primarily attributable to a one-time $74 million gain on the sale of whole loan mortgages. This sale resulted in a cash gain but, depending on mortgage prepayments, likely reduced future earnings power because the loans sold were some of the FHLBank's highest-yielding assets. Seattle replaced these mortgages with lower-yielding agency MBS purchased at a premium.

Credit losses on the FHLBank's poor quality private-label MBS portfolio are large relative to core income, which weighs heavily on earnings. Credit-related impairment on private-label MBS totaled $91 million in 2011, nearly offsetting net interest income of $96 million. Credit-related impairments were $106.2 million in 2010.

Seattle has a small balance of advances relative to its asset base, and the advances portfolio continued to shrink in 2011. The FHLBank's $11.3 billion of advances at year-end 2011 represented 28 percent of total assets, while investments were 68 percent of the balance sheet. Advances will likely continue to decline because of the general high levels of liquidity at depository institutions and because some of Seattle's members are in poor financial condition.

Since October 2010, the FHLBank has operated under a consent order that requires it to limit investments. Such actions increase mission focus but will likely put additional pressure on earnings. Capital adequacy also remains a concern. Retained earnings, at $157 million, are low relative to risks in Seattle's balance sheet. Weak earnings constrain the FHLBank's ability to increase retained earnings, which remain low relative to the risk of future credit losses on the private-label MBS portfolio.

These issues highlight the need for improvements in the FHLBank of Seattle's corporate governance. A new president is an appropriate initial step. Stronger income forecasting and enhanced modeling and financial analysis are also warranted. FHFA examiners were not satisfied with the FHLBank's analysis of the longer-term effects of the sale of a portion of the mortgage portfolio, which will result in reduced future earnings prospects.

Mission focus remains weak with an investment portfolio nearly 2.5 times the size of the advances portfolio, warranting ongoing heightened supervisory attention. Strategic planning practices are underdeveloped, as evidenced by the lack of a strategy to build retained earnings to target levels.

	Level of Risk	Quality of Management
Market Risk	High	Adequate
Credit Risk	High	Needs to Improve
Operational Risk	High	Adequate
Governance		Needs to Improve

15 The 2011 FHFA examination of the FHLBank of Seattle began on June 13, 2011. This report reflects examination conclusions at the time of examination.

Office of Finance[16]

The Office of Finance, a joint office of the FHLBanks, issues and services obligations on behalf of the FHLBanks. Located in Reston, Virginia, the Office of Finance issues consolidated obligations when requested by one or more FHLBanks. It has no portfolio or balance sheet of its own and faces no credit risk and no market risk.

In 2011, the Office of Finance issued $409 billion of bonds and $1 trillion of term discount notes. Overnight discount notes outstanding averaged $12.4 billion. The office issues bonds and discount notes efficiently. The Office of Finance also prepares and distributes the combined financial reports for the FHLBanks used in the offering and sale of consolidated obligations.

FHFA's 2011 examination noted both improvements and continued deficiencies in corporate governance and operations. Our principal supervisory concerns related to newly approved governing policies, procedures, reporting and metrics; the internal audit function; and the operations of several mission-critical functions. Those functions include:

- the dealer compliance process
- the vendor management program
- business continuity planning
- operational risk oversight
- internal controls

Management turnover has been a source of some concern, although management structure began to stabilize in 2011, and recent additions to the management team have performed acceptably. All direct reports to the chief executive officer have been working at the Office of Finance only since 2009. These positions are critical to the Office of Finance's operations because virtually all remaining Office of Finance employees report to them.

Consequently, FHFA will closely monitor a governance project to rewrite all Office of Finance policies, operations under those new policies, and the effectiveness of the newly expanded board and a management team, which is also mostly new to the Office of Finance and the FHLBank System.

In the 2010 FHFA examination, we identified weaknesses in certain policies due to a lack of reporting requirements, metrics, documentation, and monitoring to ensure compliance. In response our findings, the board and management implemented an organization-wide process to rewrite and standardize all Office of Finance policies and procedures. The board did not approve most of these policies until the September 21, 2011, board meeting.

The internal audit department should address reporting, the internal audit manual, and work papers. In addition, internal audit department staffing levels need close monitoring by the audit committee to ensure timely completion of the approved audit plan.

	Level of Risk	Quality of Management
Operational Risk	Moderate	Needs to Improve
Governance		Needs to Improve

16 The 2011 FHFA examination of the FHLBank's Office of Finance began on October 3, 2011. This report reflects examination conclusions at the time of examination.

FHLBanks Director Compensation

Boards of directors ranging in size from 13 to 18 directors and elected by member institutions govern the FHLBanks. A majority of the FHLBank board members are directors or officers of member institutions, while the other directors (at least 40 percent) are independent. Independent directors are not officers or directors of an FHLBank or officers or employees of any of the FHLBank's members.

From 1999 to 2008, annual compensation of FHLBank directors was subject to statutory caps. HERA repealed the statutory caps and authorized the FHLBanks to pay reasonable compensation to directors, subject to FHFA review.

For the first time since 1999, the 2011 director fees (in dollars) showed a wide range among the FHLBanks (see Figure 13). For example, the maximum annual compensation for the board chair varies from $60,000 at the FHLBanks of Boston, Atlanta, Chicago, San Francisco, and Seattle, to more than $100,000 at the FHLBank of Indianapolis.

The total fees paid to all directors in 2011 were $11.1 million. Total FHLBank director fees ranged from $639,982 (San Francisco) to $1,445,000 (Indianapolis).

The board chairs at all FHLBanks received the amount set in their director compensation policies. The chair of the FHLBank of Indianapolis board received an additional $10,000 for the chairing the executive/governance committee, totaling $110,000 for 2011. The chair of the FHLBank of Dallas board received an additional $10,000 for the chairing the Council of FHLBanks, totaling $80,000 for 2011.

Excluding board chairs, the average compensation for an FHLBank director serving a full year ranged from $47,788 to $78,854 in 2011. The vertical lines in Figure 14 display the range of fees earned per director at each FHLBank, and the thick dash along the minimum and maximum spectrum in the chart represents the average fee earned per director.

Office of Finance

In May 2010, FHFA adopted a regulation reconstituting the board of directors of the Office of Finance. The board now includes the 12 FHLBank presidents and five independent directors initially appointed by FHFA but later elected by the Office of Finance board. FHFA also set the same reasonable compensation stan-

Figure 13. 2011 Compensation Structure for FHLBank Directors

	Indianapolis[a]	New York, Topeka	Des Moines	Dallas[b]	Cincinnati[c]	Pittsburgh	Boston, Atlanta, Chicago, San Francisco, Seattle
Chair	$100,000	$100,000	$75,000	$70,000	$72,000	$68,000	$60,000
Vice chair	$85,000	$85,000	$65,000	$65,000	$66,000	$58,000	$55,000
Committee chair	$85,000	$85,000	$55,000 ($60,000 for chairing audit committee)	$55,000 ($65,000 for chairing audit committee)	$60,000 ($66,000 for chairing audit committee or financial and risk management)	58,000	$50,000 ($55,000 for chairing audit committee)
Other directors	$75,000	$75,000	$50,000	$50,000	$54,000	$46,400	$45,000[d]

Source: Federal Housing Finance Agency

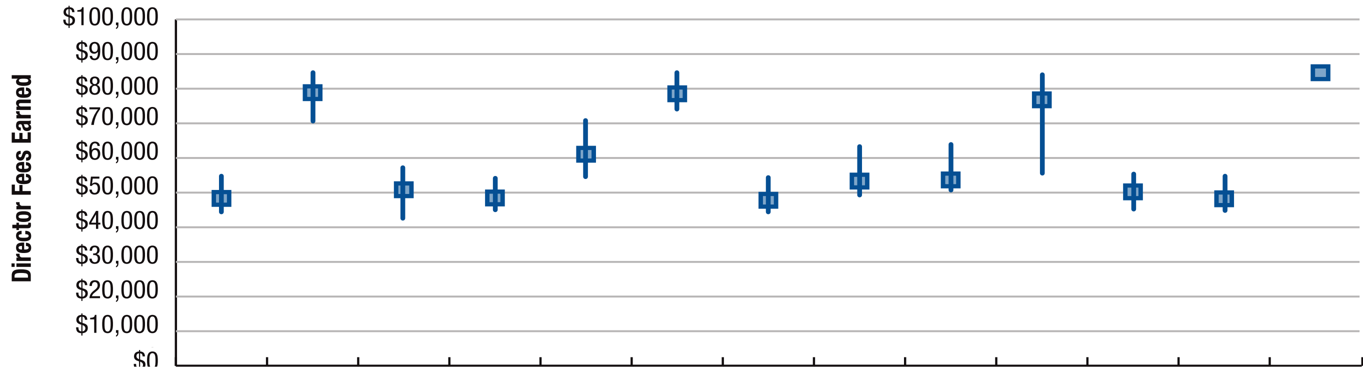
[a] *$10,000 for each additional committee chair.*

[b] *An additional $10,000 for the chair to participate on the Council of FHLBanks, which is composed of the chairmen of all the FHLBank boards of directors; $10,000 additional for chair of the council.*

[c] *An additional $6,000 for serving on audit or finance and risk management committees. Maximum for any director cannot exceed $72,000.*

[d] *$50,000 for directors serving on the audit committee at the FHLBank of San Francisco.*

Figure 14. Director Fees Earned in 2011 (Excluding Chairs)[a]



	BOS	NYK	PIT	ATL	CIN	IND	CHI	DSM	DAL	TOP	SFR	SEA	OF
Minimum	45,000	66,664	42,400	45,000	51,750	75,000	45,000	50,000	50,000	50,000	45,000	45,000	85,000
Maximum	55,000	85,000	58,000	55,000	72,000	85,000	55,000	65,000	65,000	85,000	55,000	55,000	85,000
Average	48,333	78,854	50,831	48,462	61,078	78,529	47,788	53,333	53,667	76,786	50,225	48,200	85,000

Source: Federal Housing Finance Agency

[a] *Excludes fees for five directors who served on the board for less than a year in 2011—two directors at Pittsburgh (earning $20,200 and $27,200), two directors at Chicago (earning $3,750 and $18,750), and one director at San Francisco (earning $27,511).*

dard for Office of Finance directors that Congress had authorized the FHLBanks to pay directors.

Effective July 1, 2010, the maximum annual director fee at the Office of Finance was set at $125,000 for the board chair, $100,000 for the audit committee chair, and $85,000 for an independent director. Total fees paid in 2011 were $465,000. Implementing the new regulation placed critical and unique responsibilities on the Office of Finance board chair and, at least in the near term, added responsibilities and work on the independent board members. By regulation, the FHLBank presidents do not receive any compensation or reimbursement for their service as directors on the Office of Finance board.

FHLBank Affordable Housing Program

The Federal Home Loan Bank Act requires each of the 12 FHLBanks to establish an Affordable Housing Program (AHP) to be used to finance the construction, purchase, or rehabilitation of housing. AHP funds two programs, a competitive application program and a homeownership set-aside program.

Eligible rental housing projects must have at least 20 percent of housing units occupied by, and affordable to, households with incomes at or below 50 percent of the area median income. Owner-occupied housing must be occupied by households with incomes at or below 80 percent of the area median income.

From 1990, when AHP was authorized, until 2011, the FHLBanks awarded nearly $4 billion in AHP subsidies and assisted 664,328 households.

AHP is different from other housing programs because

1. The applicant is an FHLBank member financial institution that passes the subsidy through to an eligible beneficiary in the form of subsidized advances or grants.

2. FHLBanks fund their AHPs with the greater of 10 percent of their previous year net earnings or each FHLBank's share of an aggregate $100 million.

However, if an FHLBank does not have earnings in a given year, it does not make contributions to its AHP. The amount of AHP funding available to FHLBank members varies according to FHLBank earnings.

In 2011, the FHLBanks made more than $228 million in AHP subsidies available nationwide (see Figure 15).

Additional Sources of Financing

AHP is unique because it subsidizes private financing from FHLBank members with federal, state, local, and charitable grant and loan programs. The Federal Home Loan Bank Act specifically requires FHFA to coordinate AHP with other federal affordable housing programs.

In 2011, AHP projects used a number of other sources of funding. The most frequently used source of funding with AHP was the low-income housing tax credit—it was used for 230, or 42 percent, of the 552 approved AHP projects. The Home Investment Partnership and the Community Development Block Grant Program were among the other programs used with AHP funds for projects.

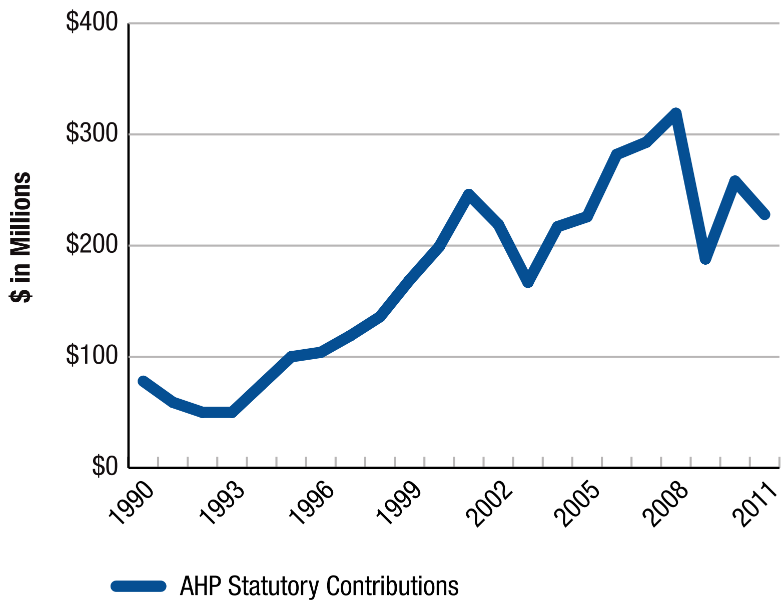
Thirty percent of AHP projects did not receive any funding from federal programs (see Figure 16).

AHP Competitive Program

With the exception of a set-aside for homeownership, AHP funding applications are selected through a competitive application process that emphasizes, among other criteria, targeting very low- and low-or moderate-income households and underserved needs. Minimum eligibility requirements include targeting underserved needs and maintaining housing unit affordability. Of 24,633 units funded in 2011, 74 percent are planned to be affordable to very-low income households.

The AHP competitive program accepts applications from members on behalf of project sponsors, typically nonprofit corporations or housing finance agencies. Nearly three quarters of all of the units funded under the competitive program are rental housing units (see figure 17).

Figure 15. Federal Home Loan Banks AHP Statutory Contributions



Source: Federal Housing Finance Agency

Figure 16. Number of 2011 Approved AHP Projects Receiving Federal Funding

Community Development Block Grants	62
Home Investments Partnerships Program	124
Low-Income Housing Tax Credits	230
Federal Housing Administration	8
Other Federal Housing Programs	124
Projects Not Receiving Funding From Federal Sources	167

Source: Federal Housing Finance Agency

Note: The numbers sum to more than the total number of projects (552) because some projects receive federal funding from more than one source.

Figure 17. AHP Competitive Application Program Overview
January 1, 2011, through December 31, 2011

	Rental Housing Projects	Owner Occupied Housing Projects	Total
Total Number of Awarded Projects	428	124	552
Subsidy Awarded ($ in Millions)	$214	$24	$238
Number of Housing Units	21,976	2,657	24,633
Average Subsidy per Unit	$9,748	$8,971	$9,664
Number of Very Low-Income Housing Units[a]	16,545	1,684	18,229

Source: Federal Housing Finance Agency

Data as of December 31, 2011, excluding AHP Competitive Application withdrawn projects. Dollars have been rounded.

[a] *Very low-income is defined as households with incomes at 50 percent or less of area median income.*

AHP Homeownership Set-Aside

In addition to the competitive program, an FHLBank may set aside up to the greater of $4.5 million or 35 percent of its AHP annual contributions to fund homeownership programs. In 2011, 10 FHLBanks funded set-aside programs for their members with a combined total of $57 million.

FHLBank members use set-aside funds to assist low- or moderate-income households to purchase or rehabilitate a home. At least one-third of an FHLBank's aggregate set-aside contribution must be allocated for first-time homebuyers.

The maximum permissible amount of subsidy per household is $15,000. In 2011, the average subsidy for all households participating in the set-aside was $7,533. The most common use of set-aside assistance has been for down payment and closing cost assistance to borrowers. However, the number of set-aside grants for owner-occupied home rehabilitation, such as lead-based paint removal, weather proofing, and accessibility retrofits, has quadrupled since 2007.

FHLBank Community Investment Programs

The FHLBanks' Community Investment Program (CIP) offers specialized advances to FHLBank members at the cost of the FHLBanks' consolidated obligations of comparable maturities, taking into account reasonable administrative costs. CIP funds can provide housing for households with incomes at or below 115 percent of area median income. CIP funds also may be used for economic development projects in low- and moderate-income neighborhoods or to benefit low- and moderate-income households. In 2011, the FHLBanks issued $1.59 billion in CIP advances for housing projects and $1.05 billion for economic development projects.

The Community Investment Cash Advance Program (CICA) offers low-cost, long-term advances for members and housing associates, such as state and local housing finance agencies and economic development finance authorities, to finance economic development projects. In 2011, the FHLBanks issued $1.03 billion in CICA advances for community development projects such as commercial, industrial, manufacturing, social services, and public facilities.

CDFI Membership in FHLBanks

Community Development Financial Institutions (CDFIs) certified by the U.S. Department of the Treasury are eligible to become members of the FHLBank System in two ways. Those CDFIs that are insured depositories, such as federally insured banks, thrifts, and credit unions, are eligible to apply for membership as federally insured depositories. As of December 31, 2011, there were 121 federally insured CDFIs.

HERA authorized nondepository CDFIs, such as community development loan funds, to also apply for membership in an FHLBank. As of the end of 2011, there were eight nondepository CDFI members of the FHLBank System.

FHLBank Housing Goals

In December 2010, FHFA published a final rule establishing housing goals for the FHLBanks in the Federal Register. The housing goals measure the extent that acquired member assets programs of the FHLBanks are serving very low- and low-income families and families residing in low-income areas.

The housing goals for the FHLBanks are consistent with the single-family housing goals for Fannie Mae and Freddie Mac (according to the statutory intent of the Housing and Economic Recovery Act of 2008) but they take into account the unique characteristics of the FHLBanks.

The FHLBanks purchase loans from their members under the acquired member assets program, a whole loan mortgage purchase program. FHLBanks may elect whether or not to participate in the program.

The FHLBanks' housing goals performance is based on single-family whole loans purchased through their acquired member assets programs. In 2011, 7 of the 12 FHLBanks purchased whole loans through those programs.

To be subject to housing goals, the total unpaid principal balance of loans purchased through the acquired member asset programs held by an FHLBank must exceed $2.5 billion in a given year. This volume threshold ensures that an FHLBank has sufficient mortgage purchase volume for a housing goals program. However, mortgage purchase volumes did not individually exceed $2.5 billion at any of the FHLBanks, so none of the FHLBanks was subject to housing goals in 2011.

Regulations and Guidance

In 2011, the Federal Housing Finance Agency (FHFA) issued more than 20 rules, proposed rules, and policy guidance documents. Many of the regulations met specific statutory requirements, but some were regulations FHFA determined to be necessary or appropriate to support our mission as regulator and conservator for some or all of the 14 regulated entities.

The following tables summarize the rules, regulations, and supervisory guidance the agency issued during 2011. The tables also show the status of the proposals at the end of 2011.

More extensive information about each is on the agency's website at www.fhfa.gov. FHFA also has published the listed regulations in the *Federal Register*.

Regulations: All Regulated Entities (Enterprises and Federal Home Loan Banks)

	Rule/Regulation Title	Reference	Date (2011)	Description/Explanation/Comments
Proposed	Alternatives to Use of Credit Ratings	76 FR 5292; 12 CFR Parts 1269 and 1273	January 31	This Advance Notice of Proposed Rulemaking solicited comment on possible changes to regulations applicable to Fannie Mae, Freddie Mac, and the Federal Home Loan Banks (FHLBanks) to remove references to, or requirements based on, credit ratings issued by nationally recognized statistical rating organizations (NRSROs). The rule would also propose new credit worthiness standards not based on NRSRO ratings to replace these references or requirements. FHFA proposed this regulation in response to requirements in section 939A of the Dodd-Frank Wall Street Reform and Consumer Protection Act.
	Private Transfer Fees	76 FR 6702; 12 CFR Part 1228	February 8	This rule would restrict the regulated entities from dealing in mortgages on properties encumbered by certain types of private transfer fee covenants and in certain related securities. The regulation would not include private transfer fees paid to homeowner associations, condominiums, cooperatives, and certain tax-exempt organizations that use private transfer fees to directly benefit owners of the encumbered real property. In general, the regulation would apply only to private transfer fee covenants created on or after the publication date of the proposed rule.
	Incentive-Based Compensation Arrangements	76 FR 21170; 12 CFR Part 1232	April 14	This rule is required by the Dodd-Frank Act. FHFA proposed a regulation to set forth requirements for incentive-based compensation paid to executive officers by Fannie Mae, Freddie Mac, the FHLBanks, and the FHLBank System's Office of Finance. FHFA's proposal was done jointly with the Office of the Comptroller of the Currency, the Board of Governors of the Federal Reserve System, the Federal Deposit Insurance Corporation, the Office of Thrift Supervision, the National Credit Union Association, and the Securities and Exchange Commission. The regulation would require each regulated entity to disclose to FHFA the structures of all its incentive-based compensation and prohibit incentive-based arrangements that encourage inappropriate risk-taking.

