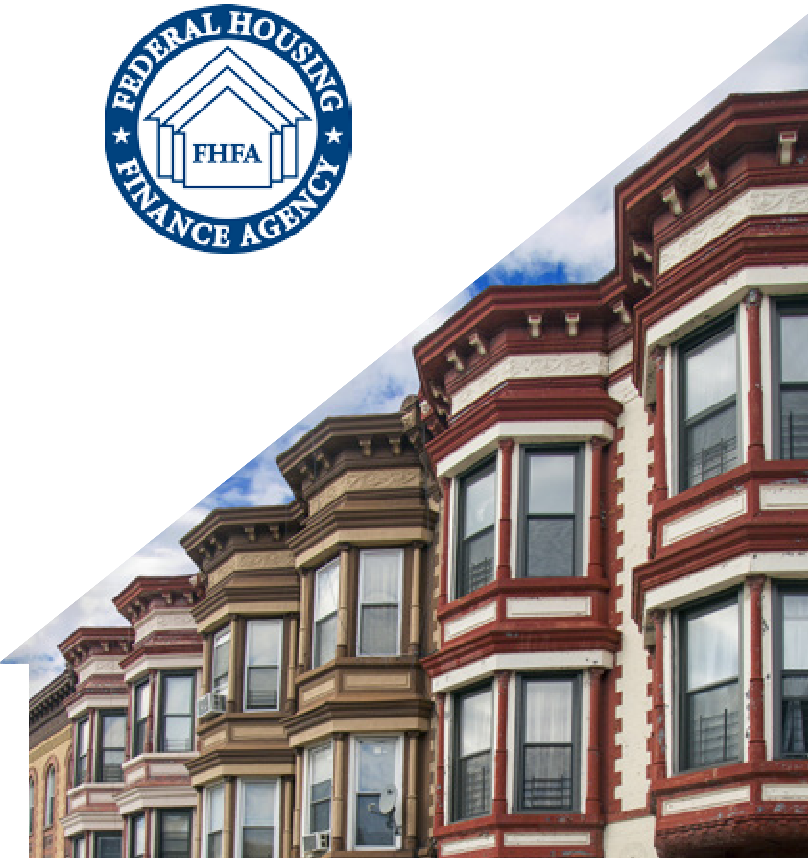
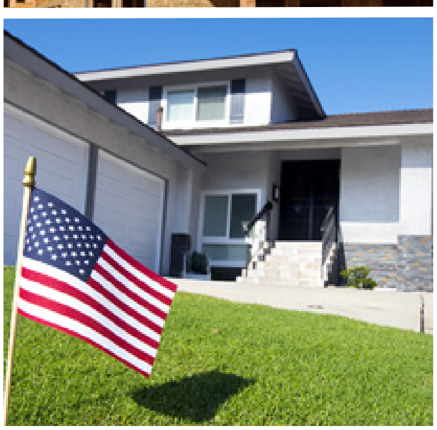


FISCAL YEAR

2016

FEDERAL HOUSING FINANCE AGENCY

PERFORMANCE AND ACCOUNTABILITY REPORT



FHFA's Mission, Vision, and Values

Mission

Ensure that the regulated entities operate in a safe and sound manner so that they serve as a reliable source of liquidity and funding for housing finance and community investment.

Vision

Establish a reliable, stable, and liquid housing finance system.

Values

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

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

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

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

List of Abbreviations

AB	Advisory Bulletin
AHP	Affordable Housing Program
AMA	Acquired Member Assets
AMI	Area Median Income
APP	Annual Performance Plan
CEAR	Certificate of Excellence in Accountability Reporting
CEO	Chief Executive Officer
CFPB	Consumer Financial Protection Bureau
CIP	Community Investment Program
CSP	Common Securitization Platform
CSS	Common Securitization Solutions, LLC
DBR	Division of Federal Home Loan Bank Regulation
DER	Division of Enterprise Regulation
DHMG	Division of Housing Mission and Goals
DOC	Division of Conservatorship
Dodd-Frank Act	Dodd-Frank Wall Street Reform and Consumer Protection Act of 2010
EEO	Equal Employment Opportunity
EIC	Examiner in Charge
Fannie Mae	Federal National Mortgage Association
FHFA	Federal Housing Finance Agency
FHLBanks	Federal Home Loan Banks
FISMA	Federal Information Security Management Act of 2002
FMFIA	Federal Managers' Financial Integrity Act
Freddie Mac	Federal Home Loan Mortgage Corporation
FTE	Full-Time Equivalent
FY	Fiscal Year
GAAP	Generally Accepted Accounting Principles
GAO	U.S. Government Accountability Office
HAMP	Home Affordable Modification Program
HARP	Home Affordable Refinance Program
HERA	Housing and Economic Recovery Act of 2008
HPI	House Price Index
LTV	Loan-to-Value
MBS	Mortgage-Backed Securities
MRA	Matters Requiring Attention
MVE	Market Value of Equity
NMDB	National Mortgage Database
NPL	Non-Performing Loan
OGC	Office of General Counsel
OIG	Office of Inspector General
OMB	Office of Management and Budget
OMWI	Office of Minority and Women Inclusion
PAR	Performance and Accountability Report
PII	Personally Identifiable Information
PSPA	Senior Preferred Stock Purchase Agreement
PVCS	Par Value of Capital Stock
ROE	Report of Examination
Safety and Soundness Act	Federal Housing Enterprises Financial Safety and Soundness Act of 1992

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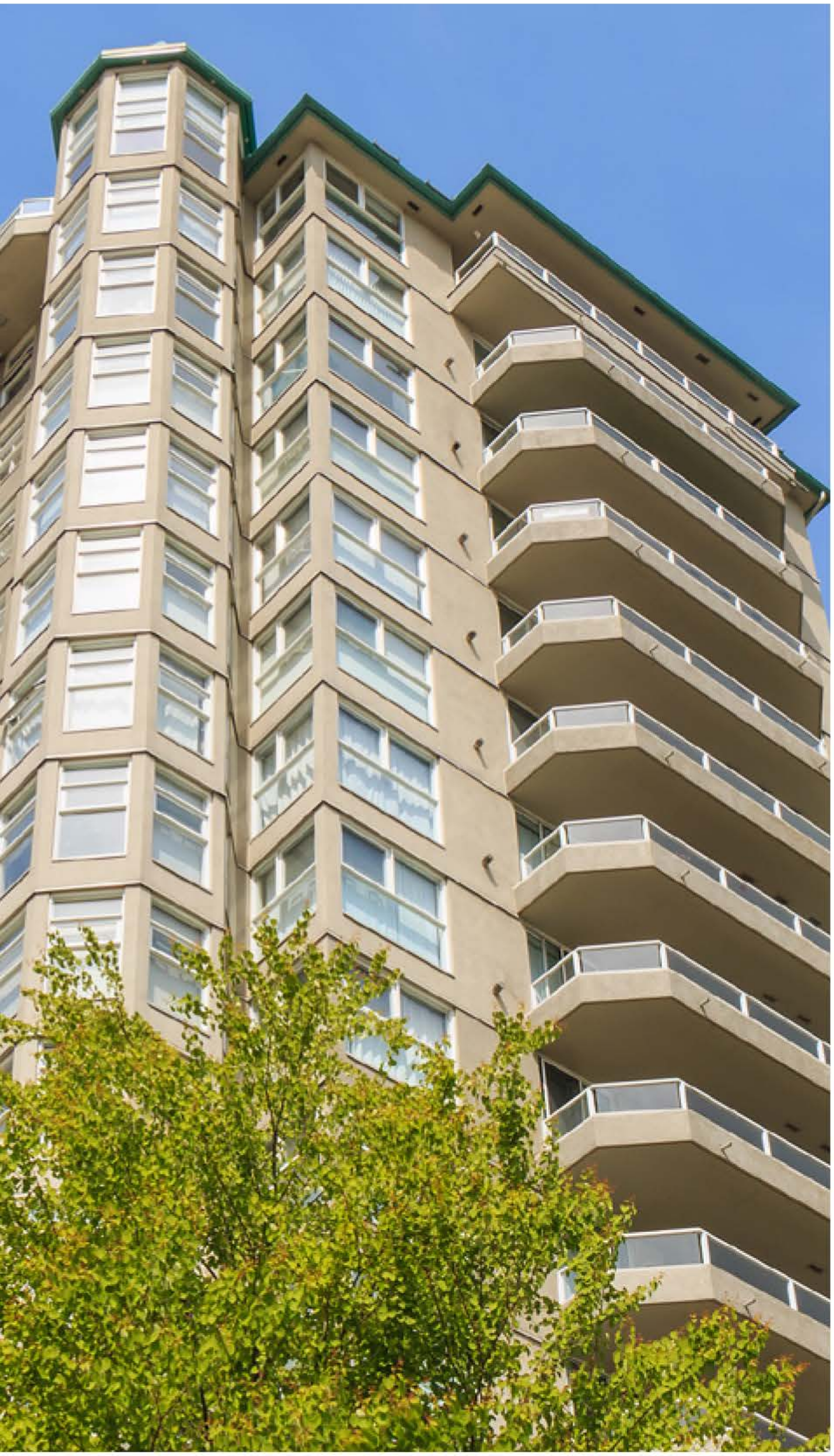
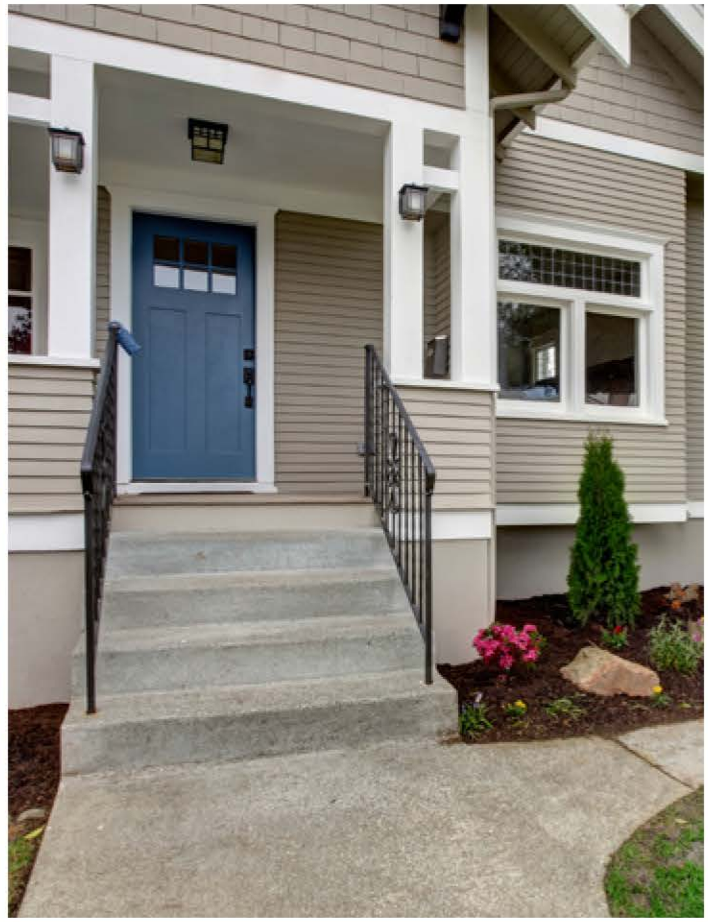
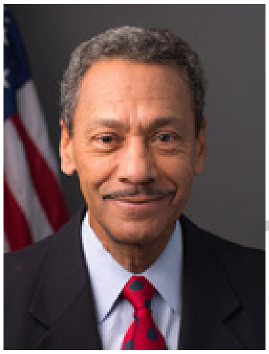






Melvin L. Watt

Message from the Director

I am pleased to issue the Federal Housing Finance Agency's (FHFA) Performance and Accountability Report for fiscal year (FY) 2016. FHFA was established by the Housing and Economic Recovery Act of 2008 and is responsible for the effective supervision, regulation, and housing mission oversight of the Federal National Mortgage Association (Fannie Mae), the Federal Home Loan Mortgage Corporation (Freddie Mac), and the Federal Home Loan Bank (FHLBank) System, which includes 11 FHLBanks and the Office of Finance. The Agency's mission is to ensure that the regulated entities and the Office of Finance operate in a safe and sound manner so that they serve as a reliable source of liquidity and funding for housing finance and community investment. Since 2008, FHFA has also served as conservator of Fannie Mae and Freddie Mac (the Enterprises).

In FY 2016, FHFA made notable progress on its three strategic goals: 1) ensuring safe and sound regulated entities, 2) ensuring liquidity, stability, and access in housing finance, and 3) managing the Enterprises' ongoing conservatorships.

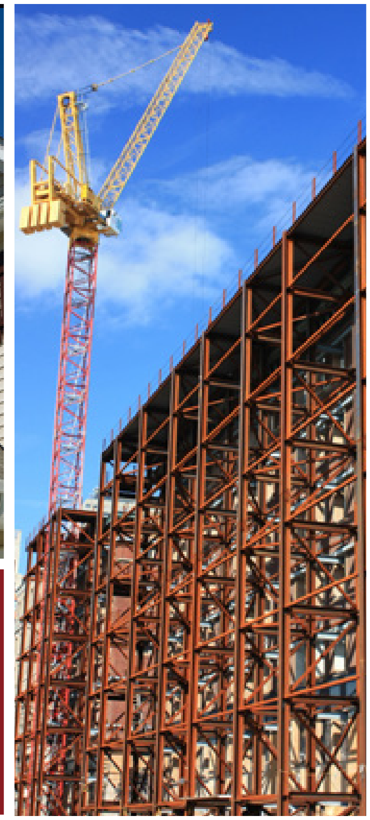
This report addresses FHFA's activities as regulator of the FHLBank System and as regulator and conservator of Fannie Mae and Freddie Mac from October 1, 2015 through September 30, 2016, and meets the requirements of the Government Performance and Results Modernization Act of 2010. The report also provides the FY 2016 financial statements and analysis for FHFA which reflect that, for the eighth consecutive year, FHFA received an unmodified audit opinion on its financial statements from the U.S. Government Accountability Office. FHFA has no material internal control weaknesses and the financial and performance data contained in this report are reliable and complete in accordance with Office of Management and Budget Circulars A-123 and A-136.

Sincerely,

MELVIN L. WATT
Director, Federal Housing Finance Agency
November 15, 2016

MANAGEMENT'S DISCUSSION AND ANALYSIS

- About the Federal Housing Finance Agency (FHFA)
- Performance Summary
- Looking Ahead to FY 2017
- Financial Summary
- FHFA Audits and Evaluations
- Management Report on Final Actions
- FHFA Statement of Assurance



About the Federal Housing Finance Agency (FHFA)

Background on FHFA's Statutory Obligations

FHFA was established by the Housing and Economic Recovery Act of 2008 (HERA) and is responsible for the effective supervision, regulation, and housing mission oversight of the Federal National Mortgage Association (Fannie Mae), the Federal Home Loan Mortgage Corporation (Freddie Mac), and the Federal Home Loan Bank (FHLBank) System, which includes the 11 FHLBanks and the Office of Finance. The Agency's mission is to ensure that these regulated entities operate in a safe and sound manner so that they serve as a reliable source of liquidity and funding for housing finance and community investment. Since 2008, FHFA has also served as conservator of Fannie Mae and Freddie Mac (the Enterprises).

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

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

(B) to ensure that—

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

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

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

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

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

12 U.S.C. § 4513(a)(1).

FHFA's Role as Conservator of Fannie Mae and Freddie Mac. As part of the Safety and Soundness Act, Congress granted the Director of FHFA the discretionary authority to appoint FHFA as conservator or receiver of Fannie Mae, Freddie Mac, or any of the FHLBanks upon determining that specified criteria had been met. On September 6, 2008, FHFA exercised this authority and placed the Enterprises into conservatorships. FHFA continues to oversee these conservatorships.

FHFA's authority as both conservator and regulator of the Enterprises is based upon statutory mandates enacted by Congress, which include the following conservatorship authorities granted by the Safety and Soundness Act:

(D) …take such action as may be—

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

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

12 U.S.C. § 4617(b)(2)(D).

Carrying on the business of the Enterprises in conservatorships also incorporates the previously referenced responsibilities that are enumerated in 12 U.S.C. § 4513(a)(1). Additionally, under the Emergency Economic Stabilization Act of 2008, FHFA has a statutory responsibility in its capacity as conservator to:

> "implement a plan that seeks to maximize assistance for homeowners and use its authority to encourage the servicers of the underlying mortgages, and considering net present value to the taxpayer, to take advantage of...available programs to minimize foreclosures."
>
> 12 U.S.C. § 5220(b)(1).

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

TABLE 1: Regulated Entities Business Activity

October 1, 2015 through September 30, 2016		
1	Enterprise new business Single-Family Purchase Single-Family Refinance Multifamily	$963.0 billion [a] $407.0 billion $452.0 billion $103.0 billion
2	Enterprise Affordable Housing Allocations Housing Trust Fund Capital Magnet Fund	$265.1 million $173.6 million [b] $91.5 million [c]
3	FHLBanks Advances	$688.6 billion
4	FHLBanks' contribution to the Affordable Housing Program	$269.2 million

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

b *http://portal.hud.gov/hudportal/HUD?src=/press/press_releases_media_advisories/2016/HUDNo_16-068*

c *https://www.cdfifund.gov/Documents/FINAL%202016%20CMF%20Award%20Book%20091916.pdf*

Background on the Regulated Entities

The Enterprises

Fannie Mae and Freddie Mac were created by Congress in 1938 and 1970, respectively, to provide stability and liquidity in the secondary market for home mortgages. The Enterprises purchase single-family mortgages that lenders have already made to homeowners. These mortgages are pooled into mortgage-backed securities (MBS), guaranteed by the Enterprises, and sold to investors. In addition, to reduce their credit risk exposure, the Enterprises routinely sell a portion of their credit risk on newly acquired single-family mortgages in targeted categories to the private sector (see Figure 1). The Enterprises also purchase multifamily mortgages, and each Enterprise uses a different model of credit risk-sharing for these purchases. Fannie Mae uses loss-sharing transactions through a delegated underwriting system. Freddie Mac uses a capital markets execution that transfers the bulk of its credit risk.

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

FHLBanks

Congress passed the Federal Home Loan Bank Act (Bank Act) in 1932 to establish the FHLBank System and reinvigorate a housing market devastated by the Great Depression. The FHLBank System includes 11 district FHLBanks, each serving a designated geographic area of the United States, and the Office of Finance, which issues consolidated obligations to fund the FHLBanks. The FHLBanks are member-owned cooperatives that provide a reliable source of liquidity to member financial institutions by making loans, known as advances, to member institutions. These advances increase the available funding for residential mortgages. At September 30, 2016, there were 7,160 active FHLBank members consisting of commercial banks, thrifts, credit unions, insurance companies and community development financial institutions.

FIGURE 1: FHFA Oversight Role – Fannie Mae and Freddie Mac

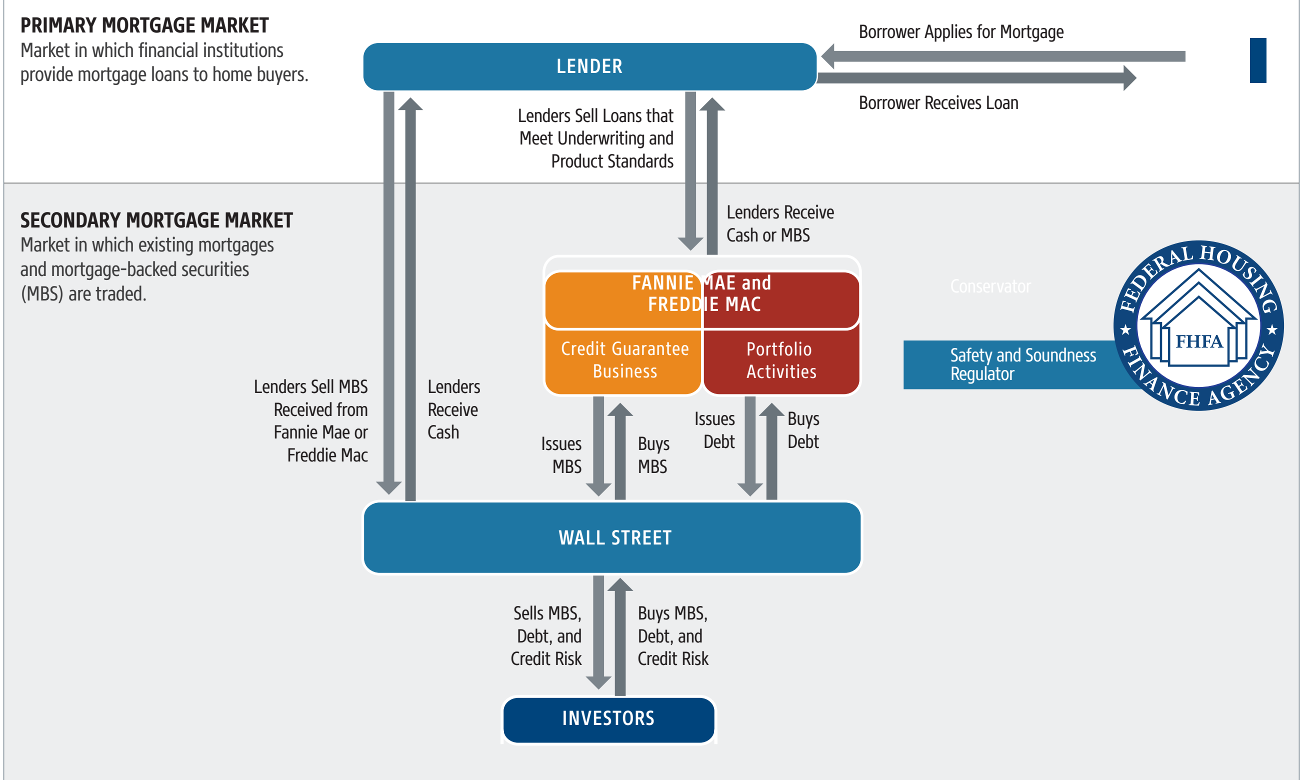
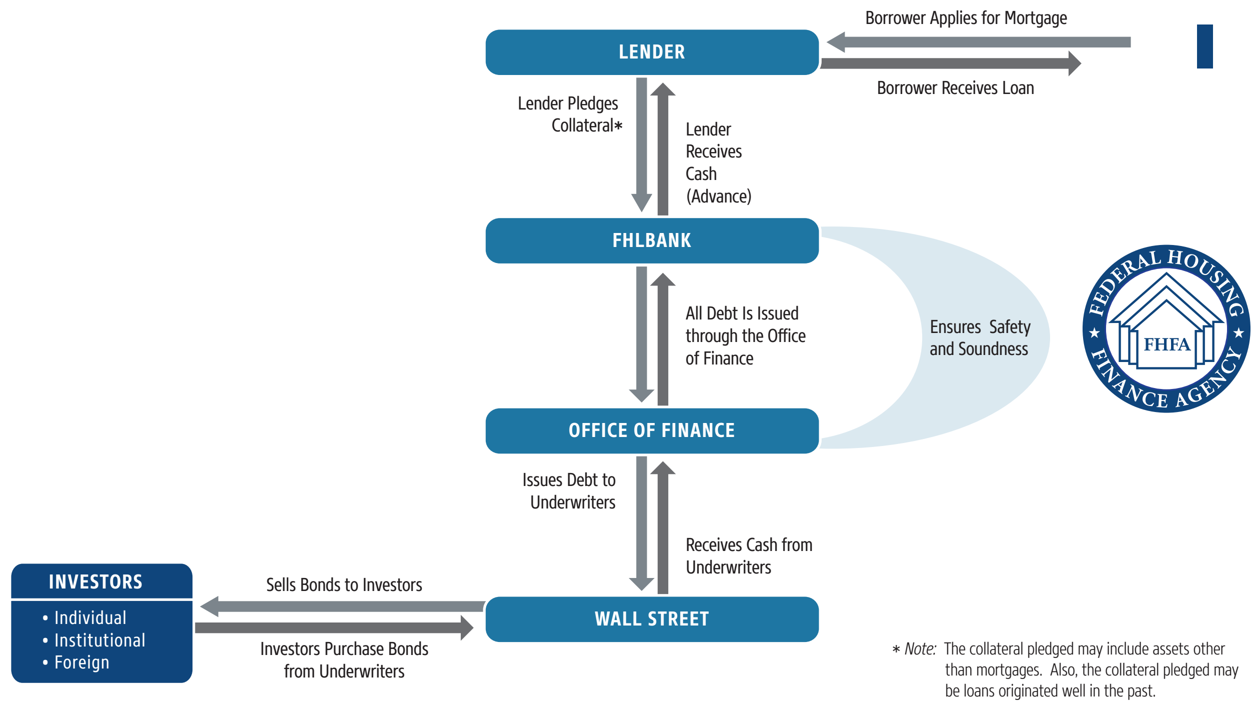


FIGURE 2: FHFA Oversight Role – FHLBanks



Organization

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

During FY 2016, the Agency operated with a budget of $199.1 million and ended the fiscal year with 579 employees. During this same period, FHFA's Office of Inspector General (OIG) operated with a budget of $49.9 million and ended the fiscal year with 136 employees. For FY 2017, FHFA's budget is $199.5 million, which will be used to support 630 positions. The majority of future hires in FY 2017 will bolster the examinations and other mission areas of the Agency (see Table 2). During this same period, the OIG will operate with a budget of $49.9 million to support 155 positions.

TABLE 2: FHFA Fiscal Year-End Staffing Plan

FHFA Employees *(by specialized area)*	As of 9/30/2016	
	FY 2016 Year End	FY 2017 Budgeted
Examinations	259	279
Other Mission	130	147
Office of the Director	34	41
Legal	40	42
Information Technology	49	49
Other Support Functions	67	72
Total	**579**	**630**
TOTAL FHFA OIG	**136**	**155**

Year-end positions can differ from budgeted positions as needs and priorities change over the course of the fiscal year.

The Director sets the direction for the Agency to achieve its mission with divisions and offices working together to ensure effective execution of the Agency's strategic goals. FHFA's principal organizational units are shown in Figure 3.

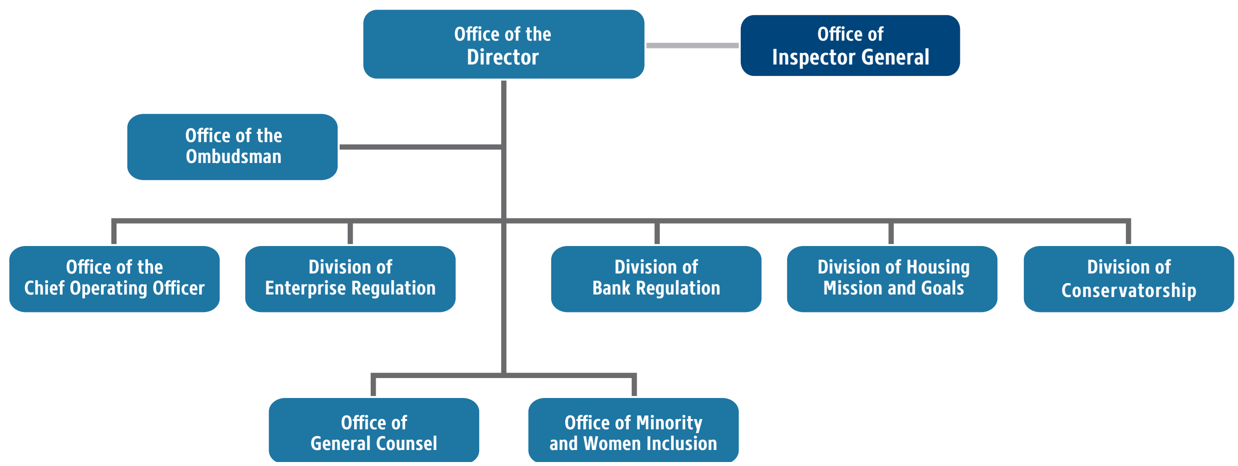
The Office of the Chief Operating Officer oversees the Agency's day-to-day support operations including facilities management; continuity of operations; financial planning and budgeting; contracting; human resource management; information technology (IT); quality assurance; internal and external communications;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

The Division of Enterprise Regulation (DER) is responsible for the supervision of the Enterprises and evaluates the safety and soundness of their operations. DER contributes to the achievement of FHFA's strategic and performance goals through planning and executing risk-based examinations of the Enterprises; developing and preparing the annual reports of examination; issuing supervision policy; and providing examiner training.

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

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

FIGURE 3: FHFA Principal Organization Structure



The Division of Conservatorship (DOC) assists the FHFA Director, as conservator, in carrying out conservatorship obligations. DOC facilitates communications between the Enterprises and FHFA as conservator to ensure the prompt identification of emerging issues and their timely resolution. DOC also works with the Enterprises' boards and senior management to establish priorities and milestones for accomplishing the goals of the conservatorships. Additionally, the division leads, coordinates, and clarifies Agency and Enterprise activities related to the *2014 Strategic Plan for the Conservatorships of Fannie Mae and Freddie Mac* (2014 Conservatorship Strategic Plan).