Regulations: All Regulated Entities (Enterprises and Federal Home Loan Banks), cont.

	Rule/Regulation Title	Reference	Date (2011)	Description/Explanation/Comments
Proposed	Credit Risk Retention	76 FR 24090; 12 CFR Part 1234	April 29	This rule is required by the Dodd-Frank Act. FHFA, along with the Office of the Comptroller of the Currency, the Board of Governors of the Federal Reserve System, Federal Deposit Insurance Corporation, Securities and Exchange Commission, and Department of Housing and Urban Development proposed regulations to implement the credit risk retention requirements of section 15G of the Securities Exchange Act (15. U.S.C. sec. 78o-11), as added by section 941 of the Dodd-Frank Act. Section 15G generally requires the securitizer of asset-backed securities to retain no less than 5 percent of the credit risk of assets collateralizing asset-backed securities. Section 15G includes a variety of exemptions from these requirements, including an exemption for asset-backed securities collateralized exclusively by residential mortgages that qualify as "qualified residential mortgages," as defined by the agencies' rule.
Proposed	Margin and Capital Requirements for Covered Swap Entities	76 FR 27564; 12 CFR Part 1221	May 11	This Dodd-Frank Act required rule proposed jointly by the Office of the Comptroller of the Currency, the Board of Governors of the Federal Reserve System, the Farm Credit Administration, the Federal Deposit Insurance Corporation, and FHFA, establishes capital and margin requirements on swap dealers, major swap participants, security-based swap dealers, and security-based major swap participants if one of the agencies is their prudential regulator.
Proposed	Prudential Management and Operations Standards	76 FR 35791; 12 CFR Part 1236	June 20	This regulation would establish standards for the regulated entities relating to various aspects of management and operations, implementing a section of the Federal Housing Enterprises Financial Safety and Soundness Act on Prudential Management and Operations Standards, added by the Housing and Economic Recovery Act of 2008 (HERA). The regulation would establish prudential standards in the form of guidelines, which initially would be set out in an appendix to the rule. The proposal also would include other provisions about possible consequences for a regulated entity that fails to operate in accordance with the prudential standards.
Final	Temporary Increase of Minimum Capital Requirement	76 FR 11668; 12 CFR Part 1225	March 3	Implements a HERA amendment to the Federal Housing Enterprises Financial Safety and Soundness Act authorizing FHFA to impose a temporarily higher minimum capital requirement on a regulated entity if the entity's risk profile merits it. The final rule went into effect April 4, 2011.
Final	Record Retention for Regulated Entities and Office of Finance	76 FR 33121; 12 CFR Part 1235	June 8	Sets out requirements for regulated entities to adopt records management policies for retention and availability of necessary records. The final rule went into effect June 13, 2011.
Final	Conservatorship and Receivership	76 FR 35724; 12 CFR Parts 1229 and 1237	June 20	Addresses aspects of FHFA's statutory powers to appoint a conservator or receiver for a regulated entity and the operation of the resulting conservatorship or receivership. It also defines "capital distribution" in certain other regulations applicable to the Enterprises. The regulation went into effect July 20, 2011.

Regulations: Federal Home Loan Banks

	Rule/Regulation Title	Reference	Date (2011)	Description/Explanation/Comments
Proposed	Federal Home Loan Bank Community Support Requirements	76 FR 70069; 12 CFR Part 1290	November 10	This rule would implement section 10(g) of the Federal Home Loan Bank Act, which requires the FHFA Director to adopt regulations establishing standards of community investment or service for FHLBank members to have continued access to long-term FHLBank advances. The rule would revise and update existing community support standards in part 1290 of FHFA regulations and set out the FHLBanks' responsibility for reviewing and determining members' compliance with those standards.
Final	Federal Home Loan Bank Liabilities	76 FR 18366; 12 CFR Part 1270	April 4	Reorganizes and readopts the former Federal Housing Finance Board's rules on the Federal Home Loan Banks' consolidated obligations and other liabilities, primarily to correctly reference the relevant statutory provisions amended by HERA. The final rule went into effect May 4, 2011.
	Federal Home Loan Bank Investments	76 FR 29147; 12 CFR Part 1267	May 20	Reorganizes and readopts the former Federal Housing Finance Board's rules on Federal Home Loan Bank investments and incorporates a former Finance Board policy that an FHLBank's investments in mortgage-backed securities may not exceed three times the FHLBank's capital. The final rule went into effect June 20, 2011.
	Voluntary Mergers of the FHLBanks	76 FR 72823; 12 CFR Part 1278	November 28	Implements a provision of the Federal Home Loan Bank Act added by HERA and establishes procedures and requirements for approving voluntary mergers among the FHLBanks. The final rule went into effect December 28, 2011.
	Federal Home Loan Bank Housing Goals: Mortgage Reporting Amendments	76 FR 79050; 12 CFR Part 1281	December 21	Implements a provision of the Federal Home Loan Bank Act that requires the FHFA Director to establish annual housing goals for mortgage purchases by the FHLBanks, if any. The final regulation amended procedural requirements for the 12 FHLBanks in the existing housing goals regulation, including certain reporting deadlines. The final rule went into effect January 20, 2012.

Regulations: Agency Operations

	Rule/Regulation Title	Reference	Date (2011)	Description/Explanation/Comments
Interim	Freedom of Information Act Implementation	76 FR 29633; 12 CFR Part 1202	May 23	The interim rule revised FHFA's existing Freedom of Information Act (FOIA) regulation to specify the procedures and guidelines FHFA and FHFA's Office of Inspector General will follow to implement FOIA. The regulation also describes the policies and procedures for information required to be disclosed under FOIA and procedures to protect business confidential and trade secret information, as appropriate. Revisions became effective May 23. 2011. FHFA also solicited public comments to develop the final rule, published January 31, 2012 (77 FR 4643).
Interim	Privacy Act Implementation	76 FR 51869; 12 CFR Part 1204	August 19	The interim rule revised FHFA's existing Privacy Act regulation to specify the procedures and guidelines FHFA and FHFA's Office of Inspector General will follow to implement the Privacy Act of 1974, as amended. The regulation describes the policies and procedures necessary for individuals to be notified whether an FHFA or FHFA Office of Inspector General system of records contains information about the individual and, if so, how to access or amend a record under the Privacy Act. Revisions became effective August 19, 2011. FHFA also solicited public comments to develop the final rule, which was published January 31, 2012 (77 FR 4645).
Final	Office of the Ombudsman	76 FR 7479; 12 CFR Part 1213	February 10	This rule establishes an Office of the Ombudsman to consider complaints and appeals from the regulated entities and from persons having business relationships with them about matters relating to FHFA's regulation and supervision of the regulated entities. The final rule went into effect March 14, 2011.
Final	Debt Collection	76 FR 17331; 12 CFR Part 1208	March 29	As required by law for federal agencies, FHFA adopted this final regulation to establish procedures for collecting debts owed to the federal government. The final rule went into effect March 29, 2011.
Final	Rules of Practice and Procedure	76 FR 53596; 12 CFR Part 1209	August 26	Establishes procedures to govern FHFA's enforcement proceedings and replaced and improved similar rules of the former Federal Housing Finance Board and Office of Federal Housing Enterprise Oversight (OFHEO). The final rule went into effect September 26, 2011.

Policy Guidance: Federal Home Loan Banks

	Rule/Regulation Title	Reference	Date (2011)	Description/Explanation/Comments
Final	Operational Readiness for Swaps-Related Reporting, Clearing, and Recordkeeping Requirements	2011-AB-01	March 8	Advises the FHLBanks to prepare to comply with derivatives reporting and clearing requirements proposed by the Commodity Futures Trading Commission under the Dodd-Frank Act.
	Standard & Poor's Rating Action and Risk-Based Capital Calculation for Federal Securities	2011-AB-02	August 9	Advises the FHLBanks that Standard & Poor's downgrade of U.S. and federal agency securities on August 5, 2011, does not affect the FHLBanks' risk-based capital calculations.

Policy Guidance: All Regulated Entities

	Rule/Regulation Title	Reference	Date (2011)	Description/Explanation/Comments
Final	Reporting of Fraudulent Financial Instruments	RPG-2011-001	March 30	Sets forth FHFA guidance to Fannie Mae, Freddie Mac, and the FHLBanks under 12 CFR part 1233, Reporting of Fraudulent Financial Instruments. Each regulated entity is directed to develop and implement or enhance existing reporting structures, policies, procedures, internal controls, and operational training programs to sufficiently discover and report fraud or possible fraud in accordance with the guidance. This policy guidance replaced OFHEO Policy Guidance PG-08-001 and was effective on the date issued.

Research and Publications

During 2011, the Federal Housing Finance Agency (FHFA) focused research plans and activities on conducting studies and preparing reports required by statute and analyzing issues related to the agency's strategic goals.

In 2011, our top priorities were conducting research to prepare three reports to Congress required by the Housing and Economic Recovery Act of 2008 (HERA) and understanding trends in house prices, housing market conditions, and mortgage lending activity.

FHFA Strategic Goals

1) Enhance supervision to ensure that Fannie Mae, Freddie Mac and the Federal Home Loan Banks 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.

3) Through conservatorship, preserve and conserve the assets and property of Fannie Mae and Freddie Mac and enhance their abilities to fulfill their mission.

In addition, we analyzed the risk and capital adequacy of the housing government-sponsored enterprises and prepared research publications aimed at improving public understanding of the mortgage finance system.

We published reports and papers and posted information on the agency website (www.fhfa.gov). Our researchers also presented papers and led discussions at professional and industry conferences on topics related to housing finance and regulation of the housing government-sponsored enterprises.

Reports to Congress

In 2011, we submitted the following three reports to Congress, as required by HERA:

1. **Guarantee Fees Study**. HERA requires FHFA to conduct an on-going study of the guarantee fees charged by Fannie Mae and Freddie Mac and to submit annual reports to Congress, based on aggregated data collected from the Enterprises, regarding the amount of such fees and the criteria the Enterprises used to determine them.

   In September, FHFA submitted its third annual guarantee-fee study report, *Fannie Mae and Freddie Mac Single-Family Guarantee Fees in 2009 and 2010*. The report focused on fees charged by the Enterprises for guaranteeing conventional single-family mortgages, which are loans not insured or guaranteed by the federal government that finance properties with four or fewer residential units.

2. **Housing Activities Report**. HERA requires FHFA to submit annually to Congress a report on the housing activities of Fannie Mae and Freddie Mac. FHFA submitted its third annual housing report in October. That report detailed Enterprise housing goal performance in 2010 and included information on other aspects of FHFA and Enterprise activities.

3. **FHLBank Advance Collateral Study.** HERA requires FHFA to submit annually to Congress a report on the collateral pledged to the Federal Home Loan Banks to secure advances. In October, FHFA released its third *Report on Collateral Securing Advances at the Federal Home Loan Banks* with the results of FHFA's 2011 Collateral Data Survey.

House Price Index and Related Research

In recent years, the number of house price indexes released by FHFA has grown substantially. In 2011, we launched a set of "expanded-data" house price indexes.

These measures, which were released for states, census divisions, and the United States beginning in August with the indexes for the second quarter of 2011, incorporated additional transactions data beyond those FHFA's traditional house price indexes use.

Aside from Enterprise-financed mortgages—the basis of the traditional HPI—the new metrics incorporated transaction information from county recorder offices and mortgages insured by the Federal Housing Administration. If price trends differ for homes with alternative (non-Enterprise) sources of financing, the differences are reflected in the expanded-data metrics.

We designed the new indexes using the same basic methodology as the traditional HPI, but including additional data introduced some complexities. The difficulties stemmed from the fact that county recorder data—which are licensed from an external data supplier—do not have complete geographic coverage. The licensed data have good coverage in urban counties, but many rural counties are not represented. This coverage difference meant that, without proper controls, the addition of the county recorder data to the rest of the data sample would tend to skew the state-level expanded-data indexes toward urban areas. The state-level price index would tend to be overly influenced by price trends in urban areas.

In releasing the new indexes, we solved this problem by forming state-level price indexes as weighted averages of subarea indexes. Where feasible, we estimated separate substate indexes for areas with and without county recorder coverage. By fixing the contribution of each of these subarea indexes to the overall state-level measure, we ensured that price trends reflected in the statewide expanded-data metric would not be biased toward trends in urban areas.

FHFA also made some methodological improvements to the approach we use to form the census division and United States indexes. For the traditional HPI as well as the new expanded-data measures, the census division and United States metrics were converted from pooled measures (where the indexes were estimated directly from all available data) to state-weighted measures. By setting the price changes equal to the weighted price change in the component states, we ensured variations in relative transaction volumes across states, which would have caused biases under the previous method, would not unduly influence aggregate measures of price changes.

In addition to changing the overall weighting system, FHFA also updated the weights used. Before 2011, we used housing stock estimates from the decennial censuses to form the aggregated price indexes. In 2011, we began using data from the U.S. Census Bureau's annual American Community Survey. The community survey provides year-specific estimates of housing stock for 2005 and later. These relatively recent data improved the accuracy of FHFA's house price measures.

HPI Highlights

FHFA's quarterly HPI releases continued to include "Highlights" articles in 2011. As in years past, these publically released analyses gave detailed discussions of specific methodological issues and interesting empirical pricing phenomena evident in select housing markets.

In February 2011, with the release of data for the fourth quarter of 2010, the Highlights article studied whether properties sold frequently have different rates of price change than other homes. A common concern about repeat-transactions house price indexes has been that they may be overly influenced by homes that are sold frequently, and if price trends differ for those homes, this strong influence may be undesirable. In comparing price trends for frequently sold homes against trends for homes sold only twice in FHFA's data sample, our Highlights analysis found little evidence of substantive differences in appreciation rates.

The May 2011 HPI release included an extensive analysis of the changes made to the HPI weighting system. The article detailed the new weighting methodology and the new American Community Survey data source. It also supplied summary statistics showing differences in quarterly and monthly appreciation rates determined under the old and new weighting schemes.

The Highlights article accompanying the August 2011 HPI included an explanation of the methodology and a data primer on the expanded-data indexes launched that month.

We supplied detailed statistics showing data coverage for the licensed county records data used in the new index. After discussing the urban bias that might result from including the new data, the article provided state-by-state information showing which states' indexes were formed with weighted substate indexes and which were formed with pooled data. The article then compared in detail recent price change estimates determined under the new indexes and under the traditional purchase-only HPI.

The last Highlights article of 2011, published in November with the HPI results for the third quarter, took a close look at the effect of the boom in commodity prices on home values. In particular, the article evaluated home price trends in areas with significant employment in the mining, quarrying, and oil and gas extraction business sector. After showing that the eight states with the highest concentration of that type of employment had been largely immune from the housing bust of the last five years, the article then looked *within* those states to determine whether counties with the greatest mining and oil employment had the strongest housing markets.

For each of the eight states, separate repeat-transaction house price indexes were estimated for high and low mining and oil employment counties. In all eight states, counties with high mining and oil employment experienced price *increases* over the last five years. In seven of the eight states, our empirical analysis showed house price growth in the high mining and oil employment counties was higher than in other counties.

Other Research Products

FHFA published several other research products in 2011.

In July, we released *Housing and Mortgage Markets in 2010*, a review of developments in the housing sector and mortgage markets in the United States in 2010.

In November 2011, we released *Updated Assumptions Used to Estimate Single-Family Mortgages Originated and Outstanding, 1990 – 2011 Q2*, which updated the data and methodology presented in *Single-Family Mortgages Originated and Outstanding: 1990 – 2004*, originally released in July 2005.

Mortgage Market Notes

In March 2011, we released two mortgage market notes. The first, *Possible Declines in Conforming Loan Limits*, which was revised in May, discussed the possible decline in the conforming loan limit and the impact on the Enterprises and on borrowers.

The second, *Qualified Residential Mortgages*, answered questions about the volume and performance of mortgages acquired by the Enterprises in recent years that would have met the definition of qualified residential mortgages set forth in a Notice of Proposed Rulemaking that would implement the risk retention provision of the Dodd-Frank Wall Street Reform and Consumer Protection Act. That note also included information on changes in the volume and performance of those loans that would be associated with small adjustments to the qualified residential mortgage definition.

Working Papers

In July 2011, FHFA released two staff working papers. The first, *The HAMP NPV Model: Development and Early Performance*, discusses the standardized net present value model used by the Obama Administration's Home Affordable Modification Program to identify troubled loans that are candidates for payment-reducing modifications.

The second, *Characteristics of "High Conforming Jumbo Mortgages" and Implications for the Impact of Reductions in the Conforming Loan Limits for Fannie Mae and Freddie Mac*, concluded that the reductions in the conforming loan limits that were scheduled to take effect in 27 states and Washington, D.C., on October 1, 2011, would have minimal effects in the majority of those states. For the nine states where a larger-but-still-modest impact was anticipated, the paper separately analyzed the effects on middle-income, Hispanic, and African-American borrowers as well as on underserved areas. The analysis showed little impact for these groups but did suggest the new limits could lead to higher denial and mortgage interest rates for prospective borrowers with large principal balances.

FHFA Operations and Performance

The Federal Housing Finance Agency (FHFA), like other federal agencies, operates on a fiscal year calendar and measures its performance on the fiscal calendar as well. During fiscal year (FY) 2011, FHFA enhanced its regulatory and supervisory oversight of the Enterprises and the FHLBanks and their joint Office of Finance.

FHFA also launched several new initiatives during the year such as the Uniform Mortgage Data Program, Joint Servicing Compensation Initiative, Servicing Alignment Initiative, and Loan-Level Disclosures Initiative to address the many challenges still facing the housing finance system (see pages 4 through 6).

During FY 2011, the Enterprises continued to provide the vast majority of mortgage securitizations to the secondary market and liquidity to the residential housing market. However, 2011 mortgage originations were below 2010 levels, despite declining mortgage rates. The FHLBanks continued to provide financing to large and small member institutions through advances.

Performance and Program Assessment

On November 15, 2011, FHFA published its annual *Performance and Accountability Report* (PAR), detailing the agency's performance and achievements for FY 2011. On May 1, 2012, the Association of Government Accountants informed us that FHFA had been awarded for the Certificate for Excellence in Accountability Reporting (CEAR) for FY 2011. This is the fourth year the agency has won the award.

The CEAR award is presented to agencies that demonstrate excellence in integrating performance and accountability reporting. Only agencies with unqualified opinions on their financial reports from an independent auditor are eligible to be considered.

FHFA met or exceeded 25 (86 percent) of its performance measures and did not meet 4 (14 percent) due to external market factors.

During FY 2011, in compliance with the Federal Information Security Management Act (FISMA), FHFA reviewed its information security program through its internal audit function and reported the results to the Office of Management and Budget.

On May 1, 2012, the Association of Government Accountants informed us that FHFA had been awarded for the Certificate for Excellence in Accountability Reporting (CEAR) for FY 2011. This is the fourth year the agency has won the award.

The FY 2011 FISMA review concluded that FHFA generally has a sound risk management framework for its information security program. However, the audit did identify security practices that could be improved. All of the findings from the audit have been addressed and remediation efforts are underway. None of the weaknesses were classified as significant deficiencies.

Performance Highlights

During FY 2011, FHFA made significant accomplishments. Highlights of FHFA's FY 2011 key activities and accomplishments are as follows:

- Conducted annual and targeted examinations at the Enterprises and the 12 FHLBanks to assess safety and soundness, evaluate risk management and governance, and review their level of support for housing finance and affordable housing.
- Created a dedicated housing mission and policy team, including housing policy, policy analysis and research, systemic risk and market surveillance, and financial and modeling analysis.

- Approved FHLBank capital plan amendments to systematically increase retained earnings by allocating 20 percent of net income to a restricted retained earnings account upon the FHLBanks' satisfaction of their Resolution Funding Corporation obligation.
- Restructured FHFA examination program to establish examiners-in-charge at each Enterprise, enhance examiner training, and develop consistent examination standards for all of the regulated entities.
- Directed the Enterprises to develop uniform standards for data reporting on mortgage loans and appraisals and enhance loan-level disclosures on mortgage-backed securities.
- Directed the Enterprises, in coordination with the Department of Housing and Urban Development, to consider alternatives for future mortgage servicing compensation for their single-family mortgage loans.
- Implemented a servicing alignment initiative for Fannie Mae and Freddie Mac to produce a single consistent set of protocols for servicing Enterprises mortgages.
- Solicited public ideas for sales, joint ventures, or other strategies to augment and enhance real estate owned asset disposition programs of the Enterprises and the Federal Housing Administration.

Financial Operations

The Housing and Economic Recovery Act of 2008 (HERA) authorizes FHFA to collect annual assessments from its regulated entities to pay its costs and expenses and maintain a working capital fund. Under HERA, annual assessments are levied against the Enterprises and the FHLBanks to cover the cost and expenses of the agency's operations for supervision of the regulated entities.

In FY 2011, FHFA had $253.6 million in total budgetary resources. These budgetary resources were partially composed of $200.6 million in assessments, $22.7 million in unobligated balance brought forward from FY 2010, and $1 million in recoveries of prior year unpaid obligations. Obligations incurred increased $93.1 million to $225.9 million in FY 2011. Gross outlays increased $64 million to $186.9 million in FY 2011.

Federal Management System and Strategy

HERA requires FHFA to implement and maintain financial management systems that comply substantially with federal financial management system requirements, applicable federal accounting standards, and the U.S. Government General Ledger at the transaction level.

FHFA, including the FHFA Office of Inspector General, uses the Treasury Department's Bureau of the Public Debt for its accounting services and financial management system. FHFA is responsible for overseeing the bureau's accounting services for the agency.

We also use the National Finance Center within the U.S. Department of Agriculture for payroll and personnel processing. The agency has streamlined accounting processes by connecting data from charge cards, investment activities, the GovTrip travel system, the PRISM procurement system, and the National Finance Center payroll system.

Management Report on Final Action

We must report information on final action taken by management on certain audit reports as required by the Inspector General Act of 1978. The FHFA Office of Inspector General did not identify any disallowed costs or funds that could be put to better use for FY 2011.

Unqualified Audit Opinions in FY 2011

For FY 2010 and FY 2011, FHFA received an unqualified audit opinion on its annual financial statements from the Government Accountability Office, which identified no material weaknesses or significant deficiencies in internal controls or instances of noncompliance with laws or regulations.

Historical Data Tables

Historical Data Tables • Contents

Table 1. Fannie Mae Mortgage Purchases

Period	Business Activity ($ in Millions)			
	Purchases			
	Single Family[a] ($)	Multifamily[a] ($)	Total Mortgages[a] ($)	Mortgage Related Securities[b] ($)
4Q11	184,339	7,233	191,572	5,173
3Q11	115,176	6,463	121,639	5,964
2Q11	94,835	5,391	100,226	4,533
1Q11	163,899	5,139	169,038	5,090
Annual Data				
2011	558,249	24,226	582,475	20,760
2010	607,827	17,302	625,129	44,495
2009	700,253	19,912	720,165	161,562
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 Before 1990
1988	64,613	4,170	68,783	
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

[a] Includes lender-originated mortgage-backed securities (MBS) issuances, cash purchases, and capitalized interest. Based on unpaid principal balances. Excludes mortgage loans and securities traded but not yet settled. Excludes delinquent loans purchased from MBS trusts.

[b] 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. Includes activity from settlements of dollar rolls accounted for as purchases and sales of securities but does not include activity from settlements of dollar rolls accounted for as secured financings.

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

Period	Purchases ($ in Millions)[a]											
	Single Family Mortgages								Multifamily Mortgages			
	Conventional				FHA/VA[c]			Total Single Family Mortgages ($)				Total Mortgage Purchases ($)
	Fixed Rate[b] ($)	Adjustable Rate ($)	Seconds ($)	Total ($)	Fixed Rate[c] ($)	Adjustable Rate ($)	Total ($)		Conventional ($)	FHA/RD[c] ($)	Total Multifamily Mortgages ($)	
4Q11	174,718	8,869	7	183,594	144	601	745	184,339	7,233	0	7,233	191,572
3Q11	104,202	9,501	5	113,708	156	1,312	1,468	115,176	6,463	0	6,463	121,639
2Q11	86,120	7,898	6	94,024	127	684	811	94,835	5,391	0	5,391	100,226
1Q11	152,429	10,569	9	163,007	97	795	892	163,899	5,139	0	5,139	169,038
Annual Data												
2011	517,469	36,837	27	554,333	524	3,392	3,916	558,249	24,226	0	24,226	582,475
2010	565,531	38,023	68	603,622	516	3,689	4,205	607,827	17,299	3	17,302	625,129
2009	663,763	23,108	0	686,871	1,136	12,246	13,382	700,253	19,517	395	19,912	720,165
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

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

b Includes balloon and energy loans.

c Includes loans guaranteed by the U.S.Department of Agriculture Rural Development (RD) loan programs. FHA stands for Federal Housing Administration. VA stands for Department of Veterans Affairs.

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

Period	Purchases ($ in Millions)[a]														
	Fannie Mae Securities				Other Securities										
	Single Family				Freddie Mac				Ginnie Mae						
			Multi family ($)	Total Fannie Mae[b] ($)	Single Family		Multi family ($)	Total Freddie Mac ($)	Single Family		Multi family ($)	Total Ginnie Mae ($)	Total Private Label[b] ($)	Mortgage Revenue Bonds ($)	Total Mortgage Related Securities ($)
	Fixed Rate[b] ($)	Adjustable Rate ($)			Fixed Rate ($)	Adjustable Rate ($)			Fixed Rate ($)	Adjustable Rate ($)					
4Q11	1,844	160	2,740	4,744	124	0	0	124	293	12	0	305	0	0	5,173
3Q11	1,170	218	2,821	4,209	1,543	172	0	1,715	38	2	0	40	0	0	5,964
2Q11	1,572	144	2,485	4,201	241	0	0	241	89	2	0	91	0	0	4,533
1Q11	1,466	503	2,974	4,943	0	35	0	35	27	77	8	112	0	0	5,090
Annual Data															
2011	6,052	1,025	11,020	18,097	1,908	207	0	2,115	447	93	8	548	0	0	20,760
2010	27,694	301	8,000	35,995	7,095	117	0	7,212	1,263	1	24	1,288	0	0	44,495
2009	92,189	326	5,531	98,046	61,861	158	0	62,019	1,495	0	0	1,495	0	2	161,562
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	42,214	21,281	1,159	64,654	6,546	8,228	0	14,774	0	0	0	0	90,833	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 Before 2002	Not Available Before 2002	Not Available Before 2002	180,582	Not Available Before 2002	Not Available Before 2002	Not Available Before 2002	20,072	Not Available Before 2002	Not Available Before 2002	Not Available Before 2002	333	3,513	4,624	209,124
2000				104,904				10,171				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

[a] Includes purchases of Fannie Mae mortgage-backed securities held for investment. Based on unpaid principal balances. Includes mortgage loans and mortgage-related securities traded but not yet settled. Includes activity from settlements of dollar rolls accounted for as purchases and sales of securities but does not include activity from settlements of dollar rolls accounted for as secured financings.

[b] Certain amounts previously reported as Fannie Mae fixed-rate securities have been reclassified as private-label securities.

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

Period	Purchases ($ in Millions)[a]								
	Private Label								
	Single Family								
		Subprime		Alt A		Other			
	Manufactured Housing ($)	Fixed Rate ($)	Adjustable Rate ($)	Fixed Rate ($)	Adjustable Rate ($)	Fixed Rate ($)	Adjustable Rate ($)	Multifamily ($)	Total Private Label ($)
4Q11	0	0	0	0	0	0	0	0	0
3Q11	0	0	0	0	0	0	0	0	0
2Q11	0	0	0	0	0	0	0	0	0
1Q11	0	0	0	0	0	0	0	0	0
Annual Data									
2011	0	0	0	0	0	0	0	0	0
2010	0	0	0	0	0	0	0	0	0
2009	0	0	0	0	0	0	0	0	0
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	35,606	1,504	10,469	0	518	9,690	57,787
2005	0	0	24,469	3,574	12,535	118	571	102	41,369
2004	0	176	66,827	7,064	14,935	221	1,509	101	90,833
2003	0	0	25,769	7,734	370	98	0	61	34,032
2002	56	181	4,963	1,756	0	43	381	36	7,416
2001	Not Available Before 2002	Not Available Before 2002	Not Available Before 2002	Not Available Before 2002	Not Available Before 2002	Not Available Before 2002	Not Available Before 2002	Not Available Before 2002	3,513
2000									8,466
1999									16,511
1998									15,721
1997									4,188
1996									777
1995									752

Source: Fannie Mae

[a] Based on unpaid principal balances. Includes mortgage loans and mortgage-related securities traded but not yet settled. Certain amounts previously reported for years before 2007 have changed as a result of reclassifying certain securities.

Table 2. Fannie Mae MBS Issuances

Period	Business Activity ($ in Millions)			
	MBS Issuances[a]			
	Single Family MBS ($)	Multifamily MBS ($)	Total MBS ($)	Multiclass MBS[b] ($)
4Q11	183,471	9,600	193,071	32,686
3Q11	111,808	7,756	119,564	32,541
2Q11	102,654	8,129	110,783	47,864
1Q11	166,673	8,581	175,254	26,728
Annual Data				
2011	564,606	34,066	598,672	139,819
2010	603,247	26,499	629,746	179,767
2009	791,418	16,435	807,853	100,846
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 Before 1986
1984	13,087	459	13,546	
1983	13,214	126	13,340	
1982	13,970	Not Issued Before 1983	13,970	
1981	717		717	

Source : Fannie Mae

[a] Lender-originated mortgage-backed securities (MBS) plus issuances from Fannie Mae's investment portfolio. Based on unpaid principal balances. Excludes mortgage-related securities traded but not yet settled.

[b] Beginning in 2006, includes grantor trusts, real estate mortgage investment conduits, and stripped MBS backed by Fannie Mae certificates.

Table 3. Fannie Mae Earnings

Period	Earnings ($ in Millions) Net Interest Income[a,b] ($)	Guarantee Fee Income[a] ($)	Administrative Expenses ($)	Credit Related Expenses[c] ($)	Net Income (Loss) ($)	Return on Equity[d] (%)
4Q11	4,163	78	605	5,513	(2,406)	N/M
3Q11	5,186	49	591	4,884	(5,085)	N/M
2Q11	4,972	50	569	6,059	(2,893)	N/M
1Q11	4,960	50	605	11,042	(6,471)	N/M
Annual Data						
2011	19,281	227	2,370	27,498	(16,855)	N/M
2010	16,409	202	2,597	26,614	(14,014)	N/M
2009	14,510	7,211	2,207	73,536	(71,969)	N/M
2008	8,782	7,621	1,979	29,809	(58,707)	N/M
2007	4,581	5,071	2,669	5,012	(2,050)	(8.3)
2006	6,752	4,250	3,076	783	4,059	11.3
2005	11,505	4,006	2,115	428	6,347	19.5
2004	18,081	3,784	1,656	363	4,967	16.6
2003	19,477	3,432	1,454	353	8,081	27.6
2002	18,426	2,516	1,156	273	3,914	15.2
2001	8,090	1,482	1,017	78	5,894	39.8
2000	5,674	1,351	905	94	4,448	25.6
1999	4,894	1,282	800	127	3,912	25.2
1998	4,110	1,229	708	261	3,418	25.2
1997	3,949	1,274	636	375	3,056	24.6
1996	3,592	1,196	560	409	2,725	24.1
1995	3,047	1,086	546	335	2,144	20.9
1994	2,823	1,083	525	378	2,132	24.3
1993	2,533	961	443	305	1,873	25.3
1992	2,058	834	381	320	1,623	26.5
1991	1,778	675	319	370	1,363	27.7
1990	1,593	536	286	310	1,173	33.7
1989	1,191	408	254	310	807	31.1
1988	837	328	218	365	507	25.2
1987	890	263	197	360	376	23.5
1986	384	175	175	306	105	9.5
1985	139	112	142	206	(7)	(0.7)
1984	(90)	78	112	86	(71)	(7.4)
1983	(9)	54	81	48	49	5.1
1982	(464)	16	60	36	(192)	(18.9)
1981	(429)	0	49	(28)	(206)	(17.2)
1980	21	Not Available Before 1981	44	19	14	0.9
1979	322		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

[a] Adoption of accounting guidance related to transfers of financial assets and consolidation of variable interest entities effective January 1, 2010, significantly changed presentation of these line items in the financial statements. Financial results for 2010 and later years are not directly comparable to previous years. Effective January 1, 2010, guarantee fee income associated with the securitization activities of consolidated trusts is reflected in net interest income.

[b] Interest income net of interest expense.

[c] Credit-related expenses include provisions for loan losses and guarantee losses (collectively, credit losses) and foreclosed property expense (income).

[d] 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)								
	Total Assets[a,b] ($)	Total Mortgage Assets[a,c] ($)	Nonmortgage Investments[d] ($)	Total Debt Outstanding[a] ($)	Shareholders Equity (Deficit)[a] ($)	Senior Preferred Stock ($)	Fair Value of Net Assets[a] ($)	Mortgage Assets Held for Investment (Gross)[e] ($)	Indebtedness[f] ($)
4Q11	3,211,484	3,072,709	95,848	3,189,872	(4,571)	112,578	(127,795)	708,414	742,293
3Q11	3,213,877	3,076,895	79,170	3,191,776	(7,791)	104,787	(113,307)	722,158	755,189
2Q11	3,196,112	3,107,761	57,598	3,174,845	(5,087)	99,700	(127,929)	731,801	735,691
1Q11	3,227,042	3,130,779	59,733	3,208,776	(8,418)	91,200	(131,060)	757,618	773,991
Annual Data									
2011	3,211,484	3,072,709	95,848	3,189,872	(4,571)	112,578	(127,795)	708,414	742,293
2010	3,221,972	3,103,772	44,503	3,197,000	(2,517)	88,600	(120,212)	788,771	793,878
2009	869,141	745,271	57,782	774,554	(15,281)	60,900	(98,701)	769,252	785,775
2008	912,404	767,989	71,550	870,393	(15,314)	1,000	(105,150)	Not Applicable Before 2009	Not Applicable Before 2009
2007	882,547	723,620	86,875	796,299	44,011	Not Applicable Before 2008	35,799		
2006	843,936	726,434	56,983	767,046	41,506		43,699		
2005	834,168	736,803	46,016	764,010	39,302		42,199		
2004	1,020,934	925,194	47,839	953,111	38,902		40,094		
2003	1,022,275	919,589	59,518	961,280	32,268		28,393		
2002	904,739	820,627	39,376	841,293	31,899		22,130		
2001	799,948	706,347	65,982	763,467	18,118		22,675		
2000	675,224	607,731	52,347	642,682	20,838		20,677		
1999	575,308	523,103	37,299	547,619	17,629		20,525		
1998	485,146	415,434	58,515	460,291	15,453		14,885		
1997	391,673	316,592	64,596	369,774	13,793		15,982		
1996	351,041	286,528	56,606	331,270	12,773		14,556		
1995	316,550	252,868	57,273	299,174	10,959		11,037		
1994	272,508	220,815	46,335	257,230	9,541		10,924		
1993	216,979	190,169	21,396	201,112	8,052		9,126		
1992	180,978	156,260	19,574	166,300	6,774		9,096		
1991	147,072	126,679	9,836	133,937	5,547		Not Available Before 1992		
1990	133,113	114,066	9,868	123,403	3,941				
1989	124,315	107,981	8,338	116,064	2,991				
1988	112,258	100,099	5,289	105,459	2,260				
1987	103,459	93,665	3,468	97,057	1,811				
1986	99,621	94,123	1,775	93,563	1,182				
1985	99,076	94,609	1,466	93,985	1,009				
1984	87,798	84,135	1,840	83,719	918				
1983	78,383	75,247	1,689	74,594	1,000				
1982	72,981	69,356	2,430	69,614	953				
1981	61,578	59,629	1,047	58,551	1,080				
1980	57,879	55,589	1,556	54,880	1,457				
1979	51,300	49,777	843	48,424	1,501				
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

[a] Adoption of accounting guidance related to transfers of financial assets and consolidation of variable interest entities, effective January 1, 2010, significantly changed presentation of these line items in the financial statements. Financial results for 2010 and later years are not directly comparable to previous years. Adoption of this guidance resulted in the consolidation of the substantial majority of mortgage-backed securities (MBS) trusts and recognition of the underlying assets and debt of the trusts in the consolidated balance sheet.

[b] Beginning in 1998, the guarantee liability for Fannie Mae MBS held for investment was classified as a liability.

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

[d] 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 have not been included. Amounts for periods before 2005 may include or consist of advances to lenders.

[e] Amounts shown for 2010 and later meet the definition of mortgage assets as defined in the Treasury Senior Preferred Stock Purchase Agreement for the purpose of determining the maximum amount of mortgage assets that may be held. The amount shown for 2009 includes consolidation of variable interest entities. The 2009 amount would have been $772.5 billion excluding consolidation of variable interest entities.

[f] As defined in the Treasury preferred stock agreement.

Table 4a. Fannie Mae Total MBS Outstanding Detail

End of Period	Single Family Mortgages ($ in Millions) [a]							Multifamily Mortgages ($ in Millions) [a]			($ in Millions)	
	Conventional				FHA/VA[b]							
	Fixed Rate ($)	Adjustable Rate ($)	Seconds ($)	Total ($)	Fixed Rate ($)	Adjustable Rate ($)	Total ($)	Conventional ($)	FHA/RD[b] ($)	Total Multi family ($)	Total MBS Outstanding[a] ($)	Multiclass MBS Outstanding[c] ($)
4Q11	2,192,594	149,825	643	2,343,062	16,243	130	16,373	72,634	1,639	74,273	2,433,708	516,471
3Q11	2,189,333	150,215	682	2,340,230	16,404	133	16,537	67,524	1,683	69,207	2,425,974	521,180
2Q11	2,198,646	150,723	717	2,350,086	17,071	135	17,206	63,649	1,744	65,393	2,432,685	518,022
1Q11	2,201,733	151,101	755	2,353,589	16,908	140	17,048	59,753	1,756	61,509	2,432,146	497,925
Annual Data												
2011	2,192,594	149,825	643	2,343,062	16,243	130	16,373	72,634	1,639	74,273	2,433,708	516,471
2010	2,172,092	150,378	805	2,323,275	17,167	144	17,311	57,206	1,785	58,991	2,399,577	507,268
2009	2,190,357	179,655	25	2,370,037	15,026	171	15,197	46,628	927	47,555	2,432,789	480,057
2008	2,035,020	203,206	31	2,238,257	12,903	214	13,117	37,298	787	38,085	2,289,459	481,137
2007	1,850,150	214,245	0	2,064,395	14,982	275	15,257	38,218	1,039	39,257	2,118,909	490,692
2006	1,484,147	230,667	0	1,714,814	18,615	454	19,069	42,184	1,483	43,667	1,777,550	456,970
2005	1,290,354	232,689	0	1,523,043	23,065	668	23,733	50,346	1,796	52,142	1,598,918	412,060
2004	1,243,343	75,722	0	1,319,065	31,389	949	32,336	47,386	9,260	56,646	1,408,047	368,567
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	398,516
2002	875,260	75,430	0	950,690	36,057	1,247	37,304	47,025	5,420	52,445	1,040,439	401,406
2001	752,211	60,842	772	813,825	4,519	1,207	5,726	42,713	1,181	43,894	863,445	392,457
2000	599,999	61,495	1,165	662,659	6,778	1,298	8,076	35,207	780	35,987	706,722	334,508
1999	586,069	51,474	1,212	638,755	7,159	1,010	8,169	31,518	703	32,221	679,145	335,514
1998	545,680	56,903	98	602,681	5,340	587	5,927	28,378	157	28,535	637,143	361,613
1997	483,982	70,106	7	554,095	3,872	213	4,085	20,824	134	20,958	579,138	388,360
1996	460,866	65,682	9	526,557	4,402	191	4,593	16,912	111	17,023	548,173	339,798
1995	431,755	63,436	13	495,204	5,043	91	5,134	12,579	313	12,892	513,230	353,528
1994	415,692	55,780	18	471,490	5,628	0	5,628	8,908	319	9,227	486,345	378,733
1993	405,383	49,987	28	455,398	7,549	0	7,549	8,034	325	8,359	471,306	381,865
1992	360,619	45,718	43	406,380	9,438	0	9,438	8,295	331	8,626	424,444	312,369
1991	290,038	45,110	89	335,237	11,112	0	11,112	8,599	336	8,935	355,284	224,806
1990	225,981	42,443	121	268,545	11,380	0	11,380	7,807	343	8,150	288,075	127,278
1989	Not Available Before 1990	Not Available Before 1990	Not Available Before 1990	Not Available Before 1990	Not Available Before 1990	Not Available Before 1990	Not Available Before 1990	Not Available Before 1990	Not Available Before 1990	Not Available Before 1990	216,512	64,826
1988											170,097	26,660
1987											135,734	11,359
1986											95,568	Not Issued Before 1987
1985											54,552	
1984											35,738	
1983											25,121	
1982											14,450	
1981											717	

Source : Fannie Mae

[a] Unpaid principal balance of Fannie Mae mortgage-backed securities (MBS) held by third-party investors. Includes guaranteed whole loan real estate mortgage investment conduits (REMICs) and private-label wraps not included in grantor trusts. The principal balance of resecuritized Fannie Mae MBS is included only once.

[b] FHA stands for Federal Housing Administration. RD stands for U.S. Department of Agriculture Rural Development loan programs. VA stands for Department of Veterans Affairs.