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

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

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

The Office of Inspector General is responsible for conducting independent objective audits, evaluations, investigations, surveys and risk assessments of FHFA's programs and operations. The OIG informs the Director, Congress and the public of any problems or deficiencies relating to programs and operations. OIG activities assist FHFA staff and program participants by ensuring the effectiveness, efficiency, and integrity of FHFA's programs and operations.

What FHFA Provides

As regulator of the FHLBank System and as regulator and conservator of Fannie Mae and Freddie Mac, FHFA performs an important role in strengthening the nation's housing finance system. FHFA does this by:

Ensuring a Reliable Source of Liquidity and Funding for Housing Finance and Community Investment

FHFA's mission is to ensure that the regulated entities operate in a safe and sound manner so that they serve a as a reliable source of liquidity and funding for housing finance and community investment. FHFA accomplishes this undertaking through on-site, risk-based examinations and off-site monitoring of each of the regulated entities. By overseeing the regulated entities' efforts to support housing finance market liquidity, FHFA ensures credit availability for new and refinanced mortgages. Additionally, FHFA works to oversee the role that the regulated entities play in supporting multifamily housing needs, particularly for low-income households.

Protecting Taxpayers and Managing the Conservatorships

Since September 6, 2008, FHFA has served as the conservator of the Enterprises. As conservator, FHFA works to preserve and conserve each Enterprise's assets and property. Fannie Mae and Freddie Mac have received a combined total of $187.5 billion in taxpayer support under the Senior Preferred Stock Purchase Agreements (PSPA) since the conservatorships began.

Increasing Transparency in the Housing Finance Markets

FHFA promotes the dissemination of information that will improve the public's understanding of housing finance markets and the regulated entities. For example, FHFA publishes the *House Price Index* (HPI) on a monthly and quarterly basis, an indicator of single-family house price trends at various geographic levels that provides the public with accessible and timely house price information to estimate the current value of a house. The HPI is calculated using home sales price information from mortgages sold to, or guaranteed by, the Enterprises. Additionally, FHFA periodically releases research papers on a variety of subjects related to mortgage markets including mortgage defaults, housing affordability, capital monitoring, and overall market trends.

Preserving Homeownership

Since the beginning of the foreclosure crisis in 2008, FHFA has worked with the Enterprises to develop programs that help preserve homeownership. The Enterprises continue to refine and improve key loss mitigation and foreclosure prevention activities, as well as continue neighborhood stabilization strategies for hardest hit communities under FHFA direction. Additionally, as the Home Affordable Modification Program (HAMP) and the Home Affordable Refinance Program (HARP) expire on December 31, 2016, and September 30, 2017, respectively, the Enterprises are preparing alternative post-crisis programs.

Building a Shared Single-Family Securitization Infrastructure

Building a new infrastructure for the Enterprises' securitization functions remains an important priority for FHFA. As part of this multiyear effort, FHFA is overseeing the efforts of the Enterprises in developing the Common Securitization Platform (CSP), including the capability of issuing a Single Security, to serve as the new infrastructure for most of the current securitization functions of the Enterprises. In 2016, Freddie Mac plans to implement Release 1 of the CSP software and will then use the platform to issue and administer securities. When fully developed, the CSP will: (1) verify certain aspects of the data related to a pool of mortgages; (2) support the issuance of MBS, either backed by pools of loans or by other securities; (3) publish required disclosures related to the securities and pools of loans, both at issuance and on an ongoing basis over the life of the securities; and (4) perform certain bond administration functions.

Performance Summary

Strategic and Performance Goals

In November 2014, FHFA published its ***FY 2015 – FY 2019 Strategic Plan***, which set out three strategic and nine performance goals for the Agency. The goals are presented below (Figure 4). The performance measures associated with these strategic goals are presented on pages 20–21

FHFA tracks program costs to the strategic goals outlined in FHFA's Strategic Plan. Figures 5 and 6 reflect the number of full-time equivalent (FTE) employees working on each strategic goal and actual gross costs expended.

FIGURE 4: FHFA's Strategic and Performance Goals

STRATEGIC GOAL 1
Ensure Safe and Sound Regulated Entities

- **1.1** Assess the safety and soundness of regulated entity operations
- **1.2** Identify risks to the regulated entities and set expectations for strong risk management
- **1.3** Require timely remediation of risk management weaknesses

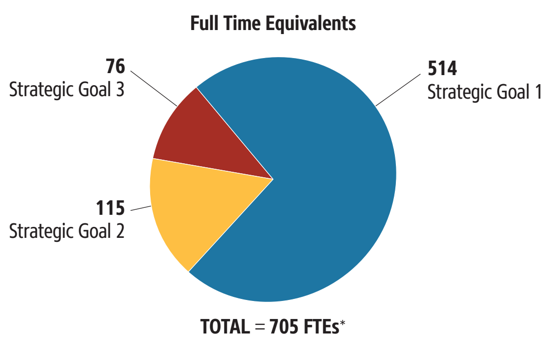
STRATEGIC GOAL 2
Ensure Liquidity, Stability, and Access in Housing Finance

- **2.1** Ensure liquidity in mortgage markets
- **2.2** Promote stability in the nation's housing finance markets
- **2.3** Expand access to housing finance for diverse financial institutions and qualified borrowers

STRATEGIC GOAL 3
Manage the Enterprises' Ongoing Conservatorships

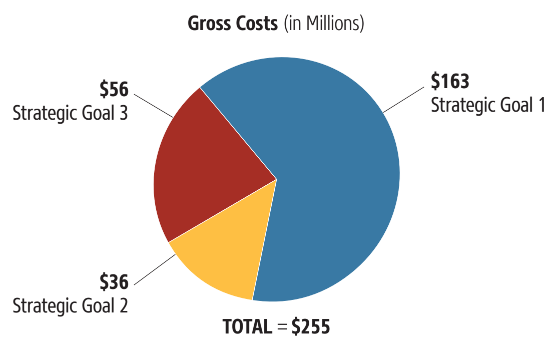
- **3.1** Preserve and conserve assets
- **3.2** Reduce taxpayer risk from Enterprise operations
- **3.3** Build a new single-family securitization infrastructure

FIGURE 5: FHFA FTEs in FY 2016



* *FTE employment refers to the total number of regular straight-time hours (i.e., not including overtime or holiday hours) worked by employees divided by the number of compensable hours applicable to each fiscal year. This converts the hours of part-time and temporary workers to full-time equivalent employees. This is not to be confused with the number of employee positions referred to in an agency's staffing plan.*

FIGURE 6: Gross Costs for FY 2016



Performance Highlights by Strategic Goal

Strategic Goal 1: Ensure Safe and Sound Regulated Entities

1. Supervision of the Regulated Entities

A foundational component of FHFA's mission is to ensure that the regulated entities operate in a safe and sound manner so that they serve as a reliable source of liquidity and funding for housing finance and community investment. FHFA promotes safe and sound operations through the Agency's supervisory program. FHFA uses a risk-based approach to supervisory examinations, which prioritizes examination activities based on the risk a given practice poses to a regulated entity's safe and sound operation or to its compliance with applicable laws and regulations. FHFA supervisory activities involve identifying existing and potential risks, evaluating overall integrity and effectiveness of the entities' system and controls, determining compliance with laws and regulations, and assessing safety and soundness.

In FY 2016, FHFA continued to carry out its supervisory program, including through conducting on-site examinations, ongoing risk analysis, and off-site review and monitoring. As in previous years, examinations were conducted in accordance with approved supervisory standards and examination plans. FHFA continued to maintain on-site examination teams at each Enterprise to conduct targeted examinations and ongoing monitoring throughout the year across various areas of risk. FHFA also continued to conduct on-site examinations at the FHLBanks in support of annual examinations, to follow up on examination findings, and to discuss emerging issues.

Examination activity at each entity is led by an Examiner-in-Charge and is carried out primarily by an on-site team in coordination with other subject matter experts. FHFA also maintains off-site monitoring programs that routinely evaluate data, respond to a wide array of ad hoc and periodic requests, and provide support to on-site examination teams.

In addition, in FY 2016 FHFA continued its practices of communicating supervisory standards to the regulated entities, establishing expectations for strong risk management, and requiring remediation of identified deficiencies. Where there were significant supervisory concerns or violations of law or regulation by one of the regulated entities, FHFA issued Matters Requiring Attention (MRAs) that require the Board of Directors and/or management to take corrective action to address deficiencies and violations. In response to an MRA, the entity commits to undertake remedial activity to address supervisory concerns. FHFA also issued written standards in the form of advisory bulletins to the regulated entities regarding particular supervisory issues, which are discussed in greater detail below.

For each regulated entity, FHFA prepares an annual Report of Examination , which identifies weaknesses and includes composite and component ratings as set forth in the CAMELSO rating system—Capital, Asset quality, Management, Earnings, Liquidity, Sensitivity to market risk, and Operational risk. In FY 2016, Reports of Examination were delivered to the Enterprises in March 2016, and to the FHLBanks periodically throughout the year according to FHFA's examination schedule. As with previous years, Reports of Examination were provided to each regulated entity's Board of Directors and management.

2. Condition of the Enterprises[1]

The quality of the Enterprises' portfolios continues to improve as the credit quality of the new single-family business remains high, with a weighted average credit score in the high 740s. The Enterprises have also seen improvement in delinquencies with seriously delinquent loans (i.e., loans delinquent more than 90 days) declining to approximately 321,000 as of September 30, 2016, compared to approximately 426,000 as of September 30, 2015, a decline of 25 percent. Further, the Enterprises' inventory of real estate owned properties, which are acquired by the Enterprises through foreclosure, declined 31 percent to approximately 54,000 properties at the end of the third quarter of 2016, compared to approximately 79,000 properties at the end of the third quarter 2015.

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

TABLE 3: Summary of First Three Quarters of 2016 and Full Year 2015 Financial Results (in $Billions)

	Fannie Mae				Freddie Mac			
	2016			2015 Annual	2016			2015 Annual
	Q1	Q2	Q3		Q1	Q2	Q3	
Net Income (Loss)	$ 1.1	$ 2.9	$ 3.2	$ 11.0	$ (0.4)	$ 1.0	$ 2.3	$ 6.4
Comprehensive Income (Loss)*	0.9	2.9	3.0	10.6	(0.2)	1.1	2.3	5.8

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

Table 3 is a summary of the Enterprises' financial results through September 30, 2016.

The Enterprises will likely continue to see downward pressure on their earnings. One reason is the decline in net interest income from the retained mortgage portfolio[2] as the Enterprises comply with the PSPAs' reduction requirements and shed mortgage-related assets from their balance sheets. Earnings will also exhibit continued volatility arising from fair value marks for derivative instruments. The current levels of credit-related income are unlikely to be sustainable. Given the large size of the Enterprises' portfolios, small changes in home prices and interest rates may have a significant impact on financial performance. As the capital reserve amount under the PSPAs continues to decline, the prospect of a quarterly loss resulting in a draw against the funding commitment available from the U.S. Department of the Treasury (Treasury) is likely to increase.

Since the conservatorships began in 2008, Fannie Mae and Freddie Mac have drawn a combined total of $187.5 billion in taxpayer support under the PSPAs. As of September 30, 2016, the Enterprises have paid the Treasury a total of $250.5 billion[3] in dividends on senior preferred stock.[4] Under the terms of the PSPAs, dividend payments made by the Enterprises do not constitute a repayment of their draws. The terms of the PSPAs also require the Enterprises to reduce their retained portfolios, and the Enterprises are constrained by the PSPAs from building capital while they remain in conservatorship. The capital reserve for 2016 will be $1.2 billion and decline to zero by January 1, 2018.

3. Condition of the FHLBanks[5]

In FY 2016, FHFA found the FHLBanks and the Office of Finance to have satisfactory overall condition, operations, and governance during the annual exam cycle. Although the FHLBanks generally exhibited adequate risk management practices, examiners identified weaknesses where they could improve.

The financial condition and performance of the FHLBanks was strong during the 12-month period ending September 30, 2016. All 11 FHLBanks were profitable, earning a combined $3.2 billion on $3.8 billion of net interest income. The FHLBanks recaptured $256 million of losses previous taken as credit-based other-than-temporary impairments and earned a combined $892 million from litigation settlements primarily related to private-label MBS holdings. The FHLBanks of San Francisco and Des Moines received the majority of the settlements at $451 million and $338 million, respectively. Total other income was $864 million at the System level as net losses from marked-to-market assets weighed on earnings. Operating expenses totaled $1,015 million for the year-ended September 30, 2016.

Private-label MBS continued to present the largest credit risk to the FHLBanks. However, the risk has significantly diminished from prior years as the portfolio has paid down to $11.8 billion and economic conditions have improved.

2 For the purpose of this analysis, the term "retained mortgage portfolio" refers to mortgage loans and mortgage-related securities owned by the Enterprises.

3 Fannie Mae Q2 2016 Form 10-Q pg. 2 ($151.4 billion) and Freddie Mac Q2 2016 Form 10-Q pg. 2 ($99.1 billion).

4 Dividends are paid to Treasury in the quarter after earnings are generated. Dividend payments associated with third quarter earnings will be paid to Treasury in December.

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

Did You Know...

House Price Index

What is it? The FHFA HPI broadly measures the movement of single-family house prices by measuring average price changes in repeat sales or refinancing. This information is obtained by reviewing transactions on single-family properties where the mortgages have been purchased or securitized by Fannie Mae or Freddie Mac since January 1975.

Why it's done: The HPI serves as an indicator of house price trends at various geographic levels. Because of the breadth of the sample, the HPI provides more information than is available in other house price indices. The HPI also provides housing economists with an improved analytical tool that is useful for estimating changes in the rates of mortgage defaults, prepayments, and housing affordability in specific geographic areas.

Where is it? *FHFA publishes monthly and quarterly HPI reports*

The *HPI calculator* projects what a given house purchased at a point in time would be worth today if it appreciated at the average appreciation rate of all homes in the area.

All FHLBanks consistently met liquidity and regulatory capital requirements during the fiscal year and had robust capital-to-asset ratios. In the fiscal year-ended September 30, 2016, the FHLBanks' increased retained earnings to $15.8 billion, the highest level in the FHLBanks' history. Excess stock—stock held by members but not required to support membership or activity with the Bank—remained at a level consistent with FY 2015, but well below the preceding years. The FHLBanks' primary business of making advances to members continued to operate with no credit losses as it has for the entire existence of the FHLBank System. Member demand for FHLBank advances increased $97.1 billion over the past fiscal year, to $688.6 billion of advances outstanding at September 30, 2016.

The FHLBanks' capital is redeemable at par; therefore, the market value of each FHLBank's equity (MVE) should equal or exceed the par value of its capital stock (PVCS). The MVE to PVCS ratio exceeded 1.00 for all FHLBanks during the fiscal year-ended September 30, 2016, with the lowest ratio for any individual FHLBank being 1.14.

4. Amendments to FHLBank Membership Regulation

On January 12, 2016, FHFA published a final rule amending the regulation governing FHLBank membership. FHFA published a proposed rule for a 60-day comment period in September 2014 and later extended the comment period for an additional 60 days. FHFA received over 1,300 comments on the proposed rule, which the Agency reviewed and considered.

The final rule defines an "insurance company" for the purpose of FHLBank membership as "an entity that holds an insurance license or charter under the laws of a State and whose primary business is the underwriting of insurance for persons or entities that are not its affiliates." The new definition was designed to avoid circumvention of the membership eligibility requirements of the Bank Act through use of a captive insurer. As regulator of the FHLBank System, FHFA is responsible for ensuring that only entities eligible for FHLBank membership obtain the benefits of membership. In increasing numbers, entities ineligible for membership in a FHLBank, such as real estate investment trusts, had been establishing captive insurance subsidiaries and using them as a conduit to gain access to low-cost FHLBank funding and other benefits of membership to which the parent companies were not entitled under the statute. FHFA believed that, if it did not act to end the practice now, such use of captive insurers would continue to grow and could be employed by other types of ineligible entities, such as hedge funds and investment banks.

In addition to prohibiting the FHLBanks from accepting captive insurers as new members, the final rule also requires them to terminate the membership of any existing members that no longer qualify as insurance companies under the rule. The rule provides for transition periods within which a FHLBank may wind down its business with its captive members prior to termination. The final rule provides for a five-year transition period for captive insurers that became members before the date the proposed rule was published and a one-year transition period for those that became members on or after that date.

The final rule also requires the FHLBanks to obtain and review audited financial statements for insurance company applicants when considering them for membership and clarifies the standards for determining the location of an institution's "principal place of business" for purposes of identifying the appropriate FHLBank district for membership.

5. FHLBank Merger Update

On May 31, 2015, the FHLBanks of Seattle and Des Moines merged to form a single entity. Their merger was the first under FHFA's Voluntary Merger regulations and followed approval of the two FHLBanks' boards of directors and members and of FHFA's Director.

At year-end 2015, the continuing institution, the FHLBank of Des Moines, was the second largest FHLBank in the System as measured by total assets. The FHLBank of Des Moines is in good financial condition and has no restrictions on repurchasing or redeeming member stock. FHFA continues to evaluate the Bank's response to changing market conditions, which may potentially affect its future financial performance. In addition, FHFA will continue to assess the board's and management's efforts to enhance internal controls and reduce the institution's operational risk.

6. Risk Management Guidance Issued to the Regulated Entities

An Advisory Bulletin (AB) communicates guidance to FHFA supervision staff and the regulated entities on specific supervisory matters pertaining to the FHLBanks, Fannie Mae, and Freddie Mac. In FY 2016, FHFA issued the following bulletins:

Classification of Investment Securities at FHLBanks

FHFA issued *AB 2016-01* in January 2016 to provide guidance on the classification of investment securities at the FHLBanks. The Bulletin incorporates the guidance provided by the *Uniform Agreement on the Classification and Appraisal of Securities Held by Depository Institutions* issued by the Office of the Comptroller of the Currency, the Board of Governors of the Federal Reserve System, and the Federal Deposit Insurance Corporation in October 2013.

FHLBank Changes to Internal Market Risk Models

FHFA updated previous guidance on how an FHLBank may obtain approval to implement significant changes to a previously approved internal market risk model after proper notification to FHFA. *AB 2016-02* describes the procedures and documentation for the notification process. AB 2016-02 also rescinds 2005-AB-06, *Changes to Internal Market Risk Models.*

Income Eligibility and Rents for Shelters for the Homeless and Victims of Domestic Violence

AB 2016-03, issued in August 2016, provides guidance under the AHP on how the FHLBanks may verify AHP household income eligibility and rents in the case of shelters for the homeless and shelters for victims of domestic violence.

Data Management and Usage at the Enterprises

Strong data management supports safe and sound operations by enabling an Enterprise to provide secure, accurate, and accessible data to meet business needs, and for use in risk management and compliance processes. In September 2016, FHFA issued *AB 2016-04* to communicate to the Enterprises the Agency's supervisory expectations for the management of data, including expectations for data governance, architecture, quality, and security.

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

1. Enhancements to the Representation and Warranties Framework

FHFA and the Enterprises began working on improvements to the Representation and Warranty Framework in September 2012 with the introduction of representation and warranty relief when a loan met certain benchmarks. In 2014, the Framework was refined to broaden the performance benchmarks for granting relief, provide lenders relief after successful completion of a quality control review, allow lenders to stand-in for an insurer when mortgage insurance is rescinded after delivery, and clarify the life of loan exclusions to the relief granted. In 2015, the Enterprises published Selling Guide announcements that defined the severity levels for loan origination defects and the process for remedying them, more clearly defining the Enterprises' discretion on loan level decisions when reviewing a loan.

Throughout the discussions on improving the Representation and Warranty Framework, the lending community stated that it wanted an alternative to costly litigation when challenging the Enterprises' repurchase demands. Accordingly, the Enterprises worked with FHFA and consulted with lenders to explore and develop an independent dispute resolution process for loan level disputes. The resulting Independent Dispute Resolution Program, published in August 2016, is the capstone of the enhancements to the Representation Work Framework that started in 2012. It supplies a lender with a balanced, independent, and neutral dispute resolution mechanism for when it believes a breach does not exist to support an Enterprise's repurchase demand on a loan.

2. Principal Reduction Modification and Enhanced Non-Performing Loan (NPL) Sales Requirements

On April 14, 2016, FHFA announced that the Enterprises will offer principal reduction to certain seriously delinquent, underwater borrowers who are still struggling in the aftermath of the financial crisis. The Principal Reduction Modification program will allow eligible borrowers to obtain a loan modification that permanently forgives a portion of their mortgage debt in order to help them avoid foreclosure and stay in their homes. The Principal Reduction Modification program is a one-time offering for borrowers whose loans are owned or guaranteed by Fannie Mae or Freddie Mac and who meet specific eligibility criteria, including that they are owner-occupant borrowers who were 90 days or more delinquent as of March 1, 2016, whose mortgages have an outstanding unpaid principal balance of $250,000 or less, and whose mark-to-market loan-to-value (LTV) ratios exceed 115 percent. This program is also a targeted effort to help improve the stability of neighborhoods that have not yet recovered from the financial crisis.

At the same time, FHFA also announced further enhancements to its requirements for Freddie Mac and Fannie Mae's sales of NPLs. The new enhancements: (1) establish that NPL buyers must evaluate borrowers whose mark-to-market LTV ratio exceeds 115 percent for modifications that include principal reduction and/or arrearage forgiveness; (2) forbid NPL buyers from unilaterally releasing liens and "walking away" from vacant properties; and (3) establish more specific proprietary loan modification standards for NPL buyers.

The new enhancements draw on the experiences of Freddie Mac and Fannie Mae with NPL sales and are consistent with current practices of most NPL investors. They are designed to minimize foreclosures, help mitigate the potential for neighborhood blight and decay, and help improve loan modification success rates.

3. Enterprise Multifamily Market Activity

In the 2016 Scorecard for Fannie Mae and Freddie Mac, FHFA set a cap on conventional multifamily originations for each Enterprise. FHFA's multifamily cap is intended to limit the presence of the Enterprises in the multifamily finance market and not impede the participation of private capital. FHFA also established a number of affordable and underserved categories that are exempt from this cap. The non-capped categories of multifamily business include deed-restricted, small multifamily, manufactured, senior, rural, energy or water efficient, and naturally occurring affordable housing. FHFA committed to review the estimates for the size of the multifamily finance market each quarter and to increase the multifamily caps, if warranted. In May 2016, FHFA announced an increase to the cap for each Enterprise from $31 billion to $35 billion. In August 2016, FHFA announced a further increase to the cap for each Enterprise to $36.5 billion.

Enterprises and Affordable Housing

Housing Goals for Mortgages Purchased by the Enterprises

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

For each of the single-family goals there is a pre-set benchmark level (e.g., 24 percent of home purchase mortgages for low-income families in 2015) and also a retrospective comparison with the corresponding goal-qualifying share of conventional, conforming mortgages originated in the primary mortgage market during the year. The retrospective measure is based on FHFA's analysis of Home Mortgage Disclosure Act data for the year. An Enterprise passes a goal if its performance exceeds either the pre-set benchmark or the retrospective market measure. Due to the lack of data on the affordability of rental units financed in the mortgage market, there is no "market comparison" for the multifamily goals. As a result, multifamily goals performance is compared only with the pre-set benchmark levels. On October 14, 2016, FHFA notified the Enterprises of their preliminary performance figures. The Enterprises have 30 days to respond. Table 4 shows FHFA's preliminary determinations for the Enterprises' housing goals performance in 2015 relative to FHFA's pre-set benchmarks and retrospective market measures.

TABLE 4: Enterprises' Housing Goals and Performance for 2015

Housing Goal Categories	2015 Benchmark	2015 Market Performance	2015 Enterprise Performance[1]	FHFA Preliminary Determination of 2015 Housing Goals Performance
Single Family Goals[2]				
Low-income home purchase	24 percent	23.6 percent	Fannie Mae: 23.5 percent Freddie Mac: 22.3 percent	Fannie Mae: Not Met Freddie Mac: Not Met
Very low-income home purchase	6 percent	5.8 percent	Fannie Mae: 5.6 percent Freddie Mac: 5.4 percent	Fannie Mae: Not Met Freddie Mac: Not Met
Low-income areas home purchase subgoal	14 percent	15.2 percent	Fannie Mae: 15.6 percent Freddie Mac: 14.5 percent	Fannie Mae: Met Freddie Mac: Met
Low-income refinance	21 percent	22.5 `percent	Fannie Mae: 22.1 percent Freddie Mac: 22.8 percent	Fannie Mae: Met Freddie Mac: Met
Multifamily Goals (Units)[3]				
Low-income Multifamily	300,000 units for each Enterprise	NA	Fannie Mae: 307,510 units Freddie Mac: 379,042 units	Fannie Mae: Met Freddie Mac: Met
Very low-income Multifamily	60,000 units for each Enterprise	NA	Fannie Mae: 69,078 units Freddie Mac: 76,935 units	Fannie Mae: Met Freddie Mac: Met
Small Property: Low-Income Units	For each Enterprise: 2015 – 6,000 units; 2016 – 8,000 units; 2017 – 10,000 units	NA	Fannie Mae: 6,731 units Freddie Mac: 12,801 units	Fannie Mae: Met Freddie Mac: Met

1 Preliminary official results as determined by FHFA in October 2016.

2 Low-income families are those with incomes no greater than 80 percent of AMI. Very low-income families are those with incomes no greater than 50 percent of AMI. The low-income areas home purchase subgoal includes mortgages on properties in low-income census tracts and loans to borrowers with incomes no greater than AMI in high-minority census tracts.

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

Struggling with Mortgage Payments?

Refinancing and loan modification options are available which may include lower monthly payments, lower interest rates and assistance to unemployed homeowners. The websites for *Fannie Mae*[1] and *Freddie Mac*[2] provide information for struggling homeowners whose loan is owned or guaranteed by the Enterprises. Further assistance is also available by calling:

888-995-HOPE (4673)

Hearing impaired: **877-304-9709 TTY**

1 *http://www.knowyouroptions.com*

2 *http://myhome.freddiemac.com/mortgage-help/assessing-situation.html*

Diversity and Inclusion

Diversity is one of FHFA's four agency values: We promote diversity in our internal practices and those of the entities we regulate.

FHFA specifically aims to include minorities and women in the Agency's workforce, contracting, and all business activities. FHFA also accomplishes this by formulating policies and developing initiatives to increase opportunities for minorities and women in hiring, promoting, and procuring goods and services at the entities it regulates.

FHFA has demonstrated steady progress in building a diverse workforce and a community of vendors that compares favorably with both federal and private sector employers.

FHFA is also actively working to advance diversity and inclusion in the business and activities of the entities it regulates.

4. Neighborhood Stabilization Initiative Expansion

On December 1, 2015, FHFA expanded the Neighborhood Stabilization Initiative to 18 metropolitan areas around the country. In these 18 new Neighborhood Stabilization Initiative areas, nonprofits and other community organizations have the exclusive opportunity to buy foreclosed properties owned by Fannie Mae or Freddie Mac before those properties are listed for sale to the general public.

5. Diversity and Inclusion

FHFA has continued to develop and issue guidance documents on advancing diversity and ensuring the inclusion of minorities, women, and individuals with disabilities and minority-, women-, and disabled-owned businesses in the business and activities of the regulated entities and the Office of Finance. In FY 2016 these activities included:

- Issuing a *Notice of Proposed Rulemaking*[6] to clarify that FHLBank directors and personnel are not precluded from conducting outreach and engaging in recruiting activities to fulfill the regulatory requirement to consider diversity when nominating and soliciting nominations for FHLBank board directorships. The proposed rule was published in the Federal Register on May 26, 2016. FHFA anticipates publication of the final rule during the first quarter of FY 2017.
- Developing a proposed rule amending the existing Minority and Women Inclusion regulations at 12 CFR part 1207 to require the regulated entities and the Office of Finance to engage in diversity and inclusion strategic planning. FHFA published the *Notice of Proposed Rulemaking*[7] in the Federal Register on October 27, 2016.
- Developing an examination protocol for evaluating the diversity and inclusion programs of the regulated entities and the Office of Finance.
- Meeting with the FHLBanks, the Office of Finance, Fannie Mae, and Freddie Mac to establish a baseline for their existing diversity and inclusion programs.

6 *https://www.federalregister.gov/documents/2016/05/26/2016-12066/technical-and-conforming-changes-and-corrections-to-fhfa-regulations*

7 *https://www.federalregister.gov/documents/2016/10/27/2016-25726/minority-and-women-inclusion-amendments*

- Issuing summary reports to all regulated entities and the Office of Finance describing information obtained through the baselining initiative.

6. FHLBanks and Affordable Housing

Affordable Housing Program

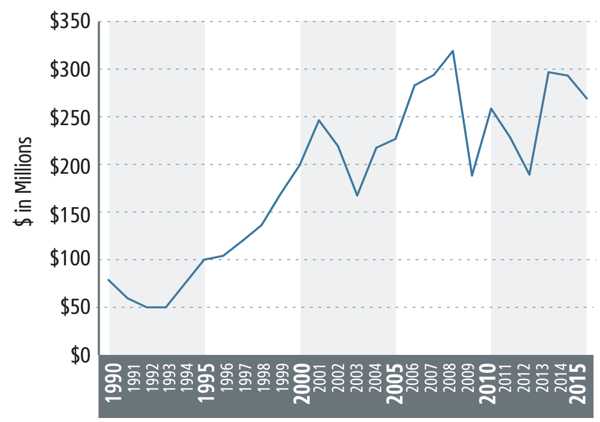
The Federal Home Loan Bank Act requires the FHLBanks to establish an AHP. The AHP consists of two components: (1) a competitive application program that provides subsidized advances and/or grants for approved projects; and (2) a homeownership, set-aside grant program designed to assist moderate-, low-, and very low-income households. In 2015, the FHLBanks allocated more than $269 million to their AHP programs for the purchase, construction, or rehabilitation of housing units nationwide. Since 1990, when the FHLBanks first awarded AHP funds, through calendar year 2015, the FHLBanks have awarded approximately $5 billion in AHP subsidies and assisted nearly 791,000 households. Figure 7 reflects FHLBanks' AHP statutory contributions for the past 25 years.