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

Table 5. Fannie Mae Mortgage Assets Held for Investment Detail[a]

End of Period	($ in Millions)			
	Whole Loans[b,c] ($)	Fannie Mae Securities[b,c,d] ($)	Other Mortgage Related Securities[b,d,e] ($)	Mortgage Assets Held for Investment (Gross)[f] ($)
4Q11	398,271	220,061	90,082	708,414
3Q11	403,805	224,687	93,666	722,158
2Q11	405,417	231,541	94,843	731,801
1Q11	421,856	238,330	97,432	757,618
Annual Data				
2011	398,271	220,061	90,082	708,414
2010	427,074	260,429	101,268	788,771
2009	416,543	220,245	132,464	769,252
2008	429,493	228,950	133,753	792,196
2007	403,577	180,163	144,163	727,903
2006	383,045	199,644	146,243	728,932
2005	366,680	234,451	136,758	737,889
2004	400,157	344,404	172,648	917,209
2003	397,633	405,922	105,313	908,868
2002	323,244	380,383	96,152	799,779
2001	167,405	431,776	109,270	708,452
2000	152,634	351,066	106,551	610,251
1999	149,231	281,714	93,122	524,067
1998	155,779	197,375	61,361	414,515
1997	160,102	130,444	26,132	316,678
1996	167,891	102,607	16,554	287,052
1995	171,481	69,729	12,301	253,511
1994	170,909	43,998	7,150	222,057
1993	163,149	24,219	3,493	190,861
1992	134,597	20,535	2,987	158,119
1991	109,251	16,700	3,032	128,983
1990	101,797	11,758	3,073	116,628
1989	95,729	11,720	3,272	110,721
1988	92,220	8,153	2,640	103,013
1987	89,618	4,226	2,902	96,746
1986	94,167	1,606	2,060	97,833
1985	97,421	435	793	98,649
1984	87,205	477	427	88,109
1983	77,983	Not Available Before 1984	273	78,256
1982	71,777		37	71,814
1981	61,411		1	61,412
1980	57,326		1	57,327
1979	51,096		1	51,097
1978	43,315		Not Available Before 1979	43,315
1977	34,377			34,377
1976	32,937			32,937
1975	31,916			31,916
1974	29,708			29,708
1973	24,459			24,459
1972	20,326			20,326
1971	18,515			18,515

Source : Fannie Mae

[a] Beginning with 2010, excludes effect of accounting guidance related to transfers of financial assets and consolidation of variable interest entities effective January 1, 2010. Amounts for 2010 have been revised from amounts previously reported to reflect this exclusion.

[b] Unpaid principal balance.

[c] Amounts for 2002 to 2009 include mortgage-related securities consolidated as loans as of period end. For 1999 through 2001, includes certain loans held for investment classified as nonmortgage investments.

[d] Amounts for 2002 to 2009 exclude mortgage-related securities consolidated as loans at period end.

[e] Includes mortgage revenue bonds.

[f] Amounts shown for 2010 and later meet the definition of mortgage assets as defined in the Treasury Senior Preferred Stock Purchase Agreement for the purpose of determining the maximum amount of mortgage assets that may be held. Amounts prior to 2010 include consolidation of variable interest entities. Mortgage assets under the preferred stock agreement for 2009 totaled $772.5 billion excluding consolidation of variable interest entities.

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

End of Period	Whole Loans ($ in Millions)[a]								
	Single Family					Multifamily			
	Conventional								
	Fixed Rate[b] ($)	Adjustable Rate ($)	Seconds ($)	Total ($)	Total FHA/ VA/RD[c] ($)	Conventional ($)	Total FHA/RD[c] ($)	Total ($)	Total Whole Loans ($)
4Q11	255,914	23,490	185	279,589	41,555	76,765	362	77,127	398,271
3Q11	254,737	25,092	189	280,018	41,619	81,789	379	82,168	403,805
2Q11	251,045	26,832	195	278,072	41,849	85,100	396	85,496	405,417
1Q11	250,244	29,496	200	279,940	51,348	90,155	413	90,568	421,856
Annual Data									
2011	255,914	23,490	185	279,589	41,555	76,765	362	77,127	398,271
2010	248,335	31,526	207	280,068	51,783	94,792	431	95,223	427,074
2009	208,915	34,602	213	243,730	52,399	119,829	585	120,414	416,543
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 Before 1987	Not Available Before 1987	Not Available Before 1987	Not Available	Not Available Before 1987	Not Available Before 1987	Not Available Before 1987	Not Available Before 1987	94,167
1985									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

[a] Unpaid principal balance. Beginning with 2010, excludes the effect of accounting guidance related to transfers of financial assets and consolidation of variable interest entities effective January 1, 2010. Amounts for 2010 have been revised from amounts previously reported to reflect this exclusion. Amounts for 2002 to 2009 include mortgage-related securities consolidated as loans at period end. For 1999 through 2001, includes certain loans held for investment classified as nonmortgage investments.

[b] Includes balloon and energy loans.

[c] Includes loans guaranteed by the U.S. Department of Agriculture Rural Development (RD) loan programs. FHA stands for Federal Housing Administration. VA stands for Department of Veterans Affairs.

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

End of Period	Mortgage Related Securities ($ in Millions)[a]													
	Fannie Mae Securities[b] ($)				Other Securities									
	Single Family				Freddie Mac				Ginnie Mae					
					Single Family				Single Family					
	Fixed Rate ($)	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 Other Securities[c] ($)
4Q11	172,502	19,189	28,370	220,061	8,888	5,621	0	14,509	1,003	7	33	1,043	63,631	79,183
3Q11	178,042	20,081	26,564	224,687	9,554	5,962	0	15,516	1,046	8	33	1,087	65,698	82,301
2Q11	185,178	21,100	25,263	231,541	8,696	6,256	0	14,952	1,087	6	33	1,126	67,107	83,185
1Q11	192,489	22,368	23,473	238,330	9,003	6,656	0	15,659	1,130	7	33	1,170	68,595	85,424
Annual Data														
2011	172,502	19,189	28,370	220,061	8,888	5,621	0	14,509	1,003	7	33	1,043	63,631	79,183
2010	217,075	23,406	19,948	260,429	10,005	7,327	0	17,332	1,393	8	24	1,425	69,986	88,743
2009	203,577	16,272	396	220,245	29,783	11,607	0	41,390	1,119	137	21	1,277	75,344	118,011
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 Before 2001	Not Available Before 2001	Not Available Before 2001	351,066	Not Available Before 2001	Not Available Before 2001	Not Available Before 2001	33,290	Not Available Before 2001	Not Available Before 2001	Not Available Before 2001	23,768	34,266	91,324
1999				281,714				25,577				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 Before 1994				972	2	974
1992				20,535								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 Before 1988	1,036	1,036
1986				1,606									1,591	1,591
1985				435									Not Available Before 1986	Not Available Before 1986
1984				477										

Source : Fannie Mae

[a] Unpaid principal balance. Amounts for 2002 to 2009 exclude mortgage-related securities consolidated as loans at period end.

[b] Beginning with 2010, excludes effect of accounting guidance related to transfers of financial assets and consolidation of variable interest entities effective January 1, 2010. Amounts for 2010 have been revised from amounts previously reported to reflect this exclusion.

[c] Excludes mortgage revenue bonds.

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

End of Period	Mortgage Related Securities ($ in Millions)[a]								
	Private Label								
	Single Family							Multifamily ($)	Total Private Label ($)
	Manufactured Housing ($)	Subprime		Alt A		Other			
		Fixed Rate ($)	Adjustable Rate ($)	Fixed Rate ($)	Adjustable Rate ($)	Fixed Rate ($)	Adjustable Rate ($)		
4Q11	2,387	331	16,207	6,232	13,438	208	1,590	23,238	63,631
3Q11	2,451	338	16,571	6,451	13,836	212	1,608	24,231	65,698
2Q11	2,520	346	16,930	6,686	14,251	222	1,639	24,513	67,107
1Q11	2,592	354	17,299	6,878	14,712	232	1,669	24,859	68,595
Annual Data									
2011	2,387	331	16,207	6,232	13,438	208	1,590	23,238	63,631
2010	2,660	361	17,678	7,119	15,164	237	1,700	25,067	69,986
2009	2,485	391	20,136	7,515	16,990	255	1,849	25,723	75,344
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	268	46,608	10,722	24,402	376	1,282	9,721	97,281
2005	4,622	431	46,679	11,848	21,203	634	1,455	43	86,915
2004	5,461	889	73,768	11,387	14,223	2,535	487	59	108,809
2003	6,522	1,437	27,738	8,429	383	1,944	428	98	46,979
2002	9,583	2,870	6,534	3,905	20	3,773	1,325	147	28,157
2001	10,708	Not Available Before 2002	Not Available Before 2002	Not Available Before 2002	Not Available Before 2002	Not Available Before 2002	Not Available Before 2002	299	29,175
2000	Not Available Before 2001							Not Available Before 2001	34,266
1999									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

Source: Fannie Mae

[a] Unpaid principal balance. Beginning with 2010, excludes effect of accounting guidance related to transfers of financial assets and consolidation of variable interest entities effective January 1, 2010. Amounts for 2010 have been revised from amounts previously reported to reflect this exclusion.

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

End of Period	Mortgage Related Securities ($ in Millions)		($ in Millions)			
	Mortgage Revenue Bonds[a] ($)	Total Mortgage Related Securities[a,b] ($)	Unamortized Premiums, Discounts, Deferred Adjustments, & Fair Value Adjustments on Securities and Loans[b,c] ($)	Mortgage Assets Held for Investment (Net)[b] ($)	Mortgage Assets Held for Investment (Gross)[b,d] ($)	Limit on Mortgage Assets Held for Investment (Gross)[e] ($)
4Q11	10,899	310,143	(9,784)	698,630	708,414	729,000
3Q11	11,365	318,353	(10,030)	712,128	722,158	N/A
2Q11	11,658	326,384	(10,574)	721,227	731,801	N/A
1Q11	12,008	335,762	(12,401)	745,217	757,618	N/A
Annual Data						
2011	10,899	310,143	(9,784)	698,630	708,414	729,000
2010	12,525	361,697	(12,284)	776,487	788,771	810,000
2009	14,453	352,709	(23,981)	745,271	769,252	900,000
2008	15,447	362,703	(24,207)	767,989	Not Applicable Before 2009	Not Applicable Before 2009
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 Before 1987	(3,710)	94,123		
1985	Not Available Before 1986		(4,040)	95,250		
1984			(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

N/A - not applicable

a Unpaid principal balance.

b Beginning with 2010, excludes effect of accounting guidance related to transfers of financial assets and consolidation of variable interest entities effective January 1, 2010. Amounts for 2010 have been revised from amounts previously reported to reflect this exclusion.

c 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 allowance for loan losses on loans held for investment.

d Amounts shown for 2010 and later meet the definition of mortgage assets as defined in the Treasury Senior Preferred Stock Purchase Agreement for the purpose of determining the maximum amount of mortgage assets that may be held. The amount shown for 2009 includes consolidation of variable interest entities. The 2009 amount would have been $772.5 billion excluding consolidation of variable interest entities.

e Maximum allowable mortgage assets under the preferred stock agreement.

Table 6. Fannie Mae Financial Derivatives

End of Period	Interest Rate Swaps[a] ($)	Interest Rate Caps, Floors, and Corridors ($)	Foreign Currency Contracts ($)	Over the Counter Futures, Options, and Forward Rate Agreements[b] ($)	Mandatory Mortgage Purchase & Sell Commitments ($)	Other ($)	Total ($)
	Financial Derivatives Notional Amount Outstanding ($ in Millions)						
4Q11	426,688	7,000	1,032	178,470	101,435	0	714,625
3Q11	381,326	7,000	999	200,145	127,215	0	716,685
2Q11	369,475	7,000	1,538	231,008	66,197	0	675,218
1Q11	487,281	7,000	1,595	245,248	75,338	0	816,462
Annual Data							
2011	426,688	7,000	1,032	178,470	101,435	0	714,625
2010	502,578	7,000	1,560	176,010	119,870	0	807,018
2009	661,990	7,000	1,537	174,680	121,947	0	967,154
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 Before 2003	0	655,187
2001	299,953	75,893	8,493	148,800		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 Before 1992	50		1,050	10,200
1990	4,800	0		25		1,700	6,525

Source : Fannie Mae

[a] Beginning in 2002, includes mortgage-backed securities options, swap credit enhancements, and forward-starting debt. Forward-starting debt is a commitment to issue debt at some future time (generally to fund a purchase or commitment that starts at the agreed future time).

[b] Beginning in 2010, includes exchange-traded futures, which totaled $675 million at year-end 2011.

Table 7. Fannie Mae Nonmortgage Investments

End of Period	Nonmortgage Investments ($ in Millions)[a]					
	Federal Funds and Eurodollars ($)	Asset Backed Securities ($)	Repurchase Agreements[b] ($)	Commercial Paper and Corporate Debt[c] ($)	Other[d] ($)	Total ($)
4Q11	0	2,111	46,000	0	47,737	95,848
3Q11	0	2,465	35,950	0	40,755	79,170
2Q11	5,000	3,242	14,500	0	34,856	57,598
1Q11	5,000	4,100	21,250	0	29,383	59,733
Annual Data						
2011	0	2,111	46,000	0	47,737	95,848
2010	5,000	5,321	6,750	0	27,432	44,503
2009	44,900	8,515	4,000	364	3	57,782
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	70	16,435	1,829	47,839
2003	12,575	26,862	111	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 Before 1982	Not Available Before 1982	Not Available Before 1982	Not Available Before 1982	Not Available Before 1982	1,047
1980						1,556
1979						843
1978						834
1977						318
1976						245
1975						239
1974						466
1973						227
1972						268
1971						349

Source : Fannie Mae

a Data reflect unpaid principal balance net of unamortized purchase premiums, discounts and cost-basis adjustments, fair-value adjustments, and impairments on available-for-sale and trading securities.

b Since 2005, advances to lenders have not been included in the data. Amounts for years before 2005 may include or consist of advances to lenders. Includes tri-party repurchase agreements.

c 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.

d Includes Treasury and agency securities, Yankee Bonds, and domestic certificates of deposit.

Table 8. Fannie Mae Mortgage Asset Quality

End of Period	Mortgage Asset Quality				
	Single Family Serious Delinquency Rate[a] (%)	Multifamily Serious Delinquency Rate[b] (%)	Credit Losses as a Proportion of the Guarantee Book of Business[c, d] (%)	Real Estate Owned as a Proportion of the Guarantee Book of Business[d] (%)	Credit Enhanced Outstanding as a Proportion of the Guarantee Book of Business[e] (%)
4Q11	3.91	0.59	0.61	0.37	18.4
3Q11	4.00	0.57	0.59	0.40	18.6
2Q11	4.08	0.46	0.51	0.44	18.6
1Q11	4.27	0.64	0.74	0.49	18.7
Annual Data					
2011	3.91	0.59	0.61	0.37	18.4
2010	4.48	0.71	0.77	0.53	19.1
2009	5.38	0.63	0.45	0.30	21.2
2008	2.42	0.30	0.23	0.23	23.9
2007	0.98	0.08	0.05	0.13	23.7
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 Before 1990
1988	0.88	6.60	0.11	0.15	
1987	1.12	Not Available Before 1988	0.11	0.18	
1986	1.38		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 Before 1974		0.00	0.61	
1972			0.02	0.98	
1971			0.01	0.59	

Source : Fannie Mae

[a] 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 mortgage-backed securities (MBS). Includes loans referred to foreclosure proceedings but not yet foreclosed. Prior to 1988, 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 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.

[b] Before 1998, data include multifamily loans for which Fannie Mae had primary risk of loss. Beginning in 1998, data include all multifamily loans and securities 60 days or more past due. Beginning in 2002, rate is calculated using the unpaid principal balance of multifamily loans owned by Fannie Mae or underlying Fannie Mae guaranteed securities as the denominator. For the period 1998 to 2001, the denominator also includes other credit enhancements Fannie Mae provides on multifamily mortgage assets and multifamily non-Fannie Mae mortgage-related securities held for investment.

[c] 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 fair-value losses of credit impaired loans acquired from MBS trusts. Beginning in 2008, credit losses also exclude the effect of HomeSaver Advance program fair-value losses.

[d] Guarantee book of business refers to the sum of the unpaid principal balance of mortgage loans held as investments, Fannie Mae MBS held as investments, Fannie Mae MBS held by third parties, and other credit enhancements Fannie Mae provides on mortgage assets. It excludes non-Fannie Mae mortgage-related securities held for investment that Fannie Mae does not guarantee. Before 2005, the ratio was based on the mortgage credit book of business, which consists of the guarantee book of business plus non-Fannie Mae mortgage-related securities held as investments not guaranteed by Fannie Mae.

[e] Beginning in 2000, the credit-enhanced category was expanded to include loans with primary mortgage insurance. Amounts for periods before 2000 reflect the proportion of assets held for investment with additional recourse from a third party to accept some or all of the expected losses on defaulted mortgages.

Table 9. Fannie Mae Capital

End of Period	Capital ($ in Millions)[a]									
	Minimum Capital Requirement			Risk Based Capital Requirement						
	Core Capital[b] ($)	Minimum Capital Requirement[c] ($)	Minimum Capital Surplus (Deficit)[d] ($)	Total Capital[e] ($)	Risk Based Capital Requirement[f] ($)	Risk Based Capital Surplus (Deficit)[g] ($)	Market Capitalization[h] ($)	Core Capital/ Total Assets (%)	Core Capital/ Total Assets Plus Unconsolidated MBS (%)	Common Share Dividend Payout Rate[k] (%)
4Q11	(115,967)	32,463	(148,430)	N/A	N/A	N/A	233	(3.61)	(3.59)	N/A
3Q11	(110,943)	32,697	(143,640)	N/A	N/A	N/A	278	(3.45)	(3.43)	N/A
2Q11	(103,368)	31,720	(135,088)	N/A	N/A	N/A	383	(3.23)	(3.21)	N/A
1Q11	(98,199)	32,530	(130,729)	N/A	N/A	N/A	441	(3.04)	(3.02)	N/A
Annual Data										
2011	(115,967)	32,463	(148,430)	N/A	N/A	N/A	233	(3.61)	(3.59)	N/A
2010	(89,516)	33,676	(123,192)	N/A	N/A	N/A	336	(2.78)	(2.76)	N/A
2009	(74,540)	33,057	(107,597)	N/A	N/A	N/A	1,314	(8.58)	(2.26)	N/A
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 Before 2002	Not Applicable Before 2002	79,281	3.15	1.51	23.0
2000	20,827	20,293	533	21,634			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 Before 1993	Not Applicable Before 1993	Not Applicable Before 1993	Not Applicable Before 1993			20,874	Not Applicable Before 1993	Not Applicable Before 1993	23.2
1991							18,836			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 Before 1980			45.7
1978										30.3
1977										31.8
1976										33.6
1975										31.8
1974										29.6
1973										18.1
1972										15.2
1971										18.7

Source : Fannie Mae and FHFA

N/A = not applicable N/M = not meaningful

a On October 9, 2008, the Federal Housing Finance Agency (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 were binding and will not be binding during conservatorship.

b The sum of the stated value of outstanding common stock (common stock less treasury stock), the stated value of outstanding noncumulative perpetual preferred stock, paid-in capital, and retained earnings (accumulated deficit). Core capital excludes accumulated other comprehensive income (loss) and senior preferred stock.

c Beginning in the third quarter of 2005, FHFA required Fannie Mae to maintain an additional 30 percent capital in excess of the statutory minimum capital requirement. The regulator reduced the requirement to 20 percent as of the first quarter of 2008 and 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 additional capital requirements.

d Minimum capital surplus is the difference between core capital and minimum capital requirement.

e Total capital is core capital plus the total allowance for loan losses and guarantee liability for mortgage-backed securities (MBS), less any specific loss allowances.

f Risk-based capital requirement is the amount of total capital 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 Enterprises 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.

g 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 set capital classifications. FHFA is not reporting on risk-based capital levels during conservatorship.

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

i Adoption of accounting guidance related to transfers of financial assets and consolidation of variable interest entities effective January 1, 2010, significantly changed presentation of this item in the financial statements. Financial results for 2010 and beyond are not directly comparable to previous years.

j Unconsolidated MBS are those held by third parties.

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

Table 10. Freddie Mac Mortgage Purchases

Period	Business Activity ($ in Millions)			
	Purchases[a]			
	Single Family ($)	Multifamily ($)	Total Mortgages[b] ($)	Mortgage Related Securities[c] ($)
4Q11	89,060	7,876	96,936	16,883
3Q11	71,279	4,888	76,167	28,943
2Q11	62,903	4,512	67,415	30,847
1Q11	97,551	3,049	100,600	43,328
Annual Data				
2011	320,793	20,325	341,118	120,001
2010	386,378	15,372	401,750	51,828
2009	475,350	16,571	491,921	238,835
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 Before 1994
1992	191,099	27	191,126	
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 Before 1985	Not Available Before 1985	21,885	
1983			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

[a] Based on unpaid principal balances. Excludes mortgage loans and mortgage-related securities traded but not yet settled.

[b] Consists of loans purchased from lenders, as well as those loans covered under other guarantee commitments.

[c] Not included in total mortgages. For 2002 through 2011, amounts include non-Freddie Mac mortgage-related securities as well as repurchased Freddie Mac mortgage-backed securities (MBS) held for investment. Before 2002, amounts exclude Freddie Mac real estate mortgage investment conduits and other structured securities backed by Ginnie Mae MBS. Amounts in 2011 and 2010 include purchases of Freddie Mac MBS, most accounted for as debt extinguishments under Generally Accepted Accounting Principles rather than as investment in securities.

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

Period	Purchases ($ in Millions)[a]											
	Single Family Mortgages								Multifamily Mortgages			Total Mortgage Purchases ($)
	Conventional				FHA/VA[d]			Total Single Family Mortgages ($)	Conventional ($)	FHA/RD ($)	Total Multi family Mortgages ($)	
	Fixed Rate[b] ($)	Adjustable Rate[c] ($)	Seconds ($)	Total ($)	Fixed Rate ($)	Adjustable Rate ($)	Total ($)					
4Q11	83,338	5,669	0	89,007	53	0	53	89,060	7,876	0	7,876	96,936
3Q11	63,085	8,150	0	71,235	44	0	44	71,279	4,888	0	4,888	76,167
2Q11	56,725	6,125	0	62,850	53	0	53	62,903	4,512	0	4,512	67,415
1Q11	91,770	5,741	0	97,511	40	0	40	97,551	3,049	0	3,049	100,600
Annual Data												
2011	294,918	25,685	0	320,603	190	0	190	320,793	20,325	0	20,325	341,118
2010	368,352	17,435	0	385,787	591	0	591	386,378	15,372	0	15,372	401,750
2009	470,355	3,615	0	473,970	1,380	0	1,380	475,350	16,571	0	16,571	491,921
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

Source : Freddie Mac

[a] Based on unpaid principal balances. Excludes mortgage loans and mortgage-related securities traded but not yet settled. Activity includes issuances of other guarantee commitments for loans held by third parties.