Community Investment and Community Investment Cash Advance Programs

The Community Investment Program (CIP) is an advance program for affordable housing and targeted economic development. CIP housing advances must benefit households at or below 115 percent of the area median income (AMI). CIP economic development advances must benefit low- or moderate-income households or they must benefit development located in low- and moderate-income neighborhoods. In 2015, CIP housing advances totaled approximately $3.2 billion and CIP economic development advances totaled about $60.5 million.

The Community Investment Cash Advance (CICA) Program offers low-cost, long-term advances or grants for members and housing associates, such as state and local housing finance agencies and economic development finance authorities, to finance targeted economic development projects. In 2015, the FHLBanks issued approximately $4 billion in CICA advances for community development projects such as commercial, industrial and manufacturing projects, social services, and public facilities.

FIGURE 7: The FHLBanks' AHP Statutory Contributions Since 1990



Strategic Goal 3: Manage the Enterprises' Ongoing Conservatorships

1. Managing the Conservatorships

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

FHFA uses four key approaches to manage the conservatorships of the Enterprises. First, FHFA establishes the overall strategic direction for the Enterprises in the 2014 Conservatorship Strategic Plan and in annual conservatorship scorecards. FHFA published the 2016 Scorecard on December 17, 2015. Second, FHFA delegates the day-to-day operations of the companies to their boards of directors and senior management. Third, FHFA has carved out actions that are not delegated to the Enterprises that require advance approval by FHFA. Fourth, FHFA oversees and monitors Enterprise activities.

While FHFA delegates the day-to-day operations of the companies to their boards of directors and senior management, FHFA regularly works with executive management of the Enterprises and their boards to ensure that their actions support the goals of the conservatorships. In addition to this oversight role, FHFA also works with the

Enterprises to successfully maintain a full complement of board members and Chief Executive Officers (CEOs) to oversee the implementation of conservator objectives. In FY 2016, FHFA approved four new board members at Fannie Mae.

In its role as conservator, FHFA also approves the Enterprises' administrative expenses by March 31 of each year. FHFA's budget review ensures that the Enterprises have effective budget formulation and performance monitoring, that Enterprise leadership and the Boards are appropriately engaged in the decision-making process, and that the Enterprises monitor and provide accurate, appropriate, and timely information to decision-makers. FHFA also evaluates the budgets for reasonableness both from a spending and engagement in strategic initiatives perspective. On February 8, 2016 FHFA approved the Enterprises' planned 2016 administrative expenses.

2. Common Securitization Platform

The 2016 Scorecard calls for the Enterprises and Common Securitization Solutions (CSS), a joint venture between the Enterprises, to implement Release 1 of the CSP software in 2016. Specifically, Release 1 will allow Freddie Mac to use the platform to perform activities related to its current single-class, fixed-rate securities—Participation Certificates (PCs) and Giant PCs—and certain activities related to the underlying mortgage loans. The 2016 Scorecard also calls for the Enterprises and CSS to implement Release 2 in 2018, with both Enterprises using the CSP to issue Single Securities. Release 2 will allow both Enterprises to use the Data Acceptance, Issuance Support, Disclosure, and Bond Administration modules to perform activities related to their current fixed-rate securities, both single- and multi-class; to issue Single Securities, including commingled resecuritizations; and to perform activities related to the underlying loans.

The Enterprises and CSS have also made significant progress on the following during FY 2016:

- CSP Testing—CSS has released additional versions of the CSP software to the Enterprises for testing, and the Enterprises continue to make progress with this testing. The testing involves automated data exchanges where an Enterprise sends data on pools of mortgage loans and related single-class securities to CSS and ensures that it has received valid responses from CSS. In addition, CSS has undertaken significant performance testing, which assesses the CSP's ability to handle large volumes of data and transactions in an efficient manner.
- Single Security—The Enterprises announced in July 2016 the final Single Security features and disclosures that will be used when Release 2 is complete.
- Alignment of Enterprises—FHFA continues to work with the Enterprises to develop processes for the ongoing alignment of Enterprise programs, policies, and practices as part of the Single Security initiative.

FHFA developed a ***Common Securitization Platform and Single Security Timeline***[8] of key achievements to date as well as upcoming milestones with targeted completion dates. FHFA will update the timeline as milestones are reached.

3. Credit Risk Transfer

FHFA's 2015 Scorecard required Fannie Mae to transfer credit risk transfers on reference pools of newly aquired single-family mortgages with an unpaid principal balance (UPB) of at least $150 billion, and Freddie Mac to transact credit risk on transfers refernce pools of at least $120 billion UPB during calendar year 2015. Both Enterprises not only met, but exceeded their respective goal.

The 2016 Scorecard sets the expectation that the Enterprises will transfer credit risk on at least 90 percent of the unpaid principal balance of targeted single-family mortgages acquired in 2016. Targeted loans include 30 year fixed-rate, non-HARP loans with a LTV ratio of greater than 60 percent. The Enterprises are also exploring ways to transfer credit risk on other types of single-family and multifamily mortgages outside of this "targeted loans" category.

4. Retained Portfolios

Fannie Mae and Freddie Mac reduced their retained mortgage investment portfolios appropriately and, as a result, both Enterprises met the December 31, 2015 PSPA retained portfolio cap limit of $399 billion at each Enterprise. The PSPA retained portfolio cap requires the

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

Enterprises to wind down their portfolios by 15 percent each year until they reach $250 billion by 2018.

Resource Management

1. Audit of the FHFA Financial Statements

On November 15, 2016, FHFA received an unmodified audit opinion on its FY 2016 Financial Statements from the U.S. Government Accountability Office (GAO). An independent financial audit provides reasonable assurance that an agency's financial statements are free from material misstatements. This is the eighth consecutive unmodified audit opinion that FHFA has earned. The audited financial statements are presented beginning on page 54. FHFA also publishes its performance information at *https://www.performance.gov*

2. Federal Information Security Management Act (FISMA)

In October 2016, FHFA received a FISMA Audit report with no material weaknesses or significant deficiencies. FISMA requires each federal agency to develop, document, and implement an agency-wide program to provide information security for the data and information systems that support the operations and assets of the agency, including those provided or managed by another agency, contractor, or other source.

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

The Association of Government Accountants (an independent, nonprofit, non-governmental agency) awarded FHFA the CEAR for its FY 2015 Performance and Accountability Report (PAR). This is the eighth consecutive CEAR award FHFA has received. The CEAR award is presented to agencies that have demonstrated excellence in integrating performance and accountability reporting. Only agencies with unmodified audit opinions on their financial statements, from an independent auditor, are eligible for the award. CEAR also awarded FHFA a "Best-In-Class" award for the "Best Glossary of Technical Terms."

4. Equal Employment Opportunity Standards

During FY 2016, FHFA's OMWI collaborated with Agency stakeholders to develop and formally adopt FHFA EEO Standards. As one component of the Agency's EEO program, the EEO Standards supplement and complement FHFA's existing EEO guidance and principles of equity and fairness, and set expectations that equality of opportunity will be integrated into all routine employment practices.

Summary of Performance Measures

For FY 2016, FHFA identified 24 measures to help evaluate and assess FHFA's progress toward the goals stated in its *Fiscal Years 2015–2019 Strategic Plan* FHFA met 20 of 24 performance measures. For a detailed examination of the measures, please refer to the *Performance Section* on pages 38–51. FHFA also publishes its Performance information at *https://www.performance.gov/*

TABLE 5: Summary of Performance Measures

STRATEGIC GOAL 1: Ensure Safe and Sound Regulated Entities		**FY16 Results**
Performance Goal 1.1: Assess the safety and soundness of regulated entity operations		
1.1.1	Ensure that written risk-based supervisory strategies and examination plans are in place prior to commencement of the examination cycle	**Met**
1.1.2	Deputy Director will approve Reports of Examination for regulated entities within 90 days of completing examination work	**Met**
1.1.3	Ensure a quarterly MVE-to-par ratio greater than or equal to one for each FHLBank	**Met**
1.1.4	Determine the quarterly capital classification for each FHLBank and communicate the results to the FHLBanks by the end of the following quarter	**Met**
Performance Goal 1.2: Identify risks to the regulated entities and set expectations for strong risk management		
1.2.1	Issue Advisory Bulletin to Enterprises related to operational risk management	**Met**
Performance Goal 1.3: Require timely remediation of risk management weaknesses		
1.3.1	Regulated entities complete remedial action for Matters Requiring Attention (MRAs) within agreed upon timeframes	**Not Met**
STRATEGIC GOAL 2: Ensure Liquidity, Stability, and Access in Housing Finance		**FY16 Results**
Performance Goal 2.1: Ensure liquidity in mortgage markets		
2.1.1	Require the Enterprises to implement and/or clarify selling and servicing defect remedies, including alternatives to repurchase	**Met**
2.1.2	Complete the evaluation of the Enterprises' Independent Dispute Resolution pilots for resolving disputes over alleged defects	**Met**
Performance Goal 2.2: Promote stability in the nation's housing finance markets		
2.2.1	Complete research projects	**Met**
2.2.2	Continue publication of 12 monthly and 4 quarterly FHFA House Price Indices	**Met**
Performance Goal 2.3: Expand access to housing finance for qualified financial institutions of all sizes in all geographic locations and for qualified borrowers		
2.3.1	Issue final Duty to Serve rule requiring the Enterprises to serve three underserved markets—manufactured housing, affordable housing preservation, and rural areas	**Not Met**
2.3.2	Develop and issue written guidance or a proposed rule to advance Diversity and Inclusion in the regulated entities' business activities	**Met**

STRATEGIC GOAL 3: Manage the Enterprises' Ongoing Conservatorships		FY16 Results
Performance Goal 3.1: Preserve and conserve assets		
3.1.1	Maintain a qualified board of directors and CEO for each Enterprise to oversee the implementation of FHFA as conservator objectives	**Met**
3.1.2	2016 Conservatorship Scorecard provided to the Enterprises	**Met**
3.1.3	Approve Enterprises' administrative expenses for Calendar Year 2016	**Met**
Performance Goal 3.2: Reduce taxpayer risk from Enterprise operations		
3.2.1	Oversee reduction in retained portfolios consistent with the PSPAs	**Met**
3.2.2	Oversee the implementation of two or more different types of single-family mortgage credit risk-sharing transactions	**Met**
Performance Goal 3.3: Build a new single family securitization infrastructure		
3.3.1	Finalize the Single Security structure, including features, disclosure standards, and related requirements by working with the Enterprises and CSS	**Not Met**
3.3.2	Issue a progress report on the state of the Single Security and the CSP, including a timeline for the initial implementation of the CSP	**Not Met**
3.3.3	Finalize plans for and initiate the key system testing required for implementation of the Single Security by working with the Enterprises and CSS	**Met**
RESOURCE MANAGEMENT		**FY16 Results**
RM1	FHFA's financial statements audit receives an unmodified opinion with no material weaknesses and FISMA audit receives no material weaknesses or significant deficiencies	**Met**
RM2	Increase the dollar value of FHFA contracting actions that are obligated to minority- and women-owned businesses consistent with legal standards	**Met**
RM3	Increase diversity in qualified applicant pool for new FHFA employees consistent with legal standards	**Met**
RM4	Fill active and approved FY 2016 FHFA vacancies	**Met**

Summary of Key Performance Indicators

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

For FY 2016, the following five key performance indicators have been identified to measure how well FHFA is meeting the key objectives of the Agency as outlined in the *FY 2015–2019 Strategic Plan* and the *Annual Performance Plan for FY 2016*. In FY 2016, FHFA met four out of five key performance indicators.

FY 2016 Key Performance Indicators

TABLE 6: Summary of Key Performance Indicators

STRATEGIC GOAL 1: Ensure Safe and Sound Regulated Entities		
Performance Goal 1.1: Assess the safety and soundness of regulated entity operations		
1.1.2	Deputy Director will approve Reports of Examination for regulated entities within 90 days of completing examination work	FY 2016 Target 100% of the time
	FY 2016 Results	**Met**
1.1.3	Ensure a quarterly MVE-to-par ratio greater than or equal to one for each FHLBank	FY 2016 Target 100% of the time
	FY 2016 Results	**Met**
STRATEGIC GOAL 2: Ensure Liquidity, Stability, and Access in Housing Finance		
Performance Goal 2.1: Ensure liquidity in mortgage markets		
2.1.1	Require the Enterprises to implement and/or clarify selling and servicing defect remedies, including alternatives to repurchase	FY 2016 Target FY 2016
	FY 2016 Results	**Met**
STRATEGIC GOAL 3: Manage the Enterprises' Ongoing Conservatorships		
Performance Goal 3.2: Reduce taxpayer risk from Enterprise operations		
3.2.2	Oversee the implementation of two or more different types of single-family mortgage credit risk-sharing transactions	FY 2016 Target December 31, 2015
	FY 2016 Results	**Met**
Performance Goal 3.3: Build a new single family securitization infrastructure		
3.3.1	Finalize the Single Security structure, including features, disclosure standards, and related requirements by working with the Enterprises and CSS	FY 2016 Target December 31, 2015
	FY 2016 Results	**Not Met**

Looking Ahead to FY 2017

Highlighted below are some of the ongoing efforts that FHFA will focus on in FY 2017 to fulfill the Agency's statutory responsibilities.

1. Managing Ongoing Conservatorships of Fannie Mae and Freddie Mac

One of FHFA's continuing priorities is managing the ongoing, protracted conservatorships of Fannie Mae and Freddie Mac. The Enterprises have now entered their ninth year of conservatorships, which have been unprecedented in their size, complexity, and duration. FHFA will continue to use its four-pronged approach, described earlier in this Report, to manage the Enterprises conservatorships.

As part of this approach, FHFA will continue to set the strategic direction of Fannie Mae and Freddie Mac, and the Agency is working toward publishing the 2017 Scorecard by the end of 2016. In conjunction with FHFA's 2014 Conservatorship Strategic Plan, the annual scorecard sets out FHFA's conservatorship expectations for the Enterprises.

In its role as conservator, FHFA will also continue to carry out its oversight and monitoring of Enterprise activity. This will include ongoing engagement with Enterprise executive management and their boards about Enterprise operations and initiatives. This monitoring will also include a continued focus on assessing the risks and challenges posed by the ongoing conservatorships, as well as assessing other market and financial factors that could pose risks to the Enterprises.

2. Supervising the Regulated Entities

During FY 2017, FHFA will also continue to prioritize robust, risk-based supervision of Fannie Mae, Freddie Mac, and the FHLBanks. As described earlier, this risk-based approach to supervision involves identifying existing and potential risks, evaluating overall integrity and effectiveness of the entities' system and controls, determining compliance with laws and regulations, and assessing safety and soundness. FHFA will continue to conduct on-site examinations, maintain off-site review and monitoring programs, perform risk assessments, and direct other supervisory activities during FY 2017.

In executing FHFA's risk-based approach to supervision, some of the issues that FHFA will work to address in FY 2017 are highlighted below.

Information Technology and Security

Threats to information security and the frequency and sophistication of cyber attacks are an area of focus for all financial services regulators. FHFA continues to adjust its supervision activities to address these evolving risks.

The Enterprises are managing significant IT changes as they work to develop and strengthen their IT platforms and execute conservatorship and business initiatives. FHFA will continue to oversee Enterprise efforts to enhance the resilience of their IT infrastructures. In addition, various operational and technology risks arise in connection with work by the Enterprises and their joint venture, CSS, to complete the CSP. FHFA's supervisory activities in 2017 will include examination work to assess the quality of IT risk management at the Enterprises and the CSS.

FHFA will also continue to review and update Agency guidance to the examination staff on cyber risk management. FHFA issued Advisory Bulletin 2016-04 in FY 2016 that sets forth principles that inform FHFA's supervisory expectations for the Enterprises' collection, maintenance, use, dissemination, and protection of data. In FY 2017, FHFA will assess Enterprise operations and risk management against those expectations.

Much like the Enterprises, an important risk facing the FHLBanks is the threat of cyber attacks from both external and internal sources. While no successful attacks have been launched on an FHLBank, the frequency and methods of cyber-crimes are constantly evolving and require persistent management attention. In the coming fiscal year, FHFA expects to focus its supervision of FHLBank information technology on cyber risk management. That focus may include a wide survey of FHLBank practices and procedures, off-site assessments and comparisons, as well as on-site examination work.

Governance Developments at the Regulated Entities

In 2015, FHFA finalized a regulation on corporate governance that applies to all of its regulated entities. The final regulation included provisions outlining the responsibilities of boards of directors and management for oversight of risk management functions. Risk management principles incorporated in the final regulation complement existing FHFA standards for the prudential management and operations of the regulated entities, the *Prudential Management and Operations Standards,* which FHFA issued in 2012. On October 7, 2016, FHFA also updated existing supervisory guidance on regulated entities' internal audit functions, which enable the board to perform effective oversight.

FHFA examination staff will continue to review governance at the regulated entities, including compliance with provisions of the final regulation on corporate governance and adherence to the revised guidance on internal audit. FHFA staff is also reviewing existing examination modules, advisory bulletins, and other guidance that may need updating to reflect the new rule.

Revisions to FHLBank Liquidity Guidance

The financial crisis led to financial institutions experiencing difficulty both in accessing funds in the credit markets and in converting investments held for liquidity into cash. Although the FHLBanks did not face liquidity constraints due to being able to issue large amounts of short-term debt at favorable rates, they encountered some difficulty in issuing longer-term debt. In 2009, FHFA issued liquidity guidance for the FHLBanks to supplement the Agency's existing liquidity and capital rules. During the next year the Agency expects to propose a new liquidity framework designed to ensure the FHLBanks further strengthen their ability to withstand a disruption in their ability to issue debt. The new guidelines will also consolidate all Agency regulation and guidance regarding liquidity, an action requested by the FHLBanks as part of the Agency's periodic regulatory review.

Acquired Member Assets Rulemaking for FHLBanks

On December 17, 2015, FHFA proposed amendments to the existing acquired member assets (AMA) regulation, which authorizes the FHLBanks to acquire and hold conforming and government-guaranteed or insured loans. The AMA programs are structured to share risk between the FHLBanks and their member institutions by allowing the FHLBanks to manage the interest rate risk of these loans while the participating member manages a substantial portion of the risks associated with originating the mortgage, including much of the credit risk.

In the Notice of Proposed Rulemaking, FHFA proposed to remove existing AMA regulation requirements based on ratings issued by a Nationally Recognized Statistical Ratings Organization, as required by the Dodd-Frank Wall Street Reform and Consumer Protection Act (Dodd-Frank Act). Additionally, FHFA proposed to transfer the AMA regulation from the former Federal Housing Finance Board regulations to FHFA's regulations. FHFA also proposed to reorganize the current regulation and to modify and clarify a number of provisions in the regulation, such as adding new definitions. FHFA received 65 comments on the proposed rule and expects to issue a final rule in FY 2017.

Conducting Examinations of the Regulated Entities' Diversity and Inclusion Programs

Consistent with FHFA's practice of supervising all aspects of its regulated entities' operations that are important to their success, FHFA will be examining all regulated entities' diversity and inclusion programs and activities in FY 2017. During FY 2016, the Agency developed a diversity and inclusion examination program to integrate into the Agency's existing supervision program. This included developing examiner guidance, hiring and training examiners, and establishing consistent examination methods and practices. FHFA will implement these steps during the examinations that take place during FY 2017.

3. Reaching Underserved Housing Markets

FHFA works with the Enterprises to support liquidity and access across different market segments of creditworthy borrowers and affordable rental housing. As part of this objective, FHFA is working to develop access to credit and affordable rental housing objectives to include in the Enterprises' 2017 Scorecard.

An additional aspect of this objective is implementing the "Duty to Serve" provisions included in the Housing and Economic Recovery Act of 2008. This Act establishes a requirement that the Enterprises provide leadership to facilitate a secondary market that improves the distribution of mortgage financing for very low-, low-, and moderate-income families in three specified underserved markets: manufactured housing, affordable housing preservation, and rural housing.

Under the proposed rule, which was published in December 2015, Duty to Serve credit was proposed for the following areas:

- In the manufactured housing market, Duty to Serve credit was proposed for eligible Enterprise activities related to manufactured homes financed as real property and blanket loans for certain categories of manufactured housing communities.
- In the affordable housing preservation market, Duty to Serve credit was proposed for eligible Enterprise activities related to preserving the affordability of housing for renters and homebuyers, including activities under the programs specified in the Safety and Soundness Act. Duty to Serve credit was also proposed for activities related to existing small multifamily rental properties, energy efficiency improvements on existing multifamily rental and single-family first-lien properties, shared equity homeownership programs, and the U.S. Department of Housing and Urban Development's Choice Neighborhoods Initiative and Rental Assistance Demonstration program.
- In the rural market, Duty to Serve credit was proposed for eligible Enterprise activities related to housing in rural areas, including activities serving the following high-needs rural regions and populations: Middle Appalachia, the Lower Mississippi Delta, the colonias in Texas and New Mexico, members of a Native American tribe located in a Native American area, and migrant and seasonal agricultural workers.

The proposed rule would require each Enterprise to create a three-year plan that details how the company will meet each underserved market. Under the proposed rule, each activity would encompass at least one of four components required by statute: outreach, loan products (including more flexible underwriting), loan purchases, and grants and investments. FHFA received more than 1,500 public comments on the proposed rule before the comment period closed on March 17, 2016. FHFA expects to release the final Duty to Serve rulemaking in FY 2017.

4. Preparing for the Expiration of HARP and HAMP

Many parts of the country are recovering from the 2008 housing crisis, and home values are increasing in many areas. Additionally, the number of underwater borrowers or those seriously delinquent has also been steadily decreasing. However, the market still has its challenges with some areas struggling to recover from the complexities of the downturn.

The National Mortgage Database Project

The National Mortgage Database project is a multi-year project being jointly undertaken by FHFA and the Consumer Financial Protection Bureau (CFPB). The project is designed to provide a rich source of information about the U.S. mortgage market based on a five percent sample of residential mortgages. It has two primary components: (1) the National Mortgage Database (NMDB); (2) the quarterly National Survey of Mortgage Originations,[1] which focuses on new mortgage originations; and (3) American Survey of Mortgage Borrowers, which focuses on borrowers' mortgage experiences over time.

The NMDB will enable FHFA to meet the statutory requirements of section 1324(c) of the Safety and Soundness Act, as amended by HERA, to conduct a monthly mortgage market survey. Specifically, FHFA must, through a survey of the mortgage market, collect data on the characteristics of individual mortgages, including those eligible for purchase by Fannie Mae and Freddie Mac and those that are not, and including subprime and nontraditional mortgages. In addition, FHFA must collect information on the creditworthiness of borrowers, including a determination of whether subprime and nontraditional borrowers would have qualified for prime lending.[2]

For CFPB, the NMDB project will support policymaking and research efforts and help identify and understand emerging mortgage and housing market trends. The CFPB expects to use the NMDB, among other purposes, in support of the market monitoring called for by Dodd-Frank, including understanding how mortgage debt affects consumers and for retrospective rule review required by the statute.

FHFA has established strong information security systems and protocols for the database and continues to review and evaluate its information security approach.

FHFA published three reports based on the NMDB:

- *National Mortgage Database Technical Report 15-01*, released on August 27, 2015, provides users of the NMDB data with background on the development of the database, as well as an assessment of the quality of the data;
- *National Survey of Mortgage Borrowers Technical Report 15-02*, also released on August 27, 2015, provides background details on how the National Survey of Mortgage Originations was developed; and
- *A Profile of 2013 Mortgage Borrowers: Statistics from the National Survey of Mortgage Originations Technical Report 16-01,* released on May 27, 2016, provides information about the first set of responses to the National Survey of Mortgage Originations. The survey collects information from a representative sample of recent mortgage borrowers about their experiences in choosing and in taking out a mortgage.

1 The National Survey of Mortgage Originations was originally called the National Survey of Mortgage Borrowers. The name of the survey was changed to avoid confusion with the American Survey of Mortgage Borrowers, effective May 9, 2016.

2 FHFA interprets the NMDB project as a whole, including the National Survey of Mortgage Originations, as the "survey" required by the Safety and Soundness Act. The statutory requirement is for a monthly survey. Core inputs to the NMDB, such as a regular refresh of credit-bureau data, occur monthly, though the National Survey of Mortgage Originations does not.

In an effort to help struggling homeowners and reduce the number of foreclosures during the housing downturn, FHFA and the Treasury introduced two loan programs in 2009: The Home Affordable Refinance Program (HARP); and the Home Affordable Modification Program (HAMP).

HARP and HAMP were designed to assist financially stressed homeowners by adjusting loan terms to establish a more affordable payment. HARP targets underwater homeowners who are current on their payments while HAMP is aimed at current or delinquent borrowers facing imminent default. By modifying loans to more affordable levels while reducing risk for the Enterprises, a measure of stability was brought to the national housing market. To date, HARP has helped around 3.4 million[9] homeowners and HAMP has made it possible for 1.8 million[10] homeowners to avoid foreclosure.

HAMP is set to expire on December 31, 2016, while HARP will sunset on September 30, 2017.

FHFA has redoubled its efforts to reach eligible borrowers for HARP and HAMP prior to the programs' expiration dates and has directed the Enterprises to develop post-crisis refinance and loss mitigation programs that provide borrowers who encounter challenges in the future options for managing their mortgage debt but also reduce credit risk and losses to the Enterprises.

Given the success of HARP in reducing the Enterprises' existing credit risk and providing needed liquidity in the mortgage market, the Enterprises assessed the options for a long-term streamlined refinance program. After considerable discussion, the Enterprises plan to offer an aligned streamlined refinance program starting in October 2017. This program is designed to serve underwater borrowers who are unable to refinance because their LTV exceeds the Enterprises' maximum limits for standard refinances. As was learned from HARP, removing barriers to refinancing and relying on borrowers' proven past performance on their mortgage resulted in beneficial outcomes for underwater borrowers and the Enterprises. FHFA intends for the Enterprises to build on the success of HARP for this target borrower population.

Additionally, FHFA is working closely with the Enterprises and industry participants to develop a post-HAMP modification product and a loss mitigation hierarchy that builds upon the lessons learned from the 2008 crisis.

5. Meeting Milestones to Launch the Common Securitization Platform

The Enterprises will use the CSP as the operational and technical platform through which they will issue and administer a Single Security, which has been named the Uniform MBS. An important milestone will be reached later in 2016 when CSS implements Release 1 of the CSP software that will enable Freddie Mac to use the platform. Work also continues on the implementation of Release 2 in 2018. The CSP and Single Security are significant, multiyear initiatives, and FHFA expects these interrelated projects to remain ongoing conservatorship priorities.

9 *http://www.fhfa.gov/AboutUs/Reports/ReportDocuments/Aug2016-Refi-Report.pdf*

10 *https://www.treasury.gov/initiatives/financial-stability/TARP-Programs/housing/mha/Pages/default.aspx*

Financial Summary

Analysis of Financial Statements

Overview

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

FY 2016 Financial Statements Audit

FHFA received an unmodified opinion from the GAO on its annual financial statements. GAO noted no material weaknesses or significant deficiencies in FHFA's internal controls and cited no instances of reportable noncompliance with applicable laws and regulations it tested.

FHFA's Financial Statements

The principal financial statements present FHFA's financial position (balance sheet), net cost of operations, changes in net position, and budgetary resources for FY 2016 and FY 2015. Complete financial statements and notes for FY 2016 and FY 2015 appear on pages 62– 83. Highlights are presented below.

How FHFA is Funded

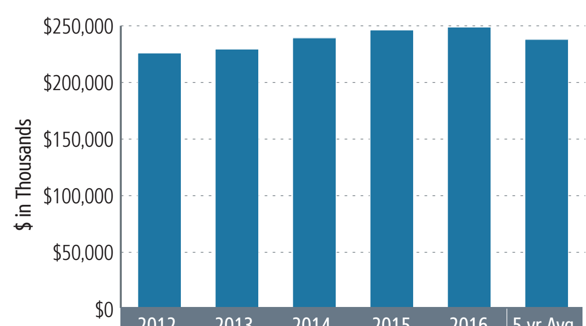
HERA authorizes FHFA to collect annual assessments from the Enterprises and the FHLBanks to cover the costs and expenses of the Agency's operations for supervision of the regulated entities and to maintain a working capital fund.

FHFA determines the total expected costs associated with regulating the Enterprises and the total expected costs associated with regulating the FHLBanks. Then, per FHFA's assessment regulation, FHFA calculates the assessments for each Enterprise by determining the proportion of each Enterprise's assets and off-balance sheet obligations to the total for both Enterprises and then applying each of the Enterprise's proportion (expressed as a percentage) to the total budgeted costs for regulating the Enterprises. FHFA calculates the assessments for each FHLBank by determining each FHLBank's share of minimum required regulatory capital as a percentage of the total minimum capital of all the FHLBanks and applying this percentage to the total budgeted costs for regulating the banks.

Assessments are collected semiannually on October 1 and April 1. FHFA collected assessments of $242.7 million during FY 2016, which included a $49.7 million assessment for costs related to the operations of the OIG. From FY 2012 to FY 2016, FHFA has maintained a relatively flat budget overall.

Assessments account for approximately 98 percent of Agency revenues. Other sources of revenue include reimbursable agreements with other federal agencies, interest on overnight investments, employee reimbursements, and Freedom of Information Act fees. Revenue, from FY 2012 to FY 2016, has not deviated more than five percent annually from its five-year average (see Figure 8).

FIGURE 8: Trend in Revenue, FY 2012–FY 2016

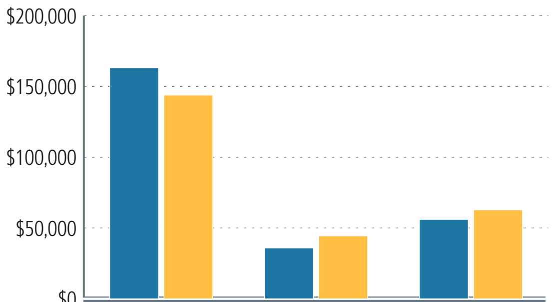


	2012	2013	2014	2015	2016	5 yr Avg
Revenue	$225,933	$229,390	$239,258	$246,266	$248,838	$237,937

How FHFA Uses its Funds

FHFA regulates Freddie Mac, Fannie Mae, 11 FHLBanks and the Office of Finance. In addition, FHFA is the conservator of the Enterprises. FHFA tracks program costs to the strategic goals developed for FHFA's 2015-2019 Strategic Plan. These strategic goals—(1) ensure safe and sound regulated entities; (2) ensure liquidity, stability, and access in housing finance; and (3) manage the Enterprises' ongoing conservatorships—guide program offices in carrying out FHFA's mission. FHFA has a Resource Management Strategy, which is distributed proportionately to strategic goals 1–3 based on the percentage of direct costs of each goal to the total direct costs for FHFA. FHFA OIG costs are allocated to FHFA's Resource Management Strategy. The distribution of FHFA's gross costs by strategic goal for FY 2016 and FY 2015 is presented in Figure 9.

FIGURE 9: Gross Costs by Strategic Goal FY 2016–FY 2015



	Safety and Soundness	Liquidity, Stability, and Access	Conservatorship
FY 2016	$163,113	$35,825	$56,040
FY 2015	$143,878	$44,353	$62,818

Safety and Soundness is FHFA's FY 2016 largest program area at $163.1 million or 64 percent of total gross costs as compared to 57 percent in FY 2015. As regulator of the FHLBank System and regulator and conservator of the Enterprises, FHFA promotes safe and sound operations at the regulated entities through the Agency's supervisory program. FHFA uses a risk-based approach to conducting supervisory examinations, which prioritizes examination activities based on the risk a given practice poses to a regulated entity's safe and sound operation or to its compliance with applicable laws and regulations. FHFA conducts on-site examinations at the regulated entities, ongoing risk analysis, and off-site review and monitoring. In addition, FHFA communicates supervisory standards to the regulated entities, establishes expectations for strong risk management, identifies risks and requires remediation of identified deficiencies.

The next largest program area is Managing the Conservatorships at $56.0 million or 22 percent of total gross costs (FY 2015 total was 25 percent). FHFA is focused on managing the Enterprises' ongoing conservatorships to preserve and conserve the assets of the Enterprises for the benefit of the taxpayers, reduce taxpayer risk from Enterprise operations, and build a new single-family securitization infrastructure for the Enterprises. Note that day to day operations are delegated to the Enterprise management and the Boards of Directors.

Liquidity, Stability, and Access is the third largest program area at $35.8 million or 14 percent of total gross costs (FY 2015 total was 18 percent). For both FHLBank System and the Enterprises, FHFA has the statutory obligation to foster "liquid, efficient, competitive, and resilient national housing finance markets," while ensuring that the regulated entities meet their fundamental safety and soundness obligations. To achieve these goals, FHFA will work to ensure liquidity and promote stability in the housing finance markets and expand access to housing finance to all qualified financial institutions and credit-worthy borrowers.

Financial Statement Summary—Overview of Financial Position as of September 30

The Balance Sheet presents, at the end of the fiscal year, the recorded value of assets and liabilities retained or managed by FHFA. The difference between the assets and liabilities represents FHFA's net position. From FY 2014 to FY 2016, the balance sheet has remained fairly stable as displayed in Table 7.

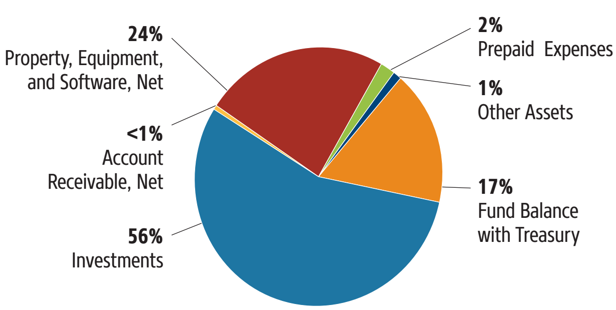
TABLE 7: Condensed Balance Sheets

Condensed Balance Sheets *(dollars in thousands)*				
	FY 2016	FY 2015	FY 2014	Percent Change
Total Assets	$ 106,557	$ 105,566	$ 108,315	-2%
Total Liabilities	$ 54,647	$ 53,063	$ 56,392	-3%
Total Net Position	$ 51,910	$ 52,503	$ 51,923	0%

Assets

For FY 2016, key assets include: Investments (56 percent), Property, Equipment and Software, Net (24 percent) and Fund Balance with Treasury (17 percent). FHFA's investment portfolio included semi-annual assessment payments from our regulated entities and a working capital fund. FHFA invested in one-day certificates issued by the Treasury to efficiently use idle funds with minimum risk (see Figure 10).

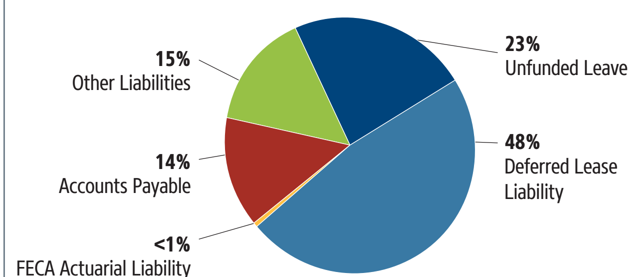
FIGURE 10: Distribution of Total Assets for FY 2016



Liabilities

The major liabilities include Deferred Lease Liability (48 percent) and Unfunded Leave (23 percent). The Deferred Lease Liability consists of deferred rent and the Constitution Center tenant allowance (the unamortized portion of the tenant allowance granted to FHFA at the inception of the lease). Deferred rent is the difference at year-end between the sum of monthly cash disbursement paid to date for rent and the sum of average monthly rent calculated based on the term of the lease. This determination and recording of deferred rent is applicable to the lease agreements on the properties at 400 7th Street SW Constitution Center (Washington, D.C.), 1625 Eye Street NW (Washington, D.C.), and 5080 Spectrum Drive (Dallas, Texas). The other major liability area, Unfunded Leave, amounted to approximately $12.4 million (see Figure 11).

FIGURE 11: Distribution of Total Liabilities for FY 2016



Limitations of the Financial Statements

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

Analysis of Systems, Controls and Legal Compliance

Management Assurances

Federal Managers' Financial Integrity Act

During FY 2016, FHFA adhered to the internal control requirements of the Federal Managers' Financial Integrity Act (FMFIA) and the guidance provided by OMB Circular A-123. FHFA's Executive Committee on Internal Controls (ECIC) met quarterly to oversee internal controls and provide recommendations to the FHFA Director on the effectiveness of FHFA's internal controls.

In 2016, the ECIC members were:

- The Acting Chief Operating Officer who served as the Chairman;
- The Chief Financial Officer who served as the Vice-Chairman;
- The Chief Information Officer;
- The Deputy Director of DOC;
- The Deputy Director of DBR;
- The Deputy Director of DER;
- The Deputy Director of DHMG;
- A representative from the Office of the Director;
- The Director of OMWI;
- The Senior Associate Director of the Office of Congressional Affairs and Communications; and
- The General Counsel.

The ECIC also coordinated with the divisions and offices to establish assessment teams to assess the internal controls.

During FY 2016, pursuant to the obligations and spirit of OMB Circular A-123, FHFA monitored and assessed the following areas:

Reliability over Financial Reporting

FHFA's Office of Budget and Financial Management (OBFM) assessed the Agency's financial reporting controls using a risk-based approach.

Reliability over Non-Financial Reporting

Assessment teams from FHFA divisions and offices reviewed controls over a sample of reports using guidance from the *GAO Standards for Internal Control in the Federal Government*[11] (Green Book). Division management officials and OBFM reviewed the completed assessments.

Compliance with Laws and Regulations

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

Effectiveness and Efficiency of Operations

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

The ECIC reviewed documentation from all four areas. In compliance with the FMFIA requirements, the FHFA Director, on the basis of a recommendation from the ECIC, provided reasonable assurance that internal controls over the effectiveness and efficiency of operations, compliance with applicable laws and regulations, and non-financial and financial reporting as of September 30, 2016 were operating effectively and that no material weaknesses were found in the design or operation of the internal controls.

To ensure compliance with the internal control requirements of FMFIA and OMB Circular A-123, the FHFA OIG has maintained an ECIC, which is chaired by the Deputy Inspector General (IG) for Internal Controls and includes members that constitute a senior assessment team that assesses internal controls. The assessment team includes the Associate IGs, Chief Counsel, all Deputy Inspectors General, and the Budget and Finance Director. The Office of Counsel, under the Chief Counsel's direction, is FHFA OIG's principal authority on legal matters pertaining to FHFA OIG activities, duties, and authorities, and therefore works to ensure that all FHFA OIG activities are conducted in accordance with applicable legal requirements. FHFA OIG has also developed rules, policies, and procedures

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

to ensure its full compliance with such requirements and no FHFA OIG office reported any substantive deviations therefrom. Based on these facts and the risk profiles and internal control assessments completed by each FHFA OIG office, the FHFA OIG ECIC members determined that the FHFA OIG's A-123 efforts provide reasonable assurance that FHFA OIG complies in all material respects with applicable laws and regulations. Therefore, the FHFA OIG ECIC recommended that the IG sign an assurance statement to the FHFA Director recommending an unqualified statement of assurance relative to the three areas assessed by the FHFA OIG: internal control over financial reporting, effectiveness and efficiency of operations, and compliance with laws and regulations.

Federal Management Information Systems and Strategy

Section 1316(g)(3) of the Safety and Soundness Act requires FHFA to implement and maintain financial management systems that comply substantially with federal financial management systems requirements, applicable federal accounting standards, and the U.S. Government Standard General Ledger at the transaction level. FHFA, including FHFA OIG, uses the Bureau of the Fiscal Services for its accounting services and that Agency's financial management system (FMS) which includes (1) a core accounting system—Oracle Federal Financials; (2) four feeder systems—Procurement Request Information System Management, Concur (travel), Invoice Processing Platform (payments), and Citidirect (charge card); (3) a reporting system—Discoverer; and (4) an inventory tracking system. FHFA is responsible for overseeing the Bureau of the Fiscal Services' performance of accounting services for the Agency. A financial oversight document outlines the assignment of activities between FHFA and the Bureau of the Fiscal Services. FMS includes manual and automated procedures and processes from the initiation of a transaction to the issuance of financial reports. FMS meets the requirements of Safety and Soundness Act Section 1316 (g) (3). FHFA also uses the Interior Business Center (a service provider within the Department of Interior) and the National Finance Center (a service provider within the Department of Agriculture) for its payroll and personnel processing. FHFA has streamlined accounting processes by electronically interfacing data from charge cards, investment activities, the Concur travel system, the procurement system, the Invoice Processing Platform payments system, the Interior Business Center payroll system, and the National Finance Center payroll system to FMS.

Federal Information Security Management Act

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

FHFA OIG contracted with an independent external audit firm to conduct an independent evaluation of FHFA's Information Security Program and practices as a performance audit under Generally Accepted Government Auditing Standards. Specifically, the objectives of the audit were to evaluate the effectiveness of FHFA's Information Security Program and practices and respond to the Department of Homeland Security's (DHS) FY 2016 IG FISMA Reporting Metrics. The audit methodology included testing a subset of FHFA's systems for compliance with selected controls from the National Institute of Standards and Technology's (NIST) Special Publication (SP) 800-53, Revision (Rev.) 4, *Security and Privacy Controls for Federal Information Systems and Organizations*.

The audit concluded that FHFA's Information Security Program was compliant with the FISMA legislation and applicable OMB guidance and that sampled security controls from NIST SP 800-53 demonstrated operating effectiveness. The auditors did not issue any audit findings and found that FHFA had sound controls for its Information Security Program. The auditors also determined that FHFA resolved three of three prior-year (FY 2015) FISMA recommendations and one of three FY 2014 FISMA recommendations.

The FHFA OIG operates its own network, systems and related information security programs that are independent from those of the Agency. The FHFA OIG conducted an independent evaluation of its information security program.

This evaluation was performed by the independent external audit firm as well. For the FHFA OIG information security program, the external auditor concluded that the FHFA OIG's Information Security Program is generally compliant with the FISMA legislation and applicable OMB guidance and that sampled security controls from NIST SP 800-53 demonstrated operating effectiveness. The independent external auditor found that the FHFA OIG generally had sound controls for its Information Security Program and has implemented security controls in all eight DHS IG FISMA Reporting Metrics. In response to prior FISMA audits, it was noted that the FHFA OIG has made multiple positive improvements to the Program including updates to the Contingency Planning and Security Awareness and Training policies, procedures, and practices. The report identified one control area where the FHFA OIG's Information Security Program can better protect the confidentiality, integrity, and availability of its information and information systems. During FY 2016, the FHFA OIG successfully remediated the one remaining open control deficiency noted in the FY 2013 FISMA audit, one matter for consideration and five of five recommendations from FY 2015 FISMA audit.

The corrective actions taken by the FHFA and the FHFA OIG will be reviewed and verified by the auditor during the FY 2017 FISMA audits. The independent external auditor concluded that there were no significant deficiencies for the FHFA and FHFA OIG information security programs.

Cybersecurity Act of 2015 Audit

The Cybersecurity Act of 2015 directs Inspectors General to evaluate the effectiveness of agency's information security procedures and practices with an emphasis on implementation of privacy controls of cover systems. Covered systems are federal computer systems that provide access to personally identifiable information (PII). IGs are required to submit a report to the U.S. Congress, which includes the following information collected from the agency:

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

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

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

Prompt Pay

The Prompt Payment Act requires federal agencies to make timely payments to vendors and improve the cash management practices of the government by encouraging the use of discounts when they are justified. This also means that FHFA must pay its bills within a narrow window of time. In FY 2016, the dollar amount subject to prompt payment was $68.5 million. The amount of interest penalty paid in FY 2016 was $235.

Charge Card Abuse Prevention

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

FHFA, as part of a sound internal control structure, has established controls to prevent waste, fraud and abuse of the Government-wide charge card. FHFA provides OMB an annual Charge Card Management Plan, Charge Card Narrative, and Performance Metrics Report. Additionally, FHFA has documented charge card procedures.

FHFA Audits and Evaluations

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

FHFA's OIG is the primary evaluator of FHFA. FHFA is also periodically subjected to other agencies' scrutiny, including GAO, the U.S. Office of Government Ethics, and the Federal Emergency Management Agency, as well as other offices within FHFA (*e.g.*, Office of Quality Assurance). The OIG also issues an annual assessment of FHFA's Management and Performance challenges. This is presented in the ***Other Information*** section of this PAR, on pages 84–107

In FY 2016, FHFA responded to 21 OIG audits and evaluations/reviews, and 3 GAO reports, which are listed below.

TABLE 8: Audits and Evaluations

OIG Evaluations/Reviews/Audits			
1	COM-2016-001	*Compliance Review of FHFA's Implementation of Its Procedures for Overseeing the Enterprises' Single-Family Mortgage Underwriting Standards and Variances*	December 17, 2015
2	EVL-2016-001	*Utility of FHFA's Semi-Annual Risk Assessments Would be Enhanced Through Adoption of Clear Standards and Defined Measures of Risk Levels*	January 4, 2016
3	AUD-2016-001	*FHFA Should Improve its Examinations of the Effectiveness of the Federal Home Loan Banks' Cyber Risk Management Programs by Including an Assessment of the Design of Critical Internal Controls*	February 29, 2016
4	COM-2016-002	*Compliance Review of FHFA's Oversight of Enterprise Executive Compensation Based on Corporate Scorecard Performance*	March 17, 2016
5	AUD-2016-002	*Review of FHFA's Tracking and Rating of the 2013 Scorecard Objective for the New Representation and Warranty Framework Reveals Opportunities to Strengthen the Process*	March 28, 2016
6	ESR-2016-002	*FHFA's Oversight of the Enterprises' Implementation of and Compliance with Conservatorship Directives during an 18-Month Period*	March 28, 2016
7	EVL-2016-003	*FHFA Should Map Its Supervisory Standards for Cyber Risk Management to Appropriate Elements of the NIST Framework*	March 28, 2016
8	EVL-2016-004	*FHFA's Examiners Did Not Meet Requirements and Guidance for Oversight of an Enterprise's Remediation of Serious Deficiencies*	March 29, 2016
9	EVL-2016-005	*FHFA's Supervisory Standards for Communication of Serious Deficiencies to Enterprise Boards and for Board Oversight of Management's Remediation Efforts are Inadequate*	March 31, 2016
10	EVL-2016-006	*Corporate Governance: Cyber Risk Oversight by the Fannie Mae Board of Directors Highlights the Need for FHFA's Closer Attention to Governance Issues*	March 31, 2016
11	AUD-2016-003	*FHFA Complied with Applicable Improper Payment Requirements During Fiscal Year 2015*	May 05, 2016
12	COM-2016-003	*FHFA's Implementation of Its Automated System to Track Deficiencies Identified in Federal Home Loan Bank Examinations*	May 26, 2016
13	COM-2016-004	*Management Alert: Need for Increased Oversight by FHFA, as Conservator of Fannie Mae, of the Projected Costs Associated with Fannie Mae's Headquarters Consolidation and Relocation Project*	June 16, 2016
14	EVL-2016-007	*FHFA's Inconsistent Practices in Assessing Enterprise Remediation of Serious Deficiencies and Weaknesses in its Tracking Systems Limit the Effectiveness of FHFA's Supervision of the Enterprises*	July 14, 2016
15	EVL-2016-008	*FHFA's Failure to Consistently Identify Specific Deficiencies and Their Root Causes in Its Reports of Examination Constrains the Ability of the Enterprise Boards to Exercise Effective Oversight of Management's Remediation of Supervisory Concerns*	July 14, 2016

OIG Evaluations/Reviews/Audits			
16	EVL-2016-009	*FHFA Failed to Consistently Deliver Timely Reports of Examination to the Enterprise Boards and Obtain Written Responses from the Boards Regarding Remediation of Supervisory Concerns Identified in those Reports*	July 14, 2016
17	COM-2016-005	*Compliance Review of FHFA's Implementation of its Consumer Communications Procedures*	July 14, 2016
18	AUD-2016-004	*Kearney & Company, P.C.'s Results of the Federal Housing Finance Agency's Cybersecurity Act Audit*	August 11, 2016
19	AUD-2016-005	*FHFA's Supervisory Planning Process for the Enterprises: Roughly Half of FHFA's 2014 and 2015 High-Priority Planned Targeted Examinations Did Not Trace to Risk Assessments and Most High-Priority Planned Examinations Were Not Completed*	September 30, 2016
20	AUD-2016-006	*FHFA's Targeted Examinations of Fannie Mae: Less than Half of the Targeted Examinations Planned for 2012 through 2015 Were Completed and No Examinations Planned for 2015 Were Completed Before the Report of Examination Issued*	September 30, 2016
21	AUD-2016-007	*FHFA's Targeted Examinations of Freddie Mac: Just Over Half of the Targeted Examinations Planned for 2012 through 2015 Were Completed*	September 30, 2016
GAO Evaluations			
1	GAO-16-95R	*Federal Housing Finance Agency's FYs 2015 and 2014 Financial Statements*	November 16, 2015
2	GAO-16-169	*Dodd-Frank Regulations: Impacts on Community Banks, Credit Unions and Systemically Important Institutions*	December 30, 2015
3	GAO-16-278	*Nonbank Mortgage Servicers: Existing Regulatory Oversight Could Be Strengthened*	March 10, 2016

Management Report on Final Actions

As required under amended Section 5 of the Inspector General Act of 1978, FHFA must report information on final action taken by management on certain audit reports. The tables below (Tables 9, 10, and 11) provide information on final action taken by management on audit reports for FY 2016.

TABLE 9: Management Report on Final Action on Audits with Disallowed Costs for FY 2016

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

TABLE 10: Management Report on Final Action on Audits with Recommendations to Put Funds to Better Use for FY 2016

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

Management Action in Process

TABLE 11: Audit Reports without Final Actions But with Management Decisions over One Year Old for FY 2016

Report No. and Issue Date	Recommendation	Management Action
FHFA FISMA Report (AUD-2014-019), Issued 9/26/2014	There are two recommendations. These two recommendations are multiyear projects.	Actions are expected to be completed by September 30, 2017.

FHFA Statement of Assurance

Federal Housing Finance Agency
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October 14, 2016

Federal Managers' Financial Integrity Act
Statement of Assurance
Fiscal Year 2016

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

FHFA conducted its assessment of internal control over the effectiveness and efficiency of operations and compliance with applicable laws and regulations in accordance with the Office of Management and Budget's *OMB Circular A-123 - Management's Responsibility for Enterprise Risk Management and Internal Control* (Circular A-123). Based on the results of this evaluation, FHFA can provide reasonable assurance that its internal controls over the effectiveness and efficiency of operations, non-financial reporting, and compliance with applicable laws and regulations as of September 30, 2016 were operating effectively and that no material weaknesses were found in the design or operation of the internal controls.

In addition, FHFA conducted its assessment of the effectiveness of internal controls over financial reporting, which includes safeguarding of assets and compliance with applicable laws and regulations, using a risk based approach adapted from Appendix A of Circular A-123. Based on the results of this evaluation, FHFA can provide reasonable assurance that its internal controls over financial reporting as of September 30, 2016 were operating effectively and no material weaknesses were found in the design and operation of the internal controls over financial reporting.

FHFA also conducted a review of its financial management system in the spirit of compliance with Appendix D of Circular A-123. Based on the results of this review, FHFA can provide reasonable assurance that its financial management systems substantially complied with the requirements for federal financial management systems as of September 30, 2016.

Melvin L. Watt
Director

Non-Public

PERFORMANCE SECTION

- Performance Planning and Reviews
- Validation and Verification of Performance Data
- Strategic Goal 1: Ensure Safe and Sound Regulated Entities
- Strategic Goal 2: Ensure Liquidity, Stability, and Access in Housing Finance
- Strategic Goal 3: Manage the Enterprises' Ongoing Conservatorships
- Resource Management

The Performance Section provides information on the 24 performance measures established in the Agency's Annual Performance Plan (APP) for FY 2016. These performance measures align with the strategic goals outlined in FHFA's *Strategic Plan for Fiscal Years 2015–2019*, and include several resource management performance measures. Figure 12 outlines the hierarchy of those goals and measures.

FIGURE 12: FHFA Goal Hierarchy

The Performance Section includes:

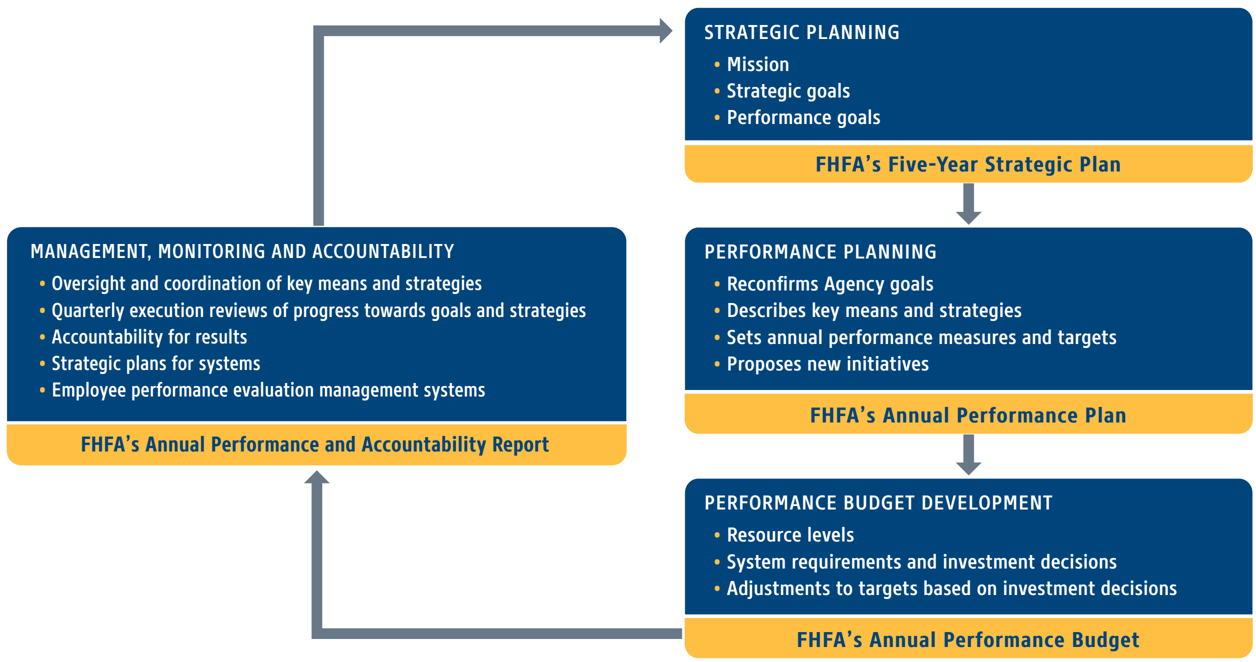
- An overview of FHFA's performance planning and validation processes; and
- An overview of the Agency's strategic and performance goals, including a discussion of the outcomes for FHFA's performance measures in FY 2016.

Performance Planning and Reviews

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

During FY 2016, senior executives submitted quarterly reports on the progress made toward achieving performance measures and targets for which they were accountable. The Agency used these quarterly reports as the basis for developing this section of the PAR. These reports were reviewed by FHFA's leadership and analyzed throughout the year to monitor progress toward achieving planned performance levels. See Figure 13 for an outline of FHFA's performance planning and review process.

FIGURE 13: FHFA's Performance Planning and Review Process



Validation and Verification of Performance Data

To ensure that the information reported in FHFA's FY 2016 PAR is complete and reliable, FHFA identifies and verifies the sources of data used to assess performance measures. Each office or division collects measurement data and reports it in the Agency's performance tracking system. The reports are reviewed each quarter by the Agency's senior executive leadership. Additionally, FHFA staff documents the procedures used to obtain and validate the data to ensure the accuracy of the information.

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

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

Strategic Goal 1: Ensure Safe and Sound Regulated Entities

As regulator of the FHLBank System and regulator and conservator of the Enterprises, FHFA promotes safe and sound operations at the regulated entities through the Agency's supervisory program. FHFA uses a risk-based approach to conduct supervisory examinations that prioritizes examination activities based on the risk a given practice poses to a regulated entity's safe and sound operation or its compliance with applicable laws and regulations.

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

PERFORMANCE GOAL 1.1: Assess the Safety and Soundness of Regulated Entity Operations		FY 2013	FY 2014	FY 2015	FY 2016 Target	FY 2016 Results
1.1.1	Ensure that written risk-based supervisory strategies and examination plans are in place prior to commencement of the examination cycle	Not Met	Met	Met	100% of the time	**Met**
1.1.2	Deputy Director will approve Reports of Examination for regulated entities within 90 days of completing examination work	N/A	Met	Not Met	100% of the time	**Met**
1.1.3	Ensure a quarterly MVE-to-par ratio greater than or equal to one for each FHLBank	N/A	Met	Met	100% of the time	**Met**
1.1.4	Determine the quarterly capital classification for each FHLBank and communicate the results to the FHLBanks by the end of the following quarter	N/A	Met	Met	100% of the time	**Met**

Performance Results

Measure 1.1.1

A supervisory plan for each of the regulated entities was developed based on prior supervisory work and FHFA's assessment of emerging risks and new activities at each entity. Risk-based examinations focus FHFA resources on areas of greatest risk.

FHFA held planning meetings in November and December 2015. The FY 2016 supervisory strategy and the examination plan, which outlines targeted examinations for each Enterprise in the coming year, were approved in February 2016, prior to commencement of 2016 targeted examinations activities.

Supervisory strategies and scope memoranda were in place prior to the start of the examinations for each FHLBank's on-site annual examination.