[b] From 2002 to 2011, includes loans guaranteed by U.S. Department of Agriculture Rural Development (RD) loan programs.

[c] From 2001 to 2011, includes balloon/reset mortgages.

[d] FHA stands for Federal Housing Administration. VA stands for Department of Veterans Affairs.

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

Period	Purchases ($ in Millions)[a]														
	Freddie Mac Securities[b]				Other Securities									Mortgage Revenue Bonds ($)	Total Mortgage Related Securities[c] ($)
					Fannie Mae				Ginnie Mae[c]				Total Private Label ($)		
	Single Family		Multi family ($)	Total Freddie Mac ($)	Single Family		Multi family ($)	Total Fannie Mae ($)	Single Family		Multi family ($)	Total Ginnie Mae ($)			
	Fixed Rate ($)	Adjustable Rate ($)			Fixed Rate ($)	Adjustable Rate ($)			Fixed Rate ($)	Adjustable Rate ($)					
4Q11	9,953	1,466	179	11,598	1,085	1,142	0	2,227	0	0	0	0	3,058	0	16,883
3Q11	23,607	587	177	24,371	1,550	927	0	2,477	0	0	0	0	2,095	0	28,943
2Q11	24,304	462	91	24,857	2,181	60	0	2,241	0	0	0	0	3,749	0	30,847
1Q11	36,679	2,542	25	39,246	1,019	168	0	1,187	0	0	0	0	2,895	0	43,328
Annual Data															
2011	94,543	5,057	472	100,072	5,835	2,297	0	8,132	0	0	0	0	11,797	0	120,001
2010	40,462	923	382	41,767	0	373	0	373	0	0	0	0	9,688	0	51,828
2009	176,974	5,414	0	182,388	43,298	2,697	0	45,995	0	0	27	27	10,245	180	238,835
2008	192,701	26,344	111	219,156	49,534	18,519	0	68,053	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

Source : Freddie Mac

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

b Amounts for 2010 and later include purchases of Freddie Mac mortgage-backed securities (MBS), many accounted for as debt extinguishments under Generally Accepted Accounting Principles rather than as investment in securities.

c Before 2002, amounts exclude real estate mortgage investment conduits and other 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)[a]								
	Private Label								
	Single Family							Multifamily[c] ($)	Total Private Label ($)
	Manufactured Housing ($)	Subprime		Alt A[b]		Other[c]			
		Fixed Rate ($)	Adjustable Rate ($)	Fixed Rate ($)	Adjustable Rate ($)	Fixed Rate ($)	Adjustable Rate ($)		
4Q11	0	0	0	0	0	4	0	3,054	3,058
3Q11	0	0	0	0	0	1	0	2,094	2,095
2Q11	0	0	0	0	0	56	0	3,693	3,749
1Q11	0	0	0	0	0	16	0	2,879	2,895
Annual Data									
2011	0	0	0	0	0	77	0	11,720	11,797
2010	0	0	0	0	0	3,172	0	6,516	9,688
2009	0	0	0	0	0	7,874	0	2,371	10,245
2008	0	60	46	0	618	8,175	0	1,417	10,316
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 Before 2006	Not Available Before 2006	Not Available Before 2006	Not Available Before 2006	2,191	162,931	14,840	179,962
2004	0					1,379	108,825	10,878	121,082
2003	0					Not Available Before 2004	Not Available Before 2004	Not Available Before 2004	69,154
2002	318								59,376
2001	0								24,468
2000	15								10,304
1999	3,293								15,263
1998	1,630								15,711
1997	36								1,494

Source : Freddie Mac

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

b Includes Alt-A and option ARM private-label mortgage-related securities purchased for other guarantee transactions. ARM stands for adjustable-rate mortgage.

c Includes non-Freddie Mac mortgage-related securities purchased for other guarantee transactions, including Ginnie Mae mortgage-backed securities, as well as nonagency securities held for investment. Purchases for 2009 and 2010 include amounts related to housing finance agency bonds acquired and resecuritized under a bond initiative program.

Table 11. Freddie Mac MBS Issuances

Period	Business Activity ($ in Millions)			
	MBS Issuances[a]			
	Single Family MBS[b] ($)	Multifamily MBS ($)	Total MBS[b] ($)	Multiclass MBS[c] ($)
4Q11	78,452	3,440	81,892	30,476
3Q11	68,239	2,191	70,430	31,792
2Q11	62,256	3,967	66,223	46,487
1Q11	95,682	3,034	98,716	57,784
Annual Data				
2011	304,629	12,632	317,261	166,539
2010	384,719	8,318	393,037	136,366
2009	472,461	2,951	475,412	86,202
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 Before 1985	Not Available Before 1985	18,684	1,805
1983			19,691	1,685
1982			24,169	Not Issued Before 1983
1981			3,526	
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

[a] Based on unpaid principal balances. Excludes mortgage loans and mortgage-related securities traded but not yet settled. Includes issuance of other guarantee commitments for mortgages not in the form of a security.

[b] Includes mortgage-backed securities (MBS), real estate mortgage investment conduits (REMICs), other structured securities, and other guarantee transactions. From 2002 to 2011, includes Freddie Mac REMICs and other structured securities backed by Ginnie Mae MBS. Before 2002, excludes Freddie Mac REMICs and other structured securities backed by Ginnie Mae MBS. Amounts are not included in total MBS issuances if the activity represents a resecuritization of Freddie Mac MBS.

[c] Includes activity related to multiclass securities, primarily REMICs, but excludes resecuritizations of MBS into single-class securities. Amounts are not included in total MBS issuances if the activity represents a resecuritization of Freddie Mac MBS.

Table 12. Freddie Mac Earnings

Period	Earnings ($ in Millions)					
	Net Interest Income[a] ($)	Guarantee Fee Income[a] ($)	Administrative Expenses ($)	Credit Related Expenses[b] ($)	Net Income (Loss) ($)	Return on Equity[c] (%)
4Q11	4,683	48	380	2,658	619	N/M
3Q11	4,613	44	381	3,827	(4,422)	N/M
2Q11	4,561	40	384	2,556	(2,139)	N/M
1Q11	4,540	38	361	2,246	676	N/M
Annual Data						
2011	18,397	170	1,506	11,287	(5,266)	N/M
2010	16,856	143	1,597	17,891	(14,025)	N/M
2009	17,073	3,033	1,685	29,837	(21,553)	N/M
2008	6,796	3,370	1,505	17,529	(50,119)	N/M
2007	3,099	2,635	1,674	3,060	(3,094)	(21.0)
2006	3,412	2,393	1,641	356	2,327	9.8
2005	4,627	2,076	1,535	347	2,113	8.1
2004	9,137	1,382	1,550	140	2,937	9.4
2003	9,498	1,653	1,181	2	4,816	17.7
2002	9,525	1,527	1,406	126	10,090	47.2
2001	7,448	1,381	1,024	39	3,158	20.2
2000	3,758	1,243	825	75	3,666	39.0
1999	2,926	1,019	655	159	2,223	25.5
1998	2,215	1,019	578	342	1,700	22.6
1997	1,847	1,082	495	529	1,395	23.1
1996	1,705	1,086	440	608	1,243	22.6
1995	1,396	1,087	395	541	1,091	22.1
1994	1,112	1,108	379	425	983	23.3
1993	772	1,009	361	524	786	22.3
1992	695	936	329	457	622	21.2
1991	683	792	287	419	555	23.6
1990	619	654	243	474	414	20.4
1989	517	572	217	278	437	25.0
1988	492	465	194	219	381	27.5
1987	319	472	150	175	301	28.2
1986	299	301	110	120	247	28.5
1985	312	188	81	79	208	30.0
1984	213	158	71	54	144	52.0
1983	125	132	53	46	86	44.5
1982	30	77	37	26	60	21.9
1981	34	36	30	16	31	13.1
1980	54	23	26	23	34	14.7
1979	55	18	19	20	36	16.2
1978	37	14	14	13	25	13.4
1977	31	9	12	8	21	12.4
1976	18	3	10	(1)	14	9.5
1975	31	3	10	11	16	11.6
1974	42	2	8	33	5	4.0
1973	31	2	7	15	12	9.9
1972	10	1	5	4	4	3.5
1971	10	1	Not Available Before 1972	Not Available Before 1972	6	5.5

Source : Freddie Mac

N/M = not meaningful

a Adoption of accounting guidance related to transfers of financial assets and consolidation of variable interest entities, effective January 1, 2010, significantly changed presentation of these items in the financial statements. Financial results for 2010 and later are not directly comparable to previous years. Effective January 1, 2010, guarantee fee income associated with the securitization activities of consolidated trusts is reflected in net interest income.

b For years 2002 through 2011, defined as provision for credit losses and real-estate owned operations income/expense. For years 2000 and 2001, includes only provision for credit losses.

c Ratio computed as annualized net income (loss) available to common stockholders divided by the simple average of beginning and ending common stockholders' equity (deficit).

Table 13. Freddie Mac Balance Sheet

End of Period	Balance Sheet ($ in Millions)[a]								
	Total Assets ($)	Total Mortgage Assets[b] ($)	Nonmortgage Investments ($)	Total Debt Outstanding ($)	Stockholders Equity ($)	Senior Preferred Stock ($)	Fair Value of Net Assets ($)	Mortgage Assets Held for Investment (Gross)[c] ($)	Indebtedness[d] ($)
4Q11	2,147,216	2,062,713	39,342	2,131,983	(146)	72,171	(78,400)	653,313	674,314
3Q11	2,172,336	2,107,795	31,464	2,162,457	(5,991)	66,179	(68,500)	679,133	689,918
2Q11	2,195,795	2,134,746	53,147	2,180,123	(1,478)	64,700	(63,000)	685,033	695,219
1Q11	2,244,916	2,151,452	64,415	2,225,998	1,237	64,700	(56,400)	692,038	729,060
Annual Data									
2011	2,147,216	2,062,713	39,342	2,131,983	(146)	72,171	(78,400)	653,313	674,314
2010	2,261,780	2,149,586	74,420	2,242,588	(401)	64,200	(58,600)	696,874	728,217
2009	841,784	716,974	26,271	780,604	4,278	51,700	(62,500)	755,272	805,073
2008	850,963	748,747	18,944	843,021	(30,731)	14,800	(95,600)	Not Applicable Before 2009	Not Applicable Before 2009
2007	794,368	710,042	41,663	738,557	26,724	Not Applicable Before 2008	12,600		
2006	804,910	700,002	68,614	744,341	26,914		31,800		
2005	798,609	709,503	57,324	740,024	25,691		30,900		
2004	795,284	664,582	62,027	731,697	31,416		30,900		
2003	803,449	660,531	53,124	739,613	31,487		27,300		
2002	752,249	589,899	91,871	665,696	31,330		22,900		
2001	641,100	503,769	89,849	578,368	19,624		18,300		
2000	459,297	385,451	43,521	426,899	14,837		Not Applicable Before 2001		
1999	386,684	322,914	34,152	360,711	11,525				
1998	321,421	255,670	42,160	287,396	10,835				
1997	194,597	164,543	16,430	172,842	7,521				
1996	173,866	137,826	22,248	156,981	6,731				
1995	137,181	107,706	12,711	119,961	5,863				
1994	106,199	73,171	17,808	93,279	5,162				
1993	83,880	55,938	18,225	49,993	4,437				
1992	59,502	33,629	12,542	29,631	3,570				
1991	46,860	26,667	9,956	30,262	2,566				
1990	40,579	21,520	12,124	30,941	2,136				
1989	35,462	21,448	11,050	26,147	1,916				
1988	34,352	16,918	14,607	26,882	1,584				
1987	25,674	12,354	10,467	19,547	1,182				
1986	23,229	13,093	Not Available Before 1987	15,375	953				
1985	16,587	13,547		12,747	779				
1984	13,778	10,018		10,999	606				
1983	8,995	7,485		7,273	421				
1982	5,999	4,679		4,991	296				
1981	6,326	5,178		5,680	250				
1980	5,478	5,006		4,886	221				
1979	4,648	4,003		4,131	238				
1978	3,697	3,038		3,216	202				
1977	3,501	3,204		3,110	177				
1976	4,832	4,175		4,523	156				
1975	5,899	4,878		5,609	142				
1974	4,901	4,469		4,684	126				
1973	2,873	2,521		2,696	121				
1972	1,772	1,726		1,639	110				
1971	1,038	935		915	107				

Source : Freddie Mac

[a] Adoption of new accounting standards related to transfers of financial assets and consolidation of variable interest entities effective January 1, 2010, significantly changed the presentation of these items in the financial statements. Consequently, financial results for 2010 and later are not directly comparable to previous years.

[b] Excludes allowance for loan losses.

[c] Defined as mortgage assets in the Treasury Preferred Stock Purchase agreement

[d] As defined in the preferred stock agreement.

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

End of Period	Single Family Mortgages ($ in Millions)					Multifamily Mortgages ($ in Millions)			($ in Millions)	
	Conventional									
	Fixed Rate[b] ($)	Adjustable Rate[c] ($)	Seconds[d] ($)	Total ($)	Total FHA/VA[d]	Conventional ($)	FHA/RD ($)	Multifamily Mortgages ($)	Total MBS Outstanding[e] ($)	Multiclass MBS Outstanding[f] ($)
4Q11	1,303,916	81,977	2	1,385,895	4,106	32,080	0	32,080	1,422,081	451,716
3Q11	1,318,325	83,049	2	1,401,376	4,261	29,399	0	29,399	1,435,036	460,023
2Q11	1,329,823	81,598	2	1,411,423	4,392	27,811	0	27,811	1,443,626	456,643
1Q11	1,340,993	81,413	2	1,422,408	4,464	24,562	0	24,562	1,451,434	436,809
Annual Data										
2011	1,303,916	81,977	2	1,385,895	4,106	32,080	0	32,080	1,422,081	451,716
2010	1,357,124	84,471	2	1,441,597	4,434	21,954	0	21,954	1,467,985	429,115
2009	1,364,796	111,550	3	1,476,349	3,544	15,374	0	15,374	1,495,267	448,329
2008	1,242,648	142,495	4	1,385,147	3,970	13,597	0	13,597	1,402,714	517,654
2007	1,206,495	161,963	7	1,368,465	4,499	8,899	0	8,899	1,381,863	526,604
2006	967,580	141,740	12	1,109,332	5,396	8,033	0	8,033	1,122,761	491,696
2005	836,023	117,757	19	953,799	6,289	14,112	0	14,112	974,200	437,668
2004	736,332	91,474	70	827,876	9,254	15,140	0	15,140	852,270	390,516
2003	649,699	74,409	140	724,248	12,157	15,759	0	15,759	752,164	347,833
2002	647,603	61,110	5	708,718	12,361	8,730	0	8,730	729,809	392,545
2001	609,290	22,525	10	631,825	14,127	7,132	0	7,132	653,084	299,652
2000	533,331	36,266	18	569,615	778	5,708	0	5,708	576,101	309,185
1999	499,671	33,094	29	532,794	627	4,462	0	4,462	537,883	316,168
1998	Not Available Before 1999	Not Available Before 1999	Not Available Before 1999	Not Available Before 1999	Not Available Before 1999	Not Available Before 1999	Not Available Before 1999	Not Available Before 1999	478,351	260,504
1997									475,985	233,829
1996									473,065	237,939
1995									459,045	246,336
1994									460,656	264,152
1993									439,029	265,178
1992									407,514	218,747
1991									359,163	146,978
1990									316,359	88,124
1989									272,870	52,865
1988									226,406	15,621
1987									212,635	3,652
1986									169,186	5,333
1985									99,909	5,047
1984									70,026	3,214
1983									57,720	1,669
1982									42,952	Not Issued Before 1983
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

a Based on unpaid principal balances of mortgage guarantees held by third parties. Excludes mortgage-backed securities (MBS) held for investment by Freddie Mac.

b Includes U.S.Department of Agriculture Rural Development (RD) loan programs.

c From 2001 to 2011, includes MBS with underlying mortgages classified as balloon/reset loans.

d From 2002 to 2011, includes resecuritizations of non-Freddie Mac securities.

e Excludes mortgage loans and mortgage-related securities traded but not yet settled. From 2002 to 2011, amounts include real estate mortgage investment conduits and other structured securities, guarantee transactions, and guarantee commitments of mortgage loans and MBS held by third parties.

f Amounts are included in total MBS outstanding column.

Table 14. Freddie Mac Mortgage Assets Held for Investment Detail

End of Period	($ in Millions)			
	Whole Loans[a] ($)	Freddie Mac Securities[a] ($)	Other Mortgage Related Securities[a] ($)	Mortgage Assets Held for Investment (Gross)[b, c] ($)
4Q11	253,970	223,667	175,676	653,313
3Q11	242,943	254,055	182,135	679,133
2Q11	239,950	258,768	186,315	685,033
1Q11	240,335	258,480	193,223	692,038
Annual Data				
2011	253,970	223,667	175,676	653,313
2010	234,746	263,603	198,525	696,874
2009	138,816	374,615	241,841	755,272
2008	111,476	424,524	268,762	804,762
2007	82,158	356,970	281,685	720,813
2006	65,847	354,262	283,850	703,959
2005	61,481	361,324	287,541	710,346
2004	61,360	356,698	235,203	653,261
2003	60,270	393,135	192,362	645,767
2002	63,886	341,287	162,099	567,272
2001	62,792	308,427	126,420	497,639
2000	59,240	246,209	80,244	385,693
1999	56,676	211,198	56,569	324,443
1998	57,084	168,108	29,817	255,009
1997	48,454	103,400	Not Available Before 1998	164,665
1996	46,504	81,195		137,755
1995	43,753	56,006		107,424
1994	Not Available Before 1995	30,670		73,171
1993		15,877		55,938
1992		6,394		33,629
1991		Not Available Before 1992		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

[a] Based on unpaid principal balances. Excludes mortgage loans and mortgage-related securities traded but not yet settled.

[b] Excludes allowance for loan losses.

[c] Amounts shown for 2009 and later meet the definition of mortgage assets as defined in the Treasury Senior Preferred Stock Purchase Agreement for the purpose of determining the maximum amount of mortgage assets that may be held.

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

End of Period	Whole Loans ($ in Millions)[a]								
	Single Family					Multifamily			Total Whole Loans ($)
	Conventional				Total FHA/VA[c] ($)				
	Fixed Rate[b] ($)	Adjustable Rate ($)	Seconds ($)	Total ($)		Conventional ($)	FHA/RD ($)	Total ($)	
4Q11	156,361	13,804	0	170,165	1,494	82,308	3	82,311	253,970
3Q11	145,402	14,541	0	159,943	1,409	81,588	3	81,591	242,943
2Q11	141,196	15,633	0	156,829	1,319	81,799	3	81,802	239,950
1Q11	137,893	17,058	0	154,951	1,232	84,149	3	84,152	240,335
Annual Data									
2011	156,361	13,804	0	170,165	1,494	82,308	3	82,311	253,970
2010	130,722	16,643	0	147,365	1,498	85,880	3	85,883	234,746
2009	50,980	2,310	0	53,290	1,588	83,935	3	83,938	138,816
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 Before 2001	16,369	59,240
1999	43,210	1,020	14	44,244	77	12,355		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 Before 1997	Not Available Before 1997	Not Available Before 1997	Not Available Before 1997	Not Available Before 1997	4,746		4,746	46,504
1995						3,852		3,852	43,753

Source : Freddie Mac

a Based on unpaid principal balances of mortgage loans. Excludes mortgage loans traded but not yet settled.

b From 2001 to 2011, includes U.S.Department of Agriculture Rural Development (RD) loan programs.

c FHA stands for Federal Housing Administration. VA stands for Department of Veterans Affairs.

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

End of Period	Mortgage Related Securities ($ in Millions)[a]													
	Freddie Mac Securities[b]				Other Securities									
	Single Family		Multi family ($)	Total Freddie Mac ($)	Fannie Mae				Ginnie Mae				Total Private Label ($)	Total Other Securities ($)
					Single Family		Multi family ($)	Total Fannie Mae ($)	Single Family		Multi family ($)	Total Ginnie Mae ($)		
	Fixed Rate ($)	Adjustable Rate ($)			Fixed Rate ($)	Adjustable Rate ($)			Fixed Rate ($)	Adjustable Rate ($)				
4Q11	174,440	46,219	3,008	223,667	16,543	15,998	128	32,669	253	104	16	373	134,841	167,883
3Q11	203,948	47,294	2,813	254,055	19,380	15,666	139	35,185	264	106	27	397	138,399	173,981
2Q11	206,788	49,402	2,578	258,768	19,838	15,645	147	35,630	273	111	27	411	141,441	177,482
1Q11	204,330	51,953	2,197	258,480	20,732	17,140	250	38,122	284	114	27	425	145,293	183,840
Annual Data														
2011	174,440	46,219	3,008	223,667	16,543	15,998	128	32,669	253	104	16	373	134,841	167,883
2010	206,974	54,534	2,095	263,603	21,238	18,139	316	39,693	296	117	27	440	148,515	188,648
2009	294,958	77,708	1,949	374,615	36,549	28,585	528	65,662	341	133	35	509	163,816	229,987
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 Before 2004	Not Available Before 2004	Not Available Before 2004	393,135	Not Available Before 2004	Not Available Before 2004	Not Available Before 2004	74,529	Not Available Before 2004	Not Available Before 2004	Not Available Before 2004	2,760	107,301	184,590
2002				341,287				78,829				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 Before 1998				6,393	Not Available Before 1998	Not Available Before 1998
1996				81,195								7,434		
1995				56,006								Not Available Before 1996		
1994				30,670										
1993				15,877										
1992				6,394										

Source: Freddie Mac

[a] Based on unpaid principal balances.