Measure 1.1.2

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

The Freddie Mac ROE and Fannie Mae ROE were approved, finalized, and issued to the Enterprises in March 2016, which was within 90 days of completing examination work.

FHFA sends each FHLBank an ROE following its examination. All ROEs sent to the FHLBanks during FY 2016 were approved within 90 days of the respective FHLBanks' respective examination exit meeting.

Measure 1.1.3

The MVE to Par Value of Capital Stock ratio provides an indicator of each FHLBank's condition. A ratio of 1.0 or above is desirable as it reflects an FHLBank's ability to repurchase or redeem its capital stock at par without detriment to the remaining shareholders. For every quarter of FY 2016, all FHLBanks reported that their respective MVE was greater than the par value of their capital stock.

Measure 1.1.4

During each quarter of FY 2016, FHFA determined each FHLBank's capital classification for the prior quarter and communicated it to each Bank. These communications were made via letter and were in accordance with Subpart A of Part 1229 of FHFA's rule, *Capital Classifications and Prompt Corrective Action* All FHLBanks were adequately capitalized during the fiscal year.

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

PERFORMANCE GOAL 1.2: Identify risks to the regulated entities and set expectations for strong risk management		FY 2013	FY 2014	FY 2015	FY 2016 Target	FY 2016 Results
1.2.1	Issue Advisory Bulletin to Enterprises related to operational risk management	N/A	N/A	N/A	FY 2016	**Met**

Performance Results

Measure 1.2.1

On September 29, 2016, FHFA issued an Advisory Bulletin on Enterprise data management. Advisory Bulletin 2016-04 communicates FHFA's supervisory expectations for data management, including governance, architecture, quality, and security to the Enterprises.

Performance Goal 1.3: Require timely remediation of risk management weaknesses

PERFORMANCE GOAL 1.3: Require timely remediation of risk management weaknesses		FY 2013	FY 2014	FY 2015	FY 2016 Target	FY 2016 Results
1.3.1	Regulated entities complete remedial action for MRAs within agreed upon timeframes	N/A	N/A	Met	90% of the time	**Not Met**

Performance Results

Measure 1.3.1

Where there is a significant supervisory concern or violation of law or regulation by one of the regulated entities, FHFA may issue an MRA that requires the board of directors and/or management to take corrective action to address deficiencies and violations. FHFA tracks the remediation of MRAs to ensure that the regulated entity has addressed the supervisory concern or violation of law or regulation. FHFA follows different processes for the closure of MRAs at the Enterprises and the FHLBanks.

The Enterprises begin addressing MRAs by submitting proposed remediation plans to FHFA for review and non-objection. Each non-objected remediation plan includes a timeframe for completion that provides for completion either within the fiscal year the MRA was issued or beyond. Enterprise management executes the actions required in the remediation plan and submits documentation to the Enterprises' internal audit function for validation.

For all MRAs for which each Enterprise's internal audit function validates completion, FHFA reviews the Enterprise's actions and the internal audit function's validation to determine whether the Enterprise has satisfactorily addressed the MRA pursuant to a non-objected plan and within agreed upon timeframes.

In total for the fiscal year, FHFA determined that 100 percent of the MRAs that had been both validated by each Enterprises' internal audit functions and reviewed by FHFA had been satisfactorily addressed.[12]

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

Consistent with FHFA's annual examination cycle for the FHLBanks, FHFA completes its review of FHLBank compliance with all MRAs in the quarter following the on-site annual examination for each FHLBank. During this review, FHFA determines whether MRAs outstanding prior to the examination were addressed by the FHLBank within agreed upon timeframes or if the FHLBank is sufficiently on track to address them within the established remediation plan.

At FHLBank examinations during FY 2016, FHFA followed up on outstanding MRAs to determine whether the FHLBanks had remediated them or if they were making progress according to their remediation plan. In total for the fiscal year, 84 percent of MRAs passed FHFA's assessment, below the target rate of 90 percent. Atypically weak remediation rates at a small group of FHLBanks led to the failure to achieve the measure. In many cases, the FHLBanks partially completed remediation. FHFA will continue to ensure the FHLBanks address FHFA's concerns communicated through the MRA and overall supervisory process.

12 Enterprise MRA closures are recorded for performance measure purposes in the fiscal year in which FHFA reviews the closure package and communicates its determination.

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

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

Performance Goal 2.1: Ensure liquidity in mortgage markets

PERFORMANCE GOAL 2.1: Ensure liquidity in mortgage markets		FY 2013	FY 2014	FY 2015	FY 2016 Target	FY 2016 Results
2.1.1	Require the Enterprises to implement and/or clarify selling and servicing defect remedies, including alternatives to repurchase	N/A	N/A	N/A	FY 2016	**Met**
2.1.2	Complete the evaluation of the Enterprises' independent dispute resolution pilots for resolving disputes over alleged defects	N/A	N/A	N/A	FY 2016	**Met**

Performance Results

Measure 2.1.1

Fannie Mae published ***Selling Announcement 2015–11*** in October 2015 to clarify origination defects and remedies and a ***Servicing Announcement 2015–15*** in December 2015 to address servicing defects and remedies. Likewise, Freddie Mac published ***Bulletin 2015–17*** in October 2015 to discuss origination defects and remedies and ***Bulletin 2015–22*** in December 2015 to clarify servicing defects and remedies. Each of these announcements focused on alternative remedies to repurchase.

Measure 2.1.2

The Enterprises revised the independent dispute resolution program design based on an assessment of pilot performance and announced the launch of this program on February 2, 2016.[13]

13 *http://www.fhfa.gov/Media/PublicAffairs/Pages/FHFA-Fannie-and-Freddie-Announce-IDR-Program.aspx*

Performance Goal 2.2: Promote stability in the nation's housing finance markets

PERFORMANCE GOAL 2.2: Promote stability in the nation's housing finance markets	FY 2013	FY 2014	FY 2015	FY 2016 Target	FY 2016 Results
2.2.1 Complete research projects	N/A	N/A	Met	As specified on FHFA's approved research agenda	**Met**
2.2.2 Continue publication of 12 monthly and 4 quarterly FHFA House Price Indices	N/A	N/A	Met	FY 2016	**Met**

Performance Results

Measure 2.2.1

FHFA completed four research projects that were outlined in the approved research agenda during FY 2016. These research papers are posted on FHFA's website:

1. *Working Paper 16-01—Local House Price Dynamics: New Indices and Stylized Facts* (published 4/12/2016);
2. *Working Paper 16-02: Local House Price Growth Accelerations* (published 6/24/2016);
3. *Working Paper 16-03: Oil Prices and Urban Housing Demand* (published 9/16/2016); and
4. *Working Paper 16-04: Missing the Mark: House Price Index Accuracy and Mortgage Credit Modeling* (published 9/27/2016).

Measure 2.2.2

In FY 2016, FHFA publically released a monthly HPI, four of which contained a quarterly update.

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

PERFORMANCE GOAL 2.3: Expand access to housing finance for qualified financial institutions of all sizes in all geographic locations and for qualified borrowers		FY 2013	FY 2014	FY 2015	FY 2016 Target	FY 2016 Results
2.3.1	Issue final Duty to Serve rule requiring the Enterprises to serve three underserved markets—manufactured housing, affordable housing preservation, and rural housing	N/A	N/A	N/A	Issue Final Rule in FY 2016	**Not Met**
2.3.2	Develop and issue written guidance or a proposed rule to advance Diversity and Inclusion in the regulated entities' business activities	N/A	N/A	N/A	FY 2016	**Met**

Performance Results

Measure 2.3.1

FHFA did not publish the final Duty to Serve rule during FY 2016, and this objective is now included as a performance measure for FY 2017. The rule is expected to be completed in FY 2017.

Measure 2.3.2

FHFA issued a Notice of Proposed Rulemaking to clarify that FHLBank directors and personnel are not precluded from conducting outreach or engaging in recruiting activities to fulfill the regulatory requirement to consider diversity when nominating and soliciting nominations for board directorships. The proposed rule was published in the Federal Register during the third quarter of FY 2016.

Strategic Goal 3: Manage the Enterprises' Ongoing Conservatorships

Since 2008, FHFA has served as conservator of Fannie Mae and Freddie Mac. Strategic Goal 3 is focused on managing the Enterprises' ongoing conservatorships to preserve and conserve the assets of the Enterprises for the benefit of taxpayers, reduce taxpayer risk from Enterprise operations, and build a new single-family securitization infrastructure for the Enterprises.

Performance Goal 3.1: Preserve and Conserve Assets

Performance Goal 3.1: Preserve and Conserve Assets		FY 2013	FY 2014	FY 2015	FY 2016 Target	FY 2016 Results
3.1.1	Maintain a qualified board of directors and CEO for each Enterprise to oversee the implementation of conservator objectives	N/A	N/A	Met	95% of vacancies filled within 120 days	**Met**
3.1.2	2016 Conservatorship Scorecard provided to the Enterprises	N/A	N/A	Met	December 31, 2015	**Met**
3.1.3	Approve Enterprises' administrative expenses for Calendar Year 2016	N/A	N/A	N/A	March 31, 2016	**Met**

Performance Results

Measure 3.1.1

In FY 2016, FHFA approved the election of four new Fannie Mae board members when three board members retired, increasing the total number of Fannie Mae board members from 11 to 12. The new board members were approved within 120 days of the departure of the existing board members. The number and composition of the Freddie Mac board of directors remained the same at 13 members.

Measure 3.1.2

FHFA provided the Enterprises and their joint venture, CSS, with the finalized *2016 Scorecard* on December 17, 2015. The annual conservatorship scorecard sets goals for the Enterprises to implement the *2014 Conservatorship Strategic Plan* Providing the Scorecard to the Enterprises and CSS in a timely manner increases the likelihood of achieving milestones for the upcoming year.

Measure 3.1.3

The Enterprises' proposed administrative expenses for calendar year 2016 were approved by FHFA on February 8, 2016.

Performance Goal 3.2: Reduce Taxpayer Risk from Enterprise Operations

PERFORMANCE GOAL 3.2: Reduce Taxpayer Risk from Enterprise Operations	FY 2013	FY 2014	FY 2015	FY 2016 Target	FY 2016 Results
3.2.1 Oversee reduction in retained portfolios consistent with the PSPAs	Met	Met	Met	15% annually	**Met**
3.2.2 Oversee the implementation of two or more different types of single-family mortgage credit risk-sharing transactions	N/A	Met	Met	December 31, 2015	**Met**

Performance Results

Measure 3.2.1

The objective of this performance measure is to contract the Enterprises' retained portfolios as set forth in the PSPA with the Treasury. Reduction for both Enterprises exceeded the PSPA requirement for calendar year 2015 (including the first quarter of FY 2016), as both Enterprises had retained portfolio balances below the PSPA 2015 cap of $399.5 billion. As of December 31, 2015, Freddie Mac's retained portfolio balance was $346.9 billion and Fannie Mae's retained portfolio balance was $345.1 billion.

Measure 3.2.2

Both Enterprises have successfully executed credit risk transfers using more than two deal structures. FHFA oversaw the Enterprises' implementation of two or more different types of single-family mortgage credit risk-sharing transactions. Fannie Mae carried out three types: capital markets; insurance; and seller recourse. Freddie Mac carried out four types: capital markets; insurance; seller recourse; and whole loan securitization.

Performance Goal 3.3: Build a New Single-Family Securitization Infrastructure

PERFORMANCE GOAL 3.3: Build a New Single Family Securitization Infrastructure		FY 2013	FY 2014	FY 2015	FY 2016 Target	FY 2016 Results
3.3.1	Finalize the Single Security structure, including features, disclosure standards, and related requirements by working with the Enterprises and CSS	N/A	N/A	N/A	December 31, 2015	**Not Met**
3.3.2	Issue a progress report on the state of the Single Security and the CSP, including a timeline for the initial implementation of the CSP	N/A	N/A	Met	June 30, 2016	**Not Met**
3.3.3	Finalize plans for and initiate the key system testing required for implementation of the Single Security by working with the Enterprises and CSS	N/A	N/A	N/A	FY 2016	**Met**

Performance Results

Measure 3.3.1

The Enterprises substantially completed the final Single Security features, disclosure standards, and related requirements before December 31, 2015, and submitted these to FHFA in January 2016. After the Enterprises' submission to FHFA, the Agency worked on finalizing one disclosure item. The final Single Security features and disclosures were published in July 2016, after the December 31, 2015 target date.

Measure 3.3.2

The Update on the Implementation of the Single Security and the CSP, which includes a timeline for the initial implementation of the CSP, was published on July 7, 2016, after the June 30, 2016 target date. The Update provides details on the progress made and expected milestones that Fannie Mae, Freddie Mac, and CSS must meet to achieve the stated goals for these projects.

Measure 3.3.3

The Enterprises and CSS developed and are executing testing plans required for the implementation of the Single Security. FHFA continues to closely monitor the activities of the Enterprises and CSS as they make progress in the implementation of the Single Security.

Resource Management

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

RESOURCE MANAGEMENT: Supporting the Effective Operations of the Agency		FY 2013	FY 2014	FY 2015	FY 2016 Target	FY 2016 Results
RM1	FHFA's financial statements audit receives an unmodified opinion with no material weaknesses and FISMA audit receives no material weaknesses or significant deficiencies	Met	Met	Met	Unmodified opinion with no material weaknesses for the financial statements audit and no material weaknesses or significant deficiencies for the FISMA audit	**Met**
RM2	Increase the dollar value of FHFA contracting actions that are obligated to minority- and women-owned businesses consistent with legal standards	N/A	N/A	N/A	Increase from previous FY	**Met**
RM3	Increase diversity in qualified applicant pool for new FHFA employees consistent with legal standards	N/A	N/A	N/A	Establish a baseline	**Met**
RM4	Fill active and approved FY 2016 FHFA vacancies	N/A	N/A	N/A	80% of vacancies at beginning of the fiscal year are filled or removed by the end of the fiscal year	**Met**

Performance Results

RM1

For FY 2016, FHFA received an unmodified audit opinion with no material weaknesses on its financial statements. The audit opinion certifies that FHFA's financial statements present fairly FHFA's financial position, its net cost of operations, changes in net position, and budgetary resources in accordance with U.S. GAAP. The annual FISMA audit for FHFA in FY 2016 identified no material weaknesses or significant deficiencies.

RM2

FHFA achieved the resource management goal of increasing the dollar value of its contracting actions with minority- and women-owned businesses. During FY 2016, the Agency obligated $12.7 million of its total contracting dollars to minority- and women-owned businesses, compared to $10.9 million in FY 2015, a $1.8 million increase.

RM3

FHFA staff developed a baseline by conducting analyses of USA Staffing applicant flow data for FY 2015. FHFA engaged in several initiatives to improve the Agency's ability to monitor and track the diversity of the applicant pool. For example, the Agency worked closely with the Office of Personnel Management to analyze its applicant flow data.

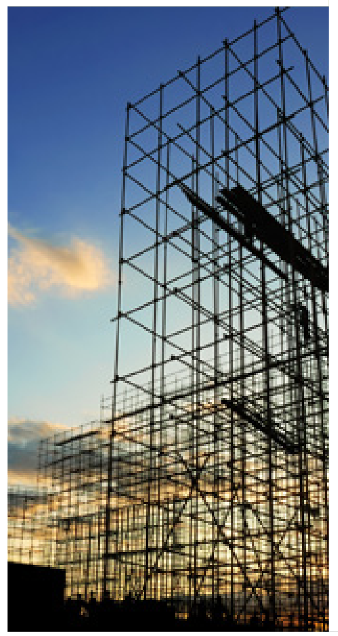
While not specifically part of the measure, the Agency also awarded a contract for an Applicant Tracking System (ATS) during the fourth quarter of FY 2016. The ATS will allow FHFA to collect demographic data about candidates who are being considered for mission critical occupations. The ATS is under review for compliance with FHFA privacy and security requirements. FHFA is on schedule to implement the ATS during the first quarter of FY 2017.

RM4

FHFA had 64 active vacancies at the beginning of FY 2016. Since then, the Agency made 6 vacancies inactive and filled 52 of the remaining 58 original vacancies. This measure does not include new vacancies that occurred after the beginning of FY 2016.

FINANCIAL SECTION

- Message from the Chief Financial Officer
- Independent Auditor's Report
- Appendix I: Management's Report on Internal Control over Financial Reporting
- Appendix II: FHFA Response to Auditor's Report
- Financial Statements
- Notes to the Financial Statements



Mark Kinsey

Message from the Chief Financial Officer

I am pleased to report that FHFA received an unmodified audit opinion on its FY 2016 financial statements from GAO. In its financial statements audit report, GAO concluded that (1) FHFA's FY 2016 financial statements are fairly presented in all material respects; (2) FHFA had effective internal control over financial reporting; and (3) there were no reportable instances of noncompliance with the laws, regulations, and contracts it tested. Also, no material weaknesses or significant deficiencies were identified. FHFA has received an unmodified audit opinion every year since its inception as a new agency in July 2008.

In September 2015, FHFA successfully transitioned to the Department of Interior's (DOI) personnel/payroll system. DOI is designated as a Shared Service Center by the Office of Management and Budget. For FY 2016, the first full year of service, FHFA was able to reap the benefits of a paperless and uniform workflow for the initiation, approval, and processing of Agency personnel and payroll actions. DOI's system is fully integrated with FHFA's accounting system from the Department of Treasury.

Important updates to GAO's *Standards for Internal Controls in the Federal Government and OMB's Circular A-123, Management's Responsibility for Enterprises Risk Management and Internal Control* are refocusing our efforts on developing an Enterprise Risk Management approach to assessing our internal controls. While these efforts will continue through FY 2017, this approach will strengthen our internal control framework to ensure that our controls are effective on the most important risks to the Agency.

We remain committed to pursuing a fiscally sound approach in operating the Agency, with financial and programmatic transparency, to instill public confidence that FHFA is effectively and efficiently fulfilling its important mission.

Sincerely,

Mark Kinsey

MARK KINSEY
Chief Financial Officer
November 15, 2016

Independent Auditor's Report

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

Independent Auditor's Report

To the Director of the Federal Housing Finance Agency

In our audits of the fiscal years 2016 and 2015 financial statements of the Federal Housing Finance Agency (FHFA), we found

- the FHFA financial statements as of and for the fiscal years ended September 30, 2016, and 2015, are presented fairly, in all material respects, in accordance with U.S. generally accepted accounting principles;
- FHFA maintained, in all material respects, effective internal control over financial reporting as of September 30, 2016; and
- no reportable noncompliance for fiscal year 2016 with provisions of applicable laws, regulations, contracts, and grant agreements we tested.

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

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

In accordance with the Housing and Economic Recovery Act of 2008 (HERA),[3] we have audited FHFA's financial statements. FHFA's financial statements comprise the balance sheets as of September 30, 2016, and 2015; the related statements of net cost, changes in net position, and budgetary resources for the fiscal years then ended; and the related notes to the financial statements. We also have audited FHFA's internal control over financial reporting as of September 30, 2016, based on criteria established under 31 U.S.C. § 3512(c), (d), commonly known as the Federal Managers' Financial Integrity Act (FMFIA).

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

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

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

[3]Pub. L. No. 110-289, § 1106, 122 Stat. 2554, 2671 (July 30, 2008), *classified at* 12 U.S.C. § 4516.

Management's Responsibility

FHFA management is responsible for (1) the preparation and fair presentation of these financial statements in accordance with U.S. generally accepted accounting principles; (2) preparing, measuring, and presenting the RSI in accordance with U.S. generally accepted accounting principles; (3) preparing and presenting other information included in documents containing the audited financial statements and auditor's report, and ensuring the consistency of that information with the audited financial statements and the RSI; (4) maintaining effective internal control over financial reporting, including the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error; (5) evaluating the effectiveness of internal control over financial reporting based on the criteria established under FMFIA; and (6) providing its assertion about the effectiveness of internal control over financial reporting as of September 30, 2016, based on its evaluation, included in the accompanying Management's Report on Internal Control over Financial Reporting in appendix I.

Auditor's Responsibility

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

An audit of financial statements involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the auditor's assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances. An audit of financial statements also involves evaluating the appropriateness of the accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements. An audit of internal control over financial reporting includes obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, evaluating the design and operating effectiveness of internal control over financial reporting based on the assessed risk, and testing relevant internal control over financial reporting. Our audit of internal control also considered the entity's process for evaluating and reporting on internal control over financial reporting based on criteria established under FMFIA. Our audits also included performing such other procedures as we considered necessary in the circumstances.

We did not evaluate all internal controls relevant to operating objectives as broadly established under FMFIA, such as those controls relevant to preparing performance information and ensuring efficient operations. We limited our internal control testing to testing controls over financial reporting. Our internal control testing was for the purpose of expressing an opinion on whether effective internal control over financial reporting was maintained, in all material respects. Consequently, our audit may not identify all deficiencies in internal control over financial reporting that are less severe than a material weakness.[4]

Definitions and Inherent Limitations of Internal Control over Financial Reporting

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

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

Opinion on Financial Statements

In our opinion, FHFA's financial statements present fairly, in all material respects, FHFA's financial position as of September 30, 2016, and 2015, and its net cost of operations, changes in net position, and budgetary resources for the fiscal years then ended in accordance with U.S. generally accepted accounting principles.

Emphasis of Matter

FHFA Reporting Entity

As discussed in note 1A of the financial statements, FHFA's fiscal years 2016 and 2015 financial statements do not include the assets, liabilities, and activities associated with Fannie Mae and Freddie Mac. In early September 2008, less than 2 months after FHFA's establishment, FHFA placed Fannie Mae and Freddie Mac into conservatorship under the authority of the Federal Housing Enterprises Financial Safety and Soundness Act of 1992, as amended by HERA.[5] FHFA's goal in placing the two entities into conservatorship was to stabilize them with the objective of maintaining normal business operations and restoring safety and soundness. The Department of the Treasury (Treasury) has provided Fannie Mae and Freddie Mac about $188 billion in direct financial support. Shortly after Fannie Mae and Freddie Mac were placed in conservatorship, the Office of Management and Budget (OMB) and Treasury determined that the assets, liabilities, and activities of these entities would not be

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

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

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

In making this determination, OMB and Treasury concluded that because the entities were not listed in the "Federal Programs by Agency and Account" section of the federal government's budget, and because the nature of the conservatorships and the federal government's ownership and control were considered to be temporary, the entities did not meet the conclusive or indicative criteria for inclusion in the consolidated federal government's or Treasury's financial statements.[6] OMB reaffirmed this conclusion with respect to fiscal years 2009 through 2016. FHFA management concurred with this conclusion. Consequently, FHFA did not include the assets, liabilities, and activities of Fannie Mae and Freddie Mac in its fiscal years 2016 and 2015 financial statements. Our opinion on FHFA's financial statements is not modified with respect to this matter.

Opinion on Internal Control over Financial Reporting

In our opinion, FHFA maintained, in all material respects, effective internal control over financial reporting as of September 30, 2016, based on criteria established under FMFIA.

During our fiscal year 2016 audit, we identified deficiencies in FHFA's internal control over financial reporting that we do not consider to be material weaknesses or significant deficiencies.[7] Nonetheless, these deficiencies warrant FHFA management's attention. We have communicated these matters to management and, where appropriate, will report on them separately.

Other Matters

Required Supplementary Information

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

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

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

Other Information

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

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

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

Management's Responsibility

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

Auditor's Responsibility

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

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

Our tests for compliance with selected provisions of applicable laws, regulations, contracts, and grant agreements disclosed no instances of noncompliance for fiscal year 2016 that would be reportable under U.S. generally accepted government auditing standards. However, the objective of our tests was not to provide an opinion on compliance with laws, regulations, contracts, and grant agreements applicable to FHFA. Accordingly, we do not express such an opinion.

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

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

Agency Comments

We provided a draft of this report to FHFA for comment. In its written comments, reprinted in appendix II, FHFA stated that it was pleased to accept the audit conclusions and that it will continue to work to enhance its internal control and ensure the reliability of its financial reporting, the soundness of operations, and public confidence in its mission.

J. Lawrence Malenich
Director
Financial Management and Assurance

November 8, 2016

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

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

Management's Report on Internal Control Over Financial Reporting

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

FHFA management is responsible for maintaining effective internal control over financial reporting, including the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error. FHFA management evaluated the effectiveness of FHFA's internal control over financial reporting as of September 30, 2016, based on the criteria established under 31 U.S.C. 3512(c), (d) (commonly known as the Federal Managers' Financial Integrity Act).

Based on that evaluation, we conclude that, as of September 30, 2016, FHFA's internal control over financial reporting was effective.

Melvin L. Watt
Director

Mark Kinsey
Chief Financial Officer

November 8, 2016

Appendix II: FHFA Response to Auditor's Report

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

November 8, 2016

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

Dear Mr. Malenich:

Thank you for the opportunity to respond to the Government Accountability Office's (GAO) draft audit report titled, Financial Audit: Federal Housing Finance Agency's Fiscal Years 2016 and 2015 Financial Statements (GAO-17-139R). This report presents GAO's opinion on the fiscal years 2016 and 2015 financial statements of the Federal Housing Finance Agency (FHFA). The report also presents GAO's opinion on the effectiveness of FHFA's internal controls as of September 30, 2016, and GAO's evaluation of FHFA's compliance with laws and regulations.

I am pleased to accept GAO's unmodified opinion on the FHFA financial statements and to note that there were no material weaknesses or significant deficiencies identified during the fiscal year 2016 audit. The GAO reported that the statements and notes were presented fairly, in all material respects; FHFA had effective internal controls over financial reporting; and that there were no reportable instances of noncompliance with laws and regulations tested by GAO.

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

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

Sincerely,

Melvin L. Watt
Director

FEDERAL HOUSING FINANCE AGENCY

Consolidated Balance Sheets

As of September 30, 2016 and 2015
(In Thousands)

	2016	2015
Assets:		
Intragovernmental		
Fund Balance With Treasury – Note 2	$ 18,383	$ 13,634
Investments – Note 3	59,726	62,055
Accounts Receivable – Note 4	–	19
Advances and Prepaid Charges	743	435
Other Assets – Note 6	1,145	–
Total Intragovernmental	79,997	76,143
Accounts Receivable – Note 4	15	17
Advances and Prepaid Charges	1,569	1,310
Property, Equipment, and Software, Net – Note 5	24,976	26,929
Other Assets – Note 6	–	1,167
Total Assets	**$ 106,557**	**$ 105,566**
Liabilities – Note 7:		
Intragovernmental		
Accounts Payable	$ 513	$ 1,289
Other Intragovernmental Liabilities – Note 8	2,554	2,015
Total Intragovernmental	3,067	3,304
Accounts Payable	7,092	6,723
Unfunded Leave	12,403	11,286
FECA Actuarial Liability	73	66
Deferred Lease Liabilities	26,443	26,921
Other Liabilities – Note 8	5,569	4,763
Total Liabilities	54,647	53,063
Net Position:		
Cumulative Results of Operations	51,910	52,503
Total Net Position	$ 51,910	$ 52,503
Total Liabilities and Net Position	**$ 106,557**	**$ 105,566**

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

FEDERAL HOUSING FINANCE AGENCY

Consolidated Statements of Net Cost

For the Years Ended September 30, 2016 and 2015
(In Thousands)

	2016		2015	
Gross Program Costs by Strategic Goal – Note 11:				
Safety and Soundness	$	163,113	$	143,878
Liquidity, Stability, and Access	$	35,825	$	44,353
Conservatorship	$	56,040	$	62,818
Gross Program Costs	$	254,978	$	251,049
Less: Total Earned Revenue not Attributable to Strategic Goals		(248,838)		(246,266)
Net Cost of Operations	**$**	**6,140**	**$**	**4,783**

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

FEDERAL HOUSING FINANCE AGENCY

Consolidated Statements of Changes in Net Position

For the Years Ended September 30, 2016 and 2015
(In Thousands)

	2016	2015
Cumulative Results of Operations:		
Beginning Balance	$ 52,503	$ 51,923
Other Financing Sources:		
Imputed Financing Sources	5,558	5,376
FOIA Collections (Transfer out)	(11)	(13)
Total Financing Sources	5,547	5,363
Net Cost of Operations	(6,140)	(4,783)
Net Change	(593)	580
Cumulative Results of Operations	**$ 51,910**	**$ 52,503**
Net Position	**$ 51,910**	**$ 52,503**

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

FEDERAL HOUSING FINANCE AGENCY

Combined Statements of Budgetary Resources

For the Years Ended September 30, 2016 and 2015
(In Thousands)

	2016	2015
Budgetary Resources:		
Unobligated Balance Brought Forward, October 1	$ 29,671	$ 30,907
Recoveries of Prior Year Unpaid Obligations	10,365	7,800
Other Changes in Unobligated Balance	429	302
Unobligated Balance From Prior Year Budget Authority, Net	40,465	39,009
Appropriations	242,871	241,386
Spending Authority From Offsetting Collections	55,897	50,443
Total Budgetary Resources	**$ 339,233**	**$ 330,838**
Status of Budgetary Resources:		
New Obligations and Upward Adjustments (Total) - Note 12	$ 317,006	$ 301,167
Unobligated Balance, End of Year:		
Exempt from Apportionment, Unexpired Accounts	22,227	29,671
Unexpired Unobligated Balance, End of Year	22,227	29,671
Unobligated Balance, End of Year, Total	22,227	29,671
Total Budgetary Resources	**$ 339,233**	**$ 330,838**
Change in Obligated Balance:		
Unpaid Obligations:		
Unpaid Obligations, Brought Forward, October 1	$ 46,047	$ 45,227
New Obligations and Upward Adjustments (Total) - Note 12	317,006	301,167
Outlays, Gross	(296,790)	(292,547)
Recoveries of Prior Year Unpaid Obligations	(10,365)	(7,800)
Unpaid Obligations, End of Year, Gross	**$ 55,898**	**$ 46,047**
Uncollected Payments:		
Uncollected Payments, Federal Sources, Brought Forward, October 1	(28)	(22)
Change in Uncollected Payments, Federal Sources	12	(6)
Uncollected Payments, Federal Sources, End of Year	(16)	(28)
Obligated Balance, Start of Year, Net	**$ 46,019**	**$ 45,205**
Obligated Balance, End of Year, Net	**$ 55,882**	**$ 46,019**
Budget Authority and Outlays, Net:		
Budget Authority, Gross	$ 298,769	$ 291,829
Actual Offsetting Collections	(56,339)	(50,739)
Change in Uncollected Customer Payments From Federal Sources	12	(6)
Recoveries of Prior Year Paid Obligations	429	302
Budget Authority, Net	**$ 242,871**	**$ 241,386**
Outlays, Gross	$ 296,790	$ 292,547
Actual Offsetting Collections	(56,339)	(50,739)
Outlays, Net	240,451	241,808
Distributed Offsetting Receipts	(242,871)	(241,386)
Agency Outlays, Net	**$ (2,420)**	**$ 422**

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

FEDERAL HOUSING FINANCE AGENCY

Notes to the Financial Statements

For the Years Ended September 30, 2016 and 2015

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. Reporting Entity

The Federal Housing Finance Agency (FHFA) was established on July 30, 2008, when the President signed into law the Housing and Economic Recovery Act of 2008 (HERA). FHFA is an independent agency in the Executive branch empowered with supervisory and regulatory oversight of the 11 Federal Home Loan Banks (FHLBanks), Federal National Mortgage Association (Fannie Mae), Federal Home Loan Mortgage Corporation (Freddie Mac), and the Office of Finance, all of which are referred to as Regulated Entities. The number of FHLBanks reduced from 12 banks to 11 on May 31, 2015 as the result of a merger between the FHLBank of Seattle and FHLBank of Des Moines. FHFA is responsible for ensuring that each Regulated Entity operates in a safe and sound manner, including maintenance of adequate capital and internal control, and carries out their housing and community development finance missions.