[b] From 2001 to 2011, includes real estate mortgage investment conduits and other structured securities backed by Ginnie Mae mortgage-backed securities.

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

End of Period	Mortgage Related Securities ($ in Millions)[a]								
	Private Label								
	Single Family							Multifamily ($)	Total Private Label ($)
	Manufactured Housing ($)	Subprime		Alt A[b]		Other[c]			
		Fixed Rate ($)	Adjustable Rate ($)	Fixed Rate ($)	Adjustable Rate ($)	Fixed Rate ($)	Adjustable Rate ($)		
4Q11	960	336	48,696	2,128	14,662	0	13,949	54,110	134,841
3Q11	988	341	49,857	2,190	15,065	0	14,351	55,607	138,399
2Q11	1,019	344	51,147	2,260	15,502	0	14,778	56,391	141,441
1Q11	1,049	351	52,492	2,333	15,977	0	15,232	57,859	145,293
Annual Data									
2011	960	336	48,696	2,128	14,662	0	13,949	54,110	134,841
2010	1,080	363	53,855	2,405	16,438	0	15,646	58,728	148,515
2009	1,201	395	61,179	2,845	18,594	0	17,687	61,915	163,816
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 Before 2006	Not Available Before 2006	Not Available Before 2006	Not Available Before 2006	4,749	181,678	43,487	231,594
2004	1,816					8,243	115,168	41,184	166,411
2003	2,085					Not Available Before 2004	Not Available Before 2004	Not Available Before 2004	107,301
2002	2,394								70,752
2001	2,462								42,336
2000	2,896								35,997
1999	4,693								31,019
1998	1,711								16,970

Source : Freddie Mac

a Based on unpaid principal balances.

b Includes nonagency mortgage-related securities backed by home equity lines of credit.

c Consists of nonagency mortgage-related securities backed by option ARM loans. Before 2006, includes securities principally backed by subprime and Alt-A mortgage loans. ARM stands for adjustable-rate mortgage.

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

End of Period	Mortgage Related Securities ($ in Millions)		($ in Millions)			
	Mortgage Revenue Bonds[a] ($)	Total Mortgage Related Securities[a] ($)	Unamortized Premiums, Discounts, Deferred Fees, Plus Unrealized Gains/ Losses on Available for Sale Securities[b] ($)	Mortgage Assets Held for Investment (Net)[c] ($)	Mortgage Assets Held for Investment (Gross)[d] ($)	Limit on Mortgage Assets Held for Investment (Gross)[e] ($)
4Q11	7,793	399,343	Not Available	Not Available	653,313	729,000
3Q11	8,154	436,190	Not Available	Not Available	679,133	N/A
2Q11	8,833	445,083	Not Available	Not Available	685,033	N/A
1Q11	9,383	451,703	Not Available	Not Available	692,038	N/A
Annual Data						
2011	7,793	399,343	N/A	N/A	653,313	729,000
2010	9,877	462,128	N/A	N/A	696,874	810,000
2009	11,854	616,456	(38,298)	716,974	755,272	900,000
2008	12,869	693,286	(56,015)	748,747	Not Applicable Before 2009	Not Applicable Before 2009
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 Before 1998	122	164,543		
1996	1,787		71	137,826		
1995	Not Available Before 1996		282	107,706		
1994			Not Available Before 1995 or after 2009	73,171		
1993				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

N/A = not applicable

a Based on unpaid principal balances.

b 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 available-for-sale mortgage-related securities. Amounts prior to 2006 include mortgage-backed securities residuals at fair value.

c Excludes allowance for loan losses.

d Defined as mortgage assets in the Treasury Senior Preferred Stock Purchase Agreement.

e Maximum allowable mortgage assets under the preferred stock agreement.

Table 15. Freddie Mac Financial Derivatives

End of Period	Financial Derivatives Notional Amount Outstanding ($ in Millions)									
	Interest Rate Swaps[a] ($)	Interest Rate Caps, Floors, and Corridors ($)	Foreign Currency Contracts ($)	Over the Counter Futures, Options, and Forward Rate Agreements ($)	Treasury Based Contracts[b] ($)	Exchange Traded Futures, Options and Other Derivatives ($)	Credit Derivatives[c] ($)	Commitments[d] ($)	Other[e] ($)	Total ($)
4Q11	503,893	28,000	1,722	182,974	2,250	41,281	10,190	14,318	3,621	788,249
3Q11	517,076	28,000	1,779	194,613	12,942	72,240	10,988	39,429	3,722	880,789
2Q11	540,903	28,000	2,184	219,486	1,300	104,569	11,383	34,361	3,733	945,919
1Q11	583,183	28,000	2,138	208,979	4,556	155,646	11,664	15,877	3,731	1,013,774
Annual Data										
2011	503,893	28,000	1,722	182,974	2,250	41,281	10,190	14,318	3,621	788,249
2010	721,259	28,000	2,021	207,694	4,193	211,590	12,833	14,292	3,614	1,205,496
2009	705,707	35,945	5,669	287,193	540	159,659	14,198	13,872	3,521	1,226,304
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 Before 2000	Not Applicable Before 2000	0	424,244
1998	57,555	21,845	1,464	63,000	11,542	157,832			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

N/A = not available

a Amounts for 2010 and 2011 include exchange-settled interest rate swaps.

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

c Amounts included in "Other" in 2000, not applicable in prior years.

d Commitments include commitments to purchase and sell investments in securities and mortgage loans and commitments to purchase and extinguish or issue debt securities of consolidated trusts. Years before 2004 include commitments to purchase and sell various debt securities.

e Includes prepayment management agreement and swap guarantee derivatives.

Table 16. Freddie Mac Nonmortgage Investments

End of Period	Nonmortgage Investments ($ in Millions)[a]					
	Federal Funds and Eurodollars ($)	Asset Backed Securities ($)	Repurchase Agreements ($)	Commercial Paper and Corporate Debt ($)	Other[b] ($)	Total ($)
4Q11	0	302	12,044	2,184	24,812	39,342
3Q11	0	276	10,596	2,433	18,159	31,464
2Q11	7,300	164	26,309	1,627	17,747	53,147
1Q11	5,800	94	31,992	1,009	25,520	64,415
Annual Data						
2011	0	302	12,044	2,184	24,812	39,342
2010	3,750	44	42,774	441	27,411	74,420
2009	0	4,045	7,000	439	14,787	26,271
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

[a] Adoption of accounting guidance related to transfers of financial assets and consolidation of variable interest entities, effective January 1, 2010, changed presentation of nonmortgage investments. Values for 2010 and later are not directly comparable to previous years.

[b] Beginning in 2009, amounts include Treasury bills and Treasury notes. For 2004 through 2006, amounts include obligations of states and municipalities classified as available-for-sale securities. For 2003 and previous years, amounts include nonmortgage-related securities classified as trading, debt securities issued by the U.S. Treasury and other federal 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[a] (%)	Multifamily Delinquency Rate[b] (%)	Credit Losses/Average Total Mortgage Portfolio[c] (%)	REO/Total Mortgage Portfolio[d] (%)	Credit Enhanced[e]/ Total Mortgage Portfolio[d] (%)
4Q11	3.58	0.22	0.69	0.30	14.0
3Q11	3.51	0.33	0.72	0.29	14.0
2Q11	3.50	0.31	0.65	0.31	15.0
1Q11	3.63	0.36	0.67	0.33	15.0
Annual Data					
2011	3.58	0.22	0.68	0.30	14.0
2010	3.84	0.26	0.72	0.36	15.0
2009	3.98	0.20	0.41	0.23	16.0
2008	1.83	0.05	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 Before 1993
1991	0.61	5.42	0.08	0.14	
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 Before 1987	0.07	
1985	0.42	0.63		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 Before 1982		0.07	
1980	0.44			0.04	
1979	0.31			0.02	
1978	0.21			0.02	
1977	Not Available Before 1978			0.03	
1976				0.04	
1975				0.03	
1974				0.02	

Source : Freddie Mac

[a] Based on the number of mortgages 90 days or more delinquent or in foreclosure. Excludes modified loans if the borrower is less than 90 days past due under the modified terms. Rates are based on loans in the single-family credit guarantee portfolio, which excludes that portion of Freddie Mac real estate mortgage investment conduits (REMICs) and other structured securities backed by Ginnie Mae mortgage-backed securities (MBS). Rates for years 2005 and 2007 also exclude other guarantee transactions. Single-family delinquency rates for 2008 through 2011 include other guarantee transactions.

[b] Before 2008, rates were based on the net carrying value of mortgages 60 days or more delinquent or in foreclosure and exclude other guarantee transactions. Beginning in 2008, rates were based on the unpaid principal balance of loans 60 days or more delinquent or in foreclosure and include other guarantee transactions.

[c] Credit losses equal to real estate owned operations expense (income) plus net charge-offs and exclude other market-based valuation losses. Calculated as credit losses divided by the average balance of mortgage loans in the total mortgage portfolio, excluding non-Freddie Mac MBS and the portion of REMICs and other structured securities backed by Ginnie Mae MBS.

[d] Calculated based on the balance of mortgage loans in the total mortgage portfolio excluding non-Freddie Mac MBS and the portion of REMICS and other structured securities backed by Ginnie Mae certificates.

[e] Includes loans with a portion of the primary default risk retained by the lender or a third party who pledged collateral or agreed 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[a]

End of Period	Capital ($ in Millions)									
	Minimum Capital Requirement			Risk Based Capital Requirement						
	Core Capital[b] ($)	Minimum Capital Requirement[c] ($)	Regulatory Capital Surplus (Deficit)[c] ($)	Total Capital[d] ($)	Risk Based Capital Requirement[e] ($)	Risk Based Capital Surplus (Deficit)[f] ($)	Market Capitalization[g] ($)	Core Capital/ Total Assets[h] (%)	Core Capital/ Total Assets plus Unconsolidated MBS[i] (%)	Common Share Dividend Payout Rate[j] (%)
4Q11	(64,322)	24,405	(88,727)	N/A	N/A	N/A	136	(3.00)	(3.03)	N/A
3Q11	(63,288)	24,603	(87,891)	N/A	N/A	N/A	156	(2.91)	(2.95)	N/A
2Q11	(57,250)	24,901	(82,151)	N/A	N/A	N/A	227	(2.61)	(2.65)	N/A
1Q11	(53,496)	25,865	(79,361)	N/A	N/A	N/A	253	(2.38)	(2.42)	N/A
Annual Data										
2011	(64,322)	24,405	(88,727)	N/A	N/A	N/A	136	(3.00)	(3.03)	N/A
2010	(52,570)	25,987	(78,557)	N/A	N/A	N/A	195	(2.32)	(2.37)	N/A
2009	(23,774)	28,352	(52,126)	N/A	N/A	N/A	953	(2.82)	(1.02)	N/A
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	26,827	22,018	4.77	1.74	N/M
2006	35,365	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	23,715	10,391	34,691	11,108	23,583	50,898	4.29	2.07	30.7
2003	32,416	23,362	9,054	33,436	5,426	28,010	40,158	4.03	2.08	15.6
2002	28,990	22,339	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 Before 2002	Not Applicable Before 2002	Not Applicable Before 2002	45,473	3.15	1.56	18.9
2000	14,380	14,178	202				47,702	3.13	1.39	20.0
1999	12,692	12,287	405				32,713	3.28	1.37	20.1
1998	10,715	10,333	382				44,797	3.33	1.34	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 Before 1993	Not Applicable Before 1993	Not Applicable Before 1993				8,721	Not Applicable Before 1993	Not Applicable Before 1993	23.1
1991							8,247			21.6
1990							2,925			23.2
1989							4,024			24.3

Source : Freddie Mac and FHFA

N/A = not applicable N/M = not meaningful

a On October 9, 2008, the Federal Housing Finance Agency (FHFA) suspended capital classifications of Freddie Mac. 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 conservatorship.

b The sum of the stated value of outstanding common stock (common stock less treasury stock), the stated value of outstanding noncumulative perpetual preferred stock, paid-in capital, and retained earnings (accumulated deficit). Core capital excludes accumulated other comprehensive income (loss) and senior preferred stock.

c 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 additional capital requirement. Minimum capital surplus is the difference between core capital and the minimum capital requirement.

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

e The risk-based capital requirement is the amount of total capital 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.

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

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

h Adoption of the changes in the accounting guidance related to transfers of financial assets and consolidation of variable interest entities changed presentation of total assets on the balance sheet. Financial results for 2010 and later are not directly comparable to years before 2010.

i Includes unconsolidated MBS held by third parties. Before 2010, Freddie Mac MBS held by third parties were not consolidated.

j 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 ($)	REFCORP Assessment [a, b] ($)	Net Income ($)
4Q11	1,050	220	65	0	515
3Q11	994	203	50	0	469
2Q11	1,002	202	32	69	251
1Q11	1,058	228	41	91	358
Annual Data					
2011	4,104	853	188	160	1,593
2010	5,220	860	229	498	2,081
2009	5,425	813	258	572	1,855
2008	5,243	732	188	412	1,206
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 Before 2000	2,128
1998	2,116	258	169		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		1,024
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

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

[b] The Federal Home Loan Banks made their final payment satisfying the REFCORP obligation on July 15, 2011, based on income earned in the second quarter of 2011.

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[a]	Regulatory Capital/Total Assets
4Q11	766,086	418,157	53,377	140,154	697,124	35,542	8,577	52,132	6.80
3Q11	778,252	415,379	55,172	144,507	702,529	35,984	8,193	53,111	6.82
2Q11	809,219	428,460	55,862	145,059	732,158	36,795	7,859	53,944	6.67
1Q11	848,743	445,090	58,426	145,750	769,546	41,278	7,749	55,454	6.53
Annual Data									
2011	766,086	418,157	53,377	140,154	697,124	35,542	8,577	52,132	6.80
2010	878,109	478,589	61,191	146,881	800,998	41,735	7,552	56,356	6.42
2009	1,015,583	631,159	71,437	152,028	934,876	44,982	6,033	59,153	5.82
2008	1,349,053	928,638	87,361	169,170	1,258,267	49,551	2,936	58,625	4.35
2007	1,271,800	875,061	91,610	143,513	1,178,916	50,253	3,689	55,050	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 Before 1992	108,149	10,200	495	Not Available Before 1992	Not Available Before 1992
1990	165,742	117,103	0		118,437	11,104	521		

Source : Federal Home Loan Bank System Office of Finance

a 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
4Q11	63	65	16	40	18	34	36	84	11	111	13	31	(7)	515
3Q11	32	50	141	18	12	(1)	30	36	12	36	111	(2)	(6)	469
2Q11	38	22	41	38	6	19	24	53	12	9	(28)	24	(7)	251
1Q11	51	23	26	42	12	26	20	71	3	60	(12)	24	12	358
Annual Data														
2011	184	160	224	138	48	78	110	244	38	216	84	77	(8)	1593
2010	278	107	366	164	105	133	111	276	8	399	21	34	79	2081
2009	283	(187)	(65)	268	148	146	120	571	(37)	515	(162)	237	18	1855
2008	254	(116)	(119)	236	79	127	184	259	19	461	(199)	28	(7)	1206
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

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
4Q11	86,971	25,195	15,291	28,424	18,798	26,591	18,568	70,864	30,605	68,164	11,292	17,394	418,157
3Q11	75,363	25,025	14,294	30,345	18,649	27,069	18,564	73,779	25,839	78,462	10,972	17,018	415,379
2Q11	77,427	26,204	17,315	29,173	19,684	27,939	17,476	74,791	26,912	82,745	11,161	17,633	428,460
1Q11	81,257	25,939	17,893	28,292	21,805	27,963	17,679	75,487	26,659	92,005	12,332	17,779	445,090
Annual Data													
2011	86,971	25,195	15,291	28,424	18,798	26,591	18,568	70,864	30,605	68,164	11,292	17,394	418,157
2010	89,258	28,035	18,901	30,181	25,456	29,253	18,275	81,200	29,708	95,599	13,355	19,368	478,589
2009	114,580	37,591	24,148	35,818	47,263	35,720	22,443	94,349	41,177	133,559	22,257	22,254	631,159
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	928,638
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

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

End of Period	Atlanta	Boston	Chicago	Cincinnati	Dallas	Des Moines	Indianapolis	New York	Pittsburgh	San Francisco	Seattle	Topeka	Combining Adjustment[b]	System Total
	($ in Millions)													
4Q11	7,258	4,252	3,727	3,845	1,766	2,684	2,513	5,291	3,869	12,176	2,958	1,737	56	52,132
3Q11	7,432	4,148	4,225	3,873	1,730	2,666	2,508	5,338	3,956	12,482	2,944	1,746	63	53,111
2Q11	7,902	4,088	4,050	3,885	1,769	2,715	2,456	5,437	4,107	12,855	2,833	1,778	69	53,944
1Q11	8,954	4,023	3,988	3,872	1,908	2,690	2,709	5,099	4,237	13,261	2,859	1,778	76	55,454
Annual Data														
2011	7,258	4,252	3,727	3,845	1,766	2,684	2,513	5,291	3,869	12,176	2,958	1,737	56	52,132
2010	8,877	4,004	3,962	3,887	2,061	2,746	2,695	5,304	4,419	13,640	2,871	1,826	64	56,356
2009	9,185	3,876	3,502	4,151	2,897	2,953	2,830	5,874	4,415	14,657	2,848	1,980	-15	59,153
2008	8,942	3,658	3,327	4,399	3,530	3,174	2,701	6,112	4,157	13,539	2,687	2,432	-33	58,625
2007	8,080	3,421	3,342	3,877	2,688	3,125	2,368	5,025	4,295	13,859	2,660	2,336	-26	55,050
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

Source : Federal Home Loan Bank System Office of Finance

[a] For the Federal Home Loan Bank of Chicago and for all other FHLBanks 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 from 2005 through 2011 are as reported by the Office of Finance.

[b] Combining adjustment for Federal Home Loan Bank System retained earnings as reported by the Office of Finance.

Table 24. Loan Limits

Period	Single Family Conforming Loan Limits[a]			
	One Unit	Two Units	Three Units	Four Units
2012[b]	417,000-625,500	533,850-800,775	645,300-967,950	801,950-1,202,925
2011[c]	417,000-729,750	533,850-934,200	645,300-1,129,250	801,950-1,403,400
2010[d]	417,000-729,750	533,850-934,200	645,300-1,129,250	801,950-1,403,400
2009[e]	417,000-729,750	533,850-934,200	645,300-1,129,250	801,950-1,403,400
2008[f]	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, Federal Housing Finance Agency, Freddie Mac

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

b The Housing and Economic Recovery Act of 2008 prescribed the formula used to set maximum loan limits for mortgages acquired in 2012.

c Public Law 111-242 set maximum loan limits for mortgages originated through September 30, 2011, at the higher of the limits established by the Economic Stimulus Act of 2008 or those determined under a formula prescribed by the Housing and Economic Recovery Act of 2008. Loans originated after September 30 were subject to the Housing and Economic Recovery Act limits, which had a ceiling of $625,500 in the contiguous United States.

d Public Law 111-88 set maximum loan limits for mortgages originated in 2010 at the higher of the limits established by the Economic Stimulus Act of 2008 or those determined under a formula prescribed by the Housing and Economic Recovery Act of 2008. For all areas, the resulting 2010 limits were the same as for 2009.

e 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, the American Recovery and Reinvestment Act of 2009 restored the $729,750 maximum loan limit for mortgages originated in 2009.

f 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.

Period	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
2012[a]	271,050	729,750	347,000	934,200	419,400	1,129,250	521,250	1,403,400
2011[a]	271,050	729,750	347,000	934,200	419,400	1,129,250	521,250	1,403,400
2010[b]	271,050	729,750	347,000	934,200	419,400	1,129,250	521,250	1,403,400
2009[c]	271,050	729,750	347,000	934,200	419,400	1,129,250	521,250	1,403,400
2008[d]	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

a Public Law 111-242 set the maximum loan limits for mortgages originated in 2010 at the higher of the limits established by the Economic Stimulus Act of 2008 or those determined under a formula prescribed by the Housing and Economic Recovery Act of 2008.

b Public Law 111-88 set the maximum loan limits for mortgages originated in 2010 at the higher of the limits established by the Economic Stimulus Act of 2008 or those determined under a formula prescribed by the Housing and Economic Recovery Act of 2008. For all areas, the resulting 2010 limits were the same as for 2009.

c The Housing and Economic Recovery Act of 2008 initially set loan limits for mortgages originated in 2009, allowing for high-cost area limits of up to $625,500. In February 2009, the American Recovery and Reinvestment Act of 2009 restored the $729,750 maximum loan limit for mortgages originated in 2009.

d 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 ($)	One Year Adjustable Rate ($)	Fixed Rate ($)	Adjustable Rate ($)
4Q11	4.0	2.9	4.5	N/A
3Q11	4.3	2.9	4.7	N/A
2Q11	4.7	3.1	5.0	N/A
1Q11	4.9	3.3	5.0	N/A
Annual Data				
2011	4.5	3.0	4.8	N/A
2010	4.7	3.8	4.9	N/A
2009	5.0	4.7	5.2	N/A
2008	6.0	5.2	6.2	5.8
2007	6.3	5.6	6.5	6.3
2006	6.4	5.5	6.7	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 Before 1984	13.0	12.3
1982	16.0		Not Available Before 1983	Not Available Before 1983
1981	16.6			
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			
	Not Available Before 1972			

Sources: Freddie Mac for average commitment rates; Federal Housing Finance Agency for effective rates

N/A = not available

Table 26. Housing Market Activity[a]

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
4Q11[b]	N/A	189	678	318	3,900
3Q11[b]	N/A	182	614	296	3,777
2Q11[b]	N/A	142	573	309	3,703
1Q11[b]	N/A	152	583	299	3,807
Annual Data					
2011	442	167	609	304	3,787
2010	483	104	587	323	3,708
2009	457	97	554	375	3,870
2008	640	266	906	485	3,665
2007	1,078	277	1,355	776	4,398
2006	1,508	293	1,801	1,051	5,677
2005	1,757	311	2,068	1,283	6,180
2004	1,653	303	1,956	1,203	5,958
2003	1,533	315	1,848	1,086	5,446
2002	1,397	308	1,705	973	4,974
2001	1,310	293	1,603	908	4,735
2000	1,270	299	1,569	877	4,603
1999	1,334	307	1,641	880	4,649
1998	1,314	303	1,617	886	4,495
1997	1,178	296	1,474	804	3,964
1996	1,206	271	1,477	757	3,797
1995	1,110	244	1,354	667	3,519
1994	1,234	224	1,457	670	3,544
1993	1,155	133	1,288	666	3,427
1992	1,061	139	1,200	610	3,151
1991	876	138	1,014	509	2,886
1990	932	260	1,193	534	2,914
1989	1,059	318	1,376	650	3,010
1988	1,140	348	1,488	676	3,513
1987	1,212	409	1,621	671	3,436
1986	1,263	542	1,805	750	3,474
1985	1,166	576	1,742	688	3,134
1984	1,206	544	1,750	639	2,829
1983	1,181	522	1,703	623	2,697
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

Sources: U.S. Census Bureau for housing starts and sales of new one- to four-unit properties; National Association of Realtors® for sales of existing one- to four-unit properties

N/A = not available

a Components may not add to totals due to rounding.

b Seasonally adjusted annual rates.

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

Period	USA	New England	Mid Atlantic	South Atlantic	East North Central	West North Central	East South Central	West South Central	Mountain	Pacific
4Q11	(2.51)	(2.00)	(3.71)	(2.64)	(2.96)	(1.64)	(0.76)	1.27	(3.81)	(5.04)
3Q11	(3.57)	(2.27)	(2.30)	(3.89)	(2.92)	(2.30)	(2.56)	(1.58)	(6.20)	(6.85)
2Q11	(5.56)	(2.07)	(2.93)	(7.26)	(4.90)	(5.54)	(4.31)	(1.74)	(9.17)	(8.96)
1Q11	(5.55)	(3.31)	(3.96)	(7.07)	(5.03)	(4.69)	(4.31)	(2.34)	(8.69)	(8.16)
Annual Data										
2011	(2.51)	(2.00)	(3.71)	(2.64)	(2.96)	(1.64)	(0.76)	1.27	(3.81)	(5.04)
2010	(4.16)	(1.74)	(1.51)	(5.85)	(2.94)	(3.58)	(4.50)	(2.35)	(7.76)	(5.80)
2009	(2.00)	(1.28)	(1.26)	(3.27)	(1.80)	0.03	(0.49)	1.26	(7.30)	(3.17)
2008	(9.56)	(5.97)	(4.44)	(13.57)	(6.98)	(4.18)	(3.73)	(1.90)	(13.83)	(21.32)
2007	(2.36)	(1.97)	0.42	(3.33)	(3.26)	(0.47)	1.96	3.53	(3.30)	(9.61)
2006	3.11	(1.71)	2.82	5.11	(0.06)	2.20	6.15	6.38	7.03	0.43
2005	10.16	6.44	10.06	14.47	3.50	4.86	7.35	6.64	17.69	18.23
2004	10.11	10.31	12.24	12.73	4.40	5.69	5.19	4.38	12.66	21.43
2003	7.78	10.70	11.03	8.37	4.67	5.52	3.94	3.17	6.84	15.32
2002	7.70	13.46	11.81	8.16	4.54	5.66	3.43	3.70	5.63	13.90
2001	6.79	12.01	9.45	7.36	4.89	6.18	3.36	3.94	5.38	9.80
2000	6.94	12.54	8.48	6.34	5.18	6.37	2.84	5.52	5.61	11.17
1999	6.19	10.22	6.85	5.75	5.10	5.50	3.89	5.51	5.65	8.67
1998	5.66	8.01	4.76	4.51	4.91	6.35	4.70	5.47	4.66	8.77
1997	3.34	4.45	2.14	3.34	3.45	3.75	2.76	3.05	3.21	4.11
1996	2.78	2.36	0.93	2.68	4.45	4.02	3.90	2.40	3.68	1.11
1995	2.49	0.69	(0.24)	2.34	4.79	4.52	4.60	3.02	4.65	(0.90)
1994	2.88	0.60	(0.59)	3.39	4.85	4.46	5.08	3.12	8.54	(1.14)
1993	2.73	(1.88)	0.05	2.35	4.65	6.10	4.64	4.64	9.45	(2.59)
1992	2.75	(0.52)	1.79	2.14	4.76	4.32	4.12	3.77	6.67	(1.13)
1991	3.12	(2.21)	1.54	3.05	4.72	3.76	4.04	4.00	5.60	1.87
1990	1.19	(7.16)	(2.51)	0.40	3.78	1.22	0.43	0.50	2.36	5.65
1989	5.58	0.84	2.53	4.49	5.94	3.05	2.76	2.36	2.66	18.32
1988	5.65	4.21	6.70	5.77	6.44	2.69	2.52	(1.83)	0.78	16.42
1987	5.37	14.96	15.90	5.72	7.62	2.37	3.15	(8.18)	(3.02)	8.58
1986	7.22	21.13	17.45	6.52	7.17	3.80	5.37	(0.23)	2.60	6.40
1985	5.69	22.45	13.55	5.09	4.81	3.60	5.32	(1.48)	2.28	4.61
1984	4.66	14.97	11.22	4.50	2.84	3.46	4.25	0.07	2.55	4.05
1983	4.31	13.72	10.85	3.82	4.56	4.36	3.42	1.45	(0.97)	0.76
1982	2.98	7.00	6.98	4.23	(4.18)	1.72	5.02	5.42	5.24	3.28
1981	4.23	6.47	2.08	4.60	2.21	0.96	1.09	10.62	7.92	4.47
1980	6.44	5.28	8.78	9.28	1.60	3.61	3.89	8.28	5.64	10.19
1979	12.51	14.88	15.32	12.02	8.47	10.54	8.99	14.42	14.39	16.41
1978	13.41	18.63	5.22	10.31	15.05	13.59	12.30	16.62	16.90	16.88
1977	14.06	6.42	12.13	8.71	13.84	15.51	10.44	13.75	17.80	25.44
1976	8.41	7.68	(0.90)	5.39	8.33	8.03	6.09	10.21	11.18	20.08

Source: Federal Housing Finance Agency

[a] Percentage changes based on Federal Housing Finance Agency's purchase-only index for 1992 through 2011 and all-transactions index for prior years. Annual data are measured based on fourth quarter-to-fourth quarter percentage change. Quarterly data for 2011 reflect changes over the previous four quarters.

Regional Divisions

New England: Connecticut, Maine, Massachusetts, New Hampshire, Rhode Island, Vermont

Mid-Atlantic: New Jersey, New York, Pennsylvania

South Atlantic: Washington, D.C., Delaware, Florida, Georgia, Maryland, North Carolina, South Carolina, Virginia, West Virginia

East North Central: Illinois, Indiana, Michigan, Ohio, Wisconsin

West North Central: Iowa, Kansas, Minnesota, Missouri, Nebraska, North Dakota, South Dakota

East South Central: Alabama, Kentucky, Mississippi, Tennessee

West South Central: Arkansas, Louisiana, Oklahoma, Texas

Mountain: Arizona, Colorado, Idaho, Montana, Nevada, New Mexico, Utah, Wyoming

Pacific: Alaska, California, Hawaii, Oregon, Washington

Appendix

A Strategic Plan for Enterprise Conservatorships: The Next Chapter in a Story that Needs an Ending

(Reprinted as released February 21, 2012)

Introduction

The Housing and Economic Recovery Act of 2008 (HERA), which created the Federal Housing Finance Agency (FHFA), granted the Director of FHFA discretionary authority to appoint FHFA conservator or receiver of the Enterprises "for the purpose of reorganizing, rehabilitating, or winding up the affairs of a regulated entity."[1]

On September 6, 2008, well over three years ago, FHFA exercised that authority, placing the Federal National Mortgage Association (Fannie Mae) and the Federal Home Loan Mortgage Corporation (Freddie Mac) (together, the Enterprises) into conservatorships. FHFA has since overseen the largest, most complex conservatorships in history.

Two years ago, FHFA sent Congress a letter setting forth the agency's understanding of its conservatorship obligations and how it planned to fulfill those obligations. It is time to update and extend that plan in view of the status of the Enterprises and the country's housing system today.

The two companies have received more than $180 billion in taxpayer support. The benefit to the country from maintaining their operations has been to ensure the secondary mortgage market continues to function. During this time, the Enterprises have completed more than 2 million foreclosure prevention actions, including more than 1 million loan modifications and they have refinanced more than 10 million mortgages. Together they are guaranteeing roughly $100 billion per month in new mortgage production, representing about 3 of every 4 mortgages being originated. But the Enterprises' ongoing operations are entirely dependent on taxpayer support provided through the Senior Preferred Stock Purchase Agreements with the U.S. Department of the Treasury.

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The future of the Enterprises and the housing finance system continues to be the subject of many questions and much debate. A new structure for housing finance requires congressional action, but no clear legislative consensus has emerged from the Administration or Congress. In the meantime, like other large, complex financial institutions, the Enterprises require strategic direction though they face an uncertain future. Market participants are also seeking answers about the future.

This strategic plan provides lawmakers and the public with an outline for how FHFA as conservator intends to guide the Enterprises over the next few years. FHFA has developed this plan because of the following:

- The Enterprises' boards of directors and management teams can more readily fulfill the goals of conservatorship with a clear and transparent course of action.

1 Housing and Economic Recovery Act of 2008, Section 1367 (a)(2), amending the Federal Housing Enterprises Financial Safety and Soundness Act, 12 USC 4617(a)(2).

FHFA remains committed to its obligation to ensure a stable and liquid secondary mortgage market while preserving and conserving Enterprise assets to minimize taxpayer losses. FHFA looks forward to continuing to work with Congress and the Administration on a resolution of the conservatorships and a comprehensive review of the country's housing finance system.

- As investors in the Enterprises today, taxpayers deserve a plan on how their continued support will be used.
- Proposals for rebuilding the secondary mortgage market vary in their reliance on government credit guarantees but most assume some sort of securitization infrastructure to take the place of the Enterprises or assume the Enterprises' securitization infrastructures are used in some way in the future.
- Lawmakers have asked FHFA for ideas on a stable transition from a secondary market dominated by the Enterprises to one that could operate without them.
- FHFA committed to provide a strategic plan for the next stage of the conservatorships in response to a request from the Chairman of the House Financial Services Subcommittee on Oversight and Investigations in December 2011.

As with any strategic plan, this document is not a step-by-step guide. Rather, it sets forth certain broad objectives that are consistent with FHFA's legal mandate and the policy direction that has emerged from the Administration and Congress. Importantly, this plan is consistent with each of the housing finance reform frameworks set forth in the white paper produced last year by Treasury and the U.S. Department of Housing and Urban Development (HUD) and with the leading congressional proposals introduced to-date. This plan envisions actions by the Enterprises that will help establish a new secondary mortgage market, while leaving open all options for Congress and the Administration regarding the resolution of the conservatorships and the degree of government involvement in supporting the secondary mortgage market in the future.

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Background: The Early Chapters of the Conservatorship Story

The Law

As conservator and regulator, FHFA has three legal obligations that direct the agency's activities and decisions involving the Enterprises.

First, HERA specified two conservator powers, stating that the agency may "take such action as may be

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

(ii) appropriate to carry on the business of the regulated entity and preserve and conserve the assets and property of the regulated entity." [2]

FHFA has reported on numerous occasions that, with taxpayers providing the capital supporting Enterprise operations, this "preserve and conserve" mandate directs FHFA to minimize losses on behalf of taxpayers.

Second, although each Enterprises is in conservatorship, without statutory changes their mission of

[2] 12 USC 4617(b)(2)(D)

supporting a stable and liquid mortgage market remains the same as before the conservatorships. FHFA has a statutory responsibility to ensure each Enterprise "operates in a safe and sound manner"[3] and that "the operations and activities of each regulated entity foster liquid, efficient, competitive, and resilient national housing finance markets."[4]

Third, under the Emergency Economic Stabilization Act of 2008 (EESA), FHFA has a statutory responsibility to "implement a plan that seeks to maximize assistance for homeowners and use its authority to encourage the servicers of the underlying mortgages, and considering net present value to the taxpayer, to take advantage of … available programs to minimize foreclosures."[5]

Conservatorship Goals

In 2008, the immediate objectives of conservatorship were to help restore confidence in the companies, enhance their capacity to fulfill their mission, and mitigate the systemic risk that contributed directly to instability in financial markets. Because the private mortgage securitization market had already retreated and there were no other effective secondary market mechanisms in place, the Enterprises' continued operations were necessary for most Americans to obtain a mortgage or refinance an existing mortgage.

Since 2008, several government efforts have kept the country's housing finance system functioning, including:

- the Treasury Department's financial backstop of Enterprise debt and mortgage-backed securities (MBS);
- Treasury's and the Federal Reserve's MBS purchases;
- FHFA's and the Enterprises' actions to ensure the continued functioning of the secondary mortgage market; and
- the Federal Housing Administration's (FHA) rapidly growing market presence.

As a result, credit has remained available, albeit with more restrictive underwriting terms, and more than 10 million Americans have refinanced Fannie Mae and Freddie Mac mortgages.

During these years, these same government agencies together with the Enterprises and other market participants undertook a series of efforts to help families avoid foreclosure through loan modification programs and foreclosure alternatives. For FHFA and the Enterprises, these efforts directly relate to the "preserve and conserve" mandate because such activities are designed to reduce credit losses on mortgages originated primarily in the years before conservatorship. In addition, these efforts are consistent with FHFA's other mandates, including the EESA mandate to maximize assistance for homeowners. Since conservatorship began, the Enterprises have completed more than two million foreclosure prevention actions, including more than one million loan modifications.

Today, loss mitigation efforts focus on helping households as early as possible when they become delinquent on their mortgages, and employing innovative strategies for returning foreclosed properties back to the market. The continued high level of mortgage delinquencies shows that more is left to do, but several programs now exist to address these challenges. FHFA and the Enterprises will remain vigilant in ensuring that appropriate assistance and support is offered to all homeowners in distress through loan modifications and other foreclosure avoidance tools.

Three years into conservatorship, it is time to update and extend the goals of conservatorship in light of FHFA's statutory mandate and the market environment that has evolved since 2008. As noted, the operations of the Enterprises in conservatorship are unlike anything the country has experienced. The conservatorship structure was designed to

[3] 12 USC 4513(a)(1)(B)(i)

[4] 12 USC 4513(a)(1)(B)(ii)

[5] 12 USC 5220(b)(1)

allow a temporary period for an institution to stabilize and return to the market or to lead to an orderly disposition of a firm. Unlike the banking industry, there are not thousands of potential firms ready to step into the business of mortgage securitization. Indeed, outside of the securitization available through the Government National Mortgage Association (Ginnie Mae) for loans primarily backed by FHA, there is little else in place today to assume the secondary market functions served by the Enterprises.

What Needs to Be Done Now

Policymakers need to address the future structure of housing finance, which would allow for a smooth transition from today's market. Without action by Congress, FHFA must continue to look to the existing statutory provisions that guide the conservatorships. In particular, FHFA must consider what it means to "take such action as may be necessary to put [Fannie Mae and Freddie Mac] in a sound and solvent condition" when it is clear that the draws the companies have taken from the Treasury are so large they cannot be repaid under any foreseeable scenarios.

Without further statutory direction, FHFA views the mandate to restore the Enterprises to a sound and solvent condition as best accomplished not only through aggressive loss mitigation efforts, but also by reducing the risk exposure of the companies, through appropriate underwriting and pricing of mortgages. Such actions are consistent with what would be expected of a private company operating without government support. At the same time, the unanticipated length of the conservatorships poses additional risks for taxpayers and markets not contemplated by HERA. FHFA views those risks as best managed by contracting the Enterprises' footprint in the marketplace.

To achieve these outcomes, FHFA will need to make strategic decisions regarding the Enterprises' level of participation in the market while developing ways for the taxpayers to ultimately derive value, consistent with FHFA's "preserve and conserve" mandate.

Reviewing the Existing Landscape: Considerations for Moving Forward

In view of FHFA's statutory mandates and in light of the current environment, it is necessary to define new goals for the Enterprises operating in conservatorship. Key issues and circumstances FHFA faces include the following:

- The Enterprises' losses are of such magnitude that the companies cannot repay taxpayers in any foreseeable scenario.
- The operational infrastructures at each company are working but require substantial investment to support future business. The question is whether to improve the current infrastructure or to consider this an opportunity to build something new.
- In the absence of other comparable market infrastructure, minimizing future taxpayer losses and ensuring market liquidity and stability requires preserving the Enterprises as working companies. But some of the things this approach requires, such as retaining some semblance of private sector pay comparability, have generated concerns because the companies receive substantial taxpayer assistance.
- Although the housing finance system cannot be called healthy, it is stable and functioning, albeit with substantial ongoing government support.
- Congress and the Administration have not reached consensus on how to resolve the conservatorships and define a path for housing finance. Legislative proposals have begun to emerge, but enactment soon appears unlikely.

Without action by Congress, FHFA must continue to look to the existing statutory provisions that guide the conservatorships. In particular, FHFA must consider what it means to "take such action as may be necessary to put [Fannie Mae and Freddie Mac] in a sound and solvent condition" when it is clear that the draws the companies have taken from the Treasury are so large they cannot be repaid under any foreseeable scenarios.

Absence of consensus on a resolution of the conservatorships does not imply a lack of consensus on general direction. Both the Administration and Congress have expressed discomfort with the level of government involvement in the mortgage market and a desire for greater private sector participation and risk-taking. A central issue remains: whether a government guarantee is essential to a functioning mortgage market. On other market issues, some consensus has emerged on what is needed to fix the problems we have witnessed over the past several years. At a minimum there is a desire for greater standardization and more equitable and transparent treatment of borrowers and investors in mortgage origination, mortgage servicing, and securities disclosure.

Over the past two years, FHFA has initiated several long-term improvements to the housing finance system that address shortcomings in the current system, meet the goal of reducing taxpayer exposures, and provide flexibility for lawmakers as they move toward legislative action on housing finance. These improvements include the following:

- The **Uniform Mortgage Data Program** will improve the consistency, quality, and uniformity of data collected at the beginning of the lending process. Developing standard terms, definitions, and industry standard data reporting protocols will decrease costs for originators and appraisers and reduce repurchase risk. It will allow new entrants to use industry standards rather than having to develop their own proprietary data systems to compete with other systems already in the market. Common data definitions, electronic data capture, and standardized data protocols will improve efficiency, lower costs and enhance risk monitoring. Standardizing data will be a key building block of housing finance reform.
- The **Joint Servicing Compensation Initiative** is considering alternatives for future mortgage servicing compensation for single-family mortgage loans. The goals of any changes to the current Enterprise model of compensation will be improving service for borrowers, reducing financial risk to servicers, and providing flexibility for guarantors to better manage non-performing loans, while promoting continued liquidity in the "To Be Announced" mortgage securities market. More broadly, the goals of the initiative are to consider changes to the servicing compensation structure that would improve competition in the market for mortgage servicing and which could be replicated across any form of housing finance reform.
- The **Servicing Alignment Initiative** has produced a single, consistent set of protocols for servicing Enterprise mortgages from the moment they first become delinquent. This initiative responds to concerns about how delinquent mortgages have been serviced and it simplifies the rules for mortgage servicers by giving them just one set of procedures to follow whether a mortgage is owned by

Fannie Mae or Freddie Mac. The first phase of this initiative has already been implemented. Developed in consultation with the federal banking agencies and state attorneys general, the new requirements could serve as the basis for establishing broad national mortgage servicing standards.

- The **Loan-Level Disclosures Initiative** will produce loan-level investor disclosures on Enterprise MBS, both at the time of origination and throughout a security's life. Improving MBS disclosures will help establish consistency and quality of data. With better information, private investors can efficiently measure and price mortgage credit risk, which will likely be a hallmark of any form of housing finance reform.

Writing the Next Chapter: Setting the Strategic Goals

Looking ahead, three broad goals will define the focus of the conservatorships for the next few years:

1. **Build**. Build a new infrastructure for the secondary mortgage market.
2. **Contract**. Gradually contract the Enterprises' dominant presence in the marketplace while simplifying and shrinking their operations.
3. **Maintain**. Maintain foreclosure prevention activities and credit availability for new and refinanced mortgages.