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

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

In September 2008, after Fannie Mae and Freddie Mac were placed in conservatorship under FHFA, the Office of Management and Budget (OMB) determined that the assets, liabilities and activities of the companies would not be included in the financial statements of the federal government. For FY 2008, OMB and the Department of the Treasury (Treasury) concluded that Fannie Mae and Freddie Mac did not meet the conclusive or indicative criteria for a federal entity contained in OMB Circular A-136, *Financial Reporting Requirements*, and Statement of Federal Financial Accounting Concepts No. 2, *Entity and Display,* because they are not listed in the section of the federal government's budget entitled "Federal Programs by Agency and Account," and because the nature of FHFA's conservatorships over Fannie Mae and Freddie Mac and the federal government's ownership and control of the entities is considered to be temporary. OMB continued to hold this view in the President's budget submissions to Congress. Consequently, the assets, liabilities, and activities of Fannie Mae and Freddie Mac have not been consolidated into FHFA's financial statements. However, Treasury records the value of the federal government's investments in Fannie Mae and Freddie Mac in its financial statements as a General Fund asset.

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

The August 17, 2012 amendment changed the dividend owed to Treasury from a fixed 10 percent payable each quarter to a variable amount tied directly to quarterly performance. Instead of continuing the circular practice of drawing money from Treasury each quarter in order to pay the dividends owed to Treasury, beginning on January 1, 2013, all of Fannie Mae's and Freddie Mac's future net income/profits above an established threshold will be distributed quarterly to Treasury as dividends. Cumulative draws by Fannie Mae and Freddie Mac on their PSPAs with Treasury total $116.2 and $71.3 (dollars in billions), respectively. These draws are reported in Treasury's financial statements as investments. Neither Fannie Mae nor Freddie Mac has requested a draw since the first quarter of 2012.

B. Basis of Presentation

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

C. Basis of Accounting

Transactions are recorded on both an accrual accounting basis and a budgetary basis. Under the accrual basis of accounting, revenues are recognized when earned, and expenses are recognized when a liability is incurred, without regard to receipt or payment of cash. Budgetary accounting facilitates compliance with legal requirements and controls over the use of funds. FHFA's financial statements conform with U.S. generally accepted accounting principles for federal entities as prescribed by the standards set forth by the Federal Accounting Standards Advisory Board (FASAB). FASAB is recognized by the American Institute of Certified Public Accountants as the body designated to establish U.S. generally accepted accounting principles for federal reporting entities. Certain assets, liabilities, earned revenues, and costs have been classified as intragovernmental throughout the financial statements and notes. Intragovernmental is defined as transactions made between two reporting entities within the federal government.

D. Revenues, Imputed & Other Financing Sources

Operating revenues of FHFA are obtained through assessments of the Regulated Entities. The head of the Agency approved the annual budget for FY 2016 and FY 2015 in August 2015 and 2014, respectively. By law, FHFA is required to charge semi-annual assessments to the entities. Assessments collected shall not exceed the amount sufficient to provide for the reasonable costs associated with overseeing the entities, plus amounts determined by the head of the Agency to be necessary for maintaining a working capital fund.

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

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

FHFA receives rental revenues related to an Interagency agreement with the Consumer Financial Protection Bureau (CFPB) for use of office space leased by FHFA and related services. In FY 2015, CFPB and FHFA extended the term of the lease. FHFA records the rental revenue on a straight line basis. FHFA changed to the straight line method from the cash method when the lease was extended in July 2015. FHFA has elected to exercise its option to terminate the lease. FHFA has designated January 31, 2018 as the termination date. Negotiations related to the termination date are under way.

Federal government entities often receive goods and services from other federal government entities without reimbursing the providing entity for all the related costs. In addition, federal government entities also incur costs that are paid in total or in part by other entities. An imputed financing source is recognized by the receiving entity for costs that are paid by other entities. FHFA recognized imputed costs and financing sources in FY 2016 and FY 2015 as prescribed by accounting standards. FHFA recognizes as an imputed financing source the amount of pension and post-retirement benefit expenses for current employees accrued on FHFA's behalf by the Office of Personnel Management (OPM).

E. Use of Estimates

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

F. Fund Balance with Treasury

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

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

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

G. Investments

FHFA has the authority to invest in U.S. Treasury securities with maturities suitable to FHFA's needs. FHFA invests solely in U.S. Treasury securities. During FY 2016 and FY 2015, FHFA invested in one-day certificates issued by the U.S. Treasury.

H. Accounts Receivable

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

I. Property, Equipment, and Software, Net

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

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

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

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

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

J. Advances and Prepaid Charges

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

K. Liabilities

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

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

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

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

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

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

L. Employee Leave and Benefits

All full-time FHFA employees are entitled to accrue sick leave at a rate of four hours per pay period. Full-time employees are eligible to earn sick leave immediately upon being hired. Annual leave is accrued based on years of creditable federal service and military service, with the following exceptions: Former Office of Federal Housing Enterprise Oversight (OFHEO) employees hired between April 25, 2005 and July 30, 2008 accrue annual leave based on years of creditable federal and military service as well as years of relevant private sector experience (HERA abolished OFHEO when FHFA was established in July 2008). Additionally, FHFA employees hired into mission critical positions, EL-13 and above, after May 2011 accrue annual leave under this same formula. Some employees who transfer from other federal agencies may also have been authorized to receive credit for private sector time. EL employees may carryover up to 240 hours of annual leave each year. EL supervisors and managers may carryover up to 480 hours of annual leave each year. The FHFA executive employees equivalent to the Senior Executive Service (SES) employees may accrue annual leave consistent with the rules for SES level employees. Accrued annual leave is treated as an unfunded expense with an offsetting liability when earned. The accrued liability is reduced when the annual leave is taken. Any unused annual leave balance is paid to the employee upon leaving federal service, based on the employee's earnings per hour. There is no maximum limit on the amount of sick leave that may be accrued. Upon separation, any unused sick leave under the Civil Service Retirement System (CSRS) and the Federal Employees Retirement System (FERS) is creditable towards an employee's annuity computation. Credit is given for sick leave balances in the computation of annuities upon the retirement of FERS-covered employees effective at 50 percent beginning October 28, 2009 and 100 percent beginning January 1, 2014.

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

M. Retirement Plans

FHFA employees participate in the retirement plans offered by OPM, which consist of CSRS, CSRS Offset, FERS, FERS-Revised Annuity Employee (RAE), or FERS-Further Revised Annuity Employee (FRAE). FERS, RAE, and FRAE are provided under calculations for both regular employees as well as law enforcement employees in the OIG. FHFA remits the employer's share of the required contribution, which is 7.0 percent for CSRS and CSRS Offset, 13.7 percent for FERS, 30.1 percent for FERS Law Enforcement Officer (LEO), 11.9 percent for FERS-RAE and FERS-FRAE, and 28.4 percent for FERS-RAE LEO and FERS-FRAE LEO. Prior to December 31, 1983, all eligible employees were covered under the CSRS program. Any employee hired from January 1, 1984 through December 31, 1986, were placed in CSRS Offset which served as an interim retirement plan until FERS was created on January 1, 1987. At that time, any employee who did not have five years of prior federal service under CSRS was automatically moved to FERS. As of January 1, 1987, employees without previous Federal service are automatically covered under FERS. Employees covered by CSRS who leave the federal government and return with a break of service of one year or more after December 31, 1983 are subject to mandatory social security contributions and are placed under CSRS Offset. Effective January 1, 2013, any employee who begins employment with FHFA with less than five years of prior federal service as of December 31, 2012 is placed under FERS-RAE. Effective January 1, 2014, any employee who begins employment with FHFA with less than five years of prior federal service as of December 31, 2013 is placed under FERS-FRAE. Both CSRS and FERS employees may participate in the federal Thrift Savings Plan (TSP). FERS employees receive an automatic Agency contribution equal to 1.0 percent of pay. Effective July 31, 2010, FERS employees are automatically enrolled in TSP and 3.0 percent of their pay is deposited into the plan unless they make an election to stop or change the contribution. FHFA matches any FERS employee contribution up to an additional 4.0 percent of pay. For FERS and CSRS Offset participants, FHFA also contributes the employer's share of Social Security.

FERS employees and CSRS Offset employees are eligible to receive Social Security benefits after retirement once they reach the full retirement age. Employees subject to social security withholdings currently contribute 6.2 percent. The 2016 maximum taxable wage base for Social Security is $118,500.

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

FHFA does not report on its financial statements information pertaining to the retirement plans covering its employees. Reporting amounts such as plan assets, accumulated plan benefits, and related unfunded liabilities, if any, is the responsibility of OPM as the administrator.

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

N. Contingencies

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

NOTE 2. FUND BALANCE WITH TREASURY

Fund Balance with Treasury (FBWT) consists of operating funds and a working capital fund. The funds in the working capital fund were fully invested during FY 2016 and FY 2015. FBWT account balances as of September 30, 2016 and 2015 were as follows (dollars in thousands):

	2016	2015
Fund Balances:		
Operating Funds	$ 18,383	$ 13,634
Total	**$ 18,383**	**$ 13,634**
Status of Fund Balance with Treasury:		
Unobligated Balance		
Available	$ 22,227	$ 29,671
Obligated Balance Not Yet Disbursed	55,882	46,018
Investments	(59,726)	(62,055)
Total	**$ 18,383**	**$ 13,634**

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

NOTE 3. INVESTMENTS

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

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

Investments as of September 30, 2015 consist of the following (dollars in thousands):

	Cost	Amortized (Premium) Discount	Interest Receivable	Investments Net	Market Value Disclosure
Intragovernmental Securities:					
Non-Marketable					
Market-Based	$ 62,055	$ –	$ –	$ 62,055	$ 62,055

Non-marketable, market-based securities are Treasury notes and bills issued to governmental accounts that are not traded on any securities exchange, but mirror the prices of marketable securities with similar terms. FHFA is currently investing in one-day certificates issued by the U.S. Treasury. There were no amortized premiums/discounts on investments as of September 30, 2016 or 2015. Interest earned on investments was $199 thousand and $25 thousand for FY 2016 and FY 2015, respectively.

NOTE 4. ACCOUNTS RECEIVABLE

Accounts Receivable balances as of September 30, 2016 and 2015 were as follows (dollars in thousands):

	2016	2015
Intragovernmental		
Accounts Receivable	$ –	$ 19
Total Intragovernmental Accounts Receivable	**$ –**	**$ 19**
With the Public		
Accounts Receivable	$ 15	$ 17
Total Public Accounts Receivable	**$ 15**	**$ 17**
Total Accounts Receivable	**$ 15**	**$ 36**

There are no amounts that are deemed uncollectible as of September 30, 2016 and 2015.

NOTE 5. PROPERTY, EQUIPMENT, AND SOFTWARE, NET

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

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

Schedule of Property, Equipment, and Software as of September 30, 2015 (dollars in thousands):

Major Class	Acquisition Cost	Accumulated Amortization / Depreciation	Net Book Value
Equipment	$ 23,735	$ 23,565	$ 170
Leasehold Improvements	35,006	8,367	26,639
Internal-Use Software	1,788	1,668	120
Software-in-Development	–	–	–
Construction-in-Progress	–	–	–
Total	**$ 60,529**	**$ 33,600**	**$ 26,929**

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

NOTE 6. OTHER ASSETS

Other Assets as of September 30, 2016 and 2015 consist of the following (dollars in thousands):

	2016	2015
Straight Line Sublease Receivable	$ 1,145	$ 1,167
Total Other Assets	**$ 1,145**	**$ 1,167**

Other assets consists of an accrued receivable to recognize the difference between the cash basis and straight line method of recognizing revenue related to the reimbursable sublease of 1625 Eye Street NW to CFPB. This receivable was recorded in FY 2015 as a non-federal vendor. Based on guidance from Treasury, this receivable was changed from a non-federal vendor to federal in FY 2016. (See Note 9. Leases)

NOTE 7. LIABILITIES COVERED AND NOT COVERED BY BUDGETARY RESOURCES

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

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

Liabilities Covered and Not Covered By Budgetary Resources as of September 30, 2015 consist of the following (dollars in thousands):

	Covered	Not Covered	Total
Intragovernmental Liabilities			
Accounts Payable	$ 1,289	$ -	$ 1,289
Other Intragovernmental Liabilities	2,015	-	2,015
Total Intragovernmental Liabilities	**$ 3,304**	**$ -**	**$ 3,304**
Accounts Payable	$ 6,723	$ -	$ 6,723
Unfunded Leave	-	11,286	11,286
Deferred Lease Liabilities	-	26,921	26,921
FECA Actuarial Liabilities	-	66	66
Other Liabilities	4,763	-	4,763
Total Public Liabilities	**$ 11,486**	**$ 38,273**	**$ 49,759**
Total Liabilities	**$ 14,790**	**$ 38,273**	**$ 53,063**

NOTE 8. OTHER LIABILITIES

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

Other Liabilities as of September 30, 2016 and September 30, 2015 consist of the following (dollars in thousands):

	2016	2015
Intragovernmental Liabilities		
Funded FECA Liability	$ 18	$ 15
Unemployment Insurance Liability	15	–
Payroll Benefits Payable	1,222	957
Advances and Prepayments	1,299	1,043
Total Intragovernmental Other Liabilities	**$ 2,554**	**$ 2,015**
With the Public		
Employer Benefit Contributions	$ 724	$ 546
Withholdings Payable	2	–
Accrued Funded Payroll	4,843	4,217
Total Public Other Liabilities	**$ 5,569**	**$ 4,763**

NOTE 9. LEASES

Current Operating Leases

1625 Eye Street NW

FHFA leases office space in Washington, D.C. at 1625 Eye Street NW. The lease terms of 1625 Eye Street were extended for a five year period beginning July 1, 2015 and expire on June 30, 2020. The lease is cancellable with a 12 month notice and no sooner than December 31, 2017. FHFA entered into an Interagency Agreement (IAA) with the Consumer Financial Protection Bureau (CFPB) on January 13, 2015 for CFPB's use of space and related services for the term of the lease extension. The IAA also included the transfer of ownership of FHFA's furniture, fixtures, equipment, including IT equipment, and other supplies remaining at the premises to CFPB. CFPB has occupied the premises since April 1, 2012. The IAA expires on June 30, 2020 in conjunction with FHFA's lease expiration. CFPB will reimburse FHFA for the full cost of the lease expenditures. FHFA has elected to exercise its option to terminate the lease. FHFA has designated January 31, 2018 as the termination date. Negotiations related to the termination date are underway. The IAA with CFPB will terminate at the same time as the negotiated lease termination date.

400 7th Street SW – Constitution Center

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

5080 Spectrum Drive

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

300 N Los Angeles Street

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

501 E Polk Street

FHFA OIG entered into an OA with GSA for office space at 501 E Polk Street, Tampa, FL commencing on August 13, 2013. FHFA OIG took occupancy on August 10, 2013. FHFA OIG has the right to terminate the OA based on the availability of funds or with a four month notice at any point after the first 12 months of occupancy. The OA terms of 501 E Polk Street expire on August 9, 2023.

20 Washington Place

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

233 N Michigan Avenue—Two Illinois Center

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

650 Capitol Mall

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

The leases at 300 N Los Angeles Street, 501 E Polk Street, 20 Washington Place, 233 N Michigan Avenue, and 650 Capitol Mall contain cancellation clauses; therefore these leases are not included in the minimum future payments table.

The minimum future payments for non-cancellable operating leases with terms longer than one year (400 7th Street SW, 1625 Eye Street NW, and 5080 Spectrum Drive) are as follows (dollars in thousands):

Fiscal Year		Amount
2017	$	22,292
2018		19,061
2019		17,617
2020		17,971
2021		18,329
Thereafter		6,149
Total Future Payments	**$**	**101,419**

The minimum future receipts for the IAA with CFPB for the 1625 Eye Street NW space are as follows (dollars in thousands):

Fiscal Year		Amount
2017	$	5,223
2018	$	1,774
2019	$	–
2020	$	–
2021	$	–
Thereafter		–
Total Future Operating Lease Receivables	**$**	**6,997**

Additionally, FHFA leased contingency space at an undisclosed location. The lease expired on March 31, 2015 and was not renewed.

NOTE 10. COMMITMENTS AND CONTINGENCIES

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

NOTE 11. PROGRAM COSTS

Pursuant to HERA, FHFA was established to supervise and regulate the Regulated Entities. The Regulated Entities include Freddie Mac, Fannie Mae, the FHLBanks, and the Office of Finance. FHFA tracks program costs to the strategic goals (responsibility segments) developed for FHFA's strategic plan. Strategic goals—(1) ensure safe and sound regulated entities; (2) ensure liquidity, stability, and access in housing finance; and (3) manage the Enterprises' ongoing conservatorships—guide program offices to carry out FHFA's vision and mission. FHFA has a Resource Management Strategy, which is distributed proportionately to strategic goals 1–3 based on the percentage of direct costs of each goal to the total direct costs for FHFA. FHFA OIG costs are allocated to FHFA's Resource Management Strategy. Earned revenue is reported at the total level only.

FHFA's revenue was provided by the Regulated Entities through assessments. FHFA OIG received their funding through a $49.7 million transfer from FHFA in FY 2016 and a $46.7 million transfer in FY 2015. FHFA OIG's gross expenses for FY 2016 and FY 2015 were $46.2 million and $47.6 million, respectively.

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

	2016	2015
Safety and Soundness		
Intragovernmental Costs	$ 34,257	$ 30,280
Public Costs	128,856	113,598
Gross Costs	163,113	143,878
Net Safety and Soundness Program Costs	**163,113**	**143,878**
Liquidity, Stability, and Access		
Intragovernmental Costs	8,305	10,361
Public Costs	27,520	33,992
Gross Costs	35,825	44,353
Net Liquidity, Stability, and Access Program Costs	**35,825**	**44,353**
Conservatorship		
Intragovernmental Costs	3,256	2,428
Public Costs	52,784	60,390
Gross Costs	56,040	62,818
Net Conservatorship Program Costs	**56,040**	**62,818**
Total Intragovernmental Costs	45,818	43,069
Total Public Costs	209,160	207,980
Total Costs	254,978	251,049
Less: Total Intragovernmental Earned Revenue	6,156	3,724
Less: Total Public Earned Revenue	242,682	242,542
Total Net Cost of Operations	**$ 6,140**	**$ 4,783**

NOTE 12. APPORTIONMENT CATEGORIES OF NEW OBLIGATIONS AND UPWARD ADJUSTMENTS

All new obligations and upward adjustments are characterized as exempt from apportionment (*i.e.* not apportioned), on the Statement of Budgetary Resources. New obligations and upward adjustments reported in the Statement of Budgetary Resources in FY 2016 and FY 2015 consisted of the following (dollars in thousands):

	2016	2015
Direct New Obligations and Upward Adjustments Exempt from Apportionment	$ 310,754	$ 297,413
Reimbursable Obligations Exempt from Apportionment	6,252	3,754
Total New Obligations and Upward Adjustments	**$ 317,006**	**$ 301,167**

NOTE 13. LEGAL ARRANGEMENTS AFFECTING USE OF UNOBLIGATED BALANCES

HERA requires that any balance that remains unobligated at the end of the fiscal year, except for amounts assessed for contribution to FHFA's working capital fund, must be credited against the next year's assessment to the Regulated Entities. The Director also has the authority to retain prior year unobligated funds for conservatorship-related activities that were not anticipated during the budget process. As of September 30, 2016 and 2015, the unobligated balance was $22.2 million and $29.7 million, respectively. The portion of the FY 2016 unobligated available balance that will be credited against the Regulated Entities' April 2017 assessments is $12.2 million with the remaining $10.0 million retained in the working capital fund. The portion of the FY 2015 unobligated balance that was credited against the Regulated Entities' April 2016 assessment was $6.33 million with $10 million retained in the working capital fund and $13.34 million retained for conservatorship related activities. (See Note 2. Fund Balance With Treasury.)

NOTE 14. BUDGETARY RESOURCE COMPARISONS TO THE BUDGET OF THE UNITED STATES GOVERNMENT

Statement of Federal Financial Accounting Standards No. 7, "Accounting for Revenue and Other Financing Sources and Concepts for Reconciling Budgetary and Financial Accounting," calls for explanations of material differences between amounts reported in the Statement of Budgetary Resources and the actual balances published in the Budget of the United States Government (President's Budget). The President's Budget that will include FY 2016 actual budgetary execution information has not yet been published. The President's Budget is scheduled for publication in February 2017 and can be found at the OMB website: *http://www.whitehouse.gov/omb* The 2017 President's Budget, with the "Actual" column completed for 2015, has been reconciled to the Statement of Budgetary Resources and there were no material differences (dollars in thousands):

	Budgetary Resources	New Obligations and Upward Adjustments	Distributed Offsetting Receipts	Net Outlays
Combined Statement of Budgetary Resources	$ 330,838	$ 301,167	$ 241,386	$ 241,808
Rounding	1,838	167	386	192
Budget of the U.S. Government	329,000	301,000	241,000	242,000
Total Unreconciled Difference	**$ –**	**$ –**	**$ –**	**$ –**

NOTE 15. UNDELIVERED ORDERS AT THE END OF THE PERIOD

For the fiscal years ended September 30, 2016 and 2015, budgetary resources obligated for undelivered orders amounted to $44 million and $34 million, respectively.

NOTE 16. INCIDENTAL CUSTODIAL COLLECTIONS

FHFA's custodial collections primarily consist of fines and penalties associated with employee administrative billing and collections and civil penalties assessed against the Regulated Entities. Custodial collections are reflected in Fund Balance with Treasury during the year. While these collections are considered custodial, they are neither primary to the mission of the Agency nor material to the overall financial statements. FHFA's custodial collections are $918 for the year ended September 30, 2016. Custodial collections totaled $81 for the year ended September 30, 2015. There were no civil penalties assessed or collected in FY 2016 or FY 2015. Custodial collections are transferred to the Treasury General Fund on September 30 and are not reflected in the financial statements of the Agency.

NOTE 17. RECONCILIATION OF NET COST OF OPERATIONS TO BUDGET

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

	2016	2015
Resources Used to Finance Activities:		
Budgetary Resources Obligated		
New Obligations and Upward Adjustments (Total)	$ 317,006	$ 301,167
Spending Authority from Offsetting Collections and Recoveries	(66,691)	(58,545)
Obligations Net of Offsetting Collections and Recoveries	250,315	242,622
Offsetting Receipts	(242,871)	(241,386)
Net Obligations	7,444	1,236
Other Resources		
Imputed Financing from Costs Absorbed by Others	5,558	5,376
Other Resources	(11)	(13)
Net Other Resources Used to Finance Activities	5,547	5,363
Total Resources Used to Finance Activities	**12,991**	**6,599**
Resources Used to Finance Items Not Part of the Net Cost of Operations:		
Change in Budgetary Resources Obligated for Goods, Services and Benefits Ordered But Not Yet Provided	(9,422)	(4,975)
Resources That Fund Expenses Recognized in Prior Periods	(478)	(1,042)
Resources That Finance the Acquisition of Assets	(898)	(1,486)
Total Resources Used to Finance Items Not Part of the Net Cost of Operations	(10,798)	(7,503)
Total Resources Used to Finance the Net Cost of Operations	**2,193**	**(904)**
Components of the Net Cost of Operations That Will Not Require or Generate Resources in the Current Period:		
Components Requiring or Generating Resources in Future Periods		
Increase in Annual Leave Liability	1,116	72
Other	7	1,173
Total Components of Net Cost of Operations That Will Require or Generate Resources in Future Periods	1,123	1,245
Components Not Requiring or Generating Resources		
Depreciation and Amortization	2,822	4,379
Revaluation of Assets or Liabilities	-	5
Other	2	58
Total Components of Net Cost of Operations That Will Not Require or Generate Resources	2,824	4,442
Total Components of Net Cost of Operations That Will Not Require or Generate Resources in the Current Period	3,947	5,687
Net Cost of Operations	**$ 6,140**	**$ 4,783**

OTHER INFORMATION

- FY 2015 Discontinued Performance Measures
- Office of Inspector General Management and Performance Challenges
- Summary of Financial Statements Audit and Management Assurances
- Erroneous Payments

FY 2015 Discontinued Performance Measures

Goal 1: Ensure Safe and Sound Regulated Entities

STRATEGIC GOAL 1: Safe and Sound Regulated Entities			
PERFORMANCE GOAL 1.2: Identify risks to the regulated entities and set expectations for strong risk management			
Measures	FY 2015 Target	FY 2015 Results	Reason for discontinuation
1.2.1 Issue written standards and criteria to the regulated entities for fraud reporting and fraud risk management	FY 2015	**Met**	This measure was met in the prior fiscal year. FHFA issued guidance on Enterprise fraud reporting in March 2015 with AB-2015-02. FHFA issued guidance on FHLBank fraud reporting in February 2015 with AB-2015-01.
1.2.2 Issue guidance to the Enterprises on seller/servicer risk management	12/31/2014	**Met**	This measure was met in the prior fiscal year. FHFA issued guidance on seller/servicer risk management on December 1, 2014, with Advisory Bulletin 2014-07, "Oversight of Single-Family Seller/Servicer Relationships."

STRATEGIC GOAL 2: Ensure Liquidity, Stability, and Access in Housing Finance				
PERFORMANCE GOAL 2.1: Ensure liquidity in mortgage markets				
Measures		FY 2015 Target	FY 2015 Results	Reason for discontinuation
2.1.1	Review and communicate to the public results of request for input on Fannie Mae and Freddie Mac guarantee fees	FY 2015	**Met**	This measure was met in the prior fiscal year. In April 2015, FHFA published the Results of Fannie Mae and Freddie Mac Guarantee Fee Review
2.1.2	Publish proposed Duty to Serve rule in the Federal Register	FY 2015	**Not Met**	Discontinued because proposed rule was published in the Federal Register in December 2015.
PERFORMANCE GOAL 2.2: Promote stability in the nation's housing finance markets				
2.2.1	Publish private mortgage insurer eligibility requirements	FY 2015	**Met**	This measure was met in the prior fiscal year. The private mortgage insurer eligibility requirements were published in April 2015.
2.2.2	Publish updated minimum servicer eligibility standards	FY 2015	**Met**	This measure was met in the prior fiscal year. These standards were published in April 2015.
PERFORMANCE GOAL 2.3: Expand access to housing finance for qualified financial institutions of all sizes in all geographic locations and for qualified borrowers				
2.3.1	Require the Enterprises to work to increase access to mortgage credit for creditworthy borrowers	Implement a 97% LTV product during FY 2015	**Met**	This measure was met in the prior fiscal year. In December 2014, the Enterprises announced their respective 97% LTV products.
2.3.2	Require the Enterprises to continue to encourage greater participation by small lenders, rural lenders, and state and local Housing Finance Agencies	Increase the number of participants by 20 entities by September 30, 2015	**Met**	This measure was met in the prior fiscal year. FHFA currently has two measures which successfully reflect the outlook in this discontinued indicator. The activities within 2.3.2 are represented in two current measures that speak to (i) outreach to underserved markets and (ii) advancing diversity and inclusion.
2.3.3	Develop operational guidance to ensure that the regulated entities and the Office of Finance comply with statutory and regulatory requirements regarding their OMWI roles and responsibilities	FY 2015	**Met**	This measure was met in the prior fiscal year. FHFA issued operational guidance to the regulated entities on their OMWI responsibilities during FY 2015.

STRATEGIC GOAL 3: Manage the Enterprises' Ongoing Conservatorships				
PERFORMANCE GOAL 3.3: Build a new single-family securitization infrastructure				
3.3.1	Oversee release by CSS of a new version of the CSP software (with updated interfaces and capabilities) for the Enterprises to test	June 30, 2015	**Met**	This measure was met in the prior fiscal year. The FY 2015 Performance Measure 3.3.1 focused on releasing the CSP software for the Enterprises to test, which was completed in June 2015. FY 2016 Performance Measure 3.3.3 focuses more directly on the key system testing required for the implementation of the Single Security.

RESOURCE MANAGEMENT: Supporting the Effective Operations of the Agency				
RM2	Number of awards that are obligated with minority- and women-owned businesses	Increase from prior year	**Met**	The language of this measure was updated in FY 2016 to reflect the Agency's requirements for reporting procurement data to Congress. The revised language shows that the Agency reports on the dollar value of contracting actions rather than the number of contracting actions.

Office of Inspector General Management and Performance Challenges

OFFICE OF INSPECTOR GENERAL

Federal Housing Finance Agency

400 7th Street SW, Washington, DC 20219

October 6, 2016

TO: Melvin L. Watt, Director

FROM: Laura S. Wertheimer, Inspector General

SUBJECT: Fiscal Year 2017 Management and Performance Challenges

In accordance with the Reports Consolidation Act of 2000 (P.L. 106-531), the attached annual statement summarizes and assesses the most serious management and performance challenges facing the Federal Housing Finance Agency (FHFA or Agency).

FHFA serves two distinct roles for Fannie Mae and Freddie Mac (collectively, the Enterprises). Currently, it acts as conservator for the Enterprises and as their regulator, and it is also the regulator of the Federal Home Loan Banks. In the attached statement, the FHFA Office of Inspector General (OIG) identifies four key challenges the Agency faces in fulfilling these duties: conservatorship operations, supervision, counterparties and third parties, and information technology security.

The attached summary and assessment statement is based on ongoing OIG work, OIG reports, other publicly available information, and OIG's general knowledge of FHFA's operations and the external environment.

cc: Janell Byrd-Chichester, Chief of Staff
Lawrence Stauffer, Acting Chief Operating Officer
Mark Kinsey, Chief Financial Officer
Alfred Pollard, General Counsel
John Major, Internal Controls and Audit Follow-Up Manager

The Federal Housing Finance Agency Office of Inspector General's Summary of the Agency's FY 2017 Management and Performance Challenges and Assessment

The Federal Housing Finance Agency (FHFA or Agency) was created in July 2008 by the Housing and Economic Recovery Act of 2008 (HERA) (P.L. 110-289) to serve as regulator of Fannie Mae and Freddie Mac (collectively, the Enterprises) and the Federal Home Loan Banks (FHLBanks), overseeing the safety and soundness and statutory missions of these government-sponsored enterprises. In September 2008, FHFA exercised its authority under HERA to place Fannie Mae and Freddie Mac into conservatorship. According to FHFA, it placed the Enterprises into conservatorship "in response to a substantial deterioration in the housing markets that severely damaged Fannie Mae and Freddie [Mac's] financial condition and left them unable to fulfill their mission without government intervention."[1] FHFA currently serves in a unique role: it is both conservator of and regulator for the Enterprises and regulator for the FHLBanks.

Pursuant to the Reports Consolidation Act of 2000 (P.L. 106-531), the FHFA OIG has identified four significant management and performance challenges facing FHFA, based on ongoing OIG work, OIG published reports, other publicly available information, and OIG's general knowledge of FHFA's operations and the external environment: (1) conservatorship operations; (2) supervision of the regulated entities; (3) counterparties and third parties; and (4) IT security. In this statement, OIG explains each of the four significant management and performance challenges and discusses specific aspects of those challenges. Both FHFA and OIG have previously acknowledged the difficulties resulting from the ongoing uncertainty regarding the future role of the Enterprises in the housing finance system. In identifying and assessing these four serious management and performance challenges facing FHFA, OIG remains mindful of this uncertainty and recognizes that such ongoing uncertainty adds additional difficulties for FHFA as it seeks to address these challenges.

Challenge: Conservatorship Operations

HERA, which vested FHFA with the power to place the Enterprises into conservatorship, grants FHFA sweeping authority over the Enterprises while they remain in conservatorship. As conservator of the Enterprises since September 2008, FHFA has expansive authority to oversee and direct operations of two large, complex companies that dominate the secondary mortgage market and the mortgage securitization sector of the U.S. housing finance industry. Under HERA, FHFA possesses all rights and powers of any stockholder, officer, or director of the Enterprises; it may operate the Enterprises and conduct all of the Enterprises' business activities; it may take actions necessary to put the Enterprises in a sound and solvent condition; and it may take actions appropriate to carry on the Enterprises' business and preserve and conserve the Enterprises' assets and property.

When then-Secretary of the U.S. Treasury Henry Paulson announced the conservatorships in September 2008, he explained that the following period of time was meant to be a "time out' where we have stabilized the" Enterprises, during which the "new Congress and the next Administration must decide what role government in general, and these entities in particular, should play in the housing market." The current FHFA Director

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

has echoed that view in recognizing that conservatorship "cannot and should not be a permanent state" for the Enterprises. However, putting the Enterprises into conservatorships has proven to be far easier than ending them, and the "time out" period for the conservatorships has now entered its ninth year.

As conservator, FHFA is vested with express authority under HERA to operate the Enterprises and has expansive authority over trillions of dollars in assets and billions of dollars in revenue. FHFA also makes business and policy decisions that influence the entire mortgage finance industry. For reasons of efficiency, concordant goals with the Enterprises, and operational savings, FHFA has determined to delegate revocable authority for general corporate governance and day-to-day matters to the Enterprises' boards of directors and executive management. The Enterprises recognize that FHFA, as conservator, has succeeded to all rights, titles, powers, and privileges of the Enterprises and of any shareholder, officer, or director of the Enterprises, and that the directors of the Enterprises "no longer ha[ve] the power or duty to manage, direct or oversee [the] business and affairs" of the Enterprises.[2]

Given the taxpayers' enormous investment in the Enterprises, the unknown duration of the conservatorships, the Enterprises' critical role in the secondary mortgage market, and their unknown ability to sustain future profitability, OIG determined that FHFA's administration of the conservatorships has been, and continues to be, a critical risk. OIG identified this risk in each prior management and performance challenges statement and reiterates here that FHFA is challenged to increase its oversight of the Enterprise conservatorships. In particular, FHFA should strengthen its oversight of delegated matters and continue to strengthen its internal controls and process to decide non-delegated matters.

Oversight of Delegated Matters

As conservator of the Enterprises, FHFA owes duties to the U.S. taxpayers, the largest shareholders in the Enterprises, and has statutory responsibilities to ensure that the Enterprises achieve their statutory purpose. Pursuant to its powers under HERA to take actions "necessary to put [Fannie Mae and Freddie Mac] in a sound and solvent condition" and "appropriate to carry on the business of [Fannie Mae and Freddie Mac]" and "preserve and conserve" their assets, 12 U.S.C. § 4617(b)(2)(D), FHFA has delegated authority for many matters, both large and small, to the Enterprises and, since 2008, has issued more than 238 conservatorship directives in which it instructs the Enterprises to take certain actions, most of which relate to delegated responsibilities. The Enterprises acknowledge in their public securities filings that their directors serve on behalf of FHFA as conservator and exercise their authority as directed by and with the approval, when required, of the conservator.[3] As Fannie Mae states, "Our directors have no fiduciary duties to any person or entity except to the conservator." FHFA, as conservator, can revoke delegated authority at any time (and retains authority for certain significant decisions). As conservator, FHFA is ultimately responsible for all decisions made and actions taken by the Enterprises, pursuant to FHFA's revocable grant of delegated authority.

2 Fannie Mae, *2015 Annual Report* (*Form 10-K*), "Conservatorship and Treasury Agreements," at 26 and "Corporate Governance," at 158 (online at www.fanniemae.com/resources/file/ir/pdf/quarterly-annual-results/2015/10k_2015.pdf). *See also* Freddie Mac*, 2015 Annual Report* (*Form 10-K*), "Conservatorship and Related Matters," at 157 (online at www.freddiemac.com/investors/er/pdf/10k_021816.pdf).

3 *See, e.g.*, Fannie Mae, *2015 Annual Report (Form 10-K*), at 26, 158 and Freddie Mac, *2015 Annual Report (Form 10-K)*, at 157.

Today, the Enterprises' combined total assets are approximately $5.221 trillion and their combined liabilities exceed $5.215 trillion. Fannie Mae total assets are $3.235 trillion and total liabilities are $3.231 trillion, and Freddie Mac total assets are $1.986 trillion and total liabilities are $1.984 trillion.

Prior to the creation of the conservatorships in September 2008, both Enterprises operated as stand-alone public companies. In 2002, Fannie Mae sought to upgrade its corporate governance policies and procedures to become "best in class" and that effort continued through 2003.[4] Notwithstanding those aspirations and enhancements, FHFA's predecessor agency, the Office of Federal Housing Enterprise Oversight found, in May 2006, that:

> The actions and inactions of the Board of Directors inappropriately reinforced rather than checked the tone and culture set by [the CEO] and other senior managers. The Board failed to be sufficiently informed and independent of its chairman [and CEO], and senior management, and failed to exercise the requisite oversight to ensure that the Enterprise was fully compliant with applicable law and safety and soundness standards. Those failures signaled to management and other employees that the Board did not in fact place a high value on strict compliance with laws, rules, and regulations.[5]

If, at some point in the future, the Enterprises emerge from the conservatorships and again become stand-alone public companies, then their directors will owe fiduciary duties to shareholders, and each Enterprise will need to have strong corporate governance policies, procedures, and structures sufficient to meet regulatory and corporate standards. Historically, FHFA's oversight of delegated matters, in its role as conservator, has largely been limited to attendance at Enterprise internal management and board meetings as observers and discussions with Enterprise managers and directors. For the most part, FHFA, as conservator, has not assessed the reasonableness of Enterprise actions pursuant to delegated authority, including actions taken by the Enterprises to implement conservatorship directives, or the adequacy of director oversight of management actions. FHFA also has not clearly defined the Agency's expectations of the Enterprises for delegated matters and has not established the accountability standard that it expects the Enterprises to meet for such matters.

Over the past year, we evaluated four specific areas delegated by FHFA to the Enterprises to assess the Agency's oversight of the Enterprises for matters delegated to them. In each area, we determined that FHFA oversight should be strengthened.

FHFA's Oversight of Board Cyber Risk Management Responsibilities

FHFA, as conservator, has delegated to each Enterprise board responsibility for adopting cyber risk management policies that meet FHFA's supervisory expectations, overseeing the entity's cyber risk management program to ensure that the program meets FHFA's supervisory expectations, and holding management accountable in its efforts to develop such a cyber risk management program and to address FHFA's supervisory concerns in a timely and appropriate manner.

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4 *See* Office of Federal Housing Enterprise Oversight, *Report of the Special Examination of Fannie Mae*, at 288 (May 2006) (online at www.fhfa.gov/Media/PublicAffairs/PublicAffairsDocuments/20060517_SpecialExaminationFannieMae_N508.pdf).

5 OFHEO Report, *supra* note 4, at 4, 288.

We assessed FHFA's oversight of the Fannie Mae board of directors' execution of its cyber risk management responsibilities. We found that, while the board has made progress, much more remains to be done.[6] We compared the board's three foundational cyber risk management policies against FHFA's supervisory expectations announced in its advisory bulletin and determined that these policies did not meet these expectations and should be enhanced. We reviewed numerous management presentations to the board on its ongoing efforts to achieve the desired target state for cyber risk management at Fannie Mae and minutes for those board meetings and concluded that the board largely received these presentations without challenging management's changing timelines or reasons for multiple plans, questioning the integration of one plan with prior plans still in effect, or pressing management to provide a comprehensive master plan. Based on our assessment, we found that the board had not sufficiently executed the responsibilities delegated to it by FHFA.

Single-Family Underwriting Standards

Previously,[7] OIG found the Agency lacked a formal process to review the Enterprises' single-family mortgage purchase underwriting standards and variances[8] to them and concluded that the lack of a formal process limited the effectiveness of the Agency's oversight of the Enterprises' application of their underwriting standards and variances. FHFA agreed with the associated recommendation and adopted an internal process to address it. In subsequent compliance testing, OIG determined more than two years later that two of the three requirements in the Agency's process had not been implemented, and implementation of the third requirement had not been sufficient to provide full visibility in the single-family risks of one Enterprise, and specifically those associated with credit policy, selling, and underwriting standards of one Enterprise.[9]

Enterprises' Implementation of and Compliance with Conservatorship Directives

In December 2011 and in April 2013, the then-FHFA IG testified before Congress that FHFA had not been proactive in its oversight of Enterprise compliance with its conservatorship directives to ensure that their purposes were achieved. We sought to assess whether FHFA strengthened its oversight of the Enterprises' compliance with conservatorship directives for the period January 1, 2013, through June 30, 2014, and found that little had changed since 2011.[10] We determined that, in large measure, FHFA, as conservator, exercised little oversight of the Enterprises' compliance with conservatorship directives and relied on the Enterprises to self-report concerns, questions, and operational issues with implementation and compliance. FHFA's heavy reliance on the Enterprises to self-report significantly limited FHFA's ability, as conservator, to determine whether the policies and initiatives announced in its directives had been fully implemented.

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6 OIG, Corporate Governance: Cyber Risk Oversight by the Fannie Mae Board of Directors Highlights the Need for FHFA's Closer Attention to Governance Issues (Mar. 31, 2016) (EVL-2016-006) (online at www.fhfaoig.gov/Content/Files/EVL-2016-006_0.pdf).

7 OIG, *FHFA's Oversight of Fannie Mae's Single-Family Underwriting Standards* (Mar. 22, 2012) (AUD-2012-003) (online at www.fhfaoig.gov/Content/Files/AUD-2012-003_0.pdf).

8 A variance is an Enterprise-approved exception to its eligibility criteria (underwriting standards in Fannie Mae's *Selling Guide* and Freddie Mac's *Seller/Servicer Guide*) granted to an individual lender or group of lenders. In a 2012 audit, OIG "showed that some variances granted by Fannie Mae contained features far riskier than its traditional risk-based criteria," and "… the variances and purchases of riskier mortgages were major factors in Fannie Mae's credit losses and credit-related expenses."

9 OIG, *Compliance Review of FHFA's Implementation of Its Procedures for Overseeing the Enterprises' Single-Family Mortgage Underwriting Standards and Variances* (Dec. 17, 2015) (COM-2016-001) (online at www.fhfaoig.gov/Content/Files/COM-2016-001_1.pdf).

10 OIG, *FHFA's Oversight of the Enterprises' Implementation of and Compliance with Conservatorship Directives during an 18-Month Period* (Mar. 28, 2016) (ESR-2016-002) (online at www.fhfaoig.gov/Content/Files/ESR-2016-002.pdf).

Tracking and Rating Conservatorship Scorecard Performance

FHFA has a formal process to track and rate Enterprise performance against the conservatorship scorecard and to award an annual rating. That rating is factored into executive compensation for the following year. Tracking Enterprise performance against the annual scorecard is a valuable internal control to keep Enterprise activities aligned with conservatorship strategic goals and to keep Enterprise executives accountable for the Enterprises' performance. We found that FHFA's records in support of its ratings for the representation and warranty objective in the 2013 scorecard are imprecise and inconsistent, and that the Agency did not always communicate its expectations to the Enterprises in writing.[11]

Non-Delegated Matters

As conservator, FHFA can retain authority to decide specific issues and can, at any time, revoke previously delegated authority. This year, we assessed FHFA's processes to review and approve two issues, each of which involves significant monetary and/or reputational value. In each instance, we found that FHFA's processes were insufficiently robust.

Enterprise Executive Compensation Proposals Based on Scorecard Performance

In 2011, we found that FHFA generally accepted the Enterprises' annual at-risk compensation proposals rather than verifying and testing the accuracy of the reported information and conclusions, which acted to constrain its oversight.[12] In response, FHFA adopted controls to enhance its oversight. We initiated a compliance review to test FHFA's implementation of those controls.[13] We learned that FHFA discontinued the implementation of the controls upon adoption of a new Enterprise executive compensation structure less than two weeks after OIG closed the 2011 recommendation. According to FHFA, it determined that its March 2012 compensation structure rendered the controls put into place in December 2011 obsolete and it did not use them.

FHFA's decision to abandon these testing and verification controls, almost immediately after its adoption of them, has limited its capacity to review and oversee the Enterprises' annual proposals for the at-risk compensation element for executives, based on the executives' contributions in meeting corporate financial and performance goals (also referred to as corporate scorecard goals). Absent clear written support for each Enterprise proposal for at-risk compensation, the FHFA Director has approved the Enterprises' annual compensation proposals without adequate assurance that they are reasonable and justified.

Fannie Mae Headquarters Consolidation and Relocation

We received an anonymous whistleblower complaint alleging excessive spending on Fannie Mae's consolidation and relocation of office space. In response, we first reviewed FHFA's oversight of Fannie Mae's relocation of

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11 OIG, *Review of FHFA's Tracking and Rating of the 2013 Scorecard Objective for the New Representation and Warranty Framework Reveals Opportunities to Strengthen the Process* (Mar. 28, 2016) (AUD-2016-002) (online at www.fhfaoig.gov/Content/Files/AUD-2016-002.pdf).

12 OIG, *Evaluation of Federal Housing Finance Agency's Oversight of Fannie Mae's and Freddie Mac's Executive Compensation Programs* (Mar. 31, 2011) (EVL-2011-002) (online at www.fhfaoig.gov/Content/Files/Exec%20Comp%20DrRpt%2003302011%20final%2C%20signed.pdf).

13 OIG, *Compliance Review of FHFA's Oversight of Enterprise Executive Compensation Based on Corporate Scorecard Performance* (Mar. 17, 2016) (COM-2016-002) (online at www.fhfaoig.gov/Content/Files/COM-2016-002_0.pdf).

its Washington, D.C., area offices into a new building in downtown Washington, D.C.[14] For that project, FHFA rescinded authority previously delegated to Fannie Mae to consolidate and relocate its Washington, D.C., area offices because it determined that its review and approval of this matter was needed to protect the U.S. taxpayers' substantial investment in the Enterprises and to ensure their continued safety and soundness. On January 29, 2015, FHFA authorized Fannie Mae to proceed with the relocation project and execute the lease for space pursuant to the terms of an internal Division of Conservatorship analysis memorandum.

We found that one Division of Conservatorship employee was primarily responsible for overseeing the lease and build-out costs, and that the Agency had not been reviewing the finances of the project or related contracts. Neither that employee nor anyone else within FHFA was made aware of significant increases to the costs to build-out the leased space. Because Fannie Mae remains in the conservatorship of the U.S. government and because FHFA had rescinded delegation for the relocation project, we concluded that there was a pressing need for immediate, sustained comprehensive oversight from FHFA, Fannie Mae's conservator, over the proposed build-out of the leased space and its attendant costs.

Selected FHFA Action Taken

Each of our reports contains recommendations to address the identified shortcomings. In some instances, FHFA accepted our recommendations and has either implemented corrective actions or is in the process of developing such actions. In other instances, FHFA declined to accept our recommendations. Our semiannual reports for the periods ending March 31 and September 30, 2016, set forth our recommendations for each report, FHFA's response to each recommendation, and the status of each recommendation; we do not repeat that compendium here.

We summarize a number of recent actions taken by FHFA relating to its conservatorship responsibilities and note that we have not evaluated any of them.

- In December 2015, FHFA issued its 2016 conservatorship scorecard outlining the measures the Agency will use to assess the Enterprises' performance for the year for a variety of activities, including those related to: increased access to credit, post-crisis loss mitigation activities, credit risk transfers, and reductions in severely aged delinquent loans, real estate owned properties, and the retained portfolio through activities such as NPL sales.
- Over the past year, FHFA issued conservatorship directives to the Enterprises providing instruction on a broad range of delegated responsibilities, including independent dispute resolution design, a principal reduction modification program, a potential investment in or acquisition of MERSCORP Holdings, Inc., and policies on tenants in foreclosed properties.
- FHFA continues to oversee development of the CSP to be used by the Enterprises. It has directed the Enterprises to continue to work on development of a Single Security to be issued by Fannie Mae or Freddie Mac, the uniform closing disclosure dataset, and the uniform loan application dataset.

14 OIG, *Management Alert: Need for Increased Oversight by FHFA, as Conservator of Fannie Mae, of the Projected Costs Associated with Fannie Mae's Headquarters Consolidation and Relocation Project* (June 16, 2016) (COM-2016-004) (online at www.fhfaoig.gov/Content/Files/COM-2016-004_0.pdf).
We are currently assessing FHFA oversight of Fannie Mae's consolidation of its Dallas, Texas, area offices into a new building in Plano, Texas. To the best of our knowledge, consolidation and relocation of Fannie Mae offices is in process in these two locations only.

Challenge: Supervision of the Regulated Entities

As noted earlier, FHFA plays a unique role, as both conservator and as regulator for the Enterprises, and as regulator for the FHLBanks. As regulator of the Enterprises and the FHLBanks, FHFA is tasked by statute to ensure that these entities operate safely and soundly so that they serve as a reliable source of liquidity and funding for housing finance and community investment. Examinations of its regulated entities are fundamental to FHFA's supervisory mission. Within FHFA, DBR is responsible for supervision of the FHLBanks, and DER is responsible for supervision of the Enterprises.

FHFA has long recognized that effective supervision of the entities it regulates is fundamental to ensuring their safety and soundness. In its performance and accountability report to Congress forFY 2014, FHFA explained its supervisory strategy for the Enterprises:

> To ensure that the regulated entities are operating safely and soundly, FHFA identifies risks to the regulated entities and takes timely supervisory actions to address risks and improve their condition.

In prior management and performance challenges statements, we identified FHFA's supervision of the Enterprises as a critical risk and believe that it continues to be such a risk.

According to FHFA, its supervision of the regulated entities is risk-based. FHFA explains that risk-based examinations "prioritize examination activities based on the risk a given practice poses to a regulated entity's safe and sound operation or its compliance with applicable laws and regulations."[15] For the Enterprises, FHFA's annual supervisory cycle includes the following elements:

- **Risk assessment.** A risk assessment presents a comprehensive view of each Enterprise, identifies areas of greatest supervisory concern, and serves as the critical foundation for development of an annual supervisory strategy and plan that focuses supervisory attention on high-risk areas;
- **Comprehensive annual supervisory strategy.** A comprehensive annual supervisory strategy identifies supervisory objectives and priorities for the upcoming examination cycle, reflecting the supervisory concerns identified through the risk assessment and the deficiencies found in prior examinations that are being or will be addressed by Enterprise management;
- **Annual supervisory plan.** An annual supervisory plan sets forth the on-site supervisory activities—targeted examinations, which enable examiners to conduct a deep or comprehensive assessment of selected areas of high importance or risk, and ongoing monitoring, to analyze real-time information and to use those analyses to identify Enterprise practices and changes in an Enterprise's risk profile that may warrant supervisory attention—planned for the annual supervisory cycle, based on the risk assessments;
- **Planned examination procedures.** Examination procedures intended for each scheduled examination activity are drafted to identify the objectives of the supervisory activity and describe the examination procedures to be performed, including any sampling and testing;

15 FHFA, *FHFA Examination Manual*, at 5 (Dec. 2013).

- **Communication of findings from supervisory activities.** Findings from DER's supervisory activities, including MRAs, violations, and recommendations, are communicated at the conclusion of each targeted examination through a "conclusion letter" and from an ongoing monitoring activity through a "supervisory letter" to Enterprise management, during the course of each annual supervisory cycle. Conclusion letters and supervisory letters are subject to an internal quality control review by DER, pursuant to FHFA's 2013 Supervisory Directive;
- **Examiner follow-up.** DER examiners follow up on efforts by Enterprise management to correct the deficiencies identified in each MRA at intervals throughout the remediation period to ensure that management remediation is both timely and adequate. Failure by Enterprise management to remediate an MRA, in accordance with an approved remediation plan, could result in additional supervisory activity, such as an enforcement action; and
- **Communication of findings for annual supervisory cycle.** Examination conclusions, findings, and composite/component examination ratings are communicated by DER after the end of each annual supervisory cycle in an annual ROE issued to each Enterprise's board of directors. Each board is expected to provide DER with a written response to each ROE "acknowledging their review of the ROE and affirming that corrective action is being taken, or will be taken, to resolve supervisory concerns." Each Enterprise board of directors is ultimately responsible for ensuring that the conditions and practices that gave rise to the examination findings are corrected in a timely manner.

In its evaluations and audits over the past year, OIG has assessed DER's performance of all but one of these elements (supervisory strategies) and identified significant shortcomings with each, which we summarize below. We reiterate here that FHFA is challenged to increase the robustness of its supervision over the entities it regulates.

Risk Assessments

Like other federal financial regulators, FHFA maintains that it uses a risk-based approach for its supervisory activities. Supervision by risk requires a comprehensive, risk-focused view of each regulated entity so that supervisory activities can be tailored to the risks with the highest supervisory concerns. Each DER core examination team prepares a number of semiannual risk assessments for each Enterprise, and using these risk assessments, they should develop an annual supervisory plan for the respective Enterprise. The annual supervisory plan identifies all planned supervisory activities of selected areas of high importance or risk.

We found FHFA's loosely defined parameters lack standardized measures of risks, do not define the risk measures that examiners must use, and do not require examiners to use a common format and common, defined measures of risk, and its limited guidance falls far short of the requirements and clear guidance issued by other federal financial regulators.[16] Our review demonstrated that the lack of minimum required standards in FHFA's guidance limits the utility of DER's risk assessments.

16 OIG, *Utility of FHFA's Semi-Annual Risk Assessments Would Be Enhanced Through Adoption of Clear Standards and Defined Measures of Risk Levels* (Jan. 4, 2016) (EVL-2016-001) (online at www.fhfaoig.gov/Content/Files/EVL-2016-001.pdf).

We also analyzed whether the high-priority planned targeted examinations identified by DER in its annual supervisory plans for 2014 and 2015 for each Enterprise were supported by risk assessments.[17] Of the 61 high-priority targeted examinations planned for the Enterprises for 2014 and 2015, we were able to trace 32 to different DER risk assessments but were unable to trace the remaining 29—almost half of the total. The Examiner-in-Charge (EIC) for the DER core examination team for each Enterprise explained to us that we were unable to trace 27 of the 29 high-priority targeted examinations back to the risk assessments because the core teams obtained information outside the risk assessment process and planned those 27 examinations on the basis of such information. However, none of the risk assessments were updated to include this newly obtained information, in contravention of FHFA requirements. The result of this information gathering outside the risk assessment process meant that risk assessments did not provide the critical foundation for planning almost half of the high-priority targeted examinations for the Enterprises in 2014 and 2015.

To assess the efficacy of DER's execution of risk-based supervisory plans, we determined the number of high-priority targeted examinations planned for 2014 and 2015 that were completed, either during each supervisory cycle or by the end of our fieldwork (June 17, 2016). We found that only 25 (41 percent) of the 61 high-priority targeted examinations planned for the 2014 and 2015 supervisory cycles were completed.

Supervisory Plans

A supervisory plan schedules the specific supervisory activities FHFA intends to conduct during the year. For the Enterprises, those supervisory activities include targeted examinations and ongoing monitoring.[18] We found that DER planned 102 targeted examinations for Fannie Mae from 2012 through 2015, of which 43 were completed.[19] Of the remaining 59 planned targeted examinations 19 were cancelled, 9 deferred, 14 converted to ongoing monitoring, 7 commenced but were not completed, and 10 lacked documentation as to their disposition, as of the end of our fieldwork on June 17, 2016. Overall, we found that both the number and percent of completed targeted examinations that were identified in the annual supervisory plans decreased significantly during this four-year period.

We conducted the same analysis for DER's examinations of Freddie Mac.[20] We found that DER planned 90 targeted examinations for Freddie Mac from 2012 through 2015 of which 50 were completed. Of the remaining 40 planned targeted examinations, 17 were cancelled, 4 deferred, 7 converted to ongoing monitoring, 4 commenced but were not completed, and 8 were not documented as of the end of our fieldwork. As with Fannie Mae, we found that both the number and percent of completed targeted examinations that were identified in the annual supervisory plans decreased significantly during this four-year period.