Achieving these strategic goals will fulfill the legal requirements Congress assigned FHFA as conservator and also prepare the foundation for a new, stronger housing finance system in the future. Although that future may not include Fannie Mae and Freddie Mac, at least as they are known today, this important work in conservatorship can be a lasting, positive legacy for the country and its housing system.

The elements for rebuilding the market system are known and work on them can begin without knowing whether there will be a government guarantee apart from FHA in the mortgage market of the future. In fact, the four initiatives FHFA and the Enterprises have already begun would be essential to any new infrastructure.

Properly implemented, this strategic plan should benefit:

- Homeowners, by ensuring continued emphasis on foreclosure prevention and credit availability;
- Taxpayers, by furthering efforts to limit losses from past activities while simplifying risk management and reducing future risk exposure;
- Market participants, by creating a path by which the Enterprises' role in the mortgage market is gradually reduced while maintaining market stability and liquidity; and
- Lawmakers, by building a foundation on which they may develop new legal frameworks and institutional arrangements for a sound and resilient secondary mortgage market of the future.

STRATEGIC GOAL 1:

Building a New Infrastructure

The absence of any meaningful secondary mortgage market mechanisms beyond the Enterprises and Ginnie Mae is a dilemma for policymakers expecting to replace the Enterprises. This fact was a key motivation for the conservatorships and for the Treasury support agreements in the first place. Without an alternative market infrastructure that investors could rely on, new mortgages would have been largely unavailable if the Enterprises suddenly had been shut down.

The elements for rebuilding the market system are known and work on them can begin without knowing whether there will be a government guarantee apart from FHA in the mortgage market of the future. In fact, the four initiatives FHFA and the Enterprises have already begun would be essential to any new infrastructure.

A secondary mortgage market infrastructure without Fannie Mae and Freddie Mac would likely include the following elements:

- A framework to connect capital markets investors to homeowners – specifically, a securitization platform that bundles mortgages into any of an array of securities structures and provides all the operational support to process and track the payments from borrowers through to the investors.
- A standardized pooling and servicing agreement that replaces the Enterprises' current Servicer Participation Agreement and corrects the many shortcomings found in the pooling and servicing agreements used in the private-label MBS market before the housing bubble burst.
- Transparent servicing requirements that set forth requirements for mortgage servicers' responsibilities to borrowers and investors across a spectrum of issues including delinquent loan servicing, solicitation for refinance or loan modifications, and servicing transfers.
- A servicing compensation structure that promotes competition for, rather than concentration of, mortgage servicing. Such a structure would take full account of mortgage servicers' costs and requirements, and consider the appropriate interaction between origination and servicing revenue.
- Detailed, timely, and reliable loan-level data for mortgage investors at the time a security is issued and throughout the life of the security. Such transparency is a prerequisite for private capital to bear a meaningful portion of mortgage credit risk.
- A sound, efficient system for document custody and electronic registration of mortgages, notes, titles, and liens that respects local property laws but also enhances the liquidity of mortgages so that borrowers may benefit from a liquid secondary market for buying and selling mortgages. Such a system should be especially attuned to privacy and security issues while providing full transparency where required by law or in the interest of borrowers.
- An open architecture for all these elements, to facilitate entry to and exit from the marketplace and an ability to adapt to emerging technologies and legal requirements over time.

Securitization Platform

Beyond the initiatives FHFA and the Enterprises have begun, a cornerstone to building for the future is a new securitization platform. While competing securitization platforms may emerge in the future, back-office operations arguably lend themselves to a public utility construct, at least in the early stages of building a new secondary mortgage market infrastructure. The economies of scale are substantial as are the potential market benefits of standardization to a single securitization platform. Neither Enterprise has a securitization infrastructure capable of becoming a market utility today. Taking on that role would require substantial investment of both human capital and information technology resources.

Both Enterprises would have to draw from the American taxpayer to make such a long-term infrastructure investment, so it makes more sense to do this only once. FHFA will determine how Fannie Mae and Freddie Mac can work together to build a single securitization platform that would replace their current separate proprietary systems.

In the intermediate term, a single platform would allow for a single mortgage-backed security. Accomplishing this objective will take time. FHFA and the Enterprises will provide market participants with ample time to adjust to the new structure in order to minimize disruptions and uncertainty. Ensuring, indeed enhancing, liquidity for mortgage-backed securities will be a central objective.

For the platform to have long-term value, it should have an open architecture that will permit multiple future issuers of mortgage-backed securities to access the platform and it should be flexible enough to permit a wide array of securities and mortgage structures. Since this platform could become a type of public utility (in effect) that would outlast the Enterprises as we know them today, input from all market stakeholders will be sought.

The intended outcome of such an important infrastructure investment is to provide a sound securitization platform on which to rebuild the country's secondary mortgage market. The platform itself will be one way American taxpayers realize a return on their substantial investment in the Enterprises while also making it possible to retire the Enterprises' proprietary systems and programs from the marketplace. The platform will be designed to issue securities supported with or without a government guarantee.

Pooling and Servicing Agreements

Beyond building the operational infrastructure to issue mortgage-backed securities, building for the future also requires developing and implementing standards for underwriting, disclosures, servicing and other considerations. Creating a robust and standardized pooling and servicing agreement is key. The strategic goal is to learn from the Enterprises' existing practices and the shortcomings identified in the private-label mortgage-backed securities market and to solicit broad public input to build a better standard for the future. Input from investors and a careful review of applicable Securities and Exchange Commission rules and best practices will be essential.

As with the securitization platform, the goal is not to rebuild Fannie Mae and Freddie Mac but rather to leverage the experience and human capital expertise at these firms to build a new infrastructure for the future. The goal is not a proprietary system but rather an open system that promotes competition and transparency while forming a basis for a stable, liquid, and efficient secondary mortgage market.

Developing these standards will not only correct past problems, it will make the existing system better. We know how past shortcomings have harmed borrowers and investors. Since the point of a secondary mortgage market is to operate an infrastructure that most efficiently brings investor capital to individual families seeking to finance a home, standards must be more transparent and accessible for both of these "end-users."

STRATEGIC GOAL 2:

Contracting Enterprise Operations

Since entering conservatorship in September 2008, Fannie Mae and Freddie Mac have bought or guaranteed roughly three of every four mortgages originated in the country. Mortgages guaranteed by FHA make up most of the rest. Reducing the Enterprises' position in the marketplace and doing so in a safe and sound manner, in the absence of other comparable private-sector players operating in this market, is the second strategic goal.

The Enterprises operate three lines of business: a single-family mortgage credit guarantee business, a multifamily mortgage credit guarantee business, and a capital markets business that finances single-family and multifamily mortgages by issuing debt securities in the capital markets.

Single-Family Credit Guarantees

The first strategic goal sets forth a plan for moving away from each company's proprietary securitization platform but it does not address the mortgage credit insurance business. It is that business for which the securitization platform provides the architecture for delivering the Enterprise guarantee to investors. Establishing a path for shifting mortgage credit risk from the Enterprises (and, thereby, taxpayers) to private investors is central to the second goal.

Gradually shifting mortgage credit risk from Fannie Mae and Freddie Mac to private investors could be accomplished in several ways. The following are under consideration or already being implemented:

- **Increase guarantee fee pricing**. Continued gradual increases in the Enterprises' guarantee fee (or, g-fee) pricing may move their pricing structure closer to the level one might expect to see if mortgage credit risk was borne solely by private capital. In September 2011, FHFA announced its intention to continue a path of gradual price increases based on risk and the cost of capital. In December 2011, in the Temporary Payroll Tax Cut Continuation Act of 2011, Congress directed FHFA to increase guarantee fees by at least an average of 10 basis points and further directed that FHFA consider the cost of private capital and the risk of loss in setting guarantee fees. Congress also encouraged FHFA to require guarantee fee changes that reduce cross-subsidization of relatively risky loans and eliminate differences in fees across lenders that are not clearly based on cost or risk.
- Establish loss-sharing arrangements. Most Enterprise mortgage securitization yields securities fully guaranteed by the Enterprises. Alternative securities structures could result in private investors bearing some or all of the credit risk. FHFA is considering various approaches, including senior-subordinated security structures.
- **Expand reliance on mortgage insurance**. As required by law, most mortgages purchased or guaranteed by the Enterprises with less than 20 percent borrower equity in the property have private mortgage insurance in the first-credit-loss position. While some mortgage insurers are facing financial challenges as a result of housing market conditions, others may have the capital capacity to insure a portion of the mortgage credit risk currently retained by the Enterprises. This could be accomplished through deeper mortgage insurance coverage on individual loans or through pool-level insurance policies.

Rising rental rates and declining vacancy and delinquency rates reflect, in part, the shift of some households from home ownership to renting as well as other demographic trends. The demand for Enterprise employees with expertise in this specialized market is also strong; both companies have lost key personnel to other market participants.

Multifamily Credit Guarantees

Unlike the single-family credit guarantee business, each Enterprise's multifamily business has weathered the housing crisis and generated positive cash flow. In contrast to their common approach to their single-family businesses, Fannie Mae and Freddie Mac do not take the same approach to their multifamily businesses. For a significant portion of its business, Fannie Mae shares multifamily credit risk with loan originators through its delegated underwriting program. For a significant and increasing portion of its business, Freddie Mac shares multifamily credit risk with investors by issuing classes of securities backed by multifamily mortgages where the investor bears the credit risk. Both approaches are broadly accepted in the marketplace.

Rising rental rates and declining vacancy and delinquency rates reflect, in part, the shift of some households from home ownership to renting as well as other demographic trends. The demand for Enterprise employees with expertise in this specialized market is also strong; both companies have lost key personnel to other market participants.

Multifamily lending has played an important role in how the Enterprises have fulfilled past affordable housing mandates, but the activity itself is more akin to other commercial real estate lending than to the Enterprises' single-family businesses. In conservatorship, the Enterprises have seen their market share grow in the multifamily sector but they do not dominate that market as they do in single-family.

Given these conditions, generating potential value for taxpayers and contracting the Enterprises' multifamily market footprint should be approached differently from single-family, and it may be accomplished using a much different and more direct method. To evaluate how to accomplish the second strategic goal in the multifamily business, each Enterprise will undertake a market analysis of the viability of its multifamily operations without government guarantees. This will require market reviews of their respective business models and the likely viability of those models operating on a stand-alone basis after attracting private capital and adjusting pricing, if needed, to attract and retain that capital.

Capital Markets

Before conservatorship, many Enterprise observers and analysts thought capital market activities to be each company's source of greatest profits, controversy and risk. With the numerous subsidies inherent in the government-sponsored enterprise (GSE) charters granted by Congress, the Enterprises have long been able to borrow money in the capital markets by issuing debt securities at interest rates approaching those of Treasury securities. They did this not by virtue of their financial strength and strong capital base, but because of a broad perception in the marketplace that the government would not let the companies default on their obligations. With this borrowing advantage, which was unavailable to other investors, the Enterprises issued debt to buy mortgages, including their own MBS, in competition with private investors.

In view of the need to retain capital market expertise to operate this business, accomplishing the second strategic goal for this line of business has two basic options: retain each company's in-house capital markets expertise to continue to manage these portfolios to maximize value while managing risk or retain a third-party investment firm(s) to manage each company's portfolio.

The Enterprises fund their retained portfolios through their capital markets operations, which need to continually monitor and hedge the interest rate risk inherent in mortgages, including the risk that changing interest rates could lead to either sudden mortgage prepayments or a slowdown in mortgage prepayments. Interest rate risk overwhelmed the savings and loan industry in the 1980s and made Fannie Mae technically insolvent in the early 1980s. Although capital markets operations were not the leading contributor to the losses that led the Enterprises into conservatorship and the accompanying taxpayer support, it remains a complex business activity requiring specialized and expert risk managers.

Today, this business line is already on a gradual wind-down path. The Treasury support agreements require the Enterprises to shrink their retained mortgage portfolios at a rate of 10 percent per year. Most mortgages the Enterprises add to their retained portfolios today are delinquent mortgages removed from their mortgage-backed securities. Each Enterprise also has certain legacy assets from before conservatorship, including private-label MBS, for which there is little or no liquidity in the marketplace. Thus, over time the Enterprises' retained portfolios are becoming smaller, but also less liquid.

Maximizing returns for taxpayers on the $1.4 trillion in mortgage assets currently owned and financed by the Enterprises is a key element of FHFA's mandate as conservator. The gradual wind-down of the retained portfolios since 2009 has led FHFA to consider strategic sales of assets that maximize value for the conservatorships. But depressed market prices for many of these assets, particularly when tied to market illiquidity rather than a permanent decline in asset value, argues for holding some of them for a longer period to minimize taxpayer loss.

In view of the need to retain capital market expertise to operate this business, accomplishing the second strategic goal for this line of business has two basic options: retain each company's in-house capital markets expertise to continue to manage these portfolios to maximize value while managing risk or retain a third-party investment firm(s) to manage each company's portfolio. The first is less disruptive but retains human capital risk, especially in view of proposed legislation on Enterprise compensation. The second option would hasten the shrinkage in Enterprise headcount but is likely to be the more costly, and it poses new control and oversight challenges for FHFA.

STRATEGIC GOAL 3:

Maintaining Foreclosure Prevention Efforts and Credit Availability

Amidst the building up and winding down activities defined by the first two strategic goals, there remains a critical third goal: ensuring ongoing stability and liquidity in the marketplace for new mortgages and mortgage refinancing, and continuing the critical tasks of foreclosure prevention and loss mitigation. This third goal has been central to the conservatorships since they began and it continues to be essential today.

Together, the Enterprises purchase or guarantee roughly $100 billion in home purchase and refinanced mortgages each month. Market confidence in the Enterprises' ongoing ability to provide this stable, liquid flow of mortgage-backed securities to investors is essential to stabilizing house prices and ensuring stability in the value of nearly $3.9 trillion in outstanding Enterprise mortgage-backed securities.

Other ongoing Enterprise activities that must be continued and enhanced include:

- Successful implementation of the Home Affordable Refinance Program (HARP), including the significant program changes announced in October 2011.
- Continued implementation of the Servicing Alignment Initiative, including its rigorous approach to loss mitigation through loan modifications and other means by reaching out to borrowers at the first signs of distress.
- Renewed focus on short sales, deeds-in-lieu, and deeds-for-lease options that enable households and the Enterprises to avoid foreclosure. The frictions and barriers to more successful use of these tools should be identified and removed using the same renewed focus brought to HARP last year. Enhanced use of these foreclosure avoidance tools may have important benefits for borrowers, neighborhoods, and taxpayers. Given the large backlog of pending foreclosures, renewed focus on these alternatives is a near-term priority.
- Further development and implementation of the real estate owned (REO) disposition initiative announced by FHFA last year. Adding creative strategies for placing foreclosed homes back into the marketplace, including efforts to convert properties into rental units, remains a promising path to reduce losses and to stabilize house prices and neighborhoods hit hard by the housing crisis.

Beyond these sensible strategies to assist homeowners and reduce taxpayer losses, achieving the third strategic goal will require FHFA and the Enterprises to work harder to resolve certain long-standing concerns in the marketplace that may be suppressing a more robust recovery and limiting credit availability. Each of these will be particularly challenging to resolve as they are essential to conservatorship efforts to minimize losses and to put the Enterprises in a more sound and solvent condition to manage the new business being taken on with taxpayer support.

First, representations and warranties are a long-standing means for enhancing liquidity in the mortgage origination process while protecting the Enterprises from loans not underwritten to prescribed standards. Representations and warranties are a loan originator's assurance to an Enterprise that a mortgage sold to the Enterprise has been underwritten as specified by contract, and, if that is found not to be the case, the originator undertakes responsibility for buying the loan back at par. Enforcing these claims ensures the Enterprises are compensated for losses that are the legal responsibility of another party. Still, such enforcement is costly and some have argued it has delayed market recovery because it led to new mortgage originations being underwritten to stricter standards than the Enterprises require.

FHFA and the Enterprises will respond to this market concern by aligning and making policies for representations and warranties more transparent (consistent with the first strategic goal). As noted earlier, a long-term goal associated with the Uniform Mortgage Data Program is to reduce representation and warranty risk through up-front monitoring of loan quality. In conjunction with this initiative and, in the interim, defining more clearly under what conditions representations and warranties will be employed to put back mortgages is an objective under the third strategic goal. Completing the resolution of outstanding "put back" requests is a related objective.

Second, FHFA has filed 18 separate lawsuits in connection with alleged securities law violations in private-label mortgage-backed securities purchased by the Enterprises. Speedy resolution of these claims would also help restore some vibrancy to the mortgage market and put claims related to past deficiencies to rest.

Accomplishing the Strategic Goals: Human Capital and Business Realities

No business endeavor can be successful without careful consideration of human capital. The numerous activities and changes necessary to accomplish the three strategic goals described here cannot be accomplished solely by legislation or declaration. They require substantial effort by many people at both Fannie Mae and Freddie Mac.

The boards and executives responsible for the business decisions that resulted in the Enterprises entering conservatorship and subsequent taxpayer support are long gone. Nearly every current top executive at each company either joined the company after the conservatorships were established or were promoted from within to replace departed executives. It is also worth noting that shareholders of each Enterprise effectively have already lost their entire investment.

The public interest is best served by ensuring that Fannie Mae and Freddie Mac have the best available corporate leaders to carry out the work necessary to meet the critical goals set forth here. FHFA and the Enterprises' boards of directors currently are engaged in a search for a new chief executive officer (CEO) for each company. We are seeking accomplished corporate leaders willing to undertake the unique challenge of running a large, complex financial institution while fulfilling the public goals described here in an uncertain legislative environment. FHFA and the boards are seeking highly qualified executives willing to take on these daunting challenges as a form of public service, despite the ongoing criticism of the companies and their executives. The success of these new CEOs will depend directly on the stability and experience of the executive teams and staff already in place at each company. Disrupting what has taken more than three years to achieve will only add to taxpayer losses and threaten the fragile housing recovery.

FHFA and the Enterprise boards of directors have taken seriously the concerns raised by members of Congress and the public regarding executive compensation. For 2012, work on a new compensation structure that eliminates bonuses is nearly complete. The new structure will be all salary, some paid currently, but a larger portion will be deferred. The deferred salary will be at-risk, meaning it may be reduced (but not increased) from the target amount, and reductions would be based on shortcomings in achieving individual performance goals and corporate conservatorship goals tied to this strategic plan.

Mid-level managers and rank and file staff have been held to a pay freeze the past two years. Yet retention of these staff is at least as important as retaining senior management. The day-to-day running of the businesses and the countless decisions that result in gains or losses are made in these ranks. Even with the great uncertainty as to the future of their companies, many Enterprise staff have remained committed to the important work taking place there.

When the conservatorships were created, FHFA made clear to Enterprise employees, Congress, and the public that retaining corporate managers and staff was essential to the work of the conservatorships. Conservatorship did not turn once-private companies into government agencies, nor their workers into government employees. As with everything else with these conservatorships, there has been a challenging yet critical balancing required.

In addition to the senior managers and staff, the Enterprises' boards of directors have played, and continue to play, an important role in assisting Enterprise management and FHFA. Board members themselves are engaged in a form of public service while retaining fiduciary responsibility as board members, and they too face unique challenges as boards of companies in government conservatorship.

From FHFA's standpoint, part of what is being preserved and conserved at the Enterprises is the processes and procedures, including business decision-making and requirements, of private financial institutions. These are critical to safe and sound operations, and can be disrupted by a failure at the senior management or operational staff levels. Each board's oversight of its Enterprise helps to preserve and reinforce among managers and staff these important private-sector disciplines. Each board's review and consideration of risk management practices, key business decisions, human capital management, and other key functions greatly assists FHFA in its regulatory and conservatorship responsibilities by providing the discipline and rigor expected of corporate boards. In these ways, the boards help FHFA enhance the corporate value at each Enterprise for ultimate disposition by Congress.

The final chapter, though, remains the province of lawmakers. Fannie Mae and Freddie Mac were chartered by Congress and by law, only Congress can abolish or modify those charters. The strategic plan set forth here will move the housing finance system forward and enhance the foundation on which Congress can make decisions about the role of government in the future of the country's housing finance system. Congress then can decide on the disposition of the Enterprises and their business operations.

Conservatorship: Writing the Final Chapter

The early chapters of the conservatorship story focused on market functioning and loss mitigation. More recent chapters have covered renewed efforts to enhance refinancing opportunities and REO disposition. The strategic goals and performance objectives set forth here provide an outline for the next chapter of conservatorship, one that focuses in earnest on building a secondary mortgage market infrastructure that will live beyond the Enterprises themselves. This next chapter will also see a gradual reduction in the Enterprises' dominant position in holding mortgage credit risk as private capital is encouraged back into that role.

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This plan does not anticipate Fannie Mae and Freddie Mac continuing as they existed before conservatorship. And though the Enterprises may well cease to exist at some point in the future, at least as they are known today, the country's $10 trillion single-family mortgage market will not go away. Therefore, an orderly transition to a new structure is needed.

Ensuring the ongoing liquidity and stability of the market and establishing new conduits that connect local mortgage originators with the capacity of global capital market investors will require new institutions and legal frameworks. The executives and employees of Fannie Mae and Freddie Mac are well situated to begin the process of building for that future and they can be expected to remain key contributors to housing finance in whatever new companies and institutional arrangements arise to replace Fannie Mae and Freddie Mac. Getting the most value for taxpayers and bringing stability and liquidity to housing finance during this long transition remain the overriding objectives of FHFA as conservator.

Federal Housing Finance Agency

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