17 OIG, *FHFA's Supervisory Planning Process for the Enterprises: Roughly Half of FHFA's 2014 and 2015 High-Priority Planned Targeted Examinations Did Not Trace to Risk Assessments and Most High-Priority Planned Examinations Were Not Completed* (Sept. 30, 2016) (AUD-2016-005) (online at www.fhfaoig.gov/Content/Files/AUD-2016-005.pdf).

18 According to FHFA, targeted examinations enable examiners to conduct a deep or comprehensive assessment of selected areas of high importance or risk, while the purpose of ongoing monitoring is to analyze real-time information and to use those analyses to identify Enterprise practices and changes in an Enterprise's risk profile that may warrant supervisory attention.

19 OIG, *FHFA's Targeted Examinations of Fannie Mae: Less than Half of the Targeted Examinations Planned for 2012 through 2015 Were Completed and No Examinations Planned for 2015 Were Completed Before the Report of Examination Issued* (Sept. 30, 2016) (AUD-2016-006) (online at www.fhfaoig.gov/Content/Files/AUD-2016-006.pdf).

20 OIG, *FHFA's Targeted Examinations of Freddie Mac: Just Over Half of the Targeted Examinations Planned for 2012 through 2015 Were Completed* (Sept. 30, 2016) (AUD-2016-007) (online at www.fhfaoig.gov/Content/Files/AUD-2016-007.pdf).

Effective January 1, 2014, DER requires that changes to supervisory plans must be risk-related, approved by the EIC, and documented. For Fannie Mae, 64 targeted examination were planned for 2014 and 2015. Of these 64, 17 were completed and 7 were commenced but not completed as of June 17, 2016. The remaining 40 (63 percent) were either not conducted or their dispositions were not documented. While DER provided us with documentation that explained the change in status for 33 of the 40, only 11 reflected risk-related reasons for the change in status. The reasons provided by DER to explain the change in status for the remaining 22 were not risk-related.

For Freddie Mac, 54 targeted examination were planned for 2014 and 2015. Of these 54, 22 were completed and 4 were commenced but not completed as of the end of our field work. The remaining 28 (52 percent) were either not conducted or their dispositions were not documented. While DER provided us with documentation that explained the change in status for 21 of the 28, only 4 reflected risk-related reasons for the change in status. The reasons provided by DER to explain the change in status for the remaining 17 were not risk-related.

The reason repeatedly provided to us by DER officials for failure to commence a significant number of planned targeted examinations was resource constraints, notwithstanding the consistent position of DER leadership and FHFA senior leadership that DER has an adequate complement of examiners. For a federal financial regulator, responsible for supervising two Enterprises that together own or guarantee more than $5 trillion in mortgage assets and operate in conservatorship, to fail to complete a substantial number of planned targeted examinations, including failure to complete any of its 2015 planned targeted examinations for Fannie Mae within the 2015 supervisory cycle, is an unsound supervisory practice and strategy.[21]

Examination Procedures

FHFA and DER have established procedures that examiners must follow for ongoing monitoring and for targeted examinations. When DER has issued an MRA to an Enterprise, guidance issued by FHFA and DER directs the DER examiners to engage in ongoing monitoring to assess the Enterprise's remedial progress against the remediation plan. Both FHFA and DER have issued requirements and guidance that direct the steps examiners must take in their ongoing monitoring of an Enterprise's remedial progress. For example, DER examiners must prepare a procedures document for oversight of remediation of each MRA, prior to the commencement of fieldwork, which describes the steps examiners intend to take in monitoring and assessing an Enterprise's remedial activities.[22] Under 2014-DER-OPB-01, the procedures document is not intended to be a static document; examiners are required to update it "as necessary." DER guidance instructs examiners to document the results of

21 Examiner capacity has been a long-standing issue that was first identified by us in a report issued September 23, 2011, titled *Evaluation of Whether FHFA Has Sufficient Capacity to Examine the GSEs* (EVL-2011-005). In addition, Management and Performance Challenges statements issued by OIG each year from 2011 to present have consistently reported on our observations and recommendations regarding examiner quantity and quality. Senior FHFA and DER leadership advised us that DER has a sufficient complement of examiners to conduct its supervisory activities. While we do not challenge those representations, we found that both the number and percent of completed targeted examinations that were identified in the annual supervisory plans decreased significantly during 2012-2015. For that reason, we recommended that FHFA assess whether DER's current complement of examiners has sufficient training and expertise to conduct the planned supervisory activities. We also recommended that FHFA assess whether DER has a sufficient complement of qualified examiners to conduct and complete those examinations rated by DER to be of high-priority within each supervisory cycle and address the resource constraints that have adversely affected DER's ability to carry out its risk-based supervisory plans.

22 *See* FHFA, Advisory Bulletin 2012-01, *Categories for Examination Findings* (Apr. 2, 2012) (online at www.fhfa.gov/SupervisionRegulation/AdvisoryBulletins/Pages/AB-2012-01-CATEGORIES-FOR-EXAMINATION-FINDINGS.aspx); DER Operating Procedures Bulletin 2014-DER-OPB-01, *Guidelines for Preparing Supervisory Products and Examination Workpapers* (Jan. 27, 2014).

their monitoring and assessment activities in designated work papers such as correspondence, meeting notes, and analysis memoranda. Analysis memoranda "[m]ust appropriately link to the procedures document to show how the execution of the procedures resulted in the conclusions."[23]

In connection with our assessment of DER examiner compliance with FHFA requirements for oversight of Enterprise remediation of MRAs, we reviewed work papers prepared by examiners to document their monitoring and assessment activities. We found little to no evidence of examiner compliance with required examination procedures for the MRAs that we sampled.[24]

Communication of Supervisory Findings

FHFA communicates examination findings from targeted examinations through "conclusion letters" and findings from ongoing monitoring activities through "supervisory letters" to Enterprise management during the course of each annual supervisory cycle. Conclusion letters and supervisory letters are subject to quality control review, pursuant to FHFA's 2013 Supervisory Directive. We sought to determine whether FHFA had established a formal quality control review process for its targeted examinations of the Enterprises, as it agreed to do in 2012 and was required by FHFA to do in March 2013. More than two years after FHFA issued its directive, we found that DER had not established such a process and, as a consequence, its conclusion letters issued during this period were not subject to an internal quality control review.[25] After our work on this evaluation was completed, FHFA advised us that DER finalized its quality control review process on July 28, 2015.

We also examined whether DER made Enterprise directors aware of its examination findings when it issued conclusion letters to Enterprise management. FHFA's governance regulations and *Examination Manual* make clear that the board of a regulated entity is ultimately responsible for: ensuring that the conditions and practices that gave rise to any supervisory concerns and findings are corrected and that executive officers have been responsive in addressing all of FHFA's supervisory concerns in a timely and appropriate manner; and holding management accountable for remediating those conditions and practices.[26] We found, however, that DER addressed its conclusion letters to Enterprise management, not to the board of directors or a board committee of an Enterprise. Because its conclusion letters include all findings from a targeted examination, including any MRAs, DER's practice of issuing such conclusion letters only to Enterprise management created the risk that an Enterprise board would be unaware of these findings and supervisory practices and would lack sufficient information to oversee management's efforts to remediate these findings.[27]

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23 2014-DER-OPB-01, *supra* note 22.

24 *See* OIG, *FHFA's Examiners Did Not Meet Requirements and Guidance for Oversight of an Enterprise's Remediation of Serious Deficiencies* (Mar. 29, 2016) (EVL-2016-004) (online at www.fhfaoig.gov/Content/Files/EVL-2016-004.pdf); OIG, *FHFA's Inconsistent Practices in Assessing Enterprise Remediation of Serious Deficiencies and Weaknesses in its Tracking Systems Limit the Effectiveness of FHFA's Supervision of the Enterprises* (July 14, 2016) (EVL-2016-007) (online at www.fhfaoig.gov/Content/Files/EVL-2016-007.pdf).

25 *See* OIG, *Intermittent Efforts Over Almost Four Years to Develop a Quality Control Review Process Deprived FHFA of Assurance of the Adequacy and Quality of Enterprise Examinations* (Sept. 30, 2015) (EVL-2015-007) (online at www.fhfaoig.gov/Content/Files/EVL-2015-007.pdf).

26 *See* 12 C.F.R. § 1239.4(c)(3) (Duties and Responsibilities of Directors).

27 *See* OIG, *FHFA's Supervisory Standards for Communication of Serious Deficiencies to Enterprise Boards and for Board Oversight of Management's Remediation Efforts are Inadequate*, at 20 (Mar. 31, 2016) (EVL-2016-005) (online at www.fhfaoig.gov/Content/Files/EVL-2016-005.pdf).

We also assessed whether DER's guidance and practices for MRA remediation by an Enterprise are consistent with the guidance and requirements of its peer federal financial regulators.[28] Under FHFA's current supervisory guidance, an Enterprise board is responsible for ensuring timely and effective correction of significant supervisory deficiencies, including MRAs, but DER's supervisory practices significantly limit the ability of an Enterprise board to execute its responsibilities. Because DER did not communicate MRAs to an Enterprise board and did not require an Enterprise board to review or approve management plans to remediate MRAs, there is a significant likelihood that Enterprise boards lacked knowledge of the actions anticipated to be taken by management to remediate MRAs, which necessarily constrained their ability to effectively oversee management's remedial efforts. We cautioned that DER's current supervisory practices created a risk that an Enterprise board could become no more than a bystander to management's efforts to remediate MRAs and that FHFA risks prolonged or inadequate resolution of the most serious threats to the Enterprises' safety and soundness.

DER Oversight of Enterprise Remediation

Similar to other federal financial regulators, FHFA issues MRAs only for "the most serious supervisory matters." Because an MRA identifies a "serious deficiency," FHFA requires "prompt remediation" by the institution to which the MRA was issued, and examiners are required to "check and document" the progress of MRA remediation.

We compared DER's practices to oversee MRA remediation for an Enterprise to requirements and guidance of FHFA and DER for a sample of MRAs and found that DER examiners did not consistently follow these requirements and guidance.[29] For the most part, we found that DER examiners did not conduct independent assessments of the timeliness and adequacy of each Enterprise's efforts to remediate the MRAs in our sample. We also found that DER's unwritten expectations for its examiners are inconsistent with written guidance issued by FHFA and DER.[30]

Additionally, we found that DER lacks a unified system to track MRAs it issues to the Enterprises. We identified substantial weaknesses in the two tracking systems used by core examination teams for the Enterprises that limit significantly the utility of those systems as a tool to monitor the Enterprises' efforts to remediate deficiencies giving rise to MRAs.

Reports of Examination

Like other federal financial regulators, FHFA directs that results, conclusions, findings, and supervisory concerns from the supervisory activities completed during the annual supervisory cycle are to be summarized in a written ROE, which is to be issued to the board of directors of a regulated entity. However, we found that guidance and

28 OIG, *FHFA's Examiners Did Not Meet Requirements and Guidance for Oversight of an Enterprise's Remediation of Serious Deficiencies* (Mar. 29, 2016) (EVL-2016-004) (online at https://www.fhfaoig.gov/Content/Files/EVL-2016-004.pdf).

29 OIG, *FHFA's Examiners Did Not Meet Requirements and Guidance for Oversight of an Enterprise's Remediation of Serious Deficiencies* (Mar. 29, 2016) (EVL-2016-004) (online at www.fhfaoig.gov/Content/Files/EVL-2016-004.pdf); OIG, *FHFA's Inconsistent Practices in Assessing Enterprise Remediation of Serious Deficiencies and Weaknesses in its Tracking Systems Limit the Effectiveness of FHFA's Supervision of the Enterprises* (July 14, 2016) (EVL-2016-007) (online at www.fhfaoig.gov/Content/Files/EVL-2016-007.pdf).

30 OIG, *FHFA's Inconsistent Practices in Assessing Enterprise Remediation of Serious Deficiencies and Weaknesses in its Tracking Systems Limit the Effectiveness of FHFA's Supervision of the Enterprises* (July 14, 2016) (EVL-2016-007) (online at www.fhfaoig.gov/Content/Files/EVL-2016-007.pdf).

requirements issued by FHFA and DER on the structure and content of the annual ROE are more far more limited when compared to the requirements of other federal financial regulators and vest substantial discretion over the content and structure of the ROE to the EIC for each exam team.[31]

We reviewed five ROEs issued to each Enterprise over five annual supervisory cycles. We found that the lack of detailed requirements and guidance from FHFA and DER has led to divergent practices among DER's examination teams and generated materially incomplete ROEs. Based on our review, we determined that DER's current process to permit Enterprise management to review the draft ROEs for "fatal" factual flaws has acted to permit the Enterprises to propose changes to conclusions, which creates the appearance that the Enterprises exert undue influence over the content of ROEs.

From our review of the 10 most recent ROEs, we determined that the ROEs failed to consistently provide Enterprise directors with critical information on the most serious examination findings, which necessarily hampered the directors' ability to exercise effective oversight. The lack of a consistent, standardized approach to preparation of ROEs weakens the value of the ROE to Enterprise boards, creates the risk that Enterprise boards may not be fully knowledgeable of matters addressed in the ROE, and constrains their ability to oversee remediation of supervisory concerns. One of the few FHFA requirements regarding ROEs is that each ROE be issued to the board of directors of a regulated entity. While we found that DBR examiners consistently met that requirement and issued and delivered ROEs to the boards of directors of FHLBanks, we found that DER examiners largely failed to meet that requirement. Although ROEs for the five supervisory cycles were addressed to Enterprise directors, they were often delivered only to Enterprise management, and management determined whether and when to deliver the ROEs to the board.

Because DER examiners did not complete a significant number of targeted examinations for the 2014 and 2015 supervisory cycles, there were no results of those examinations to include in the ROEs for each cycle. For example, for Fannie Mae, DER completed only 8 of the 53 planned targeted examinations for the 2014 exam cycle before the ROE for that supervisory cycle was issued. As a consequence, the ROE issued for the 2014 supervisory cycle was based on only 15 percent of the 53 targeted examinations planned for that cycle. For the 2015 supervisory cycle, DER planned 11 targeted examinations, but completed none before the 2015 ROE was issued. The ROE for the 2015 supervisory cycle was based on the three targeted examinations planned for the 2014 supervisory cycle and completed in 2015. For Freddie Mac, DER planned 36 targeted examinations for the 2014 supervisory cycle and completed only 7 before the ROE for that cycle was issued. As a consequence, the ROE issued for the 2014 supervisory cycle was based on 19 percent of the targeted examinations planned for that cycle. For the 2015 supervisory cycle, DER planned 18 targeted examinations and completed less than half (7) before the ROE for that supervisory cycle was issued.

Prior to issuance of our report on our review of ROEs, DER did not require examiners to include open MRAs in each ROE or to identify the deficiencies underlying each MRA. (We found previously that DER did not provide copies of its conclusion letters to Enterprise directors.) As a result, DER's practices did not provide Enterprise directors with knowledge of deficient or unsafe practices or violations of law or regulations and Enterprise

31 *OIG, FHFA's Failure to Consistently Identify Specific Deficiencies and Their Root Causes in Its Reports of Examination Constrains the Ability of the Enterprise Boards to Exercise Effective Oversight of Management's Remediation of Supervisory Concerns* (July 14, 2016) (EVL-2016-008) (online at www.fhfaoig.gov/Content/Files/EVL-2016-008.pdf).

directors were reliant on reports from Enterprise management of adverse supervisory findings. It is axiomatic that the board of an entity regulated by FHFA must receive from FHFA a clear articulation of examination findings and other supervisory concerns, including MRAs, violations, and recommendations, in order to satisfy its oversight responsibilities under FHFA's regulations and guidance. Without that clear articulation from FHFA, a board will be challenged to satisfy FHFA's expectations: (1) to submit a written response to the ROE in which it knowledgeably affirms that corrective action is being taken, or will be taken, to resolve supervisory concerns; and (2) to oversee management's remediation of FHFA's supervisory concerns.

Selected FHFA Actions Taken

Each of our reports contains recommendations to address the identified shortcomings. In some instances, FHFA accepted our recommendations and has either implemented the corrective actions or is in the process of developing such actions. In other instances, FHFA declined to accept our recommendations. Our semiannual reports for the periods ending March 31 and September 30, 2016, set forth our recommendations for each report, FHFA's response to each recommendation, and the status of each recommendation; we do not repeat that compendium here.

We summarize a number of recent actions taken by FHFA relating to its supervision responsibilities and note that we have not evaluated any of them.

- In 2016, FHFA issued two FHLBank-related advisory bulletins addressing changes to internal market risk models and the classification of investment securities.
- In March 2016, consistent with the Dodd-Frank Act, FHFA issued supplemental orders to Fannie Mae, Freddie Mac, and the FHLBanks requiring regular reporting of stress testing results to FHFA and the Board of Governors of the Federal Reserve System based on portfolios as of December 31, 2015.
- Also consistent with Dodd-Frank, in April 2016, FHFA issued a joint Notice of Proposed Rulemaking on incentive-based compensation arrangements, which prohibits incentive-based compensation arrangements that would encourage inappropriate risk-taking, and requires the disclosure of information concerning such arrangements to the appropriate federal regulator.
- In May 2016, DER issued an OPB that emphasized that DER's risk assessments are critical components of effective risk-based supervision of the Enterprises. Among other things, the procedures set forth in the bulletin are intended to improve consistency of definitions and use of key terms and risk measures. It also reiterated that assessment of risk by supervision staff is an ongoing process, and prescribed specific documentation and approval requirements to apply to mid-year risk assessments. DER required its examination staff to participate in mandatory training on the new procedures. FHFA plans to assess the effectiveness of the procedures during the first quarter of 2017, before the mid-year risk assessments for 2017 are prepared.

Challenge: Counterparties and Third Parties

The Enterprises rely heavily on counterparties and third parties for a wide array of professional services, including mortgage origination and servicing. That reliance exposes the Enterprises to counterparty risk—that the counterparty will not meet its contractual obligations. FHFA has delegated to the Enterprises the management of their relationships with counterparties and reviews that management largely through its regulatory responsibilities.

There are numerous counterparty relationships with the Enterprises and each carries risk. As Freddie Mac reported:

> We depend on our institutional counterparties to provide services that are critical to our business … Our important institutional counterparties include seller/servicers, mortgage and bond insurers, insurers and reinsurers in [Agency Credit Insurance Structure] transactions, and counterparties to derivatives and short-term lending and other funding transactions (*i.e.,* cash and investments transactions). Many of our major counterparties provide several types of services to us. The concentration of our exposure to our counterparties remains high, and we continue to face challenges in reducing our risk concentrations with counterparties.[32]

One of the most significant counterparty risks is the risk posed by loan originators, sellers, and servicers that are not depository institutions (also called non-banks). Non-banks are not regulated by federal financial regulatory agencies.

As participants in the mortgage market change, counterparties can affect the risks to be managed by Fannie Mae and Freddie Mac, and in recent years, the Enterprises' businesses have changed dramatically in terms of the types of institutions originating and selling mortgages to them. In their 2015 annual reports, Fannie Mae and Freddie Mac reported they have significant exposures to non-depository (non-bank) institutions in both their single-family businesses selling and servicing activities. The Enterprises disclosed that non-banks may not have the same financial strength, liquidity, or operational capacity, or be subject to the same level of regulatory oversight, as their largest mortgage seller or servicer counterparties. As a result, there is a risk that a non-bank seller that failed to honor its contractual obligations, such as by selling loans to an Enterprise that did not comply with the Enterprise's lending requirements, would not have sufficient capital or liquidity to honor repurchase demands by the Enterprises for non-compliant loans. FHFA and other financial market participants must address the implications of a changing marketplace, including the attendant risks from non-banks.

In working with and through counterparties, both Enterprises acknowledge exposure to the risk that one or more of the parties involved in a loan transaction misrepresented the facts about the underlying property, borrower, or loan, or engaged in fraud. Furthermore, they acknowledge exposure to fraud in the loan servicing function, particularly with respect to sales of real estate owned properties, short sales, and other dispositions of non-performing assets. In particular, Fannie Mae noted: "We have experienced financial losses resulting from mortgage fraud, including institutional fraud perpetrated by counterparties. In the future, we may experience additional financial losses or reputational damage as a result of mortgage fraud." Fannie Mae further described past and potential future financial losses attributable to mortgage fraud as "significant."

32 Freddie Mac, *2015 Annual Report* (*Form 10-K*), at 181-182 (online at www.freddiemac.com/investors/er/pdf/10k_021816.pdf).

Our criminal investigative work underscores that importance of strong counterparty oversight in light of the potential for fraud. Recent publicly reportable criminal matters pursued by our Office of Investigations include fraud perpetrated by: financial institution executives, officers, and employees; real estate brokers and agents; builders and developers; loan officers and mortgage brokers; title and escrow company attorneys and employees; and property managers.

We expect to issue the first in a series of reports on FHFA's oversight of Enterprise management of risks related to counterparties by the end of this year. In that report, we explain the significant risk exposure to nonbank seller/servicers and the supervisory guidance issued by FHFA to assist the Enterprises in managing those risks; we also assess whether FHFA has examined compliance by each Enterprise with its supervisory guidance.

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

Selected FHFA Actions Taken

We summarize a number of recent actions taken by FHFA relating to its counterparty-related supervision responsibilities and note that we have not evaluated any of them.

- In December 2015, FHFA published its final rule on the Suspended Counterparty Program, which established requirements and procedures for FHFA's program and revised the interim final rule published on October 23, 2013.
- In January 2016, FHFA issued its final rule on FHLBank membership, which excluded captive insurers[33] as eligible members and required that captive insurance companies leave the FHLBank system within five years.

Challenge: Information Technology Security

FHFA is one of a number of federal agencies involved in a national effort to protect the critical infrastructure of the U.S. financial services sector. The regulated entities FHFA supervises and regulates are central to the financial services industry and are interconnected with large banks and other large federal financial institutions. Disruptions to their businesses from cyber attacks could have widespread and harmful effects on the housing finance system. Cyber attacks could result in the theft of proprietary, trade secret, and confidential consumer data. FHFA is one of the links in the chain formed by federal agencies to protect the security of the nation's critical financial infrastructure.

FHFA is one of ten voting members of the Financial Stability Oversight Council (FSOC) established by the Dodd-Frank Act, which is charged with identifying risks to the financial stability of the United States, promoting market discipline, and responding to emerging risks to the financial system. FHFA and other voting members of FSOC

33 A captive is a special-purpose insurer formed primarily to underwrite the risks of its parent company or affiliated companies. A typical captive resembles a traditional commercial insurance company in that it is licensed under state law, sets premiums and writes policies for the risks it underwrites, collects premiums, and pays out claims. The biggest difference between a captive insurer and a commercial insurance company is that a captive does not sell insurance to the general public.

have expressed a collective view regarding cyber security through annual reports issued by FSOC. Its annual reports, approved by its voting members, set forth recommendations relating to mitigating risks of cyber attacks.

In light of the significant financial, governance, and reputational risks that could flow from a cyber attack on FHFA or any of its regulated entities, FHFA is challenged to ensure: (1) that its IT security controls are adequate and (2) that the controls in place at each of its regulated entities are adequate.

FHFA's Supervisory Standards for Cyber Risk Management

In its 2015 annual report, FSOC recommended that financial regulators "expand and complete efforts to map existing regulatory guidance to reflect and incorporate appropriate elements of the [National Institute of Standards and Technology] NIST Cybersecurity Framework" and that financial regulators "encourage consistency across regulatory regimes for cyber security." We found that FHFA's supervisory guidance on the development of a cyber security framework is far less prescriptive and far more flexible than the guidance adopted by other federal financial regulators.[34] We also found that FHFA had not taken action to map its existing regulatory guidance to reflect and incorporate appropriate elements of the NIST Framework.

FHFA's Information Technology Risk Examinations

Recognizing that effective management of cyber risk is vital to the performance and success of the FHLBanks' operations, DBR examiners routinely examine the effectiveness of the FHLBanks' internal controls to mitigate this risk. It is well-settled that an examination of the operational effectiveness of IT controls can only be reliable when examiners understand the design of those controls so that they are able to assess whether the controls will adequately mitigate the risks. We found that,[35] in 14 of 15 IT examinations conducted at ten of the FHLBanks in 2013 and 2014, DBR examiners did not assess the design of vulnerability scanning and penetration testing performed by contractors retained by the FHLBanks as part of their IT examinations of the FHLBanks. Without an assessment of the design of key IT internal controls, such as vulnerability scanning and/or penetration testing, FHFA lacks assurance that such testing was meaningful.

FHFA's Oversight of Board Cyber Risk Management Responsibilities

FHFA, as conservator, has delegated to each Enterprise board responsibility for adopting cyber risk management policies that meet FHFA's supervisory expectations, overseeing the entity's cyber risk management program to ensure that the program meets FHFA's supervisory expectations, and holding management accountable in its efforts to develop such a cyber risk management program and to address FHFA's supervisory concerns in a timely and appropriate manner.

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34 OIG, *FHFA Should Map Its Supervisory Standards for Cyber Risk Management to Appropriate Elements of the NIST Framework* (Mar. 28, 2016) (EVL-2016-003) (online at www.fhfaoig.gov/Content/Files/EVL-2016-003.pdf).

35 OIG, *FHFA Should Improve Its Examinations of the Effectiveness of the Federal Home Loan Banks' Cyber Risk Management Programs by Including an Assessment of the Design of Critical Internal Controls* (Feb. 29, 2016) (AUD-2016-001) (online at www.fhfaoig.gov/Content/Files/AUD-2016-001_0.pdf).

We assessed FHFA's oversight of efforts by the Fannie Mae board of directors to execute its delegated responsibilities for cyber security. We found that,[36] although the Fannie Mae board has made progress, much more remains to be done by the board in order to satisfy the cyber risk management responsibilities delegated to it by FHFA. We compared the board's three foundational cyber risk management policies against FHFA's supervisory guidance announced in its advisory bulletin and determined that they fell short and should be enhanced. We reviewed numerous management presentations to the board on its ongoing efforts to achieve the desired target state for cyber risk management at Fannie Mae and minutes for those board meetings and determined that the board largely received these presentations without challenging management's changing timelines or reasons for multiple plans, questioning the integration of one plan with prior plans still in effect, or pressing management to provide a comprehensive master plan with clear timelines and milestones to remediate legacy technology issues and implement current cyber security initiatives. As a consequence, we found that the board acted only to monitor management's design and implementation of Fannie Mae's cyber risk management program, rather than to oversee it.

Selected FHFA Actions Taken

Each of our reports contains recommendations to address the identified shortcomings. In some instances, FHFA accepted our recommendations and has either implemented the corrective actions or is in the process of developing such actions. In other instances, FHFA declined to accept our recommendations. Our semiannual reports for the periods ending March 31 and September 30, 2016, set forth our recommendations for each report, FHFA's response to each recommendation, and the status of each recommendation; we do not repeat that compendium here.

We summarize below a recent action taken by FHFA relating to its IT security responsibilities and note that we have not assessed the impact of these actions on FHFA's responsibilities as conservator or regulator.

- In June 2016, FHFA issued its 2015 Report to Congress in which it highlighted operational risk associated with IT systems and security for all regulated entities—Fannie Mae, Freddie Mac, and the FHLBanks.

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To best leverage OIG's resources, we determined to focus our work on programs and operations that pose the greatest financial, governance, operational, and reputational risks to FHFA, the Enterprises, and the FHLBanks. Accordingly, our Audit and Evaluation Plan aligns to the challenges outlined above.

36 OIG, *Corporate Governance: Cyber Risk Oversight by the Fannie Mae Board of Directors Highlights the Need for FHFA's Closer Attention to Governance Issues* (Mar. 31, 2016) (EVL-2016-006) (online at www.fhfaoig.gov/Content/Files/EVL-2016-006_0.pdf).

Summary of Financial Statements Audit and Management Assurances

TABLE 12: Summary of Financial Statements Audit

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

TABLE 13: Summary of Management Assurances

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

Erroneous Payments

The Improper Payments Elimination and Recovery Act requires that agencies (1) review activities susceptible to significant erroneous payments; (2) estimate the amount of annual erroneous payments; (3) implement a plan to reduce erroneous payments; and (4) report the estimated amount of erroneous payments and the progress to reduce them. The Act defines significant erroneous payments as the greater of 2.5 percent of program activities and $10 million.

FHFA, in the spirit of compliance and as part of a sound internal control structure, has established controls to detect and prevent improper vendor payments. FHFA has identified no activities susceptible to significant erroneous payments that meet the Act's thresholds. Additionally, FHFA pursues the recovery of all improper payments. The FHFA OIG performed an audit of improper payments in May 2016 and concluded that FHFA complied with applicable provisions of the Act.

APPENDIX

- Glossary
- List of Figures and Tables
- Acknowledgements
- FHFA Key Management Officials

Glossary

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

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

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

Captive Insurers - An insurance company whose purpose is to underwrite insurance for its parent company or for other affiliates, rather than for the public at large.

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

Colonia - The Spanish word for neighborhood or community. Colonias may lack infrastructure for potable water and sewer, electricity, paved roads, and individuals living in the colonias may not have access to housing that conforms to state code for safety and sanitation.

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

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

Comprehensive Income - The sum of net income and changes in other comprehensive income, which consists of items excluded from net income on the income statement because they have not been realized.

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

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

Enterprise(s) - Fannie Mae and Freddie Mac.

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

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

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

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

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

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

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

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

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

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

